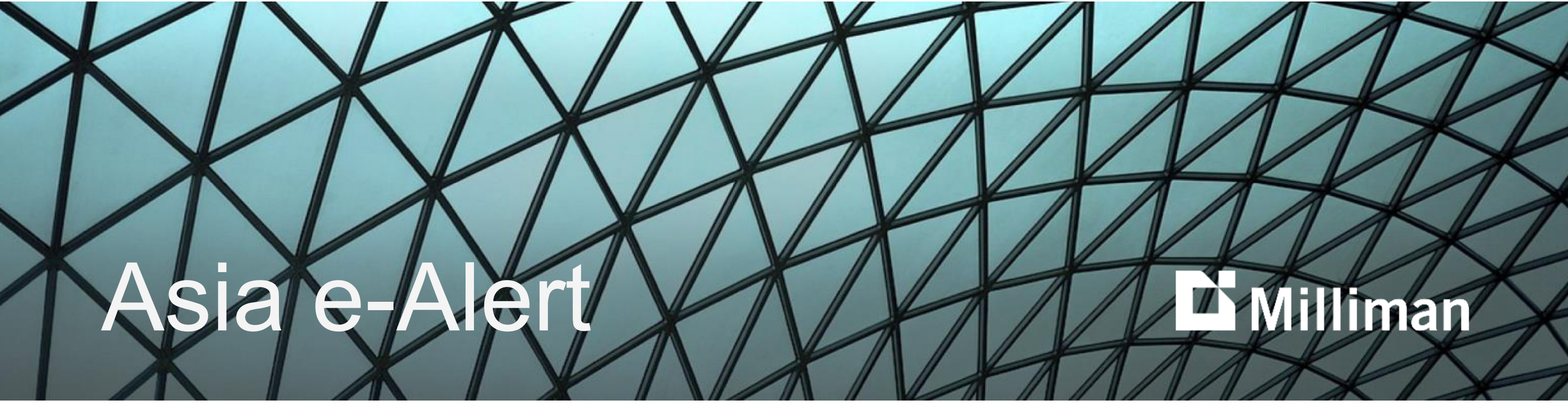

Hong Kong: Remuneration structure for participating products

The remuneration of licensed insurance intermediaries involved in the sale of regular-premium participating (par) policies in Hong Kong is currently governed in a principles-based manner under the Guideline on Underwriting Long Term Insurance Business (Other than Class C Business) (GL16). While GL16 requires insurers to ensure that intermediary incentives do not conflict with the fair treatment of customers, it does not prescribe any quantitative limits on how much commission can be paid up front or distributed over the duration of the policy. In an effort to help close this gap, the Hong Kong Insurance Authority (IA) issued a new Practice Note, “Remuneration Structures of Authorised Insurers for Licensed Insurance Intermediaries for Participating Policies,” in July 2025. Effective for new business written on or after 1 January 2026, the Practice Note sets out minimum expectations for spreading intermediary remuneration so that sales incentives remain aligned with the long-term nature of par products.

Under the new framework, no more than 70% of the total contractual commission should be paid in the first policy year, and the remaining amount must be distributed in equal instalments over policy years two to six (or over the premium payment term if shorter). The rule applies on a substance-over-form basis across all distribution channels and covers every form of volume-linked remuneration as defined in the Practice Note, although certain payments that are demonstrably tied to “treating customers fairly” (TCF) metrics, for example bonus linked to persistency of the policies produced, may be exempted. Insurers are also required to establish robust governance, monitoring and recordkeeping to evidence ongoing compliance, with the IA noting that attempts to circumvent the spirit of the Practice Note could affect the fitness and properness of both insurers and individual intermediaries.

In this e-Alert, we consider the commercial, operational and financial implications of the new spreading requirement; assess whether Hong Kong insurers may need to reprice, redesign or merely reschedule existing commission structures; and compare the Hong Kong approach with similar remuneration regulations in markets such as the United Kingdom, Singapore and Malaysia.

FIGURE 1: KEY DETAILS OF THE PRACTICE NOTE

ITEM	DESCRIPTION
APPLICABLE PRODUCTS	▪ Applies to all regular-premium par policies (including riders) issued on or after 1 January 2026. ▪ Single-premium (single-pay) par policies and qualifying deferred annuity policies are not subject to the requirements. ▪ Applicable to agency and brokerage only. Bancassurance is exempt.
COMMISSION SPREADING REQUIREMENT	▪ No more than 70% of total commission should be paid in the first policy year (up front). ▪ The balance must be paid in equal instalments over policy years two to six, or over the premium payment term if shorter (minimum five-year spread). ▪ “Commission” is defined broadly on a substance-over-form basis, where the economic reality of a transaction rather than just its legal or formal structure is emphasised.
EFFECTIVE DATE	▪ Commencement date: 1 January 2026 ▪ Applies to par policies issued on or after that date.
KEY EXCEPTIONS	▪ Overriding commissions to agency managers, if the amount is tied to objective and nonfinancial TCF metrics (e.g., persistency, product mix, customer feedback). ▪ Volume-based bonus commissions, provided they also incorporate TCF metrics; if purely volume-driven, they must be spread. ▪ Fixed salary remuneration packages for agents (not linked to sales/premium). ▪ Bancassurance (insurance agencies that are authorised institutions under the Banking Ordinance), subject to GL16’s overarching fair-remuneration principles. ▪ Policies sold to professional investors (as defined under the Securities and Futures Ordinance), with robust client-classification controls.
GOVERNENCE AND RECORDKEEPING	▪ Insurers must implement controls, monitoring and supervisory frameworks to prevent abuse and ensure ongoing TCF compliance. ▪ Documentation (especially on TCF performance metrics) must be retained for seven years and be readily available for IA inspection.

Implications of the Practice Note

IMPACT ON PAR CI, SAVINGS AND PROTECTION PLANS

The new commission rule applies to all types of par products and is driven by how commissions are structured. In practical terms, the products most exposed are:

- Par policies packaged with critical illness (CI) benefits
- Par policies focusing on savings components
- Protection oriented par policies

The extent and nature of the financial impact on these products will be determined by the actions and responses adopted by the insurers. If the primary commission structure remains unchanged and a portion of the override or bonus is credibly reclassified as TCF-linked remuneration (and thus becomes exempt), the impact on key financial indicators (i.e., value of new business, solvency ratio and IFRS 17 profits) will be minimal. This is because the timing of these remunerations would largely remain the same. Any effect on value of new business, solvency ratio and IFRS 17 profits is then limited to minor timing shifts on the nonexempt share.

Significant impacts occur only if the overall commission scale is reduced or if a larger proportion is deferred to years two to six. In these cases, the most immediate outcome would be a reduction in the first-year new business strain. The impact on other key financial metrics, such as the value of new business and solvency ratio, will be determined by the net economic effect of having lower up-front commissions offset by higher trailing commissions paid in subsequent years. Under IFRS 17, the accounting treatment of commission reclassification must be considered. If these commissions remain classified as attributable expenses after the rearrangement, they will likely continue to be amortised in line with coverage units. However, it is important to note that any portion reclassified as non-attributable expense will be recognised immediately and directly impact IFRS 17 profits.

PRODUCT STRATEGY AND REPRICING OPTIONS

Because single-pay par policies are excluded from the Practice Note, insurers have several strategic options available to them. They can:

- Pivot towards single-pay or very short pay designs (bearing in mind the IA's warning that any repackaged, volume-linked "distribution fee" may still be caught by the cap).
- Reclassify part of existing overrides or bonuses as TCF-linked remuneration that is exempt from the 70% test (provided robust governance proves the metrics are predominantly nonfinancial).
- Reprice products to reduce commission paid in the first policy year and reallocate the savings into later policy years. This approach maintains the overall commission rate but shifts a greater portion of commissions to later years, thereby preserving overall financials while reducing agents' immediate cash flow.
- Opt to reduce first-year commissions directly, which would decrease new business strain and enhance solvency ratios, albeit at the cost of lower earnings for intermediaries.

TREATMENT OF OVERRIDING COMMISSION: THE TCF TEST

The Practice Note allows override or "management" commissions to be excluded from the 70% test only if they are "predominantly linked to nonfinancial TCF metrics." This is not a blanket carve-out, as insurers are likely to be required to document:

- The objective weight of TCF measures (e.g., persistency, complaint ratios, advice quality scores) in the override formula
- Evidence that any production-volume component is incidental rather than primary
- Board-approved governance showing periodic validation that the metrics remain fit for purpose

If the IA judges that volume-driven factors remain predominant, or that TCF metrics have been retrofitted to an essentially sales-based bonus, the full override must be included in the aggregate commission subject to spreading. Firms should, therefore, revise manager remuneration grids quickly, run back tests on historical data and establish audit trails to demonstrate compliance ahead of 1 January 2026.

OPERATIONAL AND FINANCIAL MODELLING READINESS

Whichever path is chosen, implementation will be complex. Commission systems must calculate multiple tranches, process clawbacks and integrate with other financial reporting processes such as accounting ledgers of IFRS 17. Illustration systems may require modifications to accurately represent updated payout structures, and hierarchy overrides or production bonuses should be examined to ensure compliance with the 70% threshold. This requires collaboration among multiple stakeholders, with significant involvement from channel teams to discuss how commission changes may affect intermediary productivity. Meanwhile, financial reporting teams, such as actuarial and finance, should reevaluate all key performance metrics and prepare materials for board approval, as these changes could impact shareholders' profit and policyholders' dividend expectations under the new economic framework. With a go-live date of 1 January 2026, many insurers, particularly those with large, high-equity par portfolios, face a substantial amount of work over the coming months.

Commission spreading in other territories

CAPS ON THE FIRST-YEAR COMMISSION

Commission spreading regulations have become a standard supervisory measure for insurance policies, with most major Asian markets implementing numerical caps on the portion of commission that can be paid up front in the first year. In many cases, these limits apply to all products, not just par products. The exact metric varies by jurisdiction. Singapore's Financial Advisers (Remuneration) Regulations cap first-year commission at 55% of the total commission payable over the life of the contract, with the balance released in equal instalments across at least six years and backed by an explicit clawback for early lapses

Malaysia follows the same policy objective but through much more granular rules. The regulator requires commissions to be paid over the premium payment term or a minimum of six years, with different commission caps for agents, bancassurance partners, brokers and financial advisers, and further variation by product type. For example, ordinary life/family Takaful with premium (paying term of 20 years or more) sold by agents is limited to 65% of first-year premium, with renewal ceilings of 40%, 26%, 20%, 10% and 10% of years two to six respectively, while single-premium products are subject to separate 3 – 10% maxima.

The United Kingdom, following the Retail Distribution Review, abolishes insurer-funded up-front commission on advised with-profit sales altogether; advisers must instead agree an "adviser charge" with customers, so the regulator no longer stipulates a numeric cap but requires the charge to pass a consumer-duty price and value test.

Taken together, these regimes show a clear international trend towards reducing the cash weight of first-year remuneration and smoothing distributor earnings over the life of the policy, albeit through different technical levers.

KEY DIFFERENCES IN HONG KONG

Hong Kong's forthcoming Practice Note on remuneration structure adopts the same broad policy with intent to temper front-loaded incentives, yet its design diverges in several important respects. Rather than capping first-year commission as a percentage of premium, the Note sets a 70/30 rule based on total contractual commission payable, allowing up to 70% to be paid in year one with the remaining 30% spread evenly over the next five years (or over the full, shorter premium payment term). This places Hong Kong at the more permissive end of the spectrum compared to Singapore's 55% limit but still delivers a meaningful reduction relative to current market practice.

The Hong Kong cap applies only to regular-premium par policies sold through agency or broker channels. Single-premium par contracts and qualifying deferred annuity policies remain outside scope, whereas other markets tend to apply a single set of rules across all par products regardless of channels.

These nuances mean that, while Hong Kong's framework is directionally aligned with global best practice, its specific mechanics give insurers slightly more flexibility in calibrating both product economics and distributor cash flow profiles.

FIGURE 2: REMUNERATION STRUCTURE REGULATORY REQUIREMENT OF DIFFERENT MARKETS

	HONG KONG	SINGAPORE	MALAYSIA	UK
COMMISSION SPREAD REQUIREMENT	Yes, applies to new business incepting on/after 1 January 2026.	Yes	Yes	No explicit limits on commission and commission spread. The Financial Conduct Authority (FCA) has published good and poor practice examples related to commission, but these are more principles based than rules based.
PRESCRIBED QUANTITATIVE LIMITS (YEAR-ONE CAP; % SPREAD)	▪ No more than 70% of total commission may be paid in the first policy year. ▪ The balance must be paid in equal instalments over policy year two to six, or over premium payment term if shorter (minimum five-year spread).	▪ Commission must be spread over a minimum of six years of the premium payment term (whichever is shorter). ▪ First-year commissions cannot exceed 55% of total commissions payable.	▪ Commissions for a policy/Takaful certificate must be paid over the minimum of the premium/Takaful contribution payment period or six years. ▪ Where the premium/Takaful contribution paying term is less than 20 years, the licensed person shall apply the prorating formula: premium payment term 20 x maximum allowable percentage. ▪ Maximum allowable percentage varies accordingly to distribution channels and product type.	▪ Commission to advisers prohibited on advised sales and so customer-agreed adviser charging only (can be product-facilitated). No FCA cap on adviser charge size, but must be agreed, disclosed and fair value.

FIGURE 2: REMUNERATION STRUCTURE REGULATORY REQUIREMENT OF DIFFERENT MARKETS (CONTINUED)

	HONG KONG	SINGAPORE	MALAYSIA	UK
PRODUCTS/CHANNEL IN SCOPE	▪ All regular-premium par policies (including riders). ▪ Single-premium par policies and qualifying deferred annuity policies are not subject to the requirement. ▪ Only applicable to agency and brokerage channel. Bancassurance is exempt.	▪ All individual regular-premium life policies (including riders) sold to nonaccredited investors. ▪ Single-premium policies, including recurring single-premium policies, are not subject to the requirement. ▪ All sales channels in scope.	▪ Applies to all intermediary channels (from 1 Jan 2018 for agents, financial advisers and brokers; from 1 January 2021 for bancassurance partners). ▪ Applicable to all pure protection products (term, CI, and medical and health) and investment-linked insurance//Takaful products.	▪ All life insurance products (not only with-profits). ▪ All retail sales channels (advised and non-advised). ▪ Legacy trail commission allowed only where the product/advice was arranged before 31 December 2012 and meets transitional criteria per Conduct of Business Sourcebook (COBS) 6.1A.
EFFECTIVE	New Business on/after 1 January 2026.	New Business on/after 1 January 2016.	Effective from 1 Jan 2018 onwards.	In force since 2013.

Observed market impact and what we can learn

THE SINGAPORE CASE

In Singapore, the commission spreading cap applies equally to agency, broker and bancassurance, so no major migration of business has followed its introduction. We are not aware of the introduction of cap having a significant impact on product design, although it could be the driver behind the packaging of high-net-worth universal life and indexed universal life (IUL) contracts as multi-pay recurring single premium plans instead of as regular premium products, as the cap on first year commissions does not apply to single premium product and top-ups.

For insurers, the practical work in Singapore would have centred on re-parameterising existing commission tables. As each channel (i.e., agency, broker and bancassurance) would likelyalready have their own scales, the main task was to adjust those scales to respect the cap rather than redesign the underlying architecture. Most companies should have been able to implement the change through routine table updates and testing within their current commission system.

Hong Kong is likely to require a deeper rebuild. Bancassurance and professional investor (PI) business fall outside the proposed spreading requirement, and any remuneration demonstrably linked to TCF metrics is also exempt. That means running parallel schedules: one for agency/broker sales subject to spreading, separate schedules for bancassurance and PI sales, and additional sub-tables to carve out TCF-linked payments. The extra layers of versioning, governance and data capture create a heavier operational lift than what we saw in Singapore.

What's next?

With the introduction of this Practice Note on remuneration structure and commission spreading guidance for par products, the full impact on product mix, adviser earnings and insurer operations remains to be seen.

What is certain, however, is that the IA's initiative signals a continued push to strengthen policyholder protection and foster sustainable growth in the territory's insurance market. As regulation evolves, insurers and distributors may need to revisit product structures, upgrade commission-tracking systems and recalibrate sales incentives by incorporating TCF metrics, but the ultimate direction of market behaviour will hinge on how firms balance commercial objectives with heightened regulatory expectations.

Solutions for a world at risk™

Milliman leverages deep expertise, actuarial rigor and advanced technology to develop solutions for a world at risk. We help clients in the public and private sectors navigate urgent, complex challenges—from extreme weather and market volatility to financial insecurity and rising health costs—so they can meet their business, financial and social objectives. Our solutions encompass insurance, financial services, healthcare, life sciences and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

milliman.com

CONTACT

George Leung
George.leung@milliman.com

Julian Man
Julian.man@milliman.com

Clement Bonnet
Clement.bonnet@milliman.com

Anson Leung
Anson.leung@milliman.com

Milliman