Examination for ASHK Certificate in Hong Kong Insurance Markets and Regulations

STUDY GUIDE FOR CORE PAPER

Roles and responsibilities of main regulators supervising the financial services industry

Roles and responsibilities of main industry bodies in the financial services industry

Regulations, professional standards, guidelines and industry standard practice

Risk management responsibilities for actuaries

Reinsurance and captives

Recent industry developments

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[Candidate's note]

The Actuarial Society of Hong Kong (ASHK) has made every effort to ensure that the content of this Study Guide is accurate, current, and relevant for candidates preparing for the ASHK Certificate Examination – Core Paper. However, candidates should be aware that regulatory frameworks, guidelines, and industry practices are subject to change.

While this Study Guide provides a comprehensive overview of the core topics covered in the examination, the ASHK reserves the right to update, amend, or correct the content as necessary, without prior notice, to reflect changes in laws, regulations, or industry standards. Candidates are encouraged to refer to official publications, the ASHK website, and other reliable sources for the most up-to-date information.

This Study Guide is intended solely as a reference tool to aid candidates in their exam preparation and should not be used as a substitute for professional advice or official regulatory documents. The ASHK does not accept responsibility for any loss or damage arising from reliance on information contained within this guide.

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3.1 Core Paper

As a major international financial centre, Hong Kong must operate under an effective and transparent regulatory framework. This is to ensure that the interests of local and international investors are safeguarded.

The Core section of the study guide introduces candidates to Hong Kong's regulatory framework and relevant areas of the financial services industry for actuaries practicing in Hong Kong. This study guide aims to help candidates prepare for the Core Paper of the ASHK Certificate Examination by outlining the regulatory framework and market environment of Hong Kong's financial services. For more details of each covered topic, candidates may refer to the reference readings listed in the syllabus.

Specific regulations and tax considerations relevant to each area of practice will be discussed in more detail in the practice-specific sections of the study guides.

3.1.1 Roles and responsibilities of main regulators supervising the financial services industry

The financial services industry in Hong Kong encompasses a wide range of institutions offering financial products and services to local and international customers. Regulatory authorities oversee these institutions, ensuring compliance and promoting the development of Hong Kong's financial market. Additionally, these regulatory authorities are responsible for improving the financial literacy of the public through financial education and encouraging the development of Hong Kong's financial services industry. For actuaries, understanding the regulatory framework is crucial as it directly impacts their day-to-day work, particularly in insurance.

Actuaries frequently interact with various regulatory authorities responsible for the oversight of financial services. These include the Insurance Authority (IA), which plays a pivotal role in regulating the insurance industry to safeguard policyholder interests and ensure market stability.

3.1.1.1 Insurance Authority (IA)

3.1.1.1.1 Background and Establishment

The IA was established in 2015 under the Insurance Companies (Amendment) Ordinance 2015, replacing the Office of the Commissioner of Insurance (OCI). Its primary objectives are to modernize the insurance regulatory framework, provide better policyholder protection, and align with international standards. The IA assumed

OCI's responsibilities in 2017 and expanded its scope to regulate insurance intermediaries in 2019. IA aims to:

1) Modernise the insurance industry regulatory infrastructure to facilitate the stable development of the industry.
2) Provide better protection for policy holders; and
3) Comply with the requirement of the international association of insurance supervisors (IAIS) that insurance regulators should be financially and operationally independent of the government and industry.

The IA formally took over the regulatory functions of the OCI on 26 June 2017.

Under the new regulatory regime, there would be an expanded scope of regulatory oversight over insurance companies. In addition to the OCI's responsibilities, the IA would also take over the regulation of insurance intermediaries from three existing self-regulatory organisations, putting in place a more holistic and effective insurance regulatory system. This formally came into force on 23 September 2019, with a three-year transitional arrangement for existing intermediaries.

The Chief Executive may give directions generally or in a particular case with respect to the exercise by the IA of any of its functions under Insurance Ordinance (Cap. 41) (IO), and the IA shall comply with any such direction (Section 4 (Authority) of the IO).

3.1.1.1.2 Composition, Statutory Functions and Powers of the IA

The Chief Executive appoints the following members of the IA per Section 4AA (Composition of Authority):

(1) A chairperson who is a non-executive director of the Insurance Authority.
(2) A chief executive officer, who is an executive director of the Authority; and
(3) Not less than 6 other executive or non-executive directors of the Authority.

The appointment of non-executive directors shall consider the knowledge of and experience in the insurance industry (of which at least 2 should possess), actuarial science, accountancy, law, consumer affairs, or other relevant professional or occupational experience.

In accordance with the Insurance Ordinance (Cap. 41), the principal function of the Insurance Authority ("IA") shall be to regulate and supervise the insurance industry for the promotion of the general stability of the insurance industry and for the protection of existing and potential policy holders. The Ordinance stipulates that the IA shall:

a. Be responsible for supervising an authorized insurer's and a licensed insurance intermediary's compliance with the provisions of the Ordinance;
b. Consider and propose reforms of the law relating to insurance business;
c. Promote and encourage the adoption of proper standards of conduct and sound and prudent business practices by authorized insurers;
d. Promote and encourage the adoption of proper standards of conduct by licensed insurance intermediaries;
e. Review and, if necessary, propose reforms of the systems for regulating authorized insurers and licensed insurance intermediaries;
f. Regulate the conduct of insurance intermediaries through a licensing regime;
g. Promote the understanding by policy holders and potential policy holders of insurance products and the insurance industry;
h. Formulate effective regulatory strategies and facilitate the sustainable market development of the insurance industry, and promote the competitiveness of the insurance industry in the global insurance market;
i. Conduct studies into matters affecting the insurance industry;
j. Assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate measures in relation to the insurance industry;
k. Co-operate with and assist financial services supervisory authorities of Hong Kong or of any place outside Hong Kong, whenever appropriate, to the extent permitted by the Ordinance;
l. Liaise and co-operate with any involved supervisor in any place outside Hong Kong in the determination of the group supervisors of insurance groups;
m. Regulate and supervise insurance groups of which the IA is appointed as the group supervisor; and
n. Perform functions imposed or conferred on the IA by the Ordinance or any other Ordinance.

The IO (Section 4B (Powers of Authority)) confers power on the IA to take necessary action in order to operate and perform functions under the IO or any other Ordinance.

3.1.1.1.3 An Overview of the Regulatory Framework

The Insurance Authority (IA) is a statutory body established to administer the Insurance Ordinance. Its primary functions include regulating and supervising the insurance industry to promote its stability and protect policyholders. Additionally, the IA has specific statutory functions as detailed in the ordinance.

To advise on industry-related issues and policies, two Industry Advisory Committees (IACs) have been established under section 4C of the Insurance Ordinance: one for long-term business and another for general business. These committees comprise members with expertise in the insurance industry, regulated activities, and consumer affairs.

The ordinance empowers the Chief Executive in Council to make regulations (section 128) and the IA to make rules (section 129) to address evolving market landscapes and regulatory needs. These regulations and rules, considered subsidiary legislation, cover matters such as licensing applications, compliance requirements, and reporting obligations.

Furthermore, under section 133, the IA can issue non-statutory codes and guidelines to provide practical guidance for industry compliance. While not legally binding, these codes and guidelines are admissible in court proceedings under the Insurance Ordinance and are considered by the IA when exercising its powers, including disciplinary actions.

Since 1 January 2018, a prescribed levy is payable to the IA by policyholders for contracts of insurance related to specified classes of business or types of contracts. The Chief Executive in Council may specify levy rates and make regulations concerning their payment and associated penalties for late payment.

This regulatory framework ensures the orderly operation and stability of Hong Kong's insurance industry, safeguarding the interests of policyholders and maintaining market integrity.

3.1.1.1.4 Supervisory functions - regulatory requirements on insurers

The IA regulates the entities that carry on insurance business in or from Hong Kong through its licensing and supervision functions. Authorised insurers are required to satisfy the following:

1) Authorisation requirements
    a. Insurers shall satisfy the formation of company under Companies Ordinance.
    b. Insurers shall follow through the authorisation requirements and procedures set out in Guideline 5 - Guideline on Application for Authorisation to Carry on Insurance Business in or from Hong Kong (GL5).
    c. The IA shall decide whether authorisation to carry on insurance business in or from Hong Kong will be granted.

2) Adequate capital requirement which stipulates minimum amount of paid-up capital.

3) Adequate solvency which requires an insurer shall maintain an excess of assets over liabilities of not less than a required solvency margin. There are separate provisions for a general business insurer and a long-term business insurer.

4) Fit and proper management and shareholders
   a. The IA shall consider fit and proper test in approval of director or controller of an insurer as the IO requires.
   b. Guideline 4 – Guideline on “Fit and Proper” Criteria under the Insurance Ordinance (Cap. 41) (GL4) sets out the factors that the IA will consider in administering the regulatory requirement in approval of director or controller of an insurer.

5) Prudent valuation basis for assets and liabilities
   a. Insurers shall refer to relevant rules under Insurance ordinance for the valuation of assets and liabilities as applicable to the insurance businesses. Specifically, the Insurance (General Business) (Valuation) Rules (Valuation Rules) made under Section 129(1) of the IO provide a standard and prudent basis for the valuation of the assets and liabilities of an insurer carrying on general business, while the Insurance (Determination of Long-Term Liabilities) Rules made under Section 129(1) of the IO set out the bases for the determination of the amount of long-term business liabilities.

6) Reporting requirements
   a. Section 17 of the IO provides that an insurer is required to submit annually to the IA its financial statements prepared in accordance with the requirements of Schedule 3 to the IO.
   b. An insurer carrying on general business is additionally required to submit annually to the IA an audited General Business Return and audited Statement of Assets and Liabilities pertaining to its Hong Kong general business. The latter requirement does not apply to a professional reinsurer or a captive insurer.
   c. An insurer carrying on long term business is required to submit annually an actuarial investigation report and the Hong Kong Long Term Business Return to the IA.

7) Corporate governance
   a. Corporate governance refers to systems through which an authorised insurer is managed and controlled.

b. The IA has issued a Guideline 10 – Guideline on Corporate Governance of Authorised Insurers (GL10) which sets out the minimum standard of corporate governance that is expected of authorised insurers.
c. The IA requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of its business and adequately recognises and protects the interests of policy holders.
d. Also, the IA requires insurers to have, as part of their overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.

3.1.1.1.5 Supervision of Insurance Groups (GL32)

Overview: GL32 outlines principles and standards for supervising insurance groups, ensuring effective oversight and compliance through designated insurance holding companies (DIHCs). This includes requirements for capital adequacy, governance, risk management, and public disclosures.

Designation of DIHC (GL32 A.P & A.S):

- Defined in Section 95A of the Ordinance, a DIHC is the focal entity for group-level supervision.
- Designation criteria (GL32 A.S/1.3-1.5):
    - Operations spanning multiple jurisdictions.
    - Significant size or complexity of business operations.
    - Relevance to international standards (e.g., IAIS).
- Only Hong Kong-incorporated companies can be designated (GL32 A.S/1.2).
- The IA adopts a risk-based approach to determine the necessity for designation (GL32 A.S/1.4).

Fit & Proper Criteria (GL32 B.P & B.S):

- Applies to key roles within a DIHC: shareholder controllers, chief executives, directors, and key persons in control functions (GL32 B.P/1).
- Assessment factors (GL32 B.S/1.4):
    - Education, experience, and qualifications.
    - Reputation, character, and financial solvency.
    - Past disciplinary actions from regulatory bodies.
- DIHC boards must ensure compliance with these standards (GL32 B.S/2-4).

Group Capital Adequacy (GL32 C.P & C.S):

- DIHCs must ensure capital adequacy across the supervised group (GL32 C.P/1):
  - **Group Minimum Capital Requirement (GMCR):** Tier 1 capital must meet the group's minimum regulatory needs (GL32 C.S/1.6).
  - **Group Prescribed Capital Requirement (GPCR):** Combined Tier 1 and Tier 2 capital must exceed the prescribed threshold (GL32 C.S/1.10).
- DIHCs must submit remediation plans if capital requirements are not met (GL32 C.S/1.1-1.3).

Disclosure (GL32 D.P & D.S):

- DIHCs must disclose comprehensive information about the supervised group (GL32 D.P/1):
  - Financial statements, corporate governance, and group risk exposures (GL32 D.S/2-7).
  - Compliance with GMCR and GPCR, along with ratios (GL32 D.S/10.1).
  - Details of material intra-group transactions and investment risks (GL32 D.S/12).
- All disclosures must be accessible online within five months after the financial year-end (GL32 D.S/13).

Major Acquisitions (GL32 E.P & E.S):

- Major acquisitions are defined as obtaining 50% or more voting power or issued share capital in a body corporate (GL32 E.S/2.1).
- DIHCs must (GL32 E.P/1):
  - Seek IA approval for acquisitions that impact group stability.
  - Assess potential risks to policyholders and financial position (GL32 E.S/4.3).
  - Maintain proper documentation for IA review (GL32 E.S/3.4).

Corporate Governance Framework (GL32 G.P & G.S):

- DIHCs must establish governance structures that ensure sound management (GL32 G.P/1):
  - Oversight by the Group Board and relevant committees (e.g., audit, risk) (GL32 G.S/17).
  - Clear reporting lines between the DIHC and group members (GL32 G.S/1.1).
  - Separation of roles between the chairperson and chief executive (GL32 G.S/4.1(c)).

Risk Management and Internal Controls (GL32 H.P & H.S):

- DIHCs must maintain group-wide systems to address material risks (GL32 H.P/1):

    - Implement anti-money laundering (AML) and counter-terrorism financing (CTF) controls (GL32 H.S/1.2).
    - Annual reviews of risk management frameworks to address emerging threats (GL32 H.S/1.6).

Enterprise Risk Management (ERM) (GL32 K.P & K.S):

- ERM frameworks must align risk appetite with business objectives (GL32 K.P/1):
    - Include Own Risk and Solvency Assessments (ORSA) to evaluate group solvency and resilience (GL32 K.S/13.4).
    - Assess risks like market, credit, and operational risks through stress testing (GL32 K.S/13.5).
- The Group Board oversees the implementation of ERM (GL32 K.S/1.4).

Outsourcing (GL32 I.P & I.S):

- DIHCs must ensure that outsourcing arrangements:
    - Protect policyholder interests and comply with IA requirements (GL32 I.S/1.2).
    - Are governed by group-level policies for risk assessment and monitoring (GL32 I.S/2.1).

Pecuniary Penalty Framework (GL32 F.P & F.S):

- The IA can impose penalties on DIHCs for misconduct or regulatory breaches (GL32 F.S/1.1).
- Penalties aim to deter misconduct and protect policyholders (GL32 F.S/2.1).

Module L of GL32 requires designated insurance holding companies (DIHCs) to conduct a Group Internal Economic Capital Assessment (GIECA) to evaluate group-wide risks and determine the economic capital needed to address those risks effectively.

Key Points:

1. **Purpose:** Assess the group's overall risk position and quantify capital needs for material risks (e.g., market, credit, operational, and liquidity risks).
2. **Scope:** Align GIECA with the group's Enterprise Risk Management (ERM) framework and business strategy.
3. **Components:** Include stress testing, scenario analysis, and forward-looking assessments of capital adequacy under normal and adverse conditions.
4. **Governance:** Ensure senior management and the Group Board oversee the process.
5. **Reporting:** Use GIECA results to inform strategic decisions, ORSA, and regulatory submissions.

3.1.1.1.6 Insurance-Linked Securities

Guideline on Application for Authorization to Carry on Special Purpose Business (GL33)

The IA issues this guideline to provide for authorization of special purpose insurers (“SPIs”) to carry on special purpose business (“SPB”) in or from Hong Kong. SPB refers to “the insurance business of effecting and carrying out contracts of insurance that are fully funded through insurance securitization”. Following the amendments to IO which enable the formation of SPIs specifically for issuing insurance-linked securities (“ILS”) in Hong Kong in March 2021, this GL provides for authorization, financials, and solvency requirements of SPIs and restrictions on the sales of ILS.

3.1.1.1.7 Supervisory functions - regulatory requirements on insurance intermediaries

The IA is responsible for supervising insurance intermediaries’ compliance with the provisions of IO, and the relevant regulations, rules, codes and guidelines issued by the IA. The IA is also responsible for promoting and encouraging proper standards of conduct of insurance intermediaries, and has regulatory powers in relation to licensing, inspection, investigation and disciplinary sanctions.

A person who wishes to carry on a regulated activity in Hong Kong may apply to the IA for an appropriate insurance intermediary licence under the IO. The IO requires the applicant to be a fit and proper person to carry on regulated activities in the lines of business concerned. Section 64ZZA of the IO provides the matters that the IA must have regard to in determining the fitness and properness of the applicant. To enhance transparency of the relevant regulatory requirements, a Guideline on "Fit and Proper" Criteria for Licensed Insurance Intermediaries under the Insurance Ordinance (Cap. 41) was issued by the IA (“GL23”).

Under the IO, there are five types of licensed insurance intermediaries:

- Licensed Insurance Agency (Insurance Agency Licence)
- Licensed Individual Insurance Agent (Individual Insurance Agent Licence)
- Licensed Technical Representative (Agent) (Technical Representative (Agent) Licence)
- Licensed Insurance Broker Company (Insurance Broker Company Licence)
- Licensed Technical Representative (Broker) (Technical Representative (Broker) Licence)

Licensed insurance intermediaries are required to comply with the statutory conduct requirements set out in Sections 90, 91 and 92 (where applicable) of the IO and the relevant requirements set out in the codes of conduct issued under the IO. The IA has issued two separate codes of conduct, namely the Code of Conduct for Licensed Insurance Agents and the Code of Conduct for Licensed Insurance Brokers. These codes promulgate principles of conduct and related standards and practices with which licensed insurance agents and licensed insurance brokers are ordinarily expected to comply in carrying on regulated activities.

Every individual licensee must have passed the relevant papers of the Insurance Intermediaries Qualifying Examination conducted by the Vocational Training Council, unless otherwise exempted. Additionally, individual licensees should continuously update their technical and regulatory knowledge and refresh themselves on the ethical standards through CPD in order to ensure their professional competence and standard in providing service to the policyholders and potential policyholders. Individual licensees must satisfy the CPD requirements set out in GL24: Guideline on Continuing Professional Development for Licensed Insurance Intermediaries (“GL24”) in each Assessment Period.

3.1.1.1.8 Supervisory functions - regulations and industry practices associated with the sale of insurance policies

The Insurance Authority (IA) of Hong Kong has established comprehensive guidelines to regulate the underwriting and sale of long-term insurance products, ensuring fair treatment of customers throughout the product lifecycle—from development to post-sale controls. Below is an overview of the pertinent guidelines:

Guidelines 15 (GL15), 16 (GL16), and 26 (GL26) issued by the Insurance Authority (IA) provide a comprehensive framework for regulating the underwriting, sale, and post-sale control of long-term insurance products, with specific emphasis on **Investment-Linked Assurance Schemes (ILAS)** (Class C business). These guidelines prioritize **fair treatment of customers**, transparency, and enhanced policyholder protection. Below is an overview:

Adopting the "Fair Treatment of Customers" Principle

- Insurers must integrate customer-centric principles into the design and marketing of long-term insurance products, including ILAS (GL15 5.1; GL16 3.1; GL26 4).
- Products should align with customers’ financial objectives, and insurers are accountable for ensuring fairness at every stage of the product lifecycle.

Provision of Adequate and Clear Information

- Insurers are required to ensure policyholders receive comprehensive and transparent information:
  - Key product features, risks, and potential outcomes are detailed in brochures, Key Facts Statements, and Important Facts Statements
  - For ILAS products, intermediaries must distribute the pamphlet **"Questions You Need to Ask Before Taking Out an ILAS Product"** at the point of sale to help customers understand risks and benefits.

Suitability of Products to Customers

- Insurers must conduct a **Financial Needs Analysis (FNA)** to assess customer needs before recommending long-term insurance or ILAS products (GL15 7.4).
- The FNA ensures products align with customers' financial goals and risk tolerance, reducing the likelihood of unsuitable sales.

Appropriate Remuneration Structures and Avoidance of Conflicts of Interest

- Insurers must implement remuneration structures that:
  - Prevent incentives that could misalign intermediaries' interests with customers' (GL16 9.1)
  - Disclose remuneration related to ILAS products and ensure transparency (GL26 7).

Post-Sale Controls

- To ensure customers fully understand their purchased policies, insurers must:
  - Conduct **audio-recorded post-sale confirmation calls** for ILAS policyholders (GL15 12.3; GL26 9.4).
  - Extend these confirmation calls to vulnerable customers purchasing life insurance products, except term insurance (GL16 11.2).

Illustration Standards for Long-Term Insurance and ILAS Policies

- Insurers must provide standardized benefit illustrations to ensure transparency regarding:
  - Potential returns, risks, and surrender values of policies
  - For ILAS products, clear disclosure of charges and their impact on investment returns is required.
- Since January 2015, illustration rates must include a **0% investment return** alongside other mandated rates (GL15 6.5).

Important Facts Statement for Mainland Policyholders

- Effective September 1, 2016, insurers must provide Mainland Chinese Visitors (MCV) with an **Important Facts Statement** to inform them of key risks and considerations when purchasing long-term policies in Hong Kong.

Disclosure of Non-Guaranteed Benefits

- Insurers must disclose **fulfilment ratios** for non-guaranteed dividends and bonuses for products issued since 2010. This information should be made publicly available on the insurer's website (GL16 4).

Specific Provisions for ILAS Products (GL26 Focus):

- The key focus of this GL is to ensure that buyers of ILAS products are fully apprised of the nature, key features and risks of such products, as well as the rights and obligations associated with such products.
- Fair treatment of customers is vital. To achieve this objective, this GL requires sales process of ILAS products having adequate suitability assessment (Financial Needs Analysis, Risk Profile Questionnaire, disclosure of Important Facts Statement, Post-Sale controls, etc.) in place. This GL also outlines the responsibility of authorized insurers and insurance intermediaries throughout the sales process.

GL15, GL16, and GL26 collectively establish a robust framework for the underwriting and sale of long-term insurance and ILAS products. These guidelines enhance **transparency**, **customer suitability**, and **post-sale controls**, ensuring policyholders are adequately informed and protected throughout their insurance journey. By addressing the unique aspects of ILAS products, these guidelines mitigate risks associated with investment-linked insurance and uphold market integrity.

Further, GL25, GL27, GL28, GL29, and GL30 collectively establish critical measures to protect policyholders and uphold market integrity. They ensure fairness in sales practices, transparency in product illustrations, and alignment of product offerings with customer needs, fostering trust and informed decision-making in the insurance market. The following discusses the specifics of each mentioned GL:

GL25: Guideline on Offering of Gifts

GL25 regulates the offering of gifts to ensure customers make informed decisions without undue influence. This Guideline provides guidance on certain restrictions on the use of gifts and rebates which authorized insurers and licensed insurance intermediaries should follow when marketing, promoting or distributing insurance products classed as long-term business.

GL27: Guideline on Long Term Insurance Policy Replacement

GL27 addresses the replacement of long-term insurance policies to safeguard customers from financial disadvantages.

- **Policy Replacement Form:** Customers must be informed about the potential consequences of replacing or altering a policy, such as surrender charges, loss of benefits, or higher premiums.
- **Fair Sales Practices:** Intermediaries must avoid recommending policy replacements that primarily serve their interests.
- **Customer Consent:** Insurers must obtain explicit consent and ensure customers understand the implications of policy replacement.

To promote informed decisions and protect customers from unnecessary financial loss due to poorly advised replacements.

GL28: Guideline on Benefit Illustrations for Long Term Insurance Policies

GL28 ensures transparency in benefit illustrations, particularly for policies with non-guaranteed benefits.

- **Clear and Standardized Presentations:** Insurers must provide accurate and consistent information on policy benefits, returns, and surrender values.
- **Disclosure of Non-Guaranteed Benefits:** Fulfilment ratios for participating products and historical crediting interest rates for universal life policies must be included.
- **Illustration Rates:** Insurers are required to include a 0% investment return scenario in illustrations, in addition to other standard rates.

Objective:

To enable policyholders to make well-informed decisions by understanding both the guaranteed and non-guaranteed elements of their policies.

GL29: Guideline on Cooling-Off Period

GL29 introduces a cooling-off mechanism to protect policyholders' interests.

- **Cooling-Off Rights:** Policyholders can cancel their policy within **21 calendar days** from receiving the policy or notice of cooling-off rights, whichever is earlier.
- **Refund of Premiums:** Customers are entitled to a refund of premiums paid, subject to market value adjustments.

Objective:

To provide policyholders with a safeguard against premature or uninformed commitments.

GL30: Guideline on Financial Needs Analysis (FNA)

GL30 mandates the use of Financial Needs Analysis (FNA) to ensure suitability in product recommendations.

- **Assessment of Customer Needs:** Intermediaries must gather and document financial information, risk tolerance, and priorities through standardized FNA forms.
- **Training and Oversight:** Insurers must train intermediaries to perform FNAs ethically and accurately.
- **Alignment with Products:** Recommendations must align with the findings of the FNA, ensuring suitability for the customer.

Objective:

To minimize the risk of inappropriate sales and foster trust by offering products that genuinely meet customers' needs.

Guideline on Medical Insurance Business

Guideline 31 (GL31) issued by the Insurance Authority (IA) provides comprehensive requirements for authorized insurers underwriting medical insurance business. It aims to enhance transparency, policyholder protection, and fair practices in the sale, underwriting, and administration of medical insurance products.

Key Provisions of GL31

Product Design and Development:

- **Customer-Centric Design:** Insurers must develop medical insurance products that address policyholders' healthcare needs and are aligned with the principle of fair treatment.
- **Standardization:** Products should include standardized terms and definitions for common benefits, exclusions, and conditions to ensure consistency and comparability across the market (GL31 3.2).
- **Transparent Pricing:** Premiums should be calculated transparently and fairly, with clear documentation of the underlying assumptions (GL31 3.3).

Policy Features and Coverage (GL31 3.4-3.6):

- **Comprehensive Disclosure:** Policies must include clear descriptions of coverage, limitations, exclusions, and renewal conditions (GL31 3.4).
- **Guaranteed Renewability:** Medical insurance policies must provide guaranteed renewability unless termination criteria (e.g., non-payment of premiums) are met (GL31 3.5).

- **Premium Adjustments:** Insurers must disclose the basis for premium adjustments, ensuring policyholders are informed of possible changes due to factors such as medical inflation (GL31 3.6).

Sales and Marketing Practices (GL31 3.7-3.9):

- **Fair Sales Practices:** Intermediaries must act in the best interest of policyholders, providing clear and accurate information about the product and avoiding misleading statements (GL31 3.7).
- **Financial Needs Analysis (FNA):** The use of FNA is mandatory to assess the suitability of medical insurance products for individual customers (GL31 3.8).
- **Avoidance of Misrepresentation:** Insurers and intermediaries must ensure customers fully understand policy terms, including exclusions and benefit limits, to prevent disputes at the claim stage (GL31 3.9).

Claims Handling and Administration (GL31 3.10-3.12):

- **Efficient Claims Processing:** Insurers must establish clear procedures for claims submission, assessment, and settlement to provide timely support to policyholders (GL31 3.10).
- **Transparency in Claims Decisions:** Customers must be informed of the reasons for claims approval, partial payment, or rejection in writing (GL31 3.11).
- **Complaint Handling:** A robust mechanism for managing customer complaints related to claims or policy disputes is required, with clear escalation pathways (GL31 3.12).

Disclosure and Communication (GL31 3.13-3.15):

- **Pre-Sale Disclosures:** Policy documents must include comprehensive information about key benefits, exclusions, waiting periods, and premium adjustment mechanisms (GL31 3.13).
- **Post-Sale Communication:** Insurers must provide timely updates to policyholders on changes to policy terms, premium adjustments, or other relevant matters (GL31 3.14).
- **Public Access to Information:** Insurers are required to disclose product features, claims statistics, and renewal rates on their websites to help customers make informed decisions (GL31 3.15).

Monitoring and Compliance (GL31 3.16-3.18):

- **Internal Controls:** Insurers must maintain effective internal controls to ensure compliance with GL31 and other regulatory requirements (GL31 3.16).

- **Training for Intermediaries:** Insurers must ensure intermediaries are adequately trained to explain product features and handle customer queries (GL31 3.17).
- **Regular Reviews:** Insurers are expected to regularly review their medical insurance products, practices, and customer feedback to identify and address areas for improvement (GL31 3.18).

GL31 aims to uphold high standards of transparency, fairness, and efficiency in medical insurance. By addressing all stages of the policy lifecycle—product design, sales, claims handling, and ongoing communication—it ensures that policyholders are well-informed and adequately protected. This guideline fosters trust and confidence in the medical insurance market while safeguarding the interests of both customers and insurers.

3.1.1.2 Hong Kong Monetary Authority (HKMA)

The Hong Kong Monetary Authority (HKMA) is responsible for maintaining the stability of the overall economy, with duties including the maintenance of currency stability, the promotion of the stability and integrity of the financial and banking system through banking supervision, to help maintaining Hong Kong's status as an international financial centre, and to manage the Exchange Fund.

With respect to the sales of ILAS policies, apart from the requirement under the IO, banks and their staff are also regulated and supervised by the HKMA.

3.1.1.3 Mandatory Provident Fund Authority (MPFA)

The Monetary Provident Fund Schemes Authority (MPFA) is a statutory body set up to oversee the regulation and supervision of privately managed mandatory provident fund (MPF) schemes and occupational retirement (ORSO) schemes. The MPFA is responsible for the monitoring of legislative compliance, regulation of sales, marketing activities and advisory services, approval of qualified parties as trustees of registered schemes, MPF scheme registration, setting rules and guidelines for the payment of mandatory contributions, overseeing the operation of an electronic MPF system, and enhancing public's understanding and knowledge of the registered schemes.

3.1.1.4 Securities & Futures Commission (SFC)

The Securities and Futures Commission of Hong Kong (SFC) regulates Hong Kong's securities and futures markets. It maintains and promotes the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry, and offers protection and education to the public investing in financial products.

The SFC oversees financial intermediaries in investment-related fields (e.g. brokers, fund managers), investment products, listed companies, Hong Kong Exchange and Clearing Limited (HKEx), automated trading service (ATS) providers, approved share registrars, Investor Compensation Company Limited (ICC) and other market participants.

With respect to the sales of ILAS, which is a life insurance policy with investment elements that provides both insurance protection and investment options, SFC also introduced the Guidance on Internal Product Approval Process applicable to providers of various products including ILAS. The guidance explains the requirements for a robust internal product approval process for product providers, covers the entire chain from inception of the product to post-sale, and reminds product providers their duty to consider investors' interests as part of the product-design process. In addition, ILAS products and their offering documents (including the Product Key Facts Statement), illustration documents and marketing materials must be authorised by the SFC before they can be offered to the public in Hong Kong.

Please refer to Appendix A for other study material section which contains additional background information.

Note: Questions of the ASHK Examination are related to and supported by the readings listed in the Appendix A of this study guide.

3.1.2 Roles and responsibilities of main industry bodies in the financial service industry

3.1.2.1 Actuarial Society Hong Kong (ASHK)

The Actuarial Society of Hong Kong (ASHK) is the actuarial professional body of Hong Kong and is a full member of the International Actuarial Association. While the ASHK does not currently have statutory powers, it is responsible for issuing the Code of Conduct, professional standards and actuarial guidance notes that actuaries practising in Hong Kong are expected to follow.

As the ASHK is a professional body, its members have an obligation to provide the best possible services to the public. Therefore, it is essential that the highest standards of conduct are maintained by all members. Actuaries are expected to demonstrate integrity in relationships with clients, other members of the profession and the public. The Council of the ASHK has issued a Professional Conduct Code (PCC) to list out the principles which it expects all members to follow in spirit and letter. In the case that a member of the ASHK has allegedly acted against the PCC or performed an act of a nature that may bring discredit to the ASHK (e.g. fraud and criminal offence), the Council would take steps as it thinks fit. If deemed necessary, the Council would set in motion disciplinary procedures.

All non-retired Fellow and Associate members of the ASHK are subject to the Continuing Professional Development (CPD) requirement on a calendar year basis. Non-compliance of the CPD requirement may result in counselling and disciplinary actions.

To maintain a high level of professionalism among members, the ASHK issues By-Laws, professional standards (PS) and actuarial guidance notes (AGNs).

The ASHK has issued two PS for actuaries practising in different sectors of the industry. PS1 (effective date: 1 January 2025) relates to the statutory duties of actuaries working in life insurance companies. In particular, it applies for actuaries appointed pursuant to Section 15 of the Insurance Ordinance of Hong Kong (appointed actuaries), as well as directors and external assessors of insurance companies. PS2 applies for actuaries in the Pension business, with a focus on the preparation of actuarial report and certificate following an actuarial review.

As for AGNs, the ASHK has published AGNs on life insurance policy illustrations, dynamic solvency testing, best estimate assumptions and other topics that actuaries would come across in their professional lives. They are guidelines which are generally written after consultation with the industry and represent good industry practice. The main difference between PS and AGN is that compliance with the latter is not mandatory provided there is appropriate justification.

3.1.2.2 Hong Kong Federation of Insurers (HKFI)

The Hong Kong Federation of Insurers (HKFI) was established on 8 August 1988 to advance and promote the development of the insurance business in Hong Kong. While maintaining a frequent dialogue with the Insurance Authority on legislative issues affecting the industry, the HKFI actively promotes best market practices with an aim of improving the professionalism of and strengthening public confidence in the insurance industry.

As part of the self-regulatory initiatives taken by the industry, the HKFI has published The Code of Conduct for Insurers and the Code of Practice on Person-to-Person Marketing Calls. These Codes aim to promote good practice among insurers in the conduct of their insurance business and the management of outbound marketing activities.

While the following guidelines are replaced by relevant Guidelines issues by the IA, HKFI has issued these guidelines applicable to sales process of insurance products.

The Consumer Protection Declaration Form (CPDF) was introduced under the Code of Practice for Life Insurance Replacement issued by the HKFI as a self-regulatory measure to prevent twisting of life policies. It should be completed and signed to evidence that an insurance intermediary has clearly explained to a life policyholder the consequences and potential disadvantages of replacing an existing policy. A life policy applicant is also required to declare in the CPDF that he/she has received a copy of the IA's educational pamphlet "Life Insurance Policy Replacement – What you need to know".

3.1.2.3 Hong Kong Exchange and Clearing Limited (HKEx)

HKEx is a private entity operating a securities market and a derivatives market in Hong Kong. It is one of the largest financial market operators in the world. It also performs clearing house functions, such as post-trade management, position management, exercise, and assignment.

In addition, HKEx acts as the front-line regulator of listed issuers (including listed companies) in Hong Kong. It strictly enforces its listing, trading and clearing house rules to maintain open, fair, transparent and efficient markets.

HKEx also provides services which mainly cover market data services, securities settlement and depository, trading of securities and derivatives providing clearing and settlement services for over the counter (OTC) derivative transactions. In terms of products offering, HKEx covers a wide range of securities and derivatives, and the comprehensive product list can be referred to at http://www.hkex.com.hk/Global/Exchange/Sitemap?sc_lang=en.

3.1.2.4 The HKMC Annuity Limited (HKMCA)

The HKMCA is a wholly owned subsidiary of the Hong Kong Mortgage Corporation Limited (HKMC) which is wholly owned by the Hong Kong Special Administrative Region Government through the Exchange Fund. It is an authorised insurer under the Insurance Ordinance to carry on long term insurance business of class A (life and annuity) in or from Hong Kong. Its mission is to facilitate retirement financial planning through provision of annuity products for Hong Kong citizens and to promote the development of the local annuities market.

3.1.2.5 Health Bureau and VHIS Office - Voluntary Health Insurance Scheme (VHIS)

The Voluntary Health Insurance Scheme (VHIS) is a policy initiative implemented by the Health Bureau to regulate indemnity hospital insurance plans offered to individuals by insurance companies. The participation by insurance companies and consumers is voluntary.

Insurance companies participating in the VHIS ("VHIS Providers") offer individual indemnity hospital insurance plans that are certified by the Health Bureau to comply with the minimum requirements of the scheme in product design ("Certified Plans").

Moreover, the insurance companies participating in VHIS are subject to the supervision and regulation of the Insurance Authority under the Insurance Ordinance. In addition, the insurance companies registered as VHIS Providers are required to comply with the rules of the scheme, including the product compliance rules and the code of practice.

The VHIS Office is an office set up under the Health Bureau to implement the VHIS. Its duties include registration of the participating insurers, vetting of individual indemnity hospital insurance plans for certification of compliance status, enforcement of scheme regulations, undertaking of publicity and consumer education programmes, monitoring of scheme performance, information dissemination and compilation of statistics, as well as handling of enquiries and complaints, etc.

The Health Bureau has issued the following scheme rules which VHIS Providers must comply (collectively referred to as "Scheme Documents")

1. Registration Rules for Insurance Companies under the Ambit of the VHIS – Insurance companies must be successfully registered with HHB as VHIS Providers before they are allowed to sell Certified Plans.

2. VHIS Certified Plan Policy Template – The policy terms and benefits of all Certified Plans – whether as Standard or Flexi Plans, must be based on this template.

3. Product Compliance Rules under the Ambit of the VHIS – All insurance plans must be certified by HHB according to these Rules before they can be marketed as Certified Plans.

4. Code of Practice for Insurance Companies under the Ambit of the VHIS – VHIS Providers must comply with the required practices stated in this Code which covers, among others, product offering, migration, sales and marketing, cooling-off period, and underwriting.

Regulator / Financial Service Body	**Scope**
IA	General insurance, long-term business and insurance intermediaries
HKFI	General insurance, long-term business and insurance intermediaries
HKMA	Banks
MPFA	Mandatory provident fund schemes and occupational retirement schemes
SFC	Investment-related entities
ASHK	Actuaries practicing in Hong Kong
HKEx	Listed companies
HKMCA ***Health Bureau***	Retirement financial planning and local annuities development Voluntary Health Insurance Scheme

Please refer to Appendix A for other study material section which contains additional background information.

Note: Questions of the ASHK Examination are related to and supported by the readings listed in the Appendix A of this study guide.

3.1.3 Regulations, professional standards, guidelines and industry standard practice

3.1.3.1 Guidelines[1] and circulars

The IA has issued the following Guidelines.

Candidate's note: The cut-off for the January 2025 edition of this study guide includes all GL1 to GL35 (except for those repealed and/or expired as of 1 January 2025).

[1] All Guidance Notes promulgated by the OCI have been renamed as Guidelines, and the abbreviation have been changed from "GN" to "GL".

These guidelines are within the scope of the ASHK exam. For clarity, any revisions to existing guidelines or additional guidelines published on or after 1 January 2025 are not within the scope of the ASHK exam in the year 2025.

Guideline(s)
GL1: Authorization Guideline (repealed and replaced by GL5: Guideline on Application for Authorization to Carry on Insurance Business in or from Hong Kong on 30 June 2022)
GL2: Guideline on Insurance (General Business) (Valuation) Rules (repealed with effect from 1 Jul 2024)
GL3: Guideline on Anti-Money Laundering and Counter-Terrorist Financing
GL3A: Guideline on Exercising Power to Impose Pecuniary Penalty in respect of Anti-Money Laundering and Counter-Terrorist Financing
GL4: Guideline on "Fit and Proper" Criteria in relation to Authorized Insurers under the Insurance Ordinance (Cap. 41)
GL5: Guideline on Application for Authorization to Carry on Insurance Business in or from Hong Kong
GL6: Guideline on Reserving for Mortgage Guarantee Business
GL7: Guideline on the Reserve Provision for Class G of Long Term Business (repealed with effect from 1 Jul 2024)
GL8: Guideline on the Use of Internet for Insurance Activities
GL9: Guideline on Actuarial Review of Insurance Liabilities in respect of General Business (effective from 1 Jul 2024) *GL9: Guideline on Actuarial Review of Insurance Liabilities in respect of Employees' Compensation and Motor Insurance Businesses (effective until 30 June 2024)*
GL10: Guideline on the Corporate Governance of Authorized Insurers
GL11: Guideline on Classification of Class C - Linked Long Term Business
GL12: Guideline on Reinsurance with Related Companies

Guideline(s)
GL13: Guideline on Asset Management by Authorized Insurers
GL14: Guideline on Outsourcing • *Questions and Answers on "Guideline on Outsourcing" ("GL14")*
GL15: Guideline on Underwriting Class C Business • *Note on the Green Light Process for Assessment of Investment-Linked Assurance Scheme ("ILAS") Products against Standards in Guideline on Underwriting Class C Business (GL15)*   ○ *Appendix 3 - Supplementary Sheet of Benefit Illustration Statement*
GL16: Guideline on Underwriting Long Term Insurance Business (other than Class C Business) • *Questions and Answers on "Guideline on Underwriting Long Term Insurance Business (other than Class C Business)" ("GL16")* • *Interpretation Notes*
GL17: Guideline on Reinsurance
GL18: Guideline on Exercising Power to Impose Pecuniary Penalty in respect of Authorised Insurers under the Insurance Ordinance (Cap, 41)
GL19: Guideline on Qualifying Deferred Annuity Policy
GL20: Guideline on Cybersecurity • *Frequently Asked Questions*
GL21: Guideline on Enterprise Risk Management • *Prescribed Scenarios for the stress and scenario testing to be used by authorized insurers carrying on general insurance business for the purpose of Own Risk Solvency Assessment Report* • *Prescribed Scenarios for the stress and scenario testing to be used by authorized insurers carrying on long term insurance business for the purpose of Own Risk Solvency Assessment Report* • *Key Observations from the First ORSA Reports*
GL22: Guideline on Exercising Power to Impose Pecuniary Penalty in Respect of Regulated Persons under the Insurance Ordinance (Cap. 41)

Guideline(s)
GL23: Guideline on "Fit and Proper" Criteria for Licensed Insurance Intermediaries under the Insurance Ordinance (Cap. 41) • *List of Acceptable Insurance Qualifications*
GL24: Guideline on Continuing Professional Development for Licensed Insurance Intermediaries • *Interpretation Notes* • *Annex A - Disciplinary Approach for Non-compliance with CPD Requirements* • *Annex B - Section 84 Agreement* • *Annex C - Frequently Asked Questions on Continuing Professional Development ("CPD") Issues* • *Guide to prepare Section 84 Agreement for Non-compliance with Continuing Professional Development ("CPD") Requirements* • *S84 Agreement Generator (CPD Non-compliance) (applicable to Assessment Period 2021/2022 and 2022/2023 only. For Assessment Period 2023/2024 onwards, please refer to the User Guide)* • *Requirements applicable to E-learning Activities*
GL25: Guideline on Offering of Gifts • *Interpretation Notes*
GL26: Guideline on Sale of Investment-Linked Assurance Scheme ("ILAS") Products • *Interpretation Notes*   ○ *Appendix 1 - Important Facts Statement and Applicant's Declarations*
GL27: Guideline on Long Term Insurance Policy Replacement • *Interpretation Notes*
GL28: Guideline on Benefit Illustrations for Long Term Insurance Policies • *Interpretation Notes*
GL29: Guideline on Cooling-off Period • *Interpretation Notes*
GL30: Guideline on Financial Needs Analysis • *Interpretation Notes*
GL31: Guideline on Medical Insurance Business

Guideline(s)
• *Frequently Asked Questions*
GL32: Guideline on Group Supervision • *Interpretation Notes for Module C*
GL33: Guideline on Application for Authorization to Carry on Special Purpose Business
GL34: Guideline on Establishment and Maintenance of Fund(s) in respect of Participating Business
GL35: Guideline on Actuary's Report of Investigation in respect of Long Term Business

These Guidelines, though not legally binding, set important standards for insurers. Non-compliance may negatively affect the Insurance Authority's (IA) view of directors, controllers, and licensed intermediaries' fitness. The IA considers non-compliance when assessing prejudicial actions towards policyholders and uses the Guideline to guide intervention decisions. Insurers and intermediaries are expected to follow the Guideline to maintain their standing with the IA.

The Insurance Authority also issues circulars to remind industry participants of regulatory requirements and clarify issues. Refer to "Recent developments in Hong Kong's insurance market" in this study guide for the latest regulatory updates.

3.1.3.2 Professional conduct and actuarial guidance notes

To maintain a high level of professionalism among members, the ASHK regulates actuarial practice of members by issuing By-Laws, professional standards and actuarial guidance notes.

The actuarial guidance notes currently applicable are:

- AGN 5 - Principles of Life Insurance Policy Illustrations (Effective from 17 June 2013)
- AGN 7 - Dynamic Solvency Testing (Effective from 31 December 2016)
- AGN 9 - Actuarial Guidance Note - Best Estimate Assumptions (Effective 1 April 2016)
    - Appendix A to AGN 9 - Participating and Universal Life Business Benefit Illustration Assumptions (Effective 1 April 2016)
- AGN 10 - General Actuarial Practice. (local adaptation by the Actuarial Society of Hong Kong (“ASHK”) of International Standard of Actuarial Practice 1: General Actuarial Practice (“ISAP 1”) as approved by the International Actuarial Association (“IAA”)) (Effective for actuarial services performed on or after 1 January 2021)

The actuarial guidance notes are meant to be suggested standards of practices for actuaries practicing in Hong Kong. Actuaries are expected to review, understand and follow the guidance. If an actuary’s practice is different from the AGNs, the actuary should document the rationale and quantify the impact of any differences.

Professional Code of Conduct (Effective Date: 1 January 2025)

The Professional Code of Conduct ("Code") issued by the Actuarial Society of Hong Kong (ASHK) outlines the minimum standards of professional conduct required of its Associate and Fellow Members ("Members"). It aims to ensure the actuarial profession maintains public confidence and upholds its responsibility to society. This document provides a summarized overview of the key principles and expectations outlined in the Code.

Key Principles and Obligations

Integrity

- Members must act honestly and with integrity, prioritizing their principal’s interests while maintaining the actuarial profession’s responsibility to the public.
- Members must avoid engaging in dishonest conduct, fraud, or actions that harm the actuarial profession’s reputation.

- Members must not associate with information or reports that are materially false, misleading, or lacking relevant details.

Competence and Care

- Members must assess their competence before undertaking new assignments, ensuring they possess the necessary skills and experience.
- Work should adhere to the principal's instructions and meet the needs of relevant stakeholders.
- Collaboration with other professionals or consultation with predecessors is encouraged to ensure the quality and relevance of work.

Compliance

- Members must comply with legal, regulatory, and professional requirements and guidelines.
- Non-compliance by others should be reported to the ASHK President and relevant authorities, if necessary, following legal considerations.
- Continuous professional development is mandatory to maintain relevant knowledge and skills.

Conflict of Interest

- Members must avoid or resolve conflicts of interest, whether actual or perceived, to ensure objectivity.
- Any identified conflict must be disclosed to the principal in writing, and written consent must be obtained before proceeding with the assignment.
- Members must disclose additional sources of compensation or income related to their work for the principal.

Confidentiality

- Members must not disclose confidential information obtained during their professional engagements unless authorized or required by law.
- Confidentiality obligations persist beyond the conclusion of the professional relationship.

Communication

- Members must ensure their communications are clear, accurate, timely, and appropriate to the intended audience.
- Misunderstandings or misinterpretations of actuarial work should be promptly addressed.

- Communication via social media or public platforms must be professional, respecting the actuarial profession's reputation and ethical standards.

Conclusion

The Code serves as a guiding framework for actuarial professionals, emphasizing integrity, competence, compliance, and effective communication. Members are expected to adhere to these standards to maintain the profession's credibility and uphold public trust. Candidates preparing for examinations should thoroughly understand and internalize these principles to ensure adherence in their professional practice.

Professional Standard 1 (PS1) Effective Date: 1 January 2025

Professional Standard 1 (PS1), (new version: effective on 1 January 2025, superseding the version issued on 14 April 1993) issued by the Actuarial Society of Hong Kong (ASHK) outlines the roles, responsibilities, and expectations for actuaries serving as Appointed Actuaries and Certifying Actuaries under the Hong Kong Insurance Ordinance (Cap. 41). It provides a framework to ensure professional behaviour, adherence to regulatory requirements, and protection of policyholder interests. This summary highlights the key points of PS1, which candidates are expected to understand and comply with during their professional practice.

Key Provisions and Obligations
General Requirements:

- **Qualifications**: Actuaries must hold Fellow Membership with ASHK and meet the qualifications stipulated under the Insurance (Actuaries' Qualifications) Regulation (Cap. 41A).
- **Professional Suitability**: Actuaries must assess their own experience and practical capabilities before accepting roles as Appointed or Certifying Actuaries.
- **Predecessor Consultation**: Before assuming a role, actuaries should consult their immediate predecessors, if any, to ensure a smooth transition and proper understanding of responsibilities.
- **Accepted Actuarial Practice**: Actuaries must adhere to ASHK's Actuarial Guidance Notes and disclose any significant deviations from standard practices, especially those impacting results.

Duties of Appointed Actuaries (Long-Term Business):

1. **Advisory Responsibilities**:

   - Inform the insurer and, if necessary, the Insurance Authority about material risks or actions that jeopardize the insurer's solvency or compliance with regulatory requirements.
   - Ensure clear communication of concerns to the governing body.
2. **Reporting and Resource Allocation**:
   - Secure sufficient information and resources to perform investigations and provide reliable reports to the insurer's governing body.
   - Evaluate methodologies, assumptions, and stress tests for solvency, capital requirements, and policyholder expectations.
3. **Policyholder Interests**:
   - Ensure fair treatment of customers and adherence to policyholders' reasonable expectations in assessing liabilities and capital requirements.
   - Communicate implications of assumptions used in policy illustrations, especially for participating and universal life policies.

Duties of Certifying Actuaries (General Business):

1. **Compliance and Reporting**:
   - Present significant reports to the governing body as needed.
   - Ensure compliance with relevant guidelines (e.g., GL9) and ASHK's actuarial notes.
2. **Investigative Authority**:
   - Obtain sufficient resources and information to assess liabilities, risk models, and actuarial policies effectively.
3. **Risk Monitoring**:
   - Evaluate and advise on risk management practices, reinsurance adequacy, and actuarial assessments impacting general insurance operations.

PS1 establishes clear standards for actuaries' professional conduct, focusing on qualifications, ethical responsibilities, and adherence to actuarial best practices. It aims to enhance transparency, regulatory compliance, and the protection of policyholders' interests. Candidates should familiarize themselves thoroughly with PS1 to effectively apply its principles in their roles as Appointed or Certifying Actuaries.

PS2 (revised on and effective 23 December 2015). This standard applies to the preparation of actuarial certificates as required under Section 15(e), 31(2) and 32(2)(b) of the Ordinance, as stipulated in Section 2 of the Occupational Retirement Schemes (Preparation of Actuarial Certificates) Rules (Cap. 426 sub leg. H) and in accordance with Section 2 of the Occupational Retirement Scheme (Periodic Certification of Registered Defined Benefit Schemes) Rules (Cap. 426 sub leg. I).

3.1.3.3 Authorisation requirements and guidelines

Any company intending to carry on insurance business in or from Hong Kong must apply to the Insurance Authority (IA) for authorization in accordance with the Insurance Ordinance (Cap. 41) ("Ordinance").

Authorization will only be granted to insurers that meet the requirements set out in Section 8 of the Ordinance. These include compliance with the minimum paid-up share capital and solvency margin under Section 8(3), meeting the "fit and proper" criteria for directors and controllers as per Section 8(2), and maintaining adequate reinsurance arrangements in line with the Ordinance.

Applicants must also comply with additional conditions outlined in the Guideline on Application for Authorization to Carry On Insurance Business in or From Hong Kong (GL5) issued by the IA. These conditions ensure that applicant insurers are financially sound, possess a viable business model, and maintain sound corporate governance. Section 2 of GL5 elaborates on these requirements, which continue to apply after authorization to ensure ongoing compliance.

For both local and non-Hong Kong applicants, the authorization process emphasizes the adequacy of capital, business viability, and compliance with local regulatory standards, including corporate governance as detailed in GL10, reinsurance practices in GL17, and enterprise risk management requirements in GL21.

3.1.3.4 Statutory reserved roles for actuaries

The following is a list of statutory reserved roles for actuaries in Hong Kong:

- Appointed actuary of an insurance company with long-term insurance business (for whom compliance with PS1 is compulsory)
- Providing an actuarial opinion on the transfer of liabilities of a long-term insurance business
- Preparation of actuarial report and actuarial certificate for ORSO schemes (the actuary who signs the actuarial certificate must comply with PS2)
- Actuarial review and preparation of annual actuarial report with respect to all classes of general business within the regulatory scope in accordance with GL9

In addition to the above, the IO Section 13 AE(12) introduces the concept of "key persons in control functions". They are individuals responsible for control functions, namely in the Actuarial, Financial Control, Internal Audit, Compliance, Risk Management and Intermediary Management (and other functions the Financial

Secretary specified by notice). Appointment of such key personnel is subject to the approval of the IA, as mandated by the IO. Hence, the actuarial function which is to evaluate and monitor the technical provision, premium and pricing of insurer, reserving and investment policies and reinsurance arrangement, policies and controls in respect of the insurer's vulnerability to fluctuation in risk exposure and distribution policies, are also considered as statutory roles

It is important to note that one will need to satisfy the Fit and Proper criteria as required by and be approved by the IA for actuaries to officially take on statutory roles.

There is a need for actuaries to be aware of certain potential liabilities other than statutory requirements. Since Hong Kong is a Common Law jurisdiction (vis-à-vis Civil Law in other legal framework such as that in Mainland China), actuaries are subject to the case laws as they develop. As in the case of other professionals, actuaries should have a good understanding of important issues such as contractual obligations, duty of care and professional negligence.

Guideline 35: Actuary's Report of Investigation in Respect of Long-Term Business

The Insurance Authority (IA) issued Guideline 35 under the **Insurance Ordinance (Cap. 41)** to standardize the preparation of actuary reports for long-term business. This guideline outlines the minimum scope and content expected from the appointed actuary when performing an annual investigation into the financial condition of authorized insurers.

Please refer to Appendix A for other study material section which contains additional background information.

Note: Questions of the ASHK Examination are related to and supported by the readings listed in the Appendix A of this study guide.

3.1.4 Risk management responsibilities for actuaries

There are currently no official requirements set in statute or within ASHK professional standards or guidance notes with regards to risk management responsibilities for actuaries. Notwithstanding this, the importance of enterprise risk management is increasingly being emphasised by regulators around the world.

Many of the tasks performed by actuaries are intimately linked to the risks of our organisations. Besides financial risks that actuaries are generally very focused on, operational risks and reputational risks must not be underestimated as their long term financial impact could be very significant.

A few risk issues where actuaries in Hong Kong would often come across are included in this syllabus, namely:

- Consumers complaints or disputes
- Anti-money laundering (AML) and counter-terrorist financing (CTF)
- Data protection
- Outsourcing
- Anti-discrimination

3.1.4.1 Consumers complaints or disputes

The complaint-handling framework in Hong Kong's insurance industry is comprehensive, involving multiple regulatory bodies and mechanisms to ensure policyholder protection and industry accountability. The **Insurance Authority (IA)** plays a central role, overseeing authorized insurers and licensed insurance intermediaries, while other specialized organizations address specific types of complaints.

This integrated framework enhances consumer protection, transparency, and fairness in the insurance sector while empowering policyholders with accessible complaint-handling mechanisms.

Insurance Authority (IA) Complaint Handling:

- **Current Role**: The IA directly handles complaints regarding the conduct of authorized insurers and licensed insurance intermediaries, including agents and brokers. For complaints that do not involve conduct issues, such as claims or commercial disputes, the IA may monitor and ensure that these complaints are properly addressed by the insurers or relevant bodies.

Actuaries' Involvement in Complaint Resolution:

- **Role in Product Development**: Actuaries play a crucial role in risk management during product design and pricing, being mindful of potential reputation risks and historical complaints.
- **Assistance in Dispute Resolution**: They may also be involved in resolving customer complaints by explaining complex product features or estimating fair compensation when necessary.

Insurance Complaints Bureau (ICB):

ICB provides an independent platform for unresolved disputes following insurer decisions.

- **Jurisdiction**: The ICB handles disputes arising from personal insurance policies including claims decision of insurers, maladministration on the part of insurers, claim-related complaints through adjudication and non-claim-related monetary disputes through mediation. The disputes must be of monetary nature.

The ICB has no jurisdiction to handle disputes arising from industrial, commercial or third party insurance.

The ICB only handles complaints with dispute amounts up to HK$1,500,000. For complaints over its jurisdiction limit, complainants may consider seeking legal advice or taking the matter to the court of law.

Small Claims Tribunal (SCT):

- **Jurisdiction**: The SCT handles monetary claims not exceeding HK$75,000. Policyholders with unresolved disputes within this limit may seek assistance from the SCT.

Complaint handling of Insurance Intermediaries:

- **Legislative Framework**: Part X of the Insurance Ordinance (Cap. 41) governs the regulation of insurance intermediaries. Section 64 prohibits individuals from acting as insurance agents or brokers without proper authorization.
- **Complaint Channels**: Since the IA's establishment, it has taken over the regulatory functions from previous self-regulatory organizations. Complaints against insurance agents or brokers should be directed to the IA.

Motor Insurers' Bureau (MIB):

- **Function**: The MIB provides compensation to victims of traffic accidents involving uninsured or untraceable vehicles, or in cases where the insurer is insolvent.

Employees Compensation Insurer Insolvency Bureau (ECIIB):

- **Function**: The ECIIB administers the Insolvency Fund Scheme, assuming liabilities of insolvent insurers related to employees' compensation.

Consumer Council:

- **Role**: The Consumer Council mediates consumer disputes, including those related to insurance products and services.

Mandatory Provident Fund Schemes Authority (MPFA) - Enforcement Division:

- Addresses complaints against MPF trustees and intermediaries.

  The Enforcement Division of MPFA is responsible for handling complaints against “approved trustees” as one of its functions is to regulate the affairs and activities of approved MPF trustees. Consumers are encouraged to contact the trustees of their schemes in the first place to reflect their dissatisfaction and seek resolution, before filing a complaint with MPFA.

The Enforcement Division is also responsible for handling complaints against "MPF intermediaries" for non-compliance with the performance requirements, and/or a person for carrying on regulated activities without MPF intermediary registration. Furthermore, complaints against MPF intermediaries can also be made to the IA.

- Monitors compliance for **Occupational Retirement Schemes (ORSO)**.

  MPFA is also responsible to ensure "employers" and "administrators of ORSO schemes operate ORSO schemes (MPFA staff)" in accordance with the Occupational Retirement Schemes Ordinance (Cap 426), Mandatory Provident Fund Schemes (Exemption) Regulation (Cap 485 sub. leg. B) and in a prudent manner. The ORSO Schemes Section of MPFA is responsible for handling complaints against employers and administrators of ORSO schemes.

Financial Dispute Resolution Centre (FDRC):

- Mediates and arbitrates monetary disputes between consumers and financial institutions under the **Financial Dispute Resolution Scheme**.
- Dispute Resolution Centre (FDRC) is an independent and impartial organisation administering the Financial Dispute Resolution Scheme (FDRS) which requires financial institutions, members of the FDRS, to resolve monetary disputes with their customers through mediation and/or arbitration.
- FDRC will only handle a dispute that fulfils all of the following conditions (known as 'Eligible Disputes') –
  - the financial services provider involved in the dispute must be a member financial institution of the FDRS (known as an FI);
  - involves an Eligible Claimant (EC);
    - is of monetary nature; and
    - must arise out of a contract between the EC and the FI that was entered into or arose in Hong Kong, or any act or omission of the FI in connection with the provision of a Financial Service to an EC where the FI acted as an agent.
- Generally, all disputes which have to first been raised by an EC with the relevant financial institution so as to give the financial institution an opportunity to resolve it directly, before FDRC involvement.

- Also, FDRC does not handle a dispute if the EC has lodged a complaint against the FI with the ICB currently or if FDRC knows that the dispute has been the subject of court proceedings where there is a decided judgment.

3.1.4.2 Anti-money laundering (AML) & counter-terrorist financing (CTF)

Due to increased international scrutiny of money laundering and terrorist financing, the Financial Services and the Treasury Bureau took over coordination of AML and CTF policies in October 2008. The Bureau ensures Hong Kong's compliance with the FATF's *40+9 recommendations*.

Insurers' obligations are outlined in Section 7 of the AMLO (Cap 615) and Section 4A(ee) of the Insurance Ordinance. The AMLO requires financial institutions, including insurance companies, to perform customer due diligence and maintain records. Authorities like HKMA, IA, MPFA, and SFC supervise compliance.

The insurance industry is susceptible to ML and TF due to the nature of its products. Life insurance policy funds become available at maturity or surrender, and beneficiaries can change before these events. Policies might be used as collateral for other financial investments, forming part of a complex transaction network within the financial system.

Examples of the type of long-term insurance contracts that are vulnerable as a vehicle for laundering money or financing terrorism are products such as:

- Unit-linked or with profit single premium contracts
- Single premium life insurance policies that store cash value
- Fixed and variable annuities
- (second-hand) endowment policies

In light of the above, **GL3** and **GL3A** are issued by the Insurance Authority of Hong Kong:

Broader Scope of Responsibilities and Risk-Based Approach

- **Guidelines Reference:** GL3 emphasizes the **risk-based approach (RBA)** to AML/CFT. This requires insurance institutions to identify, assess, and understand their exposure to money laundering (ML) and terrorist financing (TF) risks and adopt mitigation measures commensurate with those risks. GL3A supplements this with sector-specific considerations.
- **Enrichment:** Actuaries should incorporate **RBA principles** into product design by conducting ML/TF risk assessments at the product, customer, and geographic levels. Products with higher ML/TF risks, such as single premium or cash value life insurance policies, require enhanced due diligence (EDD) and monitoring systems.

Sector-Specific ML/TF Risks in Insurance

- **Guidelines Reference:** GL3 and GL3A emphasize vulnerabilities unique to the insurance sector, including products with cash value, high liquidity, or ease of transferability.
- **Additional Enrichment:** Expand the description of vulnerable insurance products to include:
    - Universal life insurance policies.
    - Group life insurance plans (if they allow large sums of money to be processed).
    - Temporary life insurance policies used to store funds temporarily.
- Include **real-world case examples** or typologies from the Financial Action Task Force (FATF) reports to demonstrate how insurance products have been exploited in ML/TF schemes.

Enhanced Customer Due Diligence (CDD)

- **Guidelines Reference:** Section 7 of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) requires insurance institutions to conduct customer due diligence (CDD).
- **Additional Enrichment:** Include the following detailed obligations:
    - Identification and verification of the customer's identity using reliable, independent source documents (e.g., government-issued ID).
    - Identification of beneficial owners for policies purchased by legal entities.
    - Ongoing monitoring of business relationships, particularly for **politically exposed persons (PEPs)** and high-risk customers.
- Stress the **importance of red flags** actuaries and insurers should look for, such as:
    - Policies purchased using large sums of cash.
    - Frequent policy transfers or assignments.
    - Beneficiaries or policyholders located in high-risk jurisdictions.

Reporting Suspicious Transactions

- **Guidelines Reference:** GL3 emphasizes the obligation to file Suspicious Transaction Reports (STRs) under Hong Kong's AML/CFT framework.
- **Additional Enrichment:** Include:
    - Examples of suspicious activities (e.g., early policy surrender with minimal loss, frequent changes to beneficiaries).
    - Procedures for reporting suspicious transactions to the Joint Financial Intelligence Unit (JFIU).
    - Discuss penalties for non-compliance with STR obligations under AMLO.

Importance of Training and Internal Controls

- **Guidelines Reference:** Both GL3 and GL3A require insurers to implement effective internal controls and staff training.
- **Additional Enrichment:**
    - Highlight the role of actuaries in designing **internal warning systems** to detect anomalies in claims and transaction patterns.
    - Encourage **ongoing staff training** to raise awareness of ML/TF risks and ensure compliance with AML/CFT obligations.

Technological Solutions and Post-Sales Monitoring

- **Guidelines Reference:** GL3 emphasizes the use of advanced technologies for AML/CFT compliance.
- **Additional Enrichment:** Actuaries should advocate for leveraging **Regtech solutions** to enhance monitoring and detection:
    - Automated systems for transaction pattern analysis.
    - Early warning systems to track suspicious behaviour, such as:
        - Frequent small contributions to policies followed by large withdrawals.
        - Unusual cross-border premium payments.
- Incorporate examples of how post-sales monitoring can mitigate risks, such as identifying money laundering schemes using second-hand endowment policies.

GL3A Focus on Emerging Risks

- **Guidelines Reference:** GL3A provides further details on the responsibilities of insurance intermediaries and highlights sector-specific vulnerabilities.
- **Additional Enrichment:** Discuss emerging risks, including:
    - **Cryptocurrency payments** used to fund premiums or policy loans.
    - New products with embedded cash-value features (e.g., hybrid insurance-investment policies).
- Highlight the evolving expectations for intermediaries to assess AML/CFT risks during the sales process and flag high-risk transactions for insurers.

FATF Recommendations and linkage to Guidelines: GL3 and GL3A align with FATF Recommendations, in particular:

- **Recommendation 10: Customer Due Diligence (CDD)**
  This recommendation mandates financial institutions, including insurers, to undertake CDD measures when establishing business relationships, conducting occasional transactions above a certain threshold, or when there is suspicion of money laundering or terrorist financing. The measures include identifying and verifying the identity of customers and beneficial owners, understanding the

purpose and intended nature of the business relationship, and conducting ongoing due diligence.

- **Recommendation 11: Record Keeping**
  Financial institutions are required to maintain all necessary records on transactions and information obtained through the CDD process for at least five years. This ensures that competent authorities can access adequate information to trace financial transactions and support investigations.
- **Recommendation 12: Politically Exposed Persons (PEPs)**
  This recommendation requires financial institutions to implement appropriate risk management systems to identify PEPs and apply enhanced due diligence measures when establishing business relationships with them. Given the higher risk associated with PEPs, insurers must take reasonable measures to establish the source of wealth and funds and conduct enhanced ongoing monitoring.
- **Recommendation 17: Reliance on Third Parties**
  Financial institutions may rely on third parties to perform CDD measures, provided certain criteria are met. However, the ultimate responsibility for customer identification and verification remains with the institution relying on the third party. Insurers should ensure that the third party is regulated, supervised, and has measures in place for compliance with CDD and record-keeping requirements.
- **Recommendation 20: Reporting of Suspicious Transactions**
  Financial institutions are obligated to report promptly to the Financial Intelligence Unit (FIU) when they suspect or have reasonable grounds to suspect that funds are the proceeds of a criminal activity or are related to terrorist financing. This is crucial for insurers to detect and prevent potential misuse of insurance products for illicit purposes.
- **Recommendation 24: Transparency and Beneficial Ownership of Legal Persons**
  Countries should take measures to prevent the misuse of legal persons for money laundering or terrorist financing by ensuring that adequate, accurate, and timely information on their beneficial ownership is available to competent authorities. Insurers must understand the ownership and control structure of legal entity customers to mitigate risks effectively.
- **Recommendation 25: Transparency and Beneficial Ownership of Legal Arrangements**
  Similar to Recommendation 24, this focuses on legal arrangements like trusts. Insurers should obtain information on the beneficial ownership and control of such arrangements to prevent their misuse in money laundering or terrorist financing schemes.

Actuaries' Role in AML/CFT Compliance

- **Guidelines Reference:** GL3 indirectly highlights the importance of actuaries in designing compliant products.
- **Additional Enrichment:** Emphasize the dual role of actuaries:
  - **Product Design:** Incorporate features that minimize exploitation risks, such as restricting frequent policy assignments.
  - **Risk Assessment:** Provide insights during risk assessments for new products, focusing on vulnerabilities unique to insurance.

It is therefore important for actuaries to bear in mind the risk of ML and TF when designing products. In addition, post sales, it is necessary to put in place early warning system to track suspicious customer behaviour.

3.1.4.3 Data protection

Personal data of policyholders are collected extensively in the insurance business. Therefore, regulators emphasize the importance of proper handling of this personal data.
The law in Hong Kong governing this is the Personal Data (Privacy) Ordinance, Cap 486. The objective of the Ordinance is to protect the privacy rights of individuals in relation to their personal data. A body has been established under the Ordinance to oversee its application, namely the Office of the Privacy Commissioner for Personal Data (PCPD). Everyone responsible for data handling is required to follow the Six Data Protection Principles (DPPs), which cover the life cycle of personal data:

- Purpose and manner of collection principle
- Accuracy and duration of retention principle
- Use of data principle
- Data security principle
- Openness and transparency principle
- Access and correction principle

The Office of PCPD has issued a guidance note titled "Guidance on the Proper Handling of Customers' Personal Data for the Insurance Industry", outlining the DPPs that underpin the treatment of personal data. This guidance also discusses the use of personal data for direct marketing purposes.

Additionally, the guidance provides practical tips and examples for better understanding and compliance with the Ordinance, such as personal information collection statements, principles in collecting customer medical data, data collection during insurance claim investigations, and using data for internal training.

If third parties are entrusted with the handling of customers' personal data, insurance companies should ensure the safe handling and erasure of the data by the contractors and to prohibit further or other use of the data. Appropriate precautionary measures to protect the personal data must be adopted. Recommended practice is available on pages 21-22 of the Guidance Note from PCPD. There is also an information leaflet on "Outsourcing the Processing of Personal Data to Data Processors" issued by the Privacy Commissioner.

3.1.4.4 Outsourcing

Insurance companies often outsource customer-related and back-office services to cut costs, which increases risks tied to third-party dependence. The IA's Guideline 14 (GL14) advises insurers on managing outsourcing. Remember, outsourcing does not absolve insurers from legal responsibilities. Annex 1 of GL14 lists services considered as outsourcing when done by a provider:

- Application processing (e.g. insurance proposals, policy loans)
- Policy administration (e.g. premium collection, invoicing, policy renewals, customer services)
- Claims processing (e.g. claims assessment, claims recoveries)
- Documents processing (e.g. cheques, bill payments)
- Investment management (e.g. portfolio management, cash management)
- Manpower management (e.g. manpower planning, staff recruitment, salaries and benefits administration, training and development)
- Marketing and research (e.g. product development, telemarketing, media relations)
- Information system management (e.g. information system, intranet and website development and maintenance, information technology security, desktop support)
- Risk management and internal control (e.g. compliance, internal audit)
- Professional services related to the business activities of the authorised insurer (e.g. accounting, actuarial)

The following are some examples of activities that would generally not be regarded as outsourcing according to GL14:

- Sale of insurance policies by agents or brokers, and ancillary services relating to those sales
- Ceding insurance business

- Independent advisory and consultancy services Loss adjusting service
- Independent audit review
- Medical examination by assigned medical and health clinics and centres
- Market information services (e.g. Standard & Poor's, Moody's)
- Purchase of goods and commodities
- Repair and maintenance of fixed assets
- Maintenance and support of licensed software
- Specialised recruitment and procurement of specialised training
- Employment of contract or temporary personnel
- Common network infrastructure (e.g. Visa, Mastercard)
- Banking services
- Printing services
- Transportation services
- Mail and courier services
- Cleaning services
- Utilities and telephone

The MPFA views outsourcing to an overseas service provider as a significant retirement scheme change. Trustees must notify the MPFA and provide details including function, start date, service provider name, jurisdiction, and a copy of the agreement. All outsourcing arrangements must comply with the Personal Data (Privacy) Ordinance (Cap. 486).

3.1.4.5 Anti-discrimination

The Equal Opportunities Commission (EOC) in Hong Kong has conducted an analysis "Press Statement and Summary on Discussion Paper on Insurance Issues under the Anti-discrimination Legislation, CB(1) 592/02-03" of insurance policies sold by countries with similar legislation to Hong Kong, which include Australia, Canada, New Zealand, the United Kingdom and the United States. The study found that, if actuarial data and other proven information support a risk differential, discrimination based on attributes such as sex, disability and age is lawful.

Based on the study results, sex is a common discriminator in life insurance overseas, whereas the differentiation between groups in Hong Kong is mainly driven by commercial considerations. A major difference is the tendency of foreign insurers to offer greater coverage for pre-existing conditions in medical insurance. This contrasts with the popularity of coverage with exclusion of pre-existing conditions in Hong Kong. Besides, it was noted that actuarial data availability is much lower for medical insurance than for life insurance in Hong Kong, particularly because unlike other countries in the study (Actuarial Society of Hong Kong Response Paper (2015)), insurers in Hong Kong do not share medical data among themselves.

Insurers in Hong Kong are generally permitted to differentiate policyholders (offer different premium rates, policy acceptance and policy provisions) based on risk factors such as age, sex and occupation. However, it is unlawful to discriminate a person in the provision of insurance service under all the existing anti-discrimination ordinances in Hong Kong, i.e. the Sex Discrimination Ordinance (SDO), the Disability Discrimination Ordinance (DDO), the Family Status Discrimination Ordinance (FSDO) and the Race Discrimination Ordinance (RDO). Insurers can claim exception under the SDO (Section 51), DDO (Section 52) and FSDO (Section 38) if the differential treatment was (a) effected by reference to actuarial or other data from a source on which it was reasonable to rely; and (b) was reasonable having regard to the data and any other relevant factors. However, such exception is not provided under the RDO.

The SDO prohibits discrimination in employment terms, benefits, facilities, or services based on sex, marital status, or pregnancy. This rule covers both existing and new contracts. Benefits include fringe benefits, commissions, bonuses, allowances, pensions, health insurance, annual leave, merit pay, and performance pay. Group insurance actuaries should avoid potential discrimination in product design.

The DDO states that providing less favourable terms due to a person's disability can be direct discrimination. The anti-discrimination law recognises that insurance necessarily involves the classification of risks and that premiums are tailored to reflect such risks. The EOC developed a case study to illustrate potential insurance discrimination. It covers an instance where an insurer raised the premium on an applicant's basic life plan and denied additional coverage. Discrimination is confirmed only if the insurer can't show the decision was based on reasonable, reliable data.

Section 22 of the RDO applies to commission agents, who are remunerated fully or partially through commission for work done for their principals. An insurance company (principal) should not discriminate against its insurance agents (agent) on the ground of race. There are similar provisions under the other 3 anti-discrimination ordinances, including Section 20 of the SDO and DDO and Section 16 of the FSDO.

While advancements in technology and underwriting techniques continue to enhance risk assessment, the introduction of new methodologies or technologies, such as genetic testing, may face challenges due to privacy and discrimination concerns. Given the increasing attention to InsurTech, these concerns are likely to become more pronounced.

In EOC website, several conciliated cases on Sex Discrimination Ordinance are displayed, where they are summarized to highlight the specifics. These cases are pertinent to insurance.

Case 1: Genetic Test and Health Insurance

- **Background:**
  The complainant (C) underwent a genetic test due to her father's history of breast cancer and tested positive for being a carrier of breast cancer genes. Upon applying for a health insurance plan, the insurance company (R) introduced exclusion clauses denying coverage for conditions related to her ovaries and breasts based on her genetic test result.
- **Complaint:**
  C filed a disability discrimination complaint under Sections 6 and 52 of the Disability Discrimination Ordinance (DDO), arguing that the exclusion clauses constituted unlawful discrimination.
- **Outcome:**
  The case was resolved through early conciliation, with the insurer agreeing to provide a written explanation of their position and address the complainant's concerns.
- **Remarks:**
  Under the DDO, discrimination based on disability—including a disability that may exist in the future—is unlawful unless justified by actuarial or other reliable data, and the treatment must be deemed reasonable.

Case 2: Visual Impairment and Travel Insurance

- **Background:**
  The complainant (C), who has a visual impairment, sought travel insurance from a bank (R) to travel to Japan with his family. The bank refused to provide coverage, claiming that C was prone to injuries, despite having no supporting data. C stated he was a frequent traveller with family support during trips.
- **Complaint:**
  C lodged a complaint of disability discrimination under Section 52 of the DDO, citing unfair treatment based on his disability.
- **Outcome:**
  The case was conciliated in November 2001. The bank agreed to issue internal instructions to assess insurance applications from individuals with disabilities on their merits rather than imposing blanket exclusions. The bank also promised to offer C the same insurance terms as a non-disabled person for future purchases.

- **Remarks:**
  Travel insurance policies should not contain blanket exclusions based on disability. Any exclusions must be supported by actuarial or reliable data and deemed reasonable under the circumstances.

Readers should note that these cases should not be relied upon as a replacement for legal advice. These cases highlight the challenges faced by individuals with genetic predispositions or disabilities in accessing insurance coverage and the importance of fair and non-discriminatory practices by insurance companies.

Guidelines on enterprise risk management for risk-based capital regime
In January 2019, the IA issued the Guideline 21 on Enterprise Risk Management (ERM) as part of the Pillar 2 (i.e. qualitative) requirements under the new Risk-based Capital (RBC) regime. The stress and scenario testing are prescribed by the HKIA, with specific parameters for the year ending 31 December 2020 contained in the related documents link below. Two sets of scenarios are provided – one for long term insurers, and the other for general insurers. For long term insurers, testing is to be performed on various market risks (interest rate, equity, property and credit), life insurance risk scenarios, and a combination of both. For general insurers, scenarios include market risks, insurance losses, and a combination of both.

Please refer to Appendix A for other study material section which contains additional background information.

Note: Questions of the ASHK Examination are related to and supported by the readings listed in the Appendix A of this study guide.

3.1.5 Reinsurance and captives

Under the IO, an insurer is required to arrange adequate reinsurance protection unless there are justifications not to do so. A sound reinsurance management framework is commonly found within an insurance company's risk management toolkit. The IA sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes.

In July 2018, the IA obtained preferential terms under mutual equivalence with China Banking and Insurance Regulatory Commission. The preferential terms aim to:

- facilitate the co-operation between the Mainland and Hong Kong in cross-border reinsurance business, enabling the Hong Kong insurance industry to assist Mainland enterprises more effectively in diversifying and managing risks, including supporting Mainland enterprises' participation in the infrastructure and investment projects under the Belt and Road Initiative.

- help sharpen the competitive edge of the Hong Kong insurance industry and strengthen Hong Kong's position as a reinsurance hub in Asia.

3.1.5.1 Guideline pertaining to reinsurance (GL17 and GL12)

Guideline 17 (GL17), issued by the Insurance Authority (IA), provides comprehensive standards for authorized insurers regarding their reinsurance arrangements. It aims to ensure that insurers effectively manage reinsurance programs to safeguard financial stability, comply with regulatory requirements, and protect policyholders' interests.

GL17 establishes principles for reinsurance arrangements to:

- Enhance the financial security of authorized insurers.
- Ensure effective risk transfer and mitigation through proper reinsurance practices.
- Applicable to all authorized insurers operating in Hong Kong, regardless of whether they are ceding, assuming, or retroceding risks (GL17 1.1-1.2).

Governance of Reinsurance Arrangements

Board and Senior Management Oversight (GL17 3.1-3.3):

- The Board of Directors and senior management must:
    - Approve and oversee the insurer's reinsurance strategy and policy.
    - Ensure the reinsurance program aligns with the insurer's risk appetite and business objectives.
    - Review reinsurance arrangements periodically to maintain effectiveness.

Reinsurance Policy (GL17 3.4-3.5):

- Insurers must maintain a written reinsurance policy that includes:
    - Objectives and scope of reinsurance arrangements.
    - Criteria for selecting reinsurers and assessing their creditworthiness.
    - Risk limits and guidelines for reinsurance coverage.

Assessment of Reinsurers

Creditworthiness of Reinsurers (GL17 4.1):

- Insurers must evaluate the financial strength and credit rating of potential reinsurers.
- Preference should be given to reinsurers with strong credit ratings from recognized agencies (e.g., S&P, Moody's, Fitch).

Concentration Risk (GL17 4.2):

- Insurers must diversify reinsurance exposure to avoid excessive reliance on a single reinsurer or group of reinsurers.

Use of Unauthorized Reinsurers (GL17 4.3):

- Where an insurer engages an unauthorized reinsurer, it must:
  - Obtain collateral (e.g., letters of credit or trust accounts) to mitigate counterparty risk.
  - Ensure compliance with IA requirements for unauthorized reinsurer arrangements.

Structuring Reinsurance Arrangements

Proportional and Non-Proportional Reinsurance (GL17 5.1):

- Insurers must select reinsurance types (e.g., quota share, surplus, or excess of loss) based on the nature of the underlying risks and the insurer's financial needs.

Tailored Risk Transfer (GL17 5.2):

- Reinsurance programs should be tailored to meet the insurer's risk profile, ensuring that retained risk aligns with its capital resources and solvency requirements.

Contract Clarity (GL17 5.3):

- Reinsurance contracts must clearly define terms, including coverage limits, exclusions, and reporting requirements, to avoid ambiguities.

Monitoring and Reporting of Reinsurance Programs

Monitoring Reinsurance Effectiveness (GL17 6.1):

- Insurers must regularly review and monitor the performance of reinsurance arrangements to ensure they meet intended objectives.

Compliance Reporting to IA (GL17 6.2):

- Insurers must submit reports to the IA that:
  - Provide details of their reinsurance programs.
  - Highlight any material changes or significant concentrations of reinsurance exposure.
  - Confirm compliance with regulatory requirements.

Documentation and Record-Keeping (GL17 6.3):

- Insurers must maintain comprehensive records of all reinsurance arrangements, including agreements, credit assessments, and monitoring reports.

Stress Testing and Risk Management

Stress Testing (GL17 7.1):

- Insurers are required to perform stress tests to evaluate the resilience of their reinsurance programs under adverse scenarios, such as large claims or market downturns.

Integration with Risk Management Framework (GL17 7.2):

- Reinsurance arrangements must be integrated into the insurer's overall risk management framework to ensure alignment with its risk appetite and solvency needs.

Counterparty Risk and Collateral Management

Counterparty Risk Management (GL17 8.1):

- Insurers must assess and manage counterparty risks arising from reinsurance arrangements, particularly with unauthorized reinsurers.

Collateral Requirements (GL17 8.2):

- Where applicable, insurers must obtain appropriate collateral to secure obligations from reinsurers and mitigate exposure.

Supervisory Expectations

Cooperation with the IA (GL17 9.1):

- Insurers must cooperate with the IA by providing access to reinsurance agreements, records, and supporting documentation.

Remedial Actions (GL17 9.2):

- The IA may direct insurers to take remedial actions if reinsurance arrangements are deemed inadequate or non-compliant with regulatory standards.

To sum up, GL17 aims to ensure that authorized insurers:

- Establish robust and effective reinsurance arrangements.
- Manage risks prudently through careful selection of reinsurers and diversification of exposure.
- Maintain financial stability and protect policyholders by transferring and mitigating risk appropriately.

By setting clear governance, structuring, and monitoring standards, GL17 strengthens the resilience of insurers against adverse events and contributes to the overall stability of the insurance industry in Hong Kong.

Guideline 12 (GL12), titled "Guideline on Reinsurance with Related Companies," issued by the Insurance Authority (IA), provides standards for authorized insurers in Hong Kong when engaging in reinsurance arrangements with related reinsurers. A "related reinsurer" refers to a reinsurer within the same group of companies as the insurer, as defined in section 2(7)(b) and (c) of the Insurance Ordinance (Cap. 41).

Purpose and Scope:

- **Objective:** GL12 aims to ensure that reinsurance arrangements with related companies are adequate in terms of financial security, thereby protecting policyholders and maintaining the financial stability of authorized insurers.
- **Application:** This guideline applies to authorized insurers incorporated in Hong Kong and certain authorized insurers incorporated outside Hong Kong, particularly those with significant business operations related to Hong Kong insurance.

Key Provisions:

- **Adequacy of Reinsurance Arrangements:** The IA assesses the adequacy of reinsurance arrangements by evaluating the financial security provided by related reinsurers. A related reinsurer is considered to provide adequate security if it meets one of the following criteria:
    - Is an authorized insurer in Hong Kong.
    - Possesses, or has a holding company that possesses, a high Insurer Financial Strength Rating (e.g., AA- or above by Standard & Poor’s).
    - Is deemed by the IA to have a comparable status.
- **Supervisory Concerns:** If a related reinsurer does not meet the above criteria, the IA may have supervisory concerns regarding the reinsurance arrangement. In such cases, the IA may restrict the net reinsurance recoverable from the related reinsurer to a certain percentage of the ceding insurer's capital and reserves or require the insurer to obtain collateral to mitigate potential risks.

Implementation:

- **Governance:** Insurers are expected to exercise prudent control over their reinsurance arrangements, especially when dealing with related reinsurers, to prevent compromised financial security.
- **Compliance:** Insurers must ensure that their reinsurance practices with related companies comply with GL12 to maintain regulatory standards and protect policyholder interests.

3.1.5.2 Captive insurance

A captive insurance company only insures risks from its group. As group companies absorb losses, the public remains unaffected by claims. Captives benefit from regulatory concessions and face fewer regulations than typical insurers.

Few captive companies operate in Hong Kong. GL 17 now allows using special purpose vehicles to transfer risk to the capital market.

Other study material

Note: Questions of the ASHK Examination are related to and supported by the readings listed below.

3.1.6 Recent industry developments

3.1.6.1 Regulation and accounting related topics

In addressing the wide range of changes in the insurance industry driven by social, technological and global economic forces, the IAIS has introduced Insurance Core Principles (ICPs) which provide a globally accepted framework for the supervision of the insurance sector. The ICPs have driven some of the regulatory changes in Hong Kong in recent years, e.g. the establishment of the IA, and the introduction of HKRBC , and GL34.

Further changes in the regulatory environment of the insurance industry in Hong Kong are expected, including:

- HK RBC now uses a risk-based solvency requirement, replacing the previous Solvency-I type regulation. Like other jurisdictions, HK RBC follows a "Three-Pillar" approach: (i) quantitative aspects, (ii) qualitative aspects, and (iii) disclosure. See section 3.1.6.3 for details.

- A Policyholder Protection Fund (PPF) can serve as an extra safeguard to shield insurance policyholders from losses due to insurer insolvency. Since 2002, the IA has studied its feasibility, engaged with industry stakeholders, briefed the Legislative Council, and consulted the public. While some support the compensation fund for boosting consumer confidence, others in the insurance industry worry about potential moral hazards. The final scheme was published in early 2012. The PPF includes two schemes: life and non-life, providing limited coverage. It complements, rather than replaces, enterprise risk management and regulatory standards.

- HKFRS 17, IFRS 17 (previously IFRS 4 Phase 2)
    - Historically, HKFRS aligns closely with IFRS. IFRS 4, issued by IASB in March 2004, guided the accounting of insurance contracts. HKFRS 4 allowed varied accounting practices based on national requirements, making it difficult to compare insurers' results accurately. Some practices under HKFRS 4 failed to represent the true financial state of insurance contracts. To address this, HKFRS/IFRS 17 was introduced for better consistency and usefulness in financial statements.

  - HKFRS 17 is effective from January 1, 2023. Early application is permitted for entities also applying HKFRS 9 Financial Instruments, with disclosure required if applied earlier.

- GL34: Guideline on Establishment and Maintenance of Fund(s) in respect of Participating Business
  - The requirement is effective from 1 July 2024, aiming to strengthen the protection of participating policyholders.
  - Areas covered in the GL34 include the identification of assets and liabilities, determination of the opening balance, allocation of expenses and charges, allocation of distributable surplus/profits, capital support, physical segregation of assets, and independent report of the establishment of participating funds.

3.1.6.2 Social and relevant industry trends and development

- Insurtech development in Hong Kong
  - The HKMA, the SFC and the IA each launched sandbox initiatives to facilitate the development of financial technologies (FinTech) in Hong Kong.
  - The development of FinTech is important in strengthening the role of Hong Kong as an international financial center. The IA has been closely monitoring the development and application of technology in the insurance industry, i.e. InsurTech, and proactively assisting market participants to tackle InsurTech-related regulatory issues.
  - The IA launched an InsurTech Sandbox to facilitate a pilot run of innovative InsurTech applications by authorised insurers to be applied in their operations.
  - The IA observes that authorised insurers may have initiatives in applying innovative technologies in their business operations but may be uncertain if those initiatives can meet the supervisory requirements of the IA. With a view to promoting technology development for the insurance industry in Hong Kong, the IA considers it necessary to adopt some flexibility in the supervisory requirements. The IA would consider an Insurtech initiative to be a pilot run under the Sandbox to collect sufficient data to demonstrate to the IA that such Insurtech application can broadly meet relevant supervisory requirements arising from its codes and guidelines and other regulatory practices.

3.1.6.3 An Overview of the Risk-based Capital Regime

The Insurance Authority (“IA”) introduced the Risk-based Capital (“RBC”) regime for the Hong Kong insurance industry on 1 July 2024, following the commencement of the Insurance (Amendment) Ordinance 2023 and relevant subsidiary legislation and guidelines.

The RBC regime adopts a three-pillar framework and an assessment approach which is sensitive to an insurer’s asset and liability matching, risk appetite and mix of products. To align capital requirements with individual insurers’ risk profiles under the RBC regime, insurers with solid risk management measures will shoulder lower capital requirements, cultivating insurers to deploy capital more efficiently and nurture a prudent risk culture.

- Pillar 1 involves quantitative assessment, including valuation, capital quality, and capital requirements.
- Pillar 2 includes qualitative assessment, focusing on enterprise risk management.
- Pillar 3 covers reporting requirements to the IA and public disclosure requirements.

[Pillar 1]

Pillar 1 refers to quantitative requirements including valuation basis, capital quality and capital requirements.

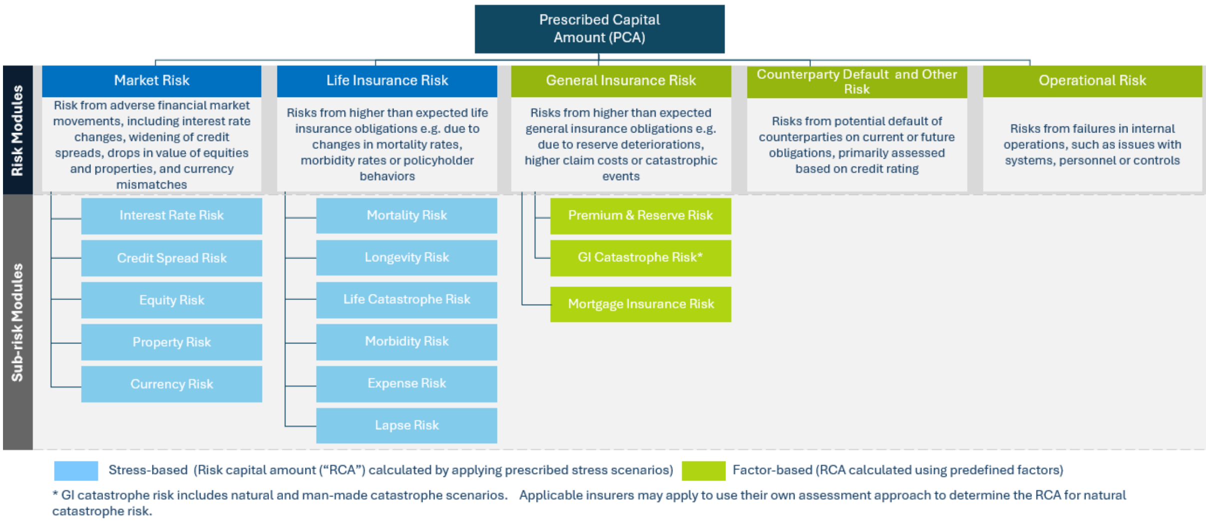
Valuation Basis
Insurers are required to value their assets and liabilities, including insurance liabilities, in accordance with Part 4 of the Insurance (Valuation and Capital) Rules (Cap. 41R) (“Valuation and Capital Rules”). The valuation basis is on market consistent basis.

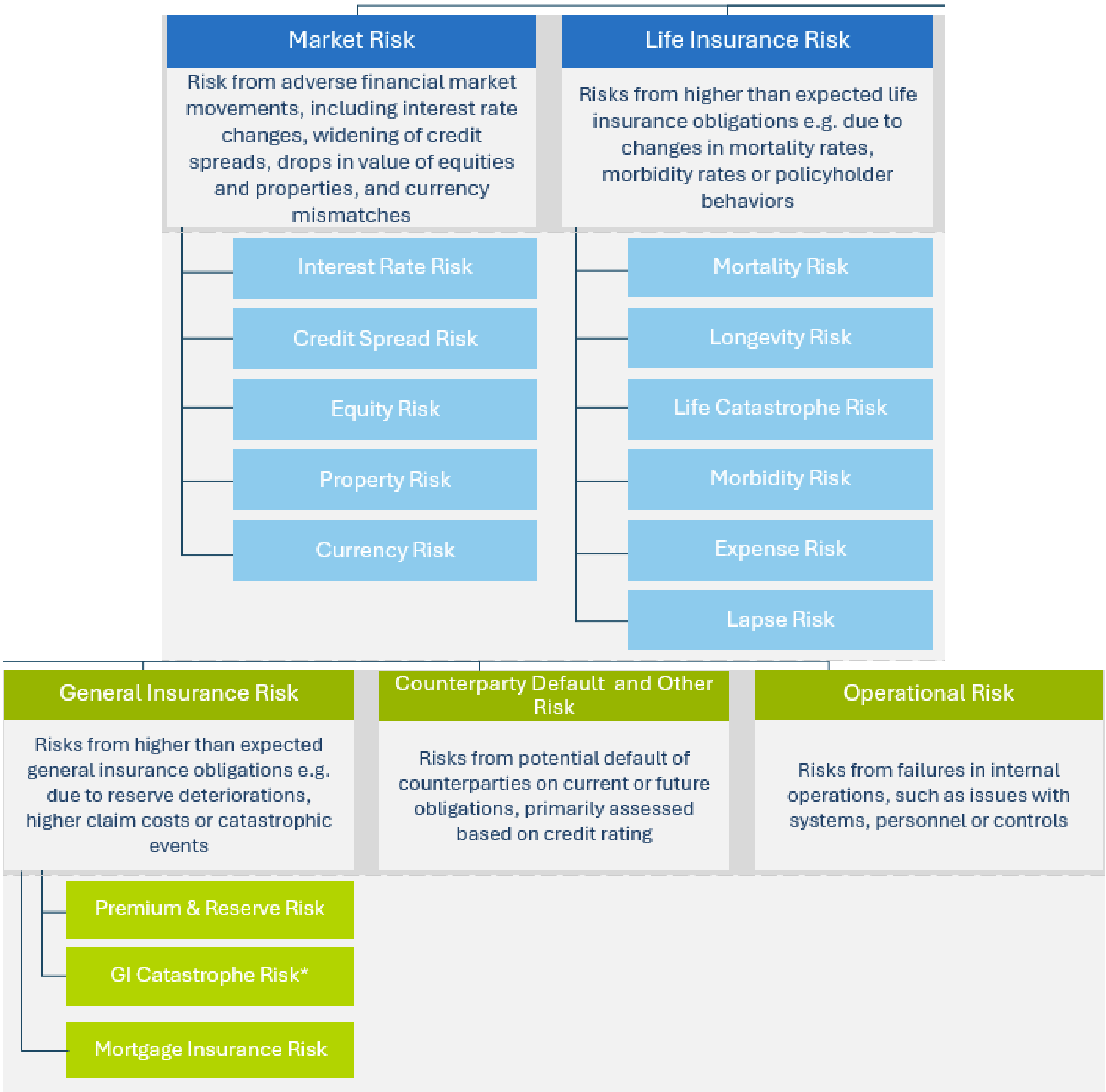
Capital Quality
Different forms of capital are classified into different tiers based on quality, with limits set for each tier to ensure the quality of capital resources in meeting capital requirements. The capital base is the sum of Unlimited Tier 1 capital, Limited Tier 1 capital and Tier 2 capital.

Capital Tier	Capital Base Composition Limit
Unlimited Tier 1 capital	No limit
Limited Tier 1 capital	Limited to 10% of the prescribed capital amount ("PCA")
Tier 2 capital	Limited to 50% of the PCA

Capital Requirements
According to section 13AA of the Insurance Ordinance (Cap. 41) and the Valuation and Capital Rules, an insurer (except marine insurers, captive insurers, special purpose insurers and Lloyd's) must ensure that its capital base is not less than each of its PCA, its minimum capital amount ("MCA") and HK$20 million.

PCA is determined by aggregating the risk capital amounts for each risk module and sub-risk module with respect to market risk, life insurance risk, general insurance risk, counterparty default and other risk, and operational risk, taking account of diversification benefits. The diagram below illustrates the list of all risk modules and the corresponding sub-risk modules.





Insurance (Marine Insurers and Captive Insurers) Rules (Cap. 41U) and Insurance (Lloyd's) Rules (Cap. 41V) prescribe dedicated capital requirements for marine insurers and captive insurers, as well as Lloyd's accordingly.

[Pillar 2]

To implement Pillar 2 on qualitative requirements, the IA has issued the Guideline on Enterprise Risk Management (GL21) to set out the objectives and requirements on enterprise risk management for authorized insurers and the requirement to conduct an own risk and solvency assessment ("ORSA").

Insurers are required to establish effective tools to identify, monitor, manage and mitigate risks exposed to them. Also, an ORSA Report should be submitted by an insurer to the IA at least annually.

[Pillar 3]

Pillar 3 refers to regulatory reporting to the IA and public disclosure requirements.

Insurance (Submission of Statements, Reports and Information) Rules (Cap. 41S) prescribes the information that insurers must submit to the IA, and the deadlines, frequency and methods of submission. The Rules also specify the requirements for submitting financial statements (prepared under generally accepted accounting principles), regulatory returns (prepared under the basis required under the Insurance Ordinance), auditor's reports on the regulatory returns and reports on actuarial investigations or reviews.

The IA will develop the details of public disclosure requirements for consultation in due course.

3.1.6.4 GL 34 Guideline on Establishment and Maintenance of Fund(s) in Respect of Participating Business

The GL34 guideline, issued under section 133 of the Insurance Ordinance (Cap. 41), outlines the Insurance Authority's (IA) expectations for authorized insurers in establishing and maintaining funds for participating business. It emphasizes fair treatment of policyholders and adherence to sound business practices. Insurers must maintain separate accounts and sub-funds for participating business, ensuring equitable treatment and sustainable management.

The guideline gives specific rules on 4 key areas on establishing and maintaining participating business:

1. Identification of Assets and Liabilities of the participating business
2. Opening balance of the participating business
3. Expense charges and profit charges
4. Allocation of distributable surplus/profits

The guideline comes into effect on July 1, 2024. Insurers must ensure compliance with all outlined requirements and maintain proper documentation and governance practices.

3.1.6.5 Recent developments in Hong Kong's insurance market

Key developments mentioned in IA's Annual Report 2022-23 include:

1. Greater Bay Area (GBA) Connectivity: The Unilateral Recognition Policy (URP) for cross-boundary motor insurance, implemented in July 2023, allows private car owners to move between Hong Kong and Guangdong Province with ease, covering statutory third-party liability insurance with a single policy.
2. Hong Kong aims to become a hub for Insurance-Linked Securities (ILS), supporting catastrophe bonds issuance to boost risk management. The Hong Kong Specialty Risks Consortium will further enhance focus on this sector.
3. Products such as the Qualifying Deferred Annuity Policy (QDAP) continue to see growth, with nearly 252,000 policies issued by March 2023. This aligns with the government's tax deduction initiative designed to promote retirement protection.
4. Technological Developments: The Insurance Authority has embraced digital transformation, including the launch of an Open API Framework to enhance collaboration between sectors and improve service delivery.

Highlights of IA's
Supervision of Insurers:

1. Prudential Supervision: The Insurance Authority (IA) focused on risk-based capital frameworks, conducting robust financial examinations and on-site inspections to ensure insurers meet their obligations. Notably, the Risk-based Capital (RBC) regime received legislative approval, marking a key milestone in aligning capital requirements with insurers' risk profiles.
2. Macroprudential Surveillance: The IA further refined its macroprudential surveillance methodology, based on feedback from the International Association of Insurance Supervisors (IAIS). This effort aims to assess systemic risks and ensure resilience within the market.
3. Group-wide Supervision (GWS): The IA continued to implement the GWS framework for internationally active insurance groups, including the AIA Group, Prudential, and FWD Group. This involved conducting supervisory college meetings and engaging in risk assessments.

Regulation of Insurance Intermediaries:

1. Licensing and Supervision: A total of 85,300 deemed licensees were granted new registrations after the transitional period, and around 43,000 updates and terminations were processed. The IA also conducted a risk-based approach to supervising intermediary firms, including insurance broker companies and agencies.
2. Compliance and Continuing Professional Development (CPD): A major focus was on enhancing compliance standards, particularly through the CPD requirements for individual licensees. The IA published a CPD Non-Compliance League Table to promote better training standards and improve adherence to regulatory requirements.

Enforcement Actions:

1. Disciplinary Measures: The IA implemented disciplinary actions in cases of misconduct, including fines, license revocations, and bans. For instance, disciplinary actions were taken against individual licensees for mishandling client premiums or submitting false information.
2. Investigation and Enforcement: The IA processed 296 enforcement cases during the year. These cases primarily involved allegations of misconduct, such as the mishandling of premiums, false declarations, and improper management of client accounts.
3. Alternatives to Formal Disciplinary Actions: The IA also employed alternative measures like Compliance Advice Letters and Letters of Concern to ensure corrective actions and improvements in governance and controls within insurance firms.

Policyholder Protection:

1. Complaint Handling: The IA received 1,083 new complaints, with a focus on issues related to representation of information and business operations. It successfully closed 1,164 cases, with 61 referred for further investigation.
2. Joint Mystery Shopping Programme: A collaborative programme with the Hong Kong Monetary Authority (HKMA) and Mandatory Provident Fund Schemes Authority was conducted to assess the selling practices of insurance intermediaries, particularly in relation to Qualifying Deferred Annuity Policies (QDAP) and tax-deductible contributions.
3. Policyholder Protection Scheme (PPS): The IA continued its work on the Policyholders’ Protection Scheme to safeguard policyholders in the event of insurer insolvency. A public consultation on the PPS proposal was conducted, with the framework aimed at facilitating the transfer of policies to replacement insurers and providing interim coverage for general policies.

4. Enhanced Disclosure: The IA introduced revised rules for the calculation and disclosure of fulfilment ratios and the historical crediting interest rates for universal life products, enhancing transparency and helping policyholders make better-informed decisions.

These actions underline the IA's comprehensive approach to fostering a resilient and transparent insurance market, ensuring that insurers, intermediaries, and other market participants adhere to the highest standards while also protecting consumers' interests.

In 2024, the Insurance Authority (IA) of Hong Kong issued several circulars addressing key regulatory developments and industry trends. Below is a chronological summary of these circulars, highlighting their significance for the insurance sector:

1. GL4: Guideline on “Fit and Proper” Criteria in relation to Authorized Insurers
The IA released a revised version of GL4, outlining the criteria for assessing the fitness and propriety of individuals in key positions within authorized insurers. This update aims to ensure that personnel meet the necessary standards of competence, integrity, and financial soundness.

2. Good Practices on Technology Risk Management (TRM)
This circular provides a set of good practices to assist insurers in managing technology-related risks. It emphasizes the importance of robust governance, risk assessment, and controls to safeguard against technological threats.

3. Joint Circular on Anti-Scam Consumer Protection Charter 2.0
The IA, in collaboration with other financial regulators, issued this circular to promote the Anti-Scam Consumer Protection Charter 2.0. The initiative seeks to enhance consumer protection against financial scams through increased vigilance and public awareness.

4. Summary of Climate Risk Management Survey Results
The IA published findings from a survey on climate risk management, providing insights into how insurers are addressing climate-related risks. The report underscores the need for integrating climate considerations into risk management frameworks.

5. Action Against Non-Compliant Business Models Targeting Mainland China Visitors
This circular addresses the issue of unlicensed selling of long-term insurance policies to Mainland China visitors. The IA outlines corrective actions against business models

that incentivize such practices, reinforcing the importance of compliance with regulatory standards.

6. GL34: Guideline on Establishment and Maintenance of Fund(s) in respect of Participating Business
The IA introduced GL34, providing guidance on the establishment and maintenance of funds related to participating insurance business. This guideline aims to ensure proper fund management and policyholder protection.

7. GL32: Guideline on Group Supervision
A revised version of GL32 was issued, detailing the supervisory framework for insurance groups. The guideline clarifies the roles and responsibilities of designated insurance holding companies to enhance group-wide supervision.

8. Circular on Practice Note for Licensed Insurance Brokers on ILAS Policies
This circular introduces a practice note outlining the application of regulatory requirements for licensed insurance brokers. It focuses on services related to investment choices and premium allocations under Investment-Linked Assurance Scheme (ILAS) policies.

9. Findings from IA-HKMA Joint Inspection on Premium Financing
The IA and the Hong Kong Monetary Authority (HKMA) jointly released findings from an inspection exercise on premium financing. The report highlights areas of concern and provides recommendations to ensure prudent practices in premium financing arrangements.

10. GL20: Guideline on Cybersecurity
The IA published a revised GL20, introducing the Cyber Resilience Assessment Framework (CRAF). This guideline aims to bolster insurers' cybersecurity measures and resilience against cyber threats.

11. GL35: Guideline on Actuary's Report of Investigation in respect of Long Term Business
The IA issued GL35, providing guidance on the preparation of actuary's reports concerning long-term business. The guideline sets out the standards and expectations for actuarial investigations to ensure accuracy and reliability in reporting.

Highlight of SFC:

1. On 1 November 2021, Hong Kong's Securities and Futures Commission (SFC) published a circular to provide additional guidance to issuers of SFC-authorised investment-linked assurance schemes (ILAS).

This circular provides additional guidance on ILAS product design, fees, and disclosure requirements. It supplements existing guidance on internal product approval processes, emphasizing fair product design, reasonable fee structures, and enhanced disclosure. The circular outlines expectations for product features, fee comparisons with alternative products, and regular compliance reviews. It sets an effective date of November 1, 2021, for new ILAS applications, with an 18-month transition period till 30 April 2023 for existing ILAS to comply with the enhanced requirements.

Please refer to Appendix A for other study material section which contains additional background information.

Note: Questions of the ASHK Examination are related to and supported by the readings listed in the Appendix A of this study guide.

3.1.7 Appendix A – Other study materials (Consolidated for all sections)

Note: Questions of the ASHK Examination are related to and supported by the readings listed below.

No.	Section	Topic, Reference and External Link
1	3.1.1	IA - Financial Arrangement https://www.ia.org.hk/en/aboutus/role/financial_arrangements.html
2	3.1.1	Insurance Ordinance Section 4F https://www.elegislation.gov.hk/hk/cap41!en?xpid=ID_1471574636807_005
3	3.1.1	HKMA (The landing page only) http://www.hkma.gov.hk/eng/about-us/the-hkma/
4	3.1.1	HKMA Reserve Management https://www.hkma.gov.hk/eng/key-functions/reserves-management/history/
5	3.1.1	HKMA: What we do? https://www.hkma.gov.hk/eng/about-us/join-us/what-we-do/
6	3.1.1	MPFA: Mission and Role http://www.mpfa.org.hk/en/mpfa/Mission-and-Role
7	3.1.1	MPFA: MPF System -Background http://www.mpfa.org.hk/en/mpf-system/background
8	3.1.1	MPFA: MPF System -How is MPF protected https://www.mpfa.org.hk/en/mpf-system/background/how-is-mpf-protected
9	3.1.1	SFC (The landing page only) http://www.sfc.hk/web/EN/about-the-sfc/our-role/regulatory-objectives.html
10	3.1.1	SFC signs MoU with Insurance Authority http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=05PR302
11	3.1.1	Insurance Authority (IA) - Ordinances, Regulations and Rules (The landing page only) https://www.ia.org.hk/en/legislative_framework/overview/ordinance_regulations_and_rules.html
12	3.1.1, 3.1.3	IA Functional Committee https://www.ia.org.hk/en/aboutus/governance/functional_committees.html (Page itself only)
13	3.1.1	Insurance Authority (IA) – History https://www.ia.org.hk/en/aboutus/role/history.html
14	3.1.1	Insurance Authority (IA) – Statutory Functions https://www.ia.org.hk/en/aboutus/role/statutory_functions.html
15	3.1.1	Insurance Authority (IA) – An Overview of the Regulatory Framework https://www.ia.org.hk/en/legislative_framework/overview/an_overview_of_the_regulatory_framework.html
16	3.1.1	Insurance Authority (IA) – Regulatory Requirements on Insurers https://www.ia.org.hk/en/supervision/reg_insurers_lloyd/regulatory_requirements.html
17	3.1.1	Insurance Authority (IA) – Regulations and Industry Practices associated with the Sale of Insurance Policies

No.	Section	Topic, Reference and External Link
		https://ia.org.hk/en/consumer/industry_practices_associated_with_the_sale_of_Insurance_policies.html
18	3.1.1	Regulating Bancassurance in Hong Kong
		https://www.ia.org.hk/en/supervision/int_dom_cooperation/files/text-ilens14.pdf
19	3.1.1	The Chin Family – Regulatory approach specific for ILAS product
		https://www.thechinfamily.hk/web/en/financial-products/insurance/product-types/ilas/regulation/regulatory-measures.html
20	3.1.1, 3.1.3, 3.1.4, 3.1.5	IA Guidelines (all Guidelines published and remain effective as of 1 Jan 2025 are in scope of ASHK exam)
		https://www.ia.org.hk/en/legislative_framework/guidelines.html
21	3.1.2	Actuarial Society of Hong Kong - About the ASHK
		https://www.actuaries.org.hk/pages/1/About%20the%20ASHK
22	3.1.2	Actuarial Society of Hong Kong - Purpose
		https://www.actuaries.org.hk/pages/2/Mission%20Statement
23	3.1.2	Actuarial Society of Hong Kong - Objectives
		https://www.actuaries.org.hk/pages/3/Objectives
24	3.1.2, 3.1.3	ASHK - Code of conduct (Effective from 1 January 2025)
		https://www.actuaries.org.hk/storage/download/Professional%20Conduct%20Code_2024_final.pdf
25	3.1.2	HKEX
		https://www.hkexgroup.com/about-hkex/about-hkex?sc_lang=en
26	3.1.2	HKMCA Mission
		https://www.hkmca.hk/eng/about_us/mission.html
27	3.1.2	HKMCA Corporate Governance Practices
		https://www.hkmca.hk/eng/about_us/corporate_governance.html
28	3.1.2	HKMCA Corporate Information
		https://www.hkmca.hk/eng/about_us/corporate_information.html
29	3.1.2	Professional Insurance Broker Association
		http://www.piba.org.hk/index.php/en/about-piba/establishment-of-piba
30	3.1.2	The Hong Kong Federation of Insurers: The following Codes and Best Practices only: 1. Reference Checking Scheme for Insurance Intermediaries (main paper) 2. CODE OF PRACTICE ON PERSON-TO-PERSON MARKETING CALLS [effective since 1 April 2011]
		https://www.hkfi.org.hk/codes-and-best-practices
31	3.1.2	The Hong Kong Federation of Insurers: General Information
		https://www.hkfi.org.hk/general-information
32	3.1.2	VHIS
		https://www.vhis.gov.hk/en/about_us/scheme.html
33	3.1.2	VHIS - Scheme Rules
		https://www.vhis.gov.hk/en/industry_corner/scheme-rules.html
34	3.1.2	Voluntary Health Insurance Scheme Certified Plan Policy Template (Revised July 2022)
		https://www.vhis.gov.hk/doc/en/information_centre/e_standard_plan_template.pdf
35	3.1.2	Code of Practice for Insurance Companies under the Ambit of the Voluntary Health Insurance Scheme (Revised July 2022)
		https://www.vhis.gov.hk/doc/en/information_centre/e_cop.pdf
36	3.1.2	Product Compliance Rules under the Ambit of the Voluntary Health Insurance Scheme (Revised July 2022)
		https://www.vhis.gov.hk/doc/en/information_centre/e_product_compliance_rules.pdf

No.	Section	Topic, Reference and External Link
37	3.1.2	Hong Kong Confederation of Insurance Brokers (HKCIB) http://www.hkcib.org/
38	3.1.2	Professional Insurance Broker Association (PIBA) http://www.piba.org.hk/
39	3.1.2	Hong Kong Exchange and Clearing Limited (HKEx) https://www.hkex.com.hk
40	3.1.2	HKMC Annuity Limited (HKMCA) https://www.hkmca.hk/eng/index.html
41	3.1.2, 3.1.3	Actuarial Society of Hong Kong Professional Standard https://www.actuaries.org.hk/pages/21/Professional%20Standards%20%28PS%29
42	3.1.2, 3.1.3	Actuarial Society of Hong Kong Actuarial Guidance Note (all AGNs published and remain effective as of 1 Jan 2025 are in scope of ASHK Exam) https://www.actuaries.org.hk/pages/22/Actuarial%20Guidance%20Notes
43	3.1.3	Insurance Ordinance (The following sections) 1. Section 8(1) - 8(3) on Authorization—long term business and general business 2. Section 13AE Approval of key persons in control functions of certain authorized insurers paragraph (12) on control function in relation to an authorized insurer https://www.elegislation.gov.hk/hk/cap41!en
44	3.1.3	Legal System in Hong Kong (The landing page only) https://www.doj.gov.hk/eng/legal/index.html
45	3.1.3	IA: Circulars https://www.ia.org.hk/en/legislative_framework/circulars/circulars_on_regulatory_matters.html
46	3.1.3	Insurance market statistics from the IA https://www.ia.org.hk/en/infocenter/statistics/market.html
47	3.1.4	IA: Lodge a Complaint > Authorized Insurers or Licensed Insurance Intermediaries https://www.ia.org.hk/en/consumer/lodge_a_complaint.html
48	3.1.4	MPFA: Enforcement Overview https://www.mpfa.org.hk/en/enforcement/overview
49	3.1.4	MPFA: Complaints https://www.mpfa.org.hk/en/home/complaints
50	3.1.4	Guidance on the Proper Handling of Customers' Personal Data for the Insurance Industry https://www.pcpd.org.hk//english/resources_centre/publications/files/GN_insurance_e.pdf
51	3.1.4	The Insurance Complaints Bureau: Lodging a complaint https://www.icb.org.hk/en/how_lodge_complaint.html
52	3.1.4	The Insurance Complaints Bureau: Adjudication for Claim-related Complaints | Processing of Claim-related Complaints Flow Chart https://www.icb.org.hk/en/claim_procedures.html
53	3.1.4	Consumer Council: Complaints & Services https://www.consumer.org.hk/en/complaints-and-services
54	3.1.4	MPFA: Enforcement Regulatory Power https://www.mpfa.org.hk/en/enforcement/mpf-trustees/regulatory-power
55	3.1.4	MPFA: Enforcement on MPF Intermediaries: Common Offences and Penalties https://www.mpfa.org.hk/en/enforcement/mpf-intermediary/common-offences-and-penalties
56	3.1.4	MPFA: Enforcement on Employer: Common Offences and Penalties

No.	Section	Topic, Reference and External Link
		https://www.mpfa.org.hk/en/enforcement/enforcement-against-employers/common-offences-and-penalties
57	3.1.4	Small Claims Tribunal https://www.judiciary.hk/en/court_services_facilities/sc.html
58	3.1.4	FATF Recommendations, updated November 2023 [Recommendations 10, 11, 12, 17, 20, 24, and 25 only] https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf
59	3.1.4	6 Key Data Protection Principles promulgated by Personal Data (Privacy) Ordinance https://www.pcpd.org.hk/english/data_privacy_law/ordinance_at_a_Glance/ordinance.html
60	3.1.4	Schedule 1 [ss. 2(1) & (6)] of Cap.486 Personal Data (Privacy) Ordinance (Last updated date 20.4.2018) https://www.elegislation.gov.hk/hk/cap486!en-zh-Hant-HK.pdf?FROMCAPINDEX=Y
61	3.1.4	IA Circular on Personal Data Protection, dated 17 August 2010 https://www.ia.org.hk/en/legislative_framework/circulars/reg_matters/files/cir_20100818.pdf
62	3.1.4	Circular Letter: SU/CTR/2002/005 Outsourcing of Data Processing Functions to Places outside the HKSAR (Page 1 and 2 only) https://www.mpfa.org.hk/eng/legislation_regulations/legulations_ordinance/circulars/mpf/files/tr_case.pdf
63	3.1.4	Equal Opportunities Commission - Conciliated Cases (Reference for the cases mentioned in 3.1.4.5) https://www.eoc.org.hk/en/enquiries-and-complaints/conciliated-cases/disability-discrimination-ordinance
64	3.1.4	Office of the Privacy Commissioner for Personal Data https://www.pcpd.org.hk/english/resources_centre/publications/guidance/guidance.html
65	3.1.4	Guidance on the proper handling of customers' personal data for the insurance industry GN_insurance_e.pdf (pcpd.org.hk)
66	3.1.4	Joint Financial Intelligence Unit (JFIU) http://www.jfiu.gov.hk/en/legislation.html
67	3.1.4	Complaint form to the IA in relation to Insurer, Insurance intermediary or MPF intermediary https://www.ia.org.hk/en/infocenter/statistics/files/Complaint_Form_Eng_201807.pdf
68	3.1.4	Small Claims Tribunal https://www.judiciary.hk/en/court_services_facilities/scf.html
69	3.1.4	Motor Insurers' Bureau http://www.mibhk.com.hk/eng/index.php
70	3.1.4	Employees Compensation Insurer Insolvency Bureau http://www.eciib.com.hk/
71	3.1.4	Financial dispute resolution centre https://www.fdrc.org.hk/en/html/resolvingdisputes/resolvingdisputes_jurisdiction.php
72	3.1.4	Equal Opportunities Commission (EOC) https://www.eoc.org.hk/en

No.	Section	Topic, Reference and External Link
73	3.1.4	Legislative Council Document (2002-2003) https://www.legco.gov.hk/yr02-03/english/panels/fa/papers/facb1-592-e.pdf
74	3.1.4	Actuarial Society of Hong Kong Response Paper (2015): https://www.actuaries.org.hk/storage/download/20150312%20ASHK%20Response%20Paper.pdf
75	3.1.4	Sex Discrimination Ordinance https://www.elegislation.gov.hk/hk/cap480
76	3.1.4	Disability Discrimination Ordinance https://www.elegislation.gov.hk/hk/cap487
77	3.1.4	Family Status Discrimination Ordinance https://www.elegislation.gov.hk/hk/cap527
78	3.1.4	Race Discrimination Ordinance https://www.elegislation.gov.hk/hk/cap602
79	3.1.5	Insurance Authority and China Banking and Insurance Regulatory Commission implement preferential treatment to promote the development of Hong Kong reinsurance industry https://www.ia.org.hk/en/infocenter/press_releases/Insurance_Authority_and_China_Banking_and_Insurance_Regulatory_Commission_implement_preferential_treatment_to_promote_the_development_of_Hong_Kong_reinsurance_industry.html
80	3.1.6	Establishing a Policy Holders' Protection Scheme CONSULTATION PAPER December 2022 https://www.fstb.gov.hk/fsb/en/publication/consult/doc/Consultation_PPS_Dec_2022_e.pdf
81	3.1.6	Establishing a Policy Holders' Protection Scheme CONCLUSION December 2023 https://www.fstb.gov.hk/fsb/en/publication/consult/doc/Consultation_Conclusions_PPS_Dec_2023_e.pdf
82	3.1.6	IASB - IFRS 17 summary https://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-project-summary.pdf
83	3.1.6	IA - An Overview of the Risk-based Capital Regime https://www.ia.org.hk/en/supervision/reg_insurers_lloyd/an_overview_of_the_risk_based_capital_regime.html
84	3.1.6	IA - Circulars on Regulatory Matters 2024 https://www.ia.org.hk/en/legislative_framework/circulars/reg_matters/circulars_on_regulatory_matters_2024.html
85	3.1.6	SFC's Circular to Issuers of SFC-authorised investment-linked assurance schemes https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=21EC49