Insurance Summit 2017

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Priority of Policy Initiatives

- Development of risk-based capital regime
- Facilitation of Insurtech applications

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Risk-based Capital Regime

Pillar 1 – Quantitative Requirements

- Insurance Authority ("IA") launched the first Quantitative Impact Study ("QIS 1") and distributed the technical specifications and templates to the industry on 28 July 2017.
- QIS 1 submissions by 1 December 2017

➡ Data analysis will be performed thereafter

➡ Preparation of QIS 2

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Pillar 1 - Quantitative Requirements
Objective of QIS 1

- Engage in dialogue and work in collaboration with the industry through Industry Focus Groups on RBC development;
- Collect data which are appropriate and necessary for further analysis by the IA;
- Collect data on economic balance sheet basis and assess the likely impact of the changes in 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.

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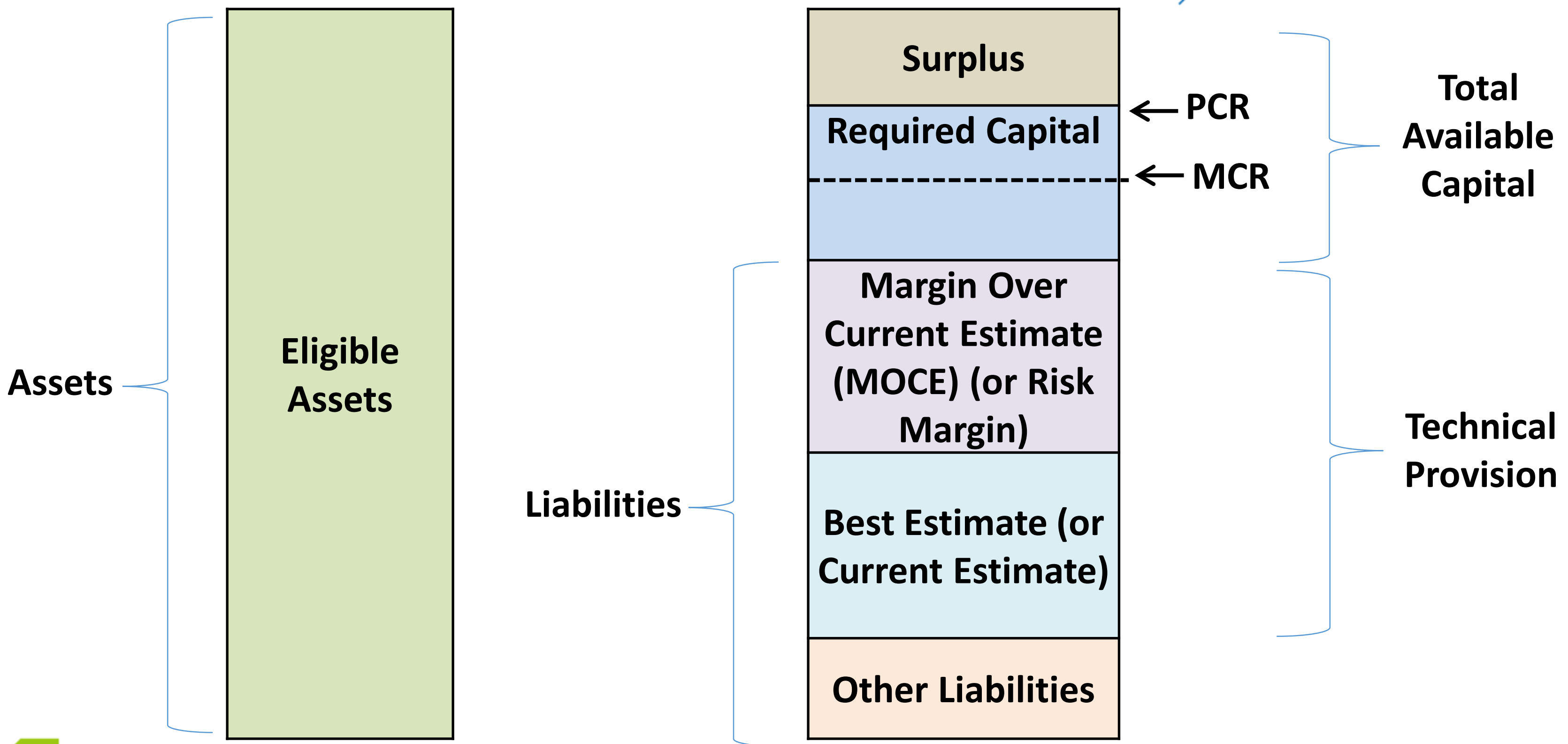
Pillar 1 - Quantitative Requirements
Economic Balance Sheet



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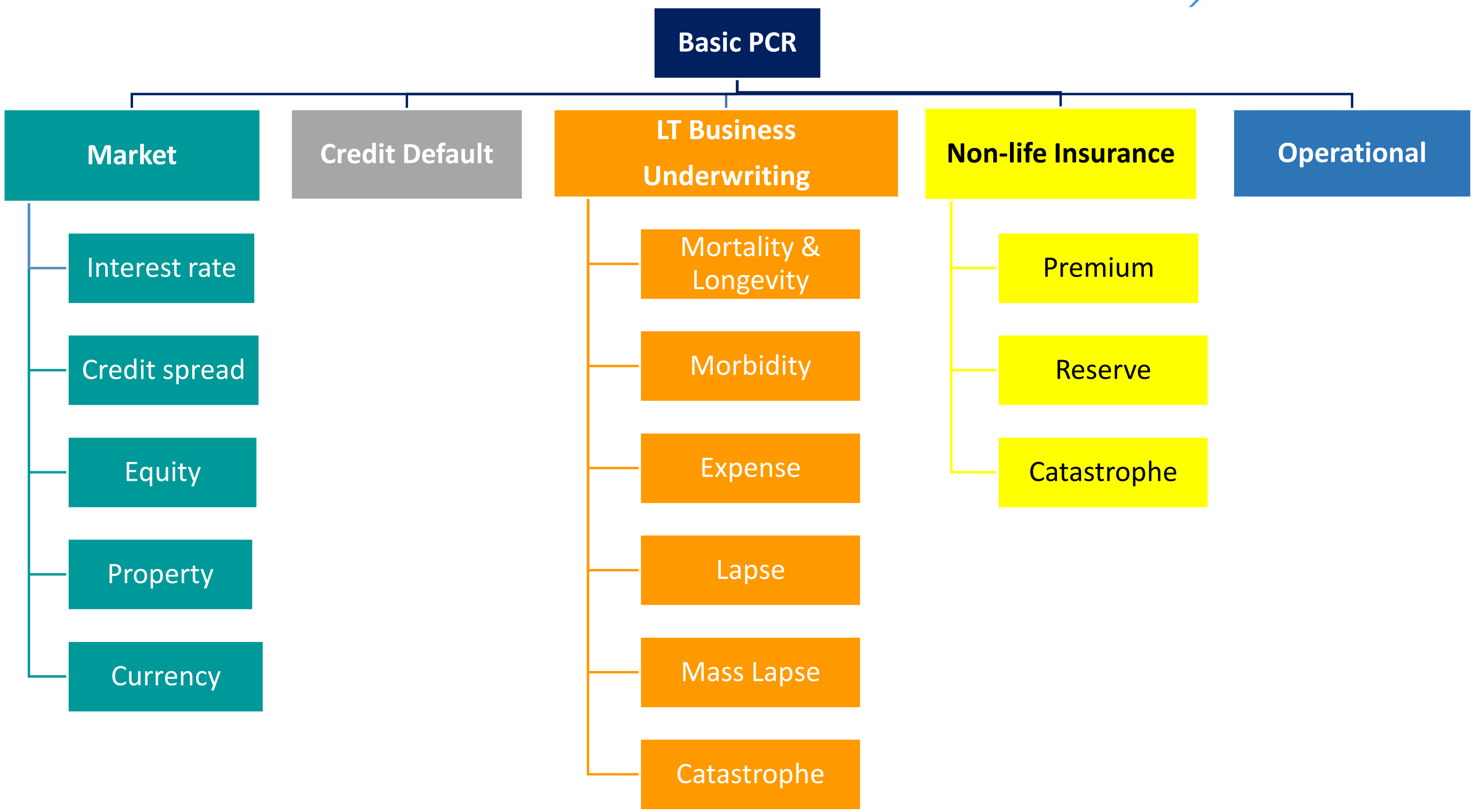
Pillar 1 – Quantitative Requirements
Prescribed Capital Requirements



The PCR stresses and factors are benchmarked against international practices and overseas RBC regimes in place, such as IAIS ICS, EIOPA Solvency II, China C-ROSS, and Singapore RBC.

Pillar 1 - Quantitative Requirements
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

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Pillar 1 - Quantitative Requirements
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

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Pillar 1 – Quantitative Requirements

Benefits of Pillar 1

- Align our regime with the international practices and Insurance Core Principles (ICPs) to ensure that the Hong Kong insurance market will maintain its regional and global competitiveness.
- Strengthen the protection of policyholders by relating capital adequacy to the risk exposures of the insurers.
- Risk-sensitive capital requirements so that insurers that present greater risk to policyholders must carry more capital.
- Enhance risk measurement, risk transfer and capital management as well as foster a sound risk culture within the insurance organisation.

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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

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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

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Pillar 2 – Qualitative Requirements
Benefits of Pillar 2

- Encourage proactive identification and measurement of risks to foster better risk culture and risk management framework.
- Require insurers to take a longer view in assessing current and future solvency positions and capital needs.
- Allow insurers to provide adequate protection to its policyholders by consideration of its business strategy, risk appetite and solvency position.

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Risk-based Capital Regime
Summary of Pillars 1 and 2

Under Current Regime

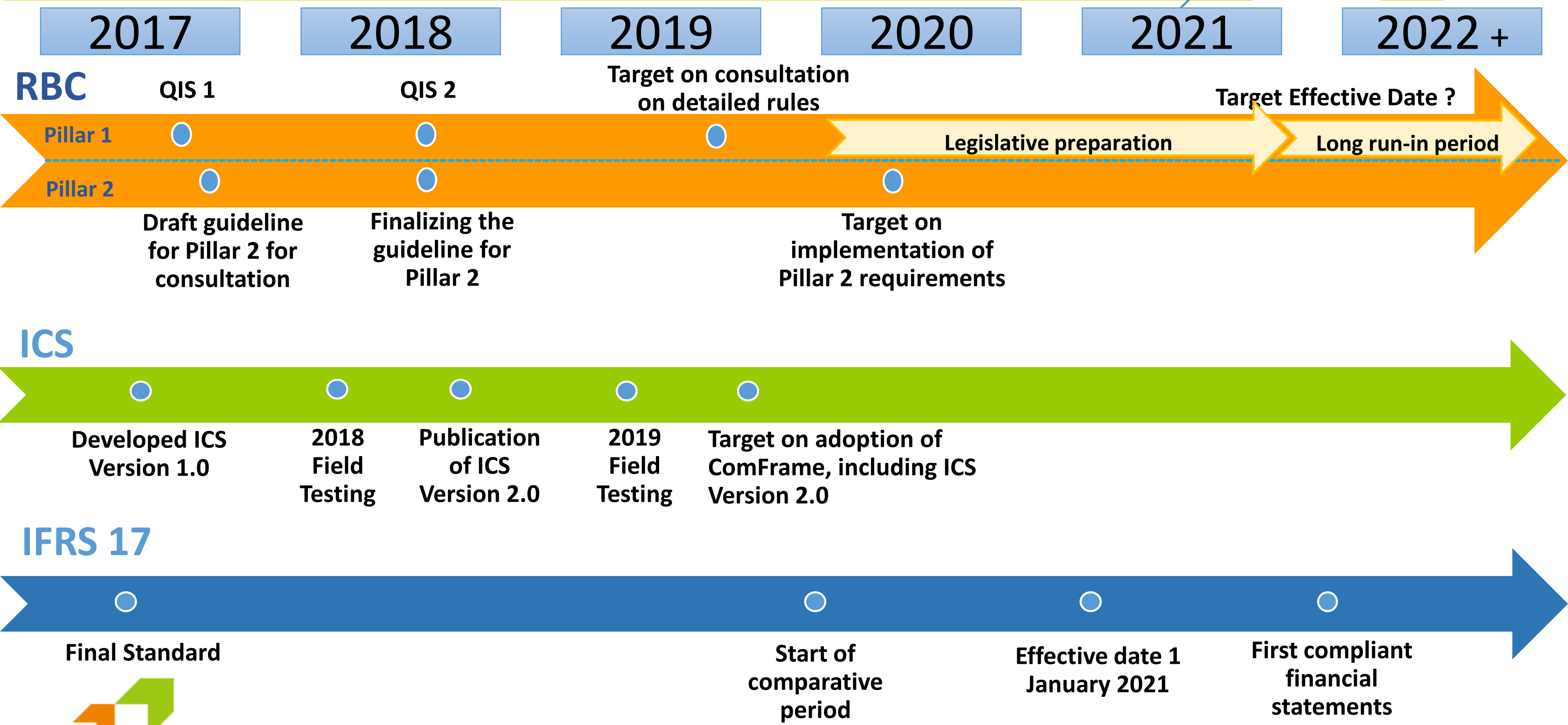
1) Assets can be valued at either amortised cost or fair value. Measuring assets and liabilities on different bases would lead to accounting mismatch.
2) Rule-based calculations on capital requirements and capital ratios do not fully reflect the underlying risks of the insurance business.
3) Insurers business planning, business strategies and risk transfer policies may not align to policyholders' interests.

Under RBC Regime

1) Both assets and liabilities are valued on a consistent, economic value basis for solvency purpose and require holistic assets-liabilities management.
2) Risk-sensitive approach that provides a complete reflection of material insurance and financial risks and of the capital requirements that insurers are subjected to.
3) Quantitative and qualitative requirements on ERM and in the ORSA to foster better risk management and policyholders' protection.

Risk-based Capital Regime

Timeline



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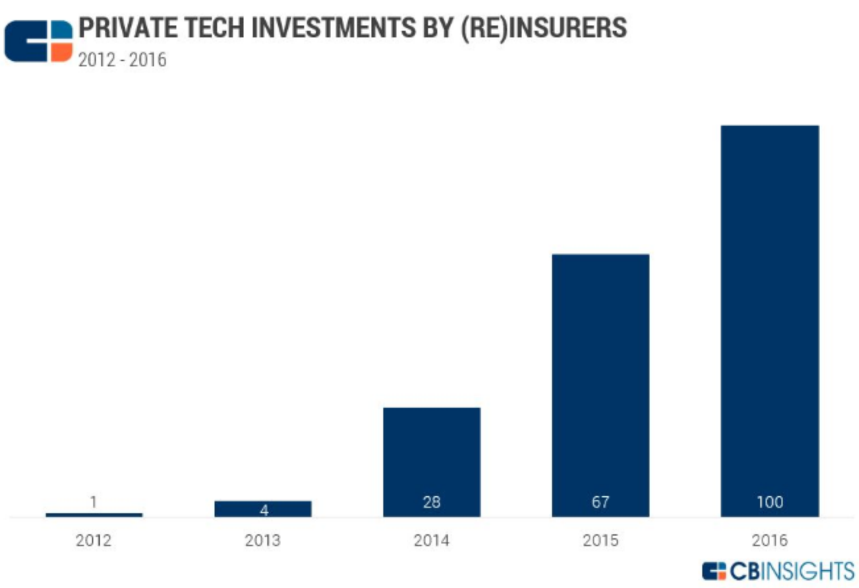
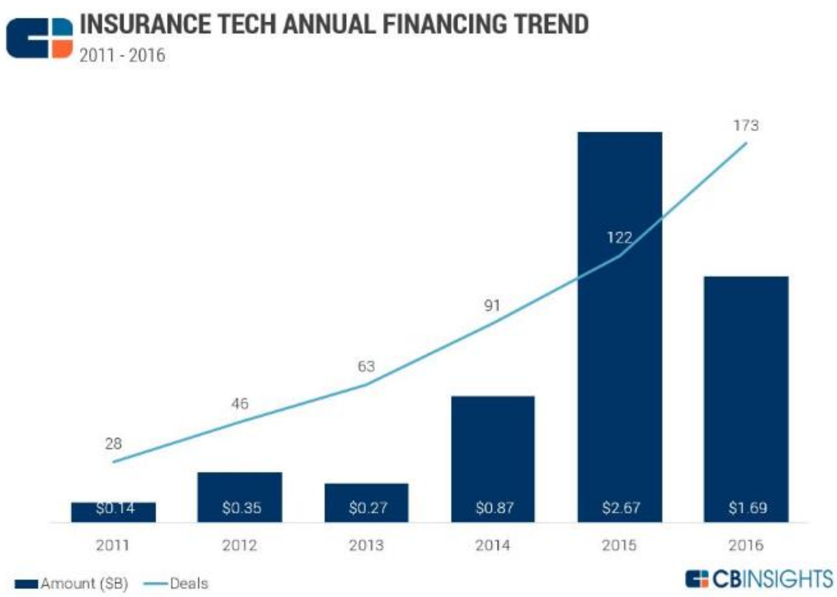
Insurtech –
‘Sandbox’ approach

Insurtech – The trend

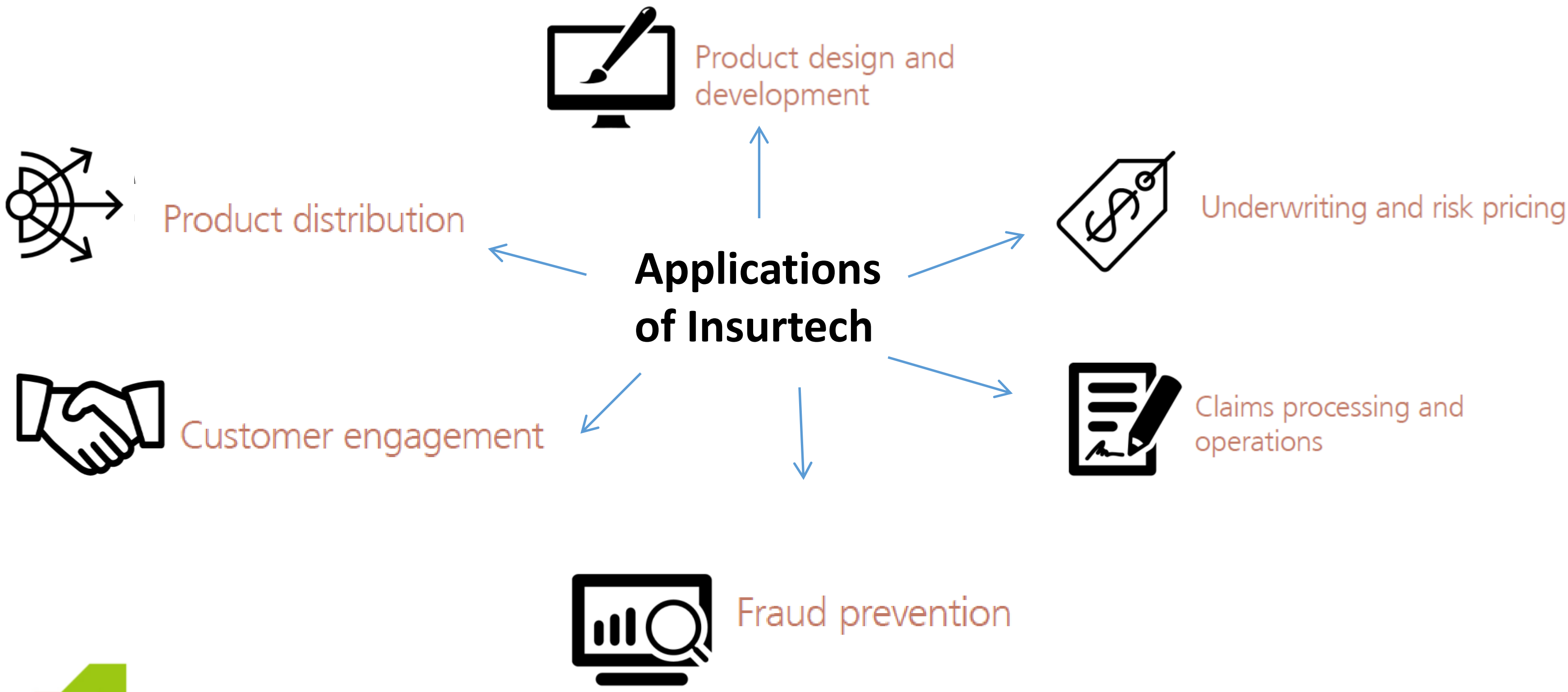
Technology advancement:
Connected device , data analytics , artificial intelligence…

Customer Demand:
Simple and affordable products, personalized and tailored insurance solution, simple and easy to become insured …





What is Insurtech?



Impact of Insurtech

- Customers – more value-added auxiliary services (health & fitness and roadside assistance), easy access to insurance, cheaper premiums, more personalized insurance solutions

  → Big Winners

- Insurers - cost savings, enhanced perception and reputational gain
- Start-ups – more flourished Fintech ecosystem
- A more sustainable market – intensified competition, higher insurance penetration especially in the Asian market

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What is ‘Sandbox’ ?

- A concept adopted from software development world
- To test technological proof of concept prior to a full-scale public release --> Iterative process to amend and improve based on feedback
- In a regulated industry, insurers and start-ups find the iterative approach difficult, especially in gaining real world data
- Sandbox – provides “safe space” to experiment new Insurtech initiatives → potential benefits for both startups and insurers

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‘Sandbox’ - Current Development

UK Financial Conduct Authority (FCA)

- Launched its regulatory sandbox program in May 2016
- 2nd cohort of application in June 2017
- 3rd cohort has begun

Hong Kong Monetary Authority

- Fintech Supervisory Sandbox in September 2016
- No limit to the number of participants

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‘Sandbox’ - Current Development

Monetary Authority of Singapore

- Issued the FinTech Regulatory Sandbox Guidelines in November 2016
- No limit to the number of participants

Other regulators: e.g. Australian Securities and Investments Commission (“ASIC”) , Abu Dhabi

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IA Insurtech - ‘Sandbox’ approach
Background

- Authorized insurers may have initiatives in applying technologies in their business operations
- Examples include e-platform, cloud computing, blockchain technology for claims management, etc
- Insurers may be uncertain if those initiatives can fulfil all the supervisory requirements of the IA

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IA Insurtech - 'Sandbox' approach
Objectives

- The IA considers it necessary to adopt some flexibility in the supervisory requirements

  → Considering "Sandbox" approach

- Insurtech applications under the Sandbox to collect sufficient data to demonstrate to the IA that it can broadly meet relevant supervisory requirements

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IA Insurtech - 'Sandbox' approach
Principles

A. Well-defined boundary and conditions
   i) Timing and duration, or expected official launch date of the initiative to the market
   ii) Size and type of insurance business, and targeted users
   iii) Technology involved
   iv) Expected outcome and success criteria of the trial

B. Risk management controls

C. Customer protection

D. Resources and readiness of the insurer

E. Exit strategy

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IA Insurtech - 'Sandbox' approach
Principles

- Does not intend to define parameters for the above principles
- On a case by case basis
- Please engage with IA early
- Benefits :

  Insurers - gain real market data and information of user experience in controlled environment before official launch

  IA - provide inputs to refining the supervisory regime which may take into account the latest technological applications

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Insurtech Facilitation Team

Objectives:

- Facilitate the Insurtech community’s understanding of the current regulatory regime
- Provide advice on Insurtech related topics

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THANK YOU !