



# Newsletter Newsletter

## The Council

**President**

Kelvin Cheung

**Vice President**

Andrew Chow

**Hon. Secretary**

Joseph Chan

**Hon. Treasurer**

William Ng

**Immediate Past President**

Michael Haynes

**Examination Directors**

Robert Stead

Irene Wong

**CPD Director**

Nick Donne

**Director, International Network**

Garrick Ho

**Director, Social & Publications**

Carol Yuen

**Hon. Legal Advisor**

Christine Koo

**Hon. Advisors**

Richard Yuen

## The Institute

The Insurance Institute of Hong Kong was founded in 1967 and is an independent professional body. It has more than 600 members.

The Institute's principle aim is to promote and advance the professionalism of the insurance industry and a well-recognised local qualification for the industry.

**Contact us :**

P O Box No. 6747  
GPO, Hong Kong  
Tel : 2520 0098  
Fax : 2295 3939  
Email : enquiry@iihk.org.hk

This issue .....**August 2004**

## Contents

- ◆ President's Letter
- ◆ Vulnerability of Insurance Sector to Money Laundering
- ◆ IIHK's Response to the Insurance Authority's Reviewing Exercise on the IIQAS/CPD Programme
- ◆ The IIHK Legal Series – new CPD Seminars
- ◆ The IIHK and the C.I.I.
- ◆ 2004 Series Two Examination
- ◆ Forthcoming Event



## PRESIDENT'S LETTER

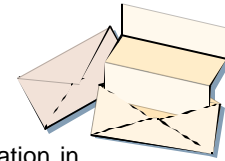
Dear Fellow members

One of the Institute's missions for this year is to reinforce the network with overseas insurance institutes and the local insurance market.

During the last couple of months, we have been working with our friendly associate, the Chartered Insurance Institute, on the possibility of joint training programmes in Hong Kong. There is no doubt that the valuable experience of CII can provide the latest insurance technique and knowledge to the Hong Kong market. In addition we also discussed with ANZIIF about the feasibility of joint programmes in Hong Kong. The IIRHK Council hopes to build up the synergy among like minded institutes and to offer more choice in insurance training to the industry. We will advise you details of these training events very shortly.

In addition to the traditional linkage with CII and ANZIIF, we also plan to establish the network among insurance training institutions in Mainland China. The first priority will be those within the Pearl River Delta area. We can share experiences in insurance training and business practice between the two different markets.

The 4-paper Diploma in Insurance Studies has been running for more than ten years. The IIRHK Council recently concluded to add one more subject. A task force was formed to develop this new paper. The



Diploma is the foundation in insurance training.

Graduates who would like further their professional study can apply for exemption from CII or ANZIIF through the mutual scheme and then start their journey with these institutes.

Another big event in this year is the "IIRHK Project Awards". This programme is to award the outstanding research and study on the Hong Kong economy and insurance market. We hope to promote more innovation and professional practice among the industry through this award. We will start to invite applications in September. Details of the programme will be announced very soon.

Finally, I would like to mention that our Secretariat will be moving into a new office which will be opened in September. The new office marks a fresh chapter of the Institute and is necessary to cope with the launch of many new projects as mentioned above. I would like to take this chance to express our deepest thanks to the Motor Insurance Bureau for their kind support to our Secretariat during the past two years.

With warm regards,

Kelvin Cheung  
President





## VULNERABILITY OF INSURANCE SECTOR TO MONEY LAUNDERING

Shara Lo / Baker & McKenzie

### Introduction

The Financial Action Task Force on Money Laundering ("FATF") conducts an annual exercise to examine the methods and trends of money laundering. The FATF is the leading global organisation responsible for the fight against money laundering and Hong Kong has played a leading role in the organisation. In the 2003/04 Report, released at the end of February 2004, a particular focus was the vulnerability of the insurance sector to money laundering. This article summarizes the conclusions regarding trends in money laundering and the insurance sector discussed in the report.

### Why are anti-money laundering measures relevant to the insurance sector?

The FATF views the insurance sector as potentially vulnerable to money laundering because of the size of the industry, the easy availability of insurance products, the diversity of products available and the distribution of products through brokers or other intermediaries who are not necessarily affiliated with or under the control or supervision of the company that issues the product. Moreover, as the beneficiary of an insurance product is often different from the policyholder and money flows through both the policyholder and the beneficiary, the performance of customer due diligence may be difficult.

An important observation made in the report concerned the relatively low number of suspicious transaction reports that

involve insurance. The FATF also observed that the amount of actual money laundering detected within the insurance industry appears to be very low in comparison the size of the industry.

### How can money be laundered by using insurance products?

In the report, several examples were put forward to illustrate money laundering activities in the insurance sector. These examples include:

- ◆ The money launderer purchased property insurance for a phantom ocean-going vessel. He paid large premiums on the policy using criminal cash proceeds. The "accident prove" owner then used falsified documents to claim damages resulting from some simulated accidents that were then fraudulently declared to the insurer. He was very careful to ensure that the claims were less than the premium payments so that the insurer enjoyed a reasonable profit on the policy. The funds received as claims now appeared to come from a reputable insurance company.
- ◆ The money launderer took out an insurance policy and then cancelled it after a few months or a couple of years at a loss or with the payment of a penalty. He would request reimbursement by cheque and sometimes that payment be made to a third party. Again, the funds would be "cleaned" as the cheque would be from a reputable insurance company.



- ◆ The money launderer took out investment-type insurance products similar to mutual funds. The policyholder then overfunded the policy, moving monies into and out of the fund at the cost of the penalty for early withdrawal or redemption. The funds would then become apparently clean since they came from an insurance company.

#### **How can insurers identify money laundering activities?**

Some potential warning signs are :

- ◆ The policyholder being more interested in the cancellation terms than the benefits of the policy
- ◆ The use of cash for large single premiums and/or receipts of premiums from offshore and/or lightly or unregulated financial intermediaries
- ◆ The policyholder making one or several overpayments of the policy premiums and requesting that any reimbursement be paid to a third party
- ◆ Frequent change of beneficiaries
- ◆ Early surrender of investment type policies, especially where this defies economic logic

#### **Conclusion**

One important theme that arose from the report is that general insurance business is not necessarily less readily susceptible to money laundering activities than the life

insurance business, including investment-linked policies. As noted from the examples above the amount of money laundered through the general insurance business sector can be potentially significant.

One remark made in the report is that further work is necessary to better understand and determine specific vulnerabilities across the whole insurance sector (not just with regard to life insurance). Therefore, it is advisable for all insurers, those engaging in life insurance business and general insurance business alike, to be familiar with the Guidance Note on Prevention of Money Laundering and its Supplement issued by the Office of the Commissioner of Insurance in Hong Kong. Although the Guidance Note focuses on the life insurance business (including investment-linked policies), the suggestions regarding prevention of money laundering are also useful to the general business insurers.

If you have questions concerning the matters raised in this article, please contact Shara Lo at 2846-2433 or email : shara.lo@bakernet.com.



## INSURANCE INTERMEDIARIES QUALITY ASSURANCE SCHEME (IIQAS) CONTINUING PROFESSIONAL DEVELOPMENT (CPD) PROGRAMME

The Insurance Authority is currently conducting a review on the CPD programme in order to enhance its effectiveness. The IIHK, in its capacity of representative in the IIQAS Steering Committee, has prepared the response below in response to I.A.'s exercise. We would like to share these comments with our members since CPD concerns many of us in the insurance industry.

### Credit requirement

#### Non-core credits

Non-core CPD requirement gives intermediaries freedom of choice in that they are given a wide range of topics, insurance and non-insurance, to choose from for personal development. IIQAS is not alone in this respect; many professional bodies provide CPD of this nature in their members' continued development.

10 non-core credits a year with an equivalent of 30 hours' non-accredited activities or of 10 hours' accredited activities might have made the 30 hours of non-accredited activities look horrendous. Most activities falling in the non-core definition would be non-accredited e.g. a language course on Putonghua. This comes about when providers are not treating insurance intermediaries as their target trainees or when accreditation could drive up their fee to a non-competitive level.

Something can be done in this connection. We suggest removing the distinction between accredited and non-accredited activities. All activities can be required to be accredited and this makes the credit-hour conversion on a one-on-one basis. HKCAA may need to revise its rate further down if this is made mandatory for all non-

core activities. In this case, non-core credits are simplified and intermediaries will need only 10 hours' defined non-core CPD activities a year.

#### Core credits

Five core credits is a moderate requirement, though the topics for core-credit can be widened to a broader range of insurance issues.

However, in the unlikely event that non-core credit activity is to be scrapped, we think core credits should be increased from the present 5 credits to make the Scheme meaningful. However, this will have an implication on cost to the employers as most of them subsidize their staff on core-credit activities either in terms of money or in terms of time.

### Scope of Activities

This has been mentioned in the previous section. As explained, we feel core credit activities can be expanded. The current adherence to 'legal and regulatory' matters is too restrictive. Intermediaries may end up attending same or similar courses; though this may not necessarily be the case if they have checked the list of courses at HKCAA website.



We support Elearning activities as one way to achieve credits. E-learning, with a proper self-monitoring set-up, removes a lot of pressure on learners' travel and activity scheduling. Busy businessmen need this learning interface. If local providers do not currently have the necessary expertise in providing such courses, we should allow overseas providers with proven records to operate locally and to be supported/ administered by local providers.

The recent paper from HKCAA shows a lot of apprehension over the E-platform's ability to check the authenticity of the actual learners in front of the screen. Whilst doing E-learning right the first time is understandable, this might also have the drawback of stifling the growth of this means of learning if too many technical requirements (e.g. those on biometrics) are put in.

### **Quality**

Quality is as quality does. We feel that there are enough checks and balances within the HKCAA system on administrative control. On intermediaries' feedback like boredom, monotony, and waste of time etc., the range of topics they are allowed to choose from may be the main cause. Widening the scope of core credits should introduce some improvements.

Another suggestion is to put in summative assessment at end of attendance. Whilst putting in summative assessment 'forces' intermediaries to be more earnest, this may have an undesirable effect on license renewal as intermediaries will have this one more hurdle to overcome. Employers' operation will then be affected. It is

difficult to force one to learn in a course, one can only be motivated to do so. Again, broadening the scope of CPD activities may be a way of addressing the issue.

### **Relevance**

There should be a channel whereby the agent and broking fraternities be allowed to convey topics and issues to the IA and the Accreditation Body. Web notices or announcement can be posted by Accreditation Body for providers' considerations.

Cost and time in accreditation are also important issues because topical issues require economical and fast track approval. Many good topics are given up because visiting speakers cannot stay and wait or the cost of accreditation is simply too high for a one-off 2-hour delivery (minimum HK\$8,000).

### **Other suggestions**

The CPD requirement is a big step forward to show to the public the continued requirement on insurance intermediaries to keep themselves abreast of changes and to strengthen their technical knowledge. We are still at the early stage of the scheme and it needs time to let all concerned to settle down. The Insurance Authority is responsive to changing needs and the CPD requirement has already been amended once. It is advisable not to change the requirements yet again within such a short time to avoid confusion amongst CPD participants and the public.

One more suggestion is that the HKCAA should be asked to lower their



accreditation fee when the current contract expires or a local insurance body should be allowed to do the accreditation.

**Conclusion:**

We support the requirement of a simplified non-core credit requirement. Core-credits can be expanded to include insurance products, insurance principles and

practices. E-learning should be allowed and be promoted as much as possible.

It may also be time to consider the use of an insurance body to take up the accreditation role. Mechanism should be set up to let stakeholders, viz. intermediaries, suggest topics for core credits.◆◆◆

---

## THE IIRK LEGAL SERIES - NEW CPD SEMINARS

---

The Institute continues its “Legal Series” of seminars with an average delivery of once per month for the intermediaries in Hong Kong. All our seminars are fully accredited for “core” credits. We have the ability to deliver the talks in either English or Cantonese however the demand at present appears to be English therefore we concentrate on this language.

We are pleased to note that each seminar is fully subscribed and we are currently seeking a suitable larger venue to eliminate the usual waiting list. However, please note that we can only accept reservations upon receipt of your payment – not just the completed booking form.

In order to add variety to the list of seminar topics we are currently having a further four subjects accredited by the HKCAA. We are extremely grateful to the following law firms for supporting this programme : -

- |                                    |   |                     |
|------------------------------------|---|---------------------|
| <b>Johnson Stokes &amp; Master</b> | - | <b>M.P.F.</b>       |
| <b>Clifford Chance</b>             | - | <b>Liability</b>    |
| <b>Clyde &amp; Co</b>              | - | <b>Marine</b>       |
| <b>Munros</b>                      | - | <b>Motor Claims</b> |

This brings to 14 the number of core accredited seminars which allow the Institute to offer a reasonable spread of topics.

If any member wishes to suggest further topics please do not hesitate to inform us. However, in order to be relevant for “core” accreditation the seminar and subject must be linked to Hong Kong legal and regulatory issue – i.e. concerning local ordinances.

Lastly we thank all our volunteer legal practitioners who give their time and energy to our cause – without you we have no “legal series”.◆◆◆



## THE IIHK AND THE CII

For many years our Institute has been affiliated with the Chartered Insurance Institute in London. Our relationship can be traced back a long way and can be evidenced by the links we have for our Diploma of Insurance Studies and the CII examinations where we receive cross exemption for our subjects.

The C.I.I.'s Associateship and Fellowship qualifications are recognized globally and have become the benchmark for professionalism in insurance.

Looking to the future the relationship between the two organizations is set to become even stronger. Your Institute has recognized that the C.I.I. has a huge library of extremely valuable information which would be useful to you in your day-to-day operation. Also the C.I.I. has an extensive selection of CPD type material which has been designed for its members.

We are pleased to announce that the IIHK will be offering a selection of C.I.I. material as "non-core" accredited CPD seminars, workshops or courses. We are in the process of having over 70 hours of material locally accredited and this should be available from September onwards.

This non-core material will include topics such as Alternative Risk Transfer, Marine Hull, Liability & Cargo, Liability of all types including the American exposures, and more over the coming years. We are also discussing with the Insurance Authority how to bring on-line (or E-learning) CPD to Hong Kong.

In addition to these technical subjects we shall be offering revision classes for some C.I.I. modular examinations and support for anyone wishing to become involved with the C.I.I.

The IIHK's Diploma of Insurance studies remains the initial stepping stone towards the C.I.I. qualifications. It is our intention to review all of C.I.I.'s exams. with a view to localizing them in respect of legislative references, case law and the like. Whilst this may take some time to cover all courses the end result will be a globally recognized local qualification.

We very much look forward to our expanded co-operation with the C.I.I. and hope our members will find the connection of real value.◆◆◆



## 2004 SERIES TWO EXAMINATION

The 2004 Series Two Examination will be held during Oct/Nov 2004. Enrolment invitation will be sent to all Institute members and insurance companies before the start of the enrolment period. If you are interested in enrolling into the next examination, please visit the IIHK web site [www.iihk.org.hk](http://www.iihk.org.hk) to download the enrolment form.

**Enrolment period :**

**September 1, 2004**

**to**

**October 8, 2004**

### EXAMINATION TIMETABLE

Subjects	Date of Exam.	Time
i) Introduction to Insurance (100)	<a href="#">Oct 28, 2004</a>	6:30 pm – 9:30 pm
ii) Legal Principles (120)	<a href="#">Oct 29, 2004</a>	6:30 pm – 9:30 pm
iii) Principles & Practice of Insurance (110)	<a href="#">Nov 4, 2004</a>	6:30 pm – 9:30 pm
iv) Insurance of the Person (130)	<a href="#">Nov 5, 2004</a>	6:30 pm – 9:30 pm

### New Rule for Enrolment - Late Entry

With effect from the 2004 Series Two Examination, late entry will be accepted with a late entry fee. Any Enrolment submitted after the deadline and up to 14 calendar days' before the respective day of the examination, a late entry fee of HK\$100 per subject will be charged in addition to the normal fees. This is subject to places being available at the examination venue and in no event will the Institute accept enrolment in the said 14 days before the examination.



FORTHCOMING EVENT :



**The 2004 Bowling Tournament**

**Coming soon in November**

Look out for details and make early registration for an evening of fun!