LCQ18: Policy Holders’ Protection Scheme

Following is a question by the Hon Jimmy Ng and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (May 30):

Question:

The Government is currently drafting a legislative proposal for establishing a Policy Holders' Protection Scheme (PPS), which aims to protect policy holders' interest by compensating policy holders or securing the continuity of insurance contracts in case an insurer becomes insolvent. In this connection, will the Government inform this Council:

(1) whether it will put in place measures to reduce the moral hazards (e.g. insurers successively launching insurance products with high expected returns but high risks while members of the public being willing to take out such products as they ignore the related risks and focus on returns only) which may potentially arise from PPS; if so, of the details; if not, the reasons for that;

(2) given that under the relevant protection scheme implemented by the Singapore authorities, claims for non-life policies are completely covered without an upper limit, whether such an arrangement will be adopted for PPS; if so, of the details; if not, the reasons for that;

(3) given that under the relevant protection scheme implemented by the Singapore authorities, a post-funding arrangement has been put in place to empower the authorities to charge a levy from insurers in the event that the total amount of funds is insufficient to settle all claims, whether such an arrangement will be adopted for PPS; if so, of the details; if not, the reasons for that; and

(4) whether PPS will cover policies under the Voluntary Health Insurance Scheme, which will be implemented shortly; if so, of the details?

Reply:

President,

Our response to the various parts of the question is as follows:

(1) In the Consultation Paper on the "Proposed Establishment of a Policyholders' Protection Fund", the Government has already pointed out that one of the principles in formulating the proposals on the Protection Fund is to enhance market stability while minimising the risk of moral hazard. In this regard, we have proposed to set a compensation limit under the Policy Holders' Protection Scheme (PPS), i.e. the compensation is 100% for the first HKD100,000, plus 80% of the balance, and the total amount is subject to a

limit of HKD1 million. As consumers have to bear certain degree of risk of not being compensated in full, they still need to select the suitable insurers and insurance products. On the other hand, the Insurance Authority will continue to exercise prudential monitoring of insurers' financial position, and will not compromise the regulatory standards and requirements on insurers under the Insurance Ordinance (Cap. 41) because of the PPS.

(2) The PPS seeks to provide a safety net for affected policy holders in case of insurer's insolvency. To strike a reasonable balance between the cost and benefit of the PPS and to minimise moral hazard as far as practicable, we consider that there should be a compensation limit for the PPS.

(3) We propose that in case an insurer becomes insolvent and the liquidity of the Fund is insufficient to settle the total amount of claims provided by the PPS, the PPS may borrow from a third party, or collect additional levy from insurers. We propose that the rate of additional levy should require the approval of the Legislative Council.

(4) As policies under the Voluntary Health Insurance Scheme are all personal policies, policy holders under that scheme will be protected by the PPS. When an insurer becomes insolvent, the PPS will meet the claims arising from policies subject to a limit of HKD1 million per claim, whether the insured incident occurs before or after the insolvency, and whether the claim is submitted before or after the insolvency, subject to the time limit specified in the insurance policy (if any).