Insurance Intermediaries
Quality Assurance Scheme

Principles and Practice of Insurance Examination

Study Notes
These Study Notes have been designed to prepare candidates for the Insurance Intermediary Qualifying Examination in the subject of “Principles and Practices of Insurance”. They are intended to give candidates a general introduction to the subject and reference materials, where identified in these Notes, serves to provide candidates with a wider coverage of the syllabus and can be used selectively by candidates who wish to investigate a topic in particular detail. The examination, however, will be based on these Notes.

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It should be noted that new editions or amendments of the Notes will be published from time to time where necessary. Although we have exercised diligence in the preparation of these Notes, errors or omissions may still be inevitable. We would appreciate your feedback on these Notes, in order that improvements can be made in the next edition or amendments of these Study Notes.

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For your study purposes, it is important to be aware of the relative “weight” of the various Chapters in relation to the Examination. All Chapters should be studied carefully, but the following table indicates areas of particular importance:

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1 RISK AND INSURANCE

1.1 CONCEPT OF RISK

The Chinese expression for "insurance" is of course literally translated as "protect against risk". It would be wrong, however, for us to assume:

(a) that all risks are insurable; or

(b) that insurance is the only remedy for risk.

Without necessarily offering a comprehensive survey, we shall consider both these matters further in this Chapter.

1.1.1 Meaning of Risk

There have been many attempts to define risk. To most of us, however, "risk" contains a suggestion of loss or danger. We may therefore define it as "uncertainty concerning a potential loss". It is this uncertainty and the undesirable element found with risk that underlies the wish and need for insurance.

The potential loss that risk presents may be:

(a) financial : i.e. measurable in monetary terms;

(b) physical : death or injury (often having financial consequences for the individual or his family);

(c) emotional : feelings of grief and sorrow.

Only the first two are likely to be insurable risks. Also, from a wider perspective, not every risk will be seen in the negative form we have just outlined (see 1.2 below).

Note: Without trying to complicate matters, we should also be aware that insurers may use the word "risk" with other meanings, including:

1 to signify the situation/premises, or policyholder, they are insuring;

2 to indicate the peril or cause of loss insured (so, some policies may insure on an "all risks" basis).
1.1.2 Classification of Risk

To simplify a complex subject we may classify risk under two broad headings, each having two categories:

(a) its potential financial results; and
(b) its potential impact, should it become a reality.

(a) Financial Results

Risks may be considered as being

(i) *Pure*, i.e. offering the potential of loss only (no gain). Such risks include fire, accident and other undesirable possible happenings;

(ii) *Speculative*, i.e. offering the potential of gain or loss. Such risks include gambling, business ventures and entrepreneurial activities.

(b) Impact

Risks may be considered as being

(i) *Particular*, i.e. having relatively limited consequences, affecting an individual or a fairly small number of people. It may be serious, even fatal, for those involved, but the result is comparatively localized. Such risks include motor accidents, personal injuries and the like.

(ii) *Fundamental*, i.e. having very widespread consequences, affecting very large numbers of people, with an element of total catastrophe. Such risks include famine, war, widespread flood and other disasters which are problems for society or mankind rather than just the "particular" individuals involved.

As a broad generalization, we may say that insurance is only going to be involved with pure and particular risks. Not all of these will be insurable, of course, but speculative risks are not likely to be considered by insurers and fundamental risks are often excluded from insurance covers (except with life insurance).
1.1.3 Risk Management

Risk management is a term which is used with different meanings:

(a) in the world of banking and other financial services outside insurance, it is probably used with reference to investment and other speculative risks (see 1.1.2(a) above);

(b) insurance companies will probably use the term only in relation to pure risks, but they may well restrict it even further to insured risks only. Thus, when insurers talk about "risk management" they could well be referring to ways and means of reducing or improving the insured loss potential of the "risks" they are insuring, or have been invited to insure;

(c) as a separate field of knowledge and research risk management may be said to be that branch of management which seeks to:

(i) identify;

(ii) quantify; and

(iii) deal with, i.e. prevent, minimize or fund the (mostly pure but possibly including speculative) risks that threaten an organization. Not all such risks will be insured: some are not even insurable.

The wider implications of (c) above can lead us to conclude that risk management is not merely an aspect of insurance. It is more accurate to say that insurance is one aspect of risk management.

1.2 FUNCTIONS AND BENEFITS OF INSURANCE

Insurance has many functions and benefits, some of which we may describe as being primary and others which we may regard as ancillary or secondary, as follows:

(a) **Primary functions/benefits**: Insurance is essentially a risk transfer mechanism, removing, for a premium (fee), the potential financial loss from the individual and placing it upon the insurer.

The primary benefit is seen in the financial compensation made available to insured victims of the various insured events. On the commercial side, this enables businesses to survive major fires, liabilities etc. From a personal point of view, the money is of great help in times of tragedy (life insurance) or other times of need.
(b) **Ancillary functions/benefits**: Insurance contributes to society directly or indirectly in many different ways. These will include:

(i) *employment*: at a time when Macau is growing increasingly concerned about unemployment figures, it is worth remembering that the insurance industry is a significant factor in the local workforce;

(ii) *financial services*: since the relative decline in manufacturing in Macau, financial services have assumed a much greater role in the local economy. Insurance is a major element in this sector;

(iii) *loss control/prevention*: the practice of insurance includes various surveys and inspections related to risk management (see 1.1.3(b) above). These are followed by recommendations and requirements to improve the "risk". As a consequence, we may say that there are fewer fires, accidents and other unwanted happenings;

(iv) *savings/investments*: life insurance, particularly, offers a convenient and effective way of providing for the future. With the introduction of several retirement schemes into the market, the value of insurance products in providing for the welfare of people in old age or family tragedy is very evident;

(v) *economic growth/development*: it will be obvious that few people would venture their capital on costly projects without the protection of insurance (in most cases, bank financing will just not be available without insurance cover). Thus, developments of every kind, from new airports to housing and a host of other projects, are encouraged and made possible because insurance is available.
2 PRINCIPLES OF INSURANCE

2.1 INSURABLE INTEREST

The word "interest" can have a number of meanings. In the present context it means a financial relationship to something or someone. There are a number of features to be considered with "insurable interest", as below.

2.1.1 Definition

Insurable interest is the legally recognized relationship to the subject matter that gives a person the right to effect an insurance on it. It is important to note that the relationship must be a legal one. A thief in possession of stolen goods, for example, does not have the right to insure them.

2.1.2 Its Essential Criteria

For insurable interest to exist, the following criteria must be satisfied:

(a) there must be some person, property (thing), liability or other legal right capable of being insured;

(b) that person, thing etc. must be the subject matter of the insurance;

(c) the person wishing to have insurance must have the legally recognized relationship to the subject matter, mentioned in 2.1.1. above, so that financial loss may result to him if the insured event happens.

2.1.3 How It Arises

Insurable interest arises in different circumstances, which may be considered under the following headings:

(a) Insurance of Persons: everyone has an insurable interest in himself. One also has an insurable interest in one's spouse. Further, one may insure one's child or ward (in guardianship), if they are under 18 years of age.

(b) Insurance of Property (physical things): the most obvious example arises in ownership, but sometimes property belonging to other people may also be insured. For example, legal personal representatives (executors, trustees, etc.) may insure property under their care. Often insurances are arranged on behalf of owners, e.g. insurance on the belongings of family members living with the insured.
(c) Insurance of **Liability** (legal responsibility): everyone facing potential legal liability for their acts or omissions may effect insurance to cover this risk (sometimes insurance is *compulsory*). Covering oneself in this way may be said to relate to *direct liability*. Insurance against *vicarious liability* is also possible, where, for example, employers insure against their liability arising from negligence etc. of their employees.

(d) Insurance of other legal **Rights**: anyone legally in a position of potential loss due to infringement of rights or loss of future income has a right to insure such a risk. Examples would include landlords insuring *loss of rent* following a fire. (Note: the loss of rent, rather than the building is insured.)

### 2.1.4 When is It Needed?

There are two possible time requirements for the existence of insurable interest:

(a) *when the insurance is arranged* (at policy inception); and

(b) *when a claim arises*.

For practical purposes, the only time insurable interest needs to be considered, for every class of insurance except one, is at the time of a **claim**. In simple terms, at the time of a loss did the insured **sustain** a loss? The one exception is in **Life Insurance**.

Life insurance is quite different. It is *long-term* business. The policy cannot be cancelled by the insurer. As such, the insured is said to have a **reversionary interest** in such an insurance. This means the policy is his, although access to the policy money awaits some time or event in the future. With life insurance, insurable interest is only needed at **policy inception**.

### 2.1.5 Assignment

Assignment means transfer. The question arises whether an insurance can be transferred (perhaps *sold* or given) to a replacement policyholder? The brief answer is that a **life insurance** policy can be sold. **Marine cargo** insurances are also said to be *freely assignable*.

Other types of insurance (fire, etc.) cannot be transferred to another without the consent of the insurer. With such policies, the identity and character of the person insured is vital to the contract, so substitutions without prior approval are not permitted.
Note: There is an expression assignment of the proceeds of the policy, which means that money payable under the contract is paid to someone other than the policyholder. In this sense all policies are "assignable". An example arises when repairs for a motor vehicle involve a payment to the garage rather than to the insured.

2.2 UTMOST GOOD FAITH

Still frequently referred to by its Latin name "uberrima fides", utmost good faith relates to the duty of disclosure upon the parties involved in an insurance contract. The important features of this principle are considered below.

2.2.1 Ordinary Good Faith

Most commercial contracts are not subject to "utmost good faith". Ordinary good faith means that the parties must behave with honesty and such information as they supply must be substantially true.

However, it is not their responsibility to ensure that the other person asks all relevant questions. They are allowed to remain silent on any matter not raised by the other party. It may thus be said that ordinary good faith is effectively the negative duty of not telling lies.

2.2.2 Utmost Good Faith

Insurance is subject to a more stringent duty of good faith, because of the fiduciary nature of such contracts (involving a high degree of trust). Utmost good faith means that each party is under the positive duty of revealing all vital information (called material facts), whether the other party asks for this information or not.

Note: 1 Utmost good faith arises in Insurance Contract Law. It is not an invention of insurers.

2 Insurers sometimes extend the Insurance Contract Law duty of utmost good faith by requiring the proposer to declare (or warrant) that all information supplied, whether relating to "material" matters or not, is totally (as opposed to substantially) true.
2.2.3 Material Facts

(a) Definition: If "material facts" must be revealed, whether asked for or not, what this term means becomes of vital significance. The classic definition of a material fact is "a fact that would influence the judgement of a prudent insurer in determining whether he will accept the risk, or on what terms he will accept it".

Lawyers argue long and hard about the precise meaning of this. A simple (perhaps legally less than perfect) description would be "a piece of information that influences the existence or the terms of the contract".

(b) Non-material facts: Clearly this refers primarily to matters which would not influence the existence or terms of the contract, but some facts which also do not have to be revealed include:

(i) matters of common knowledge;

(ii) facts already known, or deemed to be known, by the insurer;

(iii) facts which improve the risk.

2.2.4 Duty of Disclosure

It may be said that utmost good faith involves a duty of disclosure by the proposer/insured. Technically, the insurer is under the same duty, but we will concentrate on the proposer's duty. This duty has some features we should note:

(a) Duration (at Insurance Contract Law): until the contract is binding, when the duty becomes one only of ordinary good faith.

(b) Duration (under policy terms): it is common for policies to require the disclosure of important information during the currency of the contract, such as a change of occupation or other change of risk. At Insurance Contract Law, such changes should have to be notified immediately.

(c) Renewal: when the policy is being renewed, the duty of utmost good faith revives.

(d) Contract alterations: if these are requested during the currency of the policy, the duty of utmost good faith applies in relation to these changes.
2.2.5 Breach of Utmost Good Faith

If utmost good faith is broken, the aggrieved party (invariably the insurer) has certain courses of action open to him (see 2.2.6 below). A breach may occur in any of the following ways:

(a) **Concealment**: deliberately withholding material information.

(b) **Non-disclosure**: again involves not supplying important information, but in this case the omission was not intended to deceive. In either case, if the other party was induced to enter the contract because of the omission a breach of utmost good faith arises.

(c) **Fraudulent Misrepresentation**: this involves the wilful distortion of fact or giving knowingly false information.

(d) **Innocent Misrepresentation**: supplying false information, but not knowingly, or not with the intention to deceive.

2.2.6 Remedies for a Breach of Utmost Good Faith

The aggrieved party (invariably the insurer) may:

(a) avoid the contract;

(b) refuse payment of a particular claim;

(c) additionally sue for damages if fraud is involved;

(d) waive the breach, in which case the contract/claim is valid.

2.3 PROXIMATE CAUSE

Insurable interest and utmost good faith apply to all insurance contracts, the primary application being at the time the contract is being arranged (policy inception). Proximate cause is also likely to be important with all types of insurance, but its application will be exclusively related to claims. Some of its features to be noted are as follows:

2.3.1 Definition

The classic definition is taken from a law case nearly a hundred years ago:

"The active efficient cause that sets in motion a train of events which brings about a result, without the intervention of any force started and working actively from a new and independent source."
This is very impressive, but what does it mean? In simple terms, it means it is necessary to determine the real effective cause of the loss, because not every cause of loss will be insured.

2.3.2 Types of Peril

A cause of loss is known as a peril. There are essentially three kinds of peril:

(a) **Insured peril**: which is covered by the policy and must occur with any claim, e.g. fire under a fire policy, collision with a motor policy etc.

(b) **Excepted (or excluded) peril**: this is a peril that would be covered, but is specifically removed from cover by a policy exclusion, e.g. fire caused by war, death from suicide etc.

(c) **Uninsured peril**: this is a peril that is neither insured nor excluded, it is outside the cover provided by the policy, e.g. accidental damage with a policy covering fire only.

2.3.3 Application of the Principle

The practical applications of proximate cause may be very complex and sometimes controversial. For our purposes, we should note the following somewhat simplified rules:

(a) There must always be an insured peril involved.

(b) If a single cause is present, the matter is straightforward: if the cause is an insured peril the loss is covered, if it is an uninsured or excepted peril, it is not.

(c) With more than one peril involved, either in a chain of events or concurrently, the position is complex. Specific cases should perhaps be a matter of consultation with the insurer and/or lawyers, but general rules are:

(i) **uninsured perils** arising directly from **insured perils**: the loss is covered, e.g. water damage (uninsured peril) proximately caused by an accidental fire (insured peril);

(ii) **excluded perils** are generally fatal to the claim.

**Note**: We might say that **insured perils** are *positive* (in that they produce valid claims), **excluded perils** are *negative* (in that they defeat claims) and **uninsured perils** are *neutral* (in themselves they are not covered, but if proximately arising from an insured peril the resulting loss is *not excluded*).
2.3.4 Policy Modification of the Principle

Great care must be taken with this principle, as individual circumstances can be very important in determining whether the loss is recoverable or not. One complication can arise from policy wordings which modify proximate cause:

(a) *to reduce the normal application*: some fire policies might for instance have a wording that allows a claim for fire damage caused by, say, earthquake or explosion, when impact damage from such risks is in fact excluded;

(b) *to extend the normal application*: proximate cause is normal only concerned with the *direct or dominant* cause. For example, a policy exclusion may say that damage "*directly or indirectly*" arising from a particular peril is excluded. This will mean that the loss may not be recoverable even if the excluded peril is only a *remotely contributory factor*.

**Note:** It is worth repeating that the principle of proximate cause is sometimes very complicated. There have been many interesting and sometimes surprising court cases which have decided its application. Therefore, please do not assume that knowledge of the above brief notes will make you an expert.

2.4 INDEMNITY

This is a principle which will not apply to every kind of insurance, for reasons that will be explained. In very simple terms we may think of it as *compensation* for the loss sustained. More detailed consideration is, however, necessary.

2.4.1 Definition

We mentioned above that we may think of indemnity as *compensation*. To be more accurate perhaps we should say that it is *an exact financial compensation* for a loss, no more no less.

2.4.2 Implications

If we accept the definition of "an exact financial compensation", we can see at once why indemnity cannot apply to all types of insurance. Some types of insurance deal with "losses" that cannot be measured precisely in *financial* terms. Specifically, we refer to **Life Insurance** and most **Personal Accident Insurances**. Both are dealing with death or injury to human beings, and there is no way that these things can be measured precisely. Thus, full compensation cannot be given, *indemnity* cannot normally apply to these classes of business.
Note: It is sometimes said that life and personal accident insurances involve benefit policies rather than policies of indemnity. Since indemnity cannot normally apply, the policy can only provide a specified benefit. There can be no attempt to make a total and accurate valuation of loss.

2.4.3 Link with Insurable Interest

We studied insurable interest in 2.1. That principle represents the financial "interest" in the subject matter, which is exactly what should be payable in a total loss situation, if the policyholder is to be completely compensated. Life and personal accident insurances may generally be regarded as having an unlimited insurable interest, and therefore indemnity cannot apply to them.

2.4.4 How Indemnity is Provided

With policies undertaking to indemnify the insured, the extent of any loss must be measured as accurately as possible, but indemnity may be given in different ways, as follows:

(a) *Cash payment* (to the insured): this is always acceptable and in some cases may be the only practical option (e.g. reimbursement of medical bills - which incidentally is an indemnity, even though it may be covered under a personal accident policy).

(b) *Repair*: payment to a repairer is a perfectly acceptable way to provide indemnity, and is the norm, for example, with non-total loss motor claims.

(c) *Replacement*: with new items, or articles that suffer little or no depreciation, giving the insured a replacement item may be a very suitable method, especially if the insurer can obtain a discount from the supplier.

(d) *Reinstatement*: this is a word that has a number of meanings in insurance. As a method of providing an indemnity, its usual meaning is rebuilding or reconstructing property after damage. (In some cases, e.g. with damaged machinery, the term is used when replacement is involved.)

2.4.5 Salvage

When measuring the exact amount of loss (which indemnity is), it has to be borne in mind with certain property damage that there will sometimes be something left of the damaged subject matter (fire-damaged stock, the wreck of a vehicle etc.). These remains are termed salvage. If the remains have any financial value, this value has to be taken into account when providing an indemnity.
Dealing with salvage is not always an easy matter, but in principle either the value of the salvage is *deducted* from the amount otherwise payable to the insured (who then keeps the salvage) or the insurer pays in full and *disposes* of the salvage for his own account.

**Note:** The term "salvage" in marine insurance has a very different meaning, where it usually refers to saving a vessel or other threatened property, for which an appropriate *fee* may be payable by the property owners.

### 2.4.6 Abandonment

This is a term mostly found in marine insurance, where it refers to the practice of *surrendering* the subject matter (insured property) to the insurers in return for a total loss payment. This is quite standard in marine practice, but in other classes of property insurance policies usually specifically exclude abandonment.

The important thing to be remembered with abandonment is that the subject matter (or what is left of it) is *completely* handed over to the insurer, who may therefore benefit from its residual value. (This will be important with [Subrogation](#), see later).

### 2.4.7 Policy Provisions Preventing Indemnity

Although policies frequently promise to *indemnify* the insured, this is always within the terms of the policy. These terms may sometimes mean that something less than indemnity is payable. For example:

(a) **Average:** most non-marine property insurances are *subject to average*. This means that the insurer expects the insured property to be insured for its full value. If it is not, in the event of a loss the amount payable will be reduced in proportion to the *under-insurance*. For example, if the actual value of property at the time of a loss was $2 million and it was only insured for $1 million, we may say that the property is only *50% insured*. Therefore, by the application of average only 50% of any loss is payable.

This principle causes considerable problems in Macau. So, if the application of average is to be avoided, it is very important for intermediaries to do their best to ensure that insurances are arranged for a *full sum insured*.

**Note:** In marine insurance *average* has a totally different meaning. Here it means *partial loss*. Average in marine insurance is complex and beyond the needs of this present study.
(b) **Policy excess/deductible**: an excess or deductible is a policy provision whereby the insured is not covered for losses up to the specified amount, which is always deducted from each claim.

(c) **Policy franchise**: these are rarely seen today, but they are similar to an excess in that they eliminate small claims. However, if the claim reaches or exceeds the franchise figure, the loss is payable *in full*. Rather than saying this reduces an indemnity payment, it is more accurate to say that if a franchise applies nothing will be payable, but if the franchise amount is exceeded a normal indemnity is payable.

(d) **Policy limits**: the *sum insured* is always the limit of the insurer's liability, so any loss exceeding that limit will not be fully indemnified. There may, however, also be limits within the policy terms, so that the amount payable does not exceed a stipulated sum. Examples are a *single article limit*, and policy *section limit*.

### 2.4.8 Policy Provisions Providing More Than Indemnity

Indemnity is very logical and technically easy to defend. However, in practice most policyholders are ignorant of this and are confused and offended when insurers "reduce" their claims, by deducting depreciation, wear and tear etc. As a marketing and public relations exercise, therefore, it has become the custom to offer property insurances which may be said to give a *commercial* (or contractual) rather than a *technical* indemnity. Some examples are as follows:

(a) **Reinstatement insurances** (or insurances on a reinstatement basis): this is another use of the term "reinstatement" (see 2.4.4(d) above) and is often found with fire insurances. The meaning is that where reinstatement or replacement takes place, no deductions are made in respect of wear and tear, depreciation etc.

(b) "**New for Old**" cover: this is another term for reinstatement, as indicated above, but is more generally used with domestic rather than commercial risks.

(c) **Agreed value policies**: such policies may be used for articles of high value, where depreciation is unlikely to be a factor (e.g. works of art, jewelry etc.). The sum insured is made subject to an expert's valuation, and the policy undertakes to pay this sum in the event of total loss.

(d) **Marine policies**: it has always been the practice for marine insurers to adopt a more commercial approach to the subject of indemnity.
2.4.9 The Practical Problems with Indemnity

Indemnity, as mentioned above, is extremely logical. What makes more sense than to say that person should only recover what they have lost? They should not profit from a loss! However, most people feel that they should receive the amount they insured for, with a total loss. Moreover, the fact or amount of depreciation is an area where you may confidently expect problems with the claimant. When claims are being made, most people will say that their property has not depreciated at all, or only marginally!

2.5 CONTRIBUTION

This is one of the two important corollaries (sub-principles) of indemnity. As such, it will only apply if indemnity applies. It is therefore another principle connected with claims. Its major features are as follows:

2.5.1 Definition

In simple terms, contribution means that if two (or more) insurers are contracted to provide an indemnity to the same person (interest), the insurers should share ("contribute" towards) the indemnity payment. The net effect is that the insured does not recover more than he has lost.

2.5.2 How Arising

The criteria that need to be satisfied before contribution exists are:

(a) the respective policies must each be providing an indemnity;

(b) they must each cover the same financial interest;

(c) they must each cover the same peril giving rise to the loss;

(d) they must each cover the same subject matter;

(e) each policy must cover the loss (i.e. not be subject to a policy exclusion or limitation preventing contribution).

2.5.3 How Applicable

As mentioned, contribution will only apply if indemnity applies. Thus, if a person dies whilst insured by two or more separate life insurance policies, each must pay in full, because the insurances are not subject to indemnity.
2.5.4 How Amended by Policy Conditions

In Policy conditions usually there are the following situations:

(a) restrict the respective insurer to its rateable share of the loss. In Insurance Contract Law the insured could claim all of his loss from one insurer, leaving that insurer to seek contribution from the other(s).

(b) insert non-contribution clauses into the policy, so that any other existing insurance will have to pay the loss (e.g. the "Marine Clause" in fire policies, and various "more specifically insured" clauses).

2.5.5 How Calculated

As mentioned, policies usually stipulate that the insurer limits his contribution to his rateable share. But this is not absolutely clear. Look at the following simple example, for instance:

<table>
<thead>
<tr>
<th>Policy A has a Sum Insured of</th>
<th>MOP 200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy B has a Sum Insured of</td>
<td>MOP 400,000</td>
</tr>
</tbody>
</table>

There is a loss in the amount of MOP 60,000

For ease of illustration, we shall assume that average does not apply (see 2.4.7(d)) and that the figures are correct. How much should A and B pay?

(a) We may say A should pay MOP 20,000 and B should pay MOP 40,000.

This would be logical, because B has twice the cover, and presumably has received twice the premium. BUT

(b) We could say A should pay MOP 30,000 and B should pay MOP 30,000.

This is also logical, if we say that both of them cover the loss in full and if premium is an issue, they both received the same for the $60,000 loss!

Either method may be met in Macau. Method (a) above is known as the "respective sums insured" method. Method (b) above is known as the "independent liability" method. Each method has its supporters.
2.6 SUBROGATION

This is the other important corollary of indemnity. Its meaning and features are considered below.

2.6.1 Definition

Again in simple terms, subrogation provides that an insurer who provides an indemnity is entitled to take over and use for his own benefit any recovery rights the insured may possess against third parties.

Suppose, for example, that the insured is covered by a motor insurance and his car is damaged by the negligence of a building contractor when faulty scaffolding falls on to the car. The motor insurer must pay for any insured damage to the car, but the insured also has rights against the contractor. These rights become subrogated (transferred) to the motor insurer.

From this, it will easily be seen how subrogation seeks to protect the parent principle of indemnity, by ensuring that the insured does not get paid twice for the same loss.

2.6.2 How Arising

(a) In tort: this usually arises where a third party is negligent (the main "tort", or civil wrong) and causes loss or damage to be indemnified by the policy. This is undoubtedly the most common source of subrogation.

(b) In contract: a hirer or leaseholder may make certain contractual promises regarding damage to the owner's property. If the owner is insured for that damage, subrogation arises against the hirer/leaseholder in question.
(c) Under *statute:* this is not common here, but for example if a workman is injured at work by the actions of a third party, the employer will have to pay an *employee compensation* benefit to the injured man. The Employees’ Compensation (EC) Ordinance, however, will grant subrogation rights to the employer, who must in turn pass these to the EC insurer.

(d) In *salvage:* this we have already considered (see 2.4.5). The insurer may be said to have subrogation rights in what is left of the subject-matter (salvage), arising under the circumstances already discussed.

### 2.6.3 How Applicable

As with contribution, *subrogation* can only apply if *indemnity* applies. Thus, with our previous example, if an insured under a life policy is killed by the negligence of a motorist the life insurer must pay under his policy, but he is not entitled to subrogation rights for this payment, as it was not an indemnity. (The victim’s survivors or personal representative, of course, may make further claims in respect of the death.)

### 2.6.4 Other Considerations

There are two other features to bear in mind:

(a) In Insurance Contract Law, subrogation rights are only acquired *after* an indemnity has been provided. Policy conditions usually say that the insurer is entitled to such rights *immediately,* so that recovery action can begin at once.

(b) Special considerations arise in respect of subrogation recoveries:

(i) The insurer cannot recover more under subrogation than he paid as an indemnity. By way of example, suppose there is an insured loss of a piece of valuable jewelry. The insurer pays, but some time later the jewelry is found and its value is much higher. The insurer can only keep the amount he paid and any balance belongs to the insured. (The expression covering this is that "*subrogation rights are limited to 100 cents on the dollar*."

(ii) The above saying is not true in the event of subrogation arising after *abandonment* of the property to the insurer (see 2.4.6 above). There, *all rights* in the property belong to the insurer, who may thereby "make a profit"!
3 CORE FUNCTIONS OF AN INSURANCE COMPANY

Whilst an insurance intermediary is unlikely to have close contact with the internal organization of insurance companies, it is good to understand something of their infrastructure and to be aware of the various departments and personnel behind the marketing process. These, in outline, are considered below. Please remember, however, that there is no single system for insurance companies to follow, so the suggested structure must be seen as representative only.

3.1 PRODUCT DEVELOPMENT

Someone once said "Insurance is not something that is bought, it is something that has to be sold". We shall recall this when discussing marketing and promotion (3.2 below), but to the extent that it is true the whole exercise depends upon having something to sell. That something may be described as an insurance product.

Some insurances, of course, are compulsory (e.g. third party motor and employee compensation), and with these classes the precise policy wordings are decreed by Government. With other classes of insurance business, Macau is an open and very competitive environment. Insurers must therefore be efficient and dynamic in preparing the products they "sell". As an abbreviated summary, the Product Development department/section of an insurer will be much occupied with:

(a) **Individual product development**: this is a never-ending process. With competitors eager to learn and copy (and at times being not too scrupulous in the way this is done!), it has been said that the unchallenged "lifespan" of a totally new product is very short, perhaps a matter of only a few weeks or months. After that time, the product has been copied, adapted and frequently undersold.

(b) **Product portfolio development**: increasingly, producing a "package" of covers, especially for larger clients, has become sensible, even vital, in order to retain a competitive edge.

(c) **Product research**: we may think of this in three areas:

(i) **our own products**: nothing is perfect beyond improvement.

(ii) **competitors' products**: we do not, and cannot, live in a vacuum. It is essential to know what is happening in our market and "what we are up against". Besides, they will have no hesitation in "borrowing" from us!

(iii) **market trend**: the needs of the general public.
3 CUSTOMER SERVICING

Sometimes described as Client Servicing, this section has a number of functions, and with a particular insurer some of these may be carried out by other departments (such as Accounts, Claims etc.). The general scope of its responsibilities is indicated by its name. It is to provide a service to existing and potential customers/clients, and the duties are likely to include:

(a) **Correspondence**: enquiries of every imaginable kind are likely to be received, asking for guidance and information. Sometimes, the enquiries will be totally unrelated to the company’s business, so a degree of perception and tact will be required. It is quite sure that the response a company gives to enquiries is very important.

(b) **Public relations**: the more formal aspects of this could be within the province of the marketing "people", but the way clients are dealt with profoundly influences a company’s standing in the eyes of the public.

(c) **Documentation**: requests for duplicate policies, amendments to existing policies. copies of motor insurance certificates etc. will probably receive at least their initial attention in this department.

(d) **Complaints**: an area that must be seen to be handled fairly and promptly. This may require considerable liaison with other colleagues/departments. It must also be remembered that complaints may reach high levels of company management and receive media and even Government attention.

3.3 MARKETING AND PROMOTION

Remembering the quotation in 3.1, this is a very important area for the insurer. The particular areas of responsibility include:

(a) **Public Relations**: as explained, this may overlap to some extent with Customer Services, but the image of the company and its perceived standing in the eyes of the public is of great significance. This wide-ranging activity will include:

(i) the co-ordination of all *external communications*;

(ii) co-ordination of *media enquiries and interviews*;

(iii) *press conferences*, both to announce or explain things, as necessary;

(iv) preparing *press releases* and *copy* for trade and other journals.

(b) **Promotions**: organizing and co-ordinating their preparation and conduct.
(c) **Advertising:** closely interconnected with the above, this enormously important area includes:

(i) selection of external agencies (if used);

(ii) the extent to which TV or other media are to be involved;

(iii) co-ordination of advertising campaigns;

(iv) expenditure analysis and control.

**Note:** Advertising is an area which could involve *massive* expenditure. Great care must therefore be taken in its management and control. As one famous businessman said "Half the money I spend on advertising is wasted. Unfortunately, I do not know *which* half!"

(d) **Sponsorship:** Insurers are frequently asked to sponsor industry or educational projects. Also, this is of course an important aspect of advertising, involving much time and probably a considerable budget.

(e) **Market research:** obviously, continuous monitoring of one’s present and potential market is a vital element for a marketing department. This will seek to establish existing and perceived needs and demands in respect of insurance products.

### 3.4 INSURANCE SALES

Very closely connected with **marketing**, there may be considerable overlap of activity, if separate sections exist. The name, however, indicates the functions, which specifically will include:

(a) **Product liaison:** it is vital that the closest co-operation exists between Product Development, Marketing and Sales, for obvious reasons. Poor communication between colleagues in this area could have disastrous field results.

(b) **Sales enhancement programmes:** again requiring co-operation with other colleagues, e.g. Training and Marketing.

(c) **Monitoring:** it is important to keep abreast of results and trends. Again, much teamwork with colleagues is required.

### 3.5 UNDERWRITING

This may be defined as the *selection* of risks to be insured and the *terms* under which the insurance is given. With non-life insurances, it also involves a continuing process of monitoring results and individual risks, to see whether *renewals* should be offered, and on what terms. Special features to note are:
(a) **Life insurance**: for individual policies, underwriting is a *once only* exercise, since the policy cannot be cancelled by the insurer and changes are only possible with the insured’s consent. Because of its crucial importance, life insurance underwriting is often centralized.

(b) **General insurance**: here the range of different covers is very wide and mistakes in underwriting are not permanent, in the sense that policies have to be renewed and can even be cancelled if necessary. Underwriting is therefore much less centralized.

(c) **Guidelines**: whilst underwriting is at a "one to one" level, there is obviously a need for the preparation of underwriting manuals, rating guides and similar guidelines for staff. These involve considerable research and development, again with much attention to trends and results.

(d) **Target risks**: curiously, this term could mean highly desirable types of business (in Life Insurance) or highly undesirable types of business (in General Insurance). In the former, of course, this is business the intermediaries should be encouraged to seek diligently. In the latter, quite the reverse. In either context, decisions must be made as to the appropriate designations.

(e) **Stop-lists**: sometimes given other names, the term indicates those types of business that should not be encouraged, or should be rejected if offered. Some examples may readily come to mind, with different types of insurance, although not every insurer will have the same opinions on this subject. Nevertheless, compiling such lists involves considerable underwriting expertise, especially bearing in mind the sensitivity over *discrimination* of any kind.

### 3.6 POLICY ADMINISTRATION

This is another departmental description that may involve overlap with other sections or departments mentioned above or below. The general areas of concern here may be:

(a) **General or Life insurance?**: this is a most important question, since the policy document with each has a very different significance. With general insurance, technically there need not be a policy (although there almost invariably is) and it is seldom necessary to produce the original document when making a claim. With life insurance, however, the contract is non-cancellable by the insurer, and the policy document has a much greater technical importance.

(b) **Life insurance policies**: these must be produced when a claim is made. A mistake in a life policy is potentially much more serious than with General Business, especially since the policy may be *assigned* to another person and/or used as *collateral* with a loan.
(c) **New business procedures**: especially with Life business (as noted) the process of verification and checking, both for factual accuracy and errors in document preparation, is very important. With any class of business, it is important that the policy be prepared and issued as efficiently and as impressively as possible, for reasons that are obvious.

(d) **Other procedures**: this topic embraces such matters as error handling, policy correction, endorsement preparation and renewal procedures. With life insurance, once more, the great importance of the *actual payment* of the first premium must be considered. In other classes, the contract may commence without the receipt of a premium (often the policy says "has paid or agreed to pay the premium"). With life insurance, the existence of the contract usually depends upon the first premium being *received*. The implications of this, not forgetting the problem of dishonoured ("bounced") cheques, are clear.

### 3.7 CLAIMS

Once more, there are significant differences between Life and Non-life insurance claims. Specifically, the implications include:

(a) **Life insurance claims**: obviously, there will only be one claim, and this will have great importance for the claimant for reasons that are equally obvious. It is quite essential for such claims to be checked with the utmost care, as all sorts of considerations are involved, such as:

(i) possible disputes or complications;

(ii) possible outstanding policy loans;

(iii) possible assignment, so that the claimant is not the original policyholder;

(iv) uncertainties over actual death or the identity of the deceased;

(v) dividend/bonus considerations with participating/with-profit policies.

For similar reasons to those pertaining to underwriting (see 3.5), life insurance claims handling is frequently centralized.

(b) **Non-life insurance claims**: the range of different types of claims is much wider than with life insurance. Also, it is quite possible that the amounts involved (especially with some liability claims) are enormous. Therefore, equal care should be taken in verification, although most claims being relatively small, the work is much more likely to be decentralized, often with fairly junior staff having at least a degree of authority in claim settlement.
(c) **Common features**: there are two areas that must be the subject of attention in all insurance claims. These are:

(i) **Liability**: is the insurer liable under the policy? When dealing with some liability insurances, it must also be ascertained whether the insured is liable at law to the claimant.

(ii) **Quantum**: how much is payable with the claim? With life insurances the answer to that is usually pre-determined, but with other classes of business, this could involve complex and sometimes bitter discussion.

The department organization and activity to deal with these two aspects can be readily understood.

(d) **Significance**: it has been said that an insurer stands or falls on the way it deals with its claims. There is truth in the remark and the intermediary will want to know and feel confidence in the support he looks for in this area.

### 3.8 REINSURANCE

This is not an area where the intermediary is likely to have a close association, but he should be aware that reinsurance is very important to the insurer. Some features to note:

(a) **Definition**: reinsurance simply means that the insurer insures (for his own benefit) all or part of the risk(s) he insures.

(b) **Reasons**: the major reason is security. It is likely, at least with larger insurers, that an individual claim is payable from the assets of the company, but it may be very inconvenient (and expensive) to produce large amounts of cash at short notice, since assets will mostly be in investments. With smaller insurers, very large claims could mean ruin, without the support of reinsurance.

(c) **Methods**: this is not the direct concern of intermediaries. It is sufficient to note that reinsurance may involve a degree of sharing a risk with the reinsurer(s), or of protection for the insurer, especially with potential catastrophe situations.

(d) **Effects**: reinsurance has no direct effect for the policyholder. He is not entitled to know, and probably has no need to know, that his insurance is being reinsured. That is a matter entirely between the insurer and the reinsurer(s). The insurer is always directly liable to the policyholder for the full amount payable under the contract. Reinsurance, however, does give an added security that the insurer will be able to pay!
3.9 ACTUARIAL SUPPORT

An actuary may be thought of as a highly skilled mathematician. His particular expertise is not only in the collation and presentation of numerical information, but also in projecting and predicting future trends, based on available data and assumptions. It will immediately be understood, therefore, that such an expert has a very important role to play in insurance. Some specific observations:

(a) **Life insurance**: more than any other class of business, life insurance depends upon mathematical calculations (although they are very important to all classes). It is essential for the life insurer to know mathematical facts about *mortality* (death statistics) and projected *interest* earnings, for example.

**Note:**
1. The Macau Insurance Ordinance requires all insurers who carry on life insurance business to appoint a qualified actuary, acceptable to the Monetary Authority of Macau.
2. The above Ordinance also requires life insurers to carry out a valuation of all assets and liabilities at least once a year. This is perhaps the most important function of the actuary.
3. The appointed actuary for each closed private pension fund has to draw up the actuarial valuation of the liabilities to be guaranteed by the fund and the respective financing plan. Moreover, he is also required to determine the level of financing by the pension fund, to recommend the rate of contribution required, to assess the current rate of total liabilities, and to draw up the annual actuarial report.

(b) **General insurance**: whilst not required by law, actuaries are increasingly being engaged by non-life insurers. Their expertise, especially with *long-tail business* (insurance where claims arise and develop over a long period of time, e.g. liability classes), is extremely valuable. This is particularly true when having to calculate *outstanding claims* and *likely claims* liabilities.

(c) **Generally**: the application of an actuary's skill is very obvious in such areas as *premium rating*, the calculation of *reserves* and the *valuation* of liabilities.

3.10 ACCOUNTING AND INVESTMENT

The Accountant is another official with a vital role to play in the running of any business enterprise, and particularly that of an insurer. The functions of this department are fairly obvious, but for completeness we note:

(a) **Record keeping**: it would be insulting to refer to an accountant as a *bookkeeper*. Nevertheless, keeping accurate and reliable financial records is a vital function.
(b) **Collections**: ensuring that money receivable by the insurer is in fact paid clearly affects the very existence of the company. A satisfactory system for collecting, monitoring and reminding the company debtors is thus of high priority.

(c) **Payments**: ensuring that bills and debts are paid promptly and efficiently (and correctly) entails much routine but important work.

(d) **Investment**: if there is not a separate investment department, the care and placement of company assets may be the responsibility of the Accountant. It goes without saying that this is extremely important, from the perspectives of *security*, relative *return (or yield)* and *liquidity* (having sufficient cash-flow to meet known and anticipated monetary demands).

### 3.11 TRAINING AND DEVELOPMENT

Sometimes unappreciated or even slightly resented by line managers, ever conscious of targets and deadlines, the Training and Development department within a company is very important. Some observations to note:

(a) **Staff and Agents**: training is essential for both in-house personnel and field staff. The educational and training needs of both must not be overlooked.

(b) **Relevance**: training is not an *optional extra*, nor is it *independent*. It is part of the overall team that constitutes the insurer, and its activities must not be self-fulfilling, but relevant and effective to the continuance and enhancement of the company.

(c) **Training**: this may be seen as preparation for the actual job in hand, or the job in prospect. As such, it will involve courses, seminars and self-preparation arranged or encouraged by staff training personnel.

(d) **Education**: this may be seen as involving the quest for wider learning and professional or related qualifications. Preparations etc. for this may be encouraged rather than provided, but having qualified staff (and agents) is of great importance.

(e) **In-house or external?**: whether instruction is provided by its own staff, or arranged on behalf of staff with outside providers, this will be an important concern of company trainers.

(f) **Resources and records**: facilities for training (library and other aids) as well as up to date records of individual training progress will clearly assist the efficient running of this section.
4 STRUCTURE OF MACAU INSURANCE INDUSTRY

4.1 TYPES OF INSURANCE BUSINESS

There are a number of ways in which insurance business may be classified. The form used will depend upon the context in which the subject is being considered. Without trying to give an exhaustive review, we may consider the topic under three headings:

(a) **Statutory**: for the purposes of Government authorization and supervision.

(b) **Practical**: for the purposes of internal company organization.

(c) **Academic**: for the purposes of professional study and training.

4.1.1 Statutory Classification of Insurance

This is found in the Schedule of Classes of Insurance of the Macau Insurance Ordinance (MIO), which specifies the various classes of business, using essentially the format used in the U.K. and the European Community. The Ordinance divides insurance into *Life Insurance Business* and *Non-Life Insurance Business*, but with a number of sub-divisions, as follows:

(a) **Life Insurance Business**: this is divided into ten categories, with a designated letter per class, i.e.

<table>
<thead>
<tr>
<th>Letter</th>
<th>Description</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Life and annuity</td>
<td>Conventional life insurance and annuity contracts</td>
</tr>
<tr>
<td>B</td>
<td>Marriage and birth</td>
<td>Insurance contracts providing benefits payable on marriage or on birth of a child</td>
</tr>
<tr>
<td>C</td>
<td>Linked long term</td>
<td>Unit-linked life insurance and annuity contracts</td>
</tr>
<tr>
<td>D</td>
<td>Permanent health</td>
<td>Essentially long term benefit policies relating to incapacity from accident or ill-health (the policy is not normally cancellable by the insurer)</td>
</tr>
<tr>
<td>E</td>
<td>Tontines</td>
<td>an unusual contract on a group of persons, the benefit payable to the last survivor</td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td>Details</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>F</td>
<td>Capital redemption</td>
<td>Policies not related to human life, with capital payable at a fixed future date</td>
</tr>
<tr>
<td>G</td>
<td>Pension fund management (Type 1)</td>
<td>Group retirement scheme contracts providing for a guaranteed capital or return</td>
</tr>
<tr>
<td>H</td>
<td>Pension fund management (Type 2)</td>
<td>Group retirement scheme contracts not providing for a guaranteed capital or return</td>
</tr>
<tr>
<td>I</td>
<td>Pension fund management (Type 3)</td>
<td>Group contracts providing insurance benefits under retirement schemes, but excluding class G or H above</td>
</tr>
<tr>
<td>J</td>
<td>Operations of capitalisation</td>
<td>Contracts where the insurer pays the subscriber or the legal holder of the deed a determined capital upon expiry of an agreed number of years.</td>
</tr>
</tbody>
</table>

**Note:** It will be appreciated that not all the above will have equal significance in the day to day business of the Macau insurance market.

(b) **Non-life Insurance Business:** this is divided into 17 categories, with a designated number per class, i.e.

1. **Accident (personal and occupational)** - this is more usually referred to as **Personal and Occupational Accident**, providing benefits in the event of accident or sickness
2. **Sickness** - cancellable (usually annual) policies with benefits related to sickness or infirmity
3. **Land vehicles** - property insurance mostly related to motor vehicles (not railway vehicles)
4. **Railway rolling stock Aircraft** - property insurance related to such vehicles
5. **Aircraft** - property insurance on aircraft etc. (usually known as **aviation** insurance)
6. **Ships** - property insurance on ships etc. (usually known as **marine** insurance)
<table>
<thead>
<tr>
<th></th>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Goods in transit</td>
<td>Property insurance on goods in transit (includes marine cargo)</td>
</tr>
<tr>
<td>8</td>
<td>Fire and natural forces</td>
<td>Fire and natural forces property insurance covering fire and some other perils (e.g. storm, explosion)</td>
</tr>
<tr>
<td>9</td>
<td>Damage to property</td>
<td>Includes loss of property, a main class in this category being Theft insurance</td>
</tr>
<tr>
<td>10</td>
<td>Motor vehicle liability</td>
<td>Third party Motor insurance (including compulsory motor insurance)</td>
</tr>
<tr>
<td>11</td>
<td>Aircraft liability</td>
<td>Liability for property damage or personal injury/death (including passengers)</td>
</tr>
<tr>
<td>12</td>
<td>Liability for ships</td>
<td>Marine liabilities for property damage or personal injury/death</td>
</tr>
<tr>
<td>13</td>
<td>General liability</td>
<td>Public Liability and other third party insurances not specifically mentioned</td>
</tr>
<tr>
<td>14</td>
<td>Credit</td>
<td>Loss to creditors from failure to pay debts</td>
</tr>
<tr>
<td>15</td>
<td>Suretyship</td>
<td>Fidelity Guarantee and Bond risks</td>
</tr>
<tr>
<td>16</td>
<td>Miscellaneous financial loss</td>
<td>Pecuniary insurances, including Loss of Profits (Consequential Loss)</td>
</tr>
<tr>
<td>17</td>
<td>Legal expenses</td>
<td>Insurances to pay legal costs (either as defendant or plaintiff)</td>
</tr>
</tbody>
</table>

**Note:**
1. Few, if any, local insurers are likely to use the above classification in their internal organization, but authorization to transact business will be granted in respect of the classes indicated.

2. An important, and curious, thing to note is that the statutory classification as shown has no separate class for Employee Compensation, a compulsory and very important class of insurance in Macau. It has to be considered under Class 1 - Accident.

### 4.1.2 Practical Classification of Insurance

For internal management purposes, each insurer is free to classify his business as he sees fit, but the following are typical examples of systems used by insurers in Macau:
(a) **Departmental (Class of Business)**

There is no single pattern under this form of classification, but there are two main approaches:

(i) **U.K. (European) Style**: where traditionally the major classes were *Life, Marine, Fire and Accident* (which effectively meant anything else, such as personal accident, liability, motor etc.).

(ii) **U.S. Style**: where there is a very clear distinction between *Life* and *Non-Life* business, the latter frequently being sub-divided into *Property* (insuring tangible objects) and *Casualty* (mostly liability, but with other classes such as personal accident, etc.).

(b) **Source of Business**

Under this system, for control and management purposes, business is sub-divided according to how it was obtained, i.e.

(i) from *salesmen*;

(ii) from *agents*;

(iii) from *brokers*;

(iv) *direct* from the public (no intermediary involved).

(c) **Type of Client**

Under this system, for control and management purposes, business is sub-divided according to whether it covers:

(i) *individuals* (also known as *Personal Insurance*); or

(ii) *companies* (also known as *Business* or *Commercial Insurance*).

### 4.1.3 Academic Classification of Insurance

For academic and professional examination purposes (especially with U.K. or Commonwealth jurisdictions), insurance is frequently sub-divided on a *Subject Matter* or *Functional* basis, as follows:

(a) insurances of *the person*, i.e. covering human beings (life, health and personal accident insurances etc.);

(b) insurance of property, i.e. covering tangible objects against loss or damage (fire,
motor damage, marine cargo etc.);

(c) insurance of liability, i.e. covering legal responsibility for death, injury or property damage to others (employee compensation, public liability, etc.);

(d) insurance of pecuniary interests: the word "pecuniary" comes from a Latin word meaning "money". Hence, pecuniary insurance relates to any financial interest to be insured not covered by (a) - (c) above, including consequential loss, credit and rent insurance.

Note: It must not be thought that the academic classification is only of use in studying for examinations. Thinking about insurance according to the function it performs (person, property, liability etc.) is a useful check-list when trying to help a client decide what insurances he should have.

4.1.4 Reinsurance

Reinsurers insure the insurers. This is absolutely normal, indeed essential to the well-being of the industry. Reinsurance is usually part of the normal activity of insurers, as:

(a) Outwards reinsurance: where the insurer seeks cover for his own insurances, insuring again with other insurers/reinsurers;

(b) Inwards reinsurance: where the insurer acts as a reinsurer, covering risks already insured by other insurers/reinsurers;

(c) "Professional" reinsurance: an insurer who only transacts reinsurance business is referred to as a professional reinsurer. These are usually very large international organizations offering a valuable world-wide service.

4.2 SIZE OF INDUSTRY

Insurance is a dynamic element in the financial services industry of Macau, so statistics are always likely to be somewhat out of date. Nevertheless, we may usefully consider this topic under four headings:

(a) number of authorized insurers;

(b) number of registered or authorized intermediaries;

(c) number of persons employed in the industry;

(d) premium volume.
4.2.1 Authorized Insurers

There were 26 insurance companies operating in the Macau SAR as at 31 December 2004, of which 15 carried on non-life business while 11 were pure life companies. In terms of incorporation, most of the insurance companies transacting business in the Macau SAR were branch offices of overseas insurers, representing the interests of 8 countries and one Special Administrative Region of China (Hong Kong), while 9 companies were incorporated locally.

4.2.2 Registered or Authorized Intermediaries

Registered insurance intermediaries at the end of 2004 decreased by 2.2% from 2003 to total 2,144. Most of them, i.e. 1,651 or 77% of the total were individual agents, followed by salesmen with 439 (20.5%) , corporate agents with 44 (2.1%), and, finally, brokers with a total of 10 (0.4%).

4.2.3 Persons Employed

As for staffing, licensed insurers had a total staff strength of 330 at the end of the year 2003, representing an increase of nearly 1.9% in relation to the number reported in 2002.

4.2.4 Premium Volume

When discussing premiums, many technical considerations arise which are beyond the scope of the present study. We shall therefore confine ourselves to the broad picture. From the Report of Insurance Activity 2003, we learn that in 2003:

(a) gross premiums for Non-Life Insurance Business amounted to approximately MOP 394 million;

(b) gross premiums for Life Insurance Business amounted to approximately MOP 1,190 million.

4.3 INSURANCE COMPANIES

Some statistical information about insurance companies in Macau has already been considered (see 4.2.1 above), but other features should be noted, as follows:

(a) The Major "Players"

Obviously, it would be inappropriate to mention individual company names, but the Report of the Insurance Activity (2003) from the Monetary Authority of Macau gives interesting aggregate information, as follows:

(i) Non-Life Insurance Business: the top three insurers (by gross premiums) accounted for just over 70% of the 2003 market share. (One company with just
over 26%)

(ii) **Life Insurance Business**: here the top three insurers (by gross premiums) accounted for just over 78% of 2003 market share. (one company with just over 51%).

With 15 companies authorized to write Non-Life Insurance Business and 11 authorized to write Life Insurance Business, we may reasonably conclude that Non-Life Insurance Business is more evenly distributed among authorized insurers than Life Insurance Business.

(b) **Market Co-operation**

More will be said on this topic later (see for example 4.5 below), but it is appropriate to mention at this stage that Macau insurers have a well-established central body representing their interests, in the *Macau Insurers’ Association (MIA)*. Since its formation in 1987 the MIA, which is recognized by the Government as the insurer representative body in Macau, has always had a membership of the majority authorized insurers. Without doubt it is a major factor in the structure of the Macau Insurance Industry.

### 4.4 INSURANCE INTERMEDIARIES

As noted above (4.2.2), insurance intermediaries consist of both insurance salesmen, agents and brokers. More detailed comments on their respective roles and legal requirements appear elsewhere in these Notes (see especially 5.2), but considering them under the topic of the structure of the Macau Insurance Industry, we should note the following:

(a) **Registration/Authorization**: insurance intermediaries in Macau are required to be formally registered or authorized. Moreover, this formal requirement is given statutory authority, by special provisions in the Insurance Agents and Brokers Ordinance.

(b) **Qualifications**: before a person can be registered or authorized to act as an insurance intermediary, he must satisfy certain criteria. These are considered in detail later (see Chapter 5), but everybody reading these Notes will know that one criterion is that of passing the required examinations forming part of the *Quality Assurance Scheme* for insurance intermediaries.

(c) **Role**: it is true that an insurance may be arranged *direct* with the insurer, i.e. without using an insurance intermediary, but this is not the norm, especially in Life Insurance Business. It would be relatively rare, for instance, to find life insurances being arranged in Macau without an insurance agent being involved. Also, with more complex commercial risks it is quite normal for an insurance broker to be engaged, in view of his wide experience and independent expertise. It is therefore quite clear that insurance intermediaries have, and are likely to continue to have, an important role in the structure of the Macau insurance industry.
Market Co-operation: more will be said on this topic in 4.5 below, but it would probably be fair to say that the roles of insurance salesmen, agents and brokers are perceived to be quite distinct. Also, there is not a conflict, but perhaps a slight divergence of interest between large international insurance brokers and their relatively much smaller local counterparts. All, however, through their market representations and individually, have a common interest in quality service and the integrity of the market.

4.5 MARKET ASSOCIATIONS/INSURANCE TRADE ORGANIZATIONS

Some of the major market associations/insurance trade organizations in the Macau insurance market are:

4.5.1 The Macau Insurers’ Association (MIA)

(a) This organization has already been mentioned (see 4.3(b)), but it is difficult to over-state the importance of the MIA on the local insurance scene. The primary objective of the MIA is to promote and advance the common interests of insurers transacting business in Macau. As a major influence in the self-regulatory process, the MIA has numerous areas of activity.

(b) According to its Mission Statement, the MIA exists to promote insurance to the people of Macau and build consumer confidence in the industry, by encouraging the highest standards of ethics and professionalism amongst its members.

4.5.2 Approved Insurance Intermediary Bodies

There are two such approved bodies in Macau:

(a) The Macau Insurance Agents & Brokers Association; and

(b) The Federation of Macau Professional Insurance Intermediaries.

4.5.3 Central Organizations to Assist Claimants or Victims

The Motor and Marine Guarantee Fund: funded by a surcharge on motor and pleasure craft insurance premiums, the Fund seeks to provide compensation in respect of the death of or injury to innocent victims of motor vehicle and pleasure craft accidents, where the required compulsory insurance for such situations does not exist, is not effective, or the insurer is in liquidation.

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5  INSURANCE REGULATORY FRAMEWORK

In the Macau SAR, the authority for the supervision, co-ordination and inspection of insurance activity rests with the Chief Executive, while the actual execution of these functions is carried out by the Monetary Authority of Macau (AMCM) through its Insurance Supervision Department.

There are various reasons why the insurance activity should be subject to supervision.

First of all, an insurance policy takes the form of a contractual agreement between one party, the policyholder, who gives his consent to pay the premium and adhere to the terms and conditions drawn by the other party, the insurer. Due to the nature of the insurance contracts, the policyholder, in many cases, may fail to understand the technical aspects of the policy, its consequences, or the true interpretation of its terms and conditions. This could easily lead the policyholder to enter into an insurance agreement contrary to his interests or simply, inadequate for his needs.

It is therefore vital that the general conditions of the policy be known to and analysed by an independent entity entrusted with the functions of co-ordination, supervision and inspection of insurance activity.

On the other hand, when insurance policy is issued, the insurer receives the premium from the policyholder, which, in economic terms, is the income of the insurer. Subsequently, as and when a valid claim is lodged, the insurer will have to indemnify the claimant according to the terms of the policy. The payment of indemnity can be termed as an outgo or cost.

It can thus be seen that the insurance companies first receive the income and then bear the respective costs. This, of course, is quite different from other economic activities wherein the costs are incurred before the relevant income is generated.

This peculiar characteristic of the insurance activity leads to the accumulation of large amounts of money. However, insurance companies cannot use these funds freely, because they still have to pay the claims as and when they fall due. Therefore, it is obvious that there is a genuine need for insurance funds to be managed prudently and utilised for the right purposes.

AMCM’s policy, in terms of supervision, is to strike a balance between total liberalism and excessive controls so as to maintain the traditional free-market characteristics of the Macau SAR. However, to safeguard the legitimate interests of the policyholders, the efforts of the Supervisory Authority have been channelled particularly towards monitoring the financial guarantees of insurance companies on an ongoing basis.
5.1 **REGULATION OF INSURANCE COMPANIES IN MACAU**

The Macau Insurance Ordinance, Decree-Law No. 27/97/M of 30 June regulates the conditions of access to and carrying on of insurance and reinsurance activity in the Macau SAR. The present Ordinance was introduced in 1997 to keep pace with the development of international standards in the regulation of insurance business. This Ordinance, which has replaced the one introduced in 1989 regulates the following major areas:

5.1.1. **Share Capital and Establishment Fund requirement**

5.1.1 (a) **Share capital**

For constituting local insurance companies, the share capital requirement is 30 million patacas for life business and 15 million patacas for non-life business.

5.1.1. (b) **Establishment fund**

For setting up a branch of an overseas insurance company, the establishment fund requirement is 7.5 million patacas for life business and 5 million patacas for non-life business. In addition, the share capital of the respective head office should not be less than the share capital requirement for a local insurance company, life or non-life, as the case may be.

5.1.2 **Licensing requirement**

These requirements relate to the testing of the nature and adequacy of the financial resources of insurance/reinsurance companies, through analysis of the business plan and the financial accounts for the preceding three years. Also, the assessment of the ability of the company to meet legal, accounting, technical and managerial requirements forms part of the analysis.

5.1.3 **Solvency Margin Requirement**

Authorised insurers are required to maintain a minimum solvency margin sufficient to meet the liabilities arising from its activities in the Macau SAR. The solvency margin shall be calculated on the state of affairs of the insurer on the last day of the financial year immediately preceding and shall correspond to:

(i) The company’s equity, in the case of an insurer formed in the Macau SAR

(ii) The net assets of the branch in the Macau SAR, in the case of an insurer with head office overseas.

The company’s equity and net assets shall be free of any charge or liability and shall not include intangible items and those specified by the AMCM. The assets representing the solvency margin shall be situated in the Macau SAR, excluding, however, those assets that pertain to the activity carried on overseas by the insurer.
The required solvency margin for non-life business is determined in terms of annual gross premium recorded during the preceding year, net of returns and cancellations, in accordance with the following table:

<table>
<thead>
<tr>
<th>GROSS PREMIUM INCOME</th>
<th>AMOUNT OF SOLVENCY MARGIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10 million patacas</td>
<td>Five million patacas</td>
</tr>
<tr>
<td>Equal to or more than ten million patacas but less than twenty million patacas</td>
<td>50% of the said income in that year</td>
</tr>
<tr>
<td>Equal to or more than twenty million patacas</td>
<td>The aggregate of ten million patacas and 25% of the amount by which the said income in that year exceeds twenty million patacas.</td>
</tr>
</tbody>
</table>

The required solvency margin in respect of life insurance shall be determined on the basis of the amount of mathematical reserves or the amount of capital at risk and shall be equal to the aggregate of the results arrived at depending on the classes of life insurance transacted by the insurer. (See Chapter 4)

5.1.4. Setting Up of Technical Reserves

The technical reserves to be set up by insurance companies include unearned premium reserve, mathematical reserve, claims reserve and loss variation reserve (for credit risks).

5.1.5 Composition and Type of Assets Admissible for Guaranteeing the Technical Reserves

The assets guaranteeing the technical reserves shall take into account the type of operation effected by the insurer, so as to guarantee the security, income and liquidity of investments of such insurer and also to assure an adequate diversification and dispersion of such investments. The nature, condition of acceptance of the guarantee assets and the percentile limits of the technical reserve permitted to be guaranteed by such assets are determined by AMCM by way of Notices published in the Official Gazette. The guarantee assets are required to be pledged to AMCM and be free of any charge.

5.1.6 Disclosure Requirement on Changes in Qualified Shareholding

This requirement relates to the need to obtain the authorisation of the AMCM for any acquisition or change of shareholding of 5% or more of the capital or voting rights of insurers with head office in the Macau SAR.

5.1.7 Powers of Intervention and Sanctions

The provisions of the Macau Insurance Ordinance provide the supervisory authority with sufficient powers to take adequate, effective and prompt measures to prevent insurance
companies from defaulting, arrange orderly running-off procedures and, where necessary, take over the effective management of the insurer or reinsurer. Provisions for the commencement of infringement proceedings in case of non-compliance and rules for application of the relevant sanctions are set out in the said Ordinance.

5.1.8 Winding Up Procedures

These procedures are designed primarily to safeguard the interests of the insureds and beneficiaries. Assets guaranteeing the technical reserves are to be used solely to meet the liabilities in respect of insureds and beneficiaries. Additionally, insureds and beneficiaries have a preferential right over other creditors in respect of the remaining assets.

5.2. REGULATION OF INSURANCE INTERMEDIARIES IN THE MACAU SAR

5.2.1 The Insurance Agents and Brokers Ordinance

The Ordinance regulates the business of insurance intermediaries and was introduced in June 1989. Since then, there were several revisions. The major areas covered by the existing Ordinance relate to the following:

5.2.2. Classification of insurance intermediaries

Insurance intermediary business in the Macau SAR is limited exclusively to individuals or corporate entities that are duly authorised by the AMCM according to the terms of the Decree-Law No. 38/89/M, of 5th June. The law permits three categories of intermediaries:

(i) Insurance salesman,

(ii) Insurance agent, and

(iii) Insurance broker

An insurance salesman is an intermediary who is simultaneously an employee of an insurance company, of a corporate insurance agent or of an insurance broker and who acts, whilst carrying on the business of an intermediary, in the name of and on behalf of any one of the said entities. Insurance salesman is always an individual person.

An insurance agent is an intermediary who acts in the name of or on behalf of one or more insurers, being able to effect insurance contracts or insurance operations, or to finalise the settlement of claims, provided that prior written authorisation is granted to him for such purpose. Insurance agents are divided into:

(i) Insurance agent – individual person resident in the Macau SAR

(ii) Insurance agent – corporate entity with head office in the Macau SAR

(iii) Insurance agent – corporate entity with head office overseas.
Insurance broker is an intermediary, organised as a corporate entity, who acts in the name of or on behalf of the holders of insurance policies with the exclusive object of carrying on the business of an intermediary. The insurance broker is responsible to the insureds and beneficiaries for his acts or omissions and for the acts or omissions on the part of the insurance salesman in his service. To cover the inherent professional liability, insurance brokers are required to have an adequate professional liability insurance or a bank guarantee in accordance with the terms defined by the AMCM. As stated above, insurance brokers are always corporate entities with the sole purpose of carrying on of insurance intermediary business and they are divided into two categories:

(i) Insurance broker – corporate entity with head office in the Macau SAR

(ii) Insurance broker – corporate entity with head office overseas.

5.2.3 Licensing procedures

In addition to the submission of the documents relating to the identity, legal capacity and integrity, all applicants are required to pass the qualifying examination, unless otherwise exempted, before they can be registered as authorised intermediaries by the AMCM.

5.2.4 Rights and duties of insurance intermediaries

Depending on the category involved, the rights and duties towards policyholders may be different. However, the rights and duties which are in general applicable to all categories of insurance intermediaries are outlined in the following paragraphs.

Among the list of rights of the insurance intermediaries stated in the Ordinance, the most prominent ones are relating to the right to carry out freely insurance intermediary business based on a written contract, and the right to refuse, within the scope of the insurance contract or insurance operation, the rendering of services which do not pertain to the business of the intermediary.

According to the Ordinance, the ‘business of the intermediary’ is defined as ‘activities leading to the effecting or arranging, or the effecting and arranging of insurance contracts or insurance operations between persons – individual or corporate entities – and insurance companies’.

‘Insurance operations’ shall comprise operations relating to capitalisation and management of pension funds.

The duties of insurance intermediaries, include:

(i) To render efficient service to the insured by presenting, for the purpose of proper selection, a detailed and correct explanation of the policy conditions of the class or the type of insurance which is best suited for each specific case;
(ii) To inform the insurer the exact nature of the risks to be covered and, when it comes to his knowledge, of any changes in the nature of the risks so covered which may materially affect the conditions of the insurance contract or insurance operations including all such facts which may affect or come to affect the settlement of claims;

(iii) To comply with all the current legal regulatory provisions applicable to the insurance sector, and to abstain from intervening in insurance contracts, or insurance operations which violate such norms, particularly, those where the tariff regulations are concerned;

(iv) To finalise insurance contracts or insurance operations in respect of residents of the Territory only with insurers authorised to transact insurance business in the Macau SAR, except in the case provided for in Article 6 paragraph 3 of Decree-Law No. 27/97/M, 30th June;

(v) Not to assume in his own name the cover of risks, where such authority lies exclusively with the insurer;

(vi) To keep professional secrecy regarding facts in respect of third parties which have come to his knowledge in the course of his duties;

(vii) To submit to the insurers, within the period stipulated in the agency agreement, accounts of all collected premiums and to settle the respective balances, without prejudice to the submission of interim accounts as and when requested by the insurer.

(viii) Not to receive commissions higher than those established in the Notices of AMCM.

(ix) To pay the annual registration fee to AMCM;

(x) To submit to AMCM all necessary details which this entity may come to require, as well as to communicate the changes to any of the particulars contained in the application for authorisation.

5.2.5. Powers of intervention and sanctions.

The Ordinance provides the supervisory authority with sufficient powers to impose penalties and exercise sanctions in cases of non-compliance with or violations of the provisions of the Ordinance.

The types of penalties applicable shall be in the form of a fine, temporary suspension or cancellation of the authorisation depending on the seriousness of the non-compliance or violation committed by the insurance intermediary.
6.1 PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

Macao is a member of the Asia Pacific Group ("APG") which is an associate member of the Financial Action Task Force ("FATF") on Money Laundering, an international organization committed to combating money laundering and terrorist financing. As such, Macao has participated regularly in the meetings organized by a similar entity at the regional level, as it is a member of the Asia Pacific Group on Money Laundering. In this context, the Insurance Supervision Department of the Monetary Authority of Macao ("AMCM") has provided general guidance for the insurance industry to institute necessary measures for the prevention and combating of money laundering and terrorist financing in Macao. Based on the applicable legislation in force and in line with international practice, the AMCM issued the following two notices specifically for the insurance sector in 2006:

1. “Guidelines on Prevention and Combating of Money Laundering and Financing of Terrorism in Insurance” (Notice No. 009/2006-AMCM); and

The above Guidelines set out the principles and practices that should be adopted by the industry. Some of the major aspects have been outlined below.

(a) Money Laundering and Insurance

(i) Most common form:
   1. by way of proposals for single premium contracts in respect of investment bonds, purchased annuities, life insurances or personal pensions;
   2. return premium; and
   3. overpay premium.
(ii) Stages of money laundering: there are three regularly used stages which should alert insurers to potential criminal activity:
   1. Placement: the physical disposal of illegally obtained money;
   2. Layering: complicated arrangements to “disguise” sources etc; and
   3. Integration: reintroducing the “cleaner” money to the economy.

(b) Legislation on Money Laundering and Terrorist Financing in Macao

(i) The current legislative framework devoted to anti-money laundering and combating of terrorist financing came into force in April 2006. “Law on Prevention and Suppression of Money Laundering Crime” (Law No. 2/2006 of 23 March) and “Law on Prevention and Suppression of Terrorist Crimes”(Law No. 3/2006 of 30 March) have established provisions to prevent and suppress money laundering and terrorist financing crimes. Law No. 2/2006 also
established the legal basis for the setting up of the Financial Intelligence Office which will have the special duty to centralize, analyse and disseminate the suspicious transaction reports.

(ii) For the purpose of the above-mentioned Laws, money laundering and terrorist financing crimes are defined, and so are the penalties resulting from non-compliance with the requirements of the Laws. The maximum penalty applicable is a prison term of between 2 to 8 years in the case of money laundering or up to a maximum of 20 years in the case of crimes associated with terrorism.

(iii) The Laws also set forth the obligations of supervised entities, such as, verification of customer identification, refusal to perform transactions if the identification obligations are not fulfilled, record keeping of documents relating to customer identification and transactions, reporting of suspicious transactions, and prohibition of tipping off. The major entities which are obliged to comply with the provisions of the Laws are the financial institutions, the gaming industry, the real estate agencies, the merchants of high-value goods, lawyers, notaries, registrars and other company service providers.

(iv) Administrative Regulation No. 7/2006 published in May 2006 confers the supervising agencies the power to issue specific regulations in order to ensure that the entities under their supervision are in compliance with the Laws.

(v) Failure to comply with the obligations required under the Administrative Regulation is punishable with a fine of from MOP10,000 (ten thousand patacas) to MOP500,000 (five hundred thousand patacas) for an individual, or a fine of from MOP100,000 (one hundred thousand patacas) to MOP5,000,000 (five million patacas) for a corporate entity. However, if the economic benefit obtained from the offence is higher than half of the maximum fine, the maximum value of the fine will be the double of the economic benefit.

(c) Procedures required under the current “Guidelines on Prevention and Combating of Money Laundering and Financing of Terrorism in Insurance” (hereinafter called the “Guidelines”)

   (i) Customer Identification: proof of customers’ identity must be given.
   (ii) Record keeping: adequate transaction records should be established and retained regarding persons, sources of funds etc, especially for single premium business.
   (iii) Suspicious transactions: set procedures should be in force to help identify suspicious transactions and to report them to the Financial Intelligence Office.
   (iv) Compliance with Law.
   (v) Co-operation with Law Enforcement Authorities.
   (vi) Staff training: adequate measures should be taken to ensure that staff are properly trained and their education kept up to date in this important area.

The Guidelines require that insurers, reinsurers, captives, pension fund managers, and insurance intermediaries have to keep proper remittance transaction records. When they
send money to or receive money from their customers outside Macao of MOP20,000 or above, they should record the following particulars regarding the transaction:

1. transaction serial number;
2. currency and amount involved;
3. date and time of receiving instructions from the customers;
4. instruction details;
5. personal particulars of the customers;
6. bank accounts involved; and
7. date and time of delivery and receipt.

6.2 PREVENTION OF INSURANCE FRAUD

From a specific example of dishonesty (money laundering), we now consider the broader picture of insurance fraud. Fraud is of course "dishonesty" or "cheating" and since insurance is a process involving a high fiduciary (trust) element, there is ample scope for the dishonest person to take advantage.

Insurance fraud may take any of a large number of forms. Usually, we tend to associate the term with dishonest claims, from relatively "small" matters, such as having a cheap watch stolen and saying it was a Rolex, to elaborate swindles involving arson or faked death certificates. In our region there have even been examples of large life insurances being arranged and then having the person concerned murdered for the insurance money.

Fraud, however, may arise at other than the claims level. Obtaining insurance by the deliberate falsification of material information, or knowingly hiding bad features, is equally fraud. Of course, this is a breach of utmost good faith (see 2.2), but often it is difficult to prove such things later.

Although fraud may be committed by anyone involved with insurance (policyholder, intermediary or even the insurer) we shall concentrate on the customary understanding of the proposer or insured seeking an illegal advantage against the insurer. The comments below refer specifically to the role of the intermediary in this subject area.

6.2.1 The Intermediary and the Fraudulent Policyholder

The law is quite clear in this matter. Anyone who knowingly assists in fraudulent activities effectively becomes a "partner in crime". Therefore, whether the intermediary is an insurance agent or an insurance broker he becomes immediately associated with the fraudster if he knowingly assists or cooperates in the attempted fraud. If fraud is proved against an intermediary, in an attempt to cheat the insurer, the intermediary will always be considered to be the agent of the proposer/insured in such a
situation. Additionally, he may face criminal and/or civil legal action.

6.2.2 The Intermediary and Examples of Insurance Fraud

As stated, fraud takes many forms. We do not talk about deliberate collusion and dishonesty on the part of insurance intermediaries. The illegality and unethical nature of that is self-evident. However, specific examples where the intermediary may be approached or tempted to assist in insurance fraud include:

a) **Arranging the insurance**: it often happens that the intermediary knows or is supplied with information which could have an adverse effect upon an application or proposal for insurance. It could even mean that the insurance is declined by the insurer. Under no circumstances should that information be omitted or misrepresented. Doing this with the deliberate intention of misleading the insurer is **fraud**.

Remember, by law and ethics an intermediary is **bound** to exercise the utmost good faith in such matters, whatever the practical consequences for the proposed insurance.

(b) **Fraudulent claims**: it is not the responsibility of the insurance intermediary to become a "detective" or a law-enforcement officer, but there is a common duty not to assist fraud and to report evidence or suspicions of it. Concerning claims, this may mean suspicious circumstances, doubtful medical or other documentary evidence or even verbal communications which clearly indicate that all is not correct with a particular claim.

**Note**: A word of caution must be given. Fraud is a most serious matter and to allege it is something that must not be done lightly. It is the insurer’s primary duty to investigate claims, and certainly only he can allege fraud. The intermediary’s role is to assist the insurer, and indeed the law, in resisting attempted fraud, but this is a matter of the greatest sensitivity, as will be readily appreciated.

6.2.3 Practical Steps in Preventing Fraud

As with all matters involving illegal activities, perhaps the most important advice in preventing fraud is firstly to be **aware** that it can happen. Of course, we must not become paranoid about this, but the possibility that it can arise is always a good beginning in fraud prevention. Additionally:

a) **Vigilance**: suspicious actions, like sudden increases in sums insured with no or inadequate explanation, apparently inordinate amounts of insurance, and so on, should put the intermediary on guard.

(b) **Diligence**: sometimes fraud can arise when records are inadequately kept or unnecessary delays occur. Keeping up to date with actions and record keeping is not only good business, it is an excellent fraud prevention exercise.
(c) **Communication**: whether representing the insured or the insurer, the intermediary should always keep in close touch with the insurer, especially where there may be suspicious circumstances.

(d) **Integrity**: by law, contract and all recognized ethical behaviour, insurance agents or brokers must maintain the highest moral standards. Remembering this at all times will almost automatically supply all necessary guidance in this area. Salesman, agent, broker or insurer, we are all the enemy of fraud.

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<table>
<thead>
<tr>
<th>English Term</th>
<th>Chinese Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abandonment</td>
<td>委付</td>
</tr>
<tr>
<td>Academic Classification</td>
<td>學術類別</td>
</tr>
<tr>
<td>Acceptance</td>
<td>承約 (或接納)</td>
</tr>
<tr>
<td>Accident</td>
<td>意外</td>
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<tr>
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Insurance Agents and Brokers Ordinance  保險代理人及經紀人法例
Insurance Broker  保險經紀
Insurance Intermediaries  保險中介人
Insurance Salesman  保險推銷員
Insurance of Legal Rights  合法權利保險
Insurance of Liability  責任(法律責任)保險
Insurance of Other Legal Rights  其他合法權利保險
Insurance of Persons  個人保險
Insurance of Property  財產保險
Insured  被保險人(或受保人)
Insured Peril  受保危險
Insurer  保險人(或保險公司、承保人、承保商)
Inwards Reinsurance  分入再保險
Land Vehicles  陸上車輛
Legal Expenses  法律開支
Legal Personal Representative  合法的個人代表
Legally Enforceable  有法律效力的
Liability for Ships  船舶方面的法律責任
Life and Annuity  人壽及年金
Life Insurance  人壽保險
Linked Long Term  相連長期
Long Term Business  長期業務
Long-Tail Business  長期責任業務
Macau Insurance Agents and Brokers Association  澳門保險業中介人協會
Macau Insurance Ordinance  保險活動管制法例
Macau Insurers’ Association  澳門保險公會
Macau Ordinance on Money Laundering  有關轉換、轉移或掩飾不法資產或物品之法例
Marine Clause  海上條款
Marine Policies  水險單
Marriage and Birth  婚姻及出生
Material Fact  重要事實
Miscellaneous Financial Loss  雜項財務損失
Monetary Authority of Macau (AMCM)  澳門金融管理局
Money Laundering  洗黑錢
More Specifically Insured  更具體受保
Mortality  死亡率
Motor and Marine Guarantee Fund  澳門汽車及航海保障基金
Motor Vehicle Liability  汽車方面的法律責任
“New for Old” Cover  「以新代舊」保障
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Non-Material Fact 非重要事實
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Offeree 受要約人
Offeror 要約人
Ordinary Good Faith 一般誠信
Organized Crime Law 有組織犯罪法
Outwards Reinsurance 分出再保險
Paid-up Capital 實繳股本
Particular Risk 特定風險
Pecuniary Insurance 經濟權益保險
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Permanent Health 永久健康
Physical Risk 身體上的風險
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Policy Inception 保單開始的時候
Policy Limits 保單限額
Policy Loans 保單貸款
Policy Provisions 保單條款
Policyholder 保單持有人
Power of Attorney 授權書
Powers of Intervention 干預的權力
Practical Classification 實務類別
Premium 保險費(或保費)
Primary Functions (of Insurance) (保險的)基本功能
Principal 委托人
Professional Indemnity Insurance 專業彌償保險(或專業賠償保險)
Professional Negligence 專業疏忽
Professional Reinsurer 專業再保險人
Proposer 投保人
Proximate Cause 近因
Pure Risk 純風險
Quantum 數額
Qualified Shareholding 主要出資
Railway Rolling Stock 鐵路車輛
Rateable Share 分攤比例
Ratification 追認
Registered/Authorized Intermediaries 登記/獲授權中介人
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Reinstatement Insurance
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Unenforceable
Tort

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再保險
續保
維修
重置
個別保額方法
追溯權
期末利益
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風險管理
風險轉移機制
損餘
在水險中「搶救」
相同的財務利益
相同危險
部份限額
船舶
疾病
簡式合約
單一物件限額
償付準備金
蓋印合約
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保險原理及實務字彙

（根據研習資料手冊）

一般法律責任
一般保險（非壽保險）
一般業務（非壽險業務）
一般誠信
人壽及年金
人壽保險
工作意外及職業病保險法例
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不保危險
不能強制執行的
分入再保險
分出再保險
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火災與自然力量
主出具資
以集中形式處理（人壽保險核保）
「以新代舊」保障
代位權
代位權（如何出現）
代位權（的上限為）
代理
代理人
代價
可自由轉讓
可使無效
可保利益
（何時需要）可保利益
可保風險
永久健康
目標風險
立約能力
全險
再保險
危險

General Liability
General Insurance (Non-Life Insurance)
General Business (Non-Life Business)
Ordinary Good Faith
Life and Annuity
Life Insurance
Employees’ Compensation Insurance
Powers of Intervention
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Inwards Reinsurance
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Bonus
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Peril
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合法權利保險
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合約更改
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有法律效力的
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有組織犯罪法
有關轉換、轉移或掩飾不法資產或物品之
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協議
受保危險
受要約人
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委託人
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拒絕名單
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抵押
放棄(權利)
法定類別
法律開支
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長期責任業務
長期業務

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Collectability
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Defective Contracts
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Offer
Offeror
Material Fact
Replacement
Reinstatement Insurance
Risk
Capital at Risk
Risk Management
Risk Transfer Mechanism
Aircraft
儲金原理及實務字彙

飛機方面的法律責任
個人保險
個別保額方法
個別產品開發
核保
海上條款
特定風險
疾病
「純」風險
財務上的風險
財產保險
財產損壞
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除外危險
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專業再保險人
專業疏忽
專業彌償保險(或專業賠償保險)
專屬自保保險人
情緒上的風險
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船舶方面的法律責任
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販賣及吸食麻醉品條例
責任(法律責任)保險
貨運
部份限額
部份損失(水險)
陸上車輛
最高誠信
單一物件限額

Aircraft liability
Insurance of Persons
Respective Sums Insured Method
Individual Product Development
Underwriting
Marine Clause
Particular Risk
Sickness
Pure Risk
Financial Risk
Insurance of Property
Damage to property
Franchise
Pension Fund Management (Type 1)
Pension Fund Management (Type 2)
Pension Fund Management (Type 3)
Retrospective Authority
Ratification
Primary Functions (of Insurance)
Excepted (Excluded) Peril
Fundamental Risk
Marriage and Birth
Professional Reinsurer
Professional Negligence
Professional Indemnity Insurance
Captive Insurer
Emotional Risk
Power of Attorney
Condition
Third Party
Termination of Agency
Ships
Liability for Ships
Insured
Drug Trafficking (Confiscation of Proceeds)
Ordinance
Insurance of Liability
Goods in Transit
Section Limit
Average (Marine)
Land Vehicles
Utmost Good Faith
Single Article Limit
Reversionary Interest
Fraudulent Misrepresentation
Void
Innocent Misrepresentation
Registered/Authorized Intermediaries
Fraud (Insurance)
Excess
Establishment Fund
Accident
Indemnity
Indemnity (How Provided)
Salvage
Pecuniary Insurance
Compensation
Capital Redemption
Capital Redemption Policies
Employees’ Compensation Insurance
Practical Classification
Paid-up Capital
Actuarial Support
Tontines
Repair
Specialty Contracts
Ancillary Functions (of Insurance)
Quantum
Subject Matter
Claims
“Fit and Proper”
Academic Classification
Suretyship
Motor and Marine Guarantee Fund
Monterey Authority of Macau (AMCM)
Macau Insurers’ Association
Macau Insurance Agents and Brokers Association
Federation of Macau Professional Insurance Intermediaries
Independent Liability Method
Solvency Margin
Non-Disclosure
Concealment
(on) Summary conviction
Simple Contracts
Vicarious Liability
保險原理及實務字彙

雜項財務損失
「雙方同意的方式及程度」
雙重保險
續保
鐵路車輛
權益轉讓

Miscellaneous Financial Loss
“In manner and to the extent agreed”
Double Insurance
Renewal
Railway Rolling Stock
Assignment
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