

INSURANCE AUTHORITY

Note on Authorization and Annual Fees

INTRODUCTION

Section 13 of the Insurance Ordinance (Cap. 41) provides that every authorized insurer has to pay the prescribed fees (“Fees”) to the Insurance Authority (the “Authority”) not later than the date on which it is authorized; and annually upon the anniversary of such date (hereinafter referred to as “payment due date”). The Insurance (Authorization and Annual Fees) Regulation (Cap. 41C) (“the Regulation”) sets out the Fees.

2. With effect from 26 June 2017, the Fees payable upon authorization and annually thereafter consist of two elements, namely, a fixed fee of \$300,000 (\$30,000 for captive insurer; and \$600,000 for composite insurer) and a variable fee based on insurance liabilities.

3. This Note elaborates the ascertainment of variable fee and the payment requirements.

ASCERTAINMENT OF VARIABLE FEE

Interpretation of “Insurance Liabilities”

4. The term “insurance liabilities” under section 1A of the Regulation refers to that provided by authorized insurers in the accounts and statements in compliance with Schedule 3 to Cap. 41.

Class of Insurance	Interpretation of Insurance Liabilities	Reference (Schedule 3 to Cap. 41)
General Business	The aggregate of the amount of unexpired risk carried forward, the provision for outstanding claims (net amount) and the provision for IBNR as reported in Forms 1A and 2A (Hong Kong General Business Returns). Forms 1A and 2A are of same format and a sample Form 1A is provided at <u>Annex A</u> for reference.	Part 8 Section 40 subsection (2) (b) & (d)
Long Term Business	The “Amount of Net Liability” as reported in Form HKL2 (Hong Kong Long Term Business Returns). A sample Form HKL2 is provided at <u>Annex B</u> for reference.	Part 7 section 39 subsection (1)

5. The value of insurance liabilities refers to the figure(s) that appear(s) in the insurer’s last return furnished¹ to the Authority before the relevant payment due date. Illustrative examples are provided in **Annex C** for reference.

6. If the amount of variable fee payable would include a fraction of a cent, the amount is to be rounded to the nearest cent.

Variable Fee Cap

7. The variable fee payable by an insurer is subject to a cap of \$7 million. The cap for a composite insurer with general and long term businesses is \$14 million.

¹ According to section 20(1A) of Cap. 41, any account, balance sheet, abstract, certificate or statement of an insurer and any report of the auditor shall be deposited with the Authority within 4 months after the close of the period to which the account, balance sheet, abstract, certificate, statement or report relates.

Class of Insurance Carried on by Insurer	Variable Fee Cap	Fixed Fee	Maximum Fees Payable
	HK\$ (a)	HK\$ (b)	HK\$ (c) = (a) + (b)
General Business	7,000,000	300,000	7,300,000
Long Term Business	7,000,000	300,000	7,300,000
Composite (General and Long Term Business)	14,000,000	600,000	14,600,000
Captive Insurer	7,000,000	30,000	7,030,000

Transitional Arrangement for the Initial Five Years

8. To reduce the impact on the insurance industry, the variable fee rate prescribed by payment due date will be adjusted upwards progressively from 0.0001% to the target level of 0.0039% by June 2022. :

Payment Due Date	Variable Fee Rate
From 26 June 2017 to 25 June 2018	0.0001%
From 26 June 2018 to 25 June 2019	0.0005%
From 26 June 2019 to 25 June 2020	0.0013%
From 26 June 2020 to 25 June 2021	0.0026%
From 26 June 2021 to 25 June 2022	0.0031%
From 26 June 2022 to 25 June 2023 and each subsequent period of 1 year from 26 June	0.0039%

9. Examples on calculation of variable fee payable are at **Annex D**.

FEES PAYMENT

10. Fees should be made payable by Hong Kong dollar cheque, bank draft or bank transfer to “**Insurance Authority**” before the insurer’s anniversary date. As a facilitation measure, the Authority will issue an Annual Fee Notice on 15th of a calendar month (or the following working day if 15th is a public holiday) to each of the insurers whose anniversary day will fall in the succeeding month. A sample of the Annual Fee Notice is set out in **Annex E** for information.

11. Insurers should settle the Fees, both the fixed and variable, in full with one payment.

DEFINITIONS OF TERMS

12. Where a term used in the Note is defined in Cap. 41 or the subsidiary legislation then, except where specified in the Note, that term carries the meaning as defined in Cap. 41 or the subsidiary legislation.

Sample on Sum of the Provisions to be Adopted for Calculation of Variable Fee for General Business

Annex A

FORM 1A
HONG KONG INSURANCE BUSINESS - DIRECT BUSINESS REVENUE ACCOUNT OF **ABC INSURANCE COMPANY**
SUPPLEMENTARY INFORMATION
for the period commencing on 1 April 2019 and ending on 31 March 2020

ACCOUNTING CLASSES OF GENERAL BUSINESS	Accident and health	Motor vehicle, damage and liability	Aircraft, damage and liability	Ships, damage and liability		Goods in transit	Property damage	General liability		Pecuniary loss	Total
				Statutory business	Others			Statutory business	Others		
				\$	\$			\$	\$		
(8) UNEXPIRED RISKS ADJUSTMENT											
(A) Amount of unexpired risks c/f	8A	8A	8A	8A	8A	8A	8A	8A	8A	8A	T8A
(B) Amount of unexpired risks b/f	8B	8B	8B	8B	8B	8B	8B	8B	8B	8B	T8B
(C) Increase / (Decrease) (A)-(B)	8C	8C	8C	8C	8C	8C	8C	8C	8C	8C	T8C
PROVISION FOR OUTSTANDING CLAIMS ADJUSTMENT											
(A) Provision for outstanding claims											
(a) Gross amount	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	15Aa	T15Aa
(b) Amount recoverable from											
(i) reinsurers	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	15Abi	T15Abi
(ii) others	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	15Abii	T15Abii
(c) Net amount (a)-(b)	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	15Ac	T15Ac
(B) Provision for IBNR	15B	15B	15B	15B	15B	15B	15B	15B	15B	15B	T15B
(C) Amount of provision for outstanding claims incl. IBNR c/f (A)+(B)	15C	15C	15C	15C	15C	15C	15C	15C	15C	15C	T15C
(D) Amount of provision for outstanding claims incl. IBNR b/f	15D	15D	15D	15D	15D	15D	15D	15D	15D	15D	T15D
(E) Increase / (Decrease) (C)-(D)	15E	15E	15E	15E	15E	15E	15E	15E	15E	15E	T15E

Note: Amounts must be expressed in Hong Kong dollars.

Figure to be adopted for calculation of variable fee is the total sum of T8A and T15C.

Sample on Amount of Net Liability for Long Term Business

Annex B

FORM HKL2
 HONG KONG LONG TERM INSURANCE BUSINESS
 VALUATION SUMMARY OF **ABC INSURANCE COMPANY**
 Direct Business and Reinsurance Accepted
 for the period commencing on 1 April 2019 and ending on 31 March 2020

		1	2	3	4	5	6	7	8
Class	Type of business	Number of contracts	Amounts of sums assured or annuities per annum including vested reversionary bonuses	Amount of yearly premium		Value of sums assured or annuities per annum including vested reversionary bonuses	Value of yearly net premium	Amount of net liability	Bases of valuation
				Office premiums	Net premiums				
			HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
A	(i) Life assurance other than annuities	A	A	A	A	A	A	A	
↓	↓								
I	III	I	I	I	I	I	I	I	
	Other reserves to be specified +/-								
	1	O1	--	--	O1	--	--	O1	
	2	O2	--	--	O2	--	--	O2	
	3	O3	--	--	O3	--	--	O3	
	4	O4	--	--	O4	--	--	O4	
	5	O5	--	--	O5	--	--	O5	
		--	--	--	--	
		--	--	--	--	
		--	--	--	--	
		--	--	--	--	
	TOTALS	T1	T2	T3	T4	T5	T6	T7	--

Figure to be adopted for calculation of variable fee

Illustrative Examples

Audited Accounts and Balance Sheet to be Adopted in Calculation of Variable Fee

	Audited Accounts and Balance Sheet to be Adopted for Year Ended in				
	February	March	June	November	December
<u>Payment due date falls in</u>					
June 2017	2/2016	3/2016	6/2016	11/2016	12/2016
July 2017	2/2017	3/2016	6/2016	11/2016	12/2016
August 2017	2/2017	3/2017	6/2016	11/2016	12/2016
September 2017	2/2017	3/2017	6/2016	11/2016	12/2016
October 2017	2/2017	3/2017	6/2016	11/2016	12/2016
November 2017	2/2017	3/2017	6/2017	11/2016	12/2016
December 2017	2/2017	3/2017	6/2017	11/2016	12/2016
January 2018	2/2017	3/2017	6/2017	11/2016	12/2016
February 2018	2/2017	3/2017	6/2017	11/2016	12/2016
March 2018	2/2017	3/2017	6/2017	11/2016	12/2016
April 2018	2/2017	3/2017	6/2017	11/2017	12/2016
May 2018	2/2017	3/2017	6/2017	11/2017	12/2017
June 2018	2/2017	3/2017	6/2017	11/2017	12/2017
July 2018	2/2018	3/2017	6/2017	11/2017	12/2017
August 2018	2/2018	3/2018	6/2017	11/2017	12/2017
September 2018	2/2018	3/2018	6/2017	11/2017	12/2017
October 2018	2/2018	3/2018	6/2017	11/2017	12/2017
November 2018	2/2018	3/2018	6/2018	11/2017	12/2017
December 2018	2/2018	3/2018	6/2018	11/2017	12/2017
January 2019	2/2018	3/2018	6/2018	11/2017	12/2017
February 2019	2/2018	3/2018	6/2018	11/2017	12/2017
March 2019	2/2018	3/2018	6/2018	11/2017	12/2017

Illustrative Examples

Variable Fee Payable for Different Class of Insurance

Anniversary date on 1 July for year 2017 to 2022

Scenario 1: General Business

Anniversary Date	Variable Fee Rate (%)	Outstanding Claims Provision net of Reinsurance Recoveries (HK\$)	Variable Fee Calculated (HK\$)	Variable Fee Payable (rounded) (HK\$)
1 July 2017	0.0001	40,987,654,321	40,987.6543..	40,987.65
1 July 2018	0.0005	70,987,654,321	354,938.2716..	354,938.27
1 July 2019	0.0013	100,987,654,321	1,312,839.5061..	1,312,839.51
1 July 2020	0.0026	130,987,654,321	3,405,679.0123..	3,405,679.01
1 July 2021	0.0031	160,987,654,321	4,990,617.2839..	4,990,617.28
1 July 2022	0.0039	190,987,654,321	7,448,518.5185..	<u>7,000,000.00</u>

Scenario 2: Long Term Business

Anniversary Date	Variable Fee Rate (%)	Net Liabilities for Long Term Business (HK\$)	Variable Fee Calculated (HK\$)	Variable Fee Payable (rounded) (HK\$)
1 July 2017	0.0001	253,123,456,789	253,123.4567..	253,123.46
1 July 2018	0.0005	265,123,456,789	1,325,617.2839..	1,325,617.28
1 July 2019	0.0013	278,123,456,789	3,615,604.9382..	3,615,604.94
1 July 2020	0.0026	292,123,456,789	7,595,209.8765..	<u>7,000,000.00</u>
1 July 2021	0.0031	307,123,456,789	9,520,827.1604..	<u>7,000,000.00</u>
1 July 2022	0.0039	323,123,456,789	12,601,814.8147..	<u>7,000,000.00</u>

<date 1>

Our Ref: IA/CS/FIN/XX/X/XXXXXXXXXX

<Name and address of insurer>

Attention: Accounting Department

Dear Sirs

Annual Fee payable in accordance with the Insurance Ordinance (Cap 41)

In accordance with the Insurance Ordinance (Cap 41), Annual Fee for your <business type> insurance business in the sum of <amount 1> is now due. Could you please arrange settlement by cheque or bank draft and make it payable to “**Insurance Authority**” or through bank transfer¹ by the authorisation anniversary date on <date 2>.

The Annual Fee in the sum of <amount 1> comprises:

- (i) a fixed fee of <amount 2>; and
- (ii) a variable fee of <amount 3>, being the lower of <%> of insurance liabilities for the financial year ended on <date 3>, or fee cap².

Should there be any adjustment on the above variable fee considered necessary upon the completion of our final verification, we shall notify you in due course.

Please do not hesitate to contact us at <telephone number> / finance-insurer@ia.org.hk if you have any questions.

Thank you.

Yours truly
For and on behalf of
Insurance Authority

<Name and title of signatory>

¹ Bank of China (Hong Kong) 012-875-1-248766-2 / Shift code: BKCHHKHHXXX. Please email details of transfer to finance-insurer@ia.org.hk.

² \$7,000,000 (\$14,000,000 for composite insurers).