

**GUIDELINE ON
APPLICATION FOR AUTHORIZATION
TO CARRY ON
INSURANCE BUSINESS
IN OR FROM HONG KONG**

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1. Introduction

1.1 Insurance business is regulated in Hong Kong by the Insurance Authority (“IA”) in accordance with the provisions in the Insurance Ordinance (Cap. 41) (the “Ordinance”) and its subsidiary legislation. The principal function of the IA under the Ordinance is to regulate and supervise the insurance industry for the promotion of the general stability of the insurance industry and for the protection of existing and potential policy holders. Pursuant to this function, the Ordinance generally prohibits a person from carrying on any class of insurance business in or from Hong Kong, unless the person has obtained authorization from the IA. For these purposes if a person (a) opens or maintains an office or agency in Hong Kong for the purpose of carrying on that class of insurance business in or from Hong Kong; or (b) holds himself out¹ as carrying on that class of insurance business in or from Hong Kong, then the person is deemed to carry on a class of insurance business in or from Hong Kong and will need to be authorized by the IA under the Ordinance.

1.2 This Guideline is issued pursuant to section 133 of the Ordinance:

- (a) to provide guidance on the provisions in the Ordinance concerning authorization of insurers to carry on any class(es) of general business or long term business in or from Hong Kong and the supervisory principles adopted by the IA in considering such applications;
- (b) to elaborate on the criteria and matters which the IA will take into account when considering such applications; and
- (c) to outline the process for applying for authorization and the key information and documents required by the IA for its assessment of applications for authorization.

1.3 Prospective applicants should read this Guideline before applying for authorization. Prospective applicants seeking to carry on special purpose business, however, should refer to the Guideline on Application for Authorization to Carry on Special Purpose Business (GL33) issued by the IA.

1.4 This Guideline should be read in conjunction with relevant provisions in the Ordinance as well as other related ordinances, rules, codes, circulars, and guidelines issued by the IA or other regulatory bodies from time to time.

1.5 This Guideline does not have the force of law, in that it is not subsidiary legislation, and should not be interpreted in a way that would override the provision of any law. If, however, a person applying for authorization to carry

¹ “Holding out” means any activity, including any form of solicitation of business, that would lead one to reasonably conclude that the person is an authorized insurer under section 8 of the Ordinance but in fact that person is not authorized to carry on any insurance business in or from Hong Kong.

on any class of insurance business in or from Hong Kong is unable to demonstrate, when making such application, that the criteria and matters elaborated on in this Guideline are met, this may result in the IA not approving the application. Further, following authorization of an insurer, if the criteria and matters elaborated on in this Guideline do not continue to be met in relation to the insurer, this may be relevant to the IA's views on the continued fitness and properness of the directors, controllers and key persons in relevant control functions of the authorized insurer. The IA may also take into account any failure to continue to meet the criteria or matters elaborated on in this Guideline in relation to an authorized insurer following its authorization, in considering whether there has been an act or omission likely to be prejudicial to the interests of policy holders or potential policy holders (albeit the IA will always take account of the full context, facts and impact of any matter before it in this respect).

1.6 This Guideline does not constitute legal advice. Please seek professional advice if you have any questions relating to the application or interpretation of this Guideline or relevant provisions in the Ordinance. The IA may from time to time amend the whole or any part of this Guideline.

2. Authorization Requirements and Other Criteria

2.1 Section 8 of the Ordinance provides that upon application made by a company under section 7, the IA may, subject to any conditions as the IA may impose, authorize the company to carry on certain class(es) of insurance business in or from Hong Kong, or may refuse the application on certain grounds. Only a company incorporated in Hong Kong or a company registered as a non-Hong Kong company under Part 16 of the Companies Ordinance (Cap. 622) is eligible to apply for authorization.

2.2 A company may be authorized to carry on all or some classes of general business or long term business. The classes of general business and long term business and certain pre-determined groups of classes are set out in Schedule 1 to the Ordinance.

2.3 This Guideline outlines the general principles and requirements for authorization, including minimum amounts of paid-up share capital and solvency margin, fitness and properness of directors and controllers, adequacy of reinsurance arrangements and other criteria.

2.4 Prospective applicants should also take note of the restriction under section 120 of the Ordinance relating to the use of certain terms and representations associated with insurance business, before they are duly authorized by the IA to carry on any class(es) of insurance business in or from

Hong Kong.

General principles

2.5 The IA will apply the following general principles in processing an application for authorization:

- (a) The authorization requirements and criteria set out in this Guideline shall apply to an applicant for authorization to carry on any class(es) of insurance business in or from Hong Kong, and they will continue to apply to an authorized insurer on an ongoing basis;
- (b) This Guideline does not and is not intended to set out an exhaustive list of considerations that the IA would take into account when assessing an authorization application. The IA may impose more prudent or stringent prudential requirements in respect to an insurer's early years of authorization;
- (c) An application should not be made with the aim to bypass the scope and provisions of any laws or regulations in Hong Kong;
- (d) Each application will be considered on its own merits. The IA may refuse an application on grounds not specified in this Guideline or impose additional conditions on an authorization (if granted) taking into account the circumstances of each individual application. The application process outlined in section 3 of this Guideline, is designed to ensure there is transparent communication from the IA to the applicant on concerns the IA may have in relation to the application with opportunity afforded to the applicant to address those concerns. If an application for authorization is refused or is granted but subject to conditions, the applicant will be notified of the reasons for such refusal or imposition of such conditions. If the applicant (or any other affected person) is aggrieved by the decision it may apply to the Insurance Appeals Tribunal for a review of the decision (see paragraph 3.10 for details);
- (e) With the exception of professional reinsurers², an applicant must apply for authorization to carry on any class(es) of either general business or long term business. An applicant wishing to carry on both general business and long term business in or from Hong Kong

² "Professional reinsurers", also known as pure reinsurers, means insurers restricted by conditions on their authorization to carrying on only reinsurance business in or from Hong Kong.

will need to form separate companies for those two distinct businesses;

- (f) Where an authorized insurer wishes to carry on any additional class(es) of insurance business in or from Hong Kong for which it is not authorized, the authorization requirements and criteria set out in this Guideline shall apply as appropriate. For example, the applicant shall be required to prepare and submit to the IA a viable business plan and demonstrate that it has the capacity to carry on such additional class(es) of insurance business; and
- (g) Considering the restrictions on the risks which can be written by a captive insurer³ as described in the Ordinance and the primary objective of a captive insurer to limit its business to insuring risks of the group of companies to which it belongs, applicants for authorization as captive insurers are exempt from having to satisfy certain of the criteria and matters specified in paragraphs 2.6 to 2.31 below. Please refer to the below paragraphs and the relevant Guidelines issued by the IA.

Adequate Capital and Solvency Margin

2.6 For the purposes of authorization, the amount of paid-up share capital and the amount of solvency margin (i.e. the excess of assets over liabilities) of a company must not be less than the amounts specified in section 8 of the Ordinance. Section 8(3) of the Ordinance sets out the minimum amounts of paid-up share capital and solvency margin applicable to different classes of insurance business, as well as the bases for determining the solvency margin. Please refer to Annex for a summary of the requirements. It should be emphasized that these are the minimum requirements. The IA will assess the sufficiency of an applicant's start-up capital and solvency margin on a case-by-case basis, having regard to the size, business mix, complexity and risk profile of the applicant's proposed business operations, as well as any prevailing and evolving regulatory requirements. The applicant must maintain a reasonable buffer of assets in excess of its liabilities plus solvency margin, to cope with volatility and withstand any unexpected adverse development of financial or economic conditions. For an application for authorization to carry on any class(es) of long term business, the applicant should submit dynamic solvency tests to demonstrate sufficiency of its start-up capital.

³ A "captive insurer" is defined in section 2(7) of the Ordinance. A captive insurer is generally restricted to insuring risks of or related to its own group of companies. A captive insurer is not allowed to carry on statutory business (e.g. motor and employees' compensation, etc.).

2.7 For the purposes of determining compliance with the solvency margin requirement:

- (a) in the case of a general insurer (with the exception of captive insurers), the value of its assets will be determined in accordance with the Insurance (General Business) (Valuation) Rules (Cap. 41G); and
- (b) in the case of a long term insurer:
 - (i) the amount of its long term liabilities is subject to the Insurance (Determination of Long Term Liabilities) Rules (Cap. 41E); and
 - (ii) its margin of solvency will be determined in accordance with the Insurance (Margin of Solvency) Rules (Cap. 41F) of the Ordinance.

Fitness and Properness of Directors, Controllers, Management and Others

2.8 An applicant must maintain an office as its place of business in Hong Kong. As a general principle, the applicant should have a professional management team with staff establishment appropriate to the nature and scale of its operations and a locally-based chief executive who would be a controller of the applicant.

Directors and Controllers

2.9 An applicant must demonstrate to the IA that all of its directors and controllers are fit and proper to hold such positions. For the purpose of this Guideline, a reference to “controller” may mean a controller defined under section 9, 13A or 13B of the Ordinance as the case may be.

2.10 In considering whether a person is fit and proper for the relevant position, the IA will take into account all the factors set out in section 14A of the Ordinance, including qualifications, experience, ability to act competently, honestly and fairly, reputation, reliability and integrity, as well as financial status and other relevant matters. The IA has issued a Guideline on “Fit and Proper” Criteria under the Insurance Ordinance (Cap. 41) (GL4) to provide further guidance on the minimum standards that directors and controllers of an authorized insurer are required to satisfy in order to be fit and proper.

Board of Directors (“Board”)

2.11 The Board plays an important role in the corporate governance of an authorized insurer so it must have sufficient knowledge and relevant experience of insurance business to guide the insurer and oversee its activities effectively. Hence, at least one-third of the directors on the applicant’s Board should possess such knowledge and experience. In addition, in view of the wide spectrum of professional knowledge required in administering the business and affairs of an insurer, the applicant’s Board is expected to have an adequate spread and level of expertise in areas that are key to its business, such as underwriting, claims, actuarial, finance, information technology (“IT”), law and investment.

2.12 Independent and objective opinions are essential to the Board to make sound decisions in the best interests of an applicant. A sufficient number of independent non-executive directors (“INEDs”) on the Board may help achieve such purpose of maintaining appropriate checks and balances against the influence of the management and controller. As a general principle, at least one-third of the Board should be composed of INED(s). Given the nature of business of captive insurers, captive applicants are exempted from the criteria stated in paragraphs 2.11 to 2.12.

Senior Management, Key Persons in Control Functions (“KPICs”) and Appointed Actuary

2.13 Senior management is accountable for carrying out day-to-day operations and implementing systems and controls set out by the Board. The composition of senior management team, which is headed by the chief executive, may vary from one authorized insurer to another. Senior management team of an insurer may include KPICs defined in section 13AE of the Ordinance, functional heads⁴ and appointed actuary (if applicable). An applicant should have a competent management team that has adequate and relevant qualifications, knowledge and experience of the insurance industry or target segments and a proven track record. GL4 also sets out the relevant criteria for approval of KPICs and appointed actuaries.

Adequacy of Reinsurance Arrangements

2.14 An authorized insurer is required under the Ordinance to have adequate reinsurance arrangements in force for each class of insurance business it carries on. It is incumbent upon an applicant to adopt a prudent approach in arranging reinsurance cover for its proposed insurance business. Inadequate reinsurance may jeopardize the financial position of the insurer and affect its

⁴ In general, “functional head” refers to a head of an essential function of an insurer’s operation, such as underwriting, claims, client management, IT, etc. A captive applicant may warrant a smaller team.

ability to meet the liabilities and obligations to its policy holders. The IA has issued a Guideline on Reinsurance (GL17) which sets out prudent practices pertinent to reinsurance management and the general guiding principles of the IA in assessing the adequacy of an authorized insurer's reinsurance arrangement. Where an authorized insurer wishes to effect any reinsurance with related reinsurers, it is required to follow the Guideline on Reinsurance with Related Companies (GL12) issued by the IA. Without prejudice to the standards and practices in GL17, GL12 provides guidance on how reinsurance arrangements with related companies will be considered adequate by the IA in terms of financial security, and how the IA intends to address the supervisory concern if such reinsurance arrangements are not considered to be adequate.

Other Criteria

Viability of Business Model

2.15 In assessing an authorization application, the IA will place particular attention on the applicant's business viability after the initial phase of operation, in view of the setup cost and a relatively higher expense structure during this period. With the exception of captive insurers, the applicant should carry out a detailed feasibility study in respect of its proposed business and based on the result of such feasibility study demonstrate the viability of its business plan. The applicant should demonstrate that the projected profitability will not put at risk in any way its ability to continue to meet its capital and solvency requirements under the Ordinance and the buffer as mentioned in paragraph 2.6 above at all times. For applicants wishing to carry on any class(es) of long term business, the IA will also take into account the types of insurance products they propose to offer in assessing if their business plans are sustainable and viable in the long-term.

Fronting

2.16 "Fronting" refers to an arrangement under which the ceding company (i.e. the primary or fronting company) cedes all or almost all of the risks it underwrites to reinsurer(s) and therefore retains no risks at all or only a small portion of the risks for its own account. In general, an insurer should not engage in any fronting operation. The IA will consider the circumstances holistically and determine on a case-by-case basis whether an arrangement is to be regarded as a fronting operation.

Financial Commitment

2.17 The applicant's shareholder(s) or shareholder controller(s) must demonstrate their long-term commitment to financially support the applicant's

operations and that they will be able and willing to contribute additional capital if required. If applicable, the IA may require the applicant's shareholders(s) or shareholder controller(s) (including the ultimate shareholder) to provide to the IA letter(s) of credit or letter(s) of undertaking to demonstrate firm commitments to provide financial support to the applicant and to demonstrate the availability of sufficient financial resources for the applicant's operations if and when required. The IA may require the applicant to provide due diligence report(s) on its shareholder(s) or shareholder controller(s) prepared by independent parties to support the existence and sufficiency of financial resources (and source of such financial resources) and facilitate IA's assessment. The IA will also take into account track records as well as the financial leverage positions of the shareholder(s) or shareholder controller(s) of an applicant.

Sound Corporate Governance and Enterprise Risk Management and Adequate Accounting System

2.18 The applicant must establish and maintain a corporate governance framework that provides for sound and prudent management and oversight of its business and adequately recognizes and protects the interests of policy holders. As part of its corporate governance framework, the applicant should have an effective system of risk management and internal controls, including effective functions for risk management, compliance, financial control, intermediary management, actuarial matters and internal audit, and build a sound risk culture and vigilant planning of capital management.

2.19 In principle, the IA expects that the corporate governance framework of an applicant should, among others,

- (a) promote the development, implementation and effective oversight of policies that clearly define and support its objectives;
- (b) define the roles and responsibilities of persons accountable for management and oversight;
- (c) set out requirements relating to how decisions and actions are taken;
- (d) provide for effective means of communicating matters relating to the management and oversight of the applicant;
- (e) provide for sound remuneration practices which promote the alignment of remuneration policies with the long-term interests of the applicant to avoid excessive risk taking; and
- (f) provide for corrective actions for non-compliance or weak oversight, management and control.

2.20 The applicant should also establish an adequate enterprise risk management framework for solvency purposes to identify, measure, report, monitor and manage its risk exposure in an ongoing and integrated manner. Its Board and senior management shall be accountable for shaping a sound risk culture to drive its business practices and decisions.

2.21 Where an applicant proposes to target market segments where there are ample capacity and keen competition, it must demonstrate strong corporate governance, underwriting expertise and reserving discipline to support its application. Detailed guidance and requirements on corporate governance and enterprise risk management are set out in the Guideline on the Corporate Governance of Authorized Insurers (GL10)⁵ and the Guideline on Enterprise Risk Management (GL21)⁶ issued by the IA.

Proper Books and Records

2.22 The applicant must keep and maintain proper books of account and other records in respect of its Hong Kong operations, so as to enable an audit, actuarial valuation or both to be carried out from time to time if and when required. The applicant should be aware that an authorized insurer is required to comply with section 16 of the Ordinance to keep proper books of account which sufficiently exhibit and explain all transactions entered into by it in the course of any of its business. These books and records must be kept for not less than seven years from the end of the financial year to which the last entry made or matter recorded therein relates. The IA may ask an authorized insurer to provide it, within a specified period, any books of account that are required to be kept under section 16 of the Ordinance.

Consultation with Other Regulators

2.23 Where an applicant or its holding company is registered with or regulated by any regulator(s) in or outside Hong Kong, the IA would consider any comments or approvals (if required) of those regulator(s) in respect to the applicant's application for authorization to carry on any class(es) of insurance business in or from Hong Kong. Similarly, where any proposed directors, controllers or KPICs are registered with or regulated by any regulator(s) in or outside Hong Kong, the IA would also take into account any comments or views of those regulator(s) in assessing those persons' fitness and properness. The IA will consider the merits of each case and conduct a holistic review on the authorization requirements of each application.

⁵ Captive insurers are encouraged to observe GL10.

⁶ Captive insurers and marine mutual are exempted from GL21.

2.24 A non-Hong Kong applicant (for either general or long term business authorization) must satisfy the IA that it:

- (a) is a company incorporated in a jurisdiction where there are comprehensive company laws and insurance laws;
- (b) is an insurer under effective supervision by the authority or authorities of its home jurisdiction responsible for the proper conduct of insurance business; and
- (c) is a well-established insurer with international experience and of undoubted financial standing.

2.25 The IA may ask the relevant regulator(s) to provide written confirmation about its supervisory regime and practices in this regard.

Impact to the Stability and Competitiveness of the Hong Kong Insurance Market

2.26 One of the functions of the IA is to facilitate sustainable market development of the Hong Kong insurance industry and promote the competitiveness of the Hong Kong insurance industry in the global insurance market. In general, applicants are expected to bring in healthy competition and benefits to policy holders and contribute to the well-being of the community. The applicant's proposed operations should not have a destabilizing effect on the insurance market in Hong Kong and the local and overseas insurance business that the applicant proposes to carry on in or from Hong Kong should not be detrimental to Hong Kong as an insurance centre. An application which is not conducive to the long-term stability and healthy development of the Hong Kong insurance market will not be accepted by the IA even if all other requirements applicable to an authorization application are met.

2.27 For an applicant wishing to carry on any class(es) of long term business in or from Hong Kong, the IA generally expects that its shareholder controller(s) (i) should be regulated insurance entities in or outside Hong Kong; (ii) have sufficient insurance experience of underwriting the relevant class(es) of long term business; or (iii) of being shareholder controller(s) in regulated entities which underwrite relevant classes of long term business. Where such requirement is not satisfied, the IA will need to consider (a) whether the application can be approved at all, or must be refused on the basis of the shareholder controller(s) not satisfying the fit and proper criteria; or (b) whether the circumstances are such as to merit approval, but subject to conditions being imposed which mitigate the risks associated with the shareholder controller's absence of experience (such that, with such conditions in place, such shareholder controller(s) would be considered fit and proper in that context). The IA may consider the approach in

(b), for example, if the applicant demonstrates that its authorization would facilitate sustainable market development of the Hong Kong insurance industry and promote the competitiveness of the Hong Kong insurance industry in the global insurance market.

2.28 With the exception of captive insurers, an applicant should demonstrate that there would not be any conflict of interests between the sound management of its insurance operations and the activities of its shareholder(s) or shareholder controllers. In the case of an applicant being a member of a group, the applicant should further demonstrate that it would be managed and operated independently of the group, with all transactions between itself and related parties being made at arm's length.

Conduct of business

2.29 Section 4A(2)(c) of the Ordinance provides that the IA shall promote and encourage the adoption of proper standards of conduct, and sound and prudent business practices by authorized insurers. An applicant is expected to have an adequate system in place to ensure customers are treated fairly, both before a policy is entered into and through to the point when all obligations under the policy have been discharged. The IA has issued a number of codes and guidelines to ensure fair treatment of policy holders which the applicant must observe.

Additional Requirement for Long Term Business Applicants

2.30 For applicants wishing to carry on any class(es) of long term business in or from Hong Kong, they must maintain sufficient actuarial expertise, including appointing a qualified actuary to advise them on premium rates and structure, policy terms and benefits, accounting requirements, long term business fund liability valuations, and matching of the terms and nature of the assets and liabilities relating to their long term business. The authorization application should therefore include a report and certificate from a qualified actuary acceptable to the IA, affirming the appropriateness or otherwise of the business plan according to prudent actuarial principles and stating whether in his/her opinion prudent and satisfactory arrangements governing actuarial matters have been made.

2.31 Section 16 of the Ordinance sets out the requirements on authorized insurers to keep proper books of account. Where an applicant wishes to carry on class C (linked long term) of long term business, to satisfy the requirements under section 16 of the Ordinance, its accounting procedures and systems must ensure that the assets and liabilities relating to the investments to which its Class C policies are linked can be identified and properly valued, so that timely reports can be furnished to its policy holders.

3. Application Procedures

3.1 Application for authorization to carry on any class(es) of insurance business in or from Hong Kong should be made in the following application form(s), as appropriate. These forms can be downloaded for use from the IA's website.

<u>Form Index</u>	<u>Description</u>
Form IA-6G	Application for Authorization to carry on General Business
Form IA-6L	Application for Authorization to carry on Long Term Business
Form IA-6R	Application for Authorization to carry on Reinsurance Business only
Form IA-6C	Application for Authorization to carry on General Business (for captive insurer only)

Preliminary Meeting with the IA

3.2 The IA strongly advises prospective applicants to contact the IA for a preliminary meeting to discuss briefly their proposals before they complete any application form. To facilitate the discussion, the applicant should let the IA have sufficient time to review the relevant documents prior to the meeting, preferably at least **10 working days** before the date of any scheduled meeting. Such documents may include a feasibility study report (if the study has been carried out and with the exception of captive applicants), background of the applicant and its group (if applicable) including a corporate structure chart, the latest financial statements of the applicant and its group (if applicable) and an overview of its business plan. The meeting will enable the applicant to obtain the IA's initial views on the viability of its proposed operation.

Submission of Application

Draft Application

3.3 After receiving the IA's confirmation that the proposed authorization application may proceed to detailed assessment, the applicant may

then start to prepare a draft application. To ensure a smooth application process, the applicant should submit a full set of its draft application documents, including the relevant application form (completed but unsigned) and the required supporting documents (collectively known as “Draft Application”). The Draft Application would enable the IA to perform a preliminary assessment of the application and the IA will liaise with the applicant on any outstanding issues or deficiencies in its application.

3.4 The circumstances of each particular application will dictate what additional information is required. Applicants can expect to have a few rounds of communications with the IA before proceeding to the Formal Application stage.

3.5 If other regulator(s)’ comments or approvals are needed for the IA’s assessment of the applicant’s authorization application as indicated in paragraph 2.23 of this Guideline, the applicant should approach those regulator(s) and obtain their comments and approvals (if required) to its proposal to establish a branch or subsidiary in Hong Kong to carry on certain class(es) of insurance business.

Formal Application

3.6 After completion of the assessment on the Draft Application, the IA will inform the applicant when it may proceed to submit a formal application to the IA. The relevant application form should then be finalized and duly signed and sealed (if applicable) by the applicant. Any documents submitted in support of the application should be certified by the chief executive of the applicant as true copies of the originals. An application will only be regarded as formally received by the IA after a full set of the relevant application form and all supporting documents are properly signed and delivered to the IA’s offices.

3.7 Where an application received is incomplete or any required supporting documents or information are missing, or further information is required by the IA during the assessment process, the applicant will be notified accordingly. The IA will give the applicant a reasonable time to prepare and submit those documents or information.

Decision on the Application

3.8 If an authorization is to be granted, the IA will issue a letter of approval-in-principle to the applicant and inform the applicant of any pre-conditions that it must meet before an authorization can be formally granted. The conditions may include for example, establishing a fully-fledged office and having the necessary capital and funds injected into the applicant company.

3.9 In the letter of approval-in-principle, the IA will also set out certain

conditions (if any) to which the authorization may be subject. These conditions will normally include, for example:

- (a) To maintain a branch office as its place of business in Hong Kong with a locally-based chief executive and to keep and maintain at this office proper books of account and other records in respect of its Hong Kong operation. ***(For insurers incorporated outside Hong Kong)***
- (b) To apply to and become a member of The Insurance Complaints Bureau before writing any personal insurance business in Hong Kong. ***(For insurers other than professional reinsurers or captive insurers)***
- (c) To apply to and become a member of the Motor Insurers' Bureau of Hong Kong before writing any direct motor vehicle liability insurance business in Hong Kong. ***(For insurers writing direct motor vehicle liability insurance)***
- (d) To apply to and become a member of The Employees Compensation Insurer Insolvency Bureau and The Employees' Compensation Insurance Residual Scheme Bureau Limited before writing any employees' compensation insurance business in Hong Kong. ***(For insurers writing direct employees' compensation insurance business)***

3.10 If the IA decides not to grant an authorization, it will notify the applicant in writing of the reasons for the refusal and give the applicant an opportunity to be heard. An applicant aggrieved by a refusal (or by the conditions attached to an authorization, if granted by the IA) may appeal to the Insurance Appeals Tribunal for a review of the IA's decision.

On-site Inspection

3.11 The IA will conduct an inspection on the applicant's office when it has completed all the preparation for commencement of insurance business as instructed in the IA's letter of approval-in-principle. During the site-visit, the applicant must demonstrate to the IA that all its operation systems and key staff are in place to commence the insurance business immediately.

Certificate of Authorization

3.12 If the IA is satisfied that an applicant has fulfilled all the requirements as set out in the letter of approval-in-principle, a formal authorization will be

confirmed by issuing a Certificate of Authorization to the applicant within **two weeks** of the IA's site-visit to its office. The applicant's authorized representative may attend the IA's offices to collect the Certificate in person.

4. Information and Documents Required for the Application

Application Forms

4.1 An applicant is required to complete and submit the relevant application form as indicated in paragraph 3.1 above and provide the required information and documents to the IA for its assessment of the authorization application.

Feasibility Study Report

4.2 An applicant, with the exception of captive insurers, should carry out a detailed market feasibility study in respect of its proposed business, and submit a copy of such report to the IA. Such feasibility study should reflect the proposed business strategies of the applicant which in turn becomes the basis for its financial projections.

Directors, Controllers, KPICs and Appointed Actuary Details

4.3 An applicant must provide particulars of its directors and controllers in Form A or Form B of Schedule 2 to the Ordinance. An applicant is required to provide particulars of its KPICs, if available at the time of submission of application, in draft, Form A1 of Schedule 4 or Form A2 of Schedule 2 (for captive insurers)⁷.

4.4 An applicant wishing to carry on any class(es) of long term business in or from Hong Kong must also apply to the IA for its proposed appointment of any appointed actuary pursuant to section 15 of the Ordinance. The applicant should submit to the IA particulars of the proposed appointed actuary in Form A2 of Schedule 4, as well as an overview of the arrangements for ensuring that the appointed actuary has:

- (a) direct access to the Board of the applicant; and
- (b) access to all relevant information necessary for him/her to discharge his/her duties as an appointed actuary.

⁷ An applicant (other than a captive insurer) is not required to submit applications for IA's prior approval under section 13AE of the Ordinance for appointments of KPICs before the authorization application is approved. KPICs of a captive insurer do not require IA's prior approval.

4.5 An organizational chart showing the proposed management, organizational and governance structure as well as staff establishment with particulars of the qualifications and experiences of those at managerial level should also be submitted to the IA for its assessment on the applicant's corporate governance and the competence of the applicant's management team.

Business Plan

4.6 An applicant is required to submit a business plan for at least the first three years of operation in Hong Kong, which should describe the nature and scale of business to be carried out and its business strategies. The business plan should demonstrate whether the applicant will have sufficient financial resources to pre-finance its proposed business and withstand any loss sustained in the early period of its operation. For applicants wishing to carry on any class(es) of general business in or from Hong Kong, they should provide the IA a three-year business plan consisting of a budgeted revenue account, a budgeted profit and loss account and a budgeted balance sheet in respect of each of the three years. For applicants wishing to carry on any class(es) of long term business in or from Hong Kong, they should prepare a business plan with financial projections covering more than three years and up to a point where the operations can be demonstrated to be self-supporting. A certificate signed by the proposed appointed actuary should be attached to the business plan.

4.7 With the exception of professional reinsurers and captive insurers, any business plan should contain two sets of financial projections: one set prepared on a "best/optimistic estimate" basis and the other set prepared on a "pessimistic estimate" basis. A professional reinsurer or captive insurer is required to give only one set of financial projections on a "realistic estimate" basis. The business plan should give a realistic picture of the applicant's proposed scale of business and expected financial performance. In general, all applicants should not depart radically from their business plans in the early years of operation after they are granted authorization (if any) by the IA.

4.8 For an applicant (other than a professional reinsurer or a captive insurer) wishing to carry on any class(es) of general business in or from Hong Kong, the business plan should also demonstrate how it will comply with the local asset requirements under section 25A of the Ordinance.

4.9 For an applicant wishing to carry on any class(es) of long term business in or from Hong Kong, the business plan should also demonstrate how it will comply with the requirements of separation of assets and liabilities attributable to its long term business under section 22 of the Ordinance, and ensure that not less than one-sixth of the required solvency margin is held in the separate fund and in the total long term business funds. Where an applicant is incorporated or formed outside Hong Kong, it may apply to the IA under section

22A of the Ordinance for any relaxation from that requirement.

4.10 Copies of the financial statements for the latest three years preceding the application in respect of the applicant and its corporate controllers are also required. In the case of application for authorization to carry on any class(es) of long term business, the applicant must submit a copy of its latest actuarial valuation report.

Assessment Report of IT Governance and System

4.11 In the case of a virtual insurer applicant proposing to use digital distribution channel, there should be appropriate security and technology related controls in place. Those controls should be adequate and effective to meet the needs of the business and the types of transactions which they intend to carry out. An applicant will be required to engage a qualified and independent expert to prepare an assessment report of the adequacy of its proposed IT governance and systems and submit the report to the IA on application. A follow-up report may be required before the applicant commences its operation. For applicants other than virtual insurers, the IA will conduct a holistic review of each application and may request the applicants to prepare an assessment report on IT governance and systems for the IA's review.

5. Time Scale and Fee Payable

5.1 The IA endeavours to process every application in a timely manner. Depending on the accuracy, completeness and timeliness of information supplied by an applicant and its promptness to respond to the IA's follow-up enquiries, the whole application process from an applicant's submission of a formal application to the issue of a letter of approval-in-principle (if any) may normally take **2 to 2.5 months**, depending on whether the IA has received all required information for assessment, including cases where updated confirmation from any third party is required. However, the IA requires a longer time for complex cases and the application process for these types of cases could take **12 months**. Applicants should take note that incomplete applications or failures to submit required supplementary information or documents promptly (as referred to at paragraphs 3.6 to 3.7 above) would lead to a longer time in processing their applications.

5.2 In the scenario where an applicant fails to submit the required information or documents within six months of request, the application, either in draft or formal stage, will be treated as suspended. The IA will inform the applicant in writing if the application has for any reason been suspended. Where an application has been suspended, a fresh application will generally be required if the applicant still wishes to pursue the authorization application.

5.3 There is no need to pay any fee on submission of an application. Payment of an annual fee is required following the IA granting the approval-in-principle to an application and on subsequent anniversary date of authorization. The amount of the annual fee is prescribed under the Insurance (Authorization and Annual Fees) Regulation (Cap. 41C).

6. Enquiries

6.1. If you have any questions regarding application for authorization, please write to the IA (enquiry@ia.org.hk).

7. Commencement

7.1 This Guideline shall take effect from 30 June 2022.

June 2022

Paid-Up Share Capital and Solvency Margin Requirements [For Global Business]

	Minimum Amount of Paid-up Share Capital (HK\$ million)	Minimum Amount of Solvency Margin (HK\$ million)	Bases for determining Solvency Margin
General business insurer with statutory business	20	20	(I) Assume 'X' represents the greater of the Relevant Premium Income and the Relevant Claims Outstanding. (a) If 'X' ≤ HK\$200 million, the Relevant Amount is :- 20% of 'X' (b) If 'X' > HK\$200 million, the Relevant Amount is :- 20% x HK\$200m + 10% x ('X' - HK\$200m)
General business insurer without statutory business	10	10	
Long term business insurer	10	2	(II) Aggregation of two components, i.e. a percentage, generally 4%, of mathematical reserves (the first calculation) and a percentage, generally 0.3%, of capital at risk (the second calculation). See Note 4.
Pure reinsurer (General business only)	10	10	As (I) above
Pure reinsurer (Long Term business only)	10	2	As (II) above
Pure reinsurer (Composite business)	20	12	Aggregate of (I) and (II) as above
Captive insurer	2	2	5% of the greater of the net premium income and the net claims outstanding

NB

1. Relevant Premium Income is the greater of Net Premium Income (i.e. Gross Premium Income after deduction of reinsurance premium payment) and 50% of Gross Premium Income.
2. Relevant Claims Outstanding is the aggregate of :
 - (a) the greater of (i) 50% of the amount of the claims outstanding before deduction of the amount recoverable from reinsurers; and (ii) the amount of the claims outstanding after deduction of the amount recoverable from reinsurers;
 - (b) the additional amount for unexpired risks; and
 - (c) the insurance fund for classes accounted for on a fund accounting basis, if any.
3. Statutory business refers to any class of insurance business (not being reinsurance business) relating to liabilities or risks in respect of which persons are required by any Ordinance to be insured, including employees' compensation insurance and third party bodily injury insurance in respect of motor vehicles and local vessels, and building owners' corporation third party risks insurance.
4. The specific percentages to be applied in the first calculation and the second calculation in respect of each class of long term business are prescribed in the Insurance (Margin of Solvency) Rules. The respective amounts so computed for each class of business shall be aggregated to arrive at the required margin of solvency.
5. Pure reinsurer means an insurer whose insurance business is restricted to reinsurance.
6. Composite business insurer refers to an insurer which carries on or intends to carry on both general business and long term business of insurance.
7. Captive insurer refers to a company which carries on general business only (excluding statutory business) and such business is restricted to the insurance and reinsurance of risks of the companies within the same grouping of companies to which the company belongs.
8. Net claims outstanding in the case of captive insurer is the aggregate of (a) the amount of the claims outstanding after deduction of the amount recoverable from reinsurers; (b) the additional amount for unexpired risks; and (c) the insurance fund for classes accounted for on a fund accounting basis, if any.