

PRACTICE NOTE
810.1
INSURANCE BROKERS
COMPLIANCE WITH THE MINIMUM REQUIREMENTS
SPECIFIED BY THE INSURANCE AUTHORITY
UNDER SECTIONS 69(2) AND 70(2) OF THE
INSURANCE COMPANIES ORDINANCE

(Issued June 1997)

The purpose of Practice Notes issued by the Hong Kong Society of Accountants (HKSA) is to assist auditors in applying Auditing Standards of general application to particular circumstances and industries.

They are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Statements of Auditing Standards (SARs), even though they may be developed without the full process of consultation and exposure used for SARs. Auditors should be prepared to explain departures when called upon to do so.

Keeping of separate client accounts

18. An insurance broker is required to keep client monies in a client account separate from his own monies. He is not allowed to use client monies for any purpose other than for the purposes of the client. The "client account" shall be designated as such and held by the insurance broker for his clients. There shall also be evidence that the provisions of section 71 have been notified to and acknowledged by the bank with which the "client account" is maintained:
- a. A "client account" means a current or deposit account maintained with an authorized institution as defined under the Banking Ordinance in the name of the insurance broker in the title of which the word "client" appears.
 - b. An insurance broker shall keep at least one client account and may keep as many such accounts as he thinks fit.
 - c. An insurance broker who receives or holds monies on behalf of his clients in relation to insurance broking business shall, without delay, deposit such monies into the client account (refer paragraph III (D) of the Guidelines issued by the IA).

An insurance broker is expected to pay all client monies upon receipt, into a client account except

- i. such monies are immediately paid over to or on behalf of the client;
- ii. they are paid into a bank account in the name of the client or his nominee who has been designated in writing;

- iii. the client for his own convenience, made a written request to the insurance broker not to do so.

Auditors would, in the course of conducting an audit, exercise their professional judgement in determining whether there is undue delay by an insurance broker in depositing client monies into the client account.

Keeping proper books and accounts

22. a. i. an unincorporated insurance broker shall cause to be kept such accounting and other records as will sufficiently explain the transactions, and reflect the financial position of the insurance broking business carried on by him, and will enable financial statements of such insurance broking business to be prepared from time to time which give a true and fair view of the financial position and results of the insurance broker;
 - ii. an incorporated insurance broker shall cause to be kept such accounting and other records as will sufficiently explain the transactions, and reflect the financial position of the insurance broker, and will enable financial statements to be prepared from time to time which give a true and fair view of the financial position and results of the insurance broker; and
 - iii. an insurance broker, whether incorporated or unincorporated, shall cause those records to be kept in such a manner as will enable them to be conveniently and properly audited.
22. b. The records referred to in 22(a) above shall be kept:
 - i. in writing or in such a manner as to enable them to be readily accessible and readily converted into written form; and
 - ii. in sufficient detail to show separately particulars of:
 - all transactions by the broker with, or for the account of:
 - insurance and reinsurance companies
 - clients of the insurance broker
 - the insurance broker himself;
 - all income received from brokerage, commissions, interest and other sources, and all expenses, commissions and interest paid by the insurance broker; and
 - all the assets and liabilities (including contingent liabilities) of the insurance broker.