

28 December 2021

By Email Only

Our Ref: INS/TEC/6/20/6 Sub-file XI

To: Chief Executives of Authorized Insurers
Carrying on Long Term Business

Dear Sirs,

Early Adoption of Risk-based Capital Regime for Long Term Business

In developing a risk-based capital (“RBC”) regime for Hong Kong, the Insurance Authority (“IA”) has conducted three rounds of industry-wide quantitative impact studies since 2016 and two additional impact studies relating to long term business in 2020. The parameters for the capital requirements under Pillar 1 of the proposed RBC regime have now been largely concluded. We have also been developing regulatory returns to enable timely submission of information to the IA for supervision purposes. Further, the process for preparing the enabling legislation to implement the RBC regime has also been commenced. We are grateful for all the support and input provided by the industry throughout this entire process.

The proposed RBC regime aims at strengthening policy holder protection by ensuring that the regulatory capital requirements of insurers reflect their actual risk exposures and incentivizing improved risk management. Given these evident benefits, the IA considers there is merit in enabling those authorized insurers which can demonstrate that they are sufficiently advanced in their preparations in adopting RBC at an early stage, in advance of the promulgation of the necessary legislation and to the extent the provisions under the existing legislation permits this.

Pursuant to section 130(1) of the Insurance Ordinance (Cap. 41) (“Ordinance”), the IA may at the request in writing of an authorized insurer, relax particular rules made under section 129(1)(a) of the Ordinance in their application to the insurer for such period of time, and subject to the conditions that the IA considers appropriate. Before granting any relaxation, the IA has to be satisfied that (a) it would not be contrary to the interests of policy holders or potential policy holders to do so; and (b) it would not adversely affect the IA’s ability to carry out its supervisory functions under the Ordinance. The IA may, therefore, on written request from an authorized insurer carrying on long term business grant a relaxation of the Insurance (Determination of Long Term Liabilities) Rules (Cap. 41E) in their application to the insurer on a company basis, subject to conditions which require the insurer to comply with RBC requirements.

Pursuant to section 17(2) of the Ordinance, the IA may also, at the request in writing of an authorized insurer, modify or vary any of the requirements of Schedule 3 in relation to that insurer in such respects and for such period as the IA and the insurer may agree. The IA may, therefore, on written request from an authorized insurer carrying on long term business, modify the requirements in Schedule 3 to align these requirements with the forthcoming RBC regime.

It is therefore feasible for the IA to utilize its powers under sections 17(2) and 130(1) of the Ordinance to facilitate the early adoption of RBC on the company basis by an authorized insurer carrying on long term business if the IA considers the insurer is sufficiently advanced in its preparations to adopt RBC.

Accordingly, if an authorized insurer carrying on long term business wishes to adopt the RBC regime in advance of the regime being promulgated through legislation, it may submit a request in writing in the form of an application under sections 130 and 17 of the Ordinance for the IA's consideration. The application should be submitted to the case officer with the information and documents listed in the **Appendix 1** to this circular. Each application will be assessed on a case-by-case basis, and (as indicated) certain approval conditions will be imposed by the IA.

Should you have any queries in relation to the above, please contact your case officer or email us at rbc@ia.org.hk.

Yours faithfully,

Tony Chan
Associate Director
Policy and Development Division
Insurance Authority

Encls. (attached to email only)

c.c. Chairman, The Hong Kong Federation of Insurers
President, The Actuarial Society of Hong Kong