

Chairman's Message



It is encouraging to see the Covid quarantine policy relax a bit, making it easier to travel or return to Hong Kong. To maintain its role as Asia's financial hub, it is so important for Hong Kong to allow travellers to move around freely. We also look forward to seeing some major

financial and sports events being held in Hong Kong in the later part of the year. This indicates that Hong Kong is gradually going back to its normality.

Our insurance broking industry has been much impacted by Covid, but our Members are doing all the right things to continue protecting their clients during such a challenging period. Having said that, are we doing enough? Are we complacent with what we are doing for clients? This will be the theme of our forthcoming CIB Conference on 24th October 2022. I look forward to seeing you and hearing views from our three extremely experienced industry leaders and all our participants.

The geopolitical environment surrounding us is becoming more complicated and we may not be able to get away with complacency in the near future. We have to take extra steps to uphold our professionalism and compliance requirements in order to protect our clients' interests, as the insurance market can be unpredictable in providing capacity for certain risks falling within or in between these tensions.

The Greater Bay Area remains a key area of interest for our Members in these post-Covid times. As always, CIB supports this and is in regular discussion with the Insurance Authority ("IA"), seeking regulatory support in lowering licensing thresholds for Hong Kong insurance brokers in the Greater Bay Area. This would help our Members provide services to clients there and continue to promote their professional standards, technical knowhow and innovative solutions to Hong Kong clients in the Greater Bay Area.

Starting from the new reporting period of 1st August 2022, CIB rolled out tailor-made in-house CPD classes on the 3 core points of the Code of Conduct as required by the IA. This has been welcomed by our Members and we began the first class in August 2022. For details, please contact our CIB Secretariat. The new CIB Compliance Manual has been released, a digital copy of which can be accessed by our Members on the CIB website.

CIB as always will continue to represent our Members and support our Members for the future. ■

Yours sincerely,

Alex YIP
Chairman | October 2022

A TIME FOR REFLECTION

19th CIB Annual Conference

CIB's Conferences have become a high point of the insurance calendar annually and have continued uninterrupted, even being held virtually to beat the pandemic in 2020. Reinstated live last year, the 2022 Conference will again be held at the Park Lane Hotel on Monday, 24th October with the theme of A TIME FOR REFLECTION – MAINTAINING THE PROFESSIONAL OBLIGATION. This will be the 19th CIB Annual Conference and will maintain the same high standard of presentation

with three experienced topic speakers as in the past eighteen conferences. The opening address will be given by the Guest of Honour, Mr. Stephen Yiu, Chairman of the Insurance Authority, and will feature three topics investigating the joint impacts on insurance brokers of the Covid Pandemic and the Hard Market situation, and what it will take for our profession to recover from the difficulties of the past three years. Please mark your diaries for this important date. ■

Economic Sanctions and Insurance

Contributed by BS Rath, Past Chairman of CIB

Objective

The objective of this article is to discuss economic sanctions and the role of the insurance industry with special reference to the **Ukraine-Russian conflict** and concerns for brokers. This is not specialised legal advice in general nor specific to any individual contract. Any views expressed here are those of the author and not that of CIB nor the employing company of the author.

Economic sanctions are commercial and financial penalties applied by one or by a group or league of nations against a state, entity or individual. Economic sanctions are imposed for a variety of reasons including political, military, humanitarian and social issues. They may come in the form of prohibitions on trade, the closure of ports for certain use, asset freezes on entities or individuals, or bans on trade in certain commodities/goods. Economic sanctions continue to play an important role in responding to terrorism, nuclear proliferation, military conflicts and other foreign policy crises. The primary objectives of imposing sanctions are to deter bad behaviour by enforcing economic punishment on the targeted country, and to force rehabilitation. While geopolitics will always have differing views, it's very certain that it's actually effected through banking and finance channels. The insurance sector aligns itself with the financial sector.

Over 40 countries are now subject to sanctions by the US, EU and UK. One can access the list of Specially Designated Nationals ("SDNs") published by the Office of Foreign Assets Control ("OFAC") on the website of the US Department of the Treasury. The UK and EU have similar sanction lists. Though the banking and insurance sectors have handled many sanctions in the past, the Russian-Ukrainian conflict has been especially complex due to the speed at which sanctions were enacted and the number of amendments thereafter.

Classes potentially affected by financial sanctions

Regarding any risk with a definite location, or exposure within a geographical area that is not part of a sanctioned country or does not involve a sanctioned entity or person or goods, one need not worry too much about FC and Sanction Clearance. If a broker is handling international transit (cargo) insurance, Hull and Machinery ("H&M") insurance, Protection and Indemnity ("P&I") insurance, Charterer's Liability insurance, or War and SRCC cover, or are involved in global programmes or treaties, they should be careful in their practices.

Clauses

The most common approach to dealing with sanctions has been to incorporate a sanction clause in the insurance contract. The sanction clause most widely used across the Lloyd's market is the LMA 31003. The most commonly used clause across the aviation market is the Sanctions and Embargo Clause, AVN 111 01.10.10. Insurers, reinsurers and brokers broadly rely on Joint Hull Committee (JH 2010/009) 29/07/2010 for H&M and JC2010/014 11/08/10 for cargo cover.

The use of such clauses does not necessarily remove the requirement to maintain appropriate systems and controls, including appropriate and proportionate due diligence, to mitigate the risk of a breach of sanction. It merely states the current situation and alerts the parties to the transaction. The actual difficulty is that the premium and claims shall be blocked by the treasuries for their respective currencies.

Rapidly changing sanction environment

A series of sanctions have been enacted by the US, EU and UK since 2014. The significant ones were post Russia's involvement in the conflict in Ukraine in February 2022. The recent ones are the Sixth Sanction Package by the EU, followed by further announcements in the form of the 7th Round Amendment and then the G7 Finance Ministers' statement, which left too much information to co-relate and implement. On September 19, 2022, the EU published new FAQs which reverse the controversial expansion of restrictions imposed on certain coal, fertiliser and other Russian-origin goods on August 10, 2022. These FAQs clarify that restrictions on certain fertiliser and coal products (among others) do not include a ban on their transfer to third countries, and associated insurance and brokering arrangements.

Practical approach

Consequences of a breach of sanctions can be extremely serious. Staying up to date on the ever-changing sanction provisions and entities or SDNs is quite a daunting task and requires specialist legal professionals to do the advisory. It involves cost which could be disproportionate to premium or the remuneration for a broker in an insurance or reinsurance contract. It's necessary for brokers to have their own due diligence procedure for screening each and every transaction which might involve a sanctioned country/territory or goods or entities or individuals. Insurers and reinsurers generally have their own compliance departments that carry out sanction checks on each contract. One part of the checking process involves ensuring that no sanctioned entity or individual is involved in the transaction and that premium and claims can be processed by the bank without any blocking by the bank. To facilitate this, brokers involved in the classes of insurance mentioned above and having clients with exposures in sanctioned countries must have a robust KYC, AML process and a comprehensive Sanction Checklist. A reference to their bank and prior consultation and exchange of information with the insurers/reinsurers for their underwriting will act as further and more stringent scrutiny.

Brokers' challenge

Non-availability of insurance cover, low capacity, high premium rates and delays in compliance clearance have always been challenges for brokers. Help your client, always "subject to Compliance Clearance". ■

Academic Requirements for New Technical Representatives, Renewal and Points to Note

In recent years, Hong Kong has experienced a brain drain. We have heard that many expatriates have relocated, and our local young professionals and graduates are being lured by the migration pathways and visa programmes of many countries. When the dust settles and the global pandemic ebbs, it will be high time for companies to regroup their troops.

The Hong Kong government has put talent training for the finance and insurance sectors in its agenda and has approved HK\$100 million for the pilot programme, which has been extended until 2022/23. CIB is also playing an active role and is organising career talks in universities to introduce and explain insurance broking to aspiring students and attract new talent to the industry.

When recruiting, companies should refer to the Guideline on “Fit and Proper” Criteria for Licensed Insurance Intermediaries (“GL23”), which lists out the academic requirements for individual licensees

Academic requirements

A new technical representative (broker) is required to attain one or more of the following:

- i. HKDSE – Level 2 or above in 5 subjects including Chinese/English and Mathematics
- ii. HKCEE – Grade E or above in 5 subjects including Chinese/English and Mathematics
- iii. International Baccalaureate (“IB”) Diploma
- iv. Diploma Yi Jin with Math Plus completed
- v. A diploma in insurance, business, accounting, etc., granted by a degree-awarding higher education institution in Hong Kong, e.g., Caritas Institute of Higher Education
- vi. A diploma registered or exempt under the Non-local Higher and Professional Education (Regulation) Ordinance
- vii. An insurance qualification specified by the IA, e.g., ANZIIF Snr Assoc, ACII
- viii. Any other qualification considered by the IA to be equivalent or higher than the above

Insurance Intermediaries Qualifying Examination (IIQE)

Except for holders of certain insurance and actuarial qualifications, new technical representatives are required to achieve the pass mark of 70% on Paper I together with Paper II, III and/or V depending on their line of business:

- i. Paper I – Principles and Practice of Insurance
- ii. Paper II – General Insurance
- iii. Paper III – Long Term Insurance
- iv. Paper V – Investment-Linked Long Term Insurance

In August 2022, the IA announced that Remote Invigilation Mode Examination (“RIME”), which was previously provided as an alternative exam mode during Covid, is now a permanent option alongside the existing physical exam option. RIME is open to applicants who are not existing licensees and is only available for the basic IIQE papers (Papers I, II and III). An individual taking this online exam will be granted an 18-month licence. During these 18 months, the individual may attend a tailor-made course provided

by the Vocational Training Council or pass a physical IIQE exam to renew their licence for the usual term of 3 years.

Application for a new licence

Application for a new licence may be made by way of either submitting a paper form (Form A1) or by online submission through Insurance Intermediary Connect. Form A1 should be signed by both the individual applicant and the broker company as the principal. For online submission, the broker company should open an individual account for the applicant to kickstart the process. In either case, the applicant should provide supporting documents including HKID card or visa copies, education proof and IIQE certificates, together with any supplemental forms for an overseas licence or criminal/bankruptcy/disciplinary records if relevant. The IA gives higher priority to online submissions over paper submissions. Online submissions may be approved as swiftly as 5 business days, while a paper submission may take up to 3 weeks or more.

Employment of a licence holder

If the broker company is taking on a candidate who is a licensed technical representative (broker), it should notify the IA of its intention to appoint this candidate by submitting Form N2 14 days before appointment. If the candidate holds an individual insurance agent licence or a technical representative (agent) licence, it would be treated as an application for a new licence, which requires either the submission of Form A1 or online submission, together with supporting documents as described above.

Points to note for technical representatives (brokers)

When a technical representative (“TR”) ceases to be employed by a broker company, the TR licence is suspended. He has 180 days to be signed on by another broker company before his licence is revoked.

- During the period of suspension, a TR is required to continue to comply with the CPD requirements for the whole of the CPD assessment period
- The TR should notify the IA of change of business address and email address if the work email address is on record within 14 days
- The TR should manage his individual account maintained through Insurance Intermediary Connect and make sure that he keeps his own username and password

Application for licence renewal

A technical representative (broker) licence is normally valid for 3 years from the day of granting of the formal licence. As each technical representative (broker) may have a different granting date—those taking RIME may have a shorter, 18-month validity, or a technical representative (broker) who joined from another broker company may have an expiry date completely different from the rest of the company—it is important that broker companies are on top of the licence expiry dates of all technical representatives to ensure timely submission of renewal applications, which

should be 45 days prior to the expiry dates. Broker companies may download a "Status Report of Licences to be Expired in Coming 6 months" in Insurance Intermediary Connect to manage and coordinate licence renewal. ■

Self-reporting of a Material Breach

The IA has recently written in its enforcement newsletter for licensed insurance broker companies to self-report material breaches of regulations. Members should be aware of the possible benefits of such voluntary pre-emptive reporting.

Pursuant to the Code of Conduct of Licensed Insurance Brokers Part IX (Corporate Governance and Controls and Procedures), a licensed insurance broker company should report to the IA any bankruptcy proceedings (using Form S2), criminal conviction (Form S3), disciplinary action (Form S4) or any material breach of the rules and regulations of the IA of the company, its directors, controllers and technical representatives.

A material breach is one that adversely impacts or is likely to adversely impact the broker company's ability to carry on regulated activities or one that has caused or may cause loss to the client or to the broker company. The

IA encourages self-reporting, stating that, among other benefits, it is a mitigating factor capable of reducing or even avoiding disciplinary sanctions.

The self-report of a material breach should contain the following information:

- Basic information such as the date of the incident and, if applicable, the names of parties involved and policy details
- Identify the relevant breach or state the complainant's allegations
- A chronology of events
- The (preliminary) findings of any internal investigation
- Remedial action and measures taken to avoid re-occurrence

Depending on the nature and potential adverse impact of the breach, the report may be made before the conclusion of the internal investigation, followed by updating reports. ■

Upcoming CPD Webinars

Listed below are quality CPD webinars scheduled for October to December 2022.

Date	Time	Topic	Language
28 Oct (Fri)	4:00pm – 6:00pm	Risk Management Practice and Insurance Arrangement for SME Corporate Clients	Cantonese
16 Nov (Wed)	9:30am – 12:30pm	Code of Conduct for Licensed Insurance Brokers	English
18 Nov (Fri)	4:00pm 6:00pm	Professional English Business Writing	Cantonese
25 Nov (Fri)	4:00pm – 6:00pm	Greater Bay Area Development Plan and Insurance Regulatory System	Cantonese
14 Dec (Wed)	9:30am – 12:30pm	Code of Conduct for Licensed Insurance Brokers	Cantonese

Please watch the CIB Circulars for enrolment details. ■

Welcoming New Members

We are delighted to welcome the following insurance broker companies who have recently joined CIB as members.

DATALEAD Insurance Broker Ltd

Gallagher Insurance Brokers (Hong Kong) Limited

JS Risks Consultancy Company Ltd

PICC HK Risk Management and Insurance Consultant Company Limited

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

Phone: 2882 9943

Fax: 2890 2137

Email: info@hkcib.org