

保險業監理處

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來函檔號 Your ref.

電話 Tel. 2867 4849

To: Chief Executives of all insurers
authorized to carry on general business

Dear Sirs,

Guidance Note on Reserving for Mortgage Guarantee Business

The captioned Guidance Note was issued by the Insurance Authority in 2000 to set out detailed requirements in regard to insurers' reserving for mortgage guarantee business.

In view of the fluctuations in property prices, there are increasing risks of credit default by borrowers which will pose threats to the operations and solvency of mortgage insurers. To enhance the latter's resilience, we have revised the Guidance Note to strengthen the reserving standards. The major revisions are:

- (a) extending the period for maintaining funds in the Contingency Reserve ("CR") from 7 years to 10 years;
- (b) requiring a higher amount of CR for direct non-standard mortgage guarantee business: 75% (instead of the normal 50%) of the net earned premium income derived from such non-standard business in the year to be assigned to CR; and
- (c) providing a definition on "direct non-standard mortgage guarantee business" for the purpose of the Guidance Note.

A copy of the revised Guidance Note is attached. It can also be downloaded from our website <http://www.oci.gov.hk>. The revised Guidance Note shall take effect from 1 January 2011 and the revised requirements shall be applicable to mortgage guarantee business written on or after 1 January 2011. Should you require any clarifications on the revised Guidance Note, please contact Ms Karen Poon at 2867 4849 or the case officer whom you have been dealing with.

Yours faithfully,

(Ms Annie Choi)
Commissioner of Insurance

Encl.

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