

INS/ADM/9/20/5

29 May 2003

The Honourable Ambrose Lau Hon-chuen, GBS, JP
Chairman
Panel on Financial Affairs
Legislative Council
8 Jackson Road
Hong Kong

Dear Hon. Lau,

LegCo Panel on Financial Affairs
Institutional Set-up of the Office of the Commissioner of Insurance

I write to inform the Panel that in the light of international regulatory trend and the development of the insurance industry in recent years, the Government considers it necessary to review the institutional arrangement of the Office of the Commissioner of Insurance (“OCI”).

As the Financial Secretary said in his 2003-04 Budget Speech, the insurance industry is an important component of the financial market. The international trend is to set up financial services regulators independent of government. Such regulators would be able to enjoy greater operational independence and flexibility, and therefore would be in a better position to meet new regulatory challenges in the insurance market. The insurance regulatory agencies in the UK, Australia and Singapore are all independent of their governments.

The existing institutional arrangement whereby the OCI is a de facto Government department renders us out of line with the International Association of Insurance Supervisors (“IAIS”) Core Principle on the organization of an insurance supervisor. This implies that Hong Kong falls short of observing a core principle established by the IAIS, of which Hong Kong is a founding member.

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An independent regulatory regime which would define more precisely the status, resources, staffing and accountability of the regulator would be fundamental to the further development of our insurance market and enhancement of our position as a regional insurance hub. However, changes to OCI's institutional arrangement along this direction would take time. It is therefore timely to consider turning the OCI into an independent regulatory agency. Before we take the matter forward, we consider it necessary to seek the views of stakeholders and for this purpose, we have just commenced consultation with the insurance industry and relevant stakeholders. Any views or comments on the proposal by Panel members are welcome. We will, of course, brief members on the progress of our consultation in due course.

With best regards,

Yours sincerely,

(Benjamin Tang)
Commissioner of Insurance