

**For discussion
on 4 July 2005**

**LEGISLATIVE COUNCIL PANEL
ON FINANCIAL AFFAIRS**

**Proposal to introduce a new category of
“Travel Insurance Agents” to
the Insurance Intermediaries Quality Assurance Scheme**

PURPOSE

The tsunami disaster in last December and a number of fatal accidents involving Hong Kong residents travelling abroad have highlighted the importance of taking out travel insurance to enhance the protection for the travellers themselves. This paper briefs Members on a detailed proposal to introduce a new category of “travel insurance agents” to the Insurance Intermediaries Quality Assurance Scheme (IIQAS) to encourage travel agents to register as travel insurance agents so that they can sell and actively promote travel insurance to their clients and be subject to proper regulation.

BACKGROUND

2. According to the estimate of the Hong Kong Federation of Insurers (HKFI), about 40% to 50% of people in Hong Kong buy travel insurance when they travel. While there are different channels, such as insurance agents and brokers, banks or internet through which people can take out travel insurance, most travellers buy insurance through travel agents at the time when they make their travel arrangements with them. As such, travel agents appear to be the most convenient point of sale and for promoting travel insurance.

3. Under the Insurance Companies Ordinance (Cap. 41), a person “who holds himself out to advise on or arrange contracts of

insurance” as an agent of an insurance company has to be appointed by and registered as an agent of that insurance company. The Insurance Agents Registration Board (IARB) is a self-regulatory organisation set up by the HKFI for the registration and administration of insurance agents, their responsible officers and technical representatives¹ (collectively referred to as “insurance agents”). The IIQAS was introduced in 2000 to promote professional conduct and quality of insurance intermediaries (agents and brokers). Under the IIQAS, a person who wishes to be registered with the IARB as an insurance agent and be able to sell general insurance products (including travel insurance) has to be fit and proper² and is required to:

- (a) pass a compulsory examination paper on “Principles and Practice of Insurance” and a separate qualifying examination paper on “General Insurance”; and
- (b) fulfil the Continuing Professional Development Programme (CPD) requirements (namely to complete 10 CPD hours of insurance related study each year to maintain and upgrade his/her professional knowledge).

4. The IIQAS is designed primarily for the registration and regulation of people who intend to practise insurance as a full time occupation. However, for travel agents and their employees (collectively referred to as “travel agents”), selling insurance is not their core business. It is neither desirable nor practical to require travel agents to fulfil the same examination and CPD requirements intended for full time insurance practitioners, which cover a wide range of insurance subjects not at all relevant to travel insurance.

¹ Responsible officer is a person who is responsible for the conduct of the insurance agency business of an insurance agent. Technical representative is a person who sells insurance products on behalf of an insurance agent. In the case that the insurance agent engages the above persons (e.g. where the insurance agent is a body corporate), such persons should be registered as such with IARB.

² In considering whether a person is fit and proper, the IARB shall take into account:

- whether the person has ever been declared bankrupt or been a controller, a director, an officer or a senior manager of a corporation that has become insolvent;
- whether the person has ever been convicted of any criminal offence or been found guilty of misconduct by a professional body to which he belongs or has belonged;
- whether the person possesses the minimum qualifications, including attaining the age of 18; completing education to a level of Form 5 or equivalent; successfully passing the relevant examination papers of the IIQAS, etc.

OTHER JURISDICTIONS

5. We have studied the regulation of travel agents selling travel insurance in other major insurance markets, namely the United Kingdom, Singapore, New York State and Australia. A table summarising the regulations in these four jurisdictions is at Annex A.

6. In general, most overseas jurisdictions studied give travel agents concessionary registration arrangement if they only sell travel insurance incidental to their travel business. For example, full examination and CPD requirements are waived in Singapore and travel agents are only required to complete a non-examinable course in travel insurance while the requirement for a written examination is waived in New York State for travel agents. In the United Kingdom, travel agents meeting certain conditions are excluded from the registration requirements entirely.

DETAILED PROPOSAL

A new category of “Travel Insurance Agent”

7. It is the Government’s policy to encourage Hong Kong people to take out travel insurance before they travel so as to better protect themselves. Having regard to paragraph 2 above, we consider it necessary to facilitate travel agents to be registered as “insurance agents” so that they can sell travel insurance with proper authorisation³. Having regard to the fact that selling travel insurance is not intended to be travel agents’ core business and hence it is neither desirable nor practical to require them to fulfil all the requirements intended for full time insurance practitioners, we consider that a more pragmatic approach should be adopted in the case of travel agents. However, we do not propose to give complete exemption to travel agents, as practised in some overseas jurisdictions, because we consider it necessary to ensure that travel agents selling travel insurance attain a basic proficiency in travel insurance

³ In the case that the travel agent engages other persons to sell travel insurance, such persons should also be registered either as “technical representatives” or “responsible officer” with IARB respectively (see also footnote 1).

knowledge and understand the professional conduct and responsibility expected of them before they are allowed to sell travel insurance. Furthermore, to protect consumers, travel agents who want to sell travel insurance should be required to be registered with the IARB, so that they will be subject to the same self-regulatory system now applicable to all insurance agents. Taking these considerations into account, we **propose** to introduce a new category of “travel insurance agents” under the IIQAS to enable travel agents to be registered in line with the prevailing regulatory regime and sell travel insurance to their clients.

Registration Requirement

8. We **propose** that any travel agent who wants to register as a “travel insurance agent” must be fit and proper and has passed a new examination paper covering the essence of the principles and practice of insurance and general insurance with special emphasis on travel insurance⁴. The registration procedures and fees would be the same as those applicable to insurance agents. Currently, the registration fee is \$360 for a period of three years.

Restrictions

9. Since the new arrangement is designed to facilitate travel agents to obtain the necessary qualification to sell travel insurance only, we **propose** that a person registered as “travel insurance agent” is only allowed to sell travel insurance incidental to the tour or travel package which he/she is arranging for the client. Other than that, he/she is not allowed to sell any form of insurance including travel insurance (such as annual travel insurance policy or stand-alone travel insurance). In view of the restrictive and standardised nature of the travel insurance which they are allowed to sell and the fact that the CPD is designed to cover a wide range of insurance related subjects and intended for those who pursue insurance as a full time professional, we do not intend to apply the formal requirements of CPD to those who are registered as “travel insurance agents”. Notwithstanding this, since travel agents usually sell and market travel insurance under contract with an insurance company, we will discuss

⁴ In the case that the travel agent engages its employees to sell travel insurance, it must ensure that the employees are fit and proper, have passed the examination paper and are duly registered with the IARB.

with the HKFI to issue guidelines requiring the insurance companies to provide the necessary training and refreshment courses for the travel insurance agents.

Advantages

10. We consider that the proposal has the following advantages:
 - (a) The requirement to pass a combined examination paper will ensure the travel agents have acquired basic professional knowledge before they are allowed to sell travel insurance and advise their clients.
 - (b) After being registered as a travel insurance agent with the IARB, the travel agent will be subject to the self-regulatory regime governed by the IARB, which provides a formal channel for an aggrieved consumer to lodge a complaint and for the agent to be investigated and dealt with in accordance with the disciplinary procedures of the IARB.
 - (c) The registration as a travel insurance agent will establish a proper “agent-principal” relationship between the travel agent and the insurance company and provide better protection for consumers (under the current insurance agents regulatory system, an insurance company will be held responsible for the action of its appointed insurance agents in the course of the sale of its insurance products and services).
 - (d) By restricting the travel agent to the sale of travel insurance incidental to the tour and travel package arranged through the agent, it can serve to avoid having the agent engaged in selling other kinds of insurance products and detracting from the agent’s core business.
 - (e) A combined and single examination paper could meet better the operational requirement of the travel industry, namely the high staff turnover. It is desirable to have a

registration/examination system which is not complicated but flexible and could facilitate a large number of new recruits to be trained and obtain the necessary qualification to sell travel insurance on a regular basis.

- (f) Finally, the proposal will be in line with the Government's policy of encouraging travellers to take out travel insurance for their own protection. This will ultimately benefit the tourism trade as well since the proposal will facilitate both the travel agents and the travelling individuals to better manage their own risks.

CONSULTATION WITH THE INDUSTRIES

11. The Office of the Commissioner of Insurance (OCI) had discussions with the HKFI, the representative body of insurance industry, and the Travel Industry Council of Hong Kong (TIC), the representative body of travel industry, before the proposal was formulated. A consultation paper on the proposal was sent to the relevant stakeholders in the travel and insurance industries on 28 April 2005.

12. In general, the parties consulted welcomed the suggestion to encourage and facilitate Hong Kong residents to purchase travel insurance before travelling abroad and to bring travel agents to proper regulation for selling travel insurance. While both the HKFI and TIC expressed support of the proposal, the HKFI suggested that some forms of CPD requirement should be retained. The parties consulted and their comments are summarised at Annex B.

Concerns of Insurance Intermediaries

13. The representative bodies of insurance intermediaries are concerned that by creating a separate category of "travel insurance agents", it would set a precedent for similar relaxation to be given to other types of insurance such as motor insurance or employees' compensation (EC) insurance. They are also worried that the proposal would relax the existing examination and CPD requirements on insurance intermediaries and thus downgrade the professional image of the insurance profession.

14. We are aware of the insurance intermediaries' concerns but would like to stress that the proposed scheme to facilitate and encourage Hong Kong residents to buy travel insurance before they travel and to ensure that travel agents selling travel insurance are subject to proper qualification and regulation is in the public interest. Due regard has been taken into account of the practices in other jurisdictions. Travel insurance is different in that it is linked to the risk of the destination, duration of the journey and the nature of activities intended to be performed by the traveller during his/her trip. The travel agent who arranges and organises the trip for his/her client, given some proper travel insurance training, is in a suitable position to advise the client of his/her travel insurance needs. The same do not apply to, say, motor or EC insurance. Also, the travel insurance to be arranged by "travel insurance agents" will be restricted to that on a trip basis which is one-off in nature. In contrast, third party liability motor insurance and EC insurance are compulsory by law and many people have already bought insurance covers for their cars or employees, which are transferable to their new cars or employees.

15. Our objective is to encourage travel agents to obtain the necessary qualifications for selling travel insurance without compromising the professional standards. Travel agents are therefore required to pass a qualifying examination paper which combines the two papers on principles and practice of insurance and general insurance with emphasis on travel insurance. We will also consider imposing some form of continuous training on travel insurance agents in consultation with the travel and insurance industries.

IMPLEMENTATION

16. In the light of the feedback from the consultation exercise, we **propose** to implement the new arrangement as soon as possible, so that travel agents can obtain the necessary qualification to sell and actively promote travel insurance products to their clients. To implement the proposal, the Code of Practice for the Administration of Insurance Agents will need to be amended by the HKFI with the Insurance Authority's approval but there is no need for any primary or subsidiary legislative

amendments. Subject to the finalisation of relevant study notes and examination arrangement, it is expected that the proposed registration system will be ready for implementation in early 2006. Meanwhile, we will keep liaising with the travel and insurance industries in promulgating the registration system to travel agents as well as educating the public the importance of taking out their own travel insurance according to individual needs.

**Financial Services and the Treasury Bureau/
Economic Development and Labour Bureau/
Office of the Commissioner of Insurance**

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**Comparison of regulation of travel agents selling travel insurance
in different jurisdictions**

	Australia	Singapore	U.K.	U.S.A. (New York State)
Regulator	Australian Securities and Investments Commission (ASIC)	Monetary Authority of Singapore (MAS) General Insurance Association of Singapore (GIA)	Financial Services Authority (FSA)	New York State Insurance Department (NYSID)
Registration Requirements	<p>People who wish to advise, arrange or deal in financial products (including travel insurance) must either hold an Australian Financial Services (AFS) licence themselves or be the representative of a licensee.</p> <p>In practice, most travel agents would not hold an AFS licence themselves, rather they would act as authorised representatives of another AFS licence holder (i.e. the insurance company issuing the policy).</p>	<p>For travel agents who wish to sell travel insurance products, they are required to obtain the "Certificate of Proficiency in Travel Insurance" by attending a non-examinable course and to be registered with the Agents Registration Board. They are exempted from the Certificate in General Insurance examination for general insurance agents and continuous professional development requirements.</p>	<p>Travel agents are excluded from the regulation of the FSA if their activities are limited to general insurance policies for travel booked with the travel agent which meet certain conditions including complementary to the service provided by the travel agent; and in standard form, etc.</p>	<p>Travel agents must be licensed to provide accidental death and dismemberment ("AD&D") insurance to their customers. However, the requirement for a written examination is waived.</p>

	Australia	Singapore	U.K.	U.S.A. (New York State)
Examination requirement	No special requirement/ exemption for travel agents	Non-examinable course on “Certificate of Proficiency in Travel Insurance”	N.A.	Waived
CPD requirement	No special requirement/ exemption for travel agents	Waived	N.A.	Waived
Registration Fee	A\$33-65 for each appointment of authorized representative depending on the mode of application (about HK\$200-400 for each appointment)	S\$200 + 5% GST for 2 years (about HK\$1,000 for 2 years)	N.A.	US\$80 for 2 years (about HK\$620 for 2 years)

Proposed Modifications to the IIQAS for the Sale of Travel Insurance**Summary of Comments Received**

Name of Parties Consulted	Comments
Hong Kong Federation of Insurers (HKFI)	<ul style="list-style-type: none">• In principle does not object to the proposal but would like to see some minimum level of training to be determined for travel agents to qualify to sell travel insurance.• There should be some form of compliance, e.g. at least one CPD hour every year for an update on ethical practice/product knowledge.
Travel Industry Council of Hong Kong (TIC)	<ul style="list-style-type: none">• Supports the proposal. No other specific comments given.
The Hong Kong Confederation of Insurance Brokers (CIB)	<ul style="list-style-type: none">• Supports the initiative of encouraging Hong Kong people to effect travel insurance. General public would ultimately benefit if travel agents engaged in selling travel insurance are subject to appropriate regulation.• Travel insurance provides a variety of covers and it is essential for the travel agents to grasp the critical basic insurance knowledge through the entrance examination and the CPD training.• IIQAS and CPD are not just for full time insurance practice. Loosening of requirements will disable the insurance profession. Insurance company providing “appropriate” training for their agents is not a justification for exempting them from the CPD requirements. High staff turnover is hardly a valid reason for loosening the entrance requirement.• Travel agents are not in a good position to advise clients of their travel insurance needs without knowing the other insurance covers they may have already taken.• There are many other trades similar to that of travel agents and the proposal will open the floodgates.

Name of Parties Consulted	Comments
Hong Kong General Insurance Agents Association (HKGIAA)	<ul style="list-style-type: none"> • The proposed modification is not the right remedy to encourage travellers to buy travel insurance as Hong Kong travel agents have long been offering travel insurance over their counters. Other sectors of the community will follow suit and will cause unnecessary chaos. • Such an incomplete exam paper would downgrade the image, professional conduct and quality of insurance intermediaries. • Not agreed to be exempted from CPD requirement as it would be most unfair to those who have complied with the requirement.
Insurance Agents Registration Board (IARB)	<ul style="list-style-type: none"> • Warmly welcomes the idea to encourage and facilitate the purchase of travel insurance. • Will create a separate entity in the form of part-time insurance agent which may impact the professional image of the industry. Disciplinary action to travel agents by the IARB will not have much impact as selling insurance is only their “part-time” activities. • Travel agents may have practical problems in dealing with a number of clients during busy hours which may give rise to complaints of inadequate explanations of and/or improper choice of insurance products. • Fails to understand the justification and basis for the exemption of travel insurance agents from the CPD requirements.
General Agents and Managers Association of Hong Kong (GAMA) and the Life Underwriters Association of Hong Kong (LUA)	<ul style="list-style-type: none"> • The proposal would act as a precedent for other industries. • Would create unfair competitions and double-standard for licensing. • Would possibly downgrade the professional standard of insurance practitioners, doubt to perform agent’s duty in handling claims and explanations of policy details. Travel insurance is a comprehensive package and policy coverage of each section is complicated. Travel agents may not be able to undertake the issues.

Name of Parties Consulted	Comments
Professional Insurance Brokers Association (PIBA)	<ul style="list-style-type: none"> • Giving exceptions on IIQAS would unavoidably affect the professional standard of insurance intermediaries. • Travel insurance consists of various sections, including medical, personal accident, money, property and liability, it is too ideal that a standalone travel insurance paper can meet the professional standards required. • Travel agents would likely treat selling travel insurance as merely a “supplementary service” without sufficient insurance knowledge and enthusiasm. Hong Kong has adequate agents/brokers, neither necessity nor urgency to increase non-insurance practitioners.