



American International Assurance
Company (Bermuda) Limited

AIA Tower,
183 Electric Road,
North Point, Hong Kong
T : (852) 2861 3333
AIA.COM.HK

29 December 2009

Securities and Futures Commission
8/F Chater House
8 Connaught Road Central
Hong Kong

BY FAX (2293 5722)
(Total: 1 + 13 pages)
& BY POST

Attn: Consultation on proposals to enhance protection for the investing public

Dear Sirs,

**Consultation paper on proposals to enhance protection for the investing public
("Consultation Paper")**

We refer to your Consultation Paper in September 2009. Please find enclosed our feedback on Section III: Code on Investment-Linked Assurance Schemes for your kind attention.

Please do not hesitate to contact me if you have any queries.

Yours faithfully,

Vinci Hon (Ms.)
Vice President and General Counsel
Direct: 2203 0182
Fax: 3170 6869

Encl.

c.c. The Hong Kong Federation of Insurers - Mr. Peter Tam (by fax 2520 1967)
Office of the Commissioner of Insurance - Ms. Angel Hon (by fax 2869 0252)

**Feedback to the SFC on Section III:
Code on Investment-Linked Assurance Schemes**

Prepared by

American International Assurance Company (Bermuda) Limited

Dec 29, 2009

Suggestions and Recommendations:

Chapter / Heading	Section	Quote from the SFC revised code (<i>italic</i>) or General Observation	Questions / Comments
5 / Scheme documentation	5.4 (a) Surrender values	<i>Further guidance as to the assumed rates of return to be used in the illustration document is available on the Commission's website.</i>	<ul style="list-style-type: none"> ● <u>Need further clarification about what is "Further guidance" within this scope.</u> For example, what are the critical factors for each insurer to substantiate its assumed rates of return? Current economic environment, historical return of underlying investments, composition of existing underlying investments? ● <u>How often will the assumed rates of return be changed?</u> Suggest the assumed rates of return will not be changed frequently as the resources and efforts to revise the figures in the sales illustration document is significant.
5 / Product key facts statement (KFS)	5.7	Product Key Facts Statement (KFS) does not seem to be designed for ILAS with <u>significant death benefit</u> .	<ul style="list-style-type: none"> ● <u>This template seems to be designed based on 101% ILP which we agree with the simplification</u> for the convenience of investors. ● <u>For plans with significant death benefit</u> such as Asset Whole Life ("AWL") or Wealth FlexiProtector ("WFP") in AIA, the <u>KFS may not be sufficient to contain all necessary explanation</u>

Chapter / Heading	Section	Quote from the SFC revised code (<i>italic</i>) or General Observation	Questions / Comments
			<p><u>of the insurance features</u> e.g. details of each benefit options, layering concepts; with the “4-page limit”*. Therefore, we are in the view that the <u>KFS for plans with significant death benefit shall not be made compulsory.</u> In this case, client should refer to the full version of the Principal Brochure.</p> <p><i>* The maximum of 4 pages limit was provided by SFC on 13 Nov, 2009 in industry briefing.</i></p>
5 / Product key facts statement (KFS)	5.7	Should internal fund like Interest Bearing Fund to be included in KFS of Wealth FlexiProtector or in a separate “KFS for guaranteed funds”?	<p>● <u>As for ILAS product with internal Interest Bearing Fund:</u> we find the KFS template is <u>not entirely applicable.</u> Therefore, we have proposed <u>a template in Appendix 1.</u> Generally the proposed solutions are to <u>skip/ rephrase those items that are not applicable to internal Interest Bearing Fund like:</u></p> <ul style="list-style-type: none"> - <u>Many descriptions or fields are designed for unit trust which is not applicable to general account fund.</u> - Past performance of the interest crediting fund: <u>does it mean historical crediting rate</u> in the case of Interest Bearing Fund?

Chapter / Heading	Section	Quote from the SFC revised code (<i>Italic</i>) or General Observation	Questions / Comments
			<ul style="list-style-type: none"> - Fees and charges: there is no charge on interest crediting fund, <u>possible to put 'Nil'?</u> - Scenario analysis: there is no such condition on this fund, <u>possible to put 'Not applicable'?</u>
5 / Product key facts statement (KFS)	5.7	<i>An illustration template of the Product Key Facts Statement will be made available on the Commission's website.</i>	<ul style="list-style-type: none"> ● <u>How often will the template be changed?</u> Since great effort is needed to revise the KFS for all the products.
5 / Product key facts statement (KFS)	Statement in KFS (page 1)	<i>"...ABC insurance company will be investing into investment options selected by you."</i>	<ul style="list-style-type: none"> ● Suggest not to include the captioned statement in the KFS as this seems contradicting to the upfront risk disclosure statement in the Principal Brochure.
6 / With-profits features	6.4	<i>As regards a scheme or an investment option with a "with-profits" feature where the Authorized Insurer invests in a mixture of assets, and retains the absolute discretion to declare a rate of return (commonly known as "bonus") determined by reference to the performance of the underlying assets and other factors and is promised on the basis</i>	<ul style="list-style-type: none"> ● With the definition (i.e. Insurer... retains the absolute discretion to declare a rate of return), <u>Interest Bearing Fund may fall into this category. However, since this fund has no market value adjustment and the required additional disclosure is all related to market value adjustment, we would like to confirm if therefore no additional disclosure is required.</u>

Chapter / Heading	Section	Quote from the SFC revised code (<i>italic</i>) or General Observation	Questions / Comments
		<p><i>that the ups and downs of the investment performance can be smoothed out over a period, and the Authorized Insurer may, amongst other things, reduce the rate of bonus and/or apply a market value adjustment to the policy value or withdrawal amount in respect of any withdrawals (whether or not this may be on a retrospective basis), the following must be disclosed in the offering document:</i></p>	
7 / Scheme Changes	7.3	<p><i>Without prejudice to the foregoing, the Authorized Insurer should inform scheme participants as soon as reasonably practicable of any material adverse change in the financial condition or business of the key counterparties that it is aware of. 'Key counterparties' include but are not limited to the Authorized Insurers and guarantors (where relevant).</i></p>	<ul style="list-style-type: none"> ● <u>What about the unofficial source or market intelligence</u> (e.g. widening of credit default swap or downgrading from credit rating agencies) that is <u>not released by the key counterparty?</u> <u>Is Authorized insurer still obligated to inform scheme participants?</u> ● Suggest to exactly define and clarify the scope. <u>(suggest to limit the scope to Authorized Insurers only).</u> As the material adverse change may come from the media or other unproven source, we can't verify the completeness, accuracy and time lag of the information. If we disseminate wrong

Chapter / Heading	Section	Quote from the SFC revised code (<i>Italic</i>) or General Observation	Questions / Comments
			information to scheme participants, we fear this will confuse the public..
Industry Briefing on Nov 13, 2009	Slide 9: Proposed timeline for compliance	<i>Existing ILAS marketed to the HK public can continue to be sold and will have a transitional period ending 9 to 12 months from the Effective Date ("Long Stop Date") to comply.</i>	<ul style="list-style-type: none"> ● <u>Suggest to expand the transitional period from "9 to 12 months" to "18 to 24 months"</u> (the time will include our preparation time and the SFC approval time), since all ILAS insurers will make the changes and submit the revised / new documents to the SFC at the same time. A longer transitional period may be necessary which also ensure no disruption to the normal business say new ILAS products/ new funds (including corporate actions).
ILAS Selling Channel		Enhanced investor protection.	<ul style="list-style-type: none"> ● <u>Our views on the ILAS selling channels have been included in Appendix 2.</u>

Appendix 1 and 2:

1) Guaranteed Fund Template – Interest Bearing Fund in Wealth FlexiProtector



Interest Bearing
Fund_SFC KFS 24124

2) ILAS Selling Channel – Enhanced Investor Protection



ILAS Selling Channel
(Enhanced Investor P)

Proposed Product Key Facts statement for ILAS with Internal Interest Bearing Fund

Prepared by

American International Assurance Company (Bermuda) Limited

December 24, 2009

Reading key:

Sample	- information that AIA filled in
Proposed	- proposed wording on areas in doubts
Comment	- AIA comment

PRODUCT KEY FACTS

American International Assurance Company (Bermuda) Limited

AIA Interest Bearing Fund

***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

Launch date:	May 21, 2007	Fund Manager:	American International Assurance Company (Bermuda) Limited ("AIA")
Total assets as of Nov 25, 2009:	██████████	Custodian:	AIA
██████████	██████████		
██████████	██████████		
██████████	██████████		
Base currency:	USD	Dividend:	N/A
Financial year end of this fund:	Nov 31, 2009	Min. investment:	N/A
Dealing frequency:	Monthly		

What is this product?

~~██████████~~

~~This is a fund constituted in the form of a [unit trust]. The Fund may invest in fixed income securities, money-market instruments and financial derivative instruments.~~

~~The Fund offers:~~

- ~~• [] % capital guarantee at maturity (i.e. [date])~~
- ~~• [] % guaranteed coupon(s) at [coupon date(s)].~~

AIA Interest Bearing Fund forms part of AIA's general account in which assets are solely owned by AIA. This fund is only available to Wealth FlexiProtector, one of the ILAS plans which AIA own. Historically, the growth of the general account has been no less than 2% per annum. AIA has the sole discretion to determine the investment strategy, hence the composition of various assets, from time to time, and has the right to retain investment income generated from such assets over and above what is required to be set aside to meet the Guaranteed Crediting Rate of 2% per annum of the Interest Account under the relevant Wealth FlexiProtector policies. AIA will credit interest to the AIA Interest Bearing Fund at an interest crediting rate determined by us at our sole discretion, but for the Interest Account of Wealth FlexiProtector such interest rate will not be less than the Guaranteed Crediting Rate of 2% per annum.

What are the investment objectives and strategy?

When will you lose your

PRODUCT KEY FACTS

American International Assurance Company (Bermuda) Limited

AIA Interest Bearing Fund

Objective

AIA Interest Bearing Fund is an investment option established by AIA. AIA Interest Bearing Fund is managed in a prudent manner to generate a stable income over the medium to long-term.

Strategy

AIA Interest Bearing Fund will invest 0% to 100% in fixed income securities, including debt securities, allocated across global markets. Any remainder will be invested in money market instruments, allocated across global markets. AIA Interest Bearing Fund may invest in financial derivative instruments for a number of purposes which principally include: (a) a reduction of risk; (b) a reduction of cost with no increase or minimal increase in risk; and/or (c) generation of additional capital or income with no or an acceptably low level of risk relative to the expected return.

money?

You may not get back the amount you invested if AIA defaults.

What are the key terms of the guarantee?

- Guarantor: AIA
- Scope of guarantee: guaranteed crediting rate of 2%

Termination condition(s): AIA Interest Bearing Fund will be terminated if, in AIA's sole opinion, it is the most practical and/or in the best interests of the policyholders of the Wealth FlexiProtector in general.

What are the key risks?

Investment involves risks. Please refer to the offering document for details including the risk factors.

- **Political, economic and social risks** – All financial markets and therefore the asset value of AIA Interest Bearing Fund may at times be adversely affected by changes in political, economic and social conditions and policies.
- **Market risk** – The underlying investments are subject to the risks inherent in all securities. The value of the assets of AIA Interest Bearing Fund may rise as well as fall.
- **Interest rate risk** – The fixed income securities in which AIA Interest Bearing Fund may invest are interest rate sensitive, meaning that their values will fluctuate as interest rates fluctuate. An increase in interest rates will generally reduce the value of the fixed income securities.
- **Exchange risk** – AIA Interest Bearing Fund may invest in assets quoted in currencies other than the base currency of AIA Interest Bearing Fund. The performance of AIA Interest Bearing Fund may therefore be affected by movements in the exchange rate between the currencies in which the assets are held and the

PRODUCT KEY FACTS

American International Assurance Company (Bermuda) Limited

AIA Interest Bearing Fund

base currency of AIA Interest Bearing Fund.

- **Counterparty/credit risk** – The underlying investments may invest in deposits and debt securities and may be exposed to counterparty default and settlement risks.
- **Hedging** – The investment manager is permitted, but not obliged, to use hedging techniques to attempt to offset currency risks. There is no guarantee that hedging techniques will achieve their desired results.

What are the fees and charges?

~~_____~~

Initial charges which may be payable by you

You may have to pay the following fees when you purchase units of the fund.

Fee	What you pay
Subscription fee	Up to [-]% of the amount you buy

Ongoing fees payable by the fund

The following expenses will be paid out of the fund. They affect you because they reduce the return you get on your investments.

	Annual Rate (as a % of the fund's value)
Management fee	[-]%
Custodian fee	[-]%
Performance fee	[-]% (1 computation basis)
Administration fee	[-]%

Other fees

You may have to pay other fees when you switch or redeem your investment.

Fee	What you pay
Switching fee	You may be charged up to [-]% of the value of units you transfer to another subfund of [-]
Redemption fee	None.

Scenarios analysis

~~_____~~

The following table shows the worst, base and best case scenarios. Details may be found in the offering document.

PRODUCT KEY FACTS

American International Assurance Company (Bermuda) Limited

AIA Interest Bearing Fund

Possible scenario	Example of when this would apply
Worst case scenario	{Bullet point descriptions with pictorial expressions if possible}
Base case scenario	{Bullet point descriptions with pictorial expressions if possible}
Best case scenario	{Bullet point descriptions with pictorial expressions if possible}

How has the fund performed?

~~...~~

Additional Information

~~...~~

- ~~You generally buy and redeem units at the Fund's next determined net asset value (NAV) after [] receives your request in good order on or before [] being the dealing cut-off time.~~
- ~~The net asset value of this fund is calculated and the price of units published each "business day".~~

Intermediaries' Information

American International Assurance Company
(Bermuda) Limited

Address:

AIA Tower, 183 Electric Road, North Point, Hong Kong

Phone: 2232 8888

Fax: [•]

Email: [•]

Website: www.aia.com.hk

Important

If you are in doubt, you should seek professional advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.

December 29, 2009

Comment in relation to Banks operating bancassurance business selling ILAS as agents of Authorised Insurers

What is Bancassurance

Banks (or Financial Institutions) regulated under HKMA may act as agents for authorized insurers in selling insurance products (including ILAS). This kind of insurance agency business is known as bancassurance. Once the bank is registered with a specified insurer as agent, it can only promote and sell insurance products of such insurer exclusively. This is due to principal-agent relationship where a bank can only register with a maximum of two insurers as bank agent and the bank can only promote and sell insurance products issued by such principal insurer.

Potential conflict of interests

Whilst ILAS is issued by insurance companies, and not by banks, banks should assume a more independent intermediary role in assisting investors in selection and assessing suitability on ILAS products across the wide spectrum of products offered by different insurers. The current bancassurance arrangement whereby a bank is allowed to promote and sell insurance products exclusively for one particular insurer (as its principal) creates the potential for bias in determining client suitability of the ILAS. This de-facto exclusive agency arrangement affects materially the independence of banks in advising its bank customers in choosing ILAS. As the bank is agent of a particular insurance company, there is an inherent risk that a customer, when relying on his/her bank manager on bank products, may

- (i) misconceive that the ILAS represented by the bank manager is a product issued by the Bank;
- (ii) not have access to information on other ILAS products and providers to allow for an appropriate comparison of fees and charges and risk levels before he/she should make a purchasing decision.

Recommendation

Since insurance products, including ILAS are not issued by banks, a bank's role should be acting as an independent intermediary, like an insurance broker to better assess client suitability and advise about the most suitable ILAS option for clients. The traditional bancassurance model should therefore be reviewed and consideration be given instead to a brokerage model for better protection of customers. This is especially important now given the wide variety of ILAS and "with profit" ILAS products offered by different insurers. The focus should be more on the independence of a bank as an intermediary, and on transparency of disclosure, information access and client-suitability.