HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Conduct Department *銀行操守部*

Our Ref: B1/15C
B9/103C
G16/1C
C2/5C

8 December 2014

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Mystery Shopping Programme (MSP) Findings

The Hong Kong Monetary Authority (HKMA) engaged a service provider during 2013 and 2014 to undertake a MSP to test check the sales practices of Authorized Institutions (AIs) in respect of investment and insurance products. A report summarising the findings of the MSP is attached at **Annex**. AIs should give due regard to the findings, and review their policies and controls to promptly implement any appropriate measures to enhance selling process, staff training, compliance monitoring and other relevant internal controls. AIs are also encouraged to adopt the good practices set out in the report, where applicable, to enhance their sales process and relevant controls, and to achieve the objective of treating customers fairly.

The results of the MSP revealed that the AIs under review were generally in compliance with the relevant regulatory requirements in respect of the sale of investment products, save for some samples which suggested room for further improvement. In respect of the sale of insurance products, the findings suggested some weaknesses in obtaining adequate information about the customer's circumstances and needs, ensuring suitability of recommendations, and disclosure of key features and risks as well as fees and charges of the insurance products.

Regarding the sale of investment products, the HKMA has shared with the banking industry in a circular issued on 30 July 2014 some findings and good practices as identified in this MSP and in the HKMA's on-going supervisory process, as well as reminding AIs to comply with the regulatory requirements and expected standards. As for insurance products, taking into account the findings of this MSP and in its on-going supervision, the HKMA has also

55th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong
Website: www.hkma.gov.hk

香港中環金融街8號國際金融中心2期55樓
網址：www.hkma.gov.hk

issued a circular today to provide guidance to the banking industry on the expected selling practices for non-linked long term insurance (NLTI) products[1].

The HKMA has taken into account the findings of the MSP in formulating supervisory plans as well as measures for promoting good compliance culture of AIs and their staff. Areas of shortcomings are subject to greater scrutiny in the supervisory process. The individual AIs concerned have been required to take appropriate follow-up actions, including to improve relevant control measures. The HKMA will continue to deploy mystery shopping from time to time to test check AIs' sales practices.

Yours faithfully,

Carmen Chu

Executive Director (Banking Conduct)

Encl.

c.c. SFC (Attn: Mr James Shipton, Executive Director (Intermediaries))
Insurance Authority (Attn: Ms Carol Hui, Acting Assistant Commissioner of Insurance (Long-Term Business) and Ms Nancy Chien, Acting Assistant Commissioner of Insurance (Enforcement))

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1 Examples of NLTI products include endowment insurance plans, annuity insurance plans, whole life insurance plans and universal life insurance plan, etc.