

**Panel on Financial Affairs
Follow-up to meeting on 4 July 2005**

Proposed introduction of a new category of “travel insurance agents”

(a) Details of the proposed examination for the new “travel insurance agents”

Under the Insurance Intermediaries Quality Assurance Scheme (“IIQAS”) which came into effect in 2000, any person who wants to practise as an insurance intermediary (an agent or a broker) is required to pass a basic, common paper “Principles and Practice of Insurance”. Those who want to sell general insurance are required to pass an additional paper on “General Insurance”, and those who want to sell long term (life) insurance are required to pass a paper on “Long Term Insurance”. For those who are qualified to sell long term insurance, if they also want to sell investment-linked products, they have to pass a paper on “Investment-linked Long Term Insurance”. In addition, anyone who wants to engage in Mandatory Provident Fund Schemes business is required to pass a separate paper on “Mandatory Provident Fund Schemes”.

To bring travel agents who want to sell travel insurance under a proper regulatory framework and enhance protection for consumers, the Office of the Commissioner of Insurance (“OCI”) proposes to introduce a new category of insurance intermediary called “travel insurance agents”. Under this proposal, those who want to register as “travel insurance agents” have to pass a “Travel Insurance Agents Examination”. The examination will cover “Principles and Practice of Insurance” and those parts of “General Insurance” which are related to travel insurance, together with additional in-depth knowledge on travel insurance and case studies based on experience of customer complaints. The study notes of the “Travel Insurance Agents Examination”, being prepared in

consultation with the industry, will ensure that those who are qualified as “travel insurance agents” are equipped with sufficiently good professional travel insurance training and knowledge. We plan to circulate the proposed study notes to the relevant industry bodies and insurance intermediaries bodies for comments in October 2005.

(b) Training for existing staff of travel agents to sit for the proposed examination for the new “travel insurance agents”

Under the existing regulatory regime, an insurance company is responsible for the professional conduct and quality of service of its appointed insurance agents. The insurance company is also required to provide its insurance agents with sufficient training to enable them to competently undertake their duties. We expect that after introduction of the “travel insurance agents” qualification and the provision of a clear regulatory framework for travel agents and their staff to sell travel insurance, more insurance companies will be interested in appointing travel agents (and their staff) as “travel insurance agents” to sell travel insurance on their behalf. Insurance companies have indicated that they will provide necessary training to their “travel insurance agents”. Indeed, there will be incentive for insurance companies and it is also in their interest to provide proper training for their “travel insurance agents” because insurance companies have a duty to ensure that those people appointed by them as agents are competent to undertake their duties and provide customers with a good quality of service.

(c) Regulation of the new “travel insurance agents”

The new “travel insurance agents” will be subject to the same regulation that applied to all other insurance agents. Similar to all insurance agents, “travel insurance agents” are required to be registered with the Insurance Agents Registration Board (“IARB”) and to comply with the code of conduct applicable to all insurance agents. An aggrieved customer may lodge a complaint against the insurance agent with the IARB which has standard procedures to investigate the complaint and impose disciplinary action on the

agent as appropriate.

(d) Monitoring measures to ensure that only registered “travel insurance agents” are deployed by travel agencies to sell travel insurance to their clients

After the introduction of the “Travel Insurance Agents Examination”, the OCI will strictly enforce the requirement that only those who have passed the examination and have been registered as “travel insurance agents” with the IARB may sell travel insurance at travel agencies. They will be required to display their name and the title of “travel insurance agent” together with their IARB registration number in front of their service desks or counters. The same information is required to be printed in the official premium receipts of the travel insurance policies, which will facilitate follow up action in case of complaints and provide better protection for consumers. The OCI and the IARB will step up publicity of the new registration system and monitor compliance with the new requirement by travel agents.

(e) How the grave concern expressed by the insurance intermediaries could be addressed (i.e. concerns about similar relaxation to be given to other types of insurance and possible negative impact of the proposal on the professional image of the insurance profession)

It is noted that regulators in the U.K., U.S. and Singapore, have made special arrangement to facilitate travel agents to sell travel insurance which is tied to the travel package they arrange for their clients. These arrangements have been in place for some time and we are not aware of any concerns expressed by their insurance intermediaries professions. There is no question of any lowering of standard under the proposal. Instead, as explained in (a) above, in order to pass the “Travel Insurance Agents Examination”, a candidate will not only need to have the basic knowledge of the “Principles and Practices of Insurance” that applied to all insurance intermediaries, but will also have to possess an in-depth knowledge of travel insurance. The proposed examination will help to promote specialisation and ensure that

those who have obtained the qualification of “travel insurance agents” have undergone proper training and are adequately equipped to advise their clients on their travel insurance needs.

Regarding the concern that similar arrangement may be extended to other types of insurance, it should be emphasised that travel insurance is different in that it is directly linked to the risks of the destination, duration of the journey, and the nature of activities intended to be performed by the traveller during his/her trip. The travel agent who arranges and organises the trip for his/her client, given proper training, is in a more suitable position to advise the client on his/her travel insurance needs. The same does not apply to, say, motor or employees’ compensation insurance. The OCI does not see any need or justification and has no intention to extend similar arrangement to motor car dealers or employment agencies.

The OCI is of the view that, as witnessed in insurance markets all over the world, the professional image of the insurance intermediaries is best protected through regular review and refinement of the regulatory system to ensure that it keeps pace with the development of the market, meets the needs of consumers, and affords policyholders with a higher standard of protection. The introduction of a “travel insurance agent” registration system will ensure that those who sell travel insurance at travel agencies are qualified and equipped to advise their clients on their travel insurance needs. The proposal will not only provide travel agents with a clear regulation and protect those who buy travel insurance from them, but will also encourage more travel agents and insurance companies to cooperate to provide travel insurance services. This will help encourage more outbound travellers to take out travel insurance and may help lower the insurance premiums through increased market competition, serving the best interest of the community.

(f) Alternative options considered by the Administration

The OCI has considered the following alternatives:

- (i) Status quo – By not doing anything, many travel agents will continue to refrain from selling travel insurance while some may continue to operate in the grey area hoping that by simply collecting insurance premiums from the clients and not giving any advice or answering their questions, they can get away from having to register as insurance agents. This both causes inconvenience to customers and gives them little protection. In case of dispute, the ambiguous role played by the travel agent in the process will make it both difficult and complicated for the complaint to be followed up and enforcement action to be taken. The IARB, the self-regulatory body of the insurance agents, will not be able to deal with these complaints because the person at the travel agent involved is not a registered insurance agent and is not subject to IARB supervision. On the other hand, travel agents have found it difficult to require or encourage their staff to sit for the general insurance agents examination and obtain the necessary qualification under the current system because most of the contents and subjects covered by the examination, such as marine or engineering insurance, have nothing to do with travel insurance or the travel business and it is unreasonable to expect them to become conversant with such knowledge.

- (ii) Encouraging travel agents to set up a separate counter to be manned by a registered insurance agent or an representative of insurance companies to sell travel insurance — The OCI, the insurers and the travel industry consider that this arrangement is neither practicable nor in the interest of the public. Currently, there are over 1,400 travel agents operating in Hong Kong, many of which are small ones with only a few employees. It will create many operational problems for the travel agents or insurance companies to assign staff to man a separate counter at each of the travel

agencies in order to sell travel insurance. Customers will find it very inconvenient and time consuming that, after completing their travel arrangements, they will have to go to a different counter and explain all over again the details of their trip in order to buy travel insurance. The additional cost of operation will eventually be reflected in a higher travel insurance premium for the community.

- (iii) To follow overseas examples and exempt travel insurance agents from registration – This is the simplest option but is not preferred by the OCI. Although travel insurance sold through travel agents tends to be standardised and simple products, it is nevertheless important to ensure that all those who handle the sale have been properly trained and are equipped with sufficient professional knowledge to advise their clients or answer questions. Another important consideration is that, as explained in (i) above, under the current “self-regulatory system” in Hong Kong, the IARB cannot deal with any complaint against travel agents and cannot apply the code of practice to them unless they are registered as insurance agents under the IIQAS. It is necessary to include travel agents in the IIQAS so that they are subject to the same regulatory system applicable to all other insurance agents.

Conclusion

Each year, some four million Hong Kong people join travel packages organised by travel agents and many more arrange their travel through travel agents. Having regard to the Hong Kong insurance regulatory framework and the operation of the local travel industry, the OCI considers that the proposal to introduce a new category of “travel insurance agents” under the IIQAS is the best approach to facilitate travel agents to sell travel insurance and provide consumers with better protection. The proposal to create a new category of “travel insurance agents” will achieve the following three objectives:

First, it will provide travel agents with a clear regulatory system to sell travel insurance, and travel insurance only, without

detracting from their core business;

Second, it will make it more convenient for consumers to buy travel insurance under better protection; and

Third, by encouraging more insurance companies to co-operate and build up long term partnership with travel agents to sell travel insurance, it will not only lead to lower cost of premium for consumers but will also help enhance the safety of the outbound tours because insurance companies, being professional risk managers, will take a keen interest in ensuring that good practices and risk control measures are taken and adhered to by travel agents to enhance the safety of the outbound tours.

Financial Services and the Treasury Bureau/
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