

Establishment of an Independent Insurance Authority

Licensing Regime

Q1 Will there be any changes to the licensing requirements of the intermediaries upon the establishment of an independent Insurance Authority (“IIA”)?

- A1**
- No. We have no intention to change the licensing requirements of the intermediaries when establishing the IIA.
 - Similar to past practices, the licensing requirements will be reviewed in line with the development of the insurance market and products, and the changing expectations of consumers.

Q2 Will intermediaries currently exempted from certain professional examinations be required to take the examinations again?

- A2**
- No.

Q3 How will intermediaries transit to the new licensing regime of the IIA?

- A3**
- Direct transit to the new regime for a 3-year period.
 - Current insurance intermediaries validly registered with the SROs would be deemed to be licensed with the IIA for three years upon the establishment of the IIA to allow sufficient time for the IIA to consider the licence applications and verify the particulars.
 - We will continue to engage the industry and the SROs in formulating the detailed transitional arrangements.

Q4 Will there be a drastic increase in the licence fees?

- A4**
- The licence fees for insurance intermediaries will be waived in the initial five years after the establishment of the IIA.
 - Licence fees will be collected from the sixth year onwards. The fee level is expected to be comparable to the current level.

Disciplinary Mechanism

Q5 Will there be stricter sanctions on the misconduct of intermediaries?

A5

- Reference will be made to existing disciplinary system of the three SROs. There is no intention to introduce stricter sanctions. Nevertheless, the three SROs are not fully aligned at present in regard to their disciplinary mechanism and sanctions. We will discuss with them with a view to effectively merging the three different regimes.

Regulation of Insurance Intermediary Activities of Banks

Q6 Will it still be a “dual regulatory regime” under the revised detailed proposal?

A6

- The revised proposal is, de facto, a “single regulator” approach, i.e. “one regulator for one industry”. “Industry” means the insurance industry and insurance business. The IIA will regulate the whole insurance industry as well as insurance sales business conducted by all financial institutions. The IIA is the primary and lead regulator for all insurance intermediaries and the sole authority for setting conduct standards and requirements, and imposing disciplinary sanctions.
- Inspection: These will be carried out jointly by the IIA and the HKMA.
- Investigation of complaints: The IIA will maintain close cooperation with the HKMA. (1) For general complaints, the IIA may, similar to past practices, invite the HKMA to investigate and submit the investigation report; (2) The IIA may also appoint staff to participate in HKMA’s investigations; (3) Where the IIA considers necessary, it may carry out investigation on its own or take over the investigation from the HKMA.
- If the HKMA carries out investigations on behalf of the IIA, it should submit the investigation report to IIA and be accountable to IIA. The HKMA has no power to impose disciplinary sanctions.

Levy on Policies

Q7 Will the introduction of policy levy affect the competitiveness of Hong Kong insurance industry?

A7

- We propose to cap the 0.1% levy on non-life insurance policies with annual premiums at or above HKD5 million

(i.e. maximum levy of HKD5,000) and life insurance policies with single or annualized premiums at or above HKD100,000 (i.e. maximum levy of HKD100). We consider that such levy level should not affect the competitiveness of Hong Kong insurance industry.

Governance

Q8 Can the industry participate in IIA's governance?

- A8**
- Yes.
 - The Governing Board will have one to two industry members.
 - There will be at least two Industry Advisory Committees (Life insurance and Non-life insurance) to advise the Board.
 - Separately, the IIA will also appoint an expert panel. Individual members of the panel may be invited by the IIA to assist in the disciplinary process by way of providing expert advice. The expert panel would comprise industry practitioners of different insurance businesses and backgrounds, including insurers and insurance intermediaries.

Q9 Will IIA's powers be excessive?

- A9**
- There will be appropriate checks and balances for the IIA, including:
 - The annual budget and corporate plan of the IIA should be subject to the approval of the Financial Secretary and its annual report should be tabled before the Legislative Council;
 - Insurers and insurance intermediaries could appeal to the proposed independent Insurance Appeals Tribunal against decisions (including disciplinary sanctions) made by IIA;
 - The work of the IIA would be overseen by the Audit Commission, Office of the Ombudsman and the Independent Commission Against Corruption, etc.

Adjustment of Levy and Licence Fee

Q10 How will the future levy rates and licence fees be revised? Will there be drastic increases? How will the industry be consulted?

- A10**
- All charges, including the levy rate, levy cap and licence fees (fixed and variable) will be set out in the subsidiary legislation. We will need to consult the industry before

introducing any proposed changes to the Legislative Council. The IIA could not impose any changes unilaterally.

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