

Press release

LCQ9: Sale of insurance products

Wednesday, October 28, 2009

Following is a question by the Hon Lau Kong-wah and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (October 28):

Question:

I understand that currently some financial services companies sell investment funds to investors in the form of insurance products. As such companies are not insurance companies and the funds are sold in the form of insurance products, the funds are not subject to regulation by the Office of the Commissioner of Insurance and the Securities and Futures Commission. In this connection, will the Government inform this Council:

(a) whether it knows if the aforesaid companies are subject to regulation and investigation by the authorities concerned when their sales and marketing procedures or practices contain features which mislead or deceive investors, and whether there are channels for investors who had been deceived to lodge complaints; and

(b) focusing on the operation of the aforesaid companies and the impact of the sale of their investment products on investors, whether the authorities will study the establishment of a dedicated monitoring mechanism so as to regulate and investigate the companies concerned?

Reply:

President,

Under the existing system, the sale of insurance products is subject to regulation of the Office of the Commissioner of Insurance (OCI). There are different kinds of insurance products, including some long term insurance products with an embedded element of fund investment, which is commonly called investment-linked assurance schemes (ILAS) in the market. As the policy values of such insurance products are linked to the performance of investments (including funds) selected by the policyholders, their investment returns will be affected by fluctuations of the market prices and the performance of the underlying assets.

According to Part 2 of First Schedule to the Insurance Companies Ordinance (Cap 41), ILAS is defined under Class C of long term business. Insurance companies must obtain the OCI's authorisation before they can underwrite ILAS products. All insurance intermediaries selling insurance products, including ILAS products, must comply with the code of conduct or requirements laid down by the relevant self-regulatory organisations (SROs), which stipulate inter alia that insurance intermediaries are required to conduct business in good faith and with integrity and ensure that the insurance products meet the needs of potential policyholders and are affordable to them.

If policyholders are not satisfied with the conduct of insurance intermediaries, they may request the relevant SROs to investigate and follow up the case. If it is confirmed that an insurance intermediary has breached the code of conduct or relevant requirements, the relevant SRO may take disciplinary actions against the intermediary concerned, including issuing reprimand, suspending or terminating his/her registration. Depending on individual circumstances, the OCI will liaise with the relevant SROs, insurance companies or other regulators to follow up on individual cases. The OCI will also require the SROs to submit regular reports in order to closely monitor their work in carrying out their duties.

In order to enhance the protection of policyholders, the Government has been working with the industry on phased implementation of a series of measures to strengthen regulation of insurance intermediaries selling ILAS. These measures include:

(1) enhancing consumers' knowledge of ILAS through publicity and public education (e.g. publishing a series of information pamphlets and feature articles);

(2) requiring insurance intermediaries to conduct "Financial Needs Analysis" and complete "Risk Profile Questionnaire" for their clients with effect from October 16, 2009 to ensure that the products meet their clients' needs;

(3) requiring all insurance companies to introduce post-sale control procedures before December 31, 2009, viz. phone calls to specified categories of clients (such as the elderly, people with low education level or financial means) during the cooling-off period to confirm that they fully understand the nature and risks of the insurance products concerned; and

(4) upgrading the training and examination requirements for insurance intermediaries selling ILAS with effect from Q1 2010 in order to strengthen their understanding about investment products and enhance their professional knowledge and standards.

The OCI and the insurance industry will from time to time review the need to introduce new regulatory measures having regard to market developments so as to further enhance the protection of policyholders.

Ends