

**GUIDANCE NOTE**  
**ON**  
**CLASSIFICATION OF CLASS C –**  
**LINKED LONG TERM BUSINESS**

**Office of the Commissioner of Insurance**  
**20 February 2003**

**Guidance Note**  
**on**  
**Classification of Class C – Linked Long Term Business**

**Introduction**

Both Class A - Life and Annuity and Class C - Linked long term are classes of long term business for contracts of insurance on human life or contracts to pay annuities on human life. A life or annuity contract is required to be classified under Class C if the features of the policies so designed should fall within the definition of Class C of long term business under Part 2 of the First Schedule to the Insurance Companies Ordinance (“ICO”).

**Background**

Insurers authorized under the ICO to write Class C business are required, in addition to compliance with the provisions of the ICO, to seek authorization for the marketing of the products from the Securities and Futures Commission (“SFC”) pursuant to section 4(2)(g) of the Protection of Investors Ordinance. They are required to conduct their business in accordance with the disclosure requirements as prescribed in the Code on Investment-Linked Assurance Schemes issued by the SFC.

Recently, there has been confusion in the market as to the classification of business between Class A and Class C. It has been reported that certain Class C products were mistakenly classified under Class A and vice versa. As the regulatory regimes for Class A and Class C business are quite different from each other in terms of the requirements for solvency and product approval, the Insurance Authority (“IA”) considers that there is a need to provide guidance to the insurance industry on the classification of Class A and Class C business.

## **Definition of Class A and Class C of long term business under the ICO**

<u>Class</u>	<u>Description</u>	<u>Nature of Business</u>
A	Life and Annuity	Effecting and carrying out contracts of insurance on human life or contracts to pay annuities on human life, but excluding (in each case) contracts within Class C below.
C	Linked Long Term	Effecting and carrying out contracts of insurance on human life or contracts to pay annuities on human life where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property or any description (whether or not specified in the contracts) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

Insurers shall have due regard to the above definitions in determining whether a product should be classified under Class A or Class C of long term business. Some predominant features of Class C (linked business) are identified below to assist insurers in distinguishing whether a policy should be classified as Class C business.

### **Distinguishing features of Class C linked long term**

The policy must either be a life or annuity contract and possesses one or more of the following features:

1. The benefits of the policy are calculated in whole or in part by reference to the value of, or the income from, specified assets or group of assets or by reference to movements in a share price or other index, whether or not subject to deductions in respect of expenses or charges;
2. The Policy holder is given the options to choose the underlying investment assets from a range of investment fund options;
3. Market Value Adjustment or adjustment of similar nature is applied under the terms of policy for the calculation of surrender/withdrawal value with the exception of where the market value adjustment is

applied to single premium non-linked policies for refund of premium during the Cooling-off Period; and

4. The policy is designed in such a way that the policy holder is contractually bound to bear partly or wholly the risk of the investments to which the benefits are linked.

The aforesaid features shall in no way represent a comprehensive list of the features of Class C – linked products as, after all, the great strength of the insurance industry lies, among others, on their innovativeness in devising policies tailored to suit the needs of prospective policy holders.

For the avoidance of doubt, it is not the intention of the Insurance Authority to include conventional or traditional participating policies as Class C policies. As such, whole life and endowment participating policies under which policy holders are entitled to bonus/dividend regularly declared by insurers on the basis of the insurers' surplus position shall remain as Class A business.

If there shall be any inconsistencies between this guidance note and the ICO, the legal provisions shall prevail.