

Insurance Regulation in Hong Kong

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The Insurance Authority

- A new independent insurance regulator to comply with the requirement of the International Association of Insurance Supervisors (IAIS)
- New regulatory initiatives and new role in facilitating market and industry development

Phased approach

Phase 1

- 7 Dec 2015 to 26 June 2017
- IA was vested with certain administrative functions only and co-existed with the Office of the Commissioner of Insurance (OCI)

Phase 2

- From 26 June 2017
- Takeover of OCI's statutory functions
- Self-regulatory regime for intermediaries remains unchanged

Phase 3

- Within 2 years after 26 June 2017
- Takeover of the direct regulation of intermediaries

Key statutory functions

Regulate insurers and insurance intermediaries

Promote proper conduct and practices

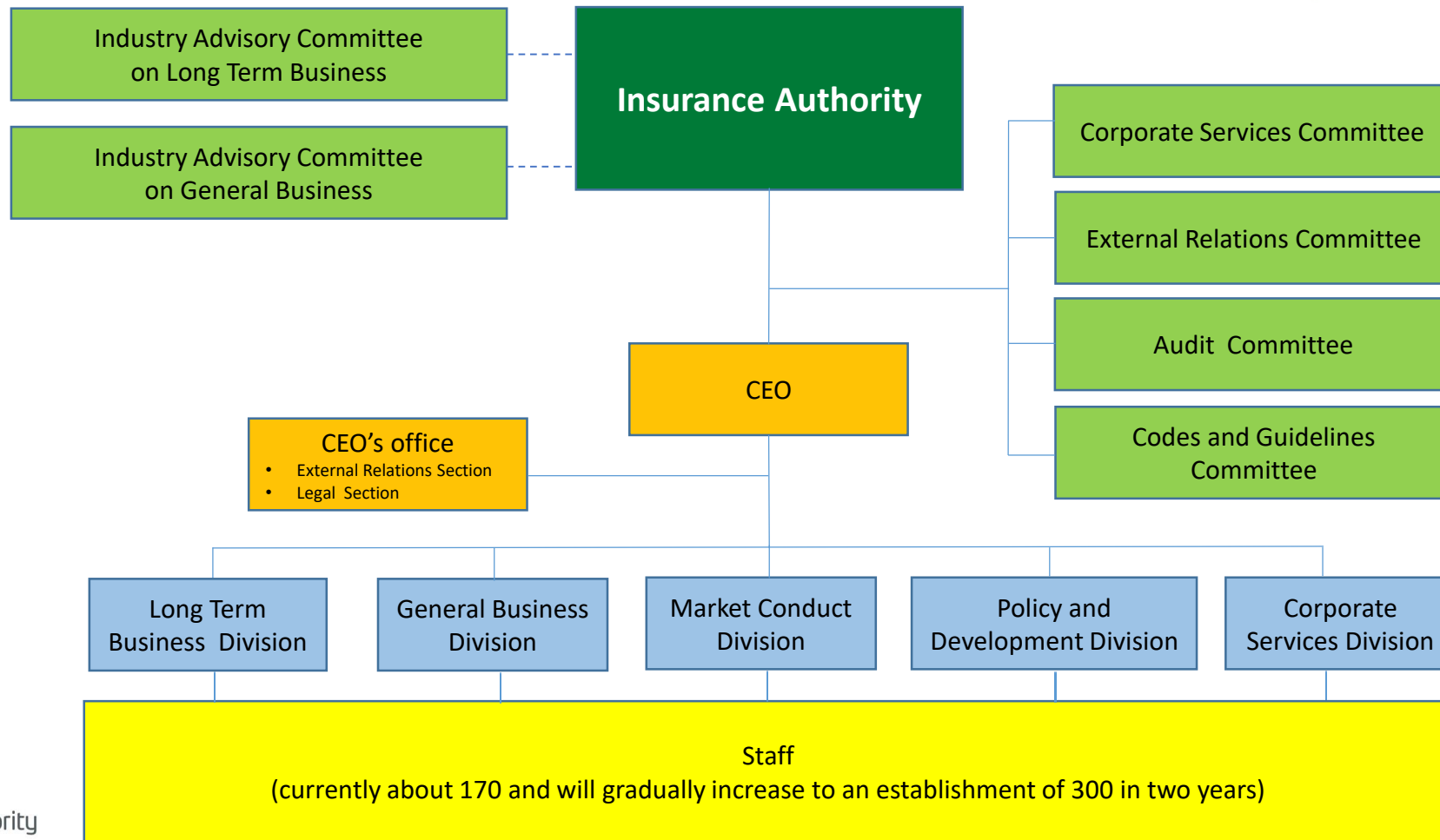
Conduct studies, propose law reforms

Assist Financial Secretary to maintain financial stability

Facilitate market development, promote competitiveness

Promote public education

Our Organization



Core values

Agile

Accountable

Building trust

Collaboration

Driving change

Embracing innovation

Key tasks

- Risk-based Capital Regime
- Promote Insurtech
- Regulation of insurance intermediaries

Risk-based Capital Regime

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.

Pillar 1 - Quantitative Requirements

- 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

Pillar 2 - Qualitative Requirements

Enterprise Risk Management (ERM)

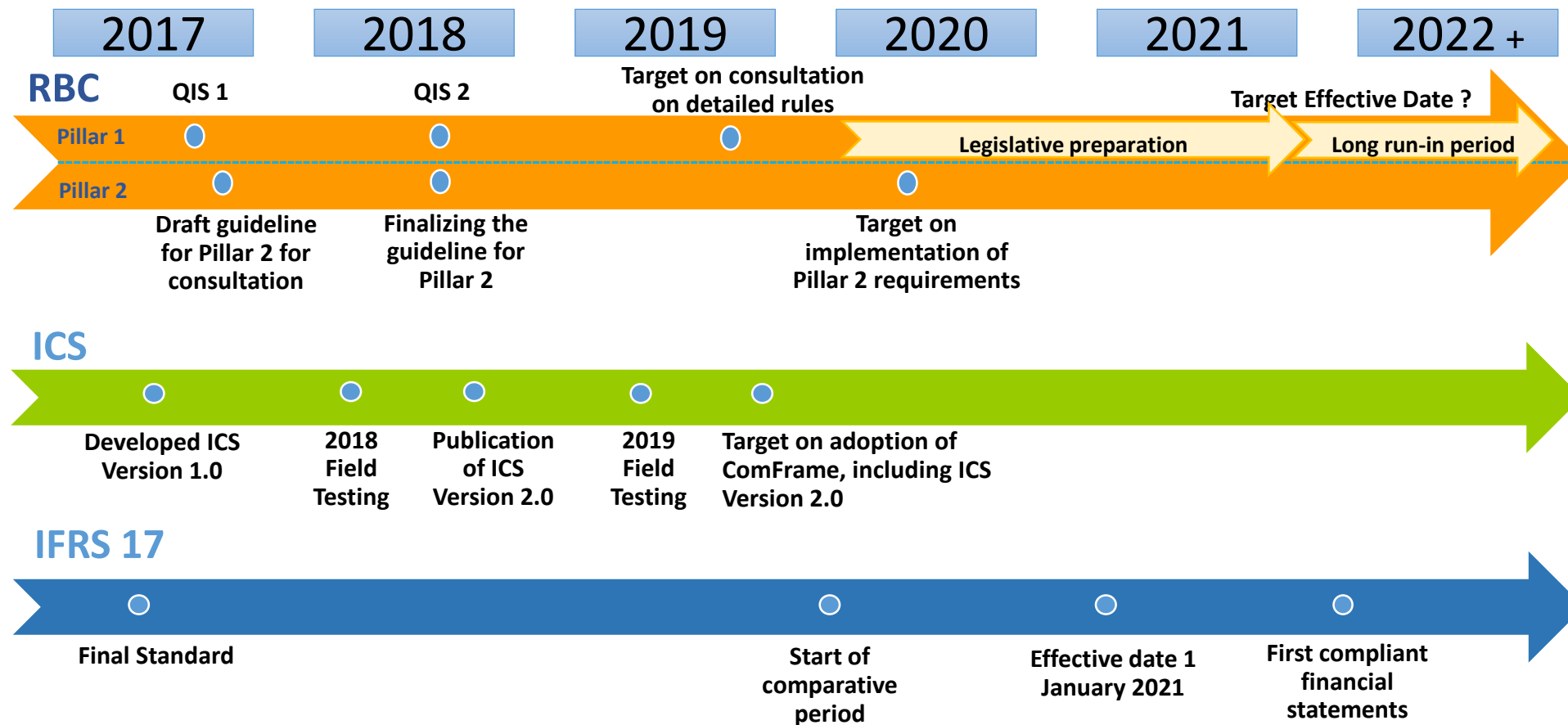
- IAIS – ICP 16 Enterprise Risk Management for Solvency Purposes
- Allow insurers to identify and manage interdependencies between key risks
- Enable business strategy, risk management and capital allocation to be coordinated and ensure adequate protection to policy holders

Pillar 2 - Qualitative Requirements

Own Risk and Solvency Assessment (ORSA)

- ORSA is central to insurers' ERM framework:
 - Allow 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

Risk-based Capital Regime Timeline



Promote Insurtech

Insurtech - The trend

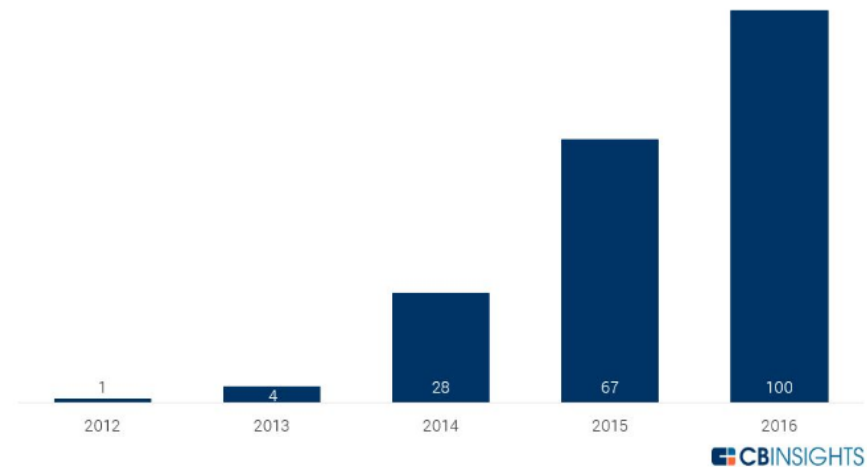
Technology advancement:

Connected device , data analytics , artificial intelligence...

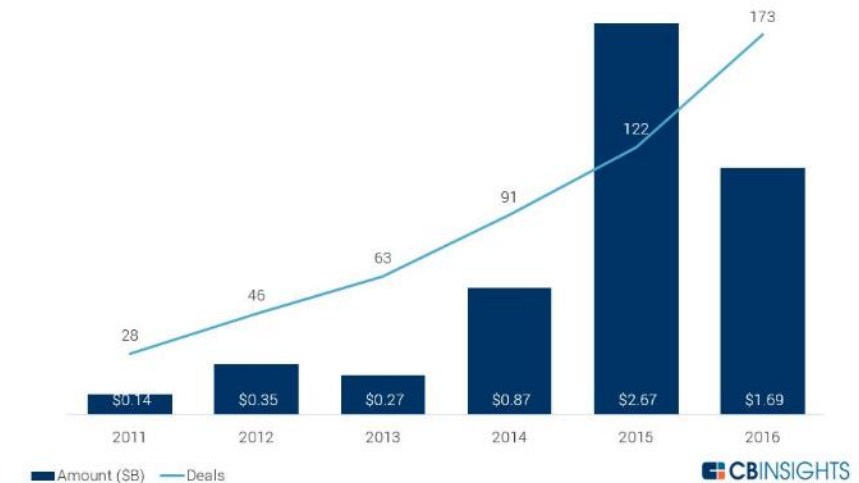
Customer Demand:

Simple and affordable products, personalized and tailored insurance solution, simple and easy to become insured ...

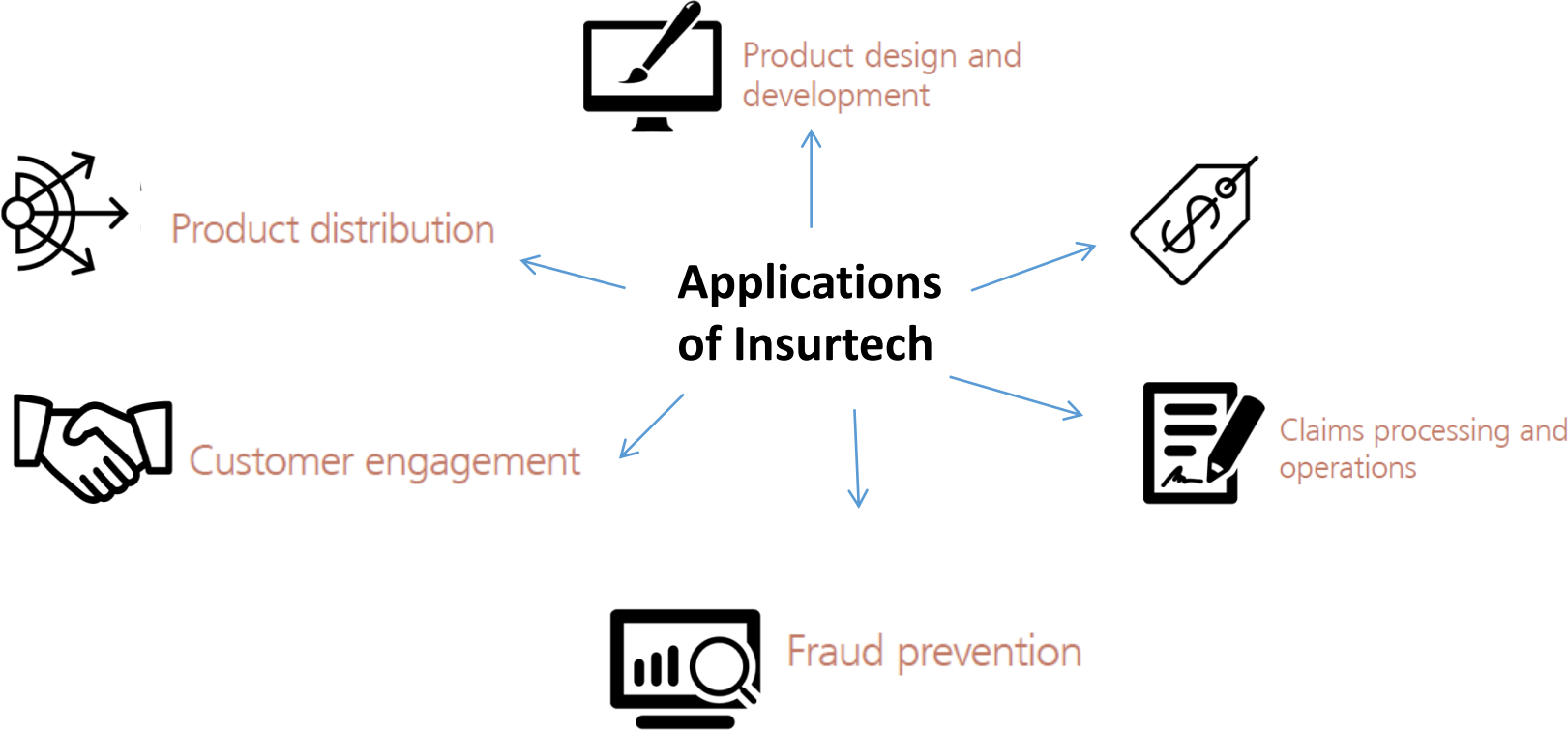
 PRIVATE TECH INVESTMENTS BY (RE)INSURERS
2012 - 2016



 INSURANCE TECH ANNUAL FINANCING TREND
2011 - 2016



What is Insurtech?



'Sandbox' approach

- Insurers uncertain if new initiatives in applying technologies can fulfil all the supervisory requirements of the IA
- Examples: e-onboarding, cloud computing, blockchain technology for claims management, etc
- Insurtech applications under the Sandbox to collect sufficient data to demonstrate to the IA that it can broadly meet relevant supervisory requirements

'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

“Fast Track”

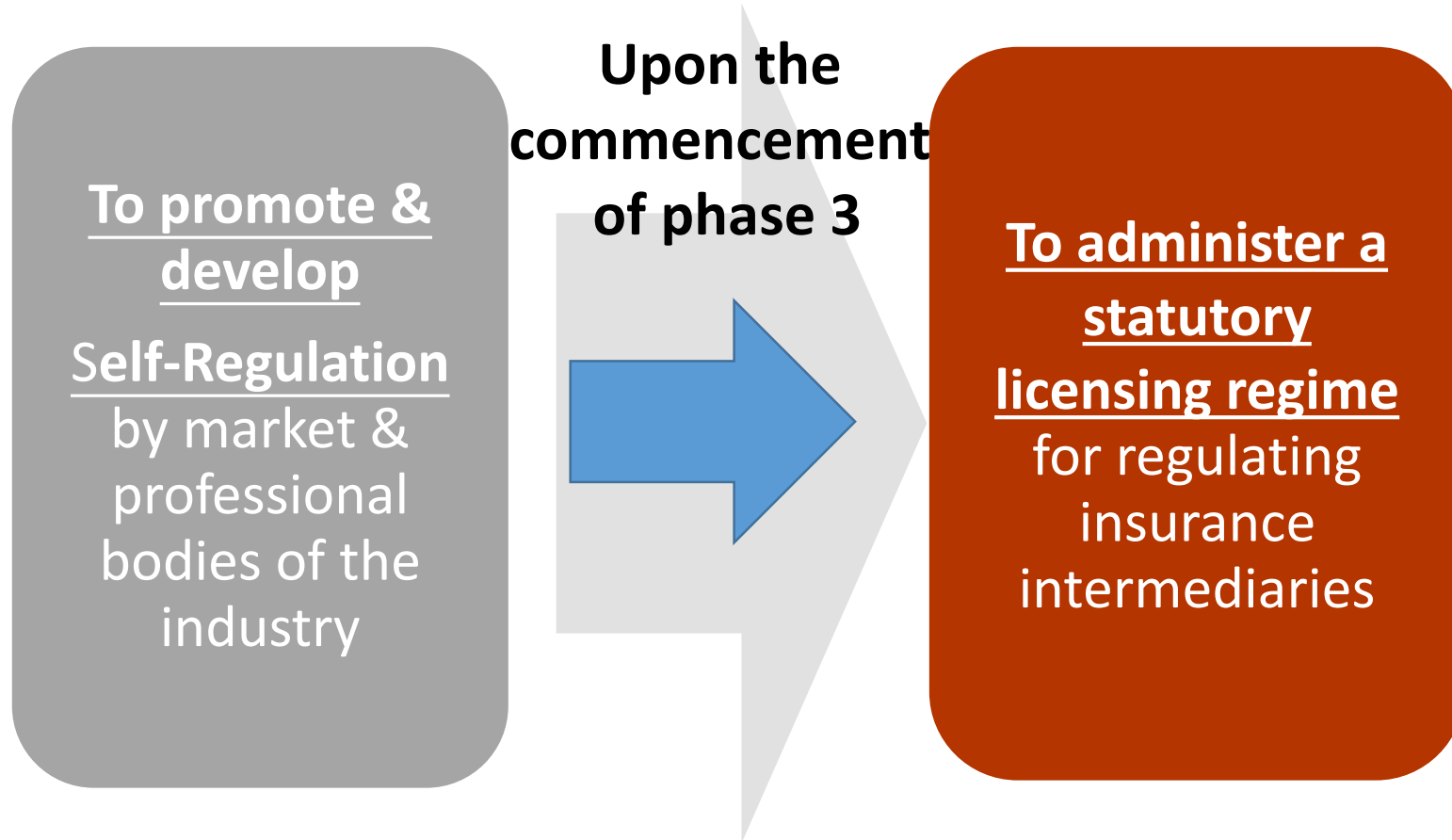
- A dedicated queue for new authorization applications using solely digital distribution channels
- Applicant has an innovative and robust business model using digital distribution
- To provide benefits to policyholders in product development, delivery, customer service and cost efficiency

Insurtech Facilitation Team

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

Regulation of insurance intermediaries

Statutory licensing scheme



Rules, regulations, codes and guidelines

- To issue about 20 sets of rules, regulations, codes and guidelines
- Make reference to
 - Requirements of 3 Self-Regulatory Organisations (SROs)
 - Current market needs
 - International best practices



Transitional arrangements

- All pre-existing insurance intermediaries will be **deemed as licensees** under the new regime **for a transitional period of 3 years**
- Licence fee will be **waived for 5 years**
- **Complaint cases** not yet resolved by SROs will be handled by the IA, with reference to, as far as practicable, the relevant rules of the SRO

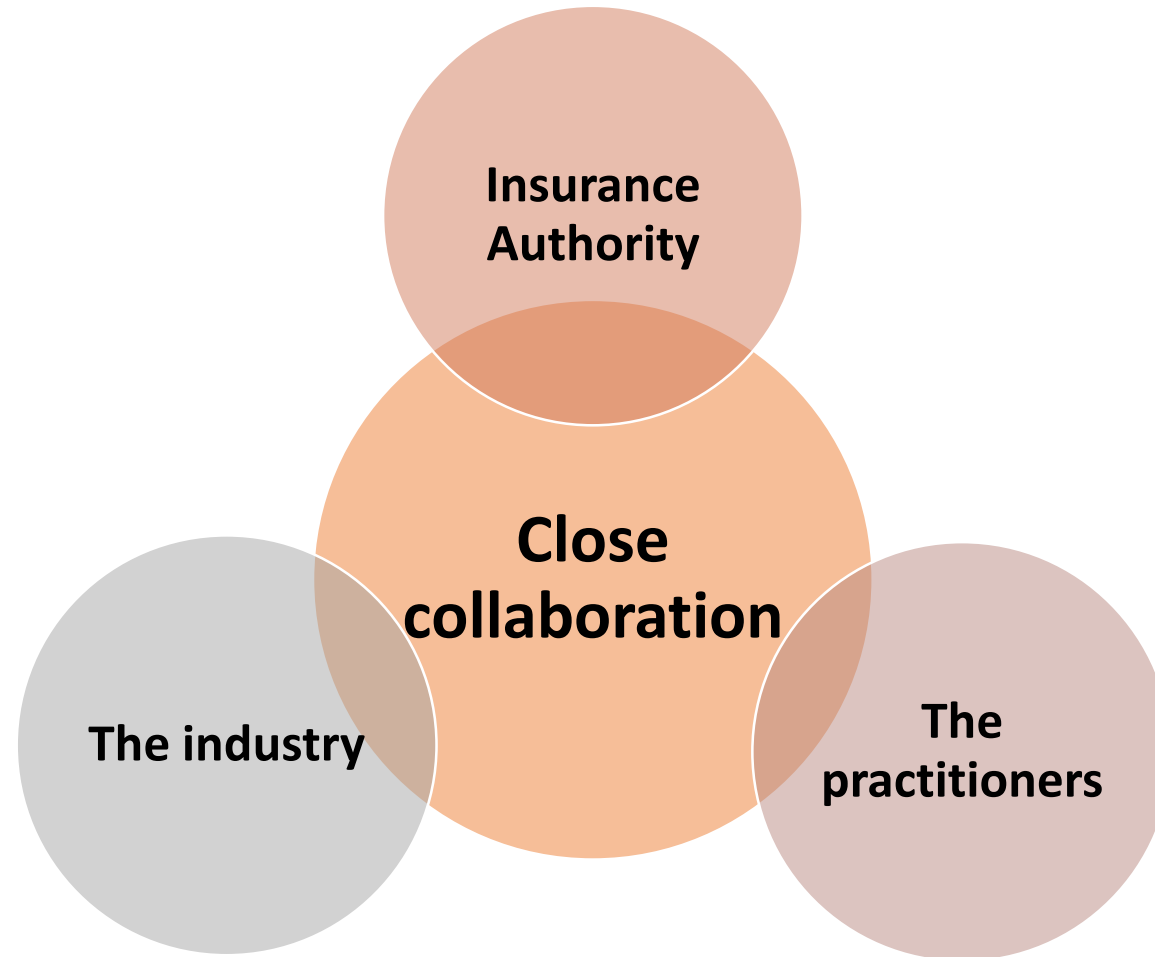
Preparation work for new regime

- To facilitate a smooth transition, the IA will convene a Working Group to work out detailed transitional arrangements
- New Working Group

Form two sub-working groups

Invite more representatives from industry bodies

Future of insurance industry depends on...



thank you!