

The Insurance Authority Annual Report 2020–21¹ (Synopsis)

The Insurance Authority (“IA”) is an insurance regulator independent of the Government and the insurance industry, regulating over 160 insurance companies and over 129,000 insurance intermediaries.

Our main statutory functions are to protect policy holders, promote the general stability of the market, encourage the adoption of proper standards of conduct by the industry and increase the global competitiveness of Hong Kong.



REGULATION FOR BETTER PROTECTION

The IA continuously strives to safeguard the interests of policy holders and instil greater public confidence by exercising prudential supervision of insurance companies and intermediaries as well as introducing timely regulatory reforms.

REGULATION OF INSURANCE COMPANIES

Financial Soundness and Risk Management

- ▶ To ensure that insurance companies can meet their obligations to policy holders, we have adopted a multi-faceted supervisory approach, consisting of comprehensive risk assessment, financial examinations, on-site inspections and off-site monitoring.

Macroprudential Surveillance

- ▶ A dedicated expert team was formed to assess the level of systemic risk in the insurance sector and undertake macroprudential surveillance for Hong Kong.

Group-wide Supervision

- ▶ The group-wide supervision framework, devised in alignment with international standards, was rolled out to provide the IA with direct regulatory powers over the designated insurance holding companies. Currently, three holding companies are subject to the framework: AIA Group Limited, FWD Management Holdings Limited and Prudential Corporation Asia Limited.

¹ The annual report covers the IA's major activities and initiatives between 1 April 2020 and 31 March 2021. Please visit the [IA website](#) for the full report.

REGULATORY REFORMS

Risk-based Capital Regime

- ▶ The IA is developing a Risk-based Capital Regime predicated on the business profile of individual insurers, enhancing asset-liability management, risk governance and enterprise risk management.
- ▶ A bill seeking to implement this regime is expected to be introduced into the Legislative Council in the 2021–22 session.

Policy Holders' Protection Scheme

- ▶ The IA is working with the Government to finalise parameters of the Policy Holders' Protection Scheme to cater for the insolvency of an insurance company.
- ▶ A bill seeking to implement this scheme is expected to be introduced into the Legislative Council in the 2022-23 session.

REGULATION OF SELLING PROCESS

- ▶ To reduce the risk of infection amid COVID-19, we approved the distribution of specific products such as the Qualifying Deferred Annuity Policy ("QDAP") and Voluntary Health Insurance Scheme products without face-to-face interaction, subject to mandatory upfront disclosure of important information and an extended cooling-off period.
- ▶ We fostered the adoption of Insurtech to enhance policy holder protection and to ensure that adequate monitoring, control and recording are in place throughout virtual onboarding processes.
- ▶ We carried out a joint inspection exercise with the Hong Kong Monetary Authority ("HKMA") on premium financing involving authorized insurers and licensed insurance intermediaries such as brokers and banks as agencies.
- ▶ We are working with the HKMA and Mandatory Provident Fund Schemes Authority on a joint Mystery Shopping Programme targeted at sales and marketing practices for QDAPs and Tax Deductible Voluntary Contributions.

ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING ("AML/CTF")

- ▶ We reviewed details of AML/CTF controls for virtual onboarding trials under the Insurtech Sandbox.
- ▶ A webinar was held for the industry on regulatory requirements, market practices, internal controls and technology adopted by long term insurers for non-face-to-face sales.

REGULATION OF INSURANCE INTERMEDIARIES

Licensing

- ▶ Through our licensing work, we performed a gatekeeping role to ensure that only those who could meet the criteria on being fit and proper would be allowed to become insurance intermediaries.
- ▶ The high adoption rate of our e-portal helped to empower efficient and high-quality licensing decision-making.
- ▶ During the reporting year, we processed around 35,000 applications: for new intermediary licences; and to vary lines of business and notify changes in appointments from existing licensees.
- ▶ Licence applications for deemed licensees commenced.

Supervision

- ▶ On-site inspections and supervisory reviews of insurance agencies and broker companies enabled us to vigorously assess compliance with regulatory requirements.
- ▶ We conducted six on-site inspections and reviewed statutory returns of 820 insurance broker companies.
- ▶ With regard to insurance agencies, we conducted three on-site inspections and 27 supervisory reviews to assess compliance with conduct and corporate governance requirements.

Enforcement

- ▶ The Disciplinary Panel Pool and Expert Advisor Panel were established, and we took disciplinary actions against three insurance intermediaries, marking the IA's first disciplinary moves under the direct regulatory regime for insurance intermediaries.
- ▶ We issued 62 Compliance Advice Letters and 522 Letters of Concern for non-compliance matters. Compliance Advice Letters and Letters of Concern form part of the IA's supervision and enforcement approach. While they are not formal disciplinary actions, they serve to highlight areas of improvements for insurers and insurance intermediaries.
- ▶ We regularly exchange information with law enforcement agencies in Hong Kong to combat financial crime.

Complaint Handling

- ▶ We handle complaints related to the conduct of insurance intermediaries and insurance companies in a fair and objective manner, taking proportionate supervisory or enforcement actions against substantiated offences.
- ▶ During the reporting year, the IA received a total of 1,464 new complaint cases. The main complaint categories concerned conduct, insurers' business or operations, claims, and representation of information. A total of 733 ongoing complaint cases were brought forward from the previous year.
- ▶ The IA concluded the handling of 1,161 complaints and referred 136 cases to the IA's Enforcement Team for further action. A total of 900 ongoing cases will be carried forward to the next reporting year.

Continuing Professional Development ("CPD")

- ▶ To enhance professionalism and quality of service, we raised the CPD requirement with due emphasis on ethics and regulations.

REGULATORY ENGAGEMENT

- ▶ The IA increased its participation to 18 committees and working groups of the International Association of Insurance Supervisors ("IAIS"), with the IA CEO being Chairman of the Audit and Risk Committee and a member of the IAIS Executive Committee, bringing an Asian voice to international standard-setting for insurance supervision.
- ▶ The IA CEO was re-elected Chairman of the Asian Forum of Insurance Regulators for a second term of two years from 2020 to 2022, leading regulatory co-operation in Asia Pacific.

COVID-19 RESPONSE

Facilitative Measures for Insurers

- ▶ We refined the facilitative measures for non-face-to-face distribution of specific protective insurance products.

Facilitative Measures for Intermediaries

- ▶ Insurance brokers were allowed to apply for an extension for submission of statutory returns.
- ▶ The CPD assessment periods for 2019–20 and 2020–21 were combined and the fulfilment deadline rescheduled to July 2021.
- ▶ The cap on e-learning CPD hours for the combined assessment periods was raised to 14 hours, with no limit on virtual training.

Insurance Talent Development Programme

- ▶ The IA offered 32 temporary positions under the Government's Anti-epidemic Fund to facilitate sustainable development of the insurance industry.

MARKET DEVELOPMENT

We spearheaded efforts to position Hong Kong as a global risk management centre and a regional reinsurance and insurance hub by helping the industry discover new business opportunities.

INSURANCE-LINKED SECURITIES

- ▶ The bespoke new regulatory regime for insurance-linked securities ("ILS") commenced in March 2021 and the Pilot ILS Grant Scheme was announced in the 2021-22 Budget, catapulting Hong Kong forward as a preferred ILS domicile.

CAPTIVE DOMICILE

- ▶ Legislative amendments to expand the scope of insurable risks by captive insurers in Hong Kong came into effect in March 2021. The Hong Kong Specialty Risks Consortium was also formed to help match demand and supply in the specialty risks area.

MARINE AND SPECIALTY RISKS

- ▶ A tax concession to reduce the profits tax rate by 50% (ie 8.25%) for general insurers and insurance brokers for marine and specialty risk insurance became effective in March 2021.

REINSURANCE

- ▶ The China Banking and Insurance Regulatory Commission ("CBIRC") further extended the preferential treatment for qualified Hong Kong professional reinsurers to 30 June 2022, reinforcing Hong Kong's status as a global risk management centre.

GUANGDONG-HONG KONG-MACAO GREATER BAY AREA ("GBA")

After-sales Service Centres

- ▶ The IA continued intensive discussions with Mainland authorities and the industry on operational arrangements for Hong Kong insurers to establish after-sales service centres in the GBA.

Unilateral Recognition Policy for Motor Vehicle Insurance

- ▶ The IA has been collaborating with the CBIRC on a unilateral recognition policy for motor vehicle insurance to enable third-party motor insurance policies issued by Hong Kong insurers for vehicles travelling to Guangdong province to be deemed equivalent to the compulsory traffic accident liability insurance in the Mainland.

INSURTECH

Insurtech Strategy and Survey

- ▶ An industry survey was conducted to gain comprehensive understanding of deployment and adoption of Insurtech by insurers in Hong Kong.

Fast Track and Virtual Insurers

- ▶ Two more virtual insurers, operating long term business and general business respectively, were authorized under Fast Track.

Insurtech Sandbox and Virtual Onboarding

- ▶ A supervisory framework for the distribution of long term insurance policies via video conferencing under the Insurtech Sandbox was introduced to overcome impediments brought about by the non-face-to-face onboarding process.

Insurtech Facilitation Team

- ▶ The team handled around 50 enquiries and held 30 meetings with the insurance industry and technology community to promote Insurtech development in Hong Kong.

GREEN AND SUSTAINABLE FINANCE

- ▶ The IA joined the Green and Sustainable Finance Cross-Agency Steering Group, which promulgated its strategic plan and key action points.
- ▶ We promoted green insurance in a collaboration with the Hong Kong Federation of Insurers.

PROTECTION LINKED PLAN

- ▶ We worked with the industry, Securities and Futures Commission, and HKMA to explore an investment-linked assurance product with high life insurance protection and a simple fee structure.

ASIAN INSURANCE FORUM

- ▶ We hosted our annual flagship forum, providing a high-level platform for the industry to share insights on development prospects and opportunities in the Asian insurance market.

PUBLIC EDUCATION

We empower policy holders with relevant and up-to-date information via diverse channels, enabling them to make sound and informed decisions when taking out insurance policies.

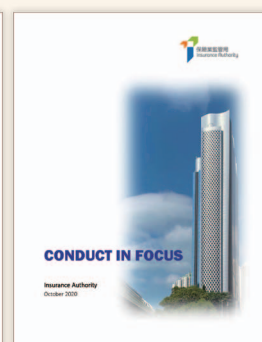
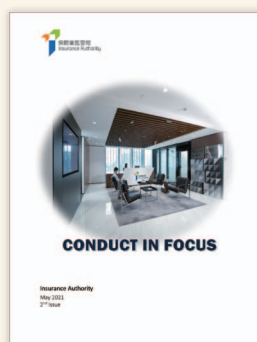
- ▶ The IA carried out public education campaigns on medical insurance, virtual onboarding and insurance needs at different stages of life.



- ▶ Handy information was provided through traditional and online channels such as our website, Facebook and LinkedIn.



- ▶ We launched the *Conduct in Focus* newsletter, sharing lessons learnt from the complaints we handled.



ABOUT THE IA

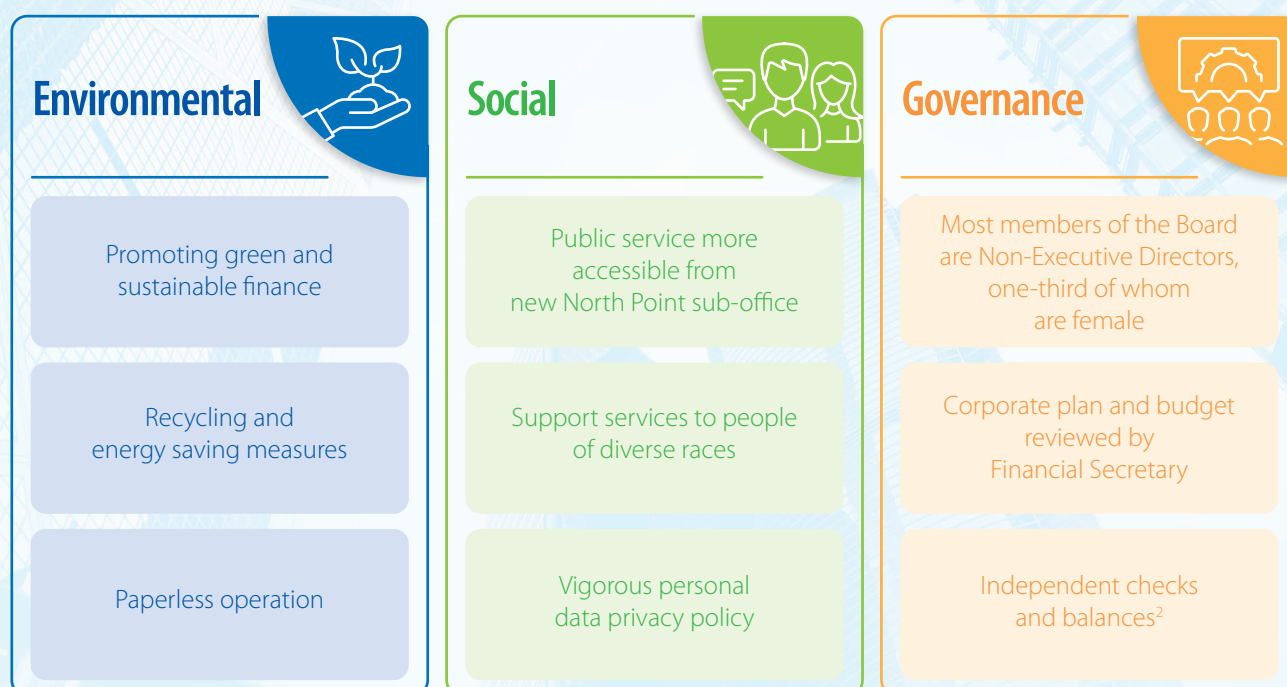
Our Staff

With our multidisciplinary team of around 300 staff from the public and private sectors, we continued to foster a corporate culture characterised by empathy and dynamism. Eighty-nine percent of our staff hold a Bachelor's or higher degree while 44% of them possess professional qualifications.

Financial Position

We sought to achieve financial independence by optimal deployment of resources derived from premium levies, authorization and annual fees, and specific user fees. In 2020–21, income and operating expenditure were HK\$339.4 million and HK\$416.3 million respectively, resulting in a deficit of HK\$76.9 million. The accumulated deficit was HK\$498.5 million, which was met by the Government's capital grants totalling HK\$953 million.

Major ESG Initiatives



² The Ombudsman, Insurance Appeals Tribunal, Process Review Panel for the IA

Awards and Recognition



Caring Company



Directors of
The Year Award 2020



Gold Certificate of
Privacy-Friendly Awards 2021



Hong Kong Green
Organisation

HONG KONG INSURANCE MARKET

HK\$ 581.3 billion
of total gross premiums^a

2.5%
of annual growth rate^a

1st in the world
for insurance penetration^b

1st in Asia
for insurance density^b

13 of the world's top 20
insurers authorized to conduct
business in Hong Kong^c

IA ACTIVITIES

► Supervision and Regulation

165
authorized insurers

31
supervisory college meetings
with overseas regulators

Over **129,000**
licensed insurance intermediaries

Over **35,000**
licensing applications and
appointment notifications processed^d

Over **106,000**
deemed licensees to apply for their first
licences under the new direct regulatory regime

► Enforcement

280
former SRO^e cases
received and

230
concluded

183
new cases received and

53
concluded

62
Compliance Advice
Letters^f and

522
Letters of Concern^f issued
for non-compliance matters

^a Based on market statistics between 1 January 2020 and 31 December 2020

^b Swiss Re Institute sigma No3/2021

^c Fortune Global 500, August 2021

^d The figure includes handling of new intermediary licences, as well as applications to vary lines of business and notifications of changes in appointments by existing licensees.

^e Former Self-Regulatory Organisations ("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.

^f These figures include the total number of letters issued by various IA teams, including Supervision Teams, Complaint Team, Licensing Team and Enforcement Team.

► Protection of Policy Holders

Complaint Handling

Ongoing cases brought forward to 1 April 2020	733
New cases received	1,464

TOTAL	2,197
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Cases closed	1,161
Cases referred to the IA's Enforcement Team	136
Ongoing cases as at 31 March 2021	900

TOTAL	2,197
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► Market Development

Insurance-linked Securities

Up to **HK\$ 12 million**
subsidy per issuance
under two-year Pilot
Grant Scheme

Captive Domicile

Over **100**
executives attended
the Captive Forum Webinar

Marine and Specialty Risk Insurance

50%
reduction in profits tax rate

Insurtech

21
Sandbox pilots
approved

12
Sandbox applications
relating to virtual
onboarding

80
enquiries and
meetings handled

► Facilitative Measures for the Industry During COVID-19

33,000
policies sold through
non-face-to-face means

HK\$ 464 million
annualised premiums