

**For discussion on
16 July 2013**

Legislative Council Panel on Financial Affairs

Sale of Travel Insurance

Purpose

This paper provides Members with information on matters relating to travel insurance.

Background

2. According to the Office of the Commissioner of Insurance (“OCI”), about 40 insurance companies are currently underwriting travel insurance in Hong Kong. In 2012, about 2.2 million travel insurance policies were issued, amounting to gross premiums of about \$850 million and accounting for about 2% of the total gross premiums of non-life businesses.

Distribution Channels for Travel Insurance

3. Members of the public can take out travel insurance directly from insurance companies in their place of business, through the ATM or the Internet. Besides, they can also procure travel insurance policies through insurance agents (who are appointed by insurance companies), insurance brokers or travel agents. In terms of the total gross premiums of travel insurance, the policies distributed through insurance agents and brokers account for over 60%, and those through travel agents about 30%. The remaining are distributed through direct sales (e.g. via the Internet).

Coverage of Travel Insurance

4. Insurance is a business where its pricing is based on risk assessment. An insurance policy is a contract between an insurance company and a policyholder. Both parties are bound by the terms and conditions of the contract, including those on coverage and premiums. There are various types of travel insurance policies with different scopes of coverage in the market. In general, the price of an insurance policy (i.e. premium) reflects the level of risks assumed by the insurance company. Therefore, if the scope of coverage of a

travel insurance policy is greater, e.g. covering loss caused by high-risk activities, than that of another policy, the premium of the former will be higher than that of the latter. Policyholders can choose appropriate travel insurance policies according to their own needs. OCI will not regulate the coverage of individual travel insurance products.

Regulation of Intermediaries Selling Travel Insurance

5. Travel insurance intermediaries include insurance agents and insurance brokers. They are operated under the existing self-regulatory regime. Insurance intermediaries have to pass the relevant examinations before being allowed to sell travel insurance.

6. Any person who wants to become an insurance agent should pass the Insurance Intermediaries Qualifying Examination (“IIQE”), be appointed by an insurance company and registered with the Insurance Agents Registration Board (“IARB”) set up by the Hong Kong Federation of Insurers. Since 2006, “Travel Insurance Agents” has been introduced as a category of insurance agent. Travel agents and their staff may sell travel insurance if they meet certain requirements on insurance agents, including passing the relevant examination, being appointed by insurance companies and registration with the IARB as insurance agents and their technical representatives. However, they are only allowed to sell travel insurance tied to a tour, travel package, trip or other travel services which they arrange for their clients.

7. To be an insurance broker company, a firm must be a member of either one of the two self-regulatory bodies of insurance brokers (i.e. The Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association), and meet the relevant capital and other requirements. The chief executives and technical representatives of insurance broker companies should also pass the IIQE before being allowed to engage in insurance intermediary business.

8. All insurance intermediaries are required to meet certain training hours requirement under the Continuing Professional Development (“CPD”) programme to ensure that they are kept updated of the latest industry knowledge and maintain their professional competence.

9. All insurance agents (including travel insurance agent) selling travel insurance must comply with the Code of Practice for the Administration of Insurance Agents (“Code of Practice”). Pursuant to section 76(f) of the Code, an insurance agent must “explain the cover afforded by each policy

recommended to ensure that the potential policyholder understands what he is buying”. Therefore, when selling travel insurance, an insurance agent is required to explain to his client the coverage and exclusions of a travel insurance policy so as to facilitate the client to take out a travel insurance policy that meets his needs. In addition, section 76(d) of the Code of Practice particularly requires an insurance agent of a travel agent to display his name and registration number on the name plate put in front of the service desk or counter when providing face-to-face insurance service at service desk or counter.

10. The numbers of complaints concerning travel insurance policies in 2010, 2011 and 2012 were 84, 88 and 75 respectively. The complaints were mainly about interpretation of policy terms and conduct of insurance agents¹.

11. OCI and the Travel Industry Council of Hong Kong (“TIC”) have been closely monitored and reviewed matters relating to sale of travel insurance by travel agents. TIC issued a circular in March 2013 reminding its members to observe the relevant requirements prescribed under the Code of Practice.

Future Development of the Regulatory Regime

12. The Administration has proposed to establish an independent Insurance Authority (“IA”) and consulted the Legislative Council Panel on Financial Affairs on the outcome of the public consultation on the key legislative proposals on 5 July 2013. We plan to introduce an amendment bill into the Legislative Council within the 2013/14 legislative session with a view to setting up the IA in 2015.

13. One of our key proposals for the establishment of the IA is to set up a statutory licensing regime for insurance intermediaries to replace the existing self-regulatory regime administered by the three Self-regulatory Organizations in order to enhance protection of policyholders. After the establishment of the IA, all licensed insurance intermediaries must comply with the statutory conduct requirements. The IA will also issue codes and guidelines in light of market developments and needs to facilitate conduct compliance by licensed insurance intermediaries. If the IA finds that a licensed insurance intermediary is guilty of misconduct, it can impose a disciplinary sanction proportionate to the severity of the misconduct².

¹ In the past three years, about 6.3 million travel insurance policies were issued, the number of complaints constitutes a small proportion of the total number of policies issued.

² The disciplinary sanctions include reprimand, fines, suspension or revocation of license and prohibition of licence application within a specified period.

Public Education

14. Through public education, the Administration has from time to time reminded members of the public to take out travel insurance that suits their personal needs and travel plan. The Administration, TIC and Travel Industry Compensation Fund Management Board have been encouraging the public to purchase travel insurance according to their needs before travelling abroad through Announcements of Public Interest in television and radio, broadcasting of promotional videos at public buses and promotional messages on the display panels in the compartments of the Mass Transit Railway. The OCI has published an educational pamphlet entitled “Travel Insurance - What you need to know”. The pamphlet reminds the public of the important points-to-note when taking out travel insurance, including the coverage and exclusions, for protecting their own interests. Furthermore, the Consumer Council has also been reminding and educating consumers through the Choice magazine on areas to which they should pay attention when taking out travel insurance. The balloon explosion incident in Luxor, Egypt, has caused public concerns on whether policyholders will be covered if they take part in certain special activities during a tour. In the latest issue of the Choice magazine issued on 15 July, the Consumer Council published a survey report on whether different high-risk activities are covered under a number of travel insurance policies, and reminded consumers again on important areas to which they should pay attention when taking out travel insurance.

Reminders and Directives Issued by TIC on the Operation of Outbound Tours by Travel Agents

15. TIC has all along recommended licenced travel agents to remind participants of outbound tours to take out comprehensive travel insurance for appropriate protection against untoward situations during a journey. On the day following the balloon explosion incident in Luxor, Egypt, the Outbound Committee of TIC discussed issues relating to travel insurance and reminded members particularly of the following: (a) travel agents are advised to examine the risks of all the activities (including self-paid activities) listed in the itinerary leaflets of their outbound tours, and to clearly inform consumers of such risks, especially for high-risk activities, before they sign up for a tour; (b) travel agents are advised to examine whether the scope of protection of comprehensive travel insurance arranged for tour participants has covered all the activities in the tour, including self-paid activities; and (c) if tour participants take out travel insurance on their own, travel agents should remind them to examine whether the scope of protection of their insurance policies has covered all the activities in the tour. As the balloon explosion incident in Luxor, Egypt, had generated

public concerns on the arrangements of sale of travel insurance by travel agents, TIC issued a circular to all licensed travel agents on 28 March 2013 to remind them to strictly observe the Code of Practice so as to maintain the professional service standard of the trade.

16. On the sale of travel insurance to travellers by travel insurance agents, TIC has been supporting the work of the OCI, including issuing a circular to all licensed travel agents to remind them of the details of the CPD Programme for travel insurance agents such as the training requirements, assessment procedures and qualified CPD training activities, etc. Moreover, at the meeting of the Outbound Committee of TIC on 20 March 2013, members were reminded to strictly observe the Code of Practice, including that: (a) an insurance agent must ensure that he is registered with the IARB in respect of the line of insurance business to be engaged in prior to conducting such business; (b) an insurance agent must display his name and registration number on the name plate put in front of the service desk or counter if he is registered as engaging in the restricted scope travel business and provides face-to-face insurance service at service desk or counter; and (c) an insurance agent must explain the cover afforded by each policy recommended to ensure that the potential policyholder understands what he is buying.

17. As regards self-paid activities arranged by travel agents for tour participants of outbound tours, TIC has recently reviewed and revised its relevant directive with a view to further improving the system. Travel agents are now required to provide two types of information for consumers before the latter sign up for tours: (a) the brochure or the list of self-paid activities shall contain detailed information on each self-paid activity recommended by travel agents, including the name and content of such activities, the amount and details of the fees of such activities, the conditions under which such activities will or will not be arranged, and the safety and other issues to which the tour participants need to pay attention; and (b) the arrangements for those tour participants who do not join the self-paid activities. Travel agents are also required to clearly specify in the brochure or the list of self-paid activities that the tour participants may decide on their own accord whether to join any self-paid activities. The new directive has enhanced the transparency of the arrangements of self-paid activities, enabling consumers to get hold of clear information for making a suitable choice before they sign up for a tour.

18. Members are invited to note the information provided in this paper.

**Financial Services and the Treasury Bureau
Commerce and Economic Development Bureau
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