

Code of Practice  
for Administration of  
Insurance Agents

Handbook for Agents

*Outdated Version (Handbook for Agents)*

**HKFI**

THE HONG KONG FEDERATION OF INSURERS

*Outdated Version (Handbook for Agents)*

**THE HONG KONG FEDERATION OF INSURERS**

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# HANDBOOK FOR AGENTS

## Code of Practice for Administration of Insurance Agents

### I. INTRODUCTION

In January 1986, the Law Reform Commission recommended more legislative control on insurance for the protection of consumers.

The industry is of the view that self-regulation is more effective than legislation. The process of the law is both time consuming and expensive and as such is, more often than not, out of the reach of the man in the street. Self-regulation permits an effective way of resolving consumer complaints. Much work was done within the industry on self-regulation and discussions were held with relevant authorities, culminating in an agreement to implement self-regulation by two stages.

Stage One saw the adoption of the Statements of Practice for both general and life insurance in February 1990 and the establishment in the same year of the Insurance Claims Complaints Bureau to deal with disputes arising from claims of personal insurance policies.

Stage Two of this implementation will start in January 1993 with the adoption of the Code of Practice for Administration of Insurance Agents. Members of the two constituent councils of the Hong Kong Federation of Insurers (HKFI), namely, the General Insurance Council of Hong Kong (GIC) and the Life Insurance Council of Hong Kong (LIC) can participate in the self-regulation scheme by registering and administering their agents in accordance with the Code of Practice for Administration of Insurance Agents.

(Insurers referred to in this Handbook are member companies of the two councils who have joined the self-regulation scheme).

Everyone in the insurance industry is called upon to take heed of this self-regulation system, the importance of which cannot be over-emphasized. Legislative control would likely be the alternative should the system be unsuccessful.

## **II. OBJECTIVES**

The objectives of this Code are:-

1. To define the role and responsibilities of insurance agents;
2. To reduce the number of insurers represented by each agent;
3. To ensure an acceptable level of competence among agents;
4. To foster sound commercial practices by agents;
5. To minimize the proliferation of incompetent agents.

## **III. THE AGENT'S ROLE**

The insurance agent has a very important role to play in the insurance market. He/she is frequently the person the insuring public first comes into contact with and relies on for advice. It is therefore essential that agents are well equipped to give sound professional advice and conduct their business with good faith and integrity.

## **IV. THE SYSTEM**

### **A) Insurers**

Insurers are the prime movers with this system. They should deal only with agents appointed in accordance with the Code of Practice for Administration of Insurance Agents. They should regulate their agents by:-

- \* ensuring that only those who meet at least the minimum qualifications will be appointed agents;
- \* appointing agents using an Agency Agreement incorporating the Code of Practice for Agents;
- \* registering their agents with the Central Register;
- \* handling complaints lodged against their agents and reporting such complaints to the Insurance Agents Registration Board; and
- \* taking disciplinary action against agents if and when required.

### **B) Insurance Agents Registration Board**

This is a body to be formed within the structure of the Hong Kong Federation of Insurers to oversee the Central Register of Agents. In addition to receiving applications for registration from members of their agents, it will also receive complaints against agents, reports on complaints from members, as well as appeals from agents in regard to complaints.

### C) Central Register of Agents

Essentially a data bank on agents, this Register will also serve to:-

- \* keep track of the number of insurers represented by each agent and alert insurers as and when required;
- \* identify insurers represented;
- \* record disciplinary actions;
- \* identify those subject to disciplinary action so that they can be banned from registration;
- \* compile reports for insurers required;
- \* compile reports for the Insurance Commissioner if required;
- \* answer public enquiries.

### D) Complaints Handling

Complaints lodged against agents are received by the Insurance Agents Registration Board, and referred to the insurers concerned for handling. These insurers will be required to report on these complaints and when appropriate, take disciplinary actions ranging from warning, suspension of agreement to termination. The Board may make recommendation, if necessary, on disciplinary action to the appointing insurer.

An agent whose agreement has been terminated in these circumstances will be barred from the system for three years.

### E) Training for Agents

To ensure a high level of competence will be maintained among agents, training courses will be organized and training material packages will be developed by GIC and LIC.

## V. MINIMUM QUALIFICATIONS

Any individual, partnership or corporation can apply to register as an agent to represent one or more Members, provided that the following minimum qualifications are met:-

### A) To Represent One Member Only

Persons seeking registration as Agents for one Member only are required to:-

- (a) have minimum education standard of Form 5 and be aged 21;  
or
- (b) have two years relevant business experience; and

- (c) in addition to either (a) or (b), have successfully completed that Member's introductory training programme covering detailed product knowledge, the Code of Practice and the principles of self-regulation.

**B) To Represent More Than One Member**

Persons seeking registration as agents representing more than one Member are required to:-

- (a) have at least three years relevant experience in handling insurance business immediately preceding their application; or
- (b) have successfully completed and accredited course covering product knowledge, the Code of Practice and the principles of self-regulation; or

(Note: The course for Agents representing Members licensed to transact general insurance business as defined in Part 3 of the First Schedule of the Insurance Companies Ordinance is to be accredited by GIC.

The course for Agents representing Members licensed to transact long term insurance business defined in Part 2 of the same Schedule is to be accredited by LIC.)

- (c) have ACII/AAIL, FLMI diplomas or equivalent qualifications approved by GIC or LIC.

- C) Existing agents have two years grace period from the launching of the system to meet with the minimum requirements. New agents are to comply with them when they join the trade.

**D) Disqualifications for Agents**

An applicant will be considered not qualified to be an agent if this applicant:-

- (a) is found to be of unsound mind;
- (b) has been convicted of any criminal offence other than a minor motor offence or offence that is no longer admissible as evidence in any proceeding under the Rehabilitation of Offenders Ordinance (Chapter 297);
- (c) is or becomes insolvent, or unable to pay debts due, stops, suspends, or without good reason threatens to stop or suspend payment of all or a material part of the debts or currently in bankruptcy proceeding;
- (d) has had his agency agreement terminated by reason of a breach of agreement within the preceding three-year period;

- (e) is found not to have complied with or is in breach of the Code of Practice for Agents and/or rules of GIC or LIC; or
- (f) has taken any other action which the Registration Board deems unfit.

## **VI. RESTRICTIONS/LIMITATIONS ON REPRESENTATION**

On the basis that insurers are to be responsible for the conduct of their agents, the insurers represented by the agents have to be identified. It would also be desirable to restrict or limit the number of insurers represented by each agent who gives technical advice on insurance matters or arranges insurance contracts in Hong Kong.

The number of insurers represented is counted on an individual basis as follows:-

- A) The number of insurers an agent can represent is restricted to a maximum of four, subject to a maximum of two for life insurance, provided that:
  - (a) the existing insurers are advised by the agent of the additional insurers he/she intends to represent prior to appointment; and
  - (b) full disclosure of all principals made on application and renewal of registration.
- B) Representation of a composite insurer is the equivalent of two insurers: one life and one general, unless the agent's activities are restricted to either life or general.
- C) A group of companies shall be taken to be one insurer provided that their activities are limited to either life or general business and they are all the holding company or subsidiaries of the same group.
- D) An employee of a company agent can only work on behalf of the company.



- E) In the case of an individual working on behalf of a company agent but not as an employee, all the insurers represented by the company agent will also be counted as insurers represented by this person. If the number of representation of the company agent is less than the maximum number permitted, this person, on an individual basis, may take on representation of other insurers up to the maximum limit.
- F) An employee or person acting on behalf of a managing general agent will be required to be registered through the managing general agent. The number of insurers permitted is also subject to the same restriction as any other agent. In other words, he can represent no more than four insurers among all those represented by the managing general agent. A managing general agent is an agent given general power of attorney or deed of substitution or equivalent authorization by the appointing insurers.

## **VII. REGISTRATION**

### **A) Who to Register?**

Agents, individuals or companies of members of the Insurance Councils participating in the system, or any agent seeking appointment with an insurer participating in this scheme to transact insurance business must apply for registration with the Central Register of Agents through the appointing insurer.

For company agents, their nominees, employees and/or persons acting on their behalf who provide technical advice on insurance matters or arrange insurance contracts in Hong Kong are also required to be registered through the appointing insurer.

### **B) When to Register?**

Agents are to be registered before their agency agreements are signed or confirmed. Existing agents should register within the first six months of 1993.

### C) How to Register?

An application for registration must be made in the prescribed application form for registration which is obtainable from the appointing insurer and must be accompanied by such documents, particulars and fees as may be prescribed by the Hong Kong Federation of Insurers from time to time.

#### (a) Individual Agents

- \* If the applicant is seeking to represent more than one insurer, the application form should be presented to existing insurer(s) for endorsement.
- \* First application of each agent is to be accompanied by a cheque or money order of HK\$250 for the payment of registration fee which is non-refundable. Subsequent applications and changes to the particulars registered are free of charge.
- \* The application with documents, if required, are to be checked and countersigned by the appointed insurer to confirm that the stipulated requirements are complied with.
- \* The application and registration fee, if applicable, are to be sent by the appointing insurer to the Registration Board.
- \* Written notification on the outcome of the application and the receipt of fee, if any, are to be sent to the appointing insurer.
- \* Registration is to be renewed every three years from the date of the first registration.

#### (b) Company Agents

The nominee of company agent is to complete and submit the application form for company agent to the appointing insurer. The nominee is required to meet the qualifications and be registered as an agent.

Partners, directors, employees and /or persons acting on behalf of a company agent who provide technical advice on insurance matters or arrange insurance contracts in Hong Kong are required to apply for registration. The procedure is similar to that of an individual agent but the application needs to be presented to the insurer through the company agent.

**THE GENERAL INSURANCE COUNCIL OF HONG KONG  
GENERAL INSURANCE BUSINESS – CODE OF PRACTICE FOR AGENTS**

This Code applies to general business as defined in the Insurance Companies Ordinance 1983, but does not apply to reinsurance business. As a condition of membership of the General Insurance Council of Hong Kong members undertake to use their best endeavours as follows:

To ensure that all agents

- (i) being other than employees of insurance companies/managing general agents adhere to the terms and conditions of an approved agency agreement, or
- (ii) being employees of an insurance company/managing general agent act in accordance with a written procedure manual

and that all those involved in selling insurance policies observe both in spirit and in practice the general provisions as set out below.

In order to ensure the fulfilment of the above undertaking, it shall be the duty of the insurance company in appointing an agent to be satisfied that such agent be suitably qualified to act on its behalf.

To this end, the insurance company will provide adequate training for agents.

It shall be an over-riding obligation of an agent at all times to conduct business with the utmost good faith and integrity.

In the case of complaints from policyholders the insurer concerned shall require an agent to co-operate so that the facts can be established. An agent shall inform the policyholder complaining that he can take his problem direct to the insurer concerned or, if he should wish, make representation to the Insurance Agents Registration Board of the Hong Kong Federation of Insurers who will act in good faith to resolve problems referred.

**A. GENERAL SALES PRINCIPLES**

1. The agent shall:

- (i) where appropriate make a prior appointment to call. Unsolicited or unarranged calls shall be made at an hour likely to be suitable to the prospective policyholder;

- (ii) when he makes contact with the prospective policyholder, identify himself and explain as soon as possible that the business he wishes to discuss will include insurance. He shall make it known that he is the agent/representative of one or a number of insurance companies (as the case may be), one or more of whose policies he may wish to discuss;
  - (iii) ensure as far as possible that the policy proposed is suitable to the needs and resources of the prospective policyholder;
  - (iv) give advice only on those insurance matters in which he is knowledgeable and seek or recommend other specialist advice when necessary;
  - (v) treat all information supplied by the prospective policyholder as completely confidential to himself and to the company or companies to which the business is being offered.
2. The agent shall not:
- (i) inform the prospective policyholder that his name has been given by another person unless he is prepared to disclose that person's name if requested to do so by the prospective policyholder and has that person's consent to make that disclosure;
  - (ii) make inaccurate or unfair statement of any insurer;
  - (iii) make comparisons with other types of policies unless he makes clear the specific differences to which he is referring.

## **B. EXPLANATION OF THE CONTRACT**

The agent shall:

- (i) identify the insurer;
- (ii) explain all the essential provisions of the cover afforded by the policy, or policies, which he is recommending so as to ensure as far as possible that the prospective policyholder understands what he is buying;
- (iii) draw attention to any restrictions and exclusions applying to the policy;
- (iv) if necessary, obtain from the insurer specialist advice in relation to items (ii) and (iii) above;
- (v) not impose any charge in addition to the premium required by the insurer without disclosing the amount and purpose of such charge.

## **C. DISCLOSURE OF UNDERWRITING INFORMATION**

The agent shall, in obtaining the completion of the proposal form or any other material:

- (i) avoid influencing the prospective policyholder and make it clear that all the answers or statements are the latter's own responsibility;

- (ii) ensure that the consequences of non-disclosure and inaccuracies are pointed out to the prospective policyholder by drawing his attention to the relevant statement in the proposal form and by explaining them himself to the prospective policyholder.

#### **D. ACCOUNTS AND FINANCIAL ASPECTS**

The agent shall, if authorised to collect monies in accordance with the terms of his agency appointment:

- (i) keep a proper account of all financial transactions with a prospective policyholder which involve the transmission of money in respect of insurance;
- (ii) acknowledge receipt (which unless the agent has been otherwise authorised by the insurer shall be on his own behalf) of all money received in connection with an insurance policy and shall distinguish the premium from any other payment included in the money;
- (iii) remit any such monies so collected in strict conformity with his agency appointment.

#### **E. DOCUMENTATION**

The agent shall not withhold from the policyholder any written evidence or documentation relating to the contract of insurance.

#### **F. EXISTING POLICYHOLDERS**

The agent shall abide by the principles set out in this Code to the extent that they are relevant to his dealings with existing policyholders.

## APPENDIX II

# LIFE INSURANCE COUNCIL OF HONG KONG LIFE ASSURANCE SELLING — CODE OF PRACTICE FOR AGENTS

## INTRODUCTION

1. The term “life assurance” used in this Code of Practice (hereinafter called “Code”) covers all types of long-term insurance authorised by the Hong Kong Government as defined in the Insurance Companies Ordinance (Cap. 41) First Schedule Part 2, and in particular includes retirement/provident fund contracts, and long term disability.
2.
  - a. The Code applies to “agents”, i.e. all those persons (including employees of an insurer), selling and/or advising on life assurance, other than insurance brokers who are subject to a code of conduct consistent with this Code.
  - b. Persons includes individuals and corporations.
  - c. “Insurer” means insurance companies authorised under the Insurance Companies Ordinance (Cap. 41) and who are members of Life Insurance Council.
3. Members of the Life Insurance Council have undertaken, as a condition of membership, to enforce the Code and to use their best endeavours to ensure that all agents observe its provisions.
4. In the case of complaints from policyholders received either directly or indirectly that an agent has acted in breach of the Code, the agent shall be required to co-operate with the insurer concerned in establishing the facts. The complainant shall be informed that he should in the first instance refer the complaint to the relevant controller of the insurer in Hong Kong. If the complainant is still dissatisfied he may refer the matter to the Insurance Agents Registration Board of the Hong Kong Federation of Insurers.

It shall be an obligation of an agent at all times to conduct business with the utmost good faith and integrity.

## A. GENERAL SALES PRINCIPLES

1. The intermediary shall-
  - a) where appropriate make a prior appointment to call. Unsolicited or unarranged calls shall be made at an hour likely to be suitable to the prospective policyholders;
  - b) when he makes contact with a prospective policyholder, identify himself. He shall make it known that he is the agent of one or a number of insurers (as the case may be), prior to discussing insurance policies;
  - c) ensure as far as possible that the policy proposed is reasonable for the needs and not beyond the resources of the prospective policyholders;
  - d) give advice only on those matters in which he is competent to deal and seek or recommend other specialist advice when necessary;
  - e) treat all information supplied by the prospective policyholder as completely confidential to himself and to the insurer or insurers to which the business is being offered;
  - f) in making comparisons with other types of policies or forms of investment, to the best of his knowledge and ability, make clear the different characteristics of each policy/investment.
  - g) use only such sales proposals and in particular illustrative figures as are supplied by, or previously approved by the insurer.
2. The agent shall not-
  - a) inform the prospective policyholder that his name has been given by another person unless he is prepared to disclose that person's name if requested to do so by the prospective policyholder and has that person's consent to make that disclosure;
  - b) make inaccurate misleading or unfair statements about any insurers, their policies or any other intermediary;
  - c) attempt to persuade a prospective policyholder to cancel any existing policies unless these are clearly unsuited to his needs and he has accurately, completely represented, and compared the policyholder's existing policy to the prospective policy.
  - d) pay or allow or offer to pay or allow as an inducement to any person to insure any rebate of premium or commission or inducement whatsoever not specified in the policy.

## **B. EXPLANATION OF THE CONTRACT**

1. The agent shall-
  - a) explain all the essential provisions of the contract, or contracts, which he is recommending so as to ensure as far as possible that the prospective policyholder understands what he is committing himself to and the circumstances under which the policyholder is entitled to benefit.
  - b) draw attention to the long-term nature of the policy and to the consequent effects of early discontinuance and surrender.
2. Where a policy offers participation in profits, or otherwise depends on variable factors such as investment performance, description of the benefits shall distinguish between guaranteed and projected benefits.
3. Where projected benefits are illustrated, it should be made clear, where applicable, that they are based on certain assumptions, e.g. future bonus or dividend declarations and hence are not guaranteed, and these assumptions should be stated.

In the case of participating (with-profit) business, it should be made clear that bonuses/dividends declared in the future may be lower or higher than those currently quoted. Thus past performance may not necessarily be a guide to future performance.

In the case of unit-linked business, it should be made clear that unit values, and hence the value of the policyholder's benefits, may fluctuate.

4. Where an agent has been supplied with an illustration by the insurer, he shall use the whole illustration in respect of the contract which he is discussing with the prospective policyholder, and no other, and shall not add to it or select only the most favourable aspects of it. If the agent is authorised by the insurer to prepare illustrations himself, he shall prepare them in accordance with the recommendations in the appendix attached to this Code.

## **C. DISCLOSURE OF UNDERWRITING INFORMATION**

The agent shall in obtaining the completion of the proposal form or application or any other material:-

- a) avoid influencing the prospective policyholder and make it clear that all the answers or statements are the latter's own responsibility;
- b) ensure that the consequences of fraud, non-disclosure and inaccuracies are pointed out to the prospective policyholder by drawing his attention to the relevant statements in the proposal form and by explaining them himself to the prospective policyholder.



## **LIFE ASSURANCE QUOTATIONS RECOMMENDATIONS FOR BONUS AND YIELD ILLUSTRATIONS**

In preparing bonus and yield illustrations for use in life assurance policy quotations, the following guidelines should be observed.

### **Non-Linked Business (excluding Universal Life Business)**

1. The prospective policyholder should be as aware of the nature and purpose of the illustration as well as its content. He should be given a clear opportunity to read the illustrations.

The illustration shall not be based on unrealistic assumptions and should either be preceded by a suitable (and suitably prominent) cautionary statement, or alongside the bonus projection there should be clear reference to that part of the illustration which contains the cautionary statement. This statement should:-

- a) make clear the assumptions on which the rates have been projected for instance that the continuance of present rates in the future has been assumed; and
  - b) warn that future bonuses/dividends depend on future profits and cannot be guaranteed.
2. To emphasise that there is no guarantee attaching to the benefits quoted, some expressions such as "assumed bonus/dividend rates" or "projected bonus/maturity proceeds" or "maturity proceeds based on...", etc. should be used.
  3. The illustration of bonuses based on similar policies maturity at the date of illustration without suitable qualification must be questionable, bearing in mind continuing uncertainties in the economics and social outlook. Where terminal bonuses are illustrated, they should be shown as a separate item and the assumptions underlying the calculation must be stated. Illustrations of total emerging benefits, however constituted, should not be unrealistic or create a misleading impression.
  4. The spirit underlying the above provisions applies equally to retirement policies, for example in the use of the relationship assumed between salary growth and investment returns.

## Linked/Universal Life Business

1. Here again the prospective policyholder should be made aware of the nature and purpose of the illustration while he is reading it, and so there should be clear references, within the body of the illustration, to the possibility of decrease (where appropriate) as well as growth in the investments and to what the assumed rate(s) of growth include or exclude. To avoid over-elaboration, reference may also be made to a brochure describing the contract more fully.
2. Illustrations should, if possible, be provided on the assumptions of more than one rate of growth and should show clearly the rates assumed. It is recognised, however, that in the case of some complex quotations it may be impractical to do this.
3. Where several rates are used, it should be made clear that these do not represent the lower and upper limits of possibilities that may occur.
4. The illustrations of growth based on similar policies maturity at the date of illustration without suitable qualification must be questionable, but the rates of growth illustrated in any event should not exceed the average rate attained over the immediately preceding consecutive years.
5. As regards the actual levels of growth assumed, illustrations of emerging benefits shall not be unrealistic, whether they are based on rates of growth of unit values, bonus rates or interest rates. Where the value of a policy depends on the value of the underlying units, it should be stated whether the value of the units includes the reinvestment of income and whether any deduction is made from the policy proceeds for e.g. any tax liability.
6. For the same reason as for non-linked policies, there should be used some expression such as "assumed additions", "assumed growth", "projected result", etc.