保險業監管局
Insurance Authority

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By Email Only
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To: Appointed Actuaries of Authorized Long Term And Composite Insurers in Hong Kong

Dear Sirs,

Insurance Ordinance (Cap. 41) (the "Ordinance")
Insurance (Determination of Long Term Liabilities) Rules (Cap. 41E), Rule 8(7)(a)

We have been in discussions with the Actuarial Society of Hong Kong ("ASHK") on a proposal it has made regarding the approach to be used by long term authorized insurers to value the yield assumed on investments to be made more than 3 years after the valuation date, when determining their liabilities for solvency purposes. The proposal is made in light of the current volatility of the financial markets.

In considering this proposal, we have taken into account (among other matters) the work done in developing the risk-based capital regime for Hong Kong ("HKRBC") through the industry's participation in the third quantitative impact study and the additional insight this provides, for practical supervisory purposes, on the capital position of long term authorized insurers based on their risk exposures.

The ASHK's proposal is made in respect of Rule 8(7)(a) of the Insurance (Determination of Long Term Liabilities) Rules ("the Long Term Liabilities Rules"), issued under section 129(1)(a) of the Ordinance, which reads as follows:

"8(7) The yield assumed, before any adjustment to take account of the effect of taxation-

(a) on any investment to be made more than 3 years after the valuation date shall not exceed the lowest of-

(i) a prudent assessment of the yield, current on the valuation date, of long term fixed interest securities issued by the national government of the country in which currency the liabilities are denominated; or

(ii) 6% per annum increased by one quarter of the excess, if any, of the yield referred to in subparagraph (i) over 6% per annum; or

(iii) *7.5% per annum;"*

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The ASHK's proposal is that a long term authorized insurer (if it considers it prudent and appropriate to do so) may use the following formula ("Proposed Formula") for the valuation of the yield assumed on investments to be made more than 3 years after the valuation date, in determining its liabilities:

Proposed Formula

Yield Assumed = 20% x Yield at Valuation Date + 80% x 60-Month Average Yield

Where:

Yield Assumed = yield assumed on investments to be made more than 3 years after the valuation date (to be used for the purposes of determining liabilities);

Yield at Valuation Date = the yield, current on the valuation date, of long term fixed interest securities issued by the national government of the country in which currency the liabilities are denominated; and

60-Month Average Yield = arithmetic mean of the month-end yields on long term fixed interest securities issued by the national government of the country in which currency the liabilities are denominated over the 60-month period ending on (and including) the valuation date.

Under section 130 of the Ordinance, the Insurance Authority ("IA") may relax particular rules made under section 129(1)(a) of the Ordinance in their application to an authorized insurer for the period, and subject to the conditions that the IA considers appropriate, at the request in writing of that insurer, on the IA being satisfied that (a) it would not be contrary to the interests of policy holders or potential policy holders to do so; and (b) it would not adversely affect the IA's ability to carry out its supervisory functions under the Ordinance.

In broad terms, having considered the Proposed Formula, we are of the view that its adoption by long term authorized insurers would not be contrary to the interests of policyholders or potential policy holders. This is particularly the case as the IA can take into account, among other matters, the HKRBC results of long term authorized insurers as part of its considerations in its supervision work.

To implement the adoption of the Proposed Formula in a way that provides certainty, we would propose that each long term authorized insurer that wishes to use the Proposed Formula, submit its request in writing to the IA (referencing this circular), so that the IA may, under section 130 of the Ordinance, grant permission to utilize the Proposed Formula as a relaxation of Rule 8(7)(a)(i) of the Long Term Liabilities Rules. Each application will be addressed on a case-by-case basis, with such conditions being applied as the IA may consider appropriate. Provided the application is to utilize the Proposed Formula (which the IA has had the opportunity to review in the context of the considerations stated in this letter), we envisage that the application can be processed expeditiously.

Please contact your case officer for further details, if you wish to submit an application to use the Proposed Formula.

Yours faithfully,

Carol Hui
Executive Director, Long Term Business Division
Insurance Authority

c.c. Chief Executives of all authorized insurers carrying on long term business
Chairman, The Hong Kong Federation of Insurers
President, The Actuarial Society of Hong Kong