

**For discussion  
on 10 November 1999**

**EC(1999-2000)23**

## **ITEM FOR ESTABLISHMENT SUBCOMMITTEE OF FINANCE COMMITTEE**

**Head 148 - GOVERNMENT SECRETARIAT :  
FINANCIAL SERVICES BUREAU  
Subhead 001 Salaries**

Members are invited to recommend to Finance Committee the creation of the following permanent post in the Office of the Commissioner of Insurance of Financial Services Bureau with effect from 10 January 2000 -

1 Assistant Commissioner of Insurance  
(D2) (\$116,650 - \$123,850)

to be offset by the deletion of -

1 Assistant Commissioner of Insurance  
(D2) (\$116,650 - \$123,850)

### **PROBLEM**

The insurance industry is growing rapidly and increasing in complexity in recent years. However, the existing establishment in the Office of the Commissioner of Insurance (OCI) only allows the policy and development work be conducted on an ad hoc basis. This is not satisfactory.

**/PROPOSAL .....**

## PROPOSAL

2. The Secretary for Financial Services (SFS) proposes to create one permanent Assistant Commissioner of Insurance (ACI) (D2) post in OCI on 10 January 2000 to oversee policy and development work. This is to be offset by the deletion of an existing ACI (D2) post responsible for occupational retirement schemes in OCI when the functions of the Office of the Registrar of Occupational Retirement Schemes (ORORS) are transferred to the Mandatory Provident Fund Schemes Authority (MPFA) on 10 January 2000.

## JUSTIFICATION

### *Regulation of Insurance Industry*

3. The insurance industry is growing rapidly and is becoming more complex as an increasing number of new products are developed and marketed in recent years. The total premium written for insurance business in Hong Kong has increased by 145% from 1991 to 1998. The number of in-force individual long-term policies alone has grown by 153% in the same period. The growth of the insurance industry is expected to continue, particularly in the light of the impending launch of the Mandatory Provident Fund (MPF) Schemes.

4. The substantial depletion in the value of insurers' assets as a result of the Asian financial crisis, coupled with fierce competition, has revealed that the insurance industry is not immune to adverse fluctuations. The impending launch of MPF products will further intensify competition. There is thus a need to strengthen the supervision of insurers' solvency position. The investment portfolio of insurers also requires close monitoring because of the increasing complexity of investment vehicles and derivative instruments involved.

5. At present, the review of regulatory policies and supporting legislation and guidelines in respect of insurers are being done on an ad hoc basis, as and when resources in the OCI permit. To be effective, the OCI requires a dedicated directorate officer to co-ordinate and discharge these regulatory and supervisory responsibilities.

### *Money Laundering*

6. Hong Kong is a member of the Financial Action Task Force on Money Laundering (FATF), an international organisation committed to combating money laundering activities worldwide. In its report published in 1998, the FATF

suggested that the Commissioner of Insurance should, among others, enhance the awareness of the insurance industry in Hong Kong of the money laundering problem and the preventive measures. On the international front, the FATF also suggested that all financial regulators in Hong Kong should seek to establish further mutual legal assistance agreements with the relevant countries.

7. In response to FATF's criticisms, the OCI has strengthened its audit procedure and increased the frequency of on-site visits to insurers. However, the OCI finds it necessary to develop a holistic approach towards combating money laundering activities. This may include encouraging insurers to report suspicious transactions, maintaining closer liaison with the Hong Kong Federation of Insurers and taking on the recommendations of the FATF. At present, there is only very limited work done by ACI (General Business) (ACI(G)) at this front. A dedicated officer pitched at D2 level is necessary to take charge of the formulation and implementation of the above measures.

### *Promotional Activities*

8. In the 1996-97 Budget Speech, the Financial Secretary highlighted the importance of promoting Hong Kong as a regional insurance centre. To this end, there is a need to develop both the reinsurance and captive insurance<sup>(1)</sup> markets in Hong Kong which are relatively under-developed. A working group chaired by SFS was formed in 1996 to identify ways to develop these businesses in Hong Kong. At the recommendations of the working group, tax and special regulatory concessions have been given to professional reinsurers and captive insurance companies respectively. Notwithstanding these efforts, there remains a need for intensifying existing promotional activities to attract more reinsurers and captive insurers to establish their operation in Hong Kong.

9. At present, ACI(G) in OCI is only marginally involved in such promotional activities. A more proactive and systematic publicity programme will be needed. This will involve conducting overseas promotional visits, holding conferences and exhibitions, as well as participating in international gatherings and roadshows. All these efforts would need to be co-ordinated by an officer at D2 level who should have the necessary depth and width of knowledge about the insurance industry to carry out the tasks.

*/International .....*

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(1) A captive insurer generally refers to an insurance company which is formed by its parent company to underwrite exclusively the insurance business of its parent or group companies.

*International and Cross-Boundary Liaison*

10. Hong Kong is a charter member of the International Association of Insurance Supervisors (IAIS) which is tasked to develop and formulate principles and standards on the supervision of insurance industry for regulators. But the OCI has so far been a rather inactive member. As one of the leading insurance regulators in the Asian Pacific Region, the OCI should play a more active role in the IAIS's work.

11. Moreover, the OCI finds it important to strengthen its liaison with external insurance regulators in order to supervise more effectively multinational insurance companies operating in Hong Kong. Over 50% of the insurers in Hong Kong are incorporated in 27 countries including the Mainland.

12. The above tasks are only being done on an ad hoc basis by the existing ACI(G) and ACI(Long Term Business) (ACI(L)). A dedicated officer at D2 level is required to take the lead in maintaining the aforementioned international and cross-boundary liaison.

*Information Technology and Market Transparency*

13. The OCI has to keep pace with the rapid development of information technology. Legislation on acceptance of public's submissions in electronic form is also imminent. The OCI therefore needs to consider changing their systems to allow insurers to submit statutory information electronically. A D2 officer is needed to oversee such important changes.

14. Market transparency is important for maintaining system stability. Greater market transparency will also help the insuring public in making informed decisions. In the light of this, the OCI has started publishing the statistical and financial information of individual insurers and quarterly statistics on the insurance industry from 1998. This is greatly welcomed by the insurance industry and other stake holders. However, this has also created considerable additional workload on the OCI and this has been absorbed on an ad hoc basis by ACI(G) and ACI(Occupational Retirement Schemes) (ACI(ORS)). An additional ACI is required to oversee the overall publication of statistics, and in particular the accuracy and timeliness of the information disclosed. He will also keep the disclosure requirements under review to enhance their effectiveness and ensure that they are in line with international practice.

*/Insurance .....*

*Insurance Intermediaries Quality Assurance Scheme*

15. Having regard to an 88% increase in number of insurance agents and brokers from 1995 to 1999 and the increasing sophistication and complexity of insurance products and insurance regulation, the OCI is implementing a Quality Assurance Scheme (the Scheme) for insurance intermediaries. Raising the standard of insurance intermediaries will enhance the protection rendered to policy holders and further the role of Hong Kong as the regional insurance centre.

16. Under the Scheme, insurance intermediaries will be required to pass a qualifying examination as one of the requirements for entry to the profession, and to attend continuing professional development (CPD) programmes thereafter. The first public examination was held in the third quarter of 1999 and the Scheme will be fully implemented in early 2000. Preparatory work for the formulation of CPD programmes is presently being carried out by ACI(ORS) whose post will lapse on 10 January 2000. A dedicated ACI is needed to undertake the task of designing the format and requirements of the CPD programmes as well as accrediting qualified courses or structured training programmes organised by professional bodies or the insurance industry.

*Training of Staff*

17. To cope with the latest developments in the insurance sector, the training provided to the Insurance Officer (IO) grade in OCI has to be strengthened as well. The operation of insurance companies is becoming increasingly complex and sophisticated. The blurring of boundaries between different financial services also gives rise to new regulatory challenges. At present, training of staff is undertaken by ACI(ORS) but not much time can now be devoted to such matters. The proposed ACI (Policy and Development) (ACI(P)) who will maintain close contacts with other external regulators will also be responsible for keeping the training policy under constant review, identifying the training needs of IOs and developing comprehensive and systematic programmes in-house after consulting the higher education institutions.

18. In carrying out his duties set out above, the proposed ACI(P) would work closely with the insurance industry, seeking their contributions and encouraging their participation as far as possible. This would ensure that the endeavours of the industry are taken on board by the OCI. The job description of the proposed ACI(P) is set out at Enclosure 1. The existing and proposed organisation charts are at Enclosures 2 and 3 respectively.

Encl. 1  
Encls. 2&3

*/Alternative .....*

*Alternative*

19. We have examined the possibility of redeploying the two existing ACIs, namely, ACI(G) and ACI(L) to undertake the additional tasks of the proposed post of ACI(P). However, both of them are fully occupied with their own spheres of responsibilities and redeployment is not feasible. Details are set out below.

20. ACI(G) is heavily involved in the prudential supervision of general insurance industry in Hong Kong. These include monitoring the financial stability of all general business insurers, ensuring the fitness and properness of their management and taking remedial measures in a timely manner. With a view to ensuring the effectiveness of our regulatory framework, the Commissioner of Insurance (CI) commissioned in 1996 the Government Actuary's Department (GAD) in the United Kingdom to undertake an independent and comprehensive review of our regulatory system in respect of general business. The GAD made a number of recommendations, which include strengthening our internal procedures and providing more practical guidance to the industry on the authorization and regulatory requirements. Due to limited resources, the OCI has only been able to implement the more important recommendations and ACI(G) will need to devote more time in implementing the full package of recommendations. It would not be possible, therefore, for him to absorb those duties to be undertaken by the proposed ACI(P).

21. Similarly, ACI(L) is heavily involved in monitoring the stability of the long term insurance industry. Similar to general insurance business, substantial changes have taken place in the supervision of long term business in the past five years. Moreover, ACI(L) needs to handle complicated matters such as supervision of insurers with reference to de-mutualization of life insurance companies, domestication of branch operation of overseas life insurance and portfolio transfer among life-insurers. With the launch of the MPF system next year, the OCI has to extend its role to include the prudential supervision of long term business insurers operating MPF schemes. In addition, the long term insurance industry is expected to continue its growth in the next few years because the current penetration rate is still relatively low. ACI(L) will therefore have to implement proactive supervisory measures to ensure the financial soundness of the life insurers.

Encls.4&5 22. The job descriptions of ACI(G) and ACI(L) are at Enclosures 4 and 5 respectively.

/FINANCIAL .....

**FINANCIAL IMPLICATIONS**

23. This proposal will not incur additional staff cost as the provision for the creation of the proposed ACI post will be offset by the deletion of the post at same rank. The financial implications are set out as follows -

	NAMS \$	Full Annual Average Staff Cost \$	No. of Post
Assistant Commissioner of Insurance (Policy and Development)	1,443,000	2,593,056	1
Less Assistant Commissioner of Insurance (Occupational Retirement Schemes)	1,443,000	2,593,056	1
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Encl. 6

In addition to the ACI (ORS) post, 47 non-directorate posts in ORORS will also be deleted upon the transfer of its functions to the MPFA. Out of these 47 posts, the proposal will necessitate the retention of 13 non-directorate posts to be transferred to the newly formed Policy and Development Division. As a result, the proposed ACI post would be supported by three teams of IOs and other staff as shown in Enclosure 6. The notional annual mid-point salary cost and full annual average staff cost of the 13 non-directorate posts to be retained are \$5,097,240 and \$7,537,644 respectively.

**BACKGROUND INFORMATION**

24. The OCI was established in 1990 to regulate and supervise the insurance industry pursuant to the Insurance Companies Ordinance. In 1993, the ORORS was established and the CI was also appointed as the Registrar of Occupational Retirement Schemes who is to monitor the regulation of occupational retirement schemes in Hong Kong.

25. The MPFA will take over the functions of the ORORS in January 2000 and the 48 relevant posts in ORORS will be deleted. These include one ACI (D2) post and the supporting posts.

**CIVIL SERVICE BUREAU COMMENTS**

26. The Civil Service Bureau agrees that there is a need for the creation of a permanent ACI(D2) post to cope with the development and regulatory aspects of the fast-growing insurance industry. It considers that grading and ranking of the post appropriate.

**ADVICE OF THE STANDING COMMITTEE ON DIRECTORATE SALARIES AND CONDITIONS OF SERVICE**

27. The Standing Committee on Directorate Salaries and Conditions of Service has advised that the proposal would be appropriate if the post were to be created.

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Financial Services Bureau  
November 1999

**Job Description of the Proposed Post  
Assistant Commissioner of Insurance (Policy & Development)**

**Main Duties and Responsibilities**

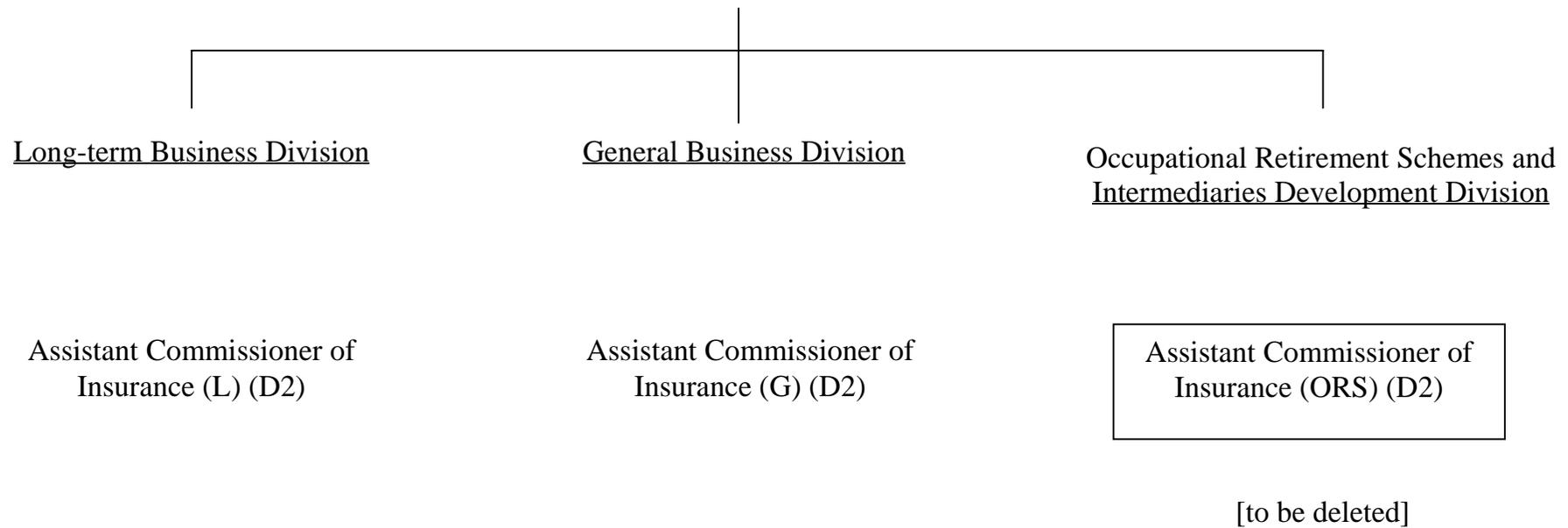
Answerable to the Commissioner of Insurance for the following duties and responsibilities -

- (a) To formulate timely and appropriate regulatory approaches and frameworks towards the supervision of the underwriting practice and investment portfolio of insurers with particular reference to demutualization, risk securitization, financial reinsurance, derivative instruments and other innovative investment vehicles and underwriting tools, and develop guidelines thereon.
- (b) To formulate, co-ordinate and implement regulatory initiatives in the prevention and combat of money laundering activities in the insurance industry.
- (c) To develop and implement a qualifying examination system and continuing professional development programme for insurance intermediaries.
- (d) To strengthen liaison and co-operation with the Mainland and overseas insurance regulators.
- (e) To play an active role in the work of the International Association of Insurance Supervisors by becoming a member of technical committees and contribute towards the development of international standards of insurance regulation; and ensure compliance with the standards promulgated by the Association.
- (f) To plan and implement a strategy for promoting Hong Kong as a regional insurance centre.
- (g) To foster development of information technology in the Office, including the electronic submission of financial returns by the insurers.
- (h) To promote and formulate policies regarding greater disclosure and market transparency.
- (i) To devise a training policy for the Insurance Officer Grade by developing comprehensive and systematic programmes in-house after consulting the higher education institutions.

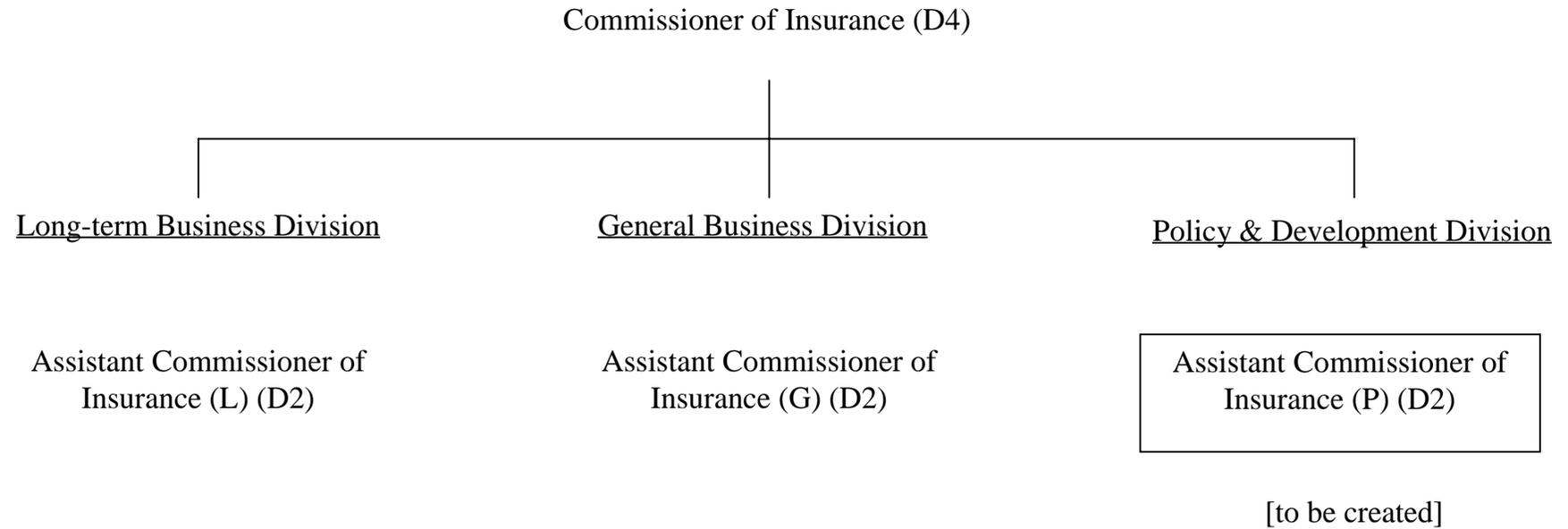


**Existing Organization Chart of the  
Office of the Commissioner of Insurance and  
the Registrar of Occupational Retirement Schemes**

Commissioner of Insurance/Registrar of Occupational Retirement Scheme (D4)



**Proposed Organization Chart of  
the Office of the Commissioner of Insurance**



**Job Description of the Post of  
Assistant Commissioner of Insurance (General Business)**

**Main Duties and Responsibilities**

Answerable to the Commissioner of Insurance for the following duties and responsibilities -

- (a) Prudential supervision of the general insurance industry in Hong Kong including monitoring the financial stability of general business insurers, their compliance with the statutory provisions, and taking remedial measures as and when appropriate.
- (b) Dealing with all issues arising from or affecting the general insurance industry, including advising other government bureaux or departments on insurance matters.
- (c) Regulating and supervising compliance by insurance intermediaries with the statutory provisions and self-regulatory requirements and taking remedial measures as and when appropriate.
- (d) Liaising with Hong Kong Federation of Insurers and the various related bodies on issues relating to the general insurance industry.
- (e) Dealing with applications for new authorization of insurers carrying on general insurance business and captive insurance business.
- (f) Responsible for the efficient operation of the General Business Division, including constant review of the supervisory system.

**Job Description of the Post of  
Assistant Commissioner of Insurance (Long Term Business)**

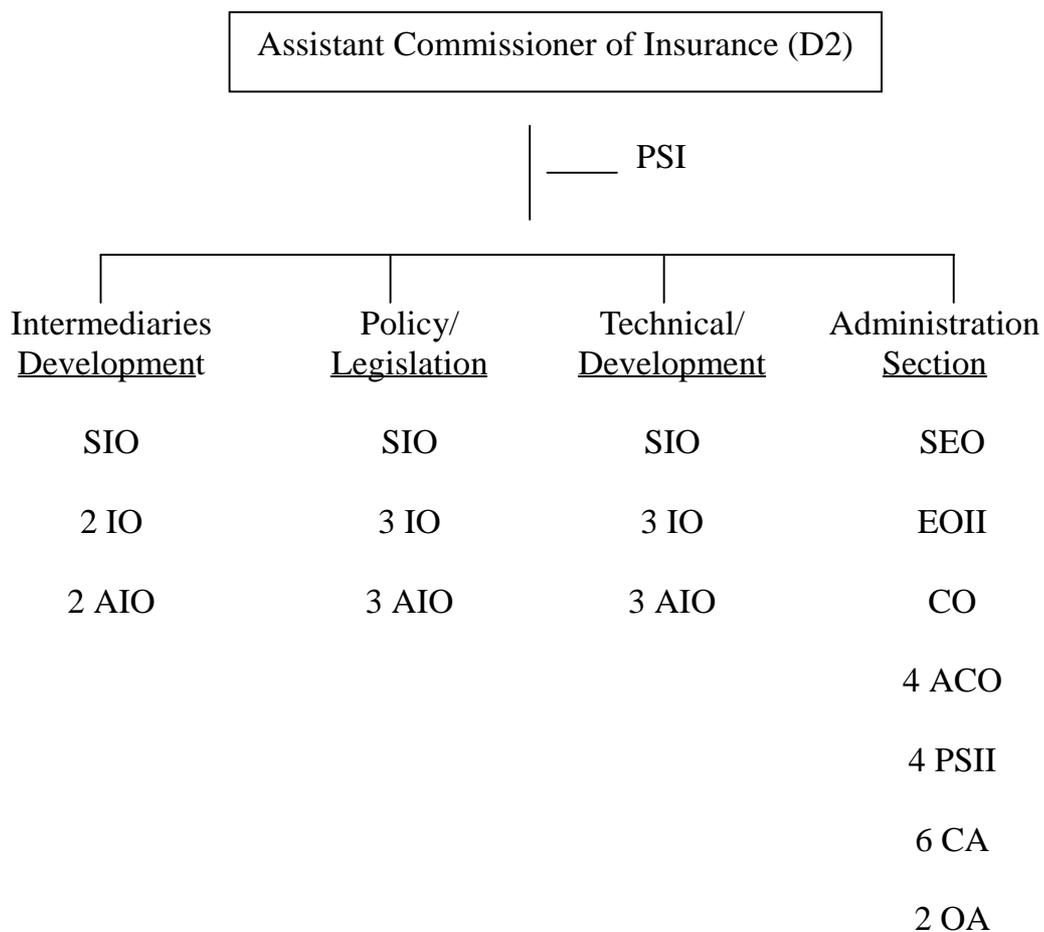
**Main Duties and Responsibilities**

Answerable to the Commissioner of Insurance for the following duties and responsibilities -

- (a) Authorisation and monitoring of insurance companies carrying on long term business under the Insurance Companies Ordinance.
- (b) Advising on all matters relating to the life assurance industry such as product development, distribution network and loss reserving.
- (c) Dealing with all matters relating to the actuarial aspects of long term and general insurance business, including review and examination of actuarial reports, discounting of claims reserves and portfolio transfer.
- (d) Liaising with the Hong Kong Federation of Insurers, the Securities and Futures Commission and the Mandatory Provident Fund (MPF) Schemes Authority on issues relating to life assurance and MPF products.
- (e) Liaising with the Actuarial Society of Hong Kong on matters relating to actuarial standards and practices as well as life insurance underwriting.
- (f) Lecturing and conducting in-house seminars on actuarial matters.
- (g) Responsible for the efficient operation of the Long Term Business Division, including constant review of the supervisory system.

**Proposed staff establishment  
to support the new ACI post**

**Policy & Development Division**



**Legend :**

- SIO - Senior Insurance Officer
- IO - Insurance Officer
- AIO - Assistant Insurance Officer
- SEO - Senior Executive Officer
- EO II - Executive Officer II
- PS I - Personal Secretary I
- PS II - Personal Secretary II
- ACO - Assistant Clerical Officer
- CA - Clerical Assistant
- OA - Office Assistant