保險業監理處

香港金鐘道六十六號
金鐘道政府合署二十一樓

圖文傳真 Fax: (852) 2869 0252

OFFICE OF THE COMMISSIONER OF INSURANCE

21st Floor,
Queensway Government Offices,
66 Queensway,
Hong Kong

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11 March 2005

來函檔號 Your ref.

電 話 Tel. 2867 2548

To: Chief Executives of authorized insurers
carrying on general insurance business

Dear Sirs,

Employees' Compensation Insurance Business

As you will notice from the provisional industry statistics for 2004 recently released, employees' compensation (EC) business shows persisting underwriting losses, with the gross premiums going down by 26% compared with 2003. Given no proven evidence of a general decline in demand for EC insurance over the same period, premium rate cutting is likely to be the cause for the significant premium downturn. As we are all aware, EC business has been sustaining underwriting losses over the past decade. For those insurers who have cut their rates in excess of the market average, they may possibly bear the brunt of the losses.

We must stress that the Insurance Authority (IA) has no role in directing the pricing decisions of insurers, a responsibility that should rest with the insurer's management in due exercise of its corporate governance functions. We are concerned, however, over situations where the stability of the insurance market is upset and in particular, where the insurer's solvency is likely to be jeopardized as a result of excessive premium rate cutting. To tackle such situations, we propose to take the following measures.

First, we will closely keep track of material premium changes by requiring **quarterly** submission of the return – "breakdown of direct EC business by 10 trade occupations in terms of gross premiums and exposure" (currently filed with the IA annually). This return should now be submitted within 1 month after the close of each quarter together with the quarterly return on Hong Kong business, commencing with the second quarter of 2005. A specimen of the return (which is similar to the annual return) is attached, and you may also download an input spreadsheet template from our website for electronic submission. By increasing submission frequency of this return, we aim to identify earlier any material premium rate movements, and evaluate their impact on the solvency and reserve adequacy of the relevant insurers before initiating dialogue with them, if necessary.

Second, we propose to include "Material premium rate movements" as a regular agenda item to be raised and discussed with the insurer's management during our on-site inspection visits to insurers. At the discussion, we expect to explore with the insurer the rationale for any material change in premium rate that has been made or proposed, and whether it has the endorsement of the Board. Where concern arises as to the sustainability of a significant rate cut, we may call for further investigation including requiring an actuarial review to be made on the future profitability and reserving position of the insurer concerned.

Third, we are deliberating on the need for revising our GN9 – "Guidance Note on Actuarial Review on Insurance Liabilities in respect of Employees' Compensation and Motor Insurance Businesses". Consideration is given to enhancing the actuary's scope of review and opinion to cover the adequacy of premium currently charged by the insurer. We will keep you informed of developments in this regard.

As you may agree, adequate pricing of risks is essential to the viability and sustainability of any insurance operation. Any significant rate cutting, apart from undermining the solvency condition of insurers, would cause fluctuations in insurance costs, which might not be welcomed by both the insuring public and the insurance industry as a whole. We take this opportunity to call upon all insurers to exercise due prudence in underwriting and pricing their risks.

Yours faithfully

(Richard Yuen)
Commissioner of Insurance

c.c. Chairman, The Hong Kong Federation of Insurers
Encl.

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