

Content

Title : Directions for Sale of Investment-linked Insurance Products Ch

Date : 2020.02.13

Legislative : Amended on 13 February 2020 per Order No. Jin-Guan-Bao-Shou-Zi- 10904902876 of the Financial Supervisory Commission

Content : 6. When selling the Product to customers, insurance enterprises should consider customer suitability and pay attention to avoid selling products that carry excessive risk or have a highly complex structure. The preceding provision does not apply if objective facts show that the customer has substantial professional knowledge and risk tolerance.

When selling the Product to a customer over 70 years of age, insurance enterprises shall, after obtaining customer's consent, maintain the record of selling process by audio or video means, or retain the trail of relevant operating process using electronic equipment. Appropriate unit or managerial personnel shall double-check such record or trail and confirm the product suitability for the customer before the insurance enterprise underwrites the policy.

The audio or video recording of the selling process or the retained trail mentioned in the preceding paragraph shall include at least the following matters and kept for at least five years from the expiry of the insurance contract or five years from the date the decision of non-underwriting is finalized:

(1) The solicitor showing his/her valid certificate and stating the company he/she belongs to and the investment-linked insurance products he/she is authorized to solicit.

(2) The solicitor informing the customer that the product the customer is to purchase is an investment-linked insurance product, the name of insurance company underwriting the policy and the relationship between the solicitor and the insurance company, premium paying term, amount of premium, policy related charges (including insurance costs and expenses), and how are they charged.

(3) The solicitor describing the important clauses of the insurance contract, associated investment risks, exclusions, content of insurance proposal and important content of product prospectus.

(4) The solicitor describing policyholder's right to revoke the insurance contract.

(5) The solicitor asking the customer whether he or she understands the required annual premium and possible loss under worse case scenarios, and confirming whether the customer can afford the premium and possible loss. The ways to make audio or video recording or use electronic equipment mentioned in the second paragraph hereof shall be set out by the Life Insurance Association of the Republic of China, and reported to the competent authority for reference.

Insurance enterprises shall observe the following when the Product they sell is linked to a structured product:

(1) The insurance enterprise shall adopt a proper method to distinguish and determine whether the applicant is a professional or non-professional investor, unless the Product is not sold exclusively to professional investors.

(2) The insurance enterprise shall make an overall evaluation of the risk tolerance of non-professional investors based on their age, knowledge over the Product, investment experience, financial condition, trading purpose, and understanding of the Product, classify non-professional investors into at least three risk categories, and ask the applicant to give a signature as confirmation that he/she understands the risks involved.

Where the customer's source of funding for the payment of the Product's premium is a terminated insurance contract, loan, or policy loan, the

insurance enterprise shall assign personnel from a non-sales channel to call the customer and confirm or inform the customer of the following items after the Product is sold and before underwriting the Product. The telephone call recording shall be retained for recordation and kept for at least five years from the expiry of the insurance contract or five years from the date the decision of non-underwriting is finalized:

- (1) For customers whose source of funding for insurance premiums payment is a loan or a policy loan, the customer must be clearly informed of related risks caused by the financial leverage operations and the maximum amount of potential losses.
- (2) For customers whose source of funding for insurance premiums payment is the termination of a contract, the customer must be clearly informed of related losses of interests in insurance contracts as a result of the insurance purchase after the termination of the contract.

11. The “Guidelines for Know Your Customer” mentioned in Point 9 herein shall contain at least the following particulars:

(1) Solicitation principle: Ask the customer to provide relevant financial information, including whether the source of funding for payment of insurance premiums is a terminated insurance contract, loan, or policy loan; if the customer declines to provide such information, the solicitor should note the same on the application form and ask the customer to sign at where noted for confirmation.

(2) Underwriting principle: The insurance enterprise should set out underwriting criteria and circumstances under which customer’s application will be rejected or accepted.

(3) Underwriting review principle:

I. The insurance enterprise should establish underwriting review procedure and assess the customer’s investment capability. Customers who decline to provide relevant financial information should be subject to more rigorous review and underwriting procedures or be rejected.

II. The insurance enterprise should enhance evaluations of customers whose source of funding for payment of insurance premiums is from a terminated insurance contract, loan, or policy loan to evaluate whether they are suitable for the Product.

III. The insurance enterprise should establish mechanisms for inspecting whether the customer has terminated a contract with the same insurance enterprise or another insurance enterprise, whether the customer has taken out a loan or policy loan with the same insurance enterprise in the three months prior to the purchase of the insurance policy, and whether related financial information provided by the customer in transactions with the insurance enterprise are consistent.

IV. The insurance enterprise may not undertake the Product if the applicant’s investment attribute is evaluated as non-active and the insurance premiums are paid with a loan or policy loan.

(4) Double spot check principle: The insurance enterprise should set out the guidelines for spot checking whether the solicitor has fully informed the customer and for checking product suitability for the customer.

(5) Use of customer data and confidentiality principle: The insurance enterprise should set out the scope and hierarchy of customer data access and maintenance, and establish control mechanism to prevent the leakage and abuse of customer data.

13. The “Guidelines for insurance business solicitation” mentioned in Point 9 herein shall contain at least the following particulars:

(1) Establish management rules for producing advertising or promotional materials and control procedures for the transmission, dissemination or promotion of such materials.

(2) Establish a set of product suitability policies, including the classification of customer risk levels and product risk level, providing products commensurate with the customer’s risk tolerance, not allowing non-professional investors to invest in structured products not commensurate with their suitability level or invest in structured products exclusively for professional investors, and establish a control mechanism to prevent solicitors from engaging in improper selling activities.

(3) When selling the Product, disclose in a timely manner risks, Return on

Investment in connection with the Product and other relevant information to customers, and provide relevant sales documents, including at least product prospectus. If the Product is linked to a structured product, provide the customers additionally with information on return on investment and risk disclosure statement, Chinese prospectus and Chinese investor brochure on the structured product.

(4) The sales documents of the Product shall be produced in accordance with the Compliance Matters for Disclosure of Information on Investment-linked Insurance, of which, a product prospectus shall be given to the applicant for keeping. If a proposal is provided, the proposal shall have two copies and one of the copies, which is signed by the applicant for confirmation after reading shall be attached to the application form.

(5) The transaction control mechanism established by the insurance enterprise shall contain at least the following particulars:

I. Prevent offering customers with products or services surpassing customer's financial capability or unsuitable for the customer.

II. Prevent solicitors from engaging in unauthorized or illicit sales activities.

III. The solicitor shall not induce the customer to rescind or terminate contracts or pay the premium of the Product by a loan or a policy loan.

(6) Where the Product is linked to an offshore structured product, insurance enterprises shall fulfill their obligation to inform in accordance with the Regulations Governing Offshore Structured Products and relevant rules. The same shall apply if the Product is linked to a domestic structured product.

(7) Where the Product involves currency related derivatives transactions in connection with assets in a separate account undertaken for the purpose of currency hedging by an enterprise that is approved by the competent authorities to engage in or concurrently engage in discretionary investment service and entrusted by the insurance enterprise to utilize and manage the assets in the separate account in accordance with Subparagraph 2, Paragraph 1 of Article 5 of the Regulations Governing Investment of Investment-linked Insurance, the insurance enterprise, when selling the Product, should properly explain to the customer the nature of currency hedging, associated risks and other relevant information, and may not use low risk or currency risk free as appeal in advertising or other business activities.

14. The "Mechanism for preventing insider trading and conflict of interest" mentioned in Point 9 herein shall contain at least the following particulars:

(1) Establish information security, firewall and other information segregation policies to prevent abuse of information by unauthorized persons.

(2) Establish employee code of conduct.

(3) Insurance enterprises and solicitors of the Product shall not directly or indirectly request, agree on a time to receive, or receive illicit money, property or other benefits from the issuer of the investment object, and this provision shall be included into the audit items under the compliance system of the insurance enterprise.

(4) Insurance enterprises and solicitors of the Product shall not pay or collect remuneration for recommending customers to apply for loans.

However, this restriction does not apply to solicitors that have not solicited the Product to the same customer in the three months before and after the loan application date.

(5) Solicitors of the Product shall not take the amount of commissions or compensation they will receive as sole consideration in selling the Product. Nor shall solicitors engage in solicitation by inducing customers to purchase the Product with promise of gain or inducing customers to switch policy.

(6) The charge of fees in connection with the sale of the Product shall comply with the Compliance Matters for Disclosure of Information on Investment-linked Insurance.