

27 February 2023

Our Ref: MC/INT/5

By Email Only

To: Chief Executives of all authorized insurers

Dear Sirs,

Conduct Supervision and Claims Handling
Insurance Fraud Prevention Claims Database

At the core of insurance lie the principles of mutual benefit and risk pooling, whereby the losses suffered by the few are borne by the many. Fraudulent insurance claims undermine these principles, by depleting pooled funds from which only genuine losses are to be paid. Fraudulent claims are not, therefore, victimless crimes. They erode an insurer's financial position (on which genuine insurance claimants rely to cover their losses) and the costs of fraud are ultimately passed on to the pool of honest policyholders by way of increased premiums.

Given the potential adverse impact to their balance sheets, authorized insurers have an inherent incentive and commercial responsibility to manage their fraud risk. A key industry initiative in this respect has been the establishment of the Insurance Fraud Prevention Claims Database ("IFPCD") by the Hong Kong Federation of Insurers ("HKFI") which currently covers motor insurance and medical insurance claims and mirrors industry-led initiatives in other developed insurance markets.

Against this background, the IFPCD is designed as a tool with self-learning capability to detect potential fraudulent claims so that insurers could trigger focused investigation speedily whilst continuing to ensure the prompt settlement and payment of genuine claims, thereby improving customer experience and the public image for the industry as a whole.

Since the 3-year transitional period of the insurance intermediary licensing regime has expired in September 2022, the Insurance Authority ("IA") has been sharpening its focus on the maintenance and enforcement of conduct standards across the industry more generally. Claims handling forms an integral part of this. Although the IA may not be tasked with or empowered to adjudicate whether or not a claim is payable under terms and conditions of an insurance policy (and disputes in this respect fall outside its statutory ambit), it is responsible for ensuring that insurers have in place adequate policies and procedures with regards to the manner in which claims are handled.

Of primary importance in this respect, is the regulatory imperative that **insurers handle and settle claims fairly and promptly** (as, for example, section 7 of the Guideline on Medical Insurance Business (GL31) demands). Insurers are also required to have in place effective measures for combating fraudulent claims (per section 8.10 of Guideline on the Corporate Governance of Authorized Insurers (GL10)).

To align our regulatory approach with the establishment and ongoing operation of the IFPCD, when assessing whether the measures an authorized insurer has in place to combat fraudulent claims are adequate (and do not adversely impact the insurer's ability to settle and pay genuine claims fairly and promptly), the IA will take into account the fact that the insurer is a participating and active member of the IFPCD, contributing data to the database as required and using its output to expeditiously identify and investigate suspicious cases. By corollary, those authorized insurers which are not actively participating in the IFPCD (even though they are eligible to do so) can expect a greater degree of scrutiny and will need to explain, when asked by the IA, what measures they are taking to combat fraudulent claims and how these measures strike a sound balance between investigating potential fraud, whilst ensuring that genuine claims are settled in a fair and prompt manner.

For queries on how to participate in the IFPCD, please contact the HKFI at claimsdb@hkfi.org.hk or 2861 9306. For any other enquiries regarding this circular, please contact the IA at conductsupervision@ia.org.hk.

Yours faithfully,

Peter Gregoire
Head of Market Conduct
General Counsel
Insurance Authority

c.c. The Hong Kong Federation of Insurers