
REGULATORY NEWSLETTER

2023 Vol.6



As we embrace the warmth and sunshine of June, we are also reminded that we have reached the midpoint of the year. This turning point offers an opportunity to reflect on the progress we have made and to ensure that we remain mindful of the compliance regulations and requirements that govern our company's operations.

As always, in this month's newsletter, we will provide you with the latest updates on relevant compliance news and regulations, as well as valuable guidance to help your company stay on track. We hope you find this information valuable and wish you successful months ahead.

REGULATORY UPDATES

Insurance Authority welcomes the implementation of the Unilateral Recognition policy for cross-boundary motor insurance to facilitate Northbound Travel for Hong Kong Vehicles and enhance connectivity

1 May 2023

The Insurance Authority (IA) welcomes the announcement of the governments of Guangdong and Hong Kong Special Administrative Region (SAR) on the launch of the Northbound Travel for Hong Kong Vehicles (the Scheme)¹. To facilitate the introduction of the Scheme, the IA has been coordinating with Hong Kong insurers for the implementation of the Unilateral Recognition policy for cross-boundary motor insurance. From 1 July onwards, Hong Kong private car owners or drivers entering Guangdong under the Scheme can procure a Unilateral Recognition policy from Hong Kong insurers with coverage extended to include the statutory third-party liability motor insurance for the Mainland. In other words, car owners do not have to purchase separate policies for the two places, making travels between Guangdong and Hong Kong more convenient.

"The Unilateral Recognition policy does not only facilitate cross-boundary travelling of Hong Kong residents to and from Guangdong, fostering the flow of people within the Greater Bay Area, but it is also a breakthrough for the Hong Kong insurance industry in introducing cross-boundary insurance products for Guangdong and Hong Kong. It will help promote the development of the industry in the

long run by bringing more diversified insurance products and services with broader coverage to the market, thereby further enhancing the social value of insurance,” said Mr Simon Lam, Executive Director, General Business of the IA.

Under IA’s proactive coordination, 16 Hong Kong insurers are ready to launch Unilateral Recognition products, providing car owners with more convenient and comprehensive insurance services. Car owners or drivers may visit the [Hong Kong Federation of Insurers \(HKFI\) website](#) for the list of relevant insurers. They may also continue to procure Mainland and/or Macao statutory motor insurance provided by Mainland and/or Macao insurers through Hong Kong insurers’ one-stop service arrangement.

To work towards the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area and strengthen connectivity between the Mainland and Hong Kong, the governments of Guangdong Province and Hong Kong SAR announced the launch of the Scheme which allows eligible Hong Kong private cars to travel between Hong Kong and Guangdong via the Hong Kong-Zhuhai-Macao Bridge (HZMB) without obtaining regular quotas in advance. While the laws require all cross-boundary vehicles to procure statutory motor insurance covering Guangdong and Hong Kong, under the Unilateral Recognition policy, Hong Kong car owners or drivers only need to procure a Hong Kong statutory motor insurance policy compliant with the Motor Vehicles Insurance (Third Party Risks) Ordinance (Cap 272) and its coverage can be extended to include the Mainland Compulsory Traffic Accident Liability Insurance for Motor Vehicles. Policy holders may further extend the coverage to include the Mainland Commercial Insurance for Motor Vehicles for more comprehensive protection.

For details about the HZMB motor insurance arrangement and the Unilateral Recognition policy, please refer to [our website](#).

[View News](#)

Conduct in Focus

12 May 2023

The latest edition of the IA periodical "Conduct in Focus" has been published and is now available on the IA's website at:

https://ia.org.hk/en/legislative_framework/conduct_in_focus.html.

Together with the main edition the IA has also published a separate supplement on “Claims Handling”. This provides insurers and insurance claims practitioners with an overview of the existing regulatory principles and standards applicable to the handling and processing of claims under insurance policies and, with a specific focus on medical insurance claims, sets out guidance on the type of matters the IA will take into account when evaluating an insurer’s claims handling processes against these regulatory principles and standards.

In Policyholder Corner, following the re-opening of the borders, the IA highlights three vital lessons that Mainland China visitors should take into account when buying insurance in Hong Kong based on the IA’s complaints and enforcement work. In addition, in view of the latest interest being generated

by Chatbots powered by artificial intelligence, the IA offers its own thoughts on their deployment in the insurance sector and the regulatory requirements that might apply.

Finally, as part of the IA's ongoing supervision work, the IA conducts on-site inspections on licensed insurance broker companies to assess their compliance with the key requirements in the insurance regulatory framework. In the Practice Section, the IA explains the importance of on-site inspection as an effective supervisory tool and provide an overview on what broker companies can expect if they are selected for inspection.

[View Circular](#)

Continuing Professional Development ("CPD") Requirements

CPD Compliance Reporting for the Assessment Period 2022/2023

Detailed instructions for reporting by individual licensees and appointing principals to the Insurance Authority ("IA")

25 May 2023

In this (necessarily long) circular the IA set out the procedures for reporting of CPD attainment for the 1 August 2022 to 31 July 2023 CPD Assessment Period ("Assessment Period 2022/2023").

i. Important Deadlines

By way of recap, the key deadlines for the Assessment Period 2022/2023 are:

31 July 2023 – Deadline for individual licensees to complete their CPD hours for the Assessment Period 2022/2023.

30 September 2023 – Deadline for individual licensees to submit their CPD Declarations either directly to the IA via Insurance Intermediaries Connect ("IIC") or to their appointing principals.

31 October 2023 – Deadline for appointing principals to report the CPD compliance status of their appointed individual licensees to the IA.

ii. Information on CPD hours available in IIC

Individual licensees can view the number of CPD hours they are required to complete during the Assessment Period 2022/2023 and the reported compliance status by logging into their IIC individual accounts and clicking the "CPD Requirement and Compliance Status" option from the vertical menu on the left.

Appointing principals can view the CPD hours requirement and the reported compliance status for each of their individual licensees for the Assessment Period 2022/2023 in IIC.

Appointing principals may also download their CPD Lists showing all of their appointed individual licensees and the CPD hours each was required to earn.

The CPD Lists will be updated by the IA on a daily basis to keep track of the status of the appointed individual licensees for each appointing principal. The final CPD Lists showing the status of the appointed individual licensees for each appointing principal as at 31 July 2023 will be available in IIC

on 1 August 2023. To facilitate appointing principals' monitoring of the CPD compliance status of their newly appointed individual licensees after 31 July 2023, in the CPD Lists downloaded after 1 August 2023, an additional list of newly appointed individual licensees after 31 July 2023 will be appended to the original list of appointed individual licensees as at 31 July 2023. Appointing principals may also report CPD compliance for these newly appointed individual licensees as appropriate.

A number of licensed insurance agencies and licensed insurance broker companies still have not created a Supervisor Account in IIC. The IA emailed the CPD Lists to these appointing principals in April 2023 to enable them to monitor the CPD compliance status of their appointed individual licensees. The IA will also send the finalized CPD Lists to these appointing principals in early August 2023. However, in order to access their CPD Lists as they are updated, it is imperative that these appointing principals open a Supervisor Account in IIC as soon as possible. A Supervisor Account in IIC can be opened by submitting a signed Form A2 to the IA. Please visit the ["Forms – Insurance Intermediaries" page on the IA website](#) for the application form and user guides.

iii. CPD Reporting Procedures

Individual licensees now have two options for submitting their CPD Declarations to report their CPD compliance status for the Assessment Period 2022/2023. They can submit their CPD Declarations directly to the IA through their IIC individual accounts. Alternatively, they can submit their CPD Declarations to their appointing principals.

iv. CPD Penalty framework for Assessment Period 2022/2023

The minimum number of CPD hours an individual licensee is required to complete for the Assessment Period 2022/2023 is 15 CPD hours, including a minimum of 3 CPD hours on topics that count as "Ethics or Regulations" (except for travel agents licensed to carry on regulated activities in restricted scope travel insurance business who are only required to earn 3 CPD hours). The IA reminds the individual licensees of the applicable CPD Penalty Framework for the Assessment Period 2022/2023 by including it in ANNEX 3 to this circular.

v. Miscellaneous

The IA reminds the individual licensees that the industry-wide non-compliance rate with the CPD requirement for the previous Assessment Period from 1 August 2021 to 1 July 2022 was a woeful 9.3%. Completing CPD hours serves as a demonstration of up-to-date expertise and knowledge. This is a basic requirement for any profession. As the insurance regulator the IA has already, on numerous occasions, demanded to see improvement. As the IA approaches the end of the CPD Assessment Period 2022/2023 and the reporting process begins, now is the time for the industry to step up and demonstrate that improvement.

Finally, please note that the IA has encountered situations of individuals who were previously licensed, applying to be licensed again and at the time of the new licence applications there are ongoing CPD non-compliance investigations, disciplinary matters, proceedings or appeals against them from when they were previously licensed. In these situations, the IA makes clear that if the IA approves the new licence application, it does so without prejudice to any disciplinary action the IA may subsequently take consequent on the outcome of the ongoing investigation, disciplinary matter, proceeding or appeal, as the case may be.

[View Circular](#)

ENFORCEMENT NEWS

Insurance Authority bans former insurance agent for three years for using a false academic transcript under the former self-regulatory regime

16 May 2023

The IA has taken disciplinary action against a former insurance agent who used a false academic transcript purportedly issued by an Australian university to establish that he met the minimum education requirements to be an insurance agent under the previous self-regulatory regime. The case was handled in accordance with the requirements in place at the time the false academic certificates were submitted. The former agent has been prohibited from applying to be licensed for 3 years.

These cases which involve insurance agents relying on false academic certificates to enter into the insurance industry pre-date the new regulatory regime for insurance intermediaries under the auspices of the IA which came into force in September 2019. These cases cast a shadow on the insurance industry in previous years. However, this particular case demonstrates why the new regulatory regime for intermediaries demands that insurers (through their “intermediary management control function”) have in place adequate controls and processes in relation to their agency forces, including in the due diligence processes for recruitment and on-boarding. In this case, the discovery of false academic certificate was made as a result of one of the insurer’s verification processes yielding the truth, enabling it act quickly by terminating the agent and referring the case to the IA.

As indicated, this case had to be handled in accordance with the transitional arrangements in Schedule 11 of the Insurance Ordinance (Cap. 41) (the “Ordinance”), which required the relevant requirements in place at the time to be applied and the disciplinary approach of the IARB1 to be followed. Under the current (i.e. new) regulatory regime for licensed insurance intermediaries which came into force on 23 September 2019, it is a criminal offence to provide false information to the IA in connection with an application for a licence or an approval under the Ordinance. An individual who commits such offence, if found guilty, will be liable to a fine at level 5 and to imprisonment for 6 months. As stated, the IA will have no hesitation in prosecuting any individual who seeks to submit a false academic certificate to the IA as part of the licensing process.

As this case indicates, insurers (and their intermediary management control functions) also have an important role to play in ensuring that, as part of their recruitment and on-boarding processes for new insurance agents, they carry out adequate checks on the accuracy of the information being submitted to the IA as part of a licensing application by their prospective new insurance agents. The checking and verification processes adopted by the insurer which discovered the truth in this case, are recommended as a vital part of an insurer’s checking processes before appointment of a new insurance agent. Through its inspection of insurers and ongoing conduct supervision work, the IA will continue to assess the adequacy of insurer’s controls and processes on this issue.

[View News](#)

Insurance Authority bans former insurance agent for 18 months for fabricating a client's instructions and forging the client's signature

29 May 2023

The IA has taken disciplinary action against a former insurance agent by prohibiting her from applying to be licensed for 18 months. The penalty was imposed because the agent was found not to be a fit and proper person after having forged the client's instructions and fabricated the client's signature on two separate occasions between December 2021 and January 2022.

In considering this case, the IA notes that it is not the agent's original mistake of wrongly completing the temporary receipt that demands disciplinary action. This was a human error (and the IA noted the health conditions put forward by the agent to explain this). Rather, disciplinary action is necessary because of the conduct of the agent in attempting to rectify the error. Integrity and good character are core attributes demanded of licensed insurance agents to be fit and proper to their role. Integrity means doing the right thing, even when that is the hard thing to do. Even if coming clean about an error with a client may result in the client conveying disappointment, this would have been the right thing to do and would have resulted in the original mistake being rectified quickly. Instead, the agent fabricated and submitted two letters of instructions, forging the client's signature on each of them. These acts demonstrated a lack of integrity and an absence of good character resulting in the client's interests being potentially harmed. The IA has no tolerance for conduct which displays such a lack of ethics and as such appropriate disciplinary action is necessary.

In deciding the disciplinary sanction, the IA has weighed all relevant circumstances in the balance, including:

1. The fact that the agent had abused her position of trust with the client;
2. The fact that the agent had admitted to fabricating the two letters and forging the client's signature within a period of 1 month;
3. The agent's conduct was intentional and deliberate;
4. The agent's health condition;
5. The fact that the client did not sustain any financial loss;
6. The fact that the agent had been an insurance agent for approximately 21 years and has a clean disciplinary record; and
7. The need to send a message to deter similar misconduct.

The IA also acknowledges the agent's cooperation in accepting the disciplinary actions which has resulted in the prompt resolution of this matter.

[View News](#)



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