

## Chairman's message



Dear Members,

The countdown has begun. On 23 September 2019 we will hand over our SRO responsibilities to the IA. Currently, and after a series of brisk consultations by the IA with the industry, most of the regulations are out for public consultation. In

the meantime, CIB is working out the details of the actual transition with the IA. Very busy days ahead for CIB's secretariat, and for everyone involved. Sincere thanks you all for your input during the consultation process. Most of your comments have been included in our reply, or have been discussed with the IA for their consideration. If you wish to read our responses to public consultation papers, copies are available from the secretariat.

The insurance market has hardened after many years and, in some lines of business, capacity has retracted. Whereas disintermediation is taking place in some segments of the retail business, the role of intermediaries has actually become even more significant due to the current geopolitical climate, trade embargoes, economic sanctions, increase in sabotage, terrorism and political violence and extreme weather as a result of climate change. In consequence, brokers' engagements with clients – and their advisory role – has attained greater importance.

Earlier this year I attended the World Federation of Insurance Intermediaries' World Council Meeting in Rome. The sentiment there was similar, and issues discussed included digitalisation and disintermediation, the role and remuneration of intermediaries, Insuretech and Risk-Based Capital. I also went to Budapest as a member of the HKTDC delegation, a Belt and Road initiative. This represents a huge opportunity for General Insurance brokers in Hong Kong who possess the ability to deal with complex and multi-line, multi-jurisdiction programmes.

At CIB, we are considering what Continuing Professional Development (CPD) courses are most relevant and of interest to our members. Later in the year we will announce more FIS-approved and other CPD courses covering technical subjects, claims and other insurance management related topics. Again, thank you for your feedback. It helps us set the bar higher every time.

As we prepare for the upcoming change, I wish you and your loved ones a happy summer holiday. ■

**B.S. Rath**  
Chairman | July 2019

## A new beginning for CIB

Recently, Clement Cheung, CEO of the Insurance Authority (IA), and a number of his senior colleagues, indicated that they hope CIB will continue to act as the professional representative voice of the broking community in Hong Kong. In this important role, we will continue to reflect brokers' views and present their feedback on industry developments and proposals. The CIB General Committee sees this function as critical to the future wellbeing of insurance brokers and their need to have a powerful voice recognised by the industry, the regulators and by government.

Speaking at the CIB Annual Conference in late 2018, Mr Cheung said:

*In my view, there is a substantial and sustainable role for you to play in our common mission of promoting Hong Kong to be a global risk management centre and a regional insurance hub. Without usurping your prerogatives, let us share a few thoughts...*

*Firstly, CIB should continue to discharge the duty of gathering and reflecting industry feedback on regulatory policies and practices. This is of utmost importance since*

*the IA will need time to build up a set of corporate culture and enforcement protocols.*

*Finally, faced with a rapidly evolving environment and an increasingly exotic portfolio of risks, CIB could serve as a helpful guide for the industry on how to overcome challenges and adapt to change. Since one of the presentations today is focusing on Insurtech, I think you are already converted.*

For the past 25 years, CIB has been viewed primarily as an SRO regulator. However, in addition to that role, we have been active professional representatives and lobbyists. This stemmed from the function carried out by the Hong Kong Insurance Brokers Association when it was formed in 1979. Now that the IA has expressed its wish for CIB to continue representing brokers' needs in the future, we have entered into discussions with our legal advisors in order to rewrite the CIB Articles of Association. We shall excise the regulatory obligations and reframe the professional, representational and advisory provisions in a positive and up-to-date format. This clearly sets CIB on the road to a new beginning, and to a brighter future for members. ■

## Consultation on the draft Code of Conduct

Over the course of the last few months, we have been assiduously studying the draft “**Code of Conduct for Licensed Insurance Brokers**” as presented by the IA. In what is unequivocally our most important submission to the IA so far, we have provided detailed feedback and made numerous strong recommendations on points of practical application and clarity. Overall, we find the draft to be replete with vague references, which could lead to misinterpretation or obfuscation.

In our recommendations, we outlined five key points that we would like the IA to address. The first is that the document should provide a clearer definition of what a “client/customer” is, rather than relating it to the definition of “policy holder”. A “policy holder”, according to the Insurance Ordinance, can include a wide range of people with whom an insurance broker has had no dealings whatsoever. A “policy holder” could be one of many insured parties under a policy who remains completely unknown to a broker, or are unnamed and constantly changing. We feel it is inappropriate and unfair for insurance brokers to be liable for individuals who they have never encountered before.

A second issue is the Code’s requirement to obtain a signed client agreement in all instances. This is problematic as brokers have no bearing over whether a client signs and returns an agreement. And as our members know from experience, most clients, in fact, do not. We have argued to the IA that this requirement is impractical and we have proposed adopting a tacit acceptance basis whereby the client is deemed to have agreed to the TOBA terms by his or her instruction to proceed.

We have also pointed out that the Code itself could be deemed unhelpful to a degree because it contains provisions stating that the Code is not exhaustive. This is confusing as it offers no clear guidance to licensed brokers. A further provision relates to sourcing a sufficient range of insurance products from a number of different insurers. We have suggested to the IA that this simply isn’t practical for our members because certain products are only offered by a limited number of insurers. We have suggested that this provision be amended to sourcing where practicable a range of relevant insurance products offered by insurers available on the market. Also, the provisions of Footnote 4 are too vague and subjective as there is no market standard.

Another of the recommendations we have made concerns the need for brokers to conduct due diligence on an insurer. Firstly, many of our members simply do not have the resources to conduct due diligence. But more importantly, all insurers in Hong Kong are regulated by the IA, or a similar body in their home jurisdiction. We have urged them to address this issue in the Code.

As we have in the past, we will continue to urge the IA to take a reasonable and practical approach so our members are not bundled together with others in the industry. We recognise that one size definitely does not fit all. In this, as in all issues, we will continue to give clear, direct feedback to the IA to achieve the best outcome for our members. ■

## Rules on other important regulatory requirements

When the IA released its paper titled “Insurance Rules on Financial and Other Requirements for Licensed Insurance Broker Companies”, we subjected it to our usual high levels of scrutiny. As a result, CIB has been successful in getting the draft changed for the benefit of brokers in Hong Kong. Here are the four most important amendments:

### Minimum paid-up share capital and net assets

The IA proposed an immediate increase to HK\$500,000, but at CIB we recognised the difficulty this would pose to our smaller members. Realising that the IA was determined to increase the amount, we therefore proposed spreading the increased limits incrementally, and are delighted to report that the IA has agreed to the following schedule:

REVISED PHASED INCREASE	HK\$
From commencement date of the new regime to 31 December 2021	100,000
From 1 January 2022 to 31 December 2023	300,000
From 1 January 2024 onwards	500,000

### Professional indemnity insurance (PII)

We realise that professional indemnity insurance is a major cost factor for many of our members. So when the IA decided

to raise the minimum limits of indemnity simply because they had been fixed a number of years ago, CIB argued that the original rationale has remained unchanged. As a result, the IA agreed to maintain the minimum limit of indemnity at HK\$3 million and the maximum required limit at HK\$75 million.

### Accounting disclosures

At the request of CIB, the requirements for disclosure in the audited financial statements of insurance broker companies concerning insurance premiums receivable, referral income and referral expenses, will be set aside.

### Agency matters

In the Rules for Agents, which CIB has also been monitoring, there was a proposal put forth by agents for the maximum number of insurance companies that an agent can represent to be significantly increased above the present four. CIB argued strenuously that this would make it very difficult to determine which insurer the agent was representing in a particular case, such that there may be no indemnification for the client, and that the agents would effectively be acting as brokers. If this were allowed then agents should be required to carry professional indemnity insurance for the same reasons as brokers. We were therefore very pleased that the IA has maintained the existing limit of not more than four agency representations. ■

## Consultation on two sets of draft life codes

During a recent soft consultation on the two new sets of life codes, CIB continued to question their practicalities for brokers.

For the “**Draft Guideline on Long-Term Insurance Policy Replacement**”, we asked why the financial needs analysis (FNA) process is exempt if the sale of the product is made through a digital distribution channel.

Similarly, for the “**Draft Guideline on the Sale of Investment-Linked Assurance Scheme (ILAS) Products**”, we questioned why the FNA process is not required if products are sold via

a digital channel that does not provide an explanation of a product for the customer.

The FNA has always been a regulatory keystone for protecting customer interests, and removing this is of concern to CIB. Furthermore, we are ever-conscious of the need to protect life and investment brokers from potentially unfair competition, so our specialist sub-committee has undertaken detailed reviews of this matter. ■

### Members' views

Over the coming months, our General Committee will arrange a series of meetings with our members. We wish to gauge your views on our performance so far, and to ascertain what more you expect from us and what additional services you would like us to provide for members in the future. Details of when these meetings are to take place will be published soon. We look forward to hearing your thoughts. ■

### Revitalising our CPD seminars

Many members will be aware of the popular Continuing Professional Development (CPD) courses we held in the past. It has always been our intention to reinvigorate these courses. For the remainder of the year, we will host a number of entry level CPD seminars that are relevant to local issues and topics, some of which will be delivered in Cantonese. At present, we propose to cover the following topics:

- Principles and practice
- Belt and Road and the Greater Bay Area Initiative
- Tax concessions for the Elderly Annuity Scheme
- Fintech
- Enhancing communication skills
- Compliance on life sales

We look forward to seeing as many members as possible at these seminars, and we hope they prove useful. ■

### Next phase of FIS funding wins approval



CIB is the largest provider of Financial Incentive Scheme (FIS) training in Hong Kong, accounting for 70% of all available funding from the government. Our one-day or two-day specialist courses are extremely popular and always feature expert industry speakers from overseas.

We recently arranged for a series of seminars covering marine insurance, which aligns with the government's development policy.

We are delighted to announce that we have secured a new tranche of funding for the next round of FIS courses, which will be launched in September 2019. Details of these will be published in the next issue of CIB Bulletin. ■



### FIS Figures – From Jan 2017 to May 2019



Number of subjects

**38**



Number of classes

**52**



Number of participants

**2,243**

*“ We want to hear your thoughts and opinions, so please get in touch! ”*

– Mr B.S. Rath, Chairman, CIB

## Announcement: IA sets new date for transition of CPD points

Members should be aware that the IA has set the next CPD cut-off date for 31 July 2020. The consequences of this are that members' Technical Representatives (TRs) are required to obtain 16 CPD points (number of hours) for the first assessment period between 1 January 2019 and 31 July 2020. ■

## Continuing work on future services for members

For the remainder of the year, we shall direct considerable effort on providing additional, locally focused CPD courses, as well as to continue offering our specialist FIS programmes. However, a further area for action is to offer two programmes that provide clarity around compliance, as well as updates on the developments of our communications and IT platforms. ■

## Special topics supported by CIB

Part of CIB's role is to take a practical view on new legislation and actively support government and industry stakeholders. As such, we recently participated in a town-hall briefing on Employees' Compensation (EC) Insurance and organised a seminar on the Voluntary Health Insurance Scheme (VHIS). Both were attended by industry practitioners, and we hope our efforts have helped provide greater clarity on these matters. ■



Town-hall briefing on EC Insurance,  
4 June 2019



VHIS Seminar, 19 June 2019

## CIB attends international conferences

Earlier this year, Chairman Rath appeared at a number of insurance conferences abroad. In late March and early April, he attended the World Federation of Insurance Intermediaries (WFII), of which CIB is a member, World Council Meeting 2019 in Rome, Italy, where he represented the interests of Hong Kong brokers. Furthermore, in March, the Hong Kong government asked Chairman Rath to take part in the "Hong Kong Business and Professional Delegation to Georgia and Hungary", in Europe. He did so, and joined the delegation in Hungary. For more details of the issues discussed, please refer to the "Chairman's message" in this issue of CIB Bulletin. ■

## Upcoming events

We are pleased to announce the following two events for your diary:

- Annual Conference 2019 – to be held on Monday 4 November 2019 at The Park Lane Hong Kong
- Annual General Meeting 2019 – tentatively to be held in the first week of December 2019

Further details of these events will be published in due course, and we hope to welcome as many of our members as possible on each occasion. ■

**Talk to us today – CIB is your voice within the industry!**

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