



Proposed Establishment of an Independent Insurance Authority ("IIA")

4 July 2011

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Consultation Conclusions

■ Outcome of Consultation

- General public support for the establishment of an IIA
- Formulation of detailed proposals in light of the comments received



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Powers of IIA – Regulation of Insurers

Proposals

- To provide IIA with express powers to :
 - carry out inspections
 - initiate Investigations
 - prosecute offences summarily
 - impose regulatory sanctions in case of misconduct



Powers of IIA – Regulation of Insurance Intermediaries

Licensing Arrangements

- The scope of intermediary activities which are subject to conduct regulation will be defined in the legislation. Any person who performs such regulated activities is required to be licensed by IIA.
- IIA will establish and maintain a list of licensed insurance intermediaries
- Eligibility requirements: Reference will be made to existing requirements; no intention to introduce changes on establishing the proposed IIA.

Transitional Arrangements

- Pre-existing insurance intermediaries validly registered with the self-regulatory organizations will be deemed to be licensed with IIA for three years upon its establishment and therefore be able to carry on their business
- Pre-existing insurance intermediaries who wish to carry on their business under the new regime will need to submit applications within a specified period after the establishment of IIA
- We will continue to engage the stakeholders in formulating the detailed arrangements

Regulatory powers

- IIA will be vested with inspection, investigation and disciplinary powers for the regulation of insurance intermediaries similar to those proposed for the regulation of insurers



Powers of IIA – Regulation of Insurance Intermediary Activities of Banks

Enhanced Proposals

- IIA to be the **primary and lead regulator** for all insurance intermediary activities
- IIA will **set standards and requirements** and be responsible for the licensing of insurance intermediaries (including banks and their employees)
- IIA to work closely with HKMA on insurance regulation –
 - there is substantial difference of the client base of bancassurance activities from that of insurance business
 - retail banks operate on an integrated business basis
 - HKMA plays the role as the primary and lead regulator of banks
- IIA will delegate specified powers to HKMA
 - Inspection: To be carried out jointly by IIA and HKMA. HKMA will also carry out inspection in relation to general banking activities.
 - Investigation: Where IIA considers necessary, it may carry out investigation, take over investigation from HKMA or send staff to participate in HKMA's investigation
- Disciplinary powers will be vested with IIA, with HKMA's active participation in the disciplinary process through representation in the Disciplinary Committee



Funding Mechanism - Fee Structure

Proposals

- To gradually recover cost from the market under the “user-pay” principle
 - fixed licence fee and variable licence fee payable by all insurers
 - user fees for specific services
 - a levy of 0.1% on insurance premiums for all insurance policies collected from policyholders
 - fixed licence fee payable by all insurance intermediaries



Funding Mechanism – Fee Measures

Proposals

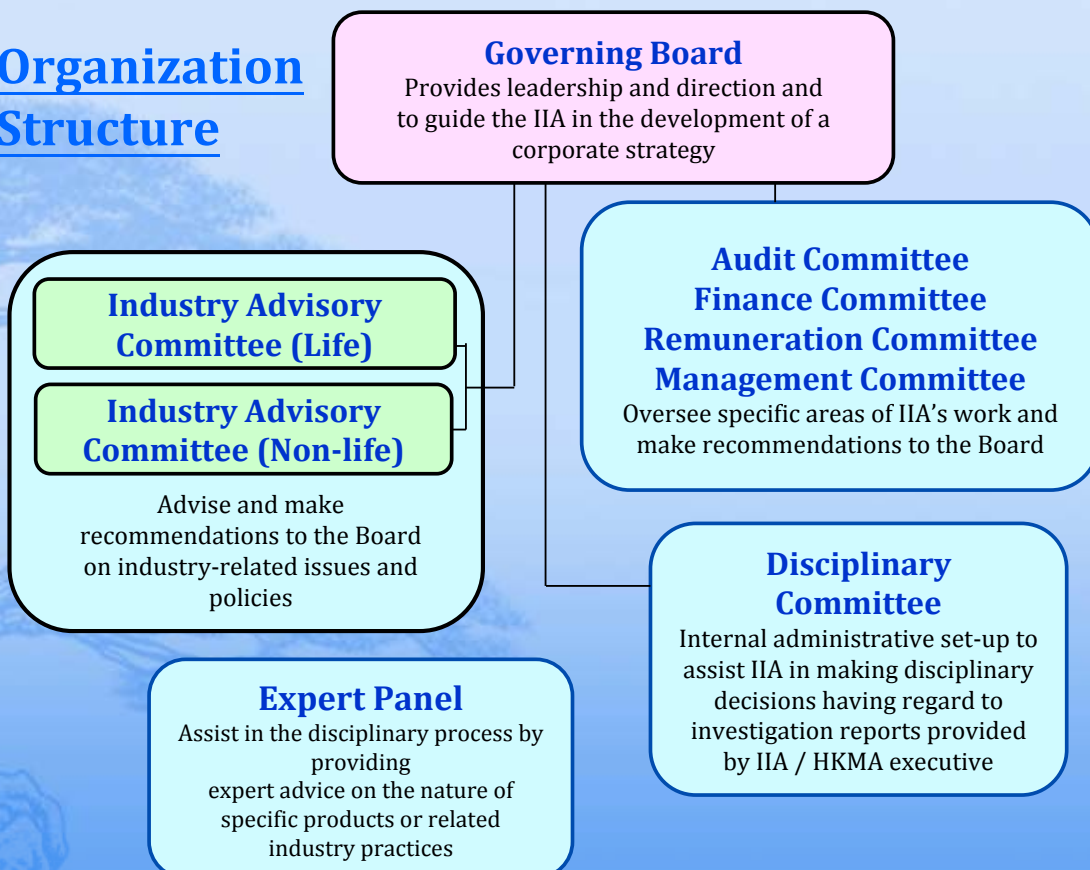
- In the first five years after the establishment of IIA :
 - the licence fee for insurance intermediaries be waived
 - an incremental approach be adopted in achieving the target levels of variable licence fee on insurers and levy on insurance policies
- The Government will provide a lump sum of HKD500 million to IIA to help meet part of its expenses and as contingency reserve

Further Proposals

- a cap be imposed on the 0.1% levy on non-life insurance policies with annual premiums at or above HKD5 million and life insurance policies with single or annualized premiums at HKD100,000 or above
- exemption of premiums of reinsurance contracts from the levy



Organization Structure



Next Steps

- Engage the industry and relevant stakeholders with a view to refining the detailed proposals for the drafting of legislation
- Aim to make available draft key legislative provisions for engaging the general public and stakeholders in early 2012

