"I lens" – November Issue

Commissioner Speaks

The Closer Economic Partnership Arrangement ("CEPA") signifies that the relationship between the Mainland and Hong Kong is entering a new phase of economic cooperation. The free trade agreement will benefit immensely our services sectors in their expansion into the Mainland of China and will reinforce Hong Kong's role as the gateway to doing business in this fast-growing economy.

As for the financial services industry, collaboration is also the key to success in grappling with new business opportunities. Banks are increasingly used as an alternative channel for distribution of insurance products in Hong Kong. Such convergence of financial services has created a model of "one-stop shop", a retail financial institution that offers an array of financial services. Notwithstanding that "bancassurance" seems to be a bonanza for consumers in terms of convenience, some of them do not fully understand the financial products they are buying.

To strengthen protection of the policyholders who take out insurance through banks, the Insurance Authority has just entered into a memorandum of understanding with the Hong Kong Monetary Authority on mutual assistance and exchange of information. As the insurance regulator, I shall continue to work closely with my local and overseas counterparts on any cross-sectoral regulatory issues.

I hope this issue of “I lens” could provide you with a better understanding of the concept of “bancassurance”.

Benjamin Tang
Commissioner of Insurance

Editor’s Note

“Bancassurance” has become a buzzword lately. Members of the public see it as a package of financial services which can fulfill their banking and insurance needs at the same time. Insurers see it as a tool to increase their market penetration and premium turnover. For banks, bancassurance is a means of product diversification and a source of their additional fee income. Everybody seems to be a winner. Mr. K P Chan, Deputy Chairman of the Hong Kong Federation of Insurers, is going to share with you his experience in bancassurance, and some common obstacles and solutions to the implementation of a bank-insurance partnership.

Feature

Mr. K P Chan is the Assistant General Manager and Head of the Insurance Group of Hang Seng Bank, responsible for the Bank's general insurance, life insurance and mandatory provident fund businesses. He is a member of the Insurance Advisory Committee and the Employees Compensation Assistance Fund Board. Mr. Chan is also the Chairman of the Employees Compensation Insurer Insolvency Bureau, Deputy Chairman of the Hong Kong Federation of Insurers, and was the Chairman of the General Insurance Council for 2001/02.

Outlook For Bancassurance

K P Chan

Background

Banks in Hong Kong have been selling insurance products for a long time. However, the generic term "bancassurance" has become popular mainly because of its success in Europe.

To most people, bancassurance is generally regarded as an alternative distribution channel for insurance products via an established banking network. However, this restrictive definition of bancassurance has evolved and various cooperative bancassurance models between banks and insurers have progressively emerged. Bancassurance now embraces the distribution as well as manufacturing of insurance products at different levels based on the collaboration involved.

Win-Win Situation

The bancassurance business accounts for about 20% of the Hong Kong insurance market. Although bancassurance captures a larger share of markets in Europe, Hong Kong is ahead of most Asian markets which are still very much agent or broker dominant.

In the face of deregulation and the narrowing of interest margins, banks' profit margins on loans and advances are being squeezed. Coupled with the economic slowdown, many banks have been driven to explore other sources of income. This environment has recently energized substantial growth of the bancassurance business in Hong Kong. The growing presence of bancassurance can be attributed to its tripartite benefits to banks, insurers and customers:

Benefits to Banks

- Fee income generated from selling insurance creates a new source of revenue and diversifies the banks' business focus.
- Banks can leverage on their extensive retail customer base to develop non-banking business.
- The bundling and blending of insurance products with other banking products can achieve synergy in cross-selling and further strengthen the banks' relationship with their customers.

- Various needs of the banks' customers can be addressed by providing total financial solutions.

Benefits to Insurers

- Insurers can penetrate the banks' huge customer base and tap the massive market through their branch network.
- Insurers can achieve cost-savings and enhance their customer services by sharing resources with the banks (e.g. premium payment facilities).
- Customized bank-related products developed by insurers can enhance the selling efficiency.
- Insurers can leverage on brand names of the banks to strengthen their reputation.

Benefits to Customers

- One-stop financial services offer convenience to customers.
- Reduced distribution costs may lead to lower premium rates.
- Innovative customer-oriented insurance can be developed to complement the banking services e.g. credit card insurance, mortgage insurance, etc.

Challenges

While it is evident that plenty of advantages are inherent in the development of bancassurance, there are hurdles to be overcome:

- Bank staff are already selling a variety of banking products. The allocation of extra human resources to marketing insurance is a challenge.
- After-sales service by banks may not be as personal as those offered by conventional agents or brokers.
- The financial supermarket environment may result in competition for customers' wallet share, especially in the economic slowdown where people are more prudent in managing their spending.
- There may be higher reputation risk for banks if the services delivered are not in order.

Way Forward

Bancassurers should acknowledge the above challenges which are common in bank-insurance operations. While the issues could be differently resolved depending on the strategy and culture of an organization, the following mega-trends may shed light on the future direction of bancassurance developments in Hong Kong.

<u>Distribution Channel</u>

On the life insurance front, in addition to developing traditional branch channels, bancassurers should explore alternative means to reach customers. Banks are experiencing a fall in branch patronage. It is estimated that about 40% of bank customers do not regularly visit bank branches (i.e. they have not visited bank branches for the past 6 months). With the outbreak of SARS, bank customers have further experienced the convenience of automated channels, e.g. the internet. According to statistics from major banks in Hong Kong for the first half of 2003, internet banking constituted 20%-30% of the total transactions, compared with counter transactions which only accounted for 9%-15% of the total figure.

To cope with these changes in customer behaviour, bancassurers are equipping themselves with telemarketing and outreaching teams. Telemarketing teams are confined to distributing simple products and providing minimal after-sales service. Bancassurers should aim to develop a team of professional financial planners and to have an optimum mix of in-branch and outreaching activities. The financial planners must be very familiar with the product range, and be able to ascertain customer needs at the end of the financial planning process.

The European experience suggests that financial planners should be remunerated with high basic salaries and a modest commission package. This will encourage them to build customer relationships (to be farmers) rather than to just close the deal and move on to another customer (to be hunters). The offer of renewal commissions may also be an effective way of encouraging better service and containing the lapse rate. Their career path should be carefully structured so that some financial planners can take up the sales job as a career whereas others can eventually move on to other posts within the banks. This is to retain talents and to attract people with different career objectives to join the industry.

On the non-life insurance side, in-branch cross-selling by frontline staff will remain the major source of business. Telemarketing by outsourcing or by other internal staff has emerged as another effective channel.

Segmentation and Cross-Selling

Owing to the recent mass marketing approach deployed by bancassurers and insurers, public awareness of insurance has been growing rapidly. To meet different client needs, bancassurers should identify and segment their target customers. In the banking environment, the wide product range facilitates this segmentation process. Segmentation should be multi-dimensional. These dimensions might be a combination of demographics, life styles, life stages and major life events. The objective is to identify client needs and to deliver comprehensive solutions. Those bancassurers who are able to deliver innovative products in a timely manner are bound to be the market winners.

Training and Professionalism

Customer sophistication, market transparency, consumer protection and legal compliance are requiring banks to upgrade their insurance sales staff in terms of product knowledge and service quality. The ongoing staff training and development should involve an accreditation process. The ultimate goal is to put needs-based professional selling in place.

Note: This newsletter aims to provide readers with the general knowledge on 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.

Cover Story

Regulating Bancassurance in Hong Kong

"Bancassurance" is becoming popular in Hong Kong. About 50 insurers, 50 banks (including most of the major banks in Hong Kong), and a workforce of about 14,000 people are involved in this business.

Banks and insurers are supervised by their respective industry regulators in Hong Kong. The Hong Kong Monetary Authority regulates banks on their main lines of banking business. On the insurance front, the Insurance Authority monitors the financial health of insurers (insurance product manufacturers), which are also subject to a self-regulatory system of the market practice as well as the administration of their insurance agents. A bank selling insurance as an insurance agency is therefore required to be registered with the Insurance Agents Registration Board ("IARB") of the Hong Kong Federation of Insurers. Part X of the Insurance Companies Ordinance provides the legal backing to this self-regulatory mechanism.

Those bank staff, who participate in bancassurance, must be registered as technical representatives of their banks with the IARB. They must also fulfill the examination and the continuing professional development requirements as specified under the Insurance Intermediaries Quality Assurance Scheme. Commencing from 2002, bank staff who are engaged in advising on investment-linked long term insurance business are further required to pass a specific examination paper on the subject.

In the course of advising their customers on insurance matters, bank staff should explain to them about the capacity of the bank as an insurance agency and should identify the appointing insurer. Banks should also ensure that their staff being engaged in bancassurance be properly registered.

As banks in Hong Kong are increasingly involved in insurance selling / advising activities, it is essential for the Insurance Authority and the Hong Kong Monetary Authority to promote mutual assistance and exchange of information. To improve effectiveness in the supervision of bancassurance, the two regulators formalized this arrangement of close cooperation by entering into a memorandum of understanding on 19 September 2003.

Case Study

Bank Staff Selling Insurance

A financial planning manager of a bank sold a long term insurance savings policy to a bank customer. The bank customer complained that she was misled to join a savings plan of the bank. She only discovered the fact when she tried to terminate the insurance savings policy.

The complaint was lodged with the Insurance Agents Registration Board ("IARB"). The IARB found that the technical representative of the bank concerned, contrary to the requirements of the Code of Practice for the Administration of Insurance Agents ("Code of Practice"), did not identify herself as a technical representative of an insurance agency (i.e. the bank) acting on behalf of an insurer and did not explain that the savings plan was a long term insurance policy. The technical representative had further failed to deliver the policy to the policyholder within the cooling-off period, resulting in the policyholder being deprived of such a right. She was reprimanded by the IARB for the above-mentioned misconduct.

In view of the increasing number of similar complaints, the IARB issued a guideline in late 2002 to those banks that were registered as insurance agencies and drew their attention to the relevant clauses in the Code of Practice. On 18 August 2003, the Hong Kong Federation of Insurers further issued a letter reminding its member insurers that they should avoid using misleading promotional statements / sales scripts when selling their savings policies and should observe the relevant parts in the Code of Conduct for Insurers.

<u>Legal and Technical Corner</u>

Institutional Set-up of the OCI under Review

In the light of international regulatory trends and rapid developments of the insurance industry in recent years, the Government considers it necessary to study arrangements to turn the Office of the Commissioner of Insurance ("OCI") into a regulatory agency independent of the Government. It is envisaged that an independent OCI will enjoy a greater operational and financial flexibility, and therefore stand ready to meet any new regulatory challenges.

The Government has consulted relevant stakeholders. To collect views from market participants, the Commissioner of Insurance participated in a series of forums in June and July. It is noted that some stakeholders have expressed their concerns about the cost implications to the insurance industry, and the power and governance of the future OCI.

The present consultation aims to seek the views of stakeholders on the general way forward. When the Government decides on the general direction, there will be a separate study to work out detailed proposals, on which the insurance industry will be consulted again.

Financial System Stability Assessment

The Financial Sector Assessment Programme ("FSAP") is a joint International Monetary Fund – World Bank programme to diagnose the vulnerabilities of the financial sector of a participating jurisdiction and to identify development measures for promoting financial stability.

Hong Kong took part in the FSAP in 2002 and a summary report, namely Financial System Stability Assessment ("FSSA") was published in late June 2003. The report concludes that the financial system in Hong Kong is robust, fundamentally sound and overseen by a comprehensive supervisory framework. As for the insurance sector, Hong Kong's regulatory framework has largely observed those core principles prescribed by the International Association of Insurance Supervisors. The FSSA report also identifies a number of areas for further improvement, e.g. on the supervision of life insurers, the institutional set-up of the OCI, oversight on the self-regulatory organizations, etc.

The OCI welcomes the FSSA report and will continue to seek improvements to our insurance regulations, having regard to international standards and market developments in Hong Kong.

Guidance Note on Reinsurance with Related Companies (GN12)

GN12 was issued on 30 June 2003. In formulating the guideline, the OCI has made reference to the relevant overseas regulatory approaches, local circumstances, and comments from the insurance industry. The Guidance Note shall apply to the reinsurance arrangements made in respect of the financial years of an insurer commencing on or after 1 January 2004.

Supplement to the Guidance Note on Prevention of Money Laundering and Guideline on the Combat of Terrorist Financing

Having regard to the latest international regulatory developments, the OCI issued a Supplement to the Guidance Note on Prevention of Money Laundering on 25 June 2003.

After the “911” incident, there have been extensive international calls on financial institutions to fight against terrorist financing. To help develop a comprehensive system in combating this crime, the OCI promulgated a Guideline on the Combat of Terrorist Financing on 25 June 2003.

First Self-Assessment Report on Compliance with the GN10

The Guidance Note on the Corporate Governance of Authorized Insurers (“GN10”) has become effective from 1 September 2003. To monitor compliance with the GN10, the OCI is in the process of evaluating the first self-assessment reports submitted by insurers.

Board Appointment Service of the Hong Kong Institute of Directors

The Hong Kong Institute of Directors is comprised of members from diverse industries commanding a wealth of experience and expertise in corporate governance. The Institute maintains a Members' Register for Non-Executive Director Appointments and provides the free Board Appointment Services. The Institute can be contacted as follows:

Address: Room 505, Bank of America Tower,
12 Harcourt Road, Central, Hong Kong.
Tel.: 2867 1185
Fax. : 2537 9093
E-mail: executive@hkiod.com

Electronic Input Templates for Statistical Returns

Insurers are required to submit statistical returns to the OCI on a quarterly and annual basis. The OCI has embarked on a project to upgrade its computer infrastructure. Electronic input templates for statistical returns, downloadable from the OCI's website, have been developed to facilitate data input and electronic submission. It is envisaged that the use of e-templates will speed up the submission process of insurers' statistical returns and the compilation of insurance statistics.

Insurance Advisory Committee

Mr. Alwin Lam was appointed a member of the Insurance Advisory Committee ("IAC") with effect from 1 July 2003. Mr. Lam has a wealth of experience in the life insurance industry. His appointment is made to fill the vacancy arising from the resignation of Mr. Frank Chan. The OCI would like to extend a warm welcome to Mr. Lam and express sincere thanks to Mr. Chan for his valuable contributions to the IAC.

Long Term and General Insurance

Policyholders' Protection Funds

Most advanced economies have policyholders' protection funds ("PPFs") in place in one form or another. These arrangements are normally funded by insurers, which may recoup the financing costs from their policyholders. For the time being, Hong Kong has no PPFs but only two insolvency funds for the statutory employees' compensation and motor insurance.

To enhance the protection of policyholders, the Government has commissioned a consultancy study in two stages. Stage One comprises a review of the existing regulatory regime and a feasibility study on establishing PPFs including the identification of preferred options. If it is found feasible, Stage Two will focus on the detailed implementation arrangements.

M/S PricewaterhouseCoopers has been engaged as the consultant for Stage One. A public consultation paper will be issued shortly.

Closer Economic Partnership Arrangement ("CEPA") – Insurance Sector

The Central People's Government and the Government of the HKSAR reached an agreement on the main parts of CEPA, which was signed on 29 June 2003. The annexes to CEPA were signed by both parties subsequently on 29 September 2003.

As for the insurance sector, the Mainland will accord Hong Kong service suppliers the following concessions with effect from 1 January 2004:

1. To allow groups formed by Hong Kong insurance companies through re-grouping and strategic mergers to enter the Mainland insurance market subject to established market access conditions (total assets held by the group of over US$ 5 billion; more than 30 years of establishment experience attributable to one of the Hong Kong insurance companies in the group; and a representative office established in the Mainland for over 2 years by one of the Hong Kong insurance companies in the group).
2. The maximum limit of capital participation by a Hong Kong insurance company in a Mainland insurance company is 24.9%.
3. To allow Hong Kong residents with Chinese citizenship, after obtaining the Mainland's professional qualifications in actuarial science, to practise in the Mainland without prior approval.
4. To allow Hong Kong residents, after obtaining the Mainland's insurance qualifications and being employed or appointed by a Mainland insurance institution, to engage in the relevant insurance business.

For the purposes of the CEPA, the main qualifying criteria for "Hong Kong service suppliers" who provide services in the form of juridical persons are:

1. The service supplier should be incorporated or established pursuant to the Companies Ordinance and be authorized under the Insurance Companies Ordinance to carry on insurance business in Hong Kong.
2. The service supplier should engage in substantive business operations in Hong Kong. In other words,
   (a) the nature and scope of the services provided by it in Hong Kong should encompass the nature and scope of the services it intends to

provide in the Mainland;

(b) it should have engaged in substantive business operations for 5 years or more;

(c) during the period of substantive business operations in Hong Kong, it should have paid profits tax in accordance with the law;

(d) it should own or rent premises in Hong Kong to engage in substantive business operations; and

(e) among the staff employed by it in Hong Kong, more than 50% should be residents staying in Hong Kong without limit of stay, and people from the Mainland staying in Hong Kong on One Way Permit.

Further details on CEPA can be obtained from the website: www.tid.gov.hk/english/cepa/.

Impact of SARS on the Insurance Industry

The outbreak of SARS early this year has adversely affected people from all walks of life. The latest statistics from the Hong Kong Federation of Insurers showed that Hong Kong insurers have paid more than HK$100 million of SARS-related insurance benefits out of 492 claims (see table below).

Type of Insurance	Individual Life	Group Life	Medical	Travel	**Total**
No. of Claims	63	9	372	48	**492**
Amount Paid (HK$ million)	93.7	7.7	3.8	0.1	**105.3**

About 96.3% of those claim payments were related to life insurance, while the other 3.6% and 0.1% were related to medical and travel insurance respectively. The total amount of SARS-related claims, however, was not material when compared with the total life insurance benefits of HK$ 11,525 million paid in the first half of 2003. As for the non-life insurance, the more affected lines of business were employees' compensation and business interruption insurance. The final total amount of these claims remains to be seen as they depend on a number of factors, e.g. the extent of employers' liability, how the reduction in revenue could be attributable to SARS, etc.

Good news is that impact of SARS on the sales of life insurance is less prominent. Despite the outbreak of SARS, total new office premiums for individual life business still recorded a growth of 18.2% in the first half of 2003 as compared with the corresponding period of last year.

The outbreak of SARS has increased the public awareness on health care and long term protection. It is expected that the demand for life and medical insurance will continue to rise. As travel industry begins to recover, the outlook for travel insurance is also positive.

Enhancing Transparency of Employees' Compensation and Motor Vehicle Insurance Businesses

To assist insurance industry in better assessing the claims cost of employees' compensation ("EC") and motor insurance, the OCI has commenced to collect and publish additional statistics on the two classes of compulsory business on an aggregate and annual basis. The additional statistics include gross premiums, gross claims paid and gross outstanding claims development data broken down by ten trade occupations for EC business, and by class of vehicle, type of coverage, and nature of claims for motor vehicle business. The first sets of such statistics relating to the financial year ended 31 December 2002 were released on 19 September and 16 October 2003 respectively.

The OCI has been publishing statistics on the underwriting performance of EC business broken down into “Construction”, “Restaurants & Hotels” and “Others” on a quarterly basis since the first quarter of 2002. To further enhance the market transparency, the OCI will be releasing statistics on the underwriting performance of motor vehicle business to be broken down by “Private Cars”, “Goods Carrying Vehicles & Tractors”, “Taxis”, “Public Light Buses (Green & Red)”, “Motor Cycles”, and “Others” on a quarterly basis commencing from the first quarter of 2004.

Enhanced Complaints Corner of the OCI’s Homepage

The OCI enriches its homepage content from time to time. In June 2003, the “Complaints” corner of our homepage was enhanced. The enhanced corner not only clarifies the proper channels for the insuring public to lodge their complaints against insurers / insurance intermediaries, but also spells out the role of the OCI.

Intermediaries

Review of the Regulatory System for Insurance Intermediaries

Based on the industry's comments on the proposed improvements to the existing self-regulatory system, the OCI is in the process of liaising with the self-regulatory organizations to implement a number of proposals. Some items of the proposed improvements have been implemented. The OCI would keep an open mind on the way forward. Any changes to the self-regulatory system would be introduced upon further liaison with the industry.

Insurance Intermediaries Quality Assurance Scheme ("IIQAS")

<u>Additions to the Exemption List of the Investment-linked Long Term Insurance Examination</u>

On 8 July 2003, the Steering Committee of the IIQAS agreed that the HKSI Practising Certificate and the HKSI Specialist Certificate issued by the Hong Kong Securities Institute ("HKSI") should be added to the exemption list of the Investment-linked Long Term Insurance Examination. Consequently, a holder of either of the above two certificates is now granted exemption from taking the Investment-linked Long Term Insurance Examination paper under the Insurance Intermediaries Qualifying Examination ("IIQE").

<u>Expiration of the Transitional Period for Meeting the Investment-linked Long Term Insurance Examination Requirement</u>

The transitional period for meeting the Investment-linked Long Term Insurance

Examination requirement will expire on 31 December 2003. There will not be any extension of the transitional period.

Practitioners who are currently benefiting from the transitional arrangement are advised to either pass the examination paper under the IIQE or seek confirmation for their exemption status from the relevant regulatory bodies to ensure that they can continue to sell investment-linked long term policies after 31 December 2003.

Computer Screen Mode Examination for the IIQE

The examination fee of the Computer Screen Mode Examination ("CSME") for the IIQE has been revised since 1 September 2003. The fee for any one examination paper in respect of the four insurance examinations for the CSME is now HK$150 each.

Exchange

The 7th Annual Conference of the Asia-Pacific Risk and Insurance Association ("APRIA")

The Commissioner of Insurance attended the 7th Annual Conference of the APRIA held in Bangkok on 21–22 July 2003. The Commissioner, Mr. Benjamin Tang, delivered a keynote speech on "How to Achieve Sustainable Solvency: Hong Kong Experience" at the opening plenary session of the conference.

The 3rd Joint Meeting of the Insurance Regulators of Guangzhou, Hong Kong, Macau and Shenzhen

On 15 August 2003, the 3rd Joint Meeting was held in Shenzhen. Mr. Li Kemu, Vice Chairman of the China Insurance Regulatory Commission, officiated the meeting with a theme of "How to enhance regulatory cooperation among the four jurisdictions and promote healthy developments of the insurance industry within the framework of CEPA". Consensus was reached on a number of major issues, including regulatory cooperative measures to combat illegal selling of life policies in the Mainland. The next joint meeting will be held in Macau next year.

Visit by the National Association of Insurance Commission of the United States

Mr. Mike Pickens, President of the National Association of Insurance Commission ("NAIC"), led a delegation to visit the OCI on 9 September 2003. The NAIC and the OCI exchanged views on various regulatory issues and explored the possibilities of entering into a memorandum of understanding between the two regulators.

The 10th Annual Conference of the International Association of Insurance Supervisors ("IAIS")

The OCI participated in the 10th Annual Conference of the IAIS held in Singapore on 1-3 October 2003. The Commissioner of Insurance, Mr. Benjamin Tang, delivered a speech on "FSAP-Hong Kong Experience" at a panel meeting on "New IAIS Core Principles – The Essential Building Blocks for a Supervisory Regime".

After the conference, the Commissioner attended a symposium on employees' compensation insurance held in Munich, Germany.

Taking the opportunity of these official visits, Mr. Benjamin Tang also delivered luncheon talks in Singapore and London to promote Hong Kong as a regional insurance centre.

The Memorandum of Understanding between Hong Kong and the United Kingdom on Insurance Regulatory Cooperation

The Insurance Authority entered into a Memorandum of Understanding of Mutual Assistance and Exchange of Information ("MoU") with the Financial Services Authority of the United Kingdom on 9 October 2003. The MoU seeks to provide a framework for cooperation, including channels for communication, mutual understanding, exchange of information and investigative assistance between the two regulators.

Market Performance of the Hong Kong Insurance Industry in the First Half of 2003

In the first half of 2003, the gross and net premiums of general insurance business recorded a growth of 3.1% to HK$12,682 million and 3.6% to HK$8,610 million respectively as compared with the corresponding period of 2002. The overall underwriting profit of general insurance business improved from HK$332 million to HK$810 million.

The underwriting performance of Motor Vehicle business and General Liability business (mainly Employees' Compensation business) also improved. Motor Vehicle business reduced its loss from HK$87.9 million to HK$16.5 million, while General Liability business improved from a loss of HK$103 million to a profit of HK$43.2 million. These improvements were attributable to the effect of the continued reduction in commissions ratio in the case of Motor Vehicle business, and the increase in premium rates in the case of General Liability business during the period.

Long term in-force revenue premiums collected by the insurance industry amounted to HK$35,148 million in the first half of 2003, an increase of 11.6% over the same period of 2002. The total insurance benefits paid to individuals during the said period decreased by 4.0% to HK$11,525 million.

Statistics of new business showed that the long term insurance industry maintained a steady growth in the first half of 2003. The new office premiums (excluding Retirement Scheme business) amounted to HK$10,028 million, representing an increase of 16.1% over the same period of 2002. Owing to the considerable growth in single premium business, Individual Life and Annuity (Non-Linked) business recorded a significant increase of 51.5% in new office premiums to HK$6,922 million. On the other hand, Individual Life and Annuity (Linked) business decreased by 22.5% in new office premiums to HK$2,888 million.

News Summary

Calendar of Events

Date	Event
10/6/03	The Commissioner of Insurance gave a briefing to insurance practitioners on the proposal to review the institutional set-up of the OCI at the Hong Kong City Hall.
21-22/7/03	The OCI participated in the 7th Annual Conference of Asia-Pacific Risk and Insurance Association held in Bangkok, Thailand.
15/8/03	The OCI participated in the 3rd Joint Meeting of the Insurance Regulators of Guangzhou, Hong Kong, Macau and Shenzhen, held in Shenzhen.
1/9/03	PricewaterhouseCoopers was appointed to conduct the consultancy study to review the supervisory framework of the assets of long term insurers.
19/9/03	The OCI and the Hong Kong Monetary Authority concluded a Memorandum of Understanding of Mutual Assistance and Exchange of Information.
1-3/10/03	The OCI participated in the 10th Annual conference of the International Association of Insurance Supervisors and its committee meetings held in Singapore.

Date	Event
9/10/03	The OCI and the Financial Services Authority of the United Kingdom concluded a Memorandum of Understanding of Mutual Assistance and Exchange of Information.
12-15/10/03	The OCI participated in the 21st Pacific Insurance Conference held for the first time in Hong Kong.
15/10/03	The Commissioner of Insurance gave a briefing to insurance practitioners on the terms of the Mainland and Hong Kong Closer Economic Partnership Arrangement relating to the insurance sector at the Hong Kong City Hall.
22/10/03	Annual Statistics on the Hong Kong insurance business for 2002, including statistics on individual insurers, were released.

Withdrawal of Authorization

Date of Withdrawal	Name of Insurer	Place of Incorporation	Type of Business
23/6/03	US International Reinsurance Company	USA	General

Change of Names of Insurers

Date of Change	Name of Insurer	Place of Incorporation	Type of Business
23/7/03	Hermes Kreditversicherungs-Aktiengesellschaft to Euler Hermes Kreditversicherungs-Aktiengesellschaft	Germany	General
5/8/03	China Life Insurance Company, Limited to China Life Insurance (Overseas) Company Limited	China	Long Term
16/9/03	Hannover Rückversicherungs-Aktiengesellschaft to Hannover Rückversicherung AG	Germany	Composite

Provisional Statistics on Hong Kong Insurance Business

<u>January – June 2003</u>

Insurance Market Structure as at 30 June 2003

Number of Authorized Insurers		**Number of Insurance Intermediaries**	
Long Term	46		
General	125	Authorized Insurance Brokers	450
Composite	19	Registered Insurance Agents	31,069
Total	**190**	**Total**	**31,519**

Highlights

	2003 Half Year (HK$ m)	**2002 Half Year (HK$ m)**
General Business		
Gross Premiums	12,682	12,299
Net Premiums	8,610	8,308
Underwriting Profit/(Loss)	810	332
Long Term Business		
Revenue Premiums (In-force Business)	35,148	31,483
New Business* Office Premiums (exclude Retirement Scheme)	10,028	8,639

Composition of Premiums by Class of Business

General Business by Gross Premiums		Long Term Business (In-force Business) by Revenue Premiums	
Accident & Health	19%	Individual Life & Annuity (Non-Linked)	59%
Motor Vehicle	13%	Individual Life & Annuity (Linked)	17%
Goods in Transit	4%	Other Individual Business	1%
Property Damage	23%	Retirement Scheme Group Business	21%
General Liability	28%	Non-Retirement Scheme Group Business	2%
Others	13%		

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	2,424	Individual Life & Annuity (Non-Linked)	20,846
Motor Vehicle	1,581	Individual Life & Annuity (Linked)	5,834
Goods in Transit	504	Other Individual Business	439
Property Damage	2,926	Retirement Scheme Group Business	7,277
General Liability	3,558	Non-Retirement Scheme Group Business	752
Others	1,689		
Total	**12,682**	**Total**	**35,148**

* *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.