

6 February 2025

**BY EMAIL**

To: Chief Executive of authorized insurers  
carrying on general insurance business excluding marine  
mutual insurers and captive insurers

Dear Sirs,

**Findings and Recommendations for Claims Management**

Further to the Insurance Authority (“IA”)’s circular on 22 February 2024 which set out the IA’s expectation on the valuation of general insurance liabilities for the purpose of reserving by authorized insurers, the IA has conducted a thematic review on insurers’ claim handling practices which are supposed to form an important part of an insurer’s reserving and product pricing control cycle (“Control Cycle”).

The objectives of this circular are to share with you the IA’s findings of the review, highlight areas of concern, reinforce the standards of claim handling practices which are expected of insurers and the possible actions that an insurer can take if its claim handling practices fall short of the IA’s expectation.

The scope of our review focused on motor insurance business. In conducting the review, the IA examined selected insurers’ internal claim manuals and conducted on-site inspections against them. While our findings are confined to motor insurance business, we consider that the findings are also relevant to other long tail lines of business.

In this circular, we set out our findings and recommendations on possible actions that can be taken by insurers to improve their Control Cycles in respect of the following areas:

- (i) new claim recording and initial reserve provisions;
- (ii) review of reserve provisions;
- (iii) periodic review of claims; and
- (iv) claim file closure.

(i) **New claim recording and initial reserve provisions**

**Findings**

The IA considers that timely recording of new claims and setting of claims reserves are critical to a proper Control Cycle. As such, an authorized insurer is expected to record a new claim and make an initial reserve provision for the claim based on the information available as soon as possible after a claim is reported (or circumstances which may give rise to a claim is notified) to the insurer.

In our review, we observed that most of the insurers take about 10 to 14 days to record an initial reserve provision in their internal systems upon receipt of a new claim, with an exception of one insurer which takes 2 days to do so.

We also observed that most of the selected insurers classify their Third Party Bodily Injury (“TPBI”) claims into three categories: standard/minor, serious claims and fatal claims. An initial reserve provision (including the insurer’s own legal costs and third party legal costs) in the range of HK\$300,000 to HK\$500,000 and HK\$500,000 to HK\$1 million would be set for a serious claim and a fatal claim respectively. Some insurers do not further categorize their TPBI claims into serious and fatal.

Regarding claims which involve more than one injured person, the IA noted that some insurers set an initial reserve amount per motor accident regardless of the number of injured persons involved in the accident which is the subject of the claim. Similarly, some insurers set an aggregate reserve amount for each Third Party Property Damage (“TPPD”) claim instead of a separate reserve amount for each third party vehicle.

**Recommendations**

Claims reported should be promptly recorded and initial claims reserves should be provided in accordance with the insurers’ policies and procedures. These should ensure that authorized insurers’ records and claims reserve positions are always up to date so that the latest financial positions of the insurers can be ascertained without an undue time lag.

Making a preliminary assessment of new claims and categorizing them appropriately can help insurers to better estimate claims liability and set reserve amounts which are reflective of the information available at that time.

For insured drivers who are deemed not liable, there are insurers who do not assign an initial reserve for TPBI and TPPD. However, such claims may incur subsequent defense costs and potential liabilities despite no police prosecution is made against the insured driver. Insurers are encouraged to consider assigning a reserve for such claims.

## **(ii) Review of reserve provisions**

### **Findings**

The level of proactiveness in ascertaining further information differs significantly between insurers. It is observed that insurers who are proactive in approaching the injured persons and stakeholders such as loss adjusters, healthcare providers, the Police and Hospital Authority<sup>3</sup> can reserve in a more timely and appropriate manner. They are also able to engage members of their management teams earlier to make decisions that could lead to early settlement of claims. Insurers are encouraged to take more proactive measures.

On the timeliness in updating reserves upon receiving a letter before action (“letter”), the IA observes significant differences in practice among insurers. Most insurers usually set aside a provisional reserve amount, taking into account the claimant’s age, occupation and length of sick leave, etc. However, some insurers do not update the provisional reserve amount, and only make such reserves months after receiving such letters. Insurers are reminded to reflect reserve revision in a timely manner based on the new information received.

Upon receiving the quantum advice of its legal counsel, the IA observed substantial differences in the reserve quantum reflection (see 1a & 1b below) and in the settlement offer tactic (see 2 below).

### **Reserve Quantum Reflection**

(1a) There are instances whereby the insurer reflects a reserve substantially lower than the advice of its legal counsel, without any documented rationale.

(1b) Some insurers were found to reduce case reserves without justification, only to increase the reserves in the subsequent quarter.

### **Settlement Offer Tactics**

(2) Some insurers are observed to offer substantially lower settlement amounts and reserve as such, leading to prolonged claim settlement. This not only affects the injured parties but also eventually leads to higher legal costs and lower reinsurance recoveries due to indexation not to mention reserves shortfall. Insurers are encouraged to balance all cost considerations and make appropriate decisions.

On the timely response and regular follow-ups of own and counterparty’s legal counsel, it is observed that the practice varies significantly. Some insurers enforce turn-around time targets for their claim handlers, while some companies are observed to have lengthy delays between correspondences.

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<sup>3</sup> Subject to injured party’s authorization.

### Recommendation

It is considered beneficial to consider the advice of the legal counsel and the estimated legal costs in a timely manner. It is effective also to request legal counsel for an agreed service pledge, to align with the frequency of the insurer's claim file review. Insurers are reminded to put in place procedures to ensure timely communication between all parties.

The insurer should proactively reply to the counterparty's correspondence and its own legal counsel's request for instructions. The amounts of estimated and actual claims should be compared from time to time to ensure that adequate provisions are made for outstanding claims.

### **(iii) Periodic review of claims and reserves**

#### Findings

The IA has observed that most insurers subject to our thematic review conduct review of motor liability claims and update their reserves at least once every 6 months to reflect the latest developments of the claims, taking into consideration of the quantum of the claims and legal advice. Such review and explanation for reserve update are documented and signed off by certain members of the insurers' claims teams. However, it is also noted that a few insurers do not conduct periodic review of their motor liability claims. Indeed, they do not have any system in place (e.g. system-generated reports or automatic reminders) to remind them to review their claim files and reserves.

### Recommendation

As part of their claims management controls and processes, insurers should regularly review their claims to keep abreast of the developments of the claims, seek information to ascertain the latest status of the claims and review and adjust reserves, where appropriate. They should have in place systems such that they can be reminded to conduct claim review periodically. Frequency of claim review would depend on the nature, complexity and status of the claim. Naturally, active or complex claims should be reviewed more regularly than in inactive or dormant claims. Where an insurer has engaged external persons to handle or advice on claims (e.g. loss adjusters or legal advisors), it should be regularly reported or updated with any development of the claim to enable it to assess the claim and reserve position based on the latest available information.

### **(iv) Claim File Closure**

#### Findings

The IA noted that some insurers set aside precautionary claim reserves for certain claims of which no formal claim against the insured were notified to the insurers. Some of these claims were closed and subsequently re-opened and claim reserve amounts re-set as new information came to light.



## **Recommendation**

It is recommended that authorized insurers should have appropriate process and procedures in place to govern claim file closure and re-opening of claim. To avoid closure of claim files prematurely, it is recommended that considerations for determining whether a claim file should be closed and claim reserves removed as well as the decision-making and approval processes should be clearly set out in the procedures.

## **Personal Data**

Authorized insurers should comply with all the relevant laws, regulations, rules, guidance notes, guidelines and codes issued by the relevant regulators; and standards and codes issued by the industry bodies. As insurers handle large amount of personal data, they are reminded to ensure compliance with the Personal Data (Privacy) Ordinance (Cap. 486). During our review, it has come to our attention that some insurers may not have adequate security safeguards in place for copies of Hong Kong Identity Cards (“HKID cards”) they hold or transmit, for example, some copies of HKID cards in paper form were not marked “copy” on the image of the HKID cards.<sup>4</sup>

## **Way Forward**

Timely and adequate provision of claim reserves is an integral part of an insurer’s proper claims management and Control Cycle. We trust that our findings and recommendations set out in this circular would provide insurers with insights of claim handling practices in motor insurance.

We will continue to monitor claim handling and reserving practices as part of the IA’s ongoing supervision. Claim reserves form a key part of your outstanding claim provision, and as stated in our circular dated 22 February 2024, the responsibility to maintain adequate reserves lies with senior management and the certifying actuary. Failure to do so will result in fitness-and-properness implications. We would encourage all insurers to review our findings and consider whether the observations may be relevant to improving your claim handling procedures and practices.

When making changes in claim procedures, insurers are reminded to ensure transparent communication with their reserving actuaries. This includes both qualitative and quantitative information on the changes, such that the total reserves are not affected inadvertently.

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<sup>4</sup> The Code of Practice on the Identity Card Number and other Personal Identifiers – Compliance Guide for Data Users issued by the Office of the Privacy Commissioner for Personal Data (August 2024, Second Edition).

Thank you for your attention to this matter.

Sincerely,

MM Lee  
Executive Director, General Business  
Insurance Authority