

Press Release

LCQ18: Cessation of an insurance company to sell life insurance policies through tied agents

Wednesday, January 8, 2014

Following is a question by the Hon Leung Che-cheung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 8):

Question:

It has been reported that Zurich Life Insurance (Hong Kong) (the company) had earlier on changed the distribution channel for its life insurance policies. Such products and after-sales services would no longer be offered through its tied agents and instead would be distributed by independent financial advisers and insurance agency companies. More than 700 insurance agents would be laid off and a total of 160,000 insurance policies would be affected. The press report also pointed out that similar arrangements would become a market trend, and other small and medium-sized insurance companies were expected to follow such practice of the company. In this connection, will the Government inform this Council:

(1) whether the authorities have followed up the aforesaid incident; if so, of the progress and details of the follow-up actions;

(2) whether it knows the number and nature of the requests for assistance received by the Office of the Commissioner of Insurance (OCI) from insurance agents and insurance policy holders in respect of the aforesaid incident;

(3) as some affected insurance policy holders have alleged that they have tried to seek assistance from the Consumers Council but in vain, and OCI does not have the statutory power to intervene in commercial disputes involving insurance companies, insurance intermediaries and insurance policy holders, of the measures the authorities have in place to safeguard the interests of insurance policy holders in similar incidents;

(4) as some affected insurance policy holders have claimed that it is set out in the insurance policies that the agents of the company will provide clients with after-sales services but the company has unilaterally terminated the

arrangement, whether it has assessed if the company has breached any law; if it has made such an assessment, of the results;

(5) as some members of the industry have pointed out that a similar incident once occurred in Hong Kong and the relevant insurance company eventually assisted the affected insurance agents in setting up insurance agency companies to keep on handling clients' insurance policies to resolve the issue, whether it knows the relevant details of the incident (including when the incident occurred, its development, the number of affected insurance agents and insurance policy holders, the role and duties performed by OCI in that incident, as well as the final plan to resolve the disputes);

(6) whether the authorities have assisted in resolving the disputes on commissions between the company and its insurance agents, or assisted the affected insurance agents in setting up an independent insurance agency company; and

(7) as there are views that the insurance company in the aforesaid incident has not hesitated to fundamentally change the traditional insurance agent system in order to save costs, and other insurance companies will follow such practice, of the forward-looking measures the authorities have in place to ensure the healthy development of the insurance market?

Reply:

President,

The change in Zurich Life Insurance (Hong Kong) (the Company)'s sales strategy is a commercial decision, having regard to its business development in Hong Kong. It does not represent an industry-wide development trend or strategy. In fact, over the past three years, the number of tied agents of insurance companies has increased from over 34,000 in 2011 to more than 40,000 in 2013, and many insurance companies with tied agents continue to increase their workforce.

Insurance companies can distribute their products through various channels such as tied agents and insurance brokers. A tied agent is appointed by an insurance company to sell products on its behalf, whereas an insurance broker (also known as an independent financial adviser) acts on behalf of a

policy holder to arrange an insurance contract. The Company has earlier decided to stop using tied agents, not insurance brokers, as a distribution channel.

The Office of the Commissioner of Insurance (OCI) has been closely monitoring insurance companies' business development and operational strategies in order to safeguard the rights of policy holders and facilitate the healthy development of the insurance market.

Matters raised in the question can be summarised into (a) the number and nature of requests for assistance received by OCI; (b) rights of policy holders; (c) OCI's work in assisting dispute resolution between the Company and its tied agents; and (d) similar precedent. Our consolidated reply is as follows -

(a) Requests for assistance

Since the announcement by the Company in early November 2013 to stop using tied agents as its distribution channel until December 31, 2013, OCI has received 176 enquiries from the Company's clients. The nature of the enquiries largely falls into the following three categories -

- (i) enquiring whether the incident would affect their rights in the insurance policies;
- (ii) demanding the Company to continue to provide services to clients through tied agents; and
- (iii) requesting a refund of insurance premiums due to dissatisfaction with the Company's announcement to stop using tied agents as its distribution channel.

In addition, OCI has also received six requests of assistance from tied agents of the Company who mainly expressed their discontent and requested the Company to compensate them.

(b) Rights of policy holders

An insurance policy is a contract between a policy holder and an insurance company. Both parties are bound by the terms and conditions of the policy, and a policy holder's rights will not be affected by any change of the intermediary. OCI has been closely monitoring the incident to safeguard the rights of policy holders, and asked the Company to arrange sufficient

manpower to continue to provide policy holders with after-sales services. The Company has pledged to OCI that the relevant services will not be affected by the incident.

After examining the policies issued by the Company, OCI has not found any terms and conditions therein prescribing that the after-sales services must be provided through tied agents. Generally, insurance companies must arrange adequate after-sales services to policy holders. Such services may be rendered by tied agents, insurance brokers/independent financial advisers, or an insurance company's customer service centre. Different insurance companies may adopt different arrangements.

(c) OCI's assistance in dispute resolution between the Company and its tied agents

OCI has been closely following up this incident, and actively assisting dispute resolution between the Company and its tied agents. It arranged two meetings between the Company and its tied agents on November 29 and December 6, 2013 respectively to discuss matters related to contract termination arrangements. After these two meetings and mediation of OCI, both sides have reached consensus on important matters and agreed not to disclose details of the agreement to a third party.

(d) Similar precedent

In 2001, an insurance company in Hong Kong decided to stop using tied agents to provide its services as a result of a change in its sales strategy. At that time, after discussion between the relevant insurance company and its tied agents, both sides agreed that the affected agents would establish an independent financial advisory firm (i.e. an insurance broker firm) to continue to serve their clients through insurance brokerage. Some of the tied agents of that insurance company joined the independent financial advisory firm, while others left that company through natural wastage or joining other insurance companies.

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