

5 July 2024

Our Ref: CDD/PNILAS/CIR

By Email

To: Chief Executives of all Authorized Insurers underwriting direct business in Class C Linked Long Term Business and Responsible Officers of All Licensed Insurance Broker Companies carrying on regulated activities in respect of Long Term Business (including Linked Long Term Business)

Dear Chief Executives and Responsible Officers,

Practice Note on the application of requirements in the insurance regulatory framework to specific services provided by licensed insurance brokers on investment choices and premium allocations under Investment-Linked Assurance Scheme Policies (“ILAS Policies”)

The Insurance Authority (“IA”) hereby issues its ‘Practice Note on the application of requirements in the insurance regulatory framework to specific services provided by licensed insurance brokers on investment choices and premium allocations under Investment-Linked Assurance Scheme Policies (“ILAS Policies”)' (“Practice Note”), with an effective date of **1 October 2024**. Enclosed please find a copy of the Practice Note.

The Practice Note articulates the IA’s expectations on the standards which have to be met by a licensed insurance broker company (and its personnel) to comply with the regulatory framework in relation to three specific types of regulated activities. The three specific types of regulated activities are:

- (i) execution-only services;
- (ii) advisory investment services; and
- (iii) discretionary investment management services.

These services (as defined in the Practice Note) go beyond just introducing and arranging ILAS Policies, and extend to executing, advising or managing the selection of investment fund options and premium allocations by policy holders under ILAS Policies. These additional types of regulated activities, require an additional level of governance and controls (in the case of all three services) and investment knowledge and expertise (in the case of the advisory investment services and discretionary investment management services).

Accordingly, a licensed insurance broker company which offers any of these services, is expected to satisfy the applicable requirements in the Practice Note in order to meet the ongoing fit and proper requirements in the insurance regulatory framework and the ‘competence to advise’ and corporate governance standards in the Code of Conduct for Licensed Insurance Brokers, when delivering such services.

Annex A to the Practice Note sets out the competency requirements for personnel providing the advisory investment services and/or discretionary investment management services. These

services are akin to the provision of investment advice or investment management. The stated qualification and experience requirements reflect this and are applicable to all ILAS Policies issued on or after 1 October 2024, on which either of these services are to be provided to policy holders.

Part A(III) of Annex A to the Practice Note sets out grandfathering arrangements for ILAS Policies issued prior to 1 October 2024, on which licensed insurance broker companies are already providing either advisory investment services and/or discretionary investment management services (“Grandfathered ILAS Policies”). The grandfathering arrangements allow the services to continue to be provided on Grandfathered ILAS Policies, until 31 July 2027, provided that the relevant technical representatives (broker) and responsible officers comply with the Additional Continuing Professional Development (“CPD”) requirement from 1 August 2024 to 31 July 2027 as set out in Part A(III) of Annex A to the Practice Note (essentially requiring 2 additional CPD hours to be completed focusing on topics related to investment management or investment advice). By 1 August 2027, however, a licensed insurance broker company will be expected to have brought its personnel into line with the competence requirements to continue to provide the advisory investment services and/or discretionary investment management services.

Annex B to the Practice Note sets out the IA’s minimum expectations on the corporate governance, controls and procedures a licensed insurance broker company (and its responsible officer) should establish on the specific services in relation to ILAS Policies. These are applicable, on and from 1 October 2024, to all ILAS Policies (whether issued before or after that date).

The interests of policy holders underpin the standards in the Practice Note. A policy holder seeking to obtain any of the specified services from a licensed insurance broker company in relation to an ILAS Policy must be provided with full transparency on the terms and conditions of such services, the terms and level of remuneration and fees for such services, and the fact that the services can be terminated without penalty. Policy holders must also be made aware that the services (and the remuneration and fees for such services) are not included in the key features of the ILAS Policy itself, so they can make a fully informed decision as to whether or not they wish to proceed with procuring such services.

Should you have any enquiries on the above, please email us at conductsupervision@ia.org.hk.

Yours faithfully,

Peter Gregoire
Head of Conduct Supervision Division
General Counsel
Insurance Authority

Encl.

c.c. The Hong Kong Federation of Insurers
Professional Insurance Brokers Association
The Hong Kong Confederation of Insurance Brokers