保險業監管局
Insurance Authority

ANNUAL REPORT
2019–20

Leading Change and Propelling Growth

CONTENTS

CHAIRMAN'S MESSAGE

The past year was an eventful one for the Insurance Authority ("IA"), fraught with unprecedented challenges but yet filled with emerging opportunities. Key achievements made during the reporting period include taking over responsibility from the three former Self-Regulatory Organisations[1], engaging the industry in finalising the Risk-based Capital ("RBC") Regime, devising a group-wide supervisory framework, introducing measures to enhance competitiveness of Hong Kong as a global risk management centre, sustaining momentum on initiatives related to the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA") development and bringing insurance products in line with societal aspirations.

PROTECTING POLICY HOLDERS

On 23 September 2019, the IA commenced the statutory regulatory regime for all insurance intermediaries, heralding a new era of unified licensing, continuous professional training and disciplinary mechanisms. Our main attention will henceforth be shifted onto the Policy Holders' Protection Scheme.

The current solvency regime has served us well but is not in sync with prevailing international standards, which determine capital requirements based on risk exposure and asset-liability matching. This takes on greater significance in light of the unprecedented market volatilities brought about by COVID-19 and is the crucial component for a robust system to safeguard the insuring public. An iterative process of Quantitative Impact Studies has helped to calibrate the design parameters, taking into account technical merits and practical outcomes. Progress is on track for the RBC regime to be introduced in 2022 with an appropriate run-in period.

[1] The former Self-Regulatory Organisations are The Hong Kong Confederation of Insurance Brokers, The Professional Insurance Brokers Association and the Insurance Agents Registration Board formed under The Hong Kong Federation of Insurers.

Chairman's Message

PROMOTING COMPETITIVENESS

Hong Kong is a mature market, boasting top insurance density and penetration rates. Consolidating it as a premier base for regional headquarters set up by major international groups sharpens our edge as an international financial centre. Early enactment of the relevant bill and subsidiary legislation will provide a comprehensive supervisory framework for this purpose.

The other priority in terms of promoting competitiveness is crafting Hong Kong into a global risk management centre and insurance and reinsurance hub. A series of proposals have already been implemented to provide for improved tax concessions, expanded scope of risks taken up by captives and issuance of insurance-linked securities. We will take full advantage of the favourable environment so created to convince State-owned Enterprises in China that Hong Kong is an ideal launch pad for their overseas ventures.

ENHANCING SUSTAINABILITY

The GBA development is an attempt to leverage the complementary strengths of 11 cities in the region so that they could flourish as a dynamic cluster. During the reporting period, we worked closely with relevant Mainland authorities on the setting up of post-sale service centres by Hong Kong insurers and development of innovative cross-boundary insurance products, both aiming to facilitate an unimpeded flow of people, goods and capital across the entire enclave. It will not take long before people could choose to live, study or work in the GBA as if they never left Hong Kong. The vast supply of land, the access to skilled workers, the pool of information technology talents, and the fledging consumption market are perfect conditions for young entrepreneurs looking for a launch pad to kickstart their ventures. It is upon us to catapult the GBA into a secondary source of economic growth.

On the other hand, insurance is a unique trade predicated on trust and promises. In Hong Kong where a rapidly ageing population is served by a basic social safety net and highly subsidised healthcare, insurance could play a key role in inducing early retirement planning and pooling of risks, thus preventing public services from being overloaded. We have made a conscious start by experimenting with the Qualifying Deferred Annuity Policy eligible for tax deduction, which was met with overwhelming response. Analysis of consumer preferences and behaviour will offer insights on how to replicate the same success in other business lines. The balanced emphasis accorded to indigenous demands is also conducive to long-term sustainability.

IMPACT OF COVID-19

Many are saying that things will never be the same after COVID-19, but the key is what lessons we are learning from this "black swan" event and how to reach for the better. As Michelle Obama puts it,

"Don't reach for normal, reach for better."

The IA sees both challenges and enlightenment in the making, and has reacted by delicately balancing business facilitation with structural reforms. Some prime examples are phased introduction of the temporary facilitative measures for non-face-to-face selling of designated insurance products with compensating disclosure requirements and an extended cooling-off period, expedited approval of trial projects under the Insurtech Sandbox and training for intermediaries conducted through internet self-learning or virtual lectures. These initiatives constitute general relief while steering the traditional mindset towards alternative modes of distribution and digital transformation.

OUTLOOK FOR THE FUTURE

Hong Kong is no stranger to crises and has risen time and again from adversities, but it takes faith, unity and resolve for us to prevail. I call on the insurance industry to rally together with the community to ensure a full and speedy recovery once the pandemic begins to show signs of abatement. Finally, my sincere gratitude goes to the Non-Executive Directors and a diligent team of staff at the IA for their commitment and perseverance amidst a period of trying times.

Moses Cheng

Dr Moses Cheng
Chairman

CEO'S MESSAGE

"Riding on an encouraging response to the Qualifying Deferred Annuity Policies and playing to the expanding level of care sought after by an ageing population, the Insurance Authority will partner more closely with the industry in future to explore offerings that open up new opportunities while helping to share out the burden shouldered by the Government."

Mr Clement Cheung
Chief Executive Officer

There is a common saying that trauma and trepidation will reveal the true character of a person — the same goes for collective individuals in the insurance industry. This annual report covers an extraordinary period when Hong Kong was hit by a spate of social events, an escalating trade dispute between Mainland China and the United States, as well as the unforeboded onset of the COVID-19 pandemic. It is a true test of our nimbleness, resilience and cohesion.

SOCIAL ROLE OF INSURANCE

While all trades and professions are bracing for the fallout from a stealthy and highly infectious microbe, it is a sobering moment to reflect on how the insurance industry could better serve the community. The answer is not hard to find as valid claims on property damages and business interruptions sustained during the social events were promptly settled, caring relief such as premium holidays and refunds, expedited processing of medical claims, flexibility on class of hospital facilities and limited-time complimentary coverage were swiftly introduced amidst COVID-19. These are some fine examples of how insurance can answer societal needs.

CEO's Message

ADVERSITY VERSUS OPPORTUNITY

I live by the philosophy that adversities in life are inevitable. It is how you overcome these adversities that makes the difference. While COVID-19 has undoubtedly been a source of serious impediment to all walks of life, there is a silver lining. The reversal of fortune for business derived from Mainland visitors has rekindled interest in coping with emerging local demands. Riding on an encouraging response to the Qualifying Deferred Annuity Policies and playing to the expanding level of care sought after by an ageing population, the Insurance Authority ("IA") will partner more closely with the industry in future to explore offerings that open up new opportunities while helping to share out the burden shouldered by the Government.

Imposition of social distancing, on the other hand, is a powerful driver of Insurtech application that bodes well for 24/7 customer interaction, deeper financial inclusiveness and reduced protection gaps. The IA has adopted a three-pronged strategy to make this happen — phased introduction of temporary facilitative measures with alternative compliance requirements applicable only to non-face-to-face selling of designated insurance products, followed by approval of trial projects meeting full compliance requirements under the Insurtech Sandbox, and soon to be wrapped up by a shared-use virtual onboarding platform for smaller participants to launch cost-effective solutions. The rippling effect is already being felt by insurance intermediaries in terms of licence applications, continuing professional development courses and qualifying examinations. Let us not forget the four virtual insurers authorized under Fast Track, all registering a multifold increase in activities since the start of this year.

Another bright spot is the setting up of post-sale service centres in Guangdong-Hong Kong-Macao Greater Bay Area, whose functional importance has been clearly borne out by restricted cross-boundary passenger flows that prevented holders of insurance policies issued in Hong Kong from accessing the essential customer support to which they are entitled. We expect a meaningful breakthrough to be on the horizon.

SUPERVISION AND REGULATION

Viewed from the supervisory perspective, COVID-19 has placed additional strain on a global investment market reeling from rising geopolitical tensions. We responded by performing stress tests based on a further drop in interest rates and equity prices as well as widening of credit spreads. In parallel, conduct regulation has been stepped up so that eagerness to seal deals will not become an excuse for unethical behaviour.

Meanwhile, enactment of the relevant bill on group-wide supervisory framework, commencement of direct regulation on insurance intermediaries, completion of the third Quantitative Impact Studies on the Risk-based Capital Regime and satisfactory progress on finalisation of design for the Policy Holders' Protection Scheme will fortify our defences against anticipated market dynamics.

CONCLUSION

On behalf of my management team, I would like to conclude by thanking the IA Board under the visionary leadership of Dr Moses Cheng for its guidance and advice, which enabled us to persevere through a turbulent year with flying colours.

Clement Cheung
Chief Executive Officer

THE YEAR UNDER REVIEW

FINANCIAL ARRANGEMENTS

The Insurance Authority ("IA") is a financial regulator whose income is mainly derived from premium levies, authorization and annual fees, as well as specific user fees. Although the Government has provided a capital grant to support its establishment and initial years of operation, the IA must strive to achieve financial independence. Furthermore, we should exercise prudent financial management to ensure that resources are deployed in an optimal manner in carrying out our statutory functions and key activities.

FUNDING

Premium levies have been collected from policy holders since 1 January 2018. In 2019–20, the premium levy rate was at 0.06% of applicable premiums, subject to a cap of HK$60 and HK$3,000 for long term and general policies respectively. This rate will be adjusted progressively upwards to 0.10% by April 2021, subject to a cap of HK$100 and HK$5,000 for long term and general policies respectively.

Authorization and annual fees have been payable by insurers to the IA since 26 June 2017, comprising a fixed fee of HK$300,000 (HK$30,000 for captive insurers) and a variable fee at 0.0013% of insurance liabilities capped at HK$7 million. This rate will also be adjusted progressively upwards to 0.0039% of insurance liabilities by June 2022. In addition to specific user fees, a licensing fee will start to be receivable from insurance intermediaries in 2024.

INCOME AND EXPENDITURE

The IA took over all statutory functions from the former Office of the Commissioner of Insurance with effect from 26 June 2017. For 2019-20, income and operating expenditure were HK$248.2 million and HK$367.6 million respectively, resulting in a deficit of HK$119.4 million, which was met by a capital grant of HK$653 million from the Government.[1] Premium levies of HK$163 million together with authorization and annual fees of HK$68.8 million were our major sources of income, while staff costs of HK$291.9 million accounted for the bulk of operating expenditure.

[1] The Government provided an additional capital grant of HK$300 million to the IA in June 2020.

THE YEAR UNDER REVIEW

MARKET OVERVIEW

In 2019[1], the total gross premiums of the Hong Kong insurance industry increased by 10.2% to HK$566,887 million.

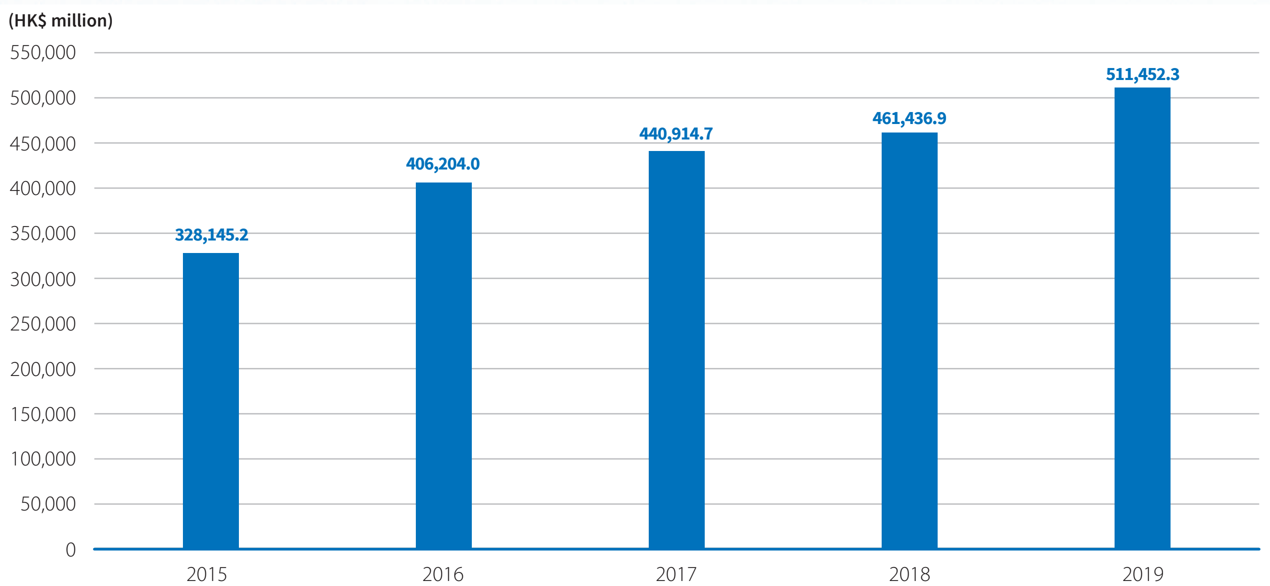
LONG TERM INSURANCE BUSINESS

Total office premiums for in-force long term business increased by 10.8% to HK$511,452 million in 2019. Individual Life category remained the dominant line of business, making up HK$440,243 million or 86.1% of total long term business. The respective number of policies in 2019 stood at 13.2 million, carrying net liabilities of HK$2,120,264 million.

Yearly contributions for Retirement Scheme contracts administered by insurers decreased by 5.3% to HK$8,877 million. In 2019, there were 65,728 Retirement Scheme contracts carrying net liabilities of HK$133,700 million. In-force office premiums for Group Life business increased by 22.7% to HK$4,276 million, carrying net liabilities of HK$1,418 million. In-force office premiums for Annuity business increased by 172.8% to HK$56,449 million. In-force office premiums for Other business (mainly Permanent Health business) increased by 4.3% to HK$1,608 million.

Office premiums for new Individual Life business increased by 0.4% to HK$151,180 million in 2019, including HK$139,421 million from Individual Life (Non-Linked) business and HK$11,759 million from Linked business, which recorded an increase of 4.7% and a decrease of 32.4% respectively. The total number of new policies increased by 2.4% to 1.3 million in 2019. Office premiums for new Individual Annuity business increased by 93.2% to HK$20,895 million. As at 31 December 2019, around 96,000 Qualifying Deferred Annuity Policies ("QDAPs") had been sold in the nine months since the launch of QDAP in April 2019, contributing total premiums amounting to HK$6,900 million. The average age of policy holders was 48.2, while the average annualised premiums per policy stood at around HK$72,000.

Office Premiums of Total In-Force Long Term Business



[1] Market Overview statistics cover insurers whose financial year ended between 1 January 2019 and 31 December 2019.

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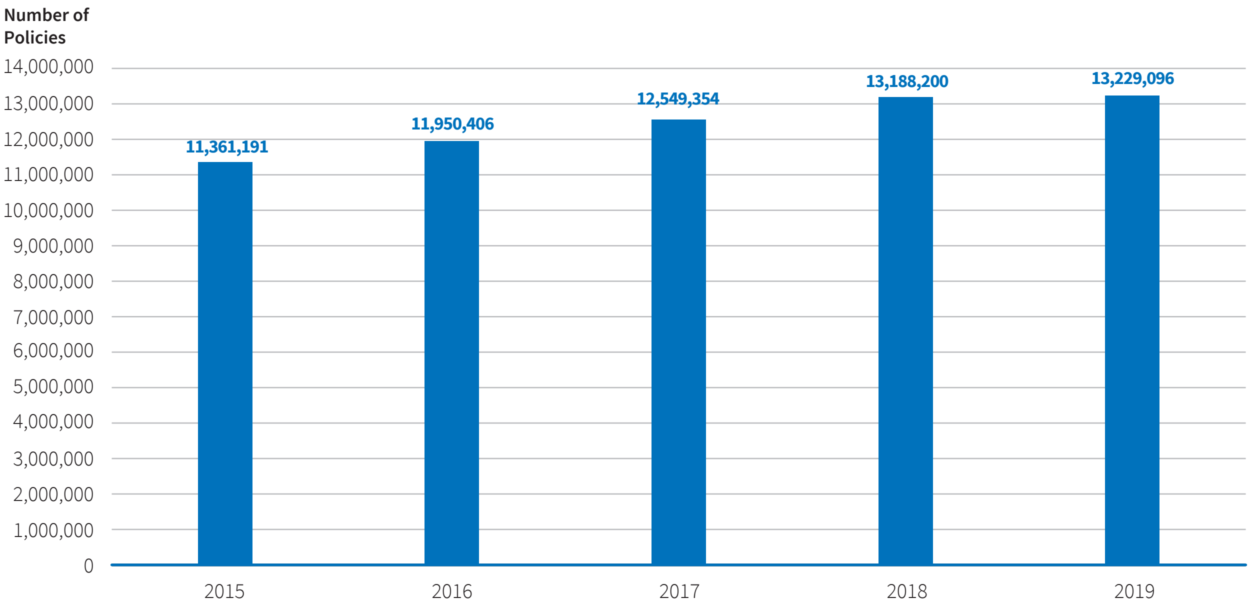
MARKET OVERVIEW

In-Force Individual Life Policies



GENERAL INSURANCE BUSINESS

Total gross written premiums ("GWP") recorded a growth rate of 4.4% to HK$55,435 million in 2019. Overall underwriting profit rose from HK$583 million in 2018 to HK$869 million in 2019, propelled by Property Damage business resulting from the absence of any major typhoons. As at 31 December 2019, gross and net claims incurred by authorized insurers due to the social events were HK$1,292 million and HK$411 million respectively.

Premium growth was mainly driven by the growth in Property Damage business, followed by Accident & Health business, which grew by 13.7% and 7.2% respectively. GWP growth in Property Damage business was mainly driven by new business as well as rates hardening after losses from super-typhoons in the previous two years. Ships, Goods in Transit, General Liability and Pecuniary Loss business recorded a slight drop in GWP. The overall claim experience for general insurance business was on a par with 2018, with a net loss ratio of 62.3% in 2019 compared with 62.4% in 2018.

Underwriting performance for Motor Vehicle business deteriorated in 2019, with an underwriting loss of HK$525 million compared with a loss of HK$248 million in 2018. All business lines, with the exception of Motor Vehicle, Ships, General Liability and Miscellaneous business (including Aircraft and Treaty Reinsurance business), recorded positive underwriting results in 2019, with Property Damage business delivering the strongest underwriting profit.

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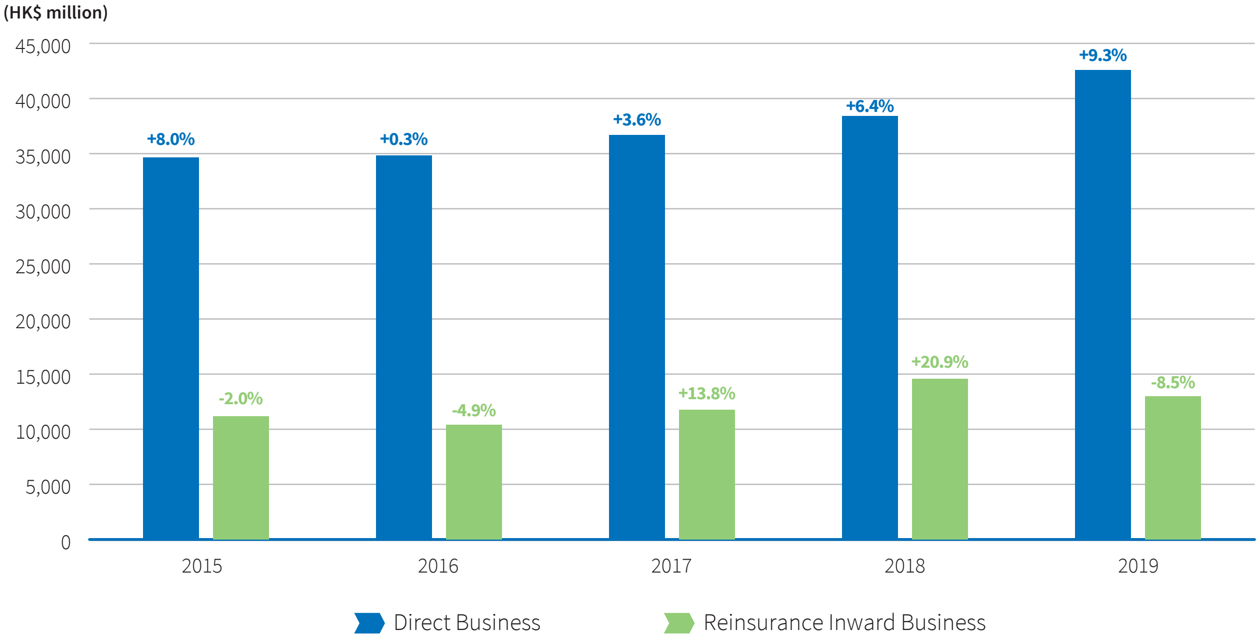
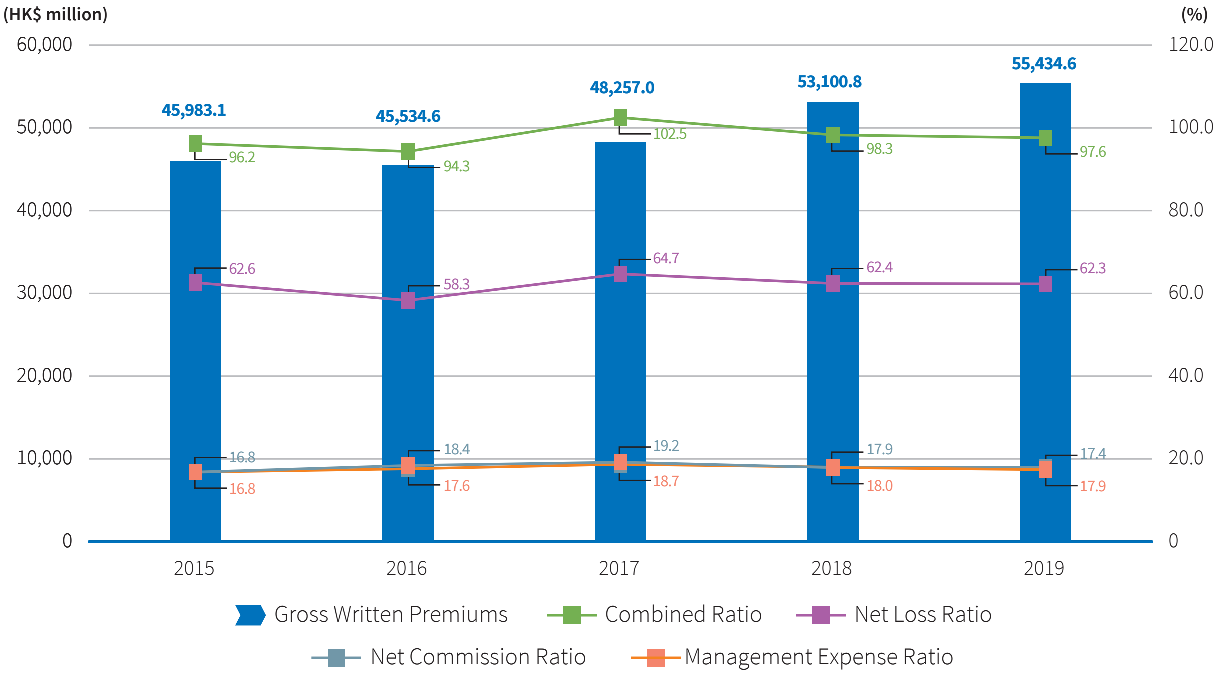
MARKET OVERVIEW

Growth of Gross Written Premiums



Overall Performance of General Insurance Business



Net Loss Ratio — Total of Net Claims Incurred and Unexpired Risks Adjustment expressed as a percentage of Net Earned Premiums
Net Commission Ratio — Net Commission Payable as a percentage of Net Earned Premiums
Management Expense Ratio — Management Expense as a percentage of Net Earned Premiums
Combined Ratio — Total of Net Loss Ratio, Net Commission Ratio and Management Expense Ratio

Details of industry statistics for long term insurance business and general insurance business are available on the Insurance Authority website.

The Year Under Review

MARKET OVERVIEW

KEY INDICATORS

	Unit	2017	2018	2019
ECONOMIC DATA[a]				
GDP *(at current market prices)*	HK$ million	2,659,384	2,835,161	2,865,679
Population *(Mid-year)*		7,391,700	7,451,000	7,507,400
Per Capita GDP *(at current market prices)*	HK$	359,780	380,507	381,714
Insurance Density				
Long Term Business	HK$	59,650	61,930	68,126
General Business	HK$	6,529	7,127	7,384
Insurance Penetration				
Long Term Business	%	16.6	16.3	17.8
General Business	%	1.8	1.9	1.9
INSURANCE MARKET STRUCTURE				
Number of Authorized Insurers				
Long Term		47	49	51
General		93	93	91
Composite		19	19	21
Total		159	161	163
Number of Licensed Insurance Intermediaries[b]				
Licensed Individual Insurance Agents		63,933	69,285	82,665
Licensed Technical Representatives (Agent)		25,881	25,536	26,641
Licensed Technical Representatives (Broker)		9,489	9,560	9,840
Licensed Insurance Agencies		2,447	2,422	2,413
Licensed Insurance Broker Companies		759	788	824
Total		102,509	107,411	122,383
INSURANCE MARKET STATISTICS				
Premium Income				
Long Term Business *(Office premiums)*	HK$ million	440,915	461,437	511,452
General Business *(Gross premiums)*	HK$ million	48,257	53,101	55,435
Annual Growth Rate				
Long Term Business	%	8.5	4.7	10.8
General Business	%	6.0	10.0	4.4
Individual Life Business				
Number of New Policies		1,271,068	1,289,816	1,320,196
Average Premium Size of New Policies	HK$	118,519	116,762	114,514
Number of In-force Policies		12,549,354	13,188,200	13,229,096
Premiums Per Capita of In-force Policies	HK$	56,151	57,220	58,641
Number of In-force Policies as a Percentage of Population	%	169.8	177.0	176.2
Local Assets Maintained for General Business[c]	HK$ million	117,458	87,657	92,637

[a] Data source: Census and Statistics Department

[b] Since 23 September 2019, the Insurance Authority ("IA") became the sole regulator to license and supervise all insurance intermediaries in Hong Kong. The number of licensed insurance intermediaries for 2019 were based on IA's figures. Comparative figures for 2017 and 2018 were provided by the three Self-Regulatory Organisations, i.e. The Hong Kong Confederation of Insurance Brokers, Professional Insurance Brokers Association and the Insurance Agents Registration Board set up by The Hong Kong Federation of Insurers under the self-regulatory regime.

[c] The figure for 2017 has been revised.

THE YEAR UNDER REVIEW

PRUDENTIAL REGULATION OF INSURERS

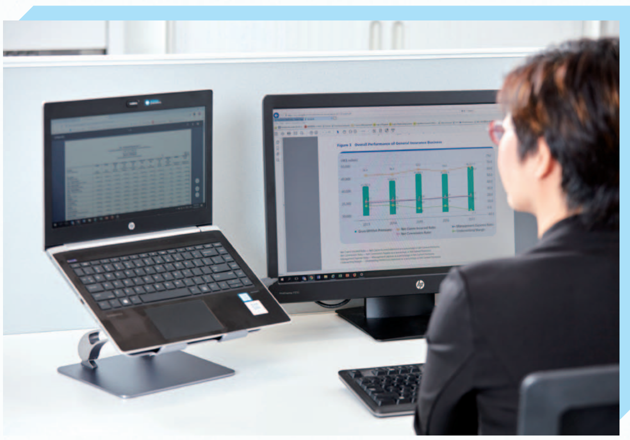
The Insurance Authority ("IA") is tasked with ensuring the general stability of the insurance industry through prudential regulation of insurers. We not only keep a close watch on local market activities but also collaborate with regulators across jurisdictions to monitor global insurance groups. During the reporting year, we continued to modernise our regulatory framework in the light of international developments.

FINANCIAL EXAMINATIONS

As at 31 March 2020, there were 163 authorized insurers in Hong Kong. To ensure these insurers have set aside sufficient capital to meet their insurance obligations and comply with solvency requirements and other regulatory standards, we analyse their annual and quarterly financial statements and various returns. Among others, we look at the business they have underwritten, and their capital adequacy, asset quality, insurance liabilities, actuarial reserving, and reinsurance arrangements. These rigorous financial examinations help us identify possible areas of risks that could compromise their financial strength and sustainability.

ON-SITE INSPECTIONS

Regular on-site inspections are an integral part of our supervisory process. They give us a better understanding of the business operations of individual insurers, including their compliance with regulatory requirements. Our inspections cover reviews of corporate governance practices, including risk management and internal control systems, of business strategies and operations assessed against industry practices, and of adherence to regulatory obligations in areas such as underwriting, claims handling, asset management, reinsurance arrangements and supervision of intermediaries. We determine the scope and depth of each inspection based on the nature and level of the risks involved.



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PRUDENTIAL REGULATION OF INSURERS

NEW AUTHORIZATIONS

Any company intending to carry on insurance business in or from Hong Kong must obtain authorization to do so from the IA. New authorizations during the reporting year are summarised in the table below.

In addition, the IA granted authorization to three authorized general insurers allowing them to carry on additional classes of business.

TRANSFERS OF INSURANCE BUSINESS

Under section 24 of the Insurance Ordinance ("IO"), an insurer that seeks to transfer its long term insurance business to another insurer is required to apply to the court for an order sanctioning the scheme of transfer, and the IA is entitled to be heard at the court. An insurer intending to transfer its general insurance business portfolio to another insurer may do so under section 25D of the IO by obtaining the approval of the IA. The sanction and approvals in respect of applications for these two types of businesses during the reporting year are summarised in the tables below.

New Authorizations

Name of Insurer	Place of Incorporation	Type of Business
Avo Insurance Company Limited	Hong Kong	General
China Reinsurance (Hong Kong) Company Limited	Hong Kong	Long Term
Swiss Re Asia Pte. Ltd.	Singapore	Composite
Well Link Life Insurance Company Limited	Hong Kong	Long Term
Zurich Life Insurance (Hong Kong) Limited	Hong Kong	Long Term

Transfers of Insurance Business

Under Section 24 of the IO

Date of Sanction by the Court	From	To
21 November 2019	Swiss Reinsurance Company Ltd	Swiss Re Asia Pte. Ltd.

Under Section 25D of the IO

Date of Approval by the IA	From	To
26 April 2019	QBE Hongkong & Shanghai Insurance Limited in respect of its Employees' Compensation (Construction) business under Class 13 (General Liability) of General Business	Swiss Re International SE
24 June 2019	AXA Corporate Solutions Assurance	XL Insurance Company SE
16 December 2019	Swiss Reinsurance Company Ltd	Swiss Re Asia Pte. Ltd.

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PRUDENTIAL REGULATION OF INSURERS

MERGERS AND ACQUISITIONS

Under the IO and other specific requirements imposed on individual insurers, authorized insurers are required to seek the IA's prior approval or notify the IA regarding the appointment of certain shareholder controllers. During the reporting year, we approved changes in the shareholder controllers of two authorized insurers in relation to merger and acquisition activities:

(1) On 1 November 2019, NWS Holdings Limited completed its acquisition of FTLife Insurance Company Limited.

(2) On 13 February 2020, Sino Dragon Holdings Limited, Forever Joy Investments Limited, BC Reinsurance Limited and BE Reinsurance Limited completed their respective acquisition of 16%, 16%, 14% and 14% shareholdings (60% of shares in total) in United Builders Insurance Company, Limited.

GROUP-WIDE SUPERVISION

To align Hong Kong's regulatory regime with international standards and practices, the IA has continued to develop a new group-wide supervision framework for multinational insurance groups, built on Hong Kong's extensive experience in this area. Based on a principle-based and outcome-focused approach, the new framework would enable the IA to exercise direct regulatory powers over the holding companies of multinational insurance groups, reinforcing Hong Kong's position as a preferred base for large insurance groups in Asia Pacific and a global insurance hub.

During the reporting year, the IA engaged relevant stakeholders in the development of the group-wide supervision framework, which will be anchored on three pillars: capital requirements, risk and governance requirements, and disclosure requirements. A discussion paper on the proposed framework was issued in October 2019 to seek the views of key stakeholders from the industry, professional bodies, and local and overseas financial regulators.

Group-wide Supervisor for Prudential plc Group

In October 2019, Prudential plc completed its demerger of M&G plc. Since the demerger, Prudential plc Group has become an Asia-led group and the IA has become group-wide supervisor for the group's international business post-demerger. The appointment of the IA to this role is a vote of confidence in Hong Kong, reaffirming the city's stature as an international financial centre. During the reporting year, the IA worked closely with the Prudential Regulation Authority of the United Kingdom and other regulators to ensure a smooth transition for group-wide supervision of Prudential plc Group. In October 2019, we held the first supervisory college after the demerger and commenced extensive supervisory activities in relation to the group.

As the group supervisor for Prudential plc Group, the IA hosts the first supervisory college post-demerger

The Year Under Review

PRUDENTIAL REGULATION OF INSURERS

We also worked on legislative amendments which sought to provide a clear and firm legal basis for the new framework, with the amendment bill passed in July 2020. Following on from the amendment bill, there will be two pieces of subsidiary legislation relating to the details of group capital requirements and prescribed fees applicable to insurance groups. In addition, the new framework will be supported by a series of guidelines issued by the IA, which will set out the principles and standards that the IA considers to be fundamental to proper governance, risk management, and other control aspects of insurance groups. The IA will continue to engage stakeholders in the development of the subsidiary legislation and the guidelines.

To perform group-wide supervision effectively and efficiently, the IA has been collaborating with regulators from different jurisdictions. Through supervisory colleges, regulators of the subsidiary insurance companies of an insurance group can enhance their co-operation and co-ordination on cross-border regulatory matters. Currently, the IA is the group-wide supervisor for AIA Group, FWD Group and Prudential plc Group. Between October 2019 and May 2020, we hosted three respective supervisory colleges for these groups.

The IA has also played a key role in driving closer international collaboration in the regulation of multinational insurance groups. As such, the IA has actively engaged in the Executive Committee, various other committees and working groups of the International Association of Insurance Supervisors ("IAIS"), the standard-setting body for insurance supervisors worldwide, in the development of the framework, standards and guidance in relation to group-wide supervision. Through our enhanced participation in IAIS, we have contributed to several key group-wide supervision initiatives, such as the implementation of the IAIS Insurance Capital Standard.

RISK-BASED CAPITAL REGIME

To keep pace with the evolving global financial landscape and changing international standards, the IA is developing a Risk-based Capital ("RBC") Regime, which aims to enhance corporate governance and risk management practices for the industry. Under the new regime, capital requirements for insurers need to be commensurate with the risks they bear. The RBC Regime will adopt a three-pillar approach, covering quantitative aspects, qualitative aspects, and regulatory reporting and public disclosures. In addition, the regime observes relevant IAIS Insurance Core Principles.

Supervision of Internationally Active Insurance Groups ("IAIGs")

As global insurance markets become more and more interconnected, greater collective efforts in the supervision of cross-border insurance groups will be indispensable to mitigate systemic risks of the insurance sector. According to IAIS, IAIGs are the largest and most complex insurers in the world, presenting supervisory challenges due to their international activity and size.

Being the group supervisor of two IAIGs[1], the IA is committed to strengthening group-wide supervision of these groups to protect policy holders and the financial stability of the insurance industry.

In November 2019, we joined IAIS's 26th Annual Conference in Abu Dhabi, at which IAIS adopted the Common Framework for the Supervision of Internationally Active Insurance Groups, establishing international supervisory standards and guidance for more co-ordinated and consistent supervision of IAIGs across jurisdictions. From 2020 onwards, IAIS will start a five-year monitoring period of the Insurance Capital Standard that will facilitate supervisory college discussions on IAIGs' group solvency. In addition, IAIS will adopt a Holistic Framework for the assessment and mitigation of systemic risks in the global insurance sector. This will entail a global monitoring exercise comprising individual insurer monitoring, sector-wide monitoring, collective discussion and robust implementation assessment.

1 AIA Group and Prudential plc Group

The Year Under Review

PRUDENTIAL REGULATION OF INSURERS

Regarding quantitative aspects under Pillar 1, the IA launched a third round of Quantitative Impact Studies ("QIS") in August 2019 to collect industry data and assess the impact of the proposed capital requirements on the capital adequacy of insurers. The QIS assisted the IA in understanding the impact of the solvency regime change and in forming a holistic view of policy decisions to be made under the RBC Regime. In April 2020, the IA shared observations from the QIS data with the industry. We target to carry out a public consultation in 2021 on the draft capital rules of the new regime. This should pave the way for introducing the legislative proposals to the Legislative Council by 2022 for implementation with an appropriate run-in period.

In relation to qualitative requirements under Pillar 2, the IA issued the Guideline on Enterprise Risk Management (GL21) in July 2019. The Guideline, which came into effect on 1 January 2020, lays down requirements for the enterprise risk management framework and mandates the submission of Own Risk and Solvency Assessment reports.

Preparatory work on Pillar 3 concerning disclosure requirements under the new regime will commence later in 2020. We will maintain close dialogue with stakeholders and plan to launch an industry consultation in 2021.

REGULATORY INITIATIVES

During the reporting year, the IA issued a number of guidelines to enhance the regulatory regime.

With the launch of the direct regulatory regime for insurance intermediaries on 23 September 2019, the IA became responsible for all aspects of the regulation of industry practitioners, including market conduct. During the reporting year, the IA issued six sets of guidelines relating to the sale of long term insurance policies. These guidelines, also effective from 23 September 2019, cover various aspects of conduct during the selling process, as shown in the table below. To promote better understanding of the new guidelines among insurers and insurance intermediaries, the IA has issued interpretation notes and conducted town hall briefings.

Given the increase in online activities and digital operations, cyber risks have become a major operational risk for insurers. To help insurers establish resilient cybersecurity frameworks, the IA issued the Guideline on Cybersecurity (GL20) in June 2019. GL20, effective from 1 January 2020, sets the minimum standard for cybersecurity that authorized insurers are expected to have in place and the general guiding principles which the IA uses in assessing the effectiveness of an insurer's cybersecurity framework.

Guidelines Governing the Sale of Long Term Insurance Policies

Guideline on Offering of Gifts (GL25)
Guideline on Sale of Investment-Linked Assurance Scheme ("ILAS") Products (GL26)
Guideline on Long Term Insurance Policy Replacement (GL27)
Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28)
Guideline on Cooling-off Period (GL29)
Guideline on Financial Needs Analysis (GL30)

The Year Under Review

PRUDENTIAL REGULATION

Regulatory Relief and Response to COVID-19

During the unprecedented times brought by the COVID-19 pandemic since early 2020, the IA's role as Hong Kong's insurance regulator has become more important than ever. While our mandate is to preserve the general stability of the insurance industry and protect policy holders, we have appreciated the challenges that the insurance sector has had to face as a result of the coronavirus, introducing a number of relief measures to help to tide the industry over this period.

In February 2020, the IA rolled out a set of temporary facilitative measures so that transactions for Qualifying Deferred Annuity Policy and Voluntary Health Insurance Scheme products could take place without face-to-face interactions. Compensatory features, such as disclosure of important product information at the point-of-sale and an extended cooling-off period of no less than 30 calendar days were introduced to ensure fair treatment for customers. These facilitative measures were extended in March 2020 to cover term life policies, refundable policies without substantial saving component and renewable policies without cash value[1]. The measures sought to reduce the risk of infection during the selling process and were well-received by the industry, successfully redirecting public attention towards simple protection products.

With a looming global economic downturn, the IA intensified its surveillance on macro-prudential risks to ascertain the impact of market volatilities on the industry. We stepped up monitoring of the solvency position of insurers and conducted stress tests to gauge their capital and liquidity status. To keep up our inspection plan, we made use of teleconferences and videoconferences to conduct inspections and maintain close communication with insurers.

To help the industry overcome the challenges posed by the pandemic, we also adopted a more supportive regulatory approach. For example, insurers were allowed to apply to defer submission of annual filing documents. For new guidelines relating to consumer protection under the direct regulatory regime of insurance intermediaries, full compliance will only be observed from 1 April 2021[2] to give a sufficient buffer for updating relevant documentation, controls and processes. In addition, we worked with the Actuarial Society of Hong Kong to offer flexibility in investment valuation for life insurers. Moreover, the IA continued to proactively promote wider adoption of technology. This move has been welcomed by the industry, with a number of insurers taking advantage of the Insurtech Sandbox to launch virtual onboarding initiatives. In this regard, the IA issued a circular in August 2020 setting out the relevant requirements. As of June 2020, five trial projects on virtual on boarding were launched under the Insurtech Sandbox.

One-off facilitative measures were also provided for insurance intermediaries. Insurance broker companies were given leeway to apply to defer submission of their audited accounts. For individual licensees, Continuing Professional Development ("CPD") assessment periods for 2019–20 and 2020–21 have been merged, with fulfillment and reporting deadlines for the combined period rescheduled to 2021. To further facilitate individual licensees in satisfying their CPD requirements through non-face-to-face platforms, the IA raised the cap on e-learning CPD hours to a maximum of 14 hours for the combined period, with no limit to CPD activities delivered via virtual classroom platforms.

1 In view of the pandemic development, the IA decided to extend the temporary facilitative measures to 31 December 2020.

2 This applies to GL25, GL27 to GL31.

The Year Under Review

PRUDENTIAL REGULATION

Regulatory Relief and Response to COVID-19 (Continued)

Regarding regulatory collaboration to mitigate the COVID-19 impact, we worked closely with fellow regulators and the Government to ensure the financial stability of Hong Kong. On the international front, the IA joined forces with regulators across jurisdictions to assess the impact of COVID-19 on the global insurance sector. To this end, we took part in an IAIS survey to facilitate information exchange among insurance supervisors worldwide. We also hosted thematic supervisory colleges to exchange views with insurance supervisors overseas regarding the impact of COVID-19 specific to the three insurance groups under our group-wide supervision.

Meanwhile, the industry took a number of voluntary measures to ease the burden of policy holders. These measures included extension of the grace period for premium payments to a maximum of 180 days, expansion of medical coverage, relaxation of hospital restrictions as well as simplified and expedited procedures for claims related to COVID-19. According to a survey released by The Hong Kong Federation of Insurers in June 2020, over 32,000 travel insurance policies have been granted refund, representing premiums of over HK$9.6 million. In total, the industry has offered to defer the receipt of payment of annualised premiums exceeding HK$8.4 billion. These results are another testament to the pivotal function of insurance in trying times.

THE YEAR UNDER REVIEW

PRUDENTIAL REGULATION OF INSURANCE INTERMEDIARIES

Year 2019 saw a new chapter of Hong Kong insurance regulation with the transition from the self-regulatory regime[1] for the supervision of insurance intermediaries to the new direct regulatory regime implemented by the Insurance Authority ("IA"). The new regime aims to strengthen the professional standards of insurance intermediaries and enhance protection for existing and potential policy holders.

DIRECT REGULATORY REGIME

Since 23 September 2019, the IA has become the sole insurance regulator in Hong Kong, directly regulating more than 120,000 insurance intermediaries with regulatory powers in relation to licensing, inspection, investigation and disciplinary sanctions.

To assist the transition, insurance intermediaries holding a valid registration with a former Self-Regulatory Organisation ("SRO") immediately before the commencement of the new regime were automatically deemed to have a licence to carry on regulated activities under the new regime for three years. These deemed licensees are expected to apply for their first new licence under the new regime during this three-year transitional period. With ongoing communication with industry stakeholders, the IA has proposed measures to ensure the application process for deemed licensees is both efficient and effective.

As regards applications for new licences (i.e. new entrants to the industry), during the period from 23 September 2019 to 31 March 2020, the IA received around 10,000 such applications. The IA had the challenge of addressing this influx right at the outset of the new regime, which was compounded by paper applications, an unusually large number of terminations having to be processed at year end, and certain common misunderstandings about information requirements and the appropriate forms to use. To cope, we redeployed our internal manpower to handle the unexpected workload and ensure leeway was allowed for colleagues to gain practical experience. In December 2019, the situation largely stabilised and improved.

[1] Under the self-regulatory regime, insurance intermediaries were regulated by three Self-Regulatory Organisations, namely The Hong Kong Confederation of Insurance Brokers ("CIB"), The Professional Insurance Brokers Association ("PIBA") and the Insurance Agents Registration Board set up by The Hong Kong Federation of Insurers ("HKFI").

The Year Under Review

PRUDENTIAL REGULATION OF INSURANCE INTERMEDIARIES

New Regulatory Standards and Requirements

In developing the suite of rules, codes of conduct and guidelines which took effect on 23 September 2019 setting the standards and regulatory requirements for the new regime, the IA proactively elicited views from the insurance industry and the public. The numerous consultations afforded the IA the opportunity to introduce and engage with a wide spectrum of stakeholders across society, including the former SROs. The entire consultative process has helped to align regulatory expectations between the IA and the industry and achieve the right balance between protection and practicality. In developing the standards, the IA also made reference to the requirements previously set by the former SROs as well as the international standards issued by the International Association of Insurance Supervisors. During the reporting year, the IA issued seven sets of rules, codes and guidelines in relation to the regulation of insurance intermediaries.

To provide further guidance on the new requirements, the IA published two Explanatory Notes on Licensing Requirements for Employees of Authorized Insurers and Licensing Requirements for the Banking Sector in November 2018 and October 2019 respectively. The IA also issued two sets of frequently asked questions relating to the financial requirements for insurance broker companies, and the licensing process and requirements for insurance intermediaries in November 2019 and January 2020 respectively.

Enhancing Regulatory Efficiency

To increase our operational efficiency for the regulation of over 120,000 intermediaries, the IA developed a new IT system to digitalise the licence application process and facilitate the transfer of data and records from the former SROs to the IA, including details of registrations, complaints, disciplinary actions and appeals in relation to insurance intermediaries. With an electronic workflow in place, we have streamlined licensing, complaint handling, investigations and disciplinary proceedings.

The new system also encompassed an online portal for the industry to submit electronic licence applications. By going digital, we were able to expedite our internal review process and the handling of licensing applications, with the portal offering faster data access, easier application monitoring, simpler record-keeping and shortened approval time, increasing the transparency of our regulatory processes and efficiency. The portal also enables seasonal increases in applications to be processed with the same degree of efficiency. As of

Rules, Codes and Guidelines in Relation to the Regulation of Insurance Intermediaries

Insurance (Maximum Number of Authorized Insurers) Rules
Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules
Code of Conduct for Licensed Insurance Agents
Code of Conduct for Licensed Insurance Brokers
Guideline on Exercising Power to Impose Pecuniary Penalty in Respect of Regulated Persons Under the Insurance Ordinance (Cap. 41) (GL22)
Guideline on "Fit and Proper Criteria" for Licensed Insurance Intermediaries Under the Insurance Ordinance (Cap. 41) (GL23)
Guideline on Continuing Professional Development for Licensed Insurance Intermediaries (GL24)

The Year Under Review

PRUDENTIAL REGULATION OF INSURANCE INTERMEDIARIES

March 2020, the IA granted access to the online portal to corporate accounts for 46 insurers, 52 insurance agencies and 190 insurance broker companies. Individual licensees appointed by these insurers, agencies and broker companies account for around 70% of the total number of individual licensees in Hong Kong, and many of these individuals also activated individual accounts for the online portal. We saw a substantial increase in online portal usage during the COVID-19 pandemic in the first half of 2020. It is expected that portal usage will further increase in the second half of 2020 as the industry becomes more familiar with it.

E-learning

To encourage e-learning, the IA allows individual licensees to earn up to five[2] Continuing Professional Development ("CPD") hours in each assessment year by undertaking e-learning activities as defined in the Guideline on Continuing Professional Development for Licensed Insurance Intermediaries (GL24). From March 2020 onwards, the IA also started to accept CPD activities delivered in virtual classroom mode, which uses video conferencing to replace physical face-to-face learning. This allows insurance intermediaries to fulfil CPD requirements by taking both e-learning and virtual classroom courses.

Ethics Promotion Campaign for the Insurance Industry

We attach great importance to the professionalism and probity of insurance intermediaries. To raise awareness of corruption risks and the importance of professional ethics, the IA and the Independent Commission Against Corruption ("ICAC") have jointly organised a two-year ethics promotion campaign for the insurance industry commencing in 2019.

The campaign, entitled "Integrity for Success", features an online learning course and e-CPD module covering topics ranging from anti-corruption laws to common integrity issues. The e-CPD module, jointly launched by the ICAC and HKFI, is one of the first such courses under "Ethics or Regulations" in GL24.

To make learning more engaging, video clips, animations and online quizzes are used to highlight corruption risks and ethical challenges faced by insurance practitioners. To provide more comprehensive educational resources, a dedicated website was also launched, with case studies, feature articles and integrity messages that address ethical concerns and corruption prevention needs specific to the insurance industry.

The IA and the ICAC have jointly launched an ethics promotion campaign entitled "Integrity for Success" for the insurance industry

[2] As part of COVID-19 facilitative measures, the maximum number of CPD hours for e-learning activities for each of the first two CPD assessment years (i.e. for 2019-20 and 2020-21) was increased from five CPD hours to seven CPD hours. In other words, a maximum of 14 CPD hours can be earned via e-learning activities for the first two assessment years.

The Year Under Review

PRUDENTIAL REGULATION OF INSURANCE INTERMEDIARIES

Number of Licensed Insurance Intermediaries by Licence Type (as at 31 March 2020)

Licensed Insurance Intermediaries	Number of licensees with appointing principals	Number of licensees without appointing principals	Total number of licensees
Individual Licensees			
Licensed Individual Insurance Agents	80,242	5,045	85,287
Licensed Technical Representatives (Agent)[a]	26,027	1,241	27,268
Licensed Technical Representatives (Broker)	9,781	433	10,214
Total Number of Individual Licensees	**116,050**	**6,719**	**122,769**
Business Entities			
Licensed Insurance Agencies[a]	2,389	23	2,412
Licensed Insurance Broker Companies	N/A	N/A	825
Total Number of Licensed Insurance Intermediaries			**126,006**

[a] There were 41 authorized institutions (i.e. banks) registered as licensed insurance agencies, with around 19,430 individuals registered as their licensed technical representatives (agent).

INSURANCE BROKER COMPANIES

On-site inspection is an effective supervisory tool for assessing insurance broker companies' level of compliance. From April to September 2019, the IA conducted on-site inspections of eight insurance broker companies to assess their compliance with relevant regulatory requirements such as the Minimum Requirements for Insurance Brokers, anti-money laundering requirements, and conduct requirements for Mandatory Provident Fund business. The inspections also afforded the opportunity to gain an understanding of their corporate culture and internal controls. We identified a total of 42 internal control deficiencies and potential non-compliances. The insurance broker companies concerned were required to take remedial actions.

Throughout the reporting year, we also maintained close dialogue with the industry, including the two major insurance broker bodies, the CIB and PIBA, on the implementation of the new regulatory regime.

INSURANCE AGENCIES

To prepare for the direct regulation of insurance agencies and obtain a broad and general understanding of this segment, the IA undertook a market survey in mid-2019 to collect business and financial information from insurance agencies. The survey's response rate was 96% and the results were published on the IA website in December 2019.

During the reporting year, the IA also carried out its first on-site inspection of a licensed insurance agency and conducted supervisory reviews of three licensed insurance agencies under the new regulatory regime, in order to assess their readiness for compliance with the conduct and corporate governance requirements set out in the Code of Conduct for Licensed Insurance Agents. Any control deficiencies identified will result in the IA requiring remedial actions to be taken.

With regard to the regulation of banks in their capacity as insurance agencies, the IA has delegated its frontline inspection and investigation powers to the Monetary Authority. The IA and the Monetary Authority signed a Memorandum of Understanding in July 2019 setting out the roles and responsibilities of both regulators and providing a framework for co-operation between them in respect of the regulation and supervision of banks that carry on regulated activities.

The Year Under Review

PRUDENTIAL REGULATION OF INSURANCE INTERMEDIARIES

ENFORCEMENT ACTIONS

As part of the new regulatory regime and to provide better protection for policy holders, the IA has been provided with express powers under the Insurance Ordinance ("IO") to initiate investigations and impose a range of disciplinary sanctions on regulated persons. Regulated persons include licensed insurance intermediaries and, in the case of licensed insurance broker companies and licensed insurance agencies, their responsible officers and the persons concerned in the management of their regulated activities. The circumstances under which the IA may initiate a formal investigation are set out in the IO.

Upon commencement of the new regulatory regime, the IA received a total of 280 unresolved investigations, disciplinary proceedings and appeal cases from the former SROs. All cases received from the former SROs, and other cases of alleged contravention that occurred before 23 September 2019 but came to light after that date, are required to be handled by the IA by reference to the applicable rules (such as the codes, guidance notes and guidelines issued by the former SROs) that would have applied to the cases had they been handled by the former SRO concerned. To promote transparency, the IA has gazetted all these applicable rules, which are available on the IA website for reference. As of March 2020, 99 of the 280 unresolved cases had been closed. In closing these cases, various supervisory actions were taken against the insurance intermediaries concerned, including the issuance of Compliance Advice Letters.

In relation to misconduct and contraventions taking place after 23 September 2019, the IA handles such cases in accordance with the new IO provisions as well as the current rules, codes and guidelines issued by the IA.

The IA may take disciplinary actions against a regulated person if the person is guilty of misconduct, or when the person is, in the opinion of the IA, not fit and proper. Before the IA exercises its disciplinary powers, the regulated person concerned will always have a reasonable opportunity of being heard.

To ensure that our investigation and disciplinary proceeding processes are fair, impartial and robust, we have taken into account the views of the industry, including the former SROs, and made reference to the practices of local and overseas financial regulators during the development of the relevant procedures. To enhance the industry's understanding of our investigation and disciplinary proceeding process, several briefing sessions were held for the members of the former SROs in September 2019 and details of the disciplinary process have been published on the IA website.

A regulated person, if aggrieved by the disciplinary decision of the IA, may apply in writing to the Insurance Appeals Tribunal ("IAT") for the decision to be reviewed. The IAT is an independent quasi-judicial body which has the jurisdiction to review, among other matters, disciplinary decisions made by the IA under the IO.

As required under the IO, the records of disciplinary sanctions taken against insurance intermediaries by the former SROs for the past five years have also been made available on the Register of Licensed Insurance Intermediaries on the IA's website for public review.

The Direct Regulatory Regime for Insurance Intermediaries — Investigation and Disciplinary Actions

THE YEAR UNDER REVIEW

CONSUMER PROTECTION

The Insurance Authority ("IA") strives to safeguard the interests of the insuring public. In 2019–20, we undertook a host of initiatives in line with this goal, including working with the Government on its proposal to create a Policy Holders' Protection Scheme ("PPS") and issuing guidelines on conducting insurance business.

POLICY HOLDERS' PROTECTION SCHEME

To provide a safety net for policy holders in the event of an insurer's insolvency, the Government has introduced a proposal to establish a PPS. The proposed scheme would cover most types of direct life and non-life policies, benefitting individual policy holders, small and medium enterprises and owners' corporations. If an insurer become insolvent, the PPS would pay the first HK$100,000 of any claim and 80% of the remaining balance, up to HK$1 million per policy, per claim or per insured event, whichever is applicable.

During the reporting year, the IA worked closely with the Government on preparing draft legislation for the PPS. A consultancy study was commissioned to give an updated assessment of the key parameters of the scheme, including target fund sizes and levy rates. The bill is expected to be introduced into the Legislative Council in the second half of 2021.

The Year Under Review

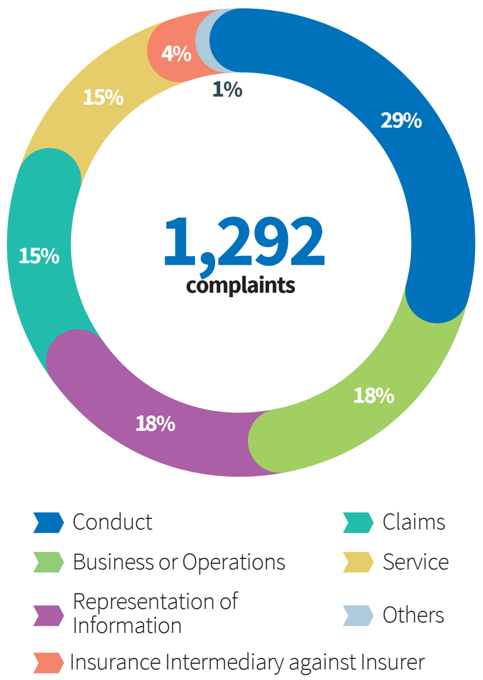
CONSUMER PROTECTION

COMPLAINT HANDLING

In 2019–20, the IA received a total of 1,292 complaint cases. The top three complaint categories concerned conduct, representation of information and insurers' business or operations.[1]

There were 222 complaint cases that could not be disposed of by the former Self-Regulatory Organisations[2] before the commencement of the new direct regulatory regime for insurance intermediaries on 23 September 2019. These cases have been transferred to the IA for further handling.

Summary of Complaints in 2019-20



REGULATING SELLING AND AFTER-SALES PROCESSES

During the reporting year, the IA issued a number of guidelines to ensure fair treatment of policy holders.

To step up regulation of selling and after-sales processes under the new direct regulatory regime for insurance intermediaries commencing on 23 September 2019, the IA has refined the codes and guidelines governing the sale of long term insurance policies issued by The Hong Kong Federation of Insurers. The IA has not only reviewed these codes and guidelines for ensuring fair treatment of customers, but also proactively sought the industry's views on implementation matters. During the reporting year, the IA issued six sets of guidelines relating to the offering of gifts, sale of Investment-Linked Assurance Scheme products, policy replacement, benefit illustrations, cooling-off period and financial needs analysis, which took effect from 23 September 2019.

To ensure fair treatment for consumer in all aspects of medical insurance business, the IA published the Guideline on Medical Insurance Business (GL31)[3] in November 2019, providing guidance on the minimum standards and practices for insurers and insurance intermediaries. GL31 covers all types of medical insurance business, including both individual and group medical insurance policies. In preparing GL31, the IA took comments from the insurance industry and various stakeholders into account, and made reference to the Insurance Core Principles, Standards, Guidance and Assessment Methodology ("ICP") promulgated by the International Association of Insurance Supervisors, in particular ICP 19 on fair treatment of customers.

1 Details of complaint categories available on the IA website.

2 The former Self-Regulatory Organisations comprise: The Hong Kong Confederation of Insurance Brokers, The Professional Insurance Brokers Association and the Insurance Agents Registration Board set up by The Hong Kong Federation of Insurers.

3 GL31 will take effect from 23 September 2020. As a relief measure to help the industry cope with the impact of the COVID-19 pandemic, the IA will adopt a flexible approach in determining if requirements under GL31 have been observed for a period up to 31 March 2021 and require full compliance from 1 April 2021.

THE YEAR UNDER REVIEW

MARKET DEVELOPMENT

In addition to prudential regulation of the insurance industry, the Insurance Authority ("IA") strives to reinforce Hong Kong's position as a global risk management centre and a regional reinsurance and insurance hub. To this end, we have launched a number of market development initiatives to help the industry seize business opportunities, in particular those arising from the Belt and Road Initiative ("BRI") and development of the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA"). Moreover, we proactively promote Insurtech to inject greater vitality and diversity into the local market.

THE BELT AND ROAD INITIATIVE

The BRI is a grand vision to connect Asia, Africa and Europe through multibillion-dollar infrastructure projects and investments across nations. Being exposed to a multitude of specialty risks (e.g. catastrophe, political, war and trade-related risks) given the high complexity of these projects, State-owned Enterprises ("SOEs") investing overseas need effective risk management and insurance solutions to improve the bankability of their projects and to secure financing. With its strong presence of international insurers, reinsurers and insurance brokers that have the expertise and experience in insuring multinational projects, Hong Kong is uniquely positioned to provide professional risk management services and comprehensive insurance coverage for BRI projects. To bring more BRI business to Hong Kong, our market development strategy entails four pillars covering reinsurance, captive insurance, marine and specialty risk insurance, and insurance-linked securities ("ILS"). These pillars will help to attract stakeholders in the value chain to increase their presence in Hong Kong, building a BRI-related insurance ecosystem.

Reinsurance

To further the development of reinsurance business in Hong Kong, particularly reinsurance placement for BRI projects, we have been working with the China Banking and Insurance Regulatory Commission ("CBIRC") on obtaining preferential treatment for Hong Kong reinsurers. With the support of the Central Government, the IA and CBIRC reached a consensus in July 2018 that under the "China Risk Oriented Solvency System", the capital requirement on Mainland insurers would be reduced when they cede business to qualified Hong Kong professional reinsurers, rendering Hong Kong reinsurers more competitive in obtaining reinsurance business from the Mainland. In return, Hong Kong reinsurers could leverage their strengths to help Mainland insurers manage solvency volatility in the event of major catastrophe losses. In July 2019, the CBIRC extended this preferential treatment to 30 June 2020. As of March 2020, five Hong Kong-based professional reinsurers had qualified and benefited from the arrangement. Between 2018 and 2019, qualified Hong Kong professional reinsurers achieved an annual growth rate of 21% for the gross written premiums of their Mainland business.

The Year Under Review

MARKET DEVELOPMENT

Asian Insurance Forum

To drive growth and prosperity for the insurance markets in Hong Kong and Asia, the IA organised the second Asian Insurance Forum in December 2019.

The annual flagship event gathered around 500 local and international delegates, including financial regulators, industry leaders and academics, to exchange views on some of the most pertinent topics relating to the insurance industry under the theme "Connectivity and Innovation — The Key to Competitiveness and Inclusiveness", with a special emphasis on BRI and GBA development. The forum received overwhelming response, and the IA will continue to host this kind of high-level platform to help set direction and strategies for future evolvement of the insurance industry.

Mrs Carrie Lam, Chief Executive of the Hong Kong Special Administrative Region, officiates at the Asian Insurance Forum 2019

The Financial Secretary, Mr Paul Chan, speaking at the forum

Mr Liu Fushou, Chief Counsel of the China Banking and Insurance Regulatory Commission, gives a keynote speech

Dr Moses Cheng, Chairman, delivers the opening remarks

The Year Under Review

MARKET DEVELOPMENT

In addition, Hong Kong's role as a major reinsurance hub has been augmented by the presence of the largest reinsurance group in Asia. In December 2019, the IA granted new authorization to a local subsidiary of China Reinsurance Group to carry on long term business in or from Hong Kong. This newcomer provides reinsurance solutions to insurers operating in Hong Kong and Asia.

Captive Insurance

Functioning like an offshore financial centre within national boundaries, Hong Kong is an ideal domicile for Mainland enterprises, especially SOEs, to set up captive insurers and manage risks associated with their BRI investments. Having a risk management vehicle within a group of companies in the form of a captive insurer induces the group to implement appropriate controls, and improve its safety and business practices. Captive insurers thus provide multinational groups with the ability to deploy holistic risk management strategies.

Currently, there are four captive insurers authorized in Hong Kong. To further strengthen the role of captive insurers as an intra-group risk management centre, we formulated legislative amendments to expand the scope of insurable risks of captive insurers in Hong Kong, and the amendment bill was passed in July 2020. To make Hong Kong more appealing as a captive domicile, a 50% concession in the profit tax rate on insurance business of onshore and offshore risks has been granted.

Following the consensus reached between the IA and the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") in February 2019, we continued our efforts to maintain regular liaison and reach out to SOEs. In July 2019, the IA participated in the second high-level Belt and Road roundtable co-organised by the Hong Kong Monetary Authority's Infrastructure Financing Facilitation Office ("IFFO") and SASAC. During the roundtable, we shared our views on how setting up captives could help SOEs to leverage the competitive edge of Hong Kong as a comprehensive financing and risk management centre for their overseas investment and international expansion.

Marine and Specialty Risk Insurance

To consolidate Hong Kong's position as a major international insurance hub, the Government has put forward legislative amendments to halve the profit tax rate for non-life insurers and insurance broker companies involved in marine insurance and the underwriting of specialty risks. The relevant legislative amendments were passed in July 2020. This measure could help Hong Kong capture more BRI business and support the development of high value-added maritime services by lowering the operating costs of non-life insurers and broker companies involved in BRI and marine insurance. We will continue to look at different regulatory incentives as well as facilitative measures to invigorate Hong Kong's marine and specialty risk insurance market. To achieve this, we hosted forums in June and November 2019 to provide a platform for continuous dialogue between the IA and the Protection and Indemnity community in Hong Kong.

Insurance-linked Securities

As the globe is increasingly exposed to natural disasters such as typhoons and earthquakes, there are growing demands for risk transfer against catastrophic risks. ILS such as catastrophe bonds are alternative risk management tools for transferring insurance risk to the capital market. They will not only improve the capacity of the insurance industry, but also give institutional investors additional options for diversifying their investment risks.

As the risk exposure of ILS is currently focused on the United States and Europe, there is strong potential for Asia. As an international financial centre with ample liquidity, free flow of capital, a sound legal system as well as a wealth of talent in insurance and securities, Hong Kong has what it takes to become a preferred ILS market.

The Year Under Review

MARKET DEVELOPMENT

As announced in the 2018 Policy Address and the 2019–20 Budget, the Government supports the formation of special purpose vehicles for issuing ILS in Hong Kong. In November 2019, the Central Government also encouraged Mainland insurers to issue catastrophe bonds in Hong Kong, cementing the city's position as a risk management centre catering to the needs of the BRI and GBA.

During the reporting year, the IA prepared the legislative amendments to provide for a bespoke, streamlined regulatory framework for the issuance of ILS through the formation of special purpose insurers. The amendment bill was passed in July 2020. To create a sustainable and vibrant market environment, the IA is establishing working groups comprising stakeholders along the value chain, such as Mainland regulators, reinsurers, ILS experts, legal advisors, investors and professional service providers. These working groups will seek industry feedback on the proposed regulatory framework and iron out the implementation details.

Connecting BRI Stakeholders

To help BRI project owners and investors identify their risk management and insurance needs and derive optimal solutions, the IA has set up the Belt and Road Insurance Exchange Facilitation ("BRIEF") platform. The platform aims to bring together key stakeholders to unleash synergies for exploiting prospects arising from BRI. To this end, the IA has set up a sitelet to facilitate exchange of intelligence among BRIEF members and other stakeholders. As of March 2020, the number of BRIEF members had grown to 41, including insurers, reinsurers, captive insurers, insurance brokers and law firms. During the reporting year, BRIEF and IFFO jointly published an article on the strategic roles of insurance and guarantee in project risk management, giving insight for the development of risk management strategy.

Mr Simon Lam, Executive Director, General Business (far left), speaking at the Belt and Road Summit

The Year Under Review

MARKET DEVELOPMENT

During the reporting year, we continued our engagement activities for BRI stakeholders. In September 2019, the IA hosted a thematic breakout forum at the Belt and Road Summit co-organised by the Government and the Hong Kong Trade Development Council. At the forum, we discussed how insurance and project finance are interlinked to underpin the commercial viability of enterprises with BRI projects, especially SOEs.

GREATER BAY AREA

The fundamental policy objective underlying the GBA development is to leverage the complementary advantages of 11 cities in the region to smoothen the flow of people, goods, capital and information, thereby creating a dynamic cluster to achieve co-ordinated economic development. In keeping with this vision, the Outline Development Plan for the GBA promulgated in February 2019 draws up a blueprint for closer collaboration and mutual support among the cities, including a number of initiatives relevant to the insurance industry in Hong Kong such as joint development of innovative cross-boundary motor vehicle and medical insurance products. We will work closely with relevant Mainland authorities to implement initiatives contained in the Outline Development Plan. We will also continue to pursue the proposed setting up of after-sale service centres in the GBA catering for people holding policies issued by Hong Kong insurers. During the reporting year, the IA led delegations with representatives of The Hong Kong Federation of Insurers ("HKFI") and other industry stakeholders to meet with Mainland authorities to exchange ideas on promoting various GBA initiatives.

To provide greater convenience for using the Hong Kong-Zhuhai-Macao Bridge, we spared no effort in facilitating procurement of statutory motor insurance under the different regulatory regimes of Hong Kong, the Mainland and Macao. Specifically, the IA met in May 2019 with the HKFI and seven insurers providing coverage for vehicles accessing the bridge, urging them to explore product innovation for greater user convenience.

The Year Under Review

MARKET DEVELOPMENT

INSURTECH AND VIRTUAL INSURERS

Since September 2017, the IA has provided Fast Track and the Insurtech Sandbox to foster Insurtech development in Hong Kong.

Under Fast Track, a dedicated queue is available to expedite new authorization sought by applicants proposing to rely only on digital distribution channels, without recourse to insurance intermediaries. The first case was granted in 2018. Three more virtual insurers were authorized by the IA between October 2019 and May 2020. In total, there are two long term and two general virtual insurers, striving to tap into underserved market segments while improving customer experience and achieving a better value proposition. Eventually, Insurtech will help to redefine insurance and deepen financial inclusiveness.

The Insurtech Sandbox enables authorized insurers to test innovative applications of new technology in a controlled environment and demonstrate broad compliance with prevailing supervisory requirements. As of June 2020, 13 pilot trials had been granted, including five relating to virtual onboarding initiatives.

The Insurtech Facilitation Team set up by the IA remains in close touch with insurers and the technology community, soliciting advice on and enhancing understanding of the current regulatory regime. During the reporting year, the team handled around 70 enquiries and held more than 40 meetings with various stakeholders, including local and international insurers, Fintech firms, regulators and industry organisations.

GREEN AND SUSTAINABLE FINANCE

Climate change has become a major source of peril for the global economy and green finance is gathering momentum worldwide. In the face of rising environmental risks, insurers could play multiple roles in helping society to achieve climate change goals and targets by contributing to green finance, by assisting people and corporates to assess and mitigate their environmental risk exposures, by designing and marketing green insurance products, and by shaping the behaviour of asset owners and managers through long-term investment.

In May 2020, the IA attended the inaugural meeting of the Green and Sustainable Finance Cross-Agency Steering Group together with the Hong Kong Monetary Authority, the Securities and Futures Commission, Hong Kong Exchanges and Clearing Limited, the Mandatory Provident Fund Schemes Authority, the Environment Bureau as well as the Financial Services and the Treasury Bureau. The Steering Group will accord priority to regulatory policy and market development, bolstering the status of Hong Kong as a leading green and sustainable finance centre in Asia and the world.

Hong Kong financial regulators and government officials attend the inaugural meeting of the Green and Sustainable Finance Cross-Agency Steering Group

The Year Under Review

MARKET DEVELOPMENT

Bridging the Protection Gap

Despite growing affluence, many Asian economies including Hong Kong, still experience glaring protection gaps. Driven by mainstream demands, the long term sector is dominated by products with embedded savings or investment features. To expand the product mix for better protection, the IA has been a strong advocate for the Qualifying Deferred Annuity Policy ("QDAP") and Voluntary Health Insurance Scheme ("VHIS") products.

To encourage voluntary savings, the IA was tasked by the Government to launch QDAP, which was achieved in April 2019, QDAPs are tax deductible and yield a stable income stream for retirement planning. As at March 2020, the IA had certified 24 QDAPs[1] offered by 19 long term insurers with around 133,000 policies issued, generating total annualised premiums of HK$9.4 billion. The average age of policy holders is 47.5 years and average annualised premiums are around HK$71,000 per policy, surpassing the tax deduction limit of HK$60,000. Meanwhile, demand for healthcare services is rising amidst rapid demographical changes. The IA partnered with the Food and Health Bureau in April 2019 to launch VHIS which is also eligible for tax deduction, and over 522,000 VHIS policies had been sold, as at March 2020. Riding on this wave, similar initiatives will be rolled out by harnessing insurance to meet emerging societal needs.

1 One QDAP has ceased to accept new business.

THE YEAR UNDER REVIEW

ANTI-MONEY LAUNDERING (“AML”) AND COUNTER-TERRORIST FINANCING (“CTF”)

All authorized insurers and reinsurers carrying on long term business, and licensed individual insurance agents, licensed insurance agencies and licensed insurance broker companies carrying on regulated activities in respect of long term business are required to comply with the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“AMLO”) and with the Guideline on AML and CTF (GL3) published under the AMLO.

The Insurance Authority (“IA”) has worked closely with the industry, fellow regulators and international counterparts to put in place effective AML/CTF systems for Hong Kong’s insurance sector.

MUTUAL EVALUATION BY THE FINANCIAL ACTION TASK FORCE

The Financial Action Task Force (“FATF”) is an independent, inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing, and financing for the proliferation of weapons of mass destruction. It conducts peer reviews, referred to as mutual evaluations, of each member jurisdiction on an ongoing basis to assess their implementation of the FATF recommendations.

In 2018, an 18-month mutual evaluation of Hong Kong commenced, extending into the reporting year. During the assessment period, an assessment team sent by the FATF and the Asia/Pacific Group on Money Laundering conducted a three-week on-site visit to Hong Kong to assess the effectiveness of AML/CTF systems in Hong Kong, and met with relevant stakeholders including the IA and industry representatives. After the assessment was completed, the results were published in the Mutual Evaluation Report of Hong Kong in September 2019.

Hong Kong was the first jurisdiction in Asia Pacific to have achieved an overall compliance in the current round of FATF evaluation. The report commended Hong Kong for having a strong legal foundation and effective system for combating money laundering and terrorist financing (“ML/TF”), in particular in risk identification, law enforcement, asset recovery, counter-terrorist financing and international co-operation.

The Year Under Review

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

The report also recognised that the IA had implemented appropriate risk-sensitive supervision, maintained an overall good understanding of the ML/TF risks at the sectoral and institutional level, and had a reasonable supervisory framework to monitor AML/CTF compliance. The IA has been demonstrating its ongoing commitment to combatting ML/TF together with the industry and will continue to join forces with fellow regulators and other relevant stakeholders to further enhance its AML/CTF regime and implement FATF recommendations as appropriate.

ENHANCING THE AML/CTF REGIME

The IA has issued a number of regulatory documents to assist the industry to understand and comply with the latest AML/CTF requirements.

When the direct regulatory regime for insurance intermediaries in Hong Kong commenced on 23 September 2019, an amended version of GL3 came into effect on the same day, reflecting the corresponding amendments of terminologies under the Insurance Ordinance (Cap. 41). The IA also published a new set of frequently asked questions to be read in conjunction with the amended GL3, in order to assist insurance institutions to understand and implement relevant AML/CTF statutory and regulatory requirements effectively.

SUPERVISORY OUTREACH

During the reporting year, we continued to reach out to the industry and promote insurance intermediaries' awareness of their statutory obligations, recent ML/TF trends, and the latest AML/CTF regulatory requirements.

The two annual AML/CTF seminars took place in October 2019, attended by around 600 industry practitioners. We also provided practical guidance for small- and medium-sized broker companies from time to time, including hosting briefings to discuss how to conduct periodical assessment of ML/TF risks at an institutional level, and what to include in the assessment such as core risk factors, relevant attributes and corresponding regulatory requirements.

HIGHLIGHTS OF THE YEAR

1 April 2019 to 31 March 2020

CORPORATE NEWS

OCT 2019 Dr Clement Chen, Ms Agnes Choi and Ms Theresa Ng appointed Non-Executive Directors.

NOV 2019 The Process Review Panel for the Insurance Authority established.

PRUDENTIAL REGULATION

AUG 2019 The third round of Quantitative Impact Studies launched to prepare for the introduction of the Risk-based Capital Regime.

SEP 2019 Became the sole insurance regulator in Hong Kong on 23 September 2019, taking over direct regulation of over 120,000 insurance intermediaries.

OCT 2019 Authorized the first non-life virtual insurer under Fast Track.

Hosted the first supervisory college as group-wide supervisor for Prudential plc Group's international business post-demerger to enhance regulatory collaboration across six jurisdictions.

NOV 2019 Hosted a supervisory college for AIA Group as group-wide supervisor to enhance regulatory collaboration across 13 jurisdictions.

JAN 2020 Guideline on Cybersecurity (GL20) and Guideline on Enterprise Risk Management (GL 21) became effective on 1 January 2020.

FEB AND MAR 2020 Introduced temporary facilitative measures[1] for the industry to cope with the challenges of the COVID-19 pandemic.

REGULATORY COLLABORATION

MAY 2019 The CEO of the Insurance Authority ("IA") chaired the 14th Annual Meeting and Conference of the Asian Forum of Insurance Regulators in Macao.

NOV 2019 Joined the Annual Conference of the International Association of Insurance Supervisors ("IAIS") in Abu Dhabi.

JAN 2020 Joined the 19th Joint Meeting of the Insurance Regulators of Guangdong, Hong Kong, Macao and Shenzhen in Shenzhen.

JAN 2020 Assumed the role of Regional Coordinator in the IAIS's Implementation and Assessment Committee, strengthening collaboration between IAIS and its Asian and Oceanian members.

FEB 2020 The IA took over the Chairmanship of IAIS's Insurance Groups Working Group.

[1] In view of the pandemic development, the IA decided to extend the temporary facilitative measures to 31 December 2020.

Highlights of the Year

MARKET DEVELOPMENT

APR 2019
Launched the Qualifying Deferred Annuity Policy ("QDAP"), energising the insurance market while helping to close society's protection gap and to promote early retirement planning.

JUN 2019 AND NOV 2019
Hosted two forums to engage the Protection and Indemnity community in attracting more marine business to Hong Kong.

JUL 2019
Implemented extended preferential treatment to promote the development of the Hong Kong reinsurance industry[2], with China Banking and Insurance Regulatory Commission ("CBIRC").

DEC 2019
Organised the annual Asian Insurance Forum, a high-level platform for industry leaders and financial regulators worldwide to share views on the development of the insurance industry in Asia.

Legislative amendments introduced on halving the profit tax rate for non-life insurers and insurance broker companies involved in marine insurance and the underwriting of specialty risks[3].

MAR 2020
To strengthen Hong Kong's competitiveness in the global insurance market, amendment bills relating to insurance-linked securities, the expanded scope of insurable risks for Hong Kong-based captive insurers and a new group-wide supervision framework gazetted[4].

STAKEHOLDER ENGAGEMENT

APR 2019 AND MAY 2019
Ran a public education campaign on tips for purchasing annuities and retirement savings with the Investor and Financial Education Council ("IFEC").

Organised a media briefing to explain the key features of QDAP to the public.

MAY 2019 AND SEP 2019
Met with the Future Task Force to discuss Fintech development.

JUL 2019 AND AUG 2019
Organised two public education seminars on QDAP with IFEC for around 500 participants.

SEP 2019
Launched a publicity campaign to keep the public informed of the direct regulatory regime for insurance intermediaries.

2 In July 2019, the CBIRC extended the preferential treatment for another year to 30 June 2020.
3 The amendment bills were passed in July 2020.
4 The amendment bills were passed in July 2020.

Highlights of the Year

Hong Kong Insurance Market in 2019

HK$ 566.8 billion
total gross premiums

1st in Asia
for insurance density[(a)]

14 of the world's top 20
insurers operating from and in Hong Kong[(c)]

10.2%
annual growth rate

2nd in the world
for insurance penetration[(b)]

IA Activities 2019–20

Prudential regulation

163
authorized insurers

126,006
licensed insurance intermediaries

13
sets of rules, codes and guidelines issued in relation to the direct regulatory regime for insurance intermediaries[(d)]

Market development

24
QDAPs[(e)] certified

133,000
QDAPs issued by insurers

HK$ 9.4 billion
QDAP annualised premiums

110
Insurtech-related enquiries and meetings

41
BRIEF[(f)] members

Consumer protection

1,292
complaints received

222
unresolved complaints from former Self-Regulatory Organisations[(g)]

(a)(b) Swiss Re Institute sigma No 3/2019
(c) Fortune Global 500, July 2019
(d) Including six guidelines on the sale of long term insurance products
(e) Qualifying Deferred Annuity Policy
(f) Belt and Road Insurance Exchange Facilitation
(g) The former Self-Regulatory Organisations are The Hong Kong Confederation of Insurance Brokers, The Professional Insurance Brokers Association and the Insurance Agents Registration Board formed under The Hong Kong Federation of Insurers.

GOVERNANCE

ABOUT THE INSURANCE AUTHORITY

The Insurance Authority ("IA") is an insurance regulator independent of the Government and the insurance industry. Established in December 2015, the IA was set up to modernise the regulatory regime for the insurance industry in Hong Kong. Our regulatory regime aims to facilitate the sustainable development of the industry, promote Hong Kong's competitiveness in the global insurance market, and provide better protection for policy holders.

STATUTORY FUNCTIONS

In accordance with the Insurance Ordinance (Cap. 41), the principal function of the IA is to regulate and supervise the insurance industry for the promotion of the general stability of the insurance industry and for the protection of existing and potential policy holders. The Insurance Ordinance stipulates that the IA shall:

(a) be responsible for supervising an authorized insurer's and a licensed insurance intermediary's compliance with the provisions of the Insurance Ordinance;

(b) consider and propose reforms of the law relating to insurance business;

(c) promote and encourage the adoption of proper standards of conduct and sound and prudent business practices by authorized insurers;

(d) promote and encourage the adoption of proper standards of conduct by licensed insurance intermediaries;

(e) review and, if necessary, propose reforms of the systems for regulating authorized insurers and licensed insurance intermediaries;

(f) regulate the conduct of insurance intermediaries through a licensing regime;

(g) promote the understanding by policy holders and potential policy holders of insurance products and the insurance industry;

(h) formulate effective regulatory strategies and facilitate the sustainable market development of the insurance industry, and promote the competitiveness of the insurance industry in the global insurance market;

(i) conduct studies into matters affecting the insurance industry;

(j) assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate measures in relation to the insurance industry;

(k) co-operate with and assist financial services supervisory authorities of Hong Kong or of any place outside Hong Kong, whenever appropriate, to the extent permitted by the Insurance Ordinance; and

(l) perform functions imposed or conferred on the IA by the Insurance Ordinance or any other Ordinance.

THE ORGANISATION

The IA is governed by a Board consisting of a Chairman, Non-Executive Directors and Executive Directors, all appointed by the Chief Executive of the Hong Kong Special Administrative Region. The Chief Executive Officer ("CEO"), who is an Executive Director, leads the executive arm of the IA and is responsible for managing the IA's day-to-day operations. The IA has five divisions to carry out its duties and functions: the Long Term Business Division, the General Business Division, the Market Conduct Division, the Policy and Development Division, and the Corporate Services Division. Each division is headed by a directorial executive. Apart from the five divisions, the CEO's Office includes the External Relations Section, the Legal Section and the IA Secretariat. The IA's organisational structure can be found in the Appendices on page 94.

GOVERNANCE

CORPORATE GOVERNANCE

Sound corporate governance has laid down a solid foundation for the Insurance Authority ("IA") to perform effectively its statutory functions. Our corporate governance framework is built around well-defined management and accountability structures, comprehensive operational and financial control procedures as well as high standards of conduct.

GOVERNANCE STRUCTURE

Membership

Under the Insurance Ordinance ("IO"), membership of the IA consists of the Chairman who is a Non-Executive Director ("NED"), the Chief Executive Officer ("CEO") who is an Executive Director ("ED"), and not less than six other NEDs or EDs. All of them are appointed by the Chief Executive of the Hong Kong Special Administrative Region ("the Chief Executive").

As at 31 March 2020, the IA Board consisted of 12 NEDs and five EDs. During the reporting year, Dr Clement Chen Cheng-jen, Ms Agnes Choi Heung-kwan and Ms Theresa Ng Choi-yuk were appointed NEDs. Their term will last from 28 October 2019 until 27 December 2021, in tandem with the incumbent NEDs. An orientation programme was arranged to familiarise them with the work and functions of the IA.

Responsibilities and Diversity of Directors

NEDs inject an independent perspective into the IA, bringing a wealth of experience and expertise in diverse fields such as insurance, law, accountancy, finance, actuarial science and enterprise management.

Diversity of Our NEDs

Gender	
Male	8 (67%)
Female	4 (33%)

Professional Expertise / Experience	
Accountancy / Actuarial Science	2 (17%)
Banking / Finance / Insurance	5 (42%)
Education and Management	1 (8%)
Legal	3 (25%)
Public Relations	1 (8%)

Chairman and CEO

The Chairman provides leadership and vision, while the CEO assumes responsibility for day-to-day operations and implementation of strategies under the directions of the IA Board.

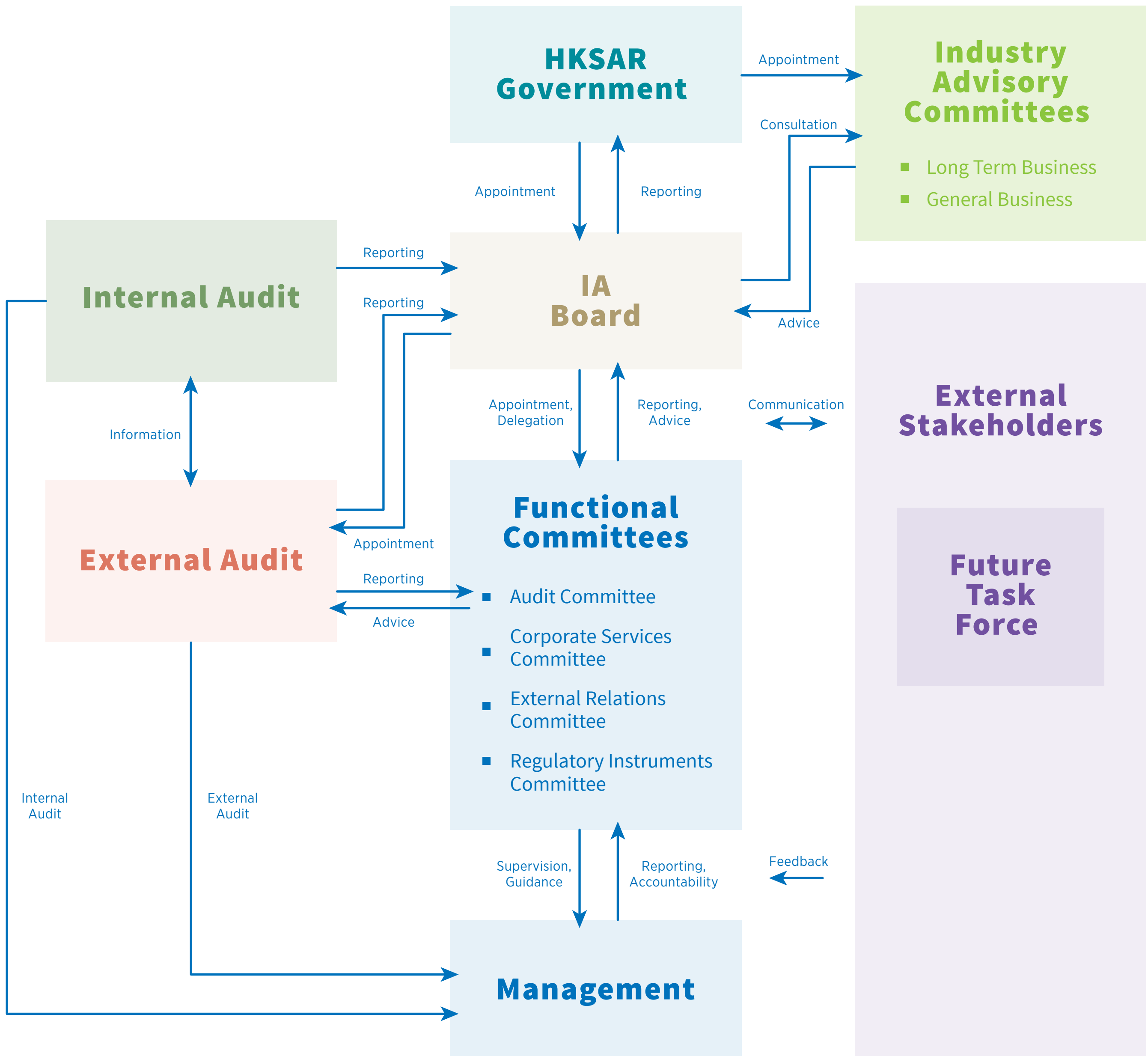
Executive Directors

EDs take charge of day-to-day operations within their respective purviews, including long term business, general business, market conduct as well as policy and development, and support the CEO in fulfilling his duties.

Governance

CORPORATE GOVERNANCE

Governance Structure



Governance

CORPORATE GOVERNANCE

1 **Dr the Hon Moses Cheng Mo-chi**, *GBM, GBS, JP*
Chairman

2 **Mr Clement Cheung Wan-ching**, *GBS, JP*
Chief Executive Officer

3 **Mr Samuel Chan Ka-yan**, *JP*
Non-Executive Director

4 **Professor Chan Wai-sum**
Non-Executive Director

5 **Dr Clement Chen Cheng-jen**, *GBS, JP*
Non-Executive Director

6 **Ms Chitty Cheung Fung-ting**
Non-Executive Director

7 **Ms Agnes Choi Heung-kwan**, *MH*
Non-Executive Director

8 **Mr Kenneth Kwok Tsun-wa**
Non-Executive Director

9 **Mr Ma Ho-fai**, *GBS, JP*
Non-Executive Director

10 **Ms Theresa Ng Choi-yuk**, *JP*
Non-Executive Director

11 **Mr James Wong Chien-kuo**
Non-Executive Director

12 **Professor Anna Wong Wai-kwan**
Non-Executive Director

13 **Mr Stephen Yiu Kin-wah**
Non-Executive Director

14 **Ms Carol Hui Mei-ying**
Executive Director,
Long Term Business

15 **Mr Simon Lam Sui-kong**
Executive Director,
General Business

16 **Mr Stephen Po Wai-kwong**
Executive Director,
Market Conduct

17 **Mr Raymond Tam Wai-man**
Executive Director,
Policy and Development

Governance

CORPORATE GOVERNANCE

IA MEMBERS

Chairman

Dr the Hon Moses Cheng Mo-chi, GBM, GBS, JP

Dr Cheng is Consultant of a law firm in Hong Kong, after being its Senior Partner for over 20 years. His areas of practice straddle capital markets, corporate governance, regulatory and compliance. He has been actively contributing to the community, and is currently a member of the Financial Leaders Forum and a Fellow of the Hong Kong Academy of Finance. Notable past appointments include Chairman of the Education Commission, government-appointed Director on the Board of Hong Kong Exchanges and Clearing Limited, founding Vice-Chairman of the Estate Agents Authority, and appointed member of the Legislative Council.

Non-Executive Directors

Mr Samuel Chan Ka-yan, JP

Mr Chan is a practising barrister in commercial litigation. He is currently Chairman of the Competition Commission, Deputy Chairman of the Appeal Board Panel (Town Planning) and formerly Vice-Chairman of the Consumer Council.

Professor Chan Wai-sum

Professor Chan is an actuary and Professor of Finance at the Chinese University of Hong Kong whose expertise covers life insurance, retirement income arrangements and health care financing.

Governance

CORPORATE GOVERNANCE

Dr Clement Chen Cheng-jen, GBS, JP

Dr Chen is the Executive Director of Tai Hing Cotton Mill Limited. He is currently Chairman of the Council and Court of Hong Kong Baptist University, Honorary President of the Federation of Hong Kong Industries, a member of the Standing Committee on Directorate Salaries and Conditions of Service and a member of the Public Service Commission. Notable past appointments include Chairman of the Vocational Training Council, Chairman of the Federation of Hong Kong Industries and Chairman of the Hong Kong Productivity Council.

Ms Chitty Cheung Fung-ting

Ms Cheung has occupied a number of senior executive positions for an international airline. She is a former member of the Hong Kong Tourism Board and the Planning and Development Committee of the Travel Industry Council.

Ms Agnes Choi Heung-kwan, MH

Ms Choi is a senior general insurance leader with over 35 years' experience in underwriting, reinsurance, claims management, business development and strategic planning. She was Chairman of the Hong Kong Federation of Insurers ("HKFI") from 2012 to 2013 and a member of the Executive Committee of the International Union of Marine Insurance ("IUMI") from 2015 to 2018. Currently, she is the IUMI's Asia Ambassador, a member of the Hong Kong Maritime and Port Board and Chairman of its Promotion and External Relations Committee. She was elected as one of the Top Ten Influential Persons in Marine Insurance 2017 by Lloyd's List and one of the Top Ten Outstanding Women in the Maritime Industry in China in 2019.

Governance

CORPORATE GOVERNANCE

Mr Kenneth Kwok Tsun-wa

Mr Kwok is a seasoned insurance practitioner who took the helm at international brokerage firms and general insurance companies. He served as a member of the General Committee of the Insurance Complaints Bureau[1] from 2001 to 2008 and as Chairman of the Motor Insurers' Bureau of Hong Kong from 1987 to 1988.

Mr Ma Ho-fai, GBS, JP

Mr Ma is Senior Partner of a law firm, specialising in conveyancing work. He is Chairman of the Protection of Wages on Insolvency Fund Board, Chairperson of the Travel Industry Authority, and an Independent Director of the Travel Industry Council of Hong Kong.

Ms Theresa Ng Choi-yuk, JP

Ms Ng is a veteran banker who held key frontline and management positions in retail, wealth management as well as private banking. She is a lay member of the Council of the Hong Kong Institute of Certified Public Accountants and a member of the Antiquities Advisory Board.

1 Formerly known as the Insurance Claims Complaints Bureau.

Governance

CORPORATE GOVERNANCE

Mr James Wong Chien-kuo

Mr Wong is the former Chief Executive Officer of a few major long term insurers. He served as Chairman of HKFI from 2009 to 2010 and as a member of the General Committee of the Insurance Complaints Bureau[2] from 2001 to 2006. He was also a member of the Hong Kong Banking Advisory Committee and the Committee on Strategic Enhancement of Hong Kong as an International Financial Centre.

Professor Anna Wong Wai-kwan

Professor Wong is a Professor of Practice in Finance at the University of Hong Kong, delivering courses on financial regulation, compliance and risk management. She is currently a member of the Competition Commission. She has held senior roles in several global financial institutions and is a former member of the Advisory Committee of the Securities and Futures Commission.

Mr Stephen Yiu Kin-wah

Mr Yiu is a former Chairman and Chief Executive Officer for Mainland China and Hong Kong of an international accounting firm, possessing in-depth knowledge on auditing large banking and financial corporations. He is a government-appointed Director on the Board of Hong Kong Exchanges and Clearing Limited and a member of the Exchange Fund Advisory Committee.

[2] Formerly known as the Insurance Claims Complaints Bureau.

Governance

CORPORATE GOVERNANCE

Executive Directors

Mr Clement Cheung Wan-ching, GBS, JP
Chief Executive Officer

Mr Cheung has been the Chief Executive Officer of the IA since August 2018 upon retirement from the Administrative Service which he joined in 1983. Senior posts that he took up during this career include Director of the Hong Kong Economic and Trade Office in Singapore from 1998 to 2001 when the Asian Financial Crisis erupted, Commissioner of Insurance from 2006 to 2009 during the global financial crisis, Postmaster General from 2009 to 2011, Commissioner of Customs and Excise from 2011 to 2015 and Secretary for the Civil Service from 2015 to 2017. He is currently a member of the Executive Committee of the International Association of Insurance Supervisors and Chairman of the Asian Forum of Insurance Regulators.

Ms Carol Hui Mei-ying
Executive Director, Long Term Business

Ms Hui joined the IA in June 2017. Prior to this, she worked in the then Office of the Commissioner of Insurance since 1990, covering areas including regulation of insurers and insurance intermediaries, policy development and strategy formulation. At the IA, she oversees the prudential supervision of long term insurers, together with the group-wide supervision framework, Qualifying Deferred Annuity Policies, temporary facilitative measures in response to the COVID-19 pandemic and processing of trial projects on remote on-boarding.

Governance

CORPORATE GOVERNANCE

Mr Simon Lam Sui-kong
Executive Director, General Business

Mr Lam joined the IA in June 2017, armed with an extensive management, technical and commercial experience and expertise in general, long term and reinsurance businesses accumulated over 30 years in the insurance industry. Having been the Chief Executive Officer and Regional Chief Operating Officer of multinational insurers and a reinsurer located in Hong Kong, Mainland China, Vietnam and Thailand, he brings strong leadership and stewardship on key market topics and for the growth and development of the general insurance market in Hong Kong.

Mr Stephen Po Wai-kwong[3]
Executive Director, Market Conduct

Mr Po's duties span licensing, inspection, investigation and handling of complaints, striving to uphold a high standard of conduct, ethics and integrity among insurance intermediaries. Past roles include Senior Director of the Intermediaries Supervision Department in the Securities and Futures Commission, and Chairman of the Committee on the Regulation of Market Intermediaries of the International Organisation of Securities Commissions from 2009 to 2016, setting conduct and prudential standards in a cross-border environment.

[3] Mr Po retired in May 2020.

Governance

CORPORATE GOVERNANCE

Mr Raymond Tam Wai-man[4]
Executive Director, Policy and Development

Mr Tam is responsible for the Risk-based Capital Regime, Policy Holders' Protection Scheme, insurance-linked securities, Insurtech development and the Belt and Road Insurance Exchange Facilitation platform. He designed the existing solvency regime for long term business when working in the then Office of the Commissioner of Insurance. He later helped set up the Mandatory Provident Fund Schemes Authority as an Executive Director. Prior to joining the IA, Mr Tam was Chief Risk Officer for Asia of a multinational insurance group. He was the recipient of China's first Actuary of the Year Award.

[4] Mr Tam retired in May 2020.

Governance

CORPORATE GOVERNANCE

GOVERNANCE PRACTICES

The IA strives to observe the best practices of corporate governance that include:

- Meeting regularly to transact matters of operational and strategic importance
- Providing the IA Board with relevant materials in advance to enable thorough and informed deliberation at meetings
- Furnishing the IA Board with relevant and timely management data to facilitate detailed scrutiny of outcomes and performance
- Keeping records for the IA Board in the form of minutes of discussion, attendance and decisions made
- Setting up policies for disclosure and handling conflict of interest
- Meeting in sub-committees to gather preliminary feedback

Attendance at meetings of the IA Board and its functional committees in 2019–20:

Meetings attended/held	IA Board	Corporate Services Committee ("CSC")	External Relations Committee ("ERC")	Audit Committee ("AC")	Codes and Guidelines Committee ("CGC")	Regulatory Instruments Committee ("RIC")[(a)]
Chairman						
Moses Cheng	11/11	2/2	0/0	1/1	2/2	3/3
Non-Executive Directors						
Samuel Chan	10/11	2/2	0/0	–	2/2	3/3
Chan Wai-sum	10/11	2/2	–	1/1	–	–
Clement Chen[(b)]	6/6	–	0/0	*[(c)]	–	–
Chitty Cheung	10/11	1/2	0/0	–	–	–
Agnes Choi[(d)]	6/6	1/1	0/0	–	–	*[(e)]
Kenneth Kwok	10/11	2/2	–	0/1	2/2	3/3
Ma Ho-fai	8/11	1/2	0/0	–	0/2	2/3
Theresa Ng[(f)]	6/6	1/1	–	–	–	*[(g)]
James Wong	9/11	2/2	0/0	–	2/2	1/3
Anna Wong	11/11	–	0/0	–	2/2	3/3
Stephen Yiu	10/11	1/2	–	1/1	–	–
Executive Directors						
Clement Cheung	11/11	–	0/0	–	2/2	3/3
Carol Hui	10/11	–	–	–	–	–
Simon Lam	10/11	–	–	–	–	–
Stephen Po	10/11	–	–	–	1/2	3/3
Raymond Tam	11/11	–	0/0	–	2/2	3/3

(a) Previously known as the Codes and Guidelines Committee and renamed in June 2019.
(b) Appointed a member of the IA Board, ERC and AC on 28 October 2019.
(c) No AC meeting held after Dr Chen's appointment on 28 October 2019.
(d) Appointed a member of the IA Board, CSC, ERC and RIC on 28 October 2019.
(e) No RIC meeting held after Ms Choi's appointment on 28 October 2019.
(f) Appointed a member of the IA Board, CSC and RIC on 28 October 2019.
(g) No RIC meeting held after Ms Ng's appointment on 28 October 2019.

Governance

CORPORATE GOVERNANCE

FUNCTIONAL COMMITTEES

The IA has four functional committees: CSC, ERC, AC and RIC[5], each chaired by an NED with relevant expertise. NEDs make up over 70% of the membership, with CSC and AC comprised entirely of NEDs. This provides checks and balances on the IA's decision-making process.

Committees	Composition	Summary of Work in 2019–20
Corporate Services Committee	10 NEDs	Held two meetings. Examined the Corporate Plan for 2020–21 and Six-Year Financial Forecast for 2020–21 to 2025–26, providing valuable comments to the IA Board. Received periodic reports on financial status, keeping a close watch on sustainability of the IA. Other matters included: - procurement of a service provider for the Document Management System - salary reviews to ensure that the remuneration package is competitive enough to retain and attract the right talents
External Relations Committee	8 NEDs and 2 EDs	Transacted business by circulation in the reporting year. Considered and shaped up the proposed framework for Annual Report 2018–19.
Audit Committee	5 NEDs	Held one meeting with external auditors to review the audited financial statements. Endorsed the audit plan proposed by external auditors. Received periodic tender reports, ensuring compliance with internal policies and guidelines.
Regulatory Instruments Committee[a]	8 NEDs and 3 EDs	Held five meetings. Scrutinised 12 guidelines and two codes of conduct, providing insights to the IA Board on: - minimum standards on cybersecurity for authorized insurers - enterprise risk management for authorized insurers - pecuniary penalty on regulated persons - requirements on the sale of long term insurance policies, including financial needs analysis, benefit illustration and policy replacement - requirements on the sale of medical insurance - requirements on the conduct of licensed insurance intermediaries

[a] Previously known as the Codes and Guidelines Committee and renamed in June 2019.

[5] Previously known as the Codes and Guidelines Committee and renamed in June 2019.

Governance

CORPORATE GOVERNANCE

INDUSTRY ADVISORY COMMITTEES

The IA is required by the IO to set up two Industry Advisory Committees ("IACs") on long term business and general business respectively. Each IAC has to include the Chairman, the CEO and not more than two other EDs of the IA, as well as eight to 12 other members who are appointed by the Financial Secretary ("FS") in consultation with the IA.

The FS has appointed/reappointed 12 members to each IAC for a term of two years between 1 June 2018 and 31 May 2020. These members were selected from different sectors within the insurance industry and related fields such as consumer protection, accountancy, law and compliance, academia and banking. During the reporting year, four joint meetings of the IACs were held. Membership of the IAC can be found in the Appendices on page 96.

INDEPENDENT CHECKS AND BALANCES

The Ombudsman

The IA is subject to indirect oversight by the Office of the Ombudsman which has statutory powers to investigate alleged acts of maladministration.

Insurance Appeals Tribunal

The Insurance Appeals Tribunal ("IAT") is established under the IO to review, on application, specified decisions made by the IA, and to hear and determine a question or an issue arising out of or in connection with a review. Its statutory purpose is to ensure that regulatory decisions made by the IA are reasonable and fair.

The IAT is formed whenever there is a case to be reviewed. It consists of the chairperson of the IAT and two ordinary members recommended by the chairperson, chosen from a panel of members appointed by the Financial Secretary under the delegated authority by the Chief Executive. The chairperson is appointed by the Chief Executive and must be a former Justice of Appeal of the Court of Appeal, a former judge or a former deputy judge of the Court of First Instance, or a person eligible for appointment as a High Court judge. Panel members are drawn from the insurance industry and related fields such as consumer protection, accountancy, law, academia, banking and management. Membership of the IAT can be found in the Appendices on page 97.

Process Review Panel for the IA

The Process Review Panel ("PRP") is an independent non-statutory body established by the Government to review and advise on the adequacy of internal procedures and guidelines formulated by the IA concerning regulation of insurers and insurance intermediaries as well as co-ordination with the Hong Kong Monetary Authority on supervision of regulated activities carried out by banking institutions. The PRP seeks to ascertain that the IA is conducting business and exercising powers in a fair and consistent manner by submitting an annual report to the FS outlining the PRP's major activities, observations and recommendations. Membership of the PRP can be found in the Appendices on page 98.

Governance

CORPORATE GOVERNANCE

ACCOUNTABILITY AND TRANSPARENCY

Standards of Conduct

We attach great importance to the integrity and probity of our staff and expect them to uphold a high standard of conduct to fulfil the statutory functions conferred on the IA. To ensure that our staff understand and observe the relevant standards, we issue guidelines and a code of conduct addressing areas such as conflict of interest, declaration of financial interests, and acceptance of gifts. All newcomers are compelled to attend induction modules and training organised by the Independent Commission Against Corruption.

Corporate Planning

In each financial year, the IA is required by the IO to submit a corporate plan to the FS outlining key objectives, planned activities and budget for the following year. Before submission of the corporate plan, views on the budget are sought from the Legislative Council ("LegCo") Panel on Financial Affairs.

Financial Control and Reporting

Financial statements in keeping with prevailing accounting standards, reporting rules and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants are prepared and published together with the annual report. PricewaterhouseCoopers was engaged again to be the external auditor of our financial statements for the reporting year. We have adopted the following to enhance the transparency of our financial status:

- An external firm is appointed to conduct the annual audit.
- Annual financial statements are presented to the AC.
- Approval is sought from the IA Board on the annual financial statements published in the annual report.
- Key financial data is presented at meetings of the IA Board.
- Regular reports are provided to the Government.
- The annual budget and revised estimates are presented to the LegCo Panel on Financial Affairs.

Communication with Stakeholders

The IA interacts with a variety of stakeholders, including industry practitioners, policy holders, regulatory counterparts, government officials, LegCo members, media representatives and the general public. In addition to maintaining communication channels through the IA website, media briefings, press releases, circulars and publicity events, feedback is collected through meetings, seminars and consultation sessions. Industry statistics are released on a regular basis, and 15 requests for access to information were handled during the reporting year.

Handling Complaints

Our accountability and transparency are also embodied in complaints handling. Our role and policies in this respect are published on our website. Since taking over from the three former Self-Regulatory Organisations ("SROs")[6] on 23 September 2019, the IA has assumed sole responsibility for dealing with complaints against insurance intermediaries.

[6] The former SROs are The Hong Kong Confederation of Insurance Brokers, The Professional Insurance Brokers Association and the Insurance Agents Registration Board formed under The Hong Kong Federation of Insurers.

Governance

CORPORATE GOVERNANCE

RISK MANAGEMENT

A package of measures has been adopted to safeguard against possible risks associated with our operations, including external risks arising from the insurance market and internal risks such as financial risks, and threats to our information and office security:

- External risks associated with the insurance market are assessed as part of the corporate planning process and appropriate measures are adopted to address the risks on an ongoing basis.
- The Internal Audit Section, recently established, reports to the IA Board to evaluate and improve the effectiveness of the IA's risk management, control and governance process.
- Financial control policies and procedures are promulgated to delineate the authority and responsibility of our staff and the IA Board in the appointment of consultants, service providers, purchase of capital items, etc.
- The IA's risk management system and internal control procedures are subject to review by the AC which is composed exclusively of NEDs.
- Access controls are in place for the IA's computer and file systems to protect against unauthorised access, use or modification. There are also access controls for office premises to safeguard against unauthorised entry.
- A data privacy policy is promulgated and Personal Data Privacy Officer appointed to facilitate compliance with the Personal Data (Privacy) Ordinance.

Organisation-wide Corporate Planning

To fully engage colleagues in determining strategic directions and priorities for the IA, we have developed a new and interactive corporate planning process. The Chairman, CEO and EDs hosted town hall meetings to consult all staff on the IA's road map and major initiatives, followed by focus group sessions on topics such as corporate planning, talent development, culture shaping and IT strategy. Our objective is to promote bottom-up communication, cultivating a strong sense of ownership and active participation.

Dr Moses Cheng, Chairman, discusses corporate planning with colleagues at a town hall meeting

GOVERNANCE

CORPORATE DEVELOPMENTS

Building an efficient organisation driven by an effective workforce and a reliable information technology system is crucial for the Insurance Authority ("IA") to carry out its regulatory work. During the reporting year, we provided a host of development opportunities for our staff and raised our regulatory efficiency by leveraging technology.

RECRUITMENT

As of March 2020, the IA had around 280 staff, including many multi-disciplinary professionals from the regulatory and insurance sectors. Our plan is to build a full team of 330 staff members in 2020, enabling us to launch new functions such as group-wide supervision and the direct regulation of insurance intermediaries. We will continue to recruit high-calibre individuals with diverse backgrounds and experience, drawn from the insurance industry, professional firms, and the regulatory and public sectors.

IA Staff

(as at 31 March 2020)

278 staff members

62% and **38**%
female male

49% of staff in senior management roles are female

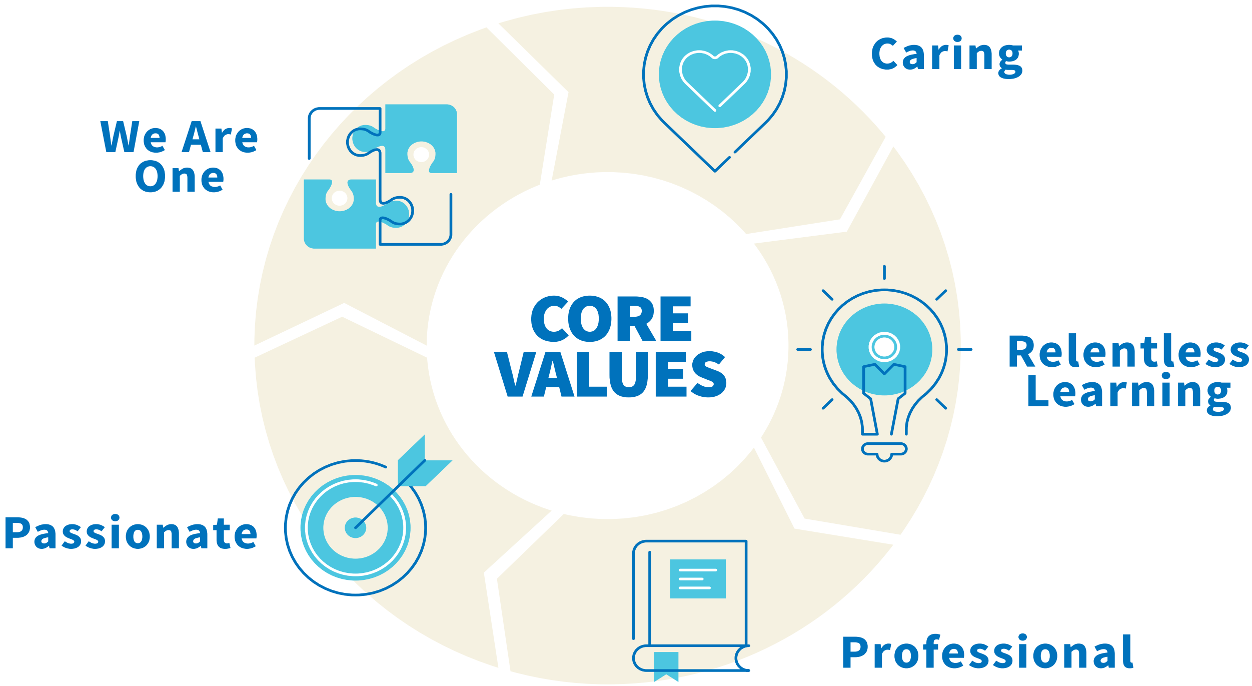
39 average age

44% hold professional qualifications

89% hold a Bachelor's or higher degree

Governance

CORPORATE DEVELOPMENTS



CORPORATE CULTURE

We place great emphasis on fostering a culture that will enable the IA to achieve its aspiration to be an empathetic and dynamic regulator. During the reporting year, we continued to organise "IA Way in Action" workshops to communicate the IA's core values to new joiners.

To gain staff feedback and suggestions on our journey for "living" the IA's core values at work, we conducted a Culture Pulse Survey in August 2019. Our staff provided constructive comments on improving our management practices, teamwork, communication and staff development. Some of the suggestions were incorporated into our Corporate Plan 2020–21.

PERFORMANCE-BASED SYSTEM

To attract and retain quality staff, we have implemented mechanisms for making performance-linked pay adjustments and awarding variable pay. We also conduct periodic reviews of the pay structure and fringe benefits to ensure the remuneration package stays competitive.

"IA Way in Action" workshop

Governance

CORPORATE DEVELOPMENTS

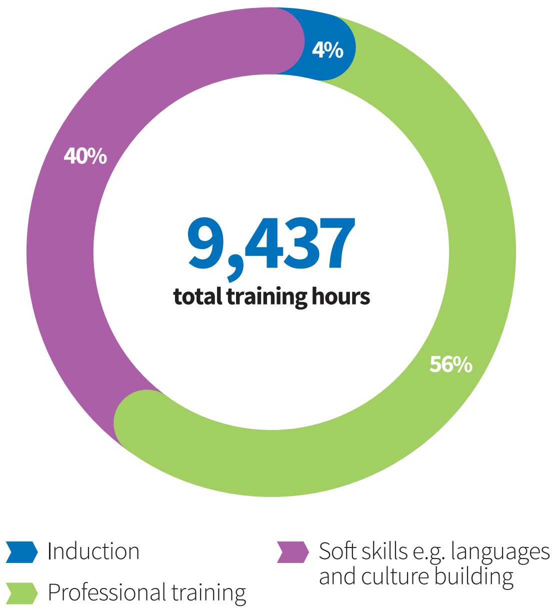
TALENT DEVELOPMENT AND SUCCESSION PLANNING

During the reporting year, we arranged a vast array of training programmes to enrich our staff's professional knowledge and keep them abreast of the latest market developments. Seminars on risk management, Insurtech, international regulatory developments and other topical issues were among the programmes organised. We held in-house briefings on the IA's initiatives such as the new direct regulatory regime for insurance intermediaries and new guidelines. We also sponsored staff to attend external professional courses and pursue relevant professional qualifications.

To broaden horizons, we provided opportunities for staff to attend major industry events and conferences on the Belt and Road Initiative, green finance and Fintech. Other training programmes included English and Putonghua workshops and induction programmes for newcomers.

The IA is an Approved Employer of both the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Association of Chartered Certified Accountants ("ACCA"). This means our senior CPA colleagues can provide guidance and coaching for HKICPA student members, and our in-house professional development programmes are recognised as ACCA Continuing Professional Development units.

Types of Training in 2019–20



Governance

CORPORATE DEVELOPMENTS

IA staff's outstanding performance is recognised with prestigious awards. For example, Ms Joanne Wong, Senior Manager, Market Conduct, receives an award at the 2019 Ombudsman's Awards for Officers of Public Organisations for her exemplary performance in complaint handling. This is the second year in a row that IA staff have been commended for their dedication to public service.

The IA recognises the importance of building a leadership pipeline to ensure a seamless succession. During the reporting year, we organised various training programmes including effective performance review discussions, mentoring skills, team building, and project management for managerial staff to develop their leadership and managerial skills to assume higher responsibilities in the future.

We continued to run our Management Trainee Programme and Summer Internship Programme. Thus, we are starting to develop a pool of young talent for the organisation further down the track.

In recognition of our remarkable commitment to manpower training and development, the IA has been accredited as a Manpower Developer under the Employees Retraining Board Manpower Developer Award Scheme.

INFORMATION TECHNOLOGY

During the reporting year, we launched a mission critical system to enable electronic workflows relating to the direct regulation of insurance intermediaries, which commenced in September 2019. In addition, we upgraded our system hardware to raise operational efficiency for handling authorization and supervision of insurers.

To strengthen our capacity to cope with business continuity scenarios such as working remotely amidst the COVID-19 outbreak, we revisited our information technology infrastructure and stepped up our video conferencing capabilities.

The IA website was also enhanced to support collaboration and information exchange between stakeholders and the IA through online portals, including the Insurer's Collaboration Corner and Belt and Road Insurance Exchange Facilitation.

Reliable information technology systems are of paramount importance for the IA's smooth operation. During the reporting year, an uptime of 99% was maintained for core information technology services, covering our network, intranet portal, email system, share drives and core business systems.

Governance

CORPORATE DEVELOPMENTS

Nurturing Young Talent

The IA runs a three-year Management Trainee Scheme that grooms outstanding university graduates to take up IA regulatory duties, and a Summer Internship Programme that gives undergraduates exposure to the insurance industry.

Management Trainee Scheme

During the reporting year, we recruited nine Management Trainees from local and overseas universities, who were posted to different divisions to support a diverse range of regulatory duties. While on the scheme, each trainee is placed under the mentorship of a senior manager and undergoes a structured training programme that includes an induction session, on-the-job training, job rotation, professional and competency-based training and soft skills training. Trainees who complete the scheme with good performance will be appointed to assistant manager positions.

Summer Internship Programme

Between June and August 2019, we offered summer internships to 16 undergraduates, providing them with the opportunity to gain firsthand insights into an insurance regulator's work. The interns' hands-on experience gave them a better understanding of the role of the IA, encouraging members of the younger generation to consider becoming part of the insurance industry.

Management trainees

STAKEHOLDER ENGAGEMENT

Enlisting stakeholders' support is instrumental in helping the Insurance Authority ("IA") to drive policy formulation and legislative reforms. During the reporting year, we continued to reach out to the industry as well as the community at large to communicate our strategic priorities and regulatory initiatives, forging stronger ties with stakeholders.

THE INSURANCE INDUSTRY

The two Industry Advisory Committees ("IACs") are statutory committees set up to advise the IA on matters pertinent to long term business and general business respectively. The IACs enable the IA to gauge market views on the development of the two sectors. During the reporting year, the IACs held four joint meetings at which a wide range of industry issues were considered.

The IA seeks to actively reach out to stakeholders

Stakeholder Engagement

Dr Moses Cheng, Chairman (left), and Mr Clement Cheung, Chief Executive Officer, share details of the IA's work with stakeholders at two major industry events

We maintain a close dialogue with major industry organisations such as The Hong Kong Federation of Insurers, the Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association on major initiatives including the new direct regulatory regime for insurance intermediaries and industry relief measures amidst the COVID-19 pandemic.

The IA has also undertaken various stakeholder engagement activities on specific industry issues.

To deepen stakeholders' understanding of the new regulatory regime for insurance intermediaries, the IA delivered a total of 21 briefing sessions to over 1,500 industry practitioners between April and December 2019. Topics included a demonstration of the IA's new e-portal as well as an introduction to the new regulatory standards and requirements such as the new Codes of Conduct for Licensed Insurance Agents and Brokers, and the new guidelines on Fit and Proper Criteria and Continuing Professional Development for licensed insurance intermediaries. To elaborate on the IA's new investigation and disciplinary powers and proceedings, we conducted several briefings in September 2019 to address industry concerns. To ensure fair treatment of customers under the new regime, the IA refined a number of codes and guidelines governing the sale of long term insurance policies, and arranged a series of town hall briefings in September 2019 to strengthen the industry's understanding of the relevant requirements. To foster cross-sectoral co-operation, the IA gave a briefing to the Securities and Futures Commission ("SFC") in January 2020 on the new regime.

Regarding anti-money laundering and counter-terrorist financing regulations, we held two annual seminars for around 600 industry practitioners to discuss the latest developments.

To cement Hong Kong's position as a risk management centre under the Belt and Road Initiative ("BRI"), the IA has launched the Belt and Road Insurance Exchange Facilitation ("BRIEF") platform to facilitate information sharing and closer collaboration among key stakeholders. As of March 2020, the number of BRIEF members had grown to 41, including insurers, reinsurers, captive insurers, insurance brokers and law firms. In July 2019, the IA participated in the second high-level Belt and Road roundtable co-organised by the Hong Kong Monetary Authority's Infrastructure Financing Facilitation Office and the State-owned Assets Supervision and Administration Commission of the State Council. At the roundtable, we shared our views with State-owned Enterprises ("SOEs") on how setting up captives in Hong Kong could help them leverage the city's competitive advantage as a comprehensive financing and risk

Stakeholder Engagement

management centre for their overseas investment and international expansion. In September 2019, the IA hosted a thematic breakout forum at the Belt and Road Summit co-organised by the Government and the Hong Kong Trade Development Council. At the forum, we discussed how insurance and project finance are interlinked to underpin the commercial viability of enterprises with BRI projects, especially SOEs. To further advance Hong Kong's participation and contribution to BRI, the IA joined the second Belt and Road Joint Conference in Beijing in July 2019, which was convened by the HKSAR Government with the National Development and Reform Commission, the Hong Kong and Macao Affairs Office of the State Council and other relevant Mainland ministries.

Insurtech is a key driving force for the industry. The IA has set up the Insurtech Facilitation Team to liaise closely with both the technology and insurance communities. The team sets out to ensure effective communication with businesses involved in Insurtech development and enrich their understanding of the current regulatory regime.

In 2017, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued the Hong Kong Financial Reporting Standard 17 Insurance Contracts ("HKFRS 17"). HKFRS 17 was adopted from an international financial reporting standard that aims to make insurance accounting practices more consistent across jurisdictions. Due to the fundamental changes in accounting requirements that it introduces, HKFRS 17 will have a significant impact on the preparation of financial statements by insurers. We have closely monitored implementation progress of HKFRS 17 and maintained ongoing dialogue with stakeholders. Further to a survey conducted in 2018-19 on the readiness of Hong Kong insurers for implementing HKFRS 17 and the challenges facing the industry as a whole, we conducted a second readiness survey during the reporting year to better understand HKFRS 17 implementation activities. We also participated as an observer in the Hong Kong Insurance Implementation Support Group, a forum established by the HKICPA for insurers to discuss matters relating to the implementation of HKFRS 17.

Ms Carol Hui, Executive Director, Long Term Business, speaks at an industry event

Mr Clement Cheung, Chief Executive Officer, speaks at the Hong Kong Fintech Week

Stakeholder Engagement

To engage with a global audience, the IA senior management spoke at several major international and regional conferences such as the Pacific Insurance Conference, Internet Economy Summit 2019, Insurance Analytics & AI Innovation Asia Pacific 2019 and Hong Kong FinTech Week.

We recognise the importance of sharing timely information with the industry, and to this end have added a few service portals to our website: the Levy Insurance System & Analytics portal for the collection of premium levies by insurers; the Insurer's Collaboration Corner for information about the Risk-based Capital Regime; and the BRIEF portal to enhance communication among relevant stakeholders.

FUTURE TASK FORCE

The Future Task Force of the Insurance Industry ("FTF") has been set up to leverage the expertise and experience of a wide spectrum of stakeholders, from insurance professionals to academics. The role of the FTF is to formulate strategies to reinforce Hong Kong's position as a global risk management centre and a regional reinsurance and insurance hub. Three working groups have been formed to look into important areas that are shaping the future of the insurance sector: financial technology, financial regulation and policy, and image building.

In May 2019, speakers from the Insurtech community and an insurance agency met with FTF members to discuss Insurtech for insurance intermediaries. In September 2019, the Deputy Privacy Commissioner for Personal Data and cybersecurity experts exchanged views with FTF members on data privacy in the digital world and good practices for data protection.

Future Task Force meeting

Stakeholder Engagement

REGULATORY COUNTERPARTS

During the reporting year, the IA stepped up its participation in the International Association of Insurance Supervisors ("IAIS"), the standard-setting body for insurance supervisors worldwide.

In November 2019, we attended the 26th IAIS Annual Conference and committee meetings in Abu Dhabi. The IA CEO participated in the meetings as a member of the IAIS Executive Committee, which is responsible for providing strategic direction and managing the affairs of IAIS. A total of seven seats on the Executive Committee were allocated to Asia, with other members being China, India, Japan, Korea, Malaysia and Singapore.

During the reporting year, the IA took over the Chairmanship of the IAIS Insurance Groups Working Group, a subcommittee responsible for providing a framework for developing and advancing efficient and effective group-wide supervision. The IA also assumed the role of Regional Coordinator in the IAIS Implementation and Assessment Committee. This role seeks to achieve greater co-operation between the IAIS and its members in the Asian and Oceanian region and boost members' technical capacity.

We also participated in other IAIS committees and working groups, namely the Macroprudential Committee, the Market Conduct Working Group, the Standards Assessment Working Group, the Capital, Solvency and Field Testing Working Group and the Signatories Working Group.

In addition, the IA became a member of the Global Financial Innovation Network ("GFIN") in June 2019. Through the GFIN network, the IA has the opportunity to share experience in supporting financial innovation with regulators and related organisations worldwide, enhancing international collaboration in this area.

Dr Moses Cheng, Chairman, participates in the 26th IAIS Annual Conference

During the reporting year, we organised and took part in 26 supervisory colleges to strengthen communication with overseas regulators on the group-wide supervision of multinational insurance groups.

Regarding regional co-operation, the IA CEO was elected as the Chairman of the Asian Forum of Insurance Regulators ("AFIR") for a term of two years from 2018 to 2020. In May 2019, the IA joined the 14th AFIR Annual Meeting and Conference, with the theme of "Promoting Broader and Sustainable Insurance Market with Effective Supervisory Practices", and the second Asia-Pacific High-level Meeting on Insurance Supervision, jointly organised by the Financial Stability Institute, IAIS, Monetary Authority of Macao and AFIR.

Stakeholder Engagement

Participants at the 19th Joint Meeting of the Insurance Regulators of Guangdong, Hong Kong, Macao and Shenzhen

We also collaborated with the China Banking and Insurance Regulatory Commission ("CBIRC") and relevant Mainland authorities on cross-boundary supervision and insurance initiatives relating to the development of the Guangdong-Hong Kong-Macao Greater Bay Area and to the Belt and Road Initiative. During the reporting year, we held a number of meetings with CBIRC and shared our experience in supervision. For CBIRC to better understand the business and operation of multinational insurance intermediaries, we arranged a visit to the Hong Kong office of a major international insurance broker company in September 2019. In January 2020, the IA attended the 19th Joint Meeting of the Insurance Regulators of Guangdong, Hong Kong, Macao and Shenzhen in Shenzhen.

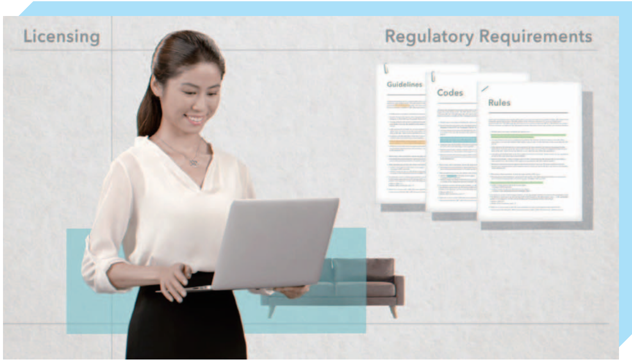
In Hong Kong, we liaised closely with the Financial Services and the Treasury Bureau and other financial regulators. For example, we held regular meetings with the Hong Kong Monetary Authority ("HKMA") on topics of common interest, such as prudential supervision of banking groups and their insurance subsidiaries, updates on regulatory developments in the banking and insurance sectors and market conduct issues concerning bank-related insurance intermediaries. We also met with the SFC to conduct product reviews of Investment Linked Assurance Scheme ("ILAS"), discuss breaches of the Code on ILAS by certain insurers, and handle complaints against insurers and insurance intermediaries about ILAS-related matters. Moreover, we held discussions with the Mandatory Provident Fund Schemes Authority ("MPFA") over the prudential regulation of the retirement scheme management business carried on by authorized long term insurers, as well as on market conduct issues relating to mandatory provident fund business and regulatory updates on pension and insurance-related matters. In addition, we attended regular meetings of the Council of Financial Regulators and the Financial Stability Committee to address cross-sectoral regulatory issues and matters having a potential impact on financial stability.

To reinforce Hong Kong's status as an international financial centre, the city's financial regulators teamed up to establish the Hong Kong Academy of Finance in June 2019. The HKMA, IA, SFC and MPFA will work closely together to develop Hong Kong as a centre of excellence for financial leadership and promote monetary and financial research. The academy will invite talent from various sectors to join in order to groom future financial leaders with global and inter-disciplinary perspectives.

GOVERNMENT AND LEGISLATIVE COUNCIL

The IA proactively engages the Government and the Legislative Council ("LegCo") when formulating policy and legislative changes. During the reporting year, we held a number of meetings with relevant government bodies such as the Financial Services and the Treasury Bureau on the introduction of enabling legislation relating to regulatory frameworks for group-wide supervision and the issuance of insurance-linked securities, the expanded scope of insurable risks of Hong Kong-based captive insurers, and tax relief for marine insurance and the underwriting of specialty risks. The LegCo Panel on Financial Affairs was also briefed on the relevant legislative proposals, which were passed in July 2020.

Stakeholder Engagement



TV Announcements in the Public Interest on the commencement of the direct regulatory regime for insurance intermediaries

A video on QDAP

The Financial Secretary and LegCo members are kept informed of our latest developments on an ongoing basis. In December 2019, we submitted our corporate plan for 2020-21 to the Financial Secretary, in which our operational objectives and budget for the coming financial year were set out. In January 2020, our annual report was tabled at LegCo. During the reporting year, we briefed the LegCo Panel on Financial Affairs on the IA's budget for 2020-21, Insurtech development in Hong Kong and our initiatives to promote the development of the insurance industry in general.

THE PUBLIC

The IA continues to work with the Investor and Financial Education Council ("IFEC") on public education. In July and August 2019, the IA and the IFEC jointly organised two educational seminars for around 500 members of the public. At the seminars, helpful suggestions on purchasing tax deductible financial products, including the Qualifying Deferred Annuity Policy ("QDAP"), were discussed.

To promote public understanding of QDAP, we explained its key features through a media briefing and interviews. In addition, we updated our dedicated IA webpage with more tips on how to choose a QDAP, and produced a host of brochures and videos to provide useful information about retirement saving and annuities.

In September 2019, we launched a publicity campaign including TV and radio Announcements in the Public Interest to keep the public updated on the commencement of the direct regulatory regime for insurance intermediaries. Information leaflets were also produced to provide points-to-note when taking out policies via intermediaries.

We use various communication tools to engage the public. In addition to running thematic education programmes, we share practical advice about insurance with the public on a daily basis. To achieve this, the IA's corporate website provides up-to-date and easily accessible information such as frequently asked questions and educational materials.

We make use of our Facebook page "Insurpedia (蓋世保鑑)" and YouTube channel to communicate insurance knowledge and interact with the general public. Assisted by an automated telephone system, we run a public enquiry hotline to answer questions about the IA's work and the insurance industry generally. Over the reporting year, we also issued various press releases and arranged media interviews to keep the public informed of our activities.

A media workshop on QDAP

SOCIAL RESPONSIBILITY AND ENVIRONMENTAL PROTECTION

The Insurance Authority ("IA") takes corporate social responsibility seriously and has put in place a range of measures to promote staff wellness, protect the environment and contribute to the community in which we operate.

CARING FOR OUR STAFF

People are the IA's most important asset and enhancing the well-being of our staff is a key concern. The Social Committee, led by our human resources team and supported by colleagues from various divisions, spearheads a variety of staff activities to develop team cohesion and advocate work-life balance. During the reporting year, interest classes from bread-making and cookie baking, coffee tasting to Fai Chun writing were organised, along with a movie day and festive get-togethers after work. To foster a healthy lifestyle, the committee arranged regular yoga and stretching classes, and a pilot class on dragon boat rowing. Free influenza vaccinations were also provided before the flu seasons.

In addition, effective communication is vital for building strong staff relations. During the reporting year, senior executives hosted several coffee sessions to enable staff to give their feedback and suggestions, which were relayed to various stakeholders for follow-up action.

Family Fun Day

In the spirit of our family-friendly ethos as an employer, we organised a Family Fun Day during the summer holidays. Colleagues were invited to bring family members to the office and mingle with other staff by taking part in fun activities.

Social Responsibility and Environmental Protection

Staff Activities

Social Responsibility and Environmental Protection

CARING FOR THE ENVIRONMENT

The IA has adopted green practices in our workplace, which help us to use resources more efficiently. Our efforts include:

Reduce

- Sharing reports, guidelines and consultation papers, and exchanging information with the industry through the IA website to reduce printing
- Accepting electronic returns from insurers to reduce the use of paper
- Using electronic platforms for internal workflows, including training course enrolment and performance appraisals
- Providing staff with laptop computers to facilitate paperless meetings
- Sending festive greetings via e-cards
- Not using paper cups

Recycle/Reuse

- Sorting plastic and metal for recycling
- Collecting mooncake tins for recycling
- Donating disassembled furniture to charities

To save energy, we supported the Government's Energy Saving Charter 2019 by maintaining an average indoor temperatures between 24 and 26 degrees Celsius in summer. In addition, we switched off electrical appliances and systems when not in use, procured energy-efficient electrical appliances and systems, and prominently displayed notices in our office that reminded staff to reduce energy consumption.

Consumption and Recycling

	2019–20	2018–19
Consumption		
Paper (piece/head)	**4,516**	5,128
Electricity (KWh/head)	**1,928**	2,153
Recycling		
Paper (kg)	**4,251**	2,383

In December 2019, the IA was awarded an Energywi$e Certificate and Wastewi$e Certificate under the Hong Kong Green Organisation Certification scheme, led by the Environmental Campaign Committee, in recognition of our waste reduction and energy-saving efforts.

To maintain good air quality in the office, we regularly cleaned air conditioning filters. In November 2019, the IA attained the Good Class standard in the Indoor Air Quality Certificate Scheme, organised by the Environmental Protection Department.

We have also extended our environmental initiatives beyond the workplace, such as adopting the No Shark Fin Policy and pledging not to serve shark fin at corporate events.

Social Responsibility and Environmental Protection

CARING FOR THE COMMUNITY

During the reporting year, staff participated in a range of community activities to help build a more inclusive and caring society:

- Preparing meal boxes for the underprivileged, organised by Food Angel
- Visiting the disadvantaged and the elderly at Po Leung Kuk's sheltered workshop and elderly home
- Making donations and taking part in fundraising events, organised by the Community Chest:
  - **Green Day**
  - **Love Teeth Day**
  - **Dress Casual Day**
  - **Skip Lunch Day**

To support government initiatives to promote upward mobility among young people, the IA participated in the Job Tasting Programme under the "Life Buddies" Mentoring Scheme, providing on-the-job experience to secondary students. In July 2019, we arranged a two-day activity including introduction of the IA's work, office tours, and staff experience sharing for the students to gain firsthand experience in a real-life work setting.

In recognition of our efforts to promote corporate social responsibility through caring for the community, employees and the environment, the IA was awarded the Caring Organization Logo 2019/20 by the Hong Kong Council of Social Service.

IA staff share their experience with students on the Job Tasting Programme

Social Responsibility and Environmental Protection

Protecting Our Staff During a Pandemic

In the face of the COVID-19 pandemic, starting in early 2020, our top priority was to provide a safe working environment. The IA took prompt measures to mitigate health risks to employees while maintaining the operations.

Measures included:

- Periodic office closures to minimise social contact and reduce the risk of spreading the virus
- Informing the public of the IA's operating hours through our website and encouraging the use of non-face-to-face channels such as telephone and email for general enquiries and complaints
- Spilt team arrangements to minimise the need for staff to return to our office
- Staggered working and lunch hours to avoid peak times
- Provision of laptop computers with secure remote access to enable staff to work from home
- Adoption of video and audio conference tools to facilitate communication with internal and external parties
- Training conducted via web-casting
- Increased frequency of cleaning and disinfecting our office
- Provision of face masks and hand sanitizer

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE INSURANCE AUTHORITY

(established in Hong Kong under the Insurance Ordinance (Cap. 41))

OPINION

What we have audited

The financial statements of the Insurance Authority ("the Authority") set out on pages 73 to 92, which comprise:

- the income and expenditure account for the year ended 31 March 2020;
- the statement of financial position as at 31 March 2020;
- the statement of changes in capital and reserve for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Authority as at 31 March 2020, and of its results of the operations and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Insurance Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Authority in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

RESPONSIBILITIES OF THE AUTHORITY AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

The Authority is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Insurance Ordinance, and for such internal control as the Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Authority is responsible for assessing its ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Authority's financial reporting process.

Financial Statements

INDEPENDENT AUDITOR'S REPORT TO THE INSURANCE AUTHORITY (Continued)

(established in Hong Kong under the Insurance Ordinance (Cap. 41))

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 5F of the Insurance Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Authority.

- Conclude on the appropriateness of the Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Financial Statements

INDEPENDENT AUDITOR'S REPORT TO THE INSURANCE AUTHORITY (Continued)

(established in Hong Kong under the Insurance Ordinance (Cap. 41))

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

We communicate with the Audit Committee of the Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 September 2020

Financial Statements

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2020

	NOTE	**Year ended 31 March 2020 HK$**	Year ended 31 March 2019 HK$
INCOME			
Levies	5	163,007,321	112,450,815
Authorization and annual fees		68,795,610	55,760,002
Insurers register's prescribed fees		10,694,006	6,667,530
Interest income		5,653,752	5,479,074
Other income		79,146	44,720
		248,229,835	180,402,141
EXPENDITURE			
Staff costs and key management personnel compensation	6, 7	291,942,412	252,748,123
Office accommodation		2,573,022	20,829,601
Professional fees	8	6,373,001	7,639,754
Information system services		8,392,597	5,821,550
External relations expenses		4,946,762	4,955,716
Other operating expenses	9	8,840,261	8,114,154
Depreciation			
— Fixed assets	10	23,829,975	20,818,954
— Right-of-use assets	11	19,469,685	–
Interest expense on lease liabilities	11	1,232,642	–
		367,600,357	320,927,852
DEFICIT FOR THE YEAR		**(119,370,522)**	(140,525,711)

The Insurance Authority (the "Authority") had no components of comprehensive income other than "deficit for the year" in either of the year presented. Accordingly, no separate statement of comprehensive income is presented as the Authority's "total comprehensive loss" was the same as the "deficit for the year" in both years.

The notes on pages 77 to 92 are an integral part of these financial statements.

Financial Statements

STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	NOTE	2020 HK$	2019 HK$
NON-CURRENT ASSETS			
Fixed assets	10	45,949,701	59,421,319
Right-of-use assets	11	64,898,949	–
Deposits		–	5,460,674
		110,848,650	64,881,993
CURRENT ASSETS			
Deposits and prepayments		10,834,010	6,445,954
Accounts receivable	12	88,960,485	59,274,096
Time deposits with maturity longer than 3 months		–	210,000,000
Cash and cash equivalents		185,945,289	99,497,902
		285,739,784	375,217,952
CURRENT LIABILITIES			
Other payables and accruals		55,915,623	55,164,070
Deferred authorization and annual fees income		43,947,143	32,148,044
Lease liabilities	11	19,729,593	–
		119,592,359	87,312,114
NON-CURRENT LIABILITIES			
Other payables and accruals		–	2,029,542
Lease liabilities	11	45,608,308	–
NET ASSETS		**231,387,767**	350,758,289
CAPITAL AND RESERVE			
Grants from the Government of HKSAR	14, 19	653,000,000	653,000,000
Accumulated deficit for the year		(421,612,233)	(302,241,711)
		231,387,767	350,758,289

The financial statements on pages 73 to 92 were approved and authorized for issue by the Authority on 3 September 2020 and are signed on its behalf by:

Dr Moses Cheng
Chairman

Mr Clement Cheung
Chief Executive Officer

The notes on pages 77 to 92 are an integral part of these financial statements.

Financial Statements

STATEMENT OF CHANGES IN CAPITAL AND RESERVE

For the year ended 31 March 2020

	NOTE	Grants from the Government of HKSAR HK$	Accumulated deficit for the year HK$	Total HK$
Balance at 1 April 2018		453,000,000	(161,716,000)	291,284,000
Grants from the Government of HKSAR	14, 19	200,000,000	–	200,000,000
Deficit for the year		–	(140,525,711)	(140,525,711)
At 31 March 2019		653,000,000	(302,241,711)	350,758,289
Balance at 1 April 2019		653,000,000	(302,241,711)	350,758,289
Deficit for the year		–	(119,370,522)	(119,370,522)
At 31 March 2020		**653,000,000**	**(421,612,233)**	**231,387,767**

The notes on pages 77 to 92 are an integral part of these financial statements.

Financial Statements

STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	2020 HK$	2019 HK$
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficit for the year	**(119,370,522)**	(140,525,711)
Adjustment for:		
Depreciation		
— Fixed assets	23,829,975	20,818,954
— Right-of-use assets	19,469,685	–
Interest expense on lease liabilities	1,232,642	–
Gain on disposal of fixed assets	(2,428)	(487)
Interest income on bank deposits	(5,653,752)	(5,479,074)
Operating cash flows before movements in working capital	(80,494,400)	(125,186,318)
Change in working capital:		
Increase in deposits and prepayments	(625,789)	(1,179,500)
Increase in accounts receivable	(32,152,592)	(33,758,742)
Increase in other payables and accruals	751,553	28,505,390
Increase in deferred authorization and annual fees income	11,799,099	5,532,445
NET CASH USED IN OPERATING ACTIVITIES	**(100,722,129)**	(126,086,725)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease/(increase) in time deposits with maturity longer than 3 months	210,000,000	(108,494,346)
Fixed assets purchased	(10,445,209)	(22,334,311)
Proceeds from fixed assets disposed	89,280	2,350
Interest received from bank deposits	8,119,955	3,112,166
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	**207,764,026**	(127,714,141)
CASH FLOWS FROM FINANCING ACTIVITIES		
Grant from the Government of HKSAR	–	200,000,000
Principal element of lease payment	(19,361,868)	–
Interest element of lease payment	(1,232,642)	–
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	**(20,594,510)**	200,000,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**86,447,387**	(53,800,866)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**99,497,902**	153,298,768
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**185,945,289**	99,497,902
Analysis of Cash and Cash Equivalents:		
Time deposits with maturity less than 3 months	176,000,000	85,000,000
Other bank balances and cash	9,945,289	14,497,902
	185,945,289	99,497,902

The notes on pages 77 to 92 are an integral part of these financial statements.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

1. BACKGROUND AND FUNCTIONS OF THE INSURANCE AUTHORITY

The Authority was established on 7 December 2015 with the commencement of the relevant provisions added by the Insurance Companies (Amendment) Ordinance 2015 ("Amendment Ordinance"). The Authority is the insurance regulator independent of the Government.

The Authority took over the statutory functions of the Office of the Commissioner of Insurance ("OCI") in regulating insurers on 26 June 2017. The OCI was disbanded on the same day.

On 23 September 2019, the Authority took over the regulation of insurance intermediaries from the three Self-Regulatory Organizations ("SROs")[1] through a statutory licensing regime.

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Authority.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

In preparing the financial statements, the Authority has given careful consideration to the long-term financial sustainability of the Authority in light of the accumulated deficit of HK$421,612,233 as at 31 March 2020. Under close financial monitoring the Authority considers that it will have sufficient working capital available to meet its liabilities as and when they fall due for twelve months from the end of the reporting period. The Authority will also explore different options to further enhance its income sources for meeting the financial requirement of its operation in the long run. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements have been prepared under the historical cost basis and in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the Insurance Ordinance (the "IO").

(i) New standards, amendments and interpretations to existing standards not yet adopted

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for financial year beginning on 1 April 2019 and have not been early adopted by the Authority. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

[1] The three SROs are the Insurance Agents Registration Board established under the Hong Kong Federation of Insurers, the Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Change in accounting policies

New mandatory standards, amendments and interpretations to existing standards, which have become mandatory for the first time for the financial year beginning on or after 1 April 2019, have been adopted by the Authority. These include the following new standards, amendments to standards and interpretations to existing standards:

Amendment to Annual Improvements 2015-2017 Cycle on 'Annual Improvements Project',

Amendment to Hong Kong Accounting Standards ("HKAS") 19 on 'Plan Amendment, Curtailment or Settlement',

Amendment to HKAS 28 on 'Long-term Interests in Associates and Joint Ventures',

Amendment to HKFRS 9 on 'Prepayment Features with Negative Compensation',

New standard of HKFRS 16 on 'Leases', and

Interpretation to HK(IFRIC)-Int 23 on 'Uncertainty over Income Tax Treatments'.

These standards, except HKFRS 16 'Leases', are either not relevant or the effect of amendments to these standards is not material to the Authority's financial statements.

The Authority has adopted HKFRS 16 'Leases' retrospectively from 1 April 2019, but has not restated comparatives for the previous reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance on 1 April 2019. The new accounting policies are disclosed in note 2(l).

On adoption of HKFRS 16, the Authority recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's notional incremental borrowing rate as of 1 April 2019. The lessee's notional incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 1.68%.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Authority has used the following practical expedients permitted by the standard:

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Authority has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Authority relied on its assessment made applying HKAS 17 and Interpretation 4 'Determining whether an Arrangement contains a Lease'.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Change in accounting policies (Continued)

(ii) Adjustments recognised in the balance sheet on 1 April 2019

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

- Right-of-use assets — increase by 83,358,630
- Deposits and prepayments — decrease by 1,698,407
- Lease liabilities — increase by 83,689,765
- Other payables and accruals — decrease by 2,029,542

The net impact on retained earnings on 1 April 2019 was nil.

(iii) Measurement of lease liabilities

	HK$
Operating lease commitments disclosed as at 31 March 2019	24,354,504
Lease payments for the additional periods where the Authority considers it reasonably certain that it will not exercise the termination option	61,142,623
Discounted using the lessee's notional rate of incremental borrowing at the date of initial application	(1,807,362)
Lease liabilities recognised as at 1 April 2019	**83,689,765**
Of which are:	
Current lease liabilities	19,163,515
Non-current lease liabilities	64,526,250
	83,689,765

(iv) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease recognised in the balance sheet as at 31 March 2019.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Recognition of income

(i) Levies

Levies on insurance premiums are payable by policy holders and are recognised in the income and expenditure account as income in the period the respective insurance policies are written and as reported by the authorised insurers to the Authority. The amount of levies to be recognised in the Authority's reporting period is based on the levy remittance reported by the authorized insurers for that period, being adjusted for the best estimate of the portion of levies that the Authority is expected to return or refund for policies cancelled subsequent to the date of the statement of financial position or levies uncollected.

(ii) Fees

Authorization and annual fees are recognised as income on a straight-line basis over the periods to which they relate. Insurers register's prescribed fees are recognised as income when relevant applications are completed.

(iii) Interest income

Interest income represents gross interest income from bank deposits and is recognised on a time apportionment basis using the effective interest method.

(d) Financial assets

The Authority's financial assets include deposits, accounts receivable and cash and cash equivalents. These financial assets, other than cash, are held within a model whose objective is to hold assets in order to collect contractual cash flows. The contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. They are initially measured at fair value plus direct attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost. Interest income from these financial assets is recognised by using effective interest rate method. Impairment losses are presented as a separate line item in the income and expenditure account. The Authority assesses on a forward looking basis the expected credit losses associated with these financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Authority has transferred substantially all the risks and rewards of ownership of the asset.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Fixed assets

Fixed assets are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income and expenditure account during the financial period in which they are incurred.

Depreciation is provided to write-off the cost of items of fixed assets over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Fixed assets are depreciated on a straight-line basis, in the case of leasehold improvements, the shorter lease term as follows:

Office equipment	5 years
Office furniture	5 years
Information Technology ("IT") equipment and software	3 years
Motor vehicles	5 years
Leasehold improvements	3 years

An item of fixed assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income and expenditure account in the year in which the item is derecognised.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an assets fair value less costs of disposal and value in use.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank and short-term highly liquid investments with original maturities of three months or less.

(g) Other payables and accruals

Payables and accruals are obligations to pay that have been acquired in the ordinary course of business from suppliers. Payables and accruals are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Employee benefits

Annual leave and variable pay are recognised when they are accrued according to employees' entitlements. A provision is made for the estimated liability for untaken annual leave and variable pay as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave, maternity leave and paternity leave are not recognised until the time of leave.

Employee benefit expenses, including pensions and housing benefits provided by the Government to the civil service staff seconded ("seconded staff") to the Authority, are charged as expenditure on an accrual basis in the period in which the associated services are rendered.

(i) Retirement benefit costs

The Authority has joined a Mandatory Provident Fund Scheme ("MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance. Contributions paid or payable to the MPF Scheme is charged as expenses when employees have rendered services entitling them to the benefits.

(j) Provisions

Provisions are recognised when the Authority has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the period in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Authority expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Grants from the Government of Hong Kong Special Administrative Region ("HKSAR")

Grants from the Government of HKSAR is provided without related conditions. It is recognised as capital upon receipt in the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Leases

Until 31 March 2019, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Authority as lessee were classified as operating leases (note 18). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the rate at which the leased asset is available for use by the Authority.

Contracts may contain both lease and non-lease components. The Authority allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of premises of which the Authority is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Authority under residual value guarantees
- the exercise price of a purchase option if the Authority is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Authority exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Authority, the lessee's incremental borrowing rate is used, being the rate that the Authority would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Authority may be exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Leases(Continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to income and expenditure over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3. CRITICAL ESTIMATES AND JUDGEMENTS

3.1 Critical accounting estimates

In the process of applying the accounting policy of levies recognition, the Authority estimated that there will be no significant amount of levies to be returned or refunded for cancelled policies or uncollected levies as at 31 March 2020. As a result, there is no adjustment or provision against the levies as per the remittance reports.

3.2 Critical accounting judgements

Note 15 contains information about the statutory deposits, placed by the authorized insurers in the name of the Authority in accordance with the respective sections of Insurance Ordinance. The Authority is of the opinion that such deposits are not the resources for the Authority's own purposes and no economic benefits have been transferred to the Authority.

4. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Authority is exempt from Hong Kong Profits Tax under the Inland Revenue Ordinance.

5. LEVIES

Effective from 1 January 2018, IO section 134 provides for the Authority to collect levies on insurance premiums from the policy holders through the authorized insurers if the insurance contract relates to a prescribed class of insurance business or a prescribed type of insurance contract. The levy rates are established by law. Levies of HK$163,007,321 (31 March 2019: HK$112,450,815) are recognised for the year ended 31 March 2020.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

6. STAFF COSTS

The staff costs include salaries, contributions to MPF Scheme, insurance, employee benefits and other staff related costs of the Authority.

	2020 **HK$**	2019 HK$
Salaries	274,849,339	239,211,642
Contributions to MPF Scheme	11,283,244	9,483,032
Insurance	5,349,158	3,643,068
Employee benefits and other staff related costs	460,671	410,381
	291,942,412	252,748,123

7. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel are the Authority members as defined in the IO section 4AA. They consist of a chairperson (a non-executive director of the Authority), a chief executive officer (an executive director of the Authority), 4 other executive directors, and 11 other non-executive directors (31 March 2019: a chairperson, a chief executive officer, 4 other executive directors, and 8 other non-executive directors). Authority members' remuneration and benefits included in Note 6 are set out below:

	2020 **HK$**	2019 HK$
Non-executive Directors		
Remuneration	**3,228,344**	2,620,129
Chief Executive Officer		
Salary and other short term employee benefits	5,541,474	4,997,930
Post-employment benefits	230,769	581,927
Other Executive Directors		
Salaries and other short term employee benefits	17,400,168	17,389,049
Post-employment benefits	724,460	714,845
	23,896,871	23,683,751

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

8. PROFESSIONAL FEES

	2020 **HK$**	2019 HK$
Consultancy fees	5,836,775	5,623,750
Legal fees	64,320	127,500
Auditor's remuneration	220,000	220,000
Other fees	251,906	1,668,504
	6,373,001	7,639,754

9. OTHER OPERATING EXPENSES

	2020 **HK$**	2019 HK$
Journals, periodicals, and corporate membership	2,648,676	2,214,334
Staff training and welfare	1,371,271	2,226,065
Duty visits	2,728,427	2,079,973
Other expenses	2,091,887	1,593,782
	8,840,261	8,114,154

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

10. FIXED ASSETS

	Office equipment HK$	Office furniture HK$	IT equipment and software HK$	Motor vehicles HK$	Leasehold improve-ments HK$	Total HK$
COST						
At 1 April 2019	9,164,459	5,143,566	46,405,260	468,435	26,011,756	87,193,476
Additions during the year	863,546	23,949	9,087,964	–	469,750	10,445,209
Disposals during the year	(82,000)	(97,101)	–	–	–	(179,101)
At 31 March 2020	**9,946,005**	**5,070,414**	**55,493,224**	**468,435**	**26,481,506**	**97,459,584**
ACCUMULATED DEPRECIATION						
At 1 April 2019	2,449,903	1,314,378	12,379,754	171,759	11,456,363	27,772,157
Charge for the year	1,913,187	1,016,596	12,109,253	93,687	8,697,252	23,829,975
Disposals during the year	(61,500)	(30,749)	–	–	–	(92,249)
At 31 March 2020	**4,301,590**	**2,300,225**	**24,489,007**	**265,446**	**20,153,615**	**51,509,883**
CARRYING AMOUNT						
At 31 March 2020	**5,644,415**	**2,770,189**	**31,004,217**	**202,989**	**6,327,891**	**45,949,701**
COST						
At 1 April 2018	8,974,853	4,556,676	25,300,018	468,435	25,562,377	64,862,359
Additions during the year	189,606	586,890	21,108,436	–	449,379	22,334,311
Disposals during the year	–	–	(3,194)	–	–	(3,194)
At 31 March 2019	9,164,459	5,143,566	46,405,260	468,435	26,011,756	87,193,476
ACCUMULATED DEPRECIATION						
At 1 April 2018	665,390	306,522	3,064,285	78,073	2,840,264	6,954,534
Charge for the year	1,784,513	1,007,856	9,316,800	93,686	8,616,099	20,818,954
Disposals during the year	–	–	(1,331)	–	–	(1,331)
At 31 March 2019	2,449,903	1,314,378	12,379,754	171,759	11,456,363	27,772,157
CARRYING AMOUNT						
At 31 March 2019	6,714,556	3,829,188	34,025,506	296,676	14,555,393	59,421,319

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

11. LEASES

(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	31 March 2020 HK$	1 April 2019 HK$
Right-of-use assets		
Premises	**64,898,949**	83,358,630
Lease liabilities		
Current	19,729,593	19,163,515
Non-current	45,608,308	64,526,250
	65,337,901	83,689,765

(ii) Amounts recognised in the income and expenditure account

The income and expenditure account shows the following amounts relating to leases:

	31 March 2020 HK$	1 April 2019 HK$
Depreciation charge of right-of-use assets		
Premises	**19,469,685**	–
Interest expense on lease liabilities	**1,232,642**	–

The total cash outflow for leases in 2020 was HK$20,594,510.

The Authority leases premises for its operation. The lease runs for an initial period of 3 years and includes an option to renew the lease at prevailing market rate for another 3 years after the end of the contract term. Lease payment changes upon lease renewal to reflect the prevailing new rent.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

12. ACCOUNTS RECEIVABLE

	2020 HK$	2019 HK$
Levies receivable	84,827,717	55,754,891
Interest receivable	533,746	2,999,949
Others	3,599,022	519,256
	88,960,485	59,274,096

The authorized insurers collect levies from policy holders in 2 half-yearly periods ended 31 March and 30 September each year and remit them to the Authority within 2 months after the end of each period.

There are no impairment losses recognised for the year ended 31 March 2020 (31 March 2019: Nil).

13. FINANCIAL RISK MANAGEMENT

The Authority's financial instruments include deposits, accounts receivable, time deposits with maturity longer than 3 months, cash and cash equivalents and other payables and accruals.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies applied by the Authority to mitigate these risks are set out below.

(a) Market risk

(i) Foreign currency risk

Foreign currency risk arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates.

The Authority is not exposed to significant foreign exchange risk.

(ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Authority is mainly exposed to interest rate risk in relation to the interest bearing bank deposits.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Authority takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its cash flow risks and closely monitors the interest rate risk exposure within an acceptable level.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

13. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

The following table lists the details of the interest rate profile of the Authority's interest bearing financial assets as at 31 March 2020 and 31 March 2019. All other financial assets and liabilities are non-interest bearing. The Authority is of the opinion that it is not exposed to significant interest rate risk and therefore no sensitivity analysis is presented.

	2020		2019	
	Interest rate per annum	**HK$**	Interest rate per annum	HK$
Cash and cash equivalents	**0.01%–2.16%**	**185,945,289**	0.02%–1.65%	99,497,902
Time deposits with maturity longer than 3 months	**–**	**–**	1.78–2.20%	210,000,000

(iii) Price risk

The Authority does not hold any investments which are exposed to significant price risk as at 31 March 2020 (31 March 2019: Nil).

(b) Fair value estimation

The Authority is of the opinion that the carrying amount of all financial assets and liabilities are approximate to their fair values.

(c) Credit risk

The Authority takes on exposure to credit risk, which is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment in full when due, that it has entered into with the Authority.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. Credit risk arises from cash and cash equivalent and time deposits with maturity longer than 3 months, accounts receivable and deposits. The Authority's bank balances are deposited with reputable authorized financial institutions.

(d) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Authority manages liquidity risk by holding adequate cash and unencumbered assets which can be readily realised for cash to meet expected cash outflow.

As at 31 March 2020, the Authority held sufficient cash and cash equivalents to meet all of the cash outflow arising from other payables and accruals.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

13. FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital risk management

The Authority manages its capital to ensure its ability to continue as a going concern so that the Authority can be financially independent and recover its operating costs through levies, authorization and annual fees and other income. The capital structure of the Authority comprises the grants from the Government of HKSAR net of accumulated losses as disclosed in the statement of changes in capital and reserve on page 75.

14. GRANTS FROM THE GOVERNMENT OF HKSAR

The Authority received a grant of HK$200 million from the Government of HKSAR in June 2018 (HK$450 million in June 2016; HK$3 million in March 2016) as funding to cover the establishment and operating costs of the Authority in its initial years. The grants are recognised as capital in the statement of financial position and are provided by the Government of HKSAR without related conditions.

15. STATUTORY DEPOSITS FROM AUTHORIZED INSURERS

Under Part V (section 35A) of the IO, the Authority may exercise its rights to require an authorized insurer to place a deposit in the name of the Authority as trustee for the authorized insurer's funds when this is considered desirable in the general interests of persons who are or may become policy holders of the authorized insurer. Deposits placed by the particular authorized insurer is to be used by the Authority as a source of payment to policyholders in case of insolvency of that authorized insurer. Any interest accrued on the statutory deposits belongs to the authorized insurer. The Authority has therefore determined that those deposits are not its own financial assets and should not be recognised in its statement of financial position. As at 31 March 2020, such statutory deposits amounted to HK$625,350,974 (31 March 2019: HK$626,303,082).

16. LETTERS OF CREDIT FROM AUTHORIZED INSURERS

Under Part IVA (section 25C) of the IO, an authorized insurer may, instead of maintaining assets in Hong Kong as required by this part, substitute, in whole or in part, a letter of credit or other commitment from a bank, in favour of the Authority. As at 31 March 2020, such letters of credit or other commitments held by the Authority amounted to HK$7,091,911,292 (31 March 2019: HK$5,945,052,849).

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 March 2020

17. CAPITAL COMMITMENTS

At the date of statement of financial position, the Authority had commitments for capital expenditure in respect of the acquisition of fixed assets as follows:

	2020 HK$	2019 HK$
Contracted but not yet incurred	**2,730,739**	7,137,984

18. OPERATING LEASE COMMITMENT

The Authority leases office premises under non-cancellable operating lease expiring within three years with renewal rights.

	2020 HK$	2019 HK$
Within one year	–	18,265,878
Later than one year but not later than five years	–	6,088,626
	–	24,354,504

At 31 March 2019, the Authority had commitment for future minimum lease payments under a non-cancellable operating lease. With the change in accounting policies since 1 April 2019 (note 2(b)), this commitment has been recognised in the statement of financial position under right-of-use assets and lease liabilities (note 11(i)).

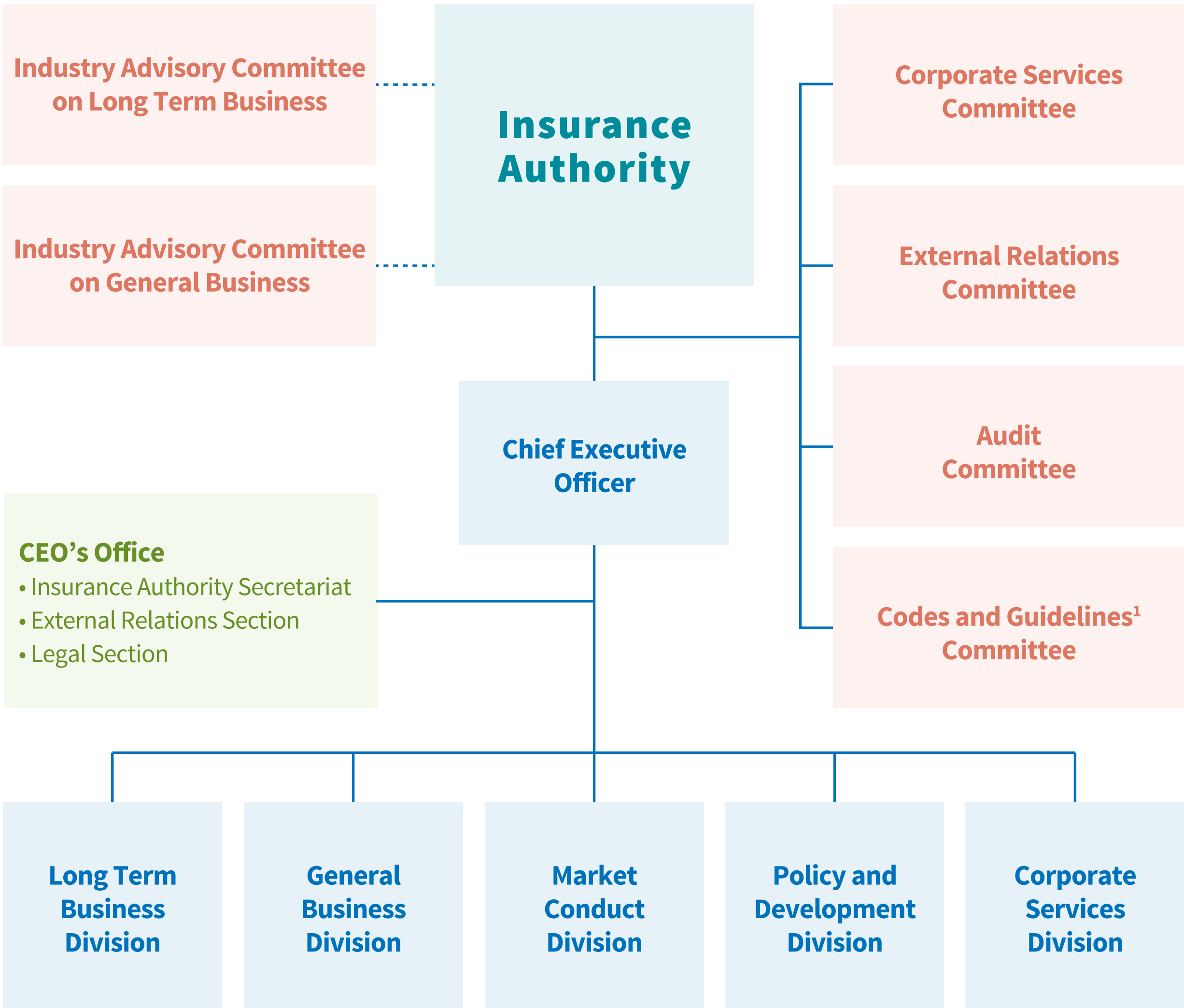
19. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Legislative Council of HKSAR, approved, on 14 May 2020, a government grant without related condition of HK$300 million to the Authority. The grant was received on 18 June 2020.

APPENDICES

THE ORGANISATIONAL STRUCTURE

(As at 31 March 2020)



[1] Renamed as Regulatory Instruments Committee in June 2019.

CHANGES OF AUTHORIZED INSURERS

(From 1 April 2019 to 31 March 2020)

Name of Insurer	Place of Incorporation	Type of Business Authorized
New Authorizations		
Avo Insurance Company Limited	Hong Kong	General
China Reinsurance (Hong Kong) Company Limited	Hong Kong	Long Term
Swiss Re Asia Pte. Ltd.	Singapore	Composite
Well Link Life Insurance Company Limited	Hong Kong	Long Term
Zurich Life Insurance (Hong Kong) Limited	Hong Kong	Long Term
Withdrawal of Authorizations		
Federal Insurance Company	United States of America	General
AXA Corporate Solutions Assurance	France	General
Radian Insurance Inc.	United States of America	General
Malayan International Insurance Corporation Limited	Bahama Islands	General
Change of Names of Insurers		
Liberty International Underwriters Limited To Liberty Specialty Markets Hong Kong Limited	Hong Kong	General
Old Mutual International Isle of Man Limited To Quilter International Isle of Man Limited	Isle of Man	Long Term

INDUSTRY ADVISORY COMMITTEES[1]

(As at 31 March 2020)

INDUSTRY ADVISORY COMMITTEE ON LONG TERM BUSINESS

Chairman

Dr the Hon Moses Cheng Mo-chi, GBM, GBS, JP

Ex-officio Members

Mr Clement Cheung Wan-ching, GBS, JP
Ms Carol Hui Mei-ying
Mr Raymond Tam Wai-man

Non-official Members[2]

Ms Charity Au Chi-san
Ms Jo Jo Chan Shuk-fong
Mr Chan Yim-kwong
Mrs Estella Chiu Sheun-fun
Mr Garth Brian Jones
Mr Mike Lee Siu-chuen
Professor Li Jing-yuan
Mr Jeremy Robert Porter
Mr Martin Tam Chi-wai
Mr Harold Wong Tsu-hing
Mr Jonathan Zhao Xiaojing

INDUSTRY ADVISORY COMMITTEE ON GENERAL BUSINESS

Chairman

Dr the Hon Moses Cheng Mo-chi, GBM, GBS, JP

Ex-officio Members

Mr Clement Cheung Wan-ching, GBS, JP
Mr Simon Lam Sui-kong
Mr Raymond Tam Wai-man

Non-official Members[3]

Mr Cheng Kwok-ping
Mr Michael Fung Lik-yeung
Ms Angela Leung Wai-tuen
Mr Liu Shihong
Mr Andrew Mak Kin-ting
Professor Angela Ng Lai-ping
Ms Rebecca Poon Chui-ngor
Dr Michael Tsui Fuk-sun, MH
Mr Peter Anthony Whalley
Mr Harry Wong Kwok-tim
Professor Jason Yeh Jia-hsing

[1] The above lists represent membership of the Industry Advisory Committees from 1 June 2018 to 31 May 2020. A new term of the two committees commenced on 1 June 2020. Please refer to the IA website for the latest membership lists.

[2] Mr David Alexander tendered his resignation in June 2019.

[3] Mr Martin Stephan Rueegg tendered his resignation in July 2019.

INSURANCE APPEALS TRIBUNAL

(As at 31 March 2020)

CHAIRMAN

Mr Douglas Lam Tak Yip, SC

PANEL MEMBERS

Mr Frederick Chan Hing Fai
Ms Karen Chan Ka Yin, JP
Professor Chan Koon Hung
Ms Kerry Ching Kim Wai
Professor Stella Cho Lung Pui Lan
Mr Alex Chu Wing Yiu
Professor Goo Say Hak
Mr Marvin Hsu Tsun Fai
Mr Eric Hui Kam Kwai
Professor Michael Hui King Man, MH
Ms Julienne Jen
Mr Adrian King
Miss Anna-Mae Koo Mei Jong
Ms Juan Leung Chung Yan, MH
Dr Miranda Lou Lai Wah
Dr Gladie Lui Man Ching
Mr Philip Mak Shun Pong, MH
Mr Andrew Mak Yip Shing, BBS, JP
Professor Phyllis Mo Lai Lan
Professor Joshua Mok Ka Ho
Dr Patrick Poon Sun Cheong, SBS
Mr Bhabani Sankar Rath
Mr Gary Soo Kwok Leung
Mr Simon Tang Shu Pui
Mr Charles Yang Chuen Liang, BBS, JP
Dr Samuel Yung Wing Ki, SBS, MH, JP

PROCESS REVIEW PANEL FOR INSURANCE AUTHORITY

(As at 31 March 2020)

CHAIRMAN

Mr Eugene Fung Ting-sek, SC

NON-OFFICIAL MEMBERS

Miss Grace Chan Man-yee
Mr Chow Wai-shun
Mrs Agnes Koon Woo Kam-oi
Mr Patrick Law Fu-yuen
Mr James Lin
Mr Jeff Wong Kwan-kit

EX-OFFICIO MEMBERS

Chairman of the Insurance Authority
Secretary for Justice (or her representative)

Insurance Authority

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