Our Ref: B1/15C
C2/5C
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8 July 2022

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Selling of Protection Linked Plan

In light of the latest enhanced guidance on investment-linked assurance scheme ("ILAS") products promulgated by the Securities and Futures Commission ("SFC") and the Insurance Authority ("IA"), and the introduction of a new subset of ILAS products categorised as Protection Linked Plan ("PLP"), the Hong Kong Monetary Authority ("HKMA") issues this circular to provide guidance to authorized institutions ("AIs") on the selling of PLP with a view to according protection to customers.

The guidance to AIs, as set out in the **Annex** to this circular, covers aspects of product due diligence, suitability assessment and product recommendation, product disclosure, audio recording and record maintenance, and management oversight. Emphasis is also put on the protection of vulnerable customers.

The guidance aims to consolidate and modernise the requirements set out in various past HKMA's circulars on ILAS products to bring them in line with the latest approaches and standards of the HKMA as well as those of the SFC and the IA. Besides streamlining the requirements to make them more userfriendly, the HKMA has also enhanced the protection of customers in the following aspects:

(a) making it clear that PLP is generally unlikely to be suitable for a customer in scenarios where the high level of protection feature is not applicable to the customer at the inception and throughout the entire premium payment period of the PLP; the period of high level of protection offered by the PLP is shorter than the target period for high level of protection of the customer; or the customer has low insurance protection need (paragraph 2.5 of the Annex);

(b) enhancing disclosure of PLP-specific features and risks (e.g. the customer's age at which the high level of protection ends, the risk of significant increase in cost of insurance resulting in significant loss in premium paid, and the details of arrangement to facilitate de-risking of the customer towards retirement) (paragraph 3.2 of the Annex);

(c) requiring disclosure of the AI's maximum level of remuneration receivable if the customer directly invests in the underlying fund(s), instead of investing in the fund(s) through the underlying investment option(s) of PLP (paragraph 3.3 of the Annex); and

(d) requiring vetting of audio records of transactions with vulnerable customers (paragraph 6.1 of the Annex).

AIs engaging in the selling of PLP should have in place adequate policies, procedures, controls and monitoring, as well as sufficient staff training to ensure compliance with the guidance, as well as all other relevant regulatory requirements. In this connection, AIs should engage an independent party (e.g. an external consultant or Internal Audit function) to conduct a pre-implementation review in respect of their policies, procedures, controls and monitoring to ensure compliance with all relevant regulatory requirements before engaging in the sale of PLP. AIs should also discuss with the HKMA on their plan for selling PLP, as well as the details of the pre-implementation review.

Should you have any questions on this circular, please contact Ms Candy Tam at 2878 1292 or Mr Chris Wong at 2878 1450.

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 and General Counsel)
Securities and Futures Commission
(Attn: Ms Christina Choi, Executive Director (Investment Products))