



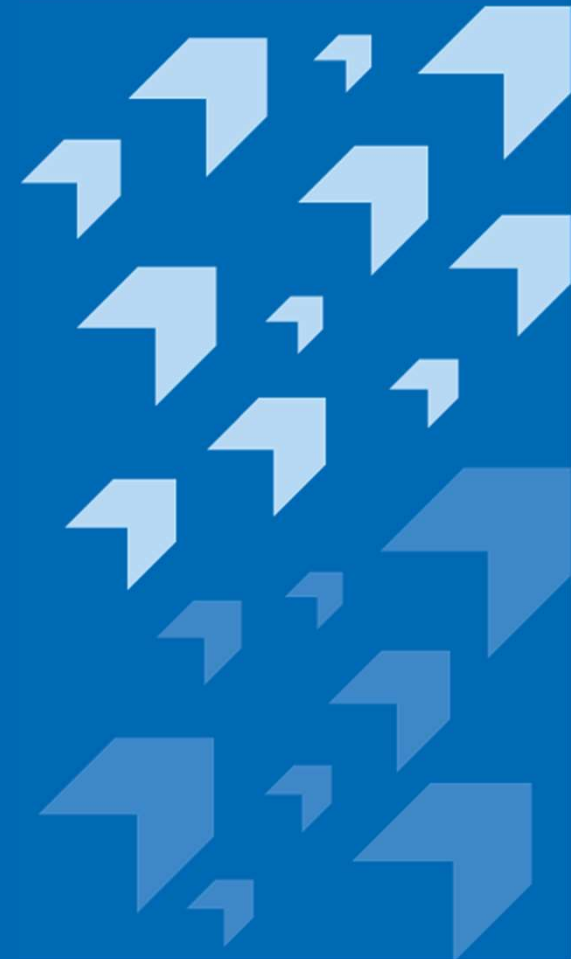
J.P. Morgan's Asia Insurance 1x1 Forum 2024

Group-wide Supervision of Insurance Groups in Hong Kong

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Agenda

1. HKIA Group Wide Supervision Framework
2. Key Features of the GWS Framework
3. Supervisory Objectives and Approach
4. Implementation Assessment for the Holistic Framework
5. Key Initiatives and Area of Focus in 2023 and 2024
6. ICS Developments
7. Q&A

HKIA Group Wide Supervision Framework



Supervision of insurance groups in Hong Kong

- HKIA has been supervising AIA Group since 2009
- Modernization of group wide supervision framework initiated in 2018 having regard to:
 - Election of HKIA to be group wide supervisor of Prudential plc and FWD Group
 - IAIS reforms related to the supervision of cross-border insurance groups
- Enhanced to empower the IA to regulate directly the holding companies of insurance groups

Key Reference for HKIA GWS Framework



Enhanced supervisory measures for IAIGs issued in November 2019 by IAIS

- Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)
- Holistic Framework for Systemic Risk in the Insurance Sector
- Insurance Capital Standard (ICS) Version 2.0
 - Commencement of 5-year monitoring period
 - Targeted for adoption as PCR in December 2024

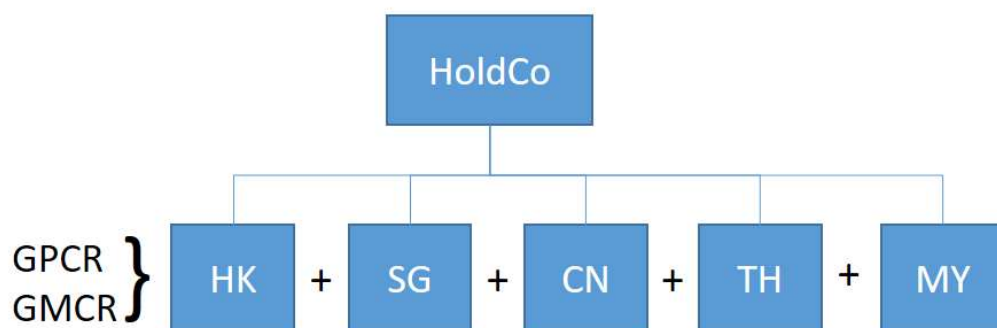
Group Capital Requirement - LCSM and GIECA

Pillar 1: LCSM and Pillar 2: GIECA

PILLAR 1 : LCSM

- Sum of the parts assessment, based on local regulatory requirements

Example:



PILLAR 2 : GIECA

- Group Internal Economic Capital Assessment
- 99.5% 1-year VaR (1-in-200 basis)
- Consistent methodology across Group
- Independent Validation to demonstrate:
 - Calibrated to 1-in-200
 - Methodology and assumptions appropriate
 - GIECA used in business decisions

Key features of the GWS framework



➔ GWS framework

- ✓ Align with IAIS standards and practice
- ✓ Recognition of local capital requirement
- ✓ Reinforce good risk and capital management practices
- ✓ Enhance the coordination between the IA and other regulators

Supervisory Objectives and Approach



➤ Objectives

- Protect policyholders
- Promote general stability of the industry
- Facilitate sustainable market development and the competitiveness of the insurance industry

➤ Approach

- Risk based
- Principle based and outcome focused
- Forward looking
- Proportionate
- Consistency across all supervised groups

Implementation Assessment for the Holistic Framework

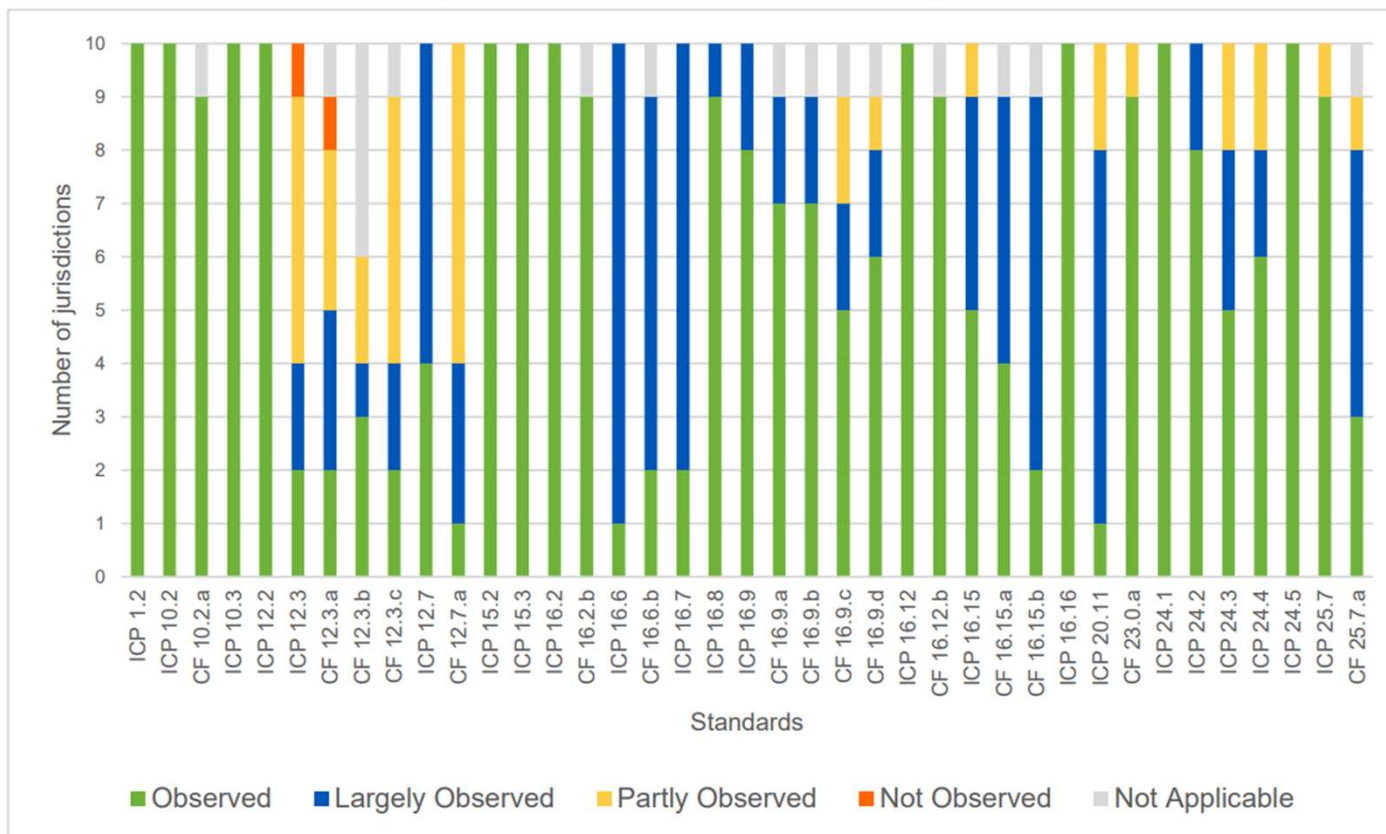


Targeted jurisdictional assessment conducted in 2021 to 2022

- Across 10 jurisdictions
- In-depth verification of described supervisory practice:
 - desk-based assessment
 - on-site visit
- The TJA covers 39 ICP and CF standards related to the Holistic Framework:
 - macroprudential supervision
 - liquidity risk management and disclosures
 - supervisory powers of intervention
 - crisis management and planning
 - recovery and resolution frameworks

TJA Results by Standards

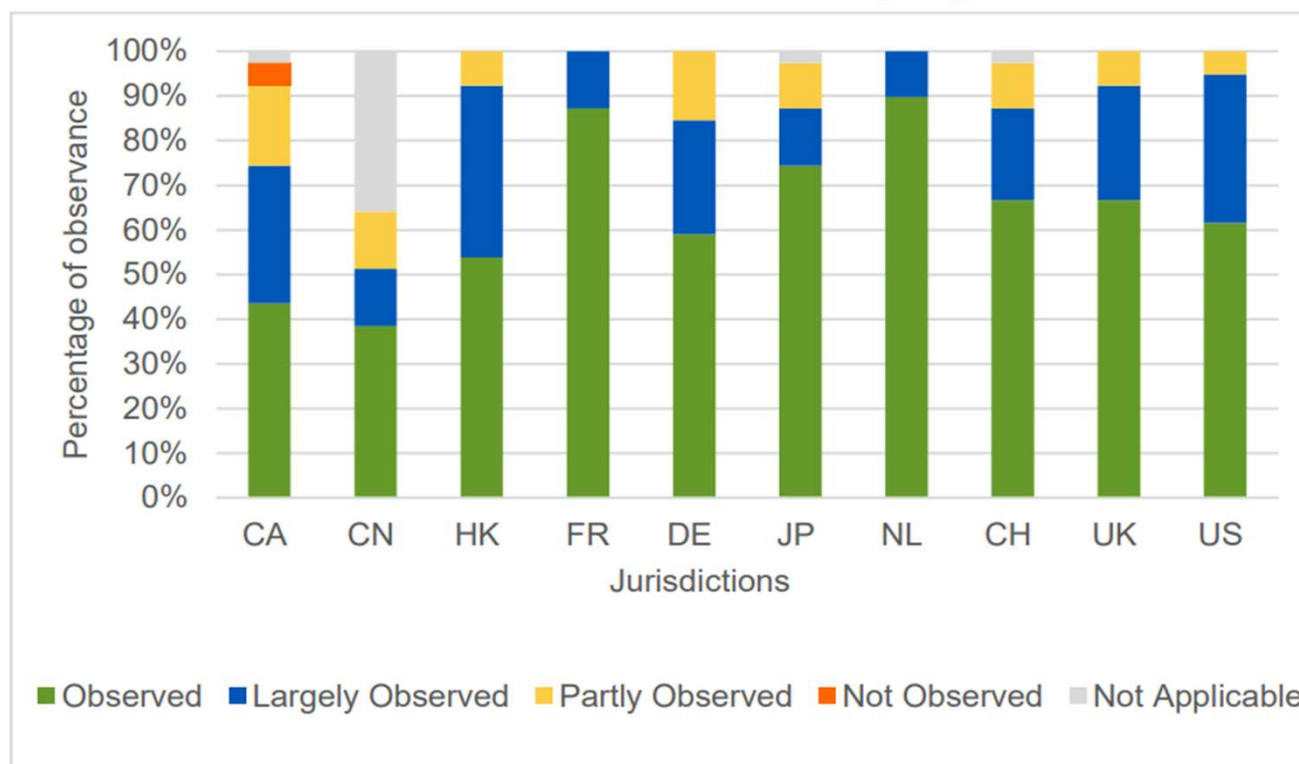
Chart 1: Aggregate observance levels by standard



Source: IAIS Public Report on the Targeted Jurisdictional Assessment of the Implementation of the Holistic Framework Supervisory Material – April 2023

TJA Results by Jurisdiction

Chart 2: Overall observance levels per jurisdiction



Enhance Preparedness for Crisis Management

Establishment of Crisis Management Groups for Supervised Groups

- Enhance preparedness for, and facilitate crisis management, recovery and resolution of a Supervised Group
- Supervised Group is required to submit both Recovery Plan (RCP) and Liquidity Risk Management Plan (LRMP) annually.
- The IA will lead the review of recovery plan and liquidity risk management plan with the input from CMG members.

Confirm good quality of the plans and provide recommendations to the Supervised Group in further enhancing their crisis preparation.

Preparatory Work for Resolution Planning

Needs Analysis



1

Phase 1

Preparation

Collect information from:

- CMG Members
- IAIG

2

Phase 2

Drafting Part One

Draft resolution plan:

- Resolution objectives
- Entry into resolution
- Resolution scenarios
- Resolution strategies

3

Phase 3

Drafting Part Two

Draft resolution plan:

- Operational aspects
- Resolution planning governance
- Communication strategy
- Policy protection schemes

4

Phase 4

Drafting Part Three

- Resolvability assessment

Monitoring of Key Risks and Trends in Global Insurance Sector



Global Insurance Market Assessment Report (GIMAR) 2023

- Interest rate, liquidity and credit risks in a challenging macroeconomic environment
 - Surrender risk and margin calls related to derivative exposure
 - Commercial real estate exposure
- Structural shifts in the life insurance sector
 - greater allocation of capital to alternative assets
 - increased reliance on cross-border asset-intensive reinsurance.

Consultation for adoption of ICS as PCR for IAIGs in 2024

- “Candidate ICS” as a PCR incorporates policy changes made to ICS version 2.0
 - Changes made to valuation, capital requirement, capital resources
- Economic Impact Assessment to assess the impact of ICS implementation

End

