

INSURANCE AUTHORITY

Note on Authorization and Annual Fees

INTRODUCTION

Section 13 of the Insurance Ordinance (Cap. 41) (“the Ordinance”) provides that every authorized insurer has to pay the prescribed fees (“Fees”) to the Insurance Authority (the “Authority”) not later than the date on which it is authorized; and annually upon the anniversary of such date (hereinafter referred to as “payment due date”). The Insurance (Authorization and Annual Fees) Regulation (Cap. 41C) (“the Regulation”) sets out the Fees.

2. The Fees payable upon authorization and annually thereafter consist of two elements, namely, a fixed fee of –

- \$300,000 for an insurer carrying on long term business or general business;
- \$600,000 for an insurer carrying on both long term business and general business (i.e. composite insurers);
- \$15,000 for a special purpose insurer; and
- \$30,000 for a captive insurer;

and a variable fee at 0.0039% of insurance liabilities (not applicable to special purpose insurer) effective from 26 June 2022.

3. This Note elaborates the ascertainment of variable fee and the payment requirements.

ASCERTAINMENT OF VARIABLE FEE

Interpretation of “Insurance Liabilities”

4. The term “insurance liabilities” under section 1A of the Regulation refers to that reported in the financial information submitted by authorized insurers –

- (1) in compliance with Schedule 3 to pre-amended Ordinance¹ (i.e. as in force before 1 July 2024), or
- (2) that in compliance with rule 4(1) of the Insurance (Submission of Statements, Reports and Information) Rules as in force since 1 July 2024.

Class of Insurance	Interpretation of Insurance Liabilities	Reference
General Business	<p>(1) If the financial information last provided before the relevant payment due date was submitted in accordance with Schedule 3 to pre-amended Ordinance:</p> <p>The aggregate of the amount of unexpired risk carried forward, the provision for outstanding claims (net amount) and the provision for IBNR as reported in Forms 1A and 2A (Hong Kong General Business Returns). Forms 1A and 2A are of same format and a sample Form 1A is provided at Annex A for reference.</p> <p>(2) If the financial information last provided before the relevant payment due date was submitted in accordance with the Insurance (Submission of Statements, Reports and Information) Rules:</p> <p>The difference between —</p> <ul style="list-style-type: none"> (a) total insurance liabilities (gross of reinsurance) relating to general insurance business; and (b) the portion belonging to branch insurance operations outside Hong Kong (excluding those belonging to Long Term Fund) <p>as reported in the form. A sample form is provided at Annex C for reference.</p>	<p>Part 8 Section 40(2)(b) and (d) of Schedule 3 to pre-amended Ordinance</p> <p>Rule 4(1) of Insurance (Submission of Statements, Reports and Information) Rules</p>

¹ “Pre-amended Ordinance” has the meaning given in section 1A of the Regulation.

Class of Insurance	Interpretation of Insurance Liabilities	Reference
Long Term Business	<p>(i) If the financial information last provided before the relevant payment due date was submitted in accordance with Schedule 3 to pre-amended Ordinance:</p> <p>The “Amount of Net Liability” as reported in Form HKL2 (Hong Kong Long Term Business Returns). A sample Form HKL2 is provided at <u>Annex B</u> for reference.</p> <p>(ii) If the financial information last provided before the relevant payment due date was submitted in accordance with the Insurance (Submission of Statements, Reports and Information) Rules:</p> <p>The difference between —</p> <p>(a) the total insurance liabilities (gross of reinsurance) relating to long term insurance business; and</p> <p>(b) the portion belonging to Long Term Fund of the branch insurance operations outside Hong Kong</p> <p>as reported in the form. A sample form is provided at <u>Annex D</u> for reference.</p>	<p>Part 7 section 39(1) of Schedule 3 to pre-amended Ordinance</p> <p>Rule 4(1) of Insurance (Submission of Statements, Reports and Information) Rules</p>

5. The value of insurance liabilities refers to the figure(s) that appear(s) in the authorized insurer’s last return furnished² to the Authority before the relevant payment due date. Illustrative examples are provided in **Annex E** for reference.

² (i) If the financial information last provided was submitted in accordance with Schedule 3 to pre-amended Ordinance, according to section 20(1A) of pre-amended Ordinance, “last return provided” refers to any account, balance sheet, abstract, certificate or statement of an insurer and any report of the auditor that must be deposited with the Authority within 4 months after the close of the period to which the account, balance sheet, abstract, certificate, statement or report relates.

(ii) If the financial information last provided was submitted in accordance with rule 4(1) of the Insurance (Submission of Statements, Reports and Information) Rules, ‘last return provided’ refers to annual return in respect of insurer’s financial position and capital adequacy that must be deposited with the Authority within 4 months after the end of the financial year, or within 6 months during the submission transitional period (i.e. the period of 3 years from the 1 July 2024).

6. If the amount of variable fee payable would include a fraction of a cent, the amount is to be rounded to the nearest cent.

Variable Fee Cap

7. Variable fee payable by an insurer carrying on long term business or general business is subject to a cap of \$7 million. Variable fee payable by a composite insurer is subject to a cap of \$14 million, being the cap of \$7 million individually applicable to each of its long term and general business.

8. Total Fees payable by insurers in sum of fixed fee and variable fee payable should not exceed the maximum limits as set out in below:

Class of Insurance Carried on by Insurer	Variable Fee Cap	Fixed Fee	Maximum Fees Payable
	HK\$ (a)	HK\$ (b)	HK\$ (c) = (a) + (b)
General Business	7,000,000	300,000	7,300,000
Long Term Business	7,000,000	300,000	7,300,000
Composite (General and Long Term Business)	14,000,000	600,000	14,600,000
Captive Insurer	Not applicable	30,000	Not applicable
Special Purpose Insurer	No variable fee	15,000	15,000

FEES PAYMENT

9. Fees should be made payable by Hong Kong dollar cheque, bank draft or bank transfer to “**Insurance Authority**” before the authorized insurer’s anniversary date. As a facilitation measure, the Authority will issue an Annual

Fee Notice on 15th of a calendar month (or the following working day if 15th is a public holiday) to each of the insurers whose anniversary day will fall in the succeeding month. A sample of the Annual Fee Notice is set out in **Annex F** for information.

10. Insurers should settle the Fees, both the fixed and variable, in full with one payment.

DEFINITIONS OF TERMS

11. Where a term used in the Note is defined in Cap. 41 or the subsidiary legislation then, except where specified in the Note, that term carries the meaning as defined in Cap. 41 or the subsidiary legislation.

Sample on Sum of the Provisions to be Adopted for Calculation of Variable Fee for General Business

FORM 1A
HONG KONG INSURANCE BUSINESS - DIRECT BUSINESS REVENUE ACCOUNT OF ABC INSURANCE COMPANY
SUPPLEMENTARY INFORMATION

ACCOUNTING CLASSES OF GENERAL BUSINESS	Accident and health	Motor vehicle, damage and liability	Aircraft, damage and liability	Ships, damage and liability		Goods in transit	Property damage	General liability		Pecuniary loss	Total
				Statutory business	Others			Statutory business	Others		
				\$	\$			\$	\$		
(8) UNEXPIRED RISKS ADJUSTMENT											
(A) Amount of unexpired risks c/f	8A	8A	8A	8A	8A	8A	8A	8A	8A	8A	T8A
(B) Amount of unexpired risks b/f	8B	8B	8B	8B	8B	8B	8B	8B	8B	8B	T8B
(C) Increase/ (Decrease) (A)-(B)	8C	8C	8C	8C	8C	8C	8C	8C	8C	8C	T8C
(15) PROVISION FOR OUTSTANDING CLAIMS ADJUSTMENT											
(A) Provision for outstanding claims											
(a) Gross amount	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	T15Aa
(b) Amount Recoverable from											
(i) reinsurers	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	T15Abi
(ii) others	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	T15Abii
(c) Net amount (a)-(b)	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	T15Ac
(B) Provision for IBNR	15B	15B	15B	15B	15B	15B	15B	15B	15B	15B	T15B
(C) Amount of provision for outstanding claims incl. IBNR c/f (A)+(B)	15C	15C	15C	15C	15C	15C	15C	15C	15C	15C	T15C
(D) Amount of provision for outstanding claims incl. IBNR b/f	15D	15D	15D	15D	15D	15D	15D	15D	15D	15D	T15D
(E) Increase/(Decrease) (C)-(D)	15E	15E	15E	15E	15E	15E	15E	15E	15E	15E	T15E

Note: Amounts must be expressed in Hong Kong dollars.

Figure to be adopted for calculation of variable fee is the total sum of T8A and T15C.

Sample on Amount of Net Liability for Long Term Business

FORM HKL2
HONG KONG LONG TERM INSURANCE BUSINESS
VALUATION SUMMARY OF ABC INSURANCE COMPANY
Direct Business and Reinsurance Accepted

Class	Type of business	1	2	3		4	5	6	7	8
		Number of contracts	Amounts of sums assured or annuities per annum including vested reversionary bonuses	Amount of yearly premium		Value of sums assured or annuities per annum including vested reversionary bonuses	Value of yearly net premiums	Amount of net liability	Bases of valuation	
				Office premiums	Net premiums					
			HK\$	HK\$	HK\$	HK\$	HK\$	HK\$		
A	(i) Life assurance other than annuities	A	A	A	A	A	A	A	A	
↓	↓									
I	III	I	I	I	I	I	I	I	I	
	Other reserves to be specified +/-									
	1	O1	--	--	O1	--	--	O1		
	2	O2	--	--	O2	--	--	O2		
	3	O3	--	--	O3	--	--	O3		
	4	O4	--	--	O4	--	--	O4		
	5	O5	--	--	O5	--	--	O5		
	--	--	--	--	--		
	--	--	--	--	--		
	--	--	--	--	--		
	TOTALS	T1	T2	T3	T4	T5	T6	T7	--	

↓

Figure to be adopted for calculation of variable fee

Sample on Insurance Liability for General Business

EXTRACT OF FORM <F.1 EBS> IN ANNUAL RETURN

Asset / Liability / Capital Items	Carrying values under scope of regulatory consolidation	Carrying values under scope of regulatory consolidation			Applicable to HK insurers or designated insurers: Of which belongs to Branch insurance operations outside Hong Kong (Please fill in the jurisdiction of each branch operation outside Hong Kong in the row below)							
		Long Term Insurance Business	General Insurance Business		(Jurisdiction) Branch 1		(Jurisdiction) Branch 2		(Jurisdiction) Branch 3		(Jurisdiction) Branch 4	
			HK insurers or designated insurers: all general insurance business Branch operating in Hong Kong: all general insurance business, other than offshore RI business if offshore RI fund is established	Applicable to branch operating in Hong Kong with offshore RI fund established: Offshore RI business related	Total carrying values of the branch	Of which belongs to Long Term Fund	Total carrying values of the branch	Of which belongs to Long Term Fund	Total carrying values of the branch	Of which belongs to Long Term Fund	Total carrying values of the branch	Of which belongs to Long Term Fund
Description	As at end of current quarter (T)	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
I – Total assets												
↓												
II – Total liabilities												
I.A. and I.B. Total insurance liabilities (gross of reinsurance)			G1	G2	B1i	B1ii	B2i	B2ii	B3i	B3ii	B4i	B4ii
Of which: I.A. General insurance liabilities	--	--										
.....	--	--	--	--	--	--	--	--	--	--	--	--
.....	--	--	--	--	--	--	--	--	--	--	--	--
.....	--	--	--	--	--	--	--	--	--	--	--	--
TOTALS		--	--	--	--	--	--	--	--	--	--	--

Figure to be adopted for calculation of variable fee = G1 + G2 - (B1i-B1ii) - (B2i-B2ii) - (B3i-B3ii) - (B4i-B4ii)

Sample on Insurance Liability for Long Term Business

EXTRACT OF FORM <F.1 EBS> IN ANNUAL RETURN

Asset / Liability / Capital Items	Carrying values under scope of regulatory consolidation	Carrying values under scope of regulatory consolidation						Applicable to HK insurers or designated insurers: Of which belongs to Branch insurance operations outside Hong Kong (Please fill in the jurisdiction of each branch operation outside Hong Kong in the row below)							
		Long Term Insurance Business						(Jurisdiction) Branch 1		(Jurisdiction) Branch 2		(Jurisdiction) Branch 3		(Jurisdiction) Branch 4	
		HK insurers or designated insurers: all long term insurance business Branch operating in Hong Kong: all long term insurance business, other than offshore RI business if offshore RI fund is established						Total carrying values of the branch	Of which belongs to Long Term Fund	Total carrying values of the branch	Of which belongs to Long Term Fund	Total carrying values of the branch	Of which belongs to Long Term Fund	Total carrying values of the branch	Of which belongs to Long Term Fund
		Linked Long Term (Class C)	Retirement scheme category I (Class G)	Retirement scheme category II (Class H)	Participating Business	Other Businesses	Applicable to branch operating in Hong Kong with offshore RI fund established: Offshore RI business related								
Description	As at end of current quarter (T)	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
I – Total assets															
↓															
II – Total liabilities															
II.A. and II.B. Total insurance liabilities (gross of reinsurance)		L1	L2	L3	L4	L5	L6	B1i	B1ii	B2i	B2ii	B3i	B3ii	B4i	B4ii
Of which: II.A. General insurance liabilities	--														
.....	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
.....	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
TOTALS		--	--	--	--	--	--	--	--	--	--	--	--	--	--

Figure to be adopted for calculation of variable fee = L1 + L2 + L3 + L4 + L5 + L6 - B1ii - B2ii - B3ii - B4ii

Illustrative Examples

Audited Financial Information to be Adopted in Calculation of Variable Fee**Example 1:**

Company A has its financial year end date on 31 December and anniversary date in June. Its audited financial information for the financial year ended 31 December 2023 is deposited to the IA within 4 months after the end of financial year i.e. 30 April 2024. As such, the financial information for the year ended 31 December 2023 is used for calculating the variable fee of the Fees due June 2024.

Upon the commencement of the risk-based capital regime on 1 July 2024, Company A is allowed to deposit its annual return containing financial information for the year ended 31 December 2024 within 6 months after the end of the financial year (i.e. 30 June 2025) during the submission transitional period. As of the payment due date in June 2025, Company A's last return furnished is the financial information for the year ended 31 December 2023, which is thus used for calculating the variable fee of the Fees due June 2025. Similarly, financial information for the financial year ended 31 December 2024 and 2025 will be used for calculating the variable fee of the Fees due June 2026 and 2027 respectively.

After the submission transitional period, Company A must deposit its annual return for the year ended 31 December 2027 within 4 months after the end of the financial year (i.e. 30 April 2028). As such, the financial information for the year ended 31 December 2027 as the last return furnished is used for calculating the variable fee of the Fees due June 2028.

Assuming the relevant returns are submitted on 30 June in 2025-2027 and 30 April 2028:

Payment Due Date	Financial information for the financial year ended to be used
June 2025	31 December 2023
June 2026	31 December 2024
June 2027	31 December 2025
June 2028	31 December 2027

Example 2:

Company B has the same financial year end date as Company A with anniversary date also in June. Company B submits its annual return containing financial information for the year ended 31 December 2024 in March 2025. Such information is therefore used for annual fee due June 2025.

Example 3:

Company C has its financial year end date on 20 February and anniversary date in October. It adopts the risk-based capital regime on 1 July 2024. Company C submits the annual return containing financial information for the year ended 20 February 2025 in August 2025. October 2025 is the first time the financial information prepared under the regime is used for annual fee payment.

Example 4:

Company D has its financial year end date on 30 June and anniversary date in January. It adopts the risk-based capital regime on 1 July 2024. Company D submits the annual report containing financial information ended 30 June 2025 in December 2025. January 2026 is the first time the financial information prepared under the regime is used for annual fee payment.

Payment Due Date	Financial information for the financial year ended to be used
January 2026	30 June 2025
January 2027	30 June 2026
January 2028	30 June 2027

<date 1>

Our Ref: IA/CS/FIN/XX/X/XXXXXXXXXX

<Name and address of insurer>

Attention: Accounting Department

Dear Sirs

Annual Fee payable in accordance with the Insurance Ordinance (Cap 41)

In accordance with the Insurance Ordinance (Cap 41), Annual Fee for your <business type> insurance business in the sum of <amount 1> is now due. Could you please arrange settlement by cheque or bank draft and make it payable to “**Insurance Authority**” or through bank transfer¹ by the authorisation anniversary date on <date 2>.

The Annual Fee in the sum of <amount 1> comprises:

- (i) a fixed fee of <amount 2>; and
- (ii) a variable fee of <amount 3>, being the lower of <%> of insurance liabilities for the financial year ended on <date 3>, or fee cap².

Should there be any adjustment on the above variable fee considered necessary upon the completion of our final verification, we shall notify you in due course.

Please do not hesitate to contact us at <telephone number> / finance-insurer@ia.org.hk if you have any questions.

Thank you.

Yours truly
For and on behalf of
Insurance Authority

<Name and title of signatory>

¹ Bank of China (Hong Kong) 012-875-1-248766-2 / Shift code: BKCHHKHHXXX. Please email details of transfer to finance-insurer@ia.org.hk.

² \$7,000,000 (\$14,000,000 for composite insurers).