**For discussion**
**on 2 March 2026**

**Legislative Council Panel on Financial Affairs**

# Insurance Authority
# Budget for the Financial Year 2026-27

## PURPOSE

This paper highlights the main features of the proposed budget of the Insurance Authority ("IA") for 2026-27.

## BACKGROUND

2. Section 5B of the Insurance Ordinance (Cap. 41) requires IA to submit a corporate plan for the next financial year that includes its estimated income and expenditure ("budget") to the Financial Secretary ("FS") for approval and subsequent tabling in the Legislative Council ("LegCo"). The proposed budget of IA for 2026-27 is at **Annex**.

## SOURCE OF FUNDING

3. In order to ensure financial autonomy and sustainability, approval was given by LegCo for IA to collect annual fees payable by insurance companies (from 26 June 2017), user fees payable for specific services (from 26 June 2017) and premium levies payable by policy holders (from 1 January 2018). Furthermore, IA has started to collect fees from designated insurance holding companies ("DIHCs") under the group-wide supervision ("GWS") framework since May 2021 and resumed charging licensing fees on insurance intermediaries since September 2024[1].

4. To address the deficit during its initial operation, IA received seed money of $650 million from the Government in two phases, with the first tranche of $450 million provided in 2016-17 and the second tranche of $200 million

[1] As pledged by the Government in the LegCo Brief for the Insurance Companies (Amendment) Bill 2014, the licensing fee for insurance intermediaries was waived for the first five years after commencement of the direct regulatory regime on 23 September 2019.

provided in 2018-19. Subsequently in 2020-21, an additional $300 million was injected by the Government to assist IA in tiding over cash flow requirements and maintaining an appropriate level of reserve.

## BUDGET FOR 2026-27

### *Income*

5. The estimated total income for 2026-27 is **$589.6 million**, $35 million (6.3%) higher than the revised estimate for 2025-26 of $554.6 million. The increase is mainly attributable to projected growth in premium levies[2], annual fees[3], annual GWS fees[4] and licensing fees. The rise in total estimated income will be partially offset by a projected fall in interest income.

### *Operating Expenditure*

6. The estimated total operating expenditure for 2026-27 is **$655.4 million**, which is $62.1 million (10.5%) higher than the revised estimate for 2025-26 of $593.3 million, attributable to the following:

(a) **Staff costs** – the estimate for 2026-27 of $466.6 million is $32.5 million (7.5%) higher than the revised estimate for 2025-26 of $434.1 million. Although IA will impose a headcount freeze in 2026-27, the increase reflects the full-year effect of new recruits hired in 2025-26 and the budgetary provision for a 3.5% annual pay adjustment[5];

(b) **Engagement of professional services** – the estimate of $28.8 million for 2026-27 is $5.1 million (21.5%) higher than the revised estimate of $23.7 million for 2025-26, largely due to consultancy services relating to the promotion of Hong Kong as a captive domicile, adoption of the Insurance Capital Standard[6], etc.;

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[2] The levy rate started at 0.04% of insurance premiums on 1 January 2018 and gradually moved to its target level of 0.1%, capped at $100 (for long term policies) and $5,000 (for general policies) since 1 April 2021.

[3] It comprises a fixed fee of $300,000 ($15,000 for a special purpose insurer, $30,000 for a captive insurer and $600,000 for a composite insurer) and a variable fee of 0.0039% derived from insurance liabilities capped at $7 million (or $14 million for a composite insurance company).

[4] The annual GWS fee is charged at 0.0026% on insurance liabilities, subject to a floor of $10 million and capped at $60 million for each DIHC.

[5] Subject to FS's approval.

[6] The Insurance Capital Standard (ICS) is a globally comparable risk-based measure of capital adequacy for

(c) **IT expenses** – the estimate of $41.9 million for 2026-27 is $5.4 million (14.8%) higher than the revised estimate of $36.5 million for 2025-26, largely due to increased spending on Generative AI infrastructure and development, as well as administrative support for system enhancement;

(d) **Other operating expenses** – the estimate of $30.2 million for 2026-27 is $2.8 million (10.2%) higher than the revised estimate of $27.4 million for 2025-26, largely due to expected increase in the number of staff training, business travels and corporate events;

(e) **Expenditure for Internation Association of Insurance Supervisors ("IAIS") Annual Conference 2026** – the estimate of $11.5 million for 2026-27 represents a one-off expenditure for hosting of IAIS Annual General Meeting and Annual Conference 2026; and

(f) **Depreciation** – the estimate of $21.8 million for 2026-27 is $2.8 million (14.7%) higher than the revised estimate of $19 million for 2025-26, calculated based on straight-line method over the expected lifespan of fixed assets.

***Capital Expenditure***

7. The estimated total capital expenditure for 2026-27 is **$28.7 million**, in line with the Revised Estimates for 2025-26 and comprising minor renovation of existing office space and revamp of the Insurance System[7].

***Reserve***

8. According to IA's projections, there will be a cash reserve of **$518.6 million** on 31 March 2027, higher than a buffer required for six-month estimated operating expenditure for 2026-27 (i.e. $327.7 million).

Internationally Active Insurance Groups (IAIGs) adopted by the IAIS in 2024.

[7] The IS was commissioned in the 1990s and has become obsolete and unserviceable.

## COMPARISON OF THE APPROVED BUDGET WITH THE REVISED ESTIMATES FOR 2025-26

### *Income*

9. The revised total income for 2025-26 of **$554.6 million** is $13.8 million (-2.4%) less than the approved budget of $568.4 million, mainly attributable to projected decrease in annual GWS fees and licensing fees collected from insurance intermediaries. Resulting from the caps of $100 imposed on long term policies and $5,000 on general policies respectively, there is a notable divergence between the trend growth of insurance premiums recorded for the market as a whole and premium levies received by IA.

### *Operating Expenditure*

10. The revised total operating expenditure for 2025-26 is **$593.3 million**, which is $41 million (-6.5%) lower than the approved budget of $634.3 million, attributable to the following –

(a) **Staff costs** – $9.7 million (-2.2%) less than the budgeted $443.8 million, largely due to unfilled vacancies;

(b) **Engagement of professional services** – $12.3 million (-34.2%) less than the budgeted $36 million, largely due to lower demand for legal services and consultancies;

(c) **Other operating expenses** – $9.5 million (-25.7%) less than the budgeted $36.9 million, largely due to fewer business travels and staff training activities than expected.

### *Capital Expenditure*

11. The revised total capital expenditure for 2025-26 is **$28.2 million**, which is $7.1 million (-20.1%) lower than the approved budget of $35.3 million, deployed mainly for IT systems and equipment.

### *Reserve*

12. According to IA's projections, there will be a cash reserve of **$570.2 million** on 31 March 2026, inclusive of the seed money and additional injection referred to in paragraph 4 above.

## THE GOVERNMENT'S VIEWS

13. The Government notes that IA will impose a headcount freeze for 2026-27 as part of its effort to contain the growth in operating expenditure. The Government urges IA to actively explore different options to improve its long-term financial sustainability. IA should also maintain a pool of reserves sufficient to meet at least six months of operating expenditure to cater for market contingencies.

## ADVICE SOUGHT

14. Members are invited to note the contents of this paper.

**Financial Services Branch**
**Financial Services and the Treasury Bureau**
**March 2026**

# Estimates of Income and Expenditure for 2026-27

| | | Note | Estimates 2025-26<br>(i)<br>HK$ million | Revised Estimates 2025-26<br>(ii)<br>HK$ million | Proposed Estimates 2026-27<br>(iii)<br>HK$ million | Proposed Estimates 2026-27 vs. Revised Estimates 2025-26<br>(iv) = (iii) - (ii)<br>HK$ million |
|---|---|---|---|---|---|---|
| **A.** | **Income and Expenditure** | | | | | |
| | **Income** | 1 | | | | |
| (a) | Interest income | 2 | 15.0 | 15.0 | 12.0 | (3.0) |
| (b) | Levy and fees | 3 | 553.4 | 539.6 | 572.8 | 33.2 |
| (c) | Income for IAIS 2026 | | - | - | 4.8 | 4.8 |
| | **Total Income** | | **568.4** | **554.6** | **589.6** | **35.0** |
| | **Operating Expenditure** | | | | | |
| (a) | Staff costs | 4 | 443.8 | 434.1 | 466.6 | 32.5 |
| (b) | Office rental and related expenses | 5 | 32.4 | 32.1 | 34.0 | 1.9 |
| (c) | Engagement of professional services | 6 | 36.0 | 23.7 | 28.8 | 5.1 |
| (d) | Information Technology (“IT”) expenses | 7 | 38.7 | 36.5 | 41.9 | 5.4 |
| (e) | External relations expenses | 8 | 17.3 | 16.6 | 16.6 | - |
| (f) | Remuneration to Members | | 4.0 | 3.9 | 4.0 | 0.1 |
| (g) | Other operating expenses | 9 | 36.9 | 27.4 | 30.2 | 2.8 |
| (h) | Depreciation | 10 | 25.2 | 19.0 | 21.8 | 2.8 |
| (i) | Expenditure for IAIS 2026 | | - | - | 11.5 | 11.5 |
| | **Total Operating Expenditure** | | **634.3** | **593.3** | **655.4** | **62.1** |
| | **Result for the year** | | **(65.9)** | **(38.7)** | **(65.8)** | **(27.1)** |
| | **Capital Expenditure** | | | | | |
| (a) | Office set-up and vehicles | 11 | 1.5 | 1.0 | 3.0 | 2.0 |
| (b) | IT systems and equipment | 12 | 33.8 | 27.2 | 25.7 | (1.5) |
| | **Total Capital Expenditure** | | **35.3** | **28.2** | **28.7** | **0.5** |

**Notes to the Proposed Estimates for 2026-27**

1. **Income**

The consultancy study[1] commissioned by the Government anticipated that income received by IA in the first four years of operation will not be sufficient to cover its expenditure and will generate a deficit of some $650 million. LegCo[2] approved the provision of $450 million to IA on 13 May 2016, followed by the remaining $200 million on 10 May 2018. These two sums without related costs were received in June 2016 and June 2018 respectively. LegCo approved another funding injection of $300 million to IA on 14 May 2020 to meet cash shortfall that it is expecting to face. This sum without related costs was received in June 2020.

All funding received from the Government is recognised as capital in the financial statement.

2. **Interest income**

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

3. **Levy and Fees**

A levy of 0.1% on insurance premiums is payable by policyholders, subject to a cap imposed on general policies with annual premiums at or above $5 million and long term policies with single or annualised premiums at or above $100,000. Captive insurance, reinsurance as well as marine, aviation and goods in transits insurance are exempted.

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[1] The consultancy study was conducted by PricewaterhouseCoopers.

[2] Before obtaining funding approval from LegCo, the Government approved in February 2016 a small sum of $3 million in 2015-16 for IA to meet cash flow requirement of essential consultancy services. This sum was received by IA in March 2016.

The annual fees payable by insurance companies comprise a fixed fee of $300,000 ($15,000 for special purpose insurers, $30,000 for captive insurers and $600,000 for composite insurers) and a variable fee of 0.0039% capped at $7 million on insurance liabilities ($14 million for composite insurers). The annual GWS fees payable by DIHCs is pitched at 0.0026% on insurance liabilities, user fees are charged to recover the cost of providing specified services and licensing fees for insurance intermediaries are set at different rates according to types of application covering periods from one to three years.

**4. Staff costs**

Staff costs involve mostly salaries, contributions to the Mandatory Provident Fund and insurance coverage. The revised estimate for 2025-26 is based on actual staff profile, but the estimate for 2026-27 must cater for a full strength of about 380 staff after factoring in a recurrent vacancy rate of 2%.

**5. Office rental and related expenses**

This item involves mainly office rental, building management fees, utility charges, government rent/rates and other expenses such as office insurance and telephone rentals.

**6. Engagement of professional services**

This item involves mainly legal and consultancy services, executive search services and audit services. The estimate for 2026-27 is driven by increased demand for legal and consultancy services.

**7. IT expenses**

IT expenses involve mainly server maintenance, cybersecurity and various user applications. The estimate for 2026-27 caters for rising needs of system maintenance and cybersecurity.

**8. External relations expenses**

External relations expenses involve mainly publicity campaigns, the Asian Insurance Forum, tracking of online news and monitoring of social media posts.

## 9. Other operating expenses

Other operating expenses involve mainly staff training, business travels, corporate events and other incidental outlays. The estimate in 2026-27 reflects increasing frequency of these activities.

## 10. Depreciation

Depreciation is calculated to write off the cost of fixed assets such as furniture and fixtures, office equipment and IT systems making use of the straight-line method over an expected lifespan of three to six years.

## 11. Office set-up

The estimate for 2026-27 involves mainly minor renovation of existing office premises.

## 12. IT systems and equipment

The estimate for 2026-27 involves mainly a comprehensive overhaul of the Insurance System.