

GUIDANCE NOTE

ON

THE CORPORATE GOVERNANCE OF

AUTHORIZED INSURERS

Office of the Commissioner of Insurance

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I INTRODUCTION

Corporate governance refers to the rules and practices put in place within a corporation for the management and control of its business and affairs. The value of good corporate governance lies in its contribution to both the prosperity and accountability of a business corporation.

2. Corporate governance is of particular importance in the insurance sector. The Insurance Authority (“IA”) believes that a high standard of corporate governance established by authorized insurers is an essential step in instilling the confidence of the insuring public and encouraging more stable and long term development of the insurance market of Hong Kong. An insurance industry with a high standard of corporate governance will also help to enhance the status of Hong Kong as a regional financial centre.

3. The Guidance Note therefore aims to enhance the integrity and general well-being of the insurance industry of Hong Kong through providing assistance to authorized insurers for the evaluation and formulation of their internal practices and procedures.

4. For clarification purposes, this Guidance Note sets out the minimum standard of corporate governance that is expected of authorized insurers. It shall not affect their legal rights and obligations.

II INTERPRETATION

5. In this Guidance Note, unless the context otherwise specifies: -

- (a) “Ordinance” means the Insurance Companies Ordinance, Chapter 41 of the Laws of Hong Kong;
- (b) “associate” in relation to any person, means: -
 - (i) the wife or husband or minor child (including a step-child) of that person;
 - (ii) any body corporate of which that person is a director;
 - (iii) any person who is an employee or partner of that person;

- (iv) if that person is a body corporate: -
- any director (other than an independent non-executive director) of that body corporate;
 - any subsidiary of that body corporate;
 - any director (other than an independent non-executive director) or employee of any such subsidiary;
- (c) “chief executive” has the meaning assigned to it by section 9(2) of the Ordinance;
- (d) “controller” has the meaning assigned to it by section 9 of the Ordinance, but does not include a Manager appointed pursuant to section 35(2)(b) thereof;
- (e) “director” includes any person occupying the position of director by whatever name called;
- (f) “group of companies” has the meaning assigned to it under section 2 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong; and
- (g) “small authorized insurer” refers to an insurer which was authorized under the Ordinance before the date of issue of this Guidance Note, and whose annual gross premium income in and total gross insurance liabilities as at the end of the immediate preceding financial year are both less than HK\$20 million. In this context, total gross insurance liabilities mean: -
- (i) General business insurer
- Total of the gross figures of unearned premiums, unexpired risks provision, outstanding claims provision (including claims incurred but not reported and the outstanding expenses of settling claims) and other insurance liabilities as per items (q)(i) and (q)(ii) under paragraph 16 of Part 4 of the Third Schedule to the Ordinance.

(ii) Long term business insurer

Total of the gross figures of long term business funds (excluding the amount required to be maintained under section 11 of the Insurance Companies (Margin of Solvency) Regulation), claims admitted but not paid and other insurance liabilities as per items (q)(i) and (q)(ii) under paragraph 16 of Part 4 of the Third Schedule to the Ordinance.

III APPLICATION

6. In general, authorized insurers incorporated in Hong Kong shall comply with this Guidance Note except: -

- (a) insurers authorized to carry on general insurance business which have ceased accepting new and renewal business and are in the course of running off their liabilities;
- (b) insurers authorized to carry on long term insurance business which have ceased accepting new business and are in the course of running off their liabilities, provided that the annual gross premium income arising from any renewal business of the authorized insurer concerned is less than HK\$20 million; and
- (c) captive insurers authorized under the Ordinance.

7. For an authorized insurer incorporated outside Hong Kong (“overseas insurer”), where 75% or more of the annual gross premium income pertains to its Hong Kong insurance business, it shall observe this Guidance Note, unless written consent for exemption has been obtained from the IA. Irrespective of the proportion of its Hong Kong insurance business, the IA expects an overseas insurer to strictly observe any applicable guidelines on corporate governance promulgated by its home regulatory authority. Where such guideline is of comparable standard to this Guidance Note, an overseas insurer that is required to observe this Guidance Note may apply in writing to the IA for exemption therefrom and furnish him with the particulars of the relevant guideline for consideration.

IV STRUCTURE OF SENIOR MANAGEMENT

8. There shall be clear lines of reporting and division of responsibilities within the organizational structure of an authorized insurer. Special attention should be paid to the composition of the senior management as follows: -

(a) Board of Directors

- (i) The Board of Directors of an authorized insurer (“Board”) shall comprise a suitable number of directors that enables it to carry out its functions effectively and efficiently. It shall review its size from time to time taking into account the activities and business volume of the authorized insurer. In general, there shall be a minimum of five directors (excluding any alternate director(s)). For small authorized insurers, the minimum number of directors shall be three.
- (ii) The Board shall have sufficient knowledge and relevant experience of insurance business to guide the authorized insurer and oversee its activities effectively. In this regard, at least one-third^(Note 1) of the directors shall possess such knowledge and experience. In addition, in view of the wide spectrum of professional knowledge required in administering the business and affairs of an authorized insurer, it is advisable for the Board to have expertise in other areas such as finance and investment.
- (iii) To enable the Board to make sound decisions in the best interests of the authorized insurer, independent and objective opinions are essential. It is necessary for the Board to maintain appropriate checks and balances against the influence of the management and

Note 1 - Illustrative Examples

<u>Total Number of Directors</u>	<u>Minimum Number of Directors Possessing Sufficient Insurance Knowledge & Experience</u>
3	1
4	2
6	2
7	3

controllers. A suitable number of independent non-executive directors on the Board will help achieve this purpose. As a general principle, with the exception of small authorized insurers, at least one-fifth^(Note 2) of the Board shall be composed of independent non-executive director(s). The independent non-executive directors shall be individuals with sufficient calibre and breadth of experience to perform the balancing function. They shall be independent of the management and free from any business or other relationships with the authorized insurer which could materially affect the exercise of their independent judgement.

(iv) The IA is not likely to be satisfied that a director is an independent non-executive director of an authorized insurer if: -

- he is an employee of that authorized insurer or of a company within the same group of companies as that of the authorized insurer;
- he is a director, other than an independent non-executive director, of a company within the same group of companies as that of the authorized insurer;
- he is a controller of that authorized insurer or of a company within the same group of companies as that of the authorized insurer;
- he is an associate of a director or controller of that authorized insurer; or

Note 2 – Illustrative Examples

<u>Total Number of Directors</u>	<u>Minimum Number of Independent Non-executive Directors</u>
3	0*
5	1
6	2
10	2
11	3

**Applicable to small authorized insurers only*

- he has significant financial association with that authorized insurer that could affect the impartiality of his independent judgement. For example, he has significant loans due from or to that authorized insurer. For the avoidance of doubt, remuneration for a director generally does not constitute significant financial association.

(b) *Chairman and Chief Executive*

- (i) The Chairman, as the head of the Board, plays an important role in ensuring the effective governance of an authorized insurer. As for the Chief Executive, he is, under the immediate authority of the Board, responsible for the conduct of the whole of the insurance business of the authorized insurer concerned. It is essential that there is a balance of power and authority of the Chairman and the Chief Executive so that neither one has unfettered powers of decision. As such, a person shall preferably not play the dual role of Chairman and Chief Executive. Where these two posts are combined in one person, appropriate controls shall be put in place to ensure that the management is sufficiently accountable to the Board.
- (ii) In case the Chief Executive of an authorized insurer is precluded from carrying out his duties as the Chief Executive because of sickness, absence from Hong Kong or for any other reasons, the Board shall ensure the proper functioning of the business operations of the authorized insurer. For example, a director may be entrusted to tend the affairs of the authorized insurer in the interim.

(c) *Appointed Actuary and Chief Executive*

To enable an Appointed Actuary to fulfil his obligations independently and effectively, he shall preferably not be the Chief Executive as well. Where a person holds these two positions simultaneously, sufficient safeguards must be built

in the internal control system of the authorized insurer concerned.

V ROLE AND RESPONSIBILITIES OF THE BOARD

9. The Board plays a pivotal role in the strategic planning and policy of an authorized insurer and in monitoring its management. In general, directors owe their fiduciary duties and duties of care to the relevant authorized insurer. They shall therefore act bona fide for the benefit of the relevant authorized insurer and exercise due care and diligence in carrying out their functions as directors. The main responsibilities of the Board include: -

- (a) Setting out clearly its responsibilities towards acceptance of and commitment to the specific corporate governance principles for its undertaking.
- (b) Setting out clearly its strategic objectives, the means of attaining them and the procedures for monitoring and evaluating the progress towards those objectives.
- (c) Distinguishing clearly between the responsibilities, accountabilities, decision-making, interaction and cooperation of the Board, Chairman, Chief Executive and the management.
- (d) Setting out clearly the nomination and appointment procedures, structure, functions, re-elections and balance between executive and independent non-executive directors of the Board in a transparent manner.
- (e) Selecting, monitoring and, when necessary, replacing key executives (e.g. the Chief Executive and the Financial Controller) and overseeing succession planning.
- (f) Reviewing the remuneration of the directors and the key executive(s).
- (g) Ensuring the integrity and effectiveness of the relevant authorized insurer's internal control system.

- (h) Establishing and monitoring independent risk management functions related to the type of business undertaken.
- (i) Setting out clearly policies regarding conflicts of interest, fair treatment of clients and information sharing with stakeholders.
- (j) Devising clear policies on private transactions, self-dealing, preferential treatment of favoured internal and external entities, covering trading losses and other inordinate trade practices of a non-arm's length nature.

10. With regard to independent non-executive directors, they mainly provide an independent perspective to, and a broader outlook on, the decision-making of the relevant authorized insurer. They may nevertheless assist the management with specialized expertise or ability. Their work may include, amongst other things, assisting the executive directors to set the corporate objectives and strategies, scrutinizing the approach of the management or attending to the affairs of the relevant authorized insurer's specialized committees (e.g. the Audit Committee).

VI BOARD MATTERS

11. The proper handling of Board matters is a prerequisite for the sound and prudent management of an authorized insurer. The major Board matters include: -

(a) Appointment

All of the directors and controllers appointed shall be fit and proper persons. In this regard, reference shall be made to the Guidance Note on "Fit and Proper" Criteria under the Insurance Companies Ordinance (Cap. 41) promulgated by the Office of the Commissioner of Insurance ("OCI").

(b) Information and Training

- (i) All directors shall be provided with accurate, relevant and timely information that enables them to fulfil their responsibilities effectively e.g. audited financial statements, budgets, market statistics and copies of

insurance legislation, etc. The directors shall also have recourse to independent professional advice at the expense of the relevant authorized insurer when performing their duties.

- (ii) A newly appointed director or Chief Executive shall be provided with suitable induction to ensure that he properly understands his duties and the procedures of Board meetings, etc. Existing directors and the Chief Executive shall also receive training as and when necessary so that they are kept abreast of, amongst other things, the legislative and market developments.

(c) Meetings

- (i) As the Board is collectively responsible for the overall strategic planning and management of the relevant authorized insurer, the directors shall meet from time to time to discuss the corporate affairs so as to respond to the market changes by devising suitable strategies. To effectively and efficiently discharge its functions, the Board shall convene a minimum of four meetings annually. At least two of those meetings shall be participated by the directors and not “paper” meetings or meetings by circulation. Full minutes of Board meetings shall be kept for record and reference purposes.
- (ii) Effective communication is the key to mutual understanding and better co-operation. The IA would therefore meet the Chief Executive and the director(s) of each authorized insurer as appropriate. The purpose is twofold : firstly, to enhance the IA’s better understanding of an authorized insurer’s operations, internal controls and future strategies, and secondly, to provide an opportunity for the IA to explain his policies or express his regulatory concerns as appropriate.

(d) Remuneration

The Board shall establish a proper remuneration policy for the directors and the senior management. It shall also periodically review and adjust the remuneration policy in accordance with changes in the corporate strategies and the business environment.

VII COMMITTEES

12. The Board shall establish an Audit Committee and if consider appropriate, establish other specialized committees to assist it in performing its functions. The types of the committees shall commensurate with the size of the authorized insurer, its business activities and practical need. The relevant committees shall comprise an appropriate number of directors possessing the necessary knowledge and expertise. The functions of some of the committees are: -

(a) Audit Committee

- (i) The Audit Committee shall have written terms of reference which clearly set out its authorities and duties. The precise duties of the Audit Committee may vary from one authorized insurer to another. Its principal function is however to assist the Board in fulfilling the latter's responsibilities by providing an independent review of the effectiveness of the financial reporting process and internal control system of the authorized insurer.
- (ii) To enable the Audit Committee to perform its functions independently of the management so as to guard against any irregularities, the Audit Committee shall comprise a minimum of three directors, including at least one independent non-executive director. In view of the nature of work of the Audit Committee, the majority of its members need to have financial, accounting or auditing knowledge.
- (iii) Where an authorized insurer is part of a group of companies which has established a Group Audit

Committee to perform the same function, it is not necessary for the authorized insurer concerned to separately establish its own Audit Committee.

- (iv) Small authorized insurers are exempted from establishing Audit Committees.

(b) *Investment Committee*

The Investment Committee which sets the investment strategies and policies oversees the investment portfolio of the authorized insurer. It shall monitor the investment results of the authorized insurer, regularly review and revise its investment strategies in the light of changes of the market environment. It shall also give due consideration to matching the assets of the authorized insurer with its liabilities as appropriate.

(c) *Nomination Committee*

The Nomination Committee nominates suitable candidates for appointment of the directors and other senior executives (e.g. the Chief Executive and the Financial Controller) of the authorized insurer. In making a nomination, it shall ensure, amongst other things, that the qualifications and experience of the nominee meet relevant statutory requirements.

(d) *Remuneration Committee*

The Remuneration Committee reviews and recommends the remuneration of senior management and other key personnel. It shall ensure that the remuneration package recommended for each person shall commensurate with, amongst others, his qualifications and experience, his performance, the authorized insurer's business results, business strategies and the prevailing market condition.

(e) *Underwriting Committee*

The Underwriting Committee formulates the underwriting policy of the authorized insurer. It sets out the criteria for assessing various types of insurance risks and determines

the premium policy of different insurance covers. It shall regularly review the underwriting and premium policies of the authorized insurer with due regard to relevant factors such as its business portfolio and the market development.

(f) *Claims Settlement Committee*

The Claims Settlement Committee devises the claims settling policy of the authorized insurer. It oversees the claims position of the authorized insurer and ensures that adequate claims reserves are made. It shall pay particular attention to significant claims cases or events which will give rise to a series of claims. The Claims Settlement Committee shall determine the circumstances under which the claims disputes shall be brought to its attention and decide how to deal with such claims disputes. It shall also oversee the implementation of the measures for combating fraudulent claims cases.

(g) *Reinsurance Committee*

The Reinsurance Committee ensures that adequate reinsurance arrangements are made for the authorized insurer's business. It peruses the proposed reinsurance arrangements prior to their execution, reviews the arrangements from time to time and, subject to the consent of the participating reinsurers, makes appropriate adjustments to those arrangements in the light of market development. It also assesses the effectiveness of the reinsurance programme for future reference.

VIII INTERNAL CONTROLS

13. An internal control system refers to a control system within an organization which oversees the proper conduct of its business and affairs. A sound internal control system is vital to effective corporate governance as it helps ensure the completeness of accounting records, the accuracy of financial information, the prevention of fraud and the prudent management of risks, etc. The Board shall therefore ensure that a sound internal control system is in place and the relevant procedures are properly followed.

14. The internal control system of an authorized insurer shall include the following aspects: -

(a) *Checks and Balances*

An authorized insurer shall institute policies and procedures such as requiring the separation of critical functions (e.g. risk management, underwriting, investments, claims handling, internal audit and compliance with statutory regulations), cross checking of documents, dual control of assets and double signatures on certain documents, etc. to ensure checks and balances within the company.

(b) *Risk Management*

For the corporate strategies to be effective, an authorized insurer shall devise and implement a comprehensive risk management policy. It helps to identify, quantify, prevent and control the various risks that the authorized insurer is encountering or may face. Examples of such risks are interest rate risk, stock market fluctuation risk, currency fluctuation risk, asset concentration risk, morbidity risk and price assumption risk. As a basic principle, adequate measures shall be taken to guard against the concentration of risks in a particular aspect or country.

(c) *Underwriting*

An authorized insurer shall adopt a prudent underwriting policy. Where necessary, independent professional valuation or advice shall be sought for a fair assessment of the risks in the underwriting process. The premiums shall also be set at a level that corresponds with the level of risks underwritten. In addition, the authorized insurer shall not underwrite any risks that are beyond its financial capability and insurance expertise.

(d) *Reserves for Insurance Liabilities*

An authorized insurer shall employ suitable methodology and assumptions to compute and make provision for its

insurance liabilities. Such methodology and assumptions shall be adopted having taken into account the business volume, claims experience, industry practice, types of insurance products concerned and the trend of court awards, if applicable. As such, it is essential for an authorized insurer to build up a data base that consists of the historical claims data and other information such as the loss frequency and the loss severity. An actuarial system shall be established to value the liabilities of long term insurance business and to ensure that there is a prudent and satisfactory relationship between the nature and term of the assets and the nature and term of its liabilities, if applicable. For an authorized insurer that carries on employees' compensation and/or motor insurance businesses, it shall also observe the Guidance Note on Actuarial Review of Insurance Liabilities in respect of Employees' Compensation and Motor Insurance Businesses (issued by the OCI) and arrange for the reserves of those classes of business to be subject to actuarial review as appropriate. Any reserving assumptions made shall be periodically reviewed to ensure that due recognition has been given to changes in the composition of the business portfolio, market and legislative developments, etc.

(e) *Investments*

(i) An authorized insurer shall have a written investment policy appropriate for its capital, surplus, type of business and liquidity needs. The Board has the core responsibility for formulating and assuring implementation of the investment policy. In formulating the investment policy, the Board shall consider factors such as investment risks, the rates of returns and diversification of investments. Besides, it shall establish and implement investment procedures to ensure that: -

- the relevant staff and any investment professionals engaged are competent, and that they fully understand the corporate investment objectives and adhere to the investment policy;

- periodic evaluations are conducted to assess the effectiveness of the investment policy and strategies;
 - timely actions are taken to identify any significant investment losses and make provision for them;
 - the asset cash flow position is regularly reviewed so that it is adequate to meet the liability cash flows under different economic conditions; and
 - any engagements of high risk investment tools such as derivatives shall be closely monitored.
- (ii) Where an authorized insurer, in the course of carrying on its business, also manages funds on behalf of its clients, it shall take practicable steps to ensure that the clients' funds are prudently managed and the relevant investment particulars are accurately recorded. A separate set of books and accounts for clients shall be maintained for the purpose.

(f) *Asset Management and Valuation*

An authorized insurer shall take every practicable step to safeguard its assets and ensure that the value of its assets is not less than the aggregate of the amount of its liabilities and the relevant amount within the meaning of section 10 of the Ordinance. The authorized insurer shall also determine the value of its assets and the amount of its liabilities in accordance with any applicable regulations made under section 59(1)(a) of the Ordinance.

(g) *Claims Settlement*

An authorized insurer shall explicitly set out policies and procedures for the settlement of claims. Any claims reported shall be promptly recorded and the relevant reserves shall be provided for accordingly. The amounts of estimated and actual claims shall be compared from time to time to ensure that adequate provisions are made for outstanding claims. Senior management shall also be

notified of large or fraudulent claims and take timely actions as appropriate.

(h) Reinsurance

An authorized insurer shall make adequate reinsurance arrangements for the risks underwritten. Through such arrangements, the exposures of the authorized insurer's business portfolio to huge losses owing to individual large risks and accumulations of losses could be reduced. The authorized insurer shall clearly understand its underwritten risks in order to look for suitable reinsurance products and determine the appropriate retention amounts, reinsurance limits, scopes of coverage and the participating reinsurers, etc. It shall also assess the financial stability of the participating reinsurers and periodically review the collectibility of the amounts due from them.

(i) Audit

(i) An authorized insurer shall have ongoing audit function (both internal and external) of a nature and scope appropriate to the nature and scale of its business. This includes ensuring compliance with all applicable policies and procedures and reviewing whether the authorized insurer's policies, practices and controls remain sufficient and appropriate for its business.

(ii) The internal auditor shall: -

- have unfettered access to the authorized insurer's entire business lines and support departments;
- be independent from the day-to-day operation and have status within the authorized insurer to ensure that senior management (i.e. the Board and the Chief Executive) is responsive to his recommendations and takes timely actions thereon;

- have sufficient resources and staff who are suitably trained and experienced in understanding and evaluating the business they are auditing;
 - employ a methodology that identifies any major risks that may be encountered by the authorized insurer and allocate its resources accordingly; and
 - prepare internal audit report to the Audit Committee.
- (iii) Where the authorized insurer is part of a group of companies, it is acceptable for its internal audit function to be performed by the group's internal auditor.
- (iv) A small authorized insurer is exempted from establishing the internal audit function.
- (v) The external auditor shall have an effective channel of communication with the internal auditor, the Board and the Audit Committee.
- (vi) The opinions and findings of both the internal and the external auditors shall be given due consideration by the Board. It shall take timely actions on the auditor(s)' recommendation(s), if appropriate, and to resolve any problems. The Board shall also monitor the progress in redressing any problems raised by the auditor(s). In case the Board's views are different from the auditor(s)' opinion, this shall be recorded for future reference.

(j) *Accounting Matters*

An authorized insurer shall clearly set out its policies and procedures about accounting matters, including the reconciliation of accounts, the preparation of control lists and the provision of other relevant information to facilitate the management's decision making process.

(k) *Declaration of Dividends*

An authorized insurer shall establish policy on the declaration of dividends to shareholders and participating policy holders, if applicable. Such policy shall comply with the relevant statutory requirements (e.g. Part IIA of the Companies Ordinance (Cap. 32)), fulfil the reasonable expectations of shareholders and participating policy holders, conform with the terms of any relevant insurance policies and be fair and equitable.

(l) *Actuarial Matters*

- (i) An authorized insurer that carries on long term business shall appoint an actuary pursuant to section 15(1)(b) of the Ordinance and comply with any regulations or guidelines issued by the OCI in connection with the appointed actuary system.
- (ii) An authorized insurer that carries on employees' compensation and/or motor insurance businesses shall, if applicable, observe the Guidance Note on Actuarial Review of Insurance Liabilities in respect of Employees' Compensation and Motor Insurance Businesses and engage an actuary to review the reserves in respect of those classes of business.

(m) *Suspicious Transactions*

An authorized insurer shall have formal procedures to identify potential suspicious transactions. In this regard, an authorized insurer that carries on long term business shall pay particular attention to the Guidance Note on Prevention of Money Laundering promulgated by the OCI for preventing and identifying any suspicious money laundering activities. There shall also be established lines of communication for reporting any suspicious transactions or activities to the senior management and/or the law enforcement authorities.

15. The Board shall review the internal control system from time to time and ensure that it is adequate for the nature and scale of the relevant authorized insurer's business.

16. The Board shall, upon the IA's request, submit detailed information on the internal control system of the relevant authorized insurer and also strengthen such system if so required by the IA.

IX COMPLIANCE WITH LAWS AND REGULATIONS

17. The Board shall ensure corporate compliance with all the relevant ordinances, regulations, guidance notes, industry standards and guidelines: -

(a) *Applicable Laws and Regulations*

Examples include the Ordinance (Cap. 41), the Companies Ordinance (Cap. 32), the Inland Revenue Ordinance (Cap. 112), the Personal Data (Privacy) Ordinance (Cap. 486), the Sex Discrimination Ordinance (Cap. 480), the Disability Discrimination Ordinance (Cap. 487), the Insurance Companies (General Business)(Valuation) Regulation and the Insurance Companies (Determination of Long Term Liabilities) Regulation.

(b) *Guidance Notes or Guidelines issued by the Relevant Regulators*

Apart from being regulated by the IA, an authorized insurer may also, depending on the nature of its business, subject to the regulation of, amongst others, the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited ("SEHK") and the Mandatory Provident Fund Schemes Authority. The authorized insurer shall also need to comply with the guidance notes or guidelines issued by the relevant regulators that are applicable to it. For example, the Guidance Note on "Fit and Proper" Criteria under the Insurance Companies Ordinance (Cap. 41) and the Code of Best Practice within the Listing Rules (issued by the SEHK).

(c) ***Illustration Standards and Codes issued by the Industry Bodies***

Examples are The Code of Conduct for Insurers and The Code of Practice for the Administration of Insurance Agents both issued by The Hong Kong Federation of Insurers.

18. Pursuant to section 57 of the Ordinance, a director or controller of an authorized insurer commits the like offence under the Ordinance as the authorized insurer if the offence is committed with his consent or connivance, or because of his neglect. In such case, the director or controller is also liable to the penalties as prescribed in the relevant provisions of the Ordinance.

19. An authorized insurer is encouraged to appoint a compliance officer to oversee the compliance by it and its staff with the relevant laws, regulations, guidance notes and industry standards and codes of practice. The compliance officer shall also report to the Board at regular intervals.

X SERVICING OF CLIENTS

20. Insurance products have become more sophisticated and are now commonly used as investment vehicles by the policy holders. To enhance transparency of these products and to better service clients, the Board shall fulfil, amongst others, the objectives of improving clients' awareness of their rights and obligations under their insurance policies and enhancing their knowledge on insurance products.

21. The Board shall clearly set out the policy regarding the fair treatment of clients and monitor its implementation, particularly the disclosure of policy benefits, risks and responsibilities; pricing of insurance policies; handling of clients' money and settling of insurance claims, etc.

22. The Board shall have fully documented internal procedures for resolving disputes between clients and the relevant authorized insurer or other person(s) (e.g. an insurance agent) acting on its behalf.

23. The Board shall also establish clear complaints procedures and communicate the same to clients (including the other channels for making complaints) upon request.

XI REVIEW OF GUIDANCE NOTE

24. This Guidance Note is promulgated based on the prevailing environment of the insurance industry. It will be regularly reviewed and revised in the light of market developments.

XII ENQUIRIES

25. For enquiries about this Guidance Note, please contact the OCI. With regard to enquiries about the legislation, other than the Ordinance, referred to in this Guidance Note, please contact the relevant regulatory authorities (e.g. the Companies Registry) or consult legal advisers.

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