



防貪諮詢服務
Corruption Prevention
Advisory Service



CORRUPTION PREVENTION GUIDE FOR INSURANCE COMPANIES

Corruption Prevention Guide for Insurance Companies

Table of Content

Foreword

Chapter 1 Legislation and Other Requirements/Guidelines

1.1	Introduction	8
1.2	Prevention of Bribery Ordinance (POBO) (Cap. 201)	8
1.2.1	Sections 9(1) & 9(2) – Corrupt Transactions with Agents	8
1.2.2	Section 9(3) – Use of Misleading/False/Defective Document to Deceive Principal	11
1.2.3	POBO Provisions Governing the Public Sector	12
1.3	Other Major Legal Concerns	14
1.3.1	Insurance Ordinance (Cap. 41)	14
1.3.2	Fraud, Section 16A of the Theft Ordinance (Cap. 210)	15
1.3.3	Extra-territorial Legal Obligations	15
1.4	Regulatory and Professional Guidelines/Requirements	15

Chapter 2 Standards of Behaviour

2.1	Introduction	18
2.2	Fostering a Clean Business Culture	18
2.3	Essential Probity Requirements in a Code of Conduct	20
2.3.1	Company Statement	20
2.3.2	Prohibition of Bribery	20
2.3.3	Acceptance and Offer of Advantages	20
2.3.4	Acceptance of Entertainment	22
2.3.5	Conflict of Interest	23
2.3.6	Misuse of Official Position	24
2.3.7	Safeguarding of Customers' Funds	24
2.3.8	Handling of Records, Accounts and Other Restricted Information	25
2.3.9	Outside Employment	25
2.3.10	Managing Relationship with Insurance Agents	25
2.3.11	Reporting of Suspected Corruption and Other Criminal Offences	26
2.3.12	Compliance with Laws, Professional Standards and Regulatory Requirements	26
2.3.13	Compliance with the Code of Conduct	26
2.4	ICAC Service and Other Assistance	27

Chapter 3 Governance and Internal Control

3.1	Introduction	30
3.2	Corporate Governance	31
3.2.1	Board Oversight	31
3.2.2	Establishment of Board Committees	32
3.2.3	Role of Independent Non-executive Directors	33
3.2.4	Obligations of Senior Management	33
3.2.5	Key Persons in Control Functions	34
3.2.6	Engagement of Staff and Individual Insurance Agents	34
3.3	Key Elements of Internal Control	36
3.3.1	Clear Policies, Work Procedures and Guidelines	36
3.3.2	Checks and Balances	36
3.3.3	Record Keeping and Information Security	37
3.3.4	Supervisory Monitoring and Accountability	37
3.3.5	Training and Communication	37
3.3.6	Complaint and Reporting Channels	38
3.3.7	Risk Management Framework	39
3.3.8	Reviews and Audits	39

Chapter 4 Management of Insurance Intermediaries

4.1	Introduction	44
4.2	Key Processes	45
4.3	Major Corruption Risks and Red Flags	47
4.3.1	Vetting and Approval of Applications for Appointment of / Partnering with Insurance Intermediaries	47
4.3.2	Consideration and Approval of Remuneration Packages	47
4.3.3	Training and Performance Monitoring	48
4.4	Case Studies	49
4.5	Corruption Prevention Safeguards	52
4.5.1	Guidelines/Instructions	52
4.5.2	Probity Requirements/Reminders	53
4.5.3	Appointment/Partnering Procedures	53
4.5.3.1	Vetting and Approval of Applications	53
4.5.3.2	Consideration and Approval of Remuneration Packages	54

Table of Content

4.5.4	Individual Insurance Agents' Mandatory Training Records	55
4.5.5	Performance Monitoring	55
4.5.6	Management Oversight and Supervision	56

Chapter 5 Sales Process

5.1	Introduction	60
5.2	Key Processes	61
5.3	Major Corruption Risks and Red Flags	62
5.3.1	“Selling” of Insurance Policies / Referral of Business	62
5.3.2	Submission of Policy Applications	62
5.3.3	Handling of Customers' Funds and Personal Data	63
5.4	Case Studies	65
5.5	Corruption Prevention Safeguards	69
5.5.1	Guidelines/Instructions	69
5.5.2	Probity Requirements/Reminders	69
5.5.3	Remuneration Structure	70
5.5.4	“Selling” of Insurance Policies / Referral of Business	70
5.5.5	Submission of Policy Applications	71
5.5.6	Collection of Customers' Premiums	71
5.5.7	Provision of Post-sales Services	72
5.5.7.1	Issue of Insurance Policies	72
5.5.7.2	Handling of Customers' Policy-related Requests	72
5.5.7.3	Safeguarding of Customers' Funds and Personal Data	73
5.5.8	Management Oversight and Supervision	73

Chapter 6 Underwriting and Claims Verification

6.1	Introduction	76
6.2	Key Processes	77
6.3	Major Corruption Risks and Red Flags	78
6.3.1	Underwriting of Policy Applications	78
6.3.2	Claims Applications	78
6.3.3	Other Risks – Risks for Underwriters and Claims Verification Staff	79

Table of Content

6.4	Case Studies	80
6.5	Corruption Prevention Safeguards	82
6.5.1	Guidelines/Instructions	82
6.5.2	Probity Requirements/Reminders	82
6.5.3	Underwriting of Policy Applications	83
6.5.4	Assessment of Claims Applications	84
6.5.4.1	Allocation of Cases	84
6.5.4.2	Verification Process	84
6.5.4.3	Payment Procedures	85
6.5.5	Management Oversight and Supervision	85

Appendices

1	Sample Code of Conduct	90
2	Examples of Conflict of Interest	100
3	Mitigating Measures for Managing Declared Conflict of Interest	101
4	ICAC Service and Other Assistance	102

Foreword

Being an important element of the diversified financial businesses, the insurance industry in Hong Kong is experiencing a rapid growth as a regional insurance hub. This stems from insurance companies' continuous efforts in brand building and winning customers' confidence.

An insurance company takes years to build up its reputation but a single bribery scandal will seriously damage the organisation, eroding the trust the public has in the insurance company to act in the customers' best interests and undermining the sustainable development of the company. It is hence essential for an insurance company to achieve its objectives and drive profit, as well as display commitment to clean business practices. As pointed out in the "Issues Paper on Combating Bribery and Corruption" issued by the International Association of Insurance Supervisors¹, the insurance sector is exposed to corruption risks. It stated that policies could be funded from the proceeds of bribery and corruption, and insurance companies' staff, insurance intermediaries, etc. could be involved in bribery and corruption on their own behalf, on behalf of the company or on behalf of third parties.

Reputations have to be earned and maintained through constant vigilance, reinforcement and self-examination. In view that some operations of the insurance industry are by nature corruption prone, it is imperative for insurance companies to be vigilant in upholding high integrity standard and take a proactive stance against corruption, in order to sustain the hard-earned reputation and competitive edge, achieve healthy growth, and meet the expectations of the customers, business partners, and community as a whole.

The **Corruption Prevention Department (CPD)** of the **Independent Commission Against Corruption (ICAC)** has thus developed this **Corruption Prevention Guide for Insurance Companies (the Guide)** for reference by the senior management and managerial staff of insurance companies in Hong Kong with a view to –

- (a) ensuring compliance with the Prevention of Bribery Ordinance (POBO) (Cap. 201) by their directors, staff and agents under the POBO, and entrenching a clean business culture in the company and in the industry; and
- (b) providing them with practical guidance on anti-corruption policy and safeguards, covering corruption risk assessment and management, and relevant control measures, for establishing and strengthening corruption prevention capabilities in their core operations (e.g. management of insurance intermediaries, sales process, underwriting and claims verification procedures).

The senior management and managerial staff of individual insurance companies may make adaptations to suit their operational needs while adhering to the principles of recommended measures. The **"Corruption Prevention Advisory Service"** of the CPD will provide tailor-made advice on request.

Acknowledgement

The CPD has consulted the Insurance Authority and the Hong Kong Federation of Insurers in the development of the Guide. Moreover, for the purpose of compiling this Guide, reference has been made to the "Application Paper on Deterring, Preventing, Detecting, Reporting and Remedying Fraud in Insurance" and the "Issues Paper on Combating Bribery and Corruption" published by the International Association of Insurance Supervisors. Their input and efforts are gratefully acknowledged.

[This Corruption Prevention Guide for Insurance Companies is for reference only]

¹ Established in 1994, the International Association of Insurance Supervisors is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions (including Hong Kong) in nearly 140 countries. It is the international standard setting body responsible for developing principles, e.g. Insurance Core Principles, standards and other supporting materials for the supervision of the insurance sector and assisting in their implementation.

How to use this Guide

For quick and easy reference, users will find the following icons throughout this Guide which lead them to the following information –



Case Studies

hypothetical case scenarios in perspective



Corruption Prevention Safeguards

useful tips for corruption prevention



Corruption Risks

major corruption risks and malpractice



Frequently Asked Questions

frequently asked questions with corresponding guidance given



Pointers

cross references to other Chapters/Sections of the Guide



Red Flags

indicators of areas where management oversight is required to safeguard against possible corruption and fraud



Tips

useful tips for insurance companies to understand the risks in the case scenarios

Disclaimer

Descriptions and explanation of legal requirements under the POBO and other relevant ordinances/laws in this Guide are necessarily general and abbreviated for ease of understanding. Users of the Guide are advised to refer to the original text of the relevant ordinances/laws or seek legal advice on particular issues where necessary. The ICAC will not accept any responsibility, legal or otherwise, for any loss occasioned to any person acting or refraining from action as a result of any material in this Guide.

Case scenarios are used in this Guide to illustrate the legal requirements and corruption risks and to highlight the lessons learnt. While they are drawn up based on actual corrupt practices, each case scenario is hypothetical and does not mean to refer to any particular case or relate to any particular company or person. The advice and tips given in the Guide are by no means prescriptive or exhaustive, and are not intended to substitute any legal, regulatory or contractual requirements. Users should refer to the relevant instructions, codes and guidelines issued by the relevant regulators, authorities as well as by the Government as appropriate, and apply appropriate practices that best suit the operational needs and risk exposures of their companies and business environment.

Throughout this Guide, the male pronoun is used to cover references to both the male and female. No gender preference is intended.

Copyright

The copyright of this Guide is owned by the ICAC. Interested parties are welcome to reproduce any part of this Guide for non-commercial use. Acknowledgement of this Guide is required.

Abbreviations

CPAS	Corruption Prevention Advisory Service
CPD	Corruption Prevention Department
HKBEDC	Hong Kong Business Ethics Development Centre
IA	Insurance Authority
IAIS	International Association of Insurance Supervisors
ICAC	Independent Commission Against Corruption
IFPCD	Insurance Fraud Prevention Claims Database
Individual insurance agent	Licensed individual insurance agent
INED	Independent non-executive director
Insurance agency	Licensed insurance agency
Insurance agent	Licensed insurance agent
Insurance broker company	Licensed insurance broker company
Insurance intermediary	Licensed insurance intermediary
IO	Insurance Ordinance (Cap. 41)
POBO	Prevention of Bribery Ordinance (Cap. 201)
TR(agent)	Licensed technical representative (agent)
TR(broker)	Licensed technical representative (broker)
VHIS	Voluntary Health Insurance Scheme

Interpretation

The following defined terms shall bear their stated meaning in the Guide.

“Customer”	include a policy holder and a potential policy holder.
“Insurance company”	an authorized insurer under the definition of the Insurance Ordinance (Cap. 41).
“Insurance product” or “Insurance policy”	a contract of insurance. The terms are used interchangeably throughout the Guide.
“Licensed individual insurance agent”	an individual who is granted a relevant licence under the Insurance Ordinance. He promotes, advises on and arranges insurance policies offered by his appointing insurance company.
“Licensed insurance agency”	a person (includes anybody of persons, corporate or un-incorporate) who is granted a relevant licence under the Insurance Ordinance. It promotes, advises on and arranges insurance policies offered by its appointing insurance company.
“Licensed insurance agent”	a licensed individual insurance agent, a licensed insurance agency or a licensed technical representative (agent).
“Licensed insurance broker”	a licensed insurance broker company or a licensed technical representative (broker).
“Licensed insurance broker company”	a company which is granted a relevant licence under the Insurance Ordinance. It gives advice on insurance policies to customers in the course of dealing with matters relating to insurance policies (including procurement, negotiation and arrangement of insurance policies with insurance companies, and, in some cases, making and settling claims).
“Licensed insurance intermediary”	a licensed insurance agent or a licensed insurance broker.
“Licensed technical representative (agent)”	an individual who is granted a relevant licence under the Insurance Ordinance. He promotes, advises on and arranges insurance policies offered by the appointing insurance company of his agency.
“Licensed technical representative (broker)”	an individual who is granted a relevant licence under the Insurance Ordinance. He gives advice on insurance policies to customers and represents his appointing licensed insurance broker company to deal with matters relating to insurance policies on behalf of customers.

Chapter

Legislation and Other Requirements/ Guidelines

- 1.1 Introduction
- 1.2 Prevention of Bribery Ordinance (Cap. 201)
- 1.3 Other Major Legal Concerns
- 1.4 Regulatory and Professional Guidelines/
Requirements



Chapter 1

Legislation and Other Requirements/Guidelines

1.1 Introduction

To ensure compliance with the law and adherence to a high standard of integrity and avoid pitfalls of corruption in carrying out the insurance business, insurance industry practitioners should have a clear and adequate understanding of the relevant legal and professional requirements. This Chapter provides an overview of the anti-bribery law (i.e. the Prevention of Bribery Ordinance (POBO) (Cap. 201)) in Hong Kong, and highlights other major legislations and professional requirements governing insurance companies' integrity management and prudent operation.

1.2 Prevention of Bribery Ordinance (Cap. 201)

The POBO is enforced by the Independent Commission Against Corruption (ICAC) to combat bribery and corrupt transactions in both the private and public sectors. The following is a gist of the relevant sections of the POBO (an extract of the POBO is at **Annex 1 of Appendix 1**). Full text of the POBO can be found in the Hong Kong e-Legislation of the Department of Justice – <https://www.elegislation.gov.hk/hk/cap201>

1.2.1 Sections 9(1) & 9(2) – Corrupt Transactions with Agents

- **Section 9(1)** – It is an offence for any agent (the text refers to agents under the POBO (🔗 See definition at **page 9**) such as an employee, a director or a licensed individual insurance agent (individual insurance agent) appointed by the company) to, without the permission of his principal (e.g. employer) or reasonable excuse, solicit or accept any advantage as an inducement to or reward for his doing or forbearing to do any act in relation to his principal's affairs or business.
- **Section 9(2)** – Any person who offers an advantage to an agent under the above circumstances also commits an offence.

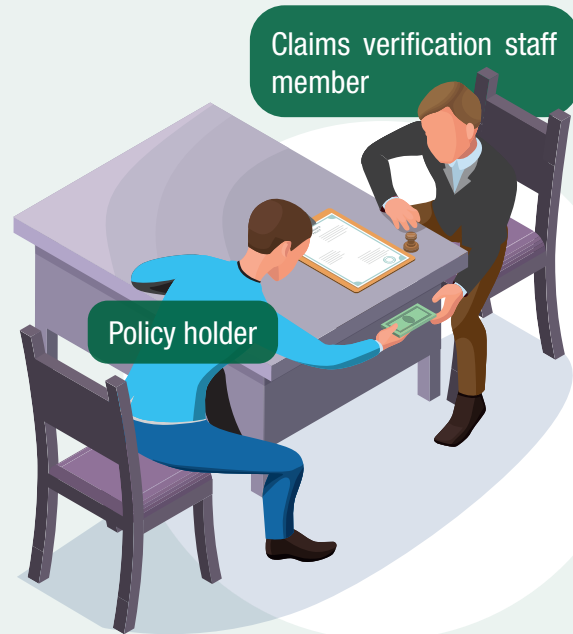
The maximum penalty is a fine of \$500,000 and seven years' imprisonment.



Case Study 1 – Soliciting/Offering advantages in relation to claims applications

1 In handling an insurance claims application, a claims verification staff member of an insurance company (i.e. an agent under the POBO of the insurance company) solicits money from the policy holder concerned saying that he can assist the latter in considering the claims application favourably, despite the company has issued clear rules to all staff on the prohibition of acceptance of any advantage by its staff in performing the company's duties.

2 The policy holder offers the advantages to the claims verification staff member concerned as a reward for the latter's promise to assisting him in handling the claims application favourably.



3 The claims verification staff member and the policy holder contravene Sections 9(1) and 9(2) of the POBO respectively.

Analysis and Points to Note –

- **Principal** – The principal of a company generally refers to the employer (i.e. the owner or the board of directors (the Board) of the company) or any person authorised to act on the employer's behalf. In general, the principal of a staff member or an individual insurance agent usually refers to the insurance company which employs/appoints him.
- **Agent** – An agent is a person acting for, or employed by, the principal. If a company appoints a person to act for it in business dealings, that person becomes the company's agent irrespective of whether the appointment is full-time or part-time, and whether or not the agent receives a salary or a fee from the company. For example, any director, employee or individual insurance agent who is acting for an insurance company is an agent of the company.
- **Advantage** – An advantage refers to anything that is of value such as money, gift, discount, commission, loan, employment, service or favour (except entertainment).



Q Is there a value threshold (e.g. \$500) for an “advantage” in the POBO?

A No. Some people misunderstand that the POBO sets out a limit on the value of the advantage below which acceptance is statutorily permissible. In fact, the POBO has **not** specified any threshold or ceiling of allowable advantages. The receiver/offeror will commit an offence if he accepts/offers an advantage of any value without the permission of the receiver’s principal as set out in the POBO.

A private company may permit its staff to accept advantages from persons related to the company’s business up to a specified limit and under certain circumstances. This is the company’s internal policy and must not be confused with the provisions of the POBO.

■ **Entertainment** – Entertainment, defined as the provision of food or drink (e.g. a meal), for consumption on the occasion when it is provided, and of any other entertainment connected with, or provided at the same time as, such provisions (e.g. a show provided at the venue where the meal is provided), is not an advantage under the POBO.

■ **Purpose of Bribery Being Not Carried Out** – The offeror and the recipient of a bribe will be guilty irrespective of whether or not the purpose of bribery has actually been carried out. It is not a defence for the recipient to claim that “the act requested to be done was not actually carried out” (Section 11 of the POBO). As in the above scenario, the offeror (i.e. the policy holder) and the acceptor (i.e. the claims verification staff member) still commit an offence even if the latter does not actually have the power, right or opportunity to favour the former in the claims application.

■ **Principal’s Permission** – It is lawful for an agent to accept an advantage in relation to his official duties with his principal’s permission. The permission must be given by the recipient’s principal, and NOT the offeror’s principal. In case where an advantage has been accepted without prior permission, the agent must apply for his principal’s approval as soon as possible afterwards.



Q Can I accept a gift without obtaining the principal’s permission if the acceptance of gifts is customary in my industry?

A No. According to Section 19 of the POBO, it is **not** a defence to claim that an advantage accepted or offered is customary in any profession, trade, vocation or calling.

For the actual provision of Section 19 of the POBO, please refer to the Hong Kong e-Legislation at <https://www.elegislation.gov.hk/hk/cap201>.

- If a company allows its directors, staff and individual insurance agents to accept advantages (e.g. business gifts) from persons having business dealings with the company under certain circumstances (e.g. during festive seasons), while such permission can be given on a case by case basis, it is advisable to also lay down the company policy and rules/restrictions such as in the company's Code of Conduct (➡ Reference at **Chapter 2**).

1.2.2 Section 9(3) – Use of Misleading/False/Defective Document to Deceive Principal

- **Section 9(3)** – It is an offence for any agent to, with an intent to deceive his principal, use any receipt, account or other document which contains any statement which is misleading, false or defective in any material particular in respect of which the principal is interested.

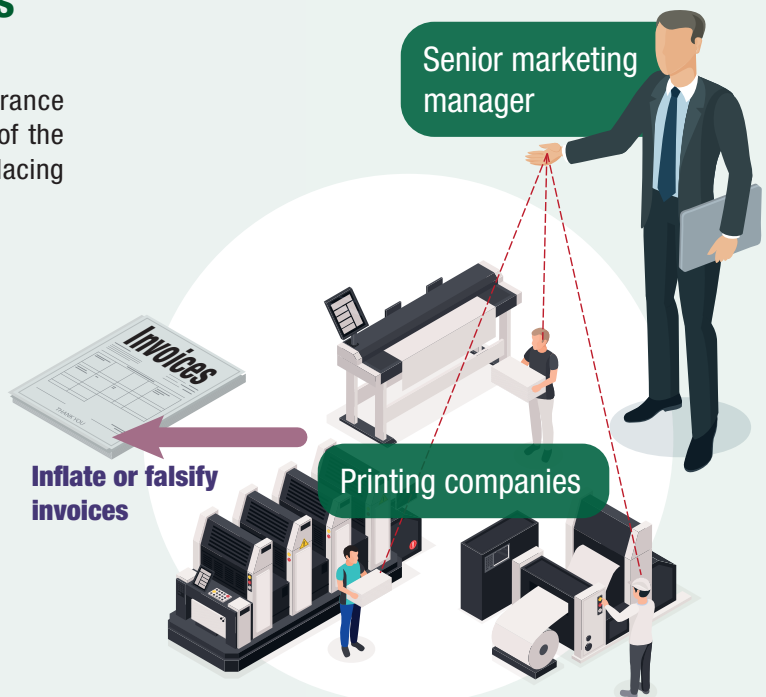
The maximum penalty is a fine of \$500,000 and seven years' imprisonment.



Case Study 2 – Using inflated/falsified invoices to deceive payments

1 A senior marketing manager of an insurance company (i.e. an agent under the POBO of the insurance company) is responsible for placing printing orders for the insurance company.

2 Over a period of three years, he has instructed a number of persons of various printing companies which are under his control or operated by his relatives to inflate or falsify invoices.



3 The senior marketing manager submits those inflated/falsified invoices to deceive the insurance company for payments / inflated payments.

4 The senior marketing manager contravenes Section 9(3) of the POBO.

| **Analysis and Points to Note –**

- **No Necessity for Offering and/or Acceptance of Advantage** – Section 9(3) of the POBO does not require the element of offering and/or acceptance of advantage. In general, if an agent under the POBO (e.g. the insurance company's staff member), with an intent to deceive his principal (i.e. the insurance company), uses any receipt, account or other document (e.g. false invoices, bogus applicants' details for insurance policy applications, false medical report for claims) which contains any statement which is misleading, false or defective in any material particular in respect of which the principal is interested, an offence is committed under the section.
- **Procurement of Goods/Services** – The activity which is essential to the operation of a company often involves substantial expenditure. Past corruption cases also show that it is an area most vulnerable to corrupt manipulation and malpractice. To ensure "value for money" when making purchases and to prevent impropriety in the process, it is important for the company to put in place adequate safeguards in the system. Companies can make reference to the Corruption Prevention Best Practice Checklist on Procurement published by the ICAC which is available at the following webpage –

https://cpas.icac.hk/EN/Info/Lib_List?cate_id=3&id=199

| **1.2.3 POBO Provisions Governing the Public Sector**

- For officers/staff employed by the Government (e.g. the Voluntary Health Insurance Scheme (VHIS) Office) or public bodies (e.g. the Insurance Authority (IA)) who are public servants, relevant provisions of the POBO, in particular Sections 4, 5 and 8, are relevant to them. The provisions prevent public servants from abusing official authority for private gain and safeguarding the interests of public bodies and the wider community at large. In this regard, insurance companies and their staff and other agents should be alert to avoid breaching these provisions in the course of undertaking any business dealings with the government and public bodies (e.g. applying for authorisation of the insurance business from the IA).
- **Section 4(1)** – It is an offence for any person, in Hong Kong or elsewhere and without lawful authority or reasonable excuse, to offer any advantage to the public servant as an inducement to or reward for that public servant's performing or abstaining from performing any act in his capacity as a public servant.
- **Section 4(2)** – It is an offence for a public servant, in Hong Kong or elsewhere and without lawful authority or reasonable excuse, to solicit or accept any advantage as an inducement to or reward for his performing or abstaining from performing any act in his capacity as a public servant.

The maximum penalty for the above offences is a fine of \$500,000 and seven years' imprisonment.

■ **Section 5(1)** – It is an offence for any person, without lawful authority or reasonable excuse, to offer any advantage to a public servant as an inducement to or reward for that public servant's giving assistance or using influence in regard to contracts with the public body concerned.

■ **Section 5(2)** – It is an offence for any public servant, without lawful authority or reasonable excuse, to solicit or accept any advantage as an inducement to or reward for his giving assistance or using influence in regard to contracts with the public body concerned.

The maximum penalty for the above offences is a fine of \$500,000 and 10 years' imprisonment.

■ **Section 8** – It is an offence for any person, without lawful authority or reasonable excuse, to offer any advantage to a public servant while having dealings of any kind with the government department or public body in which the public servant is employed.

The maximum penalty for the above offence is a fine of \$500,000 and seven years' imprisonment.



Case Study 3 – Offering gifts to public servants while having business dealings

1 A public body invites proposals for group employees' medical benefits from a number of insurance companies.



Individual insurance agent

Staff welfare manager of a public body



2 During the course of proposing such plan to the staff welfare manager concerned of the public body, an individual insurance agent sends boxes of mooncakes to the former's office as gifts during Mid-Autumn Festival.

3 As the individual insurance agent offers the advantage to the staff welfare manager while having dealings with the public body, he contravenes Section 8(2) of the POBO.

| **Analysis and Points to Note –**

- **Need for Awareness** – Insurance companies' operators/managers or staff might have official dealings / business relationship with a public servant. They should be well aware that public servants are governed by relevant legal provisions or administrative rules on acceptance of advantages and entertainment. In particular, they should, as a general rule, avoid offering gifts or other advantages to a public servant if they have any dealings with the latter's government department or public body.
- **Committing Offence even without Corrupt Intent** – As in the above case scenario, unlike bribery (e.g. Section 4 of the POBO as explained in **Section 1.2.3** above) which often involves a reciprocal performance of duties (or refrain from performance of duties) by a public servant being offered an advantage, Section 8 of the POBO does not require the proof that the advantage is offered in return for any favour. The offeror (i.e. the individual insurance agent) under the above scenario still commits an offence even he has no intent to receive favourable treatment from the staff member (i.e. the staff welfare manager) of the public body.
- **Relevant Corruption Prevention Guide** – To obtain a basic understanding of the relevant legal provisions and administrative rules/regulations governing the integrity of interaction between public servants and persons having business dealings with them, companies can make reference to the Integrity and Corruption Prevention Guide on Managing Relationship with Public Servants published by the ICAC which is available at the following webpage – https://cpas.icac.hk/EN/Info/Lib_List?cate_id=3&id=226

| **1.3 Other Major Legal Concerns**

| **1.3.1 Insurance Ordinance (Cap. 41)**

- The Insurance Ordinance (IO) (Cap. 41) (along with its subsidiary legislation (Cap. 41A to 41L)) is the principal legislation to regulate the insurance industry in Hong Kong, setting out the regulatory framework applicable to insurance companies and licensed insurance intermediaries (insurance intermediaries) in Hong Kong. It sets out the requirements, among others, for the authorisation/licensing, ongoing compliance and reporting obligations of insurance companies and insurance intermediaries.

| 1.3.2 Fraud, Section 16A of the Theft Ordinance (Cap. 210)

- It is an offence for any person, by any deceit and with intent to defraud, to induce another person to commit an act or make an omission, which results in benefiting any person, or in prejudice or a substantial risk of prejudice to any person.

| 1.3.3 Extra-territorial Legal Obligations

- Companies having business operations outside Hong Kong should also observe the anti-corruption laws and regulations in the respective jurisdictions, in particular those anti-corruption legislations having extra-territorial effect.

| 1.4 Regulatory and Professional Guidelines/Requirements

- To uphold a high standard of professional conduct, insurance companies and their staff and other agents should comply with the codes and guidance notes issued by the Government and relevant regulators (e.g. the IA) from time to time, e.g. “Guideline on the Corporate Governance of Authorized Insurers” (GL10) (🔗 Reference at **Chapter 3**), respective codes of conduct for licensed insurance agents (insurance agents) and licensed insurance brokers¹ issued by the IA, “Code of Practice for Insurance Companies under the Ambit of the Voluntary Health Insurance Scheme” issued by the VHIS Office, as appropriate. In this regard, while insurance companies should comply with the regulatory guidelines and requirements, they should also diligently remind their staff and other agents to ensure their strict compliance.

¹ They are namely “Code of Conduct for Licensed Insurance Agents” and “Code of Conduct for Licensed Insurance Brokers”.

Chapter 2

Standards of Behaviour

- 2.1 Introduction**
- 2.2 Fostering a Clean Business Culture**
- 2.3 Essential Probity Requirements in a Code of Conduct**
- 2.4 ICAC Service and Other Assistance**



Chapter 2

Standards of Behaviour

2.1 Introduction

Apart from the observance of the law and regulatory/professional requirements, the upholding of a culture with integrity in the insurance industry is of critical interest to regulators, insurance companies and their directors, staff, individual insurance agents, customers and stakeholders alike. A company culture which values work ethics is thus essential for meeting both legal and social expectations of a company. To foster a clean business culture in the company, the Board should demonstrate zero-tolerance of corruption or other illegal behaviour / misconduct in the company, with the message and related procedures clearly communicated to all directors, staff and individual insurance agents as well as other stakeholders concerned. These parties should be made fully aware of the conduct requirements and that disciplinary action and/or criminal prosecution may be taken against them if they do not adhere to these standards. This Chapter highlights the steps to foster an anti-corruption business culture, and introduces the key probity elements in a Code of Conduct which is vital and fundamental in building a clean and ethical culture and good practices in a company.

2.2 Fostering a Clean Business Culture

- Develop **clean leadership**, i.e. top-level commitment to integrity, with leaders being role models in anti-corruption business practices.
- Promote **clean business culture in the company** by –
 - issuing a **Code of Conduct (the Code)** (a sample at **Appendix 1**) endorsed by the Board to all directors, staff and individual insurance agents² (or separate Codes respectively) setting out the probity standards and requirements, updating the relevant probity guidelines periodically and circulating them (e.g. via intranet) before major festivals to remind directors, staff and individual insurance agents rules relating to acceptance of advantages (e.g. “lai sees”) from persons having business dealings with the company;

² The insurance company may wish to subject any other entities/persons (e.g. licensed insurance agencies appointed by the company) performing related functions for the company to applicable provisions of the Code, and/or upon seeking legal advice as necessary.

- organising **integrity and corruption prevention training/workshops** (e.g. e-training) for directors, staff and individual insurance agents to ensure they have adequate understanding and knowledge on the anti-bribery law, integrity management issues, corruption prevention controls, etc. (⇒ Reference at **Section 3.3.5 of Chapter 3**);
 - making **transparent** the Code via uploading it at the company intranet and putting in place procedures/measures to monitor directors', staff's and individual insurance agents' continuous understanding of the Code requirements such as conduct of periodic e-learning or quiz; and
 - providing an **ethics hotline** for enquiries on and reporting of integrity issues (⇒ Reference at **Section 2.3.11**).
- Commit **business partners to clean business practices** – Business partners (e.g. licensed insurance agencies (insurance agencies), licensed insurance broker companies (insurance broker companies), suppliers) acting on the company's behalf may be exposed to corruption risks, and the company may also be exposed to similar risks resulting from corruption of its business partners when doing business with them. It is therefore advisable for an insurance company to commit its business partners to clean business practices by informing them of its anti-corruption policy. As far as practicable, for major contracts and partnering arrangements, the company should include suitable anti-corruption and probity requirements in the agreements with the business partners as below –
- prohibition against bribing the company's directors, staff and individual insurance agents or offering advantages to them without the company's permission;
 - prohibition against bribery of any form in carrying out business under the contract/partnership or on behalf of the company;
 - the need to ensure that all the relevant personnel are made aware of the anti-corruption requirements, such as through a Code, probity guidelines and training;
 - the need to take proper action such as reporting any corruption/fraud detected to the relevant law enforcement agency; and
 - the right for the company to terminate the contract with the business partner if it or its director, staff member or insurance intermediary has breached the anti-corruption requirements.
- Enhance **transparency of policies to external parties** – Alert customers and engage business partners through making transparent the company policies and procedures on conduct requirements, such as rules on acceptance and offering of advantages and declaration/avoidance of conflict of interest.
- Designate an **Ethics Officer or a department/division** for coordinating the implementation of the above policies and practices, and conducting periodic monitoring and reviews to ensure effective sustainability and compliance.

2.3 Essential Probity Requirements in a Code of Conduct

While the Sample Code at **Appendix 1** contains a comprehensive list of probity provisions, the following are those necessary requirements which a Code should cover –

2.3.1 Company Statement

- To provide a clear direction to all stakeholders, the Code should spell out the company's firm commitment to clean business practices and prohibition against any bribery and corrupt practices in carrying out the company's business.

2.3.2 Prohibition of Bribery

- The Code should clearly prohibit all forms of bribery or corruption and require compliance with the POBO (and anti-bribery laws applicable to the company) in carrying out business for the company. Directors, staff and individual insurance agents should be prohibited from –
 - soliciting or accepting any advantage from others as a reward for or inducement to doing any act in relation to the company's business;
 - offering any advantage to an agent of another as a reward for or inducement to doing any act in relation to the latter's principal's business; and
 - offering any advantage to any government or public servant as a reward for or inducement to performing any act in his official capacity, or while having business dealings with the government or public body he belongs to.

2.3.3 Acceptance and Offer of Advantages

- In addition to prohibiting the acceptance/offer of advantages for a corrupt purpose, to maintain a good standard of integrity among the company's personnel and protect them and the company from perception or allegations of impropriety, the Code should –
 - prohibit directors, staff and individual insurance agents from soliciting or accepting advantages from persons having business dealings with the company (e.g. suppliers), except accepting certain advantages within specified permissible natures, values and under specified circumstances or occasions with no improper influence involved;

- where acceptance of gifts/advantages may be allowed, set out the circumstances/occasions (e.g. during festive seasons where business gifts are traditionally exchanged) and restrictions for acceptance of advantages (e.g. allowable limit of value of the gift, cash not allowed, acceptance of gifts from service providers prohibited), and the channel for special approval in exceptional cases;
 - prohibit supervisors from soliciting advantages from subordinates, and allow acceptance of advantages from subordinates under specified circumstances or occasions (e.g. wedding) with no improper influence involved;
 - remind directors, staff and individual insurance agents to ascertain the intended recipient is permitted by his employer/principal to accept the advantage under the relevant circumstances before the advantage is offered; and
 - remind directors, staff and individual insurance agents on the company policy for referral of customers to any other insurance companies or insurance intermediaries (e.g. insurance intermediaries of another insurance company).
- In particular, directors, staff and individual insurance agents should be prohibited from soliciting or accepting advantages (e.g. referral fee) for referring a customer to any other insurance companies or insurance intermediaries without the prior approval of the company as this might constitute an offence under the POBO. Even the referral might not involve an advantage, they should be made aware that such referrals without proper declaration and prior approval of the company as required might also constitute a conflict of interest or misuse of their official position.



Q As a manager of an insurance company, I would like to help staff handle issues of offering of advantages to persons having business dealings with the company. What practical advice should I give them?

A The best solution is to help staff understand and observe the POBO in particular Sections 8 and 9 (⇒ Reference at **Chapter 1**), and the company Code and policy to avoid them from falling prey to corruption. In particular, when offering advantages (e.g. customer rewards/incentives) to customers, the staff should confirm with the recipients that they have obtained permission from their employers (i.e. principals under the POBO of the recipients) to accept the advantages. To protect themselves, the staff should provide the advantage to the principal (e.g. the customer company) directly and avoid offering the advantage to an agent (e.g. employee of the customer company responsible for handling insurance policies). Staff should also be prohibited from offering any advantage to public servants (e.g. employees of the insurance and banking regulators) having business dealings with the company. In case of doubt, you, on behalf of your staff, or the staff should seek the appropriate authority's (e.g. the company ethics hotline) advice or clarification.

| 2.3.4 Acceptance of Entertainment

■ Entertainment (☹ Reference at **Section 1.2.1 of Chapter 1**) is an acceptable social activity, but extravagant or frequent entertainment offered to the directors, staff or individual insurance agents from companies having business dealings may have or be seen to have a sweetening effect which may lead to corrupt behaviour in future. The Code should include guidelines on entertainment, advising them to avoid accepting entertainment that may be regarded as –

- **excessive** – taking into account its value, substance, frequency and nature;
- **inappropriate** – taking into account the relationship between the director / staff member / individual insurance agent and the offeror; or
- **undesirable** – taking into account the character or reputation of the host or other attendees,

and may require them to report or seek approval for acceptance of such entertainment.



Q I head the Brokerage Team of an insurance company. Some insurance broker companies often offer free lunch/dinner to my staff who are responsible for monitoring the performance of the former. Is it proper for the staff to accept them?

A Entertainment (e.g. lunch or dinner) is defined in Section 2 of the POBO as the provision of food or drink, for consumption on the occasion when it is provided, and of any other entertainment connected with, or provided at the same time as, such provisions. Although the POBO does not prohibit the acceptance of entertainment, lavish or frequent treats may be a prelude to corruption. Some unscrupulous insurance broker companies may make use of the entertainment as a sweetener or make the recipients feel obliged to pay back (e.g. staff of the Brokerage Team may find it difficult to turn down a request from the insurance broker company on offering favourable comments on the latter's performance).

Therefore, while entertainment might be a common business practice in the commercial sector, your company should lay down policy and/or guidelines on the acceptance of entertainment and remind all staff to refrain from accepting excessive or lavish entertainment from business partners, in particular those to whom they have a monitoring role, so as to prevent them from falling into the traps or being alleged of impropriety.

| 2.3.5 Conflict of Interest

- A conflict of interest arises when a director, staff member or individual insurance agent's private interest is in conflict with his official position, which may lead to his discharge of duties counter to the best interest of the insurance company, if not properly managed. Some common examples of conflict of interest are provided at **Appendix 2**.
- To help directors, staff and individual insurance agents properly manage possible conflict of interest, the Code should also set out **guidelines on managing conflict of interest**. The following five-step approach may be adopted –
 - **Avoid** – The fundamental rule is to avoid any conflict of interest that may arise when performing official duty as far as practicable.
 - **Declare** – If a conflict of interest has arisen and cannot be avoided, a member should declare the conflict to his supervisor or the designated person in accordance with the company's policy, and document the declaration made.
 - **Resolve** – Upon receiving a declaration, appropriate actions should be taken to resolve the conflict. In deciding the course of action to be taken or making a recommendation to their senior officers upon receipt of a report on conflict of interest situation, the supervisors should take into account the seriousness of the conflict, the interest involved and others' perception. Related mitigating measures are provided at **Appendix 3**.
 - **Exercise duty in a fair and impartial manner** – If a member is allowed to continue performing the duty, he should be reminded to exercise his duty in a fair and impartial manner.
 - **Supervise** – If the member concerned is allowed to continue performing the duty, closer supervision should be exercised to ensure proper performance.
- Use a **standard form** for Declaration of Conflict of Interest (a sample at **Annex 3 of Appendix 1**) if the conflict is unavoidable and devise measures / designate approving authorities for management of the declared conflict of interest.



Q I am a manager of the Underwriting Department of an insurance company. Sometimes my staff consult me concerning actual/potential conflict of interest situations (e.g. an underwriter is being allocated an underwriting case of which the insurance policies belong to his family members, relatives or close personal friends). While he in practice cannot deviate from the company underwriting guidelines when conducting the underwriting, is this still considered as a conflict of interest situation?

A Yes. A conflict of interest situation arises when the “private interests” of the staff member compete or conflict with the interests of his company or his official duties, where “private interests” include the financial and other interests of the staff member himself, his family or other relations, his personal friends, the clubs and associations to which he belongs, any other groups of people with whom he has personal or social ties, or any person to whom he owes a favour or is obligated in any way.

As a golden rule, you should remind your staff to avoid any conflict of interest situation or even just the perception of such conflicts, and should not misuse their position or authority in the company to pursue their own private interests. In case the actual or potential conflict of interest is unavoidable, they should make a declaration to the management according to the company guidelines. The management should then carry out appropriate actions to manage the conflict of interest situations declared, for example, remove the conflicts by assigning other staff member(s) to take over the task or require the supervisors to closely monitor the process. The decisions made and the follow-up actions taken should be duly recorded to protect both the company and the staff concerned.

| 2.3.6 Misuse of Official Position

- The Code should prohibit directors, staff and individual insurance agents from misusing their official position to pursue their own private interests, which include both financial and personal interests and those of their family members, relatives or close personal friends, etc.

| 2.3.7 Safeguarding of Customers' Funds

- In the course of their duties, directors, staff and individual insurance agents are entrusted by customers to handle huge amount of funds. To safeguard customers' interests and prevent corrupt practices connected with the mishandling of customer monies, the Code should require those having access to customers' funds to make sure customers' funds are handled in a trustworthy and honest manner.

| 2.3.8 Handling of Records, Accounts and Other Restricted Information

- The Code should require directors, staff and individual insurance agents to ensure that all records, receipts, accounts, etc. they submit to the company give a true representation of the facts, events or business transactions as shown in the documents.
- The Code should remind directors, staff and individual insurance agents to safeguard, and not to disclose to others without proper authority, any restricted information (e.g. information about applicants, policy holders, business partners), in particular prohibit unauthorised sale or disclosure of information that might be of use to other business operators or companies in competition with the company's business.

| 2.3.9 Outside Employment

- While it may not be uncommon for staff and individual insurance agents to engage in outside or part-time jobs, such outside work could also give rise to conflict of interest (e.g. part-time employment with a supplier). The Code should –
 - require all staff and individual insurance agents to seek prior approval of the designated authority before taking up any outside employment; and
 - remind the approving authority to consider whether the outside employment would give rise to a conflict of interest with the staff member or individual insurance agent's duties in the company or the interest of the company.

| 2.3.10 Managing Relationship with Insurance Agents

- In accordance with the IO, an insurance company is accountable for any act of its appointed insurance agents in relation to their dealings for the issue of insurance contracts or related insurance business. Hence, the Code should remind the key person(s) in intermediary management function and staff to be vigilant of the business practices of the insurance agents to ensure that proper methods are used to deliver the company's services.

| 2.3.11 Reporting of Suspected Corruption and Other Criminal Offences

- The Code should clearly state the company's policy on handling reports of misconduct and criminal offences including corruption.
- The company should encourage directors, staff and individual insurance agents to report instances of crime or suspected crime discovered in the course of their work to the appropriate authority of the company or law enforcement agency at the first practicable opportunity.

| 2.3.12 Compliance with Laws, Professional Standards and Regulatory Requirements

- The Code should require directors, staff and individual insurance agents to comply with all local laws and regulations when conducting the company's business, and also those in other jurisdictions when conducting business there or where applicable.
- There are a number of professional requirements and standards on conducting insurance business issued by the Government and relevant regulators (e.g. the IA and the VHIS Office) (⇒ Reference at **Section 1.4 of Chapter 1**). To ensure professionalism in performing work, the Code should require directors, staff and individual insurance agents to observe the professional requirements as imposed on them (e.g. respective codes of conduct for licensed insurance agents and licensed insurance brokers issued by the IA), as appropriate.

| 2.3.13 Compliance with the Code of Conduct

- The company should remind directors, staff and individual insurance agents, whether performing their duties of the company in or outside Hong Kong, to comply with the Code. In particular, managers and supervisors should be reminded to ensure that the staff under their supervision understand well and comply with the Code.
- The Code should state the consequences of breaching the Code, which may include disciplinary actions such as termination of appointment and that in cases of criminal acts, the company will also promptly make a report to the relevant law enforcement agencies.



Q As a senior sales manager in an insurance company, I have to achieve various sales targets set by my company and sometimes feel so pressured that I may need to violate the company's Code to achieve these goals. Is this acceptable if I just do it for the purpose of generating more business for my company?

A No. While the company may set high targets, you must never violate the law, the company's Code or involve in any other malpractice in order to cut corners for your sales targets. Such malpractice/breaches will result in your act being brought for investigation by the relevant law enforcement agency in the case of criminal acts, or disciplinary actions including termination of employment by your company in the case of breach of other integrity requirements. If you fail to meet the high demand of your company, you may still have job opportunities with other companies more suitable for you; but if you commit a crime, you may have your licence revoked or reputation tarnished and lose all job opportunities in the industry.

2.4 ICAC Service and Other Assistance

- The “**Corruption Prevention Advisory Service**” (**CPAS**) of the Corruption Prevention Department (CPD) of the ICAC could offer assistance to insurance companies in drawing up a Code for the directors, staff and individual insurance agents, and in adopting the recommended measures in the Guide. Information on the corruption prevention advisory and education services that the ICAC may provide on request is at **Appendix 4**.

Chapter 3

Governance and Internal Control

- 3.1 Introduction
- 3.2 Corporate Governance
- 3.3 Key Elements of Internal Control



Chapter 3

Governance and Internal Control

3.1 Introduction

Establishment of a strong corporate governance is a key internal measure to address corruption, fraud and other malpractice. Apart from being a vital tool that raises efficiency and ensures sustainability, it is also recognised as an effective anti-corruption tool. At the decision-making level, it instigates transparency and accountability, making it clear how and why material decisions are made. It also makes bribes more difficult to be offered and concealed at the operational level. With corporate governance a focus amongst international insurance regulators, the IA also requires insurance companies to establish and implement a corporate governance framework for management of its business, and at the same time for adequate protection of the interests of policy holders. Modelled upon the Insurance Core Principles promulgated by the International Association of Insurance Supervisors (IAIS), the IA has issued GL10 (☞ Reference at **Section 1.4 of Chapter 1**) which sets out the minimum standard of corporate governance expected of insurance companies in Hong Kong³.

While corporate governance sets the company's codes, values, standards and requirements, internal controls are the policies and procedures adopted to ensure compliance with them. To foster sound internal controls in the company, it is also imperative for the Board, Chairman, Chief Executive⁴ and senior management to demonstrate strong and visible commitment to anti-corruption policy and efforts seen as integral to good corporate governance, whilst the line management and other staff understand their role and responsibilities, and contribute in the implementation of the company's policy and practices. This Chapter covers –

- (a) the essential governance requirements of GL10, focusing on the roles of respective personnel within the governance structure with further best practices from the corruption prevention perspective highlighted as appropriate; and
- (b) the core principles/elements of an effective internal control system, making reference to the relevant provisions of GL10 as necessary.

³ Insurance companies incorporated in Hong Kong are required to comply with GL10 except certain exemptions as stipulated by the IA (e.g. insurance companies authorised to carry on general insurance business which have ceased accepting new and renewal business and are in the course of running off their liabilities).

⁴ Chief Executive here refers to the definition as provided in the IO, briefly referring to an employee of the insurance company who is under the immediate authority of the directors for the conduct of the whole of the insurance business of the applicable company.

3.2 Corporate Governance

GL10 seeks to raise corporate governance standards of insurance companies in Hong Kong. It requires companies to more clearly define responsibilities within the Board, senior management and control functions, as well as the implementation of effective risk management and internal controls. The responsibilities of respective parties as defined under GL10 and their roles in enhancing/implementing the company's anti-corruption policy/controls as recommended by the CPD are set out below. While corporate governance is an emerging trend and widely recognised as a collection of mechanisms, processes and relations by which organisations are controlled and operated, please note that the recommended practices below are by no means exhaustive and that individual insurance companies may consider adopting them, among others, taking into account their governance structure, operational scale and needs, etc. while adhering to the principles of the recommended measures.

3.2.1 Board Oversight

- **Board Composition and Expertise** – The Board should comprise a suitable number of directors⁵ that enable it to carry out its functions effectively and efficiently. According to GL10, there should be generally a minimum of five directors⁶, and that the Board should have sufficient knowledge and relevant experience of insurance business to guide the company and oversee its activities effectively. The guideline also expressly provides that the Board should have an adequate spread and level of expertise, which should be in a number of areas such as underwriting, claims, finance and investment.
- **Quorum of Meeting** – To protect the Board from a decision in its name but made only by an unduly small number of members, under company law, in general, the company should define the quorum of the Board meeting⁷, taking into account the minimum number of members required for making a represented decision, the frequency of holding meetings, etc. Similar requirement should also be applied to other Board Committees or functional committees with important corporate functions.

⁵ The IA stipulates that a person should not play the dual role of Chairman and Chief Executive in an insurance company so as to maintain the balance of power. Furthermore, the insurance companies should satisfy themselves that all of the directors, controllers and key persons in control functions (☞ Reference at **Section 3.2.5**) are “fit and proper” persons.

⁶ The requirements in GL10 are modified suitably for small insurance companies, which are defined as insurance companies with annual gross premium income and total gross insurance liabilities as at the end of the immediate preceding financial year are both less than \$20 million.

⁷ GL10 also stipulates that the directors should meet from time to time to discuss the corporate affairs so as to respond to the market changes by devising suitable strategies.

- Board's Responsibility in Ensuring Transparency, Accountability and Fairness** – To maintain an effective relationship between the stakeholders and the company, and uphold high levels of trust between them, the Board should ensure that timely and accurate disclosure is made on all material matters concerning various stakeholders of the company such as information concerning the financial situation, performance and governance framework (e.g. information about Board members including their qualifications, and whether they are regarded as independent by the Board), thereby enhancing monitoring by and accountability to the stakeholders. The Board is held accountable for its decisions and to shareholders by submitting themselves to appropriate scrutiny. It should also give equal consideration to all shareholders with a sense of justice and avoidance of bias or vested interests.
- Fiduciary and General Duties of Individual Directors** – GL10 contains specific provisions on the fiduciary duties and general duties of care and skill each director owes to the insurance company, including acting in good faith, honestly and reasonably, exercising due care and diligence, acting in the best interests of both the company and policy holders and refraining from abusing his position for personal gain. Directors are also expected to dedicate sufficient time and attention in carrying out their duties, including attending Board meetings.
- Board's and Directors' Role in Implementing Anti-corruption Policy/Controls** – It follows that in the implementation of anti-corruption policy/controls in the company, the Board, under the leadership of the Chairman, assumes the responsibility of leadership and overall monitoring of the company. The Board should demonstrate its visible and firm commitment to anti-corruption business objectives and strategies, and oversee to ensure that an effective anti-corruption policy is established, maintained, followed and regularly reviewed. Directors should lead and be the role model of a performing individual in accordance with the company's corporate governance policy including the anti-corruption policy/controls.

| 3.2.2 Establishment of Board Committees

- Whilst the Board has the ultimate responsibility for setting the business objectives and strategies, Board Committees can deal with specific tasks for which they have been delegated by the former. They play pivotal roles in ensuring that high standards of corporate governance are maintained throughout the company and met as specified in their respective terms of reference. Under GL10, the establishment of an Audit Committee is generally mandatory⁸, to be chaired by an independent non-executive director (INED) and preferably has an INED majority. In addition, it is a mandatory requirement for the establishment of a Risk Committee (also preferably has an INED majority), with small insurance companies being exempted.

⁸ Exemption is provided for small insurance companies and an insurance company which is part of a group which has a group Audit Committee.

The establishment of other committees (e.g. Investment Committee, Remuneration Committee, Underwriting Committee, Reinsurance Committee and Claims Settlement Committee) are optional, having regard to the company's size, business activities and practical needs. The Board should also review the delegated committees, at least annually, to ascertain members of the committees collectively and individually remain effective in discharging their roles and responsibilities.

- **Board Committees' Role in Implementing Anti-corruption Policy/Controls** – To enhance effective implementation of the anti-corruption policy/controls of the company, the Board could delegate/designate a relevant committee such as Audit Committee or Risk Committee with suitable knowledge and expertise to ensure accountability and effective oversight of the implementation of the anti-corruption policy/controls, taking into account the organisational structure of individual companies.

| 3.2.3 Role of Independent Non-executive Directors

- Independent and impartial opinions are essential to facilitate the Board to make decisions in the best interest of the company. In this regard, having a sufficient number of the INEDs on the Board is an important safeguard against possible adverse influence of management or other controllers. GL10 requires that small insurance companies with less than five directors must have a minimum of one INED, otherwise, the requirement for the proportion of the INEDs on the Board is one-third. They should be individuals with sufficient calibre and breadth of experience to perform the balancing function, independent of the management and free from any business with the insurance company which could materially affect the exercise of their independent judgement.
- **INEDs' Role in Implementing Anti-corruption Policy/Controls** – In view of the important role of the INEDs in advising the Board on, among others, clean business practices and measures including compliance with anti-corruption laws and best practices, the Board should explicitly require the INEDs as independent third parties to actively assist it in monitoring the effective implementation of the company's anti-corruption policy/controls and in reporting timely any discrepancies or irregularities detected.

| 3.2.4 Obligations of Senior Management

- Senior management is accountable for carrying out the day-to-day operations and implementing systems and controls in accordance with the corporate culture and business strategies as set out by the company. According to GL10, the senior management should have appropriate reporting lines to the Board and provide relevant information, on a timely basis, to the Board to facilitate its oversight of

the management of the company. GL10 further provides that senior management may further delegate some of its responsibilities to, for example, key persons in control functions⁹, who will be solely or jointly responsible for the performance of one or more of the control functions of the insurance company, e.g. financial control, internal audit, compliance, risk management, intermediary management and actuarial service.

- **Senior Management's Role in Implementing Anti-corruption Policy/Controls** – The senior management should be responsible for designing and formulating the anti-corruption controls/measures in the company and ensuring that adequate resources and expertise are in place for the effective implementation. They should review the anti-corruption system regularly and report to the Board, including, amongst others, recommendations to address areas of concern and enhance effectiveness of the system.

| 3.2.5 Key Persons in Control Functions

- GL10 also mentions the concept of “key persons in control functions” who are individuals responsible for control functions. Appointment of such key persons requires approval by the IA. As control functions play an important role in providing additional checks and balances, and supporting the Board with its oversight duties, appropriate authority and independence are given to each control function, with adequate reporting lines to the Board set up appropriately.
- **Key Persons' Role in Implementing Anti-corruption Policy/Controls** – Given the unique nature of control functions and their inherent oversight duties in support of the Board, the key persons of such control functions should undertake specific internal control measures under their respective work mandates (e.g. the key person responsible for intermediary management function to establish and maintain internal control measures for administering/monitoring the company's insurance intermediaries), with a view to preventing and detecting corruption, fraud and other malpractice.

| 3.2.6 Engagement of Staff and Individual Insurance Agents

- Whilst not explicitly required under GL10, staff and individual insurance agents appointed are crucial to the effective implementation of corporate governance in the company. The company should recognise their interests and define their obligations in the corporate governance structure and on the other hand, the latter should also be on the same page with regard to the company values, and duly execute business policies and procedures as set out by the company.

⁹ For those insurance companies having key persons in their control functions, they should ensure that all key persons appointed are “fit and proper”.

- **Staff's and Individual Insurance Agents' Role in Implementing Anti-corruption Policy/Controls** – Resisting corruption and helping the company uphold ethical business practices is the responsibility of every employee and individual insurance agent. They should familiarise themselves with the requirements of the anti-bribery laws (i.e. the POBO) in Hong Kong (⇒ Reference at **Chapter 1**), have good understanding of the corruption risks in their working environment and the proper controls/measures they should adopt. They should also be alert of the requirement to promptly bring to the attention of the management or appropriate reporting channel of any corruption or practices conducive to corruption.



Q Are anti-corruption controls/programme important to a company?

A Corruption, fraud and other malpractice erode profits, damage the company's reputation and jeopardise the business in the long run. For listed companies, The Hong Kong Stock Exchange requires them to disclose, on a “comply or explain” basis, their anti-corruption policies and preventive measures against corruption, as appropriate. Irrespective of whether a company is a listed company, large or small, it should nevertheless instigate anti-corruption programme as early as possible in order to detect and deter corruption, taking into account the requirements of all applicable laws, in particular the POBO. An effective anti-corruption programme should include the following essential elements –

- an anti-corruption policy;
- ethical standard and anti-corruption guidance for all company personnel, including directors and staff, through a Code;
- a mechanism for the identification and assessment of corruption risk;
- anti-corruption controls; and
- training and communication.

The CPAS of the ICAC (⇒ Reference at **Appendix 4**) has developed a separate Corruption Prevention Guide which aims at helping listed companies effectively implement corporate anti-corruption programmes. For further reference of this guide, please visit https://cpas.icac.hk/EN/Info/Lib_List?cate_id=3&id=2330.

3.3 Key Elements of Internal Control

Effective internal control is imperative for an organisation as it provides the framework for plugging the corruption loopholes from the outset. In particular, GL10 requires that the Board should review the internal control system from time to time to ensure that it is adequate¹⁰ for the nature and scale of the relevant insurance company's business. Below highlights the key elements (which are GL10 requirements and/or good corruption prevention practices) of a sound internal control system –

3.3.1 Clear Policies, Work Procedures and Guidelines

- Lay down clear policies and guidelines for the company's various business processes such as underwriting, intermediary management, sales operations, claims settlement for staff compliance and implementation.
- Stipulate procedures and guidelines for internal operations including actuarial, financial control and reporting, investment, asset management, compliance, risk management, reinsurance, procurement as well as human resources functions (e.g. remuneration¹¹ and performance measurement/monitoring).
- Where committees are established, clearly define their mandates, appropriate authority, and ensure appropriate independence and objectivity to carry out their functions.
- Stipulate the roles and responsibilities of each level of staff or post and the authorities for making decisions in various functions, with clear lines of reporting with requirements of accountability.

3.3.2 Checks and Balances

- Implement segregation of duties in critical functions such as risk management, underwriting, claims handling and compliance with statutory regulations and rules.
- Institute policies and procedures such as cross-checking of documents, dual control of assets and conduct of random risk-based and independent checks to deter and detect possible malpractice.
- Put in place staff administration measures such as job rotation and assignment of a second/backup officer where practicable for functions with high risks of corruption or malpractice.

¹⁰ The Board shall, upon the IA's request, submit detailed information on the internal control system of the company to the IA and strengthen such system if required by the IA.

¹¹ In particular, GL10 requires insurance companies to establish a prudent and effective remuneration policy which should not induce inappropriate or excessive risk taking.

| 3.3.3 Record Keeping and Information Security

- Put in place a record keeping system and require staff to keep proper record of business transactions such as insurance contracts, vouchers or recorded business details in the form of written and/or digital/electronic data etc. for future audits and deterrence of malpractice. Document decisions/actions for important or exceptional cases with justifications.
- Lay down the policy and rules on classification and handling of information (e.g. limit access to restricted/sensitive information to authorised staff and individual insurance agents only on a need-to-know basis and require them to protect the information from leakage).
- Build in security safeguards to protect both hardcopy and record/data in the computer system from tampering or destruction (e.g. audit trail function with generation of management reports for identification and follow up of abnormalities).
- Remind staff and individual insurance agents that unauthorised disclosure of or tampering with records could constitute a breach of the company's rules or even a criminal offence, and disclosure in return for advantages may amount to bribery.

| 3.3.4 Supervisory Monitoring and Accountability

- Remind supervisors to remain vigilant at all times to potential risk of corruption or other malpractice.
- Provide relevant information (e.g. financial statements, budgets, market statistics and legislation) to enable supervisors to fulfil their responsibilities effectively.
- Remind supervisors to devise measures to deter or detect malpractice (e.g. conduct routine and/or risk-based spot checks on operations and transactions, use an information management system which can generate management reports to facilitate monitoring of important operations), and make thorough enquiries into suspected irregularities and/or report to appropriate authorities.

| 3.3.5 Training and Communication

- Ensure company's guidelines including the Code are well understood by directors, staff and individual insurance agents and where appropriate, other business partners through circulars, briefings or training sessions.

- Equip a newly appointed director or senior executive with suitable induction to enable them to discharge their duties properly. Provide also appropriate training to existing directors and the senior executives so that they are kept abreast of, among other things, the legislative and market developments. Include anti-bribery knowledge (e.g. the POBO, key corruption risk indicators, common corruption risks and safeguards as well as integrity challenges the company needs to handle) in the training.
- For other staff and individual insurance agents, apart from operational training, provide them with training on anti-bribery laws, corruption risks and related measures for specific business function(s), pitfalls relating to integrity issues (e.g. conflict of interest) the staff or individual insurance agents may face in their business operations, and guidance on how to properly deal with them.
- Ensure effectiveness of the training by adopting different formats (e.g. e-training, simple quiz) with content enhanced from time to time, conducting periodic reviews and providing information on available training and resources.
- Issue periodic reminders of the company's anti-corruption policy such as before festivals when business partners and customers are expected to offer gifts.

| 3.3.6 Complaint and Reporting Channels

- Make transparent the company's policies and procedures to the customers and business partners to help mitigate the risk of dishonest staff or individual insurance agents taking advantage of the lack of information by the stakeholders for a corrupt purpose, and facilitate external monitoring.
- Provide user-friendly survey or hotline to collect customers' feedback on the services provided by staff and insurance intermediaries and encourage customers to reflect their opinions frankly.
- Develop procedures and guidelines for the proper handling of enquiries/complaints/reports. In particular, for complaint handling, the procedures should include accessibility, record keeping, time frame and monitoring, etc. to ensure all complaints are properly handled with appropriate reporting mechanism to the Board and senior management.
- Establish a whistleblowing policy and system pledging confidentiality with reliable, trustworthy reporting channel(s) and procedures with sufficiently senior authority to handle the complaints/reports.
- Remind staff, directors and individual insurance agents to report approaches by criminal syndicates and incidents of corrupt practices to appropriate authorities and avoid any acts that may jeopardise or affect future investigation by a law enforcement agency.

3.3.7 Risk Management Framework

- Devise and implement a comprehensive risk management policy which strikes an appropriate balance of returns and risks that the company is willing and able to take.
- Provide the risk management function with direct reporting line to the Board and/or the Risk Committee to ensure its independent assessment and prompt reporting of risks of the insurance company and ensure the role of the designated persons responsible for risk management be distinct from other executive functions to avoid conflict of interest in carrying out their functions.
- Ensure the risk management framework is able to help identify the various types of risks (e.g. operational risk, underwriting risk and liquidity risk)¹² that the company faces and put in place measures to prevent and control the risks identified with continuous monitoring/review.
- Include corruption risks as an integral part of the company's risk management system and accord them an equally high priority as other business risks, and establish mechanisms to prevent and control the risks with continuous monitoring/review.
- Identify, prevent and detect cyber security threats¹³ (e.g. arising from network, email and relevant devices) to provide strong resilience against the threats, and devise measures to mitigate.

3.3.8 Reviews and Audits

- Have ongoing audit function (both internal¹⁴ and external) of a nature and scope appropriate to the nature and scale of the insurance company's business. This includes ensuring compliance with all applicable policies and procedures and reviewing whether the insurance company's policies, practices and controls remain sufficient and appropriate for its business.
- Provide the internal audit with unfettered access to the insurance company's entire business lines and support departments and ensure it to –

¹² Where an insurance company belongs to a group, attention should be paid to the risks associated with the intra-group transactions, as well as the inter-relationship and interdependence of risks among group members.

¹³ With the increased incidents of cyber-attack and its increasing sophistication, GL10 reminds insurance companies the importance to protect the personal information of its policy holders and digital/electronic data of its business to ensure continuity of the business operations, and to have policies and procedures, which are commensurate with the scale and complexity of its business, to identify, prevent, detect and mitigate cyber security threats.

¹⁴ GL10 exempts small insurance companies from establishing the internal audit function.

- be independent from the day-to-day operation and have status within the company to ensure that the Board and senior management are responsive to its recommendations and take timely actions thereon;
 - have sufficient resources and suitable staff of appropriate qualification and training; and
 - have direct reporting line and prepare internal audit report to the Audit Committee.
- Conduct regular or random independent audits on operations/processes/transactions that are exposed to risks of corruption or malpractice to deter and detect irregularities. Deploy management/exception reports and computer-aided audit tools to facilitate the audit.
 - Require the Board to give due consideration¹⁵ to the opinions and findings of both the internal and external auditors, and take timely actions on the recommendations, as well as monitoring the progress in redressing any problems raised by the auditors.
 - Regularly monitor and review the risks and controls, and update/improve the controls where necessary.

¹⁵ In case the Board's views are different from the auditor(s)' opinions, this should be documented.

Chapter

4

Management of Insurance Intermediaries

- 4.1 Introduction
- 4.2 Key Processes
- 4.3 Major Corruption Risks and Red Flags
- 4.4 Case Studies
- 4.5 Corruption Prevention Safeguards



Chapter 4

Management of Insurance Intermediaries

4.1 Introduction

Insurance companies appoint / partner with insurance intermediaries¹⁶ (i.e. individual insurance agents, insurance agencies and insurance broker companies) to discharge their business functions. In addition to the contractual business relationship, under the IO, the former are further accountable for any act of their appointed insurance agents in relation to their dealings for the issue of insurance contracts or related insurance business. It is thus vital for insurance companies to ensure that all their insurance intermediaries appointed / partnered with are “fit and proper”. The appointment/partnering processes are however vulnerable to abuse as unscrupulous insurance intermediaries / insurance intermediary licence applicants may offer advantages to the parties concerned to collude with them for falsification of documents for appointment/partnership, providing them with more favourable terms of remuneration or condoning their substandard performance. The adoption of appropriate corruption prevention measures could help ensure fair and accountable appointment/partnering procedures and consideration of the related remuneration, as well as effective monitoring of the insurance intermediaries appointed by / partnered with the insurance companies.

This Chapter highlights the major risks and provides the corresponding recommended measures in the management of insurance intermediaries by insurance companies, namely vetting and approval of applications for appointment/partnership, consideration and approval of remuneration packages, arrangement of training to individual insurance agents, performance monitoring (including promotion/demotion of individual insurance agents, termination of insurance intermediaries, etc.), as well as management oversight and supervision to ensure integrity of the operations in the process. The procedures and risks/measures described below are in general only applicable to individual insurance agents, insurance agencies and insurance broker companies who/which are directly appointed by / partnered with insurance companies. Licensed technical representatives of insurance agencies (TRs(agent)) and insurance broker companies (TRs(broker)) are excluded from this Chapter as they are primarily appointed and managed by their respective insurance agencies and insurance broker companies.

¹⁶ For ease of reference, the collective term “insurance intermediary” used in this Chapter excludes the licensed technical representatives of insurance agencies and insurance broker companies.

4.2 Key Processes

In general, insurance companies have different levels of involvement in the management of insurance intermediaries as briefly summarised below –

- **Individual Insurance Agents** – As representatives of their appointing insurance companies, individual insurance agents promote, advise on and arrange insurance policies offered by the former to customers. They would also provide after-sales services to the policy holders (e.g. assisting the latter to update personal particulars of the policies and apply for claims as necessary, monitoring the latter's policies in force). In this regard, as required by the IA, the appointing insurance companies (generally the respective Distribution Channel Departments¹⁷) vet the applications for these individual insurance agent licences to verify that the applicants fulfil the IA's "fit and proper" requirement¹⁸ before submitting the applications to the IA on behalf of the applicants. For some insurance companies, they rely on the applicants' "up-line" individual insurance agents (e.g. the district director) to check the originals of the applicants' supporting documents (e.g. income proofs, academic certificates) and sign to certify the true copies of the documents before vetting of the applications by the Distribution Channel Department¹⁹. Upon appointment, the remuneration packages²⁰ would be mainly considered and approved by designated authorities of the respective Distribution Channel Departments. The appointing insurance companies may also involve in the arrangement of training to their individual insurance agents, promotion of those who meet the companies' laid down criteria or demotion/termination of those who have substandard performance.
- **Insurance Agencies and Insurance Broker Companies** – While insurance agencies promote, advise on and arrange insurance policies offered by their appointing insurance companies (e.g. banks promoting the insurance products offered by their appointing insurance companies to their customers), insurance broker companies represent customers to look for suitable products in the market to meet the latter's needs. Insurance agencies and insurance broker companies may also provide after-sales services to the policy holders, as appropriate. In this regard, respective Distribution Channel Departments would conduct some standard checks (e.g. sufficient financial resources, control over confidentiality and proper sales process) on the insurance

¹⁷ Respective Distribution Channel Departments are responsible for managing individual insurance agents, insurance agencies and insurance broker companies.

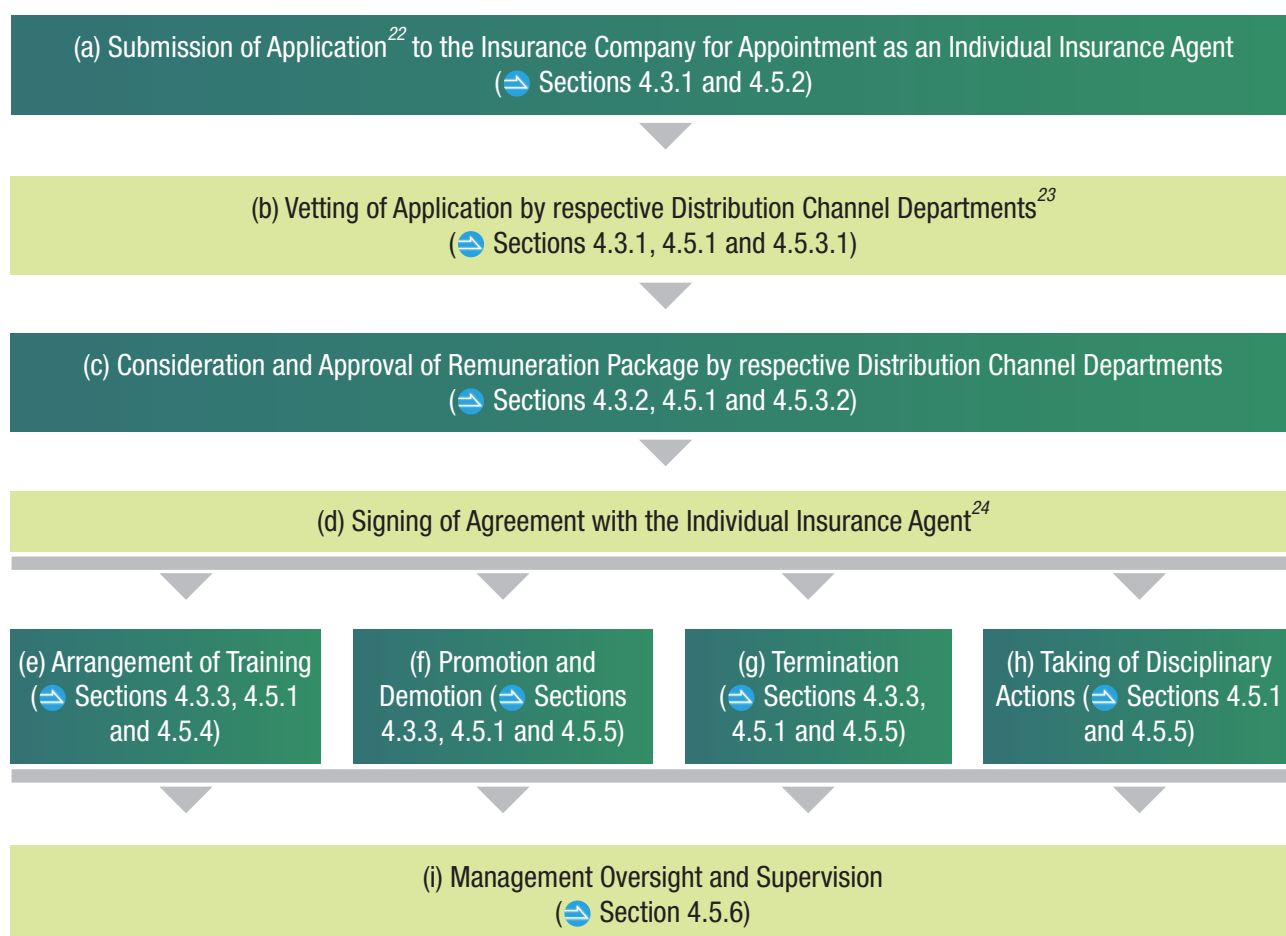
¹⁸ The "fit and proper" requirement includes attaining the required education or professional qualifications, obtaining a pass mark in the relevant papers of the Insurance Intermediaries Qualifying Examination, etc.

¹⁹ In such case, the Distribution Channel Department may not check the originals of the applicants' supporting documents.

²⁰ Insurance companies may offer individual insurance agents one-off "signing fee" calculated based on the latter's average annual income in order to attract existing industry practitioners (e.g. individual insurance agents of another company) with good business record to join the companies.

agencies²¹ and insurance broker companies before the appointment/partnership to ensure that the latter meet the companies' corporate standards. Insurance companies also review the business relationship with these insurance intermediaries regularly to ensure that they continue to meet the companies' corporate standards.

The following flow chart illustrates the key processes in the management of individual insurance agents who usually account for the largest number of headcount in an insurance company. Similar processes are generally adopted for appointing / partnering with insurance agencies and insurance broker companies (except (e) and (f)).



²¹ For insurance agencies, the licence application to the IA is required to be supported by at least one appointing insurance company.

²² For insurance broker company, it may submit a proposal for partnership with the insurance company itself, or the latter may provide an application form for the former.

²³ Some insurance companies may rely on the applicant's "up-line" individual insurance agent to check the originals of the applicant's supporting documents and sign to certify the true copies of the documents before vetting of the application by the Distribution Channel Department. In such case, the Distribution Channel Department may not check the originals of the applicant's supporting documents.

²⁴ For first appointment of individual insurance agent and insurance agency, the agreement signed is subject to the approval of licence by the IA.

4.3 Major Corruption Risks and Red Flags

Major Corruption Risks



4.3.1 Vetting and Approval of Applications for Appointment of / Partnering with Insurance Intermediaries

- 🚫 Unscrupulous insurance intermediary licence applicants / insurance broker companies (this risk is particularly noted in unscrupulous individual insurance agent licence applicants colluding with their “up-line” individual insurance agents) submitting false documents (e.g. academic certificates, financial documents) to the insurance companies in support of their applications for appointment/partnership.
- 🚫 Compromised staff of the Distribution Channel Department responsible for appointing / partnering with insurance intermediary licence applicants / insurance broker companies soliciting/accepting advantages in return for approving ineligible applicants.

4.3.2 Consideration and Approval of Remuneration Packages

- 🚫 Dishonest individual insurance agents offering advantages (e.g. part of the inflated “signing fee”) to their “up-line” individual insurance agents in return for the latter’s assistance in / condoning of submission of false/inflated income proofs to deceive the insurance companies for higher amount of “signing fee”.
- 🚫 Corrupt staff of the Distribution Channel Department responsible for determining the remuneration packages for insurance intermediaries soliciting/accepting advantages in return for offering better remuneration to the latter (e.g. higher amount of “signing fee” for individual insurance agents, better support such as higher amount of marketing allowance and/or sponsorships for insurance broker companies / insurance agencies).

| 4.3.3 Training and Performance Monitoring

- 🚩 Corrupt training staff soliciting/accepting advantages from individual insurance agents to falsify training records for the latter.
- 🚩 Compromised district directors who have much discretion in recommending promotion/demotion/termination of their “down-line” individual insurance agents soliciting/accepting advantages in return for favouring/harboursing the latter during the exercise.
- 🚩 Corrupt staff of the Distribution Channel Department condoning substandard performance of insurance intermediaries in return for advantages from the latter.

| Red Flags

1. Malpractices during Appointment/Partnering/Monitoring Process

- (a) **Frequent and lavish entertainment with insurance broker companies / insurance agencies** – Staff responsible for appointing / partnering with / monitoring of insurance broker companies / insurance agencies accepting frequent and/or lavish entertainment from the latter.
- (b) **Inadequate documentation** – Staff failing to keep adequate documentation for the appointment/partnering/monitoring process (e.g. vetting conducted) or provide the completed documents/records for supervisory checks as required by the insurance companies.

2. Submission of Suspicious Supporting Documents for Appointment

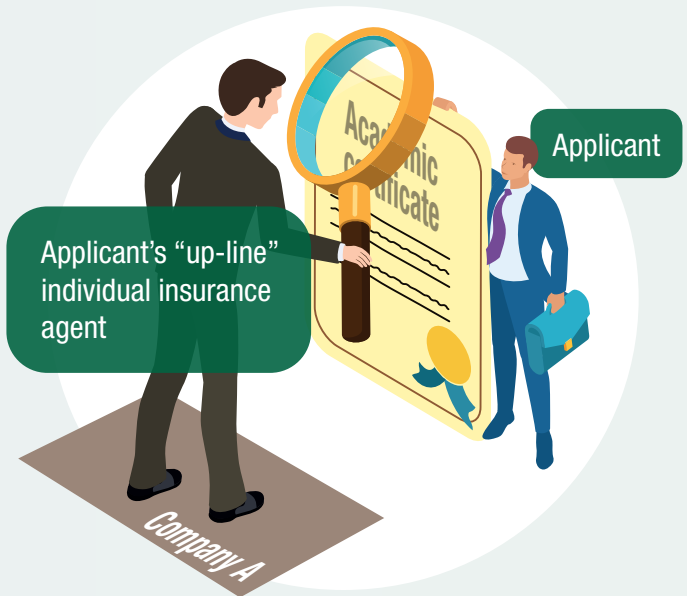
Failure to provide adequate supporting documents – Individual insurance agents’ failure to provide reliable supporting documents (e.g. Inland Revenue Department’s salaries tax and personal assessment demand notes) as requested by the insurance companies to support the proposed amount of “signing fee”.

4.4 Case Studies



Case Study 1 – False documents in support of individual insurance agent licence applications

1 According to the regulatory requirement, an individual insurance agent licence applicant must meet the minimum education requirement as stipulated by the IA in order to apply for an individual insurance agent licence. As its general practices, insurance company A (Company A) relies on the applicants' "up-line" individual insurance agents to check the originals of the applicants' academic certificates and sign to certify true copies of the documents, without requiring the Distribution Channel Department to counter check the original documents upon receipt of the certified true copies. Moreover, Company A would not verify the authenticity of the academic certificates with the document issuing institutions.



Branch manager (the applicant's "up-line" individual insurance agent)



2 An individual insurance agent licence applicant (the applicant) does not meet such minimum education requirement. However, knowing Company A's practices, a branch manager of Company A (who will be the "up-line" individual insurance agent of the applicant) conspires with the applicant to submit an individual insurance agent licence application with a fake academic certificate to Company A, claiming that the applicant has attained the minimum education requirement as he is eager to maintain adequate number of "down-line" individual insurance agents so as to retain his rank.

- 3 Having believed that the academic certificate and the information submitted by the branch manager and the applicant is genuine, Company A submits the licence application to the IA and appoints the applicant as its individual insurance agent upon the IA's approval.
- 4 The branch manager and the applicant respectively commit Section 9(3) of the POBO, and fraud, contrary to Section 16A of the Theft Ordinance.



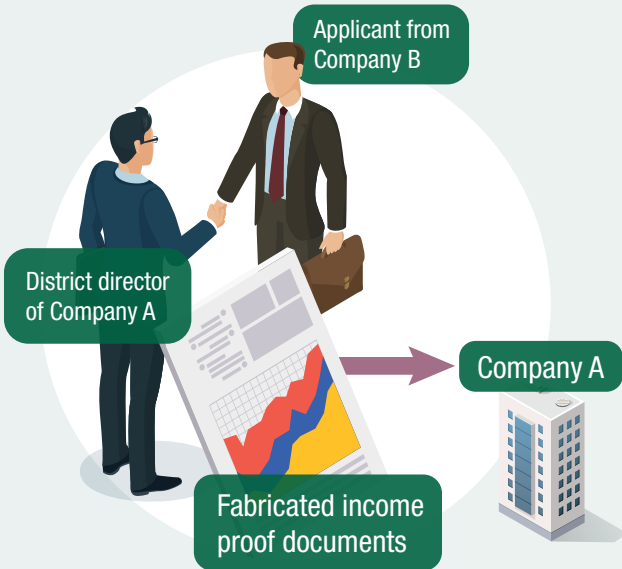
Tips for Insurance Companies

In order to obtain approval of individual insurance agent licences, some ineligible applicants might collude with their dishonest “up-line” individual agents to submit false documents (e.g. academic certificates) to deceive the insurance companies in meeting the “fit and proper” requirement as required by the IA. Apart from contravention of the POBO (i.e. Section 9(3)) by the “up-line” individual insurance agents concerned and other offence (e.g. fraud) by the applicants which may in turn adversely affect the companies’ reputation, insurance companies’ failure in detecting such malpractice may lead to non-compliance with the IA’s requirement on insurance companies to ensure their appointed individual insurance agents meet the “fit and proper” requirement. The appointment of ineligible applicants/partners may also impair the bond of trust between principal and agent, and adversely affect the reputation and professionalism of the insurance industry. If there are inadequate controls in the insurance company, this would create opportunities and temptation for exploitation by the corrupt parties concerned. In order to deter/detect the related malpractice in the above process, insurance companies are advised to adopt the recommended practices as provided in Sections 4.5.1-2, 4.5.3.1 and 4.5.6.

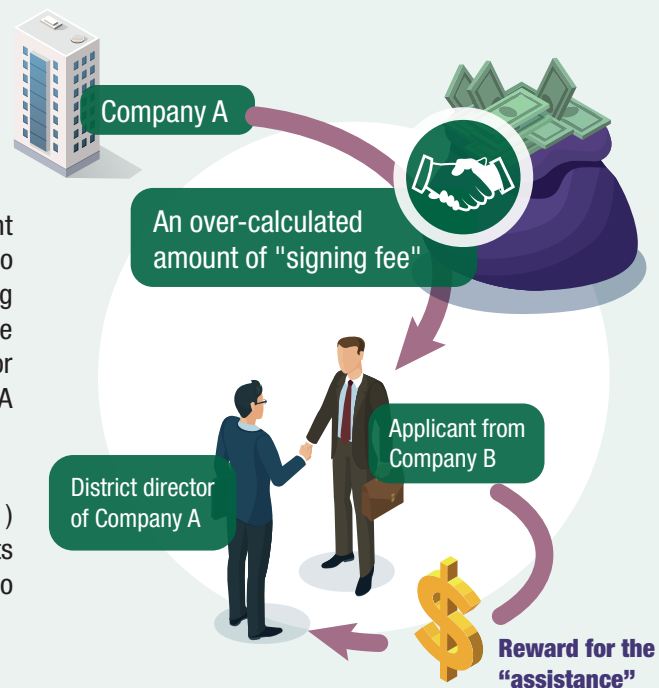


Case Study 2 – False income proofs to deceive “signing fee”

- 1 Insurance company A (Company A) invites an experienced individual insurance agent (the applicant) of insurance company B (Company B) to join the company and offers him a remuneration package, including a “signing fee” calculated based on his average annual income in the past 12 months in Company B.



- 2 As its general practices, Company A relies on the district directors (who will be the “up-line” individual insurance agents of the applicants) to check the originals of the applicants’ income proof documents and sign to certify true copies of the documents, without requiring the Distribution Channel Department to counter check the original documents upon receipt of the certified true copies. Knowing Company A’s practices, the district director then proposes to the applicant that he can fabricate financial documents with higher income for the latter in order to obtain higher amount of “signing fee” and solicit part of the inflated “signing fee” from the latter as reward for the “assistance”. The applicant agrees.



- 3 The district director conspires with the applicant to submit fabricated income proof documents to Company A with inflated total income. Having believed and calculated based on that the income proof documents submitted by the district director and the applicant are genuine, Company A overpays “signing fee” to the applicant.

- 4 The district director contravenes Sections 9(1) and 9(3) of the POBO while the applicant commits Section 9(2) of the POBO and fraud, contrary to Section 16A of the Theft Ordinance.



Tips for Insurance Companies

Offering of “signing fee” to attract industry practitioners with good business record to join the insurance company is a common practice in the insurance industry. However, some unscrupulous individual insurance agents might offer advantages to their “up-line” individual insurance agents and/or the insurance company staff for collusion with them to use false/inflated income proofs to deceive the insurance companies, thereby contravening the POBO by the parties concerned and causing financial loss to insurance companies. If there are inadequate controls in the insurance company, this would create opportunities and temptation for exploitation by the corrupt parties concerned. In order to deter/detect the related malpractice in the above process, insurance companies are advised to adopt the recommended practices as provided in Sections 4.5.1-2, 4.5.3.2 and 4.5.6.

4.5 Corruption Prevention Safeguards

4.5.1 Guidelines/Instructions

- Lay down comprehensive rules on the procedures for management of insurance intermediaries, including, amongst others, the following –
 - handling applications for appointment/partnership covering –
 - allocation of cases; and
 - vetting process including the items to be verified, requirement for mandatory documents (e.g. academic certificates and related official authentication documents);
 - consideration and offering of remuneration packages such as the requirement for mandatory documents (e.g. income proofs) required for different types of remunerations;
 - arrangement of training to individual insurance agents, including the procedures for arranging classroom and online training courses;
 - performance evaluation system, including procedures for promotion/demotion/termination;
 - disciplinary system such as the administration of sanctions (e.g. issuance of warnings, termination of agreements);
 - respective authorities for the above processes (e.g. approval of the applications for appointment/partnership, offering of remuneration packages, decisions for promotion/demotion/termination and taking of disciplinary actions);
 - mechanism for handling of special/specified cases during the above processes (e.g. individual insurance agent licence applicant has been convicted of a relatively minor criminal offence, offering of a remuneration package which deviates from the normal remuneration package and/or involves a substantial sum, retaining an individual insurance agent that ought to be terminated) such as the requirement for at least two-tier approval for such cases; and
 - requirement for maintenance of proper record for subsequent audits.
- Make transparent the above rules to the parties concerned (e.g. via company intranet, circulars).

| 4.5.2 Probity Requirements/Reminders

- Make known to insurance intermediary licence applicants / insurance broker companies the company's anti-bribery provision (☞ Reference at **Section 2.2 of Chapter 2**) and warn them against the offering of any advantages to staff or agents (under definition of the POBO) of the insurance company in relation to their applications for appointment/partnership by including such information in insurance intermediary application forms, company websites, etc.
- Include a warning in relevant documents (e.g. insurance intermediary application forms) to warn insurance intermediary licence applicants / insurance broker companies against providing false information and submitting bogus documents for appointment/partnership, and the possible consequences (e.g. incurring criminal liabilities), and require them to declare on relevant documents that all the information and supporting documents provided to the insurance company are true and accurate.
- Making reference to the IA's requirement (i.e. individual insurance agent licence applicants and insurance agency licence applicants are required by the IA to declare on the licence application form if they have been disciplined (e.g. by the IA and/or any professional, trade or regulatory body)), impose similar requirement on insurance broker companies upon consideration on forming of partnership with them.

| 4.5.3 Appointment/Partnering Procedures

| 4.5.3.1 *Vetting and Approval of Applications*

- Lay down the criteria for appointment of / partnering with insurance intermediaries with objective benchmarks as far as practicable (e.g. the experience required for individual insurance agents, the controls over confidentiality and proper sales process for insurance broker companies / insurance agencies).
- Allocate applications by rotation to the vetting staff within the teams for processing (e.g. by computer-assisted case assignment) and require written approval by a designated authority for any out-of-turn / manual adjusted cases with justifications properly documented.
- Remind vetting staff concerned to immediately make declarations for any conflict of interest situations (e.g. handling an application from their family members / relatives / close personal friends).
- Devise a checklist covering the items to be verified (e.g. items under the "fit and proper" criteria), and require vetting staff to record and sign against the checking result.

- Remind staff of the Distribution Channel Department to duly check the supporting documents submitted by the applicants, in particular to verify the authenticity of academic certificates²⁵ submitted by individual insurance agent licence applicants with the document issuing / authorised institutions (e.g. checking the verification reports on the academic certificates issued by the China Higher Education Student Information and Career Center, or approaching notary offices in Chinese Mainland as necessary to verify the authenticity of the notarial certificates on the academic certificates issued by the education institutes concerned).
- At least on a risk basis, require another party (e.g. staff of respective Distribution Channel Departments) to further check the originals of the individual insurance agent licence applicants' supporting documents for appointment (e.g. academic certificates) after checks conducted by applicants' "up-line" individual insurance agents (e.g. upon signing of agreements with individual insurance agents).

4.5.3.2 Consideration and Approval of Remuneration Packages

- Determine the allowances, fringe benefits, etc, as appropriate, for different ranks of individual insurance agents (e.g. manager allowance) and different types/scales of insurance agencies and insurance broker companies (e.g. financial and/or non-financial support such as marketing allowance and sponsorships).
- Lay down the criteria and authorities for the consideration and approval of remuneration packages to be offered to the insurance intermediaries, taking into account the latter's qualification, working experience, expertise, business scale, etc.
- For the consideration/assessment of "signing fee" for individual insurance agents –
 - require individual insurance agents to submit supporting documents (e.g. the Inland Revenue Department's salaries tax and personal assessment demand notes) as reliable income proofs for assessing the amount of "signing fee";
 - require individual insurance agents to submit a longer period of income proofs to increase the difficulty of possible fabrication of documents; and
 - specify the formula for calculating/assessing the "signing fee" (e.g. based on the average annual income for a certain period of time).
- Require vetting staff of the Distribution Channel Department to duly check the supporting documents (e.g. income proofs, working experience documents) submitted by insurance intermediaries for the calculation/assessment of remuneration packages.

²⁵

For individual insurance agent licence applicants submitting a Mainland academic certificate for licence application, the IA requires the applicant to submit it together with a copy of an official authentication document regarding the genuineness of the certificate, e.g. confirmation issued by the China Higher Education Student Information and Career Center, notarial certificate or direct confirmation by the institution concerned.

- At least on a risk basis, require another party (e.g. staff of respective Distribution Channel Departments) to further check the originals of the individual insurance agents' supporting documents for calculation/assessment of remuneration packages (e.g. income proofs, working experience documents) after checks conducted by their respective "up-line" individual insurance agents.
- Require vetting staff of the Distribution Channel Department to calculate/assess and document with justifications in a form / computer system the remuneration packages to be offered to insurance intermediaries based on the predetermined consideration criteria before submission to the designated authorities for approval.

| 4.5.4 Individual Insurance Agents' Mandatory Training Records

- Conduct checks on the training attendees' identities (e.g. check the attendees' individual insurance agent cards issued by the company) on the spot for classroom training.
- As far as practicable, put in place an electronic system for recording the attendance of classroom training (e.g. by recording the individual insurance agents' electronic cards issued by the company).
- For those companies adopting an electronic system for recording the attendance of classroom training, require justifications (e.g. individual insurance agents forget to bring electronic cards for recording attendance) and approval by a designated approving authority for any manual adjustment of attendance records to the system.
- Ensure the conduct of surprise real-time identity authentication (e.g. using biometric technologies) when conducting online training courses.

| 4.5.5 Performance Monitoring

- Define clearly the duties and authorities of respective district directors and staff of respective Distribution Channel Departments for evaluating the performance of insurance intermediaries.
- As far as practicable, devise a performance appraisal form covering the pre-determined criteria for evaluating the performance of insurance intermediaries for use by the appraising officers (e.g. district directors and/or staff of respective Distribution Channel Departments).
- Set objective criteria (e.g. achieving the prescribed sales targets and/or maintaining prescribed number of "down-line" individual insurance agents) for the promotion/demotion/termination of insurance intermediaries.

- Record the decision and justifications for promoting/demoting/terminating an insurance intermediary (e.g. in a form or electronic means) for future reviews and/or audits.
- Establish an effective disciplinary system (e.g. the circumstances warranting different forms of disciplinary actions, the setting up of a panel, if applicable, to determine the disciplinary actions required, the appeal system, etc.) for non-compliant matters (e.g. breach of the company's Code by insurance intermediaries).
- Ensure fairness and consistency in taking disciplinary actions (e.g. by maintaining a dossier of cases for ease of reference by staff).

| 4.5.6 Management Oversight and Supervision

- Monitor the disciplinary action taken on any insurance intermediaries under the management of the insurance company by regulators (e.g. the IA) and take appropriate follow-up actions.
- Conduct random supervisory checks and independent checks (e.g. by the Compliance Department, Internal Audit Department) on the following to deter and detect irregularities –
 - approval of appointment/partnering cases (e.g. on the authenticity of academic certificates, compliance with corporate standards);
 - remuneration packages offered to insurance intermediaries;
 - arrangement of training to individual insurance agents (e.g. on the justifications for manual adjustment of electronic attendance records);
 - performance evaluation for promotion/demotion/termination of insurance intermediaries; and
 - the decision of taking disciplinary actions.
- Make the parties concerned (e.g. individual insurance agent licence applicants / prospective partnering insurance intermediaries, vetting staff) aware of the random/independent check policy for deterrence purpose.
- Generate and analyse management reports (e.g. reports showing the amount of remunerations offered to insurance intermediaries, the details of insurance intermediaries being promoted/demoted/terminated) and exception reports on abnormal patterns (e.g. individual insurance agents failing to meet prescribed sales targets persistently but without any follow-up action such as termination of the agent agreements, indicating possible risk of condoning substandard performance of individual insurance agents), and investigate anomalies detected.

Chapter 5

Sales Process

- 5.1 Introduction**
- 5.2 Key Processes**
- 5.3 Major Corruption Risks and Red Flags**
- 5.4 Case Studies**
- 5.5 Corruption Prevention Safeguards**



Chapter 5

Sales Process

5.1 Introduction

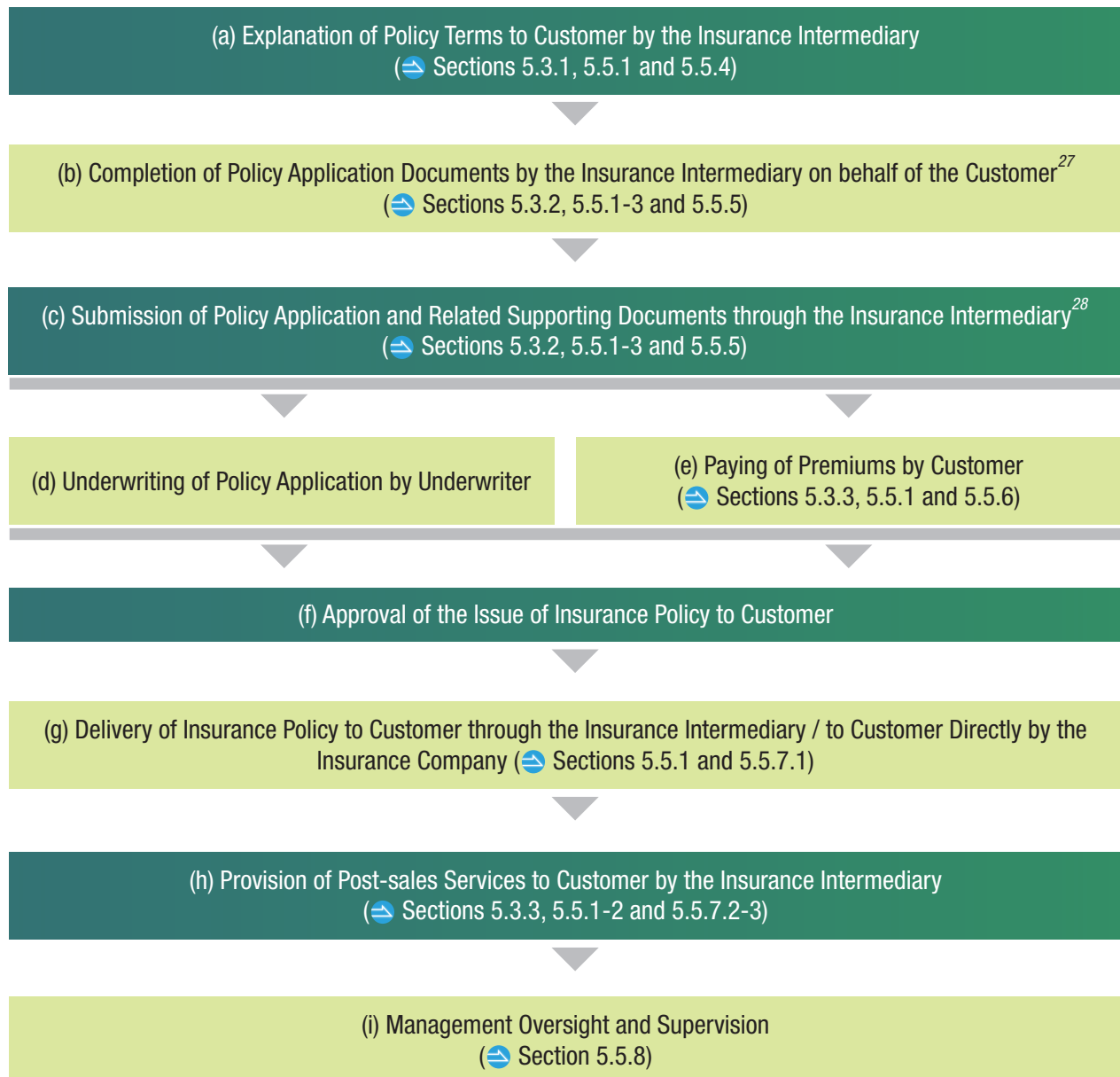
Insurance companies appoint or partner with insurance intermediaries (i.e. individual insurance agents, insurance agencies, insurance broker companies, TRs(agent) and TRs(broker)²⁶) to promote their insurance products to customers and handle the subsequent policy applications. The processes are susceptible to risks of manipulation as they involve substantial sums of money (e.g. insurance benefits) and handsome remunerations to the insurance intermediaries based on the sales transactions. The risks are further increased as some customers / policy holders tend to rely heavily on the insurance intermediaries in handling their policy applications and administering their policies in force, giving rise to opportunities for abuse by corrupt insurance intermediaries (e.g. misappropriating the customers' funds, swindling the monetary values of the customers' / policy holders' policies). The adoption of appropriate corruption prevention measures could help safeguard the integrity of the sales process, avoid abuse of the remuneration system and protect both the companies and the customers' funds.

This Chapter highlights the major risks and provides corresponding recommended measures in the sales process, including selling of insurance policies / referral of business, submission of policy applications, handling of customers' funds and personal data, as well as management oversight and supervision to ensure integrity of the operations in the process.

²⁶ TRs(agent) and TRs(broker) are primarily appointed and managed by their respective insurance agencies and insurance broker companies.

5.2 Key Processes

The following flow chart illustrates the key processes in the sale of insurance policies via insurance intermediaries –



²⁷ The handling agent (e.g. individual insurance agent)'s name is stipulated on the policy application documents based on which the insurance company releases commission to the former. For policy application handled by an individual insurance agent, apart from releasing commission to the handling agent, the insurance company would also release overriding commission to his "up-line" individual insurance agent.

²⁸ Individual insurance agents submit policy applications on behalf of customers to the insurance companies directly, whilst TRs(agent) and TRs(broker) submit policy applications to the insurance companies on behalf of customers through their respective appointing insurance agencies and insurance broker companies.

5.3 Major Corruption Risks and Red Flags

Major Corruption Risks



5.3.1 “Selling” of Insurance Policies / Referral of Business

- ☛ Colluded individual insurance agents accepting illegal fees as a reward for helping in promoting and selling the insurance products of other insurance companies, which is prohibited by their appointing insurance companies.
- ☛ Corrupt individual insurance agents accepting illegal referral fees for referring/diverting customers to other insurance companies or insurance intermediaries, which is prohibited by their appointing insurance companies.

5.3.2 Submission of Policy Applications

- ☛ Dishonest insurance intermediaries submitting policy application documents containing false information to deceive the insurance companies for solicitation/acceptance of advantages (e.g. sharing of the extra commissions earned from the sale of the insurance policies) from the parties involved, misappropriating the policy benefits, earning ineligible commissions/bonuses, fabricating sales targets, etc. by various fraudulent ways such as –
 - falsely representing on the policy application documents that another insurance intermediary who is not involved in the sales process of the insurance policies is the handling agent of the applications (e.g. “up-line” individual insurance agent falsely representing his “down-line” individual insurance agent who is not involved in the sales process as the handling agent) so as to earn the extra (i.e. overriding) commission, in addition to the commission issued to the handling agent;
 - using particulars of other persons (without the latter’s knowledge) to submit bogus policy applications to the insurance companies; or
 - colluding with customers to falsely representing that the sales process is conducted in Hong Kong.



| 5.3.3 Handling of Customers' Funds and Personal Data

- 💣 Unscrupulous insurance intermediaries falsely representing on policy application documents that their friends / related persons are the insured persons / the policy holders while the policy premiums are paid by the original customers with a view to colluding with their friends / related persons to misappropriate the policy benefits.
- 💣 Dishonest insurance intermediaries misappropriating customers' / policy holders' funds (e.g. pilferage of premiums received from customers payable to the insurance companies, forging the signatures of policy holders on policy ownership transfer forms with a view to swindling the monetary values of the policies to themselves).
- 💣 Compromised staff / individual insurance agents accepting advantages as a reward for leaking confidential customers' personal data (e.g. to other insurance intermediaries or companies for marketing of their products).

Red Flags²⁹

1. **Malpractices (e.g. Submission of Bogus Policy Applications) during Policy Applications**

(a) **Abnormal patterns in insurance intermediaries' portfolios** –

- High level of policy lapse rate; and/or
- Small amount of policies but with high sum insured.

(b) **Exceptional increase in sales** – Unexpected increases in sales transactions by insurance intermediaries that are exceptional or without apparent reasons in a short period of time.

(c) **Abnormal premium paying pattern** – Premiums of policies being paid by third parties who have no apparent connection with the insured or policy holders, and/or insurance intermediaries' portfolios having a relatively high number of insurance policies with premium payments in arrears.

(d) **Suspicious policy application supporting documents** – Submission of suspicious supporting documents for policy applications via insurance intermediaries (e.g. blurred/unclear immigration records in support of Chinese Mainland visitors' policy applications).

2. **Misappropriation of Customers' Funds**

(a) **Abnormal patterns in insurance intermediaries' portfolios** –

- High level of policy surrenders/cancellations;
- Significant percentage of policies with changes of important customer information (e.g. mobile numbers, customer addresses), and/or even ownership of the policies; and/or
- High level of taking out of policy loans after the inception of policies.

(b) **Irregularities identified in customers' requests** – Irregularities are identified in customers' requests submitted through insurance intermediaries (e.g. questionable signatures on customer request forms such as change of ownership, beneficiary and policy assignment forms).

5.4 Case Studies



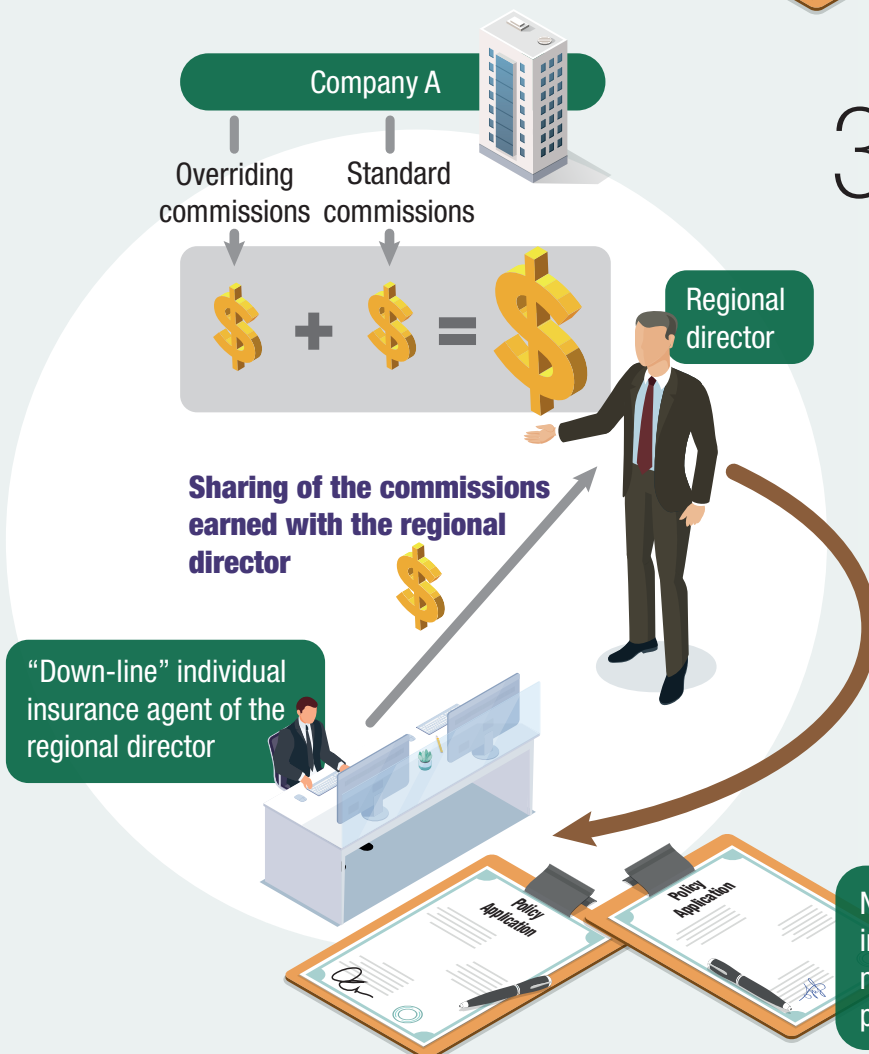
Case Study 1 – False representation of the handling agent on the policy application forms to deceive more commissions

1 A regional director (who is also an individual insurance agent) of an insurance company (Company A) can earn overriding commissions upon sale of insurance policies by his “down-line” individual insurance agents, in addition to the standard commissions issued to the latter.

2 The regional director meets and explains an insurance product to two customers himself who agree to buy the insurance product. Upon his request, the two customers respectively sign on their policy application forms for confirming applications of the insurance product, without being aware of the need to check the name of the handling agent.



3 Afterwards, the regional director names one of his “down-line” individual insurance agents who is not present during the whole sales process as the handling agent on the policy application forms so that he can also earn the overriding commissions, in addition to the commissions earned by his “down-line” individual insurance agent (i.e. the total commissions earned is more than the commissions he could earn by naming himself as the handling agent). He also solicits advantages from the latter by requesting sharing of the commissions earned by the latter. The “down-line” individual insurance agent agrees to such arrangement as he could also meet his sales target.



4 The regional director then conspires with the “down-line” individual insurance agent to submit the policy application forms containing false information to Company A. Company A also does not have adequate safeguards (e.g. random post-sales confirmation calls to verify some essential information of the sales process, inclusion of adequate clawback provisions to recover commissions paid in case of conduct of malpractice) to deter/detect related malpractice and releases the commissions to the syndicate. The “down-line” individual insurance agent then gives majority of the commissions he earned to the regional director.

5 The regional director and the “down-line” individual insurance agent respectively contravene Sections 9(1) and 9(2) of the POBO. They also contravene Section 9(3) of the POBO.



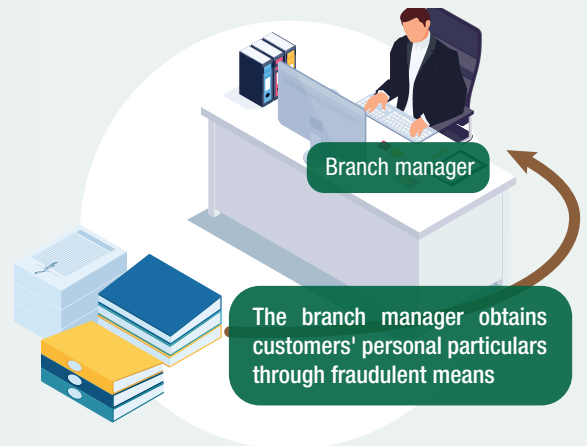
Tips for Insurance Companies

Some dishonest insurance intermediaries might falsely represent on the policy application documents that other insurance intermediaries who are not involved in any part of the sales process as the handling agents of the applications with a view to soliciting the commissions earned by the latter. Apart from contravention of the POBO by the insurance intermediaries concerned and causing financial loss to insurance companies, such improper practice among insurance intermediaries will also put the companies' reputation at stake, thereby affecting the customers' confidence in the companies. If there are inadequate controls in the insurance company, this would create opportunities and temptation for exploitation by the corrupt parties concerned. In order to deter/detect the related malpractice in the above process, insurance companies are advised to adopt the recommended practices as provided in Sections 5.5.1-3, 5.5.5, 5.5.7.1 and 5.5.8.

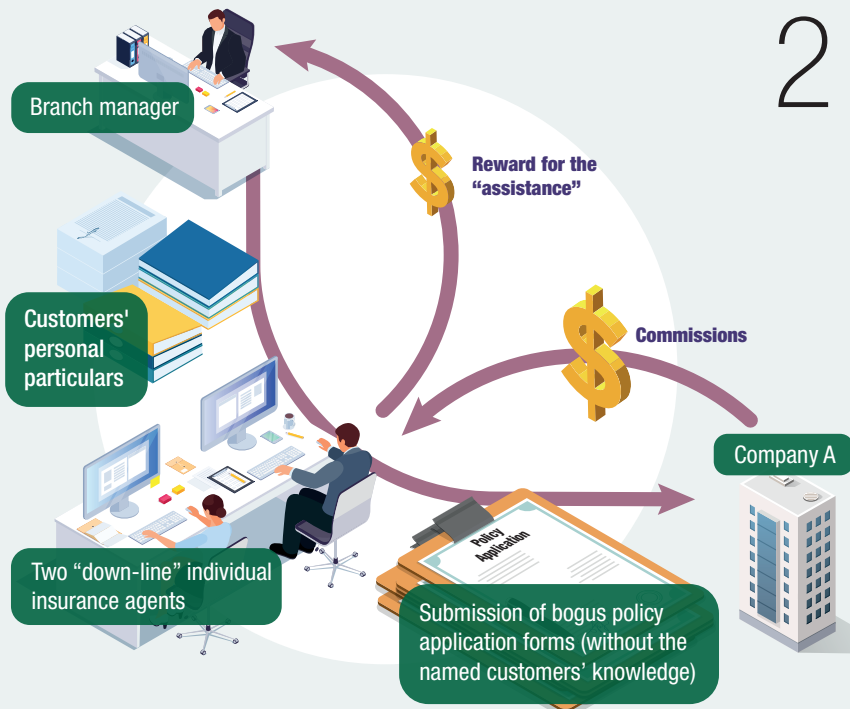


Case Study 2 – Submission of bogus policy applications to deceive commissions

1 A branch manager (who is also an individual insurance agent) of an insurance company (Company A) is required to reach the prescribed team sales targets and maintain certain number of productive “down-line” individual insurance agents. Two of his “down-line” individual insurance agents however fail to secure any sale of insurance policy. Knowing that Company A has not put in place any mechanism to deter/detect bogus policy applications, he proposes to the latter that he could source customers for them for submission of bogus policy applications. The “down-line” individual insurance agents concerned also agree to rebate him part of the commissions as reward for the “assistance”.



2 The branch manager then obtains personal particulars through fraudulent means (e.g. record of his and other customers of Company A) and provides such to the “down-line” individual insurance agents for the purpose of submitting bogus policy applications. The “down-line” individual insurance agents name themselves as the handling agent on the bogus policy applications and then conspire with the branch manager to submit the bogus policy application forms to Company A, without the named customers’ knowledge.



3 The branch manager and the “down-line” individual insurance agents commit Sections 9(1) and 9(2) of the POBO respectively. They also commit Section 9(3) of the POBO.



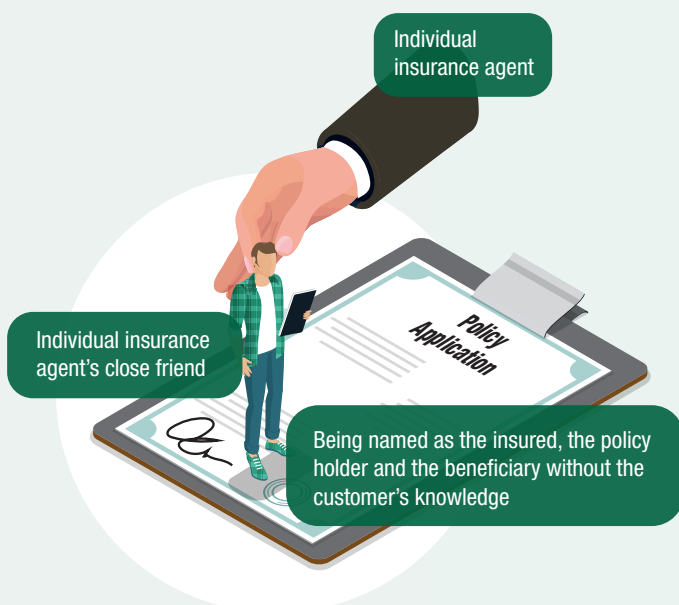
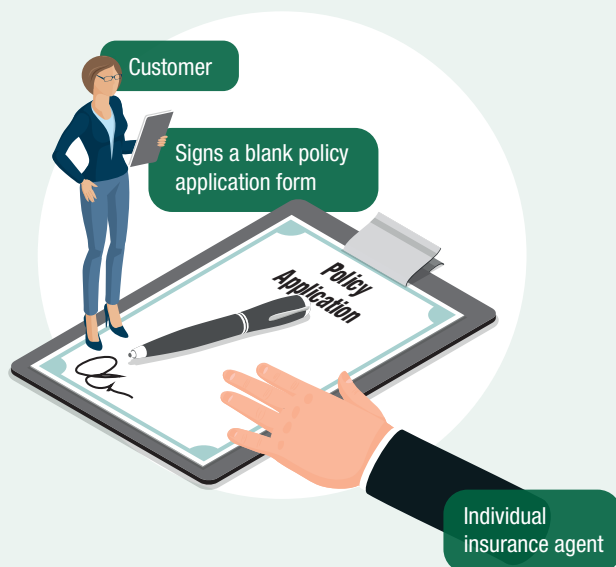
Tips for Insurance Companies

Some corrupt insurance intermediaries might submit bogus policy applications to deceive insurance companies for soliciting the extra/ineligible commissions earned from the parties involved, meeting individual/team sales targets and earning extra allowances, etc. Apart from contravention of the POBO by the insurance intermediaries concerned, such malpractice will adversely affect the insurance companies’ profitability as those bogus policies usually lapse after a short period of time. Moreover, the bogus policy application scam often involves a syndicate of the “up-line” and “down-line” individual insurance agents and hence creates a negative impact on the integrity culture of the companies. If there are inadequate controls in the insurance company, this would create opportunities and temptation for exploitation by the corrupt parties concerned. In order to deter/detect the related malpractice in the above process, insurance companies are advised to adopt the recommended practices as provided in Sections 5.5.1-3, 5.5.5, 5.5.7.1 and 5.5.8.



Case Study 3 – Use of documents with false information to deceive customers' funds

- 1 An individual insurance agent secures a sale of an investment-linked insurance plan to a customer who is his ex-colleague. Upon his request, the customer signs a blank policy application form as he trusts the individual insurance agent and there is also no reminder on the application form or other related documents to remind the customer to ascertain the details before signing. The customer also pays premium for the insurance policy in cash to the individual insurance agent directly.



- 2 Noting that the insurance company has inadequate safeguards against deterrence/detection of corrupt or fraudulent practices (e.g. no conduct of supervisory/independent checks on new business to detect malpractice), the individual insurance agent then names his close friend as the insured, the policy holder and the beneficiary on the policy application form concerned without the customer's knowledge, with a view to colluding with his friend to misappropriate the policy benefits.

- 3 The individual insurance agent is found guilty of Section 9(3) of the POBO.



Tips for Insurance Companies

It does occur that dishonest insurance intermediaries provide false information in the policy application forms to deceive insurance companies for various purposes (e.g. misappropriating policy benefits). Apart from contravention of the POBO (i.e. Section 9(3)) by the insurance intermediaries concerned and the adverse impact on the insurance companies' profits as commissions are released to insurance intermediaries that are not entitled to receive it, the customers' interests are also seriously affected by such malpractice as their funds (e.g. monetary values of the policies) might be misappropriated by the insurance intermediaries. If there are inadequate controls in the insurance company, this would create opportunities and temptation for exploitation by the dishonest parties concerned. In order to deter/detect the related malpractice in the above process, insurance companies are advised to adopt the recommended practices as provided in Sections 5.5.1-3, 5.5.5-6 and 5.5.8.

5.5 Corruption Prevention Safeguards

Applicability

As TRs(agent) and TRs(broker) are primarily under the management of their respective insurance agencies and insurance broker companies, insurance companies are advised to require/encourage their partnering insurance agencies and insurance broker companies to be alert to the red flags / corruption risks (⇒ Reference at **Section 5.3**) as explained in this Chapter and adopt safeguards below to ensure proper sales activities of their respective TRs (⇒ Reference at **Section 4.5.3.1 of Chapter 4**).

5.5.1 Guidelines/Instructions

- Lay down comprehensive rules on the procedures for the sale of insurance policies, including, amongst others, the following –
 - the company's remuneration structure for the sale of different types of insurance products;
 - handling of customers' policy applications;
 - handling of customers' premiums, including, amongst others, the procedures for collection and return of customers' premiums received to the company by individual insurance agents;
 - provision of post-sales services to customers, including the procedures for the issue of insurance policies to customers, handling of customers' policy-related requests (e.g. change of policy ownership); and
 - requirement of maintenance of proper record for subsequent audits.
- Make transparent the above rules to the parties concerned (e.g. via company intranet, circulars).

5.5.2 Probity Requirements/Reminders

- Include a warning in relevant documents (e.g. insurance intermediary declaration form which is attached to the policy application form) to warn insurance intermediaries against submission of false information (e.g. falsely representing on the policy application documents that another insurance intermediary who is not involved in the sales process is the handling agent of the applications, colluding with customers to falsely representing that the sales process is conducted in Hong Kong)

and the possible consequences (e.g. incurring criminal liabilities), and require them to declare on relevant documents that all the information and supporting documents provided to the insurance company are true and accurate.

- Draw customers' attention to important notes such as, without limitation, the need for them to –
 - check policy terms and other essential information (including, amongst others, the name of the handling agent) carefully and avoid signing blank or unclear documents; and/or
 - contact the insurance company directly (e.g. by providing them an enquiry hotline) if they receive suspicious insurance policies or do not receive any insurance policies after submitting policy applications for a specified period of time (e.g. one month).

| 5.5.3 Remuneration Structure

- Set reasonable sales targets for insurance intermediaries in a way that the company's commission policy does not provide incentives or opportunities for engagement in corrupt or fraudulent activities (e.g. avoiding overly high commission in the initial years of the policy term), and review the sales targets and commission policy periodically to verify that there are reasonable safeguards in place to prevent them from encouraging bribery.
- Put in place a mechanism to deter corruption/fraud cases in the design of the insurance intermediary agreements (e.g. including adequate clawback provisions to fully recover all commissions paid in case of committing corrupt or other malpractice).
- Include persistency ratio as one of the considerations/factors for promoting individual insurance agents to reduce incentive for submission of bogus policy applications.

| 5.5.4 “Selling” of Insurance Policies / Referral of Business

- Remind individual insurance agents against accepting illegal fees as a reward for helping in promoting and selling the insurance products of other insurance companies which is prohibited by the appointing insurance company and the possible consequences (e.g. termination of contract, incurring criminal liabilities if solicitation/ acceptance of advantages is involved).

- Lay down company policy on the referral of business by individual insurance agents (e.g. prohibiting individual insurance agents from referring a customer to any other insurance companies or insurance intermediaries without the prior approval of the insurance company and reminding individual insurance agents of the unauthorised referral and the possible consequences (e.g. incurring criminal liabilities)) (⇒ Reference at **Section 2.3.3 of Chapter 2**).

| 5.5.5 Submission of Policy Applications

- Require customers to fill in their mobile numbers on the policy application documents and conduct cross-checking with the handling individual insurance agents' mobile numbers to lessen the risk of individual insurance agents using their own mobile numbers for submission of bogus policy applications.
- Prohibit individual insurance agents from requesting or advising customers to sign on blank/incomplete policy application documents.
- Provide electronic means of application (e.g. via e-application App) for the insurance intermediaries' submission of policy applications during the sales meeting with the customers / potential policy holders to lessen the risk of false representation of handling agents as the names of the handling agents are electronically logged on the electronic policy application documents.
- To deter false representation that the sales process with Chinese Mainland visitors is conducted in Hong Kong –
 - equip underwriting staff (⇒ Reference at **Chapter 6**) with adequate knowledge of a proper immigration record / entry proof of Chinese Mainland visitors and require them to take follow-up actions on any anomalies identified (e.g. blurred/unclear immigration records); and/or
 - as far as practicable, disallow electronic channels for policy applications to be accessed outside Hong Kong.
- Confirm with policy holders for all, or on a risk basis, applications with less common beneficiary designation (e.g. designation to non-family members).

| 5.5.6 Collection of Customers' Premiums

- Educate customers to pay premiums by means other than cash and the benefits (e.g. easy trace of payment) of paying premiums to the insurance company directly.
- If cheque payment is made, draw customers' attention that the cheques should be made payable to the insurance company instead of the handling agents' private accounts.

- If cash payment by customers is unavoidable, put in place safeguards against misappropriation of premiums (e.g. encouraging customers to pay the cash premiums at insurance companies' service counters).
- For policy renewals, remind customers (e.g. via SMS alerts and/or letters) the proper premium payment channels.
- Where the individual insurance agents are allowed to receive premiums from the customers on behalf of the company, require them to avoid mixing such premiums with their personal funds, issue receipts to the customers and promptly return the premiums received to the company account within a specified period, and draw customers' attention to such arrangement.
- Where individual insurance agents are not allowed to receive premiums from customers on behalf of the company, inform customers clearly in premium notices or other communication that they need to make payment directly to the insurance company and provide customers with appropriate payment channels to do this. Individual insurance agents should be reminded in their training that they must not collect premiums from customers.

| 5.5.7 Provision of Post-sales Services

| 5.5.7.1 *Issue of Insurance Policies*

- Stipulate the names of the policy handling agents in the insurance policies and send direct messages (e.g. SMS alerts) to the policy holders concerned to inform them the names of the policy handling agents, status of their policy applications and the company enquiry telephone number.
- As far as practicable, send insurance policies directly to the policy holders rather than through the insurance intermediaries so as to deter fabrication of policy applications by using customer details without the latter's knowledge.

| 5.5.7.2 *Handling of Customers' Policy-related Requests*

- Remind staff to verify customers' signatures on any subsequent requests (e.g. change of the address of policy holder) against customers' specimen signatures and make direct enquiries with customers if there are any discrepancies.
- Confirm with the original policy holders for all, or on a risk basis, policy ownership transfer requests to unrelated persons.
- Confirm with policy holders for all, or on a risk basis, less common designation of beneficiary (e.g. designation to a non-family member) in their change of beneficiary request forms.

| 5.5.7.3 *Safeguarding of Customers' Funds and Personal Data*

- Prohibit individual insurance agents from keeping copies of customers' identity documents to lessen the risk of using customers' identity documents for corrupt or fraudulent practices.
- Prohibit individual insurance agents from operating customer accounts and educate customers not to share account passwords with the former through user-friendly messages disseminated at readily available documents / forms / corporate website.
- Build in security safeguards to protect customer information from tampering or leakage (e.g. restricting access to confidential customer information to authorised staff / handling individual insurance agents only on a need-to-know basis) and remind staff / individual insurance agents the consequences of unauthorised disclosure of confidential customer information (e.g. may incur criminal liabilities) (⇒ Reference at *Section 3.3.3 of Chapter 3*).

| 5.5.8 **Management Oversight and Supervision**

- Make post-sales confirmation calls to customers on a risk basis to verify some essential information of the sales process (e.g. the names of the handling agents), and take appropriate follow-up action(s) for suspicious case(s).
- Conduct random supervisory checks (e.g. by respective Distribution Channel Departments) and independent checks (e.g. by the Compliance Department, Internal Audit Department) on new business and/or high risk applications (e.g. policy applications submitted via individual insurance agents with previous disciplinary record / abnormal portfolio) to deter and detect malpractice.
- Make the parties concerned (e.g. individual insurance agents) aware of the random/ independent check policy for deterrence purpose.
- Generate and analyse management reports (e.g. report on the policy lapse rate of individual insurance intermediaries) and exception reports (e.g. exceptional increase in sales transaction by a particular insurance intermediary within a short period of time), and investigate anomalies detected.

Chapter 6

Underwriting and Claims Verification

- 6.1 Introduction
- 6.2 Key Processes
- 6.3 Major Corruption Risks and Red Flags
- 6.4 Case Studies
- 6.5 Corruption Prevention Safeguards



Chapter 6

Underwriting and Claims Verification

6.1 Introduction

Underwriting and verification of claims are two key business procedures in insurance operations. The former involves assessing risk exposure in issuing insurance policies to the potential policy holders at a premium that is commensurate with the risk, imposing exclusions or even declining the policy application so as to protect the interests of the insurance company. A properly conducted underwriting procedure could have restricted subsequent claims on covered policy events such as illness, accident, death or loss of property. However, due to keen competition among insurance intermediaries for business and the strong incentives under the industry's commission-based income arrangement as well as the high amount of compensations from insurance policies, some dishonest insurance intermediaries might, upon soliciting/accepting advantages from customers, conspire with the latter to deliberately conceal or provide false information on the policy applications so as to circumvent the underwriting controls.

Upon receipt of the claims applications, insurance companies have to validate and approve the applications as appropriate, yet the integrity of the claims verification process may also be compromised by unscrupulous insurance intermediaries who have solicited/accepted advantages from the policy holders concerned (e.g. sharing of the proceeds from the claims payment), with or without the collusion of third parties (e.g. a dishonest medical practitioner). Such corrupt practices/cases and the cost of investigation involved will lead to increased operating costs of an insurance company and even higher premiums for honest customers. Insurance companies, including virtual insurers given the possibly more frequent direct contact/communication between their staff (e.g. underwriters, claims verification staff) and customers / policy holders (e.g. through instant chat between their staff and customers / policy holders during the underwriting / claims verification process), are recommended to adopt appropriate corruption prevention measures to help ensure the integrity of the underwriting and claims verification processes and protect the interests of both the companies and the stakeholders.

This Chapter highlights the major risks and provides corresponding recommended measures in the underwriting and claims verification processes, including underwriting of policy applications, verification of claims applications, payment procedures as well as management oversight and supervision to ensure integrity of the operations in the process.

6.2 Key Processes

The following flow chart illustrates the key processes in respect of the underwriting of policy applications and handling of claims applications –



6.3 Major Corruption Risks and Red Flags

Major Corruption Risks



6.3.1 Underwriting of Policy Applications

- ☛ Dishonest insurance intermediaries, upon soliciting/accepting advantages from customers, conspiring with the latter to provide false or incomplete information (e.g. providing inflated income proof, concealing material medical history) on policy application documents in order to circumvent underwriting controls, obtain higher insurance coverage, and/or evade extra premiums which might be imposed on the insurance policies concerned.

6.3.2 Claims Applications

- ☛ Dishonest insurance intermediaries using particulars of the policy holders they serve (without the latter's knowledge) to submit claims applications with false supporting documents (e.g. fictitious medical report outside Hong Kong) to deceive the insurance companies for claims payment, and subsequently making up excuses (e.g. telling the policy holders concerned that the claims payment is mistakenly deposited to their accounts) to the policy holders concerned to divert the money to them.
- ☛ Unscrupulous insurance intermediaries, upon soliciting/accepting advantages (e.g. sharing of the proceeds) from the policy holders and with or without the collusion of third parties (e.g. a dishonest medical practitioner), deceiving the insurance companies for claims payment, by fabrication of claims such as –
 - Bogus death or hospitalisation / medical treatment, especially exploiting loopholes (e.g. more difficult for verification) in a covered policy event outside Hong Kong;
 - Exaggerating the damage/loss covered by a policy (e.g. when involved in an automotive collision or even staged traffic accidents, the parties collude to claim more damage than actually occurred in that accident); or
 - Reporting of a fictitious loss (e.g. loss of property insured under a home or travel insurance).



6.3.3 Other Risks – Risks for Underwriters and Claims Verification Staff

Below risks are also noted in virtual insurance companies due to the possibly more frequent direct contact/communication between their staff (e.g. underwriters, claims verification staff) and customers / policy holders during the underwriting / claims verification process.

- Corrupt underwriters soliciting/accepting advantages for favouring customers during the underwriting process (e.g. assisting customers to evade extra premiums).
- Claims verification staff soliciting/accepting advantages from policy holders in return for favouring the latter during the claims process (e.g. approving a suspicious claims application).

Red Flags³⁰

1. Submission of Policy Applications with False Information

- (a) **Suspicious policy applications** – Insurance intermediaries submitting insurance policy applications for customers with insured amount not commensurate with the latter's income and/or normal standard of living.
- (b) **Abnormal ratio of rejected policy applications** – Insurance intermediaries' portfolios having a high ratio of rejected policy application cases.

2. Submission of Fraudulent Claims

- (a) **Accidents/Death outside Hong Kong shortly after issue of insurance policies** – Policy holders filing claims, via insurance intermediaries, with insurance companies for high compensation with loss purportedly incurred from accidents/death occurred outside Hong Kong shortly after the issue of insurance policies.
- (b) **Suspicious claims applications** –
 - Vague or ambiguous information on a claims application as to the details of the hospitalisation such as date, place of treatment or name of hospital; and/or
 - Claimants' supporting documents (e.g. medical report) issued by a third party (e.g. medical practitioner) who is being identified as having a history of involvement in dubious/suspicious claims.
- (c) **Abnormal ratio of rejected claims applications** – Insurance intermediaries' portfolios having a high ratio of rejected claims applications.
- (d) **Suspicious claims application patterns** – Insurance intermediaries' portfolios having a high number of claims applications with similar nature (e.g. similar illness / bodily injuries) and/or involving the same third party (e.g. same medical practitioner / garage).

³⁰

With regard to the applicability of the red flags, please refer to footnote 31.

6.4 Case Studies



Case Study 1 – Submission of false information to circumvent underwriting controls

- 1 Insurance Company A (Company A) does not see the importance of building an anti-corruption culture in the company. For instance, it sets overly high sales targets for its appointed individual insurance agents with a view to maximising profit and provides no integrity training to its appointed individual insurance agents on anti-bribery knowledge. An individual insurance agent of Company A wants to earn higher commission from the sale of an insurance product with high sum insured newly launched by Company A. He urges his friend who is also interested in the plan to buy the insurance product, though his friend's income / source of fund is not commensurate with the insurance product.
- 2 In order to deceive Company A to accept the risk of the application, the individual insurance agent asks his friend to exaggerate the monthly income in the policy application form.
- 3 The individual insurance agent then submits the policy application to the Underwriting Department. Noting that Company A has yet to implement a case allocation system (e.g. by rotation), the individual insurance agent offers advantages to the underwriter with whom he is familiar, with a view to asking the latter to "pick" the application and securing successful underwriting of the case. The underwriter rejects the bribe and reports the case to the ICAC.
- 4 The individual insurance agent contravenes Sections 9(2) and 9(3) of the POBO. His friend also commits fraud, contrary to Section 16A of the Theft Ordinance.



Tips for Insurance Companies

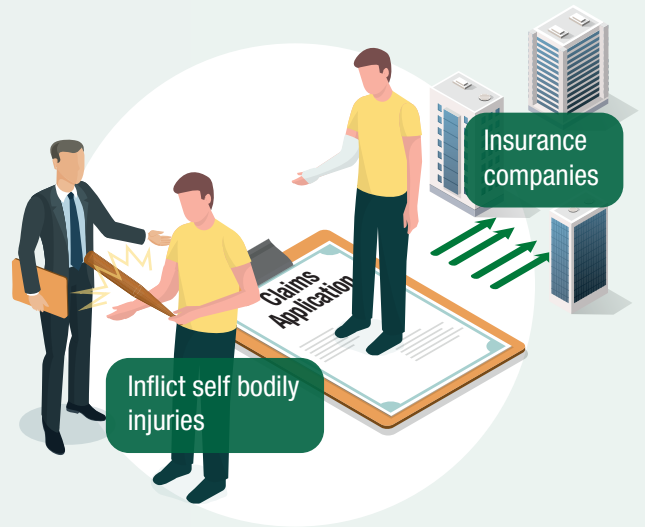
Some dishonest insurance intermediaries might, for their own personal gains (e.g. soliciting/ accepting advantages from customers, deceiving insurance companies for claims payment or earning ineligible commission), conspire with customers to deliberately conceal or provide false information on the policy application forms so as to circumvent underwriting controls, obtain higher insurance coverage, etc. Some might even attempt to bribe the underwriters for favouring their customers during the underwriting process. Apart from contravention of the POBO by the parties concerned, such malpractice will adversely affect the quality of underwriting and hence the insurance companies' ability to sustain profitable growth. If there are inadequate controls in the insurance company, this would create opportunities and temptation for exploitation by the corrupt parties concerned. In order to deter/detect the related malpractice in the above process, insurance companies are advised to adopt the recommended practices as provided in Sections 6.5.1-3 and 6.5.5.



Case Study 2 – Individual insurance agents colluding with policy holders and other parties to file false claims

1

An individual insurance agent “recruits” a number of persons and successfully applies for them accident insurance policies from a number of insurance companies, including his own appointing insurance company. He also secures the agreement of the persons to inflict self bodily injuries for the purpose of making false claims under the insurance policies concerned.



2

Noting that the insurance companies concerned have yet to have a mechanism of cross-checking claims with other insurance companies for identification of suspicious claims, the individual insurance agent conspires with a medical practitioner and a Chinese medicine practitioner for their issue of multiple “original” medical certificates to each alleged patient with exaggerated injuries.

3

As a result, the insurance companies concerned are deceived to pay out the compensation.

4

The individual insurance agent, the medical practitioner, the Chinese medicine practitioner and the other accomplices, contravene, amongst other offences, the offence of conspiracy to defraud, contrary to the Common Law. The individual insurance agent also contravenes Section 9(3) of the POBO in relation to the false claims he made with his appointing insurance company.



Tips for Insurance Companies

Some corrupt insurance intermediaries might abuse their career knowledge and collude with customers and third parties (e.g. a medical practitioner) to submit false claims to deceive insurance companies for claims payment and solicitation/acceptance of advantages (e.g. sharing of the proceeds). Apart from contravention of the POBO by the parties concerned and causing financial loss to the insurance companies, such corrupt practices also have a negative impact on the integrity culture of the companies and may drive up the premiums of other honest customers. If there are inadequate controls in the insurance company, this would create opportunities and temptation for exploitation by the corrupt parties concerned. In order to deter/detect the related malpractice in the above process, insurance companies are advised to adopt the recommended practices as provided in Sections 6.5.1-2 and 6.5.4-5.

6.5 Corruption Prevention Safeguards³¹



6.5.1 Guidelines/Instructions

- Lay down comprehensive rules on the procedures for underwriting policy applications and processing claims applications, including, amongst others, the following –
 - allocation of cases;
 - underwriting / claims verification process including the items to be verified, requirement for mandatory documents (e.g. medical report, income proof for underwriting, medical attendance / hospitalisation record for claims verification) required for different types of insurance products / circumstances;
 - approving authorities granted to various ranks of underwriters and claims verification staff;
 - mechanism for handling special/specified cases (e.g. policy applications of high sum insured, claims applications involving high value of compensation) such as requirement of at least two-tier approval for such cases; and
 - requirement of maintenance of proper record for subsequent audits.

6.5.2 Probity Requirements/Reminders

- Include a warning in relevant documents (e.g. insurance intermediary declaration form which is attached to the policy application form) to warn insurance intermediaries against conspiring with customers and/or third parties to submit false information for policy/claims applications and the possible consequences (e.g. incurring criminal liabilities), and require them to declare on relevant documents that all information and supporting documents provided to the insurance company are true and accurate.

³¹ As TRs(agent) and TRs(broker) are primarily under the management of their respective insurance agencies and insurance broker companies, insurance companies are advised to require/encourage their partnering insurance agencies and insurance broker companies to be alert to the red flags / corruption risks (☞ Reference at **Section 6.3**) as explained in this Chapter and adopt relevant safeguards (e.g. **Section 6.5.2**) to ensure proper activities of their respective TRs (☞ Reference at **Section 4.5.3.1 of Chapter 4**).

- Draw customers' and the related third parties' as appropriate, particular attention to the following provisions in their applications / provision of supporting documents for insurance policies/claims, and require them to read and sign to acknowledge their full awareness –
 - the obligation for them to make disclosure of material facts and provision of accurate information, and the consequences of non-compliance (e.g. repudiation of claims, invalidation of insurance policies); in particular, they should be made aware of the consequences of submission of false information/statement/document for policy/claims applications (e.g. incurring criminal liabilities);
 - their duty/obligation to assist the underwriting/claims process by providing the necessary documents and information;
 - due diligence to be conducted by the insurance company which has the right and will verify the information provided in the policy/claims application forms and the supporting documents; and
 - the insurance company's policy to report corrupt/fraudulent practices to the law enforcement agencies.

| 6.5.3 Underwriting of Policy Applications

- Allocate cases by rotation to the underwriters within the teams for processing (e.g. by computer-assisted case assignment according to individual underwriters' underwriting authorities) and require written approval by a designated authority for any out-of-turn / manual adjusted cases with justifications properly documented.
- Remind underwriters to immediately make declarations for any conflict of interest situations (e.g. underwriting policy applications from their family members / relatives / close personal friends).
- Remind underwriters to verify the authenticity of supporting documents submitted by customers such as verifying with clinics / medical centres the authenticity of the medical reports issued by them.
- As far as practicable, automate underwriting process (especially for those lines of insurance that are standardised such as vehicle insurance, home insurance and export credit insurance) to minimise human errors or possible manipulation.

| 6.5.4 Assessment of Claims Applications

| 6.5.4.1 Allocation of Cases

- ▣ Allocate cases by rotation to the claims verification staff within the teams for processing (e.g. by computer-assisted case assignment according to individual claims verification staff's authorities), and require written approval by a designated authority for any out-of-turn / manual adjusted cases with justifications properly documented.
- ▣ Remind claims verification staff to immediately make declarations for any conflict of interest situations (e.g. handling claims applications from their family members / relatives / close personal friends).

| 6.5.4.2 Verification Process

- ▣ Remind the claims verification staff to verify the authenticity of supporting documents submitted by policy holders such as approaching the clinics / medical centres concerned to verify the authenticity of the medical attendance / hospitalisation record issued by them.
- ▣ Put in place adequate procedures for examination and approval relating to claims involving accidents happening outside Hong Kong (e.g. cross-check the claimant's immigration records such as the Statement of Travel Records issued by the Immigration Department on his purported hospitalisation date(s) outside Hong Kong).
- ▣ Deploy external resources to identify potential corruption/fraud cases such as obtaining expert opinion on the loss or damage reported by the claimants, inspecting pertinent sites and where necessary, engaging professional investigation agencies for further investigation of suspicious significant claims cases.
- ▣ Develop an internal database containing intelligence of any individuals or companies who/which have a history of dubious/suspicious claims, and require claims verification staff to conduct checks against the database to identify any potential corruption/fraud cases.
- ▣ Establish a liaison channel with other insurance companies to facilitate timely communication about the suspicious claims (e.g. by checking with other insurance companies to see if the claimant has filed similar claims applications with them) to identify fraudulent claims submitted to different insurance companies at the same/similar time.

- Cross-check claims cases against intelligence/database which indicates claims anomalies based on past claims data of other insurance companies (e.g. the Insurance Fraud Prevention Claims Database (IFPCD) launched by the Hong Kong Federation of Insurers³²) to sniff out suspicious claims applications and to deter fraudsters from committing corrupt/fraudulent practices because they will be detected.

6.5.4.3 Payment Procedures

- Be alert to any irregularity in the change of beneficiary (e.g. change of beneficiary shortly before a claims application).
- Make payment directly to the beneficiary/insured's bank account.

6.5.5 Management Oversight and Supervision

- As far as practicable, establish the Underwriting Committee³³ and Claims Settlement Committee³⁴ comprising members of adequate expertise according to the Terms of Reference as laid down in GL10 (➡ Reference at **Chapter 3**) to ensure the underwriting and claims procedures and policies are regularly reviewed and updated to incorporate checks and measures for combating corruption/fraud cases.
- Jointly with the Underwriting and Claims Departments, develop warning signs or corruption/fraud indicators (i.e. red flags) on the underwriting and claims procedures, by referring to past cases and international guidelines (e.g. the “Application Paper on Deterring, Preventing, Detecting, Reporting and Remediating Fraud in Insurance” published by the IAIS), and require underwriters / claims verification staff to check the applications against the red flags to detect any suspicious cases.
- Take technological measures (e.g. social network analysis, predictive modelling) to facilitate detection of anomalies during the underwriting and claims verification process.

³² The IFPCD applies an AI tool that speeds up the entire claims and fraud detection process. Through applying algorithm on fraud scenarios and analysing claims data, IFPCD will detect and alert participating insurance companies on possible claims anomalies. The insurance companies concerned could then conduct further investigations to determine the validity of the claims and take appropriate actions. Databases applying similar AI technology are seen in Singapore, France, etc.

³³ According to GL10, the Underwriting Committee is responsible for setting out the criteria for assessing various types of insurance risks and determines the pricing policy of different risks. Amongst other duties, the Committee should regularly review the underwriting and pricing policies of the insurance company with due regard to relevant factors such as its business portfolio and the market development.

³⁴ According to GL10, the Claims Settlement Committee is responsible for devising the claims settling policy of the insurance company. Amongst other duties, the Committee should oversee the claims position of the latter and ensure that adequate claims reserves are made, and pay particular attention to significant claims cases or events which will give rise to a series of claims. In particular, it should oversee the implementation of the measures for combating fraudulent claims cases.

- Conduct random supervisory checks and independent checks (e.g. by the Internal Audit Department) on the underwriting/claims cases to deter and detect irregularities.
- Make the parties concerned (e.g. insurance intermediaries, underwriters, claims verification staff) aware of the random/independent check policy for deterrence purpose.
- Generate and analyse management reports (e.g. reports showing the claims history of individual claimants, the loss of revenue from individual insurance intermediaries), and investigate anomalies detected.
- Generate and analyse exception reports on abnormal underwriting/claims patterns such as insurance intermediaries with abnormal policy/claims application rejection ratio and any special pattern between a particular insurance intermediary and claims verification staff member (e.g. claims applications of an insurance intermediary often handled by a particular claims verification staff member, indicating possible risk of circumvention of the rotation system), and investigate anomalies detected.

Appendices

- 1 Sample Code of Conduct**
- 2 Examples of Conflict of Interest**
- 3 Mitigating Measures for Managing Declared Conflict of Interest**
- 4 ICAC Service and Other Assistance**

Sample Code of Conduct *(for Reference Only)*¹

(Name of Insurance Company)

Ethical Commitment

1. The *(name of company)* (hereafter referred to as the Company) regards honesty, integrity and fair play as our core values that must be upheld by all directors and staff² of the Company at all times. This Code sets out the basic standard of conduct expected of all directors and staff, and the Company's policy on acceptance of advantage and handling of conflict of interest when dealing with the Company's business.
2. All individual insurance agents³ appointed by the Company are expected to abide by *all applicable provisions*⁴ of the Code, and adhere to the principles and values set out in the Code when representing the Company to the public or performing services for, or on behalf of, the Company.

[Internal Remarks for Insurance Companies: This is not exhaustive. The Company may wish to subject any other entities/persons (e.g. insurance agencies appointed by the Company) performing related functions for the Company to applicable provisions of the Code, and/or upon seeking legal advice as necessary.]

Prevention of Bribery

3. The Company prohibits all forms of bribery and corruption. All directors and staff are prohibited from soliciting, accepting or offering any bribe in conducting the Company's business or affairs, whether in Hong Kong or elsewhere. In conducting all business or affairs of the Company, they must comply with the Prevention of Bribery Ordinance (POBO) (Cap. 201) of Hong Kong and must not –
 - (a) solicit or accept any advantage from others as a reward for or inducement to doing any act or showing favour in relation to the Company's business or affairs, or offer any advantage to an agent of another as a reward for or inducement to doing any act or showing favour in relation to his principal's business or affairs;

¹ *Internal Remarks for Insurance Companies: In devising its code of conduct, the Company may wish to make adaptations of this Code to suit its core values and operational needs while adopting the principles of the recommended guidelines.*

² "Staff" cover full-time, part-time and temporary staff, except where specified.

³ For the purpose of the Code, insurance companies are referred to as "authorized insurers" while individual insurance agents are referred to as "licensed individual insurance agents" under the Insurance Ordinance (Cap. 41).

⁴ *Internal Remarks for Insurance Companies: While the Company may wish to determine the provisions applicable to individual insurance agents, clauses relating to the Prevention of Bribery Ordinance (paras. 3-10), Conflict of Interest (para. 11), Safeguarding of Company Assets / Information and Customers' Funds (paras. 12-14), Policy on Reporting of Suspected Corruption and Other Criminal Offences (para. 18) and Compliance with Laws, Professional Standards and Regulatory Requirements, etc. (paras. 19-20) are essential provisions which should always be applied to directors, staff and individual insurance agents.*

- (b) offer any advantage to any public servant (incl. government / public body employee) as a reward for or inducement to his performing any act in his official capacity or his showing any favour or providing any assistance in business dealing with the government department / a public body; or
- (c) offer any advantage to any staff of a government department or public body while they are having business dealing with the latter.

(The relevant provisions of the POBO are at **Annex 1**.)

Acceptance of Advantage

4. It is the Company's policy that directors and staff should not solicit or accept any advantage for themselves or others, from any person, company or organisation having business dealings with the Company or any subordinate, except that they may accept (but not solicit) the following when offered on a voluntary basis –
 - (a) advertising or promotional gifts or souvenirs of a nominal value;
 - (b) gifts given on festive or special occasions, subject to a maximum limit of \$_____ ⁵ in value; or
 - (c) discounts or other special offers given by any person or company to them as customers, on terms and conditions equally applicable to other customers in general.
5. Gifts or souvenirs described in paragraph 4(a) that are presented to directors and staff in official functions are deemed as offers to the Company. The directors and staff concerned should report the acceptance to the Company and seek direction as to how to handle the gifts or souvenirs from *(the approving authority)* ⁶ using Form A (**Annex 2**). If a director or staff member wishes to accept any advantage not covered in paragraph 4, he should also seek permission from *(the approving authority)* using Form A.
6. However, a director or staff member should decline an offer of advantage if the acceptance could affect his objectivity in conducting the Company's business or induce him to act against the interest of the Company, or the acceptance will likely lead to perception or allegation of impropriety.

⁵ *Internal Remarks for Insurance Companies: The Company can set the appropriate maximum limit of the value of the gifts allowable to be accepted after taking into account its operational needs. Yet, a modest amount should be set as the maximum limit to avoid a perception of impropriety and prevent directors and staff from falling prey to corruption.*

⁶ *Internal Remarks for Insurance Companies: Please specify the post of the approving authority in the Code and the Form. The Company can designate the appropriate approving authority after taking into account its operational needs and organisation structure.*

7. If a director or staff member has to act on behalf of a client in the course of carrying out the Company's business, he should also comply with any additional restrictions on acceptance of advantage that may be set by the client (e.g. directors and staff members performing any duties under a government or public body contract will normally be prohibited from accepting advantages in relation to that contract).

[Internal Remarks for Insurance Companies: The Company may remind its directors and staff on the company policy for referral of customers to any other insurance companies or insurance intermediaries (e.g. insurance intermediaries of another insurance company). In particular, directors and staff should be prohibited from soliciting or accepting advantages (e.g. referral fee) for referring a customer to any other insurance companies or insurance intermediaries without the prior approval of the Company as this might constitute an offence under the POBO (para. 3). Even the referral might not involve an advantage, they should be made aware that such referrals without proper declaration to the Company and prior approval of the Company as required might also constitute a conflict of interest or misuse of their official position (paras. 11-12).]

Offer of Advantage

8. Directors and staff are prohibited from offering advantages to any director, staff member or agent of another company or organisation, for the purpose of influencing such person in any dealing, or any public official, whether directly or indirectly through a third party, when conducting the Company's business. Even when an offer of advantage carries no intention of improper influence, it should be ascertained that the intended recipient is permitted by his employer/principal to accept it under the relevant circumstance before the advantage is offered.

Entertainment

9. As defined in Section 2 of the POBO, "entertainment" means the provision of food or drink, for consumption on the occasion when it is provided, and of any other entertainment connected with or provided at the same time as the provision of food or drink. Although entertainment is an acceptable form of business and social activity, a director or staff member should avoid accepting lavish or frequent entertainment from persons with whom the Company has business dealing (e.g. suppliers) or from his subordinates to avoid placing himself in a position of obligation.

Records, Accounts and Other Documents

10. Directors and staff should ensure that all records, receipts, accounts or other documents they submit to the Company give a true representation of the facts, events or business transactions as shown in the documents. Intentional use of documents containing false information to deceive or mislead the Company, regardless of whether there is any gain or advantage involved, may constitute an offence under the POBO.

Conflict of Interest

11. Directors and staff should avoid any conflict of interest situation (i.e. situation where their private interest conflicts with the interest of the Company) or the perception of such conflict. When an actual or a potential conflict of interest arises, the director or staff member should make a declaration to *(the approving authority)* through the reporting channel using Form B (**Annex 3**).

[Internal Remarks for Insurance Companies: The Corruption Prevention Department of the ICAC can provide some common examples of conflict of interest for reference by the insurance companies.]

Safeguarding of Company Assets / Information and Customers' Funds

12. Directors and staff must not misuse their official position in the Company to pursue their own private interests, which include both financial and personal interests, and those of their family members, relatives or close personal friends.
13. Directors and staff in charge of or having access to any Company assets, including funds, property, information, and intellectual property, should use them solely for the purpose of conducting the Company's business. Unauthorised use, such as misuse for personal interest, is strictly prohibited. Directors and staff having access to customers' funds must also make sure they are handled in a trustworthy and honest manner.
14. Directors and staff should not disclose any classified information of the Company (e.g. information about the insurance intermediary licence applicants, policy holders, business partners) without authorisation or misuse any company information. In particular, unauthorised sale of information or disclosure of information that might be of use to other business operators or companies in competition with the Company's business is strictly prohibited. Those who have access to or are in control of such information, including information in the Company's computer system, should protect the information from unauthorised disclosure or misuse.

Outside Employment

15. If a staff member wishes to take up employment outside the Company, he must seek the prior written approval of *(the approving authority)*. *(The approving authority)* should consider whether the outside employment would give rise to a conflict of interest with the staff member's duties in the Company or the interest of the Company.

Relationship with Insurance Agents, Suppliers/Contractors, Other Business Partners and Customers

Business Practices of Insurance Agents

16. Key person(s) in intermediary management function and managerial staff responsible for managing insurance agents should be aware of business practices of the Company's insurance agents to ensure that proper and prudent methods are adopted to deliver the Company's services.

Loans

17. Directors and staff should not accept any loan from, or through the assistance of, any individual or organisation having business dealings or seeking business opportunities with the Company. There is however no restriction on borrowing from licensed banks or financial institutions.

[Internal Remarks for Insurance Companies: The above are not exhaustive. The Company may wish to include other guidelines on the conduct required of directors and staff in their dealings with suppliers, contractors, customers, and other business partners, as appropriate.]

Policy on Reporting of Suspected Corruption and Other Criminal Offences

18. The Company maintains a policy to handle reports of misconduct and criminal offences including corruption. A director or staff member should himself or through the Company (*the appropriate channels including the names of the handling officer(s) and office(s)*) report instances of crime or suspected crime discovered in the course of his work, including attempt to bribe himself, to (*the appropriate authority*) of the Company or law enforcement agency / industry regulators at the first practicable opportunity. Upon making or receipt of such reports, the reporting and handling staff as appropriate should avoid making any enquiries or taking any action that may hinder or jeopardise subsequent investigation by the law enforcement agency concerned. All directors and staff members who make, receive or have knowledge of such reports should treat the reports in the strictest confidence.

[Internal Remarks for Insurance Companies: The Corruption Prevention Department of the ICAC can offer assistance in compiling a corporate policy on reporting of corruption upon request. The Company may extend the scope to cover whistleblowing as necessary in its code of conduct by making reference to this provision, as appropriate.]

Compliance with Laws of Hong Kong and in Other Jurisdictions

19. Directors or staff must comply with all local laws and regulations when conducting the Company's business, and also those in other jurisdictions when conducting business there or where applicable.

[Internal Remarks for Insurance Companies: The Corruption Prevention Department of the ICAC can assist in providing broad principles/guidelines when the Company compiles its corporate policy on anti-corruption commitment across territories.]

Compliance with Professional Standards and Regulatory Requirements

20. *[Internal Remarks for Insurance Companies: There are a number of professional standards and regulatory requirements in relation to the conduct of insurance business (e.g. the "Guideline on the Corporate Governance of Authorized Insurers", respective codes of conduct for licensed insurance agents and licensed insurance brokers issued by the Insurance Authority) issued by the Government and relevant regulators. To ensure professionalism and proper conduct, the Company may wish to remind directors, staff and individual insurance agents to observe the above standards and requirements, as appropriate, when discharging their duties.]*

Compliance with the Code

21. It is the responsibility of every director and staff member of the Company to understand and comply with this Code, whether performing his duties of the Company in or outside Hong Kong. Managers and supervisors should also ensure that the staff under their supervision understand well and comply with this Code.
22. Any director or staff member in breach of this Code will be subject to disciplinary action, including termination of appointment. Any enquiries about this Code or reports of possible breaches of this Code should be made to *(post of a designated senior staff member)*.

(Name of Company)

Date :

Extracts of the Prevention of Bribery Ordinance (Cap. 201)

Section 9 – Corrupt transactions with agents

(1) Any agent who, without lawful authority or reasonable excuse, solicits or accepts any advantage as an inducement to or reward for or otherwise on account of his –

- (a) doing or forbearing to do, or having done or forborne to do, any act in relation to his principal's affairs or business; or
- (b) showing or forbearing to show, or having shown or forborne to show, favour or disfavour to any person in relation to his principal's affairs or business,

shall be guilty of an offence.

(2) Any person, who, without lawful authority or reasonable excuse, offers any advantage to any agent as an inducement to or reward for or otherwise on account of the agent's –

- (a) doing or forbearing to do, or having done or forborne to do, any act in relation to his principal's affairs or business; or
- (b) showing or forbearing to show, or having shown or forborne to show, favour or disfavour to any person in relation to his principal's affairs or business,

shall be guilty of an offence.

(3) Any agent who, with intent to deceive his principal, uses any receipt, account or other document –

- (a) in respect of which the principal is interested; and
- (b) which contains any statement which is false or erroneous or defective in any material particular; and
- (c) which to his knowledge is intended to mislead the principal,

shall be guilty of an offence.

(4) If an agent solicits or accepts an advantage with the permission of his principal, being permission which complies with subsection (5), neither he nor the person who offered the advantage shall be guilty of an offence under subsection (1) or (2).

(5) For the purposes of subsection (4) permission shall –

- (a) be given before the advantage is offered, solicited or accepted; or
- (b) in any case where an advantage has been offered or accepted without prior permission, be applied for and given as soon as reasonably possible after such offer or acceptance,

and for such permission to be effective for the purposes of subsection (4), the principal shall, before giving such permission, have regard to the circumstances in which it is sought.

Section 4 – Bribery

(1) Any person who, whether in Hong Kong or elsewhere, without lawful authority or reasonable excuse, offers any advantage to a public servant as an inducement to or reward for or otherwise on account of that public servant's –

- (a) performing or abstaining from performing, or having performed or abstained from performing, any act in his capacity as a public servant;
- (b) expediting, delaying, hindering or preventing, or having expedited, delayed, hindered or prevented, the performance of an act, whether by that public servant or by any other public servant in his or that other public servant's capacity as a public servant; or

Extracts of the Prevention of Bribery Ordinance (Cap. 201)

- (c) assisting, favouring, hindering or delaying, or having assisted, favoured, hindered or delayed, any person in the transaction of any business with a public body,

shall be guilty of an offence.

- (3) If a public servant other than a prescribed officer solicits or accepts an advantage with the permission of the public body of which he is an employee being permission which complies with subsection (4), neither he nor the person who offered the advantage shall be guilty of an offence under this section.

Section 8 – Bribery of public servants by persons having dealings with public bodies

- (1) Any person who, without lawful authority or reasonable excuse, while having dealings of any kind with the Government through any department, office or establishment of the Government, offers any advantage to any prescribed officer employed in that department, office or establishment of the Government, shall be guilty of an offence.
- (2) Any person who, without lawful authority or reasonable excuse, while having dealings of any kind with any other public body, offers any advantage to any public servant employed by that public body, shall be guilty of an offence.

Section 2 – Interpretation

“**Advantage**” means –

- (a) any gift, loan, fee, reward or commission consisting of money or of any valuable security or of other property or interest in property of any description;

- (b) any office, employment or contract;

- (c) any payment, release, discharge or liquidation of any loan, obligation or other liability, whether in whole or in part;

- (d) any other service, or favour (other than entertainment), including protection from any penalty or disability incurred or apprehended or from any action or proceedings of a disciplinary, civil or criminal nature, whether or not already instituted;

- (e) the exercise or forbearance from the exercise of any right or any power or duty; and

- (f) any offer, undertaking or promise, whether conditional or unconditional, of any advantage within the meaning of any of the preceding paragraphs (a), (b), (c), (d) and (e),

but does not include an election donation within the meaning of the Elections (Corrupt and Illegal Conduct) Ordinance (Cap. 554), particulars of which are included in an election return in accordance with that Ordinance.

“**Entertainment**” means the provision of food or drink, for consumption on the occasion when it is provided, and of any other entertainment connected with, or provided at the same time as, such provisions.

Section 19 – Custom not to be a defence

In any proceedings for an offence under this Ordinance, it shall not be a defence to show that any such advantage as is mentioned in this Ordinance is customary in any profession, trade, vocation or calling.

(Company Name)
REPORT ON GIFTS/ADVANTAGES RECEIVED

Part A – To be completed by Receiving Staff

To: *(Approving Authority)*

Description of Offeror :

Name & Title : _____

Company : _____

Relationship (Business / Personal) : _____

Occasion on which the Gift/Advantage
was / is to be received :

Description & (assessed) value of the
Gift/Advantage:

Suggested Method of Disposal :

Remark

☐ Retain by the Receiving Staff

☐ Retain for Display / as a Souvenir in the Office

☐ Share among the Office

☐ Reserve as Lucky Draw Prize at Staff Function

☐ Donate to a Charitable Organisation

☐ Return to Offeror

☐ Others (please specify) :

(Date)

(Name of Receiving Staff)

(Title / Department)

Part B – To be completed by Approving Authority

To: *(Name of Receiving Staff)*

The recommended method of disposal is ***approved / not approved**. *The gift/ advantage concerned
should be disposed of by way of : _____

(Date)

(Name of Approving Authority)

(Title / Department)

**Delete as appropriate*

(Company Name)
DECLARATION OF CONFLICT OF INTEREST

Part A – Declaration *(To be completed by Declaring Staff)*

To: *(Approving Authority)* via *(supervisor of the Declaring Staff)*

I would like to report the following *actual/potential conflict of interest situation arising during the discharge of my official duties :

Persons/companies with whom / which I have official dealings
My relationship with the persons/companies (e.g. relative)
Relationship of the persons/companies with our Company (e.g. supplier)
Brief description of my duties which involved the persons/companies (e.g. handling of tender exercise)

(Date)

(Name of Declaring Staff)
(Title / Department)

Part B – Acknowledgement *(To be completed by Approving Authority)*

To: *(Declaring Staff)* via *(supervisor of the Declaring Staff)*

Acknowledgement of Declaration

The information contained in your declaration form of *(Date)* is noted. It has been decided that :

- ☐ You should refrain from performing or getting involved in performing the work, as described in Part A, which may give rise to a conflict.
- ☐ You may continue to handle the work as described in Part A, provided that there is no change in the information declared above, and you must uphold the Company's interest without being influenced by your private interest.
- ☐ Others (please specify) : _____

(Date)

(Name of Approving Authority)
(Title / Department)

**Delete as appropriate*

Examples of Conflict of Interest

Some common examples of conflict of interest are described below but they are by no means exhaustive –

- A staff member involved in the vetting of individual insurance agent licence applications (e.g. checking his academic certificates) is a family member, a relative or a close personal friend of the applicant concerned.
- A staff member involved in the vetting of application for partnering or negotiation of the agreement terms with an insurance broker company is closely related to / a relative of a director or has financial interest in the company.
- A staff member involved in the recruitment (e.g. interview) of company staff (e.g. underwriter or claims verification staff) is a family member, a relative or a close personal friend of the applicant concerned.
- A procurement staff member involved in the selection of a service provider for the company (e.g. selection of investigation agency, reinsurer) is closely related to / a relative of a director or has financial interest in a potential service provider.
- A director has financial interest in a company which tender is under consideration by the Board.
- A staff member involved in the underwriting of a customer's policy is a family member, a relative or a close personal friend of the customer concerned.
- An individual insurance agent has a directorship or employment in an investigation agency which is one of the service providers of the company.
- A staff member involved in the monitoring of insurance broker companies frequently accepts lavish entertainment from one of the insurance broker companies which he is responsible for monitoring.

Mitigating Measures for Managing Declared Conflict of Interest

- (a) **Record** – Where the risk in a conflict of interest situation is indirect, remote or insignificant, and the occurrence of such a situation is infrequent, it may be sufficient to take note of the conflict only.
- (b) **Restrict** – Where a conflict is not likely to arise frequently and the staff member can be effectively separated from the part of activity or process in which the conflict arises, it may be suitable to restrict the staff member's involvement in the task in which he has a conflict (e.g. withdrawing from discussion on a specific issue, abstaining from voting on the decisions) and access to the related information.
- (c) **Recruit** – Where it is impractical to restrict a staff member's involvement, an independent staff member / expert may be recruited to participate in, oversee, or review part or all of the decision-making process if appropriate (e.g. engaging expert in the selection of highly specialised items).
- (d) **Redeploy** – Where it is inappropriate to allow the staff member who has declared a conflict of interest to handle a specific matter, it may be suitable to relieve of the staff member's duty which may then be taken up by another staff member through redeployment. For serious conflict of interest cases with a high likelihood of relapse, it may be suitable to post out the staff member to avoid other's negative perception.
- (e) **Relinquish** – Where a staff member's commitment to the official duty outweighs his attachment to his private interest, and adopting other mitigating measures is not appropriate or possible, he may be asked to relinquish his personal or private interests (e.g. divesting the investments, ceasing to be a member of a club/association).

ICAC Service and Other Assistance

1. Introduction

The ICAC stands ready to help insurance companies establish, strengthen and continually improve their anti-corruption controls/programme that cater for their operational needs. The channels for reporting cases of suspected corruption are also provided in paragraphs below.

2. Advisory Services

■ The “**Corruption Prevention Advisory Service**” (CPAS) of the **Corruption Prevention Department** of the **ICAC** which has compiled this Guide is a specialised unit that focuses on providing the following **free** professional corruption prevention advice and services to private organisations and business companies –

- providing **confidential** and **tailor-made** advice on anti-corruption management systems including the adoption of the recommended measures in the Guide; and corruption prevention measures for specific business operations (⇒ See **Qs & As** below) on request;
- offering assistance in drawing up a Code of Conduct for the directors, staff and individual insurance agents (for insurance companies) (⇒ Reference at **Section 2.3 of Chapter 2**) and other probity guidelines (e.g. corporate policy/guidelines on reporting corruption and anti-corruption commitment across territories) that will help them comply with anti-corruption requirements as well as raise the company’s integrity standard;
- organising corruption prevention training for managers and relevant staff to raise their awareness of corruption risks and corruption prevention measures specific to their business operations (⇒ See **Qs & As** below); and
- answering any enquiries about this Guide.

■ For further information, please contact CPAS through the following channels –

- Phone: 2526 6363
- Fax: 2522 0505
- E-mail: cpas@cpd.icac.org.hk
- Website: <https://cpas.icac.hk/EN/>





Q In what areas can CPAS render advice for an insurance company?

A The service will cover an insurance company's anti-corruption management system, including its anti-corruption policy, ethical standard and anti-corruption guidance for all company personnel (e.g. through a Code of Conduct for directors, staff and individual insurance agents), identification and assessment of corruption risks, anti-corruption controls, training and communication; and specific systems and procedures such as management of insurance intermediaries, sales process, underwriting and claims verification procedures, and general operational areas (e.g. procurement, staff administration, inventory management, contract management, etc.).



Q What types of training will be provided by CPAS, and how is it different from the training provided by the Hong Kong Business Ethics Development Centre (HKBEDC) of the ICAC's Community Relations Department?

A CPAS provides capacity building training/briefing primarily on prevention of corruption in specific business functions/processes (e.g. management of insurance intermediaries, sales process, underwriting and claims verification procedures, procurement and staff administration) to managers and relevant staff of an insurance company, while HKBEDC's ethics training aims to help business practitioners and professionals understand the anti-corruption laws and uphold a high standard of integrity, e.g. Continuing Professional Development courses recognised by the IA. Insurance companies are welcome/encouraged to utilise both types of training to help foster a clean business culture and build in adequate corruption safeguards in their business operations.



Q Will CPAS disclose our service request and other information (e.g. our policies, procedures, risks, concerns, incidents) to others / the public?

A No. Our services are provided in strict confidence to protect clients' information unless individual clients are willing to share their experience of using the services of CPAS so as to assist in promoting the services. Your company has full discretion to decide on the information to be given to us.

3. Education Services

- The HKBEDC of the ICAC's Community Relations Department aims to promote business and professional ethics in Hong Kong on a long-term basis. The HKBEDC –
 - offers anti-corruption and ethics training services to business organisations to promote ethical corporate culture and good governance;
 - organises seminars, workshops and Continuing Professional Development courses on business and professional ethics;
 - produces practical guides and training materials on integrity management and anti-corruption laws for different industries and sectors; and
 - maintains a dedicated website (<https://hkbedc.icac.hk>) to provide ethics-related materials to the business community and the public.
- The HKBEDC has developed the *Integrity for Success – Ethics Promotion Website for the Insurance Industry* (<https://hkbedc.icac.hk/insurance/en/>) which provides a repertoire of resources including training materials, videos, feature articles and case studies for use by insurance companies and practitioners in meeting their training needs. Information about the anti-corruption laws, conduct requirements, as well as ethical tips for managers and frontline agents can also be found on the website.
- For further details, please contact the HKBEDC or visit its website –
 - Phone: 2826 3288
 - Fax: 2519 7762
 - E-mail: hkbedc@crd.icac.org.hk
 - Website: <https://hkbedc.icac.hk>



4. Reporting Corruption

- Any person encountering corruption should make a report to the ICAC through the following channels –
 - Phone: 25 266 366 (24-hour service)
 - Mail: G.P.O. Box 1000, Hong Kong
 - In person: **ICAC Report Centre (24-hour service)**
G/F, 303 Java Road, North Point, Hong Kong
- ICAC Regional Offices¹**
(opening hours: 9:00 a.m. - 7:00 p.m. Monday to Friday;
closed on Saturdays, Sundays and public holidays)

¹ Contact information of the ICAC Regional Offices is available at <https://www.icac.org.hk/en/crd/struct/ro/index.html>.

