

For Information
on 1 November 1999

**The Legislative Council
Panel on Financial Affairs**

**Proposed Creation of an Assistant Commissioner of Insurance
in the Office of the Commissioner of Insurance**

PURPOSE

The purpose of this paper is to inform Members of our proposal to create a permanent Assistant Commissioner of Insurance (ACI)(D2) post in the Office of the Commissioner of Insurance (OCI) to oversee policy and development work.

PROBLEM

2. The insurance industry is growing rapidly and is becoming increasingly complex as many new products have been developed in recent years. The policy and development work of OCI is currently carried out on an ad hoc basis. This approach is not satisfactory.

3. The functions of the Office of the Registrar of Occupational Retirement Schemes (ORORS) will be transferred to the Mandatory Provident Fund Schemes Authority (MPFA) in January 2000. Resources released in the ORORS can be used to create a new team headed by an ACI to undertake policy and development work.

JUSTIFICATIONS

Regulation of Insurance Industry

4. 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 MPF Schemes.

5. 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 increasing complexity of investment vehicles and derivative instruments involved.

6. 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

7. 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.

8. 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

9. 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⁽¹⁾ 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.

10. 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 guided and 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 and Cross-Boundary Liaison

11. 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.

12. 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.

13. 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.

(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.

Information Technology and Market Transparency

14. 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.

15. 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 1988. 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 Intermediaries Quality Assurance Scheme

16. 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.

17. 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 need 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

18. To cope with the latest developments in the insurance sector, the training provided to the Insurance Grade Officers (IO) 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 who will maintain close contacts with other overseas 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 both in-house and in consultation with higher education institutions.

19. The job description of the proposed ACI (Policy and Development) or ACI(P) is set out at Enclosure 1. The existing and proposed organisation charts are at Enclosures 2 and 3 respectively.

Alternative

20. We have examined the possibility of redeploying the two existing ACIs, namely, ACI (General Business) (ACI(G)) and ACI (Long Term Business) (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.

FINANCIAL IMPLICATIONS

21. 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 the same rank.

22. The proposed ACI will be supported by three teams of Insurance Officers who are presently providing support for the three existing ACIs in dealing with some of the duties set out above. The new duties will also be absorbed by these three teams. An organisation chart of the new Policy and Development division is at Enclosure 4.

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

Main Duties and Responsibilities

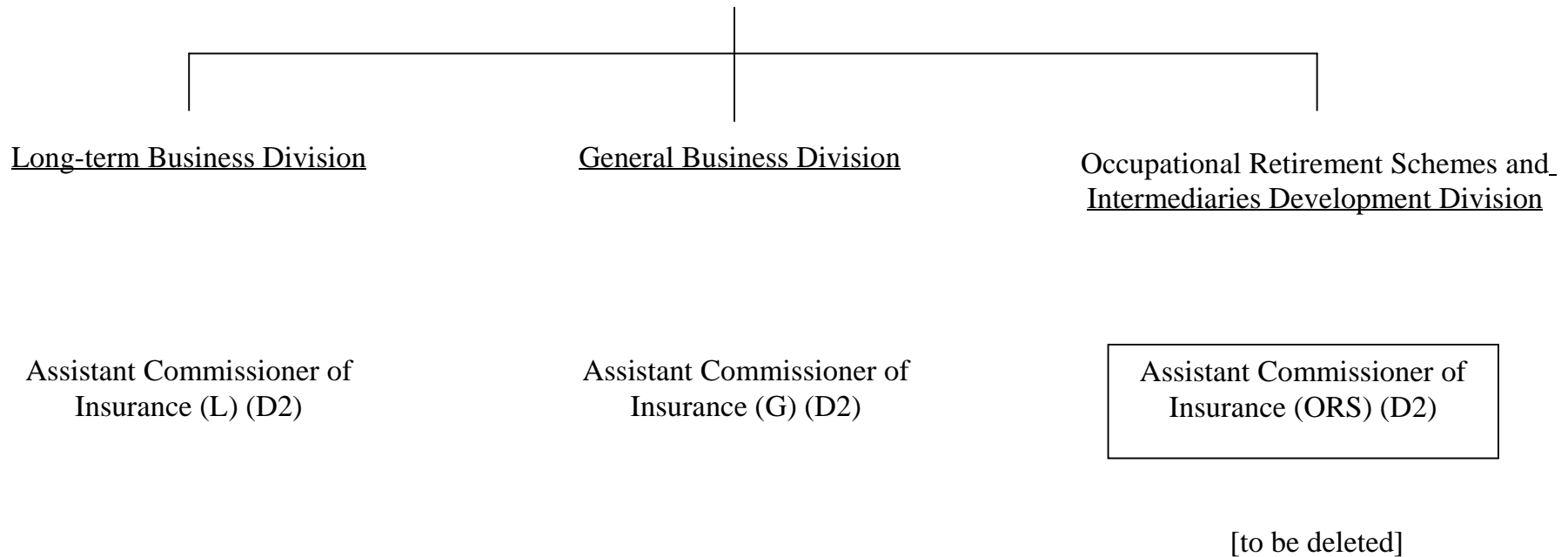
Answerable to the Commissioner of Insurance for the following duties and responsibilities :-

- (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.

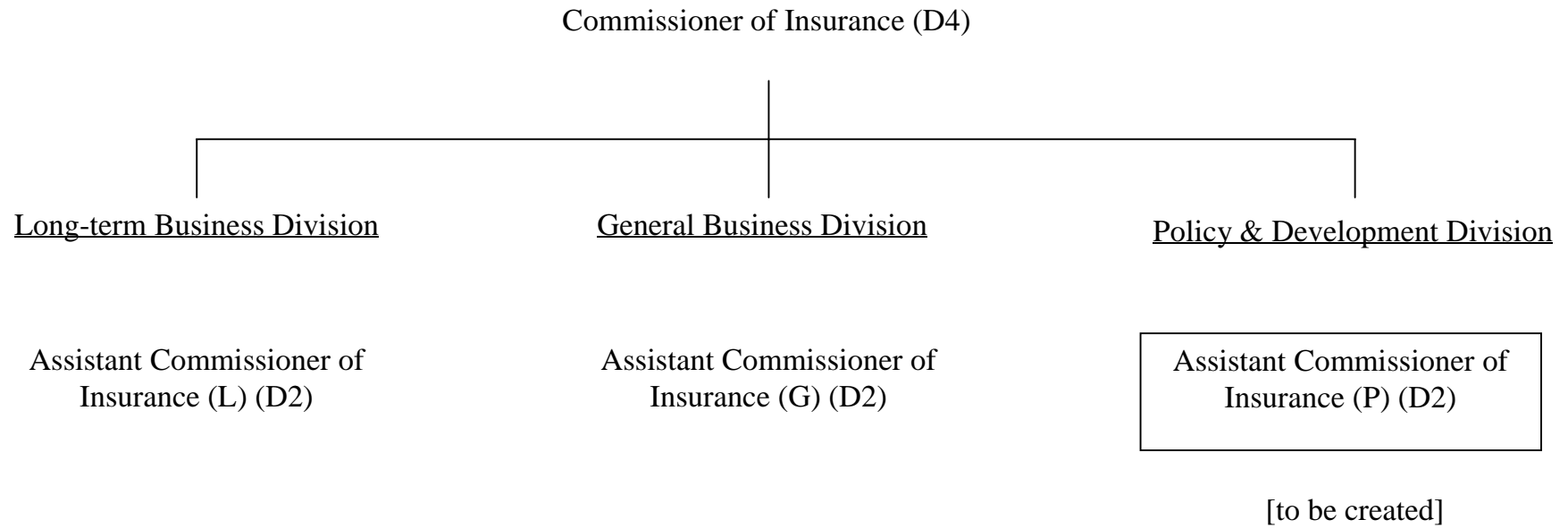
- (h) To promote and formulate policies regarding greater disclosure and market transparency.
- (i) To devise a training policy for the Insurance Officer Grade by developing comprehensive and systematic programmes in-house and in consultation with higher education institutions.

**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)

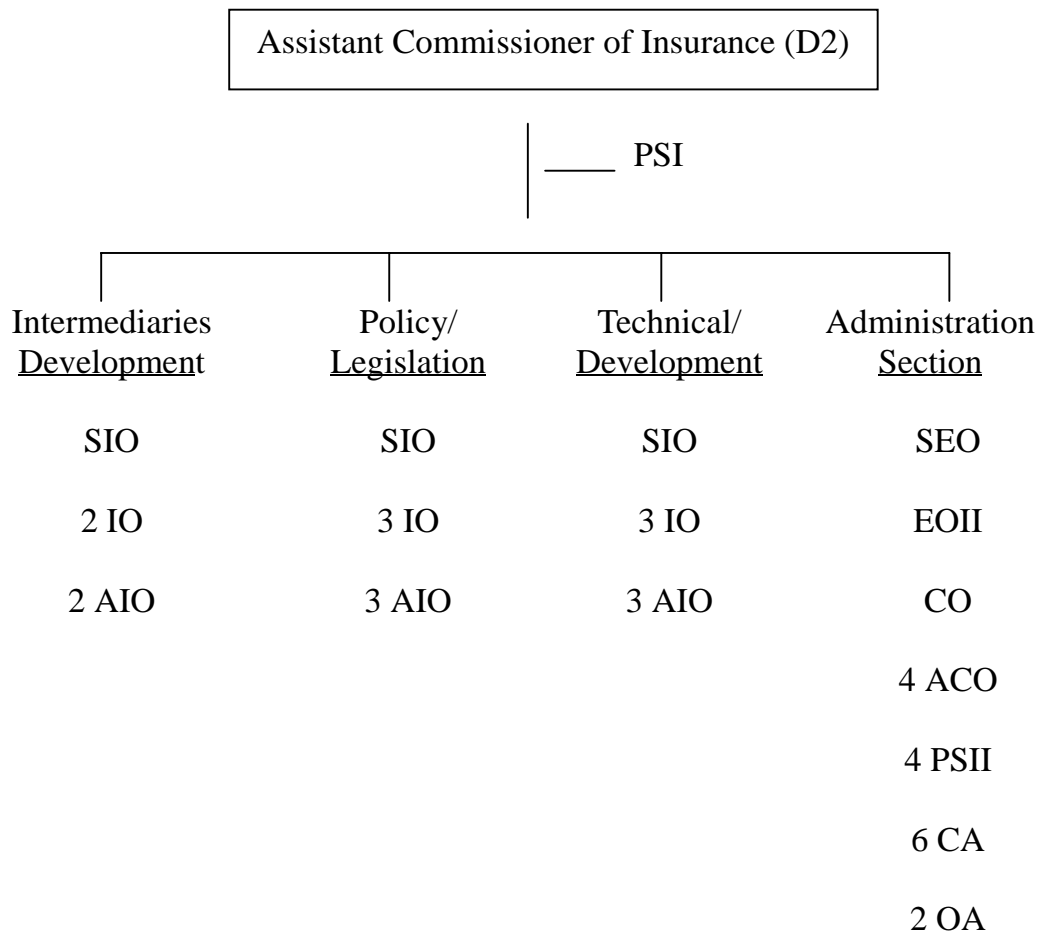


**Proposed Organization Chart of
the Office of the Commissioner of Insurance**



**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