

OUR REF : IA/CS/FIN/4-60/201701
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21 April 2017

To all authorized insurers

Operational Arrangements for the Collection of Authorization Fee

According to the Insurance Companies (Authorization and Annual Fees) (Amendment) Regulation 2017 (Legal Notice Issue Number 58, Gazette Published on 21/4/2017 No.16 Vol.21), with effect from 26 June 2017, the annual authorization fees to be collected by the Insurance Authority will consist of two elements, namely, a fixed fee of \$300,000 (for captive insurer, \$30,000; and for composite insurer, \$600,000) and a variable fee of 0.0039% on insurance liabilities (capped at \$7 million for general or long term business or \$14 million for composite insurer). The fee is payable upon authorization and annually upon the anniversary of such date. An incremental approach (see table below) will be adopted for introducing the variable fees.

Payment Due Date	Variable Fee Rate
From 26 June 2017 to 25 June 2018	0.0001%
From 26 June 2018 to 25 June 2019	0.0005%
From 26 June 2019 to 25 June 2020	0.0013%
From 26 June 2020 to 25 June 2021	0.0026%
From 26 June 2021 to 25 June 2022	0.0031%
From 26 June 2022 to 25 June 2023 and each subsequent period of 1 year from 26 June	0.0039%

Attached please find a note to the industry setting out the detailed operational arrangements for the collection of authorization fee with effect from 26 June 2017. For enquiries, please contact Finance Section of the Insurance Authority via email finance-insurer@ia.org.hk.

Yours faithfully,



Dorcas Cheng
Senior Finance Manager
Insurance Authority

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INSURANCE AUTHORITY

Note on Annual Authorization Fee

INTRODUCTION

Section 13 of the Insurance Ordinance (Cap. 41) provides that every authorized insurer must pay the prescribed fees to the Insurance Authority (the “Authority”) not later than the date on which it is authorized; and annually upon the anniversary of such date (hereinafter referred to as “payment due date”). The Insurance (Authorization and Annual Fees) Regulation¹ (Cap. 41C) (“the Regulation”) sets out the prescribed fees.

2. With effect from 26 June 2017 [save any unforeseen circumstances], the fee payable upon authorization and annually thereafter² consists of two elements, namely, a fixed fee of \$300,000 (for captive insurer, \$30,000; and for composite insurer, \$600,000) and a variable fee, subject to a cap of \$7 million, of 0.0039% on insurance liabilities.

3. This Note elaborates the ascertainment of variable fee and the payment requirements.

ASCERTAINMENT OF VARIABLE FEE

Interpretation of “Insurance Liabilities”

4. The term “insurance liabilities” is defined under section 1A of the Regulation.

5. Schedule 3 to Cap. 41 provides detailed requirements on accounts and statements from authorized insurers which include the interpretation of insurance liabilities and below is the summary for reference –

¹ According to the latest timetable, it is expected that the Legislative Council (“LegCo”) will complete negative vetting of the amendment regulation on authorization fee at its Council meeting scheduled for 14 June 2017. In view of this, the arrangement of collection of new authorisation fee is subject to the negative vetting by LegCo.

² Guideline 5 (to be issued to replace GN5) will reflect the latest amounts prescribed in the subsidiary legislation.

Class of Insurance	Interpretation of Insurance Liabilities	Reference to Schedule 3 to Cap. 41
General	the aggregate of the amount of unexpired risk carried forward, the provision for outstanding claims (net amount) and the provision for IBNR as reported in Forms 1A and 2A (Hong Kong General Business Returns). Forms 1A and 2A are of same format and a sample Form 1A is provided at <u>Annex A</u> for reference.	Part 8 Section 40 subsection (2) (b) & (d)
Long Term	the “Amount of Net Liability” as reported in Form HKL2 (Hong Kong Long Term Business Returns). A sample Form HKL2 is provided at <u>Annex B</u> for reference.	Part 7 section 39 subsection (1)

6. The value of insurance liabilities refers to the figure(s) that appear(s) in the insurer’s last return required to be furnished³ to the Office of the Commissioner of Insurance or the Authority before the relevant payment due date. Illustrative examples are provided in **Annex C** for reference.

7. If the amount of variable fee payable would include a fraction of a cent, the amount is to be rounded to the nearest cent.

Fee Cap

8. The annual variable fee to be paid by each insurer carrying on general or long term business respectively is subject to a cap of \$7 million. The cap for composite insurer will be applied per general business or long term business respectively.

9. The annual authorization fee payable is the aggregate of fixed fee and variable fee payable. In other words, the annual authorization fee payable by insurers of different classes of insurance business should not exceed the figures as stipulated in the last column in the table below:

³ According to section 20(1A) of Cap. 41, any account, balance sheet, abstract, certificate or statement of an insurer and any report of the auditor shall be deposited with the Authority within 4 months after the close of the period to which the account, balance sheet, abstract, certificate, statement or report relates.

Class of Insurance	Fixed Fee (HK\$) (a)	Variable Fee (Capped) (HK\$) (b)	Total (HK\$) (a) + (b)
General Business	300,000	7,000,000	7,300,000
Long Term Business	300,000	7,000,000	7,300,000
Composite	600,000	14,000,000	14,600,000
Captive Insurer	30,000	7,000,000	7,030,000

Transitional Arrangement for the Initial Five Years

10. To reduce the impact on the insurance industry, the variable fee rate will increase gradually in the initial five years until it reaches the target rate of 0.0039%. This incremental approach is detailed under Schedule 3 to the Regulation. As stipulated therein, the payment due date determines the applicable variable fee rate. See also the table below:

Payment Due Date	Variable Fee Rate
From 26 June 2017 to 25 June 2018	0.0001%
From 26 June 2018 to 25 June 2019	0.0005%
From 26 June 2019 to 25 June 2020	0.0013%
From 26 June 2020 to 25 June 2021	0.0026%
From 26 June 2021 to 25 June 2022	0.0031%
From 26 June 2022 to 25 June 2023 and each subsequent period of 1 year from 26 June	0.0039%

11. Examples on calculation of variable fee payable are set out in **Annex D** for reference.

PAYMENT OF ANNUAL AUTHORIZATION FEE

12. Payment of the annual authorization fee should be made by a Hong Kong dollar cheque, bank draft or bank transfer payable to “**Insurance Authority**” before the insurer’s anniversary date. As a facilitation measure, the Authority will issue an Annual Fee Notice on 15th of a calendar month (or the following working day if 15th is not a working day) to each of the insurers whose anniversary day will fall in the succeeding month. A sample of the

Annual Fee Notice is set out in **Annex E** for information.

13. For the avoidance of doubt, the payment of fixed fee and variable fee should be made at the same time.

DEFINITIONS OF TERMS

14. Where a term used in the Note is defined in Cap. 41 or the subsidiary legislation then, except where specified in the Note, that term carries the meaning as defined in Cap. 41 or the subsidiary legislation.

Sample on Sum of the Provisions to be Adopted for Calculation of Variable Fee for General Business

Annex A

FORM 1A
 HONG KONG INSURANCE BUSINESS - DIRECT BUSINESS REVENUE ACCOUNT OF **ABC INSURANCE COMPANY**
 SUPPLEMENTARY INFORMATION
 for the period commencing on 1 April 2019 and ending on 31 March 2020

ACCOUNTING CLASSES OF GENERAL BUSINESS	Accident and health	Motor vehicle, damage and liability	Aircraft, damage and liability	Ships, damage and liability		Goods in transit	Property damage	General liability		Pecuniary loss	Total
				Statutory business	Others			Statutory business	Others		
				\$	\$			\$	\$		
(8) UNEXPIRED RISKS ADJUSTMENT											
(A) Amount of unexpired risks c/f	8A	8A	8A	8A	8A	8A	8A	8A	8A	8A	T8A
(B) Amount of unexpired risks b/f	8B	8B	8B	8B	8B	8B	8B	8B	8B	8B	T8B
(C) Increase / (Decrease) (A)-(B)	8C	8C	8C	8C	8C	8C	8C	8C	8C	8C	T8C
PROVISION FOR OUTSTANDING CLAIMS ADJUSTMENT											
(A) Provision for outstanding claims											
(a) Gross amount	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	T15Aa
(b) Amount recoverable from											
(i) reinsurers	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	T15Abi
(ii) others	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	T15Abii
(c) Net amount (a)-(b)	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	T15Ac
(B) Provision for IBNR	15B	15B	15B	15B	15B	15B	15B	15B	15B	15B	T15B
(C) Amount of provision for outstanding claims incl. IBNR c/f (A)+(B)	15C	15C	15C	15C	15C	15C	15C	15C	15C	15C	T15C
(D) Amount of provision for outstanding claims incl. IBNR b/f	15D	15D	15D	15D	15D	15D	15D	15D	15D	15D	T15D
(E) Increase / (Decrease) (C)-(D)	15E	15E	15E	15E	15E	15E	15E	15E	15E	15E	T15E

Note: Amounts must be expressed in Hong Kong dollars.

Figure to be adopted for calculation of variable fee is the total sum of T8A and T15C.

Sample on Amount of Net Liability for Long Term Business

Annex B

FORM HKL2
 HONG KONG LONG TERM INSURANCE BUSINESS
 VALUATION SUMMARY OF **ABC INSURANCE COMPANY**
 Direct Business and Reinsurance Accepted
 for the period commencing on 1 April 2019 and ending on 31 March 2020

Class	Type of business	1	2	3	4	5	6	7	8
		Number of contracts	Amounts of sums assured or annuities per annum including vested reversionary bonuses	Amount of yearly premium		Value of sums assured or annuities per annum including vested reversionary bonuses	Value of yearly net premium	Amount of net liability	Bases of valuation
				Office premiums	Net premiums				
			HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
A	(i) Life assurance other than annuities	A	A	A	A	A	A	A	
↓	↓								
I	III	I	I	I	I	I	I	I	
	Other reserves to be specified +/-								
	1	O1	--	--	O1	--	--	O1	
	2	O2	--	--	O2	--	--	O2	
	3	O3	--	--	O3	--	--	O3	
	4	O4	--	--	O4	--	--	O4	
	5	O5	--	--	O5	--	--	O5	
		--	--	--	--	
		--	--	--	--	
		--	--	--	--	
		--	--	--	--	
	TOTALS	T1	T2	T3	T4	T5	T6	T7	--

Figure to be adopted for calculation of variable fee

Illustrative Examples

Audited Accounts and Balance Sheet to be Adopted in Calculation of Variable Fee

	Audited Accounts and Balance Sheet to be Adopted for Year Ended in				
	February	March	June	November	December
<u>Payment due date falls in</u>					
June 2017	2/2016	3/2016	6/2016	11/2016	12/2016
July 2017	2/2017	3/2016	6/2016	11/2016	12/2016
August 2017	2/2017	3/2017	6/2016	11/2016	12/2016
September 2017	2/2017	3/2017	6/2016	11/2016	12/2016
October 2017	2/2017	3/2017	6/2016	11/2016	12/2016
November 2017	2/2017	3/2017	6/2017	11/2016	12/2016
December 2017	2/2017	3/2017	6/2017	11/2016	12/2016
January 2018	2/2017	3/2017	6/2017	11/2016	12/2016
February 2018	2/2017	3/2017	6/2017	11/2016	12/2016
March 2018	2/2017	3/2017	6/2017	11/2016	12/2016
April 2018	2/2017	3/2017	6/2017	11/2017	12/2016
May 2018	2/2017	3/2017	6/2017	11/2017	12/2017
June 2018	2/2017	3/2017	6/2017	11/2017	12/2017
July 2018	2/2018	3/2017	6/2017	11/2017	12/2017
August 2018	2/2018	3/2018	6/2017	11/2017	12/2017
September 2018	2/2018	3/2018	6/2017	11/2017	12/2017
October 2018	2/2018	3/2018	6/2017	11/2017	12/2017
November 2018	2/2018	3/2018	6/2018	11/2017	12/2017
December 2018	2/2018	3/2018	6/2018	11/2017	12/2017
January 2019	2/2018	3/2018	6/2018	11/2017	12/2017
February 2019	2/2018	3/2018	6/2018	11/2017	12/2017
March 2019	2/2018	3/2018	6/2018	11/2017	12/2017

Illustrative Examples

Variable Fee Payable for Different Class of Insurance

Anniversary date on 1 July for year 2017 to 2022

Scenario 1: General Business

Anniversary Date	Variable Fee Rate (%)	Outstanding Claims Provision net of Reinsurance Recoveries (HK\$)	Variable Fee Calculated (HK\$)	Variable Fee Payable (rounded) (HK\$)
1 July 2017	0.0001	40,987,654,321	40,987.6543..	40,987.65
1 July 2018	0.0005	70,987,654,321	354,938.2716..	354,938.27
1 July 2019	0.0013	100,987,654,321	1,312,839.5061..	1,312,839.51
1 July 2020	0.0026	130,987,654,321	3,405,679.0123..	3,405,679.01
1 July 2021	0.0031	160,987,654,321	4,990,617.2839..	4,990,617.28
1 July 2022	0.0039	190,987,654,321	7,448,518.5185..	<u>7,000,000.00</u>

Scenario 2: Long Term Business

Anniversary Date	Variable Fee Rate (%)	Net Liabilities for Long Term Business (HK\$)	Variable Fee Calculated (HK\$)	Variable Fee Payable (rounded) (HK\$)
1 July 2017	0.0001	253,123,456,789	253,123.4567..	253,123.46
1 July 2018	0.0005	265,123,456,789	1,325,617.2839..	1,325,617.28
1 July 2019	0.0013	278,123,456,789	3,615,604.9382..	3,615,604.94
1 July 2020	0.0026	292,123,456,789	7,595,209.8765..	<u>7,000,000.00</u>
1 July 2021	0.0031	307,123,456,789	9,520,827.1604..	<u>7,000,000.00</u>
1 July 2022	0.0039	323,123,456,789	12,601,814.8147..	<u>7,000,000.00</u>

OUR REF : IA/CS/FIN/51/3/201701
TEL. NO. : 2614 7139
FAX NO. : 2614 7332

<<date1>>

Name and address of insurer
(Attention: Accounts Department)

Dear Sirs,

Annual Authorization Fee

Under section 13 of the Insurance Ordinance (Cap. 41), every authorized insurer must pay the prescribed fees to the Insurance Authority (the "Authority") not later than the date on which it is authorized; and annually upon the anniversary of such date.

Please be reminded to pay the fee as prescribed in the Insurance (Authorization and Annual Fees) Regulation (Cap. 41C) by sending to the Authority a Hong Kong dollar crossed cheque or bank draft in favour of "Insurance Authority" or through bank transfer on or before the anniversary of authorization, i.e. <<date2>>. The <<amount1>> fee payable is the aggregate of (i) and (ii) below –

- (i) a fixed fee of <<amount2>>; and
- (ii) a variable fee of <<amount3>>, subject to a cap of <<amount4>>, of <<rate>> on the insurance liabilities as shown in your company's audited books and accounts for the financial year ended on <<date3>>.

Should you need any information, please contact Finance Section of the Insurance Authority at <<contact number>>.

Yours faithfully
For and on behalf of
Insurance Authority

<<Name>>

<<Post>>