

Joint Inspection by Insurance Authority and Hong Kong Monetary Authority on use of premium financing to take out long term insurance policies in Hong Kong

The following is issued on behalf of the Hong Kong Monetary Authority:

The following press release is issued jointly by the Insurance Authority and the Hong Kong Monetary Authority:

The Insurance Authority (IA) and the Hong Kong Monetary Authority (HKMA) today (September 30) issued a [circular](#) outlining key findings of the joint inspection on premium financing (Note) activities carried out by long term insurers and licensed insurance intermediaries (including banks), which is the first of its kind pursued by the two regulators.

While undergoing a prolonged period of low interest rate, policy holders are increasingly attracted to the use of premium financing as a tool for wealth and liquidity management. In order to ensure that they are aware of the full range of risks involved, the IA and the HKMA carried out a joint inspection exercise in the second half of 2020 to identify current industry practice and areas requiring improvement.

"Premium financing involves leveraged borrowing and exposure to the risk of interest rate hikes, with low or even negative returns being a distinct possibility when non-guaranteed benefits produced by insurance policies fall short of expectations. The interest of policy holders has to be adequately protected," the Chief Executive Officer of the IA, Mr Clement Cheung, said.

"The joint inspection on premium financing activities has demonstrated the collaborative effort and commitment of the HKMA and the IA to tackle cross-sectoral insurance related issues. The two regulators will continue to work closely to monitor market developments and raise industry conduct standards with a view to further enhancing protection of policy holders and bank customers," the Chief Executive of the HKMA, Mr Eddie Yue, said.

Based on findings of the joint inspection, the IA and the HKMA will engage the industry and relevant stakeholders to clarify the standards expected on long term insurers and licensed insurance intermediaries carrying out premium financing activities.

Note: An arrangement whereby the prospective policy holder borrows money from a financial institution (usually a bank) to settle part of the insurance premiums and, in doing so, assigns all or part of his/her rights under the policy to the financial institution as collateral.