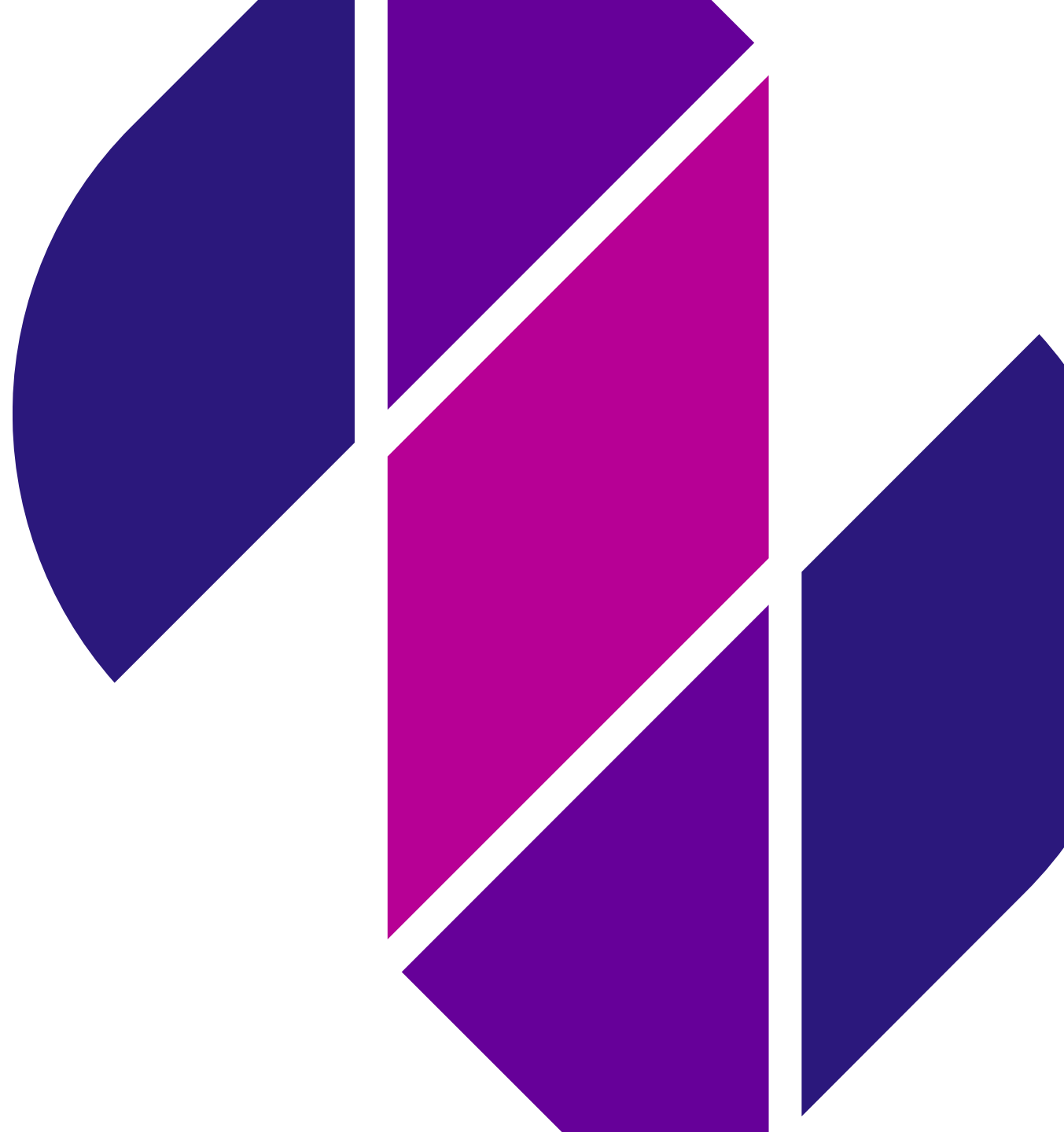




Insurance Authority's
Supervisory Standards and
Key Requirements :

Use of Premium Financing
to take out Long-Term
Insurance Policies



Highlights of Supervisory Standards and Key Requirements on the Use of Premium Financing to Take Out Long Term Insurance Policies

Insurance Authority (IA) Circular

- On 1 Apr 2022, IA issued a circular on the supervisory standards and key requirements on the use of premium financing to take out long term insurance policies (“the Circular”).
- Purpose : Clarify the supervisory standards and key requirements in the existing codes of conduct and guidelines, for authorized long-term insurers and licensed insurance intermediaries when carrying out their insurance operations and regulated activities with respect to the use of premium financing by (potential) policy holders.
- The content covers:
 - ✓ Affordability assessment in respect of premium financing
 - ✓ Additional measures for customers with risk of over-leveraging
 - ✓ Disclosure
 - ✓ Sales practice, training and other aspects
 - ✓ Compliance with the supervisory standards and key requirements
 - ✓ Template of “Important Facts Statement – Premium Financing” together with its requirements (annex)
- Full Requirements are shown at the links below:
 - https://www.ia.org.hk/en/legislative_framework/circulars/reg_matters/files/Circular_01042022.pdf
 - https://www.ia.org.hk/en/legislative_framework/circulars/reg_matters/files/Annex_01042022.pdf

Effective Date & Scope of Application

Effective Date	<ul style="list-style-type: none">• 1 January 2023 (no transitional period)• Apply to all applications of life insurance policies received by the insurer on or after the effective date.
Scope of Application	<ul style="list-style-type: none">• “Premium Financing (“PF”)”: an insurance funding arrangement whereby the customer, borrows funds from the lender to pay for the premiums of the life insurance policy and, in doing so, assigns all or part of his/her rights under the proposed policy to the lender.• Apply to every application for a new life insurance policy to be acquired using premium financing (include individual and corporate customers)• Not apply to policies which have been fully paid by the customers, but are subsequently assigned by the customers as collateral for loan facility

1. Affordability Assessment in Respect of Premium Financing

- Ascertain whether the customer has **sufficient financial resources** to pay the portion of premium not financed by premium financing, repay loan payments (principal and interests) **over the entire tenure* of premium financing facility and repay the sum owed if demanded by the lender before policy maturity;**

**Where the premium financing facility tenor is not fixed (e.g. an overdraft facility which can be withdrawn and repaid at any time), the insurance intermediary should take a prudent approach in the affordability assessment by assuming that the premium financing facility would last throughout the entire policy term of the proposed policy.*

- Insurance intermediaries without the access to the information regarding the premium financing facility to **ask and obtain the premium financing information** from the customer; and if the customer refuses to disclose, insurance intermediaries have to perform affordability assessment as if no premium financing is used (i.e. the total premium is to be funded entirely by the customer's own funds), explain to the customer that, without the information, it would not be able to assess suitability and affordability of acquiring the policy using premium financing, and obtain customer's acknowledgement

(the above alternative arrangement is not applicable to any insurance intermediaries with access to the information regarding the premium financing facility, e.g. banks which act in the dual capacity as both the insurance intermediary and the proposed premium financing facility provider.)

1. Affordability Assessment in Respect of Premium Financing (cont'd)

- Internal control to check whether any of the **inforce policies has been assigned or pledged as collateral for a loan facility**;
- **FNA to explicitly ascertain**:
 - whether the customer has **any outstanding liabilities**; and
 - whether his/her **existing policies are used as collateral** for premium financing facilities or otherwise pledged or assigned as collateral for a loan facility;
- **Take the above information into account in affordability assessment**; and
- Insurance intermediaries to restrain from giving regulated advice involving the use of premium financing, unless **sufficient information** in relation to the customer's circumstances (including details of premium financing) is obtained and an appropriate suitability and affordability assessment has been carried out.

Affordability Assessment

In addition to the current affordability assessment requirements, the following enhancements in respect of affordability assessment will be applied to customers indicating premium financing is intended to be used:

- Assess whether the customer has sufficient financial resources to
 - a) Pay the out-of-pocket premium (upfront payment)
 - b) Meet all scheduled repayments (including principal and interest repayments);and
 - c) Repay the sum owed under the PF facility before policy maturity upon lender's request
- The amount of liquid asset the customer is able and willing to use to pay premium must be sufficient to cover the full premium of the proposed policy (including the out-of-pocket premium and the portion of premium to be financed by the premium financing facility for the proposed new policy)
- For the assessment, the amount of liquid assets the customer is able and willing to pay premium as indicated in the FNA must exceed the full premium of the new policy applied, AND the remaining portion of the liquid asset must be adequate to cover the outstanding liabilities*specified by the customer in the FNA and the interests required over the entire tenure of the PF facility for the new policy applied for.

*Outstanding Liabilities includes:

1. Current amount of loan arising from the premium financing facility(ies) or the loan facility(ies) of any existing insurance policy(ies) that is/are used as collateral for premium financing facilities or otherwise pledged or assigned as collateral for a loan facility(Excluding loan amount and interest arising from the PF facility for the new policy applied)
2. Current amount of other outstanding liabilities (exclude point 1 & mortgage loan)

2. Additional measures for customers with risk of over-leveraging

- Assess whether customers using premium financing face a risk of over-leveraging
 - Risk of over-leveraging exists when loan repayment requested by the lender before policy maturity cannot be fully met by the customer's own funds and can only be met using surrender value of the proposed policy.
- Insurance intermediary should not recommend a policy that would amount to risk of over-leveraging unless there is sufficient justification.
 - Justification should be clearly explained to customer and documented as part of the reasons for recommendation of the policy.
- Perform asset / income proof verifications on customers facing risk of overleveraging. If required by Insurers, asset/income proof should be provided for verification. Reasonable assessment on the declared income and asset should be performed.
- Take into account the condition / state of assets (e.g. value should be adjusted to reflect the customer's portion of ownership, asset value should be adjusted to the net value if there are outstanding liabilities, not accept owner's occupied properties as asset proof, etc.)

Note: The "Additional measures for customers with risk of over-leveraging" are not applicable if the customer has own funds available to pay the policy in full without the use of the premium financing facility.

3. Minimum Disclosures

Important Facts Statement – Premium Financing (“IFS-PF”):

IFS-PF aims to help customers to understand the relevant risks and features by customers, for the purpose of making **informed decisions** by the customer.

- Insurance intermediaries to **fully explain** the contents of the “IFS-PF” to customers, as soon as they are made aware of the customers’ interest in the use of premium financing
- The insurance intermediary is required to go through the “IFS-PF” point-by-point with the customer
- The Licensed insurance intermediary should present and explain the “IFS-PF” if the customer has:
 - i. indicated his/her **preference** for the use of premium financing for his/her insurance application;
 - ii. indicated that part of **his/her source of premium payment** will come from premium financing; or
 - iii. submitted **a written** consent to assign all or part of his/her rights under the proposed policy to a lender prior to policy issuance.
- The “IFS-PF” should be completed and signed for policies acquired through the use of premium financing prior to policy issuance

4. Sales Practice and Other Aspects

The Circular does not prohibit insurance intermediaries from making recommendation or solicitation involving the use of premium financing, but any such recommendation or solicitation is subject to relevant requirements, including adherence to all of the following:

- (i) Once a customer indicates the **intention** to use premium financing, sufficient information (including details of the proposed premium financing facility) must be obtained and appropriate suitability and affordability assessments must be carried out;
- (ii) In making any recommendation or solicitation involving the use of premium financing, the insurance intermediary should ensure that he/she **complies with the Code of Conduct for Licensed Insurance Brokers**, as the case may be; and
- (iii) The insurance intermediary and the customer should **agree and sign in the IFS-PF** to confirm on whether or not the insurance intermediary has recommended or solicited the customer to use premium financing to fund the purchase of the policy.

If any of the items above is not fully met, the licensed insurance intermediary should not make any recommendation or solicitation involving the use of premium financing to customer.

4. Sales Practice and Other Aspects

- Insurance intermediary to remind customer of the potential shortfall that the actual net benefits receivable under the proposed policy financed by premium financing will be less than the amount indicated in relevant benefit illustration;
- Only use materials supplied or approved by the appointing insurer / appointing agency /appointing insurance broker company when advertising, marketing or promoting an insurance product;
- Clearly explain to customers the impacts of their use of premium financing on the customer's rights to cancel the policy within the Cooling-off Period, and update cooling off notice accordingly;
- On-going monitoring should be implemented to identify any inappropriate sales practices, including conducting investigation for
 - (1) exceptionally high rate of customers refusing to provide details of premium financing facility, or
 - (2) high amount of insurance applications involving the use of premium financing yet customers had declared that no solicitation or recommendation on the use of premium financing had taken place.

<p>1c. What is your anticipated average monthly disposable income after retirement? 於到退休年齡後，您預期的平均每月可動用收入為？</p> <p><i>Remarks: Generally speaking, disposable income after retirement can be acquired by different means, such as interests generated from bank savings or bonds; dividends from securities; rental income from property(ies); income from annuity product(s); and/or income from family member(s) / trust, etc.</i> 註：一般而言，退休後的平均每月可動用收入可能由不同方式獲得，例如：銀行存款及債券所產生之利息、股票股息、租金收入、從年金產品所得的收入；及/或從家庭成員或信託所得的收入等等。</p> <p>* Not applicable for Retiree <u>不適用於退休人士</u></p>	<p>HKS 港幣</p> <p>/ Month 月</p>
<p>1d. What percentage of your monthly disposable income (i.e. after deducting the expenditure) from all sources (including income from liquid assets) will you be able and willing to use to pay for the insurance premium (excluding your existing insurance policy(ies)) throughout the entire term of the insurance policy? (tick one)</p> <p>在整個保單期內，閣下能夠及願意繳付的保費（不包括閣下現有的其他保單）佔透過所有收入來源（包括流動資產收入）獲得的每月可動用收入（即淨收入扣除開支）的比率為？（請選一項）</p> <p><input type="checkbox"/> ≤10% <input type="checkbox"/> 11%-20% <input type="checkbox"/> 21%-40%</p> <p><input type="checkbox"/> 41%-60% <input type="checkbox"/> 61%-80% <input type="checkbox"/> 81%-100%</p>	
<p>2. Liquid Assets <u>流動資產</u></p>	
<p>2a. What is your approximate current accumulative amount of liquid assets?</p> <p>您現時累積的流動資產約有多少？</p> <p><i>Note: Liquid assets are assets which may be easily turned into cash. Real estate, coin collection and artwork are not considered as liquid assets.</i> 註：流動資產是指可以容易變現為現金的資產。物業、錢幣收藏及藝術品均不能被視為流動資產。</p>	<p>HKS 港幣</p>
<p>2b. Apart from the amount shown on above 2a, what is your anticipated approximate amount of liquid assets to be acquired additionally after retirement?</p> <p>除上述2a的金額，您預期到退休年齡後額外獲得的流動資產約有多少？</p> <p><i>Remarks: Generally speaking, liquid asset after retirement can be acquired by different means, such as MPF or retirement fund; bank savings; securities or bonds; inheritance; and/or guaranteed bonus / cash payments from insurance policies, etc.</i> 註：一般而言，退休後的流動資產可經由不同方式獲得，例如：強積金或退休金、銀行存款、股票或債券、遺產；及/或從保單的保證花紅/現金等等。</p> <p>* Not applicable for Retiree <u>不適用於退休人士</u></p>	<p>HKS 港幣</p>
<p>2c. What percentage of your liquid assets will you be able and willing to use to pay for the insurance premium (excluding your existing insurance policy(ies)) throughout the entire term of the insurance policy? (tick one)</p> <p>在整個保單期內，閣下能夠及願意繳付的保費（不包括閣下現有的其他保單）佔流動資產比率為？（請選一項）</p> <p><input type="checkbox"/> ≤10% <input type="checkbox"/> 11%-20% <input type="checkbox"/> 21%-40%</p> <p><input type="checkbox"/> 41%-60% <input type="checkbox"/> 61%-80% <input type="checkbox"/> 81%-100%</p>	
<p>3. For how long are you able and willing to pay for an insurance policy? (tick one)</p> <p>閣下能夠及願意為保單支付保費的年期為？（請選一項）</p> <p><input type="checkbox"/> 2-5 years <input type="checkbox"/> 6-10 years <input type="checkbox"/> 11-15 years <input type="checkbox"/> 16-20 years <input type="checkbox"/> more than 20 years 超過20年 <input type="checkbox"/> Whole of life 終身</p> <p><input type="checkbox"/> A single payment of not more than HK\$ _____ (不超過 _____ 港元的一次性供款)</p>	
<p>For Company as the Applicant 由公司作申請人</p> <p><i>Note: You must reply at least either question 4 or 5. If you do not wish to answer either one of them, please cross it out. Please note that we will reject your application if you choose not to respond to both question 4 and 5.</i> 註：您必須至少回答問題4或5。如您不欲回答其中一條，請將之劃去。如您選擇同時不回答問題4及5，本公司必須拒絕您的申請。</p>	
<p>4. What is your company's average annual net profit (from audited company accounts) in the past 24 months?</p> <p>在過去二十四個月裡，公司的每年平均純利（經審計之賬目）為？</p>	<p>HKS 港幣</p> <p>/ Year 年</p>
<p>5. What is your company's approximate current amount of net assets?</p> <p>公司現時의總資產淨值約有多少？</p>	<p>HKS 港幣</p>

6. Premium Financing 保費融資 Skip this section if you do not intend to undergo premium financing 如果閣下不打算進行保費融資，則不需回答此部份

6.1. Source of Repayment 還款來源

☐ Salary 薪俸 ☐ Saving 儲蓄 ☐ Liquid Asset 流動資產

☐ Other _____

6.2 Outstanding Liabilities 未償還貸款

a. Your current amount of outstanding mortgage loan is not more than 閣下未償還按揭貸款 不超過: _____

b. Your current amount of *other outstanding liabilities (excluding Q 6.3 and mortgage loan) is not more than _____

閣下其他未償還貸款 (不包括 Q 6.3 和按揭貸款) 不超過 _____

Remark *: Other outstanding liabilities include but not limited to personal loan and credit card balance (but exclude the loan amount and interest arising from the proposed premium financing facility for this insurance policy that you are applying for.

備註 *: 其他未償還貸款包括但不限於個人貸款和信用卡餘額 (但不包括 閣下正投保的保單中的擬保費融資工具所產生的貸款金額和利息)

6.3 Principal and Interest Repayment 本息償還

☐ You are willing to provide to the best of your knowledge the information on the proposed premium financing facility below:

閣下願意盡閣下所知而提供的保費融資貸款預估資料如下:

Name of Lender 貸款方名稱: _____

Loan amount (Please specify the currency) 貸款金額 (請註明貨幣): _____

Loan interest rate (e.g. Reference Rate + x%) 貸款利率 (如參考利率+X%): _____

Loan tenor (e.g. 120 monthly installments) 貸款期 (如分期 120 個月): _____

Repayment amount for each installment (e.g. HKD per month) 每期還款金額 (如每月 港元): _____

Note to Applicant / Proposed Policy Holder: The information on the proposed premium financing facility would be used by ZUU to assess your suitability and affordability to use premium financing to fund the purchase of the Policy. You are strongly advised to provide the information on the facility to the best of your knowledge. If the terms and conditions of the premium financing facility eventually offered by the lender are less favorable (e.g. a higher loan interest rate) than the information you provide below, you should contact ZUU immediately so that he / she can re-assess your suitability and affordability to use premium financing to fund the purchase of the Policy.

申請人 / 投保人請注意: ZUU 將使用閣下擬申請的保費融資貸款預估資料，以評估閣下是否適合及是否有負擔能力使用保費融資以獲取資金購買此保單。我們強烈建議閣下盡閣下所知而提供相關資料，如貸款方最終提供的貸款條款及細則遜於以下資料(例如較高的貸款利率)，閣下應立即聯絡ZUU以重新評估閣下是否適合及是否有負擔能力使用保費融資以獲取資金購買此保單。

OR

☐ You do not wish to provide information on the proposed premium financing facility. You understand that ZUU would not be able to assess your suitability and affordability to use premium financing without the information and would perform the suitability assessment and affordability assessment as if you are not acquiring the Policy using premium financing (i.e. the total premium is to be funded entirely by your own funds).

閣下不願意提供保費融資貸款的預估資料，閣下明白倘ZUU將無法評估閣下是否適合及是否有負擔能力使用保費融資，並將假設不使用保費融資以評估閣下是否適合及是否有負擔能力購買此保單 (即全部所需保費均由閣下承擔)。

6.4 ☐ You confirm that the "Important Notes & Implications" attached have been explained to you by ZUU, and you have read and understood its contents.

閣下確認所附的“重要說明及影響”已由ZUU向你解釋，並且你已閱讀並理解其內容。

6.5 ☐ You confirm that you have sufficient fund to encounter the fully loan repayment requested by the lender before maturity of the policy, not using the surrender value of the proposed policy for this. **

閣下確認有足夠的資金在保單到期前全額償還貸款人要求的貸款，而不是使用建議保單的退保價值償還。 **

Remark: ** If there is no confirmation for this, ZUU will not recommend this policy.

備註: ** 如無任何確認，ZUU將不推薦此保單。

例子一：

申請人現 50 歲，全新客戶。職業：醫生。預期退休年齡：65 歲

現投保新單：2022 年 12 月投保「簡愛．延續」保障計劃 5，整付保費美元 1,300,000。將會使用保費融資。

客戶財務狀況：	
流動資產	美元 2,000,000
流動負債	
- 以現有保單作為抵押品的保費融資	美元 200,000
- 短期債務	美元 10,000
長期債務	美元 500,000
現時累積的淨流動資產	美元 1,790,000
預期到達退休年齡後額外獲得的淨流動資產	美元 2,000,000
能夠及願意繳付保費的淨流動資產比率 %	80%

IFS-PF 保費融資資料：	
貸款金額	美元 1,000,000
貸款利率	2%
貸款期	60 個月 (5 年)
每期還款金額	美元 18,500

退休前之負擔能力審查：

$$\frac{(\text{退休前總保費} + \text{退休前的總利息支出})}{\text{現時累積的淨流動資產}} \leq \text{能夠及願意繳付保費的淨流動資產比率}$$

$$\frac{[\text{US\$1,300,000} + (\text{US\$1,000,000} \times 2\% \times 5 \text{ 年 (60 個月)})]}{(\text{US\$2,000,000} - 200,000 - 10,000)} = 78\% \leq 80\%$$

退休後之負擔能力審查：不適用

➔ 負擔能力審查：**通過**

例子二：

申請人現年 60 歲。

職業：會計師

預期退休年齡：65 歲

現有保單：「愛無憂長享計劃 5」（6 年繳付期），續發於 2021 年 2 月，年保費為美元 5,000。

現投保新單：2022 年 12 月投保「簡愛．延續」保障計劃 5，整付保費美元 1,100,000。
將會使用保費融資。

客戶財務狀況：	
流動資產	美元 2,000,000
流動負債	
- 以現有保單作為抵押品的保費融資	美元 200,000
- 短期債務	美元 10,000
長期債務	美元 500,000
現時累積的淨流動資產	美元 1,790,000
預期到達退休年齡後額外獲得的淨流動資產	美元 1,000,000
能夠及願意繳付保費的淨流動資產比率 %	80%

IFS-PF 保費融資資料：	
貸款金額	美元 1,000,000
貸款利率	2%
貸款期	120 個月 (10 年)
每期還款金額	美元 10,000

退休前之負擔能力審查：

$$\frac{(\text{退休前現時所有保單之總未繳保費} + \text{新申請保單之總保費} + \text{退休前的總利息支出})}{\text{現時累積的淨流動資產}} \leq \text{能夠及願意繳付保費的淨流動資產比率}$$

$$\frac{[(\text{US\$5,000} \times 4 \text{ 年}) + \text{US\$1,100,000} + (\text{US\$1,000,000} \times 2\% \times 5 \text{ 年 (60 個月)})]}{(\text{US\$2,000,000} - 200,000 - 10,000)} = 68\% \leq 80\%$$

退休後之負擔能力審查：

$$\frac{(\text{退休後之總未繳保費} + \text{退休後 (65 歲後) 的總利息支出})}{\text{預期到達退休年齡後額外獲得的淨流動資產}} \leq \text{能夠及願意繳付保費的淨流動資產比率}$$

$$\frac{\$0 + (\text{US\$1,000,000} \times 2\% \times 5 \text{ 年})}{\text{US\$1,000,000}} = 10\% \leq 80\%$$

→ 負擔能力審查：**通過**