

3 November 2010

Division 3, Financial Services Branch
Financial Services and the Treasury Bureau
18/F Tower I
Admiralty Centre
18 Harcourt Road, Hong Kong

Dear Sirs

Consultation Paper on the Proposed Establishment of an Independent Insurance Authority

Thank you for the opportunity to be consulted on the above proposal. We have considered the consultation document and our response is detailed in the enclosed paper for your consideration and review.

On the establishment of an independent Insurance Authority, it does not seem to us that there is very strong case for creating a new regulatory body to replace the self-regulatory regime. We also believe there should be a consistent set of licensing, conduct and regulatory requirement for both bank and non-bank intermediaries in performing insurance agency activities.

We would caution that any fees suggested to be levied on insurance transactions be carefully considered in order to avoid adding to the cost of taking out insurance policies, which is a necessity in many cases. Please refer to the attached submission for details.

Yours sincerely

Alex Fong
CEO

Consultation Paper on the Proposed Establishment of an Independent Insurance Authority

The Hong Kong General Chamber of Commerce (the “Chamber”) is pleased to submit its views on the proposal to establish an Independent Insurance Authority (“IIA”). We would like to respond to a number of important questions in the Consultation Paper, as follows:

1. Do you agree that an independent IA should be established along the principles set out in paragraph 2.6?

From the views gathered from our members, it appears that by and large the existing self-regulatory framework has been working reasonably well. It does not seem to us that there is very strong case for creating a new regulatory body to replace the self-regulatory regime. The existing IA, which enjoys wide powers in regulating the industry, also seems to be performing its functions well. Although there are many countries which have made insurance regulators independent from the government, we do not believe that Hong Kong should automatically follow suit, nor do we need to take immediate steps to follow what others are doing. It may be wise to observe how these approaches are serving other countries before we go down this route. We would also caution that any major change of the regulatory regime of the insurance industry should not restrain the efficiency and innovative capability of the market.

3. Do you agree that the independent IA should have an expanded role beyond the existing functions of the IA as set out in paragraph 3.1? If so, do you agree that the independent IA should assume the additional functions as proposed in paragraphs 3.3 and 3.4?

Our members are not convinced that there is an immediate need for additional regulation on insurance products and their selling process. On the other hand, we generally welcome more education and research on the insurance sector but we believe that these functions do not necessarily have to be performed by the proposed IIA. The case remains to be made on why the functions proposed for IIA could not be adequately performed by industry bodies like HKFI.

5. Do you agree that the independent IA should be vested with additional powers as proposed in paragraph 4.7 to enable it to regulate insurers more effectively?

We would caution that the powers to enter into premises of regulated entities should only be exercised with great care and that proper checks be built into the procedure of invoking such powers. The IIA should be required to apply to the Court to invoke the proposed powers.

Our members in the banking industry are of the view that if an IIA is to be established, its powers to enter into premises of the regulated entities should only be restricted to non-bank intermediaries in order to avoid an overlap of regulation, as the primary regulator for bank intermediaries should be the HKMA.

6. Do you consider that the existing self-regulatory arrangements for insurance intermediaries should be changed, and if so, do you support that Option2 (i.e. direct supervision of insurance intermediaries by the independent IA) should be pursued? If not, why?

7. Do you consider that in relation to the sale of insurance products in banks, the HKMA should be vested with powers similar to those for the independent IA to allow HKMA to regulate bank employees selling insurance products given the different client profile and sale environment in banks?

The Chamber strongly believes that there should be a consistent set of licensing, conduct and regulatory requirements for both bank and non-bank intermediaries in performing insurance agency activities.

Our members in the banking industry are concerned that the Consultation Paper proposes that the HKMA be given powers to impose additional conduct requirements on bank intermediaries, as this may create unlevel playing field for bank and non-bank intermediaries and confuse the insuring public. We would reiterate that we do not see the case for imposing additional regulations on banks for the selling of insurance products and their selling process.

10. Do you agree that the Government should provide a lump sum to support the IIA in its initial years of operation and the IIA should seek to reach full cost recovery in six years?

The HK\$500 million budget for setting up the new IIA represents a two times expansion of the current bureaucracy and this is not a small amount of money. The taxpayers are entitled to question whether it is absolutely necessary to incur such a cost. The onus is on the Government to justify the cost-effectiveness of the exercise. The budget breakdown should be presented to the public for discussion. A significant lump sum that requires full recovery may eventually impact on the fees the future IIA may levy on insurance product transactions. In recent years the Government seems to have gone into a mode of setting up new commissions or regulatory bodies as and when new issues arise, expanding the bureaucracy without strong justifications and incurring costs to taxpayers.

11. Do you agree with the proposed fee structure as set out in paragraphs 8.2 and 8.6?

We would caution that any fees suggested to be levied on insurance transactions be carefully considered in order to avoid adding to the cost of taking out insurance policies, which is a necessity in many cases.