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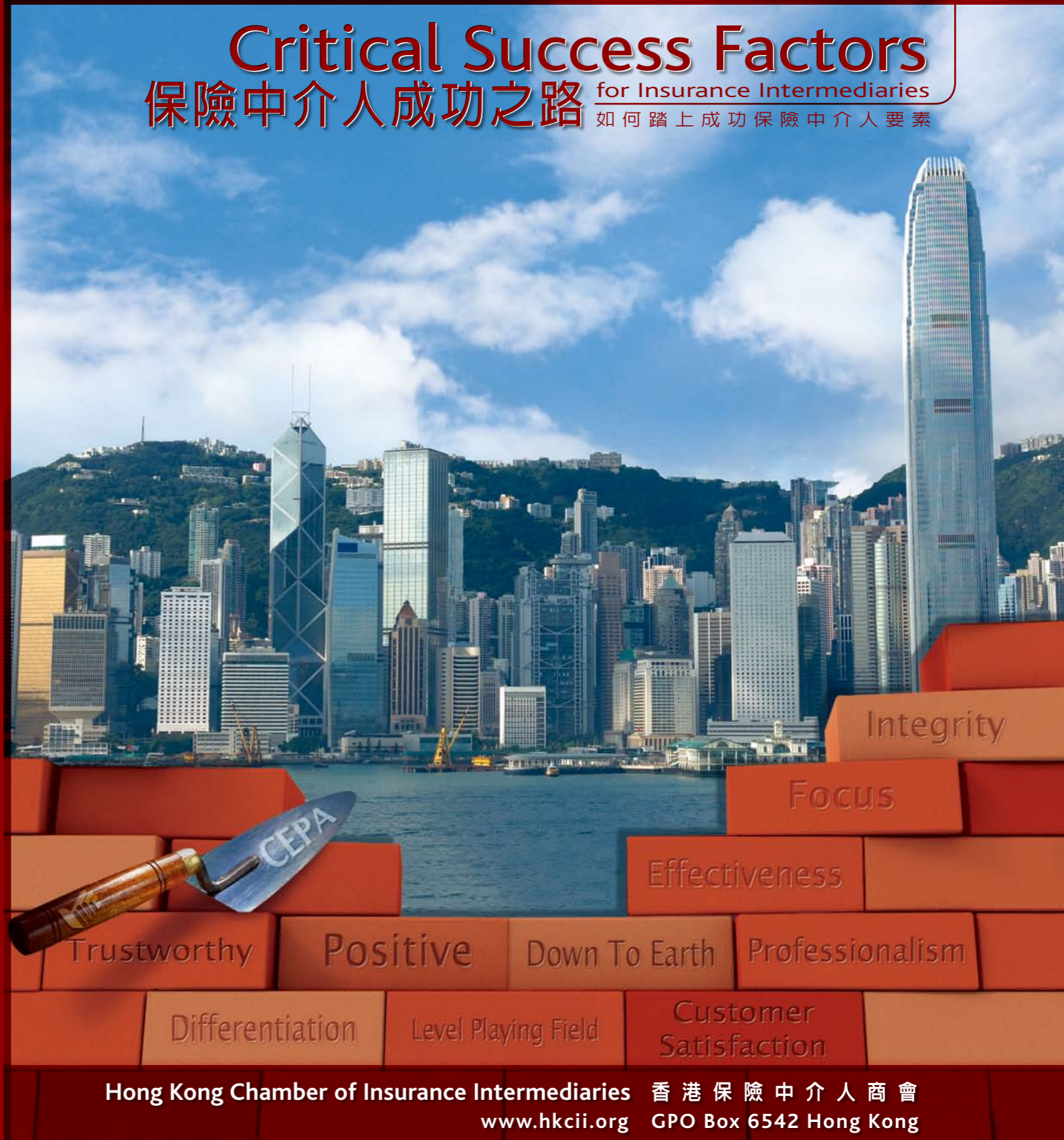
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2007 年刊 YEARBOOK

Critical Success Factors 保險中介人成功之路

for Insurance Intermediaries
如何踏上成功保險中介人要素



HONG KONG CHAMBER OF INSURANCE INTERMEDIARIES 2007 YEARBOOK

香港保險中介人商會 2007 年刊

Hong Kong Chamber of Insurance Intermediaries 香港保險中介人商會
www.hkcii.org GPO Box 6542 Hong Kong



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Our Missions

本會綱領

HARMONY To promote and maintain the spirit of fair deal and harmony between and among insurance buyers, intermediaries and insurers.

在公平及和睦的原則下，促進及維護投保人、中介人及承保人進行相互協商。

KNOW-HOW To prepare, promote and conduct educational seminars, forums, lectures and workshops for the benefit of its members.

提供保險學術講座，讓會員通過研討及交流，提升其專業知識。

CONCERN To communicate and to coordinate with government, associations, insurance companies or any other persons in regard to all matters relating to insurance or insurance intermediaries which may be considered to be for the benefit of members and the general public.

緊密聯繫有關政府部門、社團組織、企業機構、保險商及從業員，反映會員及社會各階層對保險業及中介人的權益及認受。

INTEGRITY To enhance self-dignity of the insurance intermediaries through deeds of integrity.

強化中介人的自重、自尊、正直、誠信及莊敬自強。

INFORMATION To collect and disseminate amongst the members, information in regard to all matters relating to insurance or to the practice, duties and obligations of insurance intermediaries by means of periodical newsletter and alike.

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from the President



I am pleased to serve my second term as the President of HKCII for 2007 and would like to extend my sincere gratitude to all fellow members of the Executive Committee, Advisers and Councillors for their utmost support during my tenure of office.

Together with all our Insurance Intermediaries in Hong Kong, we are confronting a highly competitive and sophisticated insurance market.

As an insurance professional, we need to be aware at all times the socio-economical and political change in our society as well as any marketing intelligence that to a lesser or greater extent pertaining to our local insurance industry and affecting the way forward on the professionalism, opportunity, threat of insurance intermediaries.

Meeting the challenge to expand in a mature insurance market in Hong Kong, insurance intermediaries have been looking for new business opportunity especially towards our motherland, People's Republic of China to tap the vast undeveloped market in recent years.

Thank you for the tremendous effort of the senior HKSAR government officials and business leaders in negotiating with our Central authority, the CEPA IV that are being launched in 2007 do provide unprecedented opportunity for local insurance intermediaries to settle up their wholly-owned insurance operation and threshold in China.

The CEPA IV are indeed encouraging to our industry but on the other hand as an insurance intermediaries we need to further enhance our professionalism and insurance knowledge through training and exchange with our counterparts in China and Hong Kong to increase our competitive niche so that we are in a better position to face the challenges and be adaptive to all the changes lying ahead.

Last but not the least, I would like to express our appreciation to our Honourable Mr. Bernard C. Chan, GBS, JP Legislative Councillor and Commissioner of Insurance, Mr. Clement Cheung and Chairman of the Hong Kong Federation of Insurers, Mr. Michael Huddart for their valuable insight and contributions to our HKCII 2007 Yearbook as well as my highest regards to our Editorial Board to compile such an informative and proliferated presentation.

Roger Tsang
President



from the Commissioner of Insurance



I congratulate the Hong Kong Chamber of Insurance Intermediaries on the publication of its Year Book 2007.

The liberalisation measures promulgated under Supplement IV to the Mainland and Hong Kong Closer Economic Partnership Arrangement provide added incentives for local insurance agencies to establish early foothold in the Mainland and avails a convenient venue for those interested in extending

their presence across the border to attempt qualifying examinations.

Against a backdrop of growing product complexity and rising consumer sophistication, local insurance intermediaries have to cope with constant challenge in serving as an effective linkage between customers and service providers. Ability to anticipate, identify and manage client requirements will be the defining edge in this evolving competitive landscape. Such attributes put them in good stead to take advantage of an exciting new frontier availed by the liberalization measures and bode well for long-term development of the industry.

I have every confidence that being an organization whose membership spans across the full spectrum of practitioners, the Hong Kong Chamber of Insurance Intermediaries will continue to be a source of impetus and inspiration for pursuance of higher professional integrity and emerging business prospects.

Clement Cheung, JP
Commissioner of Insurance

from the Legislative Councillor



It is a great pleasure for me to congratulate the Hong Kong Chamber of Insurance Intermediaries for their role in maintaining and developing professional standards in the local insurance industry for another year in 2007.

The last year was generally a positive one for the insurance industry. The Hong Kong economy was strong, and consumption increased while unemployment continued to fall. Despite volatility in the world economy, our fundamentals remain strong and we can be broadly optimistic about the medium-term future.

One interesting development that we have seen so far in 2008 is of course the Government's consultation paper on healthcare reform. It is an important document because it does not focus simply on the financial aspects of reform but the possibility of more broadly reforming the structure of health care in Hong Kong. It is early days yet, but our industry may have an important role to play in key aspects of our health coverage system in the future. I urge everyone in the industry, including all my friends in the HKCII, to examine the consultation document and take part in the consultation process. Please make your views known.

I also encourage everyone to keep up to date with other developments in our industry, and in particular areas like product knowledge and business practices. More than ever, high standards and of training and development are essential to the success of insurance professionals. The HKCII will continue to make its vital contribution in this area, and I wish all my friends at the Chamber every success in the year ahead.

The Honourable **Mr. Bernard Chan**, GBS, JP.,
Legislative Councillor, Insurance Functional Constituency

from the Consumer Council



Hong Kong insurance intermediaries have been well known for their high-level professional knowledge and international exposure. On top of this strength, the recent implementation of CEPA has led to unprecedented opportunities for the insurance industry in Hong Kong. It provides a head start over overseas competitors in gaining access to the vast China market, as well as a fresh impetus to the growth of the industry.

Since its inception, the Hong Kong Chamber of Insurance Intermediaries has played an active role in promoting professionalism among its members. At this challenging and critical time, I am confident that the Chamber will continue its efforts to uphold business ethics and corporate social responsibility in the industry while at the same time assist its members to tap the potential of the rapidly expanding Mainland market.

I congratulate the Chamber for its past achievements and wish it every success in all future endeavours.

Prof. Anthony CHEUNG, BBS, JP
Chairman
Consumer Council

Message

from the Hong Kong Federation of Insurers



Mr Michael Huddart is the Chairman of the Hong Kong Federation of Insurers. He has over 28 years of practical experience in the life insurance and pension consulting fields, and has held many leadership positions.

He is Executive Vice President and General Manager, Hong Kong, Manulife (International) Limited (MIL) and Chief Executive of Manulife Asset Management (Hong Kong) Limited.

The Hong Kong Federation of Insurers (HKFI) extends heartiest congratulations to the Hong Kong Chamber of Insurance Intermediaries (HKCII) on the publication of its yearbook 2007.

CEPA 4 permits the setting up of an examination centre in Hong Kong for the Mainland qualifying examinations for insurance intermediaries. At the same time it allows local Hong Kong insurance agency companies to set up wholly-owned enterprises in the Mainland to provide insurance agency services to the Mainland insurance companies.

The HKFI is supportive to any initiatives which help strengthening exchange and mutual understanding between the Mainland and the Hong Kong insurance industries. CEPA 4 not only provides new business opportunities for insurance intermediaries, it also enables them to acquire first-hand experience in the Mainland insurance market.

Having in mind our firm commitment to working hand in hand with our intermediaries for the continued advancement of our industry, the HKFI has set up a mechanism to facilitate insurance agencies to enjoy the treatment under CEPA 4. We provide a letter to confirm the registration status of those insurance agencies that wish to apply for a Hong Kong Service Supplier Certificate from the Trade and Industry Department of Hong Kong.

The HKFI is actively looking for further opportunities to advance and promote the common interests of insurers and insurance intermediaries. In this respect, we look forward to working closely with the HKCII in contributing to the overall vitality and the prosperous development of the insurance industry.

Michael Huddart

Chairman

The Hong Kong Federation of Insurers

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Supply Chains Orchestration – Its Concept and Relevance to the Insurance Industry

Introduction

The Li & Fung Group is a Hong Kong-based multinational company consisting of three distinct core businesses: export trading, distribution and retailing. With an annual turnover of around US\$135 billion in the year 2007, Li & Fung Group operates in some 40 economies and employs over 25,000 people worldwide. Its core competency is supply chain management. In this essay, I would like to discuss the key concepts of Supply Chain Orchestration by Li & Fung's experience and to discuss briefly its implication for the insurance industry.

The Development of Li & Fung

The export trading business operated by Li & Fung Limited (referred to as Li & Fung hereafter) is the most important segment of Li & Fung Group with turnover of over US\$118 billion in 2007. Through a network of 80 sourcing offices in over 40 economies, Li & Fung sources high-volume, time-sensitive consumer goods on behalf of customers worldwide. Garments make up a large part of the trading business, which also covers the sourcing of fashion accessories, furnishings, gifts, handicrafts, home products, promotional merchandise, toys, sporting goods and travel goods.

As a supply chain manager for many producers and countries, Li & Fung provides the convenience of a one-stop shop for customers through a total value-added package: from product design and development, through raw material and factory sourcing, production planning and management, quality assurance and export documentation, to shipping consolidation.

Instead of owning production facilities, Li & Fung manages nearly 10,000 quality-conscious, cost-effective manufacturers who deliver to a short deadline for its customers.

Trading broker

When Li & Fung started in Guangzhou in 1906 during the Qing Dynasty, it functioned essentially as a trading broker, charging a fee to bring buyers and sellers together. In those days, no one at the Chinese factories spoke English, and the American merchants spoke no Chinese. As a broker with the ability to communicate with both buyer and seller, Li & Fung's commission was 15%.

Regional sourcing agent

As the need for trading companies gradually diminished, Li & Fung became a regional sourcing agent for Pacific Rim production and extended its geographic reach by establishing offices in Taiwan, Korea, and Singapore. Li & Fung's knowledge of the region presented enormous value to customers. Most big buyers could presumably manage their own sourcing if their sole need were to deal with Hong Kong. As such, they would only need to know which handful of factories to deal with and would have no need for any help from outside. However, dealing with the whole region was far more complex. Li & Fung's co-ordinated regional sourcing network and dedicated customer-oriented teams served to provide manufacturing information around the region to customers, match customers' production needs with factories' capabilities, and supervise production and quality control in factories. For example, Li & Fung knew which quotas had been used up in Hong Kong and when it had to start buying from Taiwan. Li & Fung also knew that Taiwan had better synthetics but Hong Kong was the place to go for cottons.

Supply chain manager – adding values along the way

In the 1980s, Li & Fung moved one step further to become a manager and deliverer of manufacturing programs. Under the new model, customers would simply say, for example, in the next season, this or that type of look and such and such colors

and quantities were what they prefer, and then ask us to come up with a production program. Based on the design concept from customers, we searched for the right type of yarn and dye swatches to match the colors. We realized customer's product concept in prototypes. After a buyer had picked a sample of his choice, we would create an entire supply chain of the season. We contracted out all manufacturing. In order to ensure quality and on-time delivery, we worked very closely with factories to plan and monitor the whole production process.

Entering the 1990s, a new challenge drove Li & Fung to the next level of development. With the emergence of the other Asian Tigers, Hong Kong became an increasingly expensive and less competitive place to manufacture. As a result, Hong Kong's low-end transistor-radio business, for example, had to migrate en masse to Taiwan and Korea. However, as Chinese Mainland launched her open-door policy to foreign investment in special economic zones in the south, Hong Kong manufacturers were able to reduce cost by moving the labor-intensive portion of their production across the border. Riding on this opportunity, manufacturers created little kits such as plastic bags filled with all the components needed to make, for instance, a transistor radio and shipped them to Chinese Mainland for assembly. After the labor-intensive work had been completed, the finished goods came back to Hong Kong for testing and inspection. In this case, the labor-intensive middle portion of the value chain was done in southern China whereas Hong Kong was responsible for front-end and back-end support.

Using this model, Li & Fung was able to dissect the value chain and rationalize where production functions were done. We call it "dispersed manufacturing" where low-skilled, labor-intensive tasks might be performed in one country, testing and packaging in another, and distribution in a third that could offer a highly-developed banking and transportation infrastructure. Under this model, the supply chain manager must be knowledgeable not only in logistics, but also how one could orchestrate the sourcing of production throughout an entire global supply chain.

The concept of "Soft \$3"

Li & Fung builds up a new concept of value added and think about supply chain management as "tackling the soft \$3" in the cost structure. Let's say a typical consumer product leaves the factory at price of \$1, and it ends up on the retail shelves at \$4. Nowadays, it is very hard to even squeeze the cost of production down 10 cents or 20 cents per product. Instead of lowering the cost of production, Li & Fung looks at the cost that is spread throughout the supply chain, e.g. product design, procurement, logistics, wholesale and information collection, so as to gain more margins from the soft \$3 in the cost structure.

Five Principles of Supply Chain Management

Be customer-centric and respond accordingly to the market demand

In the old industrial age, manufacturing was mostly based on a "supplier centric" model. Under this "push" model, manufacturers often encountered the problems of undersupply or excess inventory, as a result of inaccurate estimation of actual market demand and consumer needs. In the new customer age, the supply chain has to be customer-centric. Therefore, manufacturers should create and deploy inventory based on "pull" from actual demand and customer needs, rather than pushing inventory down the supply chain based on large manufacturing runs and the need to meet production and shipping quotas.

Focus on one's core competency and outsource non-core activities, and develop a positioning in the supply chain

The key to compete successfully in the world market is to carve out and focus on a niche that one can extend globally. Nowadays, companies whose core competencies are spread too thinly across a multitude of different businesses often lack the depth of knowledge and managerial capabilities to compete in tough market conditions. Companies should therefore identify and concentrate on their core businesses, and outsource the rest in the supply chain. Companies should adopt an extended-enterprise model and rely on partners to handle the non-core businesses. Under the extended-enterprise model,

companies are exploiting outside expertise in order to provide the best-available skills and resources needed to compete in today's complex and global marketplace. This outsourcing strategy has caused a ramp-up in contract manufacturing, outsourced warehousing, distribution, transportation and other logistics services, and has also resulted in a heavier reliance on vendor-managed inventory.

Develop a close, risk- and profit-sharing relationship with business partners

When companies are involved in outsourcing, they need to allocate their resources to manage the processes and relationship with their business partners. Companies must build a collaborative environment that is flexible and adaptable to the changing customer needs. Companies must break down the traditional boundaries established to protect the company and form partnerships with critical entities along the supply chain. They must also learn to work as a team to eliminate non value-added processes, and leverage the capabilities of each team member to maximize value. The establishment of long-term partnership would also avoid the time wasted in matching the right partners, improve product quality, and reduce production lead-time and costs.

Adopt information technology to optimize the operation of the supply chain

Information technology (IT) takes on an important role to facilitate information sharing, reduce lead times and increase accuracy in planning. The accelerated infusion of technology enables business partners to engage in instantaneous worldwide communication, analysis of complex decision rules, and real-time visibility in most business processes.

What many companies neglect is the concept "business drives IT". It is important for the IT department to have a good understanding of how the company's business strategy is planned, implemented and analyzed. Just because an IT initiative is possible to provide all of the bells and whistles, this does not mean that it is what the business wants or needs, especially if it will take longer to get the product to market. Too often IT focuses on delivering one product or service whilst the business or consumer is asking for another.

Design, implement, evaluate and adjust the work flow, physical flow, information flow and cash flow in the supply chain

Aside from managing information flow, a supply chain manager must also integrate and streamline the work flow, physical good flow, and cash flow process. Companies should oversee and constantly optimize the entire supply chain from sourcing, production, transportation, warehousing and sales, in order to achieve:

Shorten product lead time and delivery cycles

With consumer tastes changing rapidly and markets increasingly segmented into smaller niches, a broader spectrum of products is becoming more and more time-sensitive. Product obsolescence leading to inventory markdown at the end of the season would cause an enormous expense to both manufacturers and retailers. As a result, production and delivery cycles must be shortened in order to meet the ever-changing consumer demand. Here, supply chain management and synchronization play a critical role. Companies should bear in mind that the grouping and order of the manufacturing steps along the supply chain could result in great differences in production efficiency and effectiveness.

Lower costs in sourcing, warehousing and transportation

In order to optimize the supply chain and drive down costs in each segment along the supply chain, it is imperative for companies to work together to dissect the supply chain and find out the best way to lower inventory and transportation time, increase usability of warehouse and lower management fees. The concept of Just-In-Time (JIT), small batch shipping, vendor managed inventory and replenishment forecasting techniques are a few ways to achieve cost reduction along the supply chain.

Supply Chain Management in Insurance Industry

In this 21st century, fierce competition in global markets and the ever rising expectations of consumers have forced business enterprises to invest in and focus attention on, the relationships with their customers and suppliers. While the need for increased efficiency in enterprise operations persists, modern management thinking advocates the collaboration among business partners and the responsiveness to client needs as additional thrusts towards a successful competitive strategy. It is within this context that Supply Chain Management has become part of the senior management agenda. Recently, applications on SCM have been growing in many industries; executives of insurance enterprises are becoming aware that successful coordination, integration and management of key business processes across members of their supply chains will ultimately determine their competitive success. Insurance intermediaries/brokers increasingly realize that they no longer compete as solely autonomous entities. Instead, competition occurs more and more among entire supply chains. And they also know that they cannot produce an overall insurance solution without addressing the entire supply chain of their customers.

One important driver for enterprise employing SCM is the convergence of information technology that enables frequent exchange of huge amounts of information among chain participants, which facilitates supply chains to be global. Consequently, there is a need and an opportunity for a joint approach of business partners from all over the world to establish more effective and efficient supply chains. This is especially true in insurance supply chains since insurance products are globalize and the concept of customer-centric is so important.

Conclusion: We should Think, Act and Organize in a Flat way

A flat world challenges our views of our supply chains and our organizations. No company can afford to see itself as a solitary player. Every organization is part of a network and recognizing this creates the opportunity to better architect and orchestrates this network.

Ultimately this means successful organizations in the flat world need to be flatter themselves. They need to reshape themselves with the same drivers that have made the world flat. As customers become more empowered and technology more fluid, these organizations need to become more customer centric. As organizations become networked, companies need to build capabilities in network orchestration. As the line of sight becomes broader in a flat world, organizations need to take a broader, more holistic view of their own value chains. As value communities are more loosely linked, organizations need to create the right architecture to ensure that they meet the goals of their stakeholders. As the world changes quickly, organizations need the right balance between stability and flexibility to react effectively without becoming hyper-reactive. As organizations need build scale to compete globally, they also need to be designed to think and act entrepreneurial.

The world is becoming flatter. This is an unavoidable trend, although there will clearly be bumps along the road and these are often a source of opportunity. As the world reshapes itself, we have to reshape our own thinking. We need new mental models to understand the opportunities and threats of this new environment and to act effectively in it. We need new ways of thinking, designing and propelling our organizations for a new world.

Dr. Victor K.K. Fung, GBS.,
Chairman of Li & Fung Group

Dr. Victor K Fung is the Group Chairman of the Li & Fung Group of companies. He also holds a number of civic and professional appointments, namely, Chairman of the Greater Pearl River Delta Business Council, the Hong Kong Airport Authority and the Hong Kong University Council, Chairman of Hong Kong - Japan Business Co-operation Committee. In January 2007, Dr. Victor Fung became Vice-Chairman of the International Chamber of Commerce and will be Chairman in the year 2008.



What are the critical success factors for Hong Kong Insurance Intermediaries and if CEPA 4 a panacea for them

As a user of insurance products in Hong Kong, I always have high regard to the service quality and standard of the industry. Business in this sector is extremely competitive and in order to stand out among competitors, insurance intermediaries must possess many attributes, in addition to dedication and strong self motivation, other success factors include solid up to date product and market knowledge, dedicated customer service culture, professionalism and integrity.

Up to date thorough knowledge of insurance products and the Hong Kong and global insurance markets is a basic but crucial success factor. Insurance intermediaries having passed the Insurance Intermediaries Quality Assurance Scheme examinations already possess the basic insurance concepts, knowledge and skills. However, with the ever changing world where new products and services are continuously being developed and launched in the market, it is important that insurance intermediaries keep abreast of such information in order to recommend the best products and services to suit individual customer needs.

Dedicated customer service is another critical success factor. Clients appreciate dedicated service including after sales and claims services to be delivered with a caring attitude. It is through such relationship building that insurance intermediaries can obtain a better picture of client needs so as to identify and offer appropriate products and services.

A long term stable client base is critical to the continued growth and success of an insurance intermediary and the secret to building long term customer relationship is trust which can be built through professional delivery of products and services with integrity. Ethical practices will not only solidify existing client relationships but also provide word of mouth referrals to build a strong network for future business.

The above noted critical success factors of an insurance intermediary should be applicable in all markets with local language and culture adaptation. Hong Kong insurance intermediaries with such attributes should fare well in their Mainland endeavours given time to adapt to Mainland culture and language.

The Supplement IV to the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA 4") covers two main elements:

To permit the setting up of an examination centre in Hong Kong for the Mainland qualifying examinations for insurance intermediaries

To allow Hong Kong insurance agency companies to set up wholly-owned enterprises in the Mainland to provide insurance agency services to the Mainland insurance companies

The first element will provide the convenience for Hong Kong insurance intermediaries to write the Mainland license examination in Hong Kong and facilitates the first step for Hong Kong insurance intermediaries to enter into Mainland practice.

The second element allows Hong Kong insurance agency companies to enter into the immense Mainland insurance market. This will provide a pathway for Hong Kong insurance intermediaries to enter the vast Mainland market, however, as previously mentioned, while Hong Kong insurance intermediaries may possess the critical success factors, they will need to become proficient in the local language, adapt to and understand local cultural before they can develop and built the necessary network and relationships for a successful business.

Dr. Ng Tat Lun, BBS, JP.

Duputy Chairman, Council & Court Secretariat of Hong Kong Polytechnic University

Ng Tat Lun, a retiree after serving a multi-national manufacturing firm for over 40 years, still enjoys the community service in vocational education, research and development and employee training and retraining. By profession Mr. Ng is an engineer but his knowledge and interest extends broadly to cover business management, language, law, social science and Buddhism. His experience is local, national and international.



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What are the critical success factors for Hong Kong Insurance Intermediaries and if CEPA 4 a panacea for them

According to the statistics released by the Office of the Commissioner of Insurance, the total gross premiums of the Hong Kong insurance industry continued to achieve a double-digit growth of 13.7% to reach HK\$ 156 billion in 2006. The insurance sector accounts for over 10% of Hong Kong's GDP, making it an important pillar of our economy.

The success and prosperity of the insurance industry would not be possible without the contribution of insurance intermediaries. Insurance intermediaries have a crucial role to perform: they provide professional advice to the insuring public, help them analyze their insurance needs and choose the suitable insurance products, and assist them in the settlement of claims in times of need.

Indeed, the insurance industry relies heavily on the mutual trust and long-term relationship built between the consumers and insurance intermediaries. The insurance agent/broker is often the usual contact point for the insured as in most cases, the insurance company may not appear in the picture at all.

Nowadays, insurance is viewed not only as a product that provides peace of mind against unforeseeable incidents but also as an important financial planning instrument. With the rapid diversification of sophisticated products in a highly competitive market, insurance intermediaries need constant update of their professional knowledge as well as high business ethics in order to meet rising consumer expectations.

The quality of insurance professionals has made significant progress in recent years since the introduction of the "Insurance Intermediaries Quality Assurance Scheme" in 2000. The Scheme comprises a system of qualifying examinations to control the quality of new entrants admitted to the profession and a continuing professional development programme to enhance the professional knowledge and ethics of the practising professionals.

However, gaining consumers' trust and establishing mutually beneficial relationships may require one step further, and that is corporate social responsibility.

It is important to understand the difference between "helping a consumer buy something" and just "selling him something". Insurance intermediaries need to truly understand consumers' needs and figure out what insurance products will provide them with the most appropriate coverage. Consumers' trust is gained through provision of choices and unbiased recommendations. On the other hand, misrepresenting a product or aggressively pushing a consumer to take up a policy that does not really suit him will only damage the relationship and eventually lead to decline of business.

The Insurance Claims Complaints Bureau received 354 complaint cases in 2007. Application of policy terms, non-disclosure and excluded items are amongst the main categories of complaints. Such complaints and dissatisfaction can in fact be minimized.

The general public often finds insurance policies difficult to understand and thus rely on the advice of insurance intermediaries to get a clear understanding of the terms and conditions in the policies and to make informed decisions. In addition to payment obligations and claim limitations, consumers should also be fully and accurately informed of anything that may lead to claim rejection, such as pre-existing illnesses or hazardous sports. Insurance intermediaries should try their best to highlight the advantages, and equally important, the disadvantages of an insurance policy to their clients.

Insurance products are increasingly added with financial elements such as retirement planning and children's education

funds. Investment-linked insurance products are becoming more and more common in the market. However, the financial implications of the complicated pricing structure of this type of insurance products are not readily comprehensible to ordinary consumers, in particular, the substantial loss upon early surrender. Hence, insurance intermediaries should explain clearly to consumers and raise their awareness of the consequent effects of early surrender.

In this Information Age, customer database is undoubtedly a powerful marketing tool. However, this is a double-edged sword. Information helps development of service to meet consumer demands. But, it may also lead to bad concussion in the event of data leak. To gain customer confidence, insurance intermediaries must respect the data privacy of customers and maintain good data protection policy.

China is experiencing phenomenal economic growth, presenting enormous business opportunities for different sectors. The insurance industry is one sector with exceptional potential for growth in the China market. Notwithstanding the impressive growth in recent years, China's insurance penetration rate still remains low by international standards. With increasing affluence and increased risk awareness of the community, it is certain that the insurance industry in the Mainland will grow at a spectacular rate.

CEPA strengthens Hong Kong's position as Asia's business centre by offering preferential access to China's markets, over and above commitments made by China under WTO. The services liberalization measures in 28 services areas, including the insurance industry, under Supplement IV to the CEPA, have come into force on 1 January 2008. It gives Hong Kong insurance intermediaries better employment and business opportunities on the Mainland by facilitating mutual recognition of certain professional qualifications.

CEPA offers unprecedented business opportunities to Hong Kong's insurance intermediaries by providing a first-mover advantage. With decades of experience in the industry, extensive professional knowledge, wide international exposure and unparalleled knowledge about the Mainland, insurance professionals in Hong Kong are well equipped to explore and develop the potential of this fast-expanding Mainland market.

CEPA is a mutually beneficial arrangement signifying a new phase of economic cooperation between the Mainland and Hong Kong. These emerging opportunities not only allow Hong Kong's insurance intermediaries to expand their business but will also facilitate the transfer of professional knowledge and code of corporate social responsibility to Mainland counterparts.

With all these promising prospects, I am confident that the service of insurance intermediaries will continue to grow from strength to strength, benefitting both the insured and the insurers.

Connie LAU

Chief Executive

Consumer Council

Ms. Connie LAU is the Chief Executive of Consumer Council. As the CEO of the Consumer Council, she is responsible for overseeing the operation of the Council, formulating strategies and long-term programmes for the protection of consumer interest.

Ms. LAU is active in public service currently representing the Council on many public and community bodies, including the Advisory Committee on Travel Agents, the Travel Industry Compensation Fund Management Board, the Competition Policy Advisory Group, Costs Committee of the Department of Justice and the Estate Agents Authority.

She also serves as Member of the Expert Committee on Food Safety of the Centre for Food Safety, Deposit-taking Companies Advisory Committee of the Hong Kong Monetary Authority, the Anti-spamming Task Force of Commerce & Economic Development Bureau and the Working Group to Review Consumer Protection Related Legislation.

March 2008



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Background

CEPA (Closer Economic Partnership Arrangement) is an arrangement concluded between two separated customs territories of a single sovereign state, in conformity with the World Trade Organization (WTO) rules, with the objective of promoting joint economic prosperity and development of the Mainland and Hong Kong Special Administrative Region. The coverage of CEPA mainly consists of three parts, they are: (1) trade in goods, (2) trade in services, and (3) trade and investment facilitation.

The first phase of CEPA came into effect in 2004. Later on CEPA II & III confirmed the further implementation of zero tariff in trade in goods. CEPA IV & V marked the further liberalization of trade in services.

In compliance with the WTO principles and rules, CEPA provides the Hong Kong & Macau service suppliers with an earlier access to the Mainland market, ahead of the timetable China has committed to the WTO. Hong Kong companies under the CEPA enjoy advantages of early liberalization, lowering of threshold, mutual recognition and relaxation of regulations ahead of their counterparts in Europe and America.

In the first phase of CEPA concerning the sectors and sub-sectors in financial services, it allows groups formed by Hong Kong insurance companies through re-grouping and strategic mergers to enter the Mainland insurance market subject to established market access conditions (total assets held by the group over US\$5 billion; more than 30 years of established experience attributable to one of the Hong Kong insurance companies in the group; and a representative office established in the Mainland for over 2 years). The maximum limit of capital participation by a Hong Kong insurance company in a Mainland insurance company is 24.9%. To allow Hong Kong citizenship, after obtaining the Mainland's professional qualifications in actuarial science, to practice in the Mainland without prior approval. To allow Hong Kong residents, after obtaining the Mainland's insurance qualifications and being employed or appointed by a Mainland insurance institution, to engage in the relevant insurance business

The Supplement IV to CEPA in 2007, in the CEPA Liberalization Measures, will be more related to intermediaries in Hong Kong. There are specific commitments:

To allow setting up of an examination centre in Hong Kong for the Mainland qualifying examinations for insurance intermediaries.

To allow Hong Kong insurance agency companies to set up wholly owned enterprises in the Mainland to provide insurance agency services to the Mainland insurance companies. Applicants should meet the following criteria:

The applicant should be a professional insurance agency in Hong Kong or Macau;

Operating in insurance agency business for over 10 years

The average annual business revenues for the past 3 years before application should not be less than HK\$500,000 and the total assets as at the end of the year before application should not be less than HK\$500,000;

Within 3 years before application, there is no serious misconduct and record of disciplinary action.

The insurance agency company set up in the Mainland is not permitted to sell insurance policies there on behalf of Hong Kong insurers. The insurance agency company should only provide insurance agency services for the Mainland insurers. (Source: HYPERLINK "<http://www.tid.gov.hk>" www.tid.gov.hk and The Notice is available in CIRC's website www.circ.gov.cn/Porta10/InfoModule_394/61056.htm)

The fast growing Insurance Market in China

China's total premium revenues reached RMB 703.6 billion (US\$96.4 billion) in 2007, from RMB 564.1 billion the year before. "Insurance has been one of China's fastest growing industries in the last five years, with an annual growth of 18.2 percent," said Mr. Wu Dingfu, head of the China Insurance Regulatory Commission. "Last year was the best year ever for the insurance industry." Chinese insurance revenues are expected to surpass one trillion yuan by 2010, with insurance assets reaching five trillion yuan, according to the country's 11th Five Year Plan (2006-2010). However, even with such impressive growth, China's insurance penetration rate, at around 3% of GDP, remains low by international standards.

Increasing affluence, a growing public awareness of insurance, and greater attention to risk management by Mainland corporations means that the demand for insurance service on the Mainland is set to grow at a very fast rate. Naturally, this will offer new opportunities for the insurance industry.

In the early phase of the CEPA, it offered opportunities for Hong Kong insurers and professionals. The CEPA IV & V opened the gate for Hong Kong insurance companies to send experienced insurance intermediaries and management teams to China to establish new operations in the fast growing market.

Successful factors of Hong Kong Insurance Intermediaries

To grasp the opportunities in the fast growing insurance industry in China, the insurance intermediaries have got their own advantage. The insurance intermediaries in Hong Kong have solid experiences in the management and operations in marketing, distribution, agency management and various aspects of the insurance industry. These are valuable assets for the Mainland insurance companies.

The Hong Kong Insurance industry has maintained the double digits growth in the past decade. The industry as a whole has continued to grow in 2006. According to the latest statistics, the industry total gross premium grew by 13.7% to HK\$156 billion, representing 10.6% of the Hong Kong Gross Domestic Product. However, according to the statistics as at 31 Dec 2007 provided by the Insurance Agents Registration Board ("IARB"), there were only 2,150 insurance agencies, 28,892 individual agents and 24,398 responsible officers registered with the IARB. Moreover, there were 508 authorized insurance brokers as at 31 Dec 2007. The number of registered intermediaries has dropped significantly when compared in 1997. The insurance intermediaries become more regulated with the proper control from the Insurance Authority and other professional bodies in the industry.

The insurance intermediaries have still got ample space for expansion. Up to 31, Dec 2007, there were 2,331 insurance intermediaries companies in China. Of which, the insurance agency companies account for 1,755 (75%) and insurance brokers stand for 13% of 322. In 2007, all insurance intermediaries had contributed more than RMB 579.34 billion with 29.39% growth when compared with the year 2006. The insurance agency companies and brokers had accounted for 2.71% and 2.37% in market share respectively. The current China market distribution will provide great opportunity for company with professional distribution channels.

With the introduction of the CEPA IV, the Hong Kong experienced insurance intermediaries would raise the level of management skills and level of professionalism in the insurance intermediaries and companies in China. They shall help to build up professional management systems to the insurance industry in the Mainland through the following successful factors:

Professionalism According to the China Insurance Regulatory Commission, complaints lodged by policyholders against insurance agents and intermediaries involves misconducts like: misrepresentation, non-disclosure of material information, distribution of unauthorized materials, misappropriation of premium and forgery of documents. The well-trained insurance intermediaries from Hong Kong are guided by established systems, procedures, rules and regulations that have been practicing for years in Hong Kong. With the raised level of consumer rights and legal protection of the policyholders, the China insurance market is moving towards the way of professionalism. As the CEPA requires for at least 10 years operating



experience for agencies operation, it will attract quite a lot of the well-managed practitioners to invest in the Mainland market. Apart from the investment, they shall also bring in the best practice model and kind of the agency management model to China. The current status of the insurance intermediaries can also be raised in the short run.

Adaptiveness China is a vast country with huge population, long history, deep and diversified cultures. When compared with some foreign investors, the personnel from Hong Kong has been living in a multi-cultural environment would be more willing to learn and adapt to the local cultures in different provinces in the Mainland.

Established Systems The experienced insurance intermediaries in Hong Kong have become part of the management system developed by international insurance companies. They would like to introduce the management system to China through education, training, demonstration and motivation with persistency and determinations. This will generally improve the quality of the insurance agents and the distribution channels in China.

New Services Customer centered need-based selling are being introduced into the China market. New product development directions like investment-linked insurance plans, retirement plans, health plan are becoming popular. On the whole, the industry is incorporating the concepts of financial planning for individuals in China. The Insurance intermediaries have well founded experience in both the general business and long term business developments in Hong Kong, the CEPA IV will certainly open the path for the further development of the industry in China.

Rule of law The Hong Kong personnel provide products and services based on contract terms and legal basis. As the China insurance market becoming more opened, the relationship-based ways of doing business would gradually change to rule-based competitions. The Hong Kong personnel would introduce modern, systematic and market driven practices into the insurance market.

Wholly owned enterprises Recently, quite a lot of foreign insurers have invested into some local insurance agency companies. However, they are limited by the maximum 24.9% of capital participation. All the Insurance Agency enterprises under the CEPA IV will avoid the problems of capital injection and management for most of the joint venture enterprises in China currently. I personally believe that the demand for the intermediaries as a kind of distribution channel will have mounting demand in the near future for most of the insurers, especially to the foreign insurers in China. Most of the foreign insurers are still suffered from the speed of development in sales channels in China. The development of professional tied agencies is still expensive for most of the foreign insurers. The Hong Kong insurance intermediaries can try to fill in the gap.

Difficulties: A different market

China is a vast market with full of potentials for the insurance business. There are plenty of rooms for intermediaries from Hong Kong to explore. Their experiences and skills would influence the future development of the insurance markets. However the personnel from Hong Kong must not have the "great-Hong Kong" ideas: that is to transplant the Hong Kong model to the Mainland market. The scale and scope of operations would be much larger than what we experienced in Hong Kong. Quite a of international companies has invested large sum of capital and human resources in the Chinese market without success yet. The main difficulties are:

Market share concentration In 2007, the foreign insurance companies gained 7.8% market share of insurance premium. Among the Chinese insurers, the business mainly concentrated on the hands of the big 5: China Life, Ping An, CPIC, Xinhua and Taikong. It needs huge efforts in education, advertisement and marketing for the international companies and their intermediaries to build up trust in the insurance market. For the insurance intermediaries, we will avoid the heavy production

cost like most of the foreign insurers. However, we may still face the keen competition from the existing agencies company in China.

Accessibility The new intermediaries companies usually establish their footholds in the more developed areas like Beijing, Shanghai, Guangdong, Jiangsu, Shengzhen, Liaoning and Shandong. Up to the end of year 2007, 41.15% of the 2331 insurance intermediaries concentrated on the above seven areas. Only until March 2007 the first full-time insurance intermediary company was opened in Xizhong. It will take long time and great efforts to overcome the deep-rooted obstacles like language barriers, distance and accessibility to raise the market penetration rate in the China insurance market.

Distribution Channels The big Chinese insurance companies were formerly state-owned enterprise with preferential status and connections in state-owned industries and other markets. In the age of market economy these companies may still have better accessibility to the distribution channels. Bureaucracy and the long process of government approvals (at different levels of governments and departments) limited the speed and scope of the efforts to set up effective distribution channels in the Chinese insurance market.

Entry Barrier The CEPA IV has undoubtedly given a good access for the insurance agencies intermediaries. The 10 years of operating experience with the total asset of HK\$500,000 has set the barrier to small companies to participate into the market.

Moreover, the policy has not yet extended to the Hong Kong insurance brokerage companies. They can only apply for authorization in the Mainland if they meet the market access conditions, which include total assets of over US\$200M; operational experience of at least 30 years and the establishment of a representative office in the Mainland for over 2 consecutive years. To enjoy more the policies, the insurance intermediaries have to work even harder to catch up or awaiting further liberalization of CEPA in future.

Summary

Despite the fact that the Hong Kong practitioners have to face a lot of issues like taxation barrier, languages, cultural differences, government policies and so on when they enter the China market, with the introduction of the CEPA IV liberalization policies, the insurance intermediaries from Hong Kong can grasp the chance to go into this new market with their comparative advantages. They can introduce modern management systems and management skills into the Chinese insurance market. Through competition, they can help the China counterparts to establish modern management systems and effective distribution channels, pushing the market to follow regulatory frameworks, compliance measures and to adopt the rule of law. Through this process, the CEPA IV will enable the China insurance market to be better prepared for the challenges of WTO implementation. In the short run, the policy will not attract a lot of our Hong Kong practitioners to enter the China market in a rush. However, by taking part into the policy, the insurance personnel from Hong Kong will play a role to contribute to the insurance market modernization in China in the years to come.

Mr. Davey K. K. Lee

Chairman of Professional Development Council, General Agents and Managers Association

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抓機遇，努力發展香港保險 借東風，積極搶佔大陸市場

～淺析CEPA實施對香港保險行業的影響～

《內地與香港關於建立更緊密經貿關係的安排》（英文簡稱“CEPA”）實施幾年來，加強了內地和香港特別行政區的經貿聯繫，促進了內地和香港特別行政區的共同繁榮發展。隨著CEPA的持續縱深發展，亦必將對香港保險業發展產生深遠的影響，茲因本港經濟發展有其局限性及已轉型多年，大部份港商都在內地設有生產及貿易基地，香港保險業特別是保險中介人方面必不可錯失這個機會，抓住CEPA這機遇，除可向港商提供保 服務外，並可努力創造及尋找其它在內地的保 商機，使香港保險業有更多新的發展空間。

首先，從宏觀層面來說，CEPA的實施為港商向內地市場發展創造了有利的條件，尤其港商在內地已多設有生產及貿易基地，可為整個香港經濟帶來多元化及持續繁榮發展，包括帶動香港保險業向國內市場發展。

其次，從中觀層面來看，CEPA的實施將直接對保險行業帶來更多的機遇與挑戰。保險行業的發展與經濟的發展關係密切，二者相互作用。經濟發展好了，會直接促進保險行業的繁榮發展。保險行業同時又可以為經濟的發展保駕護航。CEPA的實施在促進保險行業發展的同時也必將帶來行業的新動向及新景象，而國內市場開放，香港保險業能夠加入這個龐大的市場，一定會帶來更多及全新的業務發展空間。

最後，從微觀層面來看，CEPA放寬了香港保險機構和保險中介人進入中國內地的門檻。香港保險機構應該充分利用這樣的便利條件通過各種渠道進入中國內地保險市場，可以選擇參股、策略投資和合資成立保險公司、成立保險中介公司等多種形式進入中國內地保 市場，分享內地經濟的發展成果。另外，CEPA為香港保險業人員提供更多的就業機會，CEPA允許香港保險人獲得相關專業資格後，可以直接受聘內地保險機構，這將會增加港人就業機會，也促進港人須不斷學習及更新知識，從而提高整體綜合人力素質。

綜上所述，CEPA的實施對於香港經濟、香港保險業、香港保險機構和香港保險從業人員是一個非常難得的機遇，港人及港商應該利用與內地的緊密聯繫，借CEPA實施的東風，排除困難，搶佔先機，優先進入中國內地市場，實施跨越式發展的目標。

Mr. Jimmy W.F. Poon
CEO, Dah Sing General Insurance Co. Ltd.

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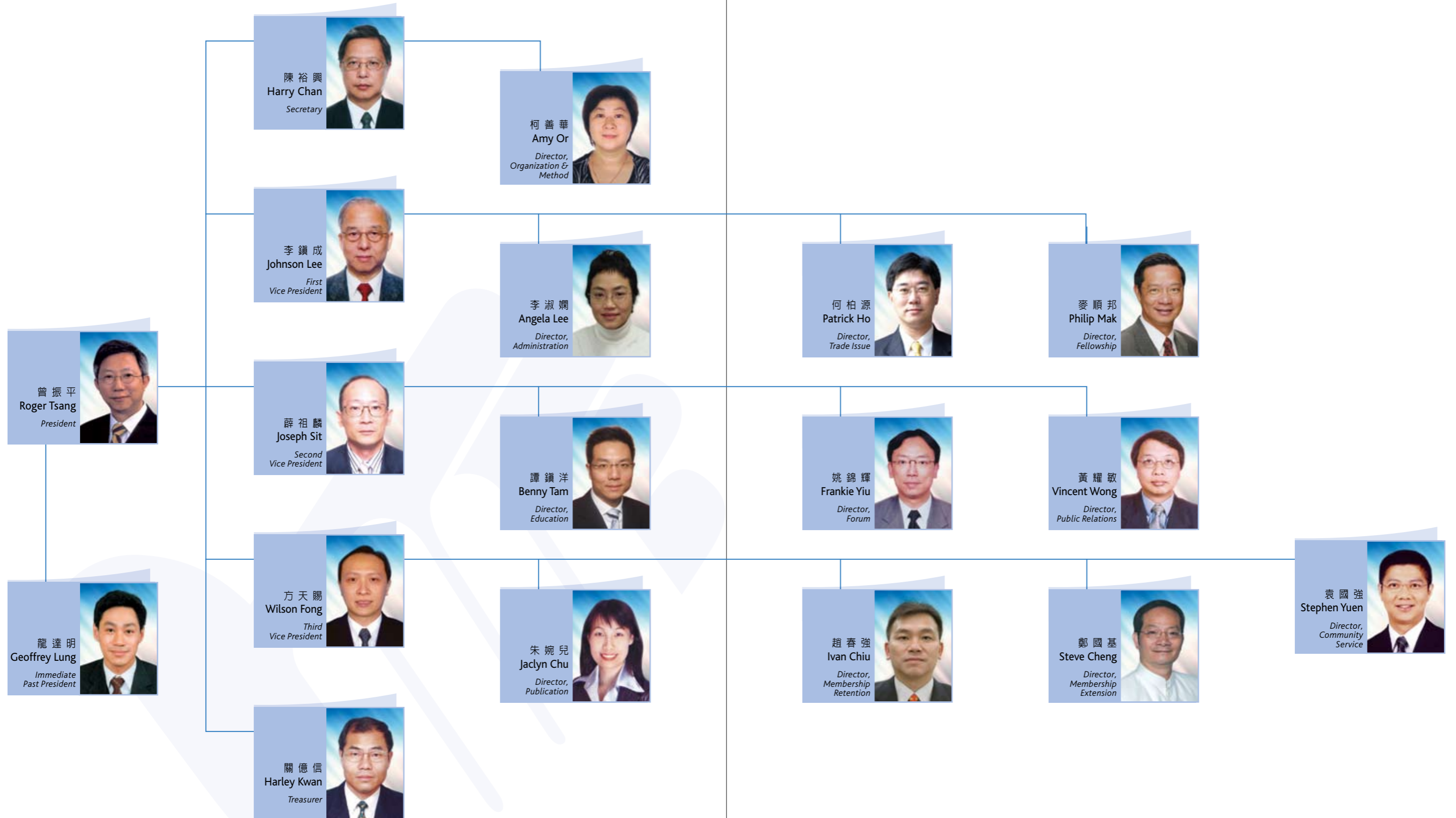


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Trendsetter ROP 30 is a term life insurance policy that offers death benefit protection and the added return of premium feature. This policy can play an important part in helping to protect your business in the following situations:

- **As part of a "buy-sell" agreement.** In the event of your business co-owner's death, the proceeds from the death benefit may give you the funds to buy out his or her part of the business. However, if your plans change and you decide to terminate the policy, you get back a percentage of the cumulative eligible premiums paid (beginning in the fourth policy year).¹
- **As part of a "key-man" agreement.** There is death benefit protection and, if an insured key executive leaves the company after four years of coverage, the company gets a percentage of the eligible premiums returned once the policy is terminated.
- **Protection for companies with a large bank loan.** The death benefit offers protection to businesses faced with large, long-term loans.

Find out more about how Transamerica Life Bermuda's return of premium policy can benefit your business.

CALL TODAY FOR YOUR FREE QUOTE.²

**Patrick Leung Agency Ltd.
(General Agent)**
1705 Sino Plaza
255-257 Gloucester Road
Causeway Bay, Hong Kong
Tel: (852) 2575 7833 Fax: (852) 2833 6006

TRANSAMERICA
LIFE BERMUDA LTD
Co. Reg. No. F 06768D

¹Excluding substandard premiums, rider premiums, and outstanding loans. Return of premium not available if death occurs during level premium period.

²No quotes are final until underwriting is complete.

Trendsetter ROP 30 (Policy Form Nos. 6-630 67-106 and 6-630 89-106) is a term life insurance policy issued by Transamerica Life (Bermuda) Ltd., incorporated in Hamilton, Bermuda. Premiums are guaranteed level for the first 30 years, then premiums increase annually starting in year 31. This policy is available only in Hong Kong and Singapore. Insurance eligibility and premiums are subject to underwriting. In the event of suicide during the first two policy years, death benefits are limited only to the return of premiums paid.

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On behalf of the Board of Directors, I would like to deliver the following report:-

Trade Issue

We had participated in the regular monthly Trade Association Gathering organized informally by six insurance intermediary bodies to share views of common interest.

Also, we have duly expressed our view to Insurance Commissioner and Hong Kong Federation of Insurers on the various Medical Insurance products and the prevalent market scenario.

Education

We had organized two CPD courses and had received overwhelming support from members and insurance colleagues.

Community Service

In response to invitation from HKFI on the charity function, "Soccer King" Charity Match 2007 in co-ordination with the Hong Kong Community Chest and The Metro Radio, HKCII had participated on such a meaningful event with our newly-established Soccer Team. Having obtained the utmost support from our Executive Board Members and insurance colleagues, HKCII managed to raise HK\$20,000 for this occasion to donate to The Hong Kong Community Chest. We thank Zurich Insurance Company for their generous sponsorship to HKCII on our Soccer Team uniforms.

We had arranged charity activities with Fu Hong Society on their Annual Sports Day in November and presented our charitable donation.

Public Relationship and Fellowship

We had successfully held our Inauguration Ceremony for the incumbent Executive Board Members in April 2007.

On external affairs, we had organized two China visits and one Cross-straits conference

We had attended Guangzhou visit with other fellow Insurance Intermediary Associations and met with Guangzhou Government Officials, namely Guangzhou Financial Regulatory Commission, Insurance Regulatory Commission and Trade Associations, Representative of various Insurance Companies.

We had organized visit to Dongguan, PRC with China PingAn Insurance to exchange the latest insurance development of our respective territories.

Mr. Geoffrey Lung, IPP, Mr. Joseph Sit, 2nd Vice President and myself had attended the Cross-Strait Insurance Conference in Taipei, Taiwan in November 2007. The venue provided ample opportunities for delegates from China, Taiwan, Macau and Hong Kong to exchange market intelligence of their respective territories.

We had organized ten Last Friday Fellowship Gatherings and Drink Parties with nice turn-up.

To further promote fraternity among insurance practitioners, HKCII had established a sport and

recreational sub-committee with the aim to organize Soccer matches and various other sport activities for different insurance organizations and delegations in Hong Kong as from November 2007.

We had hosted the Pi Yu Chong Golf Tournament in September and would like to express our gratitude to Mr. Pi Yu Chong for his generous sponsorship.

Membership

We had recruited twenty-two new members among two of them are full members and one Corporation Associates, fourteen Individual and five individual Associates.

Publication

We had successfully published the 2006 Year Book. Thank you for the hard work of our ad hoc editorial working group as well as our friendly colleagues who gave support to our Year Book.

We had delivered our Monthly Bulletin with President's Message to members regularly to disseminate the latest information of our industry.

Finance

We manage to maintain a sound and strong finance position at all times.

Total Cash on hand up to December 2007 is HK\$458,010.00.

Counsellor Meeting

We had held Counsellor Meetings to exchange market intelligence and reviewed our Chamber's future strategies. We had invited Mr. Peter Tam, Executive Director of Hong Kong Federation of Insurers as our guest.

Token of Appreciation

I would like to take this opportunity to thank you for all of your kind support and patronage especially to our incumbent Fellow Executive Directors.

Conclusion

This is my second term being your President. I would like to extend my sincere gratitude for your kind support especially to my fellow Executive Directors.

As I am going to step down, I wish the forthcoming President and all Executive Members every success.

Roger Tsang

President