

DEMYSTIFYING THE IA'S MYSTERY SHOPPING

CONDUCT IN FOCUS

COVER VIDEO

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ISSUE 11

CONDUCT IN FOCUS

Welcome to the 11th edition of Conduct in Focus!

In this issue, we take a closer look at the rise in complaints in the first half of 2025 and how the Insurance Authority ("IA") is performing against its commitment to conclude complaint cases within six months. We also unpack what specialist run-off insurance agencies are – how they operate and what rules they should follow to be licensed.

Next, we turn to offshore insurance, an area that deserves particular attention. We outline the risks and limitations of purchasing these products and highlight the regulatory requirements that brokers must follow when arranging them for customers. We then revisit cold-calling practices in the insurance industry. With the Mandatory Provident Fund Schemes Authority ending unsolicited telemarketing, we explore whether it is time for the insurance industry to follow suit. In addition, we share insight from our recent mystery shopping exercise on roadshow activities.

Finally, as insurance processes become more digital, our inspections have revealed some common system design flaws that may lead to non-compliant sales practices. To address this, we have prepared a separate supplementary article outlining these pitfalls and offering recommendations for improvement and prevention.

Hope you enjoy this edition!



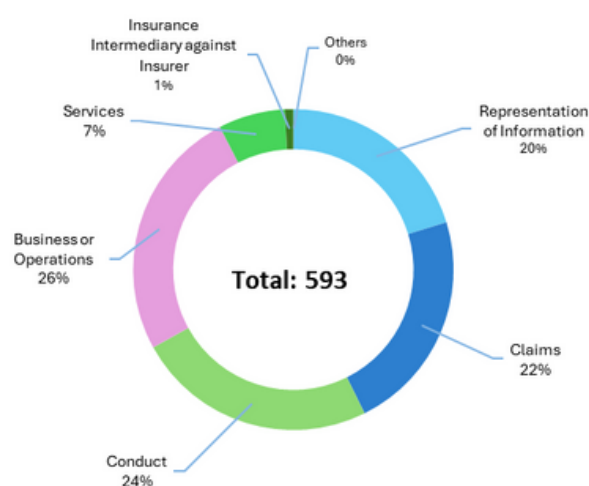
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COMPLAINT STATISTICS

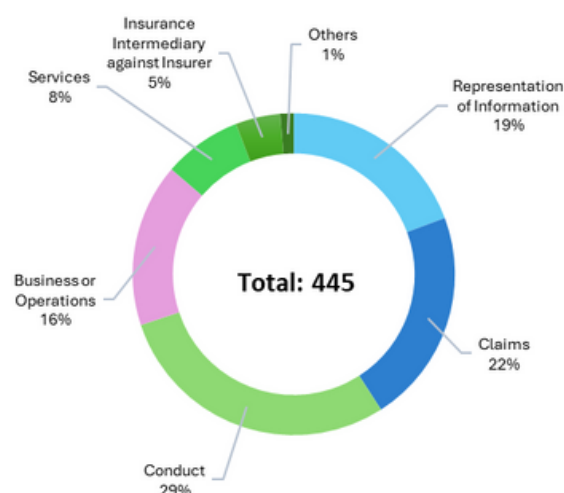
In this edition we present the complaints statistics for the first half year of 2025.

1 January to 30 June 2025 vs prior year

From 1 January to 30 June 2025



From 1 January to 30 June 2024



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. »

The statistics show a 33% increase in complaints to the IA during the first six months of 2025 (593 complaints), as compared with the same six months in 2024 (445 complaints) – an increase of 148 complaints in total.

In part, the increase was due to a rise “Business or Operations” complaints, a category which covers complaints about the operational procedures of insurers and intermediaries in effecting actions to insurance policies such as cancellations, surrenders, renewals and other administrative matters. Whilst no single root cause can be identified for these types of issues, a number of differing trends can be spotted in the statistics depending on type of action.

- For surrenders of long term insurance, by way of example, the steps that need to be taken to process a surrender request in the early years of a policy are necessarily more burdensome. This, can lead to consumer dissatisfaction in having to provide the information requested. These steps, however, serve as essential policyholder protection measures. They ensure policyholders understand the potential downside implications of the decision they are making and allow time for reflection. Insurers also need to manage the anti-money laundering risk that comes with early surrenders. The lesson here is that better communication on the reasons for requesting such information (as opposed to just making the requests) is needed. If this is coupled with high efficiency in processing the information once received and actioning the surrender, the level of grievance would be replaced by better understanding.
- Also, some complaints related to cancellation and renewal are about policies being cancelled by insurers, lapsation of policies and problems when handling the revival of lapsed policies. While the reasons for these complaints may vary, the overall increase generally suggests that policyholders are becoming more aware of the steps and requirements involved in these processes, as they now pay closer attention to their own policies rather than relying solely on intermediaries to handle everything.

Another drive of the increase can be put down to a correlation with the rise in Mainland China Visitors (“MCV”) to Hong Kong over the same period. MCV policyholders, when they visit Hong Kong, often take the opportunity to raise questions (at an insurer’s customer service centre) concerning insurance policies they purchased on previous visits. Typically, these complaints concern long term insurance policies and are indicative of the time-lag between a policy being sold, and issues emerging with the performance of the policy as the years elapse and annual statements are delivered. A number of these complaints concern policies sold in the years prior to the pandemic, at a time when MCV business was at its peak. The ongoing work by the IA in 2024 to 2025 to ensure standards of advice are upheld at the point of sale, and that insurance intermediary remuneration incentivizes ongoing servicing of policies as well as sales, aims to address the root cause of many of these issues.

It is also important to put these statistics in a wider context. Whilst the number of complaints in the first six months of this year shows a rise as compared to the same period last year, a longer term perspective shows a different trend. The 593 complaints received by the IA in first six months of 2025 is down 24% from the 778 complaints received in the first half of 2020 (a time of pre-pandemic levels of activity, to which the insurance market is now returning) and is indicative of a longer term structural trend towards improvement. »

In conclusion, the trends behind the snapshot comparison between the first six months of 2025 versus the same period in 2024, show different reasons for the one-year time-period increase, albeit this should be assessed in the context of a continued lower number of complaints when a wider 5 year time-period is taken. With that said, the increase over the one-year period, should serve as an important reminder of the need for continued vigilance. It is imperative that all insurers and insurance intermediaries continually re-commit to maintain professional conduct standards when dealing with consumers on all aspects of their insurance needs, whether at the point of sale or through continued servicing. This is how trust in the insurance market is constantly reinvigorated.

Information on the IA's complaints handling process

Generally, the IA only receives complaints after the complainant has exhausted the complaints procedures of the relevant insurer or intermediary. This is only right. Since it is the insurer or intermediary being complained about, they should have the first opportunity to address the grievance and maintain the relationship with the customer.

As part of its conduct supervision, the IA assesses the complaints handling procedures of insurers and intermediaries to ensure that they are founded on the "treating customers fairly" principle. Complaints can never be eliminated altogether - they are a fact of business-life. How they are handled by an insurer/intermediary and how the complainant is treated in that process, speaks volumes about these attitudes and culture within an insurer or intermediary company and the degree of its customer-centricity. As part of its conduct supervision, the IA holds insurers and intermediaries to account for the fairness of their complaints handling procedures.

As a handler of complaints ourselves, we (the IA) also hold ourselves to high standards of fairness, efficiency and transparency.



- Since 1 September 2023, we have committed to concluding 80% of the complaints within six months from the date they are received¹. For those complaints received in 2024, we successfully concluded 88% of them within this timeframe.
- Want to know how we assess complaints and what actions we may take if a complaint is substantiated? This is explained in our leaflet "What Happens After You Submit a Complaint?" which can be found on our website [\[LINK\]](#). ■

¹ This period begins from the date on which written consent and supporting documents are received from the complainant to the date on which referral was made to the IA Enforcement Division or Supervision Teams for follow-up action, or the date on which a letter of conclusion is issued. Cases referred to related parties (such as other regulators, the Voluntary Health Insurance Scheme Office, or Insurance Complaints Bureau) for handling are excluded.

LICENSING APPROACH TO RUN-OFF INSURANCE AGENCIES

Introduction

In the language of the insurance market, “run-off” refers to a situation when an insurer ceases to underwrite new insurance policies. When this happens, the insurance activities of the insurer become limited to discharging – or running-off – the obligations on its remaining in-force insurance policies.

An insurer may go into full run-off by ceasing to write new insurance policies altogether. More commonly, an insurer may run-off particular portfolios of insurance policies when it exits a specific line of business due to a restructuring or a change in business strategy.

Run-off does not affect an insurer’s legal liabilities under its remaining in-force insurance policies, nor its obligations to service those policies to the same regulatory standards.

An increasingly common way for insurers to manage their run-off portfolios, while maintaining servicing standards, is to engage a specialist run-off insurance agency to manage the portfolios on their behalf. Until recently, specialist run-off insurance agencies have not been as common in Hong Kong as in some other jurisdictions. However, demand for their services in Hong Kong seems to be on upward trend. To support this, we share some pertinent matters the IA will evaluate, when considering a licensing application from a company seeking to operate as a specialist run-off insurance agency.

The value of specialist run-off insurance agencies

When an insurer goes into run-off, its business model undergoes fundamental changes. Business units previously focused on acquiring new business become superfluous, and the priority shifts to maintaining only the essential operations necessary for the insurer to meet its legal and regulatory obligations on the remaining policies in its portfolio. A number of problems can arise from this: »



- Retaining competent staff in a run-off situation becomes difficult for the insurer, particularly as the size of the remaining portfolio shrinks;
- If the insurer is exiting the Hong Kong market altogether, the operation remaining in Hong Kong to perform the run-off, is often de-prioritized by the wider group, with the overseas head-office paying a lower level of attention to the support and resources needed to conduct the run-off;
- If a particular portfolio of policies is put into run-off as the insurer exits a line of business, management’s focus can be absorbed on its existing active lines of business with the run-off portfolio being de-prioritized;
- The claims handling function in an insurer in run-off, no longer has the natural check and balance that comes with management wanting to maintain the insurer’s claims handling standards as a selling point to drive new business. As a consequence, claims handling standards can be eroded, as costs savings are prioritized over customer-service. »

These issues can result in the level of servicing (and particularly claims handling) on policies in a run-off portfolio diminishing and a rising sense of abandonment from the policyholders who feel they are not receiving what their premium has paid for.

Specialist run-off insurance agencies are well placed to help insurers address these issues.

- They have staff who are specialists in managing run-off portfolios and have experience in balancing the cost pressures of run-off, against the priority of maintaining servicing standards.
- They are accountable to their insurer principals and their reputation for managing portfolios in run-off effectively from both the insurer's and policyholder's perspective, is paramount to their acquiring new run-off portfolios to manage going forward. This gives them "skin in the game" to do a good job.
- By taking on portfolios from different insurers, they are able to build sufficient scale to make their delivery of service efficient and effective.
- Since managing run-off portfolios is their core business, they can invest in technology solutions and systems to ensure service to policyholders is maintained.

The competitive nature of the insurance market in Hong Kong means that business strategies are constantly adapting. It is not uncommon for insurers to exit certain lines of business or cease underwriting particular insurance products in favour of introducing new or updated insurance products. >>

When this happens, how the run-off of the exited portfolio of policies is managed and resourced is an important consideration. Run-off, after all, is not a short-term situation. Long term insurance policies, as their name suggests, are in force for multiple years. Certain general business policies also come with a long-tail. As a result, a run-off can take many years to complete and it is important that insurers adequately manage and resource a run-off over its full duration. Breaches of regulatory requirements during run-off are just as liable to punishment by the IA, as breaches by insurers continuing to write new business.

It is to address these potential problems, that one can see a place for specialist run-off insurance agencies in the Hong Kong insurance market. >>



Regulatory Considerations

A company looking to establish itself as a specialist run-off insurance agency would need to address two main aspects of the insurance regulatory framework: (1) the licence it needs to obtain; and (2) the outsourcing criteria that need to be satisfied for it to take on the management of run-off portfolios.

(1) Licensing

In order to manage run-off portfolios as a specialist run-off agency on behalf of insurers, the agency would need to become licensed by the IA as a licensed insurance agency. The applicant would have to satisfy the IA that it meets the criteria applicable in section 64U of the Insurance Ordinance ("IO"), which focus on its fitness and properness to carry on regulated activities in the lines of business concerned, and also the fitness and properness of its proposed responsible officer ("RO").

These matters are evaluated in the context of the specific agency's anticipated business. For traditional insurance agencies, the evaluation would therefore focus on its sales activities. By contrast, for an applicant looking to operate as a specialist run-off insurance agency (and its RO), the IA would focus on the following:

- **Governance, controls and authorities from the insurer principals** - The IA would evaluate the adequacy of the agency's governance and controls for servicing the in-force policies the agency would be managing. Particular attention would be paid to the levels of authority the agency would have from the insurer to pay out claims and benefits under policies, and the checks and balances imposed on the operation of such authorities by the insurer. These authorities would need to be operated in a way that does not cause undue delay in payments to policyholders. The contract between the agency and its insurer principal would have to be submitted to the IA as part of the licensing application, so that the authorities of the agency can be understood, along with the controls of the insurer on the agency, and the rights of the agency to obtain instructions from the insurer when needed. The IA would critically examine any potential areas of friction in communication between the insurer and the agency, and between the agency and the policyholder, that could result in prejudice to policyholders.
- **Remuneration model for the agency** - The remuneration model of the agency would be looked at to understand if this created any misalignment between the agency and interests of the policyholders receiving adequate servicing levels on their policies. »

- **System adequacy** - If the agency intends to manage the run-off of portfolios through its own system, focus would be placed on system readiness and its technical safeguards. The applicant agency will need to provide a due diligence report regarding its system and technology, demonstrating the level of readiness and security of its system and technology, and that it has expertise on its staff to operate the business model. In addition, the applicant agency would be required to demonstrate that there are adequate and effective procedures and controls to ensure data protection and manage (and particularly mitigate) cyber risk.
- **Relevant experience of the RO candidate** - The IA would assess the experience of the RO in terms of relevancy to the core run-off activities of the agency. For example, if the run-off agency was going to have claims handling authority, an obvious matter to consider would be the RO candidate's previous experience of claims handling. In other words the IA will need to be satisfied that the candidate possesses appropriate ability, skills, knowledge and experience commensurate with the nature and scale of business of the run-off insurance agency. »



(2) Outsourcing

The IA's Guideline on Outsourcing ("GL14") would also likely apply to the operation of the run-off insurance agency. In GL14, "outsourcing" refers to an arrangement under which a service provider undertakes to perform a business activity, function or process which would otherwise be undertaken by the insurer itself. When an insurer appoints a run-off insurance agency to manage a portfolio of insurance policies on its behalf, it is essentially outsourcing to the agency, policy administration functions and (depending on the authorities given to the agency) its claims handling functions. These are services the insurer would otherwise be performing.

GL14 would require an insurer, when engaging a run-off agency, to carry out a risk assessment and due diligence on the agency, ensure that the contract with the agency contains certain rights and obligations, ensure all laws on client confidentiality are complied with, implement ongoing monitoring controls on the agency, and establish a contingency plan to ensure business continuity if the run-off agency's service is interrupted.

As part of the licensing application for the agency licence, the applicant agency would have to show that it has been appointed by at least one insurer. For this to happen, the insurer would need to have gone through the processes in GL14 to make the appointment. Much of the information generated from the GL14 process would also be relevant to the licensing application. For example: »

- The due diligence report by the insurer on the agency as part of the GL14 process (and particularly the insurer's scrutiny of the agency's systems) would be useful for the IA's consideration of the agency's licensing application.
- The contract between the insurer and the agency would also be examined as part of the licensing application.
- Particular focus would also be placed, in the licensing application, on the contingency plan that the insurer is required to put in place for the purposes of GL14, if the agency stopped its agency business. How would continuity of service to policyholders be provided in these circumstances? By way of the insurer taking back the portfolio to manage, or transferring its management to another run-off agency? These questions would need to be addressed.



A high degree of cooperation between the insurer and agency would thereby assist not only in satisfying the outsourcing requirements in GL14, but also in facilitating the agency's licensing process. »

Other considerations pertinent to specialist run-off insurance agencies

There are two other specific issues that the IA has turned its conduct mind to, when it comes to considering the place that specialist run-off insurance agencies can play in the Hong Kong insurance market.

Maximum number of principal insurers - The first issue concerns the Insurance (Maximum Number of Authorized Insurers) Rules (Cap.41K) ("Maximum Principal Rules") which limits a licensed insurance agency to being appointed by no more than 4 authorized insurers, of which no more than 2 can be insurers authorized to carry on long term business. As part of the agency licence application, the candidate agency's business plan would be scrutinized for its feasibility. The business plan would have to be feasible in the context of the agency only being able to manage the run-off portfolios of the limited number of insurer principals for which it could act in accordance with the Maximum Principal Rules.

Once licensed - and after its business model has proven to be successful in its operation - a run-off insurance agency may eventually find itself managing portfolios on behalf of the maximum 4 insurers permitted under the Maximum Principal Rules. If approached by a 5th insurer to take on another run-off portfolio, the agency would be unable to proceed due to these regulatory limits.

The Maximum Principal Rules can, therefore, be a limiting factor on a run-off insurance agency's ability to scale its business model. This in turn could inhibit investment and efficiency gains that could translate into better service for policyholders in the run-off portfolios it is managing. This may be one of the few situations where the IA could consider exercising its discretion under section 79 of the IO to exempt the run-off insurance agency from the limitation imposed in the Maximum Principal Rules to allow it to represent the 5th (and may be more) insurer principals, given the benefits to policyholders this would bring. Such exemption would need to be applied for at the time the 5th principal appointment is being considered. When evaluating whether or not to exercise its discretion under section 79 of the IO, the IA will take into account criteria which focus on policyholder protection namely: »



- whether granting the exemption would strengthen policyholder protection;
- whether the regulatory requirements in place on the run-off agency (notwithstanding the exemption) would be sufficient to continue to protect policyholders;
- whether granting the exemption would create any unfairness in the insurance market; and
- whether there are advantages to policyholders in granting the exemption (e.g. would it enable the servicing of insurance needs currently not being met in the market?). »

Finding practical solutions on market issues – Another area where the IA sees specialist run-off insurance agencies adding value to the insurance market, is in finding practical solutions to bringing finality to a run-off, particularly for long term business portfolios.

One of the practical problems of handling run-offs is keeping in contact with policyholders. Run off insurance agencies – because run-off is their core business – are better positioned to do this than an insurer which has exited the Hong Kong insurance market and has left behind a limited footprint to maintain its authorization to run-off its remaining policies without any assistance.

By keeping communication open with a policyholder and keeping updated on the policyholder's circumstances (and contact details), the run-off insurance agency (on behalf of the insurer) can know with certainty when all the obligations of the insurer under the policy have been fulfilled. When all obligations under all policies have been discharged, the run-off can then be brought to an end and the insurer can then apply to withdraw its authorization and close its operation.

Life, however, (as the saying goes), is never this perfect. There will always likely be some policyholders who do not keep their contact details up to date (despite reminders from the run-off insurance agency) and hence with whom all contact will be lost. There may come a time when, based on the policyholder's age, it can be assumed the insurer would owe payment of a death benefit due under the policy. But if the insurer (or the run-off agency representing it) cannot find the policyholder, how can the run-off ever be fully discharged?

This raises the question as to what steps an insurer (or the run-off insurance agency representing it) can take to exhaust all avenues to find its remaining few policyholders/their beneficiaries and be in a position to declare the run-off finally over. Specialist run-off insurance agencies will be well placed to develop best practice processes for this which it may borrow from their experience in other jurisdictions. These practices may benefit the insurance market in Hong Kong in addressing the problem of bringing run-offs to a final end. For example, a combination of extensive advertising and then placing monies on trust or into court (for the remaining uncontacted policyholders or beneficiaries should they or their representatives ever come forward) may be something to assess as a potential solution. This is certainly a matter worth considering further and the practical experience that specialist run-off insurance agencies can bring to the market could assist with this. »



Conclusion

Specialist run-off insurance agencies do have a role to play in assisting insurers managing legacy liabilities effectively, efficiently and in a way that continues to treat policyholders fairly. In doing this, they can facilitate restructurings of operations, manage market exits and changes in business strategies in ways that uphold policyholder interests. This, in turn, would reinforce stability in the insurance market by ensuring that run-offs of portfolios – an important part of the insurance business life-cycle – are properly resourced and managed.

The growing presence of specialist run-off insurance agencies in the Hong Kong insurance market is therefore a welcome development and a sign of the market's continued maturity. We hope this article provides assistance to those seeking to set up business as specialist run-off insurance agencies in Hong Kong. ■

UNDERSTANDING THE RISKS OF OFFSHORE COVERAGE AND THE IMPORTANCE OF BROKER DISCLOSURE

If an insurer carries on any class of insurance business in or from Hong Kong, it must be authorized under the Insurance Ordinance ("IO") and become an authorized insurer. This requirement is the foundation of the Hong Kong insurance regulatory framework, which requires insurers – once authorized – to subject themselves to the capital, solvency, conduct and related governance and risk management requirements imposed by the IO and related subsidiary legislations, Guidelines and Codes. These requirements serve to protect the interests of policyholders and promote stability across the insurance market.

Authorized insurers serving policyholders in other jurisdictions

Authorized insurers – being part the international finance centre that Hong Kong is – serve policyholders not only domestically in Hong Kong, but also across the world. In doing so, authorized insurers in Hong Kong are obliged to ensure that when servicing policyholders in other jurisdictions, they do nothing to infringe the laws and regulations that apply in those other jurisdictions. »



Hong Kong policyholders buying insurance from insurers in other jurisdictions – the need to advise on the limitations and risks

Given the strength and depth of the Hong Kong insurance market, policyholders can typically obtain appropriate coverage they need from authorized insurers in Hong Kong. However, in rare cases, some policyholders may still choose to obtain their insurance from insurers in jurisdictions outside Hong Kong which are not authorized insurers (sometimes referred to as obtaining insurance "offshore"). Where such occasions do arise, the offshore insurer would need to ensure that it does nothing to infringe the laws in Hong Kong in the course of providing such insurance. In particular, the offshore insurer must limit its activities, so that it does not "carry on insurance business in or from Hong Kong" without being authorized under the IO. »

Where consideration is being given to acquiring insurance from an offshore insurer, it is imperative that the policyholder is made aware of the associated limitations and risks that come with buying insurance from an offshore insurer. Providing that advice – so that the policyholder can make a fully informed decision taking into account such matters – is often the task of the licensed insurance broker company representing and advising the policyholder.

Ensuring that the policyholder is properly and adequately advised in these situations, is a core part of the regulated activities that a licensed insurance broker company carries on. A licensed insurance broker company (unlike an offshore insurer) will be answerable to the IA for this and for complying with the relevant provisions in the Code of Conduct for Licensed Insurance Brokers (“Code of Conduct”) that apply.

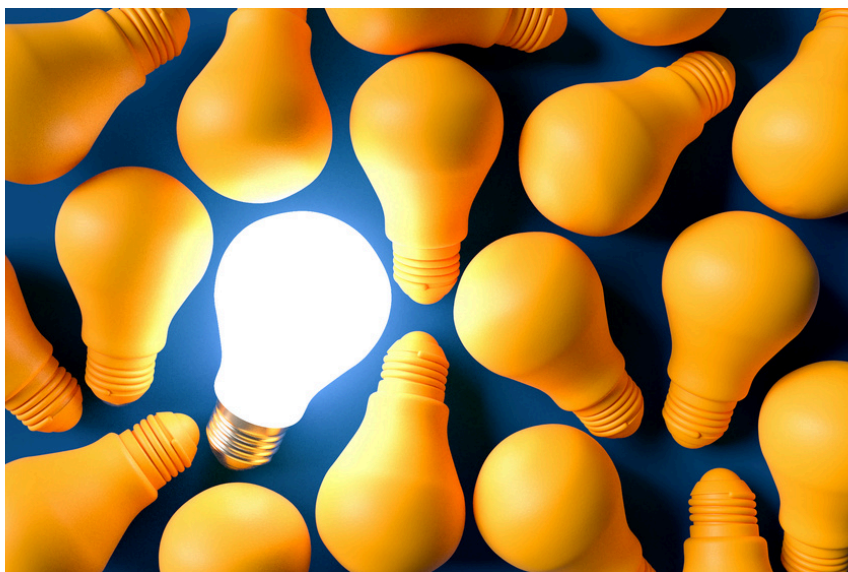
Circumstances where offshore insurance options may be appropriate to consider

A licensed insurance broker company is duty-bound to act in the best interests of the clients – the policyholders and potential policy holders – it represents. As part of this duty, Standard and Practice 2.2 of the Code of Conduct requires a broker company to recommend insurance products which best meet its client’s circumstances. For these purposes, the licensed insurance broker company must source a sufficient range of available insurance products, suitable to the client’s circumstances, from a sufficient range of different insurers before recommending an insurance product to the client. »



A licensed insurance broker company will usually be well positioned to discharge these duties by sourcing a range of insurance options for the client from the 150+ authorized insurers in Hong Kong. The occasions where it needs to source an offshore insurance option, would and should be relatively limited, particularly in the mass retail market. Indeed, for compulsory insurance policies (for example employee’s compensation insurance and motor third party liability insurance), these coverages must be sourced only from authorized insurers in Hong Kong.

However, in certain lines of business, where a licensed insurance broker company will be faced with a situation where it needs to consider options from offshore insurers in order to fulfil its duties. For example, this may arise where the capacity in the Hong Kong insurance market is insufficient to handle the size of a risk, where a niche line of insurance coverage is required which is more developed or readily available in another jurisdiction, or where offshore insurers can offer more competitive product features that better suit the policyholder’s circumstances. In these situations, in order to source a sufficient range of insurance options from a sufficient number of insurers, the licensed insurance broker company may need to look offshore to fulfil its duties to its client. »



Limitations and risks on offshore insurance

Another core duty of a licensed insurance broker company when advising a client, is to provide accurate and adequate information so as to enable the client to make an informed decision. Where offshore insurance is one of the options being considered, to discharge this duty, the licensed insurance broker company would need to advise the client fully on the limitations and risks associated with this option.

According to Standard and Practice 5.2(c) of the Code of Conduct, where an insurance policy option from an offshore insurer is to be presented, the licensed insurance broker company must, at minimum, disclose to the client:

- (i) the name and address of the insurer in the jurisdiction where the insurer has issued the policy and (if different) the jurisdiction where the insurer is incorporated;
- (ii) the fact that the offshore insurer is not regulated by the IA and is subject to different laws and regulations;
- (iii) the financial standing of the offshore insurer (for example, whether the insurer has a credit rating and, if so, what the credit rating is); and
- (iv) the governing law of the insurance policy and the jurisdiction in which disputes under the policy will be determined. »



Further, where the client is an individual, the insurance broker should also obtain written acknowledgement from the client of the disclosures in (i) to (iv) above and keep a proper record of such acknowledgement.

Under Standard and Practice 5.2(a) of the Code of Conduct, a licensed insurance broker should provide its client with all relevant information on the key features of each insurance product recommended or arranged by the broker. Applying this principle in the context of arranging an offshore insurance option, the broker is expected to provide the client with adequate information on the limitations and risks associated with purchasing insurance from an offshore insurer so as to ensure that the client is in a position to make an informed decision. For these purposes, the broker company would, in our view, need to advise the policyholder on the following, at minimum: »



- **Risks associated with claims handling and payment** - The limitations to which the offshore insurer would be subject, in having to handle and adjust claims under the insurance policy without “carrying on insurance business in or from Hong Kong” would have to be drawn to the client’s attention. The way in which these limitations could adversely affect the policyholder in terms of timing and adjustment of claims payment would need to be highlighted.
- **Foreign exchange risk** - Foreign exchange risk may have to be considered, particularly if the policy limits and excess are denominated in a different currency from the loss (based on where the loss is likely to take place). Fluctuations in currency could impact the recoverable loss amount under the policy. Further, if the offshore insurer is in a jurisdiction subject to capital controls, this may add another layer of administrative process that the policyholder would need to navigate in order to receive payment (which could involve considerable delay in the settlement of claims).
- **Legal and Regulatory risk** - In addition to disclosing that the offshore insurer is subject to a different legal and regulatory regime from that in Hong Kong, consideration may also need to be given to any material differences between the respective regimes as they apply to insurers and how these impact the level of customer protection available to the policyholder. Furthermore, policy interpretations and legal dispute resolution processes may vary, particularly where the policy is governed by foreign laws or where disputes are handled outside Hong Kong. These differences may introduce complexities or delays in claim settlements, as well as result in increased legal costs and longer timelines for resolution.
- **Tax risk** - Offshore insurance may also give rise to tax implications under the laws of the foreign jurisdiction. Depending on the applicable tax regulations, policyholders may be subject to taxes on, for example, policy returns or claim benefits. These tax obligations may not be immediately apparent at the time of application, but failure to comply with relevant tax laws at the later stage of the policy could result in adverse consequences. As such, it is important for policyholders to carefully consider any potential tax exposures before entering into offshore insurance policies.
- **Political risk** - Political risk may also be a consideration. International relations between countries and jurisdictions are subject to different twists and turns. This can impact the ability of businesses to meet their obligations under contracts to clients in other jurisdictions. >>



- **Solvency risk** - The financial standing of the offshore insurer is part of the minimum information that needs to be given, but the broker company would need to ensure that this is presented in a way that is clear and understandable. If the offshore insurer holds only a domestic credit rating (rather than an international one), this would certainly need to be drawn to the client’s attention. Where appropriate, the broker would also need to explain the implications of the difference (particularly if the client is not familiar with such matters) and provide a comparison with the financial standing of the authorized insurers offering alternative insurance options in Hong Kong. >>



Suitability Assessment and Documenting the regulated advice given

Under Standard and Practice 6.1 of the Code of Conduct, a licensed insurance broker is required to carry out an appropriate suitability assessment in relation to the client's circumstances before providing any regulated advice. The purpose of such suitability assessment is to ensure that the broker obtains sufficient information about the client's circumstances on which to base its regulated advice to the client.

If, after conducting a suitability assessment, the broker determines that the limitations and risks associated with an offshore insurance policy render it unsuitable to the client, the broker should not recommend such a product to the client. However, if the client insists on proceeding with an option from any offshore insurer despite the broker's recommendation, the broker, in accordance with Standard and Practice 6.2 of the Code of Conduct, is required to document and keep a proper record of:

- the recommendation made by the broker to the client;
- the reasons provided by the client (if any) to the broker for taking a decision which does not follow the recommendation;
- the explanation given by the broker to the client for considering the client's decision to be unsuitable; and
- the fact that the decision is the client's own decision.

This documented record of the regulated advice given would be the type of information looked at by the IA in an inspection, to ensure that all risks have been advised on.

Due diligence obligations and competence to advise

The governance requirements in Section IX of the Code of Conduct expect a licensed insurance broker company to have in place processes to perform adequate due diligence on both the insurers with which they would consider placing business and their products. If a licensed insurance broker company were to include an option from an offshore insurer in its presentation to a client, it would need to have performed requisite due diligence on both the insurer and the policy option, taking account of the limitations and risks mentioned. »

DUE DILIGENCE

If a licensed insurance broker company finds itself unable to do this or not in a position to advise on issues associated with placing insurance with a particular offshore insurer, then it needs to be cognizant of the conduct requirement in Section 90(c) of the IO, which requires that a broker company only advise on matters for which it is competent to advise. As such, if the licensed insurance broker company finds itself unable to advise adequately on the limitations and risks associated with placing business with an offshore insurer, it should not be including this as one of the options presented to a client and, if this means the broker company is unable to serve the client properly, it should inform the client up front about this. »

Conclusion

As at 31 March 2025, there are 157 authorized insurers² in Hong Kong (84 general insurers, 51 long term insurers, 19 composite insurers and 3 special purpose insurers) which give the Hong Kong market the range and depth to handle almost any risk. As such, the need for a licensed insurance broker company to look overseas to fulfill its core duty of sourcing suitable insurance should generally be infrequent. That said, it is recognized that in certain lines of business (e.g. specialized commercial risks) suitable products may not be available locally. In these cases, sourcing offshore insurance is not inappropriate, provided it is done in the client's best interests and with proper due diligence.

Nonetheless, when arranging an offshore insurance policy, it is essential that the insurance broker clearly explains the limitations and risks involved so that the client can make an informed decision. Failure to properly discharge this duty of care may not only result in poor client outcomes but could also have serious regulatory consequences. A breach of the broker's obligations under the Code of Conduct will give rise to fitness and properness concerns, and could also lead to disciplinary action by the IA. It is therefore imperative that broker companies establish and follow a robust process when recommending offshore insurance options. ■



² <https://www.ia.org.hk/en/infocenter/statistics/market.html>

A LOOK AT COLD CALLING PRACTICES IN INSURANCE



The Mandatory Provident Fund Schemes Authority (“MPFA”) has announced the cessation of unsolicited telemarketing activities by MPF intermediaries in respect of MPF-related products or services with immediate effect on 31 March 2025³. The move comes as part of a series of ongoing initiatives to strengthen internal controls and compliance by MPF intermediaries. We take this opportunity to draw the wider insurance industry’s attention to this measure.

Those insurers and insurance intermediaries who are also MPF intermediaries, will be aware of the cessation and will have implemented controls and processes to reinforce this. For those in the wider insurance industry, the MPFA’s move serves as a salutary reminder of the importance of maintaining robust controls and governance over any ongoing unsolicited telemarketing related to non-MPF insurance products. This is imperative to prevent the issues that arose in the MPF sector from emerging within the insurance sector.

As the front-line regulator of MPF intermediaries which are authorized insurers and licensed insurance intermediaries, the IA is fully supportive of the MPFA’s announcement. With every employee in Hong Kong being mandated to have an MPF account and the option to move that account between providers, it has not been unknown for the IA to have received complaints about someone using cold-calling to get individuals to move to a new »

MPF provider, when the individuals do not want to do this. Sometimes these calls have crossed the line between “misunderstanding” (which is bad enough) and outright dishonesty, with the caller subsequently posing as the customer to contact the existing MPF provider to obtain sufficient details to effect the transfer (which it turns out the customer did not want). Worse still, cold calls offering to help individuals apply for early withdrawal of their MPF (through false declarations) and to invest the monies in other so-called investment plans, serve as outright fraud. Whilst these types of activities have been rare (even before the cessation), the severity of their consequences for individual victims could have been catastrophic. It is, therefore, entirely right that no member of the Hong Kong working population – each of whom is mandated to have an MPF account – is prejudiced by the type of cold-call scams to which MPF schemes are vulnerable. The cessation of cold-calling across the MPF industry is therefore a needed and justified move by the MPFA. »



³ [Cessation of Unsolicited Calls for Marketing MPF-related Products or Services](#)

Telemarketing in the Insurance Sector

This, of course, begs the question of whether the same cessation should be mandated across the wider insurance industry.

As the regulator of the insurance industry, it is important that the IA considers this matter in the specific context of the insurance sector and the insurance buying public. This mirrors the approach taken by the MPFA, which evaluated the issue through the lens of MPF schemes and the characteristics of the Hong Kong working population, each of whom is mandated to have an MPF account.

In this regard, there are key differences between the two industries. These differences are highlighted in the type of complaints the IA receives on telemarketing.

In the insurance sector, complaints related specifically to cold calls have been a fractional portion of the overall complaints the IA has so far received. Beyond the number, a closer examination also reveals differences in the nature of the complaints. As stated, in certain MPF cold-call complaints, the activities of the callers being complained about, suggest dishonesty and sometimes fraud (posing as the customer, or trying to convince a customer to make false declarations to withdraw his/her MPF). Insurance-related telemarketing complaints, by contrast, have focused more on the cold caller being an irritant or the persistence of the caller in trying to sell insurance products.

While irritation and frustration caused by cold-calling certainly do not reflect well on the insurance industry, it remains to be seen whether these concerns justify an outright cessation at this stage - particularly when taking into account the following considerations: »

All insurers and insurance intermediaries are subject to the provisions of the Personal Data (Privacy) Ordinance (Cap. 486) which limit the use of personal data for direct marketing. The sales process for savings and investment long-term insurance policies in particular, have further safeguards with the compulsory financial needs analysis process making it virtually impossible for an individual to buy such product just through a single phone call. Further, once the purchase is made, the cooling-off period allows time for further reflection on the decision and the buyer can back out without any prejudice caused.

The insurance industry has also taken steps to self-regulate itself. These steps are aimed at minimizing the irritation and frustration that cold-calling activities may cause. The Hong Kong Federation of Insurers ("HKFI") has issued a Code of Practice on Person-to-Person Marketing Calls ("Code of Practice"), which was recently updated in 2024⁴. The Code of Practice provides clear guidelines on cold calling practices including but not limited to the hours and days of calling, frequency of calling, disclosure of caller's identity, and unsubscribe request. »



⁴ [CODE OF PRACTICE ON PERSON-TO-PERSON MARKETING CALLS](#)

There will also be those policyholders who, having chosen not to ignore the cold-call or hang up as soon as an insurer's name has been mentioned, have ended up buying an insurance product which meets their needs as a result of the call. For the most part, unlike MPF schemes, buying insurance is not mandatory and one has to recognize that there are some customers who have bought vital insurance they have needed, that they might not even have known about, but for a cold-call. One should not underestimate the value of this to these policyholders.

Another consideration is that times are changing. To call a smartphone "a phone" these days is becoming more and more of a mislabel. Using one's mobile to receive or make a phone call is becoming a diminishing activity, and is rapidly being replaced by a preference for non-face to face messaging.

Taking all these factors into account, might it not be better to let cold-calling (subject to proper and robust controls and governance) in the insurance industry continue? Even though it may sometimes be irritating, it can still be useful – particularly for those who have benefited from the insurance coverage they have bought through telemarketing. Indeed, given the way mobile phone usage is changing, might it not be better to allow telemarketing to evolve (and perhaps fade out) naturally, rather than for it having to be banned by the insurance regulator?

This is, perhaps, where our mind sits at the moment. However, the IA will keep the position under review and will act as cold-calling's executioner, if we see the same type of problems as have arisen with MPF cold-calls, ever emerging with insurance related cold-calls.

We expect this article to serve as a catalyst to insurers and insurance intermediaries that do still carry on telemarketing to ensure that these activities are conducted with integrity, in line with the applicable data protection and insurance regulatory requirements, and in a manner that puts customers' interests first and treats them fairly.

As insurers will know, the IA in its conduct inspections, reviews the corporate culture of the insurer. The manner in which an insurer (and its insurance intermediaries) conducts telemarketing activities can be a strong indicator of its corporate culture. Poorly managed telemarketing can have a significant adverse impact on an insurer's reputation. The IA therefore expects insurers to have implemented proper controls, oversight and training for all its telemarketing activities. Insurers must also ensure that telemarketing-related complaints are handled in a manner that is both fair and responsive. All relevant risks associated with telemarketing must be factored in and mitigated by the insurer's governance and control system, which must also be subject to regular review. »



The MPFA's move to end cold-calling is undoubtedly the right one for that industry. While concerns exist, the IA considers there is still room to allow a degree of flexibility for the insurance sector at this stage. However, this flexibility hinges on the discipline of insurers and insurance intermediaries who are carrying on telemarketing. They must heed the warning that this article conveys – for the good of the insurance buying public and for the good of the insurance sector. The IA's current measured approach therefore should not be seen as a lack of attention to the matter, but rather as a belief that self-discipline and accountability may be more suitable at this stage for the insurance market, than a complete prohibition. It is sincerely hoped that this trust will not be misplaced or otherwise, the IA may have to consider adopting a stronger regulatory response. ■

MYSTERY SHOPPING ON ROADSHOW ACTIVITIES

This publication is called “Conduct in Focus” because a core function of the IA is to regulate, supervise and promote proper standards of conduct in the insurance market. “Conduct”, in this context, refers to the ways in which insurers and licensed insurance intermediaries conduct themselves, when dealing with members of the public on insurance matters.

Regulating conduct standards requires the IA to view matters through the eyes of a customer of insurance. Protecting their interests is why we - the IA - exist. Sometimes there is no better way to do this, than to become a customer ourselves, and obtain firsthand experience of the conduct of the insurance intermediary and insurer with whom we have dealings in that role.

This, in essence, is what mystery shopping enables the IA to do and it is a tool which we regularly use as part of our ongoing supervisory activities.

During Golden Week in May, for example, when Canton Road was bustling with shoppers and eager insurance intermediaries trying to catch their attention, among the crowds you would have found IA employees (as mystery shoppers) being approached as potential insurance customers.

In addition, the Enforcement Division recently conducted a 3-month mystery shopper exercise on insurance-related roadshow activities which are a common sight in the streets, exhibition halls and shopping malls of Hong Kong. In this exercise, employees of the IA - as potential insurance customers - were engaged by around 25 licensed individual insurance intermediaries, appointed by 8 different principals, including insurers and insurance broker companies. Our observations are presented below: »



Overall observations

Positives

All the roadshows were marked with the relevant principal’s brand or logo making it clear to the public, which principal the licensed intermediaries represented. The salespeople with whom our staff engaged, were all licensed individual insurance intermediaries. All of them presented their business cards which clearly displayed their IA licence number and details of their appointing principal. They presented relevant insurance products in a professional manner and took time to explain, amongst other matters, the purpose of the financial needs analysis for life insurance products, the importance of declaring any prior medical conditions when applying for a medical insurance policy, the difference between guaranteed and non-guaranteed returns and the available tax deductions for VHIS and QDAP policies. »



Areas that need improving

Certain promotional materials displayed or distributed at the roadshows were self-made (i.e. made by the individual insurance intermediaries themselves rather than by their principals, who had also not approved their use). Some were so obviously self-made, as to prompt the customer to question their purpose and provenance. The explanation given was that the formal promotional materials (as provided by the principal) were too complex for illustration purposes!

One licensed individual insurance intermediary used a self-made excel spreadsheet that generated an illustration of the premium amount and return of a particular insurance product based on the age of the customer. The spreadsheet did not, however, indicate which projected returns were guaranteed and non-guaranteed. The intermediary was only forthcoming about this, when asked.

Here is why mystery shopping is so valuable. It gives the IA certain insights that a customer would have on a licensed insurance intermediary's conduct, that the insurance intermediary may not even see in him or herself.

For example, an insurance intermediary that tells a potential customer that his/her self-made materials serve to simplify matters for the customer (when compared to the formal 'complex' materials provided by the principal), may think this creates an impression of being helpful to the customer. However, from the customer's perspective the actual underlying messages being conveyed by this, are: (i) the customer is not intelligent enough to understand the formal approved materials; and (ii) the insurance intermediary does not trust the information provided by his or her principal. Neither of these underlying messages would serve to build the kind of trust on which the insurance market depends.

Similarly, the insurance intermediary with the self-created spreadsheet, may believe that he or she is giving confidence to the customer by displaying such knowledge and skills. But if crucial information is being omitted (and the fact that certain benefits illustrated in the spreadsheet are non-guaranteed, is absolutely crucial), then this conveys an impression of a lack of knowledge on the part of the intermediary, and raises questions with the customer about the intermediary's integrity. »



One of the underlying lessons to emerge from this exercise is that, when it comes to roadshows, first impressions count. Principals and intermediaries should focus on how their conduct is perceived by the potential customers with whom they have dealings. There is no better way to create the right first impression, than by being professional and ethical in substance from the outset and in everything you do. This will get you much further in building trust, than trying to create an image of being clever with fancy spreadsheets and colourful self-made materials.

Reinforcement of true professional and ethical conduct through principals establishing effective governance and compliance mechanisms to monitor the roadshow activities, is equally important and we provide some general tips on this below. »

Effective corporate governance on roadshow activities by Principals

An effective control and governance framework put in place by principals for roadshow activities might include the following elements:

Prior Approval or Notification Mechanism

- A structured prior approval or notification process to assess the appropriateness of the roadshow's venue, timing, and setup.
- Defined eligibility criteria for intermediaries participating in roadshows, ensuring they are licensed and authorized by the principal.

Internal Guidance and Training

- Provision of clear internal guidelines to appointed intermediaries, including the Do's and Don'ts on how to conduct oneself during roadshow activities.
- Training to ensure intermediaries understand regulatory and internal compliance standards as they apply to roadshows, and how to engage with customers appropriately during roadshows.

Appropriate Support

- Approval by the principal of all marketing materials to be used in roadshow activities - this requirement must be communicated to all appointed intermediaries participating in the roadshow. To facilitate this, the principal should provide appropriate resources and channels for appointed intermediaries to access approved materials and necessary facilities (e.g., booths, branded vehicles).
- Marketing materials to be used are designed from a customer's perspective, to ensure information is conveyed in a clear and understandable manner. As part of the design process, having someone who was not involved in their creation (and who can take the position of a reasonable customer) to review the materials would assist with achieving this.
- Clear communication channels for intermediaries to raise questions or seek clarification from the principal when needed (e.g. how to obtain approvals for conducting roadshows and what types of support are available from the principal).

Ongoing Monitoring

- On-site checks and mystery shopping at authorized roadshows to detect potential misconduct.
- Monitoring for signs of any unauthorized roadshow activities involving the products of the principal. This should be based on proactive intelligence gathering from multiple sources, including high-traffic locations, social media, peer reports, and internal surveillance channels.

Protection of Client Information

- Safeguards to protect clients' data and confidential information throughout the roadshow process.
- Protections against unauthorized access to sensitive information collected during the roadshow, through proper data handling, storage, and access controls.

Documentation and Audit Trail

- Maintenance of proper records of each roadshow, including venue, date and time, participating intermediaries, permitted and prohibited services, promotional materials used. These log records would serve as a useful audit trail, enabling effective follow-up in the event of complaints, concerns, or suspected misconduct.

Disciplinary and Follow-Up

- Prompt and proportionate action in response to any identified misconduct, which may include remedial training or disciplinary action.
- Reporting mechanism for any serious breaches to the relevant regulatory authorities, in accordance with internal protocols and legal obligations.
- Sharing of common failures or misconduct cases (in an anonymized manner) as part of ongoing training to help prevent recurrence and reinforce good practices among all intermediaries.

Licensed intermediaries' conduct behavior - Do's and Don'ts

We also provide the following key **Do's** and **Don'ts** to assist licensed individual insurance intermediaries who participate in roadshow exercises, to understand their conduct obligations:

Do's	Don'ts
DO obtain prior approval or provide notification to principal before convening any roadshow.	DO NOT use self-made materials, even on the client's request. All marketing materials must be approved by the principal.
DO display the principal's name and logo in a prominent position. The booth must be tidy and presentable, and licensed intermediaries should wear appropriate attire or the principal's branded clothing (where available).	DO NOT wear attire or display materials that could mislead clients into thinking you represent another company or are offering non-insurance services. No "white coats" to convey some sort of medical specialism when presenting medical insurance, for example. You are a licensed individual insurance intermediary! Own it and be proud of it!
DO engage with customers respectfully and professionally, ensuring your conduct reflects positively on both yourself and your principal.	DO NOT solicit business from customers if they have indicated they are not interested in purchasing insurance products. "No" means no.
DO disclose the licensed intermediary's identity and capacity (including their full name and licence number) in accordance with Standard and Practice 5.1 of the Code of Conduct ⁵ .	DO NOT invite or induce customers to purchase an insurance product without understanding their circumstances and insurance needs. Your skillset as a licensed individual insurance intermediary is to present an insurance product which meets the client's circumstances. So do your job properly.
DO provide relevant information on the features of the insurance product being enquired about to enable customers to make informed decisions and provide them sufficient time to consider the product.	DO NOT make misleading or deceptive statements about product features, returns, or competitors. Be fair and balanced in your presentation. DO NOT leave out crucial information, which might give a misleading impression.
DO handle clients' information with care and in accordance with data privacy laws and principal's policies.	DO NOT use undue influence or pressure customers into making immediate decisions or purchases during the roadshow. "I need time to consider" means "I need time to consider". DO NOT try and undermine this with a time limited decision that needs to be made now.
DO keep proper records of each roadshow with details of the venue, time and name of the intermediaries who participated in the roadshow, as well as the activities that were convened during the roadshow.	DO NOT distribute unauthorized giveaways or conduct lucky draws without approval from the principal.

⁵ Code of Conduct for Licensed Insurance Agents and Code of Conduct for Licensed Insurance Brokers

By keeping these points in mind, licensed intermediaries can help ensure that their participation in roadshows aligns with regulatory expectations and upholds the reputation of both themselves and their principal. Conduct that is ethical, transparent, and customer-focused is essential to building lasting trust with the public. Remember, the next customer you meet, could be from the IA! ■



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