

**The Hong Kong Confederation of Insurance Brokers
Annual Conference 2009**

“Sustainable Development of the Insurance Market in Hong Kong”

**By Miss Au King-chi,
Permanent Secretary for Financial Services and the Treasury (Financial Services)**

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Douglas (Chairman of HKCIB), distinguished friends from the insurance industry, ladies and gentlemen,

It is a great pleasure to join you all this afternoon.

2. Since taking up my current post last January, this is my first attendance at your Annual Conference. I can't help notice that the themes of your conferences are particularly timely. As just mentioned by Douglas, last year's theme was "Managing Business Risk", and the Conference was held just three days after the collapse of Lehman Brothers. No doubt you will agree that the past 12 months have been all about managing business risk.

3. This year the theme is "Embrace the New Order" for sustainable development. I hope the next 12 months will allow us to join force with the industry to seize the opportunity presented in the aftermath of the financial crisis to focus on sustainable development of our financial services industry, in particular the insurance sector.

4. Today, I would like to talk about the joint efforts by the Government and the insurance industry in achieving such sustainability. One of our roles is to facilitate the development of the insurance market, while attending to the need to improve regulation in response to evolving market circumstances. Understandably some of you may be concerned about the challenges arising from enhanced regulation. However together I believe we would be able to strike a reasonable balance between encouraging innovation and protecting consumers and investors, in order to weather economic ups and downs in future.

5. After four straight quarters of negative growth, our economy finally started to turn around in the second quarter of 2009. In April to June our GDP expanded 3.3% compared to the last quarter.

6. However, that still represented a 3.8% contraction year-on-year. The green shoots

of recovery have yet to firmly take root.

7. Government measures to support enterprises and preserve employment are taking effect. Several rounds of relief measures amounting to over \$87 billion, together with the expansionary measures in the Mainland and other key economic partners, have helped boost our GDP by about 2% this year.

8. In the insurance market, the recovery is mixed. General insurance business recorded a modest year-on-year increase of 1.8% in gross premiums in the first half of this year. But under the full weight of the financial crisis, long term business has contracted by over 50%. The linked business has been particularly hard hit and declined by more than 77% year-on-year.

9. Given these, it may be difficult to focus on the long-term development need of the market. But this is exactly what we have to do, and now is the time to do it.

10. So what is our strategy for sustainable development of the insurance market? I would like to highlight four specific areas.

11. First, Hong Kong is fortunate to have access to a deep and broad pool of financial talent, both local and overseas. We need to nurture new professionals and constantly upgrade our talent pool to keep ahead of the competition, and adhering to relevant professional standards and ethics.

12. Secondly, we need to instill greater investor confidence in the market and its regulatory framework by enhancing investor protection.

13. Thirdly, we have to improve our regulatory framework and bridge gaps exposed during the financial crisis.

14. Fourthly, we need to create a conducive environment to attract the necessary critical mass of liquidity, products and market players, in order to support further development of our insurance industry.

15. The Government is fully committed to pursuing these initiatives together with the industry. So allow me to share our thoughts with you in a little more detail.

16. First, nurturing and upgrading talent.

17. The insurance industry is a client-based industry. With clients becoming more affluent and better educated, they are looking for a higher standard of service. They expect and demand quality advice tailored to individual needs.

18. In relation to this, the Office of the Commissioner of Insurance (OCI) is working with the Vocational Training Council to upgrade the examination and training requirements for the insurance intermediaries selling Investment-linked Assurance Schemes, or commonly called ILAS products.

19. From my recent dialogues with the Hong Kong Securities Institute and other course providers, they are also very interested in providing new Continuing Professional Development courses for the serving insurance practitioners to facilitate their compliance with the new requirements.

20. Ladies and gentlemen, the Government attaches great importance to this initiative and look forward to your support to ensure its early implementation in order to bring relevant standards in line with the securities sector. It will help lift our game and maintain our competitive edge in the insurance market.

21. We also provide support to the “FinMan Committee” (Advisory Committee on Human Resources Development in the Financial Services Sector). The FinMan Committee seeks to promote dialogues between the trainers and employers of our financial talent. It will organise a workshop in December this year. This will be a good opportunity to bring the supply and demand sides together to explore ways to promote human resources development. The Committee will send you details of the Workshop and we look forward to your active participation and hearing your insights.

22. The second area is enhancing investor protection.

23. Market confidence is the cornerstone of any sustainable insurance market. Enhancing investor protection will help boost public confidence and in turn generate more opportunities for market development. The Government will work together with the industry on a number of initiatives to enhance investor protection.

24. A key initiative is the proposed establishment of a Policyholders’ Protection Fund.

25. The OCI has already developed a preliminary framework of the Policyholders' Protection Fund in collaboration with the insurance industry.

26. The Fund will help instill greater confidence among the insuring public and promote the overall stability of the insurance sector. To take forward this initiative, OCI will commission a consultancy study to work out the detailed arrangements, including the levy rates, target fund size and governance arrangements. We plan to consult stakeholders on a detailed proposal by the third quarter next year. We shall maintain a close dialogue with the Confederation on the development of a suitable model for the Protection Fund and we welcome your inputs.

27. With advice from financial market regulators, we are working on proposals for establishing two new bodies for strengthening investor protection, namely, an Investor Education Council and a Financial Services Ombudsman. We will launch public consultations on these two proposals by the end of the year.

28. The objective of the Investor Education Council is to enhance the financial literacy of the investing public, including the insuring public. We would explore how best to coordinate and complement the existing efforts made by various financial institutions in educating our investors.

29. We will also consult the public on a proposal to set up a financial dispute resolution mechanism, commonly called a "Financial Services Ombudsman" in other jurisdictions. The aim here is to help aggrieved investors settle disputes quickly and easily. The insurance sector is ahead of other financial service providers, as it has already had a mechanism in place, namely the Insurance Claims Complaints Bureau, i.e. ICCB.

30. Your expertise and experience in this area would shed light on the proposed resolution mechanism. We are open-minded as to the role of the ICCB under the proposed mechanism. It may remain a sector-specific body; or be subsumed into the new framework. Again your input would be critical in shaping the way forward.

31. The next area is on improving our regulatory framework.

32. The global financial crisis has sparked a worldwide review of regulatory arrangements for the financial markets. Around the globe, economies are trying to strike a balance between financial innovation and effective regulation. Hong Kong is no exception. To maintain our status as an international financial centre, we will take into account our unique

market needs, as well as global trends, in improving our financial regulatory regime.

33. On the products side, we recognise the importance of offering a wide variety of products to meet the needs of different market users. Access to a greater choice is definitely an advantage.

34. Yet we should not lose sight of the need to maintain a good match between products and associated risk management. ILAS products, for example, offer more choices for investors. They were particularly popular when the market was buoyant. Nevertheless, in view of the higher risks involved, additional regulatory measures have to be put in place to ensure that they are only sold to those with suitable financial profile and risk appetite.

35. We appreciate the initiatives taken by the industry to enhance investor protection in the sale of ILAS, including introducing enhanced financial needs analysis, a risk profile questionnaire, and suitability checks. These are not adequate, however. I am pleased to note that the Confederation has formed a Working Group on ILAS to further strengthen regulatory efforts for insurance brokers advising on underlying funds of ILAS products.

36. Sustainable market development requires a sustainable regulatory structure in the long term. For this reason we are looking into the establishment of an independent Insurance Authority.

37. This initiative trails the international trend for financial regulators to be independent. To become an independent regulator, the new Authority will be equipped with more flexibility in operations and staff recruitment to meet changing regulatory challenges. The Authority would have a facility for conducting relevant research. Its findings will be shared among insurance industry players. We believe this will help promote market development. We will also take this opportunity to further enhance investor protection. We aim to prepare proposals for consultation with stakeholders early next year.

38. The fourth and final area is on promoting further market development. This is a question on how to attract more users, liquidity and products to our market, and on which we would have to listen to professional views from the market.

39. In this area, there are several developments which are relevant to the insurance industry. As you know, the Government has decided to include ILAS products as permissible investment assets under the Capital Investment Entrant Scheme.

40. My colleagues in the Security Bureau are ironing out some technical issues such that ILAS can fully comply with the requirements under the Rules of the Scheme. This is good news for both the eligible participants of the Scheme and the insurance industry. Participants will have more investment options under the Scheme, and this will open up greater business opportunities for the insurance sector.

41. We are also rolling out a \$100 billion Government Bond Programme to promote sustainable development of the local bond market. Under the Programme, we are issuing Hong Kong Dollar-denominated government bonds for both institutional and retail investors on an on-going basis. The first institutional issue under the Programme was successfully launched earlier this month.

42. The issuance of Government Bonds will help provide another channel of long term and low risk investment for insurers. It also serves as a good option for prudent insurance players to make long term investments that match their Hong Kong dollar long-term liabilities under the current regulatory requirements.

43. Across the boundary, the rapid growth of the Mainland economy provides fertile ground for the development of its insurance market. This, in turn, offers huge business potential for our market players.

44. Together with the industry we are developing and refining strategies to promote cooperation between Hong Kong and the Mainland. With our country now preparing for the 12th five-year plan (2011-2015), it would be timely for Hong Kong to seize the opportunity in further pursuing our objectives as a centre for the Mainland in (a) offshore Renminbi business, (b) international capital formation, and (c) asset management. In pursuing liberalization measures, we have to bear in mind two fundamental principles: first, any measures should complement the overall development of our country and be mutually beneficial to both the Mainland and Hong Kong; and second, they should not compromise the “financial security” (i.e. 「金融安全」) of our country.

45. With regard to the insurance industry, we shall continue to work on a number of initiatives to promote a positive environment for market development. These include,

first, efforts to attract Mainland insurers to set up asset management companies in

Hong Kong. This will open the door for local insurers to issue Renminbi policies in future;

second, efforts to lower market entry barriers and promote cross-boundary business for the insurance industry. This will be pursued through our Closer Economic Partnership Arrangement (CEPA) with the Mainland as well as the early and pilot implementation in Guangdong scheme (i.e. 「粵港先試先行」).

In doing so, we shall continue to maintain close dialogues with the China Insurance Regulatory Commission and other supporting CPG authorities (i.e. 支持有關建議的參謀機關).

46. The entry of Hong Kong insurance companies and practitioners into the Mainland market will follow the two fundamental principles I have just mentioned. We are able to satisfy Mainland market needs by bringing in new, sophisticated and innovative insurance products (such as business interruption insurance, directors and officers' insurance), while at the same time expanding the hinterland of our insurance industry. This would help create a win-win situation.

47. Ladies and gentlemen, I have outlined some of the initiatives for enhancing public confidence, service quality, conduct regulation and market growth potential for the insurance industry. It would be grossly inadequate if the Government were to pursue these initiatives on its own. We look forward to enlisting the support of the industry in shaping our strategies and ensuring that their delivery meets the market needs.

48. Let me wish you all a memorable year ahead for all the right reasons.

49. Thank you and have a fruitful Conference.