保險業監管局
Insurance Authority

香港黃竹坑香葉道41號19樓
19th Floor, 41 Heung Yip Road, Wong Chuk Hang, Hong Kong.
電話Tel : (852) 3899 9983 電郵Email : enquiry@ia.org.hk
傳真Fax : (852) 3899 9993 網址Website : www.ia.org.hk

20 August 2026 Ref: INS/TEC/9/2/2/26

To: Chief Executives of all authorized insurers carrying on long term insurance business

Dear Sirs/Madams,

Observations on insurance business carried on with the use of premium financing facilities

The Insurance Authority ("**IA**") has noted a marked increase in the first half of this year in the use of premium financing facilities to fund the purchase of long term insurance policies in Hong Kong. Such increase is observed across a number of life insurers, and for some insurers, premium financing business has become the major source of new business sales.

Policies taken out with the use of premium financing ("**PF Policies**") are commonly used for wealth management purposes and therefore may exhibit materially different customer objectives and lapse behaviour [1] compared with non-PF Policies. PF Policies are also particularly sensitive to interest rate movements and fluctuation in economic conditions. The use of leveraging amplifies risks embedded in these insurance policies for policyholders, and for insurers, it aggravates the risk of lapse with knock-on impacts on liquidity, especially where less liquid assets (e.g. private credits, private equities or other alternative assets) are held to back those policies. In stressed scenarios, concentrated premium financing exposures may unintentionally lead to correlated asset sales at depressed prices. Authorized insurers should therefore give due consideration to the risks associated with premium financing business and ensure that such risks are appropriately identified, monitored and managed.

This circular serves to remind authorized insurers of their ongoing obligations in complying with the Insurance Ordinance (Cap. 41) and relevant regulatory requirements when underwriting PF Policies.

<u>Products used for premium financing</u>

In IA's ongoing supervision, it is observed that premium financing is now predominantly used

[1] From IA's observations, premium-financed policyholders are more likely to surrender their policies once the targeted return has been achieved or the loan tenor has expired, even in the absence of changes in interest rates or economic conditions. Such lapse behaviour can be further exacerbated by adverse changes in interest rates or economic conditions.

with whole life participating products. These products are generally designed for long-term wealth accumulation and/or estate planning, with a significant portion of the illustrated benefits being non-guaranteed and intended to build up over a long investment horizon. Their asset-liability management strategies often involve greater allocation to alternative and growth assets, which are more volatile and less liquid. These products may have been designed based on low lapse assumptions that fit the longer-term objectives to smoothen the volatility of investment returns. However, some policyholders use premium financing for shorter term interest rate arbitrage, which would create a mismatch between the original product design and the policyholders' objective or expected holding period.

Further, in some instances, insurers assume that where such a mismatch occurs and the actual lapse rates of the portfolio have significantly exceeded the assumptions adopted at original pricing, the resulting adverse financial impacts would be mitigated by reducing policyholders' non-guaranteed benefits under the participating mechanism.

The IA emphasizes that reliance on reductions in non-guaranteed benefits as the primary or predominant mitigant for the adverse financial consequences arising from such mismatches calls into question whether the associated risks were adequately identified, assessed and addressed through product design, pricing, and distribution control in the first instance. More fundamentally, such reliance raises concerns as to whether the practice aligns with the policyholders' reasonable expectations. Premium-financed policyholders' reasonable expectations were formed at the point of sale, likely without being made aware that the illustrated non-guaranteed benefits presented before them rest heavily on a low lapse rate assumption. Non-premium-financed policyholders' long-term outcome could also be materially affected by the said practices as they share the returns from the same participating fund pool.

It is also observed from the insurance business of some authorized insurers that PF Policies may account for a substantial proportion of a particular product's sales (in some cases exceeding 80% of the policy count or premiums for that product). Such a high level of concentration raises the question as to whether the premium financing usage, associated lapse behaviour, and related risks have been adequately reflected in the product design, pricing assumptions, participating fund management and risk management frameworks.

In light of the aforesaid concerns, the IA reminds authorized insurers of the need to rigorously apply established regulatory requirements on product governance and ERM framework to its insurance business carried on with the use of premium financing facilities.

Pursuant to paragraph 5.3 of the Guideline on Underwriting Long Term Insurance Business (other than Class C Business) ("**GL16**"), authorized insurers are required to monitor products after launch to ensure that they continue to meet the needs of the target customers, assess the performance of distribution channels with respect to sound commercial practices, and take necessary remedial actions where appropriate. Where premium financing constitutes a substantial share of a product, authorized insurers are expected to conduct their ongoing product review with due regard to these circumstances and examine whether:

- the product design can reflect and contemplate the observed usage of premium financing;
- lapse assumptions remain suitable;
- determination of non-guaranteed benefits remains appropriate and fair to both premium-financed and non-premium-financed policyholders; and
- sales practices, product disclosures and distribution controls continue to be suitable for the intended customers.

Any product reviews conducted by an authorized insurer should be properly documented and made available for the IA's inspection upon request. Where material deficiencies, adverse trends or inconsistencies are identified, authorized insurers should take timely remedial action, including enhancements to product design, pricing assumptions, participating fund management, customer disclosures, distribution controls or sales practices where appropriate.

Where premium financing business has become, or is expected to become, a dominant component of an insurer's in-force portfolio, the authorized insurer should recognize this material development and assess whether the design of its existing ERM framework remains sufficiently comprehensive and appropriate to accord with its own specific circumstances (including consideration of the volume and patterns of its premium financing business) in accordance with paragraph 7.3 of the Guideline on Enterprise Risk Management ("**GL21**") .

In particular, the insurer is expected to identify, assess and address the risks associated with its use of premium financing, including conduct risk, premium financing business concentration risk, lapse risk and liquidity risk, and to incorporate such assessment into its Own Risk and Solvency Assessment ("**ORSA**") report in accordance with section 9 of GL21. To effectively address these risks in the ORSA report, the insurer is also expected to enhance its stress and scenario testing by including appropriate lapse and economic stress analyses for premium financing business.

Premium discounts and sales practice

The IA has also observed an increasing use of larger premium discounts in promotional campaigns, and higher "Day 1" surrender values to enhance product competitiveness. While such initiatives may benefit policyholders, their use in conjunction with premium financing facilities (especially where lenders offer a high loan-to-surrender value ratio) may materially increase the risk of policy leverage[2] and incentivize sales practices that place undue emphasis on shorter term gains derived from interest rate arbitrage. Such practices may, if not closely monitored to ensure compliance with applicable regulatory and conduct requirements throughout the sales and solicitation process, result in outcomes that are not aligned with the

[2] This should be distinguished from the policyholder's risk of over-leveraging. Even where a policyholder is not exposed to the risk of over-leveraging and is able to meet the loan repayment demand at any time using his/her own funds without surrendering the policy, a higher level of policy leverage can still amplify the volatility of policy returns, which in turn may unduly influence the policyholder's decision on whether and when to surrender the policy.

fair treatment of customers.

Our recent reviews identified instances in which some sales materials suggested that, through the use of premium financing facilities, a policyholder could achieve a policy leverage of up to 9 times by contributing merely 10% of the premium (due to the combined effect of the premium discount, the "Day 1" surrender value and the loan-to-surrender value ratio). These sales materials also tactfully highlighted the prospect of higher leveraged return over a shorter holding period, but fell short in properly disclosing the downside risks like the effects of adverse policy performance or rising borrowing costs, nor did they clearly reflect that these risks may become increasingly significant as the level of policy leverage increases.

Pursuant to the "Circular on the Supervisory Standards and Key Requirements on the use of Premium Financing to take out Long Term Insurance Policies" issued on 1 April 2022 (the **"PF Circular"**), sales and training materials should be well balanced, without over-emphasizing the leveraging benefit of premium financing, and adequate training should be provided to ensure the distribution channels have a good understanding of the nature and the risks associated with premium financing. The IA therefore expects authorized insurers to proactively review sales and training materials for premium financing products, and ensure that potential significant losses under various adverse scenarios and other key downside risks (such as the heightened sensitivity of outcomes to adverse movements as leverage increases) associated with premium financing are clearly and prominently disclosed.

Authorized insurers should also recognize that the premium discounts and policy leverage may significantly shorten the illustrated breakeven year and reshape the pattern of policyholder returns as compared to the product's original design. Insurers should therefore monitor the actual level of leverage for their PF Policies, assess the impacts on policy breakeven year and return patterns, and consider the implications of product design under GL16 and risk management under GL21.

Way forward

To strengthen its monitoring of the increasing trend and evolving patterns of premium financing business carried on by insurers, the IA will step up supervisory surveillance activities to closely monitor developments in premium financing activities and remain vigilant to practices that diverge from established supervisory standards and requirements. Authorized insurers are reminded to ensure that their internal controls remain robust with due regard to the supervisory standards and requirements applicable to the premium financing business as highlighted in this circular.

The IA and the Hong Kong Monetary Authority are closely monitoring the market development of premium financing, and have scheduled another round of joint inspection on premium financing in the second half of 2026. We will keep the industry informed and share our observations in due course.

For enquiries about the contents of this circular, please contact:

Julie Zhu, Senior Manager, Long Term Business Division, IA (Tel: 3899 9902)
Edward Li, Senior Manager, Conduct Supervision Division, IA (Tel: 3899 9711)

Yours faithfully,

Marty Lui	Alan Wu
Executive Director	Head of Conduct Supervision (Acting)
Long Term Business Division	Conduct Supervision Division
Insurance Authority	Insurance Authority

c.c. Hong Kong Monetary Authority
The Hong Kong Federation of Insurers