ILens – July Issue

Commissioner's Message

In my first appearance in the March issue of the ILens, I said that I would endeavour to use this column to strengthen the liaison with the insurance industry and members of the public.

Having been in the Commissioner's post for some seven months by now, I would like to share with readers some of my observations on the Hong Kong insurance industry and the issues confronting it.

The first quarter figures released in May are revealing. Long term in-force business grew by 36% over the same period last year and new business increased by a staggering 112%. General business, however, was literally flat.

The results give us some ideas of the opportunities and challenges that lie ahead for the Hong Kong insurance industry. The growth of long term business, even if we discount the impact of SARS last year, is nothing less than spectacular. On the general insurance side, while total premium income did not seem to show any increase, industry source confirms that business activities have picked up; the increase in volume, however, has been offset by the drastic fall in premium level.

Clearly, the Hong Kong insurance industry has benefited from the strong rebound of the local economy, implementation of CEPA, relaxation of restriction on Mainland residents visiting Hong Kong, and the increased integration of the Hong

Kong and Mainland economies. With the continued rapid expansion and liberalization of the Mainland market, there is huge potential for the growth of the Hong Kong insurance industry.

The challenge is how to take advantage of these opportunities and sustain our long term growth. The answer lies with the core value of insurance – trust. The key competitive strength of the Hong Kong insurance industry is quality service and to be specific – the trust of consumers. We must strive to improve customer service, enhance the quality of the agency force, and protect the interests of consumers.

The common abuses are mis-selling, twisting of policies and poor after-sale service. These problems are not unique to Hong Kong but are common around the world. But if Hong Kong is to take pride of being an international insurance centre, we must impose on ourselves a higher standard than others.

A rough count shows that my colleagues in the Long Term Division spend some one-third of their time handling complaints against insurers and agents. There is clearly a better way to use our resources. We are undertaking a detailed analysis of the complaint cases that have come to our notice. By analysing the trend and nature as well as the distribution of the complaints, we aim to trace the common causes and identify measures to tackle the root problems that have given rise to the complaints. I hope to be able to share with readers our findings in the next issue of ILens.

In the meantime, we will step up measures to ensure insurers implement appropriate controlling procedures for the sale of insurance policies to Mainland visitors, enhance the effectiveness of the Customer Protection Declaration Form to protect policyholders' interest against twisting of policies, and monitor closely any poaching of agents. We will not hesitate to take firm action against any such activities if they are found jeopardising the interests of the insuring public.

On the general insurance side, it seems that the industry has never been able to shrug off the spell of premium volatility. The exceptionally good underwriting performance recorded in 2003, like in so many previous occasions, looks like to be another one-year event. The market has seen a substantial fall in premium level for several lines of business since the beginning of this year. The nature of general insurance business, particularly liability business, is such that there is a time lag between the booking of premium revenue and the payment of claims. It is incumbent on the senior management of general insurers to resist the tendency, or temptation, to price policies without full regard to the "burning cost" or claims cost, particularly when under pressure to expand market share.

The Office of the Commissioner of Insurance has no intention, nor is it permitted under the law, to interfere with the pricing of insurance products. But we have a duty under the Insurance Companies Ordinance to ensure the long term stability of the insurance industry and protect the interest of policyholders. Wide fluctuation of premium is certainly not in the interest of policyholders or the industry. We are keeping a close watch on the market, especially on the more aggressive players, and will vigorously enforce the solvency and reserve requirements under the law to ensure that the relevant insurers have the necessary and appropriate financial resources to assume the risk and liability underlying the business.

The insurance industry is one of the key pillars of Hong Kong's position as an international financial centre. The exemplary record of performance is a tribute to the enterprising spirit and innovativeness of our insurers and practitioners, the core value of Hong Kong’s success. It is our wish that the industry will continue to work collectively to enhance quality of service, preserve our competitiveness and maintain Hong Kong’s position as the premier insurance centre in the region.

Richard Yuen
Commissioner of Insurance

News in Brief

Mr. August Chow, Assistant Commissioner of Insurance, will leave the OCI with effect from 19 July 2004 and then return to Canada for family reunion. We thank Mr. Chow for the excellent work in enhancing the regulation and supervision of long term insurers, and wish him every success in future endeavours.

From the Editor

China’s economic growth spurt in the past decade is a marvel. With her integration with the global economy, the Mainland’s insurance market is experiencing phenomenal liberalization. Under the WTO commitments, China is gradually relaxing her insurers’ foreign ownership, range of insurance services, as well as the geographical restrictions. The listing of two Chinese insurers in 2003 further marks a new phase for the state-owned financial institutions to go public and raise funds in capital markets. Mr Mark Saunders, an actuarial expert in China, is going to brief us of what changes are sweeping in this fast-developing insurance industry.

Feature

Mr Mark Saunders is a Principal of Tillinghast-Towers Perrin in Hong Kong and Managing Director of the firm's operations in Asia. He is an actuary by profession and is also the firm's Life Insurance Business Leader for Asia-Pacific. Mr Saunders has been working in Asia since 1989. He recently provided the expert opinion in the prospectuses for the ground-breaking initial public offering of "China Life".

China – A Potential Insurance Giant Awakens...

Mr Mark Saunders

During the 1990's, China's insurance market was often referred to as "Asia's Sleeping Giant". Clearly the giant is now awake. The market is developing at an incredible speed and the successful listing of the two Chinese leading insurers highlights the emergence of this potential huge market.

Incredible Market Growth

In 2003, China's insurance premium income reached RMB 388 billion (US$ 47 billion), an impressive growth of 27% over 2002. China is currently the world's eighth largest life insurance market but has only really been established for a little over ten years. Consensus opinions seem to be that China will become Asia's second largest market (overtaking South Korea) in around five years' time and will become the fourth largest in the world behind the US, Japan and the UK comfortably within ten years.

Market growth continues to be fuelled by factors such as China's impressive economic growth, changing demographics, social welfare reform, and regulatory reform enabling more flexibility and opportunities.

Entry to the World Trade Organization

Since 11 December 2001, China has become a member of the World Trade Organization ("WTO"). The integration of China into the global economy entails the progressive opening up of her insurance industry. Such widening market access also implies increasing challenges for domestic insurers and growing opportunities for foreign insurers.

Increasing Number of Insurers

Number of life insurers in China has reached 28. There are 8 domestic life insurers and the top 3 insurers have a combined market share of around 90%. The other 20 can be classified as foreign life insurers (19 joint ventures and 1 wholly-owned).

In addition to Shanghai, foreign insurers have been setting up operations in Beijing, Guangzhou, Dalian, Shenzhen, Tianjin and Chengdu. Other cities that are currently open to foreign insurers include: Chongqing, Foshan, Fuzhou, Suzhou, Xiamen, Ningbo, Shengyang and Wuhan. After the end of this year, all geographical restrictions will be removed.

It is interesting to note the growing varied strategies pursued by foreign insurers. Some have strong preferences for the more internationally recognised cities whilst others have opted for places less well-known and less intense competition.

Regulatory Control

With such a rapid market growth, regulatory control is always a concern. The China Insurance Regulatory Commission ("CIRC") has exclusive authority over the insurance industry but was only formed in late 1998, taking over the insurance supervisory role from the People's Bank of China. Since then, CIRC has issued a series of new regulations, laid down qualification requirements for insurance professionals and initiated crackdowns on market malpractice.

In 2000, the CIRC joined the International Association of Insurance Supervisors (IAIS) to enhance international regulatory cooperation and to safeguard the integrity of the insurance markets.

Product Development

Under the current low interest environment, life insurers in China have been moving away from the traditional fixed rate priced products towards participating products in which the policyholder is entitled to share in the earnings of the insurer through policy dividends.

Policyholders may receive dividends in cash or apply them to increase death benefits or cash values available on surrender. Participating endowment products are among the fastest growing product lines in China.

Over recent years we have also seen the introduction of more investment-type insurance such as universal life, variable life and unit linked products. Whilst providing possible higher returns when the market is good, it is important that policyholders be made aware of the investment risks and charges inherent in these sophisticated products.

Distribution

Banks have become a significant distribution channel of insurance products. According to the published statistics, life insurance premium income from the bancassurance channel accounted for 17% of the total premium income in 2002. We believe that an even higher proportion of premium was sold through this channel in 2003. To secure a quick foothold in the market, more start-up insurers are looking to bancassurance in addition to developing their own agency forces.

Claims

With the further deepening of the reforms in China, enterprises are being released from some of the social responsibilities that have been placed on them, for example, employees' medical costs. This creates opportunity for insurers to develop their health insurance business.

However, a lot of effort needs to be made to turn this opportunity into success. There is a general shortage of detailed experience data that enables better pricing. And sales volume-oriented business plans often render their short-term medical & health business a "loss leader". More effective claim management and better product design are needed to combat potential fraudulent claims.

With the introduction of a new insurance law, general insurers are now allowed to sell short-term health-related business. This will obviously intensify the competition. Nonetheless, opportunity is still there, as there is increasing market demand for this line of business.

Listing of the Two Market Giants

In 2003, "PICC" successfully listed in Hong Kong and "China Life" successfully dual-listed in New York as well as in Hong Kong. The listing of these two market giants is an important milestone in China's insurance history.

Becoming public companies not only strengthens these two insurers' capital position to enable further growth, but also turns the senior managements' focus increasingly towards profitability, value creation and efficient management of capital.

It can be expected that more domestic insurers will seek to follow these two state-owned companies to raise capital in the stock markets.

Concluding Thoughts

With the enormous business potential in China, it is perhaps surprising to see many insurers adopting a "me-too" approach. Choice of cities of operation and business operating model are often the same. The vastness of opportunity in China lends itself well to someone doing something completely different and benefiting enormously. For example, selecting a different operational area and distribution channel. Indeed, some insurers have selected their operational areas away from the crowd; however we are yet really to see anyone adopting a radical approach to the way they do business.

With China's population, the potential of Group Life and Pension business is enormous and the soon-to-be-implemented regulatory changes will permit this new market to be better tapped. Insurers establishing themselves as market leaders in this field will enjoy a good likelihood of success. In particular, an insurer tailoring worksite-marketing-type expertise to gain access to a vast prospect base should do very well once regulations permit. Chinese joint venture partners should have a lot to offer in this regard. A specialist/niche play in China does not mean it will be small - in fact it can be an extremely substantial business.

We look forward to seeing insurers challenge the norm and reaping success in China.

China's insurance market is currently one of the most talked-about subjects in the financial services arena. With the signing of CEPA, these are truly exciting times for Hong Kong insurance practitioners to be involved in the financial market development of the Mainland.

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 Insurance Authority.

Selling of Insurance Policies to Mainland Residents

The Insurance Authority has recently issued a circular letter to all long term insurers and approved bodies of insurance brokers. The circular aims to remind them of being vigilant and taking effective measures to ensure that their insurance agents or member brokers do not undertake any unauthorized insurance activities in the Mainland of China.

There are increasing cross-border regulatory concerns that some local insurance intermediaries during their travels to the Mainland may make use of the opportunity to promote and sell insurance policies on behalf of Hong Kong authorized insurers who are not licensed in the Mainland. Authorized insurers and insurance brokers are therefore reminded of putting in place adequate procedures to manage the conduct of their insurance agents or technical representatives not only in Hong Kong, but also in other places where they hold themselves out to solicit business. Persons who fail to comply with China's laws and regulations may face prosecutions in the Mainland, which shall undoubtedly affect their registration status as insurance intermediaries in Hong Kong.

The Insurance Authority shall also step up his regular on-site inspection visits to insurers authorized in Hong Kong. These visits shall include, among others, a robust inspection of their underwriting procedures, controlling measures and keeping of records on promotion and issuance of policies, in particular, to Mainland visitors. Insurers who fail to exercise adequate control and maintain proper records shall render their directors and controllers not "fit and proper" for the purposes of the Insurance Companies Ordinance.

Cooperation between the Mainland and Hong Kong on Insurance Regulation

The Insurance Authority maintains a close working relationship with the Mainland's insurance regulator, the China Insurance Regulatory Commission (CIRC).

The Insurance Authority holds regular joint meetings with his counterparts of Guangzhou, Shenzhen and Macau. The Insurance Authority is also liaising with the CIRC on regulatory matters of mutual interest, including the supervision of insurance intermediaries and CEPA.

The two regulators are working on a cooperative agreement on insurance regulation. The agreement is aimed at formalizing a framework for cooperation, embracing channels of communication, supply of information, exchange of visits, training of staff and provision of investigative assistance.

Insurance Statistics Hong Kong

Mr. Duncan Spooner and Mr. Robert Stead

In June 2003, the International Monetary Fund stated that "international experience indicates that more detailed publicly available pricing information may be necessary in Hong Kong for the insurance market to become more efficient and stable". So how does Hong Kong compare to other developed markets in the capture and publication of relevant data?

NATURE OF DATA	**EXAMPLE**	**USE OF DATA**		
		INTERNAL	REGULATORY	"INDUSTRY"
Aggregate	Whole Company	Financial Accounts	IA Returns	- Expenses Surveys
Class	EC	Management Accounts	IA Returns	
Sub-class	Construction	- Sales Reports - Portfolio Monitoring Reports	New Detailed IA EC Returns New Detailed IA Motor Returns	

Transaction	Individual Claims	- Pricing - Claim Management - Capital Allocation	Labour Department Form 2s	- Insurance Statistics HK - Reinsurers' Large Claim Study - Fraud Detection

Regulatory Data

As shown, the Insurance Authority (IA) collects quarterly returns showing accounting performance by class. Annually more detailed forms (sub-class level) are collected for motor and employees' compensation (EC) insurance, including data by accident year. This is in line with international practice although the most transparent regimes may publish this information at company level.

Other Statutory Data

Other relevant statutory reporting requirements include the Form 2 submitted by employers to the Labour Department in respect of EC claims. More use could be made of this data. These are individual claim records including all claimants' details. Some of the leading insurers are now making use of this great resource through automatic transmission of Form 2s. Common Law is the only component missing. Nonetheless, a good deal more could be gleaned from this information if access was less restricted and insurers may consider working with the Labour Department in this area.

"Industry" Data

There are a number of voluntary participation studies conducted including an expense survey, a large loss study, and there is a continual drive to launch a fraud detection scheme - each requiring different levels of data detail.

Insurance Statistics Hong Kong (ISHK) has evolved since its inception in 1996 to establish a system containing individual claim and policy records for Motor and EC business built from members' raw data. Each participating insurer receives a user-friendly module showing its own detailed performance measures and the combined performance of all members. ISHK's current membership represents around 25% of market share for Motor and EC business.

Internal Use

Insurers also use their own data for internal studies. These will often contain confidential information and will be used to determine premium rates and other sensitive analyses. In Hong Kong, some circumstantial impediments may stand in the way: (i) it is a small market with many insurers such that few have sufficient data to perform statistically credible analysis on a stand alone basis, (ii) there is a shortage of technical pricing skills and established practice in this area which results from the market having historically been tariff-rated, and (iii) most small insurers do not have the funds to invest in developing new systems or skill-sets.

In the light of (i) above, the need for reliable industry statistics is paramount. With reference to benchmarks, such as ISHK, individual insurers would be able to blend their internal data with industry experience to produce sound pricing analysis. One may then reasonably expect a more disciplined market to develop. This may be evinced by the rating work commissioned by the Hong Kong Federation of Insurers to determine advisory premium rates for EC business.

Conclusion

In many regimes, an organization like ISHK is run compulsorily by insurers. There is a need in Hong Kong for insurers to take the lead in implementing such a system. The IA supports the work of ISHK and encourages insurers to participate in the scheme for enhancing market transparency.

Last year, the industry attracted poor press from various groups including construction companies, taxi operators and, most recently, healthcare employees. With comprehensive and meaningful statistics, the industry would be in a stronger position to support its case.

At present, the industry does not have the data to demonstrate that the rates being charged are reasonable and a fair reflection of the incidence of claims and costs incurred. Such data would be equally useful in the proposed review of the level of EC common law claims and commensurate changes to statutory benefits.

Insurers and reinsurers interested in joining ISHK, to both contribute to the database and to benefit from its growing bank of statistics, should contact Mr. Duncan Spooner of Trowbridge Deloitte at 2890 5222 or Mr. Robert Stead of Allianz Insurance (Hong Kong) Limited at 2521 6651.

General and Long Term Insurance

Submission of Additional Information by Insurers

The Office of the Commissioner of Insurance ("OCI") is primarily tasked to monitor the financial health of authorized insurers with a view to protecting the insuring public under the Insurance Companies Ordinance. The OCI has been discharging this regulatory function through, among others, examining the insurers' financial statements, reports and returns, and other additional information as appropriate.

To step up this regulatory role and streamline the monitoring procedures, the OCI has developed a set of standard questionnaires asking for supplementary information, which is to be submitted by insurers together with their annual filings of financial statements. This new practice facilitates the OCI's timely assessment of the solvency position of authorized insurers.

GN13 - Guidance Note on Asset Management by Authorized Insurers

To enhance insurers' investment controls, the OCI issued GN13 – "Guidance Note on Asset Management by Authorized Insurers" on 28 June 2004. GN13 requires vesting of the ultimate responsibility of formulating appropriate investment policies on the board of directors, including employing competent staff, instituting segregation of duties, and monitoring assets by risk management techniques.

GN13 applies to all active insurers incorporated in Hong Kong and local branches of overseas insurers with assets exceeding HK$ 100 million, with effect from 1 July 2005.

Policyholders' Protection Funds

The public consultation on feasibility of establishing Policyholders' Protection Funds (PPFs) in Hong Kong has been completed. The OCI has received 21 submissions, in which the views expressed are diverse. Six respondents raised opposition to establishing PPFs on grounds of high costs and moral hazard, and recommended prudential supervision as the better alternative. About half of the submissions remained neutral whilst 4 respondents indicated support to this final safety net. Working meetings with the stakeholders are being held to narrow down differences in opinion before the Government decides on the proper way forward.

Exchange

Annual Meeting of International Association of Insurance Fraud Agencies

The OCI is a member of the International Association of Insurance Fraud Agencies (IAIFA), an international association of antifraud professionals and practitioners who meet from time to time to exchange views on the prevention and combating of insurance fraud. The Commissioner of Insurance, Mr. Richard Yuen, attended the Annual Meeting of IAIFA held in London on 28-30 April 2004.

Taking this opportunity, the Commissioner visited the UK Financial Services Authority, Lloyd's, the Association of British Insurers, the Financial Services Compensation Scheme and the Chartered Insurance Institute. To promote Hong Kong's insurance market, Mr Yuen also gave a speech at a luncheon meeting with the insurance industry in the United Kingdom.

The 5th Conference on Alternative Risk Transfers & Captives in Asia

The Commissioner of Insurance, Mr Richard Yuen, attended the 5th Conference on Alternative Risk Transfers (ART) & Captives in Asia on 27-28 May 2004. The conference brought together finance and insurance CEO, CFO, consultants and regulators to exchange opinions on the latest ART and captive developments. Mr Yuen delivered a keynote speech on "Hong Kong – An Ideal Captive Hub" at this conference held in Hong Kong.

Taking this opportunity, the OCI distributed publicity pamphlets to participating guests to promote Hong Kong as an ideal domicile for captives.

Intermediaries

Memorandum of Understanding between the Mandatory Provident Fund Schemes Authority and the Insurance Authority

The Insurance Authority ("IA") works closely with local financial services regulators on cross-sectoral issues. Concerning the regulation of MPF intermediaries, the IA, the Mandatory Provident Fund Schemes Authority ("MPFA") and other financial services regulators had previously entered into a cooperative agreement.

To strengthen the supervisory cooperation and exchange of information between the IA and the MPFA, the two regulators further concluded a memorandum of understanding on 20 April 2004.

Revised Code of Practice for the Administration of Insurance Agents

The Hong Kong Federation of Insurers ("HKFI") has recently revised the Code of Practice for the Administration of Insurance Agents ("Code") with the approval of the IA. The revised Code (6th Edition) has taken effect from 1 June 2004. In addition to a number of housekeeping updates, the revised Code extends the length of provisional registration period from 3 months to a period not exceeding 3 years for an insurance agent whose case is pending the final decision of the Insurance Agents Registration Board.

The revised Code is available for downloading from the HKFI's website, **www.hkfi.org.hk**.

New Edition of Study Notes for the Investment-Linked Long Term Insurance Examination

New edition of study notes for the Investment-Linked Long Term Insurance Examination have been published. With effect from 2 August 2004, examination for this subject will be based on the new edition of study notes which are available for downloading from the OCI's website.

Study notes for the Principles and Practice of Insurance, General Insurance and Long Term Insurance are under revision and will be published in due course.

Promotion of Insurance Industry

New Promotional VCD/DVD – "Hong Kong – An International Insurance Centre"

The Government of the HKSAR is strongly committed to promoting Hong Kong as a major international insurance centre in Asia. To this end, the OCI has engaged a professional film producer to update the promotional VCD/DVD – "Hong Kong – An International Insurance Centre". The updated VCD/DVD does not only introduce our favourable business environment and world-class regulatory regime, but also Hong Kong's reinforced role as the business gateway to the Mainland of China. Copies of the promotional VCD/DVD are being distributed to the international business community through the Government's various Economic and Trade Offices overseas.

News Summary

a. Calendar of Events

Date	Event
26/2/04	The Commissioner of Insurance delivered a keynote speech on the importance of insurance education at the opening ceremony of Hong Kong Branch of the Australian and New Zealand Institute of Insurance and Finance.
16/4/04	The Commissioner of Insurance attended the Professional Qualification Examination Launching Ceremony of the Hong Kong Society of Certified Insurance Practitioners.
20/4/04	The OCI and the Mandatory Provident Fund Schemes Authority concluded a memorandum of understanding to strengthen supervisory cooperation and exchange of information between the two regulators.
26-30/4/04	The Commissioner of Insurance participated in the Annual Meeting of International Association of Insurance Fraud Agencies held in London and paid an official visit to the Financial Services Authority and industry bodies in the United Kingdom.
27-28/5/04	The Commissioner of Insurance delivered a keynote speech

	on "Hong Kong – An Ideal Captive Hub" at the 5th Conference on Alternative Risk Transfers & Captives in Asia held in Hong Kong.
31/5/04	Provisional insurance statistics on the Hong Kong general and long term business for the first quarter of 2004 were released.
28-29/6/04	The Commissioner of Insurance attended the Conference on Insurance Mathematics, Ruin Theory and Monte Carlo Methods organized by The University of Hong Kong and delivered a keynote speech on "The Hong Kong Insurance Industry – The Realities".

b. Withdrawal of Authorizations

Date of Withdrawal	Name of Insurer	Place of Incorporation	Type of Business
19/4/04	GE Frankona Reassurance Limited	United Kingdom	Long Term
22/4/04	ANF Insurance Company Limited	Hong Kong	General
28/6/04	Eagle Star Insurance Company Limited	United Kingdom	General
28/6/04	Zurich Insurance Company (Asia) Limited	Hong Kong	General

29/6/04	Vahinkovakuutusosakeyhtiö Pohjola (Pohjola Non-Life Insurance Company Ltd.)	Finland	General

c. Portfolio Transfers

Date	Event
27/5/04	The transfer of the general business carried on in Hong Kong by Eagle Star Insurance Company Limited to Zurich Insurance Company was approved under section 25D of the Insurance Companies Ordinance.
27/5/04	The transfer of the general business carried on in Hong Kong by Zurich Insurance Company (Asia) Limited to Zurich Insurance Company was approved under section 25D of the Insurance Companies Ordinance.

Market Performance of the Hong Kong Insurance Industry for the first Quarter of 2004

In the first quarter of 2004, the gross and net premiums of general insurance business recorded a growth of 0.1% to HK$6,878 million and 2.0% to HK$4,855 million respectively compared with the corresponding period of 2003.

The overall underwriting profit of general insurance business decreased from HK$480 million to HK$386 million compared with the corresponding quarter of

2003. This was mainly attributable to deterioration in the underwriting profit of Property Damage business which declined from HK$266 million to HK$150 million.

The underwriting performance of the two major classes of compulsory insurance business, i.e. Motor Vehicle business and General Liability business (majority statutory Employees' Compensation business ("EC")), both improved. Motor Vehicle business improved from a profit of HK$6.0 million to HK$60.5 million, which was due to an increase in premiums and improvement in the amount of net claims incurred. As for General Liability business, the underwriting profit improved from a profit of HK$54.6 million to HK$95.5 million, (with EC business reducing its loss of HK$57.4 million to HK$0.7 million as a result of improvement in claims experience).

Starting from the first quarter of 2002, the insurance statistics on direct business of Accident & Health have been broken down into medical and non-medical, and those on direct business of General Liability (statutory) into construction, restaurants & hotels and others. To further enhance the market transparency, the statistics on direct business of Motor Vehicle business have also been broken down into various types of vehicle, including taxis, public light buses and motor cycles, commencing the first quarter of 2004.

In respect of long term business, the total revenue premiums of long term in-force business collected by the insurance industry amounted to HK$23,142 million in the first quarter of 2004, an increase of 36.4% over the same period of 2003. The total insurance benefits paid to individuals during the said period increased by 69.1% to HK$8,956 million.

The new business statistics showed that the long term insurance industry grew prominently in the first quarter of 2004. Benefiting from the strong rebound of the economy and the persistent low interest rate environment, the new office premiums (excluding Retirement Scheme business) achieved a remarkable growth of 112.0% over the same period of 2003 to reach HK$9,572 million. The major component of the long term business, Individual Life and Annuity (Non-Linked) business, recorded an increase of 90.1% in new office premiums to HK$5,663 million. Another major component of the long term business, Individual Life and Annuity (Linked) business, also increased by 165.5% in new office premiums to HK$3,802 million in the first quarter of 2004.

Provisional Statistics on Hong Kong Insurance Business

January – March 2004

Insurance Market Structure as at 31 March 2004

Number of Authorized Insurers		**Number of Insurance Intermediaries**	
Long Term	46		
General	123	Authorized Insurance Brokers	461
Composite	19	Registered Insurance Agents	30,671
Total	**188**	**Total**	**31,132**

Highlights

	2004 1st Quarter (HK$ m)	2003 1st Quarter (HK$ m)
General Business		
Gross Premiums	6,878	6,870
Net Premiums	4,855	4,760
Underwriting Profit/(Loss)	386	480
Long Term Business		
Revenue Premiums (In-force Business)	23,142	16,971
New Business* Office Premiums (exclude Retirement Scheme)	9,572	4,516

Composition of Premiums by Class of Business

General Business by Gross Premiums		Long Term Business (In-force Business) by Revenue Premiums	
Accident & Health	20%	Individual Life & Annuity (Non-Linked)	57%
Motor Vehicle	12%	Individual Life & Annuity (Linked)	23%
Goods in Transit	4%	Other Individual Business	1%
Property Damage	22%	Retirement Scheme Group Business	17%
General Liability	28%	Non-Retirement Scheme Group Business	2%
Others	14%		

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	1,374	Individual Life & Annuity (Non-Linked)	13,281
Motor Vehicle	808	Individual Life & Annuity (Linked)	5,361
Goods in Transit	284	Other Individual Business	230
Property Damage	1,500	Retirement Scheme Group Business	3,862
General Liability	1,901	Non-Retirement Scheme Group Business	408
Others	1,011		
Total	**6,878**	**Total**	**23,142**

** New business includes single revenue premiums and annualized 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.