Enriching Lives

A History of Insurance in Hong Kong, 1841–2010

Feng Bangyan and Nyaw Mee Kau

Translated by Violet Law

HKFi
The Hong Kong Federation of Insurers
香港保險業聯會

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The Establishment and Development of the Chinese-Owned Insurance Sector

> **In the early days, insurance remained an alien import from the West and so foreign insurers ruled the industry ... But a few enlightened local Chinese insurers saw strength in numbers so they banded together to support one another. They weathered through thick and thin and built themselves up.**
>
> — Lo Tai Yiu, Commemorative Booklet of the 80th Anniversary of the Chinese Insurance Association of HK, 1983

Toward the end of the Qing Dynasty, foreign insurers in China began to open up to investments from local merchants. However, Chinese investors were entitled only to profits and not voting rights or any voice in management. In other words, these insurance companies were lopsided joint ventures at best and far from equal partnerships.

The first foreign insurer that solicited Chinese investments was Union Insurance, which, when Dent & Co. founded it in 1830, had a significant capital injection from some Guangzhou business investors. In Shanghai, many foreign enterprises, including insurance companies, also welcomed Chinese money.

In 1868, as recounted in the previous chapter, Jardine Matheson established the Hong Kong Fire Insurance Co. Ltd. It did so in compliance with the colony's newfangled companies ordinance on limited liability companies. At one time, the famous comprador Sir Robert Ho Tung sat on the consulting committee of both Hong Kong Fire and Canton Insurance, another insurance firm controlled by Jardine Matheson.

Based on existing records, the first Chinese-controlled insurance firm was founded by a Shanghai trading firm with close ties to Jardine Matheson. Although that firm covered the cargo shipments of Chinese firms and little else, it served to stir up some competition for the foreign insurers.

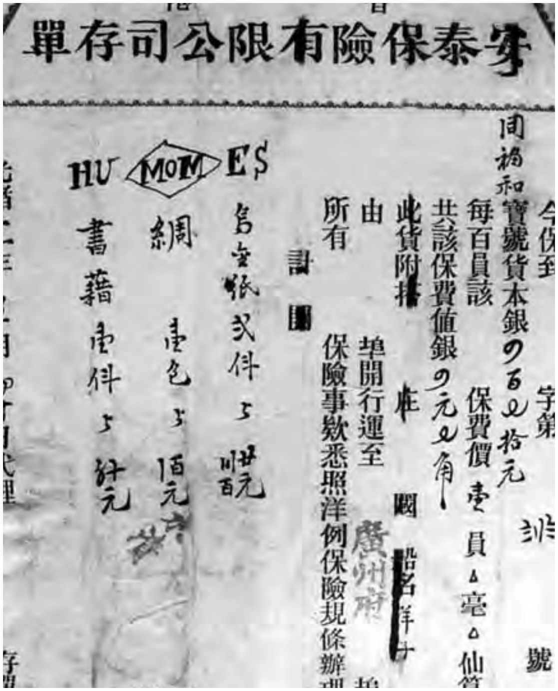
Chinese-Founded Insurance Companies between the Late Nineteenth Century and the Dawn of the Chinese Republic

The later years of the Qing Dynasty were an incubation period for Chinese-owned insurance companies. The first such enterprise was established in 1877 in Shanghai: the China Traders' Insurance Co. Its founding mission was to keep trading profits within the Chinese business community.

With 1.5 million taels of silver in capital, the company opened up branches not just in Hong Kong but also in mainland cities, offering only marine and fire policies.

In the same year, some prominent Chinese business investors and compradors in Hong Kong pooled $400,000 and set up the On Tai Insurance Co. to cover cargo ships shuttling between Hong Kong and Australia, America, Southeast Asia, and Mainland China. With its Western-style management, On Tai posed a challenge to an insurance and finance industry dominated by foreign insurers. The company joined the Hong Kong General Chamber of Commerce in 1881 and became the first Chinese enterprise to have earned membership in a club long dubbed the 'Western Chamber of Commerce' because its members were predominately American and British traders.

Several other Chinese insurers emerged in Hong Kong during the last decade of the nineteenth century. All, like On Tai, adopted the same word in their names: 'On', which means 'peaceful' in Chinese. All had offices in Shanghai, China's financial centre, as well as other major cities and ports on the Mainland and around Southeast Asia.



Figs. 2.2 & 2.3
Policies issued by On Tai Insurance, left, and the Tung On Fire Insurance Co. Ltd. right, late 1800s.

Fig. 2.4 (opposite)
The Shanghai night scene in the 1930s. On the taller spires are the neon signs of Wing On (left) and Sincere (right) department stores.

All told, from 1865 to 1911, thirty-three Chinese insurers arose in Shanghai, according to the *Shanghai Finance Digest*. By 1937, the count had mushroomed to eighty-seven.

One of the most noteworthy was Hong On Insurance, co-founded in 1914 by the two most prominent department store chains in Hong Kong: Sincere and Wing On. With a combined investment of $10 million, the insurer offered fire and marine coverage, mortgage-lending services, and other products.

Fig. 2.5
The Hong Kong Hotel on fire in January 1926.

Fig. 2.6 (opposite)
Connaught Road in Central Hong Kong after a typhoon in 1906.

By 1930, Hong Kong had seen the rise of more than fifty insurers—both local and foreign. Foreign insurers, mostly branches of firms headquartered elsewhere, had far more capital than local firms. The local and foreign firms were at once competitors and collaborators.

Their meagre capital did not allow most local firms to indemnify high-value cargo. So for any coverage worth more than $10 million, local firms had to divide it with foreign firms—

usually the better funded among them. The local firms also had to rely on foreign insurers for re-insurance. This inadvertently stymied the growth of local enterprises. The same situation was also evident among Chinese insurers in Shanghai.

When World War II cut off Hong Kong's trade links with England, this risk-sharing practice was no longer possible. Chinese insurers looked to each other to share the risks of a pool of policyholders for the same product line.

> ***K. H. Wong***
> ***Executive director and CEO, the Asia Insurance Co. Ltd.***
> ***Joined the industry in 1962***
>
> *I remember back in the 1980s, when foreign brokers just landed here from overseas, they mostly got with international firms and had few dealings with local insurers. At the same time, local Chinese insurers also resisted dealing with foreign brokers who saw only 'gweilos' as business partners. Asia was the first local firm to enter into business partnerships with these foreign brokers.*
>
> *But when the Chinese-owned insurance firms saw how they've been losing out to these brokers, they got smart and began to forge partnerships. So by the 1990s, nearly all the local guys had joined forces with the foreign brokers, thus resulting in the rapid expansion of international brokerages. Even now, the brokers' position as the intermediary in the insurance market remains rock solid because the majority of clients are under their control.*

Chinese Family Insurers: Sincere and Wing On

In the history of the Chinese-owned insurance sector, Sincere and Wing On both exerted a significant influence. Both firms' founders were Chinese-Australian; both got their start in Hong Kong in retail and insurance and found success on the foundation of business diversification.

Figs. 2.7 (below left)
A Sincere advertisement, c. 1910.

Fig. 2.8 (below right)
The Sincere Department Store building on Des Voeux Road in Central as it was from 1917 to 1968.

Sincere's founder, Ying Piu Ma (1864–1944), started his working life as a gold miner in Sydney when he was nineteen. In 1892, Ma, a native of Zhongshan in Guangdong Province, joined a few others from the same area to found a trading firm dealing in sundry Chinese goods and specialties from various cities. He made a fortune. He then moved to Hong Kong and set up new firms to handle imports and exports.

Fig. 2.9
The Ma family, c. 1940. Sincere's founder, Ma Yingpiu, is seated in the centre row, third from right, with his grandchildren.

During his time in Australia, Ma was impressed with the 'no haggling' style of retail operations that prevailed at Western department stores and was determined to introduce such practices in Hong Kong. Once again, he garnered support from his fellow natives. With $25,000, they founded the Sincere Department Store in 1900.[1]

Sincere quickly diversified into other lines of business, including insurance and mortgage lending. In 1915, the Sincere Insurance Co. was established with a registered capital of $1.2 million and paid up at 50%. It offered fire and marine coverage, as well as mortgage-lending services from offices across Guangdong Province and in Tianjin, Shanghai, Singapore, Thailand, and Vietnam. Within a decade, the insurer got a shot in the arm: an additional $600,000 in paid-up capital.

In 1922, the Sincere Life Assurance Co. was founded with $2 million in seed capital from the parent company after consolidation. But almost right away it began to face turmoil that would last for decades, including the labour strife of 1925 in Hong Kong and, later on, the Japanese invasion. As soon as World War II spread to the Pacific, Sincere's branches in Singapore and on the Mainland were forced to suspend operations until the end of the war; only the Hong Kong office managed to carry on, though not without hardships. Finally, the branches in Singapore and Shanghai shut down permanently, in 1948 and 1952 respectively.

Nonetheless, operations in the Hong Kong head office continued to grow steadily and branched out to property investment. The 1968 completion of a new headquarters building in Central laid down a milestone in the development and diversification of Sincere Insurance.

At first, Sincere Life had a hard time cracking the market because most Chinese were strangers to the concept of insurance. However, once Sincere switched gear and promoted life products as a tool to accumulate wealth, this appealed to the savings-

Fig. 2.10
A stock certificate issued by the Sincere Life Assurance Co. in 1949.

minded Chinese, and they gradually warmed to the idea. As soon as Sincere got a foothold in the life market once dominated by foreign insurers, four other Chinese-owned life insurers emerged to vie for a piece of the action.

After Sincere, another significant Chinese-owned insurance group, Wing On, also made its first foray into the market. Wing On was founded by the Gock brothers, James Gocklock (1872–1956) and Philip Gockchin (1876–1966), from Guangdong Province. They made

先施人壽保險有限公司
按照香港公司則例組設
THE SINCERE LIFE ASSURANCE COMPANY, LIMITED.
INCORPORATED UNDER THE HONG KONG COMPANIES ORDINANCES
AUTHORISED CAPITAL $2,000,000 IN 200,000 SHARES AT $10 EACH
額定資本二百萬圓分作二十萬股每股十圓
股份票
No. 831 號 SHARE CERTIFICATE Shares 50 股

This is to certify that Mr. Tang Yu Ki of Hong Kong is the registered holder of Fifty shares, numbered 53325 to 53374 inclusive, in the above named Company, subject to the Memorandum and Articles of Association thereof, and that upon each of the said shares the full amount of Ten Dollars has been paid up.

Given under the common Seal of the said Company at Hong Kong this Eighteenth day of June One Thousand Nine Hundred and Forty Nine.

The Common Seal of the said Company was hereunto affixed in the presence of

Manager

CANCELLED

茲據
鄧汝基先生遵照本公司註冊章程
附入股份伍拾股由
第五二三二五至五二三七四號
股本每股拾圓計共伍佰圓
經已如數繳足此據
董事
董事
司理
中華民國三十八年六月十八日
先施人壽保險有限公司發給

their fortune in Sydney by running a fruit stall, called Wing On, meaning 'perpetual peace' in Chinese.

Seeing how successful Sincere had been as a department store and more, the elder brother, James, dispatched his younger brother to Hong Kong to follow suit. He set up the Wing On Department Store Co. Besides dealing in exports and imports, Wing On also branched out into banking to capture hot money in the market.[2]

Fig. 2.11
Wing On's founding brothers, James Gocklock (left) and Philip Gockchin (right).

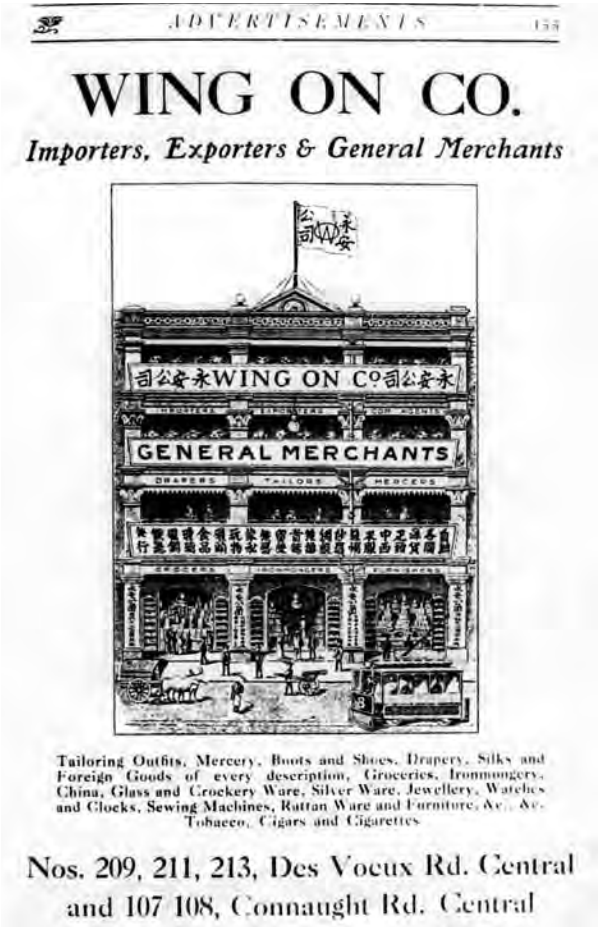


Fig. 2.12
The Wing On Co. building on Des Voeux Road in Central, c. 1910.

James Gocklock arrived in Hong Kong in 1909 and restructured the new firm into a limited liability company. Wing On prided itself on its 'fair trade' principle and was well reputed in business circles. By 1921, the brothers had set up a textiles plant in Shanghai, and a department store followed. Wing On soon expanded into insurance, hospitality, foreign-currency trading, and other sectors, rising as a diversified business enterprise.

In addition to a headquarters in Hong Kong, Wing On opened up branches in Guangzhou, Fuzhou, Yangzhou, and Macau. The brothers' teamwork and effective management of a family business empire quickly earned the family prominence and affluence.

In 1915, the brothers established the Wing On Marine & Fire Insurance Co. Ltd with $750,000. It proved such a hit that clients also demanded life products. So the brothers raised $15 million from local and overseas Chinese and set up the Wing On Life Insurance Co. Wing On's rise was helped by Hong Kong's soaring status as a financial centre in Asia, as well as a growing awareness among customers of the many benefits a life policy could bring. More and more Chinese saw life policy as more than just a savings instrument: it was also financial protection in case of accident. Even though life insurance remained a novel investment tool, this dawning awareness and trust in reputable names such as Wing On served to cement the foundation for the life insurance business.

Fig. 2.13
A policy issued by the Wing On Marine Insurance Co. in 1923.

The year before the Japanese Imperial Army invaded Mainland China, Gocklock left for the United States to expand his business there. But once the Japanese moved on to take over Hong Kong, he was marooned overseas. All of Wing On's operations were thus under Gockchin's watch. Wing On Life carried on under the most trying of circumstances in the occupied colony.

On 15 August 1945, the Japanese surrendered and the occupation came to an end. Gocklock and his son, Lam Po, returned to Hong Kong and reorganized the family business. After a half century in business, Wing On was about to turn a new leaf. The civil war in China and the founding of the new regime forced all the mainland stores to close. Wing On thus focused its growth on its home turf and in Southeast Asia.

The Establishment of the Chinese Insurance Association of Hong Kong

To counter the dominance of foreign insurers in the local market, Chinese-owned firms decided to join forces and strengthen their connections with one another. Together, in 1903, they formed the Chinese Insurance Association of Hong Kong. At its founding, twelve companies came on board. Membership was granted only to companies, not individual agents. Today, the association remains as one of the city's oldest trade groups.

The position of chairman was not established until 1919; the first vice-chairman was named in 1942. Every year, member firms took turns to take the association's helm.

During its first few decades, the association's agenda was light, comprised mostly of charity functions and industry-wide social events intended to develop business opportunities. Some of the group's most important tasks were setting the fire premium rates in Guangzhou and submitting comments on the Macanese government's insurance regulations.

As soon as the association resumed business after the Japanese occupation, it set up a sub-committee to handle matters related to fire products. In the postwar years, the group played an important part in providing smaller member firms with a mechanism for reinsurance.

Over the last half century, the group has remained close to its mission: to defend members' rights and interests. It has also played an active role in improving professionalism and the quality of service within the industry.

The Insurance Industry during the Japanese Occupation

After 1937, when the Mainland fell into the grip of defensive warfare against the Japanese, the development of insurance (and of all other industries) was stunted. Meanwhile, insurance continued to flourish in Hong Kong; combined annual sales in between 1938 and 1939 were more than $300 million. That was until 1941, when the Japanese invaded the colony as well. During a takeover that lasted three years and eight months, all businesses withered.

As soon as the Japanese took control of the colony, all foreign insurers saw their assets liquidated, while the Chinese-owned firms were ordered to carry on business as usual. However, the business climate was unusually trying. According to a brief company history

Fig. 2.14
The Japanese occupation dealt a blow to all industries in Hong Kong, including insurance.

compiled by Sincere, citizens in occupied Hong Kong lost faith in the future and were far more concerned about staving off hunger and staying alive than taking out life policies. On top of that, they were forced to trade in their dollars for Japanese military yen.

Fortunately for Sincere, most of its assets were in real estate and were spared from liquidation.

Its peer, Wing On, also toughed out the occupation period. After the war, the military yen became worthless. Yet, Wing On still accepted premium payments in yen. The insurer wrote off its losses and won praise from clients.

Conclusion

Future Prospects of Hong Kong's Insurance Industry

> **The insurance industry under the strong contribution from the life sector has achieved tremendous growth over the past twenty years. The annual premiums from both general and life insurance have increased fifteen times from $13 billion in 1988 to over $200 billion in 2007, now representing over 10% of the Hong Kong gross domestic product. The importance and value of insurance are now being recognized by the community. The industry provides risk and wealth management, appropriate protection and quality insurance solution to Hong Kong whether they are individual or groups, commercial, industrial SMEs or corporations.**
>
> **Insurance has become a vital pillar of Hong Kong's financial service industry and a major economic sector employing more than 100,000 people. The HKFI, as a trade association representing 136 insurers, is proud to see its mission of promoting insurance making significant progress over the years.**
>
> **While our industry prospers and thrives, we have never deviated from our firm commitment to actively practicing self-regulation.**
>
> — Agnes Koon, *The Story of The Hong Kong Federation of Insurers*

The Insurance Sector's Contribution to the Economy

The reform and opening up of China in the 1980s set off a rapid transformation of Hong Kong's economy. Where manufacturing had once been king, the services sector became dominant. In 2007, manufacturing accounted for a mere 2.5% of GDP (as opposed to 70% in 1970), while services in 2007 accounted for 92.3% of the economy. Within the sector, finance, insurance, real estate, and business services were the most important producers, delivering 29% of GDP.

In 2008, the insurance sector generated $188 billion in gross premiums, amounting to about 12% of GDP, and it employed 46,000 people, 1.3% of the SAR's workforce.[1]

As a pillar of the financial services sector, the insurance industry offers long-term, general, and comprehensive products. From 1982 to 2007, Hong Kong's GDP expanded by 7.2 times, whereas gross premiums over the same period grew by 42 times. The penetration rate, meanwhile, grew from 2.5% to 13.6%, a spectacular surge.

The Basic Characteristics of Hong Kong's Insurance Industry

(1) A plethora of insurers and concentration of market share

At the moment, Hong Kong is one of the most liberalized and saturated insurance markets in the Asia-Pacific region—and, indeed, in the world. As of July 2010, Hong Kong had 170 authorized insurance companies, with 104 in general business, 46 in long-term, and the balance in composite. Fully 88 insurers are registered domestically, with the remainder in 22 different nations. Bermuda, Britain, and the United States are the most popular countries of incorporation, accounting for more than a quarter of all registrants.

Meanwhile, there is a high level of concentration in market share. Take the life market as an example. In 2007, the ten largest life insurers in Hong Kong took up 74% of the market, leaving the balance for thirty-seven insurers to carve up. As a rule, insurance companies compete on prowess of capital and reputation, so the nature of the business naturally favours the behemoths. But the large number of small to medium-sized insurers in Hong Kong means that there was room for survival as smaller fish in the pond, but only for so long.

As the government raised the bar for new entrants in the 1980s and as industry players were reshuffled by the global M&A mania of the 1990s, it became a game of survival of the fittest. The number of insurers in Hong Kong thus began to dwindle.

(2) High density and penetration

In 2007, the density of insurance in Hong Kong was US$3,373.3. That ranked the city No. 1 in Asia and No. 13 worldwide. And with a penetration rate of 11.8%, Hong Kong ranked No. 3 in Asia and No. 16 worldwide. ('Density' is the average insurance premium per capita; 'penetration rate' is the ratio of total premiums to GDP.)

Many international insurers also have ventured into the Hong Kong market since the handover. During the first post-handover decade, total gross premiums for the industry as a whole nearly tripled, from $52 billion to $188 billion in 2008.

(3) The life market rules

Since the mid-1980s, as factories headed north en masse and the services sector took off, the impact on the insurance market has been enormous. Demand for marine, fire, and employees' compensation products fell off a cliff, while the market for life products surged. By some estimates, premium income for general business rose 6% from 2004 to 2008, while premium income for life skyrocketed by 65%, from $98.4 billion to $162 billion, during the same period.

(4) Investment-linked products raise risks

The Mandatory Provident Scheme launched by the government in 2000 unleashed a rush of hot money into the stock market and a flood of public interest in investment-linked insurance products. As the financial meltdown of 2008 has shown, the risks associated with many of these derivative products were ill understood, even by investment professionals.

The conundrum for insurers of how to strike a balance between product innovation and policyholder protection remains.

(5) Dual supervision

Hong Kong's insurance sector is one of the few in the world that operates primarily on a self-regulatory basis, complemented with some degree of government supervision. Professional standards for practitioners are consistently raised to safeguard policyholders' interest. In 1990, the government broke its *laissez faire* mold and set up the Office of the Commissioner of Insurance to extend its supervision over the industry.

More recently, in 2009, a policyholders' protection fund was proposed to enhance protection for policyholders in the event of an insurer's insolvency, to help bolster public confidence in the insurance industry, and to promote the general stability of the insurance market. The proposal is currently under consultation.

This dual supervision system has its pros and cons. The obvious advantage is that the relationship between government regulators and practitioners is based on trust and transparency. This maximizes freedom and helps cut down the cost of doing business. The problem is that at times it is unclear who is, indeed, policing the industry.

Johnny Chen
CEO, Greater China/Southeast Asia, the Zurich Insurance Co. Ltd.
Joined the industry in 2005.

Hongkongers the ultimate risk-takers: Hong Kong policyholders don't give a damn about the protection value of life contracts; all they care about are the savings and investment yield. And they demand high returns for the high risks they dare to bear. So it's not a surprise to see that the first life policy for local policyholders is linked to high-risk investment options. They're more preoccupied with short-term returns and less concerned about future protection.

> *But after the baptism of fire that was the financial tsunami of 2008, I believe that insurers and policyholders alike are keen to go back to the basics, preferring products that guarantee savings and protection, albeit with lower returns.*
>
> *The Hong Kong edge: The high penetration of insurance coverage has much to do with the city's sound legal system. Hong Kong is an international city that employs a good chunk of the footloose global workforce. But these migratory workers, either here for the long haul or on short-term assignments, tend to choose to take out a life policy here and keep it long after they've returned home—all because they have faith in the legal and insurance system here.*

Looking Ahead

Hong Kong's insurance sector has weathered the ups and downs of more than a century and can boast an impressive record of development. New developments in 2009, namely the new requirements of Merchant Shipping (local vessels) (Compulsory Third Party Risks) Insurance and Building Management (Third Party Risks) Insurance, will serve only to further growth.

To be sure, teamwork and network management are just as crucial to future growth. Victor Fung, chairman of Li & Fung Ltd. and a world-famous proponent of supply-chain management, once wrote: 'Executives of insurance enterprises are becoming aware that successful coordination, integration, and management of key business processes across members of their supply chains will ultimately determine their competitive success. Insurance intermediaries/brokers increasingly realize that they no longer compete as solely autonomous entities. Instead, competition occurs more and more among entire supply chains. And they also know that they cannot produce an overall insurance solution without addressing the entire supply chain of their customers.'[2]

In November 2002, the Hong Kong government's Census and Statistics Department released the Thematic Household Survey Report No. 9, part of which includes a survey on insurance needs and opinions on insurance services. According to the survey, 'over half (52%) of the persons who had purchased insurance policies before indicated that they were quite satisfied/very satisfied with the insurance services received while 4.6% indicated that they were quite dissatisfied/very dissatisfied. Another 43.3% gave an average rating'.[3] And at the same time, 'the percentage of persons aged 18 and over who had purchased their own life insurance policies increased with educational attainment. The respective percentages were 55.9% for persons with tertiary educational attainment; and 43.3% for those with secondary/matriculation educational attainment'.[4]

It is evident from the survey that Hong Kong people at large hold a positive view of the industry and that their demand for products rises as they become more educated. All this bodes well for future development, especially in the life sector.

(1) Room for growth in private medical insurance

Most people in Hong Kong rely on the public health care system, which is funded mostly by taxpayers but heavily subsidized by government dollars. The services are very affordable, compared with private health care, and of high quality. However, private health care remains too expensive even for the middle class, so more and more increasingly seek out private medical insurance.

Meanwhile, as the public system is overloaded and costs shoot up, the government also has been exploring various schemes to encourage more people to take out medical coverage to pay for private care. Between late 2009 and early 2010, the government held two rounds of public consultation to solicit views on shoring up healthcare financing and mandating health insurance coverage.

In a February 2010 survey conducted by The Chinese University of Hong Kong which was based on a sample of 1,013 full-time employees, an overwhelming 80 percent of respondents supported a tax deduction for private medical insurance policyholders, and as much as one-third of those polled said this kind of deduction would entice them to buy medical insurance and rely less heavily on public health care. However, more than half were adamantly against any sort of mandatory medical savings scheme proposal, akin to the current mandatory scheme for retirement savings.

If the government implements a plan to offer substantial and meaningful financial incentives for more people to buy into medical coverage, this will portend a tremendous growth potential for the industry.

> ***Mike Lee***
> ***Vice President, Operations, MassMutual Asia Ltd.***
> ***Joined the industry in 1986***
>
> *The AIDS scare: Sometime around the late 1980s, more and more people came to recognize an incurable disease called AIDS. Because AIDS was highly infectious and at that time killing most of those who were infected, insurance companies got very nervous. So the HKFI quickly stepped up to the plate with a raft of recommendations. One of the most important was a provision subjecting all policyholders with US$250,000 or more in coverage to an HIV test. This really has helped the sector contain the risks of covering AIDS.*

(2) The emerging mainland market

Industry practitioners have been eyeing the huge mainland market and its rising living standards and, hence, demand. On 29 June 2003, the central government in Beijing and the Hong Kong SAR government signed off on the Closer Economic Partnership Arrangement (CEPA), their first free-trade agreement. Effective on 1 January 2004, the CEPA waives all customs taxes on Hong Kong goods shipped to the Mainland and permits all locally registered insurance companies to 'form strategic partnerships in order to enter the mainland insurance market subject to certain established market-access conditions' and ‘all Hong Kong residents with insurance qualifications to work in the mainland’s sector’. In one of the five CEPA supplements, permission was given for insurance intermediaries to attain mainland qualifications by sitting for examinations in Hong Kong and for Hong Kong agencies to set up wholly owned companies on the Mainland to provide agency services to mainland insurance companies.

Furthermore, the Hong Kong Monetary Authority (HKMA) and the People’s Bank of China jointly agreed in July 2010 to lift the limit on Hong Kong residents’ purchase of yuan-denominated wealth management products. This promised to open up the yuan-denominated markets on Hong Kong insurers. Already, the Life Insurance Council’s Renminbi Life Insurance Products Working Group has completed its proposal to launch annuities and other life products in the Mainland, pending further discussion with both HKMA and the OCI.

Another important development concerns the release of the Outline of the Plan for the Reform and Development of the Pearl River Delta (2008–2020) by the Beijing government’s National Development and Reform Commission.

Its significance lies in the fact that for the first time, the central government folded Hong Kong and Macau into the planning framework for the Pearl River Delta region. In the outline, it says that ‘the state will encourage [Guangdong Province, Hong Kong, and Macau] to realize joint development of the cross-border logistics, convention and exhibition, cultural, and tourism industries; will heighten their mutual recognition of the professional qualifications for the banking, securities, insurance, appraisal, accounting, law, education, and medical service industries in order to create the conditions for developing service industries’.[5]

(3) Growing appeal of long-term assurance schemes

Long-term products, in particular those with an investment components, have been gaining popularity among policy-holders in recent years. Meanwhile, such products, commonly known as investment-linked assurance schemes (ILAS), have grown increasingly sophisticated and complex, befuddling many brokers and consumers.

In light of the financial tsunami of 2008, the OCI urged providers of ILAS products to be more equipped with financial knowledge in order to advise their clients properly. To that end, the agency introduced the Investment-linked Long Term Insurance Examination on 1 March 2010 for all those practitioners with less than seven years of documented experience in selling long-term products. In the same breath, insurers were advised to strengthen internal control over sales of long-term investment-linked products in order to minimize litigation risks.

(4) The rise of independent regulatory regime

In July 2010, the government's Financial Services and the Treasury Bureau unveiled a proposal to install an independent regulatory body to oversee the industry, thus following a well-established international practice. It is proposed that this new insurance authority, first considered in the mid-1990s, will replace the current, government-controlled Office of the Commissioner of Insurance.

The authority will be operationally independent from the government and financially self-sustaining. The proposed authority will have a staff of 237 people and an annual budget of $240 million, to be supported solely by licence fees paid by insurers and salespersons and a 0.1 % levy on insurance premiums paid by policyholders.

The authority, expected to be up and running by 2013 at the earliest, will licence all insurance brokers working for both banks and insurance firms but is empowered to preside over complaints and investigations only concerning insurance companies and their agents. The HKMA will have the power to investigate insurance complaints against the 18,000 bank-based brokers who sell about 30% of all insurance policies issued annually.

The new Insurance Authority will replace the current regime, which is to a large extent self-regulatory. At present, three non-statutory industry groups — the Hong Kong Federation of Insurers (HKFI), the Hong Kong Confederation of Insurance Brokers (HKCIB) and the Hong Kong Professional Insurance Brokers Association (HKPIBA) — are vested with limited investigatory and sanctioning powers. Government officials believed that this proposed regulatory body will help supervise this industry in a uniform, professional manner, while eliminating once and for all any appearance of conflict of interest.

In addition, the government proposed setting up a statutory appeals tribunal to handle appeals against decisions or penalties handed down by the Insurance Authority. An independent process review panel will be established to review internal operating procedures to ensure consistency and fairness as the new authority carries out its mandates.

The government solicited public comments on the proposal from July till October 2010 with plans to introduce the bill to establish the proposed regulatory body to the Legislative Council by 2011.

Clement Cheung
Commissioner of Insurance (2006–2009)
Hong Kong SAR

Over the past decade, Hong Kong's insurance industry has been growing steadily and rapidly providing career opportunities for many capable and aspiring professionals.

Globally, most multinational financial institutions now have business interests in many pies and so they face myriad risk factors in an increasingly complex investment environment. Take AIG, the global conglomerate, as an example. Its Asia-Pacific insurance operations have always been smooth sailing yet its U.S. holding company was nearly sunk by its investments in the sub-prime mortgage and credit derivative products.

For Hong Kong's insurers, the best, even-keeled strategy is to keep one eye on the global market and the other on the vast untapped mainland market.

Notes

Chapter 1

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