



# CONDUCT IN FOCUS

Insurance Authority

May 2021

2<sup>nd</sup> Issue

## CONDUCT IN FOCUS

Conduct In Focus is a periodical publication which presents statistics and commentary on complaints received by the Insurance Authority (“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 both the full year 2020 and the first quarter 2021.

In our Practice section, we take a look at the regulatory issues which emerge when licensed individual insurance agents promote insurance products in public places from temporary booths or retail outlets.

We also introduce “Policyholder Corner”, to provide insights to the insurance-buying public on lessons to be learned from the complaints and regulatory issues we see.

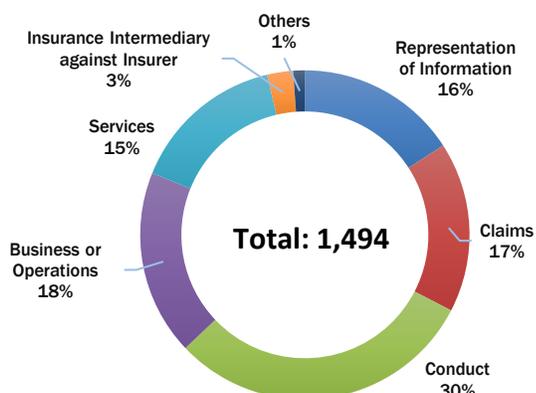
**Peter Gregoire**  
General Counsel &  
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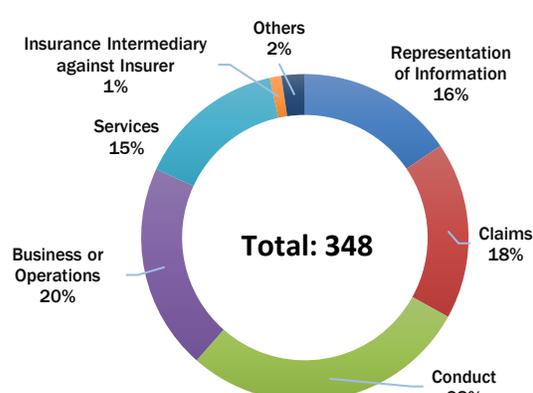
# Complaint Statistics

## Complaints received by the IA by category

from 1<sup>st</sup> January 2020 to 31<sup>st</sup> December 2020



from 1<sup>st</sup> January 2021 to 31<sup>st</sup> March 2021



The IA received **1,494 complaints** during the period from 1<sup>st</sup> January to 31<sup>st</sup> December 2020, and **348 complaints** during the period from 1<sup>st</sup> January 2021 to 31<sup>st</sup> March 2021. In terms of category, the most significant number of complaints were received in the category of “conduct”.

### Explanation of Complaint categories

**Conduct** – refers to complaints arising from the process in which insurance is sold, the handling of client’s premiums or monies, cross-border selling, unlicensed selling, allegations of fraud, allegations of forgery of insurance related documents, commission rebates and “twisting” (i.e. insurance agents inducing their clients to replace their existing policies with those issued by another insurer by misrepresentation, fraudulent or unethical means).

**Representation of Information** – refers to complaints relating to the presentation of an insurance product’s features, policy terms and conditions, premium payment terms or returns on investment, dividend or bonus shown on benefit illustrations, etc.

**Claims** – refers to complaints in relation to insurance claims. The IA cannot adjudicate insurance claims or order payment of compensation. It can, however, handle complaints related to the process by which claims are handled (e.g. delays in processing, lack of controls or weaknesses in governance, areas of inefficiency in the claims handling process).

**Business or Operations** – refers to complaints related to business or operations of an insurer or insurance intermediary (e.g. cancellation or renewal of policy, adjustment of premium, underwriting decision, or matters related to the management of the insurer, etc.).

**Services** – refers to complaints regarding insurance related servicing by insurers or intermediaries, such as complaints related to the delivery of premium notice or annual statement, dissatisfaction with services standards etc.

## Update on Enforcement

In our last issue of Conduct in Focus we announced the establishment of the IA’s Disciplinary Panel Pool (“DPP”), from which members will be drawn to form three-member Disciplinary Panels to decide disciplinary cases on behalf of the IA. The DPP forms a key part of the IA’s disciplinary process which is designed to be impartial, objective, fair, efficient and robust. Disciplinary Panels have now been formed and the first disciplinary cases are currently under consideration.

## Practice

### The word on the street...temporary booths and retail outlets

*In the second half of 2020, a trend was noted in the number of licensed individual insurance agents promoting insurance products in public places from temporary booths or from recently vacated street-level retail outlets. Comments received through our complaints and other channels on this activity, prompt us to remind licensed individual insurance agents and their appointing insurers to be vigilant with regards to the following issues:*



#### Use only pre-approved marketing materials

The use of “self-made” marketing materials and banners (e.g. banners/materials created by the individual agents themselves without being approved by their appointing principal) was observed in certain booths or retail outlets which were brought to our attention. Often these self-made materials were positioned prominently outside the booth/shop to catch the eye of passers-by, or were in the form of flyers handed out to pedestrians, and they generally does not bear the company logo of the appointing principal. The materials tended to make bold, high-level comparisons regarding the returns offered under the insurance product being promoted as compared with other “investments” (such the I-Bond, bank deposit,

car-parking spaces, or even the property market). Clearly designed to “hook” the attention, in isolation the contents of these materials could potentially be misleading and (on enquiry) many of these materials had not been approved by the insurance agent’s appointing insurer. In accordance with Standard and Practice 1.1(c) of the Code of Conduct for Licensed Insurance Agents, a licensed insurance agent is required only to use materials supplied or approved by its appointing insurer or appointing agency, when advertising, marketing or promoting an insurance product. A non-compliance with this requirement could result in the insurance agent being guilty of misconduct.



#### The vital need for professionalism....not pushiness

There is a big difference between politely catching the eye of a pedestrian and engaging them in conversation on insurance, and standing in a pedestrian’s way and blocking their path until he or she has heard what you have to say. The latter kind of pushy sales tactics will often result in a complaint to the regulator and the insurance agent in question being investigated for misconduct. Pushy sales behaviour is unethical and erodes the insurance industry’s image for trust. Don’t do it! It is also

important that licensed individual insurance agents be open about what they are promoting from the outset. Offering the gift of a free face-mask and pretending that you are only there to do a survey (which is not related to insurance) to get the customer’s attention, and then when the customer’s attention is “hooked” in this manner, switching to promote insurance, can hardly be called “treating the customer fairly”. Avoid these kind of questionable practices. Be professional and ethical at all times.



## The need for the prospective customer to make an informed decision

Always be aware that sale activities from booths or makeshift retail outlets are not conducive to offering the discussion time needed for prospective policyholders to understand the insurance product on offer and make an informed decision about the purchase. The customer should always be given the opportunity to make an informed decision - that is the golden rule. In accordance with Standards and Practices 2.2(b) and 5.2(a) of the Code of Conduct for Licensed Insurance Agents, when giving advice to a client, an insurance agent should provide the customer with adequate information in order to assist the him or her to make an informed decision and should provide all relevant information on the key features of each insurance product (e.g. major policy terms & conditions, exclusions, level of premium, fees and charges etc.) being recommended. If the customer needs more time to consider, let them have that time. Make another appointment if needed. Don't ever push a customer into buying a product they neither want nor need.

Marketing at short-term roadshow or makeshift booth can increase the reach of insurance intermediaries (and insurance) to members of the public. However, if such activities are not properly managed, they could lead to heightened market conduct risks. To mitigate the risks, appointing

principals are expected to put in place sufficient controls to ensure that all regulated activities are properly and ethically carried on by their insurance agents. Here are some good practices adopted by the appointing principals in the market:

### GOOD PRACTICES

- ✎ Provide compliance guidance and training to individual insurance agents before authorizing them to embark on these marketing activities, with clear "do's and don'ts" promote customer fair treatment;
- ✎ Make clear that only materials provided by or approved by the appointing principal may be used;
- ✎ Require prior notification to be given and approval to be obtained from agents before they embark on such marketing activities (particularly in relation to self-initiated activities);
- ✎ Maintain a register containing information on each booth or outlet or other platform at a public place utilized by your appointed insurance agents for monitoring and record-keeping purposes;
- ✎ Conduct regular site visits or even mystery shopping to ensure that the marketing activities are conducted in line with the internal standards and policies and in line with the principle of treating customers fairly.

When conducted professionally and ethically and when the customer's interest is put first, these street-level sales can be an effective way of making potential customers aware of the importance of insurance. However, the Market Conduct Division at the IA is alive

to the issues cited in this article and, on occasion, when passing by a booth or retail outlet may allow themselves to be drawn into discussion with the insurance agent....just to make sure the policyholder experience is as it should be!

## Introducing the “Corruption Prevention Guide for Insurance Companies” of the Independent Commission Against Corruption (“ICAC”)

To support the new regulatory regime for licensed insurance intermediaries, the “Corruption Prevention Advisory Service” (CPAS) of the Corruption Prevention Department of the ICAC has, in collaboration with the insurance industry, developed **the Corruption Prevention Guide for Insurance Companies** (the “Guide”). The Guide is a

- ☑ anti-bribery legislation,
- ☑ the essence of an anti-corruption business culture,
- ☑ elements of good corporate governance and effective internal control system,
- ☑ an overview of corruption risks and the corresponding safeguards in the core operations of an insurer, including management of insurance intermediaries, sales process, underwriting and claims verification procedures, etc; and
- ☑ case studies based on past corruption cases, frequently asked questions and red flags (indicating areas where management oversight should be strengthened).

The Guide can now be downloaded [here](#).

We also take this opportunity to introduce the CPAS, which provides **free, confidential** and **tailor-made advice** to private sector organisations on corruption prevention controls including the safeguards recommended in the Guide and arrangement of corruption prevention training, and in other common business areas such as procurement, inventory control and staff administration, etc.

CPAS maintains a user-friendly [web portal](#) which offers easy access to timely and useful resources on

Tel: (852) 2526 6363  
 Email: [cpas@cpd.icac.org.hk](mailto:cpas@cpd.icac.org.hk)  
 Website: <https://cpas.icac.hk/EN/>

practical reference for senior management and managerial staff of authorized insurers to assist them in ensuring compliance with the Prevention of Bribery Ordinance (Cap. 201) and entrenching a clean business culture in their companies and in the industry. It covers:

corruption prevention, such as corruption prevention guides and tools, case studies, quick tips as well as red flags.

To receive regular news and updates on corruption prevention (e.g. launch of new training packages), subscribe to CPAS’s email alert service by registering [here](#).

To find out more about the Guide and the CPAS, please contact CPAS through the following channels:-





## Policyholder Corner

*In Policyholder Corner, the Insurance Authority (“IA”) provides practical guidance to the public on buying insurance or dealing with insurance matters based on lessons learned from the complaints it receives.*

### **Buying insurance from intermediaries who are your friends and family**

The effective operation of the insurance market relies on the public having trust in the licensed insurance intermediaries and authorized insurers who sell insurance products and provide insurance related services. If you have a friend or a family member who is an insurance intermediary, surely it makes perfect sense to buy your insurance from them, right? After all, if you can’t trust your friends and family, who can you trust?

This makes a lot of sense and many authorized insurers appreciate this. They train their newly licensed individual insurance agents to sell to their family and friends first, because of the pre-existing relationship of trust which exists.

However, whilst there may be advantages to buying insurance through friends and family members who are insurance intermediaries, it is important for the public to be aware of the potential disadvantages of doing this, as demonstrated by some of the complaints we received.

Take the following situation as an example. An insurance agent, who is new to the industry and under pressure to meet her sales target, sells an insurance-linked assurance scheme policy to her uncle. The uncle works in construction industry and his income is not regular but dependent on the projects he is hired to do. Although the uncle is unsure whether he can afford the minimum monthly premium payments, he trusts his niece and wants to help her out in her new

insurance career, so he purchases the insurance policy. The uncle is able to make the premium payments for the first three years, but after that, because his construction work dries up, he cannot afford to continue to pay. He wants to surrender the policy. However, it is at this point he realizes that because of the minimum lock-up period term of his policy, if he surrenders the policy within the first ten years, he will bear a penalty for early surrender. This would result in him suffering a significant loss. The uncle complains to the IA against the insurer for including such a term in the insurance policy, but is unwilling to make any complaint against his niece for not drawing the term to his attention when he purchased it. His niece, as it happens, left the insurance industry after only 9 months and pursued a different career.

We see complaints like this from time to time. The root cause of the problem stems from the fact that the policyholder when buying the insurance from his/her family member, is not treating that family member as a professional insurance agent, but a family member. The purchase, is made out of a sense of family obligation rather than the insurance policy meeting the policyholder’s insurance needs.

We are not suggesting that you should not buy insurance from an insurance intermediary just because he or she happens to be your family member. However, we do advise that in this situation you should keep in mind the following 5 tips:

- ☺ Ignore temporarily the fact that you are related to the insurance intermediary. Instead, treat your relative insurance intermediary like any other professional who is not your family member.
- ☺ When you meet with the intermediary (your relative), in your mind draw a clear line between the part of the conversation where you are just catching up, and the part of the conversation when you are talking about insurance. When you are talking about insurance, forget the fact that the person is your relative. In that moment, he or she is an insurance intermediary. Treat them like one.

- ☺ Focus on your needs and not the needs of the insurance intermediary to whom you are related.
- ☺ Ask questions. Don't hold back. It is the insurance intermediary's job to answer them, irrespective of whether you are related. Remember, if the insurance intermediary does not carry out his or her role with care, skill and diligence, he or she may breach the IA's Codes of Conduct, guidelines or other applicable regulations. The IA will not refrain from taking disciplinary action just because of the intermediary is a family member of the policyholder.
- ☺ MOST IMPORTANT: Ask yourself: would you be buying this insurance policy if it wasn't your relative selling it to you? If the answer is "no", do not go through with the purchase.

### ***Beware of fake websites offering insurance***

COVID-19 has certainly been the impetus for the traditional insurance industry to "go digital". A by-product of this, however, is the need for the public to be alert to the possibility of scams using fraudulent insurance websites.

A particular scam which has been brought to our attention is where the fraudster creates a fake website seeking to impersonate a legitimate licensed insurance broker company. The broker company's name and business addresses shown on the fake website are identical to those of legitimate licensed insurance broker company. The other contact information (phone numbers and email addresses) are, however, different. Using the fake website to demonstrate legitimacy, the fraudster then seeks to pose as the broker company offering "too-good-to-be-true" products such as credit guarantee insurance on investments seeking to entice victims (particularly from overseas) to hand over premium.

Another scam we have seen is where the fraudster creates an entire fake website for a fictional insurer, offering seemingly legitimate insurance products which can be purchased online through the website.

The IA immediately alerts the public to such scams by issuing press releases when they are brought to our attention. Links to the latest press releases are shown below:



[https://www.ia.org.hk/en/infocenter/press\\_releases/20210305.html](https://www.ia.org.hk/en/infocenter/press_releases/20210305.html)

[https://ia.org.hk/en/infocenter/press\\_releases/20200925.html](https://ia.org.hk/en/infocenter/press_releases/20200925.html)

[https://ia.org.hk/en/infocenter/press\\_releases/20201111.html](https://ia.org.hk/en/infocenter/press_releases/20201111.html)

Such cases must also be reported to the Hong Kong Police Force for further investigation.

Members of the public should stay alert to such scams and can seek to protect themselves by taking steps to ensure they are accessing the official website of the authorized insurer or licensed insurance broker company in question.

You can do this by checking the contact information (including the official website addresses) on the Register of Authorized Insurers and Register of Licensed Insurance Intermediaries which can be accessed through the IA's website. The registers can be accessed at the following links:



For Authorized Insurers:

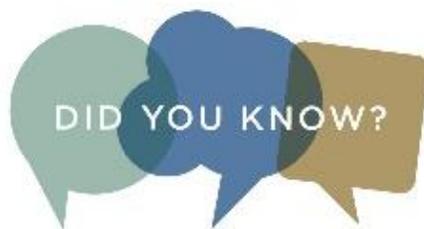
[https://www.ia.org.hk/english/supervision/reg\\_insurers\\_lloyd/register\\_of\\_authorized\\_insurers.html](https://www.ia.org.hk/english/supervision/reg_insurers_lloyd/register_of_authorized_insurers.html)



For Licensed Insurance Intermediaries:

<https://iir.ia.org.hk/#/index>

If you are in any doubt, you should also contact the authorized insurer or licensed insurance broker company directly using the telephone number or e-mail address shown on the registers on the IA's website.



## ... the difference between insurance agents and insurance brokers

- ☞ There are two different types of insurance intermediaries in Hong Kong: licensed insurance brokers and licensed insurance agents.
- ☞ Licensed insurance agents are appointed by (and represent) insurers. They are limited to promoting and arranging insurance policies on behalf of the insurers they represent. In general, they can only be appointed by a maximum of 4 insurers, of which no more than 2 can be life insurers. They are often remunerated by the insurers they represent by way of commission (being a percentage of the premium paid by the policyholder for the insurance policy).
- ☞ Licensed insurance brokers act for, advise and provide services to policyholders and potential policyholders. They advise potential policyholders on their insurance needs and source appropriate insurance policies from insurers to address those needs. They are not limited in the number of insurers they deal with, and can approach any number of insurers to source the most appropriate insurance for their client policyholder.
- ☞ Like insurance agents, when a licensed insurance broker company arranges an insurance policy for its client policyholder, the broker company is often remunerated by the insurer in the form of commission. However, because the broker company acts for the policyholder, it is required to inform the policyholder that it will receive such remuneration from the insurer. Further, the policyholder has a right to ask the broker company how much commission it will be paid, and on request the broker company will have to give disclosure on this.

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