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**Panel on Financial Affairs
Meeting on 5 December 2005**

**Background Brief
on the proposed introduction of a new category of “travel insurance agents”**

Purpose

This paper sets out the background of the Administration’s proposal to introduce a new category of “travel insurance agents” to the Insurance Intermediaries Quality Assurance Scheme (IIQAS) to encourage travel agents to register as travel insurance agents so that they can sell and actively promote travel insurance to their clients and be subject to proper regulation. It also summarizes the major views and concerns expressed by members when the proposal was considered at the meeting of the Panel on Financial Affairs (FA Panel) on 4 July 2005.

Background

2. It is the Government’s policy to encourage Hong Kong residents to take out travel insurance before they travel so as to better protect themselves. The tsunami disaster in December 2004 and a number of fatal accidents involving Hong Kong residents travelling abroad have highlighted the importance of taking out travel insurance. While there are different channels through which people can take out travel insurance, most travellers buy insurance through travel agents at the time when they make their travel arrangements. As such, the Administration considers it necessary to facilitate travel agents to be registered as travel insurance agents so that they can sell travel insurance with proper authorization and be subject to proper regulation.

Existing regulatory system for insurance agents

3. Under the Insurance Companies Ordinance (Cap. 41), a person “who holds himself out to advise on or arrange contracts of insurance” as an agent of an insurance company has to be appointed by and registered as an agent of that insurance company. The Insurance Agents Registration Board (IARB) is a self-regulatory body set up by the Hong Kong Federation of Insurers (HKFI) for the registration and administration of insurance agents, their responsible officers and technical representatives (collectively referred to as “insurance agents”).

4. In 2000, IIQAS was introduced to promote the professional conduct and quality of insurance intermediaries (agents and brokers). Under IIQAS, a person who wishes to be registered with IARB as an insurance agent and be able to sell general insurance products (including travel insurance) has to be fit and proper^{Note} and is required to:

- (a) pass a compulsory examination paper on “Principles and Practice of Insurance” and a separate qualifying examination paper on “General Insurance”; and
- (b) fulfil the Continuing Professional Development Programme (CPD) requirements (namely to complete 10 CPD hours of insurance related study each year to maintain and upgrade his/her professional knowledge).

The Administration’s proposal

5. The Administration proposes to introduce a new category of “travel insurance agents” under IIQAS. Given that selling travel insurance is not intended to be travel agents’ core business, the Administration considers it neither desirable nor practical to require travel agents to fulfil all the requirements intended for full time insurance practitioners. However, the Administration considers it necessary to ensure that travel agents selling travel insurance has attained a basic proficiency in the knowledge about travel insurance and understand the professional conduct and responsibility expected of them. Furthermore, to protect consumers, travel agents who want to sell travel insurance will be required to be registered with IARB, so that they will be subject

Note

In considering whether a person is fit and proper, the IARB shall take into account:

- whether the person has ever been declared bankrupt or been a controller, a director, an officer or a senior manager of a corporation that has become insolvent;
- whether the person has ever been convicted of any criminal offence or been found guilty of misconduct by a professional body to which he belongs or has belonged;
- whether the person possesses the minimum qualifications, including attaining the age of 18; completing education to a level of Form 5 or equivalent; successfully passing the relevant examination papers of the IIQAS, etc.

to the same self-regulatory system now applicable to all insurance agents. The details of the proposal are as follows -

- (a) Any travel agent who wants to register as a “travel insurance agent” must be fit and proper and has passed a new examination paper which combines the two papers on “Principles and Practice of Insurance” and “General Insurance” with emphasis on travel insurance. The registration procedures and fees will be the same as those applicable to insurance agents (currently, the registration fee is \$360 for a period of three years);
- (b) A person registered as “travel insurance agent” is only allowed to sell travel insurance for the tour or travel package which he/she is arranging for the client;
- (c) In view of the restrictive and standardized nature of travel insurance and the fact that CPD is designed to cover a wide range of insurance-related subjects and intended for those who pursue insurance as a full time profession, the Administration does not intend to apply the formal requirements of CPD to the registered “travel insurance agents”; and
- (d) As travel agents usually sell travel insurance under contract with an insurance company, the Administration will discuss with HKFI on the issue of guidelines requiring the insurance companies to provide the necessary training and refreshment courses for the travel insurance agents.

6. In formulating the proposal, the Administration has made reference to practices in overseas jurisdictions, namely Australia, Singapore, the United Kingdom, and the New York State in the United States. Most of these overseas jurisdictions give travel agents concessionary registration arrangement if they only sell travel insurance incidental to their travel business. A comparison table is in **Appendix I**.

7. To implement the proposal, the Code of Practice for the Administration of Insurance Agents will need to be amended by HKFI with the Insurance Authority’s approval but there is no need for any primary or subsidiary legislative amendments.

Consultation with the travel and insurance industries

8. A consultation paper on the proposal was issued by the Administration to the relevant stakeholders in the travel and insurance industries on 28 April 2005. The Travel Industry Council of Hong Kong (TIC) expressed support for the

proposal. HKFI responded that while it did not object to the proposal in principle, it was of the view that some forms of CPD requirement should be retained. The representative bodies of insurance intermediaries were concerned that by creating a separate category of “travel insurance agents”, it would set a precedent for similar relaxation to be given to other types or forms of insurance, such as motor insurance or employees’ compensation insurance. They were also worried that the proposal might lead to a relaxation of the existing examination and CPD requirements on insurance intermediaries and thus downgrade the professional image of the insurance profession.

Major views and concerns expressed by members of the Panel on Financial Affairs

9. When the FA Panel was briefed on the Administration’s proposal at its meeting on 4 July 2005, members indicated their support for the policy to encourage the public to take out travel insurance before they travelled. However, members had reservation on whether the proposal was the best option to achieve the policy objective. They requested the Administration to give further thought to the proposal and consider how the grave concern expressed by the insurance intermediaries in their submissions to the Panel could be addressed, and to provide information on the following items:

- (a) Details of the proposed examination for the new “travel insurance agents”;
- (b) Training for existing staff of travel agents to sit for the proposed examination for the new “travel insurance agents”;
- (c) Regulation of the new “travel insurance agents”;
- (d) Monitoring measures to ensure that only registered “travel insurance agents” are deployed by travel agencies to sell travel insurance to their clients;
- (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); and
- (f) Alternative options considered by the Administration.

10. The extracts of the minutes of the FA Panel meeting on 4 July 2005 is in **Appendix II**. The information provided by the Administration after the meeting is in **Appendix III** (LC Paper No. CB(1)75/05-06(02)).

Recent development

11. The Administration proposes to further consult the Panel on the proposal at the meeting on 5 December 2005.

References

12. A list of relevant papers is in **Appendix IV**.

Council Business Division
Legislative Council Secretariat
1 December 2005

**Comparison of regulation of travel agents selling travel insurance
in different jurisdictions**

	Australia	Singapore	U.K.	U.S.A. (New York State)
Regulator	Australian Securities and Investments Commission (ASIC)	Monetary Authority of Singapore (MAS) General Insurance Association of Singapore (GIA)	Financial Services Authority (FSA)	New York State Insurance Department (NYSID)
Registration Requirements	<p>People who wish to advise, arrange or deal in financial products (including travel insurance) must either hold an Australian Financial Services (AFS) licence themselves or be the representative of a licensee.</p> <p>In practice, most travel agents would not hold an AFS licence themselves, rather they would act as authorized representatives of another AFS licence holder (i.e. the insurance company issuing the policy).</p>	<p>For travel agents who wish to sell travel insurance products, they are required to obtain the "Certificate of Proficiency in Travel Insurance" by attending a non-examinable course and to be registered with the Agents Registration Board. They are exempted from the Certificate in General Insurance examination for general insurance agents and continuous professional development requirements.</p>	<p>Travel agents are excluded from the regulation of the FSA if their activities are limited to general insurance policies for travel booked with the travel agent which meet certain conditions including complementary to the service provided by the travel agent; and in standard form, etc.</p>	<p>Travel agents must be licensed to provide accidental death and dismemberment ("AD&D") insurance to their customers. However, the requirement for a written examination is waived.</p>

	Australia	Singapore	U.K.	U.S.A. (New York State)
Examination requirement	No special requirement/ exemption for travel agents	Non-examinable course on “Certificate of Proficiency in Travel Insurance”	N.A.	Waived
CPD requirement	No special requirement/ exemption for travel agents	Waived	N.A.	Waived
Registration Fee	A\$33-65 for each appointment of authorized representative depending on the mode of application (about HK\$200-400 for each appointment)	S\$200 + 5% GST for 2 years (about HK\$1,000 for 2 years)	N.A.	US\$80 for 2 years (about HK\$620 for 2 years)

**Extract from the minutes of meeting
of the Panel on Financial Affairs on 4 July 2005**

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- V. Proposed introduction of a new category of “travel insurance agents”**
(LC Paper No. CB(1)1919/04-05(05) — Paper provided by the Administration
- LC Paper No. CB(1)1919/04-05(06) — Submission dated 20 June 2005 from the Hong Kong Society of Certified Insurance Practitioners Ltd.
- LC Paper No. CB(1)1919/04-05(07) — Submission dated 23 June 2005 from the Hong Kong Chamber of Insurance Intermediaries
- LC Paper No. CB(1)1919/04-05(08) — Submission dated 23 June 2005 from The Hong Kong General Insurance Agents Association Ltd.
- LC Paper No. CB(1)1919/04-05(09) — Submission dated 24 June 2005 from Professional Insurance Brokers Association
- LC Paper No. CB(1)1919/04-05(10) — Joint submission dated 24 June 2005 from The Life Underwriters Association of Hong Kong and The General Agents and Managers Association of Hong Kong
- LC Paper No. CB(1)1953/04-05(04) — Submission dated 27 June 2005 from The Hong Kong Confederation of Insurance Brokers

LC Paper No. CB(1)1953/04-05(05) — Submission dated 30 June 2005
from the Travel Industry Council of
Hong Kong)

46. The Chairman declared interest as a member of the executive management of a number of insurance companies. He invited the Deputy Chairman to preside over the discussion of this item. The Deputy Chairman took over the chair.

Briefing by the Administration

47. At the Deputy Chairman's invitation, the Commissioner of Insurance (C of I) briefed members on the Administration's proposal of introducing a new category of "travel insurance agents" to the Insurance Intermediaries Quality Assurance Scheme (IIQAS) to encourage travel agents to register as travel insurance agents so that they could sell and actively promote travel insurance to their clients and be subject to proper regulation. He highlighted the following points:

- (a) Under the Insurance Companies Ordinance (ICO) (Cap. 41), a person "who holds himself out to advise on or arrange contracts of insurance" as an agent of an insurance company had to be appointed by and registered as an agent of that insurance company. The Insurance Agents Registration Board (IARB) was a self-regulatory body set up by the Hong Kong Federation of Insurers (HKFI) for the registration and administration of insurance agents, their responsible officers and technical representatives (collectively referred to as "insurance agents");
- (b) The IIQAS was introduced in 2000 to promote professional conduct and quality of insurance intermediaries (agents and brokers). It was designed primarily for the registration and regulation of people who intended to practise insurance as a full time occupation. Under the IIQAS, a person who wished to be registered with the IARB as an insurance agent and be able to sell general insurance products (including travel insurance) had to be fit and proper and was required to:
 - (i) pass a compulsory examination paper on "Principles and Practice of Insurance" and a separate qualifying examination paper on "General Insurance"; and
 - (ii) fulfil the Continuing Professional Development Programme (CPD) requirements (namely to complete 10 CPD hours of insurance related study each year to maintain and upgrade his/her professional knowledge).
- (c) It was the Government's policy to encourage Hong Kong people to take out travel insurance before they travelled so as to better protect

themselves. The tsunami disaster in December 2004 and a number of fatal accidents involving Hong Kong residents travelling abroad had highlighted such a need. The Administration considered it necessary to facilitate travel agents to be registered as “travel insurance agents” so that they could sell travel insurance with proper regulation. This would ensure that travel agents selling travel insurance had attained a basic proficiency in the knowledge about travel insurance and understood the professional conduct and responsibility expected of them. Furthermore, to protect consumers, travel agents who wanted to sell travel insurance would be required to be registered with the IARB, so that they would be subject to the same self-regulatory system now applicable to all insurance agents;

- (d) Taking the considerations in item (c) above into account, the Administration proposed to introduce a new category of “travel insurance agents” under the IIQAS. The details of the proposal were as follows -
- (i) Any travel agent who wanted to register as a “travel insurance agent” must be fit and proper and had passed a new examination paper (the qualifying examination) which combined the two papers on principles and practice of insurance and general insurance with emphasis on travel insurance. The registration procedures and fees would be the same as those applicable to insurance agents;
 - (ii) A person registered as “travel insurance agent” was only allowed to sell travel insurance for the tour or travel package which he/she was arranging for the client. Other than that, he/she was not allowed to sell other forms of insurance including travel insurance (such as annual travel insurance policy or stand-alone travel insurance); and
 - (iii) The formal requirements of CPD would not be applied to the registered “travel insurance agents”. The Administration would discuss with the HKFI to issue guidelines requiring the insurance companies to provide the necessary training and refreshment courses for the travel insurance agents.
- (e) The Office of the Commissioner of Insurance (OCI) had discussed with the HKFI and the Travel Industry Council of Hong Kong (TIC) and drawn reference to overseas experience before the proposal was formulated. A consultation paper on the proposal was sent to the relevant stakeholders in the travel and insurance industries on 28 April 2005. While the HKFI and the TIC expressed support for

the proposal, the HKFI suggested that some forms of CPD requirement could be retained. Meanwhile, the representative bodies of insurance intermediaries were concerned that by creating a separate category of “travel insurance agents”, it would set a precedent for similar relaxation to be given to other types or forms of insurance such as motor insurance or employees’ compensation insurance. They were also worried that the proposal might lead to a relaxation of the existing examination and CPD requirements on insurance intermediaries and thus downgrade the professional image of the insurance profession;

- (f) The objective of the proposal was to encourage travel agents to obtain the necessary qualifications for selling travel insurance without compromising the professional standards. Apart from the qualifying examination paper mentioned in item (d)(i) above, the Administration was also considering the feasibility of imposing some form of continuous training on travel insurance agents in consultation with the travel and insurance industries. The Administration would continue to liaise and discuss with the industries to finalize the relevant study notes and examination arrangement;
- (g) The Administration proposed to implement the new arrangement as soon as possible. To implement the proposal, the Code of Practice for the Administration of Insurance Agents would need to be amended by the HKFI with the Insurance Authority’s approval but there was no need for any primary or subsidiary legislative amendments. Subject to the finalization of the examination and continuous training arrangements for the travel insurance agents, it was expected that the proposed registration system would be ready for implementation in early 2006; and
- (h) The Administration did not see the need for introducing similar proposals for other types or forms of insurance.

Discussion

Details of the proposal

48. Mr CHAN Kam-lam expressed support in principle for the proposal to introduce a new category of “travel insurance agents”. Mr CHAN however considered it not clear as to whether travel agents or their staff were required to be registered as “travel insurance agents” under the proposed new registration system.

49. C of I advised that the Administration put forward the current proposal in order to encourage travel agents to register as travel insurance agents so that they

could sell and actively promote travel insurance to their clients and be subject to proper regulation. Any travel agent who wanted to register as a travel insurance agent should register with the IARB. If the travel agent wanted to engage its staff to sell travel insurance, it must ensure that the staff were fit and proper, had passed the qualifying examination and were duly registered with the IARB.

50. The Chairman was concerned how the Administration could ensure that only the qualified staff were deployed by travel agents to sell travel insurance to their clients. C of I advised that the OCI and the IARB would step up publicity of the new registration system and monitor travel agents' compliance with the requirements. Follow-up actions on complaints and suspected breaches would also be taken as appropriate.

51. Mr James TIEN appreciated the need to encourage and facilitate the public to take out insurance before they travelled. He was however concerned whether the insurance company or the travel agent would be held liable for any mishandling of travel insurance by an employee of the travel agent, and the channel available for the public to lodge their complaints.

52. C of I advised that under the current regulatory regime for insurance agents, an insurance company would be held responsible for the action of its appointed insurance agents in the course of the sale of its insurance products and services. This would apply to the "agent-principal" relationship between a travel agent registered as a travel insurance agent and an insurance company. As with the present regulatory regime, members of the public might lodge their complaints with the IARB or the OCI.

53. Mr CHAN Kam-lam enquired whether the proposal would lower the premium for travel insurance. C of I pointed out that insurance premium was determined by the market. However, given that the proposal would encourage the public to purchase travel insurance, it was expected that the associated business growth and increase market competition might help to lower the premium for travel insurance in the long run.

Views of the travel and insurance industries on the proposal

54. The Chairman pointed out that the HKFI, the representative body of insurance companies, supported the Administration's proposal in principle and offered some suggestions for refining the proposal. However, the representative bodies of insurance intermediaries were against the proposal. Referring members to the various submissions provided by the insurance industry, the Chairman highlighted that while the insurance intermediaries had no objection to the proposal of allowing travel agents to sell travel insurance, they were strongly against the proposal of relaxing the existing examination requirements under IIQAS and setting a separate examination paper for travel insurance agents, as such an arrangement might compromise the professional standard of the insurance profession and affect the

interests of the public. Given that the examination paper was the focus of contention, the Chairman requested the Administration to elaborate on the scope of the paper to facilitate the consideration of the proposal by the Panel and the insurance and travel industries.

55. C of I advised that the IIQAS was designated primarily for the registration and regulation of people who intended to practise insurance as a full time occupation. Given that the selling of travel insurance was not the core business of travel agents, it was neither desirable nor practical to require travel agents to fulfil the same examination requirements intended for full time insurance practitioners, which covered a wide range of insurance subjects not at all relevant to travel insurance. On the other hand, if travel agents were required to fulfil the IIQAS requirements, they would be able to sell various insurance products to their clients in addition to selling travel insurance. This was not desirable because travel agents might be distracted from the core business of providing travel services and this would create regulatory problems to both the OCI and the Travel Agents Registry. In practice, the travel industry was not keen to sell insurance products other than travel insurance to their clients. In the circumstances, the Administration considered that a more pragmatic approach should be adopted. The proposed examination paper for travel insurance agents would combine the two papers under the IIQAS and cover the essence of the principles and practice of insurance and general insurance with special emphasis on travel insurance, such as accident and liability. This would ensure that travel agents could be well-attuned to the sale of travel insurance, after attaining basic proficiency in the knowledge about travel insurance and understanding of the professional conduct and responsibility expected of them. Hence, the professional standard of the insurance profession would not be lowered or compromised. C of I assured members that the Administration would continue to liaise and discuss with the insurance and travel industries in working out the details of the qualifying examination for travel insurance agents.

56. Responding to Miss Mandy TAM's enquiry, C of I advised that the Administration planned to finalize the details of the qualifying examination within the next two to three months. Arrangements would be made with the Vocational Training Council for conducting the examination. There were currently over 1 700 travel agents employing more than 10 000 staff. It was envisaged that it would take about six to nine months for the staff concerned to complete the necessary training and examination before the implementation of the proposed new registration system.

57. Miss Mandy TAM noted that the representative bodies of insurance intermediaries were also concerned that the Administration's proposal would set a precedent for similar relaxation to be given to other types or forms of insurance, such as motor insurance and employees' compensation insurance. She enquired how the Administration would address this concern.

58. C of I pointed out that travel insurance was different from other types or forms of insurance in that it was linked to the risk of the destinations, duration of the

journey and the nature of activities intended to be performed by the traveller during the trip. The travel agent who arranged and organized the trip for the client, given the proper travel insurance training, was in a suitable position to advise the client of his/her travel insurance needs. The same did not apply to motor or employees' compensation insurance. The travel insurance to be arranged by travel insurance agents would be restricted to that trip on a trip basis which was one-off in nature. In contrast, third party liability motor insurance and employees' compensation insurance were compulsory by law and many people had already bought insurance covers for their cars or employees, which were transferable to their new cars or employees. Hence, the Administration did not consider that the special arrangement applicable to travel agents would also be applicable to other trades.

59. Mr Howard YOUNG noted that only about 40% to 50% of Hong Kong people purchased travel insurance before they travelled. The rate was low when compared with other jurisdictions and indicated the need to strengthen promotion work in this area. In this connection, the travel industry welcomed the Administration's proposal to introduce a new category of "travel insurance agents". Given that travel insurance agents were allowed to sell travel insurance only, the qualifying examination should focus on this area. Mr YOUNG also pointed out that a number of travel agents were small in scale and had limited number of staff. Flexible arrangements should be worked out to facilitate the staff of travel agents to receive training to prepare for the qualifying examination and to meet the CPD requirements.

Other options

60. Ms Emily LAU expressed support for the Administration's policy to encourage the public to purchase travel insurance before they travelled. However, noting the grave concern expressed by the insurance intermediaries, Ms LAU had reservation on whether the current proposal was the best option to achieve the policy objective. She urged that the Administration should conduct further consultation to address the concerns raised by the insurance intermediaries.

61. The Chairman, Deputy Chairman and Mr James TIEN enquired whether the Administration had considered other options to encourage members of the public to take out travel insurance before they travelled. The Chairman and Mr TIEN suggested that consideration might be given to enhancing the co-operation between travel agents and the three major insurance companies, such as by allowing staff of the three major insurance companies to station in premises of travel agents for selling travel insurance. Ms Emily LAU supported the suggestion but stressed that participation should not be restricted to the three major insurance companies, or else it would discourage open and fair market competition.

62. C of I re-iterated that travel insurance was different from other types or forms of insurance as mentioned in paragraph 58 above. The current proposal was an appropriate option, as the staff of a travel agent who arranged and organized the trip for a client was in a suitable position to make travel insurance arrangements to suit

the specific needs of the client. If a separate counter was set up in the premises of the travel agent for staff of an insurance company to sell travel insurance, the client might consider it inconvenient and time-consuming for him to turn to a separate person and go to the separate counter for the service.

63. Mr SIN Chung-kai pointed out that it was very convenient for members of the public to purchase travel insurance in Hong Kong. Such service was available in banks and even in Mass Transit Railway stations. The crux of the matter was whether they were willing to purchase travel insurance. While expressing support for the Administration's policy to encourage the public to take out travel insurance before they travelled, Mr SIN Chung-kai stressed the need to ensure that the professional standard of travel insurance agents should be the same or even higher than those of other insurance agents.

64. C of I assured members that the current proposal would not lower or compromise the professional standard of the insurance profession. He also pointed out that reference had been made to the practices in other jurisdictions. In general, most overseas jurisdictions studied gave travel agents concessionary registration arrangement if they only sold travel insurance incidental to their travel business. For instance, in the United Kingdom (UK), travel agents meeting certain conditions were excluded from the registration requirements entirely. In Singapore, full examination and CPD requirements were waived and travel agents were only required to complete a non-examinable course in travel insurance. Such arrangements had not lowered the professional standard of the insurance profession.

65. In response to Miss Mandy TAM's enquiry, C of I advised that the Administration had been taking concerted efforts with the travel and insurance industries in educating the public of the importance of taking out travel insurance before they travelled. The Administration had also stepped up publicity to disseminate the message before the peak seasons for travel.

Follow-up actions to be taken by the Administration

66. In view of the concerns raised by members at the meeting and by the insurance intermediaries in their submissions, members requested the Administration to give further thought to the proposal and consider how the concerns could be addressed. Members also agreed that the Panel would further discuss the proposal after the Administration had further consulted the insurance and travel industries and provided information on the following items:

- (a) Details of the proposed examination for the new category of "travel insurance agents";
- (b) Training for staff of travel agents for the new category of "travel insurance agents";

- (c) Regulation of travel insurance agents;
- (d) Monitoring measures to ensure that only the registered staff of travel insurance agents were deployed to sell travel insurance to their clients;
- (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 or forms of insurance and that the proposal might compromise the professionalism of the insurance industry; and
- (f) Alternative options considered by the Administration.

(Post-meeting note: The Administration's written response to the seven submissions was issued to members and non-Panel Members vide LC Paper No. CB(1)2059/04-05(01) on 14 July 2005.)



**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/
Office of the Commissioner of Insurance

October 2005

[DL46/LEGCO/jw]

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

List of relevant papers
(Position as at 1 December 2005)

Paper/Report	LC Paper No.
Administration’s paper on “Proposal to introduce a new category of “travel insurance agents” to the Insurance Intermediaries Quality Assurance Scheme”	CB(1)1919/04-05(05) <i>(discussed at the FA Panel meeting on 4 July 2005)</i>
Submission dated 20 June 2005 from the Hong Kong Society of Certified Insurance Practitioners Ltd.	CB(1)1919/04-05(06)
Submission dated 23 June 2005 from the Hong Kong Chamber of Insurance Intermediaries	CB(1)1919/04-05(07)
Submission dated 23 June 2005 from The Hong Kong General Insurance Agents Association Ltd	CB(1)1919/04-05(08)
Submission dated 24 June 2005 from Professional Insurance Brokers Association	CB(1)1919/04-05(09)
Joint submission dated 24 June 2005 from The Life Underwriters Association of Hong Kong and The General Agents and Managers Association of Hong Kong	CB(1)1919/04-05(10)
Submission dated 27 June 2005 from The Hong Kong Confederation of Insurance Brokers	CB(1)1953/04-05(04)
Submission dated 30 June 2005 from the Travel Industry Council of Hong Kong	CB(1)1953/04-05(05)
The Administration’s written response to the seven submissions	CB(1)2059/04-05(01)
Minutes of the FA Panel meeting on 4 July 2005	CB(1)2357/04-05
Paper provided by the Administration on “Proposed introduction of a new category of travel insurance agents”	CB(1)75/05-06(02) <i>(Follow-up to FA Panel meeting on 4 July 2005)</i>