# Submission to Financial Affairs Panel in Response to the Proposed Establishment of an Independent Insurance Authority

Date: 12 October 2010

The Professional Insurance Brokers Association ("PIBA") is pleased to submit its views regarding the proposal to establish an Independent Insurance Authority as follows:

**There is pressing need for holistic financial sector reform rather than prematurely introducing legislation to restructure regulation of the insurance industry**

The Lehman Brothers Minibonds crisis induced a new level of scrutiny of the financial sector that the Legislative Council has been debating since that time. There have been ongoing discussions within the Legislative Council about financial sector reform. At the crux of the debate is how the regulatory framework of the sector as a whole – including banking, securities, insurance and provident funds – should be reformed. PIBA firmly believes that rather than narrowly focussing on review of the existing regulatory mechanism for the insurance industry, the Government should take into account the broader context whereby regulatory reform of the entire financial sector is needed.

The reform measures being advocated have wide-reaching implications for the Hong Kong community and the provision of other professional and financial products and services across the board. It is clear that the Hong Kong community, insurance industry practitioners and, critically, members of the Legislative Council clearly have not reached consensus on the issue. As such, we call on the Financial Services and the Treasury Bureau (FSTB) to conduct further studies and a more robust consultation campaign, instead of prematurely introducing a bill in the Legislative Council, which deals with insurance industry regulatory reform alone.

**Guiding principles for reform**

The Government, in putting forward any reform proposal for the insurance sector, must give due consideration to the following aspects: (i) effectiveness of the proposed solution; (ii) operating costs of the proposed regulatory entity; (iii) impact on consumer choice and competitiveness; and (iv) consumer protection.

Currently, the consultation paper dealing with the proposed set-up of the independent Insurance Authority (IA) fails to address these aspects.

**Proposed change would stifle the development of SMEs**

The existing self-regulatory model has been running effectively since 1995. Under this regime, the industry has been thriving – with over 68,000 insurance intermediaries. In the September 2010 *The Global Financial Centres Index* which provides profiles, ratings and rankings for 75 financial centres, Hong Kong ranks in first place in the global insurance sector[1]. In 2007, Hong Kong became the second most mature insurance market in Asia, following Japan.2 Clearly, this reflects on both confidence in, and the effectiveness of, the existing regime.

Many companies of the non-life insurance sector are indeed smaller players, and it is these SMEs that serve as the cornerstone of the industry and have contributed to market competition and the range of choices. Currently PIBA has 308 member companies and 3,765 registered individual members, and the majority of them (95%) are SMEs, which employs over 3,000 staff.

The proposed change will lead to increased compliance costs, thereby putting SMEs at a disadvantage and stifling the development of the industry. Ultimately, this will lead to reduced consumer choice in insurance products and services.

We are against imposing a 0.1% levy on policy-holders as this will have massive implications for Hong Kong consumers and will also impact Hong Kong's competitiveness in the international insurance market. In the first instance, the 0.1% levy may appear minimal, especially in relation to smaller value policies. However, without a cap, the levy may be increased perpetually. More importantly, for policies with a higher premium, for example the consumer is an organization purchasing multiple policies for a group of employees or the policy covers a major infrastructural project, the imposition of the a levy will present a significant burden to policy holders. Ultimately, this business may be lost to neighboring countries which compete with Hong Kong in the overseas insurance market.

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[1] The index was published by Z/Yen. http://www.zyen.com/GFCI/GFCI%208.pdf (pp.28)

**We have strong reservations about the proposal set out in the consultation document**

It is extremely disappointing that the FSTB presents two options only, but immediately dismisses Option 1 – enhanced supervision by the independent IA under a strengthened SRO system. We are opposed to the implementation of option 2 – direct licensing and supervision by the independent IA.

We are opposed to the proposed dual regulator arrangement where the Hong Kong Monetary Authority (HKMA) is to regulate bank employees selling insurance products as this cannot resolve the issue of potential conflict between multiple regulators, duplication of effort, and will create double standards.

The proposed independent IA will require a workforce of 237 staff, as compared to Office of the Commissioner of Insurance (OCI)'s current 123 staff. It is not clear from the Consultation Paper that the FSTB has conducted a thorough cost benefit analysis and how the cost effectiveness is justified.

Inclusion of, and participation by, the insurance industry is essential in relation to both any proposed reform process and management of the regulatory structures themselves. We are disappointed that insurance practitioners are excluded from the Governing Board of the proposed independent IA.

**Recommendation**

We are in full support of reviewing the regulatory regime with a view to identifying the best-fit system – in accordance with the four principles mentioned above - for Hong Kong. While current investigation and disciplinary proceedings are indeed rigorous and transparent and membership of the disciplinary committee includes independent members from other professions, we are committed to further enhancing the system.

**We propose refining the existing self-regulation by merging the two self-regulatory organizations (SROs) for insurance brokers or merging the three SROs all together, thereby aligning disciplinary procedures, levels of sanctions and complaints handling processes amongst the different SROs. In the longer run, we suggest establishing an advisory commission – with members from different sectors, including insurance, accounting, banking, securities and government - to examine the issues in a holistic manner, to identify the overall reform direction of the financial sector and to look into the positioning of self-regulatory bodies and the multiple-regulator issue.**