

Life and Non-Life Insurance (2)

Life and Non-Life Business in Hong Kong – Regulations and Actuarial Guidelines

Regulatory Framework

The principal regulation for the regulation of the insurance industry in Hong Kong is the [Insurance Companies Ordinance \(Cap. 41\) \("ICO"\)](#). The ICO requires an insurer to obtain authorization from the Insurance Authority before it commences to carry on insurance business in or from Hong Kong. The insurer has to fulfil certain requirements including those on minimum paid-up capital, minimum solvency margin, fit and proper persons in respect of its directors and controllers and adequate reinsurance protection. Hong Kong has no discrimination against foreign insurers. Any insurer from any country will be admitted if it is able to meet the authorization requirements. Details of the information can be found in the website of the Office of the Commissioner of Insurance at www.oci.gov.hk.

Hong Kong is one of the Founding Members of the International Association of Insurance Supervisors ("IAIS") and its regulatory regime conforms in all material respects to the Principles and Guidelines issued by IAIS.

Hong Kong life insurers intending to write Investment Linked Assurance business are required to be licensed to write that class of business by the Insurance Authority and has its products approved by the [Securities and Futures Commission](#). Hong Kong life insurers intending to write retirement scheme business must be properly licensed by the Insurance Authority and the [Mandatory Provident Fund Schemes Authority](#).

Hong Kong general insurers, other than professional reinsurers and captive insurers, are required to maintain assets in Hong Kong of not less than the solvency margin attributable to Hong Kong insurance business plus 80% of the net liabilities as regards unearned premiums, claims outstanding and unexpected risk reserve attributable to Hong Kong business.

As regards insurance intermediaries, they must possess prescribed minimum qualifications and experience under a self-regulatory system. The self-regulatory system for insurance intermediaries, i.e. insurance agents and brokers, is supported by legislation which is contained in Part X of the [Insurance Companies Ordinance \(Cap.](#)

[41\) \("ICO"\)](#). The regulation for insurance intermediaries has been in operation since 30 June 1995. It defines the distinct roles of an insurance agent and an insurance broker and requires them to be appointed or authorized respectively in accordance with the relevant provisions of the ICO.

Regulators and Self Regulated Bodies

It is not a easy take to outline all of the relevant of the insurance related regulators and self regulated bodies in Hong Kong. There is no super regulator in Hong Kong but Hong Kong regulation of financial services is flexible and pragmatic. The following list is a good standing reference point for the actuaries interested in Hong Kong insurance business.

- [Office of the Commissioner of Insurance](#) – This is the principal regulator of insurance business.
- [Census and Statistics Department](#) – This department provides useful basic statistics on the economy.
- [Companies Registry](#) – This department provides useful basic company information. Any insurer in Hong Kong must be a registered company in Hong Kong.
- [Department of Justice: Bilingual Laws Information System](#) - This department provides the laws of Hong Kong information.
- [Financial Services and the Treasury Bureau](#) - This is the Government Bureau overseeing all financial services in Hong Kong.
- [Inland Revenue Department](#) - If you need to understand the tax matters in Hong Kong, this is the place to go.
- [Information Services Department](#) – This Department provides all of the Hong Kong SAR Government basic information.
- [The Joint Financial Intelligence Unit](#) – The Unit provides you all information about anti-money laundry and terrorists financing information.
- [The Actuarial Society of Hong Kong](#) – Any actuary in Hong Kong should know this website – the body representing the actuarial profession in Hong Kong.
- [Employees Compensation Insurer Insolvency Bureau](#) – This Bureau will provide a insurer insolvency scheme for employee compensation insurance.
- [Examination Centre/PEAK of the Vocational Training Council](#) – This gives the insurance intermediaries examination information.
- [Financial Action Task Force on Money Laundering](#) - This Task Force is also responsible for money laundering.
- [General Insurance Council](#) – This Council represents the general insurance

industry which is a part of the Hong Kong Federation of Insurers.

- [Government Bookstore](#) – You can buy all of the Government publication here.
- [The Hong Kong Confederation of Insurance Brokers](#) - This is one of the two professional brokers bodies in Hong Kong.
- [Hong Kong Council for Academic Accreditation](#) – This Council will approve the training schemes organized for agents and brokers.
- [The Hong Kong Federation of Insurers](#) - This is the insurance industry body.
- [Hong Kong Monetary Authority](#) - This is the banking regulator in Hong Kong.
- [Insurance Agents Registration Board](#) - This is the Board for registering insurance agents and will hear the complaints against them.
- [The Insurance Claims Complaints Bureau](#) - This Bureau will hear insurance claims complaints.
- [Life Insurance Council](#) - This Council represents the life insurance industry and is a part of the Hong Kong Federation of Insurers.
- [Mandatory Provident Fund Schemes Authority](#) – This is the retirement schemes regulators in Hong Kong, but if those schemes are run by insurers – these insurers are also subject to the Insurance Authority’s regulations.
- [Motor Insurers' Bureau of Hong Kong](#) - This Bureau represents the motor insurers and run an insurance insolvency scheme.
- [Professional Insurance Brokers Association](#) - This is the other broker body in Hong Kong.
- [Securities and Futures Commission](#) – This is the Securities regulator in Hong Kong who will also regulate investment linked insurance schemes and retirement investment schemes.
- [Vocational Training Council](#) – This is the body running a number of insurance courses in Hong Kong.

Role of ASHK and its latest developments

ASHK is the body representing the actuarial profession in Hong Kong. Any actuary practicing in Hong Kong should have a deep understanding of all of the material contained this its website, especially PS1 and PS2 (which have legal recognition under the laws of Hong Kong) and the Actuarial Guidance Notes (AGNs) (which spell out the best industry practices and requires justifications for any material departure).

Hong Kong runs an Appointed Actuaries System for life insurers and an Approved Actuaries System for general insurers. ASHK is providing substantial professional support for the functioning of these two systems (collectively called the AA system).

Some of the developments include:

- ASHK is considering to turn itself into a statutory body – you should find out more from the Council members.
- ASHK is considering to modify the AA system in view of international development.
- ASHK needs to react suitably to the development of the international accounting standards.
- ASHK needs to react suitably to the emerging trend of Risk Based Capital and Risk Based Supervision.

The Appointed Actuaries System in Hong Kong

In Hong Kong, the appointment of an Actuary for a life insurer was set out in Section 15 of the Insurance Companies Ordinance. In 1993, the ASHK issued a paper, Professional Standard (PS1), which provided some general guideline as to the duties of the Appointed Actuary. Under the Insurance Companies Ordinance, an Appointed Actuary has to include in the annual actuarial certification that he or she complies with the PS1, or other standards acceptable by the IA, in carrying out the duties under the Ordinance.

All Hong Kong life insurance actuaries are expected to be familiar with the details of PS1. In addition, they should be aware of the expanded role of the Appointed Actuaries from different stakeholders' point of view, including (1) the management and the board of directors of the company, (2) the policyholders and (3) the regulators.,

Responsibility to the management and the board of directors of the company

The on-going solvency of insurance companies is a matter of primary concern to the public. One of the most important duties of the Appointed Actuary is to monitor the financial soundness of insurance company and to report to the management and the board of directors.

Responsibility to policyholders

Turning to the Appointed Actuary's responsibility to policyholders, the Appointed Actuary is required to protect the interests of the policyholders. In situations involving the transfer of business during company's merger or acquisition, the Appointed Actuaries is required to ensure that the security and obligation provided to the policyholders would not be adversely affected by the transaction. Section 24 of the Insurance Companies Ordinance indeed requires the company to appoint an Independent Actuary to give an independent opinion on the transaction.

For participating policyholders, the Appointed Actuary is also required to preserve the Policyholders' Reasonable Expectation (PRE). Although the definition of PRE has

not been universally defined and accepted, the term PRE often has to do with the amount of dividends (or bonus) expected to be received by policyholders in the future.

Responsibility to regulators

As part of the statutory duties under the Insurance Companies Ordinance, the Appointed Actuary is required to submit annually the valuation report to the Insurance Authority. However, the Appointed Actuary's responsibility to regulators has actually been extended from the determination of policy liabilities to the entire operation of the company. If the Appointed Actuary becomes aware of a situation which could threaten the company's financial condition, the Appointed Actuary has an obligation to report this to the company's management and the Board of Directors. If the company does not correct the situation, the Appointed Actuary is obligated to report the situation directly to the Insurance Authority, or known as "whistle blowing" [PS1/Section 3.2]. In fact, under Section 53E of the Insurance Companies Ordinance, the Appointed Actuary is required to report to the IA immediately on certain matters that have serious financial implication to the company or breaching certain statutory rules.

The Insurance Authority is also running a similar Approved Actuaries System for general insurers conducting the compulsory classes of business (i.e. EC and Motor business). For details, the actuaries can study [GN9: Guidance Note on Actuarial Review of Insurance Liabilities in respect of Employees' Compensation and Motor Insurance Businesses](#) issued by the IA.

Disclaimer

The Education Corner is aimed at providing background information on some hot topics surrounding actuarial practice and the insurance industry, and is solely intended for actuarial education purpose, and must not be relied upon for any other purpose. In putting together the respective sections the contributors have relied on publicly available information without independent verification, apart from reviewing some of the material for reasonableness based on the contributors' knowledge of the actuarial field and insurance industry.

**ASHK Education Committee
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