立法會
Legislative Council

LC Paper No. CB(1)1342/18-19
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA

Panel on Financial Affairs

Minutes of meeting held on
Monday, 3 June 2019, at 9:30 am
in Conference Room 1 of the Legislative Council Complex

Members present :
Hon Christopher CHEUNG Wah-fung, SBS, JP (Chairman)
Hon Kenneth LEUNG (Deputy Chairman)
Hon James TO Kun-sun
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Kin-por, GBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Steven HO Chun-yin, BBS
Hon WU Chi-wai, MH
Hon Charles Peter MOK, JP
Hon Dennis KWOK Wing-hang
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Alvin YEUNG
Hon CHU Hoi-dick
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon CHAN Chun-ying, JP
Hon CHEUNG Kwok-kwan, JP
Hon LUK Chung-hung, JP

Member attending : Hon KWONG Chun-yu

Member absent : Hon Abraham SHEK Lai-him, GBS, JP

Public officers attending : Agenda Item IV

Mr Paul MP CHAN, GBM, GBS, MH, JP
Financial Secretary

Mr AU Sik Hung, Andrew, JP
Government Economist

Mr Willy TSOI
Administrative Assistant to Financial Secretary

Agenda Item V

Ms Alice LAU, JP
Permanent Secretary for Financial Services and the Treasury (Treasury)

Mr Andrew LAI, JP
Deputy Secretary for Financial Services and the Treasury (Treasury)2

Ms Esther LEUNG, JP
Director of Administration
Chief Secretary for Administration's Office

Agenda Item VI

Mr Eddie CHEUNG, JP
Deputy Secretary for Financial Services and the Treasury (Financial Services)2

Ms Noel TSANG
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) Insurance and Retirement Scheme

Agenda Item VII

Mr Eddie CHEUNG, JP
Deputy Secretary for Financial Services and the Treasury (Financial Services)2

Ms Noel TSANG
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) Insurance and Retirement Scheme

Attendance by invitation : Agenda Item VI

Mr Simon LAM
Executive Director (General Business)
Insurance Authority

Mr Tony CHAN
Associate Director (Policy and Development)
Insurance Authority

Ms Vivian LAI
Senior Manager (General Business)
Insurance Authority

Agenda Item VII

Ms Carol HUI
Executive Director (Long Term Business)
Insurance Authority

Mr Peter GREGOIRE
General Counsel
Insurance Authority

Ms Wynnie YEUNG
Senior Manager (Long Term Business)
Insurance Authority

Clerk in attendance : Ms Connie SZETO
Chief Council Secretary (1)4

Staff in attendance : Miss Sharon LO
Senior Council Secretary (1)9

Ms Sharon CHAN
Legislative Assistant (1)4

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I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)1108/18-19 — Minutes of the meeting on 19 March 2019)

The minutes of the meeting held on 19 March 2019 were confirmed.

II Information papers issued since the regular meeting on 6 May 2019

(LC Paper No. CB(1)1062/18-19(01) — Administration's paper on "commencement of the new statutory regulatory regime for insurance intermediaries"

LC Paper No. CB(1)1077/18-19(01) — First Quarter Economic Report 2019 and the press release

LC Paper No. CB(1)1099/18-19(01) — Process Review Panel for the Financial Reporting Council 2018 Annual Report)

2. Members noted the information papers issued since the regular meeting held on 6 May 2019.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)1110/18-19(01) — List of outstanding items for discussion

LC Paper No. CB(1)1110/18-19(02) — List of follow-up actions)

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3. Members were informed that the Administration had not proposed items for discussion at the regular meeting on 8 July 2019. No members suggested discussion items for the meeting. Members had no objection to cancel the meeting on 8 July 2019.

(*Post-meeting note*: Members were informed vide LC Paper No. CB(1)1158/18-19 issued on 10 June 2019 that the Chairman had decided to cancel the meeting scheduled for 8 July 2019.)

IV Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)1110/18-19(03) — Administration's paper on Hong Kong's recent economic situation and near-term outlook)

Briefing by the Administration

4. At the invitation of the Chairman, the Financial Secretary ("FS") briefed members on Hong Kong's latest overall economic situation and short-term economic forecasts.

(*Post-meeting note*: The press release containing the speaking note of FS (Chinese version only) was issued to members vide LC Paper No. CB(1)1145/18-19(01) on 5 June 2019.)

5. The Government Economist ("G Econ") gave a powerpoint presentation on Hong Kong's recent economic situation and near-term economic outlook.

(*Post-meeting note*: The notes of the powerpoint presentation (LC Paper No. CB(1) 1138/18-19(01)) were issued to members vide Lotus Notes email on 3 June 2019.)

Discussion

Measures to mitigate impact of the trade conflict between China and the United States

6. In view of the prolonged trade conflict between China and the United States ("China-US trade conflict") and the associated uncertainties which had weakened global economic growth as well as Hong Kong's export performance and domestic demand, Mr CHAN Chun-ying enquired if the Administration

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would consider increasing public expenditure, in particular investment in community facilities, in order to boost the local economy.

7. FS said that the Government would not reduce public expenditure despite economic headwinds and would continue to invest in infrastructure and public works with priority given to projects for increasing land and housing supply, and improving transport links. The Government might consider taking forward other projects during economic downturn along the direction of "supporting enterprises, safeguarding jobs, and stabilizing the economy".

8. As the China-US trade conflict was expected to drag on for some time, Mr WONG Ting-kwong sought the Administration's assessment on the impacts on various sectors in Hong Kong, and measures to maintain monetary and financial stability in Hong Kong.

9. Mr SHIU Ka-fai expressed concern that the escalated China-US trade tensions and other external uncertainties, such as Brexit, had significantly affected Hong Kong's exports and local consumer sentiment. With the depreciation of Renminbi and the imposition of taxes on goods brought by Mainland visitors from Hong Kong by the Mainland, the spending of Mainland visitors in Hong Kong might also decrease. To assist the wholesale and retail sectors to tide over the difficulties ahead, Mr SIU called on the Administration to discuss with the Mainland custom authorities for relaxing the control on goods brought by Mainland visitors from Hong Kong, in particular when such goods were for self-use.

10. FS took note of members' concerns and views. He advised that bilateral merchandise trade between the Mainland and the US routed through Hong Kong accounted for less than 9% of Hong Kong's total exports of goods, and hence, the impact on Hong Kong's exports should be manageable. Nevertheless, trade-related sectors would face more challenges and the Administration would render necessary assistance to help them tide over the difficulties ahead. The escalating trade tensions between the Mainland and the US might also add uncertainties and volatilities to the financial market. He stressed that financial regulators would continue to stay vigilant and closely monitor the market situation with a view to ensuring financial stability. As regards the impacts on the global supply chain, FS said that while it might not be feasible for enterprises to substantially relocate their production lines away from the Mainland in the near term to other emerging Asian economies, such as the member states of the Association of Southeast Asian Nations ("ASEAN"), the potential impacts in the medium to longer term could be significant. With continuous economic growth in emerging Asian economies, their demand for consumer products and trade volume were expected to increase further. The Administration had been encouraging Hong Kong enterprises to explore business opportunities in these

markets through various support measures, and would continue to consider other measures to assist Hong Kong enterprises in better tapping the business opportunities in the Asian markets.

11. The Chairman said that the Mainland technology companies listed in the US had also been affected by the China-US trade conflict. In view of the prevailing external uncertainties and possible economic downturn, he suggested that the Administration should take proactive measures to attract Mainland technology companies to seek secondary listing in Hong Kong.

12. FS advised that the reform of the listing regime in 2018 had created a new route for overseas-listed companies belonging to the emerging and innovative sectors to seek secondary listing in Hong Kong. Both the companies seeking secondary listing in Hong Kong and Hong Kong's capital markets could benefit from the listing reform. Moreover, to promote the development of innovation and technology in Hong Kong, the Government had provided funding of $10 billion to establish two research clusters in the Hong Kong Science Park, namely "Health@InnoHK" (which focused on healthcare technologies) and "AIR@InnoHK" (which focused on artificial intelligence and robotics technologies). The two clusters would promote collaboration among top-notch local, overseas and Mainland universities, scientific research institutions and enterprises in undertaking research and development activities in Hong Kong.

13. Mr KWONG Chun-yu sought FS's views on the possible impacts of the proposed legislative amendments to the Fugitive Offenders Ordinance (Cap. 503) and the Mutual Legal Assistance in Criminal Matters Ordinance (Cap. 525) on Hong Kong's economy and economic outlook. He noted that there were concerns from the business sector on the items of offences applicable for surrendering fugitive offenders. He also expressed concern on the retrospective power that the Supreme People's Court could exercise in handling offences committed in the past.

14. FS responded that with escalation in the China-US trade tensions and increasing uncertainties in the external economic environment, local business sentiment had become more cautious in recent months and domestic demand had also weakened. As regards the Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation (Amendment) Bill 2019 ("the Bill"), noting the diverse views expressed by various sectors of the community, the Administration had suggested additional safeguards including raising the threshold for special surrender arrangements to offences punishable with imprisonment for seven years or more, adding more restrictions to the activation of special surrender arrangements, as well as enhancing protection for the rights of the surrendered persons. It was believed that the additional safeguards should have addressed some of the concerns. As regards concerns that passage of the Bill might have

negative impact on the development of the wealth management and private property management businesses in Hong Kong, FS said that the Administration would continue to look into measures to promote the development of such businesses in Hong Kong.

Measures to support enterprises and relieve people's burden

15. In view of increasing volatilities in the economic environment in the near term, Mrs Regina IP urged the Administration to consider measures to lower enterprises' operating costs and the cost of living of the general public, such as reducing Government fees and charges, calling on developers to reduce rentals of stalls in shopping malls and the MTR Corporation Limited ("MTRCL") to reduce fares. She also relayed the cross-border logistics industry's request for the Administration to lease the vacant sites in Kwai Chung Container Terminal at concessionary rates for the industry to set up back-up services.

16. FS responded that relevant bureaux would study the suggestions made by Mrs IP including identifying suitable sites to provide port back-up facilities for containers and goods vehicles, reducing the rentals of stalls in public markets and addressing issues relating to divested shopping centres in public housing estates. As regards MTR fares, FS said that MTRCL was a listed corporation and its operation was subject to the supervision of its Board of Directors. MTR had put in place a fare adjustment mechanism. The Government had introduced the Public Transport Fare Subsidy Scheme to relieve the burden of daily long-distance commuters who had to incur relatively high public transport expenses.

17. Mr KWONG Chun-yu sought clarification on the tax deduction arrangement for purchasing health insurance plans under the Voluntary Health Insurance Scheme ("VHIS"). In respect of the implementation of the Caring and Sharing Scheme, he asked if the Working Family Allowance Office ("WFAO"), which was responsible for processing the applications for the Scheme, had identified any case of missing application forms.

18. On the implementation of VHIS, FS explained that a taxpayer could claim tax deductions under salaries tax and personal assessment for the payment of VHIS premiums up to $8,000 per insured person if the taxpayer or his/her spouse was the relevant policy holder. The insured person included the taxpayer and all specified relatives, which covered the spouse and children of the taxpayer, and the grandparents, parents and siblings of the taxpayer and those of his/her spouse. The Administration would strengthen publicity on the tax deduction arrangements for VHIS. Regarding the Caring and Sharing Scheme, FS advised that WFAO had received about 3.44 million applications and issued acknowledgements to all the applicants concerned. Applicants who did not

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receive acknowledgement should make enquiries with WFAO on or before 30 June 2019 and they could re-submit applications if WFAO had confirmed that their applications had not been received. He added that WFAO had been stepping up efforts in processing the applications and had commenced disbursing payments with an initial average of 16 000 payments per day. It was WFAO's target to complete handling all cases by end of the year.

Developing a diversified economy

19. Mr Kenneth LEUNG noted that the economic and trade ties between Hong Kong and Middle East countries had become closer, and enquired if the Administration would introduce measures to attract rich people of the Middle East countries to set up family offices in Hong Kong to manage their wealth.

20. FS said that the Administration was studying measures to attract family offices and private equity funds to set up and operate in Hong Kong including the case of introducing a more competitive tax arrangement. He added that the development of family offices and private equity funds as well as the related economic activities would attract capital and talents to Hong Kong, which in turn would be conducive to the development of other businesses in Hong Kong and bring quality employment opportunities to Hong Kong. The development would also foster the development of the Guangdong-Hong Kong-Macao Greater Bay Area.

Property market

21. Mr CHAN Chun-ying noted from recent news reports that in order to avoid paying the New Residential Stamp Duty ("NRSD") when purchasing properties, there was an increasing number of cases where residential property owners taking advantage of the prevailing exemption arrangement under the NRSD regime by transferring their property ownership to close relatives before acquiring new residential properties. He enquired if the Administration would consider introducing administrative measures to plug the loophole, such as stipulating that a buyer would only be eligible for NRSD exemption if he/she did not own any other residential property in Hong Kong within a specified period of time.

22. FS said that the Government was aware of the news reports referred to by members, and remarked that the percentage of residential property buyers paying Buyer's Stamp Duty and NRSD remained low.

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Labour market

23. Mr CHAN Chun-ying referred to the motion on "Supporting elderly persons aged between 60 and 64 on all fronts" passed at the Council meeting of 29 May 2019 and enquired if the Administration would consider extending the $2 concessionary transport fare to elderly persons aged between 60 and 64 as a measure to support these persons in taking up employment again.

24. FS said that there would be practical difficulties to provide the $2 concessionary transport fare only to elderly persons aged between 60 and 64 ("young olds") who were in employment but not to those who were not. That said, the Administration might consider introducing other measures to motivate young olds to take up employment again.

25. Mr SHIU Ka-fai said that the persistently low unemployment rate reflected a tight labour supply in Hong Kong. He expressed concern that the shortage of workforce could impede Hong Kong's economic development and undermine its competitiveness. He urged the Administration to critically consider importing labour to ensure adequate labour supply in Hong Kong.

26. Mr WU Chi-wai concurred that many sectors in Hong Kong faced a serious manpower shortage. He called on the Administration to address the problem by implementing measures to promote the use of technologies so as to reduce manpower needs, promote women employment, and motivate young olds to take up employment. He also considered that the Administration should promote the development of street economy (such as setting up temporary bazaars) with a view to lowering the threshold for start-ups.

27. FS took note of members' concerns and suggestions on ensuring adequate manpower supply in Hong Kong. He said that the Administration would study measures and provide necessary resources to facilitate and motivate women and young olds to take up employment. To encourage wider adoption of technology by local enterprises for improving their efficiency and services, the Government had enhanced the Technology Voucher Programme by, among others, doubling the funding ceiling per applicant from $200,000 to $400,000. On the development of street economy, the Administration maintained an open attitude on proposals of setting up temporary or festive bazaars. It would however be necessary to identify suitable sites for these activities as various stakeholders might have different views and concerns on such activities. For instance, shop operators in the immediate vicinity would have concern about the negative impact on their business.

28. Mr Kenneth LEUNG pointed out that the accounting sector also faced shortage in manpower. Noting that there were trade and investment related

agreements between Hong Kong and other economies including ASEAN, which also facilitated mutual flow of professionals, he enquired if the Administration would consider introducing an immigration policy (e.g. granting of three-year visa) to attract overseas graduates to Hong Kong for receiving attachment training and obtaining professional qualifications afterwards.

29. FS said that the Administration would be willing to study measures to attract overseas graduates to attend attachment training and obtain professional qualifications in Hong Kong with a view to addressing the problem of manpower shortage and promoting Hong Kong's strengths and expertise in professional services.

V Enhancing support for Tax Policy Unit

(LC Paper No. CB(1)1110/18-19(04) — Administration's paper on "Enhancing support for Tax Policy Unit")

Briefing by the Administration

30. At the invitation of the Chairman, the Permanent Secretary for Financial Services and the Treasury (Treasury) ("PS(Tsy)") briefed members on the background of the proposal to transfer the Tax Policy Unit ("TPU") from the Treasury Branch ("TsyB") of the Financial Services and the Treasury Bureau to the Financial Secretary's Office ("FSO") with effect from 1 July 2019. After the transfer, the responsibilities of TPU would be expanded to support FS on Budget-related matters in addition to its current work on tax policy matters. Taking into account the expanded responsibilities of TPU, it would be renamed as the Budget and Tax Policy Unit ("BTPU"). The Administration proposed to create a permanent directorate post at Administrative Officer Staff Grade B1 ("AOSGB1") rank, to be designated as the Head of the Budget and Tax Policy Unit ("H/BTPU") for supervising the work of BTPU. In addition to the existing establishment of TPU (which included two contract Senior Tax Researchers and one Senior Administrative Officer ("SAO") (post unfilled at present)), two non-directorate posts, namely one Senior Assessor and one Senior Personal Secretary, would be created to support the operation of BTPU.

Discussion

31. Mr CHAN Chun-ying, Mr CHAN Kin-por, Mr Kenneth LEUNG and the Chairman expressed support for the Administration's proposal to establish BTPU under FSO.

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32. Noting that the H/BTPU post could be filled by an AOSGB1 or a contract staff through open recruitment from outside the civil service, Mr CHAN Chun-ying enquired about the qualification requirements of the post. He also sought information on when the three vacant posts in BTPU would be filled and the total staff cost of BTPU vis-à-vis the existing TPU. The Chairman opined that it would be advisable to fill the H/BTPU post with an AOSGB1 as he/she would be more familiar with the operations of the Government.

33. PS(Tsy) advised that having regard to the duties and responsibilities of H/BTPU and the tasks of BTPU, the post was likely to be filled by an AOSGB1 as a start. However, in order to provide flexibility to ensure that BTPU would be led by a suitable person with the requisite knowledge and relevant work experience as the circumstances might warrant, the post could also be filled by a contract staff through open recruitment. The Administration would, having regard to BTPU's functions and responsibilities, prescribe the relevant qualification and experience requirements of H/BTPU when the open recruitment exercise was conducted. As regards the timing for establishing BTPU, PS(Tsy) said that the Administration's target was to create the H/BTPU post with effect from 1 July 2019 or upon approval by the Finance Committee ("FC"), whichever was the later, and the Senior Assessor and Senior Personal Secretary posts would be created thereafter. The existing vacant SAO post would be filled by in-service posting. The full annual average staff cost of H/BTPU, including salaries and staff on-cost, was $4,177,000, and that for the two new non-directorate posts was $3,184,000. The total full annual average staff cost of BTPU, including the three existing posts to be transferred from TPU, was about $12 million.

34. Mr Kenneth LEUNG enquired if BTPU would be represented in the Joint Liaison Committee on Taxation ("JLCT"). He also suggested that the Administration should consider inviting members of JLCT to serve as part-time advisers to BTPU.

35. PS(Tsy) said that JLCT was a forum set up by the accountancy and commercial sectors to discuss tax issues and reflect views to the Government. At present, representatives from TsyB and the Inland Revenue Department were invited to attend meetings of JLCT as observers and exchange views with committee members on taxation matters. Such practice would continue after the establishment of BTPU. She took note of Mr LEUNG's suggestion and agreed to relay it to H/BTPU for consideration.

Conclusion

36. The Chairman concluded that members supported the Administration submitting the proposal for consideration of FC.

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VI Legislative proposals to further the development of the insurance sector

(LC Paper No. CB(1)1110/18-19(05) — Administration's paper on "Legislative proposals to further the development of the insurance sector")

Briefing by the Administration

37. At the invitation of the Chairman, the Deputy Secretary for Financial Services and the Treasury (Financial Services)2 ("DS(FS)2") briefed members through a powerpoint presentation on the Administration's three proposals to strengthen Hong Kong's competitiveness as an insurance hub by: (a) providing profits tax concessions for the insurance sector to promote the development of marine insurance and the underwriting of specialty risks in Hong Kong; (b) facilitating the issuance of insurance-linked securities ("ILS") in Hong Kong; and (c) expanding the scope of insurable risks by captive insurers set up in Hong Kong. On the proposal on profits tax concessions, DS(FS)2 said that Hong Kong had to comply with evolving international standards on taxation so as to avoid being regarded as a regime with harmful tax practices. The details of the final proposal might thus be modified for observing such standards. The three proposals would involve amendments to the Inland Revenue Ordinance (Cap. 112) and the Insurance Ordinance (Cap. 41). The Administration planned to introduce the relevant amendment bills into the Legislative Council ("LegCo") in the 2019-2020 legislative session.

(*Post-meeting note*: The powerpoint presentation materials (LC Paper No. CB(1)1138/18-19(02)) were issued to Members vide Lotus Notes e-mail on 3 June 2019.)

Discussion

The proposed profits tax concessions for the insurance sector

38. Mr CHAN Chun-ying declared that he was a consultant of the Bank of China (Hong Kong) Limited, which engaged in insurance business among other businesses. He expressed support for the Administration's proposals, and enquired why the proposed profits tax concessions covered selected business of insurance broker companies and the reasons for excluding the five types of risks of domestic nature listed in page 8 of the powerpoint from the proposed tax concessions.

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39. DS(FS)2 explained that insurance broker companies served as professional advisors in seeking the most appropriate insurance solutions in the market for their clients, and providing advice on where the risks should be placed. The proposed tax concessions could lower the operating costs of broker companies and thus would make Hong Kong a more attractive location for placing the risks. On the proposed profits tax concessions, Executive Director (General Business), Insurance Authority ("ED/IA") said that the purpose was to help develop Hong Kong into an international insurance hub and attract new overseas insurance business to Hong Kong. Given the domestic nature of the five types of risks which accounted for around 75% of the general insurance business of the sector, they were not the targets of the proposal and were excluded from the proposed profits tax concessions.

Issuance of insurance-linked securities

40. Mr Holden CHOW pointed out that ILS (particularly catastrophe bonds) were high-risk investment products. While the Administration had proposed to restrict the selling of ILS to institutional investors through private placement, he was concerned whether there would be measures to prohibit institutional investors from "repackaging" ILS into other types of financial products for selling to retail investors. The Chairman and Mr Jeffrey LAM echoed Mr CHOW's concern. Mr LAM also enquired whether relatively small insurance companies could benefit from the proposed regulatory regime for ILS, and whether there would be tax concessions for ILS.

41. Mr CHAN Kin-por declared that he was the Chief Executive of the Well Link Insurance Group Holdings Ltd. Pointing out that there was a large demand for ILS (especially catastrophe bonds) in the Mainland, he suggested that the Administration should liaise with the relevant Mainland authorities to attract more Mainland companies to issue such securities in Hong Kong.

42. DS(FS)2 responded that the Administration was discussing with the Securities and Futures Commission on measures to restrict the sale of ILS in the primary market to institutional investors only. He explained that ILS were financial instruments which enabled insurance companies to offload their insured risks to the capital markets through securitization, and hence were considered as another form of reinsurance. Given that the issuance of ILS could expand the total insurance capacity of the industry, it was envisaged that the entire insurance industry could benefit. DS(FS)2 added that while the Administration had no plan to provide tax concessions to ILS at the moment, it would continue to keep in view prevailing international developments.

43. Mr Holden CHOW enquired whether the constituent funds of the Mandatory Provident Fund Schemes ("MPF funds") were allowed to invest in

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ILS. Pointing out that ILS were not ideal investment products for retirement purposes, he called on the Administration to remind MPF trustees that MPF funds should not be invested in ILS. The Chairman shared Mr CHOW's views.

44. DS(FS)2 pointed out that under the Mandatory Provident Fund Schemes Ordinance (Cap. 485), MPF funds were required to comply with stringent investment restrictions. Specifically, the use of high-risk structured products and leveraging was prohibited, while the total amount invested in securities and permissible investments issued by a single issuer must not exceed 10% of the total assets of an MPF fund. As catastrophe bonds (the most common form of ILS) were short-term bonds (usually with maturities of less than four years), it was not envisaged that they could meet the investment objectives of MPF funds.

Expanding the scope of insurable risks by captive insurers set up in Hong Kong

45. Noting that under the Administration's proposal, a Hong Kong captive insurer could also insure/reinsure the risks of an unrelated body corporate (i.e. an entity not within the same group of companies to which the captive insurer belonged), Mr CHAN Chun-ying enquired whether a cap would be imposed on captive insurers in underwriting such risks.

46. DS(FS)2 confirmed that a cap would be set on the level of risks for an unrelated body corporate that a Hong Kong captive insurer could insure/reinsure. The unrelated body corporate had to give full risk management control to the captive insurer in the form of a written contract. The Insurance Authority ("IA") would issue guidelines on the matter for the insurance industry which would specify, inter alia, the cap concerned.

Benefits of the Administration's proposals and implementation details

47. While expressing support for the Administration's proposals to enhance Hong Kong's competitiveness as an insurance hub, Mr WONG Ting-kwong enquired how policy holders could benefit from the proposals, including whether the proposals could lower insurance premium, which in turn could attract overseas companies to procure insurance policies in Hong Kong.

48. DS(FS)2 responded that policy holders could benefit from the Administration's proposals. He explained that as Hong Kong currently lacked relevant professionals in marine insurance business or specialty insurance business, multinational insurance companies in Hong Kong might need to rely on their overseas branches for handling such insurance business. The proposals could promote the development of marine insurance and the underwriting of specialty risks in Hong Kong, and would therefore attract more overseas talents to Hong Kong. The Administration hoped that the proposals could lead to lower

insurance premium in Hong Kong, and IA was liaising with the industry on further measures to promote the development of the insurance sector in Hong Kong.

49. While expressing support for the Administration's proposals, Mr CHAN Kin-por urged the Administration to pay heed to the industry's views in implementing the proposals. He also stressed the need for the Administration to undertake regular review of the regulatory regime for the insurance industry, with a view to ensuring that regulatory requirements were on a par with those of Hong Kong's competitors.

50. In response to Mr CHAN Chun-ying's enquiry, ED/IA said that IA had consulted the industry and, where appropriate, taxation experts on the three proposals, and received positive feedback from them in general. IA would continue to engage the industry in finalizing the proposals before introducing the amendment bills into LegCo.

Development of the marine-related industry in Hong Kong

51. Mr Holden CHOW enquired whether the Administration would introduce further measures to facilitate the development of elements in the whole value chain of the local shipping industry (such as developing ship leasing business and marine-related arbitration services in Hong Kong) besides providing profits tax concessions for insurers undertaking marine insurance business or specialty insurance business.

52. DS(FS)2 stated that shipowners played an important role in the value chain of the local shipping industry. ED/IA said that the proposals on profits tax concessions would be conducive to attracting marine insurance companies and professionals from overseas and developing a full industry chain in Hong Kong. The Transport and Housing Bureau would also discuss with the shipping industry on other measures to promote the development of a full industry chain in Hong Kong.

Provision of insurance products for new classes of activities/business

53. Mr LUK Chung-hung remarked that the public and transport sector had encountered difficulties in purchasing insurance for new types of activities, such as motor insurance for occasional drivers of the Hong Kong-Zhuhai-Macao Bridge ("HZMB"). He enquired about IA's measures to tackle the matter including whether it would consider introducing public insurance schemes to meet such needs of the public and transport industry.

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54. DS(FS)2 advised that the Hong Kong Federation of Insurers had worked with insurance companies to look into difficulties encountered by entities in procuring insurance for activities/business, and successfully proposed solutions in the past. On the provision of motor insurance for users of HZMB, ED/IA pointed out that HZMB was a cross-boundary infrastructure linking Hong Kong, Zhuhai and Macao, and no single motor insurance policy in respective jurisdictions could comply with the legal requirements of all three jurisdictions at the moment. IA and the insurance regulators of the Mainland and Macao had agreed on a temporary arrangement whereby Hong Kong vehicle owners and/or drivers could procure Mainland and/or Macao statutory motor insurance through a one-stop service provided by Hong Kong insurance companies. IA was discussing with its Mainland and Macao counterparts on the feasibility of providing motor insurance policies covering all three jurisdictions.

Conclusion

55. The Chairman concluded that the Panel supported the Administration introducing the relevant amendment bills into the LegCo in the 2019-2020 legislative session.

VII Legislative framework for group-wide supervision of insurance groups

(LC Paper No. CB(1)1110/18-19(06) — Administration's paper on "Legislative framework for group-wide supervision of insurance groups")

Briefing by the Administration

56. With the aid of a powerpoint presentation, DS(FS)2 briefed members on the proposals to improve the regulatory framework for the supervision of insurance groups (i.e. group-wide supervision) where the holding company of an insurance group was incorporated in Hong Kong with a view to aligning Hong Kong's regulatory regime with the international standards. He explained that under the proposals, IA would be empowered to: (a) designate a Hong Kong-incorporated insurance holding company to be subject to group-wide supervision by IA; (b) determine the scope of the designated insurance group that would be subject to group-wide supervision; (c) require the designated insurance holding company or the proposed shareholder controller to seek IA's prior consent for the appointment of the chief executive, director, key person in control function and shareholder controller; (d) apply regulatory and intervention powers to the designated insurance group; and (e) require the

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designated insurance group to comply with the capital requirements in line with international standards. The Administration aimed to introduce the relevant legislative amendments into LegCo within the 2019-2020 legislative session.

(*Post-meeting note*: The powerpoint presentation materials (LC Paper No. CB(1)1138/18-19(03)) were issued to Members vide Lotus Notes e-mail on 3 June 2019.)

Discussion

57. Noting that only jurisdictions including European countries, Bermuda and Singapore had put in place a regulatory regime for group-wide supervision, Mr CHAN Chun-ying expressed concern that insurance groups might relocate their holding companies to other jurisdictions such as the United States, Canada and Australia if the group-wide supervision regulatory framework in Hong Kong was more stringent than those of other jurisdictions. In respect of the proposed requirement for designated insurance holding companies to seek IA's approval for their chief executives, directors, key persons in control function or shareholder controllers, he sought information on the procedures and estimated time by IA in ascertaining the fitness and propriety of the persons involved, particularly whether IA would follow the practices of the Hong Kong Monetary Authority in assessing the fitness and propriety of the executive officers of banks. Moreover, as the International Association of Insurance Supervisors had not yet finalized the capital requirements for Internationally Active Insurance Groups, he asked how IA would determine the capital requirements of a designated insurance group.

58. DS(FS)2 and Executive Director (Long Term Business), Insurance Authority ("ED/IA") explained that the purpose of the proposals was to enable IA to exercise direct regulatory powers over Hong Kong-incorporated holding companies of insurance groups, so as to uphold the international standards for insurance regulators and reinforce Hong Kong's status as an international financial centre. It should be noted that the group-wide supervisor was elected by the supervisory college of the insurance group concerned and the proposals would not adversely affect the competitiveness of the insurance industry in Hong Kong.

59. As regards the assessment of an application for appointment as a chief executive, director, key person in control function or shareholder controller of a designated insurance holding company, ED/IA advised that the factors to be taken into account by IA in ascertaining the fitness and propriety of a person were largely similar to those applicable to an authorized insurer regulated by IA on a "solo" basis. On the capital requirements for a designated insurance holding company, ED/IA said that IA would keep in view the latest development of the relevant international standards and would continue to work closely with the industry in ironing out the details. She added that a transition

Action

lead-in period would be provided to alleviate the financial impact on designated insurance groups.

60. Mr CHAN Kin-por expressed support for the proposals to improve the regulatory framework for the supervision of insurance groups. He stressed that the proposed regulatory regime should not be more stringent than those in other jurisdictions so as to maintain the competitiveness of the insurance sector and to attract insurance groups to set up headquarters and offices in Hong Kong. Noting that at present, certain international insurance groups were already under IA's group-wide supervision as agreed by insurance regulators of the relevant supervisory colleges, Mr CHAN enquired about the factors considered by supervisory colleges in determining the group-wide supervisor for an international insurance group, in particular whether the view of the insurance group concerned would be sought in this respect.

61. ED/IA explained that supervisory colleges would hold meetings for insurance regulators to discuss and elect the group-wide supervisors for international insurance groups. Factors considered by the supervisory colleges included the size of the business of an insurance company in a particular jurisdiction in relation to that of the entire international insurance group, and the regulatory framework and supervisory experience of the regulator concerned.

Conclusion

62. The Chairman concluded that the Panel supported the legislative proposals in principle and the Administration's timetable for introducing the relevant bill into LegCo.

VIII Any other business

63. There being no other business, the meeting ended at 12:20 pm.

Council Business Division 1
Legislative Council Secretariat
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