

13 March 2025

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HKMA/B1/15C

To: Chief Executives of all authorized insurers carrying on long term business; Chief Executives of all authorized institutions; and Responsible Officers of all licensed insurance broker companies and licensed insurance agencies carrying on long term business

Dear Sirs/Madams,

Indexed Universal Life Insurance Products for Professional Investors

The Insurance Authority (“IA”) and the Hong Kong Monetary Authority (“HKMA”) note the recent enquiries about indexed universal life (“IUL”) products from the industry. Those enquiries have been made in the context of observed growing demand for such products from high net worth customers.

In light of those enquiries, and taking account of the current design of IUL products, the IA and the HKMA see merits of providing clarification about the application of the insurance regulatory framework to IUL insurance business to ensure the imperatives of policy holder protection and fair treatment of customers are upheld.

IUL product

Like traditional universal life insurance products, IUL products offer life insurance with a cash value component and flexibility for policy holders in terms of premium payment. However, unlike typical traditional universal life insurance products, all or part of the cash value component of IUL products are linked to the performance of a financial index or indices (e.g. a stock market index).

Application of the insurance regulatory framework to IUL insurance business

As the cash value component of IUL products is determined (in whole or in part) with reference to an index or indices, IUL products belong to Class C (linked long term) business, per the table in Part 2 of Schedule 1 to the Insurance Ordinance (Cap. 41).

Accordingly, IUL products are subject to all requirements in the insurance regulatory framework applicable to Class C (linked long term) business. These include GL15 (Guideline on Underwriting Class C Business) and GL26 (Guideline on Sale of Investment-Linked Assurance

Scheme (“**ILAS**”) Products) issued by the IA¹, both of which specifically apply to Class C (linked long term) business. These also include the guidelines cross-referenced in GL15 and GL26, namely GL28 (Guideline on Benefit Illustrations for Long Term Insurance Policies) and GL30 (Guideline on Financial Needs Analysis).

Considerations pertinent to IUL insurance business

Nonetheless, the IA and the HKMA recognise and take account of the following:

- Whilst many of the provisions in the insurance regulatory framework applicable to Class C (linked long term) business are pertinent to and should be applied to IUL business in order to achieve policy holder protection, certain provisions are either not strictly relevant to IUL insurance business, or the manner of their application needs to be specifically amended so as to make their application to IUL products more practical and relevant.
- IUL products also retain features of traditional universal life insurance products. Traditional universal life insurance products are not generally Class C (linked long term) business and are instead subject, among others, to the requirements in GL16 (Guideline on Underwriting Long Term Insurance Business (Other Than Class C Business)) rather than GL15. Certain provisions in GL16 should also, therefore, be applied to IUL insurance business.
- In circumstances where IUL products are only offered and sold to customers in the high net worth segment, who satisfy the definition of professional investors (“**PIs**”) as defined in Schedule 1 to the Securities and Futures Ordinance (Cap. 571) (“**SFO**”) and the Securities and Futures (Professional Investor) Rules (Cap. 571D) (“**PI Rules**”), there is room to offset or amend the application of certain requirements in GL15 and GL26 in the context of IUL products, without compromising policy holder protection.

Application of Guidelines to designing, offering and selling IUL products to PIs

To take account of these matters and uphold the imperative of policy holder protection, consideration has been given to the application of the insurance regulatory framework to IUL insurance business, in circumstances where IUL products are only offered and sold to PIs. For these purposes, we draw together in the **Annex** provisions from various guidelines issued by the IA and state how these will (or will not) apply, in circumstances where IUL products are only offered and sold to PIs. Accordingly, authorized insurers and licensed insurance intermediaries conducting IUL insurance business are expected to satisfy these applicable provisions (as stated in the Annex) when designing, offering and selling IUL products to PIs.

¹ In addition to GL15 and GL26, GL16, GL28 and GL30 mentioned in this Circular are also guidelines issued by the IA.

Enquiries

We trust the above provides clarity and practical way forward in relation to IUL insurance business. Should you have any questions in relation to the above, please contact your case officer of the IA or email the IA at enquiry@ia.org.hk. For banking conduct matters, please contact Mr Banny Yu (at 2878 8272) or Ms Tiffany Ng (at 2597 0663) of the HKMA.

Yours faithfully,

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