

Embracing the
New Normal



ANNUAL REPORT
2020-21



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CHAIRMAN'S MESSAGE

Insurance is a reliable tool to pool and share risks, thereby reducing the negative impact of uncertainties in life. There is no better time to demonstrate the value of this important social function than the extraordinary period that we are currently in.

Dr Moses Cheng

Chairman



Chairman's Message

The year under review has been most challenging for everyone, and the insurance industry is no exception.

As we move into the second year since the COVID-19 pandemic erupted as a global menace, the full scale of the repercussions is beginning to surface. Impact on the long term sector has been severe and more direct, with office premiums for new Individual Life and Annuity business decreasing by 22.7%, largely attributable to new business derived from Mainland visitors plunging by 84.3% in 2020. While the general sector has remained relatively unscathed with underwriting profit showing further improvement, there is general consensus that it is attributable to subdued economic activities instead of structural shifts.

Insurance is a reliable tool to pool and share risks, thereby reducing the negative impact of uncertainties in life. There is no better time to demonstrate the value of this important social function than the extraordinary period that we are currently in. As caring corporate citizens, many insurers have offered timely relief for settlement of premium payments and free coverage on medical conditions associated with the pandemic. On our part, the Insurance Authority ("IA") reduced the compliance burden of insurance intermediaries by providing flexibility in filing statutory submissions and fulfilling continuing professional development requirements.

The same spirit of collaboration extended to elevating competitiveness, broadening distribution channels, designing innovative products and empowering the general public. Some achievements worth highlighting for this reporting period include operationalisation of the group-wide supervision framework, issuance of insurance-linked securities ("ILS"), the launching of the Hong Kong Specialty Risks Consortium ("Consortium"), Insurtech initiatives and the public education campaign on lifetime risk profiling.

THE "DUAL CIRCULATION" ECONOMIC STRATEGY

Under "One Country, Two Systems", Hong Kong is able to advance initiatives beneficial to the "dual circulation" economic strategy announced in the 14th Five-Year Plan. As a matter of fact, the value that Hong Kong can deliver has been amplified by rising volatility in the capital market and increasing geopolitical tension. Building on this premise, Hong Kong's priority should be to maximise its role as a connector of trading and investment activities, while nurturing domestic demand by taking an active part in development of the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA").

INTERNATIONAL CIRCULATION

With explicit endorsement given by the Central Government and the Pilot ILS Grant Scheme introduced by the Government of the HKSAR, the IA is making positive strides in delivering the first catastrophe bond and nurturing internal capacity to explore other common forms of ILS. Hampered by travel restrictions, the impetus on promoting Hong Kong as a preferred captive domicile has been sustained by way of virtual seminars, while the Consortium presents a convenient channel to match up risk owners in the Mainland with service providers around the world. Another exciting area is group-wide supervision, where the IA has become a forerunner in Asia Pacific after designating three insurance groups under the framework. All these efforts are aimed at building up an ecosystem of diverse growth opportunities.

Chairman's Message

DOMESTIC CIRCULATION

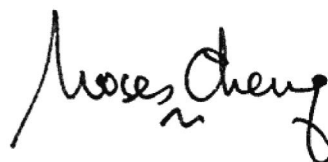
On the home front, greater connectivity and synergies between the 11 cities in the GBA hold the key to galvanising “domestic circulation”. Meticulous preparations are continuing on the establishment of after-sales service centres in the GBA by Hong Kong insurers and the launching of innovative cross-boundary insurance products, and major milestones will be reached within 2021. Moreover, the high frequency and intensity of extreme weather events signal urgent attention is needed on climate change as an imminent threat. The insurance industry has multiple ways to contribute in terms of corporate disclosure, risk modelling and impact investment. The IA will spearhead participation in the Green and Sustainable Finance Cross-Agency Steering Group and identify emerging business potential associated with green insurance products and carbon emission trading.

THE POST-PANDEMIC “NEW NORMAL”

It is no exaggeration to say that the pandemic will bring about irreversible changes to the way that we work, travel, learn, interact and consume. In the insurance sector, the accelerated pace of remote onboarding, adoption of technologies for resource optimisation, application of data analytics for customer segmentation and convergence of online platforms with offline service support are reshaping the market landscape. The IA will take a liberal attitude on how virtual insurers should evolve, and facilitate the introduction of Open Application Programming Interface to create synergies.

Meanwhile, the community has become more aware that life is full of perils. We should capture such sentiments and home in on the difference between wealth management and individual protection. The public education campaign on lifetime risk profiling seeks to tackle this to foster deeper financial inclusion.

It is most gratifying to witness that the IA has accomplished a great deal over the past year, despite the disruption and limitations posed by the COVID-19 pandemic. My fellow Non-Executive Directors on the IA Board, the management team and colleagues should be applauded for their dedication and contributions. It also goes without saying that none of this would have been possible without the unwavering support of relevant policy bureaux and government departments, to whom I would like to extend my most sincere gratitude. Looking forward, I pray that the insurance industry would be more positive and united to bring about further success and prosperity for everyone.



Dr Moses Cheng
Chairman

CEO'S MESSAGE

“The industry sits in the middle of an epochal period given its unique role as risk adviser and manager, and the Insurance Authority is glad to have participated in navigating through the torrents.”

Mr Clement Cheung
Chief Executive Officer



CEO's Message

For many people in Hong Kong, the past two years have been a period of forbearance and perseverance as much as a chance for reflection and revelation. Substitution of business trips by virtual meetings, overseas excursions by domestic exploration, dining out by home deliveries and window shopping by website browsing should have surely etched into our collective memories. Putting aside unwelcomed inhibitions and disruptions, the COVID-19 pandemic has exposed weaknesses of the local economy and accelerated much-awaited structural reforms. The industry sits in the middle of an epochal period given its unique role as risk adviser and manager, and the Insurance Authority ("IA") is glad to have participated in navigating through the torrents.

NAVIGATING THROUGH THE TORRENTS

The first challenge that we had to endure was the prolonged negative impact caused by restricted cross-boundary passenger movement and social distancing, which came hot on the heels of widespread social events in the city. We reacted by conceiving a three-pronged strategy, starting with facilitative measures that enable insurers to close business transactions on selected products without face-to-face encounters, followed soon afterwards by remote onboarding gadgets accommodating a wider range of policies sanctioned by the Insurtech Sandbox, or an industry-wide platform provided by the Hong Kong Federation of Insurers. Not only will this plan be turned into a permanent fixture due to proven viability and growing popularity, it vindicates the philosophy adopted by the IA that predicates on engagement and partnership, demonstrating how timely and pragmatic responses could produce mutual benefits for the industry as well as the community. The same spirit prevailed in our drive for herd immunity, with many insurers taking voluntary steps to provide outreach vaccination service and complimentary coverage against adverse body reactions for their employees, intermediaries and customers. By doing so, we are fortifying defenses against external shocks and enriching contents of the regulatory toolbox.

STRUCTURAL REFORMS

On structural reforms, ample evidence points to the fact that digital transformation is accelerating across a broad spectrum of activities. Apart from pilot projects approved for trial under the Insurtech Sandbox to expand distribution channels, industry stakeholders are embracing data transparency as the main catalyst of a vibrant ecosystem in the making. Capitalising on the situation, we have mapped out a five-year strategy for progressive upgrading of our information technology infrastructure and set sights on Open Application Programming Interface as a priority item for the coming year. These projects will leverage on the introduction of the Risk-based Capital Regime and take into account supervisory efficacy, ease of compliance, productivity gains and environmental sustainability.

Recognising that the COVID-19 pandemic has rekindled general awareness on different perils in life, the IA is rolling out a public education campaign aimed at encouraging the general public to understand their evolving risk exposure. The campaign carries multiple benefits because an alert and informed consumer is less vulnerable to misrepresentation or dubious selling, meaning that the number of disputes could be reduced and professionalism of intermediaries uplifted. Furthermore, the opportunity is taken to ride on prevailing conservatism to develop innovative products that offer a decent element of mortality protection complemented by exposure to upside of equity investments. This is imperative and inevitable given the perpetuation of a low-yield environment and the need to galvanise change of attitude among policy holders.

CEO's Message

STAYING VIGILANT

Switching to conduct and culture, increased usage rate of the e-portal to above 80% has relieved manpower for other competing tasks, including conception of a risk-sensitive regulatory system and renewal of over 106,000 deemed licensees. Meanwhile, the Disciplinary Panel Pool and the Expert Advisor Panel are delivering a fair, robust but nimble mechanism, and the inaugural edition of the newsletter *Conduct in Focus* heralds a new chapter in external communication efforts. To detect the risk of cross-sectoral arbitrage and build upon the successful joint inspection of premium financing conducted with the Hong Kong Monetary Authority, we will consider instituting Mystery Shopping Programme as one of our regular monitoring activities.

On another positive note, commencement of the Group-wide Supervision Framework has bestowed on the IA direct regulatory powers exercisable over the Designated Insurance Holding Companies and put it on par with a handful of mature markets across the globe installing similar infrastructures. Industry consultation on Pillar 1 of the Risk-based Capital Regime is moving along predictably, and the first batch of reports on Own Risk and Solvency Assessment will start to come in by the middle of 2021. Finally, an expert team has been set up to monitor systemic risk in the insurance sector, perform macroprudential surveillance and forge a second line of defense.

Our strenuous efforts are duly recognised by the International Monetary Fund in its Financial System Stability Assessment Report, in which “greatly strengthened insurance regulation and supervision of both insurers and intermediaries” has been attributed to the establishment and independent operation of the IA, wrapping up a fruitful year of work on prudential supervision.

CONCLUSION

I conclude by thanking Dr Moses Cheng and other Non-Executive Directors for their support, care and stewardship throughout a year filled with anxieties and disillusionment. It would also fail to do justice to my team of colleagues in the IA without highlighting their diligence and devotion, which are central to all the achievements that we gained.



Clement Cheung

Chief Executive Officer

THE YEAR UNDER REVIEW

HIGHLIGHTS

PRUDENTIAL REGULATION OF INSURERS

Group-wide Supervision

- ▶ Rolled out the group-wide supervision framework to align with international standards and position Hong Kong as the ideal base for large insurance groups in Asia Pacific.

Risk-based Capital Regime

- ▶ Planned to conduct public consultation on the draft capital rules by early 2022 to allow introduction of a bill into the Legislative Council in the 2021–22 session.

Joint Inspection

- ▶ Carried out a joint inspection exercise with the Hong Kong Monetary Authority ("HKMA") on premium financing involving authorized insurers and licensed insurance intermediaries including banks.

Macroprudential Surveillance

- ▶ Formed the Technical Expert Team to further enhance our macroprudential surveillance framework for ongoing monitoring and assessment of macroprudential risks for the Hong Kong insurance sector.

REGULATION OF INSURANCE INTERMEDIARIES

Licensing

- ▶ Shortened the processing time for new licence applications to five working days or less through online portal Insurance Intermediaries Connect, compared to three weeks for paper applications.
- ▶ Commenced licence applications for deemed licensees.

Enforcement and Supervision

- ▶ Established the Disciplinary Panel Pool, and Expert Advisor Panel, and took disciplinary action against three insurance intermediaries, making the Insurance Authority ("IA")'s first disciplinary moves under the direct regulatory regime for insurance intermediaries.
- ▶ Issued 62 Compliance Advice Letters and 522 Letters of Concern for non-compliance matters.

e-CPD^a

- ▶ Started developing the IA's first series of e-learning CPD courses to help individual licensees fulfil the new requirement on "Ethics or Regulations".

Insurance Broker Companies

- ▶ Conducted six on-site inspections and reviewed statutory returns of 820 insurance broker companies.

Insurance Agencies

- ▶ Conducted three on-site inspections and 27 supervisory reviews of insurance agencies to assess compliance with conduct and corporate governance requirements.

^a Continuing Professional Development

The Year Under Review

HIGHLIGHTS

COVID-19 RESPONSE

Facilitative Measures for Insurers

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

Facilitative Measures for Intermediaries

- ▶ Enabled insurance brokers to apply for an extension for submission of statutory returns.
- ▶ Combined the CPD assessment periods for 2019–20 and 2020–21 and rescheduled the fulfilment deadline to July 2021.
- ▶ Raised the cap on e-learning CPD hours to 14 hours, with no limit on virtual training.

Insurance Talent Development Programme

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

PROTECTION OF POLICY HOLDERS

Policy Holders' Protection Scheme

- ▶ Collected industry data for an updated assessment of the key parameters of the proposed Policy Holders' Protection Scheme, and prepared the enabling legislation for the 2022–23 legislative session.

Complaint Handling

- ▶ Received 1,464 new complaint cases, concluded 1,161 cases, and referred 136 cases to the IA's Enforcement Team for further action.
- ▶ Published the inaugural edition of the *Conduct In Focus* newsletter, providing tips for policy holders, updates on the IA's disciplinary approach, and an in-depth look at ethical business practices from lessons learnt from complaints.

Joint Mystery Shopping Programme

- ▶ Initiated a joint Mystery Shopping Programme with HKMA and Mandatory Provident Fund Schemes Authority on the selling practices related to Qualifying Deferred Annuity Policies and Tax Deductible Voluntary Contributions.

The Year Under Review

HIGHLIGHTS

MARKET DEVELOPMENT

Global Risk Management Centre and Regional Reinsurance and Insurance Hub

Insurance-linked Securities

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

Captive Domicile

- Made legislative amendments to expand the scope of insurable risks by captive insurers in Hong Kong, which came into effect in March 2021.
- Formed the Hong Kong Specialty Risks Consortium to help match demand and supply in the specialty risks area.

Marine and Specialty Risks

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

Reinsurance

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

Greater Bay Area

After-sales Service Centres

- Continued intensive discussions with Mainland authorities and the industry on operational arrangements for Hong Kong insurers to establish after-sales service centres in the Greater Bay Area.

Unilateral Recognition Policy for Motor Vehicle Insurance

- Collaborated with the CBIRC on an arrangement to enable third-party motor insurance policies issued by Hong Kong insurers for vehicles travelling to Guangdong province to be deemed equivalent to the compulsory traffic accident liability insurance in the Mainland.

The Year Under Review

HIGHLIGHTS

MARKET DEVELOPMENT

Insurtech

Insurtech Strategy and Survey

- ▶ Conducted an industry survey to gain comprehensive understanding of deployment and adoption of Insurtech by insurers in Hong Kong.

Fast Track and Virtual Insurers

- ▶ Authorized two more virtual insurers, operating long term business and general business respectively, under Fast Track.

Insurtech Sandbox and Virtual Onboarding

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

Insurtech Facilitation Team

- ▶ Handled around 50 enquiries and held more than 30 meetings with the insurance industry and technology community to promote Insurtech development in Hong Kong.

Green and Sustainable Finance

- ▶ Joined the Green and Sustainable Finance Cross-Agency Steering Group which promulgated its strategic plan and key action points.
- ▶ Promoted green insurance in a collaboration with the Hong Kong Federation of Insurers.

Protection Linked Plan

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

Asian Insurance Forum

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

The Year Under Review

HIGHLIGHTS

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

Supervision and Outreach Activities

- ▶ Reviewed details of AML/CTF controls for virtual onboarding trials under the Insurtech Sandbox.
- ▶ Held a webinar for the industry on regulatory requirements, market practices as well as internal controls and technology adopted by long term insurers for non-face-to-face sales.

ENGAGEMENT WITH STAKEHOLDERS

Public Education

- ▶ Ran thematic public education campaigns on medical insurance and digital onboarding.

Future Task Force

- ▶ Discussed how to turn COVID-19 challenges into opportunities via technology and build a positive industry image through good conduct and ethical practices with Future Task Force members.

Regulatory Engagement

IAIS^b

- ▶ Increased our participation to 18 IAIS committees and working groups in addition to being a member of the IAIS Executive Committee, bringing an Asian voice to international standard-setting for insurance supervision.

AFIR^c

- ▶ The IA CEO was re-elected as the AFIR Chairman for a second term of two years from 2020 to 2022, leading regulatory co-operation in Asia Pacific.

^b International Association of Insurance Supervisors

^c Asian Forum of Insurance Regulators

The Year Under Review

HIGHLIGHTS

HONG KONG INSURANCE MARKET

HK\$ 581.3 billion
of total gross premiums^d

2.5%
of annual growth rate^d

1st in the world
for insurance penetration^e

1st in Asia
for insurance density^e

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

IA ACTIVITIES

► Supervision and Regulation

165
authorized insurers

31
supervisory college meetings
with overseas regulators

Over **129,000**
licensed insurance intermediaries

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

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

► Enforcement

280
former SRO^g cases
received and

230
concluded

183
new cases received and

53
concluded

62
Compliance Advice
Letters and

522
Letters of Concern issued
for non-compliance matters

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

^e Swiss Re Institute sigma No3/2021

^f Fortune Global 500, August 2021

^g Former Self-Regulatory Organisations ("SROs") are the Hong Kong Confederation of Insurance Brokers, the Professional Insurance Brokers Association, and the Insurance Agents Registration Board established under the Hong Kong Federation of Insurers.

The Year Under Review

HIGHLIGHTS

► Protection of Policy Holders

1,464

new complaints

1,161

complaints closed

136

cases referred to the IA's Enforcement Team

► Market Development

Insurance-linked Securities

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

Captive Domicile

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

Marine and Specialty Risk Insurance

50%
reduction in profits tax rate

Insurtech

21

Sandbox pilots
approved

12

Sandbox applications
relating to virtual
onboarding

80

enquiries and
meetings handled

► Facilitative Measures for the Industry During COVID-19

33,000

policies sold through
non-face-to-face means

HK\$464 million

annualised premiums

THE YEAR UNDER REVIEW

FINANCIAL POSITION

The Insurance Authority (“IA”) is an independent financial regulator whose income is mainly derived from premium levies, authorization and annual fees, as well as specific user fees. While the Government has provided capital grants to support the IA’s establishment and initial years of operation, we 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

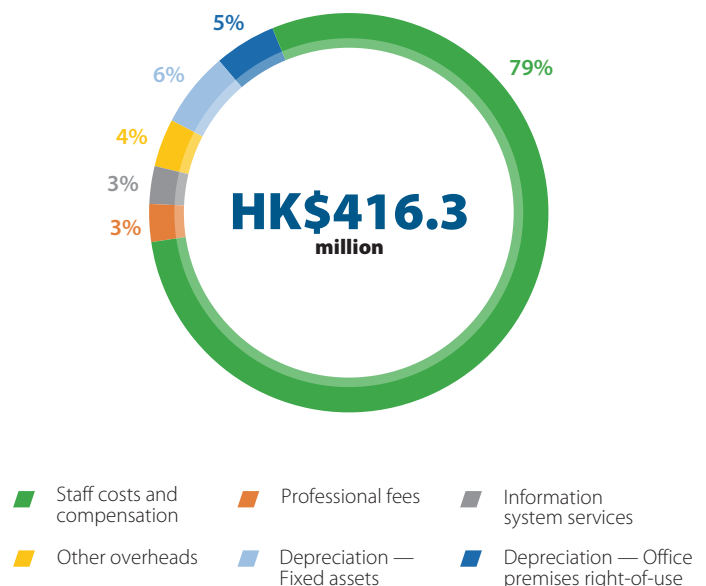
Premium levies have been collected from policy holders since January 2018. The rate during the financial year under review was 0.085% of applicable premiums, subject to a cap of HK\$85 and HK\$4,250 for long term and general policies respectively. This rate has been adjusted to 0.10% since April 2021, 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 June 2017, comprising a fixed fee of HK\$300,000 (HK\$30,000 for captive insurers; and HK\$600,000 for composite insurers) and a variable fee at 0.0026% of insurance liabilities capped at HK\$7 million. This rate will be adjusted to 0.0039% effective from June 2022. With three insurance groups designated to come under group-wide supervision by the IA, designation and annual fees at 0.0026% of insurance liabilities (subject to a minimum and maximum of HK\$10 million and HK\$60 million per annum respectively) have been payable by the insurance groups to the IA since May 2021. Apart from specific user fees, a licensing fee will also 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 2020–21, income and operating expenditure were HK\$339.4 million and HK\$416.3 million respectively, resulting in a deficit of HK\$76.9 million. The accumulated deficit is HK\$498.5 million, which was met by the Government’s capital grants totalling HK\$953 million. Premium levies, and authorization and annual fees were HK\$232.2 million and HK\$91.7 million respectively, while staff costs of HK\$328.2 million accounted for the bulk of operating expenditure.

Expenditure for 2020–21



THE YEAR UNDER REVIEW

MARKET OVERVIEW

In 2020,¹ the total gross premiums of the Hong Kong insurance industry increased by 2.5% to HK\$581,320 million.

LONG TERM INSURANCE BUSINESS

Total office premiums for in-force long term business increased by 2.0% to HK\$521,451 million in 2020. Individual Life category remained the dominant line of business, making up HK\$458,570 million or 87.9% of total long term business. The respective number of policies in 2020 was 13.7 million, carrying net liabilities of HK\$2,669,373 million. As at 31 December 2020, there were around 160,000 in-force Qualifying Deferred Annuity Policies ("QDAPs"). The average annualised premiums per policy stood at around HK\$71,000 and the average age of policy holders was 47.7.

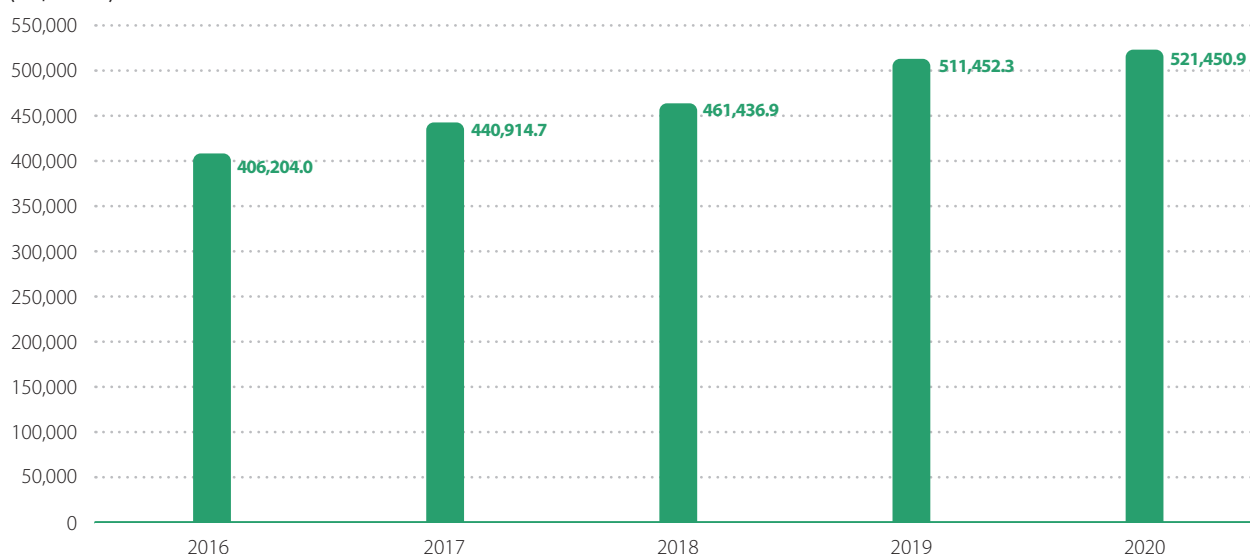
Yearly contributions for Retirement Scheme contracts administered by insurers increased by 6.3% to HK\$9,440 million. In 2020, there were 70,598 Retirement Scheme contracts carrying net liabilities of HK\$146,127 million. In-force office premiums for Group Life business increased

by 11.6% to HK\$4,771 million, carrying net liabilities of HK\$1,366 million. In-force office premiums for Annuity business decreased by 15.3% to HK\$47,805 million. In-force office premiums for Other business (mainly Permanent Health business) decreased by 46.2% to HK\$865 million.

Office premiums for new Individual Life business decreased by 20.9% to HK\$119,632 million in 2020, including HK\$106,840 million from Individual Life (Non-Linked) business and HK\$12,792 million from Linked business, which recorded a decrease of 23.4% and an increase of 8.8% respectively. The total number of new policies decreased by 20.8% to 1 million in 2020. Office premiums for new Individual Annuity business decreased by 36.3% to HK\$13,311 million. In 2020, around 65,000 QDAPs were sold, contributing total annualised premiums amounting to HK\$4,626 million.

Office Premiums of Total In-Force Long Term Insurance Business

(HK\$ million)



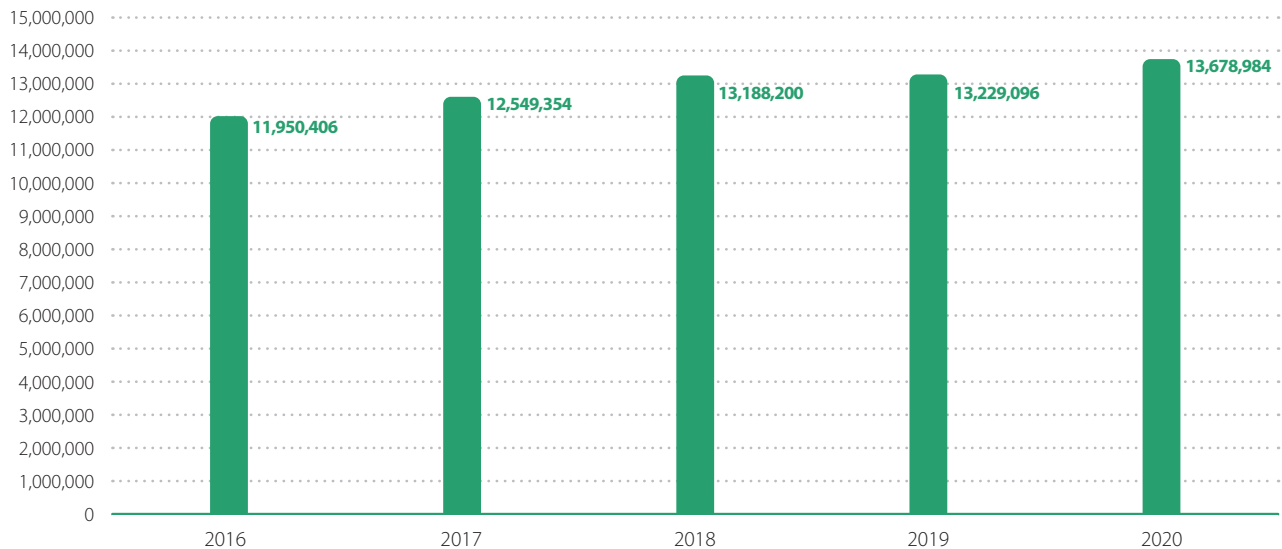
¹ Market Overview statistics cover insurers whose financial year ended between 1 January 2020 and 31 December 2020.

The Year Under Review

MARKET OVERVIEW

In-Force Individual Life Policies

Number of Policies



GENERAL INSURANCE BUSINESS

Hong Kong general insurance market demonstrated strong resilience despite the considerable challenges brought by COVID-19 throughout the year. Total gross written premiums recorded a growth rate of 8.0% to HK\$59,869 million in 2020. Overall underwriting profit hit HK\$2,336 million, up from HK\$869 million in 2019.

The market was able to achieve premium growth during this difficult time due to positive contributions from Property Damage, General Liability and Pecuniary Loss business. Rates increase and new business continued to fuel Property Damage and General Liability business, which both showed double-digit growth of 17.6% and 10.4% respectively. Upward adjustment of the maximum property values for the Mortgage Insurance Programme propelled forward mortgage insurance business, driving an upsurge of 57.0% in Pecuniary Loss business. However, COVID-19 seriously affected direct sales of medical insurance and travel insurance, and dampened Accident & Health business, which recorded a decline of 3.5% in 2020 for the first time since the SARS outbreak in 2003.

While overall underwriting profit saw a significant increase in 2020, it should be noted that such a favorable result mainly stemmed from subdued economic activities and deferral of medical care amidst the pandemic, which led to lower reported claims in Employees' Compensation and Accident & Health business respectively. With this in mind, the market should thus be prepared for the gradual normalisation of claims.

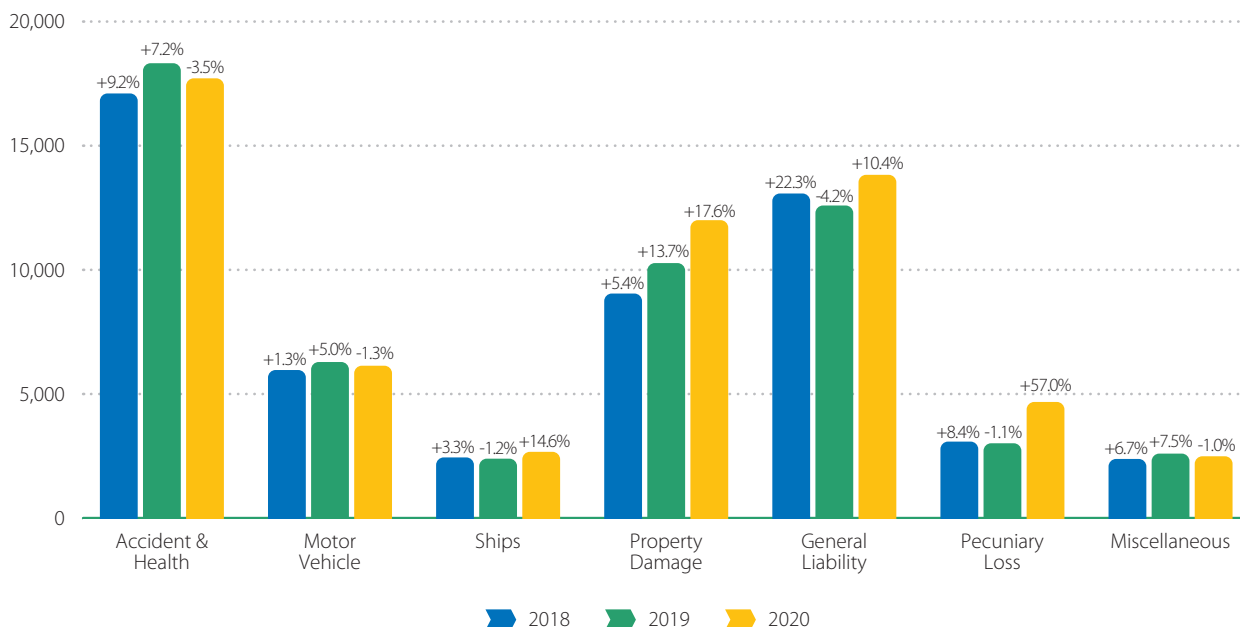
In the coming year, the market will face strong headwinds as COVID-19 continues to drag down the economy. Although growth in premiums is expected to slow down further, the market should be able to sustain its underwriting profitability as long as it continues to abide by strict underwriting discipline. In view of the uncertainty regarding the duration and ongoing impact of COVID-19, the market needs to stay vigilant and continue to manage the impacts of the pandemic, both positive and negative, as well as pay close attention to any possible unexpected volatility.

The Year Under Review

MARKET OVERVIEW

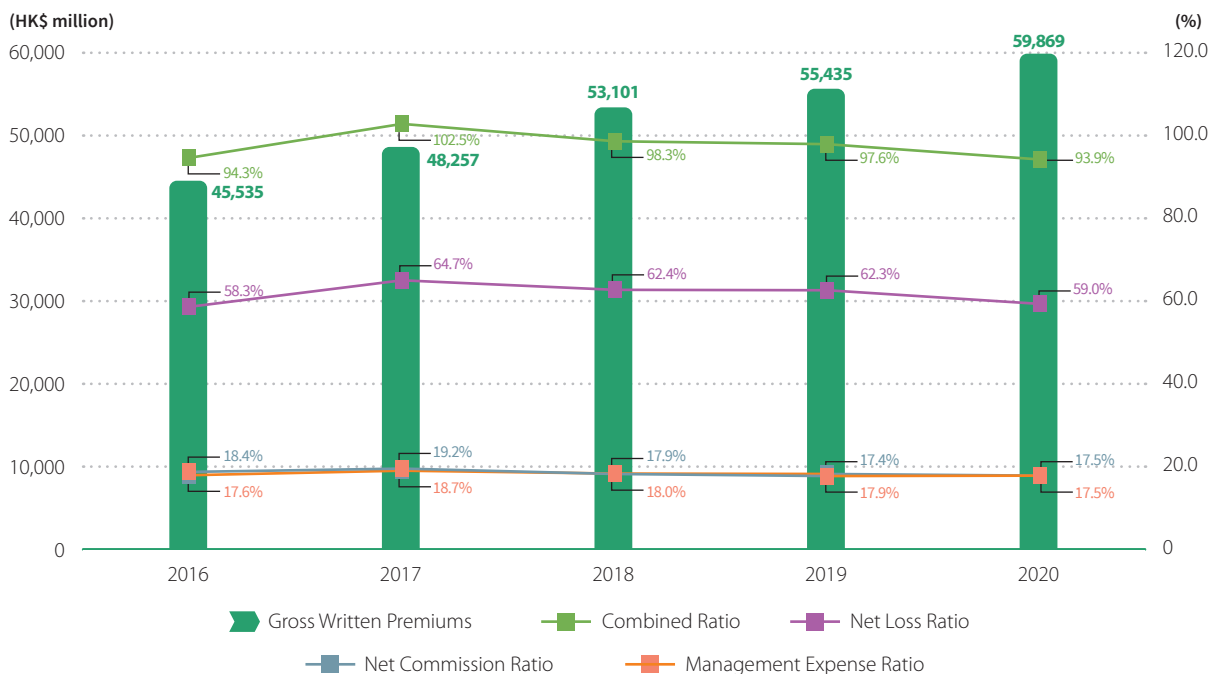
Growth of Gross Written Premiums for General Insurance Business

(HK\$ million)



Overall Performance of General Insurance Business

(HK\$ million)



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

ECONOMIC DATA ^a		Unit	2018	2019	2020
GDP (at current market prices)	HK\$ million		2,835,161	2,844,560	2,688,536
Population (Mid-year)			7,451,000	7,507,400	7,481,800
Per Capita GDP (at current market prices)	HK\$		380,507	378,901	359,343
Insurance Density					
Long Term Business	HK\$		61,930	68,126	69,696
General Business	HK\$		7,127	7,384	8,002
Insurance Penetration					
Long Term Business	%		16.3	18.0	19.4
General Business	%		1.9	1.9	2.2
NUMBER OF AUTHORIZED INSURERS					
Long Term			49	51	53
General			93	91	91
Composite			19	21	20
Total			161	163	164
INSURANCE MARKET STATISTICS					
Premium Income					
Long Term Business (Office premiums)	HK\$ million		461,437	511,452	521,451
General Business (Gross premiums)	HK\$ million		53,101	55,435	59,869
Annual Growth Rate					
Long Term Business	%		4.7	10.8	2.0
General Business	%		10.0	4.4	8.0
Individual Life Business					
Number of New Policies			1,289,816	1,320,196	1,045,001
Average Premium Size of New Policies	HK\$		116,762	114,514	114,481
Number of In-force Policies			13,188,200	13,229,096	13,678,984
Premiums Per Capita of In-force Policies	HK\$		57,220	58,641	61,291
Number of In-force Policies as a Percentage of Population	%		177.0	176.2	182.8
Local Assets Maintained for General Business	HK\$ million		87,657	92,637	97,311

^a Data source: Census and Statistics Department

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. Throughout the reporting year, we spared no effort in modernising our regulatory framework in the light of international developments.

As of March 2021, there were 165 authorized insurers in Hong Kong. To effectively supervise such a wide spectrum of long term and general insurers, we have adopted a multi-faceted approach consisting of comprehensive risk assessment, financial examinations, on-site inspections and off-site monitoring considering both qualitative and quantitative factors.

SUPERVISORY RISK ASSESSMENT FRAMEWORK

To monitor and assess the risk profile of each insurer, we have established a risk-based and dynamic framework, which entails a supervisory risk assessment process, a company review, and a supervisory response and feedback loop. This assessment is conducted on an annual basis or more frequently depending on the risk level of individual insurers. Under this framework, we perform stress testing on an insurer’s solvency position and analyse various aspects of its risk profile, including inherent risks, adequacy of corporate governance, internal controls and risk management systems.

This proactive approach reflects a forward-looking view of an insurer’s risk profile, and enables the IA to pre-empt uncertainties, prevent risks and rectify problems that may adversely affect an insurer’s capacity to meet its obligations to policy holders. Based on the risk evaluation for each insurer, we will determine the magnitude of fit-

for-purpose supervisory responses and activities. When specialist knowledge is required, our team of subject matter experts will be consulted. High-risk insurers are subject to increased scrutiny and regulatory actions within the IA’s statutory powers.

FINANCIAL EXAMINATIONS

To ensure 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, 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.



The Year Under Review

PRUDENTIAL REGULATION OF INSURERS

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.

JOINT INSPECTIONS

Joint inspections with other financial regulators enhance cross-sectoral collaboration. During the reporting year, the IA and Hong Kong Monetary Authority ("HKMA") carried out a joint inspection exercise on premium financing involving authorized insurers and licensed insurance intermediaries such as brokers and banks as agencies. This marked the first joint inspection since the IA was established. On-site inspections, including meetings with management and a walk-through of key processes, were complemented by off-site reviews, such as industry-wide data analytics, review of insurers' internal policies and procedures, and risk-based sampling of insurance policies. The IA and HKMA aim to issue a joint circular in the second half of 2021 to share findings of the joint inspection, including areas of concerns and good practices observed, which will facilitate the formulation of relevant new regulatory measures.

MACROPRUDENTIAL SURVEILLANCE

Apart from undertaking risk assessments of individual insurers, the IA plays an active role in identifying and addressing sector-wide vulnerabilities. In August 2020, the Technical Expert Team ("TET") was formed to strengthen

our internal capabilities for group-wide supervision ("GWS") and carry out macroprudential surveillance as required by the International Association of Insurance Supervisors ("IAIS").

The TET also supports participation by the IA in exercises embarked by the IAIS to assess and mitigate systemic risks through sector-wide monitoring, individual insurer monitoring, as well as ongoing assessment of systemic risks faced by the Hong Kong insurance sector.

FINANCIAL SECTOR ASSESSMENT PROGRAM

The Financial Sector Assessment Program ("FSAP") is an in-depth examination by the International Monetary Fund ("IMF") that covers the source and potential impact of main risks to near-term macro-financial stability, Hong Kong's financial stability policy framework and its capacity to manage and resolve a financial crisis. The key findings are summarised in the Financial System Stability Assessment Report.

The latest FSAP commenced in 2019 and completed with release of a report in June 2021. The IMF commented that the macroprudential framework of Hong Kong is well structured, and microprudential oversight of insurance companies as well as other financial services firms has been strengthened since the 2014 FSAP. According to the IMF, Hong Kong's financial system remains resilient even amidst a prolonged COVID-19 pandemic.

Specifically, the IMF commented that establishment of the IA has greatly strengthened insurance regulation in Hong Kong. Taking into account recommendations arising from the FSAP, the IA will continue its efforts to implement the GWS framework and Risk-based Capital ("RBC") Regime, and enhance cross-sector co-ordination on emerging risks including cybersecurity and climate change.

The Year Under Review

PRUDENTIAL REGULATION OF INSURERS

NEW AUTHORIZATIONS

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

The IA also granted authorization to two authorized general insurers to carry on additional classes of business. Details can be found in the table below.

New Authorizations

Name of Insurer	Place of Incorporation	Type of Business
Britannia Steam Ship Insurance Association Europe — The	Luxembourg	General
OneDegree Hong Kong Limited	Hong Kong	General
ZA Life Limited	Hong Kong	Long Term

Additional Classes of Business for General Insurers

Name of Insurer	Additional Class(es) of Business ^a	Date of Authorization
CGN Captive Insurance Limited	1, 2	22 October 2020
Sinopec Insurance Limited	3, 4, 10, 15	18 December 2020

^a Regarding the nature and definition of classes of business within the general insurance business, please refer to Part 3 of Schedule 1 to the Insurance Ordinance for details.

MERGERS AND ACQUISITIONS

Under the Insurance Ordinance (“IO”) and other requirements, authorized insurers should seek prior approval from or notify the IA regarding appointment of certain shareholder controllers. In the reporting year, there were appointments involving six authorized insurers connected with merger and acquisition activities:

- (1) On 30 June 2020, FWD Management Holdings Limited completed its acquisition of MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited.
- (2) On 30 June 2020, Heng An Standard Life Insurance Company Limited completed its acquisition of Standard Life (Asia) Limited.
- (3) On 16 July 2020, International Financial Group Limited completed its acquisition of 76.2% shareholding in Friends Provident International Limited.
- (4) On 8 December 2020, Bolttech Discovery Holdings Limited completed its acquisition of FWD General Insurance Company Limited from FWD Management Holdings Limited.
- (5) On 11 December 2020, HH AV Holdings Limited completed its acquisition of an extra 40% shareholding in Blue Insurance Limited.
- (6) On 10 February 2021, Arch Capital Group Ltd. acquired from Natixis SA a stake of 29.5% in Coface SA, the holding company of Compagnie Française d’Assurance pour le Commerce Extérieur.

The Year Under Review

PRUDENTIAL REGULATION OF INSURERS

TRANSFERS OF INSURANCE BUSINESS

Under section 24 of the 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 approval from the IA. The sanctions and approvals recorded in the reporting year are summarised in the tables below.

Transfers of Insurance Business

Under Section 24 of the IO

Date of Court Sanction	From	To
14 December 2020	FWD Life Insurance Company (Bermuda) Limited in respect of its Class G (Retirement scheme management category I) long term business	Sun Life Hong Kong Limited

Under Section 25D of the IO

Date of Approval by the IA	From	To
22 February 2021	Sompo Japan Insurance Inc.	Swiss Re Asia Pte. Ltd.

GROUP-WIDE SUPERVISION

The GWS framework is aimed at aligning our regulatory regime with evolving international standards and best practices, positioning Hong Kong as an attractive base for group headquarters and a fitting regional co-ordinator of relevant jurisdictions. To this end, legislative amendments were made to confer powers exercisable on holding companies of insurance groups incorporated in Hong Kong under lead supervision by the IA (referred to as designated insurance holding companies ["DIHCs"]). The amendments, together with subsidiary legislation setting out group capital adequacy requirements and charging of fees to recover cost, commenced on 29 March 2021.

Subsequently, on 14 May 2021, the Guideline on Group Supervision (GL 32), touching upon enterprise risk management, corporate governance, capital requirements and public disclosure became effective. Meanwhile, AIA Group Limited, FWD Management Holdings Limited and Prudential Corporation Asia Limited were named as DIHCs. During the reporting year, the IA convened seven supervisory college meetings for the three insurance groups of which it is the lead supervisor.

The Year Under Review

PRUDENTIAL REGULATION OF INSURERS

INTERNATIONALLY ACTIVE INSURANCE GROUPS

Internationally Active Insurance Groups (“IAIGs”) are the largest and most complex insurers in the world, presenting supervisory challenges due to their international footprint and size. In November 2019, the IAIS released the Common Framework for the Supervision of IAIGs, ushering in a set of transparent and consistent benchmarks. In this context, the Insurance Capital Standard (“ICS”) has been developed to create a common language for supervisory dialogues on group solvency.

The ICS will be rolled out in two phases — a five-year monitoring period, followed by adoption as a group-wide Prescribed Capital Requirement. In 2020, the monitoring period commenced, during which the ICS will be confidentially reported for discussion in supervisory colleges and further analysis by the IAIS. Being the lead supervisor of two IAIGs,¹ the IA remains actively involved in discussions concerning the ICS.

RISK-BASED CAPITAL REGIME

The RBC Regime seeks to improve risk governance and determine the capital requirements of insurers based on their risk profiles. It comprises three pillars addressing quantitative aspects, qualitative aspects and reporting/disclosure respectively.

Regarding quantitative aspects under pillar 1, three rounds of Quantitative Impact Studies (“QIS”) have taken place to gather data and calibrate capital requirements. We plan to conduct public consultation on the draft capital rules by early 2022 to allow introduction of a bill into the Legislative Council in the 2021-22 session. On qualitative aspects under pillar 2, the Guideline on Enterprise Risk Management (GL21) mandates submission of own risk and solvency assessment reports from mid-2021. Finally, industry consultation on reporting/disclosure under pillar 3 started in the first half of 2021.

REGULATORY INITIATIVES

Under the direct regulatory regime for insurance intermediaries, the IA is responsible for market conduct of industry practitioners. A number of guidelines on offering of gifts, the Investment-Linked Assurance Scheme, policy replacement, benefit illustrations, the cooling-off period and financial needs analysis have taken effect since 23 September 2019. They are complemented by interpretation notes issued in the form of frequently asked questions to clarify relevant requirements and facilitate compliance.

Amidst the pandemic, a flexible approach has been adopted to enforce the new requirements but full adherence to the guidelines² is expected from 1 April 2021.

¹ AIA Group Limited and Prudential Plc

² This applies to GL25, GL27 to GL30.

THE YEAR UNDER REVIEW

REGULATION OF INSURANCE INTERMEDIARIES

Since the direct regulatory regime for insurance intermediaries commenced on 23 September 2019, the Insurance Authority (“IA”) has worked on multiple fronts to take the regime forward. Our initiatives have included streamlining the licensing process for new entrants and deemed licensees, elevating conduct standards, stepping up supervision of insurance broker companies and insurance agencies, undertaking enforcement actions and starting disciplinary proceedings.

LICENSING

As of March 2021, there were over 129,000 licensed insurance intermediaries in Hong Kong. During the reporting period, the IA received around 18,000 applications for new intermediary licences, 250 applications for approval of responsible officers, and 17,000 applications to vary lines of business and notify new appointments. The IA also handled about 18,000 licensing-related enquiries by phone and email.

To enable digital submission of licensing applications, the IA developed a system called the “Insurance Intermediaries Connect” (“IIC”), which reduces processing time and administrative work. In addition to the IIC’s user-friendly features, we provided a step-by-step guide to users through videos and useful information at our website, followed by several training sessions to intermediary management personnel from insurers. We are also working on new system features to vary lines of business, add new appointments, and report Continuing Professional Development (“CPD”) hours, among others, which will be implemented by the end of 2021. With the system enhancements and training, the IIC adoption rate

for new licence applications rose from 12% in April 2020 to over 80% in March 2021, with the average processing time reduced to five working days or less compared to three weeks for paper applications.

In a further move, the public register of licensed insurance intermediaries has been enhanced to display the contact information of insurance agencies and insurance broker companies.

User-friendly Features of IIC



Automatic processing of notifications for appointment termination of insurance intermediaries



A range of reports for monitoring and management of intermediary appointment available for downloading



Enabling search for former registration records of individual licensees from the previous self-regulatory regime upon obtaining the consent from data subjects

The Year Under Review

REGULATION OF INSURANCE INTERMEDIARIES

DEEMED LICENSEES

During the reporting year, the IA began preparatory work to roll out the licence application process for deemed licensees. Insurance intermediaries validly registered with the three former Self-Regulatory Organisations ("SROs")¹ immediately before the direct regulatory regime are regarded as deemed licensees and have been given a three-year transitional period running from 23 September 2019 to 22 September 2022. By the end of the transitional period, over 106,000 deemed licensees need to have applied for their first licence under the direct regulatory regime if they wish to continue carrying on regulated activities after 22 September 2022.

To ensure a streamlined and efficient process, we adapted the IIC to receive and process digital applications from deemed licensees. Intermediary management staff from

over 40 major insurers, insurance broker companies and insurance agencies participated in the testing of the IIC workflow, followed by a full pilot, after which several enhancements were made. In collaboration with the former SROs, the IA held seven briefing sessions for over 500 industry practitioners on how to make use of the IIC for licence applications.

January 2021 marked the beginning of the deemed licensee application process, with the IA liaising with the industry to ensure applications would be submitted in a timely, staggered and reasonable manner. As of March 2021, around three months into the process, the IA had already received more than 7,300 licence applications from deemed licensees, and over 70% had been completed.

Number of Licensed Insurance Intermediaries by Licence Type (as at 31 March 2021)

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	83,233	5,791	89,024
Licensed Technical Representatives (Agent) ^a	25,133	1,351	26,484
Licensed Technical Representatives (Broker)	10,601	505	11,106
Total Number of Individual Licensees	118,967	7,647	126,614
Business Entities			
Licensed Insurance Agencies ^a	2,290	17	2,307
Licensed Insurance Broker Companies	Not applicable	Not applicable	825
Total Number of Licensed Insurance Intermediaries			129,746

^a There were 38 authorized institutions (ie banks) registered as licensed insurance agencies, with around 19,028 individuals registered as their licensed technical representatives (agent).

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

The Year Under Review

REGULATION OF INSURANCE INTERMEDIARIES

CONTINUING PROFESSIONAL DEVELOPMENT

In view of the difficulties of individual licensees in meeting CPD requirements during the COVID-19 pandemic, the IA decided to merge the assessment periods for 2019-20 and 2020-21, with fulfillment and reporting deadlines for the combined assessment periods rescheduled to July 2021 and September 2021 respectively. 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 assessment periods, with no limit to CPD activities delivered via virtual classroom platforms. During the reporting year, the IA issued a set of frequently asked questions and a series of circulars to explain the CPD requirements and facilitate compliance.

From the assessment periods for 2021-22 and onwards, individual licensees will be required to complete 15 CPD hours, out of which at least three CPD hours must be related to a topic on "Ethics or Regulations". CPD requirements are one of the hallmarks of professional practitioners. Raising the CPD benchmark not only reflects the need for industry practitioners to keep their skill sets up to date, but also reinforces the trust and reliance which the public place on the advice and recommendations made by insurance intermediaries.

To help insurance intermediaries meet the new requirements, the IA has started developing its first series of CPD courses on ethics. Using an e-learning platform, the IA CPD courses will focus on ethics in the context of applying the principles and standards of the codes of conduct for insurance intermediaries to everyday market conduct situations. The new courses are expected to be launched for the 2021-22 CPD assessment period.

SUPERVISION OF INSURANCE BROKER COMPANIES

As of March 2021, there were 825 licensed insurance broker companies in Hong Kong. During the reporting year, the IA's supervisory activities mainly focused on offsite reviews as well as ongoing communication, with onsite inspections being affected by the pandemic. We reviewed the audited financial statements and auditor's compliance reports, and took supervisory actions in respect of non-compliance by issuing Compliance Advice Letters and Letters of Concern to the relevant broker companies, and referring the matters to the IA's Enforcement Team for investigation.

During the reporting year, the IA managed to conduct six on-site inspections, including three on-site inspections as part of a joint inspection exercise with the Hong Kong Monetary Authority ("HKMA") on premium financing. These inspections assessed 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 IA identified a total of 51 internal control deficiencies including potential non-compliance. Remedial actions have been required while matters involving potential non-compliance were subject to follow-up actions.

The IA has also developed a new risk-based supervisory approach by evaluating each broker company's risk level based on their statutory returns and information collected by the IA. We can then form a holistic view of each broker company's risk profile and assign them a risk category from low to high. This classification will help the IA more effectively deploy our resources for inspections going forward.

The Year Under Review

REGULATION OF INSURANCE INTERMEDIARIES

Under certain circumstances, bespoke supervision strategies are crafted to ensure compliance. For example, for a few broker companies belonging to the same group and having a large number of technical representatives, the IA held regular meetings with their senior management to promote ongoing improvements in governance and compliance with the direct regulatory framework. In other instances, the IA imposed conditions on certain broker company licences to safeguard the interests of policy holders.

SUPERVISION OF INSURANCE AGENCIES

As of March 2021, there were 2,307 insurance agencies in Hong Kong. Based on the business and financial information collected from our market survey, the IA has already adopted a risk-based approach in its supervision of licensed insurance agencies. During the reporting year, the IA managed to conduct three on-site inspections and 27 supervisory reviews amid the challenges of COVID-19. The focus of these inspections and reviews was to assess the adequacy of the controls and processes of licensed insurance agencies to comply with regulatory requirements on conduct and corporate governance as well as those related to anti-money laundering and counter-terrorist financing. Any control deficiencies identified during on-site inspections and supervisory reviews will result in the IA requiring remedial actions to be taken.

With respect to the regulation of banks as licensed insurance agencies, the IA has delegated its frontline inspection and investigation powers to the Monetary Authority and signed a Memorandum of Understanding with the Monetary Authority in July 2019 to provide a framework for co-operation in respect of the regulation and supervision of banks that carry on regulated activities. The IA maintained close dialogue with the HKMA throughout the year to exchange information on licensing matters, inspection findings and supervisory matters related to the 38 banks licensed as insurance agencies by the IA.



▲ Mr Peter Gregoire, Head of Market Conduct (Acting) and General Counsel, speaks at an industry seminar on regulatory requirements for key persons in control functions responsible for intermediary management

Regarding supervision of deemed licensees as insurance agencies and individual insurance agents, the IA met with personnel from eight insurers who are key persons in control functions responsible for intermediary management. These meetings allowed the IA to gain insights into the internal control measures in place to monitor regulated activities carried out by insurance intermediaries and ensure their compliance with regulatory requirements.

ENFORCEMENT

On the commencement of the new regulatory regime on 23 September 2019, the IA received a total of 280 unresolved investigations, disciplinary proceedings and appeal cases from the former SROs. As of March 2021, the IA had concluded 230 of these cases, including 17 appeal cases referred to the Insurance Appeals Tribunal. During the reporting year, the IA also received 183 new cases for investigation, with 53 of these cases concluded as of March 2021.

During the reporting year, the IA focused on taking proportionate supervisory actions, including the issuance of 62 Compliance Advice Letters and 522 Letters of Concern.

The Year Under Review

REGULATION OF INSURANCE INTERMEDIARIES

Compliance Advice Letters were generally issued in cases where the allegation was not fully substantiated, but there were indications that improvements in compliance were necessary, particularly in adapting to the new conduct requirements under the direct regulatory regime. A Compliance Advice Letter draws an insurer's or insurance intermediary's attention to the areas where improvements are needed and gives guidance. These letters tend to be issued in cases involving conduct considered less severe, inadvertent or technical in nature, and where full and immediate remedial action has been taken to ensure no consequent prejudice to policy holders.

Letters of Concern were issued where the evidence on the case tended to suggest non-compliance, and the IA considered that a caution was warranted to warn the recipients to cease and eliminate the undesirable activities or behaviour, as the continuation of such practices would not be tolerated by the IA. A Letter of Concern may be taken into account in determining the severity of any disciplinary penalty to be imposed by the IA in future, if the behaviour is repeated.

The nature of cases covered by the Compliance Advice Letters and Letters of Concern issued, include cross-boundary selling, inaccurate representations, failure to follow up policy holder instructions, failure to submit audited financial statement and auditor's compliance reports by the required deadline, failure to ensure insurance policies are handled by qualified personnel, and failure to meet CPD requirements.

During the reporting year, the vast majority of cases handled concerned alleged non-compliance by intermediaries during the self-regulatory regime. Hence the rules applicable under the previous regime were applied in considering these cases. In handling these cases, the IA also took the opportunity to inform insurance intermediaries of how the case might have been dealt with had the same set of facts applied under the new regulatory regime. In doing this, the IA aimed to raise awareness of the new conduct requirements, affording the industry the opportunity to ensure that training, controls and compliance processes are in place so that the conduct principles and professional ethics are adhered to going forward. As part of this education process, the IA issued a series of circulars in December 2020, citing the common areas of non-compliance seen during the first year of the direct regulatory regime and indicating that we would be stepping up enforcement activities in future.

Disciplinary Processes

The IA also put in place the architecture for its disciplinary processes by establishing the Expert Advisor Panel ("EP") and the Disciplinary Panel Pool ("DPP") in November 2020.

To obtain expert opinion as part of the disciplinary process and more generally on conduct issues, the IA has appointed an EP consisting of seasoned market practitioners. Panel members assist the IA by giving advice on technical insurance matters during investigations, sharing views on the level of sanctions in particular cases to ensure they have the right deterrent effect, and providing input on insurance market matters.

The Year Under Review

REGULATION OF INSURANCE INTERMEDIARIES

The DPP is a pool of persons made up from the majority of executive and non-executive directors of the IA and external parties such as experienced professionals from the legal, financial services and other sectors. Under the DPP terms of reference, three-person Disciplinary Panels will be formed from the pool to decide disciplinary cases on behalf of the IA. The DPP enables the IA to build in a high degree of fairness, impartiality and independence to its internal disciplinary decision-making, by separating the personnel who investigate disciplinary cases, recommend or propose disciplinary actions, from those who decide whether disciplinary actions should be taken.

Two Disciplinary Panels were set up in the first half of 2021, and made the decision to take disciplinary actions against two licensed insurance broker companies and a former individual insurance agent. These actions marked the first disciplinary moves taken by the IA under the direct regulatory regime for insurance intermediaries.

Cross-sectoral Regulatory Co-operation

In addition, the IA fostered cross-sectoral collaboration with other financial regulators and enforcement agencies in Hong Kong. We established regular liaison with them on matters of mutual concern through meetings and sharing of regulatory information.

During the reporting year, the IA and the HKMA carried out a joint inspection exercise on premium financing involving authorized insurers and licensed insurance intermediaries such as banks. In September 2020, the IA entered into a Memorandum of Understanding with the Securities and Futures Commission for the supervision and oversight of entities or financial groups under the direct regulatory regime of insurance intermediaries. In addition, bilateral meetings were held between the IA and the Mandatory Provident Fund Schemes Authority for efficient mutual co-operation, elimination of regulatory gaps and effective protection of members of Mandatory Provident Fund schemes. Furthermore, the IA has exchanged information with the Hong Kong Police Force and the Independent Commission Against Corruption ("ICAC") on a regular basis to combat financial crime.



▲ The IA fosters cross-sectoral co-operation with a briefing to the ICAC on the direct regulatory regime for insurance intermediaries

THE YEAR UNDER REVIEW

COVID-19 RESPONSE

The Insurance Authority (“IA”)’s responsibilities to maintain the general stability of the industry and protect policy holders took on fresh significance in the wake of unprecedented market volatility and challenges arising from the COVID-19 pandemic, with a series of relief measures brought in to assist the sector during this difficult time.

FACILITATIVE MEASURES FOR THE INDUSTRY

In view of the development of COVID-19, the IA introduced facilitative measures for non-face-to-face distribution of specific protective insurance products. Through these measures, designated products, such as Qualifying Deferred Annuity Policy and Voluntary Health Insurance Scheme products, can be marketed via non-face-to-face channels, such as digital, telemarketing, postal or video conferencing, to reduce the risk of infection during the sales process.

We also implemented measures to safeguard the interests of policy holders through mandatory upfront disclosure of important information at the point of sale and an extended cooling-off period of no less than 30 days, among others. These measures were calibrated to encourage insurers to focus on protective products as well as utilise technology to better serve policy holders.

As of March 2021, around 33,000 policies had been sold through these measures, generating total annualised premiums of about HK\$464 million.

LEVERAGING INSURTECH

To enable policy holders to readily access insurance products during the pandemic, the IA proactively promoted virtual onboarding, setting out a number of

policy holder protection measures, including sales control and monitoring measures, disclosure, security assessment and control, in a circular in August 2020. These measures were imposed through insurers’ Insurtech Sandbox applications for virtual onboarding.

The industry also actively adapted to the “new normal”. In September 2020, the Hong Kong Federation of Insurers developed a shared industry-wide virtual onboarding platform, pre-vetted by the IA to shorten the rollout of video conferencing tools. Insurers using the pre-vetted platform are not required to go through the Insurtech Sandbox’s technical assessment.

In light of COVID-19, taking out insurance policies online also gathered momentum, driving the rise of digital consumption patterns. For better understanding of the pandemic’s impact on consumer behaviour and perceptions of the insurance market, the IA conducted an online public opinion survey in early 2021, receiving around 500 responses. The survey provided insights on policy holders’ insurance needs and protection gaps as well as their post-pandemic preferences regarding digital channels. The results indicated increasing use of digital services for quotations, applications for new policies, and premium payments, providing a valuable reference for future research.

The Year Under Review

COVID-19 RESPONSE

FACILITATIVE MEASURES FOR INTERMEDIARIES

Due to COVID-19, licensed insurance broker companies may encounter difficulties in submitting their required documents to the IA within the statutory submission deadline. To address the issue, these companies were given the flexibility to apply to defer submission of required documentation. As of March 2021, the IA had approved 99 such applications.

Facilitative measures were also in place for individual licensees. Continuing Professional Development (“CPD”) assessment periods for 2019–20 and 2020–21 have been merged, with fulfilment and reporting deadlines for the combined periods rescheduled to July 2021 and September 2021 respectively. 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 periods, with no limit on CPD activities delivered via virtual classroom platforms.

In December 2020, the IA issued a circular about a contingency measure to conduct licensing examinations for intermediaries during the pandemic. The IA worked with the Vocational Training Council to offer a Remote Invigilation Mode Examination, enabling three basic papers under the Insurance Intermediaries Qualifying Examination to be taken remotely when needed.

INSURANCE TALENT DEVELOPMENT PROGRAMME

In December 2020, the IA launched the Insurance Talent Development Programme under the Government’s Anti-epidemic Fund, creating employment opportunities for sustainable development of the insurance industry. As of March 2021, 32 temporary positions of up to 12 months had been offered. The positions supported various functions of the IA, including supervision, licensing, complaint handling, and administrative support.

VACCINATION

With citywide vaccination of key importance in safeguarding public health, the IA has been urging the industry to introduce measures facilitating their staff to get inoculated. The IA set the example by allowing its staff to get vaccinated during office hours and granting paid leave afterwards. In June 2021, we issued a circular strongly encouraging the insurance industry to arrange for their staff and intermediaries who regularly come into contact with customers or deliver critical functions to get inoculated to ensure sound risk management practices were in place for the insurance industry and avoid undue business disruptions.



▲ The IA rolls out the Insurance Talent Development Programme in support of the Government’s initiative to create job opportunities for people affected by the COVID-19 pandemic

THE YEAR UNDER REVIEW

PROTECTION OF POLICY HOLDERS

The Insurance Authority (“IA”) makes continuous efforts to uphold the interests of policy holders. During the reporting year, preparatory work on the Policy Holders’ Protection Scheme (“PPS”) continued while collaboration with other financial regulators got underway to establish our first joint Mystery Shopping Programme.

POLICY HOLDERS’ PROTECTION SCHEME

The Government has proposed to establish a PPS to provide a safety net for policy holders in the event of an insurer’s insolvency. The scheme covers most types of direct life and non-life policies, benefitting individual policy holders, small and medium-sized enterprises, and owners’ corporations. If an insurer becomes insolvent, the PPS will 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 to prepare the draft bill, which is expected to be introduced into the Legislative Council in the 2022-23 session. The IA has also commissioned a consultancy study to obtain an updated assessment of the scheme’s key parameters, such as the optimal fund size and levy rates.

COMPLAINT HANDLING

During the reporting year, the IA received a total of 1,464 new complaint cases. The main complaint categories¹ concerned conduct, insurers’ business or operations, claims and representation of information. A total of 733 ongoing complaint cases were brought forward from the previous year.

The IA concluded the handling of 1,161 complaints and referred 136 cases to the IA’s Enforcement Team for further action. A total of 900 ongoing cases will be carried forward to the next reporting year.

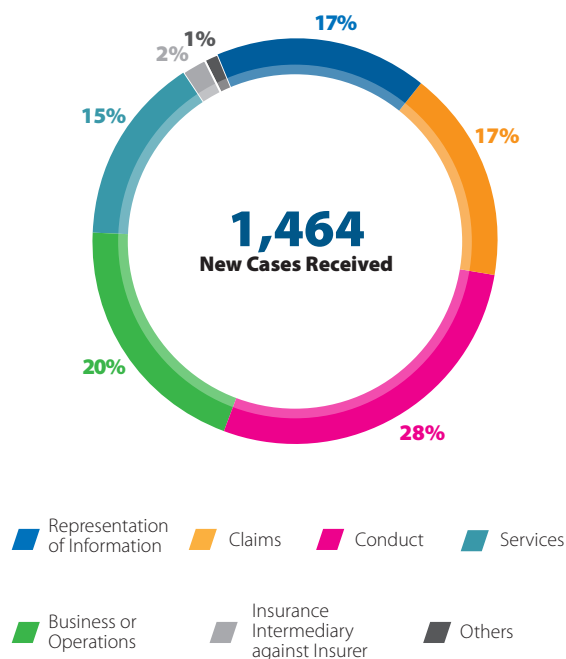


¹ Details of complaint categories are available on the IA website.

The Year Under Review

PROTECTION OF POLICY HOLDERS

Summary of Complaints 2020–21



Ongoing cases brought forward to 1 April 2020	733
New cases received	1,464
TOTAL	2,197
Cases closed	1,161
Cases referred to the IA's Enforcement Team	136
Ongoing cases as at 31 March 2021	900
TOTAL	2,197

If the IA identifies an area for potential improvement in the practices or controls of a licensed insurance intermediary or authorized insurer (albeit the allegations in the complaint are unsubstantiated), we will issue a Compliance Advice Letter or Letter of Concern so that the requisite lessons could be taken on board and improvements in governance and processes implemented.

JOINT MYSTERY SHOPPING PROGRAMME

Mystery shopping is one of the supervisory tools to monitor industry compliance and best practices. This involves “shoppers” who pose as regular customers to do test checking. Mystery shopping can help regulators assess and identify issues and deficiencies as well as recognise good practices in the market. During the reporting year, the IA, Mandatory Provident Fund Schemes Authority, and Hong Kong Monetary Authority started work on a joint Mystery Shopping Programme (“MSP”) to assess selling practices related to Qualifying Deferred Annuity Policies and Tax Deductible Voluntary

Contributions. The MSP is being jointly designed by the three regulators to gain insights into how these products are being sold and proactively address potential risks. Focus areas include client risk profiling, needs analysis, product and risk disclosure, provision of product documents, and suitability of recommendations, where applicable. Through the MSP, which is targeted to be completed in 2021–22, we look forward to promoting a culture of compliance relating to the sales and marketing of tax deductible retirement saving products.

REGULATING SELLING AND AFTER-SALES PROCESSES

To ensure fair treatment of policy holders across all aspects of medical insurance business, the IA published the Guideline on Medical Insurance Business (GL 31) on the proper standards and practices for insurers and insurance intermediaries, which came into effect on 23 September 2020.² A set of frequently asked questions were also issued to help illustrate the requirements to the industry.

² Due to the COVID-19 pandemic, the IA has adopted a flexible approach to allow full compliance from 1 April 2021.

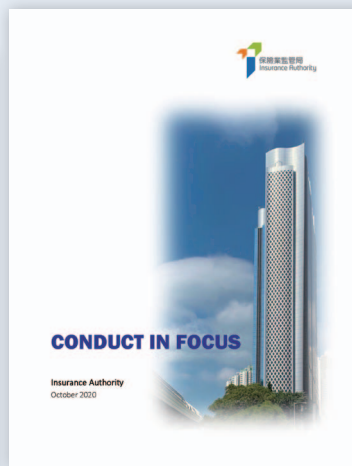
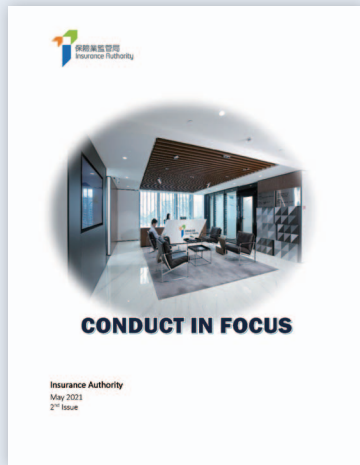
The Year Under Review

PROTECTION OF POLICY HOLDERS

***Conduct in Focus* Newsletter**

In October 2020, the IA launched the inaugural issue of its newsletter *Conduct in Focus* as one of the essential tools to empower policy holders. Targeted at both policy holders and insurance practitioners, the newsletter presents statistics and commentary on complaints received by the IA and examines a

wide variety of topics, including selling practices, updates on the IA's disciplinary approach, ethics, and tips for policy holders. The newsletter seeks to serve as a useful reference for insurers and intermediaries on good practices and helps policy holders avoid pitfalls through lessons learnt from complaints.



◀ The *Conduct In Focus* newsletter shares lessons learnt from complaints and good industry practices with policy holders

THE YEAR UNDER REVIEW

MARKET DEVELOPMENT

The Insurance Authority (“IA”)’s market development roadmap seeks to drive forward sustainable growth in the insurance industry by catapulting Hong Kong into a global risk management centre and regional reinsurance and insurance hub.

To this end, the IA aims to leverage the Hong Kong insurance industry’s strengths to support national strategies such as the Belt and Road Initiative (“BRI”) and development of the Guangdong-Hong Kong-Macao Greater Bay Area (“GBA”). Our vision is to create an ecosystem anchored on a “dual circulation” that supports both international trade and domestic demand.

Policy initiatives to make Hong Kong a more attractive hub for international trade encompass four pillars: insurance-linked securities (“ILS”); captive insurance; marine and specialty risk insurance; and reinsurance. On the domestic front, we have worked closely with Mainland authorities to strengthen connectivity within the GBA and played an active part in invigorating the local market through Insurtech and product innovation.

INSURANCE-LINKED SECURITIES

ILS, such as catastrophe bonds, are risk management tools that transfer insurance risks to capital markets through securitisation, enhancing the capacity of the insurance industry and providing institutional investors with investment options that are uncorrelated with the economic cycle. Given a rise in natural catastrophic events caused by climate change and urbanisation, global issuance of ILS has grown substantially in recent years while risk exposure remains mainly confined to the United

States and Europe. It is necessary to make Hong Kong more appealing for ILS issuance to capture potential business opportunities in Asia.

As an international financial centre with free flow of capital, a sophisticated capital market with ample liquidity, a sound legal system as well as a wealth of talent in insurance and financial services, Hong Kong is in a strong position to become a preferred ILS domicile. The Central Government has also indicated its support for Mainland insurers to issue catastrophe bonds in Hong Kong.

On 29 March 2021, a new regulatory regime for issuance of ILS in Hong Kong through the authorization of special purpose insurers became effective, with the sale of ILS restricted to eligible institutional investors to protect ordinary retail investors.

On 30 June 2021, the Guideline on Application for Authorization to Carry On Special Purpose Business (GL 33) went into effect, setting out operational details of the new regulatory regime by drawing reference from overseas experience and taking into account local circumstances, with a view to facilitating the first ILS issuance in Hong Kong by the end of 2021. In the process of formulating the new guideline, the IA actively engaged the industry through a working group comprising stakeholders along the ILS value chain as well as other channels.

The Year Under Review

MARKET DEVELOPMENT

Asian Insurance Forum 2020

The IA hosted its third Asian Insurance Forum in December 2020 in hybrid format, attracting a record high turnout of about 1,000 online participants from around the world.

Running on the theme “Spearheading Change for a Sustainable and Resilient Future”, the forum covered a myriad of topics from GBA development and the BRI to Insurtech. Speakers from different sectors including government officials, financial regulators

and industry leaders around the globe exchanged insights at the forum and identified future opportunities together.

The forum is the IA’s annual flagship event which provides a high-level platform to promote market development in the region and strengthen Hong Kong’s position as a global risk management centre and regional reinsurance and insurance hub.

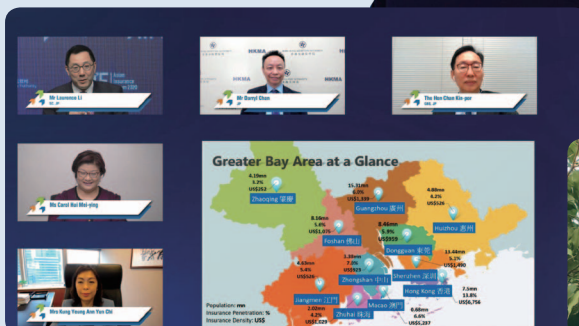


▲ Mrs Carrie Lam, Chief Executive of the Hong Kong Special Administrative Region, delivers the opening address at the Asian Insurance Forum



▲ Financial Secretary Mr Paul Chan speaks at the forum

▶ Dr Moses Cheng, Chairman, gives the welcome speech



▲ Online panellists discuss the future of the Greater Bay Area at the forum

▼ Mr Jonathan Dixon, Secretary General of the International Association of Insurance Supervisors, provides a keynote speech



The Year Under Review

MARKET DEVELOPMENT

Offering further encouragement, the Financial Secretary announced a two-year Pilot ILS Grant Scheme providing a subsidy of up to HK\$12 million per issuance in the 2021-22 Budget. The objective is that over time this will help build a self-sustaining ecosystem of ILS business activities in Hong Kong.

These initiatives would maintain Hong Kong's competitiveness in the global insurance market while enabling the insurance industry to capitalise on new business opportunities arising from GBA development and Mainland enterprises' offshore investments.

CAPTIVE DOMICILE

As risk management platforms for large enterprises, captive insurers can be a key source of demand for a wide range of sophisticated risk management and reinsurance and insurance solutions. Moreover, Hong Kong's proximity to the Mainland and its role as an international financial centre within national boundaries make it an ideal captive domicile for Mainland enterprises with overseas projects.

To further reinforce the role of captive insurers as an intra-group risk management centre, and transforming Hong Kong into a preferred domicile for captives formed by state-owned enterprises from the Mainland, multinational conglomerates and local corporations, we have made legislative amendments to expand the scope of insurable risks by captive insurers in Hong Kong. The amendments were passed in July 2020 and came into effect in March 2021.

To promote Hong Kong as a captive domicile, the IA also organised a captive forum webinar in October 2020 to introduce the development and core strengths of Hong Kong's captive insurance market, and the latest initiatives to enhance the business ecosystem to support the

operation of captives in Hong Kong. The event attracted more than 100 executives from captives operating in Hong Kong, Mainland enterprises considering setting up captives in Hong Kong, specialist insurers, professional reinsurers, Mainland insurers, and insurance brokers.

Complementing the captive initiatives as well as the IA's goal to develop Hong Kong as a global risk management centre and regional reinsurance and insurance hub, the IA's Hong Kong Specialty Risks Consortium commenced operation during the reporting year to assist the matching of demand and supply in the specialty risk area and make it easier for risk owners with complex risks to find appropriate solutions through Hong Kong. Under the orchestration of the IA, the Consortium pools risk owners with exposure to specialty risks in their overseas projects, with service providers such as reinsurers, insurers, and insurance brokers that can offer suitable risk management and reinsurance and insurance solutions. This makes it more convenient for risk owners such as captive insurers to use Hong Kong as a risk management hub for offshore risks. During the reporting year, the IA hosted a number of matching meetings covering diverse risks, such as political risks, credit, performance guarantees, and renewable energy.

MARINE AND SPECIALTY RISK INSURANCE

In a further spur to promote the development of the marine and specialty risk insurance businesses of Hong Kong, a Government-proposed amendment bill providing a tax concession on marine and specialty risk insurance for general insurers and insurance brokers was passed in July 2020, becoming effective in March 2021. The concession reduces profits tax rate by 50% (i.e. 8.25%) for all general reinsurance business of direct insurers, selected general insurance business of direct insurers, and selected insurance brokerage business.

The Year Under Review

MARKET DEVELOPMENT

REINSURANCE

To sharpen the competitive edge for Hong Kong reinsurers, the IA reached a consensus with the China Banking and Insurance Regulatory Commission ("CBIRC") in 2018 that under the "China Risk Oriented Solvency System" ("C-ROSS"), Mainland insurers ceding business to qualified Hong Kong professional reinsurers can enjoy a lower reinsurance credit risk charge. This makes Hong Kong reinsurers more attractive when Mainland insurers consider ceding reinsurance overseas for risk diversification. In June 2020, the CBIRC granted an extension of the preferential treatment for one year, which was subsequently further extended until 30 June 2022. As of March 2021, there were six Hong Kong-based professional reinsurers qualified for the arrangement.

CONNECTING BELT AND ROAD STAKEHOLDERS

The IA has established the Belt and Road Insurance Exchange Facilitation ("BRIEF") platform for exchange of intelligence among key stakeholders, helping them to identify risk management and insurance needs as well as optimal solutions. As of March 2021, BRIEF had 41 members comprising insurers, reinsurers, captive insurers, insurance brokers, industry associations, and law firms.

During the reporting year, the IA partnered with InvestHK to publish a leaflet showcasing the core strengths of Hong Kong as a global risk management centre and regional reinsurance and insurance hub, highlighting supportive policy measures for BRI-related business opportunities.

In addition, the IA continued to reach out to Belt and Road stakeholders through major industry events. In December 2020, 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. The panel, comprising senior executives from a captive insurer of a Central State-Owned Enterprise, a reinsurer, an international insurance broker and a bank with a solid footprint along the Belt and Road, examined a wide range of topics, including the new risk landscape facing Mainland enterprises investing in overseas BRI projects, strategies for increasing the value proposition of the Hong Kong financial services sector in the provision of risk management solutions, financing, and treasury for the BRI, and how to make the BRI a sustainable growth driver for Hong Kong.



◀ Mr Simon Lam, Executive Director, General Business (far left), moderates a panel discussion at the Belt and Road Summit

The Year Under Review

MARKET DEVELOPMENT

GREATER BAY AREA

In May 2020, four major Mainland financial regulators¹ jointly promulgated the “Opinion on Providing Financial Support for the Development of the GBA”,² paving the way for Hong Kong insurers to establish after-sales service centres in the GBA. The IA has been intensively discussing the modus operandi and regulatory co-ordination of this initiative with counterparts in Guangdong, Shenzhen and Macao to facilitate early implementation and working closely with the Hong Kong Federation of Insurers (“HKFI”) to examine different options for timely execution.

To increase convenience in using the Hong Kong-Zhuhai-Macao Bridge, the IA has also been collaborating with the CBIRC on a unilateral recognition policy for motor vehicle insurance. When this arrangement is in place, Mainland authorities will recognise Hong Kong insurer-issued motor insurance policies that extend cover to third-party liability in the Mainland for vehicles travelling to Guangdong province via the bridge. The arrangement will see such coverage deemed equivalent to the compulsory traffic accident liability insurance for motor vehicles in the Mainland. In November 2020, the IA co-hosted a webinar with the HKFI on the readiness of Hong Kong general insurers regarding support for the arrangement.

INSURTECH

Insurtech is now becoming an area of great interest for the insurance industry, given its potential to tap unserved client segments, offer a value proposition, elevate the customer experience, and deepen financial inclusiveness.

In December 2020, the IA and HKFI conducted a joint survey to better understand the current state of technology adoption within the industry. Results indicated that insurers made use of technology to streamline business processes and reduce operational costs, accelerating the use of Insurtech. The most popular technologies deployed were Application Programming Interfaces (“APIs”), Regtech, and cloud computing.

Most industry players recognised the importance of using Open APIs for system interfaces and data exchange, creating an environment conducive to innovation and service improvement. Regarding Regtech, the IA will utilise implementation of the Risk-based Capital Regime to ensure seamless statutory filings are backed by vigorous prudential surveillance. Going forward, the IA will embark on a series of studies and develop a roadmap to facilitate the industry’s adoption of Insurtech. In this regard, the IA has been working closely with the HKFI to explore Insurtech initiatives, in particular the use of technology for non-face-to-face distribution of long term insurance products.

Since 2017, the IA has launched Fast track and 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. The first case was granted in 2018 and three more virtual insurers were authorized between October 2019 and May 2020. In total, there are two long term and two general virtual insurers.

¹ The People’s Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and State Administration of Foreign Exchange.

² 《關於金融支持粵港澳大灣區建設的意見》, also known as 「金融三十條」.

The Year Under Review

MARKET DEVELOPMENT

Insurtech Sandbox allows authorized insurers to test innovative applications of new technologies in a controlled environment and demonstrate broad compliance with prevailing supervisory requirements. As of March 2021, 21 pilots had been granted, including 12 virtual onboarding initiatives. A supervisory framework for the distribution of long term insurance policies via video conferencing was ushered in to overcome the impediments brought about by non-face-to-face onboarding process. The HKFI also launched an industry-wide shared platform of video conferencing tools in September 2020 to shorten the lead time for individual insurers to roll out their Insurtech Sandbox pilots. Two Insurtech Sandbox pilot trials on virtual onboarding took advantage of this pre-vetted platform.

The IA encouraged insurance intermediaries to use Insurtech by inviting interested licensed insurance broker companies to make Insurtech Sandbox applications under a pilot scheme in early 2021.

To keep a close dialogue with insurers and the technology community, the IA has set up the Insurtech Facilitation Team to enhance their understanding of the current regulatory regime. During the reporting year, the team handled around 50 enquiries and held more than 30 meetings with various stakeholders, including local and

international insurers, Fintech firms, regulators and industry organisations. The team also promoted a number of Fintech initiatives, for example, encouraging the participation of insurers and insurance broker companies in “iAM Smart”, a Government-launched platform that allows users to conduct electronic identity authentication, digital form filling, and digital signing.

PROTECTION LINKED PLAN

While we continue to explore opportunities in the Mainland and overseas to grow the insurance industry, there remains huge business potential bridging protection gaps in the local market. Following the success of the Qualifying Deferred Annuity Policy, launched in 2019 to promote early retirement savings, the IA partnered with the industry and Securities and Futures Commission, in consultation with the Hong Kong Monetary Authority, to develop a new product temporarily named the Protection Linked Plan (“PLP”). PLP is an investment-linked assurance plan with high mortality protection. For policy holders’ easy understanding, the product will come with a simple and transparent fee structure and confined fund choices. Policy holders will also be able to gain life insurance protection while investing in funds.

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 requirements under 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.

During the reporting year, the Insurance Authority (“IA”) continued to monitor the insurance sector’s risk exposure to money laundering and terrorist financing (“ML/TF”) through ongoing supervisory engagement and robust oversight of the effectiveness of insurance institutions’ AML/CTF systems. If any control deficiencies are identified, the IA will require that remedial actions be taken.

RISK-BASED SUPERVISORY REGIME

The IA has adopted a risk-based approach to AML/CTF supervision, which can only be achieved through comprehensive understanding of the ML/TF risks in the insurance sector. In this regard, and as an essential component of a sectoral vulnerability analysis, the IA conducted a survey in December 2020 to collect requisite data from all active long term insurers for detailed risk analysis. The survey formed part of a major government initiative under the Hong Kong Money Laundering and Terrorist Financing Risk Assessment, steered by the Financial Services and the Treasury Bureau, to assess Hong Kong’s ML/TF risks.

RISK MITIGATION FOR VIRTUAL ONBOARDING

With the introduction of the social distancing measures during the COVID-19 pandemic, the IA encouraged insurers to expedite the adoption of Insurtech for non-face-to-face distribution of insurance products. This has seen an increasing number of long term insurers apply to launch virtual onboarding trials through our Insurtech Sandbox. These trials have used video conferencing tools, mobile applications and other means, and involved an array of insurance products.

To address the heightened ML/TF risks when policy holders are not physically present in the virtual onboarding process, we reviewed related AML/CTF controls before the launch of Insurtech Sandbox trials, including ML/TF risk assessments and the corresponding control measures for Insurtech Sandbox applications.

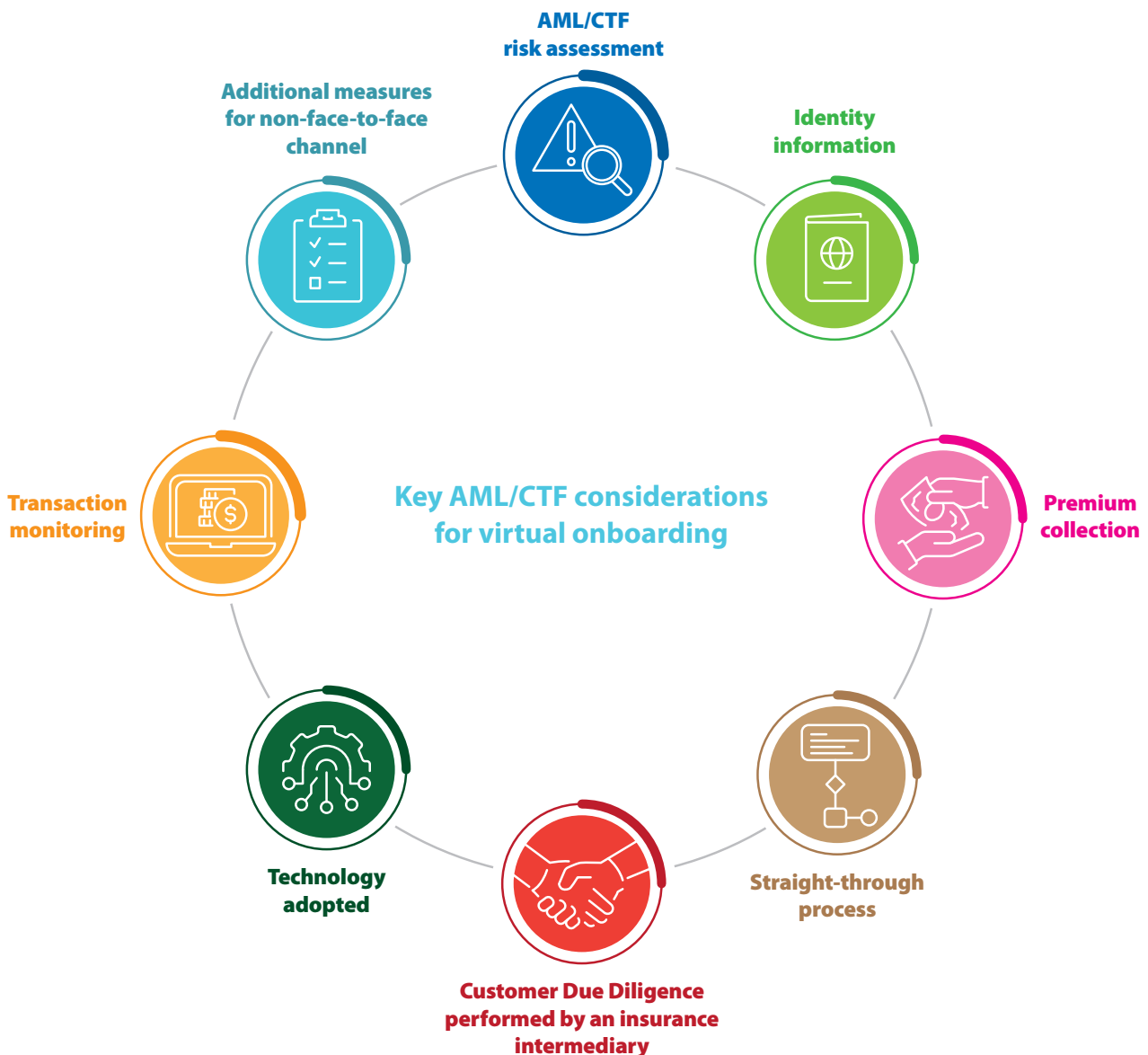
The Year Under Review

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

SUPERVISORY OUTREACH

During the reporting year, the IA continued its outreach efforts to promote insurance practitioners’ awareness of AML/CTF regulatory requirements. To help the industry better understand ML/TF risks during the virtual onboarding process, the IA held a webinar in December 2020, attended by over 150 representatives from long term insurers. The webinar focused on the AML/CTF controls that need to be implemented by long term

insurers using video conferencing for virtual onboarding of policy holders, and discussed lessons learnt from reviews of numerous Insurtech Sandbox applications from an AML/CTF perspective. The IA also took the opportunity to promote the iAM Smart Pilot Sandbox Programme initiated by Cyberport in collaboration with the Government by highlighting its benefits for mitigating ML/TF risks.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE

CORPORATE GOVERNANCE

As a credible regulator, the Insurance Authority ("IA") is committed to adopting environmental, social and governance criteria in its daily operations and practices, with our corporate governance framework built around well-defined management and accountability structures, comprehensive operational and financial control procedures, and 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 appointed by the Chief Executive of the Hong Kong Special Administrative Region ("Chief Executive"). As at March 2021, the IA Board consisted of 12 NEDs and three EDs.

Responsibilities and Diversity of Directors

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








Chairman and CEO

The Chairman provides leadership and strategic direction, while the CEO assumes responsibility for daily operations and implementation of strategies under the directions of the IA Board.

Executive Directors

EDs take charge of daily operations within their respective purviews, including long term business, general business, market conduct, and policy and development. They also support the CEO in fulfilling his duties.

Diversity of Our NEDs

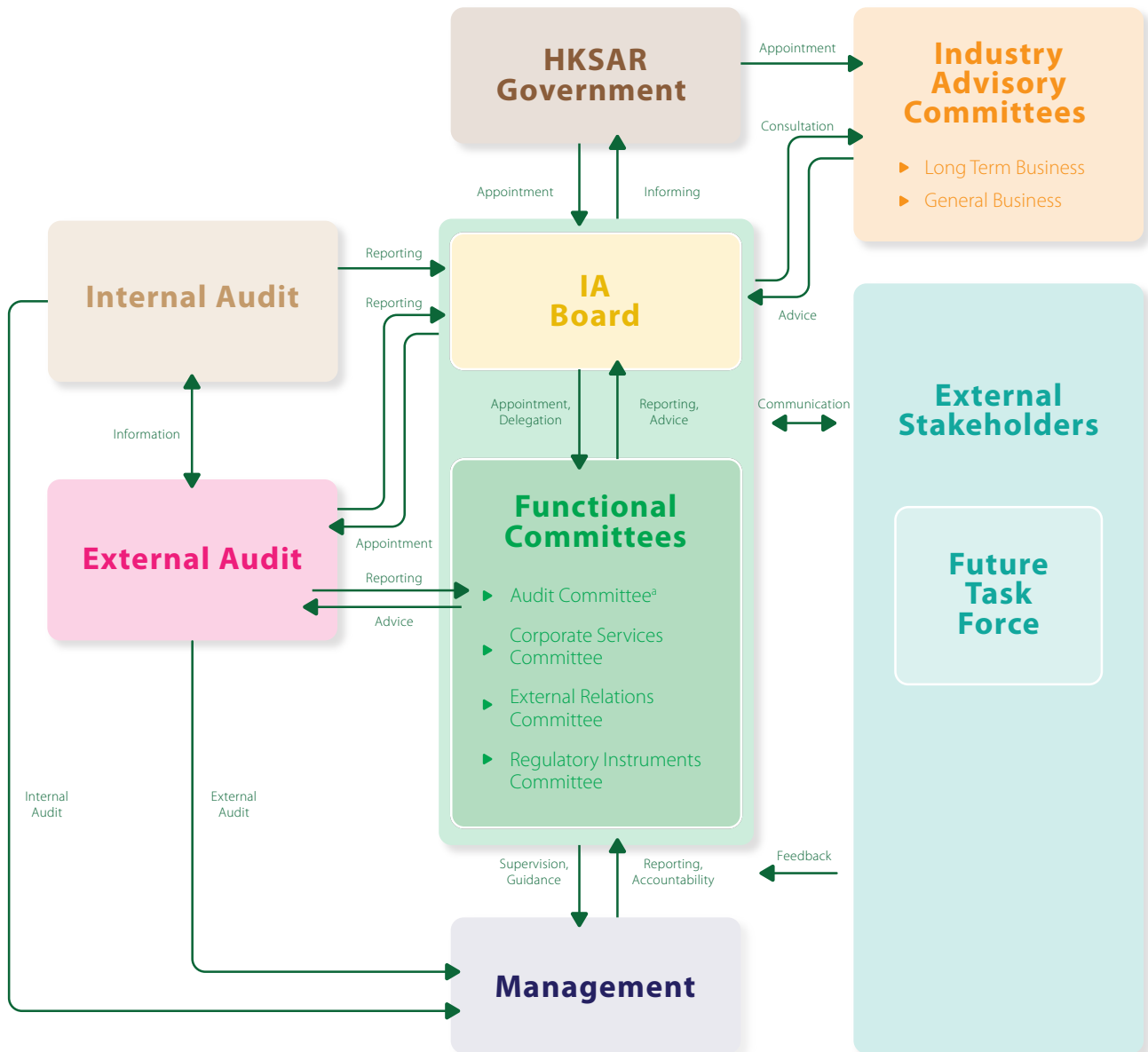
Gender	
 Male 8 (67%)	Female  4 (33%)
Professional Expertise / Experience	
 Accountancy / Actuarial Science	2 (17%)
 Banking / Finance / Insurance	5 (42%)
 Education and Management	1 (8%)
 Legal	3 (25%)
 Public Relations	1 (8%)



Environmental, Social and Governance

CORPORATE GOVERNANCE

Governance Structure



^a Audit Committee was renamed as Audit and Risk Committee in August 2021.

Environmental, Social and Governance

CORPORATE GOVERNANCE



- | | | |
|--|--|--|
| <p>1 Dr the Hon Moses Cheng Mo-chi, <i>GBM, GBS, JP</i>
Chairman</p> <p>2 Mr Clement Cheung Wan-ching, <i>GBS, JP</i>
Chief Executive Officer</p> <p>3 Mr Samuel Chan Ka-yan, <i>BBS, JP</i>
Non-Executive Director</p> <p>4 Professor Chan Wai-sum
Non-Executive Director</p> <p>5 Dr Clement Chen Cheng-jen, <i>GBS, JP</i>
Non-Executive Director</p> | <p>6 Ms Chitty Cheung Fung-ting
Non-Executive Director</p> <p>7 Ms Agnes Choi Heung-kwan, <i>MH</i>
Non-Executive Director</p> <p>8 Mr Kenneth Kwok Tsun-wa
Non-Executive Director</p> <p>9 Mr Ma Ho-fai, <i>GBS, JP</i>
Non-Executive Director</p> <p>10 Ms Theresa Ng Choi-yuk, <i>JP</i>
Non-Executive Director</p> | <p>11 Mr James Wong Chien-kuo
Non-Executive Director</p> <p>12 Professor Anna Wong Wai-kwan
Non-Executive Director</p> <p>13 Mr Stephen Yiu Kin-wah
Non-Executive Director</p> <p>14 Ms Carol Hui Mei-ying
Executive Director,
Long Term Business</p> <p>15 Mr Simon Lam Sui-kong
Executive Director,
General Business</p> |
|--|--|--|

Environmental, Social and Governance

CORPORATE GOVERNANCE

IA MEMBERS

Chairman



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

Dr Cheng is now the 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, BBS, 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.

Environmental, Social and 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, Chairman of the Standing Committee on Youth Skills Competition and a member of the Public Service Commission. Notable past appointments include Chairman of the Vocational Training Council and Chairman of the Federation of Hong Kong Industries.



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. 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 is also a lay member of the Council of the Hong Kong Institute of Certified Public Accountants. 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.

Environmental, Social and 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 Bureau¹ 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.

¹ Formerly known as the Insurance Claims Complaints Bureau.

Environmental, Social and 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 the HKFI from 2009 to 2010 and as a member of the General Committee of the Insurance Complaints Bureau² 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.

Environmental, Social and 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, Commissioner of Insurance from 2006 to 2009, 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, facilitative measures in response to the COVID-19 pandemic, processing of trial projects on virtual onboarding and development of the Protection Linked Plan.

**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.

Environmental, Social and Governance

CORPORATE GOVERNANCE

GOVERNANCE PRACTICES

The IA strives to observe the best practices of corporate governance, including:

- ▶ 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





Environmental, Social and Governance

CORPORATE GOVERNANCE

Meeting attendance in 2020-21

Meetings attended/held	IA Board	Corporate Services Committee ("CSC")	External Relations Committee ("ERC")	Audit Committee ^a ("AC")	Regulatory Instruments Committee ("RIC")
Chairman					
Moses Cheng	9/9	3/3	2/2	1/1	7/7
Non-Executive Directors					
Samuel Chan	6/9	2/3	1/2	–	7/7
Chan Wai-sum	9/9	3/3	–	1/1	–
Clement Chen	9/9	–	2/2	1/1	–
Chitty Cheung	9/9	3/3	2/2	–	–
Agnes Choi	9/9	3/3	2/2	–	7/7
Kenneth Kwok	9/9	3/3	–	1/1	5/7
Ma Ho-fai	8/9	2/3	2/2	–	6/7
Theresa Ng	9/9	3/3	–	–	7/7
James Wong	9/9	3/3	2/2	–	7/7
Anna Wong	9/9	–	2/2	–	7/7
Stephen Yiu	8/9	2/3	–	1/1	–
Executive Directors					
Clement Cheung	9/9	–	2/2	–	7/7
Carol Hui	9/9	–	–	–	–
Simon Lam	9/9	–	–	–	–
Stephen Po ^b	1/1	–	–	–	–
Raymond Tam ^c	1/1	–	1/1	–	1/1

^a Audit Committee was renamed as Audit and Risk Committee in August 2021.

^b Mr Po retired in May 2020.

^c Mr Tam retired in May 2020.

Environmental, Social and Governance

CORPORATE GOVERNANCE

FUNCTIONAL COMMITTEES

The IA has four functional committees, namely the CSC, ERC, AC and RIC, 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 2020–21
Corporate Services Committee	10 NEDs	<ul style="list-style-type: none"> ▶ Held three meetings. ▶ Examined the Corporate Plan for 2021–22 and Six-Year Financial Forecast for 2021–22 to 2026–27, providing valuable comments to the IA Board. ▶ Received periodic reports on financial status, keeping a close watch on sustainability of the IA. ▶ Considered the appointment and terms of senior executives.
External Relations Committee	8 NEDs and 2 EDs	<ul style="list-style-type: none"> ▶ Held two meetings. ▶ Considered and shaped up the proposed framework for Annual Report 2019–20. ▶ Considered and endorsed the strategy and initiatives for publicity, public education and talent development for the insurance industry.
Audit Committee ^a	5 NEDs	<ul style="list-style-type: none"> ▶ Held one meeting with the external auditor to review the audited financial statements. ▶ Endorsed the audit plan proposed by the external auditor. ▶ Considered the appointment of an external auditor for 2020 to 2023. ▶ Received periodic procurement reports, ensuring compliance with internal policies and guidelines.
Regulatory Instruments Committee	8 NEDs and 2 EDs	<ul style="list-style-type: none"> ▶ Held seven meetings. ▶ Scrutinised four batches of guidelines on group supervision and two rules on group capital and special purpose business.

^a Audit Committee was renamed as Audit and Risk Committee in August 2021.

Environmental, Social and 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 includes 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 11 non-official members to the IAC on long term business and 10 non-official members to the IAC on general business for a term of two years between 1 June 2020 and 31 May 2022. These members were selected from different sectors within the insurance industry and related fields such as accountancy, insurance law, academia, banking, management and the healthcare profession. During the reporting year, four joint meetings of the IACs were held. Members of the IACs are listed in the Appendices on page 103.

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") has been established under the IO to review, on application, specified decisions made by the IA as well as disciplinary sanctions imposed by the three former Self-Regulatory Organisations ("SROs")³ prior to the IA taking over direct regulation of insurance intermediaries on 23 September 2019. The IAT's statutory purpose is to determine a question or an issue arising out of or in connection with a

review and to ensure that insurance regulatory decisions 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 IAT chairperson and chosen from a panel of members appointed by the FS under the delegated authority by the Chief Executive. Members of the IAT are listed in the Appendices on page 104.

Between 23 September 2019 and 31 March 2021, the IAT received 19 applications for review, all relating to disciplinary sanctions imposed by the former SROs prior to 23 September 2019. Although the IA was not the original decision-maker in these cases, the IA became party to these reviews under the IO. In two of these cases, the IA appeared as a respondent in the substantive hearings with decisions pending from the IAT, while the remaining 17 applications were finally resolved by the parties' consent with the IAT's approval or by withdrawal of the application.

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. After completing its review, the PRP will submit its inaugural report to the FS and have it published. Members of the PRP are listed in the Appendices on page 105.

³ The former SROs are the Hong Kong Confederation of Insurance Brokers, Professional Insurance Brokers Association and Insurance Agents Registration Board, formed under the Hong Kong Federation of Insurers.

Environmental, Social and 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 have issued 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 11 requests for access to information were handled during the reporting year.

Handling Complaints

Our accountability and transparency are also embodied in complaint handling. Our role and policies in this respect are published on our website. Since taking over from the former SROs on 23 September 2019, the IA has assumed the sole responsibility for dealing with complaints against insurance intermediaries.

Environmental, Social and 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 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.

Directors Of The Year Award 2020

Sound corporate governance provides a solid foundation for the IA to perform its statutory functions effectively, and we strive to achieve a high level of transparency and accountability in everything we do. In November 2020, the IA's ongoing commitment to good corporate governance was recognised by the Hong Kong Institute of Directors which conferred the IA Board the Directors of the Year Award 2020 for statutory/non-profit-distributing organisations.

The award is an assurance and endorsement of the corporate governance practices embraced by the IA as well as promoted to the insurance industry. To better protect policy holders and facilitate sustainable development of the insurance industry, the IA will continue to foster a strong corporate governance culture to ensure the effective performance of its statutory functions and meet rising public expectations.



- ▲ Dr Moses Cheng, Chairman, receives the Directors of the Year Award 2020 for statutory/non-profit-distributing organisations on behalf of the IA Board. The award, presented by the Hong Kong Institute of Directors, recognised the IA's outstanding performance in corporate governance

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

GREEN AND SUSTAINABLE FINANCE

Climate change is widely recognised to be the biggest peril for humankind and one of the highest priorities of environmental, social, and governance (“ESG”) issues. As a socially responsible organisation, the Insurance Authority (“IA”) not only strives to minimise our environmental impact but also takes the initiative in charting the course for a greener and more sustainable future for Hong Kong together with the insurance industry.

CROSS-SECTORAL CO-OPERATION

Insurers’ dual role as risk managers and institutional investors attests to the sector’s vital part in global efforts to solve the challenges of climate change. The IA has combined forces with its regulatory counterparts and Hong Kong’s financial industry by joining the Green and Sustainable Finance Cross-Agency Steering Group (“CASG”). Established in May 2020 and co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission, CASG co-ordinates management of climate risks across different financial sector agencies and acts as a united front for Hong Kong to support relevant international initiatives. CASG has three work streams to focus on regulatory issues, market development and carbon market in the Guangdong-Hong Kong-Macao Greater Bay Area. To map out Hong Kong’s green and sustainable finance strategy, CASG set out near-term action points and developed a strategic plan for the longer term in December 2020.

INDUSTRY-WIDE GREEN EFFORTS

Under the leadership of the IA, the insurance industry has also shown positive response to the green initiatives. During the reporting period, the Hong Kong Federation of Insurers set up a dedicated Task Force on Green Insurance, through which the IA will collaborate more closely with insurers on the development of green insurance products and promotion of a green culture with quality ESG disclosure. In addition, the IA forged closer links with the Hong Kong Green Finance Association to raise awareness within the industry and among the insuring public.



▲ Dr Moses Cheng, Chairman, speaks at the Asian Financial Forum 2021 on climate change risks and opportunities for insurance

Environmental, Social and Governance

GREEN AND SUSTAINABLE FINANCE

GREEN AND SUSTAINABLE FINANCE CROSS-AGENCY STEERING GROUP

Action Points

Mandatory TCFD^a-aligned disclosures across all relevant sectors no later than 2025

Adopt Common Ground Taxonomy

Support work of IFRS^b Foundation on sustainability reporting

Establish a platform to act as a focal point for cross-sectoral capacity building and repository of relevant resources

Promote climate-focused scenario analysis

Strategic Plan

Risk Management

Strengthen the management of climate-related financial risks to consolidate Hong Kong's position as a global risk management centre

Disclosure

Promote the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection

Capacity Building

Enhance capabilities of market participants and raise awareness among the general public

Innovation

Encourage innovation and explore initiatives to facilitate capital flows towards green and sustainable causes

Mainland Opportunities

Capitalise on the opportunities presented by the Mainland to develop Hong Kong into a green finance centre in the Guangdong-Hong Kong-Macao Greater Bay Area

Collaboration

Strengthen regional and international collaboration

^a Task Force on Climate-related Financial Disclosures
^b International Financial Reporting Standards

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ENVIRONMENTAL PROTECTION

To minimise its carbon footprint, the Insurance Authority (“IA”) put in place various green measures in our offices and engaged our staff to proactively preserve the environment.

A GREEN WORKPLACE

During the reporting year, we adopted a number of green practices for an environmentally friendly workplace:

Recycling and Reuse



- ▶ Collecting metal mooncake boxes, Christmas trees, peach blossom trees and aluminum coffee capsules for recycling
- ▶ Sorting plastic and metal for recycling
- ▶ Recycling paper
- ▶ Donating used computers and communication products

Going Paperless



- ▶ Sharing reports, guidelines and consultation papers, and exchanging information with stakeholders through the IA website to reduce printing
- ▶ Accepting electronic returns from regulated entities
- ▶ Using electronic platforms for internal workflows, such as training course enrolment and ordering office supplies
- ▶ Developing a data management system for electronic records
- ▶ Enabling paperless meetings by providing laptop computers to our staff
- ▶ Setting up a digital kiosk in the IA office to display corporate information
- ▶ Sending festive greetings via e-cards



▲ A digital kiosk is set up at the IA office to provide corporate information

Saving Power



- ▶ Switching off electrical appliances and systems when not in use
- ▶ Procuring energy-efficient devices and equipment
- ▶ Installing timers to turn off lighting and air conditioning after office hours
- ▶ Displaying notices to remind our staff to conserve energy



Environmental, Social and Governance

ENVIRONMENTAL PROTECTION

Consumption and Recycling

In recognition of its efforts on energy saving and waste reduction, the IA was once again granted the title of Hong Kong Green Organisation with an Energywi\$e Certificate and a Wastewi\$e Certificate by the Environmental Campaign Committee.

To maintain good air quality in the office, we conducted regular cleaning of air conditioning filters. During the reporting year, the IA attained the Good Class standard in the Indoor Air Quality Certificate Scheme, organised by the Environmental Protection Department, for the IA's Head Office in Wong Chuk Hang and its new sub-office in North Point.

To raise our staff's awareness of environmental protection, we also encouraged them to participate in green initiatives such as Earth Hour 2021 as well as donation and recycling programmes.

	2020-21	2019-20	2018-19
Consumption			
Paper (piece/head)	4,268	4,516	5,128
Electricity (KWh/head)	1,864	1,928	2,153
Recycling			
Paper (kg)	3,441	4,251	2,383



ENVIRONMENTAL, SOCIAL AND GOVERNANCE

SOCIAL RESPONSIBILITY

Corporate social responsibility (“CSR”) matters at the Insurance Authority (“IA”), with a range of initiatives to promote staff wellness and contribute to the community.

CARING FOR OUR STAFF

People are the most important asset to the IA and their dedication plays an integral part in our corporate achievements. We attach great importance to enhancing the well-being of our staff and have formed the Social Committee, led by our human resources team and supported by colleagues from various divisions, to spearhead a variety of staff activities to develop team cohesion and advocate work-life balance.

Although most in-person staff activities were affected by COVID-19 social distancing requirements during the reporting year, we continued to show our care to our staff, such as giving fresh fruit during festive seasons and hosting a webinar on quality sleep. To lower the risk of infection, we sought to reduce commuting by adopting video and audio conference tools for internal and external meetings. We also provided our staff with reusable cutlery kits to use when dining out.

CARING FOR THE COMMUNITY

While the pandemic has placed additional strain on organising face-to-face activities, the IA has engaged in some virtual CSR activities to express our support to society. The Social Committee took part in fund-raising events for charities and paid virtual visits to elderly centres. We also joined a charity campaign to prevent cruelty to animals.

To ensure that our stakeholders, regardless of their race, enjoy equal access to our services, the IA arranges free interpretation services as far as practicable for complainants and enquirers who cannot speak English or Chinese. We also organise training, workshops and seminars from time to time to enhance staff awareness of racial diversity and inclusion, and to share information on racial discrimination regulations and guidelines.

In recognition of our CSR efforts to care for the community and our employees, the IA was awarded the Caring Organization Logo 2020-21 by the Hong Kong Council of Social Service.



Colleagues pay virtual visits to elderly centres



Environmental, Social and Governance

SOCIAL RESPONSIBILITY

To meet the rising public expectations on personal data privacy and protection, we put in place a number of measures, including:

- ▶ Appointing Personal Data Privacy Officers to oversee compliance with the Personal Data (Privacy) Ordinance
- ▶ Establishing a notification mechanism in case of a data breach

- ▶ Publishing on the IA webpage the retention periods for personal data collected
- ▶ Providing guidance and training for our staff on personal data privacy protection

In March 2021, the IA received the Gold Certificate of Privacy-Friendly Awards 2021 from the Office of the Privacy Commissioner for Personal Data, in recognition of the IA's endeavours in protecting personal data privacy.



- ▲ Dr Moses Cheng, Chairman, receives a Gold Certificate in the Privacy-Friendly Awards 2021 from the Office of the Privacy Commissioner for Personal Data on behalf of the IA Board, in recognition of the IA's endeavours to protect personal data privacy

ENGAGEMENT WITH STAKEHOLDERS

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.

We maintain a close dialogue with major industry organisations such as the Hong Kong Federation of Insurers ("HKFI"), the Hong Kong Confederation of Insurance Brokers ("CIB") and the Professional Insurance Brokers Association ("PIBA") on key initiatives, including the preparation for deemed licensees to apply for their first formal licences under the direct regulatory regime for insurance intermediaries. To help deemed licensees better understand the process, the IA held seven briefing sessions attended by over 500 industry practitioners, and several of these sessions were facilitated by the HKFI, CIB and PIBA.

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

When developing the enhanced group-wide supervision ("GWS") framework for Hong Kong, the IA conducted public and stakeholder consultations on related subsidiary legislation and guideline during the reporting year.

The IA also maintained close engagement with the industry on market conduct issues. In September and November 2020, we spoke to over 3,000 members of the General Agents and Managers Association of Hong Kong at two virtual events on regulatory updates relating to insurance intermediaries. In October 2020, the IA spoke to around 100 senior executives of insurers at an HKFI seminar about the regulatory requirements of key persons in intermediary management function. To bring the industry up to speed with money laundering and terrorist financing risks during the virtual onboarding process, the IA held a webinar in December 2020, attended by over 150 representatives from long term insurers.

The IA has been actively engaging stakeholders on market development initiatives. In October 2020, the IA organised a captive forum webinar, at which we presented Hong Kong's competitive edge as a captive domicile and the latest enhancements to the business environment conducive to the operation of captives in Hong Kong. The forum was well received by more than 100 executives from captives operating in Hong Kong, Mainland enterprises and insurers, specialist insurers, professional reinsurers, and insurance brokers.

For connecting Belt and Road stakeholders, the IA has set up the Belt and Road Insurance Exchange Facilitation ("BRIEF") platform to promote information exchange and closer collaboration among key stakeholders. As of March 2021, the number of BRIEF members had grown to 41,

Engagement with Stakeholders



Dr Moses Cheng, Chairman, participates in major events organised by various stakeholders

comprising insurers, reinsurers, captive insurers, insurance brokers, industry associations and law firms. In December 2020, 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. We examined a wide range of topics relating to the Belt and Road Initiative ("BRI") with panellists from a captive insurer of a Central State-Owned Enterprise, a reinsurer, an international insurance broker and a bank with solid footprints along the Belt and Road.

During the reporting year, the IA started operating the Hong Kong Specialty Risks Consortium to step up our efforts for matching of demand and supply in the specialty risks area. We held a number of matching sessions for risk owners and service providers, covering a diverse range of risks such as political risks, credit, performance guarantee, and renewable energy.

In November 2020, the IA co-hosted a webinar with the HKFI to provide updates to Hong Kong general insurers for their readiness in supporting the unilateral recognition policy for motor vehicle insurance. When this arrangement is in place, Mainland authorities will recognise Hong Kong insurer-issued motor insurance policies that extend cover to third-party liability in the Mainland for vehicles travelling to Guangdong province via the Hong Kong-Zhuhai-Macao Bridge. The arrangement will see such coverage deemed equivalent to the compulsory traffic accident liability insurance for motor vehicles in the Mainland.

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 the Insurtech development, and enrich their understanding of the current regulatory regime.

To engage with a wider audience, the IA senior executives spoke at large-scale events such as the Asian Financial Forum and Hong Kong FinTech Week.

Engagement with 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: Fintech, financial regulation and policy, and image building.

In October 2020, we invited guest speakers to share with FTF members on the challenges of COVID-19 and how the industry has turned them into opportunities with technology.

In December 2020, we hosted a virtual meeting with FTF members on building a positive image of the insurance industry through good conduct and ethical practices.

REGULATORY COUNTERPARTS

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

The IA CEO is a member of the IAIS Executive Committee, which is responsible for providing strategic directions and managing the affairs of the IAIS. In addition, the IA led the Chairmanship of the IAIS Insurance Groups Working Group, a subcommittee responsible for providing a framework for developing and advancing efficient and effective GWS. The IA is also the 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 are also a member of other important IAIS committees and working groups, such as the Macro-prudential Committee, the Macro-prudential Supervision Working Group, the Market Conduct Working Group, and the Resolution Working Group.

On the Fintech front, the IA is a member of the Global Financial Innovation Network (“GFIN”) Cross-Border Testing workstream, which allows eligible financial institutions and Fintech companies to conduct cross-border pilot trials of innovative products and services. Being a member of the GFIN Suptech workstream, the IA exchanged views on Suptech facilitation and adoption with workstream members.

During the reporting year, we organised and took part in 31 supervisory colleges to strengthen communication with regulators worldwide on various cross-border regulatory matters.

Regarding regional co-operation, the IA has a strong presence at the Asian Forum of Insurance Regulators (“AFIR”). At the 15th AFIR Annual Meeting in July 2020, the IA CEO was re-elected as AFIR Chairman for a second term of two years from 2020 to 2022. The AFIR Annual Meeting, chaired by the IA CEO, was attended virtually by 61 representatives from 17 member jurisdictions, the IAIS and the Organisation for Economic Co-operation and Development. In December 2020, the IA joined the Third Asia-Pacific High-level Virtual Meeting on Insurance Supervision co-organised by the Financial Stability Institute, the IAIS and AFIR.

Engagement with Stakeholders



▲ Mr Clement Cheung, Chief Executive Officer, speaks at Hong Kong FinTech Week 2020



▲ Ms Carol Hui, Executive Director, Long Term Business, delivers opening remarks at a major industry event

We have been keeping close collaboration with the China Banking and Insurance Regulatory Commission ("CBIRC") and other relevant Mainland authorities on cross-boundary supervision and insurance initiatives relating to the development of the Guangdong-Hong Kong-Macao Greater Bay Area as well as the BRI. For example, the IA entered into a Memorandum of Understanding with the Chengdu Municipal Financial Regulatory Bureau in May 2020 to strengthen bilateral collaboration in areas such as enhancing risk management for BRI projects, developing Insurtech, and nurturing and exchanging insurance talent. In January 2021, the IA attended the 20th Joint Meeting of the Insurance Regulators of Guangdong, Hong Kong, Macao and Shenzhen, which was hosted virtually by the Monetary Authority of Macao.

In Hong Kong, we liaised closely with 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 Securities and Futures Commission ("SFC") to share information pertaining to products and relevant entities or key persons and refer cases for attention. Moreover, we held discussions with the Mandatory Provident Fund Schemes Authority ("MPFA") for efficient mutual co-operation, elimination of regulatory gaps and effective protection of Mandatory Provident Fund scheme members.

To deliberate on the latest developments of financial markets and regulations as well as to monitor regularly the operation of Hong Kong's financial system, the Government and financial regulators have set up various platforms such as the Council of Financial Regulators and Financial Stability Committee. The IA regularly attended these meetings which address cross-sectoral regulatory issues and matters having a potential impact on financial stability.

We also work closely with other law enforcement agencies in Hong Kong. During the reporting year, the IA established regular liaison with the Hong Kong Police Force and the Independent Commission Against Corruption to facilitate the exchange of information on combating financial crime.

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

Engagement with Stakeholders

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 closely worked with the Government on the introduction of enabling legislation relating to regulatory frameworks for GWS 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 Financial Secretary and LegCo members are kept informed of our latest developments on an ongoing basis. In December 2020, we submitted our corporate plan for 2021–22 to the Financial Secretary, in which our operational objectives and budget for the coming financial year were set out. In the same month, 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 2021–22, the new regulatory regime for insurance-linked securities and Fintech development in Hong Kong. The IA has also been participating in the LegCo’s Joint Subcommittee on Issues Relating to Insurance Coverage for the Transport Sector, which aims to make recommendations to tackle problems encountered by the transport sector in procuring insurance.



▲ The IA runs a public education programme on medical insurance

THE PUBLIC

Public education is at the heart of the IA’s work to protect policy holders. During the reporting year, we developed a number of public education campaigns on medical insurance, digital onboarding, lifetime risk profiling, among others, to empower the public with useful insurance knowledge.

To enhance public knowledge on medical insurance, we provided education materials through a thematic webpage, leaflets on important points to note when taking out medical insurance policies or making claims, and video segments broadcast on a local TV channel.

Due to the COVID-19 pandemic, more and more policy holders have taken out insurance policies through digital channels. The IA rolled out a thematic campaign to impart knowledge of digital onboarding to the public through a thematic webpage, leaflets, advertorials, videos and other online promotion.

During the reporting year, the IA started working on a Lifetime Risk Profiling Campaign to provide user-friendly tools, including a thematic sitelet and an online protection needs assessment tool, to raise public awareness of the evolving risk exposure throughout their lifetime and enhance their literacy and ability to make informed decisions when taking out insurance policies.

To expand the reach of our education campaigns, we worked with like-minded organisations such as the Investor and Financial Education Council for joint promotion.

To equip policy holders with useful legal information, the IA contributed helpful tips to the insurance section of the Community Legal Information Centre website run by The University of Hong Kong, which provides legal knowledge to the public.



Engagement with Stakeholders

In addition to running thematic education programmes, we share practical advice about insurance with the public on a daily basis. A public enquiry hotline is in place to handle enquiries on the IA and the insurance industry. We also make use of our website and social media platforms to strengthen communication with the public. Apart from the Facebook page “Insurpedia (蓋世保鑑)” and YouTube channel, we have stepped up our efforts in stakeholder

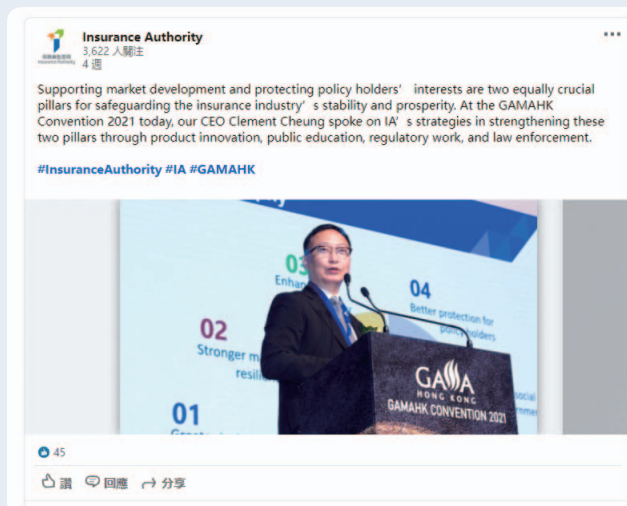
engagement through the IA’s [LinkedIn](#) page to keep the members of the public informed of our latest developments. In addition, major initiatives, important corporate news and messages are promptly and effectively communicated to the public through different modes such as publishing press releases and articles, conducting media interviews and answering media enquiries.

Engaging the Public with Social Media Platforms

Facebook



LinkedIn



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 increased our regulatory efficiency by leveraging technology. A sub-office also came into operation as a new location for public-facing services.

ABOUT THE INSURANCE AUTHORITY

The 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;

Corporate Developments

- (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;
- (l) liaise and co-operate with any involved supervisor in any place outside Hong Kong in the determination of the group supervisors of insurance groups;
- (m) regulate and supervise insurance groups of which the IA is appointed as the group supervisor; and
- (n) 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, the Technical Expert Team and the IA Secretariat. The IA also has the Internal Audit Section, which reports to the Board to improve risk management and governance.

The IA's organisational structure can be found in the Appendices on page 100.

Corporate Developments

OUR PEOPLE

As of March 2021, the IA had around 300 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 2021, enabling us to launch new

initiatives such as the group-wide supervision framework and regulatory regime for insurance-linked securities. 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.



Mr Clement Cheung, Chief Executive Officer, hosts an induction session for new staff



IA Staff

(as at 31 March 2021)



301 staff members



39
average age



62% & 38%
female male



89%
hold a Bachelor's
or higher degree



51%
of staff in senior management
roles are female



44%
hold professional
qualifications



Corporate Developments

Corporate Culture

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

To obtain staff feedback and suggestions on our journey to attain the IA core values, we conducted a Culture Pulse Survey during the year. Some staff shared their insights on improving our management practices, teamwork, communication and staff development.

Performance-based System

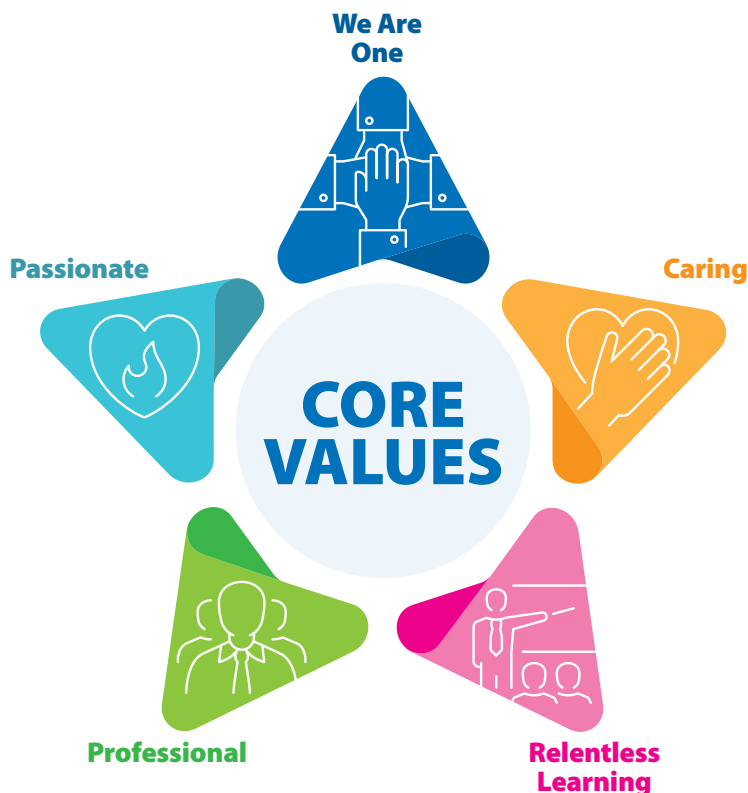
To attract and retain quality staff, we have implemented mechanisms for making performance-linked pay adjustments and awarding variable pay. We also conduct periodic reviews on the pay structure and fringe benefits to ensure the remuneration package stays competitive.



▲ Training sessions enhance staff members’ professional knowledge

Talent Development and Succession Planning

The IA attaches great importance to staff development and is dedicated to nurturing their skills and capabilities as well as fostering a relentless learning culture. During the reporting year, we arranged a wide array of training programmes to enrich our staff’s professional knowledge and keep them abreast of the latest market developments in areas such as risk management, Fintech, data analytics, and international regulatory developments. We also sponsored staff to attend external professional courses and pursue relevant professional qualifications.



Corporate Developments

We recognise the importance of building a leadership pipeline to ensure a seamless succession. We organised various training programmes related to performance management, mentoring and coaching skills for managerial staff to develop their leadership and managerial skills for assuming higher responsibilities in the future. Training workshops on personal branding and presentation skills were also held for junior managers.

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

Types of Training 2020–21



Average annual training hours per employee:

34 hours

Nurturing Talent

The IA runs a three-year Management Trainee Scheme and a Summer Internship Programme in order to groom outstanding university graduates and undergraduates for undertaking IA's regulatory duties and nurture talent for the insurance sector.

Management Trainee Scheme

During the reporting year, we recruited eight Management Trainees from local universities, who were posted to different divisions to support a diverse range of regulatory duties. Under the mentorship of a senior manager throughout the scheme, each trainee 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 completing the scheme with good performance will be appointed to assistant manager positions.

Summer Internship Programme

Between June and August 2020, we offered summer internships to 21 undergraduates, offering them an opportunity to gain practical work experience and insights into the work of an insurance regulator. With the hands-on experience, the interns had a better understanding of the functions and work of the IA and are encouraged to join the insurance industry.



Corporate Developments

INFORMATION TECHNOLOGY

During the reporting year, we launched a Central Dataset Collection Portal (“CDCP”) for insurers to submit statistical returns to the IA electronically. Through a dedicated web-based channel, the CDCP standardises the collection process for regulatory returns and enables our regulatory staff to initiate campaigns to collect dataset from insurers and monitor submission progress.

A College Collaboration Portal was also launched to support the exchange of information between the IA and other regulators. It facilitates timely sharing of information of the insurance groups such as financial information, enterprise risk management framework and solvency assessment.

In order to promote a paperless working environment, a Document Management System (“DMS”) was implemented. Paper documents and case files are converted to electronic copies in the DMS, making the search, access and sharing of documents easier while supporting electronic workflow.

A five-year IT strategy is being contrived to realise the IA’s corporate vision and future initiatives. To support the IA to effectively perform its regulatory functions, our IT strategy will lay out the roadmap to imbue business operations with selective information technology such as supervisory technology or Insurtech.

NORTH POINT SUB-OFFICE

The IA opened a new sub-office in North Point in November 2020 to meet the IA’s operational need. It accommodates public-facing functions, such as complaint handling, enforcement and anti-money laundering supervision, and serves as an alternative office location to our head office in Wong Chuk Hang. To enhance security for complaint handling and disciplinary investigations, the new sub-office has dedicated interview facilities with purpose-built audiovisual equipment.

It also houses a multi-purpose boardroom, equipped with video and audio conferencing and recording, web streaming and live broadcast capabilities for virtual meetings. Green elements incorporated in the office design include installation of automatic lighting controls, LED light fittings, and other energy-saving devices to enhance energy efficiency.



The IA’s new sub-office in North Point features a modern design and a multi-purpose boardroom with video and audio conferencing and recording capabilities

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 80 to 98, which comprise:

- the income and expenditure account for the year ended 31 March 2021;
- the statement of financial position as at 31 March 2021;
- 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 2021, and of its results of 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.

Financial Statements

INDEPENDENT AUDITOR'S REPORT TO THE INSURANCE AUTHORITY

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

OTHER INFORMATION

The Authority is responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE AUTHORITY AND 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

(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 HKSA's 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 HKSA's, 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

(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, 28 September 2021

Financial Statements

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2021

		Year ended 31 March 2021 HK\$	Year ended 31 March 2020 HK\$
	NOTE		
INCOME			
Prescribed levies	5	232,209,243	163,007,321
Authorization and annual fees		91,679,344	68,795,610
Insurers register's prescribed fees		13,569,900	10,694,006
Interest income		1,924,374	5,653,752
Other income		500	79,146
		339,383,361	248,229,835
EXPENDITURE			
Staff costs and key management personnel compensation	6, 7	328,168,275	291,942,412
Professional fees	8	13,905,120	6,373,001
Information system services		11,533,769	8,392,597
External relations expenses		5,371,616	4,946,762
Other operating expenses	9	12,150,083	11,413,283
Depreciation			
— Fixed assets	10	22,785,854	23,829,975
— Right-of-use assets	11	21,921,657	19,469,685
Interest expense on lease liabilities	11	426,696	1,232,642
		416,263,070	367,600,357
DEFICIT FOR THE YEAR		(76,879,709)	(119,370,522)

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 84 to 98 are an integral part of these financial statements.

Financial Statements

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

	NOTE	2021 HK\$	2020 HK\$
NON-CURRENT ASSETS			
Fixed assets	10	49,334,542	45,949,701
Right-of-use assets	11	57,492,241	64,898,949
Deposits for leases		6,706,814	–
		113,533,597	110,848,650
CURRENT ASSETS			
Deposits and prepayments		7,977,820	10,834,010
Accounts receivable	12	123,741,749	88,960,485
Time deposits with maturity longer than 3 months		229,000,000	–
Cash and cash equivalents		182,452,441	185,945,289
		543,172,010	285,739,784
CURRENT LIABILITIES			
Other payables and accruals		82,967,699	55,915,623
Deferred authorization and annual fees income		60,034,564	43,947,143
Lease liabilities	11	25,240,597	19,729,593
		168,242,860	119,592,359
NON-CURRENT LIABILITIES			
Lease liabilities	11	33,954,689	45,608,308
NET ASSETS		454,508,058	231,387,767
CAPITAL AND RESERVE			
Grants from the Government of HKSAR	14	953,000,000	653,000,000
Accumulated deficit for the year		(498,491,942)	(421,612,233)
		454,508,058	231,387,767

The financial statements on pages 80 to 98 were approved and authorized for issue by the Authority on 28 September 2021 and are signed on its behalf by:

Dr Moses Cheng
Chairman

Mr Clement Cheung
Chief Executive Officer

The notes on pages 84 to 98 are an integral part of these financial statements.

Financial Statements

STATEMENT OF CHANGES IN CAPITAL AND RESERVE

FOR THE YEAR ENDED 31 MARCH 2021

	NOTE	Grants from the Government of HKSAR HK\$	Accumulated deficit for the year HK\$	Total HK\$
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
Balance at 1 April 2020		653,000,000	(421,612,233)	231,387,767
Grants from the Government of HKSAR	14	300,000,000	–	300,000,000
Deficit for the year		–	(76,879,709)	(76,879,709)
At 31 March 2021		953,000,000	(498,491,942)	454,508,058

The notes on pages 84 to 98 are an integral part of these financial statements.

Financial Statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2021

	2021 HK\$	2020 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficit for the year	(76,879,709)	(119,370,522)
Adjustment for:		
Depreciation		
— Fixed assets	22,785,854	23,829,975
— Right-of-use assets	21,921,657	19,469,685
Interest expense on lease liabilities	426,696	1,232,642
Gain on disposal of fixed assets	—	(2,428)
Interest income on bank deposits	(1,924,374)	(5,653,752)
Operating cash flows before movements in working capital	(33,669,876)	(80,494,400)
Change in working capital:		
Increase in deposits and prepayments	(3,850,624)	(625,789)
Increase in accounts receivable	(35,140,729)	(32,152,592)
Increase in other payables and accruals	27,052,076	751,553
Increase in deferred authorization and annual fees income	16,087,421	11,799,099
NET CASH USED IN OPERATING ACTIVITIES	(29,521,732)	(100,722,129)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase)/decrease in time deposits with maturity longer than 3 months	(229,000,000)	210,000,000
Fixed assets purchased	(26,170,695)	(10,445,209)
Proceeds from fixed assets disposed	—	89,280
Interest received from bank deposits	2,283,839	8,119,955
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(252,886,856)	207,764,026
CASH FLOWS FROM FINANCING ACTIVITIES		
Grant from the Government of HKSAR	300,000,000	—
Principal element of lease payment	(20,657,564)	(19,361,868)
Interest element of lease payment	(426,696)	(1,232,642)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	278,915,740	(20,594,510)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,492,848)	86,447,387
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	185,945,289	99,497,902
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	182,452,441	185,945,289
Analysis of Cash and Cash Equivalents:		
Time deposits with maturity less than 3 months	175,000,000	176,000,000
Other bank balances and cash	7,452,441	9,945,289
	182,452,441	185,945,289

The notes on pages 84 to 98 are an integral part of these financial statements.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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\$498,491,942 as at 31 March 2021. 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 2020 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.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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 2020, have been adopted by the Authority. These include the following new standards, amendments to standards and interpretations to existing standards:

Amendment to HKFRS 3 on Definition of a Business,

Amendment to Hong Kong Accounting Standards ("HKAS") 1 and HKAS 8 on Definition of Material,

Amendment to HKFRS 7, HKFRS 9 and HKAS 39 on Interest Rate Benchmark Reform, and

Revised Conceptual Framework for Financial Reporting on Conceptual Framework for Financial Reporting 2018.

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

(c) Recognition of income

(i) Prescribed 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 authorized 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.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial assets

The Authority's financial assets include deposits, accounts receivable, time deposits with maturity longer than 3 months 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.

(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

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Fixed assets (Continued)

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 asset's 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.

(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 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.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(l) Leases

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.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) Leases (Continued)

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 notional 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.

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.

Lease payments are allocated between principal and finance cost. The finance cost is charged to income and expenditure account 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.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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 2021. 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. PRESCRIBED LEVIES

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.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

6. STAFF COSTS

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

	2021 HK\$	2020 HK\$
Salaries	310,281,032	274,849,339
Contributions to MPF Scheme	11,938,286	11,283,244
Insurance	5,275,529	5,349,158
Employee benefits and other staff related costs	673,428	460,671
	328,168,275	291,942,412

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), 2 other executive directors, and 11 other non-executive directors (31 March 2020: a chairperson, a chief executive officer, 4 other executive directors, and 11 other non-executive directors). Authority members' remuneration and benefits included in Note 6 are set out below:

	2021 HK\$	2020 HK\$
Non-executive Directors		
Remuneration	3,660,000	3,228,344
Chief Executive Officer		
Salary and other short term employee benefits	5,633,079	5,541,474
Post-employment benefits	230,769	230,769
Other Executive Directors		
Salaries and other short term employee benefits	10,236,993	17,400,168
Post-employment benefits	400,330	724,460
	16,501,171	23,896,871

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

8. PROFESSIONAL FEES

	2021 HK\$	2020 HK\$
Consultancy fees	11,117,228	5,836,775
Legal fees	2,082,155	64,320
Auditor's remuneration	220,000	220,000
Other fees	485,737	251,906
	13,905,120	6,373,001

9. OTHER OPERATING EXPENSES

	2021 HK\$	2020 HK\$
Journals, periodicals, and corporate membership	3,683,799	2,648,676
Staff training and welfare	3,100,584	1,371,271
Duty visits	–	2,728,427
Other office premises expenses	2,970,845	2,573,022
Other expenses	2,394,855	2,091,887
	12,150,083	11,413,283



Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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 2020	9,946,005	5,070,414	55,493,224	468,435	26,481,506	97,459,584
Additions during the year	2,358,101	1,110,602	15,749,195	600,000	6,352,797	26,170,695
At 31 March 2021	12,304,106	6,181,016	71,242,419	1,068,435	32,834,303	123,630,279
ACCUMULATED DEPRECIATION						
At 1 April 2020	4,301,590	2,300,225	24,489,007	265,446	20,153,615	51,509,883
Charge for the year	2,155,267	1,103,167	12,590,885	133,687	6,802,848	22,785,854
At 31 March 2021	6,456,857	3,403,392	37,079,892	399,133	26,956,463	74,295,737
CARRYING AMOUNT						
At 31 March 2021	5,847,249	2,777,624	34,162,527	669,302	5,877,840	49,334,542
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

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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 2021 HK\$	31 March 2020 HK\$
Right-of-use assets		
Premises	57,492,241	64,898,949
Lease liabilities		
Current	25,240,597	19,729,593
Non-current	33,954,689	45,608,308
	59,195,286	65,337,901

Additions to the right-of-use assets during the financial year were HK\$16,533,035 (2020: Nil).

(ii) Amounts recognised in the income and expenditure account

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

	2021 HK\$	2020 HK\$
Depreciation charge of right-of-use assets		
Premises	21,921,657	19,469,685
Interest expense on lease liabilities	426,696	1,232,642

The total cash outflow for leases in 2021 was HK\$21,084,260 (2020: HK\$20,594,510).

The Authority leases premises for its operation. The leases run for initial periods of 2–3 years and include 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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

12. ACCOUNTS RECEIVABLE

	2021 HK\$	2020 HK\$
Levies receivable	120,392,088	84,827,717
Interest receivable	174,281	533,746
Others	3,175,380	3,599,022
	123,741,749	88,960,485

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 2021 (31 March 2020: 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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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 2021 and 31 March 2020. 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.

	2021		2020	
	Interest rate per annum	HK\$	Interest rate per annum	HK\$
Cash and cash equivalents	0.01%–0.27%	182,452,441	0.01%–2.16%	185,945,289
Time deposits with maturity longer than 3 months	0.23%–0.28%	229,000,000	–	–

(iii) Price risk

The Authority does not hold any investments which are exposed to significant price risk as at 31 March 2021 (31 March 2020: 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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

13. FINANCIAL RISK MANAGEMENT (Continued)

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 2021, the Authority held sufficient cash and cash equivalents to meet all of the cash outflow arising from other payables and accruals.

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 82.

14. GRANTS FROM THE GOVERNMENT OF HKSAR

The Authority received a grant of HK\$300 million from the Government of HKSAR in June 2020 (HK\$200 million 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 2021, such statutory deposits amounted to HK\$638,517,805 (31 March 2020: HK\$625,350,974).

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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 2021, such letters of credit or other commitments held by the Authority amounted to HK\$8,216,791,649 (31 March 2020: HK\$7,091,911,292).

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:

	2021 HK\$	2020 HK\$
Contracted but not yet incurred	59,400	2,730,739

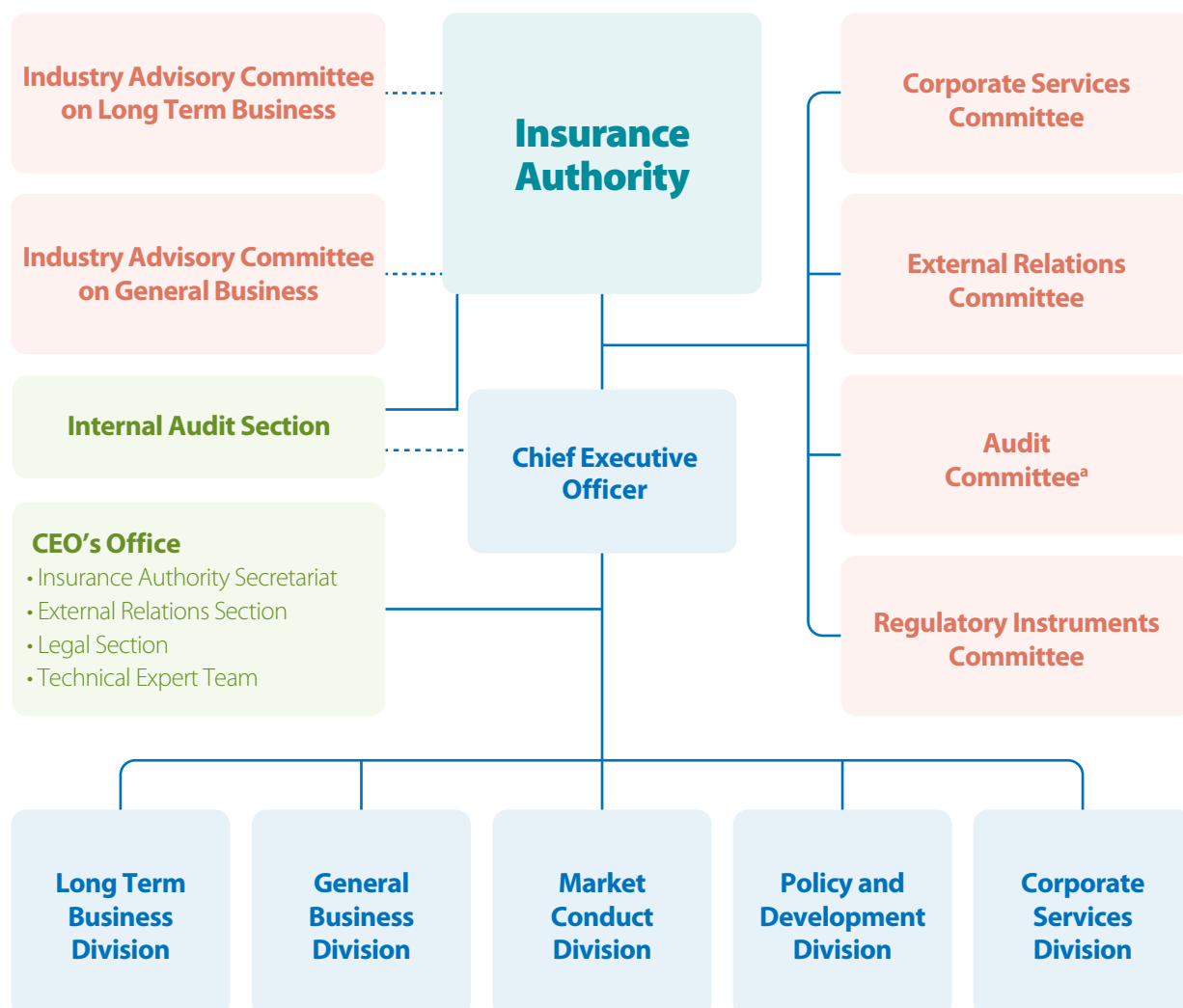


APPENDICES

- 100** The Organisational Structure
- 101** Changes of Authorized Insurers
- 102** Number of Licensed Insurance Intermediaries by Eligible Line of Business
- 103** Industry Advisory Committees
- 104** Insurance Appeals Tribunal
- 105** Process Review Panel for Insurance Authority

THE ORGANISATIONAL STRUCTURE

(as at 31 March 2021)



^a Audit Committee was renamed as Audit and Risk Committee in August 2021.



CHANGES OF AUTHORIZED INSURERS

(From 1 April 2020 to 31 March 2021)

Name of Insurer	Place of Incorporation	Type of Business Authorized
New Authorizations		
Britannia Steam Ship Insurance Association Europe — The	Luxembourg	General
OneDegree Hong Kong Limited	Hong Kong	General
ZA Life Limited	Hong Kong	Long Term
Change of Names of Insurers		
Aviva Life Insurance Company Limited To Blue Insurance Limited	Hong Kong	Long Term
MetLife Limited To FWD Life (Hong Kong) Limited	Hong Kong	Long Term
Metropolitan Life Insurance Company of Hong Kong Limited To FWD Life Assurance Company (Hong Kong) Limited	Hong Kong	Long Term
Standard Life (Asia) Limited To Heng An Standard Life (Asia) Limited	Hong Kong	Long Term
Sompo Japan Nipponkoa Insurance Inc. To Sompo Japan Insurance Inc.	Japan	General
United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited — The To United Kingdom Mutual Steam Ship Assurance Association Limited — The	United Kingdom	General
Zurich Life Insurance (Hong Kong) Limited To Zurich Life Insurance (Hong Kong) Limited 蘇黎世人壽保險(香港)有限公司 ^a	Hong Kong	Long Term

^a Chinese name was added on the Certificate of Incorporation.

NUMBER OF LICENSED INSURANCE INTERMEDIARIES BY ELIGIBLE LINE OF BUSINESS

(As at 31 March 2021)

Individual Licensees	
General Business ^a	7,168
Long Term Business (without Linked Business)	41,809
Long Term Business (with Linked Business)	14,593
General Business ^a and Long Term Business (without Linked Business)	21,596
General Business ^a and Long Term Business (with Linked Business)	39,177
Restricted Scope Travel Business	2,271
Total	126,614
Licensed Insurance Agencies	
General Business ^a	1,426
Long Term Business (without Linked Business)	35
Long Term Business (with Linked Business)	86
General Business ^a and Long Term Business (without Linked Business)	135
General Business ^a and Long Term Business (with Linked Business)	148
Restricted Scope Travel Business	477
Total	2,307
Licensed Insurance Broker Companies	
General Business	89
Long Term Business (without Linked Business)	18
Long Term Business (with Linked Business)	85
General Business and Long Term Business (without Linked Business)	162
General Business and Long Term Business (with Linked Business)	471
Total	825

^a Excluding Restricted Scope Travel Business

INDUSTRY ADVISORY COMMITTEES¹

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

Non-official Members

Mr Chan Yim-kwong

Mrs Estella Chiu Sheun-fun

Mr Gilbert Ho Chi-hang

Mr Garth Brian Jones

Mr Mike Lee Siu-chuen

Ms Orchis Li Tzy-lan

Mr Jeremy Robert Porter

Mr Martin Tam Chi-wai

Mr Wilson Tang Chee-ping

Mr Harold Wong Tsu-hing, JP

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

Non-official Members²

Mr Cheong Heng-loong³

Dr Kevin Lau Chung-hang

Ms Angela Leung Wai-tuen

Mr Andrew Mak Kin-ting

Ms Rebecca Poon Chui-ngor

Mr Jimmy Poon Wing-fai, MH

Ms Sally Wan Yuen-wai

Mr Peter Anthony Whalley

Mr Harry Wong Kwok-tim

Professor Jason Yeh Jia-hsing

¹ The lists represent membership of the Industry Advisory Committees from 1 June 2020 to 31 May 2022. Please refer to the IA website for the latest membership lists.

² Ms Penny Seach tendered her resignation in March 2021.

³ Mr Cheong Heng-loong was appointed in July 2021.

INSURANCE APPEALS TRIBUNAL

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 Julianne 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

CHAIRMAN

Mr Eugene Fung Ting-sek, SC

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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Website : www.ia.org.hk