

Guide to Forms HKL1, HKL2 and HKL3 under The Insurance Ordinance (Cap. 41) (“the Ordinance”)

Commencing from the financial year ending on or after 31 December 2003, insurers authorized to carry on long term business in or from Hong Kong are required to submit to the Insurance Authority (“IA”) specific information annually in Forms HKL1, HKL2 and HKL3 for their “**Hong Kong long term insurance business**” within 4 months after the close of its financial year. In completing these forms for submission, please refer to the explanatory notes below for guidance.

General Notes

1. Definition of terms

- (a) “Amount of sums assured”, in relation to Form HKL2, represents the death benefit payable irrespective of cause of death and may include the death benefit payable for term riders.
- (b) “Amount of annuities”, in relation to Form HKL2, represents the annuity payable per year.
- (c) “Amount of Fund(s) / Fund(s) (as per Balance Sheet)”, in relation to Forms HKL1 and HKL3, represents the total amount of assets maintained by the insurer in respect of its “Fund(s)” as at the respective date(s).
- (d) “Amount of net liability”, in relation to Form HKL2, represents the policy reserves set aside by the insurer as at the end of its financial year.
- (e) “Amount of yearly premiums: Net Premiums”, in relation to Form HKL2, represents the portion of “Amount of yearly premiums: Office Premiums” attributable to the policy benefits. It does not include any loading on expenses, profits or contingency margins.
- (f) “Amount of yearly premiums: Office Premiums”, in relation to Form HKL2, represents the annualized premiums of the policies as at the valuation date or the flexible premium paid by the policyholders during the financial year. Such amount does not include the premiums paid by the policyholders during the financial year for policies with single mode of payment.

- (g) “Fund(s)”, in relation to Forms HKL1 and HKL3, means the long term business fund, or that part of the fund, which is attributable to the “Hong Kong long term insurance business” carried on by the insurer.
- (h) “Hong Kong long term insurance business” means :-
- i. any direct business or facultative reinsurance business, being long term business, in relation to which the risk is underwritten in Hong Kong, that is to say-
 - (i) the policy is issued in Hong Kong;
 - (ii) the proposal form, application form or any other form of a similar nature is signed in Hong Kong;
 - (iii) the proposal form, application form or any other form of a similar nature is submitted or received in Hong Kong;
 - (iv) the proposal form, application form or any other form of a similar nature is accepted in Hong Kong; or
 - (v) the risk is accepted in Hong Kong; or
 - ii. any treaty reinsurance business, being long term business, in relation to which the risk is underwritten in Hong Kong, that is to say-
 - (i) the treaty is signed in Hong Kong;
 - (ii) the treaty is accepted in Hong Kong; or
 - (iii) the treaty negotiation is concluded in Hong Kong,
 - (iv) but does not include any treaty reinsurance business in respect of which less than 25% of the total risk (calculated in terms of the gross premiums receivable under the treaty) arises in Hong Kong.
- [A risk is deemed to arise in Hong Kong, if-
- i. the policy holder being an individual is resident in Hong Kong; or

- ii. the policy holder is a company within the meaning of section 2(1) of the Companies Ordinance (Cap 622).]
- (i) “Net liability under Hong Kong Long Term Insurance Business”, in relation to Form HKL3, represents the total amount of insurer’s liabilities attributable to the “Fund(s)”. Such amount might be the aggregate of policy reserves, other insurance liabilities and current liabilities attributable to its “Hong Kong long term insurance business”. However, such amount does not include any build-in solvency margin attributable to the “Fund(s)”.
 - (j) “Number of contracts”, in relation to Form HKL2, represents the number of in-force basic insurance contracts as at the end of a financial year. Such number excludes the policy count for all supplementary contracts.
 - (k) “Other reserves”, in relation to Form HKL2, represents the reserves made by the actuary in his/her valuation that are not related to any particular group of policies, e.g. contingency reserve, AIDS reserve.
 - (l) “Surplus / Deficiency”, in relation to Form HKL3, represents the excess or deficiency of the total assets over the total liabilities of the “Fund(s)”.
 - (m) “Transfer from/to Profit and Loss Account”, in relation to Form HKL1, represents the profits transferred to/from the “Fund(s)” from/to the Profit and Loss Account maintained outside of the “Fund(s)”.
2. Amounts provided in the Forms should be converted to Hong Kong dollars as at your financial year end date.
 3. For those insurers choosing to submit the Forms by electronic means, they should refer to the relevant procedures and guidance as outlined in the Insurance Authority’s circular letter of 22 August 2003 on “Electronic Input Templates of Statistical Returns”.
 4. For those insurers choosing to submit the Forms in hardcopy, they may use a Covering Certificate to fulfil the certification requirement. A specimen of such certificate (already distributed to insurers in the aforesaid circular letter of 22 August 2003) is attached at the end this Guide for ease of reference.

Notes for specific form

Form HKL1

5. Insurers should submit one form for each class of business in respect of their “Hong Kong long term insurance business”.
6. In completing the form, insurers (particularly those which only maintain a branch office in Hong Kong) might need to apply an appropriate method (e.g. pro-rata method) to apportion their “Fund(s)” (as well as the corresponding investment incomes or expenses) into the respective classes of their “Hong Kong long term insurance business”.
7. The sum of “Amount of Fund(s) as at the End of the Period” of all classes of business in the form must equal to the sum of “Fund(s) (as per Balance Sheet)” of all funds reported in Form HKL3.
8. An auditors’ report in accordance with paragraph 4(1A) of Part 1 of Schedule 3 to the Ordinance is required and should be annexed to this form.

Form HKL2

9. Insurers are expected to submit one form for each of their (i) direct business and reinsurance accepted; (ii) reinsurance ceded; and (iii) net retained business, in respect of their “Hong Kong long term insurance business”.
10. All entries in the form include supplementary contracts except for the column “Number of contracts”.
11. For Class A business, the entries for Term Riders shall be reported as a separate row under “Other types” rather than under the row “Term”.

Form HKL3

12. Please note that the sum of “Fund(s) (as per Balance Sheet)” of all funds reported in the form should be equal to the sum of “Amount of Fund(s) as at the End of the Period” of all classes of business reported in Form HKL1.

**SPECIMEN COVERING CERTIFICATE
TO HONG KONG LONG TERM BUSINESS RETURNS
(FORMS HKL1 to HKL3)**

(Name of Insurer)

We certify that the information contained in the annexed Forms HKL1 to HKL3 of the Hong Kong Long Term Business Returns in respect of the financial year ended _____, comprising the pages as specified against each Form below, is true and correct:-

Page No (s)

Form HKL1
Form HKL2
Form HKL3

Dated the _____ day of _____.

(Name in block letters)
(Director)

(Name in block letters)
(Director)

(Name in block letters)
(Chief Executive/
Secretary)