

Legislative Framework for Group-wide Supervision of Insurance Groups

Legislative Council Panel on Financial Affairs

3 June 2019



Financial Services and the Treasury Bureau

Legislative Framework for Group-wide Supervision of Insurance Groups

- Background
- Proposals
- Way Forward

Background

- According to the regulatory principle of the International Association of Insurance Supervisors (IAIS), in addition to regulating insurance company on a “solo” basis, regulators should co-operate and co-ordinate to regulate insurance groups
- If a multinational insurance group is involved, insurance regulators of various jurisdictions should collaborate to appoint a group supervisor to co-ordinate group-wide supervision work, including ensuring all relevant companies of the insurance group, the head company of the group, and which companies within the group are subject to group-wide supervision
- The head company could be an insurance company or a holding company only
- If the head company is a holding company without insurance business, this head company is not an insurance company supervised by regulator

Background (cont.)

- To tackle the above situation, IAIS' guideline stipulates that regulators need to have power to regulate the holding company which has control over insurance business
- Currently, IA does not have power to regulate a holding company. The International Monetary Fund recommended the Government to amend the legislation to empower IA to regulate a holding company which is the head company of insurance group, in order to improve the legislative framework to regulate an insurance group

Proposal – Designation of Insurance Holding Company

- IA may consider the following factors in deciding whether to designate a Hong Kong-incorporated insurance holding company as being subject to group-wide supervision :
 - whether the relevant supervisory college has agreed to appoint IA as the group supervisor for the insurance group
 - the number of jurisdictions outside of Hong Kong in which the subsidiaries within the insurance group carry on insurance business
 - the size of business of the insurance group
 - any relevant criteria promulgated by international insurance standard setting bodies
- A designated insurance holding company shall pay annual fee and user fee to IA for IA to recover the regulatory cost

Proposal – Determination of the Scope of the Designated Insurance Group

- In determining the scope of the designated insurance group, IA will :
 - consider the consolidated financial statements of the group
 - have discretion to include or exclude legal entities as necessary

Proposal – Governance on Chief Executive, Director, Key Person in Control Functions and Shareholder Controller

- Appointment of the chief executive, directors, key persons in control functions of and a person who has a significant shareholding control in a designated insurance holding company requires the prior consent of IA
- If IA considers that a person is not or no longer fit and proper, IA may object or revoke the approval

Similar to existing powers for regulating an insurance company

Proposal – Regulatory Powers

- IA has the powers the require the designated insurance holding company to :
 - appoint an auditor
 - submit financial information and returns
 - comply with reporting and public disclosure requirements
 - comply with capital requirements
 - comply with acquisition requirements (e.g. requiring a designated insurance holding company to seek IA's prior consent before certain major acquisition)

Similar to existing powers for regulating an insurance company

Proposal – Intervention Powers

- IA may exercise the following intervention powers in specific circumstance :

- Obtain information and require production of documents
- Obtain a skilled person's report
- Restrict the transfer of assets within the insurance groups
- Appoint a Manager
- Give direction to the designated insurance holding company

Similar to existing powers for regulating an insurance company

Proposal – Inspection, Investigation and Disciplinary Actions

- IA has the powers to conduct inspection and investigation for ascertaining whether a designated insurance holding company and any within scope company comply with the IO
- Exercise disciplinary actions against a designated insurance holding company, e.g. reprimand and pecuniary penalty

Similar to existing powers for regulating an insurance company

Proposal – Capital Requirements

- A designated insurance group will be required to comply with capital requirements in line with international standards. Details will be specified in subsidiary legislation subject to negative vetting by the Legislative Council
- Before the capital requirements are finalized, we intend to provide a transition period to alleviate the impact on designated insurance groups

Way Forward

- IA has consulted the industry on the legislative proposals
- The proposals involve amendments to the Insurance Ordinance
- Plan to introduce the relevant amendment bill into the Legislative Council in the 2019-20 legislative session
- IA will continue to work closely with the industry on the details of the group-wide supervision framework

The End