

Press release

Government proposes to establish independent Insurance Authority

Monday, July 12, 2010

The Secretary for Financial Services and the Treasury, Professor K C Chan, today (July 12) released the consultation paper on the "Proposed Establishment of an Independent Insurance Authority" and invited the insurance sector and the public to give their views in the three-month public consultation period.

Speaking to the media on the consultation paper, Professor Chan said that the Government proposes to follow international regulatory practices to establish an insurance regulatory authority, which is both financially and operationally independent of the Government. It would take over the work of the current Office of the Commissioner of Insurance, which is a government department. This proposal would enable better regulation of insurers and insurance intermediaries through professional and agile operation of the independent Insurance Authority (IA), and thus help enhance protection for insurance policyholders, maintain market stability and competitiveness. These will help strengthen Hong Kong's status as an international financial centre.

"We propose that the independent IA should be given the required regulatory powers to issue licenses, conduct routine supervision, inspection, and imposing disciplining sanctions against breaches, etc. Such regulatory powers apply not only to insurers, but also to insurance intermediaries, including insurance agents and insurance brokers," he said.

The Government proposes that the independent IA should supervise the conduct of insurance intermediaries directly through introducing a licensing regime. In future, all insurance intermediaries must first be licensed by the independent IA before

they can sell insurance products. The Government believes that compared to the existing self-regulatory system, the proposed arrangements should be more effective and better meet the needs of market development.

Regarding insurance products sold through banks, the Government proposes that the Hong Kong Monetary Authority (HKMA) should be given powers similar to those of the independent IA for regulating the conduct of bank employees selling insurance products. This would allow the HKMA to impose additional conduct requirements, on top of what the independent IA may stipulate, on bank employees if necessary.

Professor Chan stressed that there should be robust communication and collaboration arrangements between the independent IA and other regulators in order to ensure consistency in regulation and minimise duplication of efforts.

"On the funding mechanism, it is the international principle for the regulators to be financially independent of the Government. Thus, we propose to recover the operating costs of the independent IA from the market progressively. To reduce the impact on the industry and policyholders, we propose that the independent IA shall recover the full costs in the sixth year of its operation. In this connection, the Government would provide a lump sum of \$500 million to the independent IA on its inception. Over \$300 million of the fund would be allocated to meet part of its operating costs in the initial five years and the rest would be for contingency reserve.

"According to the current estimates, the licence fee paid by the insurance industry and the levy to be charged on insurance premiums for all insurance policies will be increased progressively to the target level in the sixth year so as to achieve a balanced budget," he said.

On governance arrangements, the Government proposes the establishment of a Governing Board which should comprise

predominantly non-executive directors. The Board would develop an overall strategy and direction for the independent IA in exercising its regulatory mandate.

In addition, the Government proposes to set up a statutory appeals tribunal to handle appeals against relevant decisions made by the independent IA. The Government also proposes that an independent Process Review Panel be established to review internal operating procedures to ensure the consistency and fairness of the independent IA when exercising its functions. Other proposals would include the tabling of the independent IA's annual report before the Legislative Council, and empowering the Director of Audit to conduct value for money studies on the independent IA.

The Financial Services and the Treasury Bureau will listen to views from the industry and the public in the coming three months and will then draw up detailed legislative proposals. It plans to introduce a bill on the establishment of an independent IA to the Legislative Council in 2011.

The consultation document on the proposed establishment of an independent IA has been uploaded onto the website of the Financial Services and the Treasury Bureau (www.fstb.gov.hk/fsb/ppr/consult/iia.htm). The public are welcome to submit their written comments by mail to the bureau on 18/F, Tower I, Admiralty Centre, 18, Harcourt Road, Hong Kong; or by email to iia_consultation@fstb.gov.hk; or by fax to 2529 1663.