



HONG KONG MONETARY AUTHORITY
香港金融管理局

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14 September 2021

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Observations from Reviews on Sale of Qualifying Deferred Annuity Policy (“QDAP”) and Voluntary Health Insurance Scheme (“VHIS”) Products, and Referral Arrangement of Tax Deductible Voluntary Contributions (“TVC”)

Alongside the introduction of tax deductions by the Government in 2019 for premiums for QDAP and VHIS products and for TVC to Mandatory Provident Fund (“MPF”) schemes, there were increased popularity of these tax deductible products among the general public. In this light, the Hong Kong Monetary Authority (“HKMA”) conducted desktop reviews on the practices of authorized institutions (“AIs”) in selling QDAP and VHIS products and their referral arrangement of TVC with a view to identifying any areas for improvement. This circular shares with AIs some key observations in the desktop reviews, clarifies the relevant expected standards, and reminds AIs of the need to comply with the relevant regulatory requirements.

The desktop reviews revealed that the AIs concerned generally have in place policies and procedures to comply with the relevant regulatory requirements on suitability assessment and product disclosure in their sale of QDAP and VHIS products. The desktop reviews also revealed that the referral arrangement of TVC were generally simple and straightforward, albeit some variations among the selected AIs in their practices and extents of involvement. That said, the desktop reviews identified room for improvement in a few areas, such as suitability assessment and product disclosure, as well as the customer referral process. Details of the observations are set out in the [Annex](#). Individual AI concerned had been required to take appropriate remedial actions.

AIs should give due regard to the observations set out in this circular, review their own policies and procedures, and implement enhancement measures as necessary. AIs are also reminded that in selling tax deductible products, they should ensure the selling practices adopted by their sales staff will not give undue emphasis on the tax deduction feature of a product, so as to avoid distracting customers' attention from the suitability, features and risks of the product itself.

The HKMA will continue to monitor the compliance of AIs with the relevant regulatory requirements in respect of insurance and MPF products in the course of its supervision.

If you have any question on this circular, please contact Ms Candy Tam at 2878-1292 or Mr Calvin To at 2878-8334.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)

Encl.

c.c. Insurance Authority
(Attn: Ms Carol Hui, Executive Director (Long Term Business)
Mr Peter Gregoire, Head of Market Conduct (Acting) and General
Counsel)

Mandatory Provident Fund Schemes Authority
(Attn: Mr Leo Chu, Chief Operating Officer and Executive Director)

Key Observations from the Desktop Reviews

1. Suitability assessment

Observations

- 1.1 A few AIs reported high percentage of QDAP transactions involving higher risk factors (e.g. suitability mismatch, transaction involving vulnerable customers, and policy cancellation within cooling-off period).
- 1.2 For VHIS products, a few AIs did not obtain sufficient information from the customers to ensure the products were suitable to the customers.

Expected standards

- 1.3 Before recommending insurance products to a customer, AIs are required to perform appropriate suitability assessment in relation to the customer's circumstances in accordance with Standards and Practices 6.1 of the Codes of Conduct¹, and have in place policies and procedures to comply with the relevant specific regulatory requirements on suitability assessment². In this connection, AIs should take reasonable steps to obtain adequate information about the customer's circumstances for conducting the suitability assessment.
- 1.4 For long term insurance products that are exempt from or not subject to the financial needs analysis requirement and individual medical insurance including VHIS products, the level of suitability assessment should be proportionate and reasonable, taking into account the customer's circumstances and the nature and complexity of the products concerned, and at the minimum comply with the following standards:
 - (i) AIs should ascertain whether the customer has the need(s) and/or objective(s) which match(es) with the nature and features of the

¹ Code of Conduct for Licensed Insurance Agents and Code of Conduct for Licensed Insurance Brokers issued by the Insurance Authority

² For example, Guideline on Financial Needs Analysis (GL30) and Guideline on Medical Insurance Business (GL31) issued by the Insurance Authority

product(s). In the case of individual medical insurance, the minimum scope of information to be collected include the customer's objectives of purchasing a medical insurance product and insurance needs in respect of any medical insurance products (including types of the products).

- (ii) AIs should explain clearly to the customer how the recommended product(s) match(es) with his/her need(s) and/or objective(s).
- (iii) No insurance product should be recommended where information available to AIs reveals any issue of concern about the customer's affordability.

1.5 AIs should exercise adequate management oversight on their insurance intermediary businesses. They should have in place appropriate and effective management information system for control and monitoring purposes as well as for identifying red flags or potential issues for management's attention. Appropriate actions should be taken promptly to address any irregularities identified.

2. Product disclosure

Observations

2.1 Some AIs, while having sales scripts in place to require their sales staff to follow in disclosing and explaining the nature, and key features and risks of QDAP products to customers, the sales scripts did not adequately cover some information that should be disclosed and explained to customers, for example:

- various internal rates of return in product brochure and benefit illustration, including the part of annuity payments which is non-guaranteed (if applicable);
- the guaranteed annuity payment and the non-guaranteed annuity payment (if applicable) presented in the benefit illustration;
- only qualified annuity premiums paid in relation to the annuity payments are tax deductible.

- 2.2 In respect of VHIS products, the product materials and/or the sales scripts used by a few AIs for their sales staff to disclose and explain the product information to the customers did not include some key features and terms and conditions of the policies such as procedures for terminating policies; the Reasonable and Customary clause; premium schedule; differences between standard plan and flexi plan under the VHIS; and limits of indemnity for benefits.

Expected standards

- 2.3 AIs should have policies and procedures to require their staff to provide adequate disclosure and explanation of the nature, and key features and risks of QDAP and VHIS products to the customers during the selling process, and comply with the relevant requirements on product disclosure as issued by the Insurance Authority and the HKMA from time to time.

3. TVC referral arrangement

Observations

- 3.1 Inadequacies were noted in a few AIs in obtaining customer's consent for transferring the customer's personal data to another MPF principal intermediary (i.e. the referee); disclosing the AI's role and extent of involvement in the referral process; and/or keeping record of the referred cases.

Expected standards

- 3.2 AIs should ensure that the customer's consent and signature are obtained before transferring a customer's personal data to the relevant MPF principal intermediary.
- 3.3 AIs should provide, in written form, details of the referral arrangement to customers during the referral process, such as the role and involvement of the AI; its relationship with the relevant MPF principal intermediary; and any remuneration receivable. AIs should also keep proper record of the referral process.