

ILens – Issue No. 37

OCI's Note

In Hong Kong, it is a statutory requirement that all motor vehicles must be insured against liabilities in respect of third party death or bodily injuries caused by traffic accidents. Accordingly, motor insurance is one of the key non-life insurance products in the market. Mr Jimmy Poon, Chairman of the General Insurance Council of The Hong Kong Federation of Insurers shares with our readers the key areas of motor insurance and the points to note when lodging claims.

“I Lens” would like to hear from you

If there are any specific subjects you would like to read about or if you have any comments on this publication, please write to:

Office of the Commissioner of Insurance
21st Floor, Queensway Government Offices,
66 Queensway, Hong Kong.

Tel : (852) 2867 2565
Fax : (852) 2869 0252
E-mail : iamail@oci.gov.hk
Website : <http://www.oci.gov.hk>

Feature

Mr. Poon Wing Fai Jimmy is currently Chairman of the General Insurance Council (GIC), the Governing Committee Member and the Accident Insurance Association Committee Member of the Hong Kong Federation of Insurers (HKFI). Mr. Poon also represents GIC in the Road Safety Council and the Insurance Training Board as Member.

In addition, Mr. Poon has been actively participating in other insurance associations and various industry bodies. He is currently appointed as Chairman of the Quality Taxi Services Steering Committee, Committee Member of the Transportation Advisory Committee, Council Member of the Motor Insurers' Bureau of Hong Kong as well as Advisory Board Member of the Hong Kong Export Credit Insurance Corporation.

Mr. Poon, the Chief Executive Officer of Dah Sing Insurance Company (1976) Limited, is responsible for the development of general insurance business of Dah Sing Financial Group in Hong Kong. Mr. Poon holds an ANZII (Assoc) qualification and a Master of Business Management, with over 25 years of experience in general insurance and expertise in underwriting, reinsurance, product development, sales and marketing.

Motor Insurance – From the Consumer's Perspective

Mr. Poon Wing Fai Jimmy

Hong Kong is one of the most hectic cities in the world. Besides the skyscrapers at Central Business Districts and stunning countryside, Hong Kong is well-connected through its sophisticated transport infrastructure. However, the roads are still packed with cars. In 2010, there were over 620,000 licensed in Hong Kong, of which over 70% were private cars and motorcycles. Our public transport system, excluding the railway, also brought some 6.7 million passenger journeys around Hong Kong every day.

In such a city with heavy traffic, accidents do happen. That is why, regardless of drivers or merely passengers, motor insurances concern every one of us.

MOTOR INSURANCE IN HONG KONG

Motor insurance is a legal requirement in Hong Kong. All motor vehicles for use on road have to be insured. Under the Motor Vehicles Insurance (Third Party Risks) Ordinance, all vehicles must be insured against claims for injuring other people involving the use of the vehicle on a road. In practice, most motor insurances nowadays cover not only third party bodily injury but also third party property damage, and are named third party motor insurance. Some others even extend to cover damages to the insured vehicles, more often known as comprehensive motor insurance.

MOTOR INSURANCE AT WORK

The Service Provider

There are many ways to arrange motor insurance nowadays – from insurance agents and brokers, to banks (as agents) and insurance companies direct. For customers who newly buy a car, it is common that their car dealers refer them to their insurance intermediaries for motor insurance, or even they themselves are already licensed as insurance intermediaries. Customers should in any case make sure that their intermediaries are properly registered to arrange the insurance. In case of any doubt, customers may check with the intermediaries' registration status on the websites provided by various insurance related institutions such as the Hong Kong Federation of Insurers, the Hong Kong

Confederation of Insurance Brokers, and the Professional Insurance Brokers Association, etc.

Selecting the right insurance

Before taking out insurance, customers may want to consider the following:

Being a compulsory insurance in nature, the insurance coverage among different insurers are similar at large. Third party insurance offered by Hong Kong insurers often provides cover for liability in respect of accidental death and bodily injury of people and loss of or damage to physical properties involved in an accident, including the liability towards the passengers, but excluding the drivers and the insured car. For comprehensive insurance, it covers liability in respect of third party bodily injury and property damage in an accident, as well as the insured cars' own damage. In terms of the limit of cover, HK\$100million for third party bodily injury is the minimum requirement by law.

With regard to the insurance premium and the policy excess, a few areas should be taken into consideration.

Motor insurance premium varies from insurer to insurer. All insurers determine the premium based on a few common factors such as make and model, year of manufacture and the cubic capacity of the vehicle. Other factors in relation to drivers include, for instance, driving experience, past claim records, occupation of the drivers, etc, also come into play. For comprehensive insurance, the car value, or the Sum Insured, will be considered as well.

No Claims Discount (NCD), or No Claims Bonus (NCB), is a special feature in motor insurance that reduces the motor insurance premiums of those car owners who have made no claim against their policy. When customers build up a claim free driving history in their names through the policy year, they could benefit from the discount received on their insurance premium as a reward upon insurance renewal. The customers could get up to 60% discount if they have had a clean claim record for 5 consecutive years or more. Once a claim is made, customers will lose their entire NCD or have their NCD scaled back.

One should not forget the policy excess which is of the same importance as the premium when taking out motor insurance. Excess is the first portion that customers have to bear and contribute to the replacement or repair cost. There are different types of excess in motor insurance, and their application depends on the types of insurance coverage. To name a few, the excess for third party property damage, inexperienced and or young drivers will be found in both third party and comprehensive insurance, whereas the excess for insured car's own damage, theft, un-named drivers and parking, will be found in comprehensive insurance.

As the market blossoms, insurance companies offer something more than just competitive premium pricing. They introduce many extensions on top of the ordinary comprehensive insurance cover. To name a few:

1. NCD Protector – for claims not more than a certain amount, customers could maintain their NCD
2. Windscreen cover – the windscreen claims will not affect the NCD
3. “New” for “Old” Cover – no depreciation in car value will be applied in the

case of total loss of the vehicle

4. Emergency Motor Assistance Service – a wide array of motor assistance services from emergency towing to substitute car rental

Insurance Application and Policy Issuance

Enrolling in insurance has never been that easy before – customers could apply insurance in person, by fax or even online. However it is of utmost importance, regardless of what channels they use, that customers declare all material facts that might affect insurance underwriting. If there is any doubt, do check with the intermediaries or simply disclose anything in relation to the arrangement of motor insurance to the insurers, or else it might jeopardise the claims in future.

In most cases where car trade is involved, upon the insurer's acceptance of the application, customers will be provided with the motor cover note for a short-term insurance cover (normally not more than 30 days). Customers will, within 30 days, furnish the insurer with the vehicle registration documents, their HKID copies and driving licences so that the insurer could issue the corresponding formal policy document which will be valid for one year. Irrespective of whether it is a cover note or an insurance policy, either one of them functions as official legal agreements that customers should review and make sure the information contained is correct. Since it is illegal to use the car in the absence of third party insurance cover, do follow up with the insurers direct if the policy documents are not received in a timely manner.

Accidents and Claims

There are accidents and there are insurances. Whenever customers have an accident, there are a few DOs and DON'Ts:

DOs

1. write down the plate number of the other car(s) involved, if any;
2. exchange the personal information with the other driver(s) at a safe place;
3. with the permission of the police, or for cases that involve no bodily injury, move the car away so as not to block the traffic;
4. report to the insurance company as soon as possible.

DON'Ts

1. argue with the other driver(s) the cause of accidents and responsibility on the spot;
2. admit any liability or pay any compensation before notifying the insurance company;
3. repair the damaged car without permission from the insurance company.

When it comes to the own damage claim on the insured car, customers may mistakenly expect the compensation will be the car value originally insured. Yet it might not be the case. Customers should furnish the insurers with the

adjusted sum insured to reflect the actual market value of the car by taking into consideration the depreciation.

As the property damage claim is handled on an indemnity basis, insurance company will only pay for the market value of the lost / damaged property at the time of accident. The insurance company will take the depreciation of the insured car into account. In any case, the maximum liability for the own damage claim is limited to the market value of the car if it is a total-loss situation, subject to the original insured value.

Hence, if the repair cost is larger than the market value of the damaged car, or is beyond economic repair, the insurance company will pay the market value of the car as if it is a total-loss case, and retain the damaged car as salvage.

Given cars depreciate over time, it is often seen that customers prefer to replace the damaged items with brand-new spare parts during repair after the accidents. In such case, customers should be noted that they have to bear the cost difference between the used and the new spare parts.

Customers Protection and Rights

In addition to the endeavour of Office of the Commissioner of Insurance to ensure the solvency of the insurers to meet their policy liability, there are other organisations which are available to protect the public.

The Motor Insurers' Bureau of Hong Kong is an organisation run by motor insurers in Hong Kong to assist the victims of bodily injuries or death and meet

their claims if:

- the owner or the driver has no valid insurance or is in breach of the policy terms;
- the car liable to the accident cannot be located; or
- the insurance company fails to meet the policy liability

The Insurance Claims Complaints Bureau (“ICCB”), is also established to receive complaints on claims on personal insurance policies (but not including third party insurance) and to facilitate the settlement of such complaints, disputes or claims.

THE FUTURE

As many cross-border infrastructure projects with the Mainland are underway, traffic is expected to be getting busier in the coming years. Some Hong Kong motor insurances are extended to cover own damage in Guangdong province already. Customers should however be aware of the potential legal liability which may not be covered by such motor insurance when there are road traffic accidents involving third party bodily injuries in the Mainland. Customers are encouraged to arrange third party liability insurances to ensure they have enough insurance protection.

With the advance in technology, some European countries with wider

geographical coverage have developed the “Pay-As-You-Drive” motor insurance with the aid of the Global Positioning System (GPS) Device. As the market continues to develop, customers can expect more choices and better services in motor insurance.

Note: This newsletter aims to provide readers with the general knowledge of insurance. Any views expressed in the feature article represent the personal views of the writer, which may not be necessarily shared by the OCI.

Exchange

The 11th Joint Meeting of the Insurance Regulators of Guangdong, Hong Kong, Macao and Shenzhen

The 11th Joint Meeting of the Insurance Regulators of Guangdong, Hong Kong, Macao and Shenzhen was held in Shenzhen on 4 November 2011. During the meeting, the four regulators exchanged views on the latest market development in the four places, as well as cooperation opportunities arising from the Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020) and the development plans for Qianhai and Hengqin. In addition, the four regulators shared their experiences in tackling insurance fraud and explored areas for further cooperation. There were also discussions on the means to develop and maintain an effective and high calibre insurance supervision team.

Legal and Technical Corner

Policyholders' Protection Fund in Hong Kong

We have considered all the comments received during the public consultation exercise. The quality of the feedback is very high, and covers key areas like the scope of the Policyholders' Protection Fund, the level of compensation and the funding mechanism etc. We will announce the Consultation Conclusion and report to the Legislative Council Panel on Financial Affairs shortly. Thereafter, we will start to prepare the draft legislation.

Memorandum of Understanding on Insurance Regulatory Cooperation with the Central Bank of Ireland

The Insurance Authority concluded a Memorandum of Understanding on mutual assistance and exchange of information with the Central Bank of Ireland on 23 August 2011. The Memorandum of Understanding seeks to provide an effective and efficient framework for insurance supervisory cooperation, including channels for communication, provision of assistance and exchange of information.

Anti-Money Laundering Seminars for the Insurance Industry

To enhance the insurance industry's awareness and understanding of the impacts of money laundering and terrorist financing crimes, the OCI, in collaboration

with the Financial Services and the Treasury Bureau and the Joint Financial Intelligence Unit, has conducted two seminars on 15 and 22 December 2011 .

Participants in the events included chief executives, training managers, compliance officers, agents and technical representatives of insurance institutions. There were approximately 360 participants. They learned about the latest developments in the anti-money laundering and counter-terrorist financing (“AML/CTF”) regime, the statutory obligations under the AML/CTF Ordinance including the requirements of conducting customer due diligence and record keeping, and the trends and issues related to suspicious transaction reporting. In addition, participants were able to hear from their peers how to put in place an effective compliance regime and the opportunities and challenges involved.

The last part of each seminar was a discussion session. Participants raised questions and provided comments on the statutory obligations and criminal liability under the AML/CTF Ordinance.

News Summary

Calendar of Events

Date	Event
23.8.2011	The OCI and the Central Bank of Ireland concluded a memorandum of understanding to strengthen supervisory cooperation and exchange of information between the two regulators.
3.10.2011	Annual statistics on the Hong Kong's insurance business for 2010, including statistics on individual insurers, were released.
7.10.2011	The Commissioner of Insurance attended the AR Symposium held in Singapore.
4.11.2011	The OCI participated in the 11th Joint Meeting of the Insurance Regulators of Guangdong, Hong Kong, Macao and Shenzhen held in Shenzhen.
25.11.2011	The OCI participated in a seminar on regional cooperation against insurance fraud organised by China Insurance Regulatory Commission.
2.12.2011	Provisional insurance statistics on Hong Kong's General Business and Long Term Business for the first three quarters of 2011 were released.
15 & 22.12.2011	The Financial Services and the Treasury Bureau, the Joint Financial Intelligence Unit and the OCI jointly organized anti-money laundering seminars for the insurance industry in Hong Kong.

New Authorisations

Date of Authorisation	Name of Insurer	Place of Incorporation	Type of Business
------------------------------	------------------------	-------------------------------	-------------------------

1.11.2011	Gan Eurocourtage	France	General
23.12.2011	Allianz Global Corporate & Specialty AG	Germany	General

Withdrawal of Authorisations

Date of Withdrawal	Name of Insurer	Place of Incorporation	Type of Business
10.11.2011	Phoenix & London Assurance Limited	United Kingdom	Long Term
19.12.2011	Dah Sing Insurance Company Limited	Bermuda	General
22.12.2011	The Wing On Fire & Marine Insurance Company Limited	Hong Kong	General

Change of Name of Insurers

Date of Change	Name of Insurer	Place of Incorporation	Type of Business
26.10.2011	Partner Reinsurance Europe Limited to Partner Reinsurance Europe Public Limited Company	Ireland	General
3.11.2011	GAN Assurances IARD Compagnie Francaise D'Assurances Et De Reassurances Incendie, Accidents Et	France	General

	Risques Divers to GAN Assurances		
--	--	--	--

Portfolio Transfer

Date	Event
8.12.2011	The transfer of general business carried on in Hong Kong by Dah Sing Insurance Company Limited to Dah Sing Insurance Company (1976) Limited was approved under section 25D of the Insurance Companies Ordinance.

Market Performance

Market Performance of the Hong Kong Insurance Industry in the First Three Quarters of 2011

Total gross premiums of the Hong Kong insurance industry in the first three quarters of 2011 amounted to \$172.8 billion, representing an increase of 12.6% over the corresponding period in 2010.

In the first three quarters of 2011, gross and net premiums of general insurance business rose by 12.5% to \$27.4 billion and 10.1% to \$19.0 billion respectively compared with the corresponding period in 2010. Overall underwriting profit also increased from \$1.7 billion to \$2.1 billion.

On direct business, gross and net premiums gained 7.9% to \$20.5 billion and 7.3% to \$15.1 billion respectively in the first three quarters of 2011 compared with the corresponding period in 2010, propelled again by Accident & Health business (comprising Medical business), the gross and net premiums of which were \$7.3 billion and \$6.1 billion respectively. General Liability business (comprising Employees' Compensation business) and Motor Vehicle business also contributed to the premium growth. The former recorded gross and net premiums of \$5.3 billion and \$3.8 billion respectively, while the latter recorded \$2.5 billion and \$2.0 billion respectively. However, as a result of the slowdown in property transactions, gross and net premiums of Pecuniary Loss business (comprising Mortgage Guarantee business) dropped by 20.6% to \$1,043 million and 31.9% to \$585 million respectively.

The underwriting profit of direct business reduced to \$1.3 billion in the first

three quarters of 2011 from \$1.4 billion in the corresponding period of 2010. Poor claims experience led to a significant fall in the underwriting profit of Motor Vehicle business, Accident & Health business and General Liability business from \$125 million to \$2 million, from \$388 million to \$292 million and from \$137 million to \$63 million respectively, offsetting the increase in underwriting profit of Property Damage business from \$211 million to \$370 million.

On reinsurance inward business, gross and net premiums grew from \$5.4 billion to \$6.9 billion and from \$3.1 billion to \$3.8 billion respectively in the first three quarters of 2011 compared with the corresponding period in 2010, primarily attributable to the premium increase in Property Damage business. The strong premium growth also drove the underwriting profit to increase from \$288 million to \$752 million.

Total revenue premiums of long term in-force business was \$145.4 billion in the first three quarters of 2011, increasing by 12.6% over the same period of 2010.

Revenue premiums of Individual Life and Annuity (Non-Linked) business and Individual Life and Annuity (Linked) business increased by 21.0% to \$96.2 billion and by 20.2% to \$37.0 billion respectively. Contributions of Retirement Scheme business plunged by 40.8% to \$10.0 billion.

New office premiums (excluding Retirement Scheme business) of long term business for the first three quarters of 2011 increased significantly by 33.4% to \$56.6 billion compared with the same period of 2010. Both Individual Life and Annuity (Non-Linked) and Individual Life and Annuity (Linked) business

recorded significant premium growth, with the former increased by 33.6% to \$39.4 billion and the latter increased by 33.3% to \$16.9 billion in terms of new office premiums.

In respect of new policies issued to Mainland visitors, office premiums amounted to \$4.6 billion, representing 8.2% of the total new office premiums (\$56.3 billion) for individual business in the first three quarters of 2011.

Provisional Statistics on Hong Kong Insurance Business:

January-September 2011

Insurance Market Structure as at 30 September 2011

Number of Authorised Insurers		Number of Insurance Intermediaries			
Long Term	46	Authorised Insurance Brokers	585	Chief Executives and Technical Representatives of Authorised Insurance Brokers	8,599
General	98	Registered Insurance Agents	36,150	Responsible Officers and Technical Representatives of Registered Insurance Agents	27,124
Composite	20				
Total	164	Total	36,735		35,723

Highlights	2011 First Three Quarters (HK\$ m)	2010 First Three Quarters (HK\$ m)
General Business		
Gross Premiums	27,419	24,371
Net Premiums	18,973	17,237
Underwriting Profit/(Loss)	2,094	1,712
Long Term Business		
Revenue Premiums (In-force Business)	145,391	129,084
New Business* Office Premiums (excluding Retirement Scheme)	56,567	42,412

Composition of Premiums by Class of Business

General Business by Premiums	Gross	Long Term Business (In-force Business) by Revenue Premiums	
Accident & Health	28%	Individual Life & Annuity (Non-linked)	66.1%
Motor Vehicle	10%	Individual Life & Annuity (Linked)	25.5%
Goods in Transit	4%	Other Individual Business	0.4%
Property Damage	23%	Retirement Scheme Group Business	6.9%
General Liability	22%	Non-retirement Scheme Group Business	1.1%
Pecuniary Loss	6%		
Others	7%		

Premiums by Class of Business

Gross Premiums of General Business	(HK \$m)	Revenue Premiums of Long Term Business (In-force Business)	(HK \$m)
Accident & Health	7,679	Individual Life & Annuity (Non-linked)	96,160
Motor Vehicle	2,759	Individual Life & Annuity (Linked)	37,034
Goods in Transit	1,062	Other Individual Business	615
Property Damage	6,256	Retirement Scheme Group Business	10,015
General Liability	6,150	Non-retirement Scheme Group Business	1,567
Pecuniary Loss	1,675		
Others	1,838		
Total	27,419	Total	145,391

* New business includes single revenue premiums and annualised premiums, but excludes all contributions from retirement scheme business.

Statistics contained herein are compiled from statistical information provided by insurers in their quarterly returns to the Insurance Authority. The statistics are provisional and unaudited, and prepared on a calendar year basis. There is therefore a possibility of amendments before the final audited figures are produced. While due care is taken in the compilation of the statistics, the Insurance Authority disclaims any warranties or representations of any kind with regard to such information. More details of the provisional statistics are available for downloading at the OCI's website.