3rd Issue ◆ October 2021 ◆ Insurance Authority

保險業監管局
Insurance Authority

Conduct in Focus

Conduct In Focus is a periodical publication which presents statistics and commentary on complaints received by the Insurance Authority ("IA") and examines topical issues regarding the way in which insurance business is conducted.

In this issue, we present the statistics for complaints received by the IA for the first half of 2021.

In our Practice section, we take a look at regulatory issues which can emerge when not enough attention is paid to the servicing of insurance policies after the insurance agent who arranged the policy leaves the insurance company.

In "Policyholder Corner", we review the IA's Mortality Gap Study and what it means for consumers.

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Head of Market Conduct &
General Counsel

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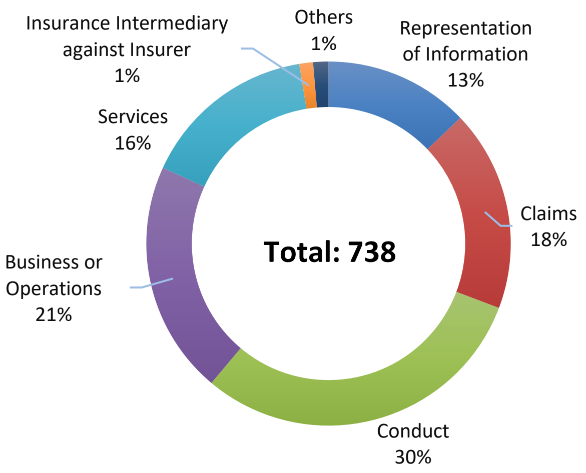
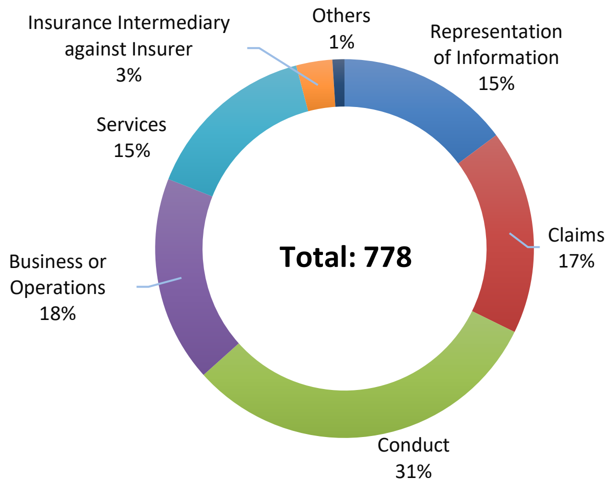
Complaints Statistics
1st January 2021 to 30th June 2021

From 1st January to 30th June 2021



From 1st January to 30th June 2020



The IA received **738 complaints during the period from 1st January 2021 to 30th June 2021 (compared to 778 over the same period in 2020)**. In terms of category, the most significant number of complaints were received in the category of "conduct".

Explanation of Complaint categories

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

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

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

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

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

Practice

When licensed insurance agents leave their appointing insurers

Licensed individual insurance agents are one of the main points of contact between the insurer they represent and the policyholders they serve. They are licensed to carry on "regulated activities". These activities cover both sales-related activities and post-sales servicing activities (such as giving advice on the exercise of any right under an insurance policy, changes of terms or conditions to the insurance policy, or making or settling any claims under an insurance policy). The exact scope of the services insurance agents perform will depend on the terms and conditions of their agency contracts with the insurer, but usually individual insurance agents are expected to provide post-sales servicing advice and support on the insurance policies they arranged. Such post-sales advice and support is often as important as pre-sales activities and may require individual insurance agents to handle personal data, medical records and names of beneficiaries under insurance policies.

But what happens to the insurance policies arranged by an insurance agent when he or she leaves the insurer? Problems can arise if an insurer does not have in place requisite processes to ensure that these insurance policies (often known as "orphan policies") continue to be serviced to the same standard as before the insurance agent's departure.

In recent months, we have seen a number of complaints arising from this issue. The complaints range from servicing and operational issues all the way up to serious misconduct.

Examples of Complaints

1. A policyholder had purchased a medical insurance policy from an insurer through an insurance agent who then serviced the policyholder for a number of years. Eventually, however, the insurance agent left the insurer. The insurer assigned a new insurance agent to service the policyholder. The new agent, however, never once contacted the policyholder. When the insurer offered the opportunity for certain existing policyholders (including the policyholder concerned) to upgrade their medical insurance to a more comprehensive coverage, the new insurance agent never informed the policyholder of the offer. Consequently, the policyholder missed out on the opportunity to upgrade his coverage and suffered prejudice.

2. A policyholder had built up significant trust in the insurance agent who sold and serviced her insurance policy. When the agent left the insurance company, a new agent was assigned as the new servicing agent. The policyholder asked if she could have a different servicing agent, but was told that the insurer's position was that she could only choose another servicing agent if she bought a new insurance policy from that agent. Even when the policyholder was eventually informed that the insurer did in fact allow her to choose a new servicing insurance agent without purchasing any new insurance policy, there was confusion between the originally assigned servicing agent and the new servicing agent, leading to sensitive personal data of the policyholder being passed between them against the policyholder's wish, when the policyholder made a claim.

3. A general insurance company failed to properly notify a policyholder that his servicing agent had left their company. This resulted in multiple problems and delay when the policyholder wanted to renew his motor insurance policy and almost resulted in a gap in coverage exposing the policyholder to the prospect of driving without having the compulsory coverage in place.

4. An insurance agent terminated his agency contract with a life insurer and the life insurer appointed a new servicing agent to service his clients. The terminated insurance agent, however, continued to pose as the agent of the insurer and collected premium payments from his former clients without paying them onto the insurer. This continued until eventually several months later the newly assigned servicing agent contacted the policyholder and the truth was discovered (by which time several months of premium had been misappropriated by the terminated agent, who then could not be found).

These examples demonstrate the importance that insurers – particularly life insurers who enter into insurance policies with long-term commitments – must give to ensuring that orphan insurance policies continue to be properly serviced when the insurance agent responsible for arranging the policy leaves their company.

Insurers and key persons in control functions for intermediary management must therefore have in place proper controls and processes to address this issue, for example by assigning a new insurance agent to service the policies in an expeditious manner. If this is the approach insurers use to address this issue, then their controls and processes should cover the following:

Controls and Processes for Policies

☑ The insurer must notify each policyholder concerned that the existing insurance agent has left the company so the policyholder knows not to deal with that insurance agent in relation to his/her insurance policies with the company any more. It is imperative that this notification reaches the policyholder as soon as possible (this could avoid extreme misconduct such as that identified in complaint no.4 above), and more than one means of notification is recommended (e.g. letter, SMS, e-mail or phone call, etc.).

☑ The insurer must also send a clear communication to the policyholder introducing the new servicing agent (including the new servicing agent's name, licence number, contact details etc.), explaining why a new servicing agent has been assigned. The insurer's customer service hotline (or other dedicated policy retention hotline) should also be provided in the communication, so that the policyholder can call the hotline if he/she has any enquiries.

☑ The insurer should give consideration as to which insurance agent to assign as the new servicing agent (for example, the insurer should consider the track record and complaints against the proposed new servicing agent before deciding to assign him or her to be the new servicing agent for orphan policies).

☑ The insurer should require the new servicing agent to communicate with the policyholders they have been assigned within a reasonable period of time of being assigned. This may assist in flushing out any issues arising from the previous agent's actions. The insurer should have a monitoring programme in place to ensure the new servicing agents have completed this step properly (e.g. tracking the acknowledgment from policyholders).

☑ The insurer should ensure that servicing agents who have been newly assigned to service policies they did not originally arrange, understand that they are required to provide services to the same standard as in relation to those policies they did arrange.

☑ The insurer should ensure that their agent's compensation structure / framework properly incentivizes new serving agents to handle and service orphan policies as required by the insurer (and penalizes them when standards of servicing are not met).

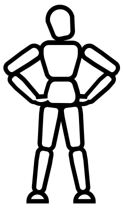
☑ The insurer should monitor and track the allocation of orphan insurance policies, the servicing of those policies and address potential problems which may arise from the assignment process. (For example, metrics such as the persistency of orphan policies, and the number of complaints received in respect orphan policies should be analyzed. Insurers should also monitor to see if a policyholder is assigned with agents who leave the company in quick succession and if so, consideration should be given to assigning serving agents with a demonstrated track record of serving customers).

In addition, technology has enabled insurers to utilize different mechanisms to service policyholders (with, for example, online self-service portals), so there are different means by which servicing of policies can take place. As best practice, therefore, insurers are encouraged to offer different channels for policyholders to communicate with them, so the policyholders can choose for themselves the most appropriate channel of communication which suits them.

Addressing the issue of orphan policies adequately so policyholders continue to be served in a fair and uninterrupted manner is imperative to the fair treatment of policyholders. Insurers (and intermediaries) with robust servicing arrangements will be rewarded many times over with loyal clients who will purchase insurance from them time and again, and even refer their friends and families to do the same.

ENFORCEMENT NEWS

The Insurance Authority has taken its first disciplinary actions.

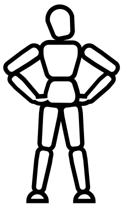


Licensed insurance broker companies failing to submit their audited financial statements

It has long been a fundamental responsibility for every licensed insurance broker company to submit their audited financial statements and auditor's reports to the regulator within 6 months of the end of each financial year. These financial documents provide important information on a broker company's financial status and compliance with key regulatory requirements and serve as an essential regulatory mechanism for ensuring that policyholder interests are safeguarded.

In May 2021, the IA fined two licensed insurance broker companies and suspended the licence of one of them, for failing to comply with this fundamental requirement.

Since these were transitional cases, in taking disciplinary action the IA was required to apply the rules of the self-regulatory body which applied at the time. Going forward, however, this type of contravention can be prosecuted as an offence under the Insurance Ordinance (Cap. 41) and may also adversely impact the fitness and properness of the broker company to continue to be licensed.



Former insurance agent reprimanded and banned from applying for a licence for 5 months

In July 2020, the IA reprimanded a former individual insurance agent and prohibited him from applying to be licensed for 5 months for contravening the Insurance Ordinance and the IA's Code of Conduct for Licensed Insurance Agents.

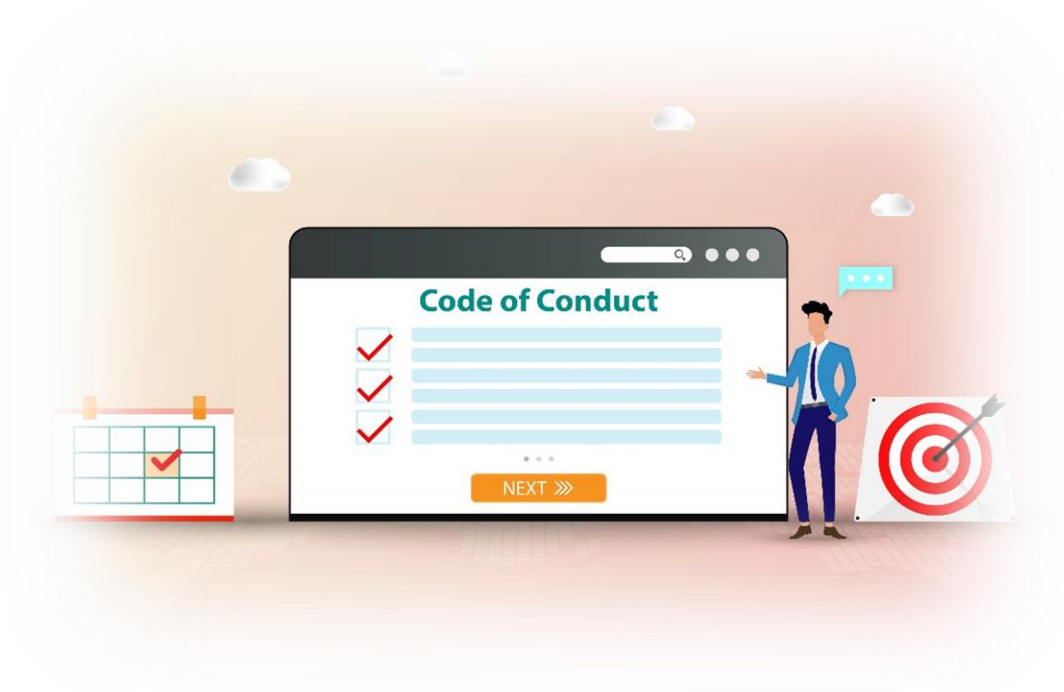
The disciplinary action arose from a message the agent sent through his social media account to everyone on his contact list on 23 January 2020 ("Message"), seeking to use the outbreak of the novel coronavirus ("COVID-19") to encourage recipients of the Message to leave Hubei Province and come to Hong Kong to escape the pandemic and take out insurance from him. The Message was sent at a time when the HKSAR Government was taking steps to limit travel from Hubei Province to prevent the spread of COVID-19. The IA received over 60 complaints about the Message.

The IA concluded that, in sending the Message, the agent had

- breached the IA's Code of Conduct for Licensed Insurance Agents in failing to comply with the policies, procedures and other applicable requirements of his appointing insurer in relation to cross-border selling practices;
- carried on regulated activity without integrity in contravention of section 90(a) of the Insurance Ordinance and undertaken an act relating to the carrying on of a regulated activity which, in the IA's opinion, was or was likely to be prejudicial to the public interest; and
- failed to exercise a level of care, skill and diligence that may reasonably be expected of a prudent person who is carrying on regulated activity in contravention of section 90(b) of the Insurance Ordinance.

As a result the former agent was found guilty of one count of misconduct under section 80(1) of the Insurance Ordinance, and not fit and proper person to be a licensed individual insurance agent. In deciding the sanction, the IA took into account all relevant circumstances, including the short duration of the misconduct, the remorse the former agent had demonstrated and his otherwise clean disciplinary record.

It is essential for the insurance market to be founded on trust. That trust depends on licensed insurance intermediaries demonstrating ethical business practices when selling and advising on insurance, through whatever medium of communication they use (whether face-to-face or social media platforms). It is imperative that licensed insurance intermediaries adhere to the ethical business practices required in the Insurance Ordinance and the relevant Codes of Conduct when carrying on regulated activities, so as to ensure trust and confidence in the insurance market is maintained and continually reinforced. The IA has no tolerance for unethical business practices and perpetrators of such practices can expect severe disciplinary penalties.



What happens when the insurance market is founded on ethics, integrity and trust?

As can be seen from the cases surveyed, the insurance regulatory regime administered by the IA demands that insurance intermediaries and insurers carry on business ethically and with integrity, principles which are essential to the trust on which the insurance market must be founded. The general principles of ethics and integrity, treating clients fairly and acting in the client's best interests, run like a golden thread through the Codes of Conduct and Guidelines which the IA has issued and are embedded into the conduct requirements demanded of licensed insurance intermediaries under the Insurance Ordinance.

These are more than just words on a page. They have to be lived by every licensed insurance intermediary and every insurance practitioner in their day to day work.

Belinda Lau (IA5043), has been a technical representative (broker) working for the same insurance broker company serving clients for over 20 years. One of her clients, V purchased a medical insurance from Belinda some years ago. Since then, Belinda met with V regularly to review her insurance needs and ensure they were kept up to date.

In 2020, V was diagnosed with cancer and had to undergo an immediate serious operation. Belinda assisted with the notification to V's insurer and advised V on coverage and the expected amount she could be reimbursed. Belinda then accompanied V to the hospital, helped her get settled in and stayed with her to listen and talk through her fears and concerns. Everyday whilst V remained in hospital, Belinda came to see V, keeping her company, encouraging her to eat what she could, helping her be sick when needed because of the side-effects of the medicine, and doing what she could to give V the courage to get through one of the hardest moments in her life.

As soon as V was out of hospital, Belinda assisted her in submitting her claim to the insurer. The claim was paid within days. But when Belinda checked the amount of the claim payment, she realized V was entitled to a greater percentage of reimbursement on one aspect of her treatment. With V's permission, Belinda contacted V's doctor to obtain the necessary clarifying documents, submitted these to the insurer and full payment was made.

A year on V has just started a new job and is getting on with life with confidence. But she will never forget the ethics, integrity and kindness shown to her by her insurance broker, Belinda, who was by her side during the most difficult period of her life.

The IA's Codes of Conduct reflect the principles of integrity and ethics shown by Belinda in acting in the best interests of her client, V. By taking disciplinary action against insurance intermediaries who contravene these requirements, the IA will protect policyholders, ensure insurance intermediaries like Belinda are supported and reinforce the trust on which the insurance market needs to be founded.

Policyholder Corner

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

Do you have a protection gap?

On 25 August 2021, the IA's research team published the findings for its first Mortality Gap Study (the "Study"). These findings showed that there is a "mortality protection gap" in Hong Kong.

In Policyholder Corner, we explain what this means to you, the policyholder.

So what is a mortality protection gap?

Under the terms of a life insurance policy, a policyholder pays premium to an insurance company and, in return, when the policyholder dies the insurance company makes a lump-sum payment to the policyholder's beneficiaries (e.g. their spouse or other family members), which they can use for financial support. This is the core purpose of life insurance: to provide sufficient financial support for your dependents (your family) when you die.

If you have a mortality protection gap, it means that when you die your life insurance payout together with your other savings and investments are not going to be sufficient to financially support your dependents.

If you have a mortality protection gap, therefore, it means you may not have sufficient life insurance cover (e.g. the death benefit under your life insurance is not enough to financially sustain your dependents if you die).

What does the IA's Study tell us about the mortality protection gap?

The Study estimates that the total mortality protection gap in Hong Kong is HK$6.9 trillion.

This means there is an estimated HK$6.9 trillion shortfall between (a) the total financial amount that all the working adults in Hong Kong need to financially support their dependents; and (b) the savings, investments and life insurance that working adults in Hong Kong actually have to support their dependents when they die.

This translates into an average shortfall of HK$1.9 million per working adult.

Does this mean I need to increase the coverage under my life insurance policy by HK$1.9 million?

Not exactly, HK$1.9 million is only the average. It is worth considering, however, whether you have sufficient life insurance to ensure your dependents will be adequately supported when you die.

Also remember this: the amount of the life insurance protection you need changes throughout the course of your life as your personal circumstances change. It depends on factors like: what stage of life you have reached, how old you are, whether you are married or in a relationship or have children (and how old they are), or have parents to take care of, or whether you have a mortgage etc.

Can you give an example of how a person's mortality protection gap (and hence life insurance needs) changes during the course of one's life?

Sure, let's take my friend Teddy as an example and look at his different stages of life.

Teddy in his twenties…

When Teddy graduated from university in this twenties, he started work as a trainee auditor. He was single and his parents were still working. Life was good. At this stage of his life, Teddy's protection needs were limited to covering the financial support he would need to provide his parents after they retired if, sadly, Teddy passed away prematurely in his twenties (and hence was unable to provide that support when his parents reached retirement).

Teddy in his thirties…

In his thirties, Teddy met Sharon. They dated, they fell in love and they got married (very romantic). Next thing you know (well nine months later) Charles, their son was born. Two years later, they had a daughter named Ella. Sharon gave up work to take care of the two children (and their pet dog). Teddy bought a bigger apartment for his family which meant him taking on a sizable mortgage loan. His parents, who had now retired, moved in with them.

At this stage of his life, Teddy's life insurance protection needs reached their peak. He had a number of dependents relying on his income to support them, but not much in the way of savings and investments (as he was still at a relatively early stage in his career and savings and investments take time to build up). If Teddy died at this time in his life, his mortality protection gap would have been sizeable, if he did not have sufficient life insurance protection.

Teddy in his forties …

In his forties, Teddy was promoted to partner in his accountancy firm. His income, savings and investments started to increase. Although he still had a number of dependents (his children, his wife and his parents), his mortality protection gap and life insurance needs started to reduce. Why? Because if Teddy died at this stage in his life, his savings and investments (which by this time, after some years, had started to build and grow) would make some contribution to financially sustaining his dependents. Also, Teddy had been able to pay down a large part of his mortgage loan through the accumulated repayments he had made.

Teddy in his fifties…

In his fifties, Teddy's parents unfortunately passed away. Sad though this was, it reduced Teddy's life insurance needs still further, as it reduced the number dependents he had. His life insurance needs reduced even further when Sharon, his wife, decided to go back to work. But Teddy still had his children, Ella and Charles to think of as they both entered university.

Teddy in his sixties…

As Teddy entered his sixties, Charles and Ella graduated and entered the job market. They were no longer dependent on their parents. By the time Teddy retires at 65, therefore, Teddy's savings, investments, pension and the fact that his dependents are off his hands, means that his life insurance protection needs have reduced to zero.

This example shows how, generally, the amount of life insurance protection a person needs changes substantially during the person's lifetime. Generally, it increases when you are younger and are acquiring responsibilities (i.e. dependents). It then peaks (as it did for Teddy in his mid-thirties) and then starts to decrease over time as a person's savings and investment increase and the number of their dependents reduces (e.g. children growing up and becoming self-reliant).

But isn't there a lot of life insurance already bought in Hong Kong? How come there is still a mortality protection gap?

Life insurance policies have evolved over the years to serve multiple different needs. In addition to offering core life insurance protection (i.e. a lump sum payout to your dependents when you die), many life insurance policies are now combined with savings and investment elements to cater for wealth accumulation and financial planning. These are, in fact, the most common life insurance policies bought in Hong Kong (and indeed many of the complaints we receive are about life insurance products with savings and investment elements).

Both pure life insurance protection and savings/ investments are relevant to the question of how your family would be sustained if you die (which is part of the reason life insurance products have evolved to include both life insurance protection and savings/investment elements). However, there may be a tendency to focus too much on the savings and investment elements of a life insurance policy during the buying process, rather than the core life insurance protection which the policy provides. This may result in an individual not having sufficient core life insurance protection. Even though significant amounts are spent of life insurance premium in Hong Kong, therefore, it remains the case that there is a mortality protection gap, on average, of HK$1.9 million per person.

What are key lessons should consumers learn from the Study?

The key lesson for consumer are this:

1. Always remember the core purpose of life insurance: to ensure that your dependents are financially sustained when you die. When buying life insurance, this should be your primary focus.

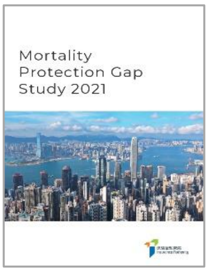
2. If the life insurance policy you are considering has a savings or investment element, do not only focus on this element. It is also important that you consider whether the actual life insurance protection the policy provides is sufficient for you both at the time you buy and throughout the course of your life. In particular, it can take many years for the savings and investment element of your policy to accumulate and grow. During this period, you also need to ensure you have sufficient life insurance protection to support your family in the event of your premature death. If you are buying life insurance through an intermediary, always make sure you ask for advice about this.

3. The amount of life insurance protection you need changes throughout your life, depending on how your individual circumstances change, the number of dependents you have and how much in savings and investments you have (as well as other factors). So it is important to regularly review your life insurance needs as your life changes.

4. Always remember, a knowledgeable consumer is an empowered consumer. The more you understand your own needs, the better your purchase will be.

Where can I learn more?

The IA's full report on the mortality protection gap can be found on our website.



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