Insurance Authority

Estimates of Income and Expenditure for 2021-22

		Note	Estimates 2020-21 (i) HK$ million	Revised Estimates 2020-21 (ii) HK$ million	Proposed Estimates 2021-22 (iii) HK$ million	Proposed Estimates 2021-22 vs. Revised Estimates 2020-21 (vi) = (iii) - (ii) HK$ million
A.	**Income and Expenditure Statement**					
Income		1				
(a)	Interest income	2	4.5	2.3	3.2	0.9
(b)	Levy and fees	3	335.2	325.7	476.2	150.5
	Total Income		**339.7**	**328.0**	**479.4**	**151.4**
Operating Expenditure						
(a)	Staff costs	4	390.5	339.6	377.6	38.0
(b)	Office rental and related expenses	5	31.2	27.0	30.3	3.3
(c)	Engagement of professional services	6	24.7	19.4	29.3	9.9
(d)	Information Technology (“IT”) expenses	7	21.1	21.9	26.3	4.4
(e)	External relations expenses	8	10.5	6.9	11.4	4.5
(f)	Remuneration to Members		3.7	3.7	3.7	-
(g)	Other operating expenses	9	25.5	15.2	33.3	18.1
(h)	Depreciation	10	27.7	25.6	24.0	(1.6)
(i)	Non-recurrent projects	11	-	1.3	1.0	(0.3)
	Total Operating Expenditure		**534.8**	**460.6**	**536.9**	**76.3**
	Result for the year		**(195.1)**	**(132.6)**	**(57.4)**	**75.2**
B.	**Capital Expenditure Statement**					
(a)	Office set-up	12	13.7	13.6	3.1	(10.5)
(b)	IT systems and equipment	13	20.0	20.2	21.2	1.0
	Total Capital Expenditure		**33.7**	**33.8**	**24.3**	**(9.5)**

Notes to the Proposed Estimates for 2021-22

1. **Income**

According to the consultancy study[1] commissioned by the Government, income received by the IA in the first four years of operation will not be sufficient to cover its expenditure and will generate a deficit of $650 million. On 13 May 2016, LegCo[2] approved an allocation of $450 million to the IA, followed by another $200 million on 10 May 2018. These two sums provided by the Government, without related costs, were received in June 2016 and June 2018 respectively.

On 14 May 2020, LegCo approved a capital injection of $300 million to the IA for meeting its expected cash shortfall in the short to medium term and maintaining an appropriate level of reserve. The sum provided by the Government, without related costs, were received in June 2020.

2. **Interest income**

With approval of FS, the IA has adopted an interim investment strategy whereby funds not required for immediate use could be invested in the form of Hong Kong Dollars fixed deposits. A long-term investment strategy will be worked out when there is more certainty on cash flow requirements of the IA.

3. **Levy and Fees**

Starting from 1 January 2018, a levy of 0.04% on insurance premiums is payable by policyholders. This levy rate has been adjusted upward progressively and will reach the target level of 0.1% in 2021-22 subject to a cap applicable to general policies with annual premiums at or above $5 million and long term policies with single or annualized premiums at or above $100,000. Captive insurance, contracts of reinsurance and marine, aviation and goods in transit are not subject to levy.

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[1] The consultancy study was carried out by PricewaterhouseCoopers.

[2] Before obtaining funding approval from LegCo, the Government provided a sum of $3 million in 2015-16 for the IA to meet mainly cash flow requirement of essential consultancy services. The allocation was received in early-March 2016.

The annual authorization fees payable by insurance companies with effect from 26 June 2017 consist of two elements, (a) a fixed fee of $300,000 ($30,000 for captive insurers and $600,000 for composite insurers); and (b) a variable fee capped at $7 million on insurance liabilities ($14 million for composite insurers) set initially at 0.0001%, rising gradually to the target level of 0.0039% in 2022-23.

Since 26 June 2017, the IA has been charging user fees to recover the cost of 11 services. The number of these items expanded to 23 on 27 May 2019, 22 of which are applicable to insurance companies. Furthermore, the IA will start to recover cost by charging fees on designated insurance holding companies under the GWS framework in 2021-22.

4. Staff costs

The staff costs involve mainly salary, contributions to Mandatory Provident Fund and corporate insurance cover. The revised estimate for 2020-21 is worked out based on actual staff profile of about 330 permanent staff, taking into account full- year effect of new recruits who joined in the last financial year.

5. Office rental and related expenses

This item includes mainly office rentals, building management fees, utility charges, government rent/rates as well as other items such as general office insurance and telephone rentals. The estimate for 2021-22 is higher due to setting up of the new sub-office in North Point.

6. Engagement of professional services

Professional services comprise legal and consultancy support, executive search services and external audit etc. The estimate for 2021-22 exceeds the revised estimate for 2020-21 mainly because of professional services associated with the GWS framework.

7. IT expenses

IT expenses mainly cover maintenance fees of server infrastructure, security protection system and various application systems.

8. External relations expenses

This item caters for publicity campaigns, production of the Asian Insurance Forum, media and social media expenses etc. Increased estimate for 2021-22 is mainly attributable to public education initiatives.

9. Other operating expenses

This item covers mainly staff training and development, duty travel, official events and incidental outlays. The estimate for 2021-22 has gone up due to the resumption of duty travels, new sub-office in North Point and equipment maintenance upon expiry of warranties.

10. Depreciation

Depreciation is calculated to write off the cost of fixed assets (such as furniture and fixtures, office equipment and IT systems) using straight-line method over their estimated useful lives of either three or five years.

11. Non-recurrent projects

This item makes provision for consultancy studies related to development of the RBC regime[3].

12. Office set-up

The estimate for 2021-22 represents mostly minor renovation costs.

13. IT systems and equipment

The estimate for 2021-22 includes systems implementation, IT refreshment and cybersecurity.

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[3] The RBC regime is developed in phases to enhance prudential regulation by aligning the capital requirements of insurance companies with the risks to which they are exposed and by strengthening their enterprise risk management system.