

For information
on 19 December 2011

**Legislative Council Panel on Transport
and Panel on Financial Affairs**

**Joint Subcommittee on Issues Relating to Insurance Coverage
for the Transport Sector**

**Authorization Requirements for Insurance Companies
(including mutual insurance associations)**

Introduction

This paper provides information on authorization of insurance companies (including mutual insurance associations)¹ by the Insurance Authority (“IA”).

Background Information

2. At the meeting of the Joint Subcommittee on 29 November 2011, the Joint Subcommittee asked the Administration to provide a paper on the applicable licensing requirements if a mutual insurance association, akin to a protection and indemnity club (“P&I club”) for the shipping sector, is to write taxi and public light bus insurance business in Hong Kong.

3. The most common mutual insurance associations in the market are

¹ Insurance companies in this paper include mutual insurance associations.

P&I clubs in the shipping industry. At present, there are five P&I clubs authorized by the IA to carry on insurance business in Hong Kong. All these are international P&I clubs with professional underwriters and claims executives.

4. Unlike a traditional insurance company, a mutual insurance association does not have a share capital and its members are both insurers and insured persons who will jointly bear claim risks and liabilities. Under the Insurance Companies Ordinance (Cap. 41) (“ICO”), a company is required to seek authorization from IA to carry on insurance business in Hong Kong. Irrespective of whether it is an insurance company or a mutual insurance association, a company must meet the authorization requirements before it can be authorized to carry on insurance business in Hong Kong.

Authorization Requirements

5. For a company to carry on insurance business in Hong Kong, it must meet the authorization requirements within the framework of the ICO which are set out in the ensuing paragraphs.

Capital and Solvency Margin

6. The applicant must have sufficient capital and financial resources to pre-finance its operation at all times. Based on IA’s regulatory experience, an applicant’s capital generally must not be less than HK\$200 million. The applicant is also required to comply with the solvency margin requirement,

which means that its excess of assets over liabilities must be of an amount not less than a prescribed level. The amount of solvency margin is determined with reference to premium income, outstanding claims provision or risk exposure of the applicant.

Fitness and Propriety of Directors and Controllers

7. Any persons to be appointed as directors or controllers of an insurance company must satisfy the “fit and proper” criteria, which include their reputation, integrity, financial status and ability to perform the relevant functions efficiently, honestly and fairly.

8. A controller in general refers to the managing director of the applicant or its holding company, the chief executive of the applicant or its holding company, or any person controlling 15% or more of the voting power of the applicant.

Adequacy of Reinsurance Arrangements

9. An insurance company is required to have adequate reinsurance arrangements in force for the insurance business it carries on. In considering the adequacy of reinsurance arrangements, the IA will take into account various factors, for example, the type of reinsurance, the maximum retention of the applicant, the credit risk of reinsurance companies and the maximum amount of claims to be borne by them.

Other Requirements

10. The other relevant requirements include, inter alia, -
- (a) the applicant must maintain an office in Hong Kong as its place of business with a professional management and staff establishment appropriate to the nature and scale of its operation; and a locally-based chief executive who shall be a controller of the applicant;
 - (b) the applicant must establish appropriate and effective operational and control procedures for underwriting, claims handling, risk management, investment and asset liability matching etc;
 - (c) the applicant must, at its office in Hong Kong, keep and maintain proper books and records in respect of its finance and insurance operations, so as to enable an audit, actuarial valuation or both to be performed as necessary;
 - (d) the applicant's board of directors must have sufficient knowledge and relevant experience of insurance business to guide the applicant and oversee its activities effectively; and
 - (e) the applicant must comply with any requirements or guidelines issued by the IA, which include maintaining good corporate governance and sound internal control systems.

**Financial Services and the Treasury Bureau
Office of the Commissioner of Insurance
16 December 2011**