



**Consultation Conclusions on
Draft Insurance
(Financial and Other Requirements
for Licensed Insurance Broker
Companies) Rules**

April 2019

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Introduction and Executive Summary

1. On 23 November 2018, the Insurance Authority (“IA”) published for consultation a draft of the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules (“Rules”) proposed to be made under section 129 of the Insurance Ordinance (Cap. 41) (“IO”) in relation to the new sections 53F(4), 64T(2), 64ZA(4)(d), 64ZV(8)(e), 73(1) of the IO. The draft Rules prescribe the requirements applicable to licensed insurance broker companies including the requirements in relation to:
 - capital and net assets;
 - professional indemnity insurance (“PII”);
 - keeping of separate client accounts;
 - keeping of proper books and accounts; and
 - submission of audited financial statements.
2. Currently, the relevant requirements are set out in the Guideline on Minimum Requirements for Insurance Brokers (“Guideline”) issued by the IA. The IA proposed to refine and enhance certain requirements so as to enhance protection for policy holders and potential policy holders. The key proposed enhancements were:
 - to increase the minimum amounts of the paid-up share capital and net assets of an insurance broker company from \$100,000 to \$500,000;
 - to increase the minimum limit of indemnity under a PII policy required to be maintained by an insurance broker company from \$3 million to \$5 million;
 - to introduce a cap on the amount of the deductible for the aforesaid PII policy;
 - to require bank reconciliation of client accounts maintained by an insurance broker company on a monthly basis; and
 - to require disclosure of specific financial information in the audited financial statements of an insurance broker company.
3. The consultation on the above proposals ended on 23 January 2019 and the IA is pleased to have received 31 written submissions from different stakeholders including insurance industry bodies, professional bodies, insurers, insurance intermediaries and individuals. A list of respondents is shown in Annex C.

Key Feedback on Draft Rules

4. In summary, most of the proposed enhancements mentioned in paragraph 2 above received positive response. A majority of respondents supported increasing the minimum amounts of paid-up share capital and net assets of insurance broker companies except that there were diverse views on the amount of the proposed increases. There were also diverse views on the proposed increase in the minimum indemnity limit under the PII policies maintained by insurance broker companies from \$3 million to \$5 million, but a majority of respondents supported the proposal to cap the amount of the deductible under the PII policies. Also, a majority of respondents supported the client account reconciliation requirements. As regards the proposed disclosures of specific financial information in the audited financial statements of insurance broker companies, a slim majority of respondents supported the proposed disclosures, but there were objections to the disclosure of referral income and referral expenses. The Hong Kong Institute of Certified Public Accountants (“HKICPA”) also provided a range of feedback from an accounting perspective.

Conclusions and Next Steps

5. Taking into account the feedback received and impact of the proposed enhancements on small-sized broker companies, we consider it appropriate to modify certain of the original proposals in the draft Rules. The main modifications are as follows:
 - The transitional period for the increase in paid-up share capital and net assets by existing insurance broker companies will be extended from slightly more than three years to slightly more than four years.
 - The minimum limit of indemnity under the PII policy maintained by an insurance broker company will remain at \$3 million.
 - The requirements for disclosure of insurance premiums receivable, referral income and referral expenses in the audited financial statements of insurance broker companies will be set aside.
6. In response to the HKICPA’s feedback, we have also made modifications to the draft Rules to ensure the requirements therein are compatible with the prevailing accounting standards.
7. After the modifications in paragraphs 5 and 6 are taken into account, the key requirements under the Rules can be summarized as follows:
 - The minimum amounts of paid-up share capital and net assets of insurance broker companies are set at \$500,000 (a transitional period of slightly more than four years will be given to existing insurance broker companies).

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- The minimum amount for the indemnity limit under a PII policy required to be maintained by an insurance broker company is set at \$3 million.
 - The deductible under a PII policy maintained by an insurance broker company is to be subject to a cap of 50% of the broker company's net assets or paid-up share capital as the case may be (a transitional period of slightly more than four years will be given to existing insurance broker companies).
 - Insurance broker companies are required to perform client account reconciliation on a monthly basis (a transitional period of six months will be given to existing insurance broker companies).
 - Disclosure of insurance brokerage income (distinguishing between general business and long term business), balances of client accounts and insurance premiums payable is required in the audited financial statements of insurance broker companies (a transitional arrangement will be available for existing insurance broker companies which are required to make such disclosures in their audited financial statements for financial year beginning after 31 December 2020).
8. Pursuant to section 132(3) of the IO, the IA publishes in this paper a summary of the major issues covered in the feedback received in the consultation, the IA's response to such feedback and the conclusions drawn.
 9. The final form of the Rules is set out in Annex A. Changes from the draft Rules included in the consultation paper are shown in the marked up version in Annex B for reference.
 10. Following the issuance of this paper, the IA will submit the Rules to the Legislative Council for negative vetting. Subject to the legislative process, the IA expects the Rules to come into operation immediately upon the commencement of the new regulatory regime for insurance intermediaries.
 11. The IA would like to express its sincere gratitude to all respondents for their valuable feedback.

Feedback Received and IA's Response

12. As part of the consultation, the IA posed five questions which focused on the main aspects of the draft Rules. This section summarizes the major issues covered in the feedback received on these questions and on other aspects of the draft Rules as well as the IA's response to these issues.

A. Share Capital and Net Assets

Q1. Do you agree with the proposal to raise both required minimum amounts of paid-up share capital and net assets from \$100,000 to \$500,000?
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Feedback received

13. A majority of respondents supported increasing the minimum amounts of paid-up share capital and net assets. There were, however diverse views expressed on the amount of the proposed increases. One of the approved bodies of insurance brokers was supportive of the increase to \$500,000. The members of this body who responded separately supported the position their body was taking. The other approved body of insurance brokers indicated the increase should be to \$300,000. A few members from this body who sent in separate responses, however, indicated support for the higher amount of \$500,000. Other respondents suggested that the minimum levels should be increased but to a lower amount, for example \$200,000 or \$250,000.

14. One respondent pointed out that certain insurance broker companies did not hold client monies, the implicit suggestion being that these broker companies could be subject to lower minimum amounts of paid-up share capital and net assets on the basis of the lower risk they posed.

15. There was feedback from an insurance broker company reflecting misunderstanding that increasing both the minimum amounts of paid-up share capital and net assets from \$100,000 to \$500,000 would cause an existing broker company with capital and net assets of \$100,000 only to inject additional funds of \$800,000 (additional capital of \$400,000 + additional net assets of \$400,000) in total. In addition, a question about the means to increase the share capital (e.g. by way of capital restructuring) was raised.

IA's response

16. Unlike insurance agents (who act for insurers and, accordingly, for whom insurers are responsible), insurance brokers represent policy holders, owe fiduciary duties to policy holders and are solely responsible to policy holders for the services they provide. Whereas many insurance agents are able to rely on resources provided by their appointing insurers, insurance broker companies require capital to support their business operation. The scope of duties of insurance brokers can also be much wider than that of insurance agents. Besides sourcing suitable insurance

products on behalf of clients from a range of insurers across the market, insurance brokers also often provide post-sale services to clients such as assisting clients in making insurance claims. As their clients’ representatives, it is also common for insurance broker companies to handle client monies. For these reasons, insurance broker companies need to have in place adequate controls and procedures. Indeed, given the importance of the role they perform and the trust placed in them by policy holders, it is important that insurance broker companies meet minimum standards with regard to financial soundness so that they continually have resources to support their operation and thereby service their clients. Hence, insurance broker companies have long been subject to minimum capital and net asset requirements.

17. The current minimum paid-up share capital and net asset amounts of \$100,000 were set over two decades ago. It is obvious to observe that the costs of running an insurance broker company now (salaries, rental expenses and IT expenses, to name just a few of those costs) are significantly higher than twenty years ago. Having considered the economic developments and the operational needs of insurance broker companies, therefore, we are of the view that the minimum paid-up share capital and net assets amounts should be increased to \$500,000.
18. To ease the financial impact to those insurance broker companies which will need to inject capital to comply with the proposed requirement, we suggested, in the consultation paper, raising the minimum amounts in two phases within a transitional period of slightly more than three years as shown in the table below.

Proposed Phased Increase in Minimum Paid-up Share Capital and Net Assets (Public Consultation)	
From commencement date of the new regime to 31 December 2020	\$100,000
From 1 January 2021 to 31 December 2022	\$300,000
From 1 January 2023 onwards	\$500,000

19. After considering the feedback received and on further review, we consider it appropriate to extend the transitional period to slightly more than four years to allow more time for existing insurance broker companies (especially small-sized companies) to effect the necessary capital injection. The revised transitional arrangements are shown below.

Revised Phased Increase in Minimum Paid-up Share Capital and Net Assets	
From commencement date of the new regime to 31 December 2021	\$100,000
From 1 January 2022 to 31 December 2023	\$300,000
From 1 January 2024 onwards	\$500,000

20. Regarding the suggestion about lower minimum amounts of paid-up share capital for insurance broker companies not handling client monies, we do not consider that the absence of a need for handling client monies would translate into a significant reduction in operational costs that would be sufficient to justify lower

minimum capital or net assets. In our view, the proposed minimum level of \$500,000 already represents a reasonable baseline.

21. Feedback from one insurance broker company suggested that by increasing both the minimum amounts of paid-up capital and net assets to \$500,000, this would cause an additional funds of \$800,000 having to be injected. We believe this to be a misunderstanding. If an insurance broker company had paid-up share capital of \$100,000, then it would need to inject \$400,000 to meet the paid-up share capital requirement. This same capital injection would also serve to increase the broker company's net assets by \$400,000. The actual amount of additional capital an insurance broker company will need will depend on the financial position of the broker company, for instance, whether it has free reserves such as retained earnings.
22. Besides capital injection by cash, paid-up share capital can also be increased by capitalization of retained earnings. Other means of capital restructuring may also be acceptable, e.g. conversion of subordinated debt into share capital. Existing insurance broker companies may seek professional advice from their accountants or auditors in this regard.

Professional Indemnity Insurance (PII)

Proposed increase in minimum indemnity limit

Q2. Do you agree with the proposal to raise the floor amount of the minimum limit of indemnity from \$3 million to \$5 million?

Feedback received

23. There were diverse views received on the proposed increase in the minimum indemnity limit under an insurance broker company's PII policy from \$3 million to \$5 million. Some respondents including one of the approved body of insurance brokers generally supported the proposal. Other respondents including the other approved body of insurance brokers suggested that there should be no change to the existing indemnity limit of \$3 million (on the basis that the proposed change would increase an insurance broker company's operating costs). Other views included support for an increase, but to an amount of \$4 million.

IA's response

24. Professional indemnity claims are usually low frequency but with high severity. Occurrences are rare, but should a negligence claim happen it can be fatal for a business. If an insurance broker company is the subject of such claim, the amount of exposure can be significant given the duties the broker company owes and the amount of coverage under the policies it is responsible for obtaining for its clients. PII is therefore important to protect insurance broker companies from bearing the full cost of defending negligence claims made by policy holders (and potential

policy holders) and meeting any settlement or damages awarded for such claims. As importantly, however, adequate PII coverage for insurance broker companies enhances protection for policy holders (and potential policy holders) by ensuring broker companies' financial ability to compensate their clients (who rely upon the broker companies' advice) should instances of professional negligence occur. In short, maintaining adequate PII reinforces trust in insurance broker companies which is absolutely vital to the profession of insurance broking. Hence, there has long been a requirement for insurance broker companies to maintain a PII policy with a minimum indemnity limit¹.

25. The current minimum indemnity limit for an insurance broker company's PII policy was set more than two decade ago. As indicated, whilst professional negligence claims are infrequent, should a claim happen it can pose an existential threat to the broker company's business. Given this exposure, coupled with the rising costs of litigation in the past two decades, the IA proposed to raise the minimum indemnity limit from \$3 million to \$5 million.
26. After careful review of the feedback received, however, in particular the concerns raised by small-sized insurance broker companies about rising costs coupled with the impact of increasing the minimum capital and net assets to \$500,000, we consider it appropriate to drop the proposal to increase the minimum indemnity limit to \$5 million. The current minimum indemnity limit of \$3 million will be maintained.

Proposed cap on the deductible under PII policies

Q3. Do you agree with the proposal to introduce a cap on the amount of the deductible which may be included under the terms of a licensed insurance broker company's PII cover, and setting that cap at 50% of a licensed insurance broker company's net assets or, in the case of a licensed insurance broker company in its first 12 months of operation, at 50% of its paid-up share capital?

Feedback received

27. A majority of respondents including the two approved bodies of insurance brokers supported the proposal to cap the deductible under the PII policies maintained by insurance broker companies. Two respondents even suggested more stringent requirements for the deductible. A few respondents expressed disagreement without any reasons being given.

IA's response

28. A deductible under an insurance broker company's PII policy is the amount of any claim against the broker company which it has to bear itself before the insurer

¹ The current requirement for the minimum indemnity limit under a PII policy is 2 times the annual insurance brokerage income of the insurance broker company concerned, subject to a minimum limit of \$3 million and a maximum limit of \$75 million.

concerned starts indemnifying under the policy. Higher deductibles generally translate into lower premiums. However, given that the broker company has to bear the amount of the deductible itself, an excessive deductible may significantly adversely impact the financial soundness of the broker company in the event of a negligence claim. This, in turn, may weaken policy holder protection. Hence, there is a need to set a cap on the amount of the deductible. We are pleased to have received general support for the proposed cap on the deductible from the consultation feedback and have decided to proceed with adopting the proposal. Accordingly, the deductible an insurance broker company may have under its PII policy will be subject to a cap of 50% of the broker company's net assets as at the end of its financial year immediately preceding the date of commencement of its PII cover or (in the case of a broker company in its first year of operation) 50% of the broker company's paid-up share capital.

29. Under the original proposals, existing insurance broker companies would be subject to the aforesaid deductible requirement with effect from 1 January 2023. In view of the extension of the transitional period for the increase in the minimum amount of net assets of existing broker companies to 31 December 2023 (paragraph 19), we consider it appropriate to extend the effective date for the deductible requirement for existing broker companies to 1 January 2024.

C. Keeping of separate client accounts

Proposed requirement for client account reconciliation

Q4. Do you agree with the proposed introduction of a requirement for an insurance broker company to carry out monthly reconciliations between its ledger balances and bank account statements for the client monies it holds?

Feedback received

30. A majority of respondents supported the proposed client account reconciliation requirements although some respondents considered it more appropriate to perform such reconciliation on a quarterly basis or as and when appropriate/necessary. Those objecting to the reconciliation requirement had concerns about the increase in workload and operating costs for compliance with the requirement. Two respondents opined that reconciliation would be unnecessary for insurance broker companies which did not or seldom handle client monies.
31. Respondents connected with insurers suggested requiring insurance broker companies to notify the insurers concerned of any differences or deviations identified during the reconciliation process (for example, where monies had been collected, but not yet remitted to the insurer).
32. Enquiries were also made regarding whether an insurance broker company is required to maintain a client account if it does not handle client monies and

whether an insurance broker company can use client monies of one client to settle the premiums of another client's insurance policy.

IA's response

33. Bank reconciliation of client accounts is an essential exercise for safeguarding client monies. It enables an insurance broker company to promptly identify variances between its bank statements and its own books with regard to client monies received and paid out, the reasons for those variances and to take remedial action if necessary. If reconciliation is not carried out regularly, the variances could be substantial, thereby causing prejudice to clients. Conducting bank reconciliation on a monthly basis is considered a good market practice in today's business environment.
34. Currently, The Hong Kong Confederation of Insurance Brokers ("CIB") requires its broker members to conduct client account reconciliation at least once a month². The HKICPA also encourages insurance broker companies to perform client account reconciliation on a sufficiently regular basis in its Practice Note 810.1.
35. To reinforce policy holders' confidence in dealing with insurance brokers and to enhance protection for client monies, we consider it appropriate to include in the Rules a requirement for insurance broker companies to perform client account reconciliation on a monthly basis. To allow sufficient time for existing broker companies, which do not currently carry out reconciliation on a monthly basis, to cope with this requirement and become familiarized with the reconciliation process, we will allow a 6-month transitional period as proposed in the draft Rules. The reconciliation process for broker companies which seldom handle client monies would be relatively straightforward. Should any broker company encounter difficulties in preparing the relevant reconciliation statement, it is encouraged to contact us for discussion.
36. The offence stated in the IO regarding any misuse or misappropriation of client monies by an insurance broker company, in our view, serves as strong and adequate protection for policy holders. The suggestion in the feedback received to require insurance brokers to notify the insurer concerned in the event of variances identified in a reconciliation is therefore considered unnecessary.
37. In answer to the enquiry about whether an insurance broker company is required to maintain a client account if it does not handle client monies, we would observe as follows. The IO requires an insurance broker company to keep client monies in a client account. Hence, an insurance broker company, which does not receive or hold any client monies whatsoever, would not be required to maintain a client account.

² Clause 3 of Guidance Note on Keeping of Separate Client Monies issued by the CIB

38. Regarding the enquiry about whether an insurance broker company can use client monies of one client to settle the premiums of another client's insurance policy, the answer is "no". Under the IO, client monies of a client should be used for the purposes of only that client.

D. Audited Financial Statements

Accounting disclosures

Q5. Do you agree that the proposed disclosures required in an insurance broker company's financial statements are appropriate?
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Feedback received

39. We received diverse views on the proposed disclosure of the following accounting information in the audited financial statements required to be submitted by insurance broker companies to the IA.

- Insurance brokerage income distinguishing between general business and long term business
- Referral income and referral expenses
- Balances of client accounts
- Insurance premiums receivable
- Insurance premiums payable

40. A slim majority of respondents, including one of the approved bodies of insurance brokers, supported the proposal for enhanced disclosures in broker companies' financial statements. There were, however, even from those generally supportive of enhanced disclosures, specific objections to the proposed requirements for disclosure of referral income and referral expenses, on the basis that this information was commercially sensitive or irrelevant for regulatory compliance.

41. Those generally objecting to the proposals for enhanced disclosures in the financial statements, including the other approved body of insurance brokers, expressed concerns about the increase in accounting workload and audit fees resulting from such additional disclosures. A minority of respondents also queried whether the proposed disclosures were for statistical purpose instead of regulatory compliance purpose.

42. The HKICPA provided a range of feedback from an accounting perspective, including its view that it may not be appropriate for insurance broker companies to recognize insurance premiums receivable in their financial statements. Details of the HKICPA's feedback will be discussed in the following section.

43. Clarification was sought by respondents on whether the balance of client accounts should be shown in a balance sheet or notes to financial statements. A request was also made for detailed guidance to be provided on referral income and referral expenses. A suggestion about provision of standard templates was also received.

IA's response

44. Audited financial statements have long been an imperative regulatory tool. Under the Guideline, insurance broker companies are currently required to submit audited financial statements and compliance reports to the CIB or Professional Insurance Brokers Association ("PIBA") (as the case may be). Based on such documents, the CIB or PIBA assesses whether its broker members have complied with, for example, the minimum paid-up share capital and net asset requirements which are currently set out in the Guideline (and which will be set out in the Rules upon commencement of the new regulatory regime for insurance intermediaries). Experience reveals, however, that some insurance broker companies which carry on business other than insurance broking business may not disclose insurance brokerage income, balance of client accounts, and/or insurance-related debtors and creditors in their financial statements. The absence of such disclosure may give rise to difficulty in assessing compliance with the requirements relating to the PII indemnity limit (generally 2 times of brokerage income) and proper handling of client monies³ by insurance broker companies.

45. Moreover, for insurance broker companies carrying on both general and long term business and those heavily reliant on business referrals, the absence of information relating to brokerage income attributable to general and long term business, referral income and referral expenses renders difficulties in understanding the operations of such broker companies.

46. Certain overseas insurance regulators, including the Monetary Authority of Singapore⁴ ("MAS"), require insurance broker companies to submit a breakdown of insurance brokerage income in specified business returns.

47. In view of the importance of the financial, PII and client account requirements set out in the Rules, we consider that enhanced disclosure is necessary to demonstrate continued compliance by insurance broker companies with these requirements, which serve as vital policy holder protection measures.

48. Having considered the feedback received, however, we have decided to adjust the requirements for disclosure in the Rules so as to require disclosure of the following information in the audited financial statements of insurance broker companies:

³ Under the IO, insurance broker companies receiving client monies are required to hold such monies separate from their own monies and keep such monies in client accounts.

⁴ Financial Advisers Act of Singapore (section 45) and Insurance (Intermediaries) Regulations issued by the MAS (section 10)

- insurance brokerage income distinguishing between general business and long term business;
- balances of client accounts; and
- insurance premiums payable.

49. The initial proposal to require disclosure of information relating to insurance premiums receivable, referral income and referral expenses⁵ in the audited financial statements is set aside. We shall, however, give further consideration as to whether to require disclosure of such information in specified business returns instead of audited financial statements.

50. Insurance broker companies have long been required to keep proper accounting records relating to insurance broking business. We do not expect that the keeping of records for the disclosure stated in paragraph 48 above will result in significant increase in the accounting workload or audit fee, particularly in view of the adjustments made to the disclosure requirements.

51. As regards the disclosure of balances of client accounts in financial statements, we have modified the requirements to allow such disclosure to be made in a balance sheet or notes to financial statements.

52. As the disclosure requirements are now simplified, we consider it unnecessary to specify a standard template for disclosure of the information required in paragraph 48 above.

Feedback received from HKICPA

53. The HKICPA has provided detailed comments on the draft Rules which are mainly related to the requirements under the accounting standards. After review of the relevant accounting standards and discussion with the HKICPA, we consider it appropriate to modify certain provisions under the draft Rules. The major modifications set out in the table below.

Issue	Details	Modifications to Draft Rules
Intangible assets relating to a lease agreement	With the updated accounting treatment for assets and liabilities for leases under the Hong Kong Financial Reporting Standard 16 Leases, which took effect from 1 January 2019, an asset relating to a lease agreement in respect of a premises may be regarded as an intangible asset. To avoid non-compliance with the net asset requirement	To modify the provisions in relation to the calculation of net assets.

⁵ We shall consider providing a definition of “referral income” and “referral expenses” when designing the business returns to collect such information.

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	under the Rules by an insurance broker company due to exclusion of such intangible asset from the calculation of net assets, we consider it appropriate to also exclude the corresponding amount of liabilities arising from the same lease agreement.	
Insurance premiums receivables of insurance broker companies	The HKICPA opined that it might not be appropriate for insurance broker companies to recognize insurance premiums receivables as on-balance sheet assets due to the absence of clients' contractual obligations to pay premiums to the broker companies. We agree with the HKICPA's view and hence set aside the requirement to disclose insurance premiums receivables.	To modify the provisions relating to audited financial statements
Names of financial statements	The main financial statements of a company typically include a balance sheet, income and expenditure account and profit and loss account. The names of these financial statements are used in the draft Rules but these names have been updated under the current accounting standards. For instance, the balance sheet is now called the statement of financial position. Having taken into account the HKICPA's views, we consider it unnecessary to specifically list out the different financial statements but to use the general term "financial statements" to represent such statements instead.	To modify the provisions relating to keeping of proper books and accounts, audited financial statements and auditor's report

54. In addition, the HKICPA also sought clarification about whether the net asset figure for determining the amount of deductible under a PII policy should be based on an audited figures or not. For monitoring purposes, such deductible should be determined in accordance with audited net assets. Nonetheless, if the audited figure is not yet available when an insurance broker company needs to arrange a PII policy, the broker company may use the unaudited net asset figure as a reference but should be alert to any subsequent downward adjustments to net assets in the audited figures which may result in the PII deductible exceeding the 50% threshold. If the broker company is aware of such possible non-compliance, prompt action should be taken for rectification, e.g. to arrange an endorsement to decrease the deductible.

55. Apart from the above, we have also discussed with the HKICPA about other technical issues, including matters set out in the table below. For certain issues, we consider it appropriate to make clarification by way of FAQs.

Issues	IA's response
Application of full Hong Kong Financial Reporting Standards ("HKFRS"), HKFRS for Private Entities or Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard	FAQs will be prepared for clarification about the relevant matters.
Discrepancies identified in client account reconciliation	
Controls of client account management	The relevant requirements will be set out in the Code of Conduct for Licensed Insurance Brokers
Whether limited assurance report is accepted for the auditor's report submitted under section 73(1)(e) of the IO	Yes
Whether audited financial statements prepared in accordance with the Companies Ordinance (Cap. 622) would meet requirements under the IO	Same as the Companies Ordinance, the audited financial statements of a licensed insurance broker company are also required to be prepared in accordance with applicable accounting standards.
Reasons for the transitional arrangements for the client account reconciliation requirements for existing insurance broker companies	To allow sufficient time for them to become familiar with the reconciliation procedures.

56. We have sought the HKICPA's further comments on the final form of the Rules to ensure their concerns are addressed. We fully appreciate their valuable contribution to our consultation exercise.

Conclusions and Next Steps

57. Having considered the feedback provided, the IA has decided to adopt the proposals set out in the draft Rules with the following main modifications:

- The transitional period for the increase in paid-up share capital and net assets by existing insurance broker companies will be extended from slightly more than three years to slightly more than four years.
- The minimum limit of indemnity under the PII policy maintained by an insurance broker company will remain at \$3 million.
- The requirements for disclosure of insurance premiums receivable, referral income and referral expenses in the audited financial statements of insurance broker companies will be set aside.

58. The final form of the Rules is set out in Annex A. Changes from the draft Rules included in the consultation paper are shown in the marked up version in Annex B for reference.
59. Following the issuance of this paper, the IA will submit the Rules to the Legislative Council for negative vetting. Subject to the legislative process, the IA expects the Rules to come into operation immediately upon the commencement of the new regulatory regime for insurance intermediaries, i.e. the day on which the new section 74 of the Insurance Companies (Amendment) Ordinance 2015 comes into operation. The Rules are subject to further changes depending on comments received during the legislative process.
60. The IA would like to express its sincere gratitude to all respondents for their valuable feedback.

Final Form of Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules

Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules

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Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules

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Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 1

1

**Insurance (Financial and Other Requirements for Licensed
Insurance Broker Companies) Rules**

(Made by the Insurance Authority under sections 53F(4), 64T(2),
64ZA(4)(d), 64ZV(8)(e), 73(1) and 129(1) of the Insurance Ordinance
(Cap. 41))

1. Commencement

These Rules come into operation on the day on which section 74 of the Insurance Companies (Amendment) Ordinance 2015 (12 of 2015) comes into operation.

2. Interpretation

(1) In these Rules—

applicable accounting standards (適用的會計準則), in relation to a licensed insurance broker company, means—

- (a) if the company is incorporated in Hong Kong, the accounting standards generally accepted in Hong Kong; and
- (b) if the company is a non-Hong Kong company as defined by section 2(1) of the Companies Ordinance (Cap. 622), the accounting standards generally accepted in Hong Kong or in the jurisdiction of the place of incorporation of the company, as the company may elect;

contract of insurance (保險合約) includes a contract of reinsurance or retrocession;

deductible amount (自付額), in relation to a professional indemnity insurance policy maintained by a licensed insurance broker company under rule 5, means the amount of any loss or claim

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Broker Companies) Rules

Rule 3

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covered under the policy that the company as the insured must itself bear in accordance with the policy's terms and conditions;

insurance brokerage income (保險經紀收入), in relation to a licensed insurance broker company, means the gross income derived from the business of carrying on regulated activities by the company;

insurance premiums payable (須付的保費), in relation to a licensed insurance broker company, means insurance premiums payable to insurers and reinsurers for contracts of insurance arranged by the company;

net assets (淨資產), in relation to a licensed insurance broker company, means the amount by which the aggregate of the company's assets exceeds the aggregate of its liabilities calculated in accordance with rule 4.

(2) In these Rules, a reference to an insurer includes a member of Lloyd's.

3. Share capital

A licensed insurance broker company must at all times maintain a paid-up share capital of not less than \$500,000.

4. Net assets

(1) A licensed insurance broker company must at all times maintain net assets of not less than \$500,000.

(2) The amount of net assets referred to in subrule (1) must be calculated in accordance with applicable accounting standards, and must—

(a) exclude intangible assets from the aggregate of the company's assets; and

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Rule 5

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- (b) exclude from the aggregate of the company's liabilities, on-balance sheet liabilities arising from a lease agreement entered into by the licensed insurance broker company in respect of any premises, up to an amount capped by the maximum value of its intangible assets arising from the same lease agreement.

5. Professional indemnity insurance

- (1) A licensed insurance broker company must maintain a professional indemnity insurance policy that provides coverage for claims made against the company for liabilities arising from breaches of duty in the course of carrying on its regulated activities. The professional indemnity insurance policy must have a limit of indemnity not less than the amount determined in accordance with subrule (2) or (3) (as the case may be) for any one claim and in any one policy period of 12 months.
- (2) Subject to subrule (3), the limit of indemnity referred to in subrule (1) must not be less than the greater of the following—
 - (a) 2 times the aggregate amount of the licensed insurance broker company's insurance brokerage income in the 12 consecutive months immediately before the commencement date of the policy period under its professional indemnity insurance policy, up to a maximum of \$75,000,000; or
 - (b) \$3,000,000.
- (3) In relation to a licensed insurance broker company which is in its first 12 months of operation as a licensed insurance broker company, the limit of indemnity referred to in subrule (1) must not be less than \$3,000,000.
- (4) The professional indemnity insurance policy referred to in subrule (1) must include a provision for at least one automatic

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 6

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reinstatement which, in the event of the limit of indemnity under the policy being reduced by losses or claims, operates to reinstate the limit of indemnity to an amount not less than the amount determined in accordance with subrule (2) or (3) (as the case may be).

- (5) Subject to subrule (6), the deductible amount under the professional indemnity insurance policy referred to in subrule (1) must not be more than 50% of the company's net assets as at the end of its financial year immediately before the commencement date of the policy period under the policy.
- (6) In relation to a licensed insurance broker company referred to in subrule (3), the deductible amount under the professional indemnity insurance policy referred to in subrule (1) must not be more than 50% of the company's paid-up share capital as at the commencement date of the policy period under the policy.

6. Client account

- (1) A licensed insurance broker company that receives or holds client monies must maintain at least one client account in accordance with subrule (2).
- (2) The client account referred to in subrule (1) must be an account maintained with an authorized institution in the name of the licensed insurance broker company in the title of which the word "client" appears.
- (3) A licensed insurance broker company must give written notice to the authorized institution with which the client account is maintained as referred to in subrule (1), stating that the client account is maintained by the company pursuant to section 71 of the Ordinance.
- (4) A licensed insurance broker company must keep proper records of the notice referred to in subrule (3).

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 6

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- (5) The monies specified in section 71(2) of the Ordinance, which a licensed insurance broker company is required to pay into a client account as soon as practicable after receiving them include—
- (a) monies received by the company from or on behalf of a policy holder or potential policy holder as premium payable to an insurer under a contract of insurance arranged by the company;
 - (b) monies received by the company from an insurer, a reinsurer, an insurance intermediary or any other party for the purpose of or relating to the settlement of a claim under a contract of insurance;
 - (c) monies received by the company from or on behalf of a policy holder or potential policy holder for any purposes which are incidental to the carrying on of regulated activities by the company in relation to the policy holder or potential policy holder; and
 - (d) other monies arising from the ordinary transactions of its business of carrying on regulated activities as specified in subrule (9).
- (6) A licensed insurance broker company may, for the purpose of complying with subrule (1), pay into a client account such monies as may be necessary for the opening or maintenance of the account and such monies are taken to be client monies for this purpose.
- (7) No monies other than monies described under subrules (5) and (6) may be paid into a client account maintained by a licensed insurance broker company.
- (8) A licensed insurance broker company may only make the following withdrawals from a client account—

Insurance (Financial and Other Requirements for Licensed Insurance
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-
- (a) monies required to be paid to an insurer, a reinsurer or an insurance intermediary as premium under a contract of insurance arranged by the company;
 - (b) monies required to be paid to a policy holder, potential policy holder, a claimant or any other party who is entitled to receive the monies for the purpose of or relating to the settlement of a claim under a contract of insurance;
 - (c) monies drawn in accordance with written authority of a policy holder or potential policy holder;
 - (d) monies required to be paid by or on behalf of a policy holder or potential policy holder for any purposes which are incidental to the carrying on of regulated activities by the company in relation to the policy holder or potential policy holder;
 - (e) interest earned on monies in the client account in accordance with section 71(5) of the Ordinance;
 - (f) monies which are paid into the client account by mistake or accident and any interest earned on those monies; and
 - (g) other monies arising from the ordinary transactions of its business of carrying on regulated activities specified in subrule (9).
- (9) The other monies arising from the ordinary transactions of the licensed insurance broker company's business of carrying on regulated activities referred to in subrules (5)(d) and (8)(g) are—
- (a) premiums, renewal premiums, additional premiums and return premiums of all kinds;
 - (b) claims and other monies due under contracts of insurance;
 - (c) refunds to policy holders;
 - (d) policy loans and associated interests;

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 7

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-
- (e) fees, charges and levies relating to contracts of insurance;
and
 - (f) premium discounts, commissions and brokerage.
- (10) Subrule (7) does not apply to monies which are paid by mistake or accident into a client account provided that the licensed insurance broker company takes remedial action promptly on discovery of the payment which was made by mistake or accident.
- (11) A licensed insurance broker company which holds or receives client monies must—
- (a) at least once a calendar month compare the total of the ledger balances of client monies with the total of—
 - (i) the balances shown on the bank statements and passbooks (after allowing for all unrepresented items) of all client accounts; and
 - (ii) any client monies held by the company that have not been deposited into a client account; and
 - (b) as at the same date when a comparison is made pursuant to paragraph (a), prepare a reconciliation statement, which must show the cause of the difference, if any.

7. Keeping of proper books and accounts

- (1) A licensed insurance broker company must, in relation to its business which constitutes the carrying on of regulated activities—
- (a) keep, where applicable, such accounting and other records (including records relating to the assets or affairs of the company's clients) as are sufficient to—
 - (i) explain, and reflect the financial position and operation of, such business;

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 8

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-
- (ii) enable financial statements that give a true and fair view of its financial position and financial performance to be prepared from time to time;
 - (iii) account for all client monies that it receives or holds; and
 - (iv) demonstrate—
 - (A) compliance by it with these Rules; and
 - (B) that there is no contravention of section 71(1), (3), (4), (5) and (6) of the Ordinance;
 - (b) keep those records in such manner as will enable an audit to be conveniently and properly carried out; and
 - (c) make entries in those records in accordance with applicable accounting standards.
- (2) A licensed insurance broker company must keep all records in writing in the Chinese or English language or in such a manner as to enable them to be readily accessible and readily converted into written form in the Chinese or English language.
- (3) A licensed insurance broker company must retain the records that are required to be kept under these Rules for at least 7 years.

8. Audited financial statements

- (1) A licensed insurance broker company must prepare the financial statements to be provided to the Authority under section 73(1) of the Ordinance in accordance with applicable accounting standards.
- (2) The financial statements provided by a licensed insurance broker company under section 73(1) of the Ordinance in relation to a financial year must include the company's—

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 9

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- (a) insurance brokerage income for the financial year distinguishing between general business and long term business;
 - (b) aggregate balances of cash held in its client accounts as at the end of the financial year; and
 - (c) insurance premiums payable as at the end of the financial year.
- (3) Any document (except an auditor's report) provided by a licensed insurance broker company under section 73(1) of the Ordinance must be—
- (a) approved by the directors of the company; and
 - (b) signed—
 - (i) by 2 directors of the company on its directors' behalf; or
 - (ii) in the case of the company having only one director, by the director.

9. Auditor's report

- (1) The auditor's report on the financial statements provided by a licensed insurance broker company under section 73(1)(d) of the Ordinance in relation to a financial year must contain statements stating whether the financial statements, in the auditor's opinion, give a true and fair view of—
 - (a) the financial position of the company as at the end of the financial year; and
 - (b) the financial performance of the company for the financial year.
- (2) The auditor's report provided by a licensed insurance broker company under section 73(1)(e) of the Ordinance in relation to a financial year must contain statements stating whether, in the

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 10

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auditor's opinion, the company has continued to comply with the requirements under these Rules and the relevant provisions of the Ordinance in relation to—

- (a) the capital and net assets of the company;
- (b) the professional indemnity insurance taken out by the company;
- (c) the keeping of separate client accounts by the company; and
- (d) the keeping of proper books and accounts by the company,

as at the end of the financial year and 2 such other dates in the financial year as the auditor may elect, provided that the intervening period between those 2 dates must not be shorter than 3 months.

10. Savings and transitional arrangements

The Schedule provides for the savings and transitional arrangements that relate to these Rules.

Schedule

[r. 10]

Savings and Transitional Arrangements

1. Interpretation

In this Schedule—

approved broker body (認可經紀團體) has the meaning given by Schedule 11 to the Ordinance;

commencement date (實施日期) has the meaning given by section 64O(7) of the Ordinance;

specified insurance broker company (指明保險經紀公司) means a company which was immediately before the commencement date registered with an approved broker body as a member, and regarded as having been granted an insurance broker company licence under section 66 of Schedule 11 to the Ordinance on the commencement date.

2. Share capital and net assets

For the period from the commencement date to 31 December 2023, the amount of paid-up share capital and net assets which a specified insurance broker company must maintain at all times pursuant to rules 3 and 4(1) respectively are—

- (a) for the period that begins on the commencement date and ends on 31 December 2021, not less than \$100,000; and
- (b) for the period that begins on 1 January 2022 and ends on 31 December 2023, not less than \$300,000.

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Schedule

Section 3

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3. Professional indemnity insurance

Rule 5(5) does not apply to a specified insurance broker company for the period that begins on the commencement date and ends on 31 December 2023.

4. Client monies reconciliation

Rule 6(11) does not apply to a specified insurance broker company for 6 months beginning on the commencement date.

5. Audited financial statements

Rule 8(2) does not apply to the audited financial statements of a specified insurance broker company for a financial year beginning before 1 January 2021.

Insurance Authority

2019

Final Form of Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules with track changes

Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules

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Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules

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Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 1

1

**Insurance (Financial and Other Requirements for Licensed
Insurance Broker Companies) Rules**

(Made by the Insurance Authority under ~~Cap. 41~~, sections 53F(4), 64T(2),
64ZA(4)(d), 64ZV(8)(e), 73(1) and 129(1) of the Insurance Ordinance
(Cap. 41))

1. Commencement

These Rules come into operation on the day on which section 74 of the Insurance Companies (Amendment) Ordinance 2015 (12 of 2015) comes into operation.

2. Interpretation

(1) In these Rules –

applicable accounting standards (適用的會計準則), in relation to a licensed insurance broker company, means -

- (a) if the company is incorporated in Hong Kong, the accounting standards generally accepted in Hong Kong; and
- (b) if the company is a non-Hong Kong company as defined ~~in~~ by section 2(1) of the Companies Ordinance (Cap. 622), the accounting standards generally accepted in Hong Kong or in the ~~company's~~ jurisdiction of the place of incorporation of the company, as the company may ~~s~~elect;

contract of insurance (保險合約) includes a contract of reinsurance or retrocession;

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 2

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deductible amount (自付額), in relation to a professional indemnity insurance policy maintained by a licensed insurance broker company under rule 5, means the amount of any loss or claim covered under the policy that the company as the insured must itself bear in accordance with the policy's terms and conditions;

insurance brokerage income (保險經紀收入), in relation to a licensed insurance broker company, means the gross income derived from the business of carrying on ~~of~~-regulated activities by the company;

insurance premiums payable (須付的保費), in relation to a licensed insurance broker company, means insurance premiums payable to insurers and reinsurers for contracts of insurance arranged by the company;

net assets (淨資產), in relation to a licensed insurance broker company, means the amount by which the aggregate of the company's assets exceeds the aggregate of its liabilities calculated in accordance with rule 4.;

~~***referral expense*** (介紹費支出) means commissions or fees paid by a licensed insurance broker company to a person other than a technical representative appointed by the company in return for that person introducing clients to the company for the purpose of the company arranging contracts of insurance on behalf of those clients;~~

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 3

3

~~*referral income* (介紹費收入) means commissions or fees received by a licensed insurance broker company from another insurance intermediary in return for the company introducing clients to the other insurance intermediary for the purpose of that other intermediary arranging contracts of insurance on behalf of those clients;~~

~~*insurance premiums receivable* (可收取的保費), in relation to a licensed insurance broker company, means insurance premiums receivable by the company from policy holders or potential policy holders for contracts of insurance arranged by the company;~~

~~*insurance premiums payable* (須付的保費), in relation to a licensed insurance broker company, means insurance premiums payable to insurers and reinsurers for contracts of insurance arranged by the company.~~

(2) In these Rules, a reference to an insurer includes ~~a reference to~~ a member of Lloyd's.

3. Share capital

A licensed insurance broker company must at all times maintain a paid-up share capital of not less than \$500,000.

4. Net assets

(1) A licensed insurance broker company must at all times maintain net assets of not less than \$500,000.

(2) The amount of net assets referred to in subrule (1) ~~is to~~ must

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 5

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be calculated ~~by excluding all intangible assets and~~ in accordance with applicable accounting standards, and must—

(a) exclude intangible assets from the aggregate of the company's assets; and

(b) exclude from the aggregate of the company's liabilities, on-balance sheet liabilities arising from a lease agreement entered into by the licensed insurance broker company in respect of any premises, up to an amount capped by the maximum value of its intangible assets arising from the same lease agreement.

5. Professional indemnity insurance

- (1) A licensed insurance broker company must maintain a professional indemnity insurance policy that provides coverage for claims made against the company for ~~liability~~ies arising from breaches of duty in the course of carrying on its regulated activities. The professional indemnity insurance policy must have a limit of indemnity not less than the amount ~~prescribed~~ indetermined in accordance with subrule (2) or (3) (as the case may be) for any one claim and in any one ~~insurance-policy~~ period of 12 months.
- (2) Subject to subrule (3), ~~the amount of~~ the limit of indemnity referred to in subrule(1) ~~is~~ must not be less than the greater of the following –

Insurance (Financial and Other Requirements for Licensed Insurance
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Rule 5

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- (a) 2 times the aggregate amount of the licensed insurance broker company's insurance brokerage income in the 12 consecutive months immediately ~~preceeding before~~ the ~~date of~~ commencement ~~date~~ of ~~its professional indemnity insurance cover~~ the policy period under its professional indemnity insurance policy, up to a maximum of \$75,000,000; or
- (b) ~~\$53~~,000,000.
- (3) In relation to a licensed insurance broker company which is in its first 12 months of operation as a licensed insurance broker company, the limit of indemnity referred to in subrule (1) must not be less than ~~\$53~~,000,000.
- (4) The professional indemnity insurance policy referred to in subrule (1) must include a provision for at least one automatic reinstatement which, in the event of the limit of indemnity under the policy being reduced by losses or claims, operates to reinstate the limit of indemnity ~~up to the an~~ amount not less than the amount determined in accordance with subrule (2) or (3) (as the case may be).
- (5) Subject to subrule (6), the deductible amount under the professional indemnity insurance policy referred to in subrule (1) must not be more than 50% of the company's net assets as at the end of its financial year immediately ~~preceeding before~~ the ~~date of~~ commencement ~~date~~ of the ~~professional indemnity insurance cover~~ policy period under the policy.
- (6) In relation to a licensed insurance broker company referred to

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 6

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in subrule (3), the deductible amount under the professional indemnity insurance policy referred to in subrule (1) must not be more than 50% of the company's paid-up share capital as at the ~~date of commencement~~ date of the policy period under the policy. ~~professional indemnity insurance cover.~~

6. Client account

- (1) A licensed insurance broker company that receives or holds client monies must maintain at least one client account in accordance with subrule (2).
- (2) The client account referred to in subrule (1) must be an account maintained with an authorized institution in the name of the licensed insurance broker company in the title of which the word "client" appears.
- (3) A licensed insurance broker company must ~~provide~~ give written notice to the authorized institution, with which the client account is maintained as referred to in subrule (1), ~~written notice~~ stating that the client account is maintained by the ~~licensed insurance broker~~ company pursuant to ~~the provisions of~~ section 71 of the Ordinance.
- (4) A licensed insurance broker company must keep proper records of the notice referred to in subrule (3).
- (5) ~~A licensed insurance broker company must, as soon as practicable after its receipt, pay into a client account the monies~~ The monies specified in section 71(2) of the

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 6

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Ordinance, which a licensed insurance broker company is required to pay into a client account as soon as practicable after receiving them include –

- (a) monies received by the ~~licensed insurance broker~~ company from or on behalf of a policy holder or potential policy holder as premium payable to an insurer under a contract of insurance arranged by the company;
 - (b) monies received by the ~~licensed insurance broker~~ company from an insurer, a reinsurer, an insurance intermediary ~~and or~~ any other party for the purpose of or relating to the settlement of a claim under a contract of insurance;
 - (c) monies received by the ~~licensed insurance broker~~ company from or on behalf of ~~or on account of the a~~ policy holder or potential policy holder for any purposes which are incidental to the carrying on of regulated activities by the ~~licensed insurance broker~~ company in relation to the policy holder or potential policy holder; and
 - (d) other monies arising from the ordinary transactions of its business of carrying on ~~of~~ regulated activities as specified in subrule (9).
- (6) A licensed insurance broker company may, for the purpose of complying with subrule (1), pay into a client account such monies as may be necessary for the opening or maintenance of the account and such monies ~~shall be deemed as are taken to be~~ client monies for this purpose.
- (7) No monies other than monies ~~which described~~ under subrules (5) and (6) may be paid into a client account maintained by a licensed insurance broker company ~~is required to pay into a~~

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 6

8

~~client account shall be paid into a client account.~~

- (8) A licensed insurance broker company may only make the following withdrawals from a client account –
- (a) monies required to be paid to an insurer, a reinsurer or an insurance intermediary as premium under a contract of insurance arranged by the ~~licensed insurance broker~~ company;
 - (b) monies required to be paid to a policy holder, potential policy holder, a claimant or any other party who is entitled to receive the monies for the purpose of or relating to the settlement of a claim under a contract of insurance;
 - (c) monies drawn in accordance with written authority of a policy holder or potential policy holder;
 - (d) monies required to be paid by or on behalf of ~~or on~~ account of the a policy holder or potential policy holder for any purposes which are incidental to the carrying on of regulated activities by the ~~licensed insurance broker~~ company in relation to the policy holder or potential policy holder;
 - (e) interest earned on monies in the client account in accordance with section 71(5) of the Ordinance; ~~and~~
 - (f) monies which are paid into the client account by mistake or accident and any interest earned on those monies; and
 - ~~(g)~~ other monies arising from the ordinary transactions of its business of carrying on ~~of~~ regulated activities specified in subrule (9).
- (9) The other monies arising from the ordinary transactions of the

Insurance (Financial and Other Requirements for Licensed Insurance
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Rule 6

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licensed insurance broker company's business of carrying on
~~of~~ regulated activities referred to in subrules (5)(d) and (8)(~~fg~~)
are –

- (a) premiums, renewal premiums, additional premiums and return premiums of all kinds;
- (b) claims and other monies due under contracts of insurance;
- (c) refunds to policy holders;
- (d) policy loans and associated interests;
- (e) fees, charges and levies relating to contracts of insurance;

and

~~(f) premium discounts, commissions and brokerage; and
(g) monies which by mistake or accident are paid into the client account in contravention of subrule (5), which mistake or accident must be remedied promptly upon discovery by the licensed insurance broker company.~~

- (10) Subrule (7) does not apply to monies which are paid by mistake or accident into a client account provided that the licensed insurance broker company takes remedial action promptly on discovery of the payment which was made by mistake or accident.

~~(10)~~(11) A licensed insurance broker company which holds or receives client monies must –

- (a) at least once a calendar month compare the total of the ledger balances of client monies with the total of –
 - (i) the balances shown on the bank statements and passbooks (after allowing for all unrepresented

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 7

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- items) of all client accounts; and
- (ii) any client monies held by the company that have not been deposited into a client account; and
- (b) as at the same date when a comparison is made pursuant to ~~subrule (10)(a) paragraph (a)~~, prepare a reconciliation statement, which must show the cause of the difference, if any, ~~shown by each of the comparisons referred to in subrule (10)(a)~~.

7. Keeping of proper books and accounts

- (1) A licensed insurance broker company must, in relation to its business which constitutes the carrying on of regulated activities –
 - (a) keep, where applicable, such accounting and other records (including records relating to the assets or affairs of the company's clients) as are sufficient to –
 - (i) explain, and reflect the financial position and operation of, such business;
 - (ii) enable financial statements ~~profit and loss accounts, income and expenditure accounts and balance sheets~~ that give a true and fair view of its financial ~~affairs~~ position and financial performance to be prepared from time to time;
 - (iii) account for all client monies that it receives or holds; and
 - (iv) demonstrate –
 - (A) compliance by it with these Rules; and
 - (B) ~~compliance by it with~~ that there is no

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 8

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contravention of sections 71(1), ~~71(3)~~,
~~71(4)~~, ~~71(5)~~ and ~~71(6)~~ of the Ordinance;
~~and~~

- (b) keep those records in such manner as will enable an audit to be conveniently and properly carried out; and
 - (c) make entries in those records in accordance with applicable accounting standards.
- (2) A licensed insurance broker company must keep all records in writing in the Chinese or English language or in such a manner as to enable them to be readily accessible and readily converted into written form in the Chinese or English language.
- (3) A licensed insurance broker company must retain the records that are required to be kept under these Rules for at least 7 years.

8. Audited financial statements

(1) A licensed insurance broker company must prepare the financial statements to be provided to the Authority under section 73(1) of the Ordinance in accordance with applicable accounting standards.

~~(1)(2)~~ The ~~audited income and expenditure account~~ financial statements provided by a licensed insurance broker company under section 73(1)~~(b)~~ of the Ordinance in relation to a financial year must include the ~~licensed insurance broker~~ company's –

- (a) insurance brokerage income for the financial year

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Rule 8

12

distinguishing between general business and long term business; -

~~(b) general business; and~~

~~(c) long term business; and~~

~~(d)(b) referral income aggregate balances of cash held in its client accounts as at the end of the financial year; and~~

~~(e)(c) referral expense insurance premiums payable as at the end of the financial year.~~

~~(2) The audited balance sheet provided by a licensed insurance broker company under section 73(1)(c) of the Ordinance must include the licensed insurance broker company's -~~

~~(a) aggregate balances of its client accounts;~~

~~(b) insurance premiums receivable; and~~

~~(c) insurance premiums payable.~~

(3) Any document (except an auditor's report) provided by a licensed insurance broker company under section 73(1) of the Ordinance must be —

(a) approved by the directors of the company; and

(b) signed —

(i) by 2 directors of the company on its directors' behalf;
or

(ii) in the case of the company having only one director,
by the director.

9. Auditor's report

(1) The auditor's report on the financial statements provided by a licensed insurance broker company under section 73(1)(d) of the Ordinance in relation to a financial year must contain statements stating whether the financial statements, in the auditor's opinion, give a true and fair view ~~is given of~~ -

- (a) ~~in the case of the income and expenditure account, of the company's income and expenditure for its financial year~~ the financial position of the company as at the end of the financial year; and
- (b) ~~in the case of the profit and loss account, of the company's profit and loss for its financial year; and~~ the financial performance of the company for the financial year.

~~(1) in the case of the balance sheet, of the state of the company's affairs as at the end of its financial year.~~

(2) The auditor's report provided by a licensed insurance broker company under section 73(1)(e) of the Ordinance in relation to a financial year must contain statements stating whether, in the auditor's opinion, the company has continued to comply with the requirements under these Rules and the relevant provisions of the Ordinance in relation to –

- (a) the capital and net assets of the company;
- (b) the professional indemnity insurance taken out by the company;
- (c) the keeping of separate client accounts by the company;

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and

(d) the keeping of proper books and accounts by the company,

as at the end of the ~~company's~~ financial year and 2 such other dates in the ~~company's~~ financial year as the auditor may elect, provided that the intervening period between those 2 dates must not be shorter than 3 months.

10. Savings and transitional arrangements

The Schedule 4 provides for the savings and transitional arrangements that relate to these Rules.

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Schedule

Section 1

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Schedule 1

[r. 10]

Savings and Transitional Arrangements

1. Interpretation

In this Schedule –

approved broker body (認可經紀團體) has the meaning given by
Schedule 11 to the Ordinance;

commencement date (實施日期) has the meaning given by section
64O(7) of the Ordinance;

specified insurance broker company (指明保險經紀公司) means a
~~licensed insurance broker~~ company which was ~~registered with an
approved broker body as a member,~~ immediately before the
commencement date, registered with an approved broker body as
a member, and regarded as having been granted an insurance
broker company licence under section 66 of Schedule 11 to the
Ordinance on the commencement date;

Insurance (Financial and Other Requirements for Licensed Insurance
Broker Companies) Rules

Schedule

Section 2

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2. Share capital and net assets

For the period from the commencement date to 31 December 202~~2~~3, the amount of paid-up share capital and net assets which a specified insurance broker company must maintain at all times pursuant to rules 3 and 4(1) respectively are –

- (a) for the period that begins on the commencement date and ends on 31 December 202~~0~~1, not less than \$100,000; and
- (b) for the period that begins on 1 January 202~~1~~2 and ends on 31 December 202~~2~~3, not less than \$300,000.

3. Professional indemnity insurance

~~(1) In relation to a specified insurance broker company, for the period from the commencement date to 31 December 2022, the reference in rules 5(2) and 5(3) to \$5,000,000 is replaced with \$3,000,000.~~

~~4.~~ Rule 5(5) does not apply to a specified insurance broker company for the period ~~from that begins on~~ the commencement date ~~to and ends on~~ 31 December 202~~2~~3.

Insurance (Financial and Other Requirements for Licensed Insurance
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Schedule

Section 4

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4. Client monies reconciliation

Rule 6(~~1011~~) does not apply to a specified insurance broker company for ~~the first~~ 6 months after beginning on the commencement date.

5. Audited financial statements

Rules ~~8(1) and~~ 8(2) does not apply to the audited financial statements of a specified insurance broker company for a financial year ~~or period~~ beginning before ~~31 December 2020~~ 1 January 2021.

[Name]

[Title]

Insurance Authority

2019

List of Respondents (in alphabetical order)

1. AIA International Limited
2. AIB Insurance Brokers Ltd.
3. Apex Insurance Brokers Ltd.
4. Apex Insurance Management Ltd.
5. Canaway International Ltd.
6. Dah Sing Insurance Brokers Limited
7. Global Connection Insurance Consultants Ltd.
8. Good Faith Insurance Brokers Ltd.
9. Hong Kong Institute of Certified Public Accountants
10. Hong Kong Insurance Practitioners General Union
11. Huarong Wealth Management Ltd.
12. Ichor International Investments Ltd.
13. Jardine Lloyd Thompson Limited
14. Jardine ShunTak Insurance Brokers Limited
15. Kinlou Insurance Broker (HK) Ltd.
16. Loksoo Consultants Limited
17. Loong Pui King
18. New Universe Pacific Financial Management Limited
19. Pik Fung Tong
20. Privacy Commissioner for Personal Data
21. Professional Insurance Brokers Association
22. Tai United Insurance Brokers Limited
23. Taiping Reinsurance Brokers Ltd.
24. The Chartered Insurance Institute Hong Kong Ltd
25. The Hong Kong Association of Banks
26. The Hong Kong Confederation of Insurance Brokers
27. The Hong Kong Federation of Insurers
28. The Institute of Financial Planners of Hong Kong
29. United China Professional Insurance Brokers Ltd.
30. Vega Wong
31. Yu Fung Broker Ltd.