

**GUIDELINE  
ON  
FINANCIAL NEEDS ANALYSIS**

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Financial Needs Analysis Template

Appendix

## **1. Introduction**

- 1.1 The Insurance Authority (“IA”) issues this Guideline pursuant to section 133 of the Insurance Ordinance (Cap. 41) (“Ordinance”) and its principal function to regulate and supervise the insurance industry for the protection of policy holders and potential policy holders. This Guideline also takes account of the Insurance Core Principles, Standards, Guidance and Assessment Methodology (“ICP”) promulgated by the International Association of Insurance Supervisors, in particular ICP 19 which stipulates that the conduct of the business of insurance should ensure that customers are treated fairly.
- 1.2 Life insurance policies are generally long term in nature and may lock up the liquidity of customers. It is therefore important for authorized insurers and licensed insurance intermediaries to ensure that a proper assessment of each customer’s circumstances including needs, financial situation, ability and willingness to pay premiums, etc., is undertaken before any recommendation is made in respect of a suitable life insurance policy for the customer, and that the recommendation is based on that assessment. For the purposes of this Guideline, this assessment is referred to as a Financial Needs Analysis (“FNA”).
- 1.3 This Guideline sets out the minimum standards and practices that need to be implemented and adopted for carrying out appropriate FNAs in respect of customers looking to enter into life insurance policies.

## **2. Interpretation**

- 2.1 In this Guideline, unless the context otherwise specifies:
  - (a) “Customer” bears the same meaning as policy holder or potential policy holder, and those terms are used under the Ordinance;
  - (b) “Group policy” means a life insurance policy under which a group of employees of a company, partnership or sole proprietor, or members of an organization or other similar group of people, are insured; and
  - (c) “Life insurance policy” means a contract of insurance which is classed as long term business as defined under the Ordinance.

2.2 Unless otherwise specified, words and expressions used in this Guideline shall have the same meanings as given to them in the Ordinance.

### **3. Relevant Regulatory Requirements and Status of this Guideline**

3.1 This Guideline should be read in conjunction with the relevant provisions of the Ordinance, all other relevant rules, codes, circulars, and guidelines issued by the IA or other regulatory bodies, including but not limited to the following:

- (a) Section 90(d) of the Ordinance, which requires a licensed insurance intermediary when carrying on a regulated activity “*to have regard to the particular circumstances of the policy holder or the potential policy holder that are necessary for ensuring that the regulated activity is appropriate to the policy holder or potential policy holder.*”
- (b) Guideline on Underwriting Class C Business (GL15) issued by the IA;
- (c) Guideline on Underwriting Long Term Insurance Business (other than Class C Business) (GL16) issued by the IA;
- (d) Guideline on Sale of Investment Linked Assurance Scheme (“ILAS”) Products (GL26) issued by the IA;
- (e) Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28) issued by the IA;
- (f) Code of Conduct for Licensed Insurance Agents issued by the IA;
- (g) Code of Conduct for Licensed Insurance Brokers issued by the IA; and
- (h) All relevant rules, codes, circulars and guidelines administered or issued by the Hong Kong Monetary Authority.

3.2 This Guideline does not have the force of law, in that it is not subsidiary legislation, and should not be interpreted in a way that would override the provision of any law. A non-compliance with the provisions in this Guideline would not by itself render an authorized insurer or a licensed insurance intermediary liable to judicial or other proceedings. A non-

compliance may, however, for example, reflect on the IA’s view of the continued fitness and properness of (i) the directors, controllers and key persons in relevant control functions of the authorized insurers to which this Guideline applies and (ii) the licensed insurance intermediaries to which this Guideline applies and (in the case of licensed insurance agencies and licensed insurance broker companies) their directors, controllers and responsible officers. The IA may also take guidance from this Guideline in considering whether there has been an act or omission likely to be prejudicial to the interests of policy holders or potential policy holders (albeit the IA will always take account of the full context, facts and impact of any matter before it in this respect).

#### **4. Scope of Application**

4.1 This Guideline applies to all authorized insurers carrying on or advising on long term business, and all licensed insurance intermediaries carrying on regulated activities in respect of long term business.

#### **5. Purpose**

5.1 The FNA is a process during which an authorized insurer or a licensed insurance intermediary collects relevant and sufficient information from a customer so that the authorized insurer or licensed insurance intermediary can properly assess the circumstances<sup>1</sup> of the customer (including needs, financial situation, etc.) before making any recommendation in respect of certain types of life insurance policies (detailed in paragraph 6 below) to the customer.

5.2 The FNA process is vital to the principle of “fair customer treatment” and must be strictly adhered to so that:

- (a) customers are provided with adequate and accurate information before, during and after the point-of-sale of a life insurance policy; and

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<sup>1</sup> When investment-linked assurance scheme (“ILAS”) products (i.e. contracts of insurance in Class C (Linked long term) of Part 2 of Schedule 1 to the Ordinance) may be the subject of a recommendation to a customer, the assessment should also include the customer’s investment objectives, preferred investment horizon, risk tolerance, investment knowledge and experience, and other relevant attributes. The assessment should be carried out based on all relevant information collected in an FNA, Risk Profile Questionnaire (“RPQ”) and the “Statement of Purpose” in the Important Facts Statement (“IFS”). For the RPQ and IFS requirements, please refer to the Guideline on Sale of Investment Linked Assurance Scheme (“ILAS”) Products (GL26) issued by the IA.

- (b) any recommendation given to a customer in respect of a life insurance policy is suitable for the customer.

5.3 In assessing whether the requirements in this Guideline have been satisfied, the IA will adopt a principle-based approach. This approach requires that the underlying objective and substance of each requirement in this Guideline be achieved, regardless of the exact form of arrangement adopted by authorized insurers or licensed insurance intermediaries to achieve it.

## 6. Detailed Requirements for the FNA

### *Types of life insurance policies for which an FNA must be carried out*

6.1 Save in the case of exempted products (see paragraph 6.2 below), and regardless of the channel of distribution, an FNA must be performed for every application for a new life insurance policy<sup>2</sup>, where the policy which is the subject of the application is one of the following types:

- (a) policies of the nature specified in Class A in Part 2 of the Schedule 1 to the Ordinance except:
  - (i) term insurance policies;
  - (ii) refundable insurance policies without substantial savings component, or renewable insurance policies without cash value, that provide insurance protection (e.g. hospital cash, medical, critical illness, personal accident, disability or long-term care cover); or
  - (iii) group policies;
- (b) policies of the nature specified in Class C in Part 2 of the Schedule 1 to the Ordinance.

6.2 A policy is an exempted product for the purposes of paragraph 6.1 above (and hence an FNA would not be required in respect of an application for such policy), if the product meets all the requirements in (a) to (d) below:

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<sup>2</sup> Treatment of a new rider or additional top-up to an existing policy should follow the FNA requirements as if the rider or top-up is a new life insurance policy.

- (a) the policy is:
  - (i) a non-participating endowment product with guaranteed payment of not less than the total premium paid upon maturity; or
  - (ii) a universal life product providing a surrender value which is not less than the total premium paid at all times;
- (b) the policy is sold to customers directly by an authorized insurer or by a licensed insurance agency of an authorized insurer through a digital distribution channel (e.g. webpage or mobile app);
- (c) the authorized insurer or licensed insurance agency does not provide a recommendation to the customer before or during the point-of-sale; and
- (d) in addition to complying with the existing product disclosure requirements, the authorized insurer or licensed insurance agency makes the following disclosures in relation to the policy before a customer is able to purchase it:
  - (i) state the objective(s) of the policy;
  - (ii) state the type and nature of the policy (e.g. “The product is a long term insurance plan underwritten by [name of authorized insurer] and is neither a bank deposit nor a bank savings plan”);
  - (iii) highlight the target premium amount, payment period and benefit periods;
  - (iv) include a prominent warning to the customer concerning affordability of the policy during the entire premium payment period; and
  - (v) include relevant information highlighting the liquidity risk associated with the product.

### *Information to be collected*

- 6.3 Save for the life insurance policies within the scope of paragraphs 6.1(a)(i) to (iii) and 6.2 above, an authorized insurer or a licensed insurance intermediary cannot opt out (and cannot accept an application from a customer who wishes to opt out) of the FNA process unless it obtains the IA's prior consent (e.g. through the InsurTech Sandbox).
- 6.4 The extent and granularity of the information to be collected can be varied depending on the particular circumstances of the target customers and the mode of operation of the distribution channel. Authorized insurers and licensed insurance intermediaries have an obligation to collect adequate information to place themselves in a position whereby they can perform reasonable assessments before making any insurance recommendation.
- 6.5 A template is set out at **Appendix** to illustrate the information that should normally be collected during the FNA process. Authorized insurers and licensed insurance intermediaries can add questions or modify the exact wording of the questions for the purposes of a proper assessment of the customer's particular circumstances, having due regard to the products available under the relevant distribution channel and technology adopted. However, any such changes must be justifiable on the basis that, (i) the substantive meaning of the questions (in the Appendix) are retained in spite of the changes made; (ii) in spite of the changes made, the principle of "fair customer treatment" continues to be satisfied; and (iii) the reason(s) for such changes must be documented.
- 6.6 If a customer refuses to disclose information during the FNA process, the licensed insurance intermediary should clearly explain to the customer that without such information the authorized insurer and licensed insurance intermediary would be unable to comply with the requirements contained in this Guideline, and consequently this would likely result in the authorized insurer rejecting the application. In these circumstances, the licensed insurance intermediary cannot recommend any insurance product to the customer.

### *Documentation and signatures*

- 6.7 A licensed insurance intermediary must properly document the information provided by the customer during the FNA process. The factors considered, evaluation, the recommendation(s) made by the licensed insurance intermediary, and reason(s) for such



recommendation(s) should also be documented as appropriate. When conducting the FNA, care should be taken to determine from whom, and in relation to whom, the relevant information should be collected (e.g. where the policy is to be held on trust, the assessment should be made based on the circumstances of the potential policy owner and/or the insured (e.g. settlor, beneficiary, protector or enforcer of the trust) rather than the trustee) and proper documentation should be maintained.

- 6.8 Before the issuance of a life insurance policy which requires an FNA to be conducted, an authorized insurer has the obligation to ensure that a proper and complete FNA has been conducted. In the case of business referred from a licensed insurance broker company, the authorized insurer is required to ensure that an FNA has been properly conducted by the licensed insurance broker company before accepting the application.
- 6.9 A completed FNA form must be signed and dated by the customer and the licensed insurance intermediary. Digital signatures or other similar signature verification technology are permitted. A completed and signed FNA form shall be valid for 12 months from the date the customer signs it. Customers should be reminded to inform the relevant authorized insurer or the licensed insurance intermediary of any material changes to the information provided during the FNA process. In the event that a customer purchases an additional insurance policy(ies) or coverage from the same authorized insurer or via the same licensed insurance intermediary within 12 months after an FNA form is completed, it is not necessary to conduct another FNA unless there are material changes in the circumstances of the customer or the purchase of the additional insurance policy or the additional coverage would result in a mismatch (see paragraphs 6.15 to 6.18 for further details on mismatch situations).

***Matters to consider before making the recommendation***

- 6.10 Licensed insurance intermediaries must have due regard to the relevant information provided by customers in an FNA before making any recommendation. Where a customer has other policy(ies) in force, whether with the same authorized insurer or with other authorized insurers as disclosed by the customer, the assessment should be carried out based on an aggregate of all the in force policies of the customer, rather than just the policy which is the subject of the application. An authorized insurer should have internal controls for identifying the accumulation of multiple policies it has in force for the same individual customer.

- 6.11 When assessing a customer's ability and willingness to pay insurance premium, the source of funds of the customer must be duly considered to ensure that the customer can afford the recommended product(s) throughout the entire duration of the premium payment term. For instance, where the premium payment term of the recommended policy will last beyond the target retirement age of the customer, the licensed insurance intermediary should assess whether the customer can afford the premium payment after his/her retirement. Where the customer has indicated that premium financing is intended to be used, the licensed insurance intermediary must take that into account when assessing a customer's ability and willingness to pay insurance premium.
- 6.12 Where an ILAS product may be the subject of a recommendation to a customer, information must be collected during the FNA process about whether the customer is able and willing to make his/her own decision to choose and manage different investment choices available under the ILAS product. If the customer has indicated that he/she does not want or is unwilling to choose or manage different investment choices, no ILAS product should be introduced or recommended to the customer. If the customer has indicated that he/she wants or is willing to choose or manage different investment choices with professional advice to be provided by the authorized insurer or licensed insurance intermediary, no ILAS product should be introduced or recommended to the customer unless such a service will be provided to the customer by the authorized insurer or the licensed insurance intermediary.

***Provision of insurance options***

- 6.13 For the purposes of GL15, whenever an ILAS policy is recommended to a customer, a participating policy that meets the customer's investment objective should also be provided to the customer as an option in accordance with the relevant requirement under GL15.
- 6.14 For the purposes of GL16, where, following an FNA process as required by this Guideline, a licensed insurance broker recommends an insurance product to a customer, the licensed insurance broker should also provide the customer with at least another insurance option from a different authorized insurer that meets the customer's needs and circumstances. The only exception to this would be where the licensed insurance broker concludes that there is no other insurance option available to the customer. In this exceptional situation, the licensed insurance broker should document its justification for reaching the conclusion that no such other insurance option is available.

### *Handling of mismatch cases*

- 6.15 When a licensed insurance intermediary recommends an insurance product which does not meet the needs and circumstances of the customer based on the information collected during the FNA process, this is regarded as a “mismatch”. Authorized insurers, licensed insurance agencies and licensed insurance broker companies must put in place appropriate control measures to handle mismatch cases based on the principle of “fair customer treatment”. Where a mismatch exists and the licensed insurance intermediary makes a recommendation despite the mismatch, the licensed insurance intermediary is required to clearly explain the mismatch to the customer and why (despite the mismatch) the product is recommended to the customer. The licensed insurance intermediary must also document the details of the explanation.
- 6.16 In the case a recommendation has been made as described in paragraph 6.15, the authorized insurer should, during the underwriting process, review and assess the reasonableness of such recommendation and satisfy itself that the mismatch case has been handled in accordance with the control measures it has put in place, before accepting the application.
- 6.17 For the avoidance of doubt, a deviation between the recommended level of insurance protection and the level of insurance protection identified during the FNA process (i.e. where the recommended level is higher or lower than the level of protection identified in the FNA) is not considered a mismatch if the deviation has a justified, sound and reasonable basis (e.g. the deviation is because of the underwriting limit set by the authorized insurer, or is based on the health status of the customer, etc.). In such a case, the licensed insurance intermediary is required to clearly explain to the customer, and properly document, how the recommended level of insurance protection is determined. This requirement also applies where the recommended benefit/protection period deviates from the customer’s choice. Special care should be taken when the customer indicates a wealth accumulation-related objective, e.g. “saving up for the future”. In such a case, if the recommended product(s) is not able to achieve the target savings amount within the timeframe indicated by the customer, this should be considered as a mismatch unless the deviation from the target savings amount has a justified, sound and reasonable basis.
- 6.18 Authorized insurers should normally not accept an application with a mismatch in affordability (e.g. the customer has indicated a target premium term of 10 years but is recommended a product with a whole-of-life payment term). In rare cases where there are valid reasons for

such a recommendation, the licensed insurance intermediary is required to clearly explain the mismatch to the customer and why the product is recommended to the customer despite the mismatch (and properly document such explanation). For the avoidance of doubt, it is not considered a mismatch when the recommended insurance policy has a shorter premium payment term than the target premium term indicated by the customer.

### ***Controls, Procedures and Record Keeping***

- 6.19 Authorized insurers should develop and implement effective policies, controls and procedures to ensure compliance with the requirements in this Guideline, including compliance by authorized insurers' appointed licensed individual insurance agents and licensed insurance agencies. Proper training must also be provided by authorized insurers to ensure that these policies, controls and procedures are effectively communicated to their appointed licensed individual insurance agents and licensed insurance agencies. An authorized insurer should also set up a robust monitoring programme to ensure ongoing compliance with this Guideline.
- 6.20 Licensed insurance broker companies and licensed insurance agencies are also required to develop and implement effective policies, controls and procedures, and provide proper training, to ensure that they and their licensed technical representatives (broker) and licensed technical representatives (agent), as the case may be, comply with the requirements of this Guideline. They should also establish robust monitoring programmes to ensure ongoing compliance with this Guideline.
- 6.21 Proper records should be maintained by authorized insurers, licensed insurance broker companies and licensed insurance agencies in respect of the FNA including but not limited to the required documentation set out in this Guideline for inspection and review by the IA and other regulatory bodies.

## **7. Commencement**

- 7.1 This Guideline shall take effect from 23 September 2019 ("Effective Date").

## **8. Transitional Provision**

- 8.1 The IA recognizes that the authorized insurers and licensed insurance intermediaries to which this Guideline applies may require time to update their documentation, controls and processes to align with the requirements in this Guideline. A transitional period of 12 months from the Effective Date (i.e. from 23 September 2019 to 22 September 2020) will therefore apply in respect of the requirements in Section 6 of this Guideline (“Transitional Period”). The Transitional Period applies in respect of life insurance policies issued prior to the end of the Transitional Period.
- 8.2 During the Transitional Period, as an alternative to the provisions in Section 6 of this Guideline, authorized insurers which were carrying on long term business immediately prior to the Effective Date and their licensed insurance agents (including, in the case of licensed insurance agencies, the licensed technical representatives (agent) of the agencies) may continue to use the FNA forms and follow the FNA related policies and procedures which such insurers had in place immediately prior to the Effective Date, provided that such FNA forms, policies and procedures (prior to the Effective Date) complied with and (following the Effective Date) continue to comply with the following documents issued by the Hong Kong Federation of Insurers (“HKFI”):
- HKFI’s Initiative on Financial Needs Analysis (effective 1 June 2018);
  - HKFI’s Questions and Answers on ‘Initiative on Financial Needs Analysis’ (“FNA”) (effective 1 January 2016); and
  - HKFI’s Updated Requirements Relating to the Sale of Investment Linked Assurance Scheme (“ILAS”) to Enhance Customer Protection (effective 1 January 2016).
- 8.3 During the Transitional Period, licensed insurance broker companies registered immediately prior to the Effective Date with the Hong Kong Confederation of Insurance Brokers (“CIB”) and their licensed technical representatives (broker) may continue to use the FNA forms and follow the FNA related policies and procedures which such broker companies had in place immediately prior to the Effective Date, provided such FNA forms, policies and procedures (prior to the Effective Date) complied

with and (following the Effective Date) continue to comply with the following documents issued by the CIB:

- CIB’s Guidance Note on Product Recommendation for Long Term Insurance Business (effective 1 January 2016); and
- CIB’s Guidance Note on Conducting “Know Your Client” Procedures for Long Term Insurance Business (effective 1 January 2016).

8.4 During the Transitional Period, licensed insurance broker companies registered immediately prior to the Effective Date with the Professional Insurance Brokers Association (“PIBA”) and their licensed technical representatives (broker) may continue to use the FNA forms and follow the FNA related policies and procedures which such broker companies had in place immediately prior to the Effective Date, provided that such FNA forms, policies and procedures (prior to the Effective Date) complied with and (following the Effective Date) continue to comply with the following documents issued by the PIBA:

- PIBA’s Code of Conduct for Insurance Brokers Conducting Investment Linked Business (effective 1 March 2014);
- PIBA’s Guidance Note on Conducting Investment Linked Business (effective 1 January 2015);
- PIBA’s Circular dated 15 July 2015;
- PIBA’s Circular dated 22 December 2015;
- PIBA’s Circular dated 5 January 2016;
- PIBA’s Circular dated 28 June 2016; and
- PIBA’s Circular dated 28 September 2016.

8.5 The documents listed in paragraphs 8.2, 8.3 and 8.4 of this Guideline are hereby adopted solely for the Transitional Period.

**September 2019**

**Financial Needs Analysis (“FNA”) Template**

**The following questions form the basic content of the FNA form, authorized insurers or licensed insurance intermediaries shall, in accordance with the particular circumstances of the customers, add questions or modify the exact wording of the questions in compliance with requirements under paragraph 6.5 of this Guideline.**

*Notes to customer: This FNA form is to facilitate the identification of suitable insurance product(s) to meet your needs and circumstances. Please answer all questions in this form. Do NOT sign on this form if any questions are unanswered or have been crossed out. Do NOT sign on blank form. You need to inform us (the insurance company) if there is any substantial change of information provided in this form.*

- 1. What are your objectives for seeking to purchase an insurance 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 regular income in the future (e.g. retirement income etc.)
  - Saving up for the future (e.g. child education, retirement etc.)
  - Investment
  - Others (Please specify \_\_\_\_\_)

*(The supplementary question to Q1 below is applicable only if “Investment” is chosen as one of the objectives in Q1 above)*

To meet your “Investment” objective indicated above, how would you prefer to manage different investment options/investment choices, if available, under the insurance product? (tick one)

- I want to make my own decisions (without any professional advice to be provided by the authorized insurer and/or licensed insurance intermediaries) to choose and manage different investment options/investment choices, if available, under an insurance product, and I am willing to do it throughout the entire duration of the target benefit/protection period of an insurance product
- I want to make my own decisions (with professional advice to be provided by the authorized insurer and/or licensed insurance intermediaries) to choose and manage different investment options/investment choices, if available, under an insurance product, and I am willing to do it throughout the entire duration of the target benefit/protection period of an insurance product
- I do not want to choose or manage different investment options/investment choices, if available, under an insurance product

*(For Q2 and Q3, a specific period/amount can be stated instead of ticking one of the boxes )*

- 2. What is your target benefit/protection period/expected timeframe for meeting the target amount for insurance policy? (tick one)
  - Less than 1 year
  - 1-5 years
  - 6-10 years
  - 11-15 years
  - 16-20 years
  - More than 20 Years
  - Whole of life

3. Your ability and willingness to pay insurance premiums:
- a. What is your average monthly disposable income (i.e. after deducting the expenditure) from all sources (including income from liquid assets) in the past 2 years?
- Not less than HK\$ \_\_\_\_\_ ; or
  - In the following range:
    - less than HK\$10,000
    - HK\$10,000 - HK\$19,999
    - HK\$20,000 - HK\$49,999
    - HK\$50,000 - HK\$100,000
    - over HK\$100,000
- b. What percentage of your monthly disposable income (i.e. after deducting the expenditure) from all sources (including income from liquid assets) would you be able and willing to use to pay for the insurance premium (including your existing insurance policy(ies)) throughout the entire term of the insurance policy? (tick one)
- Less than 10%
  - 10% - 20%
  - 21% - 30%
  - 31% - 40%
  - 41% - 50%
  - More than 50%
- c. For how long are you able and willing to pay for an insurance policy? (tick one)
- 2-5 years       6-10 years       11-15 years       16-20 years
  - More than 20 Years (until target retirement age of \_\_\_\_\_)
  - Whole of life (including period after target retirement age of \_\_\_\_\_)
  - A single payment of not more than HK\$ \_\_\_\_\_