
REGULATORY NEWSLETTER

2024 Vol.1



Happy New Year!

2024 comes with the good news of reopening of the city's border. While we are stepping into the year of dragon – a year of recovery and resilience, ComplianceDirect wish you a year full of love, happiness and success. As always, we would endeavour to provide you our professional consultation and compliance services.

Let's begin 2024 with our Regulatory Updates from the IA!

REGULATORY UPDATES

IA-HKMA joint inspection exercise on premium financing

20 Dec 2022

The Insurance Authority ("IA") and the Hong Kong Monetary Authority (HKMA) have initiated a joint inspection on premium financing ("PF") activities within Hong Kong's long-term insurance sector. This follows a previous inspection in late 2020 and the implementation of supervisory standards issued on 1 April 2022, effective from 1 January 2023. The purpose of this new round of inspections is to evaluate adherence to these standards and to observe current industry practices.

The joint inspection will focus on specific areas:

- Suitability and affordability assessments for customers.
- Additional measures to protect customers from over-leveraging.
- Thorough disclosure of risks and other critical information.
- Distribution and sales practices, including staff training.
- Policy services, such as transfer of policy ownership and cooling-off periods.
- Post-inspection, depending on the outcomes, the IA and HKMA will communicate any issues discovered to the industry and will consider issuing additional guidance if necessary.

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"Conduct in Focus" – December 2023

20 Dec 2023

Strides in Professional Development Compliance

The latest data reveals a commendable rise in CPD compliance among the insurance intermediaries, with the rates skyrocketing from 90% to 96.1% year-over-year. This indicates a strong industry-wide commitment to ongoing education and client service excellence. We see a near-perfect compliance rate of 99.7% among active professionals, setting a new benchmark for the sector.

Demographic Dynamics

The issue also sheds light on the demographic dynamics of licensed insurance intermediaries, suggesting a maturing market in Hong Kong. Understanding these trends is crucial for strategic planning and workforce development.

Fair Treatment as a Regulatory Keystone

The IA continues to emphasize the "treating customers fairly" principle. This core objective underpins every conduct regulation and is crucial for maintaining consumer trust. We can help you integrate this principle into your business practices and ensure you're not just compliant, but also a consumer champion.

Regulatory Updates & Reminders

Stay ahead of the curve with the latest guidance on unsolicited sales calls, insights from the IA's Mystery Shopping Programme, and recommended practices for notifying the IA of significant changes within your company structure.

Enforcement Insights

Lastly, the IA's enforcement update serves as a critical reminder of the consequences of non-compliance. It's more important than ever to have robust compliance frameworks in place.

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ENFORCEMENT NEWS

Insurance Authority bans former insurance agent for six years for misappropriating and mishandling premium

20 Dec 2022

The Insurance Authority (IA) has imposed a six-year licensing ban on a former insurance agent due to serious misconduct involving the mishandling and misappropriation of premiums from two policyholders. The case unfolded when the agent, exploiting a childhood friendship, deceived his friend and the friend's wife into changing their premium payment method from monthly to annual by falsely promising a discount. The couple's premiums, intended for their critical illness insurance policies, were diverted to the agent's personal account in 2017, resulting in policy lapses by January 2018.

In a subsequent deceit in October 2018, the agent repeated his false discount offer and claimed he would front the renewal premiums on behalf of the clients to secure the non-existent discount. Trustingly, the clients transferred funds to him, unaware that their policies had already been lapsed for ten months. It was only when they attempted to submit claims that they realized the deception, as the agent initially made excuses and later admitted his actions when confronted after the insurer confirmed the lapse.

The agent's conduct represents a breach of the fundamental trust and ethical standards expected of insurance practitioners, who are entrusted by the public to handle their insurance needs honestly. The IA's decision to ban the agent reflects its commitment to maintaining professional integrity within the industry, which is crucial for its societal role. Policyholders are reminded to always use official payment channels and not to transfer premiums to individual agents' personal accounts.

Although the events occurred before the current regulatory regime for insurance intermediaries was established on September 23, 2019, the IA applied the rules effective at the time to determine the disciplinary action. The six-year ban takes into account factors such as the agent's deliberate deception, the financial gain he obtained at the expense of his clients' ability to claim medical expenses, his eventual admission of wrongdoing, and the necessity to deter similar unethical behavior within the industry.

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SFC fines and suspends Chung Tung Sau for seven months

15 Dec 2022

The Insurance Authority (IA) has imposed disciplinary action on Mr. Tsang Kwong Chi Samuel, a technical representative of a broker company, for professional misconduct. Mr. Tsang has been suspended for two months and fined HK\$40,000 due to his failure to effectively manage an employees' compensation (EC) insurance policy for a client, which left the client uninsured for 21 days and in breach of the Employees' Compensation Ordinance (ECO).

The issue began when Mr. Tsang assisted a client with obtaining an EC insurance quote in early 2019,

which the client accepted in June of that year. However, due to an overlooked email, the insurer did not receive the necessary documents to formalize the insurance policy. Mr. Tsang failed to follow up on this, even after being reminded, leading to the client's lack of valid insurance when it came up for renewal.

While Mr. Tsang's failure did result in legal issues for the client, the charge was withdrawn considering it was their first offence. His lapse in professional duty directly contravened the standards set for technical representatives, who are expected to arrange insurance contracts with due care, skill, and diligence. Despite the IA acknowledging the challenges posed by new standardized practices for EC insurance at the time, it did not excuse Mr. Tsang's failure to perform his duties.

In deciding on the sanction, the IA considered the severity of Mr. Tsang's misconduct and its consequences but also noted the absence of dishonesty and the support from his company's Responsible Officer. The sanction, therefore, balances the gravity of the misconduct with mitigating factors, aiming to both address the specific incident and deter similar future conduct.

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