

Licensed Insurance Intermediaries' Remuneration Disclosure
Guide on Calculation Methodology and Disclosure Format (the "Guide")

1. Purpose

- 1.1 This Guide is issued pursuant to paragraph 10.2 of the Guideline on Underwriting Class C Business (GL15) and pursuant to question 12 of the Circular to Guideline on Sale of Investment-Linked Assurance Scheme ("ILAS") Products.
- 1.2 This Guide sets out (a) a clear and uniformed methodology to calculate the remuneration provided to licensed insurance intermediaries for the sale of ILAS products; and (b) a clear and uniformed format for the disclosure of such remuneration to customers who procure ILAS products.
- 1.3 The objective of such remuneration disclosure is to enhance the transparency of the sale of ILAS products and allow customers to consider whether there exists any potential conflicts of interests and whether the remuneration would affect the licensed insurance intermediaries' recommendation relating to the ILAS product concerned.

2. Key Principles

- 2.1 The overarching principle for the calculation methodology is that the remuneration figure disclosed must be accurate, realistic and meaningful to the customers.
- 2.2 The disclosure format must be simple and understandable by an average customer.

3. Duty of Authorized Insurer's Director, Controller, Key Person in Relevant Control Function and Appointed Actuary

- 3.1 Authorized insurers underwriting linked long term business are required to strictly adhere to the calculation methodology and disclosure format. Any deviation is not allowed unless the Insurance Authority's ("IA") prior written consent has been obtained. In case of doubt, authorized insurers are advised to consult the IA.
- 3.2 It is the duty of the Appointed Actuary to ensure that the calculation follows the prescribed methodology in this Guide using sound actuarial principles and that the calculation is accurate. He/she has to sign off the worksheet for audit purpose by the IA.
- 3.3 Any attempt to circumvent the methodology and format prescribed in this Guide would be regarded as an act or omission likely to be prejudicial to the interests of policy holders or potential policy holders. This may also reflect on the IA's view of the continued fitness and properness of the directors, controllers, key persons in relevant control functions and Appointed Actuaries of the authorized insurers. Further, as far as Appointed Actuaries are concerned, this may constitute a non-compliance with professional standards under section 15C of the Insurance Ordinance, and may render the incumbent not acceptable to the IA.
- 3.4 The IA will carry out random audit from time to time, with or without prior notice. In determining whether the prescribed methodology has been duly followed, and whether certain

payments should be included in the calculation or not, the IA will consider the substance and nature of payments. The name or form of the payments adopted by authorized insurers is only one factor to be taken into account but not conclusive by itself as to whether the substance of this Guide has been met.

4. Distribution Channels Covered

- 4.1 The calculation methodology and disclosure format apply to all distribution channels.
- 4.2 For licensed insurance broker companies and licensed insurance agencies, the calculation applies to the remuneration at corporate level i.e. the remunerations paid to licensed insurance broker companies/licensed insurance agencies for the sale of ILAS products.
- 4.3 In the case of licensed insurance broker companies as set out in paragraph 4.2 above, the calculation is applicable to the remuneration paid to all licensed insurance broker companies by the authorized insurer. The authorized insurer can decide whether an average figure for all licensed insurance broker companies should be calculated and disclosed, or a “banding”¹ approach should be adopted. In cases where the authorized insurer adopts a banding approach, it is required to provide the IA with the criteria used for categorizing the individual licensed insurance broker companies into different bands and ensure that the banding approach is consistently adopted, i.e. the authorized insurer is not permitted to use the banding approach for some licensed insurance broker companies and use an average figure for others.
- 4.4 For licensed individual insurance agents, the calculation applies to the remuneration paid to licensed individual insurance agents for the sale of ILAS products.
- 4.5 For authorized institutions, the calculation applies to the remuneration paid to individual authorized institutions. For the avoidance of doubt, authorized insurers are required to calculate the remuneration figure using data specific to the authorized institution (i.e. commission rate, remuneration payments, etc. applicable to the authorized institution concerned).
- 4.6 Accordingly, the wordings in the disclosure statements in the Important Facts Statement (“IFS”) specified in paragraph 10 should be suitably modified with respect to the different features and requirements for a specific distribution channel.
- 4.7 For the avoidance of doubt, an authorized insurer has the duty to ensure that the all-year-average which is disclosed to the customer at the point of sale, is up-to-date (for example, the figures in the disclosure must reflect any higher rate of remuneration paid to licensed insurance intermediaries during a promotion campaign).

5. Ground Rules

- 5.1 For ease of reference, calculations should be based on the assumption of a single premium in the sum of HK\$1,000,000, and regular premium in the sum of HK\$120,000 per annum.
- 5.2 Premiums payable throughout the entire premium payment period of the ILAS policy concerned should be included.

¹ A banding approach refers to an approach whereby the licensed insurance broker companies which refer applications for ILAS policies to the authorized insurer, are allocated by the authorized insurer into differing bands reflecting the differing remuneration paid by the authorized insurer across different licensed insurance broker companies. The authorized insurer then calculates an all-year average figure for each band.

- 5.3 For whole-life premium payment term, a term of 30 years should be used as the proxy for both the denominator and the numerator.
- 5.4 In case where the actual underwriting experience in the preceding 3 years for the relevant premium payment term exhibits higher than historic average lapse rate, rendering it unrealistic to assume full payment of premiums over the whole premium payment term of the policy, adjustments should be made for both the remuneration and the premium figures. Authorized insurers are required to seek the IA's prior written consent for making the adjustments in such cases.
- 5.5 For new products, authorized insurers are required to project the relevant figures based on the business and financial plan for the product using sound actuarial principles and assumptions.
- 5.6 Annual review of the relevant assumptions and figures based on the latest data is required. If there is any change to the assumptions or figures, both the calculation and the remuneration disclosure statement should be updated.
- 5.7 Subject to paragraph 5.4 above, in the calculation of future payments to the licensed insurance intermediaries (e.g. renewal commission, trailer commission, bonuses etc.), no allowance should be provided for any assumptions on lapse of policy, the termination of business relationship with any licensed insurance agencies or licensed insurance broker companies or the departure of any licensed individual insurance agents.

6. Methodology

- 6.1 The "all-year-average" approach should be adopted in the calculation, i.e. total payments to the licensed insurance intermediary directly attributable to the sale of the ILAS product as a percentage of the total premium payable over the whole premium payment term.
- 6.2 The remuneration to be included should cover all monetary and non-monetary remuneration payable to the licensed insurance intermediary involved in the sale of the ILAS policy, including the basic commission, renewal commission, trailer commission, facilitation fee, referral fee, production bonus, persistency incentive, overriding commission etc.
- 6.3 Exemptions for in-kind rewards are generally not allowed, except with the IA's prior written consent. The IA will consider such requests only if:
 - (a) they are immaterial (relative to the other monetary and non-monetary remuneration for the concerned ILAS product);
 - (b) they are not readily convertible to cash or cash-equivalent; and
 - (c) they are not directly attributable to the sale of the concerned ILAS product.
- 6.4 In calculating trailer commissions based on account values of ILAS policies, the cumulative premium payable before deduction of fees and charges should be used as the proxy for the account value.
 - (a) For regular premium products, the trailer commission payable within the premium payment term would be included for the calculation of "all-year-average".
 - (b) For single premium products, the trailer commission payable within the period with surrender charges would be included for the calculation of "all-year-average".

- (c) For the avoidance of doubt, trailer commission derived from single top-up premiums outside the surrender charge period of the ILAS policy should be excluded from the calculation of the all-year-average for single top-up premiums of ILAS products.
- 6.5 All payments which are in substance payments to the licensed insurance intermediary directly attributable to the sale of the ILAS policy concerned must be included in the calculation of the “all-year-average”, irrespective of the name given to such payments or the form which such payments take.
- 6.6 If an authorized insurer wishes to modify any requirements in this paragraph 6 in respect of any of its ILAS products, it must provide sufficient justification (e.g. materiality, etc) to the IA for such modification. The IA may seek further justification for such modification as it deems appropriate before deciding whether or not to provide its prior written consent.

Production Bonus/Persistence Incentive

- 6.7 All bonuses and/or persistence incentives attributable to the sale of the relevant ILAS products should be included.
 - (a) For the calculation of such bonus/incentive, suitable allocation of an appropriate amount of bonus/incentive to the relevant ILAS product should be made if such ILAS product is part of a pool of the product portfolio.
 - (b) All calculations should be based on actual data in the preceding 3 years except for ILAS products with a history of less than 3 years, in which cases the calculations should be based on all data available. In any event, all calculations should be based on sound actuarial principles.
- 6.8 If the ILAS product is part of a pool which also includes non-ILAS products, when calculating the suitable allocation of the production bonus/ persistence incentive to the ILAS product for the calculation of the all-year-average for the ILAS product, the authorized insurer may only exclude amounts of the production bonus/persistence incentive which apply to the ILAS product in the pool, if it has demonstrated to the IA’s satisfaction (as confirmed by the IA providing its prior written consent) that the following criteria are satisfied:
 - (a) the pooling of the ILAS product with the non-ILAS products is a genuine arrangement which is not designed to reduce the production bonus/ persistence incentive that should be allocated to the calculation of the all-year-average for the ILAS product and the exclusion of such amounts would not create any misaligned incentive for the licensed insurance intermediaries to engage in mis-selling activities when recommending the ILAS product to customers;
 - (b) all life insurance products of the authorized insurer concerned which the authorized insurer is (at the time) offering to customers are included in the ‘pool’ for the purpose of calculating the production bonus/persistence incentive;
 - (c) the ILAS product and non-ILAS products are subject to the same calculation basis (irrespective of insurance products sold) for the determination of the amount of production bonus/persistence incentive; and
 - (d) the business of the authorized insurer concerned is not overly concentrated on the sale of ILAS products in terms of new business premiums.
- 6.9 In order for an authorized insurer to demonstrate to the IA’s satisfaction that the criteria in paragraph 6.8 are met, the authorized insurer is required to provide the following information (and such other information as the IA deems appropriate) for the IA’s review:

- (a) list of all insurance products included in the ‘pool’ (and insurance products excluded, if any);
 - (b) detailed calculation methodology for the determination of the amount of production bonus/persistence incentive; and
 - (c) impact analysis showing the all-year-average for the individual ILAS product before and after the exclusion of production bonus/persistence incentive.
- 6.10 In relation to paragraph 6.9(c) above, if there is any material difference(s) between the all-year-average for the ILAS product before and after the exclusion of production bonus/persistence incentive, the IA may seek further justification and information from the authorized insurer as it deems appropriate before deciding on whether or not to provide its prior written consent (per paragraph 6.8 above).
- 6.11 The “Template for the Calculation of All-Year-Average of Licensed Insurance Intermediaries’ Remuneration” is attached at **Annex**.

7. Disclosure Format

- 7.1 Authorized insurers are required to calculate the all-year-average for each ILAS product (and each distribution channel employed) and disclose in the IFS for base plan and top-up applications. For the avoidance of doubt, all-year-average for top-up can be disclosed either in a separate IFS (for existing policy holders of closed ILAS products) or in the IFS of the base plan.
- 7.2 Separate figures should be disclosed for ILAS products with both single and regular payment mode.
- 7.3 For regular payment ILAS products with variable premium payment term, authorized insurers may adopt a banding approach (i.e. the highest of individual bands with maximum of 5-year interval, or the highest of premium payment term) in disclosing the all-year-average for ease of compliance.
- 7.4 For the purpose of paragraph 7.3 above, authorized insurers are required to confirm the approach they intend to use for the purpose of disclosing the all-year-average, i.e. by using the banding approach or actual premium payment term.
- 7.5 If the policy holder:
- (a) is appointing a third party financial professional to provide management services in relation to the investment choices under the ILAS product and paying fees to the financial professional for these services (which are collected by the authorized insurer and paid onto the third party financial professional); and
 - (b) this is a service which the policy holder has the discretion either to have or not to have,
- given that the fees payable to the third party financial professional are not directly attributable to the sale of the ILAS policy, such fees may be excluded from calculating the all-year-average. The fee payable to the third party financial professional should, however, be separately disclosed in the fees and charges table in the Product Brochure and Product Key Facts Statement of the ILAS products concerned.

Template for the Calculation of All-Year-Average of Licensed Insurance Intermediaries' Remuneration

INSTRUCTIONS FOR COMPLETION OF THIS TEMPLATE

Principle of remuneration disclosure

The overarching principle for remuneration disclosure is that the figure(s) to be disclosed must be accurate and meaningful to potential policy holders. The disclosure must be simple and understandable for an average policy holder, so that he or she can obtain an appreciation of how much the licensed insurance intermediary will be paid in respect of the ILAS policy and thereby the extent of financial benefit the licensed insurance intermediary would obtain from the policy holder to enter into the ILAS policy concerned.

Proposed methodology

An authorized insurer should use an "all-year-average" methodology² for calculating the figures for the remuneration disclosure and should include in the calculation all payments to the licensed insurance intermediary which are directly attributable to the sale of the ILAS policy concerned (i.e. basic/renewal commission, trailer commission, production bonus, persistency incentive, overriding commission, etc). Overheads and in-kind remuneration (subject to the prior written consent of the IA) may be excluded from the calculation. Authorized insurers are required to include relevant remuneration items in the calculation based on substance rather than form or name (i.e. items which are in substance payments to the licensed insurance intermediary directly attributable to the sale of the ILAS policy concerned must be included in the calculation, irrespective of the name given to such payments or the form which such payments take).

For trailer commission based on account value:

An authorized insurer should adopt a "no-growth" assumption for the purpose of calculating the figures for the remuneration disclosure (i.e. the cumulative premium payable before deduction of fees and charges should be adopted as the proxy for the account value in the calculation). For ILAS products with regular premium, trailer commission payable within the premium payment term (except in the case of ILAS products with whole-life premium payment term where a maximum of 30 years should be adopted) needs to be included in the calculation. For ILAS products with single premium, trailer commission payable within the policy period with surrender charges needs to be included.

For production bonus / persistency incentive:

If a production bonus or persistency incentive is specific to a particular ILAS product, it needs to be included in full in calculating the all-year-average. If the production bonus or persistency incentive is based on a pool of insurance products including both ILAS and non-ILAS products, the portion attributable to a particular ILAS product needs to be calculated and allotted in the calculation. All calculations should be based on the preceding 3 years of actual data (this can, of course, be shorter for ILAS products which have been in existence for less than 3 years) and sound actuarial principles. An authorized insurer is required to carry out an annual review of the relevant assumptions and figures based on latest data. For a new ILAS product, the authorized insurer is required to project the relevant figures based on its business and financial plan for the ILAS product using sound actuarial principles and assumptions.

² For the avoidance of doubt, an authorized insurer should follow paragraph 4.7 of **Appendix 2** which provides that it has the duty to ensure that the all-year-average which is disclosed to the customer at the point of sale, is up-to-date (for example, the figures in the disclosure must reflect any higher rate of remuneration paid to licensed insurance intermediaries during a promotion campaign).

Scope of the field test

For the purposes of the field test, authorized insurers are required to calculate the all-year-average for each ILAS product. Please use one template for each ILAS product (except those allowing both single and regular payment mode, and in such case, please use a separate template for each payment mode). For regular payment ILAS products, please use a separate template for each premium payment term if the applicable rate and/or structure of remuneration are different. Authorized insurers using broker channel and/or bancassurance channel for distribution are required to further break down the all-year-average in accordance with the requirements set out in paragraph 4 of the **Appendix 2**.

Sign-off

Appointed actuaries are required to sign off the final figures before submission.

Remuneration for ILAS Product

Policy Year	Premiums Payable (Note)	Cumulative Premiums Payable	Payments to Licensed Insurance Intermediaries Directly Attributable to the Sale of ILAS Products (HK\$)								Total (HK\$)
			C01	C02	C03	C04	C05	C06	C07	C08	
1	0	0	0	0	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0	0	0	0
6	0	0	0	0	0	0	0	0	0	0	0
7	0	0	0	0	0	0	0	0	0	0	0
8	0	0	0	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0	0	0	0

Policy Year	Premiums Payable (Note)	Cumulative Premiums Payable	Payments to Licensed Insurance Intermediaries Directly Attributable to the Sale of ILAS Products (HK\$)								Total (HK\$)
			C01	C02	C03	C04	C05	C06	C07	C08	
19	0	0	0	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0	0	0	0
21	0	0	0	0	0	0	0	0	0	0	0
22	0	0	0	0	0	0	0	0	0	0	0
23	0	0	0	0	0	0	0	0	0	0	0
24	0	0	0	0	0	0	0	0	0	0	0
25	0	0	0	0	0	0	0	0	0	0	0
26	0	0	0	0	0	0	0	0	0	0	0
27	0	0	0	0	0	0	0	0	0	0	0
28	0	0	0	0	0	0	0	0	0	0	0
29	0	0	0	0	0	0	0	0	0	0	0
30	0	0	0	0	0	0	0	0	0	0	0
Total	0	-	0	0	0	0	0	0	0	0	0
			0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Code Table:

Payments to Licensed Insurance Intermediaries Directly Attributable to the Sale of ILAS Products	
Code	Item
C01	Basic / renewal commission
C02	Overriding commission
C03	Facilitation fee
C04	Trailer commission
C05	Production bonus
C06	Persistency incentive
C07	Referral fee
C08	Others (MPF)

Note:

For the preparation of this template, (i) for single payment ILAS products, please assume a single premium of HK\$1,000,000; and (ii) for regular payment ILAS products, please assume a regular premium of HK\$120,000 per annum.

Detailed information about remuneration structure for this distribution channel:

(a) Basis of calculation (with sufficient details allowing verification by the Insurance Authority)

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(b) Actuarial assumptions made (with sufficient details allowing verification by the Insurance Authority)

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