Risk-based Capital Framework
for Insurance Industry of Hong Kong

Frequently Asked Questions

Q1 What are the differences between a risk-based capital (RBC) framework and the existing rule-based regime?

A1 Currently, the Insurance Companies Ordinance (ICO) (Chapter 41) and its Regulations, together with the Guidance Notes issued by the Insurance Authority (IA), prescribe a rule-based capital adequacy framework for insurers operating in Hong Kong. Capital adequacy is assessed on the basis of an insurer's solvency margin, i.e. the level of surplus derived from the value of the assets of an insurer vis-à-vis the value of its liabilities. The risk factors pertinent to an individual insurer are not featured or quantified under this framework, but are examined separately by the IA together with the insurer concerned.

The RBC framework develops a more risk-sensitive capital adequacy framework. The capital requirements for an insurance company are determined in relation to the level of risk that the company is bearing.

Q2 Why is the IA proposing an RBC framework for the insurance industry of Hong Kong?

A2 In recent years, it has been recognized globally that the capital adequacy framework should take into account different risk factors of individual insurers. The International Association of Insurance Supervisors (IAIS) – the global standard-setter for the insurance industry – has issued new Insurance Core Principles (ICPs) in relation to RBC requirements. All member supervisors of IAIS, including the IA, are obliged to comply with these new ICPs. The RBC framework seeks to align Hong Kong's regime with international standards.

Q3 What will happen after the consultation exercise?

A3 After this consultation exercise, the IA will further develop the detailed rules and conduct quantitative impact study for different types of insurers. The study will include in-depth analysis of the impact of the framework on the industry and would help to ensure that the new regime is viable and practicable, and that it should not bring about instability to the insurance industry.

Q4 Does it mean that insurers would need to increase capital under the proposed regime?

A4 The move towards developing an RBC framework does not necessarily imply a need for individual insurers to increase or decrease their capital. Under the RBC framework, the level of risk to which an insurer is exposed will be taken into account when determining its capital requirement.

Q5 What are the three Pillars under the RBC framework ?

A5 An RBC framework covers three major areas, known as the Three Pillars. Pillar 1 consists of the quantitative requirements, including assessment of capital adequacy and valuation. Pillar 2 sets out the qualitative requirements, including corporate governance, Enterprise Risk Management as well as Own Risk and Solvency Assessment. Pillar 3 focuses on disclosures and enhancing transparency of relevant information of insurers to the public.

Q6 When will the RBC regime be in place?

A6 The RBC regime would be developed in four phases :

- Phase I will involve development of the framework and key approaches.

- Phase II will involve development of detailed rules and conducting of a quantitative impact study. Phase II should begin in 2015/2016, to be followed by another consultation exercise.

- Phase III will involve amendment of legislation. At least 2 to 3 years will be needed to complete all the preparatory tasks including public consultations.

- Phase IV will be the implementation phase. The new RBC regime should be rolled out in phases with a sufficiently long run-in period, so that insurers will have adequate time to understand the requirements thoroughly, and be able to achieve full compliance incrementally.

Q7 How and when to submit views?

A7 We welcome written comments on or before **15 December 2014** through any of the following means:

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