
REGULATORY NEWSLETTER

2024 Vol.8



Welcome back to our monthly newsletter highlighting the best coverage of IA's latest regulatory updates and enforcement news. ComplianceDirect, as being your Compliance Consultant, will always be at your service, devotedly, diligently and duly providing our professional consultation and be your strongest support among any updates and changes of IA regulations.

REGULATORY UPDATES

GL32: Guideline on Group Supervision

5 July 2024

The GL32 is revised in view of the enactment of the Insurance (Amendment) Ordinance 2023 1 ("Amendment Ordinance"). Comments from designated insurance holding companies ("DIHC") have been considered during the revision process. Amendments to GL32 include, among other things, classification into majority shareholder controller and minority shareholder controller, and elaboration on the "fit and proper" criteria for shareholder controllers. We also take this opportunity to clarify IA's expectation of a director of a DIHC to be considered as an independent non-executive director. The revised GL32 shall take effect on 5 July 2024.

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Practice Note on the application of requirements in the insurance regulatory framework to specific services provided by licensed insurance brokers on investment choices and premium allocations under Investment-Linked Assurance Scheme Policies ("ILAS Policies")

5 July 2024

The IA issued its 'Practice Note on the application of requirements in the insurance regulatory framework to specific services provided by licensed insurance brokers on investment choices and premium allocations under Investment-Linked Assurance Scheme Policies ("ILAS Policies")' ("Practice Note"), with an effective date of 1 October 2024.

The Practice Note articulates the IA's expectations on the standards which have to be met by a licensed insurance broker company (and its personnel) to comply with the regulatory framework in relation to three specific types of regulated activities. The three specific types of regulated activities are: (i) execution-only services; (ii) advisory investment services; and (iii) discretionary investment management services. These services (as defined in the Practice Note) go beyond just introducing and arranging ILAS Policies, and extend to executing, advising or managing the selection of investment fund options and premium allocations by policy holders under ILAS Policies. These additional types of regulated activities, require an additional level of governance and controls (in the case of all three services) and investment knowledge and expertise (in the case of the advisory investment services and discretionary investment management services).

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Reference Checking Scheme for Insurance Intermediaries launched by The Hong Kong Federation of Insurers

5 July 2024

The IA refers to reference checking scheme for insurance intermediaries ("the Scheme") launched by The Hong Kong Federation of Insurers ("HKFI") by its circular dated 5 July 2024 to be used by its members which are authorized insurers carrying on long-term business ("Long Term Insurers") from 1 September 2024 onwards. The Insurance Authority ("IA") hereby endorses and supports the Scheme.

The Scheme is the practical result of much in-depth consultation and discussion, led by the HKFI, between Long Term Insurers, intermediary representatives and the IA and our thanks go to the industry for the determination shown in bringing this to fruition. It serves as a visible manifestation of the collective responsibility of insurers, insurance intermediaries and the IA to uphold and reinforce professional standards of conduct and underpin Hong Kong's insurance market with trust and confidence.

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Fees for insurance intermediary licensing applications and related notifications payable on and from 23 September 2024

31 July 2024

The IA confirmed that, from 23 September 2024 onwards, it will charge fees for processing insurance intermediary licence applications and related notifications.

The fees to be charged are set out in [Annex 1](#) and are the same as those stated in the consultation conclusions issued to all relevant insurance industry bodies on 29 February 2024. These fees have now been implemented through amendments to the Insurance (Prescribed Fees) Regulation (Cap. 41B).

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ENFORCEMENT NEWS

Insurance Authority bans Chan Hung Fei from applying for a licence within 34 months due to misappropriation of premium payments

12 July 2024

The IA banned Chan Hung Fei (Mr Chan) (Licence number: IF5069) from applying for a licence within 34 months due to misappropriation of premiums paid by two policy holders.

In 2013 and 2014, Mr Chan sold insurance policies to two individuals with whom he had been acquainted for over ten years respectively. Contrary to the internal guidelines promulgated by his principal (AXA) ¹, he allowed premiums totaling HK\$36,093 to be paid into his personal bank account between 2019 to 2021 without passing them to AXA in a timely manner. Furthermore, he did not disclose to those individuals the true status of their policies and when premium payments were due, causing the policies to lapse.

When the two individuals eventually filed complaints to AXA, Mr Chan returned all the relevant premiums that led to successful reinstatement of the policies and provided reimbursement of medical expenses incurred by one of the affected individuals. Since critical illness policies were involved, the individuals could have been exposed to the unnecessary risk of not being protected when hit by a serious medical condition and of not being able to obtain replacement coverage from other insurers.

There may well be a natural tendency for people to approach intermediaries with whom they have family connection or personal relationship when acquiring insurance policies, but this does not absolve the intermediaries from their obligation to adhere with the professional discipline and ethical standards set out under our regulatory framework. At the same time, policy holders should remember that premium payments should be settled via official channels of the insurer.

This case demonstrates yet again that members of the public place heavy reliance on licensed insurance intermediaries for impartial guidance and advice. Trust and confidence form the foundation of a sustainable insurance market and are important factors that enable insurance to fulfil its social

functions.

In deciding on what disciplinary actions under the Insurance Ordinance (Cap. 41) should be taken, the IA has considered the fact that Mr Chan returned all the relevant premiums in full (albeit some two years after the act of misappropriation), his admission to the misconduct and cooperation with the IA, as well as the need to achieve a strong deterrent effect.

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The Securities and Futures Commission and the Insurance Authority joined forces to tackle cross-sector irregularities

26 July 2024

The SFC and the IA have joined forces to tackle suspected irregularities concerning the investment portfolio of Tahoe Life Insurance Company Limited (Tahoe Life).

The announcement made by the IA today (26 July 2024) to appoint Joint and Several Managers to take full control of the affairs and property of Tahoe Life ¹ represents the outcome of patient and assiduous work done over the past four years. Back in May 2020, the IA sought assistance from the SFC on information regarding certain investments made by Tahoe Life. Subsequent inspections carried out by the SFC on a few licensed fund managers revealed that the assets in question held by Tahoe Life were channelled into financial instruments linked with a related party on the Mainland.

The SFC launched its own investigation, and conducted a joint operation with the IA on an SFC licensed fund manager in June 2021, the first of its kind since the two regulators signed a Memorandum of Understanding (MoU) in September 2020. The SFC subsequently took disciplinary action against the fund manager ². The SFC and the IA will continue with the efforts to foster a compliance culture in the financial industry that enshrines the highest standard of professionalism and integrity.

“This united effort highlights our shared dedication to upholding the integrity of Hong Kong’s financial markets by ensuring no misconduct putting investors in harm’s way falls through the cracks between different regulators,” said Ms Julia Leung, the Chief Executive Officer of the SFC. “As close partners, the SFC and the IA will continue to work closely to ensure resilience, accountability and trust are firmly embedded in the financial sector,” Ms Leung added.

“The IA expresses deep appreciation to the SFC for providing valuable support during an investigation on related party transactions entered into by Tahoe Life. This bears testimony to the efficacy of the MoU in protecting the interest of policy holders and the image of Hong Kong as an international financial centre,” said Mr Clement Cheung, Chief Executive Officer of the IA.

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