

Ref : Mv135/14 By Fax & By Email

To : Authorized Representatives of Life Insurance Members ("LIMs") selling Investment Linked Assurance Scheme ("ILAS") Products

cc : Ms Carol Hui, Assistant Commissioner of Insurance

From : Stuart Fraser, Chairman, Life Insurance Council ("LIC")

Date : 8 December 2014

Subject : **Updated Requirements Relating to the Sale of Investment Linked Assurance Scheme ("ILAS") to Enhance Customer Protection ("Updated Requirements")**

Thanks to LIMs for the comments on the draft revised Updated Requirements (Ref: Mv130/14), some of which have been incorporated (highlighted in yellow) in the final version as per the attached which will take effect **no later than 1 January 2015**.

To ensure consistent practices adopted for needs analysis between ILAS and non-ILAS products, as well as to ease the administration burden of LIMs, the Financial Needs Analysis ("FNA") in the Updated Requirements will now extend its application to the non-ILAS products, **effective 1 January 2015**. Corresponding update has been made to the Initiative (issued by HKFI in 2007) and the revised version is enclosed.

Should LIMs have any specific questions on the Updated Requirements with respect to their individual ILAS products, they are advised to contact their Case Officer in the IA direct.



SF/JW/LC

Initiative on Financial Needs Analysis

Purpose:

The Life Insurance Council (“LIC”) of The Hong Kong Federation of Insurers has been taking the lead in promoting self-regulation. Since it is of paramount importance that insurance advice provided by intermediaries needs to be based upon customers’ needs, the LIC is leading the industry to adopt the good practice of carrying out financial needs analysis for the customers during the sales advisory process. This effort is in line with the global trend of the life assurance industry becoming more and more customer-focused. This circular supersedes the “Initiative on Needs Analysis” and will **take effect on 1 January 2015**.

Requirements:

- 1) Every application for new life insurance policy must be accompanied by a financial needs analysis (“FNA”) form. The FNA must include all the questions and multiple choice options in the suggested FNA form as set out in the Appendix. However, Member Companies may include additional questions and/or multiple choice options, if they consider that such will further enhance the suitability assessment for their own products.
- 2) Neither Member Companies nor customers can opt out of the FNA. If a customer, for privacy or other reasons, chooses not to disclose income/asset information under 4(a) or (b) (but not both) of the FNA, he/she must confirm their reason(s) in writing. This notwithstanding, if the absence of information under either 4(a) or (b) of the FNA would render Member Companies or the intermediaries unable to comply with any of the requirements (e.g. assessing affordability of products recommended or comparison of different insurance options etc) under this (or any other) circular, Member Companies must reject the relevant application and should advise the customer accordingly.
- 3) The FNA must be clearly identified as a “Financial Needs Analysis” and must be signed and dated by the customer applicant(s). To facilitate the intermediary to properly carry out the analysis, the FNA form should also include the following:
 - i) Personal particulars (of the potential policyholder)
 - name, date of birth, address, contact numbers, marital status, occupation, etc
 - ii) Needs analysis
 - financial income (monthly salary, bonus, other incomes, etc)
 - financial outgoings (monthly living expenses, rent/mortgage redemption, etc)
 - usable assets (savings, life insurance coverage, stock/securities/bonds, company benefits, etc)
 - liabilities (mortgage loan, debts, etc)
 - family commitments (no. of dependents, education funds, etc)
 - funeral and associated expenses and estate duties
 - iii) Evaluation and recommendation
 - total protection needs, total usable assets, total amount to meet the family’s immediate need for protection, etc

(effective from 1 January 2015)

- the reason(s) for the recommendation made by the selling intermediary
- 4) Member Companies must require the intermediaries to carry out an FNA (including comparison of different insurance options) with the potential policyholders before recommending to them **any** life insurance products and signing the application.

Validity Period:

A signed FNA form shall have a validity period of one year, i.e. in the event that a customer purchases additional insurance coverage from the same Member Company within a year after an FNA form is signed, he/she will not necessarily have to go through another FNA provided that there are no substantial changes in the customers' circumstances (and in such cases Member Companies can rely on the declaration by the customer) and that there are no mismatch (i.e. needs, risks, affordability etc) identified.

APPENDIX: Financial Needs Analysis (“FNA”) Form

The following questions form the minimum required contents of the FNA form:

1. What are your objectives of buying our product? (tick one or more)
 - Financial protection against adversities (e.g. death, accident, disability etc)
 - Preparation for health care needs (e.g. critical illness, hospitalization etc)
 - Providing future income stream (e.g. retirement income etc)
 - Saving up for the future (e.g. child education, marriage, retirement etc)
 - Investment
 - Emigration to Hong Kong through Capital Investment Entrant Scheme
 - Others (Please specify _____)

2. What type of insurance products you are looking for to meet your objectives above? (tick one or more)
 - Pure insurance product (without any savings or investment element)
 - Insurance cum savings product (with savings but without investment element)
 - Insurance cum investment product (Investment decisions and risks borne by insurer)
 - Insurance cum investment product (Investment decisions and risks borne by policyholder)
 - Others (Please specify _____)

3. What is your target benefit / protection period for insurance policy? (tick one)
 - < 1 year 1-5 years 6-10 years
 - 11-20 years > 20 Years

4. Your capacity to pay premiums for insurance or to contribute to investments:
 - a. What is your average monthly income from all sources in the past 2 years? (tick one or more)
 - i. Specific amount: Not less than HK\$ _____ per month
 - or ii. In the following range:
 - a) less than HK\$10,000
 - b) HK\$10,000 - HK\$19,999
 - c) HK\$20,000 - HK\$49,999
 - d) HK\$50,000 - HK\$100,000
 - e) over HK\$100,000.

 - b. What is your approximate current accumulative amount of liquid assets?
Please specify type and amount: Type : _____ [HK\$ _____]

Note: Liquid assets are assets which may be easily turned into cash, for example, cash, money in bank accounts, money market accounts, actively traded stocks, bonds and mutual funds and US Treasury bills. However, real estate, coin collection and artwork are not considered to be liquid assets.

 - c. For how long are you able to contribute to an insurance policy and/or investment plan? (tick one)
 - < 1 year 1-5 years 6-10 years
 - 11-20 years > 20 Years

 - d. Approximately what percentage of your disposable income would you be able to use to pay your monthly premium for the entire term of the insurance policy/investment plan in (c) above? (tick one)
 - i) <10%

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- ii) 10% - 20%
- iii) 21% - 30%
- iv) 31% - 50%
- v) >50%

e. In considering your ability to make payments, what are your sources of funds? (tick one or more)

- i) salary
- ii) income
- iii) savings
- iv) income from other investments
- v) savings & investments
- vi) others (Please specify _____)

5. Based on your answers to the questions above, the intermediary concerned has explored the following insurance options available to meet your objective(s) and needs(s):

Type of Insurance Product Explored	Name of Insurance Product Introduced (if any)

6. If you choose not to disclose income/asset information under 4(a) or (b) above, you must indicate your reason(s). Please note that we (the insurance company) are required to reject your application if you choose not to respond to both 4(a) and (b) above.

*(Applicant must complete explanation in **own** handwriting in this box.)*

Applicant's Name

Applicant's Signature

Date

Note: You are required to inform us (the insurance company) if there is any substantial change of information provided in this form before the policy is issued.