

**立法會**  
***Legislative Council***

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**Panel on Financial Affairs**

**Meeting on 8 April 2013**

**Background brief on extension of a supernumerary Administrative Officer  
Staff Grade C post for the establishment of an independent Insurance  
Authority and a Policyholders' Protection Fund**

**Purpose**

This paper provides background information on the supernumerary post of Administrative Officer Staff Grade C ("AOSGC") (D2) created in 2011 in the Financial Services Branch ("FSB") under the Financial Services and the Treasury Bureau ("FSTB") for the purpose of establishing an independent Insurance Authority ("IIA") and a Policyholders' Protection Fund ("PPF"). It also summarizes the concerns and views expressed by Members during discussions on the creation of the post in 2011.

**Background**

Proposals to establish an independent Insurance Authority and a Policyholders' Protection Fund

2. The policy initiatives to establish an IIA and a PPF were highlighted in the Chief Executive's 2008-2009 Policy Address and the Financial Secretary's 2010-2011 Budget Speech. According to the Administration, establishment of an IIA will further improve the insurance supervisory framework, enhance protection for insurance policyholders, create greater nimbleness in responding to regulatory challenges, and enable more effective implementation of international standards. The Administration has conducted public consultation exercises on the proposed regulatory framework in mid-2010 and on the key legislative proposals in October 2012. The Administration is refining the

legislative proposals and aims to introduce the relevant amendment bill into the Legislative Council ("LegCo") within 2013.

3. As regards the proposal to establish a PPF for enhancing protection of insurance policyholders' interests and maintaining market stability in the event of insurer insolvency, the Administration commissioned an actuarial consultancy study to assess the optimal levy rate, target fund size and other detailed arrangements for the proposed PPF in 2010, and worked out a detailed proposal and conducted the public consultation in April 2011. The consultation conclusions and finalized proposals were announced in January 2012. The Administration is preparing the relevant legislation and aims to introduce the bill into LegCo in the 2013-2014 legislative session.

#### Creation of a supernumerary post of AOSGC

4. The Administration has pointed out that the proposals to establish an IIA and a PPF are the most significant reform proposals for the insurance industry in the past decade. Their successful implementation would require careful consideration and assessment of a wide range of policy issues pertaining to the organizational structure, governance framework, funding arrangements, and regulatory duties and powers in respect of the IIA; and the development of a cost-effective and publicly acceptable funding model and compensation mechanism with a clearly defined scope in respect of the PPF, supported by efficient administrative arrangements. Extensive consultation with the industry stakeholders and the general public to gauge their views in developing the legislative proposals are essential in ensuring the relevant proposals would meet public aspiration and market development needs, and capable of effective implementation.

5. Having regard to the scale, complexity and sensitivity of the IIA and PPF proposals, the Administration submitted a staffing proposal in early 2011 to create a supernumerary AOSGC post in FSB of FSTB for a period of three years to work on the implementation of both initiatives. The Administration briefed the Panel on Financial Affairs ("FA Panel") on the staffing proposal at the meeting on 3 January 2011. When the Establishment Subcommittee ("ESC") considered the staffing proposal at its meeting on 12 January 2011, some Members expressed concerns about the setting up of an IIA and considered that the Administration should focus its efforts on taking forward the initiative on PPF. The staffing proposal was voted on and rejected by ESC. The Administration subsequently revised the proposal by shortening the proposed duration of the supernumerary post to 30 months and removing the responsibility relating to implementation of the IIA proposal from the duty list of the post. The revised staffing proposal was discussed and endorsed at the

ESC meeting on 16 February 2011 and approved by the Finance Committee on 15 April 2011. The main responsibilities of the AOSGC post in the revised staffing proposal are –

- (a) to conduct public consultation, and analyze the public comments received and formulate the detailed legislative proposals (including the preparation of the drafting instructions) for the proposed establishment of a PPF;
- (b) further to (a) above, to work with the Department of Justice on drafting of the bill, and to steer the bill through LegCo, with a view to completing the various key milestones for implementing the PPF initiative; and
- (c) to engage the industry, other stakeholders and financial regulators in developing detailed proposals on the proposed establishment of an IIA, having regard to public comments received in the consultation exercise.

### **Deliberation at meetings of the Panel on Financial Affairs and the Establishment Subcommittee**

6. The major views and concerns expressed by Members on the staffing proposal to create the supernumerary post of AOSGC and related issues at meetings of FA Panel and ESC held in 2011 are summarized in the ensuing paragraphs.

#### Scope of responsibilities and priority of work

7. Given that the supernumerary post of AOSGC was required to deal with a number of IIA- and PPF-related tasks, Members had considered the priority of work of the post. In view of resource constraints, some Members considered that the setting up of a PPF should have priority over the establishment of an IIA, as the former initiative was important for affording protection to insurance policyholders. The Administration advised that both initiatives were important and it was working on them concurrently, with a view to bringing both initiatives into operation in 2013-2014 at the earliest.

8. Members had examined the scale and complexity of the work in taking forward the IIA and PPF proposals. The Administration explained that the proposal for setting up a PPF involved very complicated technical issues, including the levy to be imposed, the types of insurance policies to be covered,

whether corporate policyholders should be covered, the investment and compensation arrangements of the fund, etc. which would have a significant impact on the insurance industry and policyholders.

9. Some Members had expressed reservations about the proposal to create the AOSGC post, and considered that the Administration should not assume the establishment of IIA and put forth the staffing proposal as public consultation on the IIA proposal was still underway and the trade unions in the insurance industry had expressed grave concern about the proposal. The Administration responded that it was analyzing the public views received during the three-month consultation exercise on the IIA proposal which ended in October 2010. There was general support for the establishment of an IIA, whilst there were different views expressed on the details of the proposed IIA. The Administration would continue to engage the insurance industry and stakeholders before finalizing the IIA legislative proposals.

10. In view of Members' concern expressed at the ESC meeting on 12 January 2011, the Administration subsequently revised the staffing proposal to shorten the duration of the AOSGC post to 30 months and modified the duty list to exclude the responsibilities on implementation of the proposed IIA. Holder of the AOSGC post would focus on work to develop the IIA proposal in addressing the comments received and meet public aspiration and market development needs, and continue to gauge views from the industry and other stakeholders in developing further detailed proposals to facilitate public discussion.

Transitional arrangements for the existing Office of the Commissioner of Insurance and provisional office and financial arrangement for IIA

11. Members noted that the existing Office of the Commissioner ("OCI") would be abolished upon establishment of the IIA, and enquired about the arrangements for staff working in the OCI upon abolition of the Office, as well as for setting up the provisional office to prepare for the establishment of IIA. The Administration advised that arrangement would be made for the transfer of the existing general grades staff of OCI, through internal re-deployment, to other Government bureaux/departments. The Commissioner of Insurance, the Civil Service Bureau and FSTB would discuss with the staff concerned to sort out the detailed arrangements. Moreover, the Administration was considering the approach for taking forward preparatory work for the setting up of the provisional office to facilitate smooth transition. The AOSGC post was responsible for the detailed arrangements taking into account the provisions in the relevant legislation and the manpower requirements of IIA.

12. In response to Members' enquiries about the financial arrangement for the IIA and details of its organization, the Administration advised that it was still working on the proposals in this area. The Administration noted some Members' views about funding the proposed IIA through imposing a levy on insurance policies and the possible impacts of such levy in increasing the burden on policyholders and adversely affecting the competitiveness of Hong Kong's insurance industry.

### **Latest development**

13. The Administration will brief the FA Panel on the proposal to extend the supernumerary post of AOSGC at the meeting to be held on 8 April 2013.

### **Relevant papers**

14. A list of relevant papers is given in the **Appendix**.

Council Business Division 1  
Legislative Council Secretariat  
3 April 2013

## List of relevant papers

Date	Event	Paper/Minutes of meeting
3 January 2011	Meeting of the Panel on Financial Affairs	<p>Administration's paper (LC Paper No. CB(1)910/10-11(03)) <a href="http://www.legco.gov.hk/yr10-11/english/panels/fa/papers/fa0103cb1-910-3-e.pdf">http://www.legco.gov.hk/yr10-11/english/panels/fa/papers/fa0103cb1-910-3-e.pdf</a></p> <p>Minutes (LC Paper No. CB(1)1336/10-11) <a href="http://www.legco.gov.hk/yr10-11/english/panels/fa/minutes/fa20110103.pdf">http://www.legco.gov.hk/yr10-11/english/panels/fa/minutes/fa20110103.pdf</a></p>
12 January 2011	Meeting of the Establishment Subcommittee ("ESC")	<p>Administration's paper (EC(2010-11)17) <a href="http://www.legco.gov.hk/yr10-11/english/fc/esc/papers/e10-17e.pdf">http://www.legco.gov.hk/yr10-11/english/fc/esc/papers/e10-17e.pdf</a></p> <p>Minutes (LC Paper No. ESC25/10-11) <a href="http://www.legco.gov.hk/yr10-11/english/fc/esc/minutes/esc20110112.pdf">http://www.legco.gov.hk/yr10-11/english/fc/esc/minutes/esc20110112.pdf</a></p>
16 February 2011	ESC meeting	<p>Administration's paper (EC(2010-11)18) <a href="http://www.legco.gov.hk/yr10-11/english/fc/esc/papers/e10-18e.pdf">http://www.legco.gov.hk/yr10-11/english/fc/esc/papers/e10-18e.pdf</a></p> <p>Minutes (LC Paper No. ESC33/10-11) <a href="http://www.legco.gov.hk/yr10-11/english/fc/esc/minutes/esc20110216.pdf">http://www.legco.gov.hk/yr10-11/english/fc/esc/minutes/esc20110216.pdf</a></p>
15 April 2011	Meeting of the Finance Committee	<p>Minutes (LC Paper No. FC(1)118/10-11) <a href="http://www.legco.gov.hk/yr10-11/english/fc/fc/minutes/fc20110415.pdf">http://www.legco.gov.hk/yr10-11/english/fc/fc/minutes/fc20110415.pdf</a></p>