



Proposed Establishment of a Policyholders' Protection Fund ("PPF")

Consultation Conclusions and Final Proposals

6 February 2012

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Public Consultation

- 3-month consultation exercise from March to June 2011
- The Legislative Council ("LegCo") Panel on Financial Affairs was briefed on the proposals on 4 April 2011
- Comments were received from:
 - 2 public forums
 - meetings with industry bodies and other stakeholder groups
 - written submissions from individuals and companies/organizations
- General public and industry support for PPF establishment and most of the key proposals



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Objectives and Guiding Principles

- Strike a reasonable balance in enhancing protection for policyholders and minimizing additional burden to the insurance industry
- Enhance market stability while minimizing the risk of moral hazard
- Provide certainty on the level of compensation when an insurer becomes insolvent, and put in place a reliable system to facilitate the collection, custody, investment and administration of levy contributions to the PPF
- Should not in any way compromise the regulatory standards and requirements laid down by the Insurance Authority under the Insurance Companies Ordinance



Coverage

- Individual policyholders
- Building owners' corporations
- SME policyholders
 - adopt simple definition with user-friendly procedures



Level of Compensation

	Life Scheme	Non-Life Scheme	
		A&H policies with guaranteed renewability	Policies except Accident and Health ("A&H") policies with guaranteed renewability
Claims	100% for the first HKD100,000, plus 80% of the balance of the claim, up to a total of HKD1 million	Details	
In-force policies (First priority)	<ul style="list-style-type: none"> Transfer the policies to another insurer PPF should be allowed to pay up to HKD1 million per policy to facilitate the transfer 	<ul style="list-style-type: none"> PPF should be allowed to pay up to HKD1 million per policy to facilitate transfer of the policies to another insurer 	<ul style="list-style-type: none"> Provide for continuity of coverage until expiry of policies Meet claims up to the compensation limit of HKD1 million per claim
In-force policies (When policies cannot be transferred)	<p>Two choices :</p> <p>a) To continue the policy until expiry</p> <ul style="list-style-type: none"> PPF should settle any claims arising subject to a compensation limit <p>b) To terminate the policy</p> <ul style="list-style-type: none"> PPF should pay the policyholder the cash / account value of the policy and declared dividends / bonuses PPF may also pay an ex-gratia payment to compensate the losses due to premature termination. The total payment should be capped at HKD1 million per policy 	<ul style="list-style-type: none"> PPF may pay the affected policyholders an ex-gratia payment up to HKD1 million 	N/A



Level of Compensation (Cont'd)

- Compensation basis
 - Life insurance: per-policy basis
 - Non-life insurance : per-claim basis
 - Group life policies: per-life basis
 - Group medical policies: per-claim basis
 - Medical riders to group life policies: per-claim basis
- Compensation limit
 - maintain the compensation limit of HKD1 million
 - higher compensation limit will result in much higher target fund size and levy rate, but not contributing to a proportionate enhancement in protection

Example: ↑ the compensation limit from HKD1 million to HKD3 million

 - Life policies:
 - ↑ the levy by 57% (from 0.07% to 0.11%)
 - ↑ in no. of life policies receiving compensation - less than 1%
 - Non-life policies:
 - ↑ the levy by 21% (from 0.07% to 0.085%)
 - ↑ in no. of claims receiving compensation - less than 0.5%



Funding Mechanism

	Life Scheme	Non-Life Scheme
Initial target fund size	HKD 1.2 billion	HKD 75 million
Initial levy rate	0.07%	0.07%

- **Funding approach:** progressive
- **Levy collection :** Charged on insurers
- The initial target fund is planned to be achieved in 15 years
- All authorized direct life and non-life insurers should be required to participate in the PPF
 - excluding reinsurers, wholesale retirement schemes and captive insurers
 - the PPF Board will consider and approve applications for exemption from the PPF by insurers, on a case-by-case basis, if they are able to demonstrate that they offer equivalent protection to their policyholders in Hong Kong via an overseas scheme of similar nature



Funding Mechanism (Cont'd)

- Levy calculation basis
 - life: Office premiums
 - non-life: Gross written premiums
 - prepared to consider proposals on excluding premiums attributable to policies not covered by PPF from levy calculation, provided that there is an effective way to assess and verify the amount
- “Stepped-up” levy rate
 - any stepped-up levy in future will require LegCo approval
 - no objective yardsticks to determine any appropriate cap on the levy rates before implementation of PPF
 - will review together with target fund size after implementation of the PPF



Funding Mechanism (Cont'd)

Asset recovery mechanism

- PPF should have equal ranking with the two classes of creditors specified in section 265 of the Companies Ordinance, i.e. the Employees Compensation Assistance Fund and all other direct insurance claims not met by the PPF
 - not appropriate to lower the ranking of the PPF to an ordinary creditor, as such change would result in a hefty increase in the initial target fund size and levy rates of the PPF



Governance Arrangements

- Established by legislation and be administered by a statutory body (the PPF Board), appointed by the Financial Secretary
- PPF Board
 - comprises professionals experienced in insurance, finance, accounting, law and consumer affairs etc, and ex-officio representatives from the Government
 - will take into account the need for having appropriate industry knowledge and experience supporting the PPF Board, through appointments to the Board and its two industry committees, provided that such appointments would not give rise to perceived or real conflict of interests
 - should attach importance to industry participation to ensure that the protection regime would evolve with market development



Next Steps

- Prepare the enabling legislation for establishing the PPF
- Expect to introduce the Bill into LegCo in the 2012-13 legislative session
- Aim to set up the proposed PPF in 2013-14 at the earliest

