

30 November 2022

By Email

To: Responsible Officers of all licensed insurance broker companies

Dear Sirs,

Common findings from on-site inspection and off-site monitoring

Since the commencement of the direct regulatory regime for insurance intermediaries on 23 September 2019, the IA has been conducting on-site inspections on licensed insurance broker companies, pursuant to its powers under the Insurance Ordinance (Cap. 41) (“IO”). The IA has also been reviewing the audited financial statements and compliance reports submitted by broker companies each year.

Our inspection work provides us with the opportunity to address with a broker company issues identified on its controls and governance regarding compliance with regulatory requirements in the practical context of the company’s operations (and to discuss these issues with frontline technical representatives). Our offsite supervision work compliments this, by enabling us to follow up on rectifications of matters highlighted by a broker company’s auditors and also to identify trends on non-compliances or other conduct indicators emerging from a holistic review of all financial statements and other reporting (such as CPD declarations), that may require increased regulatory focus going forward. All of this is standard conduct supervision work, aimed at ensuring issues are identified and corrected in advance so as to prevent problems arising, thereby promoting and reinforcing proper standards of conduct.

Annex 1 - Comprehensive report on common issues requiring improvements and sharing of good practices

Through our conduct supervision work over the past three years, we have observed a reduction in the number of non-compliances in relation to certain key requirements applicable to broker companies identified from the auditors’ compliance reports submitted to us.

At the same time, however, in our inspection work we have observed certain specific common areas where it would benefit broker companies generally to pay more attention and assess whether their existing controls and governance are adequate or need strengthening. In order to assist broker companies in this respect (and with the approach of “prevention being better than cure” very much in mind) we include in Annex 1 a comprehensive report on these common areas, along with good practices observed for controls and governance to address these issues. Broker companies should consider these common areas in the context of their operations and make improvements and rectifications to their controls and governance as deemed necessary.

Annex 2 - Specific report on new requirements being phased in

Annex 2 to this circular specifically relates to the Savings and Transitional Arrangements in the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules (Cap. 41L) (“Broker Rules”). These Savings and Transitional Arrangements serve to phase in certain of the new requirements in the Broker Rules which are different from those under the previous self-regulatory regime (with regards to audited financial statements, share capital/ net assets and professional indemnity insurance), so as to give broker companies which were subject to the previous regime sufficient lead-in time to make changes to their processes to bring themselves into compliance with the new requirements.

In Annex 2 we report on the progress observed by broker companies generally on meeting the new requirements as they are being phased in (in relation to the requirements which have now been phased in). Broker companies should pay particular attention to these because in relation to certain requirements which have been phased in, substantial improvement is certainly needed in some cases (and the deterrent of enforcement action is likely to be deployed to enforce this).

Annex 2 also reminds broker companies of the requirements to be phased in as from 1 January 2024 (paid-up share capital/ net assets increasing from HK\$300,000 to HK\$500,000; and the introduction of a maximum deductible requirement under the professional indemnity insurance policy) so that advanced arrangements can be made to meet these requirements.

Concluding remarks

Responsible officers of licensed insurance broker companies are, of course, required to use their best endeavours to ensure that the companies for which they are responsible have established and maintain proper controls and procedures for securing compliance with all applicable requirements. We trust that sharing our comprehensive observations in Annexes 1 and 2 with you will provide you with the opportunity to revisit the adequacy of your controls and procedures to address the observations highlighted.

Should you have any questions about this circular or the matters raised in Annexes 1 and 2, please contact us via brokers@ia.org.hk.

Yours faithfully,

Peter Gregoire
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General Counsel
Insurance Authority

c.c. Professional Insurance Brokers Association
The Hong Kong Confederation of Insurance Brokers