

**IFPHK's Response to the Insurance Authority's
Consultation Paper on Draft Guidelines on the (1) Fit
and Proper Criteria for Licensed Insurance
Intermediaries under the Insurance Ordinance (Cap. 41)
and (2) Continuing Professional Development for
Licensed Insurance Intermediaries**

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IFPHK's Profile





Background

The Institute of Financial Planners of Hong Kong ("IFPHK") was established in June 2000 as a non-profit organization for the fast-growing financial industry. It aims to be recognized in the region as the premier professional body representing those financial planners that uphold the highest standards for the benefit of the public.

The IFPHK is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited ("FPSB") to grant the much-coveted and internationally-recognized CFP^{CM} certification and AFPTM certification to qualified financial planning professionals in Hong Kong and Macau.

It represents more than 6,800 financial planning practitioners in Hong Kong from such diverse professional backgrounds as banking, insurance, independent financial advisory, stockbroking, accounting, and legal services.

Currently there are more than 147,000 CFP certificants in 24 countries/regions; the majority of these professionals are in the U.S., Canada, China, Australia and Japan, with more than 4,700 CFP certificants in Hong Kong.

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IFPHK's interest in this consultation

The Institute of Financial Planners of Hong Kong ("IFPHK") was established in June 2000 as a non-profit organization for the fast-growing financial industry. It aims to be recognized in the region as a professional body representing those financial planners that uphold the highest standards for the benefit of the public. The IFPHK is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited to grant the much-coveted and

internationally-recognized CFP^{CM} Certification and AFPTM Certification to qualified financial planning professionals in Hong Kong and Macau. In view of the growing demand for knowledge in retirement planning products, the IFPHK, in 2016, pioneered in offering a retirement-centric qualification – the Qualified Retirement Advisor (“QRA”) – focusing on products and practical skills.

It is the IFPHK’s mission to promote the importance of financial planning. Financial planning refers to the process of setting, planning, achieving and reviewing life goals through the proper management of finances. Insurance is considered the cornerstone of financial planning. The effective and proper use of insurance products helps spread risk, which can minimize the impact of risk on families should events take a downturn. Insurance is therefore an important part of the IFPHK’s financial planning education and certification programme. Having knowledgeable insurance practitioners, proper consumer understanding of what insurance policies do, effective products, and financially sound underwriters is essential for those who seek financial planning.

In Hong Kong, financial planners work in different segments within the financial services industry. Financial planners can be insurance agents working in insurance companies, insurance brokers working in insurance brokerages, or Independent Financial Advisors (“IFAs”). At present, about 41% of the IFPHK’s members work in the insurance industry and 9% work as IFAs.

As the leading professional institute representing the interests of the financial planning industry, the IFPHK has a duty to respond to any consultation paper that may impact its members and their clients. The IFPHK has previously provided feedback on the Consultation Papers “[Proposed Establishment of an Independent Insurance Authority](#)” and “[Financial Services and the Treasury Bureau Consultation Paper on Key Legislative Proposals on Establishment of an Independent Insurance Authority \(“IIA”\)](#)”. The IFPHK always strongly supports the establishment of an Independent Insurance Authority, which we would consider to be the most important breakthrough of Hong Kong’s financial industry. We have provided our comments on the draft guidelines on both the fit and proper criteria for licensed insurance intermediaries, and their continuing professional development at the soft consultation stage, and have interest in this public consultation paper.

IFPHK’s representation

The IFPHK was founded by 30 members (the “Founding Members”) to raise the standards of financial planners and highlight the importance of sound financial planning.

The IFPHK currently has 35 Corporate Members, including banks, financial advisors, insurance companies and securities brokerages. With our Corporate Members providing a full spectrum of client services and products, the IFPHK is well positioned to understand the needs, concerns and aspirations of the financial planning community.

Executive Summary

On 28 September 2018, the Insurance Authority (“IA”) launched a two-month public consultation on draft guidelines on the (i) Fit and Proper Criteria for Licensed Insurance Intermediaries under the Insurance Ordinance (Cap. 41) (“F&P Guideline”) and (ii) Continuing Professional Development for Licensed Insurance Intermediaries (“CPD Guideline”) in preparation for the commencement of the new regulatory regime for insurance intermediaries. The Submission deadline is 30 November 2018.

Under the new regime, which is expected to start by mid-2019, the IA will take over the regulation of insurance intermediaries from the three Self-Regulatory Organizations (“SROs”). The key proposals set out in this Consultation Paper include the following:

- To set a minimum basic education standard for all new applicants
- To require responsible officers to possess at least a bachelor or higher degree from a recognized university or tertiary education institution
- To recognize online or e-learning CPD activities
- To require a minimum of 15 CPD hours, including 3 compulsory CPD hours on “Ethics and Regulations” per annum

In addition, and to aid smooth transition, insurance intermediaries who are validly registered with the SROs immediately before the commencement of the statutory licensing regime will be regarded as deemed licensees for three years. Moreover, deemed licensees will not be subject to the minimum basic education requirements.

In recognition of the contributions and the value of longstanding industry practitioners, the IA proposes to exempt deemed licensees from the proposed minimum basic education requirements. The IA also suggests that deemed licensees with at least 15 years of industry experience be exempt from the new education requirements for becoming responsible officers under the new regime.

In considering the various proposals of the Consultation Paper, the IFPHK’s comments are based upon the following principles and beliefs:

Enhancing consumer protection and financial literacy

As financial products get more complex and sophisticated, it is of utmost importance that investors/consumers are provided with proper and adequate protection under a sound and effective regulatory system. The IFPHK supports a regulatory system that would facilitate delivering better insurance products and services to the benefit of members of the public, as well as protecting them. As already stated, well informed and educated consumers are the core elements that form a healthy regulatory system. Hong Kong ranked third in 2017 globally for insurance penetration, calculated by premiums in % of GDP¹. Despite the relatively high penetration rate of insurance products in the Hong Kong market and a reasonable growth in premiums over the years, the general understanding of insurance products and how they could be used effectively in one's financial planning remains poor. It is the IFPHK's view that improved financial literacy levels will not only allow consumers to make more informed investment decisions, but also result in a greater consumer appreciation of planning for a long-term financial future – a concept the IFPHK continuously promulgates.

Raising the professional standards of intermediaries

The IFPHK has always believed that qualified intermediaries and well-informed and educated consumers, together with a robust framework for regulating sales processes, should form the core pillars for assurance for the benefit of the investing public. If the professional standards of financial intermediaries do not keep up with the demands of the market, even if all the measures proposed are implemented, Hong Kong would not be able to maintain its reputation as an international financial centre and therefore grow its financial services industry. Since its inception, the IFPHK has been striving to promote public awareness of the financial planning industry in Hong Kong and uphold the standard of CFP professionals by providing guidance notes and continuously improving the certification program. In view of the growing importance of retirement planning, the IFPHK introduced the QRA certification to uphold practitioners' knowledge in this area.

Ensuring a level playing field across the financial services industry

The IFPHK believes that a failure to implement a consistent approach across the industry could result in significant negative consumer and industry consequences. The IFPHK is frequently urged by industry professionals to highlight the need for implementing a consistent approach across the

¹ Insurance premiums represented 17.94% of GDP in 2017, of which 14.58% were in the life business and 3.36% in the non-life business.

industry to establish a level playing field among all financial planners/advisors in the different distribution segments.

Maintaining and enhancing the competitiveness and diversity of the insurance market

Hong Kong ranked third in 2017 globally for insurance penetration, calculated by premiums in % of GDP². As Asia's insurance hub, Hong Kong has attracted many of the world's top insurance companies. As at 30 June 2018, there were 160 authorized insurers in Hong Kong, of which 93 were pure general insurers, 48 were pure long term insurers and the remaining 19 were composite insurers. As at 30 June 2018, there were 2,410 insurance agencies, 63,931 individual agents and 25,668 responsible officers/technical representatives. There were 774 authorized insurance brokers as at 30 June 2018. In addition, as at 30 June 2018, there were 8,964 persons registered as chief executives/technical representatives of these authorized brokers³. The insurance market in Hong Kong is very competitive, and it is somewhat surprising that such a small place is able to accommodate over 70,000 practitioners. The IFPHK has always stressed that a regulatory framework should deliver measurable benefits to the insurance industry in the medium to long term. It should also enable a healthy and sustainable business environment for the industry to thrive and develop in. To preserve fair competition and diversity within the market, the IIA should not only be progressive and adhere to international standards when formulating its supervisory principles and details, but should have an explicit responsibility to strike a balance between regulation and market growth, keeping in mind the difference in business nature and operation model of the various market participants.

According to the above principles, the IFPHK generally supports the proposals. Besides, we have specific comments on the proposals that are set out as follows:

- The IFPHK agrees that the minimum education and professional qualification requirements for individual licensees should be clearly defined. We also agree with the proposal that requires responsible officers to attain at least a bachelor degree.
 - However, we have concerns over the list of acceptable insurance qualifications. The IFPHK recommends the IA to clearly set out the eligibility requirements of acceptable insurance qualifications, e.g. number of required learning hours, minimum entrance

² Insurance premiums represented 17.94% of GDP in 2017, of which 14.58% were in the life business and 3.36% in the non-life business.

³ Statistics from the Insurance Authority

requirements, assurances of certification bodies, etc. Moreover, we believe CFP^{CM} Certification and AFPTM Certification are qualified to be part of the list.

- With its depth on insurance and financial planning coverage, the AFPTM certification should be eligible to be listed on the exemption list for the Insurance Intermediaries Qualifying Examination (“IIQE”) paper.
 - A roadmap should be set up to review and revamp the licensing examination for insurance practitioners.
- Whilst the IFPHK thinks the proposed new experience requirements for responsible officers are appropriate, we consider that such experience should be five years of full-time experience.
 - To ensure proper management supervision and to avoid conflicts of interests, the IFPHK also hopes that the IA should prohibit responsible officer from part time employment, engagement of multiple employers and acting as a sales person.
 - To build a robust regulatory framework, we agree there should be a set of professional competence requirements for firms. Nevertheless, the IA should take into account the varying sizes of the firms. The IA could help smaller firms by publishing guidance notes, standard questionnaires, etc.
- The IFPHK welcomes the proposals to increase minimum CPD hours to 15 hours per year and to include three CPD hours related to Ethics or Regulations. Since its inception, the IFPHK has required CFP Certificants to complete 15 CPD hours annually. In 2012, the IFPHK started requiring CFP Certificants to complete two CPD hours per year on ethics and compliance. Notwithstanding our agreement to the proposals, we have specific comments below on the guidelines:
 - The IA should publish specific requirements for Type 7: CPD Activities, as the criteria for being a qualified industry body are unclear.
 - The IA should itself take up the role of CPD Assessment Authority, instead of outsourcing this role to the Hong Kong Council for Accreditation of Academic and Vocational Qualifications (“HKCAAVQ”).
 - E-learning should be restricted to certain straight forward topics.
 - Electronic training records, such as digital certificates, should be accepted as documentary evidence.
 - Firms should be required to regularly audit and assure licensees’ training records.

- With greater accountability, responsible officers should be required to complete more CPD hours for compulsory topics.

To lessen the impact on insurance practitioners, the Consultation Paper sets out transitional arrangements for existing insurance practitioners. While the IFPHK understands the intention to make the transition to the new regulatory regime smooth for existing practitioners, we urge that waivers to deemed licensees be limited to minimum education requirements only. The IA still needs to perform due diligence on other fit and proper factors, such as reputation and integrity.

Nevertheless, the IFPHK objects the proposal to exempt minimum education requirement of a responsible officer who is technical representatives with 15 years of experience. We believe that they shall subject to the same requirements of a new applicant.

The IA Consultation

On 28 September 2018, the Insurance Authority (IA) launched a two-month public consultation on draft guidelines on the (i) Fit and Proper Criteria for Licensed Insurance Intermediaries under the Insurance Ordinance (Cap. 41) (“F&P Guideline”) and (ii) Continuing Professional Development for Licensed Insurance Intermediaries (“CPD Guideline”) in preparation for the commencement of the new regulatory regime for insurance intermediaries. The Submission deadline is 30 November 2018.

It is expected that by mid-2019, the IA will take over the regulation of insurance intermediaries from the three Self-Regulatory Organizations (SROs). Under the new regime, a person will require a licence granted by the IA to carry on regulated activities. A person must be fit and proper in order to be licensed, and this requirement is an ongoing process.

The draft F&P Guideline outline the key criteria and matters that the IA will normally consider in determining whether a person is fit and proper. These criteria can be broadly grouped into the following three categories:

- (i) the person’s education, qualifications or experience
- (ii) the person’s reputation, character, reliability and integrity
- (iii) the person’s financial status or solvency

The draft CPD Guideline aim to standardize, modernize and update the existing CPD requirements applicable to insurance intermediaries in line with the new statutory requirements.

The two draft guidelines propose certain changes to the current requirements. The major proposals include setting minimum education requirements for individuals licenced under the new regime in order to ensure that they have the necessary language proficiency and numerical skills.

An individual licensee should have attained Level 2 or above in five subjects (including Chinese Language or English Language, and Mathematics) in the Hong Kong Diploma of Secondary Education Examination. The IA also proposes accepting a range of professional qualifications and other education qualifications as an alternative means of satisfying the minimum education

requirements. In addition, responsible officers of insurance agencies and broker companies should hold a bachelor degree or higher from a recognized university or tertiary education institution since they are subject to higher levels of responsibility under the new regime.

The IA proposes raising the minimum CPD hours requirement for individual licensees from 10 hours to 15 hours per annum, of which at least 3 hours must relate to ethics or regulations. Moreover, online or e-learning courses would be recognised for up to five CPD hours.

Insurance intermediaries who are validly registered with the SROs immediately before the new regime commences will automatically be deemed to be licensees for a transitional period of three years. Chief executives / responsible officers would also be deemed to be responsible officers under the new regime.

In recognition of the contributions and the value of longstanding industry practitioners, the IA proposes to exempt deemed licensees from the proposed minimum education requirements. The IA also suggests that deemed licensees with at least 15 years of industry experience be exempt from the new education requirements for becoming responsible officers under the new regime.

The Consultation Paper contains 9 questions in 5 Chapters, which are set out as below:

Chapter 1 - Introduction

Chapter 2 – Fit and Proper Requirements

Chapter 3 – Proposed Fit and Proper Criteria

1. Do you agree that the proposed new minimum education and professional qualification requirements for individual licensees are appropriate?
2. Do you agree that the proposed new minimum education and professional qualification requirements for responsible officers are appropriate?

3. Do you agree that the proposed new experience requirements for responsible officers are appropriate?
4. Do you agree that the proposed professional competence requirements for firms are appropriate?

Chapter 4 – Proposed CPD Requirements

5. Do you agree that the proposed increase of minimum number of CPD hours from 10 to 15 hours per year is appropriate?
6. Do you agree that the proposed introduction of a minimum number of CPD hours for compulsory topics, i.e. “Ethics or Regulations”, is appropriate?
7. Do you agree that the assessment period should run from 1 August of the relevant year and end on 31 July of the following year?

Chapter 5 – Transitional Arrangements

8. Do you agree that the proposed relaxations for individual licensees who are deemed licensees are appropriate?
9. Do you agree that the proposed transitional CPD requirements for individual licensees who are deemed licensees are appropriate?

IFPHK's Submission

The views expressed in this submission paper are not necessarily simply summaries of the views taken from the industry. They have undergone independent and critical analysis and consideration by the IFPHK as a professional body. As a result, not all the views collected by the IFPHK are recorded in this submission paper. Nor have all the views expressed in this paper been directly endorsed by the industry representatives or members consulted.

In considering the various proposals of the Consultation Paper, the IFPHK's comments are based upon the following principles and beliefs:

IFPHK's Principles

Enhancing consumer protection and financial literacy

The IFPHK regards that the reputation of the financial planning industry has been unfairly tarnished after the financial crisis due to varying standards of sales practice and professionalism. The confidence of consumers has not been restored after the crisis. In 2016, a territory-wide study by the IFPHK with GfK found that only 18% of respondents said their confidence in the markets had been fully restored after the 2008 Lehman Brothers incident.⁴ According to the latest trust barometer report of Edelman, trust in financial services has been continuously declining in Hong Kong. The index has dropped from 55% to 47% this year, representing general population distrust of financial services institutions. Meanwhile, informed public trust in financial services has seen a double-digit decline, with Hong Kong's index decreasing by 15% to 48%.⁵

As financial products get more complex and sophisticated, it is of utmost importance that investors/consumers are provided with proper and adequate protection under a sound and effective regulatory system. The IFPHK supports a regulatory system that would facilitate delivering better insurance products and services to the benefit of members of the public, as well as protecting them. As already stated, well informed and educated consumers are the core elements that form a healthy regulatory system. For a market to perform effectively and for consumers to be protected properly, a fundamental understanding of how these products work is

⁴ The Value of Financial Planning and Awareness of CFP Certification: A Global Financial Planning Survey Hong Kong Results, FPSB and GfK, 2016

⁵ 2018 Edelman Trust Barometer

essential. As such, there is a need to enhance financial literacy and the benefits of insurance protection in any financial plan.

Hong Kong ranked third in 2017 globally for insurance penetration, calculated by premiums in % of GDP⁶. Despite the relatively high penetration rate of insurance products in the Hong Kong market and a reasonable growth in premiums over the years, the general understanding of insurance products and how they could be used effectively in one's financial planning remains poor. The IA stated in the Consultation Paper that insurance intermediaries, with their direct contact with clients, can help promote consumer protection by assisting them make better informed decisions about the products they buy. It would make sense for the IIA to work together with the intermediaries to champion this for the medium to long term benefit of the market and consumers.

It is the IFPHK's view that improved financial literacy levels will not only allow consumers to make more informed investment decisions, but also result in greater consumer appreciation of planning for a long-term financial future – a concept the IFPHK continuously promulgates. Over the past years, the IFPHK has worked towards these objectives and has a track record of advocating on the provision of financial education to consumers. In May 2010, the IFPHK submitted a response to the Government's public consultation on the proposed establishment of an Investor Education Council. In response to the 2009-2010 budget consultation, the IFPHK submitted a proposal urging the Government to consider providing funding for creating an all encompassing financial literacy program. To encourage and recognize organizations that have invested in promoting financial planning education, the IFPHK introduced the first ever IFPHK Financial Education Leadership Awards in 2018. Many insurers were recognized at the event for their commitment and investment in investor education.

Raising the professional standards of intermediaries

After the Lehman Brothers Minibond crisis, some regulators tightened regulation with the objective of enhancing protection to the investing public. The IFPHK has always believed that qualified intermediaries and well-informed and educated consumers, together with a robust framework for regulating sales processes, should form the core pillars for assurance for the benefit of the investing public. If the professional standards of financial intermediaries do not keep up with the demands of the market, even if all the measures proposed are implemented, Hong Kong would not

⁶ Insurance premiums represented 17.94% of GDP in 2017, of which 14.58% were in the life business and 3.36% in the non-life business.

be able to maintain its reputation as an international financial centre and therefore grow its financial services industry. Since its inception, the IFPHK has been striving to promote public awareness of the financial planning industry in Hong Kong and uphold the standard of CFP professionals by providing guidance notes and continuously improving the certification program⁷. In view of the growing importance of retirement planning, the IFPHK introduced the Qualified Retirement Advisor certification to uphold practitioners' knowledge in this area.

The IFPHK has a long history of providing professional training to insurance practitioners. Since 2006, we have offered 1,836 courses for 4,981 hours, covering 186,518 participants. Last year, we conducted 209 CPD courses for 580 hours for 33,801 insurance practitioners.

Ensuring a level playing field across the financial services industry

It should be noted that the key assumption throughout this submission is that the proposed changes in legislation should be adopted consistently by all financial intermediaries servicing retail consumers operating in the IFA, banking and insurance sectors. The IFPHK believes that a failure to implement a consistent approach across the industry could result in significant negative consumer and industry consequences. The IFPHK is frequently urged by industry professionals to highlight the need for implementing a consistent approach across the industry to establish a '**level playing field**' among all financial planners/advisors in the different distribution segments, i.e. banking, insurance and independent financial advisors. We have already expressed our views in our responses to various consultation documents. The IFPHK strongly believes that such a consistent approach would significantly reduce any regulatory arbitrage that could potentially undermine the good intention of protecting investors.

⁷ In 2006, with contributions from the patrons of leading industry practitioners and experts, the IFPHK published *the IFPHK Practice Guide for Financial Planners*. The Guide is the first set of guidance materials for financial planners to practice in Hong Kong. To supplement this effort, the IFPHK also launched the first *Guidance Notes, Suitability of Advice Obligations: Documenting your Financial Advice* for members. The IFPHK also participated in a global job analysis review and international studies on financial planning job skills analysis. Through this process, the IFPHK gained professional insights into core characteristics and practices vis-à-vis Hong Kong's financial planning practitioners and international CFP professionals. Based on the results of the job analysis, the IFPHK has made considerable efforts in revamping the certification programs. In June 2011, the IFPHK introduced Associate Financial Planner ("AFP") certification to attract the broader population of the financial planning industry and thus raise the overall standard of the industry.

Maintaining and enhancing the competitiveness and diversity of the insurance market

Hong Kong ranked third in 2017 globally for insurance penetration, calculated by premiums in % of GDP⁸. As Asia's insurance hub, Hong Kong has attracted many of the world's top insurance companies. As at 30 June 2018, there were 160 authorized insurers in Hong Kong, of which 93 were pure general insurers, 48 were pure long term insurers and the remaining 19 were composite insurers. As at 30 June 2018, there were 2,410 insurance agencies, 63,931 individual agents and 25,668 responsible officers/technical representatives. There were 774 authorized insurance brokers as at 30 June 2018. In addition, as at 30 June 2018, there were 8,964 persons registered as chief executives/technical representatives of these authorized brokers⁹. The insurance market in Hong Kong is very competitive, and it is somewhat surprising that such a small place is able to accommodate over 70,000 practitioners. The IFPHK has always stressed that a regulatory framework should deliver measurable benefits to the insurance industry in the medium to long term. It should also enable a healthy and sustainable business environment for the industry to thrive and develop. To preserve the fair competition and diversity of the market, the IIA should not only be progressive and adhere to international standards when formulating its supervisory principles and details, but should have an explicit responsibility to strike a balance between regulation and market growth, keeping in mind the difference in business nature and operation model of the various market participants.

⁸ Insurance premiums represented 17.94% of GDP in 2017, of which 14.58% were in the life business and 3.36% in the non-life business.

⁹ Statistics from the Insurance Authority

Questions raised in the Consultation Paper

Chapter 3 - Proposed fit and proper criteria

Chapter 3a. education and professional qualifications for all individual licensees

Under the current regime, individual insurance agents and insurance brokers are required to comply with a minimum education requirement, namely completion of Form 5 level or its equivalent. This education requirement was set a long time ago and does not specify the minimum number of passes required. As such, the IA has proposed minimum basic education standard for all new applicants with specific requirements¹⁰. In addition, in recognition of the value of professional qualifications to the industry, the IA also proposes to accept insurance qualifications awarded by professional bodies such as the Life Office Management Association (“LOMA”) and the Chartered Insurance Institute (“CII”) as fulfilling the minimum education requirements. Annex 1 of the F&P Guideline set out a list of proposed acceptable insurance qualifications. Finally, the IA proposes to retain the existing requirement that individual licensees must pass the relevant papers of the Insurance Intermediaries Qualifying Examination (“IIQE”).

Question 1:

Do you agree that the proposed new minimum education and professional qualification requirements for individual licensees are appropriate?

IFPHK’s Response

To modernize the regulatory framework, the IFPHK agrees that minimum education and professional qualification requirements for individual licensees should be enhanced and clearly

¹⁰ Proposed minimum basic education standard for all new applicants:

- level 2 or above in five subjects in the HKDSE; and
- of these five subjects, the following two subjects are compulsory:
 - 1) one language (being either Chinese or English); and
 - 2) Mathematics

The IA also proposes to accept any of the following diplomas as fulfilling the minimum education requirement:

- International Baccalaureate Diploma;
- Diploma Yi Jin;
- a diploma granted by a recognized local degree-awarding higher education institution in relevant disciplines; and
- a diploma registered or exempted under the Non-local Higher and Professional Education (Regulation) Ordinance (Cap. 493) in relevant disciplines.

defined. Generally, we agree with the proposed requirements but we have some specific comments below for your consideration:

1. Acceptable insurance qualifications

It is stated that in recognition of the value of professional qualifications to the industry, the IA proposes to accept insurance qualifications awarded by professional bodies such as the Life Office Management Association (“LOMA”) and the Chartered Insurance Institute (“CII”) as fulfilling the minimum education requirements. Annex 1 of the draft F&P guideline contains a list of acceptable insurance qualifications. **We have concerns with regard to the above proposed exemptions.**

Firstly, the IA does not provide specific requirements in writing with regard to achieving acceptable qualifications in Annex 1¹¹. We would like to remind the IA that there are numerous “professional qualifications” available in the market with varying standards. In order to be transparent and fair, the IA should publish a set of criteria for acceptable qualifications that meet the IA’s minimum education requirements.

At present, out of the 120 hours in the AFP certification program, 22 hours focus on insurance planning. Meanwhile, 40 hours of Course 2 of the CFP certification program focus on insurance planning. Together, this equates to 62 classroom hours on insurance planning. Insurance elements are also embedded in Course 4, which focuses on advanced financial planning. Moreover, questions on insurance planning represent 20% and 31% of the questions in the CFP certification foundation examination and CFP Level 1 certification examination, respectively. Therefore, the IFPHK is confident that CFP certificants have spent sufficient learning hours on insurance topics that meet the proposed minimum education requirements of the IA.

Secondly, we have noted that all the acceptable qualifications listed presently are related to life insurance or actuaries. Please note that insurance intermediaries are increasingly engaging in activities that are not related to traditional life products. In fact, the majority of insurance practitioners are nowadays engaged in financial planning activities. Recognizing the need to raise the professional standard so as to meet the increasing consumer demand for financial planning and retirement planning, the IA should consider expanding the scope of acceptable insurance

¹¹ Criteria examples include the number of required learning hours, the certification requirements, the governance of the certifying body, and the required standard of certification process.

qualifications to include qualifications that are related to Financial Planning or Retirement Planning. Alternatively, the IA could still require holders of the acceptable insurance qualifications to sit the IL paper of the IIQE.

The IFPHK considers that CFP^{CM} certificants and AFPTM certificants all go through a rigorous certification process in which they must fulfill 4E requirements, which include education, examination, experience and ethics requirements. The certification process has also been regularly audited by the Financial Planning Standard Board (“FPSB”). Hence, we feel that CFP certifications and AFP certifications should fulfill the minimum education requirements proposed by the IA. In view of the above, **the IFPHK recommends the IA to clearly set out the eligibility requirements of acceptable insurance qualifications, e.g. the number of required learning hours, the minimum entrance requirement, the assurance of the certification body, etc. By publishing the requirements in writing, we believe that CFP^{CM} Certification and AFPTM Certification are sufficiently qualified to be part of the list.**

2. Add AFPTM certification to the exemption list of regulatory examinations

An applicant must obtain a pass mark in the relevant papers of the Insurance Intermediaries Qualifying Examination as specified in Annex 2 of the draft F&P Guideline unless otherwise exempted. Certified Financial Planner is one of the qualifications in which the holder is granted exemption from the requirement to pass the IL Paper of the IIQE.

The IFPHK developed the Associate Financial Planner certification in 2011 and we believe holders of this certification have reached the competence level required to grant an exemption from the IIQE paper. AFP Certification equips financial industry practitioners with a wide range of core competencies in financial planning that caters to their everyday professional needs. The minimum entry requirement of the AFP certification is a bachelor degree. Candidates with a bachelor degree can take the examination directly since they are exempt from the 120-hour AFP Certification Education Program. However, AFP certificants are also required to go through a rigorous certification process to ensure they have fulfilled the education, experience, examination and ethics requirements. **Thus, we consider AFPTM Certification to be sufficiently qualified to be part of the exemption list.**

3. Review and revamp the regulatory examination

In 2015, global research firm GfK conducted a consumer survey jointly with the FPSB. Of the 1,005 consumers surveyed in Hong Kong who were all broadly interested in financial planning, only a fifth of them were confident that they will reach their financial life goals. In particular, 47% of consumers said they were interested in retirement planning services. This is consistent with the finding that financial planning is a key element that consumers seek out when they engage with financial industry intermediaries.

While the regulatory examinations for insurance intermediaries cover many areas relating to the insurance industry, and there is no doubt that the examination ensures that intermediaries meet the minimum standard required under the current examination curriculum for insurance intermediaries, the strong consumer demand for financial planning services dictates that insurance intermediaries possess financial planning skills, which will also better prepare them for practising in ever so sophisticated financial markets. In 2016, the IFPHK wrote to a letter to the OCI captioned “Financial planning skills should be enhanced in the licensing requirements for insurance intermediaries”. We suggest that the OCI conduct a job analysis of insurance intermediaries on a regular basis and to review the licensing examination to ensure practitioners have acquired the necessary level of competence. From the IFPHK’s member sentiments survey in 2017, 67.18% of the respondents supported the proposed policy that financial planning be included in the scope of the licensing examination. **Consistent with our advocacy principles, we urge the IA to set up a roadmap to review and revamp the licensing examination for insurance practitioners.**

Chapter 3b. education and professional qualifications for responsible officers

Under the current regime, the minimum education requirement for a responsible officer of an insurance agency and for a chief executive of an insurance broker is exactly the same as that of an individual insurance intermediary. However, the IA considers that responsible officers should be subject to higher education requirements.

The IA proposes to require a responsible officer to possess at least a bachelor or higher degree from a recognized university or tertiary education institution.

Noting that a number of insurance practitioners either already hold recognized professional qualifications or aim to obtain such qualifications as part of their career development, and appreciating the value of such qualifications, the IA also proposes to accept a holder of insurance qualifications, such as Associate or Fellow of the Chartered Insurance Institute (“ACII/FCII”), as fulfilling the minimum education requirement.

In order to encourage more experienced technical representatives to become approved responsible officers, the IA proposes to exempt technical representatives with 15 years of experience on the commencement date of the new regime from the requirement of holding a bachelor’s degree.

Question 2:

Do you agree that the proposed new minimum education and professional qualification requirement for responsible officers are appropriate?

IFPHK’s Response

We agree with the proposal of requiring responsible officers to attain at least a bachelor degree from a recognized university or tertiary institution. For other comments on the proposals, please refer to our response to Question 1.

Chapter 3c. experience requirements for responsible officers

The IA considers it necessary for responsible officers (both of licensed insurance agencies and of licensed insurance broker companies) to have adequate experience in the insurance industry and business management. The IA proposes to require the responsible officer(s) of a licensed insurance agency or licensed insurance broker company to possess industry and management experience which is commensurate with the nature, complexity and scale of the business of such firm. Generally speaking, a licensed technical representative (agent) or a licensed technical representative (broker) possessing a minimum of 5 years of industry experience and 2 years of management experience will be considered to have met the minimum experience requirements for approval as a responsible officer.

Question 3:

Do you agree that the proposed new experience requirements for responsible officers are appropriate?

IFPHK's Response

We agree that a responsible officer should possess a minimum of 5 years of experience in the insurance industry. It is stated in the draft F&P Guideline, when assessing the relevant experience, the IA will consider the role and functions to be undertaken by the person whether the person's experience will enable him/her to discharge the responsibilities required of a responsible officer. However, the IFPHK thinks such experience should be 5 years of **full time** experience and is currently full time employed by the firm. Please note that as part time employment is quite common in the insurance industry, the IFPHK considers that only full time employment will enable a staff member to appropriately discharge his/her management responsibilities. To avoid doubt, the IA should state this specificity clearly in the draft F&P guideline.

With reference to the practice of the SFC, in assessing whether a person is fit and proper to be or remain licensed as a responsible officer, the SFC will also consider (among other things) whether the person is able to devote sufficient time to his or her duties as a responsible officer, and to properly manage any potential conflicts of interest arising from any other capacities or business interests of that person. The SFC is unlikely to be satisfied that a person will be fit and proper to be licensed to act for more than one licensed corporation, unless the licensed corporations are in the same corporate group or owned by the same controlling shareholders. Similarly, there will be significant conflict of interest concerns if a responsible officer applicant also acts as a director of, or an external consultant or compliance advisor to, other licensed corporations or applicants.¹² We believe that part-time employment did impair a responsible officer's ability to discharge his or her duties. A Responsible Officer works as a sales person as well as a management also lead to the issues of conflicts of interests. The IFPHK hopes that the IA could prohibit responsible officer from part time employment, engagement of multiple employers and acting as a sales person.

¹² Circular to Licensed Corporations on Responsible Officers and Substantial Shareholders, 2 Jun 2017

Chapter 3e. professional competence requirements for licensed insurance agencies and licensed insurance broker companies

The IA proposes to assess the professional competence of a firm including whether the firm is in a group or carries on other business, has suitable corporate governance, has effective internal controls and risk management procedures, and has adequate policies and procedures in relation to recruitment, training and supervision of staff. Recognizing that there are many types of firms and the need for proportionate supervision, in conducting its assessment, the IA proposes to take into account the scale of business, nature of insurance services and products and number of licensed technical representatives (agent) or licensed technical representatives (broker). A firm needs to have a sufficient number of responsible officers to be able to comply with the increased obligations under the Ordinance.

The IA will assess the competence of a firm which is, or is applying to be, a licensed insurance agency or a licensed insurance broker company with regard to the following aspects:

- (a) Group companies and firms carrying on other business
- (b) Corporate governance
- (c) Internal controls and risk management

Question 4:

Do you agree that the proposed professional competence requirements for firms are appropriate?

IFPHK's Response

We agree that the IA should set out specific standards to assess competence of a firm similar to the SFC's assessment of licensed corporations. As stated in our previous consultation paper submission on the establishment of an Independent Insurance Authority, one of our principles is maintaining and enhancing the competitiveness and diversity of the insurance market. A regulatory system should encourage fair competition and provide a competitive environment for different types of participants. A regulator must implement a consistent approach across the industry to establish a level playing field among all players. If there is a level playing field for both smaller and innovative firms, then competition will be enhanced.

There were 774 authorized insurance brokers as at 30 June 2018. In addition, there were 8,964 persons registered as chief executives/technical representatives of these authorized brokers as at 30 June 2018. The average size of these insurance brokers is 12. Notwithstanding their small average size, these insurance brokers helped to maintain the diversity and competitiveness of the market. In assessing the competence of these small size brokers, the IA may take a pragmatic approach on the assessment. For brokers that cannot satisfy all the requirements set out in the draft guideline, the IA may consider approving these firms with conditions. In addition, **the IA may consider publishing guidance to small size firms in order to help them comply with the requirements.**

To facilitate the application process, **the IA should consider providing standard risk questionnaires or audit programs to the applicants to ensure consistencies and clarity on information collection.**

Chapter 4 - Proposed CPD Requirements

Proposed annual CPD hour requirement

The IA proposes to increase the CPD requirements for individual licensees, except for technical representatives (agent) engaging in restricted scope travel business, as follows:

- a. to increase the minimum number of CPD hours from 10 to 15 per annum; and
- b. to introduce compulsory CPD activities of at least 3 hours of training related to a topic which falls under “Ethics or Regulations”.

Proposed recognition of online/e-learning activities

Online training has become very popular and technological advancement has allowed the development of enhanced controls to prevent abuses. In order to provide options and flexibility to licensees, the IA proposes to recognize online/e-learning courses as qualified CPD activities for up to a maximum of 5 hours annually provided that the design and structure of these activities include robust controls to detect and avoid fraudulent logins or attendance. This will allow individual

licensees to attend such activities at a time and place that suits their individual needs and those of their principals (if any).

Proposed qualification of technical training

The IA proposes to allow additional activities relating to technical subjects to be CPD qualified. The non-exhaustive list set out in paragraph (i) of Schedule I to Annex 1 of the CPD Guideline now reads: “*Other disciplines which are directly related to the work of insurance intermediaries, such as investment, law and legal knowledge, finance, Fintech, business, commerce, management, technical subjects (such as engineering and medical knowledge) or communication skills.*” Through this proposed broadening of CPD accredited activities, the IA hopes to encourage licensed insurance intermediaries to acquire more relevant specialist knowledge.

Proposed recognition of activities organized by the SROs

On CPD activities, certain SROs have suggested that in view of their experience, the existing arrangement whereby CPD courses organised by the SROs need not to be assessed by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications (“HKCAAVQ”) should continue under the new regime. The IA proposes to accept this suggestion and extend the recognition to courses offered by other professional/statutory bodies.

Proposed CPD assessment period

The IA proposes that the CPD assessment period will run from 1 August of a year to 31 July of the following year for all individual licensees (i.e. licensed technical representatives (agent), licensed technical representatives (broker) and licensed individual insurance agents). This proposal aligns with the assessment period adopted by the IARB.

Question 5:

Do you agree that the proposed increase of minimum number of CPD hours from 10 to 15 hours per year is appropriate?

IFPHK’s Response

It is proposed that individual licensees are required to attend Qualified CPD Activities to earn not less than 15 CPD hours in each Assessment Period, including a minimum of 3 CPD hours related

to a topic which falls under Ethics or Regulations. The IFPHK welcomes the enhancement and considers it to be the right direction to enhance the professional standard of the insurance industry. It is also consistent with the IFPHK's practice.

All CFP^{CM} certificants are required to renew their certification annually in order to continue using the CFP marks. To renew their certification, they must maintain technical competence and fulfill ethical obligations. They must complete a minimum of 15 credits of continuing education (CE) every year (2 of which must be obtained from CE programs on compliance or ethics), in order to stay current with developments in the financial planning profession and better serve clients.

Since its inception, the IFPHK has required certificants to complete 15 hours of CE. In 2012, the IFPHK started requiring CFP certificants to complete 2 CPD hours on compliance or ethics. Notwithstanding our consensus to the proposals, we have additional comments as set out below:

a) Type 7: CPD Activities Organized by the IA/ Financial Regulators/ Law Enforcement Agencies/ Independent Statutory Bodies/ Industry Bodies

The IFPHK would like the IA to set out the specific requirements of the industry bodies. Similar to our comments on acceptable insurance qualifications, there are different industry bodies that contribute a lot to the development of the insurance industry. We believe the IFPHK, for example, also qualifies as one of these contributory industry bodies.

As aforementioned, financial planners can be insurance agents of insurance companies or insurance brokers working in insurance brokerages or independent financial advisors ("IFAs"). At present, about 41% of the members of the IFPHK are working in the insurance industry and 9% work as IFAs. Most importantly, the IFPHK has a long history of providing professional training to insurance practitioners. Since 2006, we have offered 1,836 courses for 4,981 hours, covering 186,518 participants. Last year, we conducted 209 CPD courses for 580 hours for 33,801 insurance practitioners.

In addition, the IFPHK has been an approved CPT provider recognized by the SFC since 2007. We believe that the IFPHK is eligible to be an approved CPT provider that could be made exempt from the CPD Assessment Authority's approval requirements for each CPD course. In order to be

fair and to provide a level playing field, we recommend that the IA publish the specific criteria required in order for the various industry bodies to be recognized providers of CPD activities.

b) CPD Assessment Authority

The Hong Kong Council for Accreditation of Academic and Vocational Qualifications (“HKCAAVQ”) is the proposed CFP Assessment Authority, which is consistent with current practices. We understand that in the past, the SROs had no capacity and ability to assess CPD courses and, as such, the assessment duties were outsourced to the HKCAAVQ. With the establishment of an Independent Insurance Authority, however, the IA could take up the role of CPD Assessment Authority. The IA could refer to the practice of the SFC, for example. The Academic and Accreditation Advisory Committee (“AAAC”) of the SFC is responsible for the assessment of approved CPD providers. The IFPHK has been on the approved list since 2007¹³. We believe that the IA has adequate resources and authority to be an assessment authority.

c) E-learning

While the IFPHK understands that technology has helped make training more accessible, e-learning cannot totally replace face-to-face training. We think the IA should further restrict the scope of Qualified CPD Activities conducted by e-learning. Apart from a restriction of 5 CPD hours, only selected topics (e.g. Insurance Laws and Regulations, Ethics and Related Issues) that are straightforward should be allowed to be attained via e-learning.

d) Training records

All CFP^{CM} certificants are required to renew their certification annually in order to continue using the CFP marks. To renew their certification, they must maintain technical competence and fulfill ethical obligations. They must complete a minimum of 15 credits of continuing education (“CE”) every year (2 of which must be obtained from CE programs on compliance or ethics), in order to stay current with developments in the financial planning profession and better serve clients. It is stated in draft CPD Guideline 3.7 that individual licensees are required to properly retain sufficient documentary evidence in support of their attendance or completion of all Qualified CPD Activities reported to the IA on their CPD Declaration Forms for a minimum of 3 years after the end of the relevant Assessment Period. It is also stated that documentary evidence may include the relevant

¹³ [https://www.sfc.hk/web/EN/files/LIC/cpt_provider/List%20of%20Approved%20CPT%20Providers_eng_v2\(clean\)_Final.pdf](https://www.sfc.hk/web/EN/files/LIC/cpt_provider/List%20of%20Approved%20CPT%20Providers_eng_v2(clean)_Final.pdf)

certificate of attendance or graduation, report on examination results and coursework assessment. In view of the advancement of technology and the promotion of a paperless environment, **we suggest that the IA accept electronic training records such as digital certificates, online training records, etc.** We understand that while it is impossible for the IA to list all the options in the Guideline, we hope the IA can provide clarity on any acceptable training record formats via some FAQs.

Since its inception, the IFPHK has required certificants to complete 15 hours of CE every year. In 2012, the IFPHK started requiring CFP certificants to complete 2 CPD hours annually on ethics and compliance. In this regard, we perform sample audits every year and suspend the certifications of those who cannot fulfill the CE requirement. Indeed, we have stringent procedures for monitoring CE.

Whilst we know it is impossible for the IA to check every CPD record, it is the responsibility of insurance corporate intermediaries to ensure all the licensed persons registered with them duly complete the annual CPD requirements. Thus, the IA should include such requirements in the supervision guideline.

Question 6:

Do you agree that the proposed introduction of a minimum number of CPD hours for compulsory topics, i.e. “Ethics or Regulations”, is appropriate?

IFPHK’s Response

The IFPHK agrees with the proposal. In 2012, the IFPHK already required CFP certificants to complete 2 CE hours on ethics and compliance every year. We believe that few associations (or even regulators) mandate certificants to complete CPD on ethics and regulation. As such, the IFPHK is a pioneer in advocating and raising the ethical standards of the industry.

Responsible Officers (“ROs”) of insurance intermediaries are part of the management and have legal liabilities. Therefore, the IFPHK considers it appropriate to require ROs to complete more CPD hours annually on compulsory topics.

Question 7:

Do you agree that the assessment period should run from 1 August of the relevant year and end on 31 July of the following year?

IFPHK's Response

The IFPHK has no further comments regarding the proposed assessment period.

Chapter 5 Transitional Arrangements

All pre-existing insurance intermediaries validly registered with the SROs immediately before the commencement of the statutory licensing regime will be deemed as licensees under the new regime for a transitional period of three years¹⁴. The IA will, staggered over the three-year transitional period, invite deemed licensees (both individual licensees and firms) to submit applications to the IA for the granting of formal licences and approvals. The IA intends to require such deemed licensee firms to provide only basic business, financial and management information to the IA in support of their application (rather than provide the full information that a firm applicant for a new licence would be required to provide).

Exemption of minimum education requirements

The IA proposes to exempt the following two types of persons from the proposed new minimum education requirements:

- a) deemed licensees; and
- b) former individual insurance intermediaries who were validly registered with the IARB, CIB or PIBA at any time during the two-year period immediately before the commencement date of the new licensing regime.

Such exemption will apply in respect of renewal of their licences as well as their subsequent applications for licences so long as they have not ceased to be engaged in insurance-related work in the insurance industry in Hong Kong for two consecutive years or more.

The IA also proposes to exempt responsible officers of insurance agencies and chief executives of insurance brokers registered under the SRO regime from the proposed new education requirements for becoming a responsible officer of a licensed insurance agency or insurance broker company under the new regime.

The IA also proposes to exempt experienced insurance intermediaries under the SRO regime from the proposed new education requirements for becoming a responsible officer under the new

¹⁴ A “deemed licensee” is a person who is registered with the IARB (as an individual agent, an insurance agency, a technical representative or a responsible officer) or with the CIB or PIBA (as an insurance broker, a chief executive or a technical representative) immediately before the commencement of the new regime and who is regarded as having been granted a licence (and, for responsible officers also, the necessary approval) under Schedule 11 to the Ordinance on the commencement date of the new licensing regime.

regime. The IA proposes to exempt technical representatives with 15 years of experience on the commencement date.

Proposed transitional CPD requirements for deemed licensees during the first Assessment Period

Under the new regime, the IA will standardize the assessment period for all individual licensees. The IA proposes to define “Assessment Period” as the period beginning on 1 August of a year and ending on 31 July of the following year (both days inclusive).

To ease the transition, the IA proposes that during the first Assessment Period, deemed licensees will continue to be subject to the prevailing requirement on the minimum number of CPD hours (i.e. 10 CPD hours per annum except for 3 CPD hours for licensed technical representatives (agent) engaging in restricted scope travel business only) as prorated and rounded down. Moreover, during the first Assessment Period, deemed licensees will be not compulsorily required to attend CPD activities related to “Ethics or Regulations”. The IA trusts that this proposal will further help ease the transition to the new regime.

Since the exact date of commencement of the statutory licensing regime is yet to be announced (and since the calculation of pro-rata CPD requirements depends on the exact date), the IA will set out the detailed transitional CPD requirements for deemed licensees for the first Assessment Period in an annex to the CPD Guideline when the commencement date is confirmed.

For deemed licensees who are NOT continuously registered with an SRO during the period from the SRO’s last CPD cut-off date to the commencement date, the minimum number of CPD hours required will be calculated on a monthly pro-rata basis from the calendar month that immediately follows the month of registration with the SRO to the end of the first Assessment Period (i.e. 31 July 2020). Please refer to the table in paragraph 83(column (B)).

Question 8:

Do you agree that the proposed relaxations for individual licensees who are deemed licensees are appropriate?

IFPHK's Response

As aforementioned, one of our principles is to enhance the professional standards of practitioners. Thus, the IFPHK has concerns over the proposed waivers offered to deemed licensees. The reputation of the insurance industry has been tarnished in the past by its varying standards. It is important to raise the overall standard of the industry and to build a robust statutory regulatory framework. We understand that by relaxing the minimum education requirements for deemed licensees, the impact of the new regime on the insurance industry will be minimized. However, the IFPHK still urges the IA to perform due diligence on deemed licensees on other fit and proper factors, e.g. criminal records, bankruptcy, etc.

In order to encourage more experienced technical representatives to become approved responsible officers, the IA proposes to exempt technical representatives with 15 years of experience on the commencement date of the new regime from the requirement of holding a bachelor's degree. The IFPHK objects the above proposals. We believe that they shall subject to the same requirements of a new applicant.

Question 9:

Do you agree that the proposed transitional CPD requirements for individual licensees who are deemed licensees are appropriate?

IFPHK's Response

The IFPHK has no further comments with regard to the transitional CPD requirements.