

# Understand Investment-linked Assurance Schemes and the Regulatory Measures





## About the Chin Family

The Chin Family is an independent and impartial financial education platform with free information, educational resources and tools. We help people in Hong Kong plan and manage their finances by making financial learning simple and enjoyable. The Chin Family is managed by the Investor Education Centre, which is supported by the Education Bureau and all four financial regulators.

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Examples and case studies provided in this publication are for educational purposes only.

## Smart tips if you are thinking of buying an investment-linked assurance scheme product (ILAS):

- 1 An ILAS is a long-term investment-cum-life insurance product. Be aware of its long-term features eg upfront charges, early surrender or withdrawal penalties and loyalty bonuses (if you meet certain conditions).
- 2 The policy value (and if applicable, death benefit<sup>1</sup>) is subject to investment risks and market fluctuations. The return of an ILAS may vary substantially or even become negative (ie losses).
- 3 Understand the fees and charges which may reduce the amount available for investment. You should always compare the overall cost of an ILAS product with buying life insurance cover and investing in the same selected funds separately.
- 4 Buying an ILAS is different from investing in a fund<sup>2</sup>. With an ILAS product, you are buying a life insurance policy, not the underlying assets.
- 5 In general, ILAS are designed for consumers with the dual objective of investment and estate planning as they are a packaged product that includes both investment and insurance elements. ILAS products are not suitable for people with short- or medium-term liquidity needs.
- 6 Your intermediary should disclose to you through the Important Facts Statement (IFS) about intermediary remuneration. You should ask your intermediary before taking up your ILAS policy to know more about the remuneration that your intermediary will receive in respect of your ILAS policy. If you are not satisfied with or do not fully understand the information provided, then you should consider carefully whether it is appropriate for you to buy the ILAS product or whether you should buy the ILAS product through that intermediary.
- 7 Check the offering documents (including the Product Key Facts Statement) and the IFS carefully and understand the product's key features and risks. You will be asked to confirm you understand and agree with the information provided when you sign the IFS.

<sup>1</sup> "Death benefit" means the lump sum payable to the beneficiary if the life insured dies.

<sup>2</sup> "Funds" can be set up in various forms such as mutual funds and unit trusts.

# Understand investment-linked assurance schemes

An investment-linked assurance scheme (ILAS) has the following typical features:

- it is a life insurance policy issued by an insurance company;
- it provides the policyholder with life insurance cover plus investment options (usually funds);
- its policy value is determined by the insurance company based on the performance of the “underlying or reference funds<sup>3</sup>”; and
- the insurance company owns the underlying assets of an ILAS product and policyholders do not; the policyholders have the ownership of the policy.

ILAS products are generally designed for consumers who have a long-term investment horizon and a dual objective of investment and estate planning, intend and are able to pay the premiums for the whole of the policy term and understand that their death benefits are subject to investment risks.

<sup>3</sup> The term “underlying fund(s)” is used by the ILAS issuer in the event that it has disclosed in the offering document that it will be investing the net premium received from the ILAS customers into the funds corresponding to the investment options as selected by the ILAS customers for such ILAS issuer’s asset liability management. Otherwise, the ILAS issuer adopts the term “reference fund(s)”.

## ILAS products may vary in the following areas:

- the form of death benefit eg “high protection”, “capital preservation upon death” and “pure 105” (ie 105% of policy value) ;
- the structure of fees and charges eg at policy level and/or underlying/reference funds level; and/or
- the mode of contribution eg single, regular or both.

Buying an ILAS product is not the same as investing in a fund. It is important for consumers to understand the product’s features and risks and know how to differentiate an ILAS from other financial products.



## Know ILAS features and risks

You should read the offering documents (including the Product Key Facts Statement) and the Important Facts Statement to understand the features and risks of any ILAS product you are considering. Generally speaking, ILAS products have the following features and risks:

- As policy value (and if applicable, death benefit) is subject to investment risks and market fluctuations, it may be significantly less than the premiums paid or not sufficient to meet your insurance needs. Irrespective of the assumed rate of return shown in the illustration document, the actual return could fluctuate significantly or even become negative (ie losses). You should not rely upon the assumed investment return in making investment decisions.
- Due to various fees and charges levied by the insurance company on the ILAS product, the overall return on the ILAS may be lower than that of direct investments in the underlying / reference funds.
- Fees charged upfront may reduce the amount of premium made available for investment, especially in the early policy years. In some cases, such fees could be significant.
- You may be entitled to a loyalty or special bonus if you meet certain conditions, such as maintaining the policy for a number of years.
- Product issuers may have sole discretion under the contract to determine the investment returns of certain ILAS policies, and may apply a downward/negative market value adjustment.
- Some ILAS products offer multiple death benefit options for consumers to choose from. Insurance charges may be levied on some of these options and may increase significantly during the policy term due to the age of the insured and reduce the amount that may be made available for investment.
- In general, ILAS products offer you a range of investment options to choose from and allow you to switch between these options where switching charges may be applicable. These investment options are linked to underlying/reference funds. But any investments made by the insurance company in the underlying/reference funds belong to the insurance company, not you. You only own the ILAS policy.

## Compare ILAS and funds

Whether an ILAS product or direct investment in a fund is an appropriate choice depends on your financial objectives and circumstances. It is important, however, to know the differences.

### ILAS

### Funds

#### Your status as a consumer

You are a policyholder of an insurance contract and have contractual rights and obligations vis-a-vis the insurance company under the contract.

Specified beneficiary(ies) would be entitled to a death benefit linked to the performance of the underlying/reference funds corresponding to your selected investment options.

You are a unitholder/shareholder of the fund.

You have proprietary interest in the fund which will become part of your estate if you pass away.

#### Ownership of underlying assets

The insurance company, being the ILAS issuer, owns the underlying assets.

You do not have any right over the underlying/reference funds. Any recourse is against the insurance company. You have a legal claim over the value of the policy.

You own the fund which, in turn, owns the underlying assets of the fund. Your ownership right is in proportion to the units held by you to the total number of units in the fund.

You may lay claims to the fund units you hold.

#### Segregation/independent custody of underlying investments

While the insurance company owns the underlying assets, these assets are, by law, kept in a separate account and can only be used to meet the claims of ILAS' policyholders or beneficiaries. Such assets are not maintained by independent trustees/custodians at arm's length from the insurance company.

Underlying investments of a fund are generally held by an independent trustee/custodian on behalf of the fund.

#### Investment term

An ILAS is designed for people with a long-term investment horizon and the ability to afford payment of the entire premium payment term.

The investment term is more flexible.

# Compare ILAS and funds

## ILAS

## Funds

### Determination of investment return

The return in respect of the investment options is determined by the insurance company pursuant to the policy provisions.

An ILAS' performance may or may not make reference to the performance of the underlying/reference funds corresponding to the investment options you select, depending on the terms and conditions of the ILAS.

The return is generally based on the fund's performance.

A fund's performance is usually calculated by reference to the net asset value of all underlying investments of the fund.

### Typical fees and charges

#### Policy level:

- Initial charge (where applicable)
- Surrender charge
- Withdrawal charge
- Administration/management charge
- Insurance charge (where applicable)
- Investment options charges such as management fee and bid-offer spread (where applicable)

#### Underlying/reference funds level:

- Management fee
- Performance fee (where applicable)
- Switching charge (where applicable)
- Trustee and custodian fee

#### Fund level:

- Subscription fee
- Management fee
- Performance fee (where applicable)
- Redemption fee (where applicable)
- Switching charge (where applicable)
- Bid-offer spread (where applicable)
- Trustee and custodian fee



## ILAS

## Funds

### Key risks

#### Policy level:

- Credit risk of the insurance company
- Early termination risk

#### Underlying/reference funds level:

- Counterparty risk
- Market risk
- Management risk
- Foreign exchange risk
- Interest rate risk

#### Fund level:

- Counterparty risk
- Market risk
- Management risk
- Foreign exchange risk
- Interest rate risk

### Penalty for early surrender/redemption

Charge or penalty may be incurred upon early surrender, partial withdrawal, termination of the policy or suspension of/reduction in premium. This may result in significant or total loss in principal and other benefits under the policy eg death benefits and bonuses, especially in the initial years of the policy.

Some funds may charge a redemption fee, which is a certain percentage of your redemption amount.

### Cooling-off period

You are entitled to a cooling-off period during which you may cancel the policy and recover your premium paid (subject to market value adjustment, if any).

There is no post-sale cooling-off period for funds.

# ILAS product as part of your overall financial plan

Financial planning is an active and continual process of holistically setting, pursuing and reviewing your financial goals and preparing for unexpected events in life through proper management of your finances.

To assess whether ILAS is the type of product which is suitable as part of your overall financial plan, you should

- ✓ set your financial goals including know your needs eg whether you have a dual objective of investment and estate planning;
- ✓ understand your time horizon, eg do you have a short-, medium- or long-term investment horizon? ILAS are long-term financial products;
- ✓ assess your risk profile, eg decide if you are willing to have your policy value or death benefit subject to investment risks, and assess the level of risk you can tolerate;
- ✓ examine your liquidity needs, eg be clear that you do not have short- or medium-term liquidity needs that may jeopardise your long-term commitment to an ILAS; and
- ✓ consider alternatives. Understand the pros and cons, as well as the overall level of fees and charges of an ILAS product, compared with direct investment (eg through mutual funds or unit trusts) in the underlying assets of the product and taking out a life insurance policy separately.

To decide whether a particular ILAS product suits you, you should consider, among other things,

- ✓ whether the nature and features of ILAS products and insurance cover will be suitable for and adequate in meeting your needs
- ✓ whether the ILAS' policy term aligns with your investment horizon
- ✓ whether you are able or intend to make contributions for the whole of your chosen premium term particularly if the ILAS you choose has regular premium payment obligations
- ✓ whether the total fees and charges are acceptable to you especially if you may need to surrender the policy early

# Regulatory measures designed to protect you

## How are ILAS products regulated?

ILAS products and their offering documents (including the Product Key Facts Statement), illustration documents and marketing materials must be authorised by the Securities and Futures Commission (SFC) before they can be offered to the public in Hong Kong, unless an exemption under the Securities and Futures Ordinance (SFO) applies.

The investment options of ILAS products offered for consumers to select may link to retail funds that are authorised by the SFC pursuant to the Code on Unit Trusts and Mutual Funds and other portfolios that are internally managed by the insurance company on a discretionary basis.

Insurance companies issuing ILAS policies are authorised and regulated by the Insurance Authority (IA).

According to the guidance note issued by the IA, insurance companies should comply with the comprehensive requirements for underwriting ILAS business in all aspects, ranging from product design, clarity of policy documents/publications, remuneration structure and disclosure, sales process to post-sale controls.

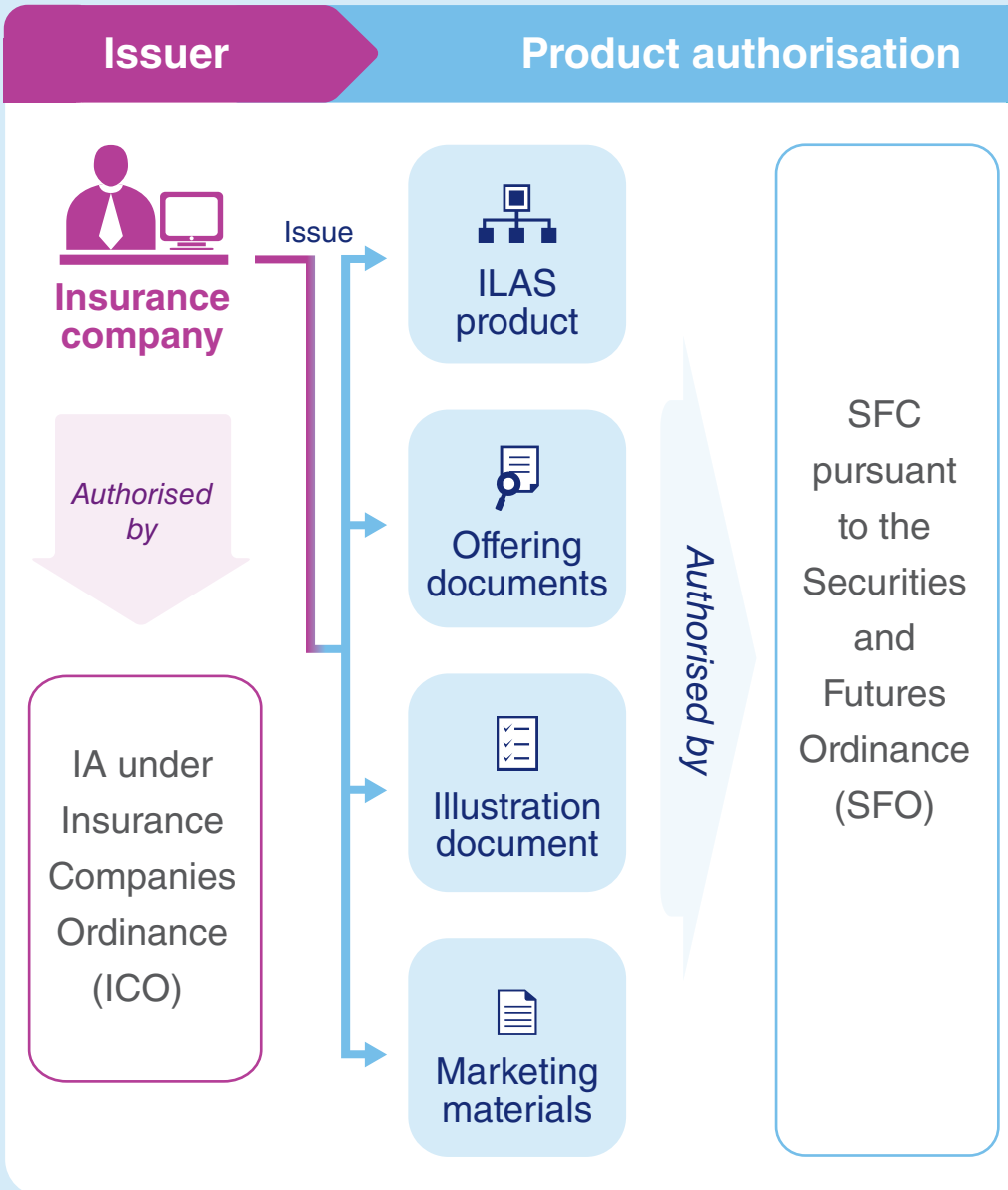
Under the Insurance Companies Ordinance (ICO), any persons selling or advising on insurance products are required to be appointed insurance agents or authorised insurance brokers.

The registration of insurance intermediaries and complaints about their misconduct are handled by three self-regulatory organisations (SROs) approved by the IA:

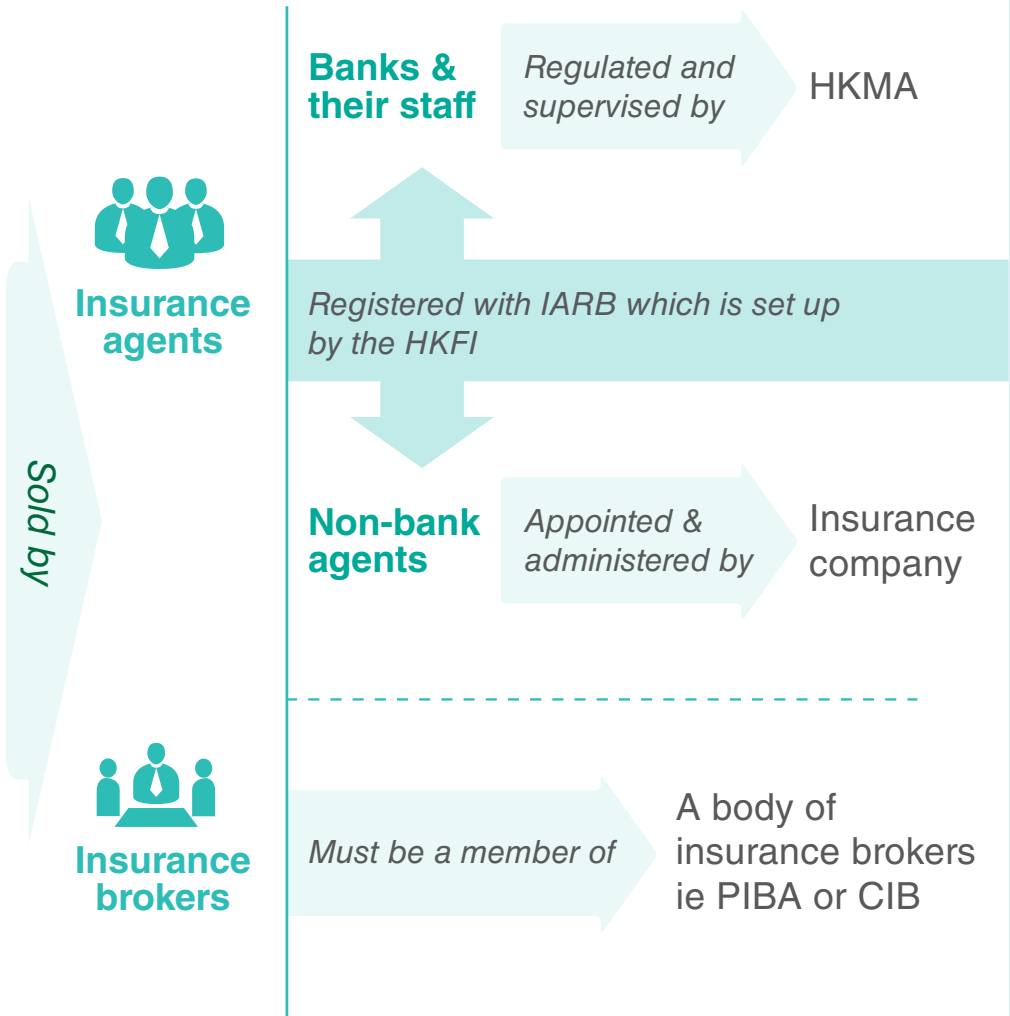
- Insurance Agents Registration Board (IARB) set up under The Hong Kong Federation of Insurers (HKFI): Insurance agents including banks and their staff who sell ILAS as agents of insurers
- The Hong Kong Confederation of Insurance Brokers (CIB): Insurance brokers
- Professional Insurance Brokers Association (PIBA): Insurance brokers

In selling ILAS products, banks and their staff are regulated and supervised by the Hong Kong Monetary Authority (HKMA).

# Regulatory mapping



## Intermediaries' regulation



## Regulatory measures

Hong Kong's financial regulators and Hong Kong Federation of Insurers (HKFI) have introduced a number of measures since 2013 to enhance the disclosure, product design and sale of ILAS products to protect you throughout the sales process.

### Disclosure

- All ILAS must comply with the enhanced disclosure requirements for ILAS Product Key Facts Statement (Product KFS) in order to be marketed to the Hong Kong public. The requirements include disclosures on statements of purpose, total fees and charges, long-term features and the remuneration of sales intermediaries.
- An Important Facts Statement (IFS) must be provided by the intermediary to clients who apply for an ILAS policy or apply for top-up premium. Through the IFS, the intermediary can:
  - (i) confirm\* the client's reasons/considerations for procuring an ILAS as set out in the "Statement of Purpose" paragraph of the IFS for assessing whether a particular ILAS product is suitable for the client; and
  - (ii) disclose and explain to the client some important facts of the ILAS product to increase the client's awareness of these facts such as the long-term nature of ILAS policies, fees and charges, early termination penalties etc and disclose the remuneration receivable by the intermediary in selling this product.

For the remuneration disclosure in the IFS, all intermediaries (including insurance agents, insurance brokers and banks) selling ILAS are required to provide a standardised statement to disclose the remuneration receivable by the intermediary using "all-year-average" methodology (ie all remuneration receivable by the intermediary directly attributable to the sale of the ILAS policy as a percentage of the total premiums payable over the entire premium payment period).

\* Before recommending any ILAS product to the client, banks and other insurance intermediaries are required to (i) request the client to set out his/her reasons/considerations for procuring an ILAS product in the "Statement of purpose" paragraph in the IFS; and (ii) take due account of the reasons/considerations set out by the client, together with other relevant information, in assessing whether or not the ILAS product is suitable for the client.

## Product design

- The SFC introduced the Guidance on Internal Product Approval Process applicable to providers of various products including ILAS. The Guidance explains the requirements for a robust internal product approval process for product providers, covers the entire chain from inception of the product to post-sale, and reminds product providers of their duty to consider investors' interests as part of the product-design process.
- The Insurance Authority (IA) issued the Guidance Note on Underwriting Class C Business which sets out proper standard of conduct and business practices for authorised issuers underwriting ILAS business, including duty of the board and the controller, product design, clarity of information, suitability, advice, disclosures, post-sale control etc.
- With effect from 1 January 2015, insurance companies should provide a minimum death benefit of 105% of the account value for all ILAS products, and ensure that fees and charges paid by the customers should be fair and commensurate with the insurance protection offered by the ILAS product concerned.

## Post-sale call

- ILAS issuers ie insurance companies are required to conduct an audio-recorded post-sale call for all ILAS buyers if the sales process is not conducted at the insurance company's office and not recorded. In the case of banks selling the products, no post-sale call by the insurance companies is required because the sales process is audio-recorded. The purpose is to confirm that the buyers understand the important product features after the product sale.

Generally speaking, intermediaries selling ILAS, whether they are banks, insurance agents or brokers, should, among other things, have sufficient understanding of the products' nature and structure, conduct financial needs analysis and risk profile assessment for clients to ensure product suitability for the clients, and explain product risks and features to clients.

# Pre-sale regulatory measures

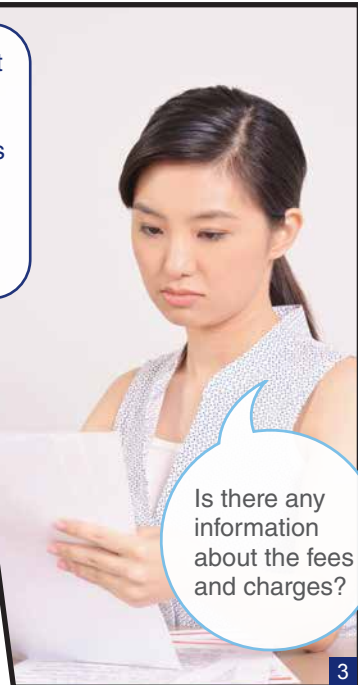
We have just completed the Financial Needs Analysis and the Risk Profile Questionnaire\*. You have indicated your dual objectives of investment and estate planning. I have also shown you the alternatives. Taking into account your circumstances, this ILAS product may be suitable for you. But before considering buying this product, you should read the offering documents, including the Product Key Facts Statement (Product KFS).



What information does this Product KFS disclose?



It will remind you upfront that ILAS is a long-term investment-cum-life insurance product and is not suitable for consumers with short- and medium-term liquidity needs.



Is there any information about the fees and charges?



## Find useful information in Product KFS



No. It is calculated based on certain assumptions.

The actual percentage may change depending on your personal circumstances.

It may be higher if the premium amount is lower, the sum insured is higher and/or your selected underlying investments are making losses.

Apart from the TFCD percentage, the Product KFS also discloses the fees charged at the underlying/reference fund level.



# Pre-sale regulatory measures



What else can I check from the Product KFS?



You can also find key information about the ILAS product's features, key risks and cooling-off period etc.



I see.

The Product KFS also says the intermediary will receive remuneration borne out of the charges I pay and should disclose this information in writing at the point-of-sale.

Yes, you will find the disclosure of the average remuneration receivable by the intermediary in the Important Facts Statements (IFS) before you decide to buy the ILAS product and sign the application form...



\* Before recommending any ILAS product to the consumer, banks and other insurance intermediaries are required to (i) request the client to set out his/her reasons/considerations for procuring an ILAS product in the “Statement of purpose” paragraph in the IFS; and (ii) take due account of the reasons/considerations set out by the client, together with other relevant information, in assessing whether or not the ILAS product is suitable for the client.

### Important points to note

- **Before recommending an ILAS product, insurance intermediary should provide the customer with alternatives**, including ILAS and non-ILAS products.
- **Customers are not allowed to opt out from the Financial Needs Analysis and the Risk Profile Questionnaire.** Issuers will reject the application if a customer chooses to opt out entirely from the process.
- Read carefully the offering documents including the **Principal Brochure** and **Product KFS** for detailed product features and risks.
- Understand how the expected surrender values are calculated and illustrated in the personalised **illustration document** provided to you prior to signing of the application form. The rates of returns shown in the illustration document are assumed and do not represent guaranteed investment performance or actual past performance.
- **Your intermediary should disclose to you in writing the point-of-sale information (ie the Important Facts Statement) about intermediary remuneration.** Please refer to Page 21 for details.
- If you are not satisfied with or do not fully understand the information provided in respect of the product features, risks or intermediaries’ remuneration, then you should consider carefully whether it is appropriate for you to buy the ILAS product or whether you should buy the ILAS product through that intermediary.

# Point-of-sale regulatory measures

A few days later

Having looked at the offering documents, I find this ILAS product suits my needs.

What are the next steps if I want to buy it?



Okay.

We have previously completed the Financial Needs Analysis and the Risk Profile Questionnaire\*, and discussed and understood that your objectives are both investment and estate planning.

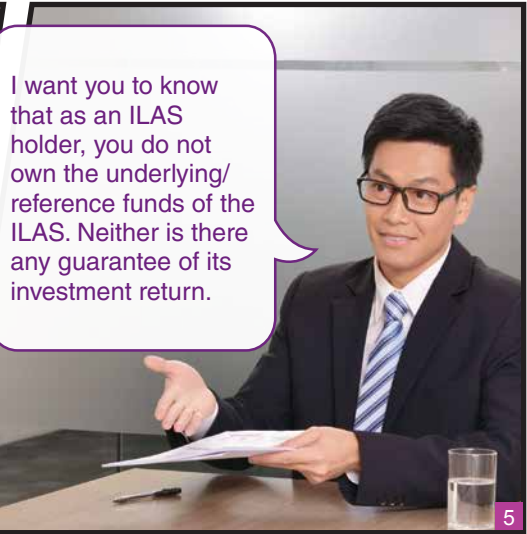
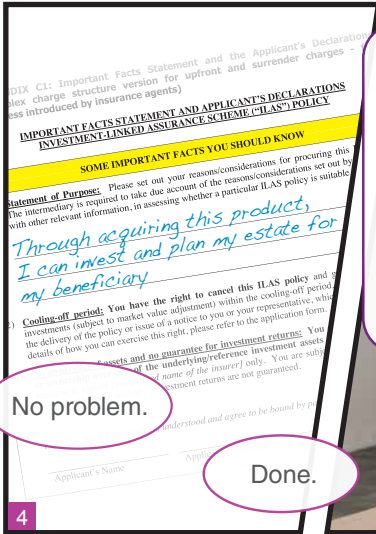
Next, I will go through the Important Facts Statement# (IFS) regarding some important facts about the ILAS product and confirm that you understand the product.

Okay.



First of all, please confirm\* your reasons of buying the ILAS by completing the "Statement of Purpose" paragraph in the IFS.

# Go through Important Facts Statement when buying an ILAS

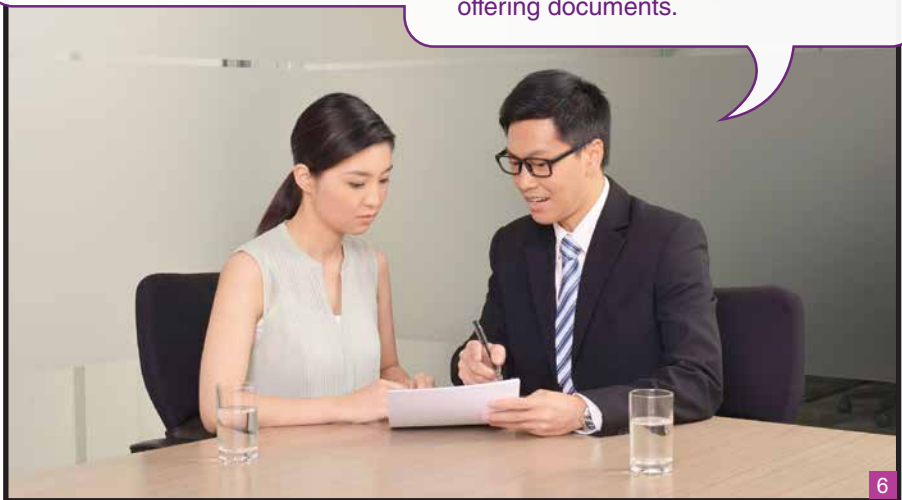


I also want to draw your attention to the ILAS' long-term features.

An upfront charge will be deducted from the premiums you pay and will reduce the amount available for investment.

An early surrender or withdrawal penalty and possible loss of bonuses will apply if you terminate or surrender the policy early.

You will enjoy a loyalty bonus if you meet the conditions set out in the offering documents.



# Point-of-sale regulatory measures

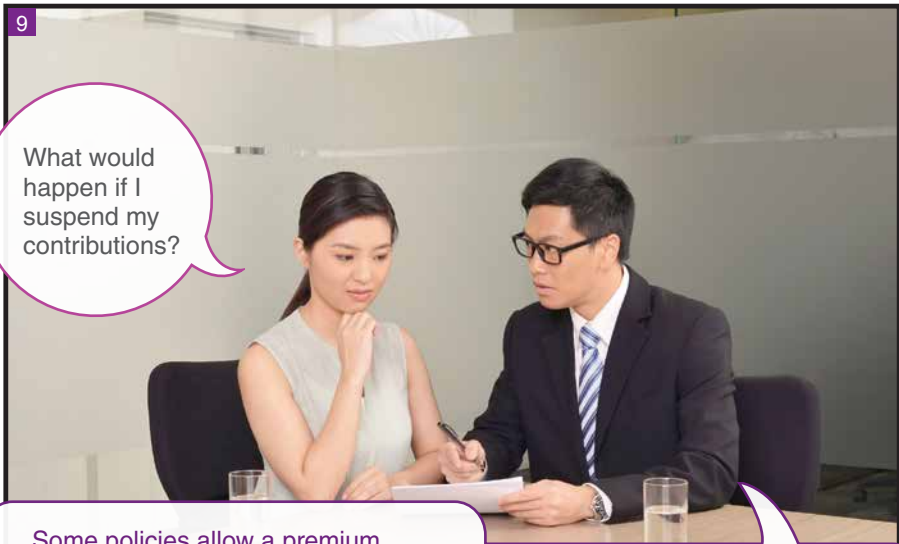


What about other fees and charges?



Some fees deducted from your premiums would make the amount available for investment in the underlying or reference funds lower.

If you switch your investment choices, there may also be a charge and your risk may increase or decrease.



What would happen if I suspend my contributions?

Some policies allow a premium holiday. But it does not mean that you are only required to make premium contribution during the initial contribution period.

Also, all relevant fees will continue to be deducted and may therefore reduce the policy value significantly.

Also, if you fail to pay premiums or your policy value is very low or negative or does not meet the minimum prescribed value, it may trigger automatic early termination of your policy. You may lose all your premiums paid or benefits.

# Go through Important Facts Statement when buying an ILAS



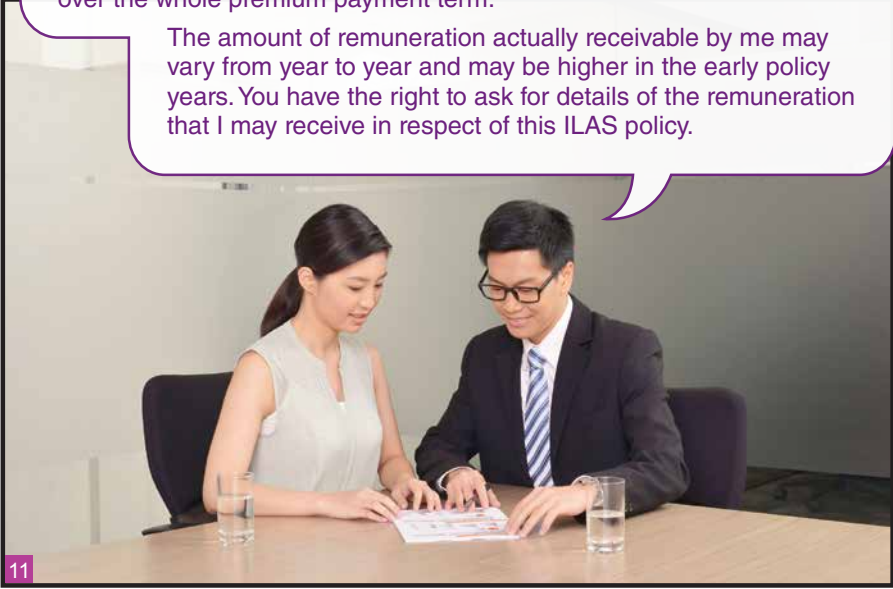
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Separately, please note that you have the right to cancel this policy and get back your original investments (subject to market value adjustment) within the cooling-off period.

Besides, I want you to know that if you take up this ILAS policy, I will on average receive remuneration of \$3 per \$100 of the premium that you will pay.^

This is an average figure calculated on the assumption that you will pay all the premiums throughout the entire premium payment period. Remuneration includes commissions, bonuses and other incentives, etc. over the whole premium payment term.

The amount of remuneration actually receivable by me may vary from year to year and may be higher in the early policy years. You have the right to ask for details of the remuneration that I may receive in respect of this ILAS policy.



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^ The \$3 average remuneration is just an example.

## Go through Important Facts Statement when buying an ILAS



\* Before recommending any ILAS product to the consumer, banks and other insurance intermediaries are required to (i) request the client to set out his/her reasons/considerations for procuring an ILAS product in the "Statement of purpose" paragraph in the IFS; and (ii) take due account of the reasons/considerations set out by the client, together with other relevant information, in assessing whether or not the ILAS product is suitable for the client.

# While all insurance intermediaries are required to go through the IFS with clients, the order of important facts explained may vary from one intermediary to another. Banks are required to disclose and explain the various paragraphs (other than the Statement of Purpose paragraph) in the IFS, together with other relevant information, to the clients during the sale process.

### Important points to note

- **Customers will be asked to go through each part of the IFS and sign on each part before making a policy application.** Insurer will reject the application if a customer chooses to opt out entirely from this process.
- **Whenever in doubt**, check and clarify product details with your intermediary to ensure you fully understand the product features.
- **Don't sign any blank document.** Your signature means that you have read and understood the information about the ILAS product.
- **If a senior member in your family considers committing to an ILAS product**, you can offer assistance to help him/her avoid buying an unsuitable product, eg one with a long policy term.



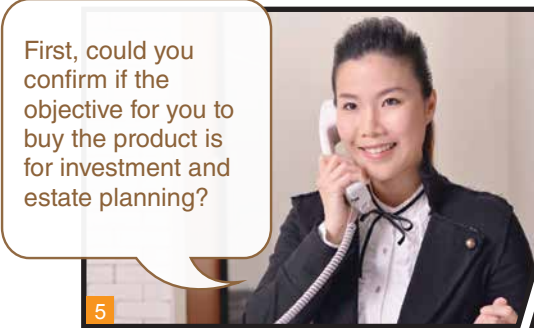
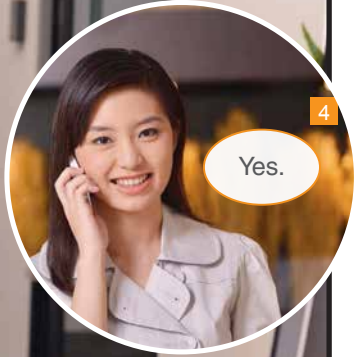
# Post-sale regulatory measures

Three days later

Hello, I'm calling on behalf of ABC, an ILAS product issuer. Are you Ms Ada Shum who has recently purchased an ILAS product issued by our firm?



It is a regulatory requirement for us, the ILAS issuer, to protect your rights by making a post-sale call to you within the 5th working day after the issue date of the ILAS policy. Do you have about 10 minutes for me?



First, could you confirm if the objective for you to buy the product is for investment and estate planning?



## Confirm to ILAS issuer your understanding of the policy

Next, may I ask you some questions to confirm you understand the major clauses of the policy<sup>Δ</sup> ?

Please.

Issuer asks questions...

... Thank you for your confirmation.

Can you tell me when the 21-day cooling-off period will end?

Sure. As a notice was issued on 28 June to inform you that your policy is available, the cooling-off period will expire on 19 July.

Before that, you can change your mind and get back the money you have invested, subject to market value adjustment.

<sup>Δ</sup> For the details of the questions asked, please refer to HKFI circular “Updated Requirements Relating to the Sale of Investment Linked Assurance Scheme ( ILAS ) to Enhance Customer Protection.”

### Important points to note

- It may not be in your best interest to wait until the end of the cooling-off period to decide on purchase of an ILAS policy. Part of your premium paid may be deducted due to market value adjustment (MVA) although the MVA shall not include any allowance for expenses or remuneration for issuing the contract.
- You should **keep a copy of every document you have signed** for purchasing the ILAS. You should continue to monitor the performance of the underlying investments and if necessary consider changing your investment options.

# Make the best use of product disclosure

## PRODUCT KEY FACTS

(Product name and type, e.g. ABC ILAS Plan) (Date)

(Issuer's name and logo e.g. ABC Insurance Company)

**This statement provides you with key information about this product. This statement is a part of the offering document. You should not invest in this product based on this statement alone.**

### Quick facts

Name of insurance company:	[ • ]	Policy currency:	[ • ]
Single or regular premium:	[ • ]	Min investment:	[ • ]
Regular premium frequency:	[ • ]	Max investment:	[ • ]
Minimum premium payment term:	[ • ]	Death benefit:	[ • ]
Period with surrender charge:	[ • ]		
Governing Law of policy:	[ • ]		

[e.g. 105% of policy value OR premium paid (less prior withdrawal, whichever is higher)]

### Important

- This investment-linked assurance scheme ("ILAS policy") is a long-term investment-cum-life insurance product. It is only suitable for investors who:
  - (State if the principal will be used for investment purposes)
  - (State how long investment is intended to last)
  - (State other key objectives for the investment)
  - (State if you are investing for retirement purposes)
- This ILAS policy is suitable for investors with short- or medium- term liquidity requirements.
- Fees and charges:
  - For ILAS policy, the cost of (life) insurance protection on top of life insurance protection is the cost of (life) insurance protection on top of life insurance protection.
  - For ILAS policy, the cost of (life) insurance protection on top of life insurance protection is the cost of (life) insurance protection on top of life insurance protection.

Premium option	Percentage of your premiums (including any discretionary bonuses/rebates/other similar features) to which the fee is applied
Single premium	(Up to) [ • ]% of your premiums (including any discretionary bonuses/rebates/other similar features) to which the fee is applied
Regular premium	(Up to) [ • ]% of your premiums (including any discretionary bonuses/rebates/other similar features) to which the fee is applied

### Information in the Illustration Document

and Death Benefits for: (Insurance Company)

FOR ILLUSTRATIVE PURPOSES. THEY ARE NOT GUARANTEED. ACTUAL RETURN MAY BE DIFFERENT!

THE SURRENDER VALUES AND DEATH BENEFITS ARE NET OF FEES AND CHARGES ON SURRENDER AND DEATH. THE ACTUAL RETURN MAY BE DIFFERENT!

(Term)]

[Regular/Single] Premium [Name of Product]	Assuming Net Rate of Return of [3%] p.a.*	Assuming Net Rate of Return of [6%] p.a.
Surrender Value	Death Benefit	Surrender Value
		Death Benefit

calculated based on the net rates of return of the funds. Assuming the fund charges are the same as those in the Summary Illustration are therefore [ • ]% of the net rates of return of the funds. You are strongly encouraged to refer to your initial fund selection at the time of purchase. The attained age of x [and y] on the date of death will be used to determine under what condition of automatic termination the policy may terminate.

# Product Key Facts Statements (KFS)

To find out all relevant information about an ILAS, read its offering documents including the Product KFS.

Product KFS summarises the key features and risks of the ILAS in easy-to-understand language. Issuers are required to disclose additional important information more prominently.

## PRODUCT KEY FACTS

[Product name and type, e.g. ABC ILAS Plan] [Date]

[Issuer's name and logo e.g. ABC Insurance Company]

***This statement provides you with key information about this product. This statement is a part of the offering document. You should not invest in this product based on this statement alone.***

Quick facts	
Name of insurance company:	[ ]
Single or regular premium:	[ ]
Regular premium frequency:	[ ]
Minimum premium payment term:	[ ]
Period with surrender charge:	[ ]
Governing Law of policy:	[ ]
Policy currency:	[ ]
Min investment:	[ ]
Max investment:	[ ]
Death benefit:	[ ] (e.g. 100% of policy value OR premium paid (less prior withdrawal), whichever is higher)

**Important**

- This investment-linked assurance scheme ("ILAS policy") is a long-term investment cum life insurance product. It is only suitable for investors who:
  - (state if the principal will be at risk)
  - (state how long investors should be prepared to hold the investment)
  - (state other key characteristics of the product to help investors determine whether it is suitable for them)
- have both investment and estate planning objectives as it is a packaged product that includes both investment and insurance element with death benefits payable to third party beneficiaries.
- This ILAS policy is not suitable for investors with short- or medium-term liquidity needs.
- Fees and charges –
  - For ILAS policy with only one premium option: [Up to] [ ]% of your premiums (after taking into account all applicable (non-discretionary bonuses/rebates/other similar features)) will be paid to ABC Insurance to cover all the fees and charges at the ILAS policy level, of which [ ]% is the cost of life insurance (only if there is obligatory protection at top of life) protection, and this will reduce the amount available for investment.
  - For ILAS policy with multiple premium options: The percentage of your premiums (after taking into account all applicable (non-discretionary bonuses/rebates/other similar features)) paid to ABC Insurance to cover all the fees and charges at the ILAS policy level is shown in the table below. This will reduce the amount available for investment.

Premium option	Percentage of total premiums for covering the total fees and charges at the ILAS policy level
Single premium	[Up to] [ ]%, of which [ ]% is the cost of [life / insurance (only if there is obligatory protection at top of life) protection]
Regular premium	[Up to] [ ]%, of which [ ]% is the cost of [life / insurance (only if there is obligatory protection at top of life) protection]

1

## Important - 1

First and foremost, the first section reminds you the ILAS is "a long-term investment-cum-life insurance product" and what types of investors this ILAS is only suitable for, and warns you "This ILAS policy is not suitable for investors with short- or medium-term liquidity needs."

## PRODUCT KEY FACTS

(Product name and type, e.g. ABC ILAS Plan)

(Date)

(Issuer's name and logo e.g. ABC Insurance Company)

**This statement provides you with key information about this product. This statement is a part of the offering document. You should not invest in this product based on this statement alone.**

### Quick facts

Name of insurance company:	[ ]	Policy surname:	[ ]
Single or regular premium:	[ ]	Min investment:	[ ]
Regular premium frequency:	[ ]	Min investment:	[ ]
Minimum premium payment term:	[ ]	Death benefit:	[ ] (e.g. 100% of policy value OR premium paid fees prior withdrawal, whichever is higher)
Period with surrender charge:	[ ]		
Governing Law of policy:	[ ]		

### Important

- This investment-linked assurance scheme ("ILAS policy") is a long-term investment-cum-life insurance product. It is only suitable for investors who:
  - state if the principal will be at risk;
  - state how long investors should be prepared to hold the investment;
  - state other key characteristics of the product to help investors determine whether it is suitable for them;
  - have both investment and estate planning objectives as it is a packaged product that includes both investment and insurance element with death benefits payable to third party beneficiaries.
- This ILAS policy is not suitable for investors with short- or medium-term liquidity needs.

#### Fees and charges

*For ILAS policy with only one premium option:* Up to [ ]% of your premiums (after taking into account all applicable non-discretionary bonuses/investor similar features) will be paid to ABC Insurance to cover all the fees and charges at the ILAS policy level, of which [ ]% is the cost of life insurance only if there is obligatory protection on top of life protection, and this will reduce the amount available for investment.

*For ILAS policy with multiple premium options:* The percentage of your premiums (after taking into account all applicable non-discretionary bonuses/investor similar features) paid to ABC Insurance to cover all the fees and charges at the ILAS policy level is shown in the table below. This will reduce the amount available for investment.

Premium option	Percentage of total premiums for covering the total fees and charges at the ILAS policy level
Single premium	Up to [ ]% of which [ ]% is the cost of life insurance only if there is obligatory protection on top of life protection.
Regular premium	Up to [ ]% of which [ ]% is the cost of life insurance only if there is obligatory protection on top of life protection.

1

## Important - 2

The section "Fees and charges" states that

- the total fees and charges in investing in an ILAS as a percentage of your premiums to be paid at policy level.

The percentage is calculated based on certain assumptions for illustration purposes. The actual percentage of your premiums for covering the fees and charges may vary depending on individual circumstances of each case, eg your circumstances and the premium amount and the sum insured of your policy.

## ABC ILAS Plus

### Important (Cont.)

#### Fees and charges (Cont.) -

Please note that the above figures are calculated based on the following assumptions: (a) the life insured is non-smoking 40 year-old male (with a sum insured of [ ]); (b) the payment of [ ] single premium of [ ] HKD1,000,000 or the minimum required regular annual premium of the ILAS policy, whichever is higher; (c) regular premium of [ ] HKD100,000 or the minimum required regular annual premium of the ILAS policy, whichever is higher (per annum); (d) we hold your ILAS policy for [ ] years in accordance with the Relevant Period; (e) an assumed rate of return of 3% per annum throughout [ ] years; (f) any optional supplementary benefits are not included; and (g) there is no early withdrawal / termination of your ILAS policy. (Where applicable): (You must understand that these ILAS level charges are on top of, and in addition to, the underlying funds' level charges). The above figures do not take into account any early surrender / withdrawal charges.

The above percentage(s) of your premiums for covering the total fees and charges are calculated based on the assumptions above for illustration purposes. The actual percentage(s) may change depending on individual circumstances of each case, and will be significantly higher if the premium amount is lower, the sum insured is higher and/or your selected underlying investments are making losses.

#### Long-term features -

##### Upfront charges:

- Up to [ ]% of the [ ] (IA) premiums you pay for the first [ ] policy years will be deducted upfront as charges and will not be available for investment. This means that the remaining amount of premiums available for investment may be 0% of your premiums paid in this period.

As an illustration, this means that for each [ ] HKD1,000 of premiums you pay each year, the premiums available for investment (after deduction of all upfront charges only) are as follows:

Policy Year	Premiums you pay	Premiums available for investment (after deduction of all upfront charges only)
1	[ ] HKD1,000	[ ] HKD0 [ ]%
...		

You should note that the above illustration merely shows the impact of upfront charges on the premiums available for investment and does not reflect the impact of any other applicable fees and charges.

##### Early surrender / withdrawal charges:

- There will be an early surrender or withdrawal charge of up to [ ]% of the (policy value / value of [ ] Account / withdrawal amount) in case of (policy termination / surrender / partial withdrawal / suspension of or reduction in premium payment) within first [ ] years. (You may also lose your entitlement to loyalty and [ ] bonuses.)

2

## Important - 3

The section "Long-term features" explains:

- certain percentage of your premiums may be deducted upfront as charges and this may reduce the amount available for investment in early policy years;
- there may be an early surrender/withdrawal charge of up to a certain percentage of the policy value (or other basis depending on the feature of the ILAS) in case of policy termination/surrender/partial withdrawal/suspension of or reduction in premium payment;

**Important (Cont.)**

- **Long-term features (Cont.) -**

- **Loyalty bonuses:**

- (C) You will be entitled to a loyalty or special bonus of up to 10% of the [policy value / value of (•) Account / first year premiums paid / total policy fees paid] if you keep your ILAS policy for (•) years.]

- **Intermediaries' remuneration**

Although you may pay nothing directly to the intermediary who sells/distributes this ILAS policy to you, your intermediary will receive remuneration which, in effect, will be borne out of the charges you pay. Your intermediary should disclose to you in writing at the point-of-sale information about intermediary remuneration. The amount of remuneration actually receivable by your intermediary may vary from year to year and may be higher in the early policy years. You should ask your intermediary before taking up your ILAS policy to know more about the remuneration that your intermediary will receive in respect of your ILAS policy. If you ask, your intermediary should disclose the requested information to you.

\*"Underlying funds" can be used by an Authorised Insurer in the event that it has disclosed in the offering document that it will be investing the net premium received from the scheme participants into the funds corresponding to the investment options as selected by the scheme participants for each Authorised Insurer's asset liability management. Otherwise, the Authorised Insurer should adopt the term "reference funds".

**What is this product and how does it work?**

- This product is an investment linked assurance scheme. It is a life insurance policy issued by ABC Insurance. This is not a fund authorized by the SFC pursuant to the Code on Unit-Trusts and Mutual Funds ("UT Code").
- (The premiums you pay, after deduction of any applicable fees and charges of your ILAS policy, will be invested by ABC Insurance in the "underlying funds" you selected (see below) and will accordingly go towards accretion of the value of your ILAS policy.) Your ILAS policy value will be calculated by ABC Insurance based on the performance of "your selected underlying funds" from time to time and the ongoing fees and charges which will continue to be deducted from your ILAS policy value.
- Note, however, that all premiums you pay towards your ILAS policy, and any investments made by ABC Insurance in the underlying funds' you selected, will become and remain the assets of ABC Insurance. You do not have any rights or ownership over any of those assets. Your recourse is against ABC Insurance only.
- Due to the various fees and charges levied by ABC Insurance on your ILAS policy, the return on your ILAS policy as a whole may be lower than the return of the underlying funds' you selected. Please see page (•) for details of the fees and charges payable by you.

3

## Important - 3

Long-term features continues to explain that

- Intermediaries' remuneration continues to explain that you may be entitled to a loyalty or special bonus up to a certain percentage of the policy value if you keep your policy for a certain number of years.

## Important - 4

The section "Intermediaries' remuneration" explains that

- although you may pay nothing directly to the intermediary who sells/distributes this ILAS policy to you, your intermediary will

receive remuneration which, in effect, will be borne out of the charges you pay. Your intermediary should disclose to you in writing at the point-of-sale information (ie the Important Facts Statement) about intermediary remuneration. The amount of remuneration actually receivable by your intermediary may vary from year to year and may be higher in the early policy years. You should ask your intermediary before taking up your ILAS policy to know more about the remuneration that your intermediary will receive in respect of your ILAS policy. If you ask, your intermediary should disclose the requested information to you.

## The ILAS Product KFS also highlights the key facts below:

- Quick facts of the ILAS
- What this product is and how it works
- What the key risks are
- If there is any guarantee feature
- Fees and charges levied at policy level and underlying/reference funds level

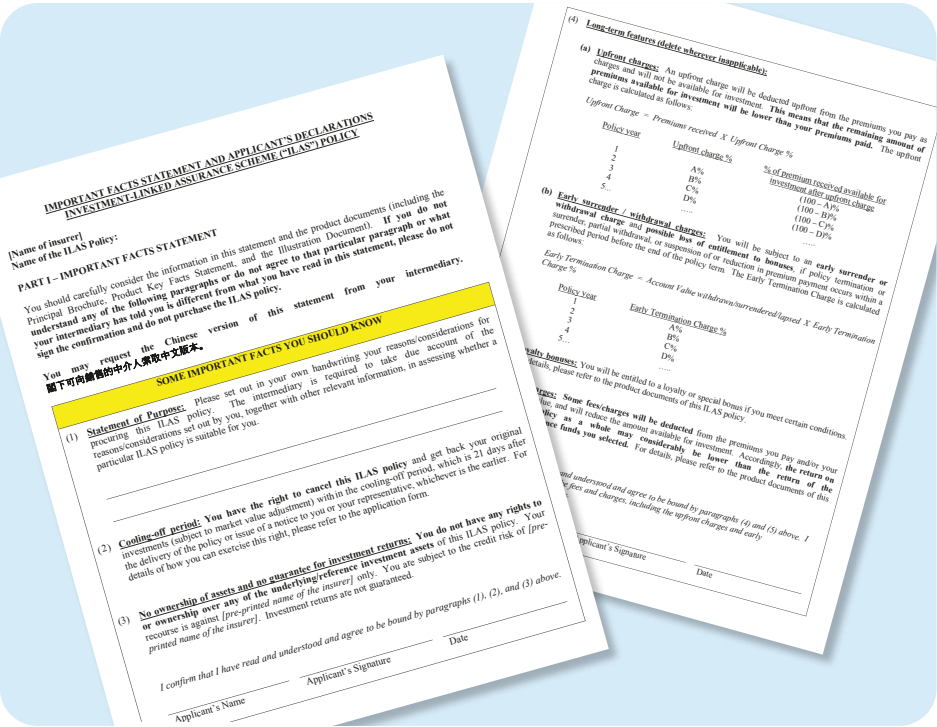
For a guide to reading the Product KFS of investment products in general, please refer to "How to Read Product Key Facts Statements" booklet on IEC website.

# Important Facts Statement (IFS)

At the point of sale, you will be asked to confirm your reasons of buying the ILAS product in the “Statement of Purpose” section in the IFS\*. The IFS highlights some important facts of the ILAS product to increase your awareness of these facts such as the long-term nature of ILAS policies, fees and charges, early termination penalties; and intermediary remuneration.

Insurance intermediaries are required to disclose and explain to the customer each paragraph of the IFS during the sales process. The customer will be asked to go through each part of the IFS and sign on each part before making a policy application.

\* Before recommending any ILAS product to the consumer, banks and other insurance intermediaries are required to (i) request the client to set out his/her reasons/considerations for procuring an ILAS product in the “Statement of Purpose” paragraph in the IFS; and (ii) take due account of the reasons/considerations set out by the client, together with other relevant information, in assessing whether or not the ILAS product is suitable for the client.



# What to find in an illustration document?

Intermediaries selling the ILAS must explain the illustrated cost structure to you as a potential ILAS buyer.

The insurance company must prepare a personalised illustration document for you to review and sign before you sign the application form of an ILAS.

The document typically shows you the amount that you would expect to receive upon surrender of the ILAS policy and projected death benefits based on certain assumed rates of returns after deduction of all relevant fees and charges at policy level as disclosed. The figures do not guarantee future gains (unless the policy offers a return guarantee) nor represent any past performance.

So, the purpose of the illustration document is to show the impact of fees and charges on surrender values and death benefits based on the certain assumed rates of returns.

The assumed rates of returns are for illustrative purpose only. Don't confuse the assumed rates (ie hypothetical) with the actual rate of return of an ILAS. The actual return may be different.

## An illustration document with three assumed rates of return:

### Information to be disclosed in the Illustration Document

#### Illustration of Surrender Values and Death Benefits for:

Name of Product: [Name of Product]  
 Name of Insurance Company: [Name of Insurance Company]  
 Name of Applicant: [Name of Applicant]

*THE ASSUMED RATES USED BELOW ARE FOR ILLUSTRATIVE PURPOSES. THEY ARE NEITHER GUARANTEED NOR BASED ON PAST PERFORMANCE. THE ACTUAL RETURN MAY BE DIFFERENT!*

#### IMPORTANT:

THIS IS A SUMMARY ILLUSTRATION OF THE SURRENDER VALUES AND DEATH BENEFITS OF [NAME OF PRODUCT]. IT IS INTENDED TO SHOW THE IMPACT OF FEES AND CHARGES ON SURRENDER VALUES AND DEATH BENEFITS BASED ON THE ASSUMPTIONS STATED BELOW AND IN NO WAY AFFECTS THE TERMS OF CONDITIONS STATED IN THE POLICY DOCUMENT.

Contract Term: [Actual Contract Term]  
 [Premium Payment Term:] [(if different from Actual Contract Term)]  
 Premium: [Actual Premium amount]  
 Assumed Rate of Return: Illustrated at 0%, [3%] and [6%] p.a.<sup>1</sup>

Projected Surrender Values and Death Benefits for a [Regular/Single] Premium [Name of Product] with Contributions of \$ XXX for [XXX] Periods							
Number of Years after Policy Issuance	Total Premium Paid since Start of Policy	Assuming Net Rate of Return of 0% p.a.*		Assuming Net Rate of Return of [3%] p.a.*		Assuming Net Rate of Return of [6%] p.a.*	
		Surrender Value	Death Benefit	Surrender Value	Death Benefit	Surrender Value	Death Benefit



Illustration shall be made using one of the following options:

- (i) four assumed rates of return (ie 0%, 3%, 6% and 9% per annum) on two pages with surrender value and death benefit shown on first and second page, respectively; or
- (ii) three assumed rates of return (ie 0%, 3% and 6% per annum) on one page with both surrender value and death benefit shown on the same page.

The assumed rates of return are requirements imposed by the Life Insurance Council of The Hong Kong Federation of Insurers (HKFI) on its life insurance members and are applicable to all ILAS policies.

Don't sign under the declaration unless you fully understand the information in the illustration document, and have received the offering documents.

BENEFITS BASED ON THE ASSUMPTIONS STATED BELOW AND IN NO WAY AFFECTS THE TERMS OF CONDITIONS STATED IN THE POLICY DOCUMENT.

Contract Term: [Actual Contract Term]  
 [Premium Payment Term:] [(if different from Actual Contract Term)]  
 Premium: [Actual Premium amount]  
 Assumed Rate of Return: Illustrated at 0%, [3%] and [6%] p.a.<sup>1</sup>

Projected Surrender Values and Death Benefits for a [Regular/Single] Premium [Name of Product] with Contributions of [S XXX] for [XXX] Periods							
Number of Years after Policy Issuance	Total Premium Paid since Start of Policy	Assuming Net Rate of Return of 0% p.a.*		Assuming Net Rate of Return of [3%] p.a.*		Assuming Net Rate of Return of [6%] p.a.*	
		Surrender Value	Death Benefit	Surrender Value	Death Benefit	Surrender Value	Death Benefit
1							
2							
3							
4							
5							
10							
XX							

\* The Surrender Value and Death Benefit are based on the net rates of return. The net rates of return are net of [1.50%] p.a., the gross rates of return are [4.50%] p.a., [4.50%] p.a. and [7.50%] p.a. respectively. Please note that this illustration might not reflect the actual results. For further details, if you select a return scenario considered high in many cases are not suitable for you. Please speak to your financial adviser for further details.

the individual insured respectively. The policy will terminate afterwards. Your policy may also terminate under other investment scenarios. If the actual investment return is below the above assumed rate of return, the policy may terminate earlier than above attained age(s). You could lose all your premiums paid and benefits accrued if any condition for early termination is triggered.

**Warning:** You should only invest in this product if you intend to pay the premium for the whole of your chosen payment term. Should you terminate this product early or cease paying premiums early, you may incur a significant loss.






















**Declaration**  
 I confirm having read and understood the information provided in this illustration and received the principal brochure.  
**Signed & dated:** \_\_\_\_\_  
 [Applicant's Full Name in Printed Form]

<sup>1</sup> These assumed rates of return shall comply with the guidelines issued from time to time by the Life Insurance Council of the Hong Kong Federation of Insurers.

# How to complain

If you wish to make a complaint about an ILAS product, the first step is to contact the complaint officer of the bank, insurance company, agent or broker you dealt with and to raise your concerns with them.

If you are not satisfied with the answer you receive or the way they handle the complaint, you may wish to contact the relevant organisations below -

What	Where	How
Complaints about the ILAS product disclosure documents	Securities and Futures Commission	 2231 1222  complaint@sfc.hk  www.sfc.hk
Complaints about the conduct of insurance agents, including banks and their staff who sell ILAS	Insurance Agents Registration Board which is set up under The HKFI	 2520 1868  hkfi@hkfi.org.hk  www.hkfi.org.hk
Complaints about the conduct of insurance brokers	The Hong Kong Confederation of Insurance Brokers	 2882 9943  info@hkcib.org  www.hkcib.org
	Professional Insurance Brokers Association	 2869 8515  info@piba.org.hk  www.piba.org.hk
Complaints about insurance companies	Insurance Authority	 2867 2565  iamail@oci.gov.hk  www.oci.gov.hk
Complaints about banks and their staff	Hong Kong Monetary Authority	 2878 1378  bankcomplaints@hkma.gov.hk  www.hkma.gov.hk
Disputes with financial institutions authorised by the HKMA (eg banks) or licensed by /registered with the SFC involving monetary loss	Financial Dispute Resolution Centre	 3199 5199  fdrc@fdrc.org.hk  www.fdrc.org.hk

# Where to find useful information

What	Where
<ul style="list-style-type: none"><li>• General information and education materials for consumers and investors</li><li>• Subscription to e-newsletters on financial education</li></ul>	<p>The Chin Family website @ <a href="http://www.thechinfamily.hk">www.thechinfamily.hk</a></p>
<ul style="list-style-type: none"><li>• List of SFC-authorized ILAS</li><li>• Offering documents of ILAS as provided by the product issuers</li><li>• Issuers of ILAS</li></ul>	<p>Securities and Futures Commission @ <a href="http://www.sfc.hk">www.sfc.hk</a></p>
<ul style="list-style-type: none"><li>• Regulatory framework and requirements</li><li>• List of authorized insurers</li><li>• Industry statistics</li></ul>	<p>Insurance Authority @ <a href="http://www.oci.gov.hk">www.oci.gov.hk</a></p>
<ul style="list-style-type: none"><li>• Regulatory framework of banks</li><li>• InSight article “Consider the Important Facts before you decide to take up an investment-linked assurance scheme (ILAS) product ” issued on 22 April 2013</li></ul>	<p>Hong Kong Monetary Authority @ <a href="http://www.hkma.gov.hk">www.hkma.gov.hk</a></p>
<ul style="list-style-type: none"><li>• Insurance agents’ registration status and registration history</li><li>• Contact information of insurance companies and insurance agencies</li><li>• “Updated Requirements Relating to the Sale of Investment Linked Assurance Scheme to Enhance Customer Protection”</li></ul>	<p>The Hong Kong Federation of Insurers @ <a href="http://www.hkfi.org.hk">www.hkfi.org.hk</a></p>
<ul style="list-style-type: none"><li>• Insurance brokers’ registration status at CIB and PIBA</li><li>• Contact information of insurance brokers</li></ul>	<p>The Hong Kong Confederation of Insurance Brokers @ <a href="http://www.hkcib.org">www.hkcib.org</a></p> <p>Professional Insurance Brokers Association @ <a href="http://www.piba.org.hk">www.piba.org.hk</a></p>

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  | [thechinfamilyhk](https://www.thechinfamily.hk)

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