

Press release

Government announces consultation conclusions and final proposals on Policyholders' Protection Fund Monday, January 30, 2012

The Government announced today (January 30) the consultation conclusions and the final proposals on the proposed establishment of a Policyholders' Protection Fund (PPF).

The Secretary for Financial Services and the Treasury, Professor K C Chan, said, "The PPF will be a safety net for policyholders when an insurer becomes insolvent. It will enhance the stability and competitiveness of our insurance industry.

"We are pleased to note that there is support from the general public and industry for the establishment of a PPF and most of the key elements of the consultation proposals."

The consultation findings and the Government's response are set out in the consultation conclusions. "Taking into account the comments received, we have developed the final proposals," he said. "On that basis, we will proceed with preparing the enabling legislation."

The PPF will comprise the Life Scheme and the Non-Life Scheme, which are independently operated, and focus on individual policyholders while also covering building owners' corporations. With considerable support from the respondents, the Government proposes that the PPF will cover small and medium enterprises (SMEs), recognising that they have less resources to assess the financial ability of insurers and are less capable of protecting their interests.

"A simple definition for SME known to the market will be adopted. We will also keep the administrative procedures user-friendly to minimise the administrative cost," Professor Chan said, addressing concerns about the

administrative cost implications arising from the need for insurers to verify the SME status of policyholders.

All authorised direct life and non-life insurers will be required to participate in the PPF. Considering views from the industry respondents, the PPF Board will be empowered to consider and approve applications for exemption from the PPF by insurers, if they are able to demonstrate that they offer equivalent protection to their policyholders in Hong Kong via an overseas compensation scheme of similar nature. The Government is also prepared to consider proposals from the industry on excluding premiums attributable to policies not covered by the PPF from levy calculation, provided that there is an effective way to assess and verify the amount.

The Government will maintain the consultation proposal of having a compensation limit of \$1 million. "An increase in the proposed compensation limit would lead to a significant surge in the levy rates without contributing to a proportionate enhancement in protection," Professor Chan said.

Any compensation will be 100 per cent for the first \$100,000 of any claim, plus 80 per cent of the balance, up to the compensation limit. The proposed compensation limit will be able to meet 90 per cent to 100 per cent of the claims arising from some 90 per cent of life policies, and fully meet the claims of some 96 per cent of non-life policies.

When an insurer becomes insolvent, the PPF will facilitate the transfer of life policies and accident and health policies with guaranteed renewability to a replacement insurer. For non-life policies, the PPF will provide for continuity of coverage until their expiry.

The PPF will adopt a progressive funding model which charges a moderate initial levy complemented by a "stepped-up" levy when an insurer becomes insolvent. The initial target fund size will be \$1.2 billion for the Life Scheme and \$75 million for the Non-Life Scheme, planned to be achieved in 15 years. The initial levy rates of the PPF will be 0.07 per cent of the applicable premiums for both schemes.

In response to suggestions that there should be a cap on the "stepped-up" levy rates, Professor Chan said, "The levy rates will be prescribed in statute. Any 'stepped-up' levy will therefore require approval by the Legislative Council

(LegCo). We believe that any 'stepped-up' levy would be reasonable in the circumstances without stifling market development."

The levy will be collected from insurers. The levy rates will be reviewed regularly together with the target fund size based on actual data after implementation of the PPF.

The Government will explore the feasibility of raising the ranking of the two schemes under the Motor Insurers' Bureau and the Employees Compensation Insurer Insolvency Bureau to that of the PPF, given that the two schemes also serve the similar purpose of offering protection to policyholders when an insurer becomes insolvent.

The PPF will be administered by an independent PPF Board and supported by two industry committees, namely the Life Scheme Committee and the Non-Life Scheme Committee. "We would ensure that the PPF Board should be supported by appropriate knowledge and experience, especially from the insurance, finance, accounting, law and consumer protection fields," Professor Chan said.

The PPF Board will maintain a small team of staff and be empowered to engage additional manpower or advisers when an insurer becomes insolvent. An Appeal Board will also be set up to deal with appeals against the relevant decisions made under the proposed PPF.

"We will continue to engage the stakeholders in the process of preparing the enabling legislation for establishing the PPF," Professor Chan said. "We aim to introduce the Bill into LegCo in the 2012-13 legislative session for setting up the PPF in 2013-14 at the earliest."

The consultation conclusions and the final proposals have been uploaded to the website of the Financial Services and the Treasury Bureau (www.fstb.gov.hk/fsb/ppr/consult/ppf_conclusion.htm). The Bureau will brief the Panel on Financial Affairs of LegCo on February 6, 2012.

Ends