

# **Legislative Proposals to Further the Development of the Insurance Sector**

Legislative Council Panel on Financial Affairs

3 June 2019



Financial Services and the Treasury Bureau

# Legislative Proposals to Further the Development of the Insurance Sector

## 1. Background

## 2. Proposals

- Profits tax concessions for the insurance sector
- Facilitating the issuance of insurance-linked securities (“ILS”) in Hong Kong
- Expanding the scope of insurable risks by captive insurers set up in Hong Kong

## 3. Financial implications

## 4. Way forward

# 1. Background

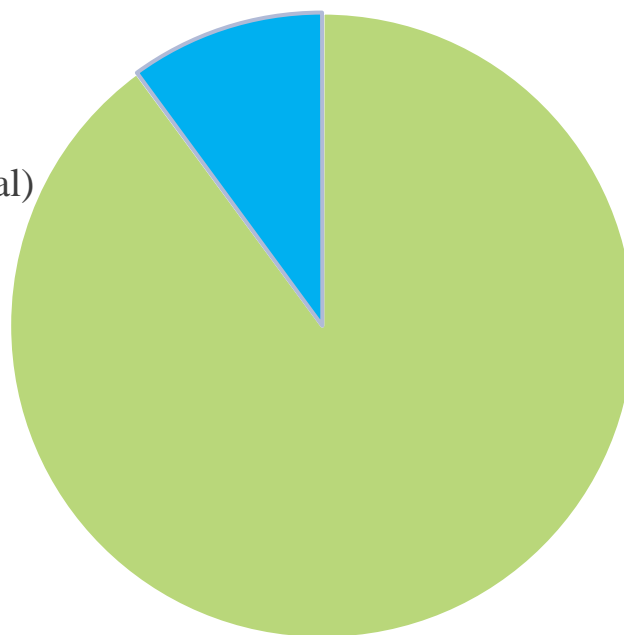
- The Chief Executive and the Financial Secretary have announced in the 2018 Policy Address and the 2019-20 Budget Speech respectively that the Government would:
  - provide tax reliefs to promote the development of marine insurance and the underwriting of specialty risks (catastrophe, war, trade credit, etc.) in Hong Kong;
  - introduce legislative amendments to facilitate the issuance of ILS in Hong Kong; and
  - continue to look into measures that are conducive to the development of the insurance industry.

# 1. Background(Con't)

## Gross premiums of the Hong Kong insurance industry in 2018 (provisional statistics)

Total: HK\$ 531.7 billion

General Business:  
HK\$ 53.6 billion  
(around 10% of total)



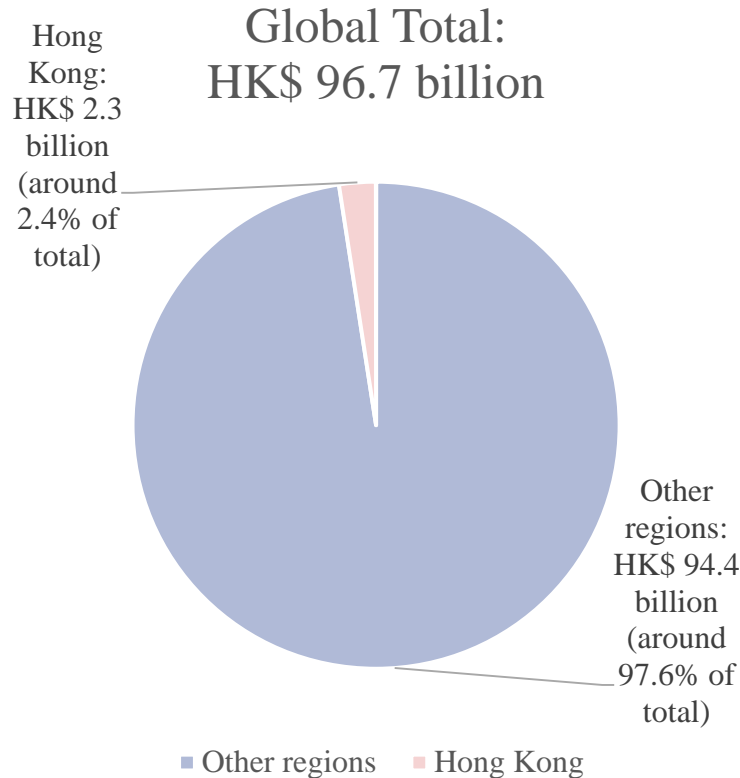
Long Term Business:  
HK\$ 478.2 billion  
(around 90% of total)

■ Long Term Business

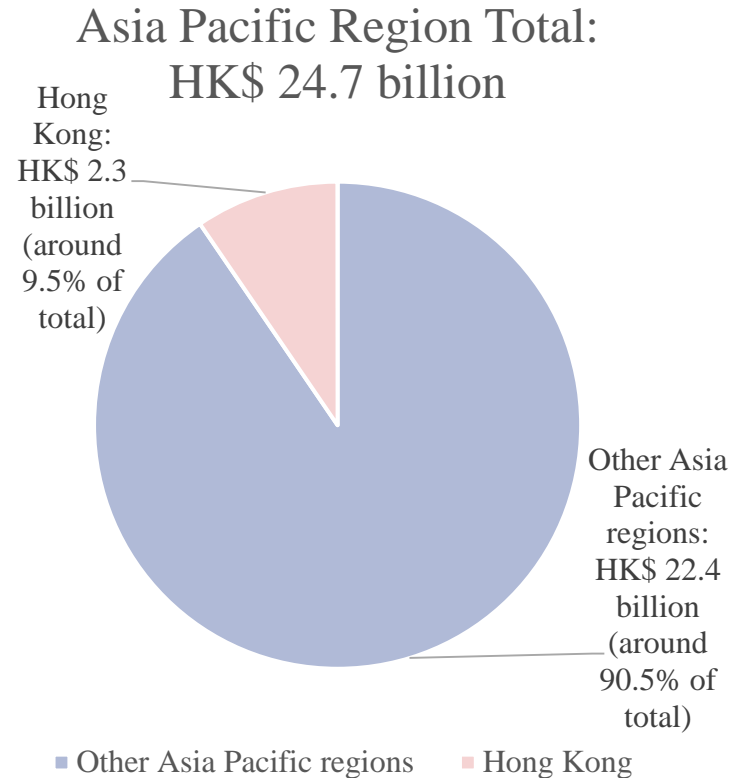
■ General Business (including direct and reinsurance inward business)

# 1. Background (Con't)

## Gross premiums of marine insurance\* in the world and Hong Kong in 2017



## Gross premiums of marine insurance\* in the Asia Pacific Region and Hong Kong in 2017



# Proposal 1 – Profits tax concessions for the insurance sector

## Existing profits tax concessions

Professional reinsurers

Captive reinsurers

-50%

## Proposed profits tax concessions

Selected business of  
insurance broker companies

Selected general insurance  
business

(except risks of domestic nature)

Reinsurance business by **direct  
insurers**

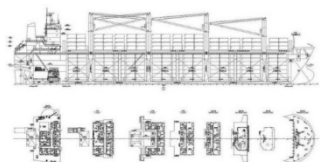
Professional reinsurers

Captive reinsurers

# Proposal 1 – Profits tax concessions for the insurance sector (Con't)

## Selected general insurance business

### Marine Insurance



Hull and machinery insurance

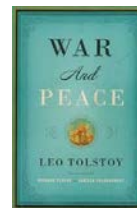


Cargo insurance



Third party liability insurance

### Underwriting of Specialty Risk



War



Catastrophe



Terrorism

### 17 Classes of General Business under the Insurance Ordinance

6. Ships

7. Goods in transit

1. Accident

12. Liability of ships

9. Damage to property

13. General liability

8. Fire and natural forces

14. Credit

# Proposal 1 – Profits tax concessions for the insurance sector (Con't)

## Selected general insurance business

- Tax concessions **exclude** the following five types of **risks of domestic nature** –
  - health business
  - mortgage guarantee business
  - motor vehicle, damage and liability business
  - employees' compensation business
  - owners' corporation third party liability business



# Proposal 1 – Profits tax concessions for the insurance sector (Con't)

## Administrative Provisions

- We propose –

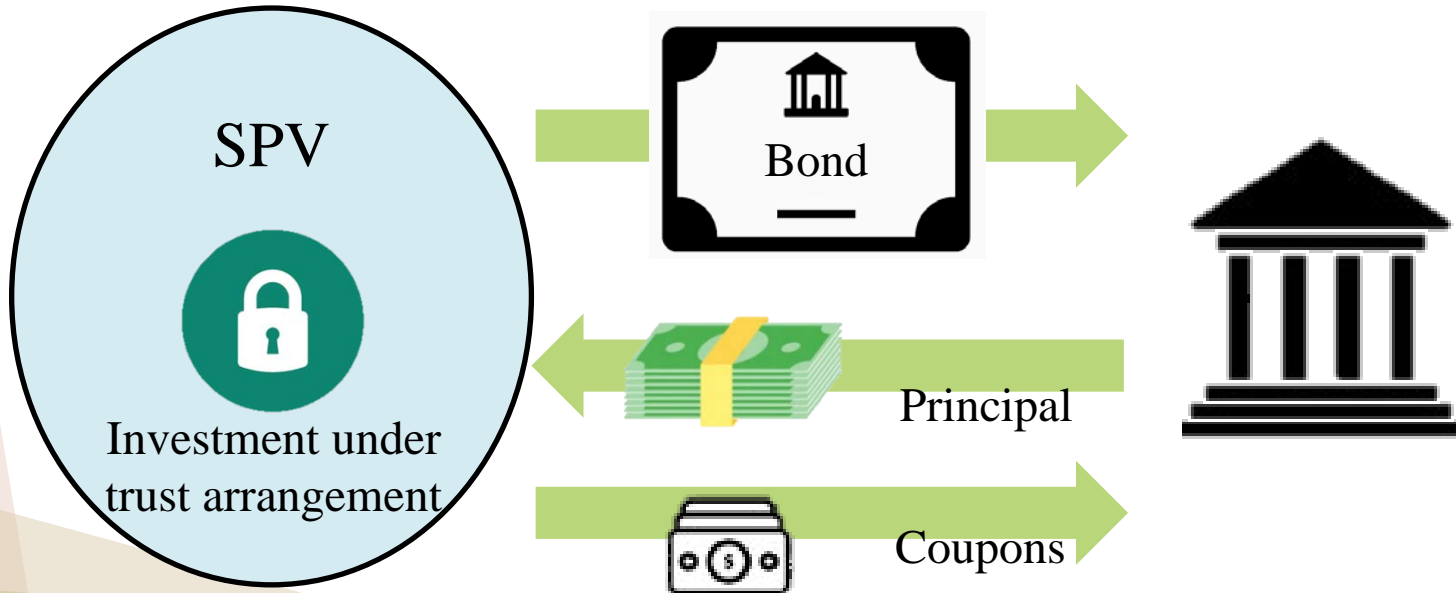
- to add specific **anti-avoidance provisions** to **deny tax concessions** under the scenario where direct insurers buy reinsurance among themselves to cede part of their respective risks primarily for tax benefit **rather than out of genuine risk management needs**.
- to add **provisions for ascertainment of the assessable profits of qualifying business** to prevent possible tax disputes on the amount of assessable profits entitled to the profits tax concession.

# Proposal 2 – Facilitating the issuance of ILS in Hong Kong

1

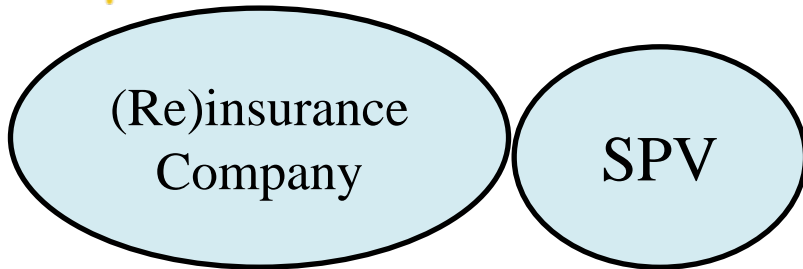


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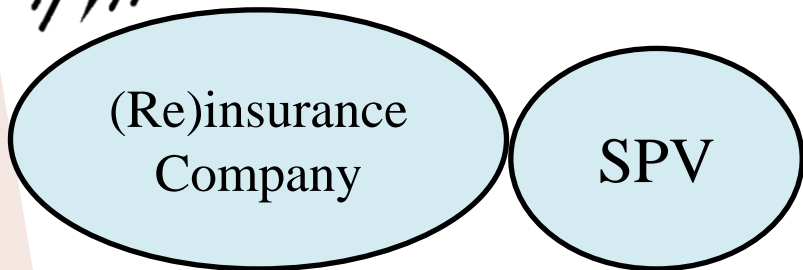


# Proposal 2 – Facilitating the issuance of ILS in Hong Kong (Con't)

3



4



Compensation

# Proposal 2 – Facilitating the issuance of ILS in Hong Kong (Con't)

## Market overview

- Approximately **US\$12.6 billion** was raised via ILS in 2017 globally.
- Bermuda is the leading jurisdiction for the issuance of ILS, particularly **catastrophe bonds**. Compared with the United States and European markets, ILS transactions in Asia have been relatively infrequent.
- Need to make Hong Kong a more conducive domicile for ILS to capture business opportunities should the potential of ILS be realised gradually in Asia in future.

# Proposal 2 – Facilitating the issuance of ILS in Hong Kong (Con't)

## Regulatory principles

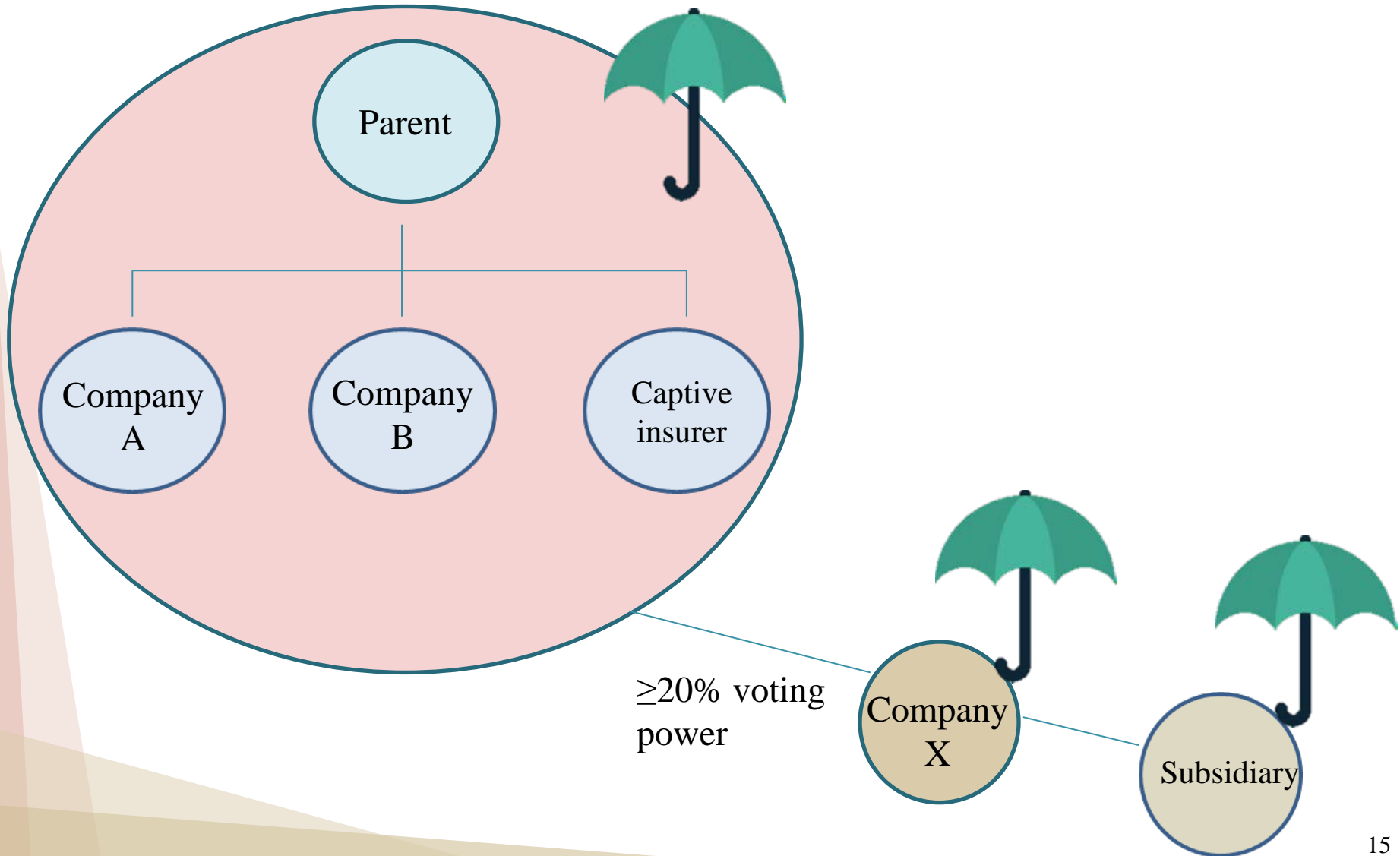
- Since ILS business involves transfer of insurance risk, it falls within the regulatory ambit of the Insurance Ordinance (IO).
- The purpose and nature of ILS business is essentially the **transfer of risks to the capital markets**, making it very different from the conventional insurance/reinsurance business. The existing stringent regulatory requirements under the IO (such as the capital and solvency requirements, reporting requirement, corporate governance requirement, etc.) do not apply to ILS business.
- **We propose** to create a unique regulatory regime for ILS to promote Hong Kong as a domicile for ILS.

# Proposal 2 – Facilitating the issuance of ILS in Hong Kong (Con't)

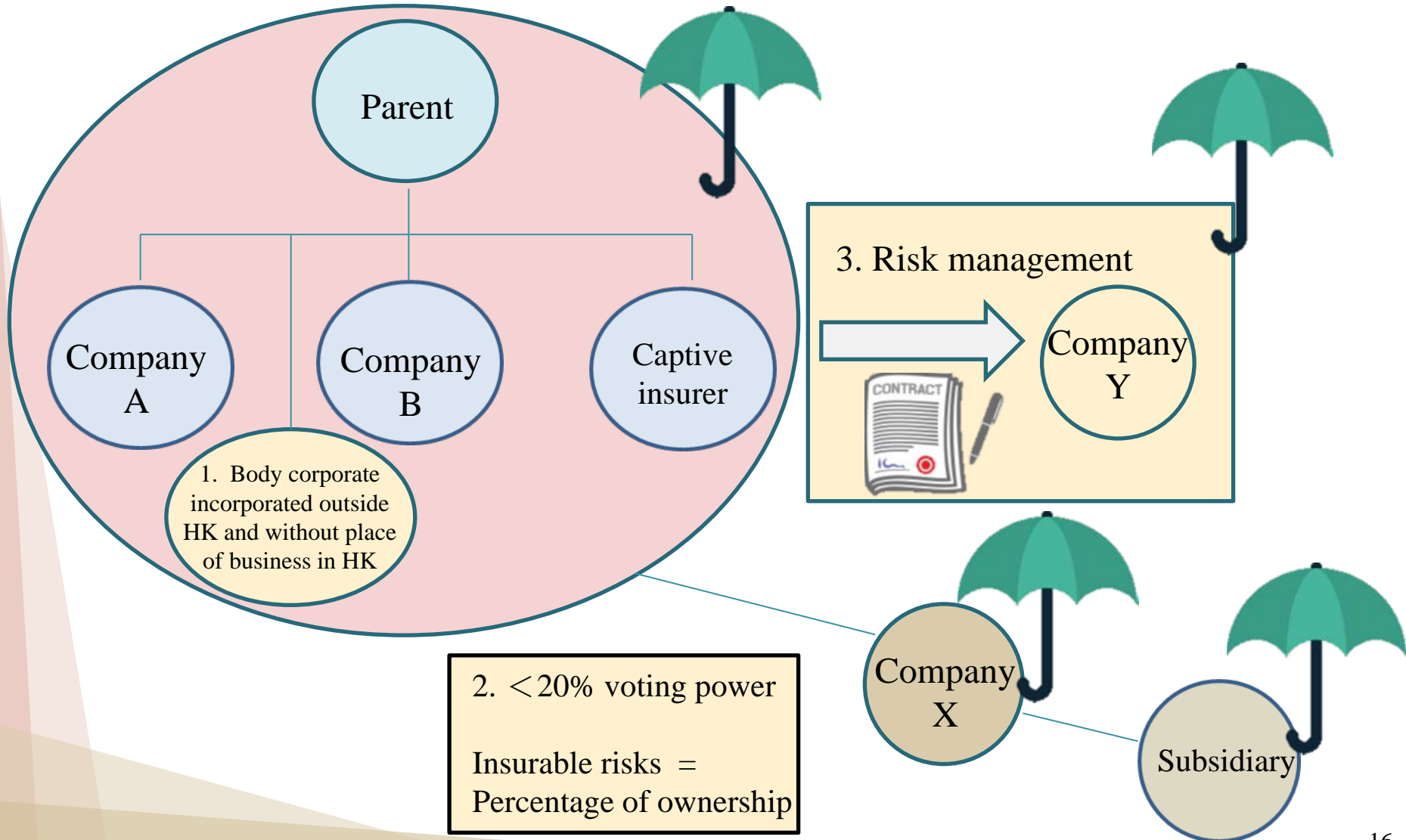
## Key regulatory requirements

- enable a special purpose vehicle (“SPV”) set up by (re)insurance company to be authorized as a “special purpose reinsurer” for issuing ILS.
- the SPV has to be fully funded at all times.
- restrict the selling of ILS to institutional investors through private placement.

# Proposal 3 – Expanding the scope of insurable risks by captive insurers set up in Hong Kong



# Proposal 3 – Expanding the scope of insurable risks by captive insurers set up in Hong Kong (Con't)





### 3. Financial Implications

- The Government and the Insurance Authority will absorb the resources needed to implement the proposals.
- It would be difficult to estimate the revenue forgone arising from the tax relief proposals, but it is expected that the revenue forgone is unlikely to be significant and will be offset partly by increase in business activities in Hong Kong.

## 4. Way Forward

- The legislative proposals will involve amendments to the Inland Revenue Ordinance and the Insurance Ordinance.
- We target to introduce the relevant amendment bills into the Legislative Council in the 2019-20 legislative session:
  - Amendments to Inland Revenue Ordinance: to provide profits tax concessions for the insurance sector.
  - Amendments to the Insurance Ordinance: to (a) facilitate the issuance of ILS in Hong Kong and (b) expand the scope of insurable risks by captive insurers set up in Hong Kong.
- The proposals on tax concessions have to comply with international taxation requirements and be in line with latest developments, so as to avoid being regarded as harmful tax practices. The final proposals may be different from the current ones.

**The End**