

ASHK 23rd Appointed Actuaries Symposium
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Keynote Speech by Mr Tony Chan
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Steve¹, Chris², distinguished guests, ladies and gentlemen,

Good morning. I am honoured to be invited to the ASHK 23rd Appointed Actuaries Symposium and to deliver the opening speech.

The role of appointed actuaries has taken on new prominence following the implementation of the risk-based capital (RBC) regime last year. This shift is driven not only by the increased technical sophistication required for solvency calculations, but also by the significantly more detailed regulatory reporting under the RBC framework. Having gained a year of experience with the regime, and in light of recent developments in the insurance and financial markets, we commenced a review of the RBC framework in early 2025. I would like to take this opportunity to share some of our initial thoughts.

Incentives for Infrastructure Investments

The first topic in our RBC review is the capital treatment of infrastructure investments. Infrastructure fixed-income assets typically offer relatively stable cash flows that are less sensitive to economic cycles, making them a natural match—particularly for life insurers—with long-duration insurance liabilities.

In recent years, we have seen growing momentum behind initiatives to promote infrastructure investments. In the Chief Executive’s 2025 Policy Address, the Northern Metropolis was highlighted as a strategic development area, covering a land area and planned population intake that together account for about one-third of Hong Kong’s total. With the dual objectives of promoting increased financing for local infrastructure projects and enhancing the risk diversification of insurers’ investment portfolios, the Insurance Authority (IA) is formulating a proposal to introduce capital incentives for eligible infrastructure investments.

On the issuance front, the 2025–26 Budget announced that at least HK\$150 billion in Hong Kong SAR Government bonds will be issued annually under the

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Sustainable Bond Programme and the Infrastructure Bond Programme through 2029–30. Life insurers have long expressed the need for a greater supply of long-tenor Hong Kong dollar bonds. In response, the Government issued 30-year Hong Kong dollar-denominated infrastructure bonds in June this year, which were well received by the insurance industry.

In sketching out the proposed capital incentive for infrastructure investment, we have studied similar initiatives in other jurisdictions, including the Insurance Capital Standard (ICS), Solvency II, and Singapore’s regulatory framework. In April this year, the IA also conducted an industry survey to better understand insurers’ infrastructure investment portfolios—covering aspects such as geographic distribution, industry sectors, credit quality, and duration. According to the survey, approximately 70% of existing infrastructure investments are in debt instruments, while 30% are in equity. Nearly 30% of these assets are held through portfolio investments. The infrastructure assets are primarily concentrated in sectors such as transportation, communications (including telecommunications), and energy.

We would like to extend our sincere thanks to all survey participants. Your input has provided us with a clearer picture of the industry’s current positioning and investment appetite.

Another major consideration in our review is the level of return certainty offered by infrastructure assets. In major jurisdictions, eligibility criteria are required for enjoying capital incentives. One key criterion is predictable revenues generated by such assets, supported by a high degree of contractual certainty and robust demand. Another criterion for infrastructure corporates and projects is the presence of safeguards to protect investors. This is evidenced by sufficiently strong issuer’s credit quality for corporates, or a strong ability to meet financial obligations under sustained stressed conditions relevant to the risk profile of projects.

While infrastructure assets can be bespoke in nature, establishing qualifying criteria helps justify their comparatively lower risk relative to other bonds or equities. By setting detailed yet pragmatic assessment standards, we aim to provide robust safeguards while incentivising insurers to invest more in qualifying local infrastructure.

Turning to the form of capital incentives, the IA has analysed various market data. Incentives through reduced equity and credit spread risk charges are technically justified and commonly adopted in major jurisdictions.

Countercyclical Adjustment Within the Equity Risk Module

Another area under RBC review is the countercyclical adjustment (CCA) within the equity risk module. To recap, CCA mitigates the need for insurers to fire-sell equity holdings during market downturns by reducing equity stress factors under such conditions. Conversely, in buoyant markets, CCA increases equity stress to discourage excessive equity exposure. This mechanism helps insurers build capital buffers to better withstand future downturns.

The current CCA design is broadly modelled on Solvency II, with modifications referencing local market indices. Given the evolving market landscape, the IA has decided to revisit the CCA mechanism, which was originally developed five years ago.

From the CCA survey conducted earlier this year, the industry generally agrees that CCA is beneficial during equity downturns, as it helps dampen the deterioration of solvency ratios during stress periods. We also received valuable suggestions to refine the design and parameters of CCA to improve its accuracy.

Over the past five years, we have observed divergent movements in stock markets across Hong Kong, the United States, and other developed economies. Additionally, as insurers notably allocating to private equity investments, there is growing consensus on the need to develop more refined and differentiated sets of CCA.

Other jurisdictions have also embraced CCA. For instance, both the Insurance Capital Standard (ICS) and Singapore have recently finalised their respective CCA frameworks.

Stablecoins and Crypto Assets

With the recent introduction of the regulatory regime for stablecoin issuance under the Stablecoins Ordinance in Hong Kong, as well as the Government's third batch of tokenised green bond issuance, we are also considering the appropriate capital treatment for stablecoins and tokenised assets. This involves balancing the potential utility of these new asset classes with the underlying risks insurers may face in holding them.

The above are the key topics of the RBC review the IA is conducting this year. Periodic reviews of solvency regimes post-RBC implementation are consistent with international practice. Solvency II, Chinese Mainland, and Singapore are all actively enhancing their capital frameworks to meet evolving market needs. The IA is committed to following similar steps, recognising that this is a long-term journey.

Conclusion on Public Disclosures

Alongside the RBC review, the IA has concluded the final pillar of the RBC framework—public disclosure requirements. In August this year, we published the consultation conclusions on the draft Insurance (Public Disclosure) Rules, which set out detailed requirements for insurers to disclose information to the public.

To facilitate phased implementation, insurers begin disclosing quantitative financial information for the 2024 financial year. This allows time for insurers to prepare qualitative disclosures while ensuring the public has access to key financial data. The IA has also launched a dedicated educational webpage to introduce the objectives of the disclosed information, and to guide readers on necessary understanding.

Over time, we expect these public disclosures to improve transparency across the insurance industry and to safeguard the interests of policyholders and prospective customers.

Holistic Framework Theme

That concludes the RBC-related topics I wish to cover today.

Earlier, I touched on insurers' increasing allocation to private assets, which shares similar observations with one of the key themes identified in the latest Global Monitoring Exercise under the IAIS Holistic Framework—namely, the rise in private credit investments.

Key risks associated with private credit include credit risk and liquidity risk, followed by complexity, valuation uncertainty, and hidden leverage. Insurers should carefully assess these risks by strengthening their risk management frameworks and governance structures, particularly within the ORSA process, and by applying prudent person principles when managing these complex assets and transactions. The Appointed Actuary's inputs are essential for the insurer to manage the related risks, such as advising on risk management policy, investment strategy, and stress and scenario testing.

Besides, if private assets are invested under participating funds for a higher yield, the implication of the requirements under guideline on the management of participating business recently imposed and the Practice Note on Illustration Rate Caps in Benefit Illustration for Participating Policies should also be considered.

New Requirements and Setup for Participating Business

Last year, the IA issued the Guideline on Establishment and Maintenance of Fund(s) in respect of Participating Business (GL34), which came into effect alongside RBC implementation, focusing on the establishment of participating funds. To further strengthen governance, the IA has recently revised GL34 to provide guidance on establishing a Participating Business Committee (PBC) and enhancing corporate policies. We are grateful for ASHK's invaluable support during this development.

The PBC is designed to safeguard the interests of participating policy holders and ensure fair treatment of customers. It serves as an independent advisory body to the insurer's Board, offering guidance on the management of participating funds. The PBC should review various aspects of participating business, including the fulfilment of discretionary benefits, the fairness and sustainability of surplus and profits, the reasonableness of allocated expenses and charges, and the appropriateness of risk and investment profiles e.g. investment in risky assets.

In terms of corporate policy, building on existing requirements under the Guideline on Underwriting Long Term Insurance Business (GL16), the revised GL34 seeks enhancements in areas such as smoothing mechanisms, asset and risk management, and considerations for writing new business.

In the upcoming panel discussion on participating business, we will have the opportunity to hear more about regulatory expectations for safeguarding policyholders and the evolving role of appointed actuaries in this context.

These enhanced measures will support stronger governance in participating business management and offer greater protection to policy holders. This marks a significant milestone in governance enhancement. Looking ahead, product disclosure will be another key pillar. With the current disclosure of fulfilment ratios and the cap on illustration rates in benefit illustrations having served as effective safeguards, the next phase aims to further improve transparency and help customers make better-informed decisions.

Closing

In summary, the responsibilities of Appointed Actuaries have expanded significantly with the implementation of RBC and the forthcoming changes from the RBC review. Separately, the revised GL34 will further enhance protection for policyholders of participating products.

Before I conclude my speech, I would like to deliver one more message that closely relates to the livelihood of every resident in Hong Kong and our continued

striving economy. Since the voting day is on 7 December, the IA calls upon all voters to exercise their civic rights and cast a sacred vote to elect virtuous people for the next LegCo, thereby driving Hong Kong towards a brighter future. Thank you very much.