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# REGULATORY NEWSLETTER

2023 Vol.1



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## Happy New Year and Kung Hei Fat Choy!

2023 comes with the good news of reopening of the city's border. While we are stepping into the year of rabbit – 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 2023 with our Regulatory Updates from the IA!

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## REGULATORY UPDATES

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### Conduct in Focus

16 December 2022

The latest edition of the Insurance Authority's ("IA") periodical, "Conduct in Focus" has been published and is now available on the IA's [website](#).

Conduct in Focus presents statistics and commentary on complaints received by the IA and examines topical regulatory issues regarding the way in which insurance business is conducted. In this issue, we present the statistics for complaints received by the IA for the first three quarters of 2022.

The Practice Section is dedicated to the importance of the Continuing Professional Development ("CPD") requirements. The IA draws your attention in particular the "CPD Non-Compliance League Table". This is a list of the top 10 principals with the highest percentage of CPD non-compliances across their

appointed individual licensees in the CPD Assessment Period 2021/2022. If your company is named on this list, it is not good thing! The IA publishes this list in the spirit (rather like pillar 3 of the risk-based capital regime) of facilitating, through disclosure and transparency, improved market discipline on CPD attainment and the adoption of the best practices on CPD governance and controls referenced in the article. The principals on the list can expect further follow up from the IA on this issue.

In the Policyholder corner, the IA discusses the insurance literacy rate in Hong Kong and explain how the issue of insurance literacy relates to improving insurance inclusiveness across society. The IA also draws public attention to a particular spin on the use of insurance-related fraudulent websites they have come across in their supervision work and provide tips on how to identify these types of scams.

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## **Continuing Professional Development (“CPD”) requirements Disciplinary actions for Combined Assessment Period 2019/21**

**19 December 2022**

On 16 December 2022, the IA issued our circular publishing our latest edition of Conduct In Focus which included the “CPD Non-Compliance League Table” by principal for the 2021/22 CPD Assessment Period. The IA is following this up to notify you of the progress on the enforcement actions being taken for the previous Combined Assessment Period from 23 September 2019 to 31 July 2021 (“Combined Assessment Period 2019/21”).

The Combined Assessment Period 2019/21, the first since the IA took on the regulation of insurance intermediaries, included a number of concessions due to the impact of COVID-19. These concessions included combining the two assessment periods of 2019/2020 and 2020/21 into one and allowing a three-month lee-way after the end of the period up to 31 October 2021 for individual licensees to make good any shortfall in CPD hours either to avoid any pecuniary penalty altogether (if the shortfall was less than 50% of CPD hours) or to avoid the penalty escalating to suspension and revocation (if the shortfall was more than 50% of CPD hours). Despite these concessions, the number of CPD non-compliances for the Combined Assessment Period (although not as many as for the subsequent 2021/22 year), was still significant and this is reflected in the enforcement actions being taken.

The IA has already emphasized on multiple occasions the responsibilities of principal insurers, broker companies and insurance agencies to have in place adequate controls to ensure their appointed individual licensees comply with CPD requirements. This must include robust controls to ensure individual licensees submit a completed CPD Declaration Form. For the Combined Assessment Period 2019/21, of the 930 licensed insurance intermediaries who failed to submit a completed CPD Declaration Form, the IA’s investigations revealed that 49 had in fact complied with the CPD requirements. Principals could have assisted in easing the administrative burden of uncovering this by taking steps to ensure the

CPD Declarations were submitted in the first place.

Details of the disciplinary actions and the individual licensees concerned may be searched on the [Register of Licensed Insurance Intermediaries](#) on the IA's website (using the search function for the date of the disciplinary actions). For further information on the IA's enforcement work, please see the "Enforcement News" section of the IA's website.

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## **Findings of Mystery Shopping Programme on Selling Practices in respect of Qualifying Deferred Annuity Policies and Tax-deductible Voluntary Contributions in Hong Kong**

**23 December 2022**

As previously announced in the joint circular of 29 December 2021, the Insurance Authority (IA), the Mandatory Provident Fund Schemes Authority (MPFA) and the Hong Kong Monetary Authority (HKMA) (together "the Regulators") had jointly conducted a mystery shopping programme (MSP) earlier in 2022 to help understand the selling practices of intermediaries in respect of Qualifying Deferred Annuity Policies (QDAP) and Mandatory Provident Fund Tax-deductible Voluntary Contributions (TVC) in Hong Kong. A service provider was engaged to undertake the MSP<sup>2</sup>. The key objectives of the MSP were to facilitate the Regulators to gain insights into how QDAP and TVC are being marketed as well as to identify areas for improvement and good practices for sharing with the industry as appropriate. The Regulators also look forward to raising the industry's awareness and promoting a sound culture relating to the sale and marketing of QDAP and TVC among insurers and intermediaries.

The MSP covered a number of areas, including the know-your-customer procedures, financial needs analysis (as applicable to QDAP), suitability of recommendations, product and risk disclosure. This circular aims to share the key findings of the MSP and reiterate the importance of complying with all applicable regulatory requirements.

Save for certain aspects and some isolated samples which showed room for improvement, the intermediaries were generally in compliance with the relevant regulatory requirements according to the MSP findings. Intermediaries should ensure that the product introduced or recommended is appropriate or suitable for the customer's circumstances, and provide accurate and fair information of QDAP and TVC to the customer. Details of the findings in respect of the sale of QDAP and TVC are set out in [Annex I](#) and [Annex II](#) respectively. The industry should take into account the findings and review their policies and internal controls in respect of sales process, staff training, compliance checking and other relevant internal controls, so as to adhere to the principles of treating customers fairly and acting in customers' best interests.

The Regulators will take into account the findings of the MSP in formulating supervisory plans and related measures. The Regulators will also follow up the findings with the insurers and/or intermediaries

concerned as appropriate and require them to take actions to address the issues noted as applicable. The Regulators will continue to monitor the industry's compliance with the relevant regulatory requirements in their on-going supervision.

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## **Amendments to the Guideline on Group Supervision (GL32)**

**31 December 2022**

The GL32 sets out the principles and standards for designated insurance holding companies in respect of their supervised groups on a wide range of areas including enterprise risk management, corporate governance, capital requirements and public disclosure. The revised GL32 has provided more guidance in respect of the public disclosure of additional information related to group capital adequacy, including:

- Group prescribed capital requirement (GPCR); Tier 1 group capital;
- Tier 1 group capital coverage ratio;
- Eligible capital resources coverage ratio; and
- Information on calculation methodology of group capital requirement, and material change in group minimum capital requirement (GMCR), GPCR, tier 1 group capital or eligible group capital resources from the previous period.

Comments from the industry have been incorporated into the [revised GL32](#) where appropriate. The revised GL32 shall take effect from 31 December 2022.

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