



Newsletter Newsletter

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The Institute

The Insurance Institute of Hong Kong was founded in 1967 and is an independent professional body. It has more than 500 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.


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Mr Y. O. Choi

This issue **September 2002**

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Let us know if you
have any interesting
articles....insurance
news.....etc.



President's Letter

The Insurance Institute of Hong Kong has been undergoing something of a change lately. As you will know IIHK was formed 35 years ago and in that time has been the foremost provider of insurance education by means of its "Diploma in Insurance Studies". Many of today's market practitioners have developed their skills by starting with our Diploma examinations.

With the arrival of CPD (Continuing Professional Development) the Institute has decided to provide additional services to its members. The newly accredited "Legal Series for Insurance Intermediaries" comprises nine seminars each worth 2 x core credits. These will be run continuously through the year and will be presented by lawyers from Hong Kong's major practices.

In addition to the legal series do not forget that by taking the Institute's Diploma examinations this also allows core credits.

To provide improved service to our members and to ensure CPD events are professionally organized the Institute has persuaded Mr Y.O. Choi to join us as a full time Executive Secretariat. Y.O. has been involved with the Hong Kong insurance market for over 40 years and we are delighted to welcome him to our team.

Elsewhere in this newsletter you will note that the Institute is widening its contact base and linking with more international organisations. We have become part of the prestigious Institute for Global Insurance Education - more details within.

We have also created links with the Beijing Central University of Finance & Economic to provide lectures to their students whilst on study tours to Hong Kong.

Whilst all these changes are occurring we continue to honour our traditions. The annual dinner is already booked for the 13th March 2003 (note in your diary!) and soon you will receive notice of our annual 10-pin bowling tournament - always a sell-out event.

In line with our development we saw the need for certain changes in the titles of Council Members which are listed on the front cover. Lastly, please do visit the web site at www.iihk.org.hk where we will provide latest information for you and our non-members.

Mike Haynes
President



Continuing Professional Development (CPD)

As we all know the concept of CPD has arrived at the doorstep of insurance intermediaries. This has been a fact of life for other professions such as lawyers, accountants and medical personnel for some years, but it is new to us in Hong Kong.

For those who do not know the details they are as follows : -

Each year commencing 1st January 2002, every insurance intermediary in Hong Kong must complete 10 "core credits" and 20 "non-core credits". Evidence of achievement must be kept in original format and may need to be produced when random checks are made by the authorities.

Credits are achieved by attendance at seminars, workshops, or courses; by taking related examinations and other relevant topics.

Such qualifying events must have been accredited by the Hong Kong Council for Academic Accreditation (HKCAA). A list of such approved courses can be found on their web site at www.hkcaa.edu.hk.

Failure to comply with the requirement may lead to refusal of renewal of registration/authorisation or de-registration / de-authorization of the insurance intermediary concerned.

The IIR is actively involved in the provision of accredited topics which are available to all parties. (Please note members of the Institute have booking preference and a reduced attendance fee.)

There are two major areas where the IIR can provide core credits : -

- ✓ *The IIR's "Diploma of Insurance Studies". This examination course of four key subjects is recognized as a core credit. Enrollment in these examinations should fulfil the annual core credit requirements.*
- ✓ *The IIR's "Legal Series for Insurance Intermediaries"*

This legal series contains nine (9) separate seminars of two hours duration each and attendance at any one will earn 2-core credits.

The seminars will run at different times throughout the year - and more regularly if all available places are filled - and any intermediary can select his/her five most relevant subjects and attend sufficient to achieve annual requirements.

Prior booking is essential as there is a high demand for places.

In order to enrol for the legal series please download the Enrolment Form from our web site, complete the



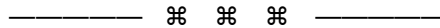
required details and post together with your cheque, to the Insurance Institute.

The latest list of courses and the next available dates is found below.

The cost has been maintained at a minimum and is currently HK\$80 per

hour for non-members and \$65 per hour for members - certificate of attendance included.

Any queries please call our Secretariat, Mr Y.O. Choi at 25200098.



The "Legal Series" comprises the following 9 topics each carrying 2 Core Credits (Accreditation HKCAA Ref : 80/38/02).

1. Investment-linked Assurance Schemes in Focus	Thursday Sept 12 th , 2002
2. MPF Overview and Update	Thursday Oct 3 rd , 2002
3. Motor Insurance - motorist's duty and rights under a motor policy	Thursday Nov 14 th , 2002
4. Employees' Compensation Insurance - Practical Issues from Insurer's Perspective	Thursday Dec 12 th , 2002
5. Director's & Officer's liability insurance	Scheduled January 2003
6. Construction Insurance and Contractor's Legal Liabilities	Scheduled February 2003
7. Defending Personal Injuries Claims - the Basic	Scheduled March 2003
8. The duties of insurance brokers and the duty of utmost good faith	Scheduled April 2003
9. E & O Awareness - A Broker's Professional Liability	Scheduled May 2003

The cost for each seminar is : HK\$130 for IIHK members.
HK\$160 for non-members.



Become a member and enjoy reduced seminar costs.

Please visit our web site www.iihk.org.hk to download the membership application form.

Annual membership fee currently stands at HK\$120.



China's non-life insurance market: paving the way for new challenges

by Lillian Cheung, PhD - Senior Economist
Economic Research & Consulting (Asia)
Swiss Re

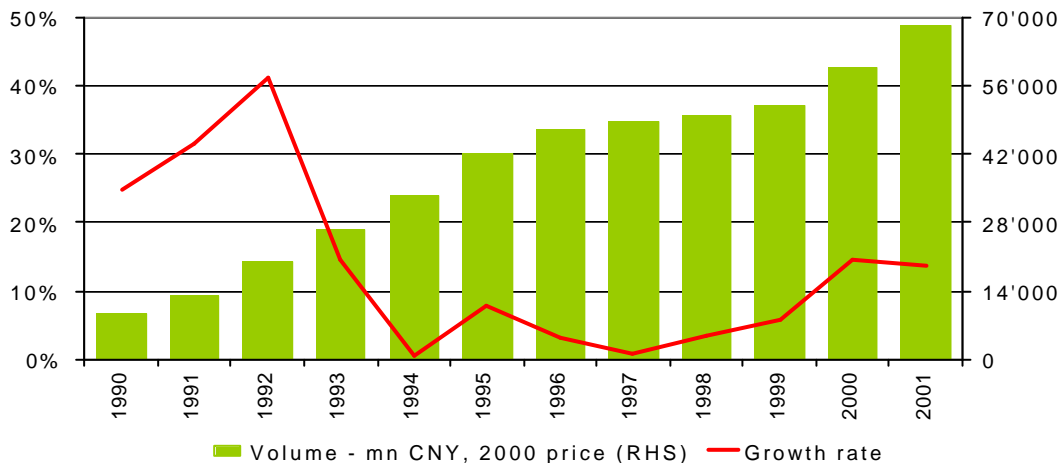
Market developments

Since the resumption of domestic insurance business in 1980, China's non-life insurance market has been growing by an average annual rate of 21%, from a mere CNY290 million to CNY68.5 billion in 2001 (Chart 1). Despite the rapid growth over the past two decades, insurance penetration rate and density remained low at 0.7% and USD6.8 respectively.

Market structure and behaviour

China's non-life insurance market is highly concentrated. It is dominated by the People's Insurance Company of China (PICC) which accounted for 77% of non-life direct premiums in 2000. Together with China Pacific and Ping An, the top three domestic insurers have a market share of 96%. So far, foreign insurers have gained only a small share of China's non-life insurance market, accounting for a

Chart 1. Non-life real direct premiums in China



The development of the insurance industry in China also shows significant regional disparities. Shenzhen, being one of the more developed regions of China, recorded a penetration rate of 1.36% in 2000 while Jiangsu, a less developed province, has penetration rate of only 0.47% in the same year.

mere 0.9% of total direct premiums written in 2000. As at end-2000, there were nine domestic companies (including three composite insurers) and eight foreign branches. Only four of the nine domestic companies are authorised as national insurers who can conduct business on a nation-wide basis while the rest are regional players. With the exception of AIG



which has branches in Shenzhen and Foshan, all foreign branches are confined to Shanghai and Guangzhou. Since China's accession to the WTO in December 2001, China has awarded new licences to a number of foreign non-life insurers.

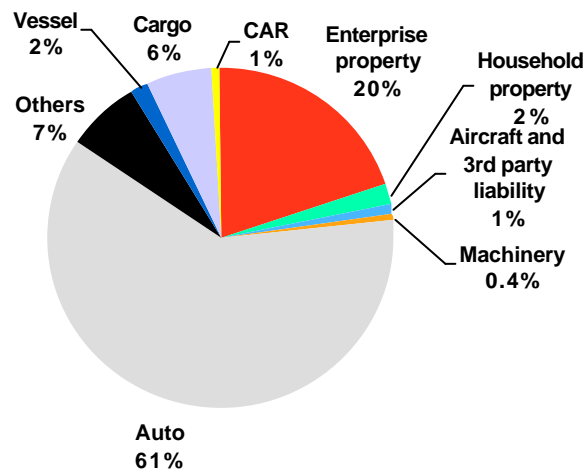
The major lines of business in China's non-life insurance market are motor, fire and marine which accounted for 61%, 22% and 9% of 2000 premiums respectively (Chart 2). To date, the market is dominated by commercial lines, with personal lines including individual motor, household property, travel insurance remaining highly underdeveloped. Nevertheless, there has been growing interest in household property business recently, with a number of domestic insurers offering more comprehensive policies distributed through bank branches.

insurers have been competing for market share and tend to undercut prices in order to fulfil top-line growth targets. As a result, underwriting quality has been neglected while premium rates have been declining. Profitability has suffered from unhealthy price competition and was only supported by the rapid growth in new business.

Distribution

The majority of the non-life insurance business is distributed by company agents. There have been professional insurance intermediaries in China until recently and insurance brokers have yet to gain wide recognition. As at the end of 2001, there were 10 insurance brokers in China. E-commerce is only just developing in China's non-life insurance market although almost all insurers have established their web

Chart 2. Non-life premiums split in China, 2000



Competition has been very intense in China's non-life insurance market, and has driven prices down to unhealthy levels in some cases. Domestic

presence and some have even started online sales. Bancassurance in the non-life insurance market is likewise in its very infancy. Strategic alliances



between banks and insurance companies have been established to provide complementary services such as premiums payments through banks and debit/credit card issuance to insurance company clients.

Regulatory environment

The insurance industry is supervised by the China Insurance Regulatory Commission (CIRC) which was established to replace the former regulator — Insurance Division of the People's Bank of China — in November 1998. China's regulatory system is focused on rate and form control rather than on solvency. At present, basic clauses and insurance rates for major lines of business are set by the CIRC, while other rates and forms are discretionary but have to be filed with the Commission. Nevertheless, motor rates have been liberalised in the Guangdong province as a pilot project, and this practice is expected to spread to other parts of the country. In terms of investment channels, insurers are currently restricted to five financial assets—bank deposits, government bills/bonds, financial bonds, corporate bonds and equities. The latter two are subject to further restrictions including limits as a proportion of total assets. There has been a call for greater flexibility and more channels in investing insurance funds in order to improve and enhance the asset value of policyholders.

Upon its accession to the WTO, China has committed itself to the following

liberalisation measures in the non-life insurance industry:

- Foreign non-life insurers will be permitted to establish as a branch or as a joint venture with 51% foreign ownership;
- Within two years after the accession, foreign non-life insurers will be permitted to establish as a wholly-owned subsidiary;
- Foreign insurers will be allowed access to key cities upon accession and more cities after two years, with all geographical limits on insurance licences eliminated within three years after the accession;
- Upon accession, foreign non-life insurers will be permitted to provide 'master policy' insurance/insurance of large scale commercial risks, and to provide insurance of enterprises abroad and property insurance and credit insurance of foreign-invested enterprises;
- Within two years after the accession, foreign non-life insurers will be permitted to insure all types of risks;
- Upon accession, insurance licences will be issued based on 'prudential criteria', with no limits on the number of licences issued.

China's legislators are now making amendments to the Insurance Law to further streamline regulation of the sector. The draft laws have been submitted to the Standing Committee of the National People's Congress in June 2002, and are expected to be



introduced later this year. Future measures are likely to be implemented to shift regulation from rate and form focused to solvency based. The CIRC has plans to establish an actuarial system for property insurance and reinsurance in one or two years. In the face of increasing foreign competition, CIRC has also been encouraging eligible domestic insurers to seek strategic alliances with foreign players or list on the stock market to improve competitiveness.

Challenges and outlook

The growth potential of China's insurance sector is expected to be substantial — reflecting the country's huge catch up potential and the gradual withdrawal of the state from its role as an ultimate risk carrier. With enormous need for infrastructure, growing property ownership, better-defined property rights and increasing awareness of legal rights, non-life insurance covers, particularly liability, personal property and credit insurance are likely to widen significantly. In terms of distribution, the new era of China's insurance industry will feature multi-channel distribution including e-commerce and bancassurance.

The WTO entry represents a major step forward in China's insurance market development. Although the opening-up is gradual, these commitments are far-reaching and will ease restrictions for foreign insurers in three main areas that used to be heavily controlled — market entry, geographic operations and business

scope. While this will undoubtedly create more business opportunities for foreign insurers, some serious restrictions remain. Non-life Insurers, for example, will continue to be excluded from underwriting motor business, which accounts for more than half of the total non-life premiums in China.

Likewise, domestic insurers have to reposition themselves in an increasingly competitive marketplace. Intensifying competition will exert further downward pressure on premium rates. As a result, effective expense and risk management will be increasingly crucial to sustain growth in insurers' bottom line. Domestic insurers are also faced with an urgent task in training and retaining insurance professionals. The limited supply of insurance professionals in China has rendered insurers difficult to keep their staff who are constantly being attracted to foreign companies by better remuneration and training programmes.



Institute for Global Insurance Education (IGIE)

IGIE was formed in 1997 with its founder members being the American Institute for Chartered Property Casualty Underwriters (CPCU), the Chartered Insurance Institute (CII) the Insurance Institute of America (IIA) and the Insurance Institute of Canada (IIC). It is a group of not-for-profit organisations concerned with education and training for insurance professional worldwide.

There are now 21 member organisations from 15 countries including LOMA (Life Office Management Association) and our own IIHK.

There is a common goal amongst IGIE members to address the development and recognition of insurance education standards. The frequent exchange of experiences and information will allow standards to be set and developed thus ensuring qualifications are internationally acceptable, and portable.

The IIHK will benefit greatly from associations with these larger educational organisations in terms of examinations, CPD content and general background.

Women in Business

The Institute has recently been having dialogue with the Home Affairs Bureau of the Government which is seeking to encourage our lady members to participate in the work of advisory and statutory bodies.

Advisory bodies refer to boards and committees whose main function is to advise the Government on certain areas of work. Statutory bodies refer to public corporations, statutory authorities and other organizations established by legislation to perform certain public functions.

Should any of our lady members be interested in contributing to the work of advisory and statutory bodies, please give your name, address and telephone number to our Secretariat Mr. Y O Choi and we will forward all the information to the Government for action.

Contact :
Y O Choi

Tel : 2520 0098 Fax : 2295 3939

Email : enquiry@iihk.org.hk



Diary these :

IIHK Annual Dinner

March 13th 2003

J.W. Marriott
Hotel,
Pacific Place,
Hong Kong



IIHK Annual Bowling Tournament
to be held in
November 2002

Please look for
details on our web
site www.iihk.org.hk

Bancassurance Conference

A conference on Bancassurance will be held in Singapore on the 7th/8th November 2002.

The Insurance Institute is officially endorsing the event and should any reader be interested to receive details from us please contact Mr Y.O. Choi on 2520-0098 or by email on enquiry@iihk.org.hk.