



Insurance Summit 2018

Insurance Training Board
PEAK

The New Regulatory Framework for Insurance Intermediaries

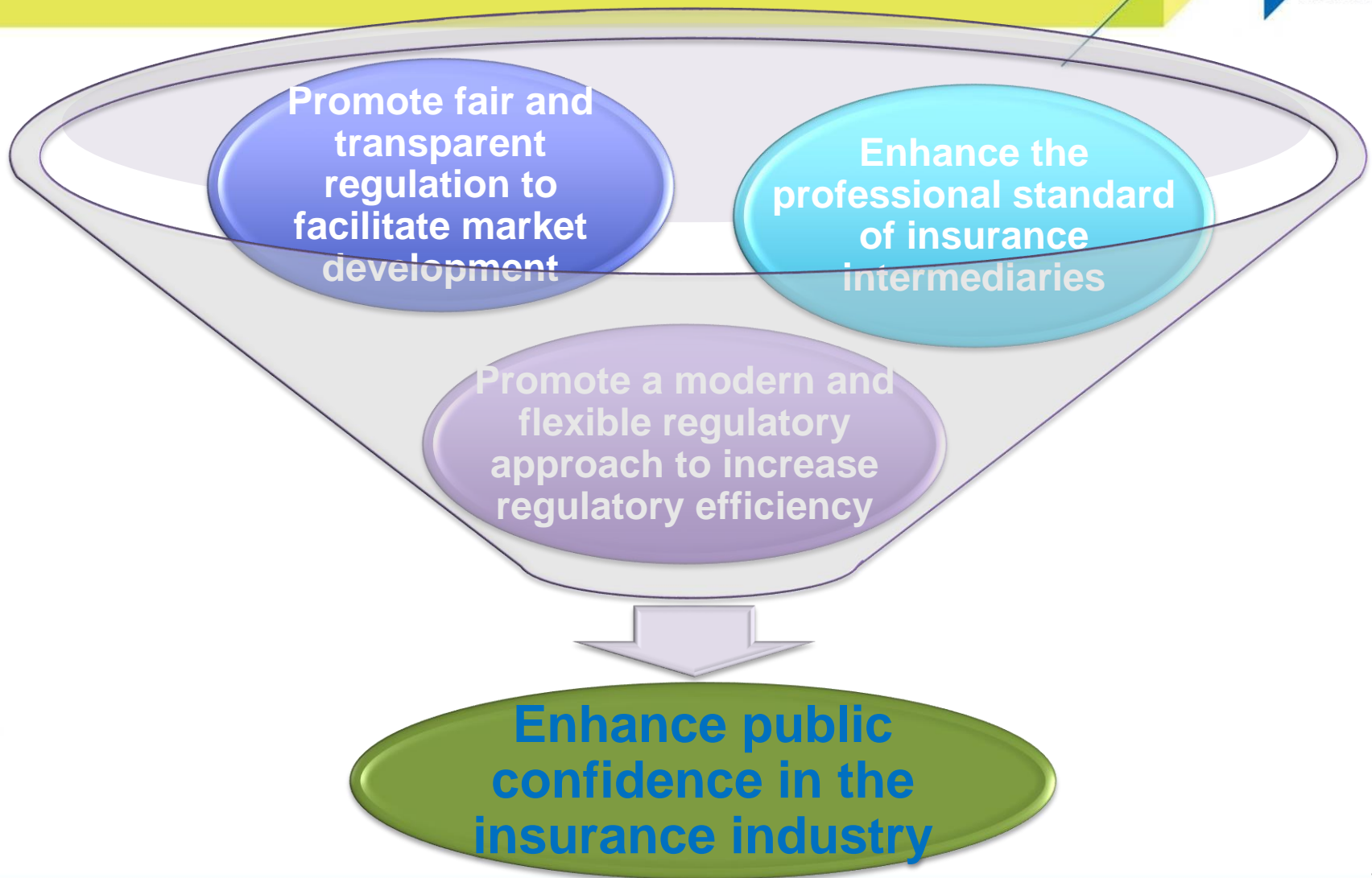
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8 October 2018

Key Points of the New Regime

New Regulatory Regime for Insurance Intermediaries



New Regulatory Regime for Insurance Intermediaries

- **Activity-Based Regime**
 - A person must not carry on or hold out to carry on a **regulated activity** in the course of **business** or **employment**, or for **reward** unless the person is a **licensed** insurance intermediary or otherwise **exempted**
- **Fit and Proper (F&P) Regime**
 - Licensed insurance intermediaries are required to be Fit and Proper persons.

New Regulatory Regime for Insurance Intermediaries



Types of Licensees under New Regime	Types of Insurance Intermediaries under Self-Regulatory Regime
Licensed Insurance Agent	Appointed Insurance Agent
Licensed Insurance Agency	Insurance Agency
Licensed Individual Insurance Agent	Individual Agent
Licensed Technical Representative (Agent)	Technical Representative/ Responsible Officer
Licensed Insurance Broker	Authorized Insurance Broker
Licensed Insurance Broker Company	Insurance Broker
Licensed Technical Representative (Broker)	Technical Representative/ Chief Executive

Registered with IARB

Registered with CIB/
PIBA

New Regulatory Regime for Insurance Intermediaries



Transitional Arrangements for Existing Insurance Intermediaries

- Existing intermediaries will be **deemed as licensees** for a transitional period of **3 years**.
- Existing responsible officers of insurance agencies and chief executives of insurance brokers will be **deemed as responsible officers** of the firms concerned during the transitional period.

New Regulatory Regime for Insurance Intermediaries

**Set out
licensing, F&P
and conduct
requirements**

**Process
licence
applications
and update
Register of
licensees**

**Monitor
Continuing
Professional
Development
(CPD)
Compliance**

**Conduct
inspection to
ensure
compliance**

**Promote
proper
standards of
conduct**

**Handle
complaints
and identify
key conduct
risks**

**Conduct
investigation**

**Impose
disciplinary
actions**

Main Progress in Implementation of the New Regime

Main Progress in Implementation of the New Regime

- **Issue of a set of Rules, Codes and Guidelines**
 - Have conducted industry consultation on key proposals
 - Are preparing and refining draft instruments
 - Have kick-started public consultation exercise
- **Computerization and Data Transfer**
 - Have completed system design and started program development
 - To extend the system to support online services
 - Working closely with Self-Regulatory Organizations for transfer of data to IA



Main Progress in Implementation Rules, Codes and Guidelines

Discussion with Working Group and Discussion Group (Insurance Agents/Insurance Brokers)

Drafting of rules, codes and guidelines

Conducting Soft Consultation on key proposals with major stakeholders

Refining draft rules, codes and guidelines after taking into account consultation feedback

Conducting Public Consultation on final draft rules, codes and guidelines

Rules
(Subsidiary legislation)
- Subject to approval by the Legislative Council

Codes and Guidelines
(Not subsidiary legislation)

Main Progress in Implementation Rules, Codes and Guidelines



Insurance Agents Registration
Board

**Working Group on
Direct Licensing
Regime for Insurance
Intermediaries**



Insurance Industry Regulatory and
Development Concern Group (ICG)

**Discussion Group
(Insurance Agents)**



**Discussion Group
(Insurance Brokers)**



Main Progress in Implementation Rules, Codes and Guidelines



Proposed Rules	Progress
<p>1. Rules on Maximum Number of Authorized Insurers</p> <ul style="list-style-type: none">- Prescribe the cap on number of insurers that an insurance agent may represent	<ul style="list-style-type: none">• Have completed soft consultation• Will conduct public consultation
<p>2. Rules on Minimum Requirements for Licensed Insurance Broker Companies</p> <ul style="list-style-type: none">- Set out the requirements in relation to capital, net assets, professional indemnity insurance, client accounts, accounting records, etc. for insurance broker companies	<ul style="list-style-type: none">• Have issued soft consultation paper on 28.9.2018• Are collecting feedback

Main Progress in Implementation Rules, Codes and Guidelines



Proposed Codes	Progress
<ol style="list-style-type: none"><li data-bbox="73 619 1025 715">1. Code of Conduct for Licensed Insurance Agents<li data-bbox="73 779 1025 875">2. Code of Conduct for Licensed Insurance Brokers	<ul style="list-style-type: none"><li data-bbox="1089 619 1798 768">• Have consulted Working Group and Discussion Groups on key conduct issues<li data-bbox="1089 779 1754 819">• Will conduct soft consultation

Main Progress in Implementation Rules, Codes and Guidelines



Proposed Guidelines	Progress
1. Guideline on Fit and Proper Criteria	<ul style="list-style-type: none">• Have issued public consultation paper on 28.9.2018• Are collecting feedback
2. Guideline on Continuing Professional Development (CPD)	
3. Guideline on Exercising Power to Impose Pecuniary Penalty	<ul style="list-style-type: none">• Have completed soft consultation• Will conduct public consultation
4. Guideline on Cooling-off Period	<ul style="list-style-type: none">• Have consulted Working Group and Discussion Groups on key proposals• Are collecting feedback
5. Guideline on Long Term Insurance Policy Replacement	
6. Guideline on Financial Needs Analysis	
7. Guideline on Use of Gifts	
8. Guideline on Sale of ILAS	
9. Guideline on Benefit Illustrations for Long Term Insurance Policies	

Main Progress in Implementation Rules, Codes and Guidelines



Others	Progress
<p data-bbox="85 472 1147 586">Explanatory Note on Licensing Requirements for Employees of Authorized Insurers</p> <ul data-bbox="85 608 1354 1258" style="list-style-type: none"><li data-bbox="85 608 1354 786">• to help insurers better understand whether their employees will be required to be licensed or may be exempted under the new regime<li data-bbox="85 808 1354 986">• to explain the factors the IA will have regard to when determining whether a decision is a material decision and whether an opinion constitutes regulated advice<li data-bbox="85 1008 1354 1186">• to elaborate the exemption provisions relating to underwriters, claims handling staff and clerical and administrative staff<li data-bbox="85 1208 1354 1258">• to use FAQs for better illustrations	<ul data-bbox="1431 465 1808 615" style="list-style-type: none"><li data-bbox="1431 465 1808 615">• Is consulting insurers' views via HKFI

Main Progress in Implementation Computerization & Data Transfer

- System analysis and design have been completed.
- Views on system functions have been collected from SROs, insurers, insurance agencies and insurance brokers.
- Program development is underway.
- User Acceptance Testing (UAT) has begun.
- Testing data has been obtained from SROs.
- Liaison with insurers about data verification.



Main Progress in Implementation Online Portal



- An online portal is being developed to facilitate electronic submission of licence applications by insurance intermediaries and endorsement of such applications by insurers, insurance agencies and insurance broker companies.
- A series of briefing sessions has been held for insurers, insurance agencies (including banks and travel agencies) and insurance broker companies to collect their views on the proposed functions.
- The portal is extended to provide online CPD reporting function after considering the industry's comments.



Major Proposals Introduced under the New Regime

Major Proposals on Education Requirement for Individual Licensee



Individual Licensee:

- Individual Insurance Agent
- Technical Representative (Agent)
- Technical Representative (Broker)

Major Considerations:

- Insurance intermediaries should be competent to clearly explain policy terms and conditions to clients and to understand clients' needs
- Absence of generally acceptable criteria for assessment of secondary school graduates and HKDSE/HKCEE has been widely accepted as a fair benchmark for assessment of education standard
- Administrative experience of SROs

Requirement:

- **Level 2 in 5 Subjects in HKDSE including:**
 - **One language subject (Chinese or English) and**
 - **Mathematics**

Candidates Attaining Level 2 or Above in 5 Subjects in HKDSE

Year	Percentage	No. of Candidates
2012	69%	48,298
2013	69%	49,816
2014	68%	46,555
2015	69%	43,780
2016	71%	40,768
2017	69%	35,990
2018	70%	35,722

Candidates Attaining Level 2 or Above in HKDSE Mathematics

Year	Percentage	No. of Candidates
2012	79%	56,053
2013	81%	60,949
2014	80%	57,757
2015	82%	54,909
2016	81%	49,593
2017	81%	44,701
2018	82%	43,714

Major Proposals on Education Requirement for Individual Licensee



Other Acceptable Qualifications:

- Equivalent results obtained in HKCEE
- Diplomas such as International Baccalaureate Diploma and Diploma Yi Jin
- Insurance qualification such as ANZIIF (Snr Assoc)

Exemptions:

- Existing intermediaries (including those who are grandfathered under the current SRO regime) will be exempted from the new education criteria provided he/she has not ceased to be engaged in insurance-related work for 2 consecutive years.

Major Proposals on Education Requirement for Responsible Officer



Major Considerations:

- Statutory responsibilities of Responsible Officers:
 - To secure compliance with conduct requirements by Technical Representatives;
 - To establish proper controls and procedures
- Nowadays, a bachelor degree is the bare minimum for many management jobs.
- Number of holders of Bachelor degree is high in Hong Kong.

Requirement:

- A bachelor degree from a recognized university or tertiary institution

Year	No. of University Graduates*
2010	17,144
2011	17,599
2012	17,630
2013	17,908
2014	18,457
2015	19,602
2016	21,034
2017	21,204

*Figures are based on UGC funded university graduates

Major Proposals on Education Requirement for Responsible Officer



Other Acceptable Qualifications:

- Insurance qualifications such as ACII, ANZIIF (Fellow), CLU, etc.

Exemptions:

- **Existing Responsible Officers and Chief Executives** will be exempted from the new education criteria.
- Existing individual agents and technical representatives who possess a **minimum of 15 years' experience** in the insurance industry on the commencement date of the new regime will also be exempted from the new education criteria.

Major Proposals on CPD Requirements

Major Considerations:

- Current requirements are not comparable to other jurisdictions.
- Importance of training in ethics and regulations
- Sufficiency of qualified training courses
- Technology in teaching and learning
- Different assessment periods and reporting requirements of SROs
- Efficiency in CPD reporting and monitoring of compliance

Requirements:

- 15 CPD hours in each assessment period from 1 Aug to 31 July
- At least 3 hours on Ethics or Regulations
- Recognition of online training courses up to 5 hours annually
- Transition period of one year
- Online reporting



Major Proposals on Maximum No. of Insurers Represented by Insurance Agents



The existing framework in counting the number of insurers will remain unchanged but the cap is under review due to diverse views and concerns expressed by industry practitioners.

Insurers

Joint and several liabilities towards the acts of their appointed insurance agents

Insurance Agents

Operational difficulties arising from the current limit of four insurers

Major Proposals on Minimum Requirements for Insurance Broker Companies



Requirements:

- To increase minimum capital and net assets from \$100,000 to \$500,000
- To increase minimum limit of indemnity for professional indemnity insurance from \$3m to \$5m and impose cap on the deductible
- To refine client account requirements and introduce reconciliation requirements
- To enhance accounting disclosure

Transitional arrangements for existing insurance brokers:

- To allow existing brokers to increase capital in phases to ease their financial burden

Period	HK\$
Commencement date to 31 Dec 2020	100,000
2021 and 2022	300,000
2023	500,000


Major Proposals on Criteria for Imposition of Pecuniary Penalty

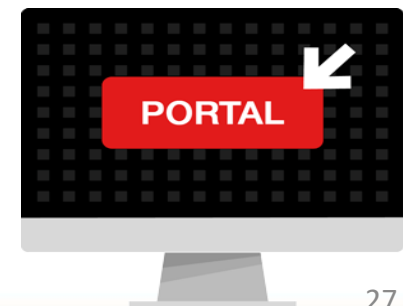
Major considerations:

- A pecuniary penalty should be:
 - Effective
 - Proportionate
 - Fair
- The person concerned should not benefit from the misconduct
- Nature, seriousness and impact of conduct
- The person's behavior since the conduct was identified
- Previous disciplinary record and compliance history of the person

Major Proposals on Computer System & Online Portal

E-Submission of Licence Application

- To provide electronic fillable application forms
- To support paperless application process in a secure environment
- To enable online submission of application by insurance intermediary applicants
- To accept online endorsement of application form by insurer/insurance agency/insurance broker company (principal) using One-Time Password sent by 
- To provide enquiry services for checking application status anytime



Major Proposals on Computer System & Online Portal

Other Major Online Functions

- To support round-the-clock reporting of CPD courses
- To enable straight-through processing for renewal of licence
- To support update on particulars of insurance intermediaries
- To speed up reporting of new appointment and termination of appointment of principal
- To facilitate communications with insurance intermediaries and principals using built-in





保險業監管局
Insurance Authority

Implementation Plan

Planning for Commencement

Target Implementation – Mid-2019

Close and continuous dialogue with SROs to ensure the cut-off arrangements relating to applications and notification of changes by registrants will be handled in a smooth manner.

1. Determination of commencement date
2. Cut-off dates for handling of applications and notifications
3. Timing for announcement of cut-off dates
4. Arrangements for applications/notifications submitted to SROs after cut-off dates

Effective Information Dissemination



- To update IA's Website to provide more information on the implementation progress
- To publish pamphlets about the new regime for distribution to insurance intermediaries
- To give update on the implementation of the new regime through briefing sessions conducted by IA and industry bodies
- To coordinate with SROs and industry bodies to make important announcements, e.g. Commencement Day and Cut-off Dates

Appointment of Key Person in Intermediary Management Function

Key Persons in Control Functions:

- Risk Management
- Financial Control
- Compliance
- Internal Audit
- Actuarial
- **Intermediary Management**



Appointment of Key Person in Intermediary Management Function



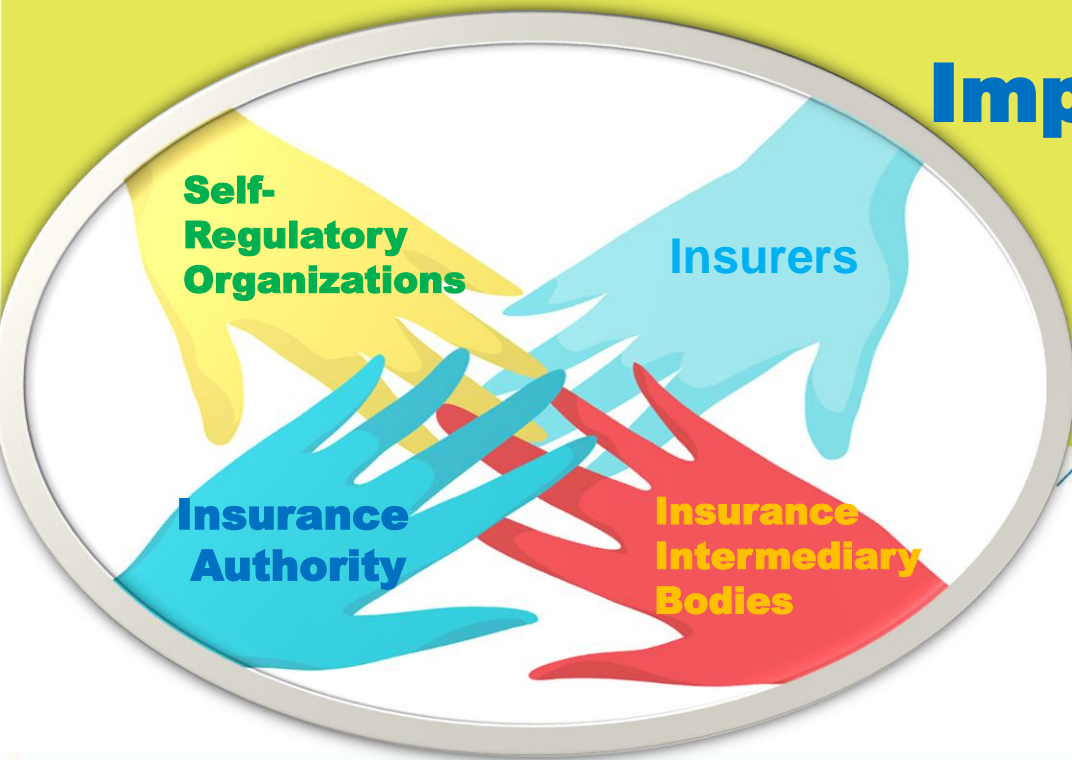
- Intermediary management function is to establish and maintain internal control measures for:
 - Administering appointed insurance agents
 - Monitoring the compliance with the Insurance Ordinance by appointed insurance agents
 - Ensuring that the arrangements by the insurance intermediaries for the insurance business referred to the insurer are compliant
- Similar to the key persons in other control functions, IA will expect that the key person in intermediary management function should also possess the relevant qualification and experience, and integrity.
- Insurers which market insurance products through various distribution channels may appoint more than one key person in intermediary management function.
- IA will streamline the processing of insurers' applications for IA's prior approval.

Enhance Coordination with Insurers



- Market Conduct Division of IA has been in close liaison with major insurers with agency force as their major distribution channel to enhance communication.
- Industry-wide engagement
 - Verification of particulars of appointed insurance agents
 - UAT of Online Portal functions
- Designated officers have been assigned to be principal point of contact for matters relating to the new regime:
 - Enquiry about licensing requirements for employees
 - New requirements under the Insurance Ordinance
 - Application for IA's prior approval of appointment of key persons in intermediary management function
 - Application for formal licence issued by IA

Strengthening Collaboration for a Successful Implementation of the New Regime for Insurance Intermediaries





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Thank You