

Life Insurance Policy Replacement – What you need to know



Introduction

Life insurance, unlike general insurance, involves a longer policy period. You will normally suffer losses if you surrender an existing life insurance policy, particularly during the early years of the policy period. To protect your interests, you should carefully compare your existing and the new insurance policies and assess whether the replacement of policy is in your best interests before making a decision.

This leaflet provides you with some useful guidance when you are approached for replacing your life insurance policies.

Dos

1. **Ask yourself the following questions** before making a decision for replacing your existing life insurance policy:
 - Why are you asked to replace your existing policy? Is it solely for your own benefits?
 - Will the protection be continuous without interruption? A new policy usually has a waiting period before its full benefits apply (e.g. suicide is covered normally after a waiting period of one year from the issue date of the policy). Are you also sure that the application for your replacement policy will be accepted?
 - Is the sum insured under the new policy not less than that under the existing policy?
 - Are the returns and cash value offered by the new policy guaranteed or just projected non-guaranteed amounts? Projected high rates of returns are usually associated with high investment risks.
 - When can the new policy offer bonus or dividend? Your existing policy may already have been operative for several years and may soon be distributing bonus or dividend.
 - When will the “Incontestability Clause” be operative under the new policy? The “Incontestability Clause” under your existing policy may already have taken effect to protect your interests. That means the validity of the existing policy is incontestable unless there is fraud or non-payment of premiums.
 - Is the type of the new policy the same as your existing one? If you intend to replace a traditional life insurance policy with an investment-linked life insurance policy (these two types of policies have different features to suit the needs of policy holders and the latter normally involves higher risks), particular consideration is necessary.
 - Will you obtain any cash value upon surrendering your existing policy? In the first few years of a life insurance policy, the cash value is usually very small or insignificant compared to the premium paid.

- Will you be subject to a higher premium rate or a longer premium payment period under the new policy as a result of your older age and changes in your health condition? Replacing policy involves the application for a new policy, which will need to go through the underwriting process.
 - Do you have an updated understanding of your existing policy? If not, you should contact the insurer or insurance intermediary of the existing policy to review it before considering replacing it.
2. **You should consider adding a rider or taking out a new policy in addition to your existing policy** if your intention is merely to increase the sum insured or extend the scope of your insurance coverage, and not to replace an existing policy.
 3. **You should carefully examine the Customer Protection Declaration (“CPD”) form before signing it.** A CPD form must be completed in the course of policy replacement. This is to ensure that the insurance intermediary has clearly explained to the policy holder the real and potential disadvantages of replacing an existing policy.

If the CPD form indicates that no disadvantage is associated with the replacement, you should carefully assess whether your insurance intermediary’s comments are justified. In case of doubts, make enquiry to the insurer of your existing policy.

4. **You should thoroughly examine the new policy after receiving it.** If you eventually consider the policy not suitable, you have the right to cancel it within the “cooling-off period” and obtain a full refund of the insurance premium (less a market value adjustment where applicable). With effect from 1 February 2010, “cooling-off period” has been amended to define as 21 days after the delivery of the policy or issue of a Notice to the policy holder or the policy holder’s representative, whichever is the earlier.

Note: “Cooling-off period” is a self-regulatory measure of the insurance industry promulgated in July 1996 by The Hong Kong Federation of Insurers (“HKFI”). Where there is any discrepancy between the version of “cooling-off period” published on this leaflet and that of the HKFI, the version of the HKFI should prevail.

5. You should beware that your insurance intermediary may have a conflict of interests in persuading you to replace your existing policy. You should, apart from listening to the advice of your insurance intermediary, approach the insurer of your existing policy for a balanced view.

Don'ts

- 1. Don't just look at the premium amount in deciding to replace your insurance policy.** The difference in premiums normally reflects the difference in policy coverage and terms.
- 2. Don't take the information contained in the promotional brochures as the terms and conditions of an insurance policy.** The promotional materials only generally summarize the provisions of an insurance policy. Wherever there is a discrepancy, the policy will prevail.
- 3. Don't sign on a blank/incomplete form, for instance the CPD form or the proposal/application form.** You will be held responsible for the content of the document once you sign on it.
- 4. Don't give the insurance intermediaries cash or unnamed payee cheques; or deposit money into their personal bank accounts for premium settlement.** After payment of premiums, you should ask for a receipt.
- 5. Don't blindly rely on the insurance intermediaries.** You should personally check the policy details and enquire of the insurer concerned should you have any doubts.

Complaints

If you believe that you are misinformed or misled in the process of replacement and suffer losses, you may lodge a complaint to:

- Insurance Agents Registration Board (Address: 29/F., Sunshine Plaza, 353 Lockhart Road, Wanchai, Hong Kong; Tel: 2520 1868; Fax: 2520 1967);
- The Hong Kong Confederation of Insurance Brokers (Address: Room 3407, AIA Tower, 183 Electric Road, Fortress Hill, Hong Kong; Tel: 2882 9943; Fax: 2890 2137);
- Professional Insurance Brokers Association (Address: Room 2507-2508, 25/F, China Insurance Group Building, 141 Des Voeux Road Central, Central, Hong Kong; Tel: 2869 8515; Fax: 2770 2372);
- The insurer issuing the new policy; or
- Insurance Authority.

Insurance Authority

21/F, Queensway Government Offices
66 Queensway, Hong Kong

Tel : (852) 2867 2565
Fax : (852) 2869 0252
E-mail: enquiry@ia.org.hk
Website: www.ia.org.hk

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