

ANNUAL REPORT

2018-19





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CHAIRMAN'S MESSAGE

“We shall continue to substantiate our efforts towards enhancing our seamless engagement with stakeholders and the market, fostering our close link with fellow regulators locally and abroad in addressing the emerging threats in the global arena.”

Dr Moses Cheng
Chairman

LOCAL PERSPECTIVE

Over the past year, the Insurance Authority (“IA”) has achieved impressive progress on various fronts. On prudential supervision, industry consultation on the Risk-based Capital Regime is moving onto the final stage of consulting with the market, adopting a pragmatic approach and making use of working groups and pilot studies to garner trust and forge consensus. Similarly, relevant codes and guidelines are being finalised and broad agreement has been reached on a mechanism to deal with disciplinary cases of intermediaries; we are ready to roll out the new direct regulatory regime of insurance intermediaries according to schedule.

Furthermore, the long-awaited bill on the Policy Holders’ Protection Scheme will be ready for introduction into the Legislative Council, providing an essential safety net for policy holders. On group-wide supervision of insurers, I am happy to report that the IA had successfully built up a team with the requisite skills to deal with the demands of the International Association of Insurance Supervisors’ (“IAIS”) Common Framework for the Supervision of Internationally Active Insurance Groups, coming into effect expectedly by the end of 2019.

INTERNATIONAL PERSPECTIVE

Turning to collaboration on the international front, the IA has made a major breakthrough and gained an elected seat on the IAIS Executive Committee, together with its current position as the Chairman of the Asian Forum of Insurance Regulators. The IA would be in a better position to bring the Asian voice into the international regulatory arena. The IA is fully dedicated to serve on these influential roles, reinforcing Hong Kong’s position as a premier international financial centre and a regional insurance hub.

Chairman's Message

Meanwhile, we shall continue to substantiate our efforts towards enhancing our seamless engagement with stakeholders and the market, fostering our close link with fellow regulators locally and abroad in addressing the emerging threats in the global arena.

STRATEGIC PERSPECTIVE

As you may know, the IA is charged with the unique statutory responsibilities of promoting the market sustainability of Hong Kong's insurance industry and its global competitiveness. This calls for a delicate balance between business development and prudential supervision.

Recent government policies clearly assist the IA in discharging such responsibilities. One of them is the Belt and Road Initiative ("BRI") — a grand strategy sprouting mega infrastructure projects that involve multi-jurisdictional coordination and management of exotic risks. Hong Kong has a lot to offer when it comes to supporting the national policy of the BRI and we can benefit from it in different ways. First, Hong Kong's insurance industry stands ready to provide professional services and tailored solutions to tackle uncertainties associated with these projects. Second, Hong Kong is an ideal location for State-owned Enterprises ("SOEs") to establish off-shore headquarters or form captive insurers. Third, the deep and sophisticated capital market in Hong Kong offers a diverse range of investment tools that can be used to kick-start project financing and facilitate risk transfer.

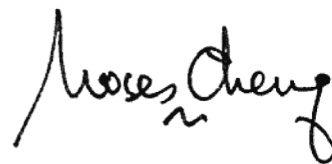
The need to bear a positive and proactive mindset propelled us to engage directly with the State-owned Assets Supervision and Administration Commission to chart a pathway for SOEs to form captive insurers in Hong Kong. We also engaged with the China Banking and Insurance Regulatory Commission to implement preferential treatment under the China Risk Oriented Solvency System that empowers our reinsurers to complement the backup for Mainland insurers. Finally, we have worked with the Hong Kong Monetary Authority on the partnership between the Infrastructure Financing Facilitation Office and the IA's Belt and Road Insurance Exchange Facilitation platform.

Another national policy, the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, provides a clear blueprint for the 11 cities in the region to rise as a dynamic bloc driven by high-end services, innovative industries and technology startups, leveraging their complementary strengths to unclog barriers preventing the flow of people, goods and capital. We are pursuing the proposed setting up of post-sale service centres in the Greater Bay Area by Hong Kong insurers as a prelude to achieving full-scale financial connectivity.

FORWARD PERSPECTIVE

Looking ahead, the IA is envisaging another year full of opportunities for the insurance industry. We are committed to collaborating with every stakeholder in promoting an extended and sustainable market of better protection for the community, as well as attracting more people in choosing the profession of insurance as their life-long career.

In closing, I would like to express my gratitude to the Government and the members of the IA Board for their staunch support, timely guidance and unreserved advice. I would also like to thank all our staff for their dedication and contribution, without which we would not have been able to accomplish so much.



Dr Moses Cheng

Chairman

CEO'S MESSAGE

“To improve consistency and gain public confidence, the IA will take over as the sole regulator of all insurance intermediaries on 23 September 2019.”

Mr Clement Cheung
Chief Executive Officer



PRUDENTIAL SUPERVISION AND CONDUCT REGULATION

Insurance is about delivery of promises to be fulfilled in the future, making it a unique trade anchored in reputation and trust. This is why insurers are subject to stringent solvency requirements designed to protect the interests of policy holders. In a bid to benchmark with contemporary standards, the Insurance Authority (“IA”) is pushing ahead with implementation of a Risk-based Capital Regime. Through iterative Quantitative Impact Studies, we aim to produce a framework that achieves prudential supervision while preserving global competitiveness.

Nonetheless, solvency requirements must be complemented by conduct probity to yield optimal outcomes. For decades, insurance intermediaries in Hong Kong are subject to self-regulation done by three industry bodies¹. To improve consistency and gain public confidence, the IA will take over as the sole regulator of all insurance intermediaries on 23 September 2019. This momentous change has been a centre of attention during the past year.

As product structure and distribution channels become more complex and sophisticated, there is growing expectation among consumers for impartial and quality advice. It is thus imperative to upgrade the requirements for academic qualifications, continuing professional development and ethical standards of insurance intermediaries under the new regulatory system. The new system adopts a robust but flexible approach with due emphasis on fairness and transparency. The revamped disciplinary mechanism that comprises separate

¹ The three industry bodies are The Hong Kong Confederation of Insurance Brokers, The Professional Insurance Brokers Association, and the Insurance Agents Registration Board set up by The Hong Kong Federation of Insurers.

CEO's Message

investigation, hearing and appeal stages will ensure that complainants and regulated persons are treated on an equal footing.

Conscious that endorsement by stakeholders is a crucial success factor, we have established an open dialogue with key industry bodies and hosted town hall sessions to solicit feedback from practitioners. In addition, we have conducted extensive public consultation on the suite of new rules, codes and guidelines. These communication channels will be relied upon in future as a means to gather intelligence and guide priorities.

ROLE OF THE INSURANCE INDUSTRY

Insurance is an indispensable tool for risk management and mitigation. Although Hong Kong boasts world-leading penetration rate and insurance density, its population is exposed to a widening protection gap due to rising affluence and longevity. The traditional preference for embedded saving and investment features aggravates this problem, resulting in high product concentration and poor market resilience. Efforts to promote financial inclusiveness have become a pressing necessity.

Last December, we authorized a local tech start-up to carry on insurance business in Hong Kong, offering simple products with high protection and low premiums. It operates solely through digital platforms to tap into underserved segments such as the younger generation. A number of other applications under Fast Track are already at an advanced stage of scrutiny, so more virtual insurers will join the foray. This prompted us to formulate a holistic Insurtech strategy that aims at reshaping the market infrastructure, injecting positive disruption, building up an ecosystem for cross-sector interplay and applying technology for macro surveillance.

On the other hand, living longer could be both a blessing and a challenge. To provide people with incentives to plan for their medical and retirement needs, the Government has taken an unprecedented step by granting tax deductions on premiums paid into the Voluntary Health Insurance Scheme and Qualifying Deferred Annuity Policies. The virtuous circle formed by prudential supervision, conduct regulation, and financial inclusiveness will ultimately lead to greater market vibrancy, lower fiscal burden on society and stronger social harmony.

PUBLIC EDUCATION

The above narratives aptly demonstrate how insurance could help tackle demographic changes and community aspirations. Public education plays a pivotal role in consumer empowerment, allowing individuals to take timely actions and rational decisions. Apart from simple flyers and video clips, we are experimenting with novel ways to reach out to the mass via internet and social media, as well as through other financial regulators and the Investor and Financial Education Council.

HUMAN FACTORS

The IA is fortunate enough to have attracted an enviable pool of talents, but aspiring and retaining them is daunting. Over the past year, regular team building activities and experience sharing sessions have been held to nurture a new culture and core values, while considerable brain power is being put into the annual corporate planning exercise to drive innovative thinking and goal alignment.

The ability to pioneer changes and the determination to overcome hurdles come with a passionate and motivated team. Manpower development and capacity building are paramount. We will induce active learning through job rotations, secondments and sponsored training. The Management Trainee programme and university internships will be expanded to attract more bright minds into the insurance industry.

ACKNOWLEDGEMENTS

Finally, I would like to convey deep gratitude to Dr Moses Cheng and the IA Board for their visionary leadership and valuable guidance. My tribute also goes to Mr John Leung, the former Chief Executive Officer, for laying a solid foundation upon which the IA is able to deliver its statutory mandate.



Clement Cheung
Chief Executive Officer

ABOUT THE INSURANCE AUTHORITY

The Insurance Authority (“IA”) is an insurance regulator independent of the Government and the insurance industry. Established in December 2015, the IA was set up to modernise the regulatory regime for the insurance industry in Hong Kong. The objectives of our establishment are to facilitate the sustainable development of the industry, to promote Hong Kong’s competitiveness in the global insurance market, and to provide better protection for policy holders.

STATUTORY FUNCTIONS

In accordance with the Insurance Ordinance (Cap. 41), the principal function of the IA is to regulate and supervise the insurance industry for the promotion of the general stability of the insurance industry and for the protection of existing and potential policy holders. The Insurance Ordinance stipulates that the IA shall:

- (a) be responsible for supervising an authorized insurer’s and a licensed insurance intermediary’s compliance with the provisions of the Insurance Ordinance;
- (b) consider and propose reforms of the law relating to insurance business;
- (c) promote and encourage the adoption of proper standards of conduct and sound and prudent business practices by authorized insurers;
- (d) promote and encourage the adoption of proper standards of conduct by licensed insurance intermediaries;
- (e) review and, if necessary, propose reforms of the systems for regulating authorized insurers and licensed insurance intermediaries;
- (f) regulate the conduct of insurance intermediaries through a licensing regime;
- (g) promote the understanding by policy holders and potential policy holders of insurance products and the insurance industry;



About the Insurance Authority

- (h) formulate effective regulatory strategies and facilitate the sustainable market development of the insurance industry, and promote the competitiveness of the insurance industry in the global insurance market;
- (i) conduct studies into matters affecting the insurance industry;
- (j) assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate measures in relation to the insurance industry;
- (k) co-operate with and assist financial services supervisory authorities of Hong Kong or of any place outside Hong Kong, whenever appropriate, to the extent permitted by the Insurance Ordinance; and
- (l) perform functions imposed or conferred on the IA by the Insurance Ordinance or any other Ordinance.

THE ORGANISATION

The IA is governed by a board consisting of a Chairman, Non-Executive Directors and Executive Directors, all appointed by the Chief Executive of the Hong Kong Special Administrative Region. The IA's Chief Executive Officer ("CEO"), who is an Executive Director, leads the executive arm of the IA and is responsible for managing the IA's day-to-day operations. The IA has five divisions to carry out its duties and functions: the Long Term Business Division, the General Business Division, the Market Conduct Division, the Policy and Development Division, and the Corporate Services Division. Each division is headed by a directorial executive. Apart from the five divisions, the CEO's Office includes the External Relations Section, the Legal Section and the IA Secretariat.

The IA's organisational structure can be found in the Appendices on page 89.

Working Together with Our Stakeholders

The IA is firmly committed to facilitating the sustainable development of the insurance sector. To this end, we maintain close communication with our stakeholders, and actively seek their views on the development of the industry. The Industry Advisory Committees ("IACs") and the Future Task Force ("FTF") of the Insurance Industry are two of the main platforms for the IA to keep a close dialogue with stakeholders. The IACs are statutory committees set up to advise the IA on matters pertinent to long term

insurance business and general insurance business respectively. The FTF, on the other hand, is made up of a wide range of stakeholders including industry experts and academics, and provides an excellent platform for brainstorming and exchanging ideas on the future of the insurance industry. To find out more about the IACs, please refer to Corporate Governance (pages 8 to 20). More information on the FTF can be found in Stakeholder Communication (pages 53 to 58).

**Industry
Advisory
Committees**

**Insurance
Authority**

**Future
Task
Force**

CORPORATE GOVERNANCE

Good corporate governance laid a solid foundation for the Insurance Authority (“IA”). We recognise that it is of vital importance to the effective performance of its statutory functions. Our corporate governance framework is built around well-defined management structure and roles, comprehensive operational and financial control procedures and high standards of conduct, ensuring the transparency and accountability of our operations.

GOVERNANCE STRUCTURE

Membership

Under the Insurance Ordinance (“IO”), the membership of the IA consists of a Chairman (a Non-Executive Director), a Chief Executive Officer (“CEO”) (an Executive Director (“ED”)), and not less than six other Executive or Non-Executive Directors (“NEDs”). All of them are appointed by the Chief Executive of the Hong Kong Special Administrative Region.

As of 31 March 2019, there were nine NEDs and five EDs (including the CEO) on the Board. On 28 December 2018, Professor Anna Wong was newly appointed as an NED for a term of three years while the incumbent NEDs were all reappointed for three-year terms. Mr John Leung, the former Commissioner of Insurance, was seconded to the IA from the Government to serve as the IA CEO on 26 June 2017, and his term ended on 14 August 2018. Replacing him as the IA CEO was Mr Clement Cheung, who was appointed for a term of two years starting from 15 August 2018.

Responsibilities of Directors

The directors of the IA monitor the performance and operation of the organisation. They come from a wide range of backgrounds and have a diverse array of expertise. The NEDs offer independent perspectives and bring with them a wealth of experience and expertise in fields such as insurance, law, accountancy, finance, actuarial science and management.

Chairman and CEO

The Chairman provides the IA with leadership and strategic direction. The CEO has executive responsibility for the daily operations of the IA, and implements the strategic direction as agreed with the Board.

Executive Directors

The EDs are responsible for the daily operations of the IA within their respective purviews, including long term business, general business, market conduct, and policy and development. They also support the CEO in implementing the strategic direction formulated by the Board.

Corporate Governance



1 **Dr the Hon Moses Cheng Mo-chi**, *GBM, GBS, JP*
Chairman

2 **Mr Clement Cheung Wan-ching**, *GBS, JP*
Chief Executive Officer

3 **Mr Samuel Chan Ka-yan**, *JP*
Non-Executive Director

4 **Professor Chan Wai-sum**
Non-Executive Director

5 **Ms Chitty Cheung Fung-ting**
Non-Executive Director

6 **Mr Kenneth Kwok Tsun-wa**
Non-Executive Director

7 **Mr Ma Ho-fai**, *GBS, JP*
Non-Executive Director

8 **Mr James Wong Chien-kuo**
Non-Executive Director

9 **Professor Anna Wong Wai-kwan**
Non-Executive Director

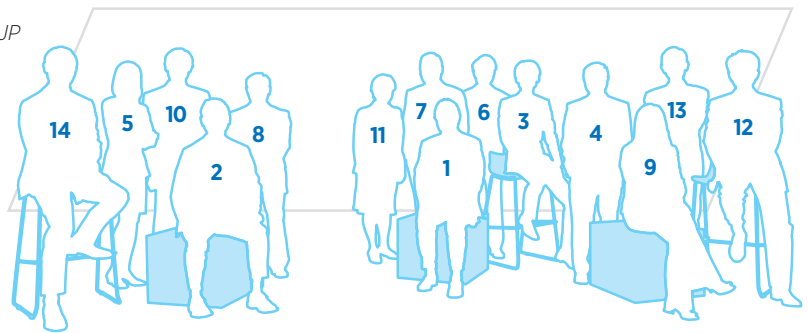
10 **Mr Stephen Yiu Kin-wah**
Non-Executive Director

11 **Ms Carol Hui Mei-ying**
Executive Director,
Long Term Business

12 **Mr Simon Lam Sui-kong**
Executive Director,
General Business

13 **Mr Stephen Po Wai-kwong**
Executive Director,
Market Conduct

14 **Mr Raymond Tam Wai-man**
Executive Director,
Policy and Development



Corporate Governance

IA MEMBERS

Chairman



Dr the Hon Moses Cheng Mo-chi, GBM, GBS, JP

Dr Cheng is currently practising as a Consultant of a law firm, after having served as its Senior Partner for over 20 years. His areas of practice straddle capital markets, corporate governance, regulatory and compliance. He has been actively contributing to the community, and is currently a member of the Financial Leaders Forum and a director of the Hong Kong Academy of Finance of which he is a Fellow. He has also served in various important positions, including the Chairman of the Education Commission, the government-appointed Director on the Board of Hong Kong Exchanges and Clearing Limited, and the founding Vice-Chairman of the Estate Agents Authority.

Non-Executive Directors



Mr Samuel Chan Ka-yan, JP

Mr Chan is a practicing barrister, Vice Chairman of the Consumer Council, and an incumbent member of the Competition Commission and the Equal Opportunities Commission. He is also Deputy Chairman of the Appeal Board Panel (Town Planning) and a member of the Telecommunications (Competition Provisions) Appeal Board.



Professor Chan Wai-sum

Professor Chan is an actuary and Professor of Finance at the Chinese University of Hong Kong. His expertise covers life insurance products, retirement income arrangements and health care financing in Hong Kong.

Corporate Governance

**Ms Chitty Cheung Fung-ting**

Ms Cheung has served in a number of key management positions for an international airline. She is a former member of the Hong Kong Tourism Board and of the Planning and Development Committee of the Travel Industry Council.

**Mr Kenneth Kwok Tsun-wa**

Mr Kwok is a veteran insurance practitioner, and has served in senior positions in international insurance brokerage firms and general insurance companies. He was a member of the General Committee of the Insurance Complaints Bureau¹ and Chairman of the Motor Insurers' Bureau of Hong Kong (1987-1988).

**Mr Ma Ho-fai, GBS, JP**

Mr Ma is a senior partner of a law firm, with extensive experience in conveyancing-related work in Hong Kong. He is Chairman of the Protection of Wages on Insolvency Fund Board and an Independent Director and Honorary Secretary of the Travel Industry Council of Hong Kong. He is also the Chairman of the Home Purchase Allowance Appeals Committee Panel.

¹ Formerly known as the Insurance Claims Complaints Bureau.

Corporate Governance

**Mr James Wong Chien-kuo**

Mr Wong is former Chief Executive Officer for major life insurance companies, former Chairman of the Hong Kong Federation of Insurers, and a former member of the Hong Kong Banking Advisory Committee and of the Committee on Strategic Enhancement of Hong Kong as an International Financial Centre.

**Professor Anna Wong Wai-kwan**

Professor Wong is a Professor of Practice in Finance at the University of Hong Kong teaching financial regulations, compliance and risk management. She has extensive experience in banking and finance and has held senior management positions in a number of global financial institutions. She is a former member of the Advisory Committee of the Securities and Futures Commission.

**Mr Stephen Yiu Kin-wah**

Mr Yiu was the Chairman and Chief Executive Officer of the Mainland China and Hong Kong operations of an international accounting firm. He has extensive experience in auditing listed and large corporations, particularly in the banking and finance sectors. He is a government-appointed Director on the Board of Hong Kong Exchanges and Clearing Limited and a member of the Exchange Fund Advisory Committee.

Corporate Governance

Executive Directors



Mr Clement Cheung Wan-ching, GBS, JP
Chief Executive Officer

Mr Cheung has been the Chief Executive Officer of the IA since 15 August 2018. He joined the Administrative Service in 1983 and was involved in the formulation and implementation of various government policies. Key positions held by Mr Cheung have included Director of the Hong Kong Economic and Trade Office in Singapore from 1998 to 2001, taking charge of ASEAN affairs and coping with the impact of the Asian Financial Crisis; Commissioner of Insurance from 2006 to 2009, responsible for prudential regulation of authorized insurers during the global financial crisis; Postmaster General from 2009 to 2011, making notable achievements in corporate structuring and business development; Commissioner of Customs and Excise in September 2011, combatting smuggling activities, interdicting drug trafficking, protecting intellectual property rights and safeguarding consumer interests. He became Secretary for the Civil Service in July 2015 before proceeding on retirement in July 2017.



Ms Carol Hui Mei-ying
Executive Director, Long Term Business

Ms Hui took up the position of Executive Director of the Long Term Business Division of the IA when it took over from the Office of the Commissioner of Insurance (“OCI”) on 26 June 2017. She started her career in the OCI in 1990, and held various management positions there in the prudential supervision of insurers and insurance intermediaries, policy development and strategy formulation. As lead regulator of the insurance groups based in Hong Kong, she exercised group-wide supervision and organised supervisory college meetings in Hong Kong. She launched the Qualifying Deferred Annuity Policies to the public within one year to provide tax incentives to policy holders taking out deferred annuities products, as a means of encouraging early retirement planning. On the Fintech front, she was instrumental in introducing Fast Track, which led to the authorization of the first virtual insurer in Hong Kong, and facilitated the e-onboarding process.

Corporate Governance



Mr Simon Lam Sui-kong
Executive Director, General Business

Mr Lam joined the IA as Executive Director, General Business in June 2017. He is responsible for the supervision of the non-life insurance market. He brings with him over 30 years of experience in the insurance industry, covering non-life, life, and reinsurance business. He has held leadership positions as Chief Executive Officer and Regional Chief Operating Officer for multinational insurers and reinsurers in Hong Kong, Mainland China, Vietnam and Thailand. Mr Lam has had wide business and operational exposure to, and extensive experience in, market development and startup operations, having set up and built greenfield operations in Mainland China and Vietnam.



Mr Stephen Po Wai-kwong
Executive Director, Market Conduct

Mr Po mainly oversees the regulation of the conduct of insurance intermediaries. The scope of his work includes licensing, inspection, investigation and the handling of complaints, in order to strive for the highest standards of conduct, ethics and integrity in insurance intermediaries. Mr Po was formerly the Senior Director and head of the Intermediaries Supervision Department of the Securities and Futures Commission of Hong Kong. He was also the Chairman of the Committee on the Regulation of Market Intermediaries of the International Organisation of Securities Commissions (“IOSCO”) for seven years, responsible for setting conduct and prudential standards for the regulation of market intermediaries in a cross-border environment.

Corporate Governance



Mr Raymond Tam Wai-man
Executive Director, Policy and Development

Mr Tam is responsible for policy and development, covering the development of the Risk-based Capital Regime, the Policy Holders' Protection Scheme, insurance-linked securities, Insurtech and the Belt and Road Insurance Exchange Facilitation ("BRIEF") platform. He has extensive experience in insurance and pension business in Hong Kong, Mainland China, Asia and North America. He designed the solvency regime for life insurance business when he was Assistant Commissioner of Insurance of the OCI, and formulated Mandatory Provident Fund ("MPF") regulations when he was Assistant Director of the MPF Office. He helped establish the Mandatory Provident Fund Schemes Authority as an Executive Director. Prior to joining the IA, he was Chief Risk Officer for Asia of a multinational insurance group and helped set up and built greenfield insurance and pension operations in Mainland China, Vietnam and the Philippines. He was the recipient of China's first Actuary of the Year Award.

Corporate Governance

GOVERNANCE PRACTICES

The IA strives to observe the best practices of corporate governance. Some of the standing practices adopted by the Board to ensure its efficient and effective operation include:

- Arranging to meet regularly to transact on matters of operational and strategic importance
- Providing Board members in briefing sessions with relevant information in advance to enable thorough consideration of the matters to be discussed at meetings
- Furnishing Board members with key management information to enable close scrutiny of the operation and performance of the organisation
- Keeping proper records for the Board in the form of minutes, attendance records and records of decisions made
- Setting up proper policies for disclosure and to regulate conflicts of interest
- Meeting in sub-committees for in-depth consideration and deliberation of issues

The table below sets out the attendance at Board meetings and meetings of functional committees in 2018–19:

Meetings attended/held	IA Board	Corporate Services Committee (“CSC”)	External Relations Committee (“ERC”)	Audit Committee (“AC”)	Codes and Guidelines Committee (“CGC”) ^(a)
Chairman					
Moses Cheng	9/9	2/2	0/0	1/1	6/8
Non-Executive Directors					
Samuel Chan	7/9	1/2	0/0	–	8/8
Chan Wai-sum	8/9	1/2	–	0/1	–
Chitty Cheung	7/9	2/2	0/0	–	–
Kenneth Kwok	8/9	2/2	–	1/1	7/8
Ma Ho-fai	8/9	2/2	0/0	–	7/8
James Wong	7/9	2/2	0/0	–	7/8
Anna Wong ^(b)	2/2	–	0/0	–	3/3
Stephen Yiu	8/9	2/2	–	1/1	–
Executive Directors					
John Leung ^(c)	2/2	–	0/0	–	–
Clement Cheung ^(d)	7/7	–	0/0	–	8/8
Carol Hui	9/9	–	–	–	–
Simon Lam	9/9	–	–	–	–
Stephen Po	9/9	–	–	–	8/8
Raymond Tam	8/9	–	0/0	–	7/8

^(a) This committee was renamed as the Regulatory Instruments Committee from June 2019 onwards.

^(b) Appointed as a member of the IA board, ERC and CGC effective 28 December 2018.

^(c) Appointed as a member of the IA board, ERC and CGC from 26 June 2017 to 14 August 2018.

^(d) Appointed as a member of the IA board, ERC and CGC effective 15 August 2018.

Corporate Governance

FUNCTIONAL COMMITTEES

The IA has four functional committees: the Corporate Services Committee, the External Relations Committee, the Audit Committee, and the Codes and Guidelines Committee². Each functional committee is

chaired by an NED. The presence and participation of NEDs on the committees provide effective checks and balances on the IA's decision-making processes.

Committees	Responsibilities of the Committees	Number of Meetings
Corporate Services Committee	<ul style="list-style-type: none"> ■ To advise on the development of policies and procedures relating to human resources, financial and administrative matters. ■ To review the structure and level of staff remuneration, and recommend adjustments, if justified. ■ To ensure the integrity of the accounting and financial reporting systems of the IA, and the compliance of these systems with statutory, regulatory, and relevant technical requirements. ■ To review and make recommendations on the draft annual corporate plans (including the estimates of income and expenditure) of the IA. ■ To review and make recommendations on the levels of levy and various fees payable by policy holders, insurers and insurance intermediaries respectively. ■ To advise on matters in relation to the IA's office accommodation. ■ To consider any human resources, financial and administrative matters referred to it by the IA. 	2
External Relations Committee	<ul style="list-style-type: none"> ■ To formulate policies and strategies on external communications, and promotion of public understanding of insurance products and the insurance industry. ■ To oversee the implementation of the communications and public promotion strategies approved by the IA. ■ To advise on matters relating to the IA's logo, website, publications (including the annual reports), engagement events, publicity campaigns and external relations. ■ To consider any other external relations matters referred to it by the IA. 	0

² This committee was renamed as the Regulatory Instruments Committee from June 2019 onwards.

Corporate Governance

Committees	Responsibilities of the Committees	Number of Meetings
Audit Committee	<ul style="list-style-type: none"> ■ To review and monitor the effectiveness of the IA's internal control and risk management systems, and make recommendations to the IA as and when necessary. ■ To recommend the appointment of an external auditor. ■ To review annual financial statements, including the composition and accounting principles adopted in such statements, before submission to the IA for consideration. ■ To review the findings and recommendations of the auditor, and oversee the implementation of the auditor's recommendations. ■ To consider any other audit matters referred to it by the IA. 	1
Codes and Guidelines Committee	<ul style="list-style-type: none"> ■ To review draft codes ("Codes") and guidelines ("GLs") in relation to (i) matters relating to any of the functions of the IA under the Insurance Ordinance (the "Ordinance"); or (ii) the operation of a provision of the Ordinance; and make recommendations to the IA as and when necessary. ■ To review existing Codes/GLs and advise on major amendments to these Codes/GLs, and make recommendations to the IA as and when necessary. ■ To oversee industry consultation of new and updated Codes/GLs where necessary, as well as to monitor promulgation of these Codes/GLs. ■ To consider and advise on any other matters relating to Codes and GLs. 	8

INDUSTRY ADVISORY COMMITTEES

The IA is required by the IO to set up two Industry Advisory Committees ("IACs") to advise it on matters relating to long term business and general business respectively. Each IAC is required to include the Chairman, the CEO and not more than two other EDs of the IA, as well as not less than eight and not more than 12 other members, who are appointed by the Financial Secretary of the Hong Kong Special Administrative Region after consultation with the IA.

The Financial Secretary has appointed (including reappointed) 12 non-official members to each IAC for a term of two years, from 1 June 2018 to 31 May 2020. Members of the two IACs come from different lines of business within the insurance industry, as well as from related fields such as consumer protection, accounting, insurance law and compliance, academia and banking. During the year, four joint meetings of the IACs were held. Details of IAC membership can be found in Appendices on page 91.

Corporate Governance

INDEPENDENT CHECKS AND BALANCES

The Ombudsman

The IA is subject to the indirect oversight of the Ombudsman. The Ombudsman has the statutory authority to instigate investigations into any alleged maladministration of the IA and its staff.

Insurance Appeals Tribunal

The [Insurance Appeals Tribunal](#) (“IAT”) is a review body established under the IO to review, on application, specified decisions made by the IA, and to hear and determine any question or issue arising out of or in connection with a review. Its statutory purpose is to ensure that the relevant regulatory decisions made by the IA are reasonable and fair.

The IAT is formed whenever there is a case to be reviewed. It consists of a chairperson and two ordinary members to be appointed by the Secretary for Financial Services and the Treasury from a pool of panel members, on the recommendation of the chairperson. The chairperson and the panel members are appointed by the Chief Executive of the Hong Kong Special Administrative Region. The chairperson must be a former Justice of Appeal of the Court of Appeal, a former judge or a former deputy judge of the Court of First Instance, or a person eligible for appointment as a High Court judge. Panel members are drawn from different insurance segments, as well as from related fields such as consumer protection, law, accounting, academia, banking and management. The IAT membership can be found in Appendices on page 92.

ACCOUNTABILITY AND TRANSPARENCY

Standards of Conduct

We attach great importance to the integrity and conduct of our staff, and expect them to uphold high standards of conduct to fulfil the task conferred on the IA as a financial regulator under the law. To ensure that our staff understand and observe these standards, we issue guidelines and a code of conduct covering a wide array of areas such as conflicts of interest, declaration of financial interests and acceptance of gifts, among others. Newcomers are introduced to the requirements through induction and briefing sessions on the prevention of bribery organised by the Independent Commission Against Corruption.

Corporate Planning

Before the end of each financial year, the IA is required by the IO to submit a corporate plan and budget for the following year to the Financial Secretary. The corporate plan specifies the IA’s objectives for the year, the nature and scope of activities planned, and the estimated expenditure required to achieve the objectives. Before the corporate plan is submitted to the Financial Secretary, views on the budget are sought from the Legislative Council (“LegCo”) Panel on Financial Affairs.

Corporate Governance

Financial Control and Reporting

Financial statements are prepared for every financial year and published together with the annual report. The financial statements comply with the accounting standards, reporting standards and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants. An external auditor is engaged to audit the financial statements, which for the financial year 2018-19 continued to be PricewaterhouseCoopers. We adopt the following practices to ensure the transparency of our financial reports:

- An external firm is appointed to conduct the annual audit
- Half-yearly financial reports are provided to the Board
- Annual financial statements are presented to the Audit Committee
- The Board's approval is sought on the annual financial statements which are published in the IA's annual report
- Key financial data is presented at Board meetings
- Regular reports are provided to the Government
- The annual budget and revised estimates are presented to LegCo's Panel on Financial Affairs

Communication with Stakeholders

The IA engages with a wide range of stakeholders, including the insurance industry, policy holders, regulatory counterparts, the Government, LegCo, the media, and the general public. We strive to maintain effective communication with stakeholders through various platforms and channels, which include the IA website, media events, press releases, circulars, and public education activities. Stakeholder feedback is collected through meetings, briefings, seminars, and consultations. Industry statistics are published on a regular basis on the IA website. The IA has promulgated its code on access to information, but no request for information was received during the year.

Handling Complaints

Our accountability and transparency is also embodied in our complaint handling procedures. The roles and policies for the IA to handle complaints are published on our website. Once it has taken over the regulatory roles of the three Self-Regulatory Organisations ("SROs")³, the IA will directly regulate insurance intermediaries, and this will include handling of complaints lodged against them.

RISK MANAGEMENT

A number of measures have been adopted to safeguard against possible risks associated with our operations, including both external risks arising from the financial market and internal risks such as financial risks, and threats to our information and office security:

- External risks associated with the financial and insurance markets are assessed as part of the corporate planning process and appropriate regulatory measures are adopted to address these risks on an ongoing basis.
- Financial control policies and procedures are promulgated that delineate the authority and responsibility of our staff and the Board in the appointment of consultants or service providers, the purchase of capital items, etc.
- The IA's risk management system and internal control procedures are subject to review by the Audit Committee, which is composed of NEDs.
- Access controls are in place for the IA's computer and file systems to protect against unauthorised access, use or modification. There are also access controls for office premises to safeguard against unauthorised entry.
- A data privacy policy has been promulgated and a Personal Data Privacy Officer has been appointed to facilitate staff compliance with the Personal Data (Privacy) Ordinance.

³ The three SROs are The Hong Kong Confederation of Insurance Brokers, The Professional Insurance Brokers Association and the Insurance Agents Registration Board established under The Hong Kong Federation of Insurers.

HIGHLIGHTS OF THE YEAR

1 April 2018 to 31 March 2019

Corporate News

AUG
2018

Mr Clement Cheung appointed as the Chief Executive Officer (“CEO”) of the Insurance Authority (“IA”) for a term of two years, starting from 15 August 2018.

DEC
2018

Chairman Dr Moses Cheng and the seven incumbent Non-Executive Directors (“NEDs”) reappointed for a further term of three years, with effect from 28 December 2018. Professor Anna Wong appointed as a new NED.

Regulation and Supervision

JUN
2018

Refined exemption criteria relating to Financial Needs Analysis for selling long term insurance products through digital platforms, in collaboration with the Hong Kong Federation of Insurers.

NOV
2018
TO
MAR
2019

Kick-started stakeholder consultations on draft guidelines regarding the sale of long term insurance policies, including guidelines relating to the cooling-off period, benefit illustrations, sale of investment linked products, financial needs analysis, gifts and policy replacement.

AUG
2018

Launched the second round of Quantitative Impact Studies in preparation for the introduction of the Risk-based Capital Regime.

DEC
2018

Authorized the first virtual insurer under Fast Track.

IA appointed as the group-wide supervisor-elect at the supervisory college for Prudential plc Group’s international business post-demerger.

Hosted the supervisory college for AIA Group as the group-wide supervisor through a teleconference, to enhance regulatory collaboration across thirteen jurisdictions.

SEP
2018
TO
MAR
2019

Conducted public consultations on seven sets of draft rules, codes and guidelines in relation to the direct regulatory regime for insurance intermediaries.

MAR
2019

Issued the Guideline on Qualifying Deferred Annuity Policy (GL19).

Co-hosted an Asian supervisory forum for AXA Group with the French regulator, to enhance regulatory collaboration across six jurisdictions.

OCT
2018

Mutual Evaluation by the Financial Action Task Force on the Hong Kong insurance sector’s Anti-Money Laundering and Counter-Terrorist Financing compliance and effectiveness.

NOV
2018

Elected as the group-wide supervisor of FWD Group, and hosted the inaugural supervisory college for the group to enhance regulatory collaboration across nine jurisdictions.



Highlights of the Year

Market Development

**JUL
2018**

Implemented the preferential treatment to promote the development of the Hong Kong reinsurance industry, with the China Banking and Insurance Regulatory Commission.

**DEC
2018**

Organised the inaugural Asian Insurance Forum, a high-level platform for industry leaders and financial regulators worldwide to share views on the development of the insurance industry in Asia.

Launched the Belt and Road Insurance Exchange Facilitation platform.

**FEB
2019**

Co-hosted a forum with the State-owned Assets Supervision and Administration Commission of the State Council, at which the financial sector's role of enabling the real economic development and ways to promote Hong Kong's role as a risk management centre were discussed.

Organised the first-ever captive forum, designed to help Central State-owned Enterprises understand how they can benefit from setting up captives in Hong Kong.

**MAR
2019**

Co-organised a seminar with the Hong Kong Monetary Authority's Infrastructure Financing Facilitation Office to showcase the strategic roles of insurance and guarantee in project risk management.



Highlights of the Year

Regulatory Collaboration

**JUN
2018**

Jointly hosted the 13th Annual Conference of the Asian Forum of Insurance Regulators (“AFIR”) and the first Asia-Pacific High-level Meeting on Insurance Supervision with the Financial Stability Institute, the International Association of Insurance Supervisors (“IAIS”) and AFIR.

**JAN
2019**

Hosted the 18th Joint Meeting of the Insurance Regulators of Guangdong, Hong Kong, Macao and Shenzhen.

**FEB
2019**

CEO Mr Clement Cheung elected by Asian regulators to serve on the IAIS Executive Committee.

**AUG
2018**

CEO Mr Clement Cheung succeeded as AFIR chairman.

Stakeholder Communication

**JUN
2018**

Launched the IA Facebook page.

**MAR
2019**

Launched publicity and education campaigns for Qualifying Deferred Annuity Policies.

**JUL
SEP
OCT
2018**

Met with the Future Task Force to discuss image building for the insurance industry, financial regulation and policy, and Fintech development.



OPERATIONAL REVIEW

MARKET OVERVIEW

In 2018¹, the total gross premiums of the Hong Kong insurance industry increased by 5.2% to HK\$514,538 million.

LONG TERM INSURANCE BUSINESS

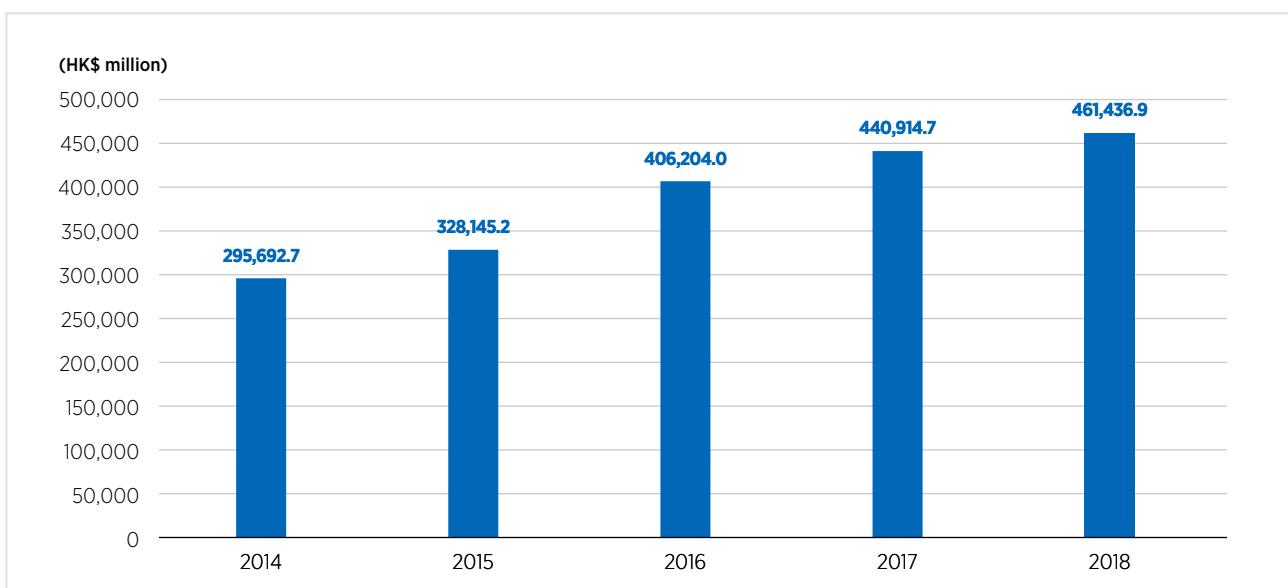
Total office premiums for in-force long term business increased by 4.7% to HK\$461,437 million in 2018. The Individual Life category remained the dominant line of business, making up HK\$426,344 million or 92.4% of total long term business. The respective number of policies in 2018 stood at 13.2 million, carrying net liabilities of HK\$1,947,824 million.

Yearly contributions for Retirement Scheme contracts administered by insurers increased by 5.2% to HK\$9,374 million. There were 63,142 Retirement Scheme contracts carrying net liabilities of HK\$125,221 million. In-force office premiums for Group Life business increased by 3.1% to HK\$3,485

million, carrying net liabilities of HK\$999 million. In-force office premiums for Annuity business increased by 69.6% to HK\$20,692 million. In-force office premiums for Other business (mainly Permanent Health business) increased by 12% to HK\$1,542 million.

Office premiums for new Individual Life business remained stable at HK\$150,601 million in 2018, including HK\$133,194 million from Individual Life (Non-Linked) business and HK\$17,407 million from Linked business, which recorded a decrease of 3.4% and an increase of 36.7% respectively. The total number of new policies increased by 1.5% to 1.3 million in 2018. Office premiums for new Individual Annuity business increased by 40.5% to HK\$10,816 million.

Office Premiums of Total In-Force Long Term Business

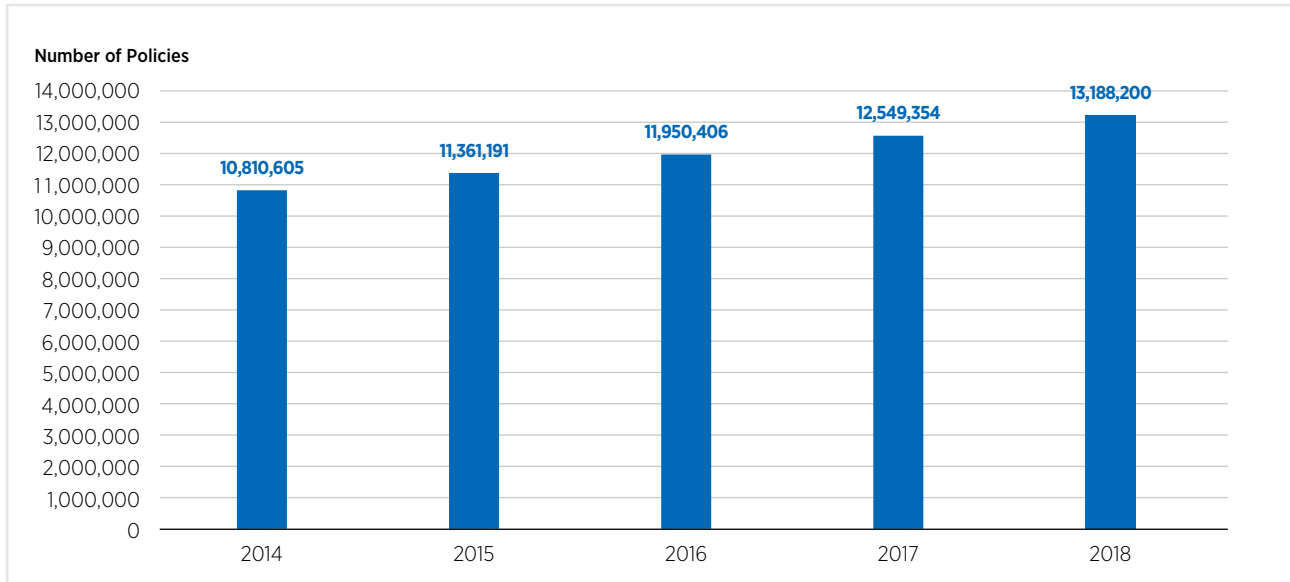


¹ The statistics in Market Overview cover those insurers whose financial years ended between 1 January 2018 and 31 December 2018.

OPERATIONAL REVIEW

MARKET OVERVIEW

In-Force Individual Life Policies



GENERAL INSURANCE BUSINESS

Total gross written premiums (“GWP”) recorded growth of 10.0% to HK\$53,101 million in 2018, which was its strongest growth in the past five years. The overall retention rate in 2018 dropped to 65.4% compared to 68.5% in 2017. The premium growth was mainly driven by the growth in General Liability business followed by Accident & Health business, which reported increments of 22.3% and 9.2% respectively. Other business lines delivered growth between 1.3% and 8.4%.

The overall underwriting performance restored its profit of HK\$583 million from a loss of HK\$827 million in 2017, mainly contributed by improved performance of reinsurance inward business. The overall claim situation for general insurance business slightly improved with a net loss ratio of 62.4% in 2018

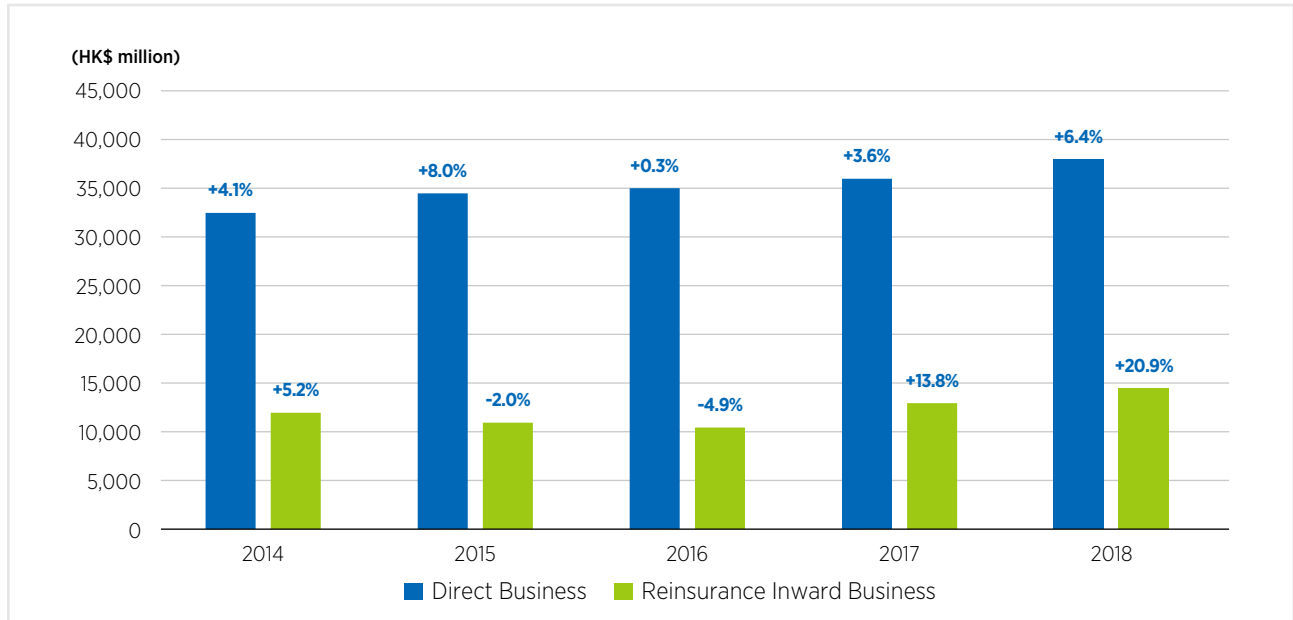
despite the impact of Typhoon Mangkhut. The higher net loss ratio of 64.7% in 2017 was mainly due to Typhoon Hato related losses. Property Damage business was the largest contributor to the overall underwriting loss in 2017. Property Damage business turned around to a profit of HK\$199 million in 2018.

The underwriting loss for Motor Vehicle business improved in 2018, with an underwriting loss of HK\$248 million compared to a loss of HK\$512 million in 2017. All business classes, with the exception of Motor Vehicle and Miscellaneous business (including Ships, Goods in Transit, Aircraft and Treaty Reinsurance business), recorded positive underwriting results in 2018. Specifically, the Property Damage and General Liability (including Employees’ Compensation) business both delivered stronger underwriting performance compared to 2017.

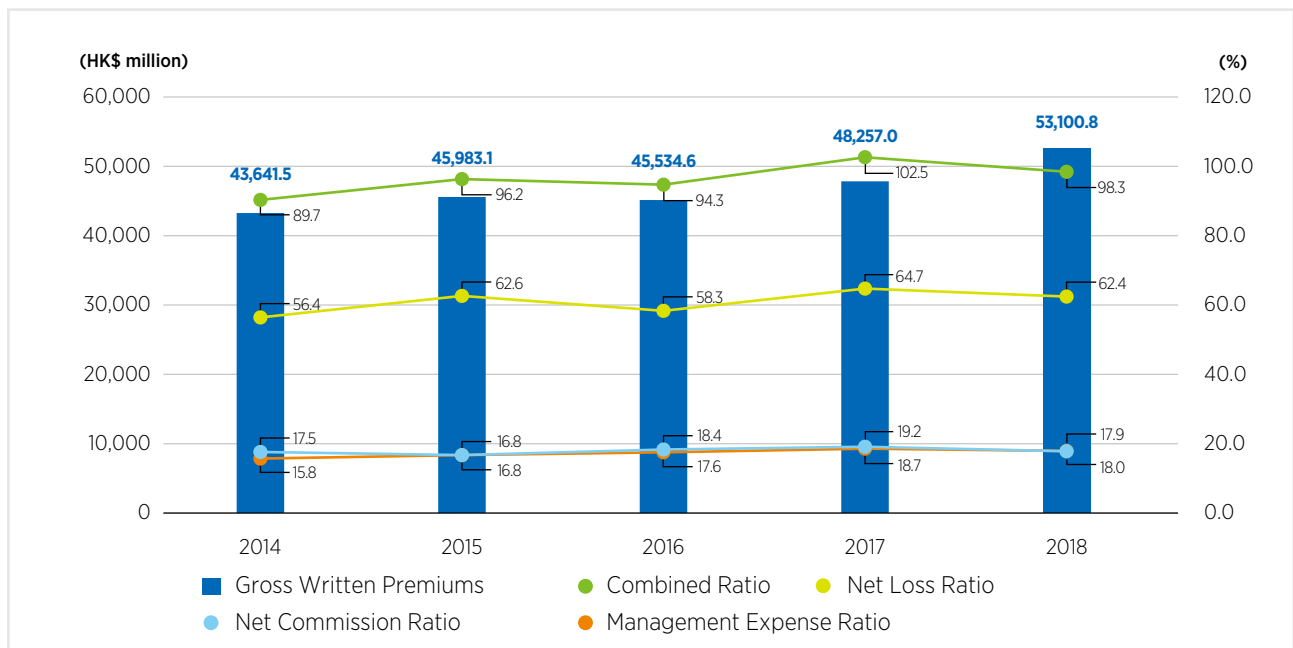
OPERATIONAL REVIEW

MARKET OVERVIEW

Growth of Gross Written Premiums



Overall Performance of General Insurance Business



Net Loss Ratio — Total of Net Claims Incurred and Unexpired Risks Adjustment expressed as a percentage of Net Earned Premiums

Net Commission Ratio — Net Commission Payable as a percentage of Net Earned Premiums

Management Expense Ratio — Management Expense as a percentage of Net Earned Premiums

Combined Ratio — Total of Net Loss Ratio, Net Commission Ratio and Management Expense Ratio



Details of industry statistics for [long term insurance business](#) and [general insurance business](#) can be found on the website of the Insurance Authority.

OPERATIONAL REVIEW

MARKET OVERVIEW

KEY INDICATORS

	Unit	2016	2017	2018
ECONOMIC DATA^(a)				
GDP (at current market prices)	HK\$ million	2,490,617	2,662,836	2,842,883
Population (Mid-year)		7,336,600	7,391,700	7,451,000
Per capita GDP (at current market prices)	HK\$	339,478	360,247	381,544
Insurance Density				
Long Term Business	HK\$	55,367	59,650	61,930
General Business	HK\$	6,206	6,529	7,127
Insurance Penetration				
Long Term Business	%	16.3	16.6	16.2
General Business	%	1.8	1.8	1.9
INSURANCE MARKET STRUCTURE				
Number of Authorized Insurers				
Long Term		47	47	49
General		94	93	93
Composite		19	19	19
Total		160	159	161
Number of Authorized Insurance Brokers^(b)				
756				
Number of Chief Executives and Technical Representatives of Authorized Insurance Brokers^(b)				
9,452				
Number of Appointed Insurance Agents^(c)				
65,630				
Number of Responsible Officers and Technical Representatives of Appointed Insurance Agents^(c)				
26,835				
INSURANCE MARKET STATISTICS				
Premium Income				
Long Term Business (Office premiums)	HK\$ million	406,204	440,915	461,437
General Business (Gross premiums)	HK\$ million	45,535	48,257	53,101
Annual Growth Rate				
Long Term Business	%	23.8	8.5	4.7
General Business	%	-1.0	6.0	10.0
Individual Life Business				
Number of New Policies		1,267,560	1,271,068	1,289,816
Average Premium Size of New Policies	HK\$	141,278	118,519	116,762
Number of In-force Policies		11,950,406	12,549,354	13,188,200
Premiums Per Capita of In-force Policies	HK\$	52,427	56,151	57,220
Number of In-force Policies as a Percentage of Population	%	162.9	169.8	177.0
Local Assets Maintained for General Business^(d)				
HK\$ million				
114,228				
117,458				
87,657				

^(a) Data source: Census and Statistics Department

^(b) Based on the figures supplied by the approved bodies of insurance brokers, i.e. The Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association.

^(c) Based on the figures supplied by the Insurance Agents Registration Board set up by the Hong Kong Federation of Insurers.

^(d) The figure for 2017 has been revised.

OPERATIONAL REVIEW

SUPERVISION OF INSURERS

The Insurance Authority (“IA”) is tasked with ensuring the general stability of the insurance industry through prudential supervision of insurers. We not only keep a close watch on local market activities but also collaborate with regulators across jurisdictions to monitor global insurance groups. During the year, we continued to modernise our regulatory framework in the light of international developments.

FINANCIAL EXAMINATIONS

As at 31 March 2019, there were 162 authorized insurers in Hong Kong. To ensure these insurers have set aside sufficient capital to meet their insurance obligations and their compliance with solvency requirements and other regulatory standards, we analyse their annual and quarterly financial statements and various returns. We look at areas such as the business they have underwritten, and their capital adequacy, asset quality, insurance liabilities, actuarial reserving, and reinsurance arrangements. These rigorous financial examinations help us identify possible risk areas that could compromise their financial strength and sustainability.

ON-SITE INSPECTIONS

Regular on-site inspections are an integral part of our supervisory process. They give us a better understanding of the business operations of individual insurers, including their compliance with regulatory requirements. Our inspections cover reviews of corporate governance practices, including risk management and internal control systems, of business strategies and operations assessed against industry practices, and of adherence to regulatory obligations in areas such as underwriting, claims handling, asset management, reinsurance arrangements and supervision of intermediaries. We determine the scope and depth of each inspection based on the nature and level of the risks involved.



OPERATIONAL REVIEW

SUPERVISION OF INSURERS

NEW AUTHORIZATIONS

Any company intending to carry on insurance business in or from Hong Kong must obtain authorization to do so from the IA. New authorizations are summarised in the table below.

In addition, the IA granted authorization to three authorized general insurers allowing them to carry on additional classes of business.

TRANSFERS OF INSURANCE BUSINESS

Under section 24 of the Insurance Ordinance (“IO”), an insurer who seeks to transfer its long term insurance business to another insurer is required to apply to the court for an order sanctioning the scheme of transfer, and the IA is entitled to be heard at the court. An insurer intending to transfer its general insurance business portfolio to another insurer may do so under section 25D of the IO by obtaining the approval of the IA. During the year, there was no transfer of long term insurance business under section 24 of the IO. Approvals in respect of applications under section 25D are summarised in the table below.

New Authorizations

Name of Insurer	Place of Incorporation	Type of Business
Bowtie Life Insurance Company Limited	Hong Kong	Long Term
Britannia Steam Ship Insurance Association Limited – The	United Kingdom	General
HKMC Annuity Limited	Hong Kong	Long Term
Shanghai Electric Insurance Limited	Hong Kong	General
Standard Club Asia Ltd. – The	Singapore	General
Steamship Mutual Underwriting Association Limited	United Kingdom	General

Transfers of Insurance Business

Under Section 25D of the IO

Date of Approval by the IA	From	To
30 April 2018	Hong Kong Mortgage Corporation Limited – The	HKMC Insurance Limited
30 July 2018	Hong Kong Reinsurance Company Limited	East Point Reinsurance Company of Hong Kong Limited

OPERATIONAL REVIEW

SUPERVISION OF INSURERS

MERGERS AND ACQUISITIONS

Under the IO and other specific requirements imposed on individual insurers, authorized insurers are required to seek the IA's prior approval or notify the IA for the appointment of certain shareholder controllers. During the year, we approved changes in the shareholder controllers of three authorized insurers involving merger and acquisition activities:

- (1) On 16 November 2018, Yunfeng Financial Group Limited and seven other investors completed their acquisitions of MassMutual Asia Limited (now known as YF Life Insurance International Limited).
- (2) On 20 December 2018, Cigna Corporation, the then ultimate holding company of CIGNA Worldwide General Insurance Company Limited and CIGNA Worldwide Life Insurance Company Limited, completed its acquisition of Express Scripts Holding Company. Cigna Corporation was renamed as Cigna Holding Company and a new ultimate holding company with the name of Cigna Corporation was formed under the acquisition.

GROUP-WIDE SUPERVISION

To align with recent developments in international standards, the IA is working on a new group-wide supervision framework for multinational insurance groups built on Hong Kong's extensive experience in the supervision of insurance groups. Adopting a principle-based and outcome-focused approach, the new framework will be consistent with the Insurance Core Principles of the International Association of Insurance Supervisors and its newly established Common Framework for the Supervision of Internationally Active Insurance Groups.

To enable the new framework, we plan to introduce the relevant amendment bill to the Legislative Council in the 2019–20 legislative session. We have consulted various key stakeholders and fellow regulators on the proposed legislative framework, and are ironing out the details with their feedback. In addition, we established a dedicated team of experienced specialists in October 2018 to support the development of the group-wide supervision framework.

To perform group-wide supervision effectively and efficiently, the IA has been collaborating with regulators from different jurisdictions. Through supervisory colleges, regulators of the subsidiary insurance companies of an insurance group can enhance their co-operation and coordination on cross-border regulatory matters.

OPERATIONAL REVIEW

SUPERVISION OF INSURERS

In August 2018, the IA was appointed as the group-wide supervisor-elect at the supervisory college for Prudential plc Group's international business post-demergers. The IA has been working closely with the Prudential Regulation Authority of the United Kingdom and other regulators to ensure a smooth transition for the group-wide supervision work of Prudential plc Group. Currently, the IA is also the group-wide supervisor for AIA Group and FWD Group, and hosted two respective supervisory colleges for these groups during the year.

In addition, the IA co-hosted an Asian supervisory forum for AXA Group with the French regulator to enhance regulatory collaboration across jurisdictions.

RISK-BASED CAPITAL REGIME

To keep pace with the evolving global financial landscape and changing international standards, the IA is developing a Risk-based Capital ("RBC") Regime which will make the capital requirements for insurers more sensitive to the risks they bear. The RBC Regime also aims to enhance corporate governance and risk management practices for the industry.

During the year, we conducted the second round of Quantitative Impact Studies ("QIS") for the RBC Regime, which has since been followed by a third round in August 2019. These involved collecting



Prudential plc Group paid a courtesy visit to Hong Kong after the IA was appointed as the group-wide supervisor-elect for Prudential plc Group's international business post-demergers. From left: Dr Moses Cheng, Chairman; Mr Steve Bickell, Chief Corporate Development Officer, Prudential Corporation Asia; Mr Mike Wells, Chief Executive Officer, Prudential plc Group; Mr Paul Chan, Financial Secretary and Mr James Lau, Secretary for Financial Services and the Treasury

industry data for the purpose of assessing the impact of the proposed capital requirement on the capital adequacy of insurers. The studies are helping us understand the impact of the change of the solvency regime and form a holistic view of policy decisions to be made under the RBC Regime.

After completing all the impact studies, a consultation on the detailed rules of the RBC Regime will be carried out in 2020. This should pave the way for implementation of the regime by 2022 with an appropriate run-in period.

In relation to the qualitative requirements of the RBC Regime, we issued a draft Guideline on Enterprise Risk Management (GL 21) for consultations in May 2018 and January 2019. After taking into account stakeholders' comments, the guideline was finalised and published in July 2019. Providing guidance on the enterprise risk management framework and own risk and solvency assessment, the guideline will come into effect on 1 January 2020.



Participants at the AXA Asia Regional Supervisory Forum

OPERATIONAL REVIEW

SUPERVISION OF INSURERS

REGULATORY INITIATIVES

During the year, the IA worked on a number of initiatives to strengthen its regulatory regime.

In support of the Government's proposal to offer tax concessions for qualifying deferred annuity products, we issued the Guideline on Qualifying Deferred Annuity Policy (GL19) in March 2019. The guideline sets out the criteria by which the IA can certify an insurance policy as a Qualifying Deferred Annuity Policy ("QDAP"). GL19 also stipulates the ongoing requirements that authorized insurers have to meet in respect of the promotion, arrangement and administration of QDAPs.

Cyber risk is one of the most significant operational risks faced by insurers. To help the industry deal with emerging challenges brought about by new technology, we have set up an expert panel comprising members from academia, consultancies and professionals specialising in cybersecurity, to advise us on related issues. In November 2018, we conducted an industry consultation on the draft Guideline on Cybersecurity (GL20). This sets out the general guiding principles for a cybersecurity framework that will cover, among others, strategy, governance, risk assessment and recovery. The guideline was issued in June 2019 and will become effective in 2020.

In 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) ("FIRO") came into force, leading to the establishment of a cross-sectoral resolution regime to meet the international standards set by the Financial Stability Board. Under the FIRO, the IA is the resolution authority for the insurance sector, and has been vested with a range of powers to mitigate risks posed by non-viable systemically important financial institutions. In April 2018, the IA was designated by the Financial Secretary of the Hong Kong Special Administrative Region as the lead resolution authority for six cross-sectoral groups, including insurance sector entities and securities and futures sector entities within the scope of the FIRO. The IA is continuing to develop and implement the operational aspects of the FIRO.

In December 2018, the IA entered into a Memorandum of Understanding ("MoU") with the Office of Insurance Commission of Thailand to provide mutual assistance in insurance regulation. With the signing of the MoU, both parties will strive to pursue a wide range of activities relating to technical assistance, capacity building, exchange of information and development of Insurtech.



The IA signs an MoU with the Office of Insurance Commission of Thailand to provide mutual assistance in insurance regulation

OPERATIONAL REVIEW

MARKET DEVELOPMENT

As a global risk management centre and a regional insurance hub, Hong Kong is uniquely positioned to play an active role in support of the Belt and Road Initiative (“BRI”) and the development of the Greater Bay Area of Guangdong-Hong Kong-Macao (“GBA”).

Leveraging its strengths in risk management and insurance solutions, Hong Kong can complement these national policies by helping Mainland enterprises with BRI investments to address their overseas risks, and facilitating GBA development. Both of these strategic initiatives present tremendous opportunities for the Hong Kong insurance industry, and the Insurance Authority (“IA”) has introduced market development measures to help the industry capitalise on these opportunities to achieve sustainable growth.

THE BELT AND ROAD INITIATIVE

The BRI is a large-scale undertaking that seeks to build markets through connectivity in over 65 countries in Asia, Africa and Europe. It has given rise to a wide array of cross-border investments in mega infrastructural projects. These projects can pose significant challenges in financing and risk management. To enhance their sustainability and

commercial viability, such projects must be sufficiently insured and reinsured. This has generated huge demand for risk management and insurance solutions that can manage a variety of baseline and specialty risks. Because Hong Kong has a strong presence of multinational insurers and reinsurers and a deep talent pool of risk management and insurance professionals, it has the experience and expertise to provide professional risk management services and effective insurance and reinsurance coverage for BRI projects, and thus address the challenges faced by these infrastructural developments.

During the year, the IA undertook a number of initiatives to promote Hong Kong as a regional operating base for risk management and project financing to Mainland enterprises, especially State-owned Enterprises (“SOEs”), for their BRI projects.

OPERATIONAL REVIEW

MARKET DEVELOPMENT

Asian Insurance Forum

To reinforce Hong Kong's role as a regional insurance hub, the IA hosted the inaugural Asian Insurance Forum in December 2018. This flagship event is a high-level platform that enables international and local financial regulators, policymakers, industry leaders, related professionals and academics to explore ways in which insurance enables the regional economy, and

to share views on the future development of the Asian insurance markets. More than 400 local and overseas delegates attended the forum and shared their insights on the opportunities and challenges facing the industry, with a special focus on the BRI and the development of the GBA. The forum will be held annually, with the aim of driving growth and prosperity for the regional market.

Mrs Carrie Lam, Chief Executive of the Hong Kong Special Administrative Region, was the officiating guest



Hong Kong as Global Risk Management Centre and Regional Insurance Hub

11 December 2018



The Financial Secretary, Mr Paul Chan, spoke at the forum



Dr Moses Cheng, Chairman, delivered the opening remarks



OPERATIONAL REVIEW

MARKET DEVELOPMENT



Mr Clement Cheung, Chief Executive Officer, speaking at the captive insurance forums

Captive Insurance

Hong Kong is an ideal domicile for Mainland enterprises to set up captive insurers. Having a risk management vehicle within a group of companies in the form of a captive insurer induces the management to implement appropriate controls, and improve their safety and business practices. Captive insurers thus provide multinational groups with the ability to deploy holistic risk management strategies.

Currently, there are four captive insurers authorized in Hong Kong. During the year, we continued our efforts to encourage Mainland enterprises to set up captive insurers in Hong Kong by hosting the first-ever captive forum. At the forum, senior representatives from Mainland and Hong Kong captive insurers, those interested in setting up captives in Hong Kong and other members of the industry, including reinsurers, brokers and professional risk management associations, met to explore how the industry can work together to promote the use of captives by Central SOEs with overseas BRI investments.

In February 2019, the IA and the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”) co-hosted a two-day forum in Hong Kong. The forum provided senior executives of Central SOEs with a platform where they could share their experience on enabling the financial sector to serve real economic development and reinforce Hong Kong’s position as a risk management centre for BRI projects. Central SOEs can formulate risk management solutions to counter their overseas BRI investment risks by combining conventional corporate risk management models with expertise on industry-specific risks.

At a meeting between the IA and visiting SASAC officials a consensus was reached on various issues, including the establishment of a regular liaison mechanism, enhanced promotion to Central SOEs of the advantages of setting up captives in Hong Kong, and co-operation on designated research projects.

OPERATIONAL REVIEW

MARKET DEVELOPMENT

To further strengthen the role of captive insurers as a risk management centre within a group of companies, we are formulating legislative proposals to expand the scope of the risks captive insurers may insure and reinsure.

To attract more captive insurance business to Hong Kong, a 50% reduction in the profit tax rate on insurance business of offshore risks has been granted from the year of assessment 2013–14 onwards. This tax concession has been extended to cover both offshore and onshore risks with effect from the assessment year of 2018–19.

Reinsurance

To promote reinsurance activities in Hong Kong, and particularly reinsurance placement for BRI projects, we have been working with the China Banking and Insurance Regulatory Commission (“CBIRC”) on obtaining preferential treatment for Hong Kong reinsurers. Under the Equivalence Assessment Framework Agreement on Solvency Regulatory Regime signed between the Mainland and Hong Kong, in July 2018 the CBIRC agreed to lower the capital charge applied to Mainland insurers if they cede business to qualified reinsurers in Hong Kong, a measure that will make Hong Kong reinsurers more competitive in obtaining business from Mainland insurers, particularly in support of the BRI.

Reinsurance and natural disasters

In 2018, super Typhoon Mangkhut swept across Hong Kong, causing approximately HK\$5.7 billion in insurable losses as at December 2018 according to industry data gathered by the IA. HK\$4.1 billion of those losses will ultimately be borne by reinsurers, a situation that will stabilise the underwriting results of Hong Kong’s primary insurers. Following Typhoon Mangkhut, the IA worked with natural catastrophe

modelling firms to estimate the loss scenarios in the event of a mega typhoon that might strike once in 200 years. If such a typhoon had made landfall, possible insurance losses could have been as high as HK\$18 billion¹. We shared these findings with insurers as a reminder for them to have a sufficiently robust reinsurance strategy in place to withstand such a potential catastrophe.

¹ Source: [RMS](#)

OPERATIONAL REVIEW

MARKET DEVELOPMENT



Mr Simon Lam, Executive Director, General Business (far left), speaking at the Belt and Road Summit

Connecting Belt and Road Stakeholders

During the year, the IA proactively reached out to Mainland enterprises with investments along the Belt and Road and connected them with relevant insurance professionals in Hong Kong. In June 2018, we hosted a thematic breakout forum at the Belt and Road Summit, which was co-organised by the Government and the Hong Kong Trade Development Council. At the forum,

panel speakers identified different risks associated with overseas assets and businesses under the BRI, provided insights into how insurance can help investors manage these risks, and examined ways in which Hong Kong can utilise its strengths to complement the national policy of BRI and support Mainland enterprises in going regional and global.

Belt and Road Insurance Exchange Facilitation (“BRIEF”)

Launch Date: December 2018

Objectives:

- To provide a platform to promote the exchange of intelligence, forge alliances and facilitate networking
- To establish Hong Kong as a global risk management centre and a regional insurance hub

Number of Members: 36 (as of March 2019)

Membership:

- Mainland, Hong Kong and foreign enterprises engaged in projects and commercial activities connected with the BRI;
- Insurance companies and professionals involved in the BRI, including direct insurers, reinsurers, captive insurers, insurance / reinsurance brokers and captive managers;
- Other professional service providers e.g. legal, accounting, logistics, engineering, architectural and consulting firms; and
- Investment promotion agencies, trade associations, chambers of commerce and industry organisations.



OPERATIONAL REVIEW

MARKET DEVELOPMENT

To help BRI project owners and investors map out their risk management and insurance needs and identify optimum insurance solutions, in December 2018 the IA launched the Belt and Road Insurance Exchange Facilitation (“BRIEF”) platform. The BRIEF platform aims to bring together key stakeholders in order to unleash synergies for exploiting prospects arising from the BRI. To this end, the IA set up a [sitelet](#) to facilitate the exchange of intelligence among BRIEF members and other key stakeholders.

To foster greater co-operation between BRIEF members and other relevant stakeholders, in March 2019 the IA and the Hong Kong Monetary Authority’s Infrastructure Financing Facilitation Office (“IFFO”) co-organised a seminar to showcase the strategic roles of insurance and guarantee in project risk management. BRIEF members, joined by IFFO partners such as export credit agencies, financiers, investors, multilateral financial agencies and project owners, discussed practical risk mitigation measures using insurance to address various risks and enhance project bankability. This seminar demonstrated Hong Kong’s advantages as a comprehensive infrastructure financing and risk management centre.



Mr Raymond Tam, Executive Director, Policy and Development, speaking at a seminar co-hosted by the IA and the Hong Kong Monetary Authority’s IFFO

Insurance Linked Securities (“ILS”)

ILS is an alternative risk management tool for transferring insurance risk to the capital market, and can improve the capacity of the insurance market. With government support in the Chief Executive’s 2018 Policy Address, the IA will introduce legislative amendments to allow for the formation of special purpose vehicles for issuing ILS. ILS will not only enrich the risk management tools available to the insurance industry, but will also give institutional investors additional options for diversifying their investment risks. The IA targets to introduce the legislative proposal to the Legislative Council in the 2019–20 legislative session.

Marine Insurance and Specialty Risks

To secure Hong Kong’s status as an international maritime centre, the Government has proposed legislative amendments to provide tax relief for marine insurance and the underwriting of specialty risks in Hong Kong. This measure could help the Hong Kong insurance industry capture opportunities arising from the BRI and support the development of high-value-added maritime services.

To attract more marine insurance business to Hong Kong, we are continuing to look at different regulatory incentives as well as other facilitating measures. For example, three more Protection and Indemnity Clubs were authorized in Hong Kong during the year.

OPERATIONAL REVIEW

MARKET DEVELOPMENT

GREATER BAY AREA

The development of the GBA represents a major growth opportunity for the Hong Kong insurance industry. In essence, the GBA involves leveraging the comparative advantages of each of the 11 cities for the greater benefit of the entire area, and a part of Hong Kong's competitive edge is its insurance sector. In February 2019, the Central Government promulgated the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area ("Outline Development Plan"), which sets out a blueprint for closer collaboration and mutual support among the 11 cities. Included in the Outline Development Plan are various insurance initiatives, such as promoting cross-boundary Renminbi reinsurance business, supporting the joint development of innovative cross-boundary motor vehicle and medical insurance products, and providing facilitation services such as underwriting, investigation and claims for cross-boundary policy holders. We will work closely with relevant Mainland authorities to facilitate the implementation of the insurance initiatives in the Outline Development Plan.

In addition, we will continue to maintain close communication with the CBIRC on the feasibility for Hong Kong insurers of setting up service centres in the GBA to provide after-sales services such as claims processing and policy servicing, to Hong Kong and Mainland policy holders living in the region.



This meeting of the IA and members of the industry looked at ways of enhancing the provision of motor insurance for the Hong Kong-Zhuhai-Macao Bridge

Since its opening in October 2018, the Hong Kong-Zhuhai-Macao Bridge has expedited the flow of people and goods in the GBA. To make it more convenient for Hong Kong car owners and drivers to procure Mainland and Macao statutory motor insurance, we coordinated with seven Hong Kong insurance companies to offer a one-stop service. During the year, we continued to work closely with relevant authorities to find ways of facilitating the purchase of statutory motor insurance under the three different regulatory regimes associated with the bridge. In addition, in January 2019 the IA met with the Hong Kong Federation of Insurers and over 20 Hong Kong insurers to enhance the provision of motor insurance catering to the needs of bridge users, such as the demand for short term insurance policies.

Hong Kong as a regional base for insurance groups

To attract more global insurance groups to base themselves in Hong Kong and cement the city's position as an insurance hub, the IA intends to place the existing group-wide supervision framework under a formal legislative framework. To this end, it is working on a new group-wide supervision framework¹

for multinational insurance groups built on Hong Kong's extensive experience in the supervision of insurance groups. Using a principle-based and outcome-focused approach, the new framework will put Hong Kong on a par with international standards and practices, strengthening its competitiveness in the global insurance market.

¹ See Supervision of Insurers on pages 28 to 32.

OPERATIONAL REVIEW

MARKET DEVELOPMENT

INSURTECH AND VIRTUAL INSURER

To encourage the adoption of Insurtech (i.e. the application of financial technology in insurance), we launched the Insurtech Sandbox (“Sandbox”) and Fast Track in 2017.

The Sandbox enables authorized insurers to test in a controlled environment innovative applications of new technologies which broadly comply with the IA’s supervisory requirements. As of March 2019, a total of four pilot trials were granted, of which three were rolled out to the market.

Under Fast Track, a dedicated queue has been set up to expedite new authorization applications by insurers proposing to use only digital distribution channels, without insurance intermediaries. In December 2018 the IA authorized Hong Kong’s first virtual insurer, a local startup offering simple products with a high protection element and low premiums. Leveraging technology, the insurer is able to tap into market segments underserved by traditional insurers and insurance intermediaries, as well as improving the customer experience, achieving a better value proposition and broadening financial inclusiveness. The IA is closely examining a few other Fast Track applications, and more new authorizations are expected in 2019.



At the launch ceremony of Hong Kong’s first virtual insurer

The Insurtech Facilitation Team, set up by the IA, maintains a close dialogue with insurers and the technology community, with a view to enhancing their understanding of the current regulatory regime relating to Insurtech applications and development. During the year, the team handled more than 100 enquiries and held around 40 meetings with various stakeholders, including insurance companies, Fintech firms and industry organisations.

Enhancing underwriting performance

The ability of insurers to deliver a stable underwriting performance is essential to the industry’s sustainable growth. Employees’ Compensation and Motor Vehicle are two lines of insurance business which have been underperforming for over a decade. During the year, the IA set up a special task force to tackle the problem. We started by identifying insurers with potential risks of underperformance and of reserve shortfall, and conducted on-site inspections and detailed

investigations. Our investigations found that some companies’ reserves were inadequate due to their inappropriate claims management process. We communicated our findings to the relevant insurers so that they could rectify the situation with appropriate reserve strengthening as well as process improvement. The IA will continue to monitor these market segments for the industry’s healthy development.

OPERATIONAL REVIEW

MARKET DEVELOPMENT

Insurance solutions to close the protection gap

With Hong Kong's population rapidly ageing, the city is facing rising longevity risks and medical inflation. Although Hong Kong is ranked high globally in terms of both insurance penetration and density, policy holders' protection needs may not be being fully met. This is because Hong Kong policy holders have tended to place greater emphasis on the investment and savings element of their insurance policies. The IA has therefore stepped up its public education efforts to help policy holders better understand their risk exposure and the significance of insurance for protection. This will also create new opportunities for the insurance industry to help close the protection gap for Hong Kong people.

During the year, the IA worked with relevant stakeholders to introduce a number of insurance solutions that will help manage the social risks associated with Hong Kong's ageing population. These

solutions are [Qualifying Deferred Annuity Policies](#) and the [Voluntary Health Insurance Scheme](#). In addition, the IA authorized HKMC Annuity Limited for the launch of its life annuity scheme. All of these initiatives will help mitigate longevity risks and encourage the use of hospital insurance to meet medical needs.

The young and tech-savvy represent another group where there is a protection gap. These people are digital 'natives' whose insurance needs may not be fulfilled by traditional insurers. Insurtech is empowering insurers to reach out to this market segment with innovative products. In December 2018, the IA authorized the first virtual insurer in Hong Kong, which is offering life and medical insurance plans solely through a digital platform. We will continue to encourage the use of Insurtech to broaden financial inclusiveness and help the industry tap underserved markets.



OPERATIONAL REVIEW

REGULATION OF INSURANCE INTERMEDIARIES

The year 2019 is a landmark one for Hong Kong's insurance industry, marking the transition from a self-regulatory regime¹ for the supervision of around 110,000 insurance intermediaries to a new direct regulatory regime implemented by the Insurance Authority ("IA"). The new regime aims to raise the professional standards of insurance intermediaries and enhance protection for existing and potential policy holders.

DIRECT REGULATORY REGIME

This transition marks a major step forward in modernising the Hong Kong regulatory infrastructure and completes our efforts to forge a more holistic and efficient regime. During the year, we laid the groundwork in preparation for the commencement of the new direct regulatory regime on 23 September 2019.



Scenes from one of the town hall meetings where the disciplinary proceedings process under the new direct regulatory regime was outlined

Conduct Standards and Other Regulatory Requirements

Over the past year, we have issued seven sets of draft rules, codes and guidelines in relation to the regulation of insurance intermediaries for public consultation. In developing our new standards and regulatory requirements, we made reference to the rules and regulations of Self-Regulatory Organisations ("SROs"), and took into account industry views and the international regulatory standards issued by the International Association of Insurance Supervisors.



¹ Under the self-regulatory regime, insurance intermediaries are regulated by three Self-Regulatory Organisations, namely The Hong Kong Confederation of Insurance Brokers ("CIB"), The Professional Insurance Brokers Association ("PIBA") and the Insurance Agents Registration Board ("IARB") set up by The Hong Kong Federation of Insurers.

OPERATIONAL REVIEW

REGULATION OF INSURANCE INTERMEDIARIES

We also actively sought comments and suggestions from the Industry Working Group and Discussion Groups with representatives of the three SROs, as well as from major insurance intermediary bodies and key industry and professional groups. Their feedback has been taken into account in our drafting of the rules, codes and guidelines.

A series of public consultations were run from September 2018 to May 2019. In addition, we conducted 10 town hall briefings to introduce the new regulatory regime and explain related requirements to different stakeholders.

To explain and clarify the relevant licensing requirements and exemptions for staff of insurance companies, we issued an Explanatory Note on Licensing Requirements for Employees of Authorized Insurers in November 2018 and organised two briefing sessions for insurers in January 2019.

New Computerised Intermediaries Work Processing System with Online Portal Function

To enhance our regulatory efficiency, we are developing an Insurance Intermediaries System that will automate the entire licence application, complaint handling, inspection, investigation and disciplinary process. The new system will come with an online portal that will replace the previous paper-based procedures. This will enable the electronic submission of information and documents by intermediaries and insurers for purposes such as processing licence applications, submitting Continuing Professional Development returns, and updating licensees' particulars.

During the year, the IA conducted six briefing sessions to collect industry's views on the functions of the online portal. A total of 28 insurers, insurance agencies and broker companies were invited to take part in the industry-wide User Acceptance Testing exercises to help fine-tune the portal design. The exercises also provided stakeholders with an opportunity to familiarise themselves with the portal's functions in advance.

Draft Rules, Codes and Guidelines in Relation to the Regulation of Insurance Intermediaries

Insurance (Maximum Number of Authorized Insurers) Rules

Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules

Code of Conduct for Licensed Insurance Agents

Code of Conduct for Licensed Insurance Brokers

Guideline on "Fit and Proper Criteria" for Licensed Insurance Intermediaries Under the Insurance Ordinance (Cap. 41)

Guideline on Continuing Professional Development for Licensed Insurance Intermediaries

Guideline on Exercising Power to Impose Pecuniary Penalty in Respect of Regulated Persons Under the Insurance Ordinance (Cap. 41)

OPERATIONAL REVIEW

REGULATION OF INSURANCE INTERMEDIARIES

Mechanism for Investigation and Disciplinary Proceedings

The IA emphasises the significance of ensuring the fairness and impartiality for all parties concerned during the investigation and disciplinary proceedings.

When developing the relevant mechanism, we have considered the current practices of the SROs and other local and overseas financial regulators as well as the new statutory investigation and disciplinary powers given to the IA. We have striven to put in place a fair and transparent process in which insurance intermediaries will have multiple opportunities to respond and defend their cases throughout the investigation and disciplinary proceedings. For example, the intermediaries concerned will be invited to attend face-to-face interviews and provide written or oral representations to address any allegations made against them. In addition, those who are aggrieved by the IA's decision of imposing disciplinary action can apply for a review by the [Insurance Appeals Tribunal](#) ("IAT"), an independent quasi-judicial body established under the Insurance Ordinance ("IO").

Before finalising the proposed mechanism, the IA actively engaged with insurance practitioners and the SROs to gauge their views. For example, a preliminary model was discussed at a town hall meeting with over 300 participants in December 2018. We will introduce the proposed mechanism through industry briefings in the second half of 2019.

Transfer of Data and Records from SROs

We are closely liaising with the SROs on the smooth transfer of their data and records containing details of registrations, complaints, disciplinary actions and appeals in relation to insurance intermediaries, which will serve as essential reference materials for assessing the fitness and properness of existing industry practitioners. We attach great importance to the accuracy, integrity and security of data, and have set up a number of working groups with each SRO to ensure the proper transfer of their data and records, including paper files.

Transitional Arrangements

A three-year transitional period will run from the commencement of the new regime on 23 September 2019. During this period, existing intermediaries will be allowed to carry on regulated activities provided that they had a valid registration with an SRO immediately before the commencement of the regime (i.e. they are deemed licensees).



OPERATIONAL REVIEW

REGULATION OF INSURANCE INTERMEDIARIES

The IA will take over and handle any complaints and disciplinary cases unresolved by the SROs with reference to applicable rules such as the codes, guidance notes and guidelines issued by the SROs that would have been applied to the case had it been handled by the SRO concerned. In other words, the new conduct requirements will not be retrospectively applied against insurance intermediaries.

Any appeal cases unresolved by the SROs will be handled by the IAT with reference to the applicable rules that would have been applied to the appellant and the matter in question had the application for the appeal been made to the SRO concerned.

New Direct Regulatory Regime for Insurance Intermediaries

Commencement Date

23 September 2019



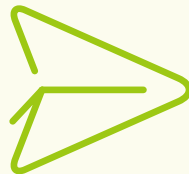
Number of Insurance Intermediaries in Hong Kong

Around 110,000



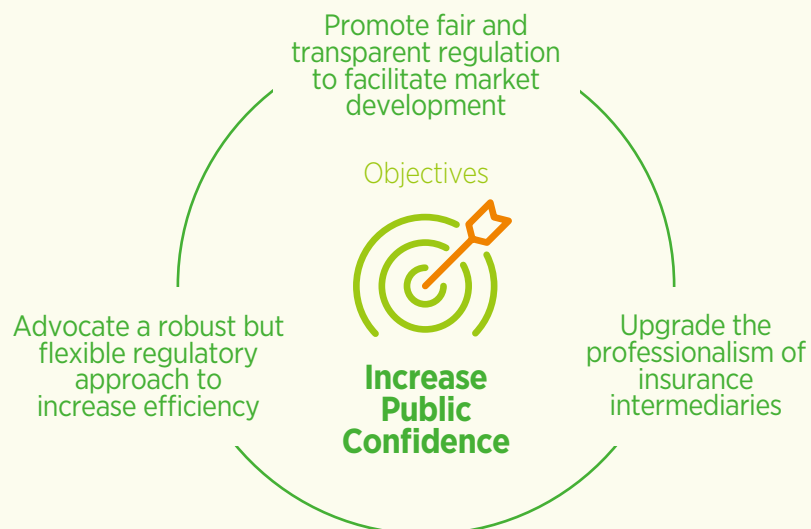
Transition

From a self-regulatory regime to the IA's direct regulatory regime



Stakeholder Engagement

- **Industry Working Group**
- **Discussion Groups**
- **Public Consultations**
- **Town hall briefings**



OPERATIONAL REVIEW

REGULATION OF INSURANCE INTERMEDIARIES

INSURANCE BROKERS

To gain a broad and general understanding of the entire insurance broking industry, the IA carried out a survey in April 2018 to gather business information. The survey's response rate was over 90%, and we published the results on the [IA website](#) in December 2018.

On-site inspection is an effective supervisory tool for assessing the level of compliance of insurance brokers. The focus of our inspection is not only on ascertaining insurance brokers' compliance with the relevant regulatory requirements, but also on helping them prepare for the new direct regulatory regime. The inspection includes understanding their corporate structure, business models, internal controls, as well as policies and procedures. During the year, the IA conducted risk-based on-site inspections on 20 insurance brokers, and identified 123 internal control weaknesses in various areas such as the Minimum Requirements for Insurance Brokers, anti-money laundering, and the selling process for insurance and Mandatory Provident Fund products. Besides requiring the insurance brokers concerned to rectify the shortcomings identified, we also took appropriate follow-up actions in relation to potential non-compliance matters.

To facilitate market development and promote high standards of conduct, in April 2018 the IA issued a circular to all insurance brokers highlighting the key findings and good practices observed in our previous inspections. In August 2018, we further elaborated the details in the circular at an industry seminar to enhance brokers' understanding of the applicable regulatory requirements.

INSURANCE AGENCIES

To prepare for the direct regulation of around 2,400 insurance agencies registered with the Insurance Agents Registration Board, in May 2019 we undertook a market survey to collect the agencies' business and financial information. We will use this data to analyse their business operations.

With regard to the regulation of banks in their capacity as insurance agencies, the IA has delegated its frontline inspection and investigation powers to the Monetary Authority. The two parties signed a Memorandum of Understanding in July 2019 to lay out the roles and responsibilities of both regulators, and set out a framework to strengthen co-operation in respect of the regulation and supervision of banks that carry on regulated activities under the IO.

OPERATIONAL REVIEW

REGULATION OF INSURANCE INTERMEDIARIES

Number of Appointed Insurance Agents, their Responsible Officers and Technical Representatives Registered with the IARB^(a)

(as at 31 March 2019)

Type of Insurance Business		Number of Appointed Insurance Agents	Number of Responsible Officers and Technical Representatives of Appointed Insurance Agents
General ^(b)		3,824	5,807
Long term	excluding Linked Long Term	28,773	1,579
	including Linked Long Term	10,446	711
General and Long Term	excluding Linked Long Term	6,841	9,274
	including Linked Long Term	22,925	8,326
Total		72,809	25,697

^(a) Based on figures supplied by The Hong Kong Federation of Insurers.

^(b) The figures also include travel agents who are only registered to sell restricted scope travel insurance.

Number of Authorized Insurance Brokers, their Chief Executives and Technical Representatives^(a)

(as at 31 March 2019)

Type of Insurance Business		Number of Authorized Insurance Brokers by virtue of their membership of Approved Bodies of Insurance Brokers:		Number of Chief Executives and Technical Representatives of Authorized Insurance Brokers
		CIB	PIBA	
General		41	42	1,354
Long term	excluding Linked Long Term	8	3	1,292
	including Linked Long Term	57	29	2,345
General and Long Term	excluding Linked Long Term	70	79	1,644
	including Linked Long Term	138	331	3,076
Total		314	484	9,711

^(a) Based on figures supplied by the approved bodies of insurance brokers.

OPERATIONAL REVIEW

ANTI-MONEY LAUNDERING (“AML”) AND COUNTER-TERRORIST FINANCING (“CTF”)

All authorized insurers, reinsurers, appointed insurance agents and authorized insurance brokers carrying on or advising on long term insurance business are required to comply with the requirements under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“AMLO”) and with the Guideline on AML and CTF (GL3) published under the AMLO.

MUTUAL EVALUATION BY THE FINANCIAL ACTION TASK FORCE

The Financial Action Task Force (“FATF”) is an independent, inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing, and financing for the proliferation of weapons of mass destruction. It conducts peer reviews of each member jurisdiction on an ongoing basis to assess their implementation of the FATF Recommendations.

In 2018, the FATF kick started the fourth round of mutual evaluation of Hong Kong. As part of an 18-month assessment, the FATF assessment team visited Hong Kong, and met with the Insurance Authority (“IA”) and industry representatives, with the aim of understanding the effectiveness of the insurance sector’s AML/CTF systems.

Over the years, the IA has demonstrated an ongoing commitment to combatting money laundering (“ML”) and terrorist financing (“TF”) in collaboration with the industry. In addition to routine on-site inspections and various off-site review measures, we also conduct thematic inspections on an as-needed basis to ascertain the scale and nature of particular sectoral risks.

We have also issued a number of guidelines and circulars to help the insurance sector understand and comply with AML/CTF requirements. Further, we have conducted a range of outreach activities to raise industry awareness of common shortcomings and higher risk areas.

All these initiatives were well received by the FATF assessors, and their comment on Hong Kong’s insurance sector was a positive one. The evaluation concluded that the IA has a reasonable supervisory framework for monitoring AML/CTF compliance, and a good understanding of the ML/TF risk profile both at the insurance sector level and at the level of individual institutions. This is mainly attributable to the IA’s ongoing supervision activities, including its ML/TF risk profiling for all long-term insurers and intermediaries.

OPERATIONAL REVIEW

ANTI-MONEY LAUNDERING (“AML”) AND COUNTER-TERRORIST FINANCING (“CTF”)

ENHANCING THE AML/CTF REGIME

The IA has issued a number of guidelines, circulars and other documents to help the industry understand and comply with AML/CTF requirements. In May 2018, we issued a circular on the key findings identified from on-site inspections, in order to draw attention to common shortcomings and raise awareness of higher risk areas. These findings were also shared at a briefing attended by more than 100 representatives of active life insurers.

In addition, an amended version of GL3 came into effect on 1 November 2018. The updated guideline is helping Hong Kong meet the latest international standards and better facilitate implementation of the risk-based approach. It does this by giving more guidance on risk assessments and application of simplified and enhanced customer due diligence.

SUPERVISORY OUTREACH

During the year, we stepped up our efforts to increase the industry’s awareness of and understanding of its statutory obligations with regard to ML/TF risks. In addition to hosting two annual AML/CTF seminars in June 2018, we gave presentations to over 600 insurance practitioners in August 2018 and March 2019 on ML/TF threats to and vulnerabilities associated with the insurance sector, including the key risks identified in the Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report published by the Government in April 2018.



The IA hosts annual AML/CTF seminars

OPERATIONAL REVIEW

CONSUMER PROTECTION

A top priority of the Insurance Authority (“IA”) is to safeguard the interests of the insuring public. We have undertaken a number of initiatives to help achieve this, including working with the Government on its proposal to create a Policy Holders’ Protection Scheme (“PPS”), launching various public education campaigns, and issuing guidelines on the conducting of insurance business.

POLICY HOLDERS’ PROTECTION SCHEME

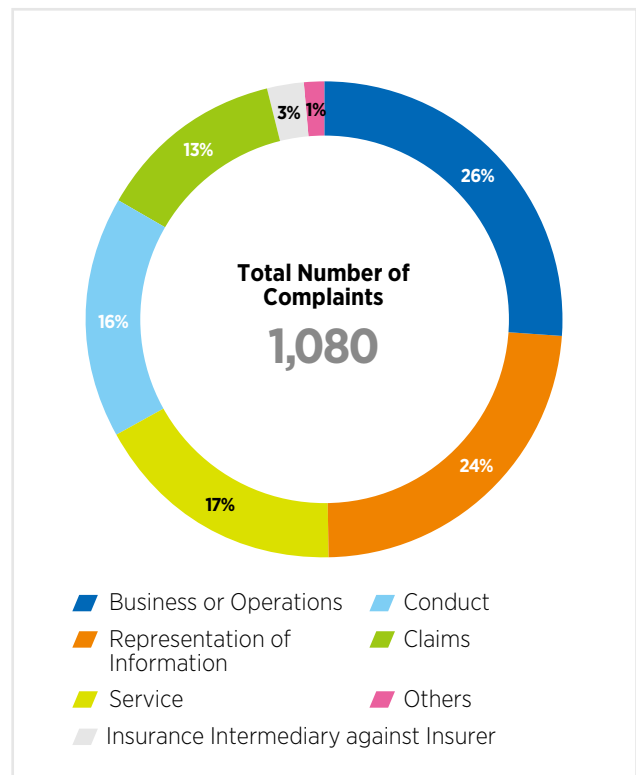
To provide a safety net for policy holders in the event of an insurer’s insolvency, the Government has introduced a proposal to establish a PPS. The proposed PPS would cover most types of direct life and non-life policies, and benefit individual policy holders, small and medium enterprises and owners’ corporations. If an insurer became insolvent, the PPS would pay the first HK\$100,000 of any claim and 80% of the remaining balance, up to HK\$1 million per policy, per claim or per insured event, whichever is applicable.

During the year, the IA worked closely with the Government on preparing the draft legislation for the PPS. This is expected to be introduced into the Legislative Council in the 2020–21 legislative session.

COMPLAINT HANDLING

To enhance our transparency and help the public better understand the nature of complaints received by the IA, we have regularly published complaint statistics on our website since 2018. During the year, the IA received a total of 1,080 complaints. The top three complaint categories concerned insurers’ business or operations, the representation of information, and service related matters.

Summary of Complaints in 2018–19



OPERATIONAL REVIEW

CONSUMER PROTECTION

With the launch of the Voluntary Health Insurance Scheme (“VHIS”) on 1 April 2019, we have been working with the VHIS Office under the Food and Health Bureau to devise a set of procedures for handling complaints relating to the VHIS.

Following the launch of the new regulatory regime for insurance intermediaries, the IA will take over any complaint cases as yet unresolved by the Self-Regulatory Organisations (“SROs”)¹. In preparing for the new regime, we have communicated closely with the SROs on the transitional arrangements for the complaint cases they are handling. We are working with them on how best to inform the relevant stakeholders such as complainants, insurers, respondents and appellants, of the transitional arrangements for their complaint cases before the new regime commences.

PUBLIC EDUCATION

In March 2019, the IA and the Investor and Financial Education Council (“IFEC”) co-hosted an educational seminar attended by over 350 members of the public. At the seminar, we discussed life protection gaps of Hong Kong residents and shared tips on buying insurance.



A screenshot from one of the QDAP public education video series



Dr Moses Cheng, Chairman (right), speaking at a public education seminar

In view of Hong Kong’s ageing population, the Government has proposed introducing a tax deduction for premiums for deferred annuity products and Mandatory Provident Fund (“MPF”) voluntary contributions to encourage voluntary saving for retirement. In March 2019, a comprehensive public education campaign on the Qualifying Deferred Annuity Policy (“QDAP”) and tax deductible MPF voluntary contributions was unveiled. With the support of the Financial Services and the Treasury Bureau, the IA together with the IFEC and the Mandatory Provident Fund Schemes Authority launched a series of educational initiatives. These included an informative webpage, a leaflet and a video series, transmitted via traditional communication channels as well as social media platforms to expand our public reach. Moreover, the IA created a dedicated [QDAP webpage](#) on its website, containing a list of QDAPs eligible for tax deductions, frequently asked questions, and educational materials such as short videos. All are designed to increase the public’s understanding of QDAP.

¹ Under the self-regulatory regime, insurance intermediaries are regulated by the three SROs, namely The Hong Kong Confederation of Insurance Brokers, The Professional Insurance Brokers Association, and the Insurance Agents Registration Board set up by The Hong Kong Federation of Insurers.

OPERATIONAL REVIEW

CONSUMER PROTECTION

To help car owners and drivers procure the statutory motor insurance needed for using the Hong Kong-Zhuhai-Macao Bridge, the IA has published a leaflet with useful tips and a set of frequently asked questions.

In addition to running thematic education programmes, we share practical advice about insurance with the public on a daily basis. To do this, the IA's corporate website provides up-to-date and easily accessible information such as frequently asked questions and educational materials. We also make use of our Facebook page and other social media platforms to communicate on 'hot topics' about insurance and to interact with the general public. Assisted by an automated telephone system, the IA runs a hotline to provide information relating to the Insurance Ordinance and insurance products.



Educational leaflets

REGULATING THE SELLING PROCESS

To regulate the selling process under the direct regulatory regime for insurance intermediaries, the IA will be revising a number of different codes and guidelines issued by the Hong Kong Federation of Insurers relating to the sale of long term insurance policies, including aspects relating to the cooling-off period, benefit illustrations, the sale of Investment Linked Assurance Scheme products, financial needs analysis, the offering of gifts, and policy replacement. During the year, we kick-started stakeholder consultations on the draft guidelines, and will be taking into account the industry's views as we look to further strengthen consumer protection in this area.

Financial Needs Analysis ("FNA") is a vital tool for potential policy holders looking to better understand their overall financial situation and needs. In light of the growing popularity of long term insurance products being sold via digital platforms, the IA has worked closely with the industry on refining existing FNA requirements to cater to the rapid development of Insurtech. The revised FNA, which has clarified the exemption criteria for digital platforms, became effective from June 2018 onwards.

The IA is currently working on a Guideline on Medical Insurance Business, which will provide guidance on how to incorporate principles of fair treatment of consumers into the life cycle of a medical insurance policy. Targeted for issuance in the second half of 2019, the guideline will cover all types of medical insurance business, including both individual and group medical insurance policies. We have consulted with the industry on the proposal as we have finalised the details. Insurers and insurance intermediaries offering and providing services on VHIS products will additionally need to comply with the [Scheme Documents](#) issued by the Food and Health Bureau.

STAKEHOLDER COMMUNICATION

To ensure that our regulatory initiatives contribute to the stable and healthy development of the insurance industry, we are proactive in communicating our plans and priorities to stakeholders and garnering their support for our work.

THE INSURANCE INDUSTRY

The two Industry Advisory Committees (“IACs”) are statutory committees set up to advise the Insurance Authority (“IA”) on matters pertinent to long term business and general business respectively. The IACs enable the IA to gauge market views on the development of each sector. During the year, the IACs held four joint meetings at which a wide range of industry issues were considered.

We maintain a close dialogue with the Hong Kong Federation of Insurers (“HKFI”) on major initiatives such as the new regulatory regime for insurance intermediaries and the new group-wide supervision framework¹ for Hong Kong.

To promote the application of Insurtech, the IA liaises closely with both the technology and insurance communities. The Insurtech Facilitation Team has been set up to enhance communication with businesses involved in the development of Insurtech, and enrich their understanding of the current regulatory regime.



The IA has been active in reaching out to stakeholders during the year.

¹ See Supervision of Insurers on pages 28 to 32

Stakeholder Communication



Dr Moses Cheng, Chairman (left), and Mr Clement Cheung, Chief Executive Officer, shared details of the IA's work with stakeholders at two major industry events

We work closely with actuarial professionals, and during the year we sent representatives to the Asian Actuarial Conference and the 18th Appointed Actuaries Symposium.

The IA has also launched various stakeholder engagement activities on specific industry issues.

During the year, we proactively sought the industry's views on the new regulatory regime for insurance intermediaries through the Industry Working Group, and through Discussion Groups with representatives from the three Self-Regulatory Organisations², major insurance intermediary bodies, and key industry and professional groups. Public consultations on seven sets of draft rules, codes and guidelines were conducted between September 2018 and May 2019, and 10 town hall briefings were held to explain the new regulatory regime. To help the industry understand the IA's new statutory investigation and disciplinary powers, we discussed the proposed mechanism with over 300 participants at a town hall meeting in December 2018.

To keep the industry updated on anti-money laundering and counter-terrorist financing regulations, we delivered four briefings and seminars to more than 1,100 industry practitioners during the year.

To promote Hong Kong's role as a risk management centre under the Belt and Road Initiative, we established the Belt and Road Insurance Exchange Facilitation platform in December 2018 to foster collaboration among insurers, reinsurers, captive insurers, insurance brokers and Mainland enterprises involved in Belt and Road projects.

To encourage Central State-owned Enterprises to set up captive insurers in Hong Kong, during the year we hosted the first-ever captive forum. This event was designed to reach out to senior representatives from Mainland and Hong Kong captive insurers, those interested in setting up captives in Hong Kong, and the local insurance industry including reinsurers, brokers and professional risk management associations.



Mr Clement Cheung, Chief Executive Officer, speaking at the 2018 Brokerslink Conference



Ms Carol Hui, Executive Director, Long Term Business (second from left), at an industry event

² The Self-Regulatory Organisations are The Hong Kong Confederation of Insurance Brokers, The Professional Insurance Brokers Association, and the Insurance Agents Registration Board set up by The Hong Kong Federation of Insurers.

Stakeholder Communication

In 2017, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) issued the Hong Kong Financial Reporting Standard 17 Insurance Contracts (“HKFRS 17”). HKFRS 17 was adopted from an international financial reporting standard that aims to make insurance accounting practices more consistent across jurisdictions. Due to the fundamental changes in accounting requirements that it introduces, HKFRS 17 will have a significant impact on the preparation of financial statements by insurers. To support insurers in implementing HKFRS 17, the HKICPA established the Hong Kong Insurance Implementation Support Group (“HKIISG”) as a forum where insurers could discuss questions relating to the implementation of HKFRS 17. We participated in the HKIISG as an observer to monitor the progress of HKFRS 17 implementation. We also conducted a survey to better understand the readiness of Hong Kong insurers for implementing HKFRS 17, and the challenges facing the industry as a whole.

To stay abreast of the latest developments in world financial markets, we participated in several international forums and seminars during the year. These included the China-ASEAN Summit Forum on Insurance Co-operation and Development, the Asian

Financial Forum, the Asia-Pacific Financial Forum, the Asian Insurance CFO Summit, and Hong Kong FinTech Week.

We recognise the importance of sharing timely information with the industry, and to this end have added a few service portals to our website: the Levy Insurance System & Analytics for the collection of premium levies; the Insurer’s Collaboration Corner for communication about the Risk-based Capital (“RBC”) regime; and the Belt and Road Insurance Exchange Facilitation portal to promote collaboration among relevant stakeholders.

FUTURE TASK FORCE

The Future Task Force of the Insurance Industry (“FTF”) has been set up to leverage the expertise and experience of a wide spectrum of stakeholders, from insurance professionals to academics. The role of the FTF is to formulate strategies to reinforce Hong Kong’s position as a regional insurance hub. Three working groups have been formed to look into important areas that are shaping the future of the insurance sector: financial technology (“Fintech”), financial regulation and policy, and image building.



Future Task Force meetings

Stakeholder Communication



Participants at the IAIS Executive Committee meeting



Mr Stephen Po, Executive Director, Market Conduct, (front row, second from right) hosts an IAIS Market Conduct Working Group meeting in Hong Kong

In July 2018, we met with FTF members to discuss how to promote a positive image for the insurance industry by enriching the public's understanding of insurance and fostering talent development in Hong Kong.

In September 2018, guest speakers from Insurtech start-ups and the HKFI were invited to exchange views with FTF members on how Fintech can drive the business of insurers and enhance the experience of policy holders.

In October 2018, we briefed FTF members on the latest developments in the RBC regime, the industry's progress in implementing HKFRS 17, and the interaction between the RBC regime and HKFRS 17.

REGULATORY COUNTERPARTS

During the year, the IA stepped up its participation in the International Association of Insurance Supervisors ("IAIS"), the standard-setting body for insurance supervisors worldwide.

In November 2018, we attended the 25th IAIS Annual Conference and committee meetings in Luxembourg. In February 2019, the IA Chief Executive Officer ("CEO") was elected by IAIS's Asian members to serve on its Executive Committee, which is responsible for providing strategic directions to and managing the affairs of the IAIS. A total of seven seats on the

Executive Committee were allocated to Asia, with other members being China, India, Japan, Korea, Malaysia and Singapore.

The Market Conduct Working Group ("MCWG") is an IAIS subcommittee that reviews market conduct issues in the insurance sector and works to enhance the fair treatment of policy holders. The IA is a member of the MCWG, and we hosted an MCWG meeting in Hong Kong in February 2019 attended by regulators from 15 member jurisdictions at which recent market conduct issues were discussed and views shared.

We also participated in other IAIS committees and working groups, namely the Implementation and Assessment Committee, the Macroprudential Committee, the Standards Assessment Working Group, the Insurance Groups Working Group, and the Capital, Solvency and Field Testing Working Group.

To promote regulatory exchanges in Asia, we hosted the 13th Annual Conference of Asian Forum of Insurance Regulators ("AFIR") in June 2018, and the IA CEO was elected as the AFIR Chairman for a term of two years to 2020. We also jointly organised the first Asia-Pacific High-level Meeting on Insurance Supervision with the Financial Stability Institute, the IAIS and AFIR. To gauge the impact of International Financial Reporting Standard 17 Insurance Contracts on the Asian insurance markets, we held an AFIR workshop in December 2018.

Stakeholder Communication

During the year, we organised and took part in 28 supervisory colleges to strengthen communication with overseas regulators on the group-wide supervision of multinational insurance groups.

We also collaborated with the China Banking and Insurance Regulatory Commission (“CBIRC”) and relevant Mainland authorities on cross-boundary supervision and the implementation of insurance initiatives relating to the development of the Greater Bay Area and to the Belt and Road Initiative. During the year, we held a number of meetings with CBIRC, the State-owned Assets Supervision and Administration Commission of the State Council and the State Administration of Foreign Exchange. In January 2019, the IA hosted the 18th Joint Meeting of the Insurance Regulators of Guangdong, Hong Kong, Macao and Shenzhen.

In Hong Kong, we liaised closely with the Financial Services and the Treasury Bureau and other financial regulators. For example, we held regular meetings with the Hong Kong Monetary Authority on topics of common interest, such as prudential supervision of banking groups and their insurance subsidiaries, updates on regulatory developments in the banking and insurance sectors and market conduct issues concerning bank-related insurance intermediaries. We also met with the Securities and Futures Commission to conduct product reviews of the Investment Linked Assurance Scheme (“ILAS”), discuss breaches of the



The IA and other Hong Kong financial regulators meet with CBIRC

Code on Investment-Linked Assurance Schemes by certain insurers, and handle complaints against insurers and insurance intermediaries about ILAS-related matters. Moreover, we held discussions with the Mandatory Provident Fund Schemes Authority over the prudential regulation of the retirement scheme management business carried on by authorized long term business insurers, as well as on market conduct issues relating to mandatory provident fund business and regulatory updates on the pension and insurance-related matters.

In addition, we attended regular meetings of the Council of Financial Regulators and the Financial Stability Committee to address cross-sectoral regulatory issues and matters having a potential impact on financial stability.



AFIR meetings

Stakeholder Communication

GOVERNMENT AND LEGISLATIVE COUNCIL

The Financial Secretary of the Hong Kong Special Administrative Region and Legislative Council (“LegCo”) members are kept informed of our latest developments on an ongoing basis. In November 2018, our annual report was tabled in LegCo. In December 2018, we submitted the corporate plan for 2019–20 to the Financial Secretary, in which our operational objectives and budget for the coming financial year were set out. During the year, we briefed the LegCo Panel on Financial Affairs on various matters, including the IA’s budget for 2019–20, the initiative on Qualifying Deferred Annuity Policies and the development of financial technologies. In May 2018, we attended a meeting with the LegCo Panel on Transport regarding motor insurance for vehicles using the Hong Kong-Zhuhai-Macao Bridge.

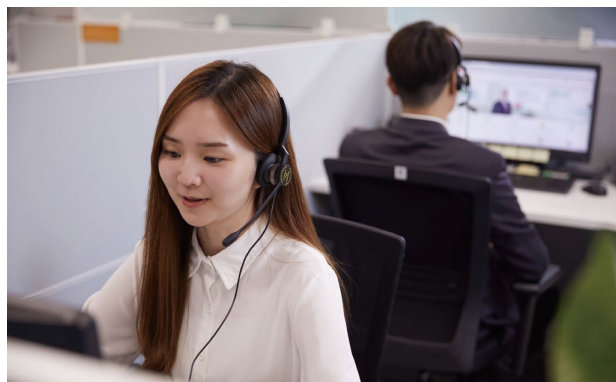
THE PUBLIC

During the year we produced educational and publicity materials, including videos and leaflets, to provide the public with useful information on annuities and key facts about saving for retirement, plus tips for buying insurance for Hong Kong users of the Hong

Kong-Zhuhai-Macao Bridge. Important information and messages were communicated to the public through both traditional and online platforms to maximise their reach and impact.

We also enhanced our website by adding a subscription service so that members of the public can receive timely updates from the IA.

In addition, we issued various press releases and arranged media interviews and briefings to keep the public informed of our activities. We have a dedicated team to answer public enquiries about the IA’s work, and about the insurance industry generally.



The IA Facebook Page

Koi Sai Po Kam 蓋世保鑑

蓋世保鑑

We set out to communicate insurance knowledge to a wider audience via social media. In June 2018, we launched a Facebook page “[Koi Sai Po Kam \(蓋世保鑑\)](#)” to share practical tips on taking out insurance and to increase awareness of readers’ protection needs in a lively and interactive manner. The page quickly attracted thousands of followers. We are continuing to explore new media platforms to augment our stakeholder engagement efforts.

蓋世保鑑
27 May · 🌐

【你的包裝如何，你的回報定必如何？】
價值西瓜佬都話自己個瓜又甜又多汁，淨係賺價殼又點知道內裡乾坤？好似買年金咁，好多人都知年金係長期保險產品，但你又知唔知唔同保險公司推出每年金產品都各具特色，就好似供款期、累積期向入息期都可能唔同，啱投保人點先搵到啱嘅選擇去比較唔同每年金產品？... See more
See Translation

#惠顧日誌 你的包裝如何，你的回報定必如何？

354 4 comments 19 shares

CORPORATE DEVELOPMENTS

Because people are our most important asset, we spared no efforts during the year in developing our staff, providing a quality workspace, and fostering a caring culture that extends beyond the workplace. In addition, we undertook a number of corporate social responsibility initiatives designed to protect the environment and care for the community.

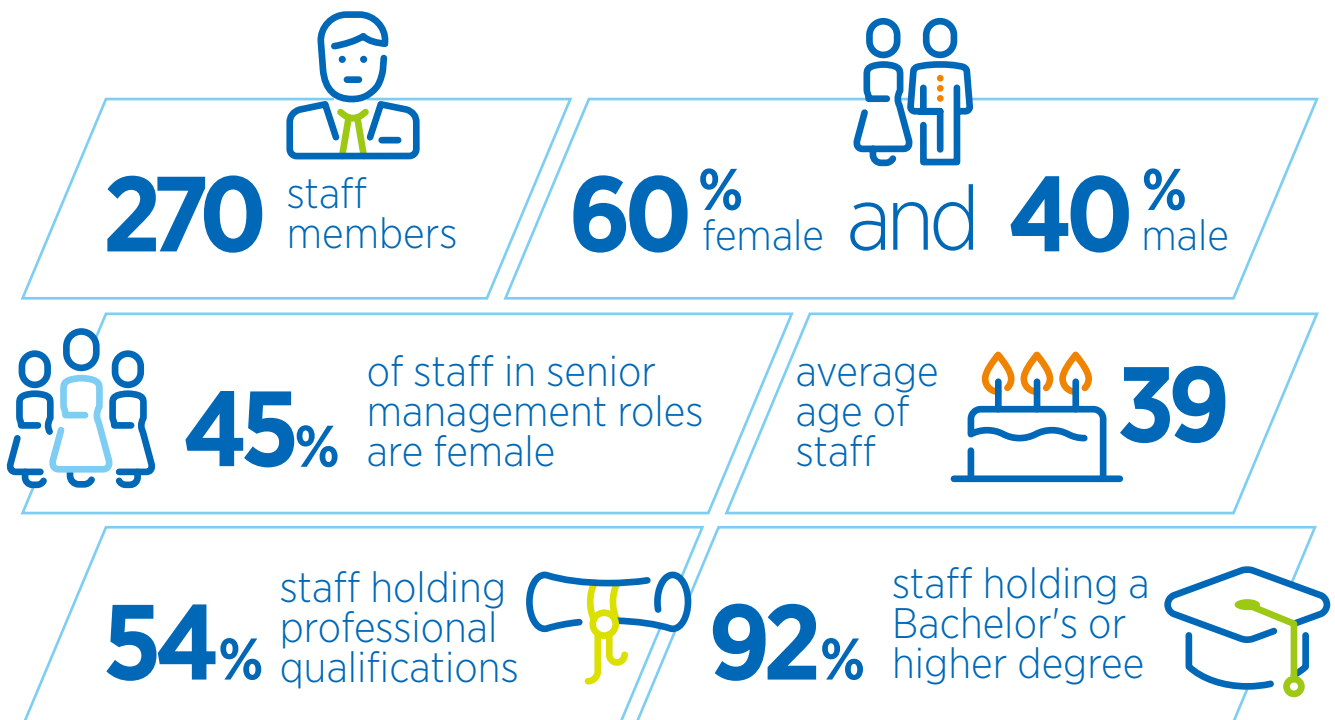
RECRUITMENT

As at the end of March 2019, the Insurance Authority ("IA") had around 270 staff, including many multi-disciplinary professionals drawn from the regulatory and insurance sectors. Our plan is to build up to a full team of 300 in 2019, enabling us to take on new functions such as the launch of the direct regulatory

regime for insurance intermediaries, actuarial work, research, and consumer education. We will continue to recruit high-calibre individuals with diverse backgrounds and experience, drawn from the insurance industry, professional firms, and the regulatory and public sectors.

IA Staff Figures

(as at 31 March 2019)



Corporate Developments



CORPORATE CULTURE

We place great emphasis on fostering a culture that will enable the IA to achieve its aspiration of being an empathetic and dynamic regulator. During the year, nine “IA Way in Action” workshops were held to exemplify the IA’s core values among staff. To increase the culture-building momentum, the IA Chief Executive Officer (“CEO”) along with staff from different divisions and representatives from the insurance industry took part in a sharing session on “Living the Core Values”, at which they discussed ways of putting the core values into practice in their daily work.

During the year, we ran five team building workshops for staff, which used experiential learning techniques to reinforce their understanding of the core values and encourage closer collaboration among divisions.

PERFORMANCE-BASED SYSTEM

To attract talent and retain quality staff, we have introduced mechanisms for making performance-linked pay adjustments and awarding variable pay. In the first half of 2018, we commissioned a human resources consultancy to review the pay structure and leave entitlements of our staff, and recommend solutions to link their performance to their fixed and variable pay. New pay ranges for different disciplines that are in line with market norms have been implemented. In addition, enhanced leave entitlements have been implemented, including annual and marriage leave.



A sharing session on living the IA’s core values



A team building activity

Corporate Developments

TALENT DEVELOPMENT AND SUCCESSION PLANNING

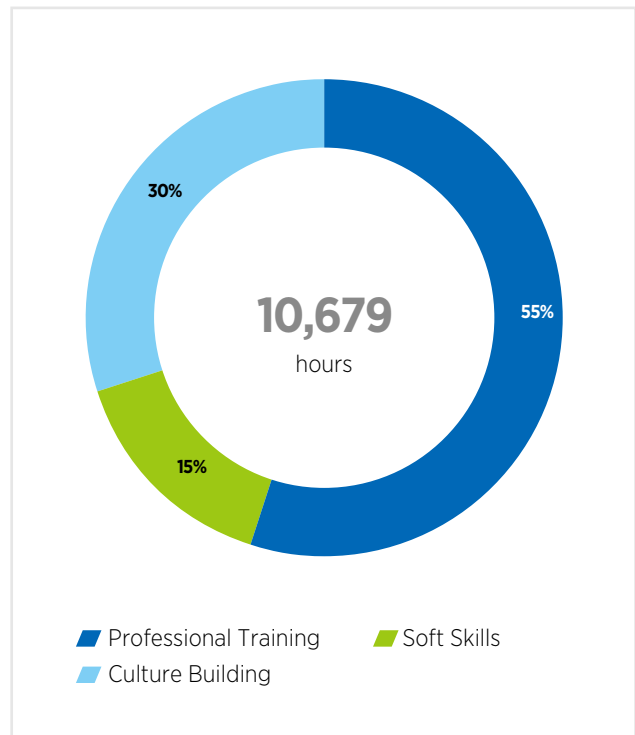
During the year, we arranged a vast array of training programmes to enrich our staff’s technical know-how and bring them up to speed with the latest market developments. Staff seminars on regulatory and industry-related topics were held to broaden their professional knowledge, which included seminars on judicial reviews and health insurance. We also provided staff with sponsorships to attend external professional courses and pursue relevant professional qualifications.

The IA is an Approved Employer of both the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the Association of Chartered Certified Accountants (“ACCA”). This means that our senior CPA colleagues can provide guidance and coaching for HKICPA student members, and our in-house professional development programmes are recognised as ACCA Continuing Professional Development (“CPD”) units.

To expand the horizons of our staff, we invited experts to deliver staff lectures on topical issues such as the current socio-economic landscape of the Greater Bay Area. We also provided opportunities for staff to attend conferences on the Belt and Road Initiative. Other training programmes included English and Putonghua workshops and induction programmes for newcomers.



Types of Training in 2018-19



Ms Sharon Ho, Senior Manager, Long Term Business, (right) receives an award at the Ombudsman’s Awards 2018, recognising her professionalism in handling complaints

Corporate Developments

The IA recognises the importance of building a leadership pipeline to ensure a seamless succession. During the year, we focused on enhancing the capacity of our middle management to prepare them for taking up a larger leadership role in the future. To this end, we implemented tailor-made management development programmes and courses on various soft

skills, including personal and team effectiveness skills, presentation skills, and effective supervisory skills. With the introduction of the Management Trainee Programme and the Summer Internship Programme, we have also started developing a pool of young talent for the organisation further down the track.

Nurturing young talent

The IA runs a three-year Management Trainee Scheme that grooms outstanding university graduates to take up IA regulatory duties, together with a Summer Internship Programme that gives undergraduates exposure to the insurance industry.

Management Trainee Scheme

During the year, we recruited 10 Management Trainees from local and overseas universities, who were posted to different divisions to provide support for a diverse range of regulatory duties. Under the mentorship of a senior staff member, each trainee is undergoing a structured training programme that includes an induction session, on-the-job training, job rotation, professional and competency-based training, team building activities and soft skills training. Trainees who complete the scheme with good performance will be appointed to assistant manager positions.

Summer Internship Programme

Between June and August 2018, we offered summer internships to 15 undergraduates, providing them with the opportunity to gain firsthand experience of the work of an insurance regulator. Their hands-on experience gave participants a greater understanding of the role of the IA, and helped encourage members of the younger generation to consider becoming part of the insurance industry.



Management trainees

Corporate Developments

CORPORATE SOCIAL RESPONSIBILITY

Caring for Staff

We strive to provide a safe and congenial work environment for our staff. Examples of our efforts to do this include:

- office workstations are ergonomically designed, and have adequate lighting
- office furniture and interior finishes meet high environmental standards
- air conditioning filters are cleaned regularly
- breastfeeding facilities are provided for nursing mothers
- breakout areas in the pantries have been set aside where staff can relax, have lunch and engage in team building activities

Effective communication is vital for building strong staff relations. During the year, the IA CEO hosted a number of coffee sessions to keep staff abreast of the IA's strategic directions and listen to their feedback. A dedicated email account was created for staff suggestions and opinions; these are followed up by the Human Resources Section and relevant stakeholders as appropriate.

The IA has formed a Social Committee, made up of representatives from various divisions, to spearhead the organisation of staff activities. To promote the physical wellness of our staff, the committee arranged a variety of sports events over the year, which included a Bowling Fun Night, a Badminton Night, basketball games following the formation of a basketball team, and regular yoga classes. Free influenza vaccinations were provided before the flu seasons.



Corporate Developments

Standard Chartered
Marathon 2019



Basketball competition



Yoga class



Annual dinner

To help staff cultivate a better work-life balance, we held quarterly get-togethers, movie days and a wide range of interest classes such as coffee tasting, cake-making and Fai Chun writing.



Fai Chun writing



Soft clay workshop



Corporate Developments

Caring for the Environment

The IA is committed to minimising its impact on the environment by adopting green measures and promoting a green culture. Our efforts have included:



- Sharing reports, guidelines and consultation papers, and exchanging information with the industry through the IA website to reduce the printing of hard copies
- Accepting electronic returns from insurers to reduce the use of paper
- Using electronic platforms for internal workflow documents, such as training course enrolments and performance appraisals
- Equipping staff with portable computers to facilitate paperless meetings
- Recycling used paper



- Adopting green procurement procedures for office equipment and supplies



- Putting in place an energy efficient lighting control system with occupancy sensors
- Setting auto-timers to adjust indoor lighting outside office hours

We have also extended our environmental initiatives beyond the workplace by endorsing certain green initiatives, such as adopting the No Shark Fin Policy and pledging not to serve shark fin at corporate events, and taking part in Earth Hour 2019.

Caring for the Community

During the year, our staff participated in a number of community activities to help build a more inclusive and caring society:

Preparing meal boxes for the underprivileged, organised by Food Angel



A tree planting activity in partnership with the Hong Kong Green Nature Union



Donations and fundraising events organised by the Community Chest:

- Green Day
- Love Teeth Day
- Dress Casual Day
- Skip Lunch Day

Corporate Developments

To get the IA's online information to a wider audience, we have continued to enhance the accessibility of our website with special attention to its visual design. For example, we have increased readability by ensuring sufficient contrast between foreground and background colours and making greater use of symbols in the website interface. During the year, we received a Gold Award under the Web Accessibility Recognition Scheme organised by Hong Kong Internet Registration Corporation Limited.

INFORMATION TECHNOLOGY INFRASTRUCTURE

A reliable IT system is of paramount importance for the IA's smooth operation. During the year, we attained 100% uptime for critical IT services and 99% uptime for the Insurance System, which is a mission critical business system for insurance supervision. We also conducted regular testing to ensure our IT systems are resilient and are able to recover promptly from any disruption. In August 2018, we completed a major Disaster Recovery Drill in which all resilient components of the core IT infrastructure were tested.

During the year, the Levy Insurance System & Analytics ("LISA") service portal was implemented. LISA is streamlining the workflow and improving efficiency for the collection of premium levies. As an extranet portal, LISA enables insurers to submit remittance returns and report on the collection of levy remittances, and allows the IA to track information relating to non-payment of the levies.

FINANCIAL ARRANGEMENTS

Funding

Premium levies, effective since 1 January 2018, became the main source of income for the IA in the year. The corresponding levy rate at 0.04% of insurance premiums applicable (maximum levy: life insurance —

HK\$40/general insurance — HK\$2,000) will be adjusted progressively to 0.10% of insurance premiums by April 2021 which will remain effective thereafter (maximum levy: life insurance — HK\$100/general insurance — HK\$5,000).

Authorization and annual fees have been payable to the IA by insurers since 26 June 2017. The fee payable by an insurance company for each of its long term business and general business is equivalent to the aggregate of a fixed fee of HK\$300,000 (captive insurance company: HK\$30,000), and a variable fee (maximum variable fee: HK\$7 million) at 0.0005% of insurance liabilities since June 2018 (0.0001% — June 2017). This will be adjusted progressively to 0.0039% of insurance liabilities by June 2022 and thereafter.

In addition, fees are receivable from the users of specific services. In later years, fees will also be receivable from insurance intermediaries.

Income and Expenditure

The IA took on the statutory functions of the former Office of the Commissioner of Insurance from 26 June 2017. With the full year effect, total income and operating expenditure this year increased to HK\$180.4 million and HK\$320.9 million respectively. This produced a deficit position for the IA of HK\$140.5 million, which was financed by the capital grants from the Government of HK\$653 million. In the long run, the IA will become financially independent from the Government.

The premium levies of HK\$112.5 million and the authorization and annual fees of HK\$55.8 million were the IA's main sources of income for the year. Staff costs and key management personnel compensation of HK\$252.7 million accounted for the majority of operating expenditure.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE INSURANCE AUTHORITY

(established in Hong Kong under the Insurance Ordinance (Cap. 41))

OPINION

What we have audited

The financial statements of the Insurance Authority ("the Authority") set out on pages 70 to 87, which comprise:

- the income and expenditure account for the year ended 31 March 2019;
- the statement of financial position as at 31 March 2019;
- the statement of changes in capital and reserve for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Authority as at 31 March 2019, and of its results of the operations and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Insurance Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Authority in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

RESPONSIBILITIES OF THE AUTHORITY AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

The Authority is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Insurance Ordinance, and for such internal control as the Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Authority is responsible for assessing its ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Authority in financial reporting process.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE INSURANCE AUTHORITY (Continued)

(established in Hong Kong under the Insurance Ordinance (Cap. 41))

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 5F of the Insurance Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Authority.
- Conclude on the appropriateness of the Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE INSURANCE AUTHORITY *(Continued)*

(established in Hong Kong under the Insurance Ordinance (Cap. 41))

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS *(Continued)*

We communicate with the Audit Committee of the Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 August 2019

FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2019

	NOTE	Year ended 31 March 2019 HK\$	Year ended 31 March 2018 HK\$
INCOME			
Levies	5	112,450,815	22,512,841
Authorization and annual fees		55,760,002	16,139,480
Insurers register's prescribed fees		6,667,530	5,172,900
Interest income		5,479,074	2,696,978
Other income		44,720	-
		180,402,141	46,522,199
EXPENDITURE			
Staff costs and key management personnel compensation	6, 7	252,748,123	143,004,163
Office accommodation		20,829,601	20,649,808
Professional fees	8	7,639,754	5,188,172
Information system services		5,821,550	2,300,092
External relations expenses		4,955,716	759,519
Other operating expenses	9	8,114,154	3,599,667
Depreciation	10	20,818,954	6,885,063
		320,927,852	182,386,484
DEFICIT FOR THE YEAR		(140,525,711)	(135,864,285)

The Insurance Authority (the "Authority") had no components of comprehensive income other than "deficit for the year" in either of the year presented. Accordingly, no separate statement of comprehensive income is presented as the Authority's "total comprehensive loss" was the same as the "deficit for the year" in both years.

The notes on pages 74 to 87 are an integral part of these financial statements.

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	NOTE	2019 HK\$	2018 HK\$
NON-CURRENT ASSETS			
Fixed assets	10	59,421,319	57,907,825
Deposits		5,460,674	5,406,620
		64,881,993	63,314,445
CURRENT ASSETS			
Deposits and prepayment		6,445,954	5,320,508
Accounts receivable	11	59,274,096	23,148,446
Time deposits with maturity longer than 3 months		210,000,000	101,505,654
Cash and cash equivalents		99,497,902	153,298,768
		375,217,952	283,273,376
CURRENT LIABILITIES			
Other payables and accruals		55,164,070	26,658,680
Deferred authorization and annual fees income		32,148,044	26,615,599
		87,312,114	53,274,279
NON-CURRENT LIABILITIES			
Other payables and accruals		2,029,542	2,029,542
NET ASSETS		350,758,289	291,284,000
CAPITAL AND RESERVE			
Grants from the Government of HKSAR	13	653,000,000	453,000,000
Accumulated deficit for the year		(302,241,711)	(161,716,000)
		350,758,289	291,284,000

The financial statements on pages 70 to 87 were approved and authorized for issue by the Authority on 27 August 2019 and are signed on its behalf by:

Dr Moses Cheng
Chairman

Mr Clement Cheung
Chief Executive Officer

The notes on pages 74 to 87 are an integral part of these financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN CAPITAL AND RESERVE

For the year ended 31 March 2019

	NOTE	Grants from the Government of HKSAR HK\$	Accumulated deficit for the year HK\$	Total HK\$
Balance at 1 April 2017		453,000,000	(25,851,715)	427,148,285
Deficit for the year		-	(135,864,285)	(135,864,285)
At 31 March 2018		453,000,000	(161,716,000)	291,284,000
Balance at 1 April 2018		453,000,000	(161,716,000)	291,284,000
Grants from the Government of HKSAR	13	200,000,000	-	200,000,000
Deficit for the year		-	(140,525,711)	(140,525,711)
At 31 March 2019		653,000,000	(302,241,711)	350,758,289

The notes on pages 74 to 87 are an integral part of these financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	2019 HK\$	2018 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficit for the year	(140,525,711)	(135,864,285)
Adjustment for:		
Depreciation	20,818,954	6,885,063
Gain on disposal of fixed assets	(487)	-
Interest income on bank deposits	(5,479,074)	(2,696,978)
Operating cash flows before movements in working capital	(125,186,318)	(131,676,200)
Change in working capital:		
Increase in deposits and prepayments	(1,179,500)	(10,637,912)
Increase in accounts receivable	(33,758,742)	(22,515,405)
Increase in other payables and accruals	28,505,390	20,256,988
Increase in deferred authorization and annual fees income	5,532,445	26,615,599
NET CASH USED IN OPERATING ACTIVITIES	(126,086,725)	(117,956,930)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in time deposits with maturity longer than 3 months	(108,494,346)	(101,505,654)
Fixed assets purchased	(22,334,311)	(64,038,063)
Proceeds from fixed assets disposed	2,350	-
Interest received from bank deposits	3,112,166	2,156,972
NET CASH USED IN FROM INVESTING ACTIVITIES	(127,714,141)	(163,386,745)
CASH FLOWS FROM FINANCING ACTIVITIES		
Grant from the Government of HKSAR	200,000,000	-
NET CASH GENERATED FROM FINANCING ACTIVITIES	200,000,000	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(53,800,866)	(281,343,675)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	153,298,768	434,642,443
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	99,497,902	153,298,768
Analysis of Cash and Cash Equivalents:		
Time deposits with maturity less than 3 months	85,000,000	130,000,000
Other bank balances and cash	14,497,902	23,298,768
	99,497,902	153,298,768

The notes on pages 74 to 87 are an integral part of these financial statements.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. BACKGROUND AND FUNCTIONS OF THE INSURANCE AUTHORITY

The Authority was established on 7 December 2015 with the commencement of the relevant provisions added by the Insurance Companies (Amendment) Ordinance 2015 (“Amendment Ordinance”). The Authority is the insurance regulator independent of the Government.

The Authority took over the statutory functions of the Office of the Commissioner of Insurance (“OCI”) on 26 June 2017. The OCI was disbanded on the same day.

To ensure a smooth transition from the OCI to the Authority, the Amendment Ordinance takes effect in phases. The Authority has first taken over the statutory functions of OCI in regulating insurers and will eventually take over the regulation of insurance intermediaries from the three Self-Regulatory Organizations (“SROs”) through a statutory licensing regime.

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Authority.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

In preparing the financial statements, the Authority has given careful consideration to the long-term financial sustainability of the Authority in light of the accumulated deficit of HK\$302,241,711 as at 31 March 2019. Under close financial monitoring the Authority considers that it will have sufficient working capital available to meet its liabilities as and when they fall due for twelve months from the end of the reporting period. The Authority will also explore different options to further enhance its income sources for meeting the financial requirement of its operation in the long run. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements have been prepared under the historical cost basis and in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the Insurance Ordinance (the “IO”).

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

2. SIGNIFICANT ACCOUNTING POLICIES

(Continued)

(a) Basis of preparation (Continued)

(i) Changes in accounting policy and disclosures

New mandatory standards, amendments and interpretations to existing standards, which have become mandatory for the first time for the financial year beginning on or after 1 April 2018, have been adopted by the Authority. These include the following new standards, amendments to standards and interpretations to existing standards:

Amendment to Hong Kong Accounting Standards (“HKAS”) 28 on ‘Investment in associates and joint ventures’,

Amendment to HKFRS 1 on ‘First-time adoption of Hong Kong Financial Reporting Standards’,

Amendment to HKFRS 2 on ‘Share-based payment transactions’,

Amendment to HKFRS 4 on ‘Insurance Contracts’,

New standard of HKFRS 9 on ‘Financial Instruments’,

Amendment to HKFRS 15 on ‘Revenue from contracts with customers’,

Amendment to HKAS 40 on ‘Investment property’, and

Interpretation to HK(IFRIC)-Int 22 on ‘Foreign currency transactions and advance consideration’.

These standards are either not relevant or the effect of amendments to these standards is not material to the Authority’s financial statements.

(ii) New standards, amendments and interpretations to existing standards not yet adopted

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for financial year beginning on 1 April 2018 and have not been early adopted by the Authority. The Authority’s assessment of the impact of these new standards and interpretations is set out below:

HKFRS 16, ‘Leases’ addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on statement of financial position for lessees. The standard replaces HKAS 17 ‘Leases’, and related interpretations. The standard is effective for accounting periods beginning on or after 1 January 2019 and earlier adoption is permitted but not mandatory.

The Authority has reviewed all leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Authority’s operating leases.

As at the reporting date, the Authority has non-cancellable operating lease commitments of HK\$24,354,504 (see note 17).

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

2. SIGNIFICANT ACCOUNTING POLICIES

(Continued)

(a) Basis of preparation (Continued)

(ii) New standards, amendments and interpretations to existing standards not yet adopted (Continued)

The Authority will apply the standard from its mandatory adoption date of 1 April 2019. The Authority intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Authority expects to recognise right-of-use assets of approximately HK\$82,000,000 on 1 April 2019, lease liabilities of HK\$80,000,000 (after adjustments for prepayments of HK\$2,000,000 recognised as at 31 March 2019). Overall net assets impact will be nil, and net current assets will be HK\$17,000,000 lower due to the presentation of a portion of the liability as a current liability.

Deficit for the year will increase by approximately HK\$2,000,000 for financial year ended 31 March 2020 as a result of adopting the new accounting standard.

Operating cash flows will increase and financing cash flows decrease by approximately HK\$18,000,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

There are no other standards, amendments or interpretations that are not yet effective that would be expected to have a material impact on the Authority.

(b) Recognition of income

(i) Levies

Levies on insurance premiums are payable by policy holders and are recognized in the income and expenditure account as income in the period the respective insurance policies are written and as reported by the authorized insurers to the Authority. The amount of levies to be recognized in the Authority's reporting period is based on the levy remittance reported by the authorized insurers for that period, being adjusted for the best estimate of the portion of levies that the Authority is expected to return or refund for policies cancelled subsequent to the date of the statement of financial position or levies uncollected.

(ii) Fees

Authorization and annual fees are recognized as income on a straight-line basis over the periods to which they relate. Insurers register's prescribed fees are recognized as income when relevant applications are completed.

(iii) Interest income

Interest income represents gross interest income from bank deposits and is recognized on a time apportionment basis using the effective interest method.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

2. SIGNIFICANT ACCOUNTING POLICIES

(Continued)

(c) Financial assets

Accounting policies applied from 1 April 2018

The Authority's financial assets include deposits, accounts receivable, time deposits with maturity longer than 3 months and cash and cash equivalents. These financial assets, other than cash, are held within a model whose objective is to hold assets in order to collect contractual cash flows. The contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. They are initially measured at fair value plus direct attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost. Interest income from these financial assets is recognised by using effective interest rate method. Impairment losses are presented as a separate line item in the income and expenditure account. The Authority assesses on a forward looking basis the expected credit losses associated with these financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Authority has transferred substantially all the risks and rewards of ownership of the asset.

Accounting policies applied until 31 March 2018

The Authority's financial assets include deposits, accounts receivable, time deposits with maturity longer than 3 months and cash and cash equivalents. These financial assets, other than cash, are held within a model whose objective is to hold assets in order to collect contractual cash flows. The contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. They are initially measured at fair value plus direct attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any allowance for impairment loss. Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. Other receivables are assessed collectively to determine whether there is any objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognized in a separate provision for impairment, if any. For other financial assets, an impairment loss is recognized when there is objective evidence that the asset is impaired.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

2. SIGNIFICANT ACCOUNTING POLICIES

(Continued)

(c) Financial assets (Continued)

Accounting policies applied until 31 March 2018 (Continued)

The amount of the impairment loss of accounts receivable and other financial assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any impairment loss is recognized in income and expenditure account within other expenses and reflected in an allowance account. When the Authority considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Subsequent recoveries of amounts previously written off are credited against income and expenditure account within other expenses.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Authority has transferred substantially all the risks and rewards of ownership of the asset.

(d) Financial liabilities

Financial liabilities include other payables and accruals are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method subsequent to initial recognition. A financial liability is derecognized when the relevant obligation is discharged, cancelled or expires.

(e) Fixed assets

Fixed assets are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the income and expenditure account during the financial period in which they are incurred.

Depreciation is provided to write-off the cost of items of fixed assets over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Fixed assets are depreciated on a straight-line basis, in the case of leasehold improvements, the shorter lease term as follows:

Office equipment	5 years
Office furniture	5 years
Information Technology ("IT") equipment and software	3 years
Motor vehicles	5 years
Leasehold improvements	3 years

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

2. SIGNIFICANT ACCOUNTING POLICIES

(Continued)

(e) Fixed assets (Continued)

An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income and expenditure account in the year in which the item is derecognized.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an assets fair value less costs of disposal and value in use.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank and short-term highly liquid investments with original maturities of three months or less.

(g) Other payables and accruals

Payables and accruals are obligations to pay that have been acquired in the ordinary course of business from suppliers. Payables and accruals are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Payables and accruals are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(h) Employee benefits

Annual leave and variable pay are recognised when they are accrued according to employees' entitlements. A provision is made for the estimated liability for untaken annual leave and variable pay as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave, maternity leave and paternity leave are not recognized until the time of leave.

Employee benefit expenses, including pensions and housing benefits provided by the Government to the civil service staff seconded ("seconded staff") to the Authority, are charged as expenditure on an accrual basis in the period in which the associated services are rendered.

(i) Retirement benefit costs

The Authority has joined a Mandatory Provident Fund Scheme ("MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance. Contributions paid or payable to the MPF Scheme is charged as expenses when employees have rendered services entitling them to the benefits.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

2. SIGNIFICANT ACCOUNTING POLICIES

(Continued)

(j) Provisions

Provisions are recognized when the Authority has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognized are charged against the related provision in the period in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Authority expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

(k) Grants from the Government of Hong Kong Special Administrative Region (“HKSAR”)

Grants from the Government of HKSAR is provided without related conditions. It is recognized as capital upon receipt in the statement of financial position.

3. CRITICAL ESTIMATES AND JUDGEMENTS

3.1 Critical accounting estimates

In the process of applying the accounting policy of levies recognition, the Authority estimated that there will be no significant amount of levies to be returned or refunded for cancelled policies or uncollected levies as at 31 March 2019. As a result, there is no adjustment or provision against the levies as per the remittance reports.

3.2 Critical accounting judgements

Note 14 contains information about the statutory deposits, placed by the authorized insurers in the name of the Authority in accordance with the respective sections of Insurance Ordinance. The Authority is of the opinion that such deposits are not the resources for the Authority’s own purposes and no economic benefits have been transferred to the Authority.

4. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Authority is exempt from Hong Kong Profits Tax under the Inland Revenue Ordinance.

5. LEVIES

Effective from 1 January 2018, IO section 134 provides for the Authority to collect levies on insurance premiums from the policy holders through the authorized insurers if the insurance contract relates to a prescribed class of insurance business or a prescribed type of insurance contract. The levy rates are established by law. Levies of HK\$112,450,815 (31 March 2018: HK\$22,512,841) are recognized for the year ended 31 March 2019.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

6. STAFF COSTS

The staff costs include salaries, contributions to MPF Scheme, insurance, employee benefits and other staff related costs of the Authority.

	2019	2018
	HK\$	HK\$
Salaries	239,211,642	135,061,866
Contributions to MPF Scheme	9,483,032	5,486,256
Insurance	3,643,068	2,012,478
Employee benefits and other staff related costs	410,381	443,563
	252,748,123	143,004,163

7. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel are the Authority members as defined in the IO section 4AA. They consists of a chairperson (a non-executive director of the Authority), a chief executive officer (an executive director of the Authority), 4 other executive directors, and 8 other non-executive directors (31 March 2018: a chairperson, a chief executive officer, 4 other executive directors, and 7 other non-executive directors). Authority members' remuneration and benefits included in Note 6 are set out below:

	2019	2018
	HK\$	HK\$
Non-executive Directors		
Remuneration	2,620,129	2,520,000
Chief Executive Officer		
Salary and other short term employee benefits	4,997,930	2,123,191
Post-employment benefits	581,927	743,762
Other Executive Directors		
Salaries and other short term employee benefits	17,389,049	13,887,775
Post-employment benefits	714,845	571,660
	23,683,751	17,326,388

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

8. PROFESSIONAL FEES

	2019	2018
	HK\$	HK\$
Consultancy fees	5,623,750	3,917,250
Legal fees	127,500	447,715
Auditor's remuneration	220,000	210,000
Other fees	1,668,504	613,207
	7,639,754	5,188,172

9. OTHER OPERATING EXPENSES

	2019	2018
	HK\$	HK\$
Journals, periodicals, and corporate membership	2,214,334	752,258
Staff training and welfare	2,226,065	751,798
Duty visits	2,079,973	718,234
Other expenses	1,593,782	1,377,377
	8,114,154	3,599,667

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

10. FIXED ASSETS

	Office equipment HK\$	Office furniture HK\$	IT equipment and software HK\$	Motor vehicles HK\$	Leasehold improve- ments HK\$	Total HK\$
COST						
At 1 April 2018	8,974,853	4,556,676	25,300,018	468,435	25,562,377	64,862,359
Additions during the year	189,606	586,890	21,108,436	-	449,379	22,334,311
Disposals during the year	-	-	(3,194)	-	-	(3,194)
At 31 March 2019	9,164,459	5,143,566	46,405,260	468,435	26,011,756	87,193,476
ACCUMULATED DEPRECIATION						
At 1 April 2018	665,390	306,522	3,064,285	78,073	2,840,264	6,954,534
Charge for the year	1,784,513	1,007,856	9,316,800	93,686	8,616,099	20,818,954
Disposals during the year	-	-	(1,331)	-	-	(1,331)
At 31 March 2019	2,449,903	1,314,378	12,379,754	171,759	11,456,363	27,772,157
CARRYING AMOUNT						
At 31 March 2019	6,714,556	3,829,188	34,025,506	296,676	14,555,393	59,421,319
COST						
At 1 April 2017	124,990	22,469	676,837	-	-	824,296
Additions during the year	8,849,863	4,534,207	24,623,181	468,435	25,562,377	64,038,063
At 31 March 2018	8,974,853	4,556,676	25,300,018	468,435	25,562,377	64,862,359
ACCUMULATED DEPRECIATION						
At 1 April 2017	18,621	-	50,850	-	-	69,471
Charge for the year	646,769	306,522	3,013,435	78,073	2,840,264	6,885,063
At 31 March 2018	665,390	306,522	3,064,285	78,073	2,840,264	6,954,534
CARRYING AMOUNT						
At 31 March 2018	8,309,463	4,250,154	22,235,733	390,362	22,722,113	57,907,825

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

11. ACCOUNTS RECEIVABLE

	2019	2018
	HK\$	HK\$
Levies receivable	55,754,891	22,512,841
Interest receivable	2,999,949	633,041
Others	519,256	2,564
	59,274,096	23,148,446

The authorized insurers collect levies from policy holders in 2 half-yearly periods ended 31 March and 30 September each year and remit them to the Authority within 2 months after the end of each period.

There are no impairment losses recognized for the year ended 31 March 2019 (31 March 2018: Nil).

12. FINANCIAL RISK MANAGEMENT

The Authority's financial instruments include deposits, accounts receivable, time deposits with maturity longer than 3 months, cash and cash equivalents and other payables and accruals.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies applied by the Authority to mitigate these risks are set out below.

(a) Market risk

(i) Foreign currency risk

Foreign currency risk arises as the value of future transactions, recognized monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates.

The Authority is not exposed to significant foreign exchange risk.

(ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Authority is mainly exposed to interest rate risk in relation to the interest bearing bank deposits.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Authority takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its cash flow risks and closely monitors the interest rate risk exposure within an acceptable level.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

12. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

The following table lists the details of the interest rate profile of the Authority's interest bearing financial assets as at 31 March 2019 and 31 March 2018. All other financial assets and liabilities are non-interest bearing. The Authority is of the opinion that it is not exposed to significant interest rate risk and therefore no sensitivity analysis is presented.

	2019		2018	
	Interest rate per annum	HK\$	Interest rate per annum	HK\$
Cash and cash equivalents	0.02% - 1.65%	99,497,902	0.06% - 1.28%	153,298,768
Time deposits with maturity longer than 3 months	1.78 - 2.20%	210,000,000	0.88%	101,505,654

(iii) Price risk

The Authority does not hold any investments which are exposed to significant price risk as at 31 March 2019 (31 March 2018: Nil).

(b) Fair value estimation

The Authority is of the opinion that the carrying amount of all financial assets and liabilities are approximate to their fair values.

(c) Credit risk

The Authority takes on exposure to credit risk, which is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment in full when due, that it has entered into with the Authority.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. Credit risk arises from cash and cash equivalent and time deposits with maturity longer than 3 months, accounts receivable and deposits. The Authority's bank balances are deposited with reputable authorized financial institutions.

(d) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Authority manages liquidity risk by holding adequate cash and unencumbered assets which can be readily realized for cash to meet expected cash outflow.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

12. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

As at 31 March 2019, the Authority held sufficient cash and cash equivalents to meet all of the cash outflow arising from other payables and accruals.

(e) Capital risk management

The Authority manages its capital to ensure its ability to continue as a going concern so that the Authority can be financially independent and recover its operating costs through levies, authorization and annual fees and other income. The capital structure of the Authority comprises the grants from the Government of HKSAR net of accumulated losses as disclosed in the statement of changes in capital and reserve on page 72.

13. GRANTS FROM THE GOVERNMENT OF HKSAR

The Authority received a grant of HK\$200 million from the Government of HKSAR in June 2018 (HK\$450 million in June 2016; HK\$3 million in March 2016) as funding to cover the establishment and operating costs of the Authority in its initial years. The grants are recognized as capital in the statement of financial position and are provided by the Government of HKSAR without related conditions.

14. STATUTORY DEPOSITS FROM AUTHORIZED INSURERS

Under Part V (section 35A) of the IO, the Authority may exercise its rights to require an authorized insurer to place a deposit in the name of the Authority as trustee for the authorized insurer's funds when this is considered desirable in the general interests of persons who are or may become policy holders of the authorized insurer. Deposits placed by the particular authorized insurer is to be used by the Authority as a source of payment to policyholders in case of insolvency of that authorized insurer. Any interest accrued on the statutory deposits belongs to the authorized insurer. The Authority has therefore determined that those deposits are not its own financial assets and should not be recognised in its statement of financial position. As at 31 March 2019, such statutory deposits amounted to HK\$626,303,082 (31 March 2018: HK\$733,249,124).

15. LETTERS OF CREDIT FROM AUTHORIZED INSURERS

Under Part IVA (section 25C) of the IO, an authorized insurer may, instead of maintaining assets in Hong Kong as required by this part, substitute, in whole or in part, a letter of credit or other commitment from a bank, in favour of the Authority. As at 31 March 2019, such letters of credit or other commitments held by the Authority amounted to HK\$5,945,052,849 (31 March 2018: HK\$5,532,623,308).

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2019

16. CAPITAL COMMITMENTS

At the date of statement of financial position, the Authority had commitments for capital expenditure in respect of the acquisition of fixed assets as follows:

	2019	2018
	HK\$	HK\$
Contracted but not yet incurred	7,137,984	14,806,306

17. OPERATING LEASE COMMITMENT

The Authority leases office premises under non-cancellable operating lease expiring within three years. At the date of statement of financial position, the Authority had commitment for future minimum lease payments under a non-cancellable operating lease as follows:

	2019	2018
	HK\$	HK\$
Within one year	18,265,878	16,743,722
Later than one year but not later than five years	6,088,626	24,354,504
	24,354,504	41,098,226

APPENDICES

- 89** The Organisational Structure
- 90** Changes of Authorized Insurers
- 91** Industry Advisory Committees
- 92** Insurance Appeals Tribunal

THE ORGANISATIONAL STRUCTURE

(As at 31 March 2019)



¹ The committee was renamed as Regulatory Instruments Committee from June 2019 onwards.

CHANGES OF AUTHORIZED INSURERS

(From 1 April 2018 to 31 March 2019)

Name of Insurer	Place of Incorporation	Type of Business Authorized
New Authorizations		
Bowtie Life Insurance Company Limited	Hong Kong	Long Term
Britannia Steam Ship Insurance Association Limited - The	United Kingdom	General
HKMC Annuity Limited	Hong Kong	Long Term
Shanghai Electric Insurance Limited	Hong Kong	General
Standard Club Asia Ltd. - The	Singapore	General
Steamship Mutual Underwriting Association Limited	United Kingdom	General
Withdrawal of Authorizations		
Hong Kong Mortgage Corporation Limited - The	Hong Kong	General
Hong Kong Reinsurance Company Limited	Hong Kong	General
Liberty Mutual Insurance Europe Limited	United Kingdom	General
Malayan Insurance Company (Hong Kong) Limited	Hong Kong	General
Change of Names of Insurers		
Canadian Insurance Company Limited To Aetna Insurance (Hong Kong) Limited	Hong Kong	General
Generali Worldwide Insurance Company Limited To Utmost Worldwide Limited	Guernsey	Long Term
Kono Insurance Limited To Zurich General Insurance (Hong Kong) Limited	Hong Kong	General
MassMutual Asia Limited To YF Life Insurance International Limited	Hong Kong	Long Term
Wing Lung Insurance Company Limited To CMB Wing Lung Insurance Company Limited	Hong Kong	General

INDUSTRY ADVISORY COMMITTEES

(As at 31 March 2019)

INDUSTRY ADVISORY COMMITTEE ON LONG TERM BUSINESS

Chairman

Dr the Hon Moses Cheng Mo-chi, GBM, GBS, JP

Ex-officio Members

Mr Clement Cheung Wan-ching, GBS, JP
Ms Carol Hui Mei-ying
Mr Raymond Tam Wai-man

Non-official Members

Mr David Alexander
Ms Charity Au Chi-san
Ms Jo Jo Chan Shuk-fong
Mr Chan Yim-kwong
Mrs Estella Chiu Sheun-fun
Mr Garth Brian Jones
Mr Mike Lee Siu-chuen
Professor Li Jing-yuan
Mr Jeremy Robert Porter
Mr Martin Tam Chi-wai
Mr Harold Wong Tsu-hing
Mr Jonathan Zhao Xiaojing

INDUSTRY ADVISORY COMMITTEE ON GENERAL BUSINESS

Chairman

Dr the Hon Moses Cheng Mo-chi, GBM, GBS, JP

Ex-officio Members

Mr Clement Cheung Wan-ching, GBS, JP
Mr Simon Lam Sui-kong
Mr Raymond Tam Wai-man

Non-official Members

Mr Cheng Kwok-ping
Mr Michael Fung Lik-yeung
Ms Angela Leung Wai-tuen
Mr Liu Shihong
Mr Andrew Mak Kin-ting
Professor Angela Ng Lai-ping
Ms Rebecca Poon Chui-ngor
Mr Martin Stephan Rueegg
Dr Michael Tsui Fuk-sun, MH
Mr Peter Anthony Whalley
Mr Harry Wong Kwok-tim
Professor Jason Yeh Jia-hsing

INSURANCE APPEALS TRIBUNAL

(As at 31 March 2019)

CHAIRMAN

Mr Douglas Lam Tak Yip, SC

PANEL MEMBERS

Mr Frederick Chan Hing Fai

Ms Karen Chan Ka Yin, JP

Professor Stella Cho Lung Pui Lan

Mr Alex Chu Wing Yiu

Professor Goo Say Hak

Mr Dennis Ho Chiu Ping

Mr Marvin Hsu Tsun Fai

Mr Eric Hui Kam Kwai

Professor Michael Hui King Man, MH

Mr Adrian King

Miss Anna-Mae Koo Mei Jong

Ms Juan Leung Chung Yan, MH

Dr Miranda Lou Lai Wah

Mr Philip Mak Shun Pong, MH

Mr Andrew Mak Yip Shing, BBS, JP

Professor Joshua Mok Ka Ho

Dr Patrick Poon Sun Cheong, SBS

Mr Bhabani Sankar Rath

Mr Gary Soo Kwok Leung

Ms Phoebe Tse Siu Ling

Dr William Wong Ming Fung, SC, JP

Mr Charles Yang Chuen Liang, BBS, JP

Dr Samuel Yung Wing Ki, SBS, MH, JP

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