

# Working Group of Future Task Force of the Insurance Industry - Update on the Development of Risk-based Capital Regime

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31 August 2017

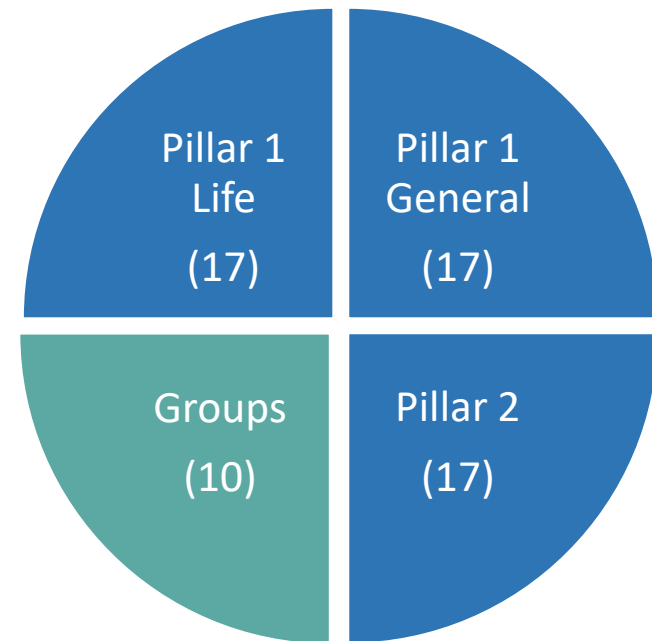
# Status of Risk-based Capital Development

- Distributed the QIS 1 technical specifications and templates to the industry on 28 July 2017
- Organised briefing sessions on 22 & 25 August 2017
  - Help the insurers to better understand the QIS 1 exercise and data requirements for completing the submission template
- Collect the QIS 1 results on or before 1 December 2017
  - ➔ Data analysis will be performed thereafter
  - ➔ Preparation of QIS 2

# Process for Development of QIS 1

## Engagement with Industry

- 4 Industry Focus Groups (IFG) set up in Oct 2016
- Members of IFGs
  - Actuarial Society of Hong Kong (ASHK)
  - Hong Kong Federation of Insurers (HKFI)
  - Covering a mix of large, medium and small insurers



# Process for Development of QIS 1

## Engagement with Industry

- 23 IFG meetings held from Nov 2016 to April 2017
- 27 papers on technical issues discussed
  - Identified the technical issues & gathered valuable inputs from members
  - Pillar 1 – coverage for QIS 1
    - Basis for valuation of assets and liabilities
    - Stress or risk factor(s) for each sub-risk category
    - Technical specifications and template
  - Pillar 2
    - Components of ERM and ORSA framework
    - Generally accepted the concept of absolute minimum requirements (“AMR”)

# Process for Development of QIS 1

## Pillar 1 (Quantitative)

- Objectives of QIS1
  - Collect data which are appropriate and necessary for further analysis by the IA;
  - Collect data on economic balance sheet basis and assess the impact of the changes the solvency regime
  - Identify key insurance and financial risks and sub-risks to which the industry is exposed and understand the sensitivity of each risk and sub-risk towards the economic balance sheet; and
  - Collect data to formulate our policy decisions on the RBC regime.

# Planning for QIS 2 (1)

## Margin Over Current Estimate (MOCE) – Long Term

- Two options mainly adopted by other jurisdictions
  - Prudence MOCE approach (Provision for adverse deviation – PAD)
  - Cost of Capital (COC) MOCE approach

## Volatility Adjustment – Long Term

- Methodology to derive the volatility adjustment

# Planning for QIS 2 (2)

## Catastrophic risk – General

- Determine the methodology for measuring catastrophic risk

## Diversification – Long Term & General

- Calibration on the parameters on different levels
  - Aggregation of risks
    - Within insurance risk
    - Within market risk

# Pillar 2 - Qualitative requirements

## Enterprise Risk Management (ERM)

- IAIS – *ICP 16 Enterprise Risk Management for Solvency Purposes*
- A good ERM framework allows insurers to identify and manage interdependencies between key risks
- ERM enables business strategy, risk management and capital allocation to be coordinated and ensure adequate protection to policy holders



# Pillar 2 - Qualitative requirements

## Own Risk and Solvency Assessment (ORSA)

- ORSA is central to insurers ERM framework:
  - Allows the Board and Senior management to anticipate the key risks and capital needs from a prospective view
  - Continuity analyses and Stress Scenarios (plausible and adverse)
  - Board review and deliberations on ORSA results are vital

# Process for Development of Pillar 2

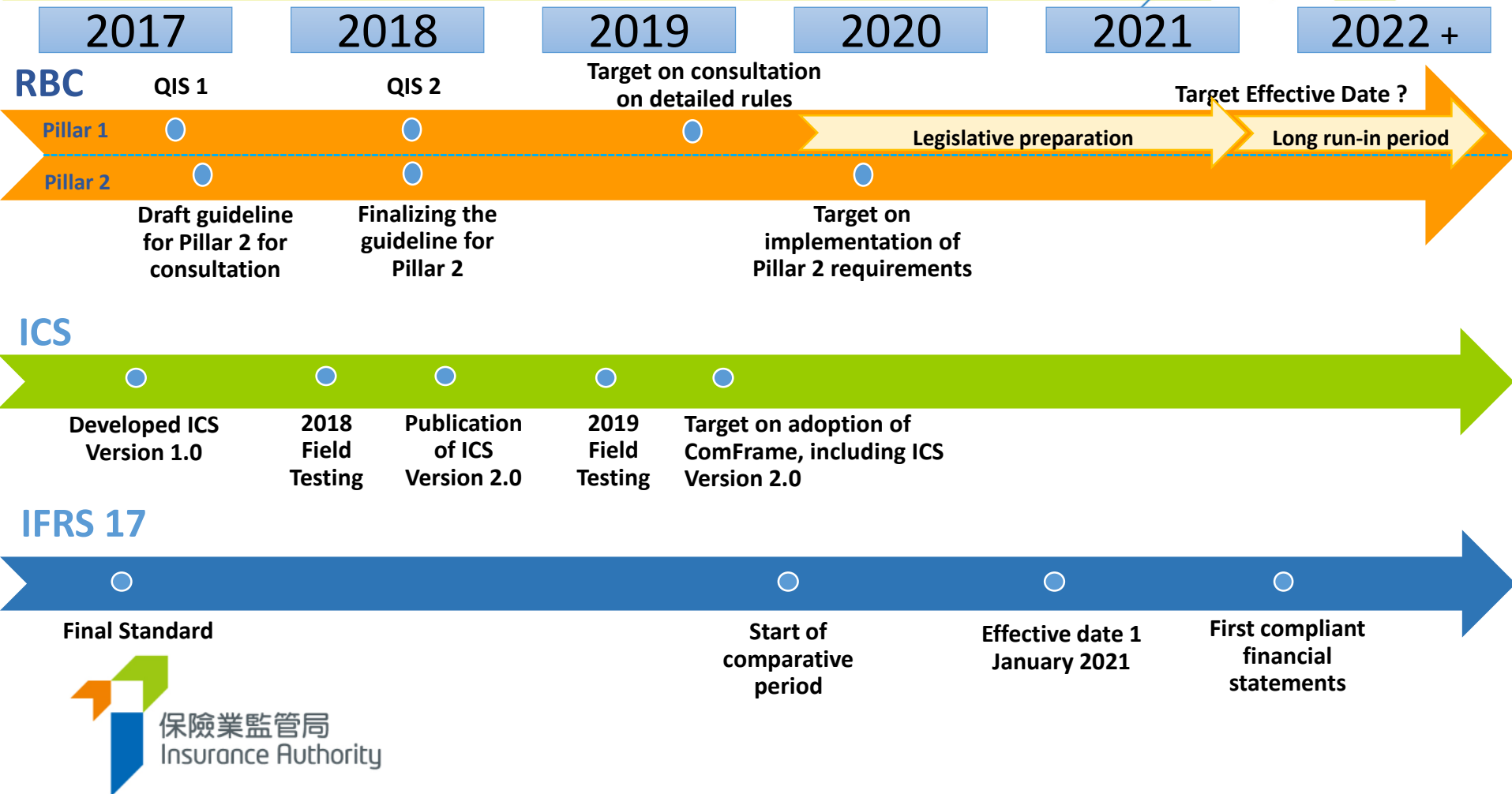
Discussion on the components of the ERM and ORSA framework in IFG meetings

Draft guideline on ERM and ORSA for consultation in late 2017

Target on issuing the guideline before next FSAP in 2018

Allow sufficient time to understand Pillar 2 requirements before implementation

# Timeline





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**THANK YOU !**