

1 September 2025

By email only

To: Chief Executives of all authorized insurers carrying on long term business,
Responsible Officers of all licensed insurance agencies and licensed insurance
broker companies carrying on regulated activities in respect of long term business

Dear Sir/Madam,

Regulatory Expectations Regarding Referral Fees Paid by Licensed Insurance Broker Companies for Participating Policies

Introduction

In a circular promulgated on 22 May 2024, the Insurance Authority (“IA”) expressed concern about business models that could incentivize unlicensed selling of long term insurance policies, particularly those adopted by licensed insurance broker companies relying solely or heavily on referrers. The IA also reiterated that authorized insurers are responsible for ensuring that the licensed insurance broker companies with which they work comply fully with the Insurance Regulatory Framework when referring business to them as part of the intermediary management control function.

On the other hand, the Practice Note on Remuneration Structures of Authorized Insurers for Licensed Insurance Intermediaries for Participating Policies promulgated by the IA on 30 July 2025 sets out the minimum regulatory expectations on how authorized insurers should structure remuneration for insurance intermediaries to ensure proper alignment with customers’ interests. This circular dives deeper into the level of referral fees paid by licensed insurance broker companies to referrers¹.

Scope of Application

The regulatory expectations contained in this circular are applicable only to licensed insurance broker companies when dealing with participating policies (i.e. contracts of insurance that are “participating business” as defined in section 21B of the Insurance Ordinance (Cap. 41) (“**Ordinance**”). The IA will keep track of market developments to determine whether similar measures should be rolled out to other products or distribution channels.

Referral Fees

Commissions paid by authorized insurers to licensed insurance broker companies are meant to reward them for sourcing, advising and servicing policy holders. While business models

¹ For this circular, “referrer” in relation to a licensed insurance broker company means a person who is not a technical representative (broker) appointed by the company to carry on regulated activities on its behalf.

predicated on referrers is not strictly prohibited, it is imperative to ensure full compliance with the regulatory requirements stipulated in the Ordinance as well as the rules, codes, guidelines and circulars promulgated by the IA, and their underlying spirits are not circumvented or diluted.

If a licensed insurance broker company consistently pays a substantial portion of the commissions it received from authorized insurers to referrers, one would fairly question what role the referrers have played that justify such hefty compensation and whether the referral fee is in fact a covert channel through which premium or commissions rebates are offered to selected customer groups and responsibility for carrying out regulated activities are shifted to unlicensed personnel. This problem is especially acute for participating policies given their front-loaded commissions and lengthy tenure.

Comprehensive Evaluation

Market feedback indicates that the current situation, if left unchecked, could breed misconducts, erode public confidence and impair market sustainability. The IA therefore finds it necessary to rationalize regulatory priorities by setting 50% as a benchmark² of fees paid by licensed insurance broker companies to referrers (“**Benchmark**”), beyond which enhanced disclosure and further explanation should be made on specific aspects including how clients are sourced, how the level of referral fee is determined and what safeguards are available to prevent abuses.

Departure from the Benchmark

There are situations where a licensed insurance broker company forges partnership with entities licensed by other financial regulators in Hong Kong (i.e. Hong Kong Monetary Authority, Securities and Futures Commission and Mandatory Provident Fund Schemes Authority) to leverage their proprietary clientele and network of contacts. Since these entities are operating under supervisory regimes comparable to that of the IA and have a vested interest in ensuring that their clients are fairly treated, the Benchmark is not applicable to them.

Regulatory Actions

Licensed insurance broker companies paying referral fees above the Benchmark will be subject to on-site inspections and off-site reviews of their corporate governance and internal controls to inform the licence renewal process. Similarly, the IA will appraise the strength of intermediary management oversight exercised by the authorized insurers in working with licensed insurance broker companies to ensure that the Benchmark has been taken into account during their due diligence process. Any entities found to have engaged or connived in misconducts can expect to face proportionate regulatory and enforcement actions by the IA.

² For the avoidance of doubt, the Benchmark is calibrated as 50% of the total commission receivable by a licensed insurance broker company from an authorized insurer for introducing, arranging and servicing a participating policy.

Effective Date

All licensed insurance broker companies and authorized insurers should comply with this circular by 1 October 2025.

Should you have any questions in relation to the above, please contact us at conductsupervision@ia.org.hk.

Yours faithfully,

Alan Wu
Acting Head of Conduct Supervision
Insurance Authority

c.c. The Hong Kong Federation of Insurers
The Hong Kong Confederation of Insurance Brokers
Professional Insurance Brokers Association