

Small Levy Big Protection

Under the Insurance Ordinance, with effect from 1 January 2018, levies for insurance premiums are payable by policy holders to the Insurance Authority (IA) through their insurance companies. To reduce the impact on policy holders and to allow time for adaptation, an incremental approach has been adopted. As stipulated in the law, the levy rate started at 0.04% of insurance premiums and will be adjusted gradually until it reaches 0.1%, subject to a levy cap.



Scope of the levy

Except for certain policies exempt from the levy by law¹, levies are payable along with premium payments by policy holders of all life insurance policies and general insurance policies (such as travel, motor, property or household insurance).

Levy rates and cap

The levy is being introduced in four phases. In Phase 1, which took effect on 1 January 2018, the levy rate was set at 0.04% of the insurance premium per policy year. The rate will increase gradually until it reaches 0.1%.

There is a cap on the levy payable. For life insurance policies with single or annualised premiums at or above \$100,000, or general insurance policies with annual premiums at or above \$5 million, policy holders need to pay only the levy cap (Table 1).

Table 1:

	Phase 1	Phase 2	Phase 3	Phase 4
	1 Jan 2018 to 31 Mar 2019	1 Apr 2019 to 31 Mar 2020	1 Apr 2020 to 31 Mar 2021	From 1 Apr 2021 onwards
Levy rate (calculated as a percentage of the annual premium)	0.04%	0.06%	0.085%	0.1%
	Levy cap			
Life insurance ²	\$40	\$60	\$85	\$100
General insurance	\$2,000	\$3,000	\$4,250	\$5,000

- Exemptions from the levy include reinsurance business, policies underwritten by authorized captive insurers, and marine, aviation and goods-in-transit insurance.
- Group life insurance policies with medical protection offered by employers are subject to the levy cap for general insurance policies.

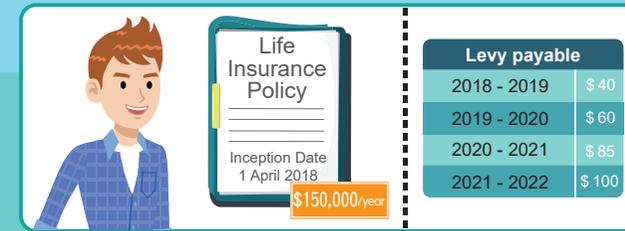
Example 1: When the levy payable does not exceed the cap



On the assumption that the premium remains unchanged, the annual premium payable is \$12,000 (\$1,000 x 12 months).

Anniversary date	Levy rate	Levy payable, whichever is lower	
		Calculated by levy rate	Levy cap for general insurance policy
1 Apr 2018	0.04%	\$12,000 x 0.04% = \$4.8	\$2,000
1 Apr 2019	0.06%	\$12,000 x 0.06% = \$7.2	\$3,000
1 Apr 2020	0.085%	\$12,000 x 0.085% = \$10.2	\$4,250
On or after 1 Apr 2021	0.1%	\$12,000 x 0.1% = \$12	\$5,000

Example 2: When the levy payable exceeds the cap

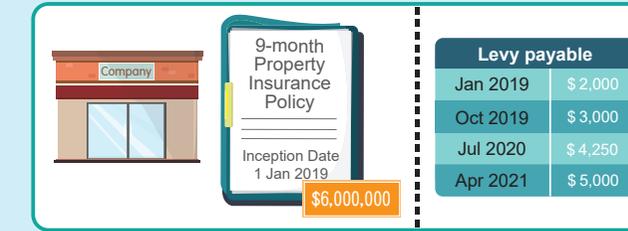


On the assumption that the premium remains unchanged, the annual premium payable is \$150,000.

Anniversary date	Levy rate	Levy payable, whichever is lower	
		Calculated by levy rate	Levy cap for life insurance policy
1 Apr 2018	0.04%	\$150,000 x 0.04% = \$60	\$40
1 Apr 2019	0.06%	\$150,000 x 0.06% = \$90	\$60
1 Apr 2020	0.085%	\$150,000 x 0.085% = \$127.5	\$85
On or after 1 Apr 2021	0.1%	\$150,000 x 0.1% = \$150	\$100

3. "Inception date" means the date on which the first premium under the contract becomes payable.

Example 3: The contract period of a policy lasts less than one year

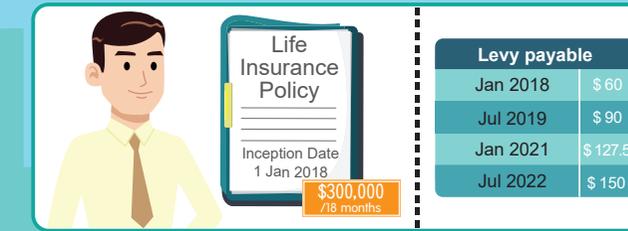


On the assumption that the premium remains unchanged, the premium payable every 9 months is \$6,000,000.

Anniversary date	Levy rate	Levy payable, whichever is lower	
		Calculated by levy rate	Levy cap for general insurance policy
1 Jan 2019	0.04%	\$6,000,000 x 0.04% = \$2,400	\$2,000
1 Oct 2019	0.06%	\$6,000,000 x 0.06% = \$3,600	\$3,000
1 Jul 2020	0.085%	\$6,000,000 x 0.085% = \$5,100	\$4,250
On or after 1 Apr 2021	0.1%	\$6,000,000 x 0.1% = \$6,000	\$5,000

Note: According to the Insurance (Levy) Order, the levy cap is not affected by the contract period of a policy lasts less than one year.

Example 4: When the policy has a scheduled premium payable once in more than a year



On the assumption that the premium remains unchanged, the premium payable once every 18 months is \$300,000.

Anniversary date	Levy rate	Levy payable, whichever is lower	
		Calculated by levy rate	Levy cap for life insurance policy
1 Jan 2018	0.04%	\$300,000 x 0.04% = \$120	\$40 x 18/12 = \$60
1 Jul 2019	0.06%	\$300,000 x 0.06% = \$180	\$60 x 18/12 = \$90
1 Jan 2021	0.085%	\$300,000 x 0.085% = \$255	\$85 x 18/12 = \$127.5
On or after 1 Jul 2022	0.1%	\$300,000 x 0.1% = \$300	\$100 x 18/12 = \$150

Note: According to the Insurance (Levy) Order, for policies with a scheduled premium payable once in more than a year, a pro-rated cap is applied, i.e. contract period of a policy (number of months) divided by 12.

Why will a levy be imposed on insurance premiums?

The Insurance Authority (IA) is a regulatory body, independent of both the Government and the insurance industry. On 26 June 2017, it took over the regulation of insurance companies from the Office of the Commissioner of Insurance, a government department. On 23 September 2019, the IA started direct regulation of insurance intermediaries through a statutory licensing regime for insurance intermediaries, thus providing more comprehensive protection for policy holders.

Following international practice, the IA, as an independent regulator, has to be financially independent and recover its operating costs. The Insurance Ordinance (Cap. 41) empowers the IA to collect levy on insurance premiums from policy holders, and various fees from insurance companies and intermediaries, to meet its operational expenses.

Frequently asked questions

Q: How can I get the details of the collection of the premium levy for my policy?

A: Insurance companies will explain the payment arrangement to policy holders through various channels (e.g. email, SMS or premium notice). Policy holders should contact their insurance company for any enquiries related to levy payments.

Q: How can I find out the amount of the premium levy I must pay?

A: Policy holders should contact their insurance company for the exact amount of the levy payable.

Q: Can an insurance company pay a levy for a policy holder?

A: Policy holders must pay the levy in accordance with the law. However, an insurance company may pay the levy on behalf of policy holders and inform them of this arrangement via various channels (e.g. email, SMS or anniversary statements). Upon the request of a policy holder, the insurance company has to confirm its levy payment to the IA with the policy holder.

Q: What if I refuse to pay the premium levy?

A: If a policy holder does not pay the required levy, the IA may impose on the policy holder a pecuniary penalty of up to \$5,000 under section 3(4) of the Insurance (Levy) Regulation. The IA may recover the outstanding levy as a civil debt due to it.

Q: How can the IA ensure that the insurance companies do not collect an excessive levy?

A: Insurance companies must submit audited annual remittance reports to the IA under section 7 of the Insurance (Levy) Regulation. If an insurance company has collected an excessive levy from a policy holder, the IA may impose on the insurance company a pecuniary penalty of up to \$10,000 under section 3(5) of the Insurance (Levy) Regulation.