



STUDY GUIDE

**Examination for ASHK Certificate in
Hong Kong Insurance Markets and
Regulations**

March 2025 Edition

STUDY GUIDE FOR LIFE INSURANCE

- ❖ *Role of life insurance actuaries in Hong Kong*
- ❖ *Overview of the market landscape in Hong Kong*
- ❖ *Regulations, professional standards, guidelines and industry standard practice*
- ❖ *Valuation of assets and liabilities*
- ❖ *Recent industry developments*



ACTUARIAL SOCIETY
of
HONG KONG
香港精算學會

3.2 Life Insurance

3.2.1 Role of life insurance actuaries in Hong Kong¹

Life insurance actuaries are involved in a wide variety of areas within the industry. These include:

Area	Application
<i>Auditor</i>	Perform internal and external audit functions of insurance companies
<i>Banking and Financial Services</i>	Help banks and financial services companies with product portfolio, capital management and risk analysis in relation to life insurance
<i>Consulting</i>	Advise clients on actuarial and insurance related matters
<i>Entrepreneurial Actuaries</i>	A wide range of opportunities is available for actuaries who desire to set up and run their own business
<i>Predictive Analytics</i>	Use modeling and data analysis techniques on large data sets to discover predictive patterns and relationships for business use
<i>Pricing</i>	Determine product features and pricing
<i>Risk Management</i>	Perform risk management functions for an insurance company; it may cover financial and/or operational risks; or specific lines of business or an enterprise level
<i>Regulator</i>	Oversee the financial conditions and operations of authorised insurers; facilitating both the healthy development of the industry and the protection of policyholders
<i>Reinsurance</i>	Perform traditional actuarial duties for a reinsurer that would accept risk from a direct insurance company
<i>Sales and Marketing</i>	Help set policies, messages and compensation levels for those directly involved in marketing and distribution
<i>Statutory Role / Appointed Actuary</i>	A role stipulated by the Insurance Ordinance (Cap. 41) (IO) which can only be fulfilled by qualified professional actuaries. The responsibilities include, but are not limited to the following:

Area	Application
	<ul style="list-style-type: none"> • Set, validate and certify the adequacy of the insurance liabilities and financial / solvency position of the company; • Advise the company of the interpretation of its policyholders' reasonable expectations, and the transfer of assets between long term and shareholder funds; • Determine the appropriateness of premium rates charged; • Certify the information disclosed on Class C linked products is accurate; • Manage the potential conflict between its duty to policyholders and its duty to shareholders, particularly in relation to the declaration of non-guaranteed benefits for policyholders.
<i>Senior Management</i>	Provide broad business and management leadership for an organisation
<i>Valuation</i>	Perform experience studies, cash flow testing and other tasks to set the amount of reserve and capital held by an insurer

3.2.2 Overview of the market landscape in Hong Kong

The Insurance Authority (IA) website provides a good source of reference material for an overview of the Hong Kong market. We recommend practitioners to analyse its annual reports and market & industry statistics to better understand the Hong Kong market dynamics. These covered general and long term insurance business.

3.2.2.1 Insurance companies and competitive environment ²

As at 30 June 2024, there were 157 authorized insurers in Hong Kong, of which 85 were pure general insurers, 52 were pure long term insurers, 18 were composite insurers and 2 were special purpose insurers.

As at 30 June 2024, there were 1,649 licensed insurance agencies, 80,094 licensed individual insurance agents and 23,532 licensed technical representatives (agent). In addition, there were 803 licensed insurance broker companies and 10,460 licensed technical representatives (broker) on the same date. In 2023, the total gross premiums of the Hong Kong insurance industry increased by 0.8% to \$542.1 billion.

3.2.2.2 Product types and classification

Chapter 41 Schedule 1 Classes of Insurance Business³

According to IA reporting, long term insurance business in HK is categorised into nine classes of business (Classes A to I), including individual and group life businesses. For individual life business, most of the enforce and new business today are Class A (non-linked life insurance) and Class C (unit linked) business.

Office premiums of in-force long term business were \$474.8 billion in 2023 (increased by 0.3%), continued to be dominated by the Individual Life category which contributed \$426.5 billion (increased by 0.5%) or 89.8% of the total. The number of policies in this category was 14.2 million, carrying net liabilities of \$2,455.3 billion.

On the other hand, the total office premiums of new Individual Life business was at \$170.1 billion (increased by 33.4%), derived from \$158.9 billion of Non-linked business (increased by 41.1%) and \$11.3 billion from Linked business (decreased by 24.4%). The number of new policies was around 890,000 (increased by 17.1%). Meanwhile, new Individual Annuity business increased by 14.9% to \$8.8 billion. In 2023, around 30,000 QDAPs were sold, contributing total annualized premiums amounting to \$1.9 billion.

3.2.3 Regulations, professional standards, guidelines and industry standard practice

This section covers the regulations, professional standards, guidelines and industry standard practice before the Hong Kong risk based capital regime.

3.2.3.1 Qualification for appointment as an actuary in Hong Kong - Chapter 41A Insurance (Actuaries' Qualifications) Regulation⁴

The IO prescribes the following qualifications for the appointment of an actuary by an insurer in carrying on long term business:

- Fellow of the Institute and Faculty of Actuaries of the United Kingdom
- Fellow of the Institute of Actuaries of Australia
- Fellow of the Society of Actuaries of the United States of America

3.2.3.2 Chapter 41H Insurance (Actuaries' Standards) Rules ⁵

The standards prescribed for the purposes of the Ordinance to be complied with by an actuary appointed under section 15(1) of the Ordinance shall be the standards specified in the Schedule. "Professional Standard 1(PS1)" approved by the Actuarial Society of Hong Kong (including any subsequent amendment thereto made with the approval of the Authority).

The roles and responsibilities of an appointed actuary are extensive, these include determining the appropriateness of the premium rates charged, validating and certifying the adequacy of the insurance liabilities and financial / solvency position of an insurance company, advising the board on the interpretation of policyholders' reasonable expectations, recommending on the transfer of assets between long term and shareholder funds, etc. Appointed actuaries must comply with PS1 when carrying out their duties.

3.2.3.3 Guidelines⁶ and circulars

The IA has issued the Guidelines, some key ones relevant to the long term business as listed below:

- GL4 - Guideline on "Fit and Proper" Criteria under the Insurance Ordinance (Cap.41)
- GL5 - Guideline on Application for Authorisation to Carry on Insurance Business in or from Hong Kong
- GL10 - Guideline on the Corporate Governance of Authorised Insurers
- GL11 - Guideline on Classification of Class C - Linked Long Term Business
- GL12 - Guideline on Reinsurance with Related Companies
- GL15 - Guideline on Underwriting Class C Business
- GL16 - Guideline on Underwriting Long Term Insurance Business (other than Class C Business)
- GL17 - Guideline on Reinsurance
- GL19 - Guideline on Qualifying Deferred Annuity Policy
- GL21 - Guideline on Enterprise Risk Management
- GL26 - Guideline on Sale of Investment-Linked Assurance Scheme ("ILAS") Products
- GL27 - Guideline on Long Term Insurance Policy Replacement
- GL28 - Guideline on Benefit Illustrations for Long Term Insurance Policies
- GL31 - Guideline on Medical Insurance 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

Insurers are expected to comply with the guidelines. Depends on the facts and circumstances, violation may subject the insurer to regulatory actions.

3.2.3.4 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 key actuarial guidance notes (AGN⁷) currently applicable are:

- AGN 5 - Principles of Life Insurance Policy Illustrations (Effective from 17 June 2013)
- AGN 9 - Best Estimate Assumptions (Effective from 1 April 2016)
- Appendix A to AGN 9 (Effective from 1 April 2016)
- AGN 10 - General Actuarial Practice

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.

3.2.3.5 Market conduct

In order to synchronise with the Insurance Core Principle 19 (ICP 19) published by the International Association of Insurance Supervisors (IAIS), the IA has issued GN15 and GN16 (now known as GL15 and GL16)⁴ for insurance companies writing long term life insurance contracts in Hong Kong. The main objective of the guidance notes is to incorporate the principle of "fair treatment of customers" from the initial stage of product design to the final servicing of the insurance policies. Insurance companies are required to perform functions including, but not limited to, the following:

- Incorporate the treating customer fairly principles as a part of the corporate culture;
- Improve the disclosure of the risk profiles of the insurance products, including illustration;
- Study the reasonableness of the fee structures;
- Evaluate the suitability of the products to potential customers;
- Monitor the conduct of intermediaries during the sales process;
- Continue adequate communications with customers; and
- Maintain a post sales process to identify potential market conduct issues.

These guidance notes are principles-based regulations rather than rules-based. The general practices may vary widely among insurance companies in Hong Kong due to factors such as

company philosophy and limitation on resources. The market practices, however, are expected to gravitate towards a narrower range after the IA reviews the industry's compliance status.

In response to the guidance notes, the HKFI has developed standard benefit illustration for ILAS, Participating Insurance Products and Universal Life (Non-Linked) Products.

Although there are vast similarities between ICP 19 and the guidelines, there are minor discrepancies between them.

In 2024, the IA has further issued GL34 which supplements the GL16 on establishment and maintenance of fund(s) in respect of participating business. The guideline focuses on the minimum standards and practices for governance of participating funds.

3.2.3.6 Taxation

In Hong Kong, all corporations including insurers are subject to profit tax. Profit tax is determined by applying a profit tax rate to the assessable profits. For life insurance business (Class A Life and annuity, Class B Marriage and birth, Class C Linked long term and Class E Tontines) the assessable profits are deemed to be 5% of the net premium or the life corporation can elect it to be the local statutory profits in the year less any dividend received. The election is irrevocable. The assessable profits for other classes of business would be based on the latter approach.

3.2.4 Insurance (Valuation and Capital) Rules under HKRBC

The HKRBC Regime seeks to align capital requirements with risk profiles and is made up of three pillars pertaining to quantitative, qualitative and disclosure requirements.

- 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.

This section covers the regulations on long term business from the aspect of valuation of assets and liabilities, determination of prescribed capital amount under Hong Kong risk based capital regime as noted in the Insurance (Valuation and Capital) Rules.

3.2.4.1 Valuation of assets

- (1) Unless otherwise specified, an applicable insurer must value its assets at market value.
- (2) An applicable insurer must value the following assets in accordance with the applicable accounting standards: (a) investment holdings in any subsidiary or affiliate, except investment holdings in and amounts due from a nonconsolidated subsidiary; and (b) leases.
- (3) Where impairment exists for an asset and the asset's market value does not fully reflect the impairment, an applicable insurer must ensure the value of the asset is decreased to reflect the full effect of the impairment.
- (4) An applicable insurer must measure goodwill and intangible assets at zero.
An applicable insurer must value the investment holdings in and amount due from non-consolidated subsidiary at cost.

3.2.4.2 Valuation of long term insurance liabilities

There are multiple considerations needed for the determining the long term insurance liabilities, below listed some key one as required in Insurance (Valuation and Capital) Rules:

- (1) Recognition and derecognition of insurance liabilities
- (2) Insurance contracts covering different types of risk
- (3) Boundary of insurance liabilities
- (4) Calculation of current estimate for long term insurance liabilities
- (5) Cash flows projection
- (6) Allowance for future discretionary benefits
- (7) Valuation of contractual options and financial guarantees
- (8) Allowance for policy holder behaviour
- (9) Management actions
- (10) Funds on deposit
- (11) Discount rate for long term insurance liabilities
- (12) Matching adjustment
- (13) Margin over current estimate for long term insurance liabilities
- (14) Prepaid premiums

3.2.4.3 Determination of Prescribed Capital Amount

There are multiple considerations needed for the determining the long term insurance liabilities prescribed capital amount, below listed some key one as required in Insurance (Valuation and Capital) Rules:

- (1) Determining risk capital amount for its risk exposures to (i) market risk, (ii) life insurance risk, (iii) counterparty default and other risk, (iv) operational risk, etc.
- (2) Aggregating the risk capital amount determined in (1) above with consideration of correlation matrix
- (3) Look-through approach for portfolio investments
- (4) Valuation of contractual options and financial guarantees in determining risk capital amounts
- (5) Recognition of insurance risk mitigating effect
- (6) Recognition of financial risk mitigation effect
- (7) Adjustment to prescribed capital amount to reflect the loss absorbing capacity of future discretionary benefits
- (8) Adjustment to prescribed capital amount to reflect loss absorbing capacity of deferred tax

3.2.5 Group Supervision

This section covers the regulations on long term business from the aspect of Group Supervision. Below listed some key requirements as required in the Insurance (Group Capital) Rules and Guideline on Group Supervision.

- (1) Calculation of the group minimum capital requirement
- (2) Calculation of the group prescribed capital requirement
- (3) Eligible group capital resources
- (4) Tiering of eligible group capital
- (5) Treatment of double counting
- (6) Determination by the Authority of resources and financial instruments to be eligible group capital resources
- (7) Supervisory reporting and public disclosure in relation to group capital

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

GL34 issued under section 133 of the Insurance Ordinance (Cap. 41), outlines the IA's 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. Below listed some key requirements as noted in GL34:

- (1) Scope and application
- (2) Identification of assets and liabilities
- (3) Opening balance
- (4) Expenses and charges
- (5) Allocation of distributable surplus/ profits
- (6) Capital support
- (7) Physical segregation of assets
- (8) Independent report of establishment of participating fund(s) upon the commencement of the Insurance (Amendment) Ordinance 2023

3.2.7 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.

Below listed some key requirements as noted in GL35 for Actuary's report of investigation:

- (1) Definition of terms and expressions used in the report that may be ambiguous or open to interpretation
- (2) Data
- (3) Valuation methodology
- (4) Valuation assumptions
- (5) Results analysis and commentary

3.2.8 Other industry developments

3.2.8.1 Qualifying Deferred Annuity Policy (QDAP)

Due to the rapid aging population of Hong Kong, enhancing the quality of living of the elderly after their retirement is one of the key policy focuses of the Government. The Government has proposed a tax deduction for premiums for deferred annuity products to promote voluntary retirement savings. The Insurance Authority has issued the guidelines (GL19) to set out the criteria for deferred annuity products to become a QDAP.

3.2.8.2 Voluntary Health Insurance Scheme (VHIS)

In 2018, Hong Kong Government has announced the details of VHIS which aims at encouraging more people to use private healthcare services through hospital insurance, thereby relieving the pressure on the public healthcare system in the long run. The VHIS is a policy initiative implemented by the Food and Health Bureau (FHB) to regulate individual indemnity hospital insurance products, with voluntary participation by insurance companies and consumers. Under the scheme, the participating insurance companies will offer hospital insurance plans that are certified by FHB.

The overview of the VHIS and tax reduction incentive under the scheme can be found at:

https://www.vhis.gov.hk/en/consumer_corner/tax-deduction.html

3.2.8.3 HKFRS 17 Insurance Contracts

HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023. HKFRS 17 aims to address these issues by making insurers' financial statements more useful and insurance accounting practices consistent across jurisdictions.

<https://www.ifrs.org/content/dam/ifrs/project/insurance-contracts/ifrs-standard/ifrs-17-effects-analysis.pdf>

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

No.	Section	Topic, Reference and External Link
1	3.2.1	Role of life insurance actuaries in Hong Kong
		https://www.soa.org/future-actuaries/career-paths/
2	3.2.2.1	Insurance companies and competitive environment
		https://www.ia.org.hk/en/infocenter/statistics/market.html
3	3.2.2.2	Product types and classification
		https://www.ia.org.hk/en/infocenter/statistics/annual_long_term_business_statistics.html ; https://www.ia.org.hk/en/consumer/industry_practices_associated_with_the_sal

No.	Section	Topic, Reference and External Link
		e_of_Insurance_policies.html; previous years' statistics can also be found on past annual reports of IA
4	3.2.3.1	Qualification for appointment as an actuary in Hong Kong - Chapter 41A Insurance (Actuaries' Qualifications) Regulation https://www.elegislation.gov.hk/hk/cap41A
5	3.2.3.2	Chapter 41H Insurance (Actuaries' Standards) Rules https://www.elegislation.gov.hk/hk/cap41H
6	3.2.3.3	Guidelines and circulars https://www.ia.org.hk/en/legislative_framework/guidelines.php
7	3.2.3.4	Professional conduct and actuarial guidance notes https://www.actuaries.org.hk/pages/22/Actuarial%20Guidance%20Notes
8	3.2.3	<p>Other study materials</p> <ol style="list-style-type: none"> The above Section 3.2.3 should be read with the below Insurance Ordinance CAP 41 Section 18 (Periodic actuarial investigation of authorized insurer with long term business), 46 (Continuation of long term business of authorized insurer in liquidation), Part IV (Long Term Business) https://www.elegislation.gov.hk/hk/cap41!en-zh-Hant-HK.pdf?FILENAME=Consolidated%20version%20for%20the%20Whole%20Chapter.pdf&DOC_TYPE=A&PUBLISHED=true Professional Standard 1 (PS1) https://www.actuaries.org.hk/storage/download/PS1%20revision%202024_clean_final.pdf GL4 - Guideline on "Fit and Proper" Criteria under the Insurance Ordinance https://www.ia.org.hk/en/legislative_framework/files/GL4.pdf GL5 - Guideline on Application for Authorisation to Carry on Insurance Business in or from Hong Kong https://www.ia.org.hk/en/legislative_framework/files/GL5.pdf GL10 - Guideline on the Corporate Governance of Authorised Insurers https://www.ia.org.hk/en/legislative_framework/files/GL10.pdf GL11 - Guideline on Classification of Class C - Linked Long Term Business https://www.ia.org.hk/en/legislative_framework/files/GL11.pdf GL12 - Guideline on Reinsurance with Related Companies https://www.ia.org.hk/en/legislative_framework/files/GL12.pdf GL15 - Guideline on Underwriting Class C Business https://www.ia.org.hk/en/legislative_framework/files/GL15.pdf GL16 - Guideline on Underwriting Long Term Insurance Business (other than Class C Business) and Questions & Answers <ul style="list-style-type: none"> Guideline: https://www.ia.org.hk/en/legislative_framework/files/GL16.pdf Questions & Answers: https://www.ia.org.hk/en/legislative_framework/files/Q&A-gn16.pdf GL17 - Guideline on Reinsurance https://www.ia.org.hk/en/legislative_framework/files/GL17.pdf GL19 - Guideline on Qualifying Deferred Annuity Policy https://www.ia.org.hk/en/legislative_framework/files/GL19.pdf GL21 - Guideline on Enterprise Risk Management https://www.ia.org.hk/en/legislative_framework/files/GL21.pdf

No.	Section	Topic, Reference and External Link
		<p>14. GL26 - Guideline on Sale of Investment-Linked Assurance Scheme ("ILAS") Products https://www.ia.org.hk/en/legislative_framework/files/GL26_English.pdf</p> <p>15. GL27 - Guideline on Long Term Insurance Policy Replacement https://www.ia.org.hk/en/legislative_framework/files/GL27_English.pdf</p> <p>16. GL28 - Guideline on Benefit Illustrations for Long Term Insurance Policies https://www.ia.org.hk/en/legislative_framework/files/GL28_English.pdf</p> <p>17. GL31 - Guideline on Medical Insurance Business https://www.ia.org.hk/en/legislative_framework/files/GL31_20191129e.pdf</p> <p>18. GL34 - Guideline on Establishment and Maintenance of Fund(s) in respect of Participating Business https://www.ia.org.hk/en/legislative_framework/files/GL34.pdf</p> <p>19. GL35 - Guideline on Actuary's Report of Investigation in respect of Long Term Business https://www.ia.org.hk/en/legislative_framework/files/GL35_EN.pdf</p> <p>20. AGN5 - Principles of Life Insurance Policy Illustrations http://www.actuaries.org.hk/storage/download/AGN5(Jun13).pdf</p> <p>21. AGN 9 - Best Estimate Assumptions https://www.actuaries.org.hk/storage/download/AGN9(Effective20160401).pdf</p> <p>22. Appendix A to AGN 9 https://www.actuaries.org.hk/storage/download/AGN9_AppendixA(Effective20160401).pdf</p> <p>23. AGN 10 - General Actuarial Practice https://www.actuaries.org.hk/storage/download/AGN10%20General%20Actuarial%20Practice%20dd%20Jan%202021.pdf</p> <p><i>(Remarks: The materials in this section are useful to provide breath, to maintain interest and to aid understanding. The advice for examination preparation is to understand the life-specific requirements of the relevant regulations, professional standards, guidelines and industry standard practice.)</i></p>
9	3.2.4	<p>Other Study materials</p> <ol style="list-style-type: none"> 1. The above Section 3.2.4 should be read with the below 2. Insurance (Valuation and Capital) Rules (Cap. 41 sub. leg. R) https://www.elegislation.gov.hk/hk/cap41r!en-zh-Hant-HK.assist.pdf?FILENAME=Assisted%20Bilingual%20PDF%20(English%20and%20Traditional%20Chinese).pdf&DOC_TYPE=G&PUBLISHED=true
10	3.2.5	<p>Other Study materials</p> <ol style="list-style-type: none"> 1. The above Section 3.2.5 should be read with the below 2. Insurance (Group Capital) Rules (Cap. 41 sub. leg. O)

No.	Section	Topic, Reference and External Link
		https://www.elegislation.gov.hk/hk/cap410!en-zh-Hant-HK.assist.pdf?FILENAME=Assisted%20Bilingual%20PDF%20(English%20and%20Traditional%20Chinese).pdf&DOC_TYPE=G&PUBLISHED=true 3. GL32 - Guideline on Group Supervision https://www.ia.org.hk/en/legislative_framework/files/GL32_En.pdf
11	3.2.6	Other Study materials 1. The above Section 3.2.6 should be read with the below 2. GL34 - Guideline on Establishment and Maintenance of Fund(s) in respect of Participating Business https://www.ia.org.hk/en/legislative_framework/files/GL34.pdf
12	3.2.7	Other Study materials 1. The above Section 3.2.7 should be read with the below 2. GL35 - Guideline on Actuary's Report of Investigation in respect of Long Term Business https://www.ia.org.hk/en/legislative_framework/files/GL35_EN.pdf
13	3.2.8	Other Study materials 1. The above Section 3.2.8 should be read with the below 2. https://www.hkmca.hk/files/hkmcap_small_banner/1/HKMCA-Brochure-202103-EN.pdf 3. https://www.ia.org.hk/en/qualifying_deferred_annuity_policy/index.html 4. https://www.ia.org.hk/en/infocenter/files/Insurance_Authority-AR23_eng.pdf 5. https://www.ifrs.org/content/dam/ifrs/project/insurance-contracts/ifrs-standard/ifrs-17-effects-analysis.pdf <i>(Remarks: The materials in this section are useful to provide breath, to maintain interest and to aid understanding. The advice for examination preparation is to understand the overview of the latest industry development rather than specific details of such developments.)</i>