

Insurance

Mystery Shopping Programme, a joint collaboration between IA, MPFA and HKMA, on selling practices of Qualifying Deferred Annuity Policies and Tax-deductible Voluntary Contributions

Background

The IA, MPFA and HKMA have jointly conducted a mystery shopping programme (“**MSP**”) earlier in 2022 to understand the selling practices of intermediaries, such as banks and insurers, in respect of Qualifying Deferred Annuity Policies (“**QDAP**”) and Tax-deductible Voluntary Contributions (“**TVC**”) and to identify areas for improvement and good practices for sharing with the industry.

On 23 December 2022, the IA, MPFA and HKMA jointly released a circular summarising the joint inspection findings as follow:

Key findings on selling practices of QDAP

Know-your-customer (“KYC”) and product recommendation

- **Financial needs analysis (“FNA”)** – Insufficient information was obtained through FNA prior to proceeding with product recommendations.
- **Suitability of recommendations** – Suitability of product recommended was not sufficiently elaborated. For product recommended in light of mismatches, customers were not provided with explanation nor discussed about the mismatches.
- **Identification of vulnerable customers (“VC”)** – Insufficient information was collected for valid identification of VC during the sales process.

Disclosure and explanation of product features, risks and benefits

- **Inadequate disclosure of product features, risks and benefit** – Examples included internal rates of return, investment-related details of underlying investments, and credit risk of the insurer etc.
- **Lack of explanation on annuity payments** – Default option (i.e. cash pay-out) for annuity payments nor the ability to change the annuity payment option without any charges were not explained.
- **Incorrect information about QDAP** – QDAP was incorrectly described as a savings plan instead of a life insurance product.
- **Absent of balanced views** – Advantages of QDAP were discussed without adequate or appropriate explanation of risks involved.

Key findings on selling practices of MPF Tax-deductible Voluntary Contributions

Know-your-customer (KYC)

- **Verification of customer identity** – Identity documents of customers were not properly checked.
- **Identification of vulnerable customers** – Actions were not taken to identify the VC status of customers.

Explanation of product features and disclosure of risks and benefits

- **Explanation of TVC features** – Key features of TVC or relevant risks were not disclosed.
- **Explanation of the default investment strategy (“DIS”)** – DIS arrangement and its key features were not disclosed.
- **Disclosure of risks of investment performance** – Risk of constituent funds were not explained in the context of fund performance discussion.
- **Lack of disclosure on benefits receivable** – Information of monetary and non-monetary benefits receivable by the intermediaries were not disclosed.

Opening of TVC Accounts

- **Inadequate understanding and information** – Customers' circumstances were not understood prior to product recommendations. Information about TVC was not sufficiently disclosed to the customers for making informed decisions.
- **Discouraged TVC accounts opening** – Customers were discouraged by the intermediaries to open TVC accounts by providing inaccurate information or misleading statements such as long account opening time, inflexible withdrawal conditions, high product risk and poor return.

Suitability consideration for recommendation of TVC or QDAP

- **Lack of consideration of customers' circumstances** – While the annual tax-deductible limit of a total of \$60,000 is shared between TVC and QDAP premiums, these 2 products are different in features. Intermediaries should understand and assess the customer circumstances to determine whether a TVC or QDAP is suitable to a customer.

For details of the abovementioned findings, please refer to the following.

- *Findings of Mystery Shopping Programme on Selling Practices in respect of Qualifying Deferred Annuity Policies and Tax-deductible Voluntary Contributions in Hong Kong* – [Link to the Circular](#)

We would welcome the opportunity to discuss the content of the above regulatory standards that might be applicable to your business.

Please reach out to us if you have any questions or queries.

Contact us



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The materials contained in this document were assembled in January 2023 and were based on the law enforceable and information available at that time.