

Written Response to the Panel on Financial Affairs in relation to their Special Meeting on 15 March 2003

The Hong Kong Confederation of Insurance Brokers is a Professional Association with 249 corporate members which is authorised by the Insurance Authority as an Approved Body of Insurance Brokers for purposes of self-regulation under the Insurance Companies Ordinance.

Free Market

- Hong Kong's philosophy has always been to allow a free market and to let the free market set the price of goods and services.
- If that philosophy is to remain then the community must live with the resulting prices. There were no complaints when the free market delivered substantially reduced premium levels.

Previous under-pricing

- Much of the comment being put forward now is the result not of the high premium per se but the dramatic increases experienced in the past two years.
- These increases are the results of overly competitive under-pricing by insurers in previous years to generate cash flow.
- The recent collapse in the amount of reinsurance capacity has meant that such underpricing cannot be sustained.
- The insurance market is now in a position where it must charge a realistic premium to cover likely and possible claims.

Reasons for level of premium required

- Hong Kong Employees' Compensation cover is notorious throughout the world insurance markets.
- The reason for this is the high level of claims paid by insurers and reinsurers. Statistics from the Office of the Commissioner of Insurance show the level of claims made and it must be remembered that these underwriting years will generally deteriorate as they run off.
- The lack of investment returns means that insurers cannot subsidise underwriting losses.
- The EC system in Hong Kong is heavily biased against the Employer and their insurers due both to the effectively "no fault" basis of statutory compensation and duplication by legal aided common law claims.
- It is critical for the survival of the financial integrity of the insurance market that adequate levels of premium are charged to provide for costs of necessary reinsurance protection of the claims exposure as otherwise company failures will result to the detriment of consumers and the economy.

Lack of transparency in determining premium rates

- Setting premium rates is part of the basic commercial operation of an insurance company. The premium rate is the price of their product and will be determined by the level and quality of reinsurance, appetite for risk, level of overheads and suchlike.
- Premium rates are established by the operation of the free market and there should be no attempt to interfere with this.
- There should be no attempt to force insurers to disclose their method of premium calculation as this is a sensitive commercial confidence.

Increase in compensation awards

- We agree that awards appear to be increasing and that courts appear to favour the employee.
- We also agree that the number of claims made in the courts appear to be increasing. We believe that this is partly due to the ease with which legal aid is available to injured workers.
- We are also concerned that claimants are able to bring claims under both Statute and Common Law which is unlike other jurisdictions around the world. For example, in Singapore a worker must elect to claim either under Statute or Common Law but cannot claim under both.

Late notification of intentions not to renew

- This is an issue and we feel strongly that insurers should at least as a matter of courtesy advise their client/broker within a reasonable period of their intention not to invite renewal.

Viability of centralised insurance compensation fund

- Central funds have been instigated in other countries almost always with the result that the problem is ultimately passed back to the free market to solve.
- Consumers must pay for the EC system that we have and they will do this either through the open market or a central fund but the cost will be the same.
- A central fund eliminates the element of competition and so prevents innovation by insurers and others in finding ways of solving the problem.
- Government has adopted the practice of outsourcing services to the private sector on the stated principal that commercial management will provide them more economically and efficiently and this principal equally applies to insurance and funding.
- If any central funds are deemed to be desirable, they should be designed and administered by insurance professionals in the private sector, similar to The Motor Insurers' Bureau of Hong Kong (MIB) and the Employee Compensation Insurer Insolvency Bureau (ECIIB), and should not be administered by Government.

5 March 2003