

12 June 2024

By Email Only

Our Ref: INS/TEC/6/20/6 Sub-file XI

To: Chief Executives of All Authorized Insurers

Dear Sir/Madam,

Guidance for the Implementation of the Insurance (Valuation and Capital) Rules

Following the gazettal of the commencement notice of the Insurance (Amendment) Ordinance 2023 (“Amendment Ordinance”) on 3 May 2024, the new set of rules and regulations including the Insurance (Valuation and Capital) Rules (Cap. 41R) will come into operation in tandem with the commencement of the Amendment Ordinance (i.e. 1 July 2024).

For the implementation of Cap. 41R, we are writing to provide the guidance with respect of the below areas, which have been consulted with the industry and adopted in the latest technical specifications:

1. Minimum requirements for stochastic simulation approach (rule 19)

According to rule 19(2), an applicable insurer must use a stochastic simulation approach in calculating the time value of options and guarantees under groups of contracts of insurance which include contractual options or financial guarantees. The economic scenario generator adopted under the stochastic simulation approach to produce the potential future scenarios should meet the minimum requirements set out in **Appendix 1**.

2. Simplified approaches for the calculation of matching adjustment (rule 24)

Pursuant to rule 24(6), an applicable insurer which has practical difficulty in performing full calculation of the matching adjustment may consider taking any or all of the simplified approaches allowed by the IA. The simplified approaches allowed by the IA are set out in **Appendix 2**.

3. Approval for using own assessment approach in determining the risk capital amount for natural catastrophe risk (rule 67)

Pursuant to rule 67, an applicable insurer must determine its risk capital amount for natural catastrophe risk using the factor-based approach in accordance with rule 68, unless it has obtained approval from the IA to use its own assessment (“OA”) to determine such risk capital amount. **Appendix 3** sets out the guidance on the application process to obtain such approval and, if approval is given, the information, format and timing of submission of information relating to the approved OA approach for ongoing monitoring purposes.

The above guidance, together with elaborations or practical considerations of other aspects, will be further provided in a guideline, which will be consulted with the industry in due course.

In the meantime, please take note that the Guideline on Insurance (General Business) (Valuation) Rules (GL2) and Guideline on the Reserve Provision for Class G of Long Term Business (GL7) will be repealed starting from 1 July 2024.

Should you have any queries in relation to the above matters, please contact us at rbc@ia.org.hk.

Yours faithfully,

Tony Chan
Associate Director
Policy and Legislation Division
Insurance Authority

Encls. (attached to email only)

c.c. Chairman, The Hong Kong Federation of Insurers
President, The Actuarial Society of Hong Kong