

**G.N. 3864**

**INSURANCE ORDINANCE (Chapter 41)**

Pursuant to section 133(1) of the Insurance Ordinance (Chapter 41), the Insurance Authority publishes the revised Guideline on Group Supervision (GL32). The revised GL32 shall take effect from 5 July 2024.

*5 July 2024*

*Clement CHEUNG Chief Executive Officer, Insurance Authority*

**GL32**

**GUIDELINE  
ON  
GROUP SUPERVISION**

**Insurance Authority**

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## **I. INTRODUCTION**

1. The Insurance Authority (“IA”) issues this Guideline pursuant to section 133 of the Insurance Ordinance (Cap.41) (“Ordinance”) and the IA’s principal function as group supervisor to provide group supervision and regulation in relation to insurance groups. This Guideline also takes into account:

- (a) the relevant Insurance Core Principles, Standards, Guidance and Assessment Methodology (“ICPs”) promulgated by the International Association of Insurance Supervisors (“IAIS”);
- (b) the Common Framework for the Supervision of Internationally Active Insurance Groups (“ComFrame”) promulgated by the IAIS; and
- (c) the Insurance Capital Standard (“ICS”) being developed as part of ComFrame.

2. The main objective of this Guideline is to set out principles and standards for designated insurance holding companies in respect of their supervised groups on the following matters:

- (a) Designation
- (b) “Fit & Proper” Criteria
- (c) Group Capital Adequacy
- (d) Disclosure
- (e) Major Acquisitions
- (f) Pecuniary Penalty
- (g) Corporate Governance
- (h) Risk Management and Internal Controls
- (i) Outsourcing
- (j) Investment Management

- (k) Enterprise Risk Management (“ERM”);
  - (l) Group Internal Economic Capital Assessment (“GIECA”)
3. This Guideline applies to an insurance holding company that is subject to the IA’s group supervision (i.e. a designated insurance holding company). This Guideline is set out in Modules, with each Module addressing a separate topic. Each Module sets out, the broad principles (“Principles”) which the IA considers to be fundamental to a designated insurance holding company’s supervised group in relation to the topic covered by the Module; and, the standards (“Standards”) which the IA considers a designated insurance holding company’s supervised group should generally meet in order to satisfy the Principles.<sup>1</sup> The Standards are not exhaustive and the manner in which they should be applied by a designated insurance holding company would depend on the nature, scale and complexity of risks associated with the business operations of its supervised group.
4. A designated insurance holding company is required under certain provisions of the Ordinance and under the Insurance (Group Capital) Rules (Cap. 41O) (the “Group Capital Rules”) to submit certain reports and information to the IA. A designated insurance holding company is also required, by particular Standards set out in the Modules in this Guideline, to submit certain reports and information in relation to its supervised group to the IA, to ensure effective regulatory supervision of its compliance with the requirements in the Ordinance, the Group Capital Rules and the Principles and Standards in the Modules of this Guideline. The Appendix to this Guideline (which is part of this Guideline) sets out in table form a summary of the various reports and information which a designated insurance holding company should submit to the IA.
5. This Guideline should be read in conjunction with the relevant provisions of the Ordinance, other relevant ordinances, and any rules,

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<sup>1</sup> Except for Module F – Exercise of Insurance Authority’s Power To Impose Pecuniary Penalty In Respect Of Designated Insurance Holding Companies, which sets out the considerations of the IA in exercising the power to impose pecuniary penalty on a designated insurance holding company.

regulations, codes and guidelines made or issued under the Ordinance and other relevant ordinances.

6. This Guideline shall replace the Guideline on group supervision under the Insurance Ordinance (Cap. 41) issued by the IA in December 2022.
7. This Guideline does not constitute legal advice. You should seek professional advice if you have any question relating to the application or interpretation of the relevant provisions of the Ordinance.
8. 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. Non-compliance with the provisions in this Guideline would not by itself render a designated insurance holding company liable to judicial or other proceedings. Non-compliance may, however, reflect on the IA's view of the continued fitness and propriety of the directors, chief executives, key persons in control functions or shareholder controllers of the designated insurance holding company to which this Guideline applies, as well as the adequacy and effectiveness of that company's corporate governance standards and internal controls.
9. The IA may from time to time amend the whole or any part of this Guideline.
10. The IA recognises that a designated insurance holding company, following its designation, may require time to update its controls, systems and processes to align its supervised group fully with certain Modules of this Guideline, or particular Standards in certain Modules of this Guideline. The IA may, therefore, in its discretion specify by notice in writing to a designated insurance holding company on its designation, a transitional period in relation to certain Modules or particular Standards in specific Modules ("Transitional Notice"). If a Transitional Notice is issued by the IA to a designated insurance holding company, then during the transitional period the designated insurance holding company will not be required to fully comply with the relevant Module(s) or

particular Standard(s) stated in the Transitional Notice, but will be expected to implement controls and systems and processes in relation to such Module(s) or particular Standard(s), such that on expiry of the transitional period it will be able to, and required to, comply in full with such Module(s) or particular Standard(s). The Transitional Notice may specify alternative standards with which the designated insurance holding company is expected to comply during the transitional period (and a breach of such alternative standards during the transitional period will be treated by the IA as if there had been a breach of a Standard in this Guideline – see paragraph 7 above).

11. This revised Guideline shall take effect on 5 July 2024, and the previous version of this Guideline shall be superseded on that day.

**July 2024**

## **II. INTERPRETATION**

1. In this Guideline, unless the context otherwise specifies:

- (a) “asset-liability management” (or “ALM”), in relation to a designated insurance holding company, means the process of how the company ensures that the assets of its supervised group are managed so that such assets are sufficient and available (in terms of their duration) to meet the liabilities of the group as they fall due.
- (b) “audit committee”, in relation to the designated insurance holding company, means a committee established by the Group Board of the company that assists the Group Board by providing independent review of the effectiveness of the financial reporting process and internal controls systems as described in Module G – Corporate Governance For Supervised Groups – G.S/17.
- (c) “capital adequacy”, in relation to a designated insurance holding company, means the adequacy of the eligible group capital resources of its supervised group relative to the supervised group’s group capital requirements.
- (d) “chief executive”, in relation to a designated insurance holding company, has the meaning assigned to it in section 95A(1) of the Ordinance.
- (e) “claims settlement committee”, in relation to a designated insurance holding company means a committee which, if established, is established by the Group Board of the company to devise the claims settlement policy of the supervised group.
- (f) “climate-related risk” or “climate risk”, in relation to a designated insurance holding company, means the risk posed by the exposure of the supervised group to physical, transition or liability risks caused by or related to climate change.
- (g) “compliance culture”, in relation to a designated insurance holding company and its supervised group, means the set of

norms, values, attitudes and behaviours across the supervised group that characterizes the way in which the members of the supervised group conduct their activities in compliance with their relevant legal, regulatory and supervisory obligations.

- (h) “concentration risk”, in relation to a designated insurance holding company, means the risk of adverse changes in the value of capital resources of the supervised group due to a lack of diversification in the risk exposures.
- (i) “conduct risk”, in relation to a designated insurance holding company, means the risk of significant financial loss or other adverse consequences that arises from members of its supervised group conducting business in a way that treats customers unfairly or results in harm to customers.
- (j) “corporate culture”, means the set of norms, values, attitudes and behaviours that characterize the way in which the members of a supervised group conduct their activities.
- (k) “corporate governance framework”, in relation to a designated insurance holding company, means the strategies, policies and processes it establishes and maintains in relation to its supervised group, through which the supervised group is managed and controlled.
- (l) “credit risk”, in relation to a designated insurance holding company, means the risk of adverse changes in the value of capital resources of its supervised group due to unexpected changes in, or resulting from, actual default as well as deterioration of an obligor’s credit worthiness short of default, including migration risk, and spread risk due to defaults.
- (m) “cyber risk”, in relation to a designated insurance holding company, means any risks to the supervised group to which the company belongs that emanate from the transmission, storage, use or processing of data transmitted, stored and retrieved in electronic means, including technology tools and platform such as computer systems, mobile applications, the

internet and telecommunications networks. It encompasses data breach and leakage, loss of data, physical damage to such data caused by cybersecurity incidents, fraud committed by misuse of and unauthorized access to data, any liability arising from data storage and transmission, and the availability, integrity, and confidentiality of such data.

- (n) “designated insurance holding company”, in relation to a supervised group has the meaning assigned to it in section 95A(1) of the Ordinance.
- (o) “eligible group capital resources”, in relation to a designated insurance holding company, means the resources and financial instruments of its supervised group which are eligible to be included in the tier 1 group capital or tier 2 group capital of the supervised group, in accordance with Rules 6 and 7 of the Group Capital Rules.
- (p) “enterprise risk management” (or “ERM”), in relation to a designated insurance holding company, means the strategies, policies and processes of identifying, assessing, measuring, monitoring, controlling and mitigating risks in respect of the members of its supervised group, when looking at each member’s enterprise as a whole and the supervised group as whole, as established and maintained by the designated insurance holding company for its supervised group.
- (q) “environmental risk”, in relation to a designated insurance holding company, means the risk posed by the exposure of the supervised group to activities that may potentially cause or be affected by environmental degradation.
- (r) “group” or “supervised group”, has the meaning assigned to “supervised group” in section 95A(1) of the Ordinance.
- (s) “Group Board”, means the board of the directors of a designated insurance holding company.
- (t) “group capital requirement”, has the meaning assigned to it in section 95ZI of the Ordinance.

- (u) “group internal economic capital assessment” (or “GIECA”), means the internal economic capital assessment carried out by a designated insurance holding company, in accordance with the Principles and Standards of Module L – Group Internal Economic Capital Assessment (“GIECA”) for Supervised Groups to assess the capital that its supervised group needs from an economic perspective taking account of the material risks to which the supervised group is exposed.
- (v) “group risk”, in relation to a designated insurance holding company, means the risk that the financial condition of the supervised group or a member of the supervised group may be adversely affected by a group-wide event, an event in a member of the supervised group, or an event external to the supervised group. Such an event may either be financial or non-financial, such as a restructuring.
- (w) “insurance risk”, in relation to a designated insurance holding company, means the risk of adverse changes in the value of the capital resources of its supervised group due to unexpected changes in the assumptions used for pricing or reserving by members of the group that are regulated entities carrying on insurance business, including assumptions in relation to severity, frequency, trend, volatility or level of occurrence rates.
- (x) “internal controls”, in relation to a designated insurance holding company, means the set of processes, policies and activities governing its supervised group’s organisational and operational structure, including reporting and control functions.
- (y) “investment committee”, in relation to a designated insurance holding company means a committee which, if established, is established by the Group Board of the company and that sets out the investment policy and strategies of the supervised group.

- (z) “key person in control functions”, in relation to designated insurance holding company has the meaning given to it in section 95A(1) of the Ordinance.
- (aa) “liquidity risk”, in relation to a designated insurance holding company, means the risk of the members of its supervised group being unable to realize investments and other assets in a timely manner to meet their financial obligations, including collateral needs, as they fall due.
- (bb) “market risk”, in relation to a designated insurance holding company, means the risk of adverse change in the value of capital resources of its supervised group due to unexpected changes in the level or volatility of market prices of assets and liabilities.
- (cc) “material group outsourcing arrangement”, means an outsourcing arrangement whereby either a designated insurance holding company or another (or other) member(s) of its supervised group outsources a function to be performed by a service provider, which if it is disrupted or if it falls short of the performance standards set, would have the potential to significantly adversely impact the financial position, business operation, reputation of the supervised group (as a whole) or the ability of the members of the group which carry on insurance business to meet obligations or provide adequate services to policy holders or to conform with legal and regulatory requirements, and which is considered material under the materiality framework of the designated insurance holding company as per Module I – Outsourcing For Supervised Groups.
- (dd) “member”, in relation to a supervised group, means an entity that is a member of the group as determined in accordance with section 95D of the Ordinance.
- (ee) “nomination committee”, in relation to the designated insurance holding company means a committee which, if established, is established by the Group Board of the company

to nominate suitable candidates for the appointment of directors as described in Module G – Corporate Governance For Supervised Groups – G.S/17.

- (ff) “operational risk”, in relation to a designated insurance holding company, means the risk to its supervised group arising from inadequate or failed internal processes or systems, behaviour of personnel, or from events external to the supervised group.
- (gg) “outsourcing”, in relation to a designated insurance holding company and its supervised group, means an arrangement under which a service provider undertakes to perform a service (including a business activity, function or process) of a member of the supervised group which would otherwise be undertaken by the member itself; this includes a situation where the service provider is a member of the group undertaking to perform the service of another member group.
- (hh) “own risk and solvency assessment” (or “ORSA”), means the assessment which a designated insurance holding company is required to carry out in relation to its supervised group, to assess the adequacy of the group’s risk management and current, and likely future, solvency position, as described in Module K – Enterprise Risk Management For Supervised Groups – K.S/13.
- (ii) “reinsurance committee”, in relation to a designated insurance holding company, means a committee which, if established, is established by the Group Board of the company to ensure the adequacy of the reinsurance arrangements for the members of the supervised group which carry on insurance business.
- (jj) “remuneration committee”, in relation to the designated insurance holding company, means a committee which, if established, is established by the Group Board of the company to review and recommend the remuneration of the company’s directors, senior management and key person(s) in control functions and material risk-taking employees of the supervised group as described in Module G – Corporate Governance For Supervised Groups – G.S/17.

- (kk) “risk appetite”, in relation to a designated insurance holding company, means the aggregate level and types of risk that it is willing to allow its supervised group to assume, within the supervised group’s risk capacity, to achieve the strategic objectives and business plan for the supervised group.
- (ll) “risk committee”, in relation to the designated insurance holding company, means a committee established by the Group Board of the company that independently oversees the establishment and operation of the risk management system of the supervised group as described in Module G – Corporate Governance For Supervised Groups – G.S/17.
- (mm) “risk culture”, in relation to a designated insurance holding company and its supervised group, means the set of norms, values, attitudes and behaviours across the supervised group that characterizes the way in which the members of the supervised group conduct their activities related to risk awareness, risk taking, as well as risk management and controls.
- (nn) “risk management”, in relation to a designated insurance holding company, means the processes through which risks in respect of its supervised group are managed, such that all such risks are identified, assessed, monitored, mitigated (as needed) and reported on a timely and comprehensive basis.
- (oo) “risk profile”, in relation to a designated insurance holding company, means the point in time assessment of its supervised group’s gross and, as appropriate, net risk exposures aggregated within and across each relative risk category based on forward-looking assumptions.
- (pp) “senior management”, in relation to a designated insurance holding company, means the senior ranking individuals headed by the chief executive of the designated insurance holding company, responsible for managing its supervised group on a day-to-day basis in accordance with strategies, policies and procedures set out by the Group Board.

- (qq) “service provider”, in relation to a designated insurance holding company or its supervised group, includes any service provider located in any jurisdiction which is engaged by a member of the supervised group. The service provider may be an independent third party (independent of the supervised group), another member of the supervised group or a business unit within a member of the supervised group (e.g. head office or overseas branch).
- (rr) “shareholder controller”, “majority shareholder controller” and “minority shareholder controller”, in relation to a designated insurance holding company, have the meaning assigned to them in section 95A(1) of the Ordinance.
- (ss) “strategic risk”, in relation to a designated insurance holding company, means the risk resulting from the business strategy for its supervised group. Strategic risk includes risks arising from poor business decisions, substandard execution of decisions, inadequate resource allocation, or a failure to respond well to changes in the business environment.
- (tt) “technical provisions”, in relation to a designated insurance holding company, means the amounts that the members of its supervised group which carry on insurance business set aside to fulfil their insurance obligations and settle all commitments to their policy holders and other beneficiaries arising over the lifetime of their portfolios, including the expenses of administering the policies, as reflected in the specified financial statements for the financial year submitted to the IA by the designated insurance holding company in respect of its supervised group.
- (uu) “underwriting committee”, in relation to a designated insurance holding company means a committee which, if established, is established by the Group Board of the company to formulate the underwriting policy of the supervised group.

2. Unless the context otherwise specifies, words and expressions used in this Guideline shall have the same meanings as given to them in the Ordinance and Group Capital Rules.
3. Words and expressions importing the masculine gender in this Guideline include the feminine and neuter genders.
4. Words and expressions in the singular in this Guideline include the plural and words and expressions in the plural include the singular.

**MODULE A**

**MODULE A**  
**DESIGNATION OF INSURANCE HOLDING**  
**COMPANIES**

## **A.P Principles**

- A.P/1 In determining whether it is appropriate to designate an insurance holding company as a designated insurance holding company under section 95C of the Ordinance, the IA shall take into account the matters in section 95C(2) of the Ordinance and consider whether designation is needed in order to provide for effective supervision of the insurance group to which the insurance holding company belongs.
- A.P/2 The IA will be transparent about the considerations it takes into account when determining whether or not to designate an insurance holding company and shall liaise with the insurance holding company under consideration prior to the IA making a decision on designation.

## **A.S Standards**

### **A.S/1 Criteria for designating an insurance holding company**

#### *Pre-requisites for designation*

- A.S/1.1 Pursuant to section 95C of the Ordinance, the IA may designate an insurance holding company within an insurance group as a designated insurance holding company if:
- (a) the IA, in accordance with principles adopted by the International Association of Insurance Supervisors (“IAIS”), is appointed as the group supervisor of the insurance group to which the insurance holding company belongs (section 95C(1)(a) of the Ordinance); and
  - (b) the IA considers it appropriate for the insurance holding company to be so designated (section 95C(1)(b) of the Ordinance).
- A.S/1.2 Further, only an insurance holding company which is incorporated in Hong Kong may be designated by the IA (per the definition of “insurance holding company” in section 95A(1) of the Ordinance).

### Matters to be considered

#### *Insurance groups*

- A.S/1.3 Pursuant to section 95C(1)(b) of the Ordinance, the IA may designate an insurance holding company as a designated insurance holding company if the IA considers it appropriate for the company to be so designated. Pursuant to section 95C(2) of the Ordinance, in determining whether designation is appropriate, the IA may, among other matters, take into account any of the following matters:
- (a) the number of jurisdictions outside Hong Kong in or from which the insurance business of the insurance group is carried on;
  - (b) the size of the insurance and other businesses of the insurance group; and
  - (c) any criteria promulgated by an international standards setting body<sup>2</sup> (including the IAIS) that the IA considers relevant.
- A.S/1.4 In applying the criteria stated in A.S/1.3 above, the IA will adopt a risk-based approach and aim to determine whether (by reference to the said criteria and other relevant matters) it considers designation of an insurance holding company is needed to provide for effective supervision of the insurance group. The IA may also consult other involved supervisors of members of the insurance group, as it considers appropriate, subject to the applicable secrecy provisions (such as section 53B of the Ordinance).
- A.S/1.5 In general,
- (a) the greater the number of jurisdictions that an insurance group has insurance entities operating in, the more likely the IA will consider it appropriate to designate an insurance holding company of the group as a designated insurance holding company;
  - (b) the larger the business of an insurance group in

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<sup>2</sup> "International standards setting body" means a body which issues international standards for financial services supervision or international accounting standards. Apart from IAIS, examples include the Financial Stability Board and the International Accounting Standards Board.

jurisdictions outside of Hong Kong (e.g. measured by metrics such as gross written premiums or amount of total assets of the group), the more likely the IA will consider it appropriate to designate an insurance holding company of the group as a designated insurance holding company;

- (c) if an insurance group is considered an Internationally Active Insurance Group (“IAIG”)<sup>3</sup> in accordance with IAIS principles, the IA is likely to consider it appropriate to designate an insurance holding company of the group as a designated insurance holding company.

#### *Insurance holding company*

A.S/1.6 Pursuant to section 95A(1) of the Ordinance, an insurance holding company means a company incorporated in Hong Kong—

- (a) that is a holding company of an authorized insurer, whether or not it is also an authorized insurer; or
- (b) that is both—
  - (i) an authorized insurer; and
  - (ii) a holding company of a body corporate that carries on insurance business in or from a place outside Hong Kong.

A.S/1.7 In general, the insurance holding company to be designated would be the ultimate holding company of the group or the intermediate holding company which is the holding company of the legal entities within the group carrying on insurance business and any non-insurance legal entities which pose risk to the entities in the group carrying on insurance business.

A.S/1.8 In deciding which is the most appropriate insurance holding

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<sup>3</sup> As per ComFrame Guidance CF 23.0.a, the IAIG’s criteria are:

- (a) Internationally active:
  - i. Premiums are written in three or more jurisdictions; and
  - ii. Gross written premiums outside of the home jurisdiction are at least 10% of the group’s total gross written premiums.
- (b) Size (based on a three-year rolling average):
  - i. Total assets are at least USD 50 billion, or
  - ii. Total gross written premiums are at least USD 10 billion.

company in an insurance group to designate, in general, the IA will seek to identify the insurance holding company which exercises control over (and control that is focused on) the legal entities carrying on insurance business in the group, by reference to the following factors:

- (a) the proportion of the insurance business of all the entities in the group of which the insurance holding company is the head, relative to other businesses of such entities;
- (b) the degree of operational control the insurance holding company exercises over the legal entities carrying on insurance business in the group; and
- (c) the degree of shareholder control the insurance holding company has in the entities carrying on insurance business in the group or in entities that are able to exercise shareholder control in the entities carrying on insurance business in the group (because, for example, they are shareholder controllers of entities carrying on insurance business in the group or are shareholder controllers of entities which are shareholder controllers of entities carrying on insurance business in the group).

A.S/1.9 Pursuant to section 95H of the Ordinance, if a designated insurance holding company has a holding company, the IA may specify arrangements that the designated insurance holding company must maintain with any of its holding companies to ensure that the designated insurance holding company is able to, through procuring the taking of any necessary steps by its holding company, comply with the group supervision requirements under the Ordinance.

A.S/1.10 In general, the IA would seek to avoid designating a non-insurance regulated entity in an insurance group (such as a bank or securities company) as a designated insurance holding company.

A.S/1.11 Where the insurance group is a subset/part of a bank-led or securities-led financial conglomerate, the IA will liaise with the relevant financial supervisors of the non-insurance regulated entities in the group to ensure the elimination of any duplication or gaps in regulating and supervising the insurance group.

A.S/1.12 Illustrative examples of the application of the standards in

A.S/1.6 to A.S/1.11 are set out in A.A-A Annex A. It remains, however, that the decision to designate will be considered by the IA on a case-by-case basis.

**A.S/2      Issues to be discussed prior to designation**

A.S/2.1      Where the IA is considering whether or not to designate an insurance holding company, the IA will initiate a discussion and liaison process with the relevant insurance group. For this purpose, to assist in its considerations, the IA may ask the insurance group to provide certain information. A.A-B Annex B sets out the type of information which the IA may ask to be provided with in order to facilitate its considerations as part of this discussion/liaison process.

A.S/2.2      The IA will also, as part of this discussion/liaison process, discuss with the group any key issues relevant to considerations regarding whether or not to designate and other key arrangements if designation is made, such as:

- (a) the scope of the prospective supervised group should a designation be made,
- (b) arrangements with any holding company of the prospective designated insurance holding company (if applicable) that may need to be put in place if a designation is made;
- (c) how the group capital requirements would apply and any transitional arrangements necessary for financial instruments if designation is made;
- (d) payment of prescribed fees; and
- (e) arrangements for pre-existing shareholder controllers, chief executives, directors and key persons in control functions of the prospective designated insurance holding company.

A.S/2.3      This process would aim to enhance the group's understanding of the obligations of the prospective designated insurance holding company under the group supervision framework should a designation be made.

### Scope of supervised group

- A.S/2.4 In general, the obligations and requirements of a designated insurance holding company apply in relation to its supervised group. Upon the designation of the designated insurance holding company, section 95D of the Ordinance provides how to determine the members of the supervised group.
- A.S/2.5 According to section 95D(5) of the Ordinance, members of a supervised group may include entities which are incorporated, established or formed in or outside Hong Kong.

### Default members of the supervised group

- A.S/2.6 Under section 95D(1) of the Ordinance, the following entities would be default members of a supervised group of a designated insurance holding company:
- (a) the designated insurance holding company;
  - (b) all subsidiaries of the designated insurance holding company; and
  - (c) any other entities that are, according to the accounting standards<sup>4</sup> applicable to the preparation of the specified financial statements of the reference company (as defined in section 95D(10) of the Ordinance), treated as members of the insurance group to which the designated insurance holding company belongs.
- A.S/2.7 Upon the designation of the designated insurance holding company, the IA will confirm with the designated insurance holding company the bases (i.e. the “reference company”, “accounting standards” and “specified financial statements”) for determining the default members of the supervised group under section 95D(1)(c) of the Ordinance. The IA may request the designated insurance holding company to provide a list of the

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<sup>4</sup> As a general principle, the IA recognises that Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants are the accounting standards generally accepted in Hong Kong and considers the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as a comparable standard for the purpose of section 95D(10) of the Ordinance.

default members of its supervised group according to such bases.

- A.S/2.8 The default members of a supervised group may change over time after designation. For instance, a newly formed or acquired subsidiary of a designated insurance holding company will automatically become a default member of the supervised group. If a member of the supervised group is sold to a third party (i.e. a legal entity which is not a member of the supervised group) it will automatically cease to be a default member. Where such change occurs, this requires notification to the IA by the designated insurance holding company as per Module G – Corporate Governance for Supervised Groups.
- A.S/2.9 The IA will monitor the default members of the supervised group regularly.

*Entities to be included or excluded by IA as members of supervised group*

- A.S/2.10 Whilst default members of a supervised group are determined in accordance with section 95D(1) of the Ordinance, the IA may also at any time after the designation of the designated insurance holding company, include other entities in the supervised group or exclude members from the supervised group, if it considers necessary for the purposes of effective group supervision of the supervised group, pursuant to sections 95D(3) and (4) of the Ordinance. For this purpose, the IA will keep the membership of the supervised group under review following designation and periodically make adjustments to the members if it considers it necessary to do so.

*Considerations for inclusion*

- A.S/2.11 Under section 95D(3) of the Ordinance, the IA may include an entity as a member of the supervised group if the IA considers such entity is closely linked to a default member of the supervised group through any financial, contractual or operational relationship.
- A.S/2.12 When determining whether an entity is closely linked to a default member, the IA will look to assess the degree to which the relationship between the default member and entity is such that

one can, in substance, govern the financial and operating policies of the other so as to obtain benefits from the other's activities. In making such determination, the IA will take a substance over form approach and may consider, without limitation, the following matters:

- (a) whether the default member and entity have any common director;
- (b) whether the default member and entity both have any membership rights in a mutual or similar entity;
- (c) whether the default member and entity are involved in the policy-making process of each other;
- (d) the nature of any contractual arrangements between the default member and entity;
- (e) whether the financial operations of the entity may have a material impact on the operation of the supervised group; and
- (f) any relevant comments from other involved supervisors of members of the supervised group, as appropriate.

#### *Considerations for exclusion*

A.S/2.13 Under section 95D(4) of the Ordinance, the IA may exclude a member from the supervised group if:

- (a) the IA considers a default member should not be treated as a supervised group member; or
- (b) the IA considers that the entity (that previously has been included as a supervised group member under section 95D(3) of the Ordinance) is no longer closely linked to a default member.

A.S/2.14 When determining whether a default member should be excluded from the supervised group member, the IA:

- (a) will not exclude an entity, if it is an entity that carries on insurance business;

- (b) may exclude an entity if the IA considers that its continued inclusion in the supervised group would not achieve effective group supervision of the supervised group; and
- (c) may consult with the involved supervisor(s) of the entity.

*Arrangement to be maintained when the designated insurance holding company has a holding company*

- A.S/2.15 Pursuant to section 95H(1) of the Ordinance, a designated insurance holding company which has a holding company must maintain with its holding company any arrangements specified by the IA in a written notice.
- A.S/2.16 The purpose of these arrangements is to ensure that the designated insurance holding company is able, through procuring its holding company to take any necessary steps, to comply with Part XIA of the Ordinance and any notice, requirement or condition given or imposed thereunder (see section 95H(2) of the Ordinance).
- A.S/2.17 Examples of the type of arrangements that may be specified by the IA pursuant to section 95H(2) of the Ordinance include:
- (a) there must be one or more common member(s) on the respective boards of directors of the designated insurance holding company and its holding company;
  - (b) there must be one or more common member(s) on the respective board committees of the designated insurance holding company and its holding company;
  - (c) the chief executive of the designated insurance holding company must have responsibility, alone or jointly with others, for the management and conduct of its holding company;
  - (d) the key persons in control functions responsible for the designated insurance holding company must hold equivalent positions of its holding company; and
  - (e) contractual arrangements between the designated insurance holding company and its holding company, obliging the holding company, at the request of the

designated insurance holding company, to take such steps as the designated insurance holding company considers necessary to enable the designated insurance holding company to comply with Part XIA of the Ordinance and any notice, requirement or condition given or imposed thereunder.

- A.S/2.18 Before specifying an arrangement, the IA must give the designated insurance holding company an opportunity to make written or oral representations. If representations are made, the IA must take them into account before specifying the arrangements. A written notice will be given to the designated insurance holding company if the IA decides to specify such arrangements, including a statement of the reasons for specifying the arrangements.
- A.S/2.19 The IA may also, subject to the requirements in section 95H of the Ordinance, subsequently amend or revoke any specified arrangement.

#### Group capital requirements and transitional arrangements

- A.S/2.20 A designated insurance holding company is required to comply with group capital requirements as stated in 95ZI of the Ordinance, the Group Capital Rules and Module C – Group Capital Adequacy.
- A.S/2.21 Please also refer to the Group Capital Rules and Module C – Group Capital Adequacy for transitional arrangements in relation to the financial instruments that were issued by the designated insurance holding company or a member of its supervised group before the date of designation and which do not qualify for inclusion in the eligible group capital resources of the supervised group in accordance with Rule 6 of the Group Capital Rules.

#### Payment of prescribed fees

- A.S/2.22 A designated insurance holding company must pay a fee within 60 days after designation and subsequently annually by every 31 May during the period in which it remains designated. The fee aims to cover the costs of the IA in providing group supervision.

- A.S/2.23 The details of the fees are prescribed under the Insurance (Designation and Annual Fees for Designated Insurance Holding Companies) Regulation (Cap. 41N).
- A.S/2.24 The IA will issue a notice pursuant to section 95F(2) of the Ordinance requiring a designated insurance holding company to submit a written return before each payment date to ascertain the amount of the fee payable by the designated insurance holding company.

*Shareholder controllers, chief executives, directors and key persons in control functions*

*Reporting upon designation*

- A.S/2.25 Pursuant to section 95X of the Ordinance, a designated insurance holding company must, within 3 months after the date of designation, deposit with the IA a written return in the specified form for informing the IA of the particulars of every person who is a shareholder controller, chief executive, director or key person in control functions of the designated insurance holding company as at the beginning of the date of designation.

*Pre-existing position*

- A.S/2.26 Pursuant to section 95L of the Ordinance, a pre-existing shareholder controller is a person that is already a shareholder controller of a designated insurance holding company as at the beginning of the date of designation. A pre-existing shareholder controller is taken to be approved under section 95M of the Ordinance on the date of designation to be a shareholder controller of the designated insurance holding company (deemed approval), unless the IA has previously served a notice of objection under section 13B or 14 of the Ordinance objecting to the pre-existing shareholder controller being a controller of an authorized insurer. A pre-existing shareholder controller, which is not deemed to be approved as a shareholder controller of the designated insurance holding company under section 95L of the Ordinance, must apply for an approval by the IA within 14 days after becoming aware of the designation of the designated insurance holding company.

A.S/2.27 Similarly, pursuant to section 95T of the Ordinance, the pre-existing appointment of a chief executive, director or key person in control functions of a designated insurance holding company as at the beginning of the date of designation, is taken to be approved under section 95U of the Ordinance on the date of designation (deemed approval) unless the IA has previously rejected an application for approval to be appointed or revoked its approval to the appointment of the person serving in the equivalent position of an authorized insurer. The IA may serve on the designated insurance holding company a written notice requiring the designated insurance holding company to terminate the appointment of the person, whose pre-existing appointment was not deemed to be approved, by a specified date. The designated insurance holding company must comply with such notice.

### **A.S/3 Procedures**

#### **Procedures for designation of an insurance holding company**

A.S/3.1 Pursuant to section 95C(3) of the Ordinance, before deciding to designate an insurance holding company, the IA must serve on that insurance holding company a preliminary written notice stating that the IA is considering designating the company and the reasons why the IA is considering doing so. The company may, within the period specified in the notice, make written or oral representations to the IA.

A.S/3.2 If representations are made, the IA must take them into account before making the designation.

A.S/3.3 If the IA decides to designate an insurance holding company, the IA must inform the company of the decision and will arrange a notice to be published in the Gazette. The designation will take effect on the date specified in the Gazette notice.

#### **Procedures for inclusion or exclusion of supervised group members**

A.S/3.4 Pursuant to section 95D(6) of the Ordinance, before deciding to include or exclude an entity after designation, the IA must serve on the designated insurance holding company a preliminary

written notice stating that the IA is considering including or excluding an entity and the reasons why the IA is considering doing so. The designated insurance holding company may, within the period specified in the notice, make written or oral representations to the IA.

- A.S/3.5 If representations are made, the IA must take them into account before making the inclusion or exclusion.
- A.S/3.6 If the IA decides to include or exclude an entity, the IA must inform the designated insurance holding company of the decision by written notice.
- A.S/3.7 The decision to include an entity as a member of a supervised group under section 95D(3) of the Ordinance is a “specified decision” under section 96 of the Ordinance and may be subject to a review by the Insurance Appeals Tribunal (“IAT”) pursuant to Part XII of the Ordinance.

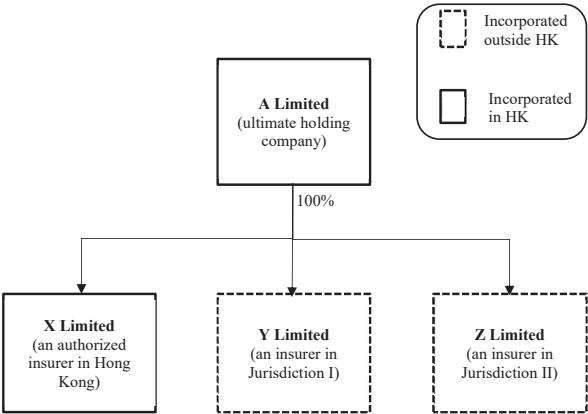
#### **A.S/4 Withdrawal of designation**

- A.S/4.1 Pursuant to section 95E of the Ordinance, the IA may withdraw the designation of a designated insurance holding company if the IA considers it is no longer appropriate for the company to be designated.
- A.S/4.2 The IA must withdraw the designation of a designated insurance holding company when the IA is no longer appointed as the group supervisor of the insurance group to which the designated insurance holding company belongs, in accordance with IAIS principles.
- A.S/4.3 The IA must publish a notice in the Gazette and inform the designated insurance holding company of the withdrawal of designation by a written notice. The withdrawal takes effect on the date specified in that notice.

**A.A-A      Annex A - Examples of Designation**

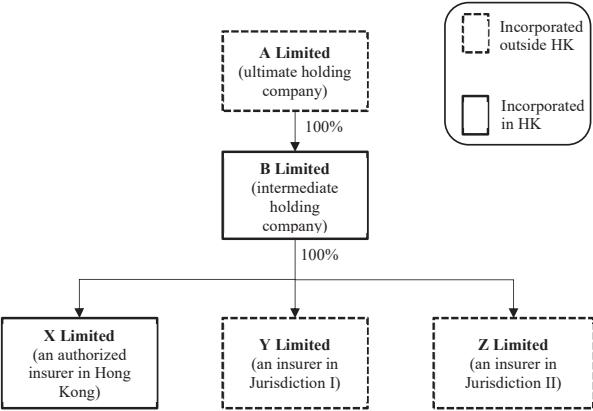
**A.A-A/1      Example 1 - An insurance group with an ultimate holding company incorporated in Hong Kong**

- (a) The ultimate holding company (i.e. A Limited) of the insurance group is a company incorporated in Hong Kong which has control over all insurance entities (including an authorized insurer, X Limited) in the insurance group. The IA would normally designate A Limited in this type of situation.



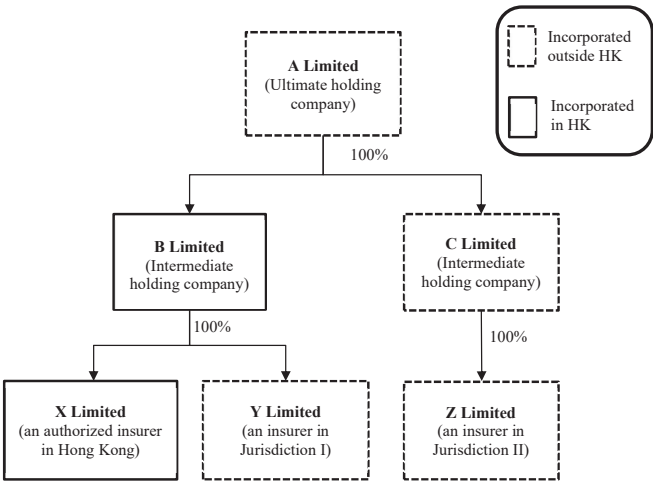
**A.A-A/2      Example 2 - An insurance group with an ultimate holding company incorporated outside Hong Kong**

- (a) The ultimate holding company (i.e. A Limited) is a company incorporated outside Hong Kong. This non-Hong Kong incorporated company cannot be designated. Instead, the intermediate holding company (i.e. B Limited) is incorporated in Hong Kong, so the IA can designate this company. B Limited has control over all insurance entities (including an authorized insurer, X Limited) in the insurance group. In this situation, the IA would designate B Limited. Also, the IA would likely require B Limited to maintain with its holding company, A Limited, certain arrangements specified by the IA (see A.S/2.15 to A.S/2.19).



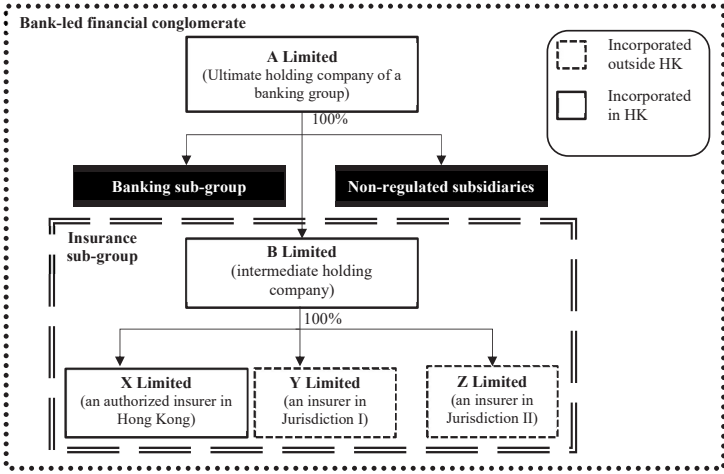
**A.A-A/3      Example 3 – An insurance group with two intermediate holding companies, one incorporated in Hong Kong and the other incorporated outside Hong Kong**

- (a) Only B Limited can be designated under section 95C of the Ordinance because both A Limited and C Limited are incorporated outside Hong Kong. X Limited and Y Limited will be default members of the supervised group by virtue of section 95D(1)(a) or (b) of the Ordinance. Z Limited is not a subsidiary of B Limited. However, under section 95D(1)(c) of the Ordinance, the IA can treat A Limited (ultimate holding company) as the “reference company” as defined under section 95D(10) of the Ordinance, and use the accounting standards applicable to the preparation of the specified financial statements (as defined in section 95D(10) of the Ordinance) for the purpose of identifying the members within the supervised group. The consolidated financial statements of A Limited would usually include, inter alia, A Limited, C Limited and Z Limited as group members, hence these entities would be default members of the supervised group by virtue of section 95D(1)(c) of the Ordinance.



**A.A-A/4      Example 4 – An insurance group within a bank-led financial conglomerate**

- (a) This example concerns a bank-led financial conglomerate within which there is an insurance sub-group. Usually, the IA will not designate an insurance holding company within a banking group. However, as in this example, the IA may consider that it is necessary to designate an insurance holding company of the insurance sub-group which is within a bank-led financial conglomerate after consultation with the relevant financial regulators. Although in theory the IA can designate the ultimate holding company, being A Limited (which is also an insurance holding company incorporated in Hong Kong), doing so may unintentionally capture the banking sub-group and the non-regulated subsidiaries outside the insurance sub-group. Hence, it is unlikely the IA would designate A Limited. The IA may, however, designate the intermediate holding company, B Limited as the designated insurance holding company. As a result, B Limited would be subject to group supervision by the IA in relation to all insurance entities within the insurance sub-group. To avoid any duplication in supervision of the financial conglomerate with other regulators in this example, the IA would likely exclude A Limited, banking sub-group subsidiaries and non-regulated subsidiaries outside the insurance sub-group from being the members of supervised group. This would be achieved either by naming B Limited as the reference company under section 95D(10) of the Ordinance or by expressly excluding those entities using the power in section 95D(4) of the Ordinance.



**A.A-B      Annex B**

**A.A-B/1      List of information and documents that the IA would seek to be provided with, to take into account when considering whether or not to designate an insurance holding company**

- (a) Group shareholding chart.
- (b) Particulars of each group entity (e.g. place of incorporation, principal business (whether it is an insurer), geographic presence, percentage of shareholding by the group, identity and contact points of regulatory authority if the entity is a regulated entity).
- (c) Summary of the group's particulars including objectives, strategies, geographic presence (number and places), head and regional offices, principal business activities and segmental business information breakdown by business nature and jurisdictions.
- (d) Particulars of pre-existing shareholder controllers, chief executive, directors and key persons in control functions (if applicable) of the insurance holding company that the IA is considering to designate.
- (e) Annual reports and audited consolidated financial statements of the group for latest 3 years.
- (f) 3-years business plan of the group, including any plan for merger and acquisition, initial public offering, disposal of material group entities and other significant transactions.
- (g) Report on Own Risk and Solvency Assessment (ORSA) of the group or the principal subsidiaries, if available, for latest 3 years.
- (h) The group capital requirements, position and relevant information under the Group Capital Rules.
- (i) Details of any significant financial arrangements (e.g. financial guarantee, outsourcing) within the group or with related parties.
- (j) Details of any major acquisition made by the group pending completion.

- (k) Name, address and qualification of the auditors of the group.
- (l) Estimated designation fee payable if the insurance holding company is designated.
- (m) Any other information and documents that the IA considers necessary to facilitate consideration whether to designate the insurance holding company.

**MODULE B**

**MODULE B**

**“FIT AND PROPER” CRITERIA IN RELATION  
TO DESIGNATED INSURANCE HOLDING  
COMPANIES**

## **B.P Principles**

- B.P/1 The shareholder controllers, chief executives, directors and key persons in control functions (“specified positions”) of a designated insurance holding company should be and remain fit and proper persons.
- B.P/2 In deciding whether to approve a person to hold a specified position under section 95M or 95U of the Ordinance or to object to a person holding a specified position under section 95N or 95V of the Ordinance, the IA will have regard to the fitness and propriety of the person.

## **B.S Standards**

### **B.S/1 Factors for determining “Fit and Proper” persons**

- B.S/1.1 Under sections 95I, 95K and 95L of the Ordinance, a person must not become or continue to be a majority shareholder controller or a minority shareholder controller (defined in section 95A(1) of the Ordinance) of a designated insurance holding company unless approved under section 95M of the Ordinance. Where a minority shareholder controller of a designated insurance holding company intends to become a majority shareholder controller of the same designated insurance holding company, the person must obtain the IA’s prior approval under section 95M. When a majority shareholder controller of a designated insurance holding company becomes a minority shareholder controller of the same designated insurance holding company, the person is required under section 95OA to notify the IA of the change within 14 days after the change takes place. A person who complies with section 95OA(1) or 95OA(2) is taken to be approved to be a minority shareholder controller of the company under section 95M.
- B.S/1.2 Also, the IA may, under section 95N of the Ordinance, object to a person being a majority shareholder controller or minority shareholder controller of a designated insurance holding company if it appears to the IA that the person is not, or is no longer a fit and proper person to be a majority shareholder controller or a minority shareholder controller.
- B.S/1.3 Under section 95S of the Ordinance, a designated insurance

holding company is required to obtain the IA's approval under section 95U of the Ordinance for the appointments of its chief executive(s), director(s) and key person(s) in control functions (each as defined in section 95A(1) of the Ordinance). The IA may under section 95V of the Ordinance, object to the continued appointment of any chief executive, director or key person in control functions of a designated insurance holding company if it appears to the IA that the person in question is not, or is no longer, a fit and proper person to be so appointed.

B.S/1.4 Pursuant to section 95Y of the Ordinance, the IA must have regard to the following matters in determining whether a person is a fit and proper person for the purposes of sections 95M, 95N, 95U and 95V of the Ordinance:

- (a) the education or other qualifications or experience of the person;
- (b) the person's ability to act competently, honestly and fairly;
- (c) the reputation, character, reliability and integrity of the person;
- (d) the person's financial status or solvency;
- (e) whether any disciplinary action has been taken against the person by:
  - (i) the Monetary Authority;
  - (ii) the Securities and Futures Commission;
  - (iii) the Mandatory Provident Fund Schemes Authority;  
or
  - (iv) any other authority or regulatory organization, whether in Hong Kong or elsewhere, which, in the IA's opinion, performs a function similar to those of the IA;
- (f) if the person is a body corporate in a group of companies, any information in the possession of the IA, whether provided by the person or not, relating to:
  - (i) any other body corporate in the group of companies;  
or

- (ii) any substantial shareholder or officer of the person or of any body corporate referred to in subparagraph (i);
- (g) the state of affairs of insurance business and any other business which the person carries on or proposes to carry on;
- (h) if the person is a body corporate — its internal control and corporate governance; and
- (i) any other matter that the IA considers relevant in making the determination.

**B.S/1.5** Without limiting the generality of the statements referred to in B.S/1.4 above, B.S/2 to B.S/4 below provide further guidance (not intended to be exhaustive) on the events and matters that are likely to give rise to concerns about the fitness and propriety of a person to be or who has become a shareholder controller; or a person to be appointed or who has been appointed as a chief executive, director or key person in control functions of a designated insurance holding company. However, failure to comply with an individual element will not necessarily result in the IA not being satisfied that a person is fit and proper. The IA will look into the substance of the requirements and materiality of any failure to meet them.

## **B.S/2 Criteria for individual person**

**B.S/2.1** The shareholder controller, chief executive, director and key person in control functions are holders of important positions in a designated insurance holding company which is able to control or influence the business and affairs of the supervised group. They should possess competence and integrity. Competence is demonstrated generally through the level of an individual's professional and/or formal qualification and knowledge, skills and pertinent experience within the insurance and financial industries or other related businesses, having regard to the person's previous and prospective roles. Competence also includes having the appropriate level of commitment to perform the role. Integrity is demonstrated generally through character, personal behaviour and business conduct.

### Competence requirements

- B.S/2.2 The competence requirements for shareholder controllers, chief executives, directors and key persons in control functions may vary depending on the degree of their influence and their respective job duties and roles in the designated insurance holding company's affairs. The shareholder controllers, chief executives, directors and key persons in control functions of a designated insurance holding company should have the necessary competence to fulfil their roles, taking into account the complexity of its supervised group, the number and diversity of the jurisdictions in which the members of the supervised group operate, and the risks to which the supervised group is exposed. Appropriate competencies may include, for example, knowledge of or experience with international business and different business models.
- B.S/2.3 In considering the competence and capability of an individual in being a shareholder controller, director or key person in control functions, the IA will also take into account whether the individual concerned has, in Hong Kong or elsewhere, failed to uphold any professional and ethical standards, of a professional body to which he belongs or belonged. Depending on the nature and seriousness of the non-compliance of the standards and the passage of time since the non-compliance issue, the IA would consider whether it affects the fitness and propriety of the individual concerned.

### Shareholder controllers

- B.S/2.4 Shareholder controllers can exert significant influence on the business strategy and conduct of business of the supervised group of a designated insurance holding company. Therefore, the IA will consider the likely or actual level of influence and control over the designated insurance holding company by a person holding his capacity as a shareholder controller. Generally, the greater the influence on the designated insurance holding company by the shareholder controller, the higher the level of standard will be applied by the IA in assessing his fitness and propriety.

- B.S/2.5 Without limiting the generality of the statutory requirements under section 95Y of the Ordinance, the IA expects a shareholder controller to have the knowledge and experience, competence, soundness of judgement and diligence required for holding a designated insurance holding company. A shareholder controller should also possess integrity and demonstrate commitment to the development of a designated insurance holding company in which he has control as well as the supervised group to which the designated insurance holding company belongs.
- B.S/2.6 A prospective majority shareholder controller or (if appropriate) a prospective minority shareholder controller should submit clear and detailed strategic objectives and business plans of the supervised group of a designated insurance holding company concerned and demonstrate that such objectives and plans are realistic, viable, and conducive to the long-term stability and healthy and sustainable development of the supervised group. In particular, the IA expects the majority shareholder controller to demonstrate its long-term commitment to the supervised group of a designated insurance holding company and that it has the willingness and financial capacity to maintain the financial soundness of the supervised group of a designated insurance holding company including to contribute additional capital to support the operations of the supervised group (including any member which carries on insurance business), as and when required.

#### Chief executives

- B.S/2.7 In general, the IA expects that a chief executive of a designated insurance holding company possesses the relevant qualifications and/or experience which would enable him to discharge his functions properly (i.e. whether he is professionally competent). For example, he may be considered as professionally competent:
- (a) if he possesses professional qualifications in insurance, accounting, actuarial science, finance, risk management or law, and has more than 5 years' experience in an insurer, a holding company of an insurer or relevant institution occupying a management position; or

- (b) if he does not possess the relevant qualification as set out in (a) above, he has more than 8 years' experience in an insurer, a holding company of an insurer or relevant institution occupying a management position.

### Directors

B.S/2.8 The Board of Directors ("Board") plays an important role in the corporate governance of the designated insurance holding company (and the supervised group to which it belongs). In assessing the competence of individual directors, the IA would give due regard to the respective duties allocated to each individual director to ensure an appropriate diversity of expertise and the effective functioning of the Board as a whole. The IA would give due considerations if a director has sufficient skills, knowledge, experience and soundness of judgment to properly undertake and discharge his roles and responsibilities.

### Key persons in control functions

B.S/2.9 The IA expects that a key person in control functions possesses the relevant qualification and/or experience which would enable him to discharge his functions properly. To demonstrate competency in his appointment, he should have more than 5 years' relevant experience in risk management, financial control, compliance, internal audit, actuarial work, or relevant discipline (as the case may be).

### Assessment of reputation, character, reliability, honesty, integrity and ability to act fairly

B.S/2.10 In the case of an individual, the following factors are relevant to the assessment of reputation, character, reliability, honesty, integrity and ability to act fairly in respect of a shareholder controller, chief executive, director or key person in control functions, namely, whether the individual concerned:

- (a) has been found by a court or other competent authority in Hong Kong or elsewhere for fraud, dishonesty or misfeasance;

- (b) has been disqualified by a court of competent jurisdiction from being a director of a body corporate;
- (c) has been convicted of a criminal offence by any court, including a military tribunal or is the subject of unresolved criminal charges, in Hong Kong or elsewhere;
- (d) has contravened or abetted another person in breach of any laws, regulations, or codes of conduct in Hong Kong or elsewhere in relation to business previously or being carried on;
- (e) has been refused or restricted from the right to carry on any trade, business or profession by any regulatory authority in Hong Kong or elsewhere;
- (f) has been censured, disciplined or publicly criticized by any regulatory authority in Hong Kong or elsewhere;
- (g) has been the subject of an investigation or disciplinary proceedings by any regulatory authority or law enforcement agency in Hong Kong or elsewhere;
- (h) has been the subject of a substantiated complaint made reasonably and in good faith, relating to activities that are regulated by any regulatory authority in Hong Kong or elsewhere;
- (i) has been untruthful to, has provided false or misleading information to, or has been subject to adverse comment from, any regulatory authority in Hong Kong or elsewhere;
- (j) has, in Hong Kong or elsewhere, been censured, disciplined, publicly criticized or been the subject of an investigation or disciplinary proceedings by a professional body to which he belongs or belonged, or has been refused entry to any profession or occupation;
- (k) has been dismissed or requested to resign from any office, employment or a fiduciary appointment or similar position whether in Hong Kong or elsewhere for misconduct, negligence, incompetence or mismanagement;
- (l) was a controller (with the same meaning as section 9 of the Ordinance), shareholder controller, chief executive,

director, key person in control functions (with the same meaning as section 13AE or 95A(1) of the Ordinance as the case may be) or an actuary (including an appointed actuary or a certifying actuary appointed under section 15AAA of the Ordinance) of a body corporate or insurer, in Hong Kong or elsewhere, which has been compulsorily wound up or made any compromise or arrangement with its creditors or ceased trading in circumstances where its creditors did not receive or have not yet received full settlement of their claims, either whilst the individual concerned held any of the above positions or within one year after the individual ceased to hold such position;

- (m) has, in connection with the formation or management of a body corporate or an insurer, been adjudged by a court or other competent authority in Hong Kong or elsewhere civilly liable for any fraud, misfeasance or other misconduct by the individual concerned towards such a body or an insurer or towards any members thereof;
- (n) has entered into a voluntary arrangement with creditors or been adjudicated bankrupt by a court, or is currently subject to bankruptcy proceedings, in Hong Kong or elsewhere;
- (o) has failed to satisfy any judgment debt under an order of a court in Hong Kong or elsewhere; or
- (p) was or has been, in connection with the management of a body corporate or an insurer in Hong Kong or elsewhere, a controller (with the same meaning as section 9 of the Ordinance), shareholder controller, chief executive, director, key person in control functions (with the same meaning as section 13AE or 95A(1) of the Ordinance as the case may be) or an actuary (including an appointed actuary or a certifying actuary appointed under section 15AAA of the Ordinance) of the body corporate or insurer, which,
  - (i) with the consent or connivance of, or because of the neglect or omission by the individual concerned, failed to comply with any legal or regulatory requirements or any regulatory instruments made thereunder;

- (ii) was or has been convicted of a criminal offence by any court, or is the subject of unresolved criminal charges, in Hong Kong or elsewhere; or
- (iii) was or has been adjudicated by any court or other competent authority civilly liable for any fraud, misfeasance or misconduct, in Hong Kong or elsewhere.

B.S/2.11 In respect of the events listed in B.S/2.10 above, the IA, in considering whether the individual is fit and proper, will have regard to, inter alia, the relevance of the event, the passage of time since the event, the nature and seriousness of the event, and the degree of his involvement in the event. If necessary, the IA may require further information regarding the event from the individual, the designated insurance holding company or the relevant party concerned.

B.S/2.12 To ensure compliance with this Module, a designated insurance holding company should maintain high internal standards of ethics and integrity, promote sound corporate governance and require the aforesaid position holders to have pertinent experience and maintain a sufficient degree of knowledge and decision-making ability.

### **B.S/3 Independence and conflicts of interests**

B.S/3.1 For the prudent and effective management of the supervised group of a designated insurance holding company, it should ensure there are sufficient safeguards in place to prevent undue influence over its chief executives, directors and key persons in control functions with respect to the performance of their duties and responsibilities. The designated insurance holding company should assess any potential conflicts of interests which may arise from the proposed appointment of the chief executives, directors and key persons in control functions. Where potential conflicts of interests are identified, the proposed appointment should be managed within the company's conflicts of interest policy, or equivalent.

B.S/3.2 In any case, the IA considers that:

- (a) the Chairman of the Board of a designated insurance holding company should not be the Chief Executive of any member of its supervised group (including the designated insurance holding company itself); and
- (b) the Chairman of the Board or the Chief Executive of a designated insurance holding company should not be an “appointed actuary” or a “certifying actuary” of any member of its supervised group (including the designated insurance holding company itself). In this context, “appointed actuary” or “certifying actuary” means any person who is appointed as an actuary pursuant to the laws of the relevant jurisdiction applicable to a member of the supervised group of the designated insurance holding company<sup>5</sup>.

B.S/3.3 If the same person assumes more than one role in relation to the designated insurance holding company and/or a company within the supervised group of a designated insurance holding company (regardless of whether the other role(s) is a controller, director, or key person in control function or actuary of a supervised group member which carries on insurance business), there should not be conflicts of interest between these positions which may otherwise impair his ability to discharge his duties in relation to any activity regulated by the IA.

#### **B.S/4 Criteria for body corporate**

- B.S/4.1 In the case of a body corporate, the following factors are relevant to the assessment of fitness and propriety of the body corporate, namely, whether it:
- (a) has financial integrity, e.g. whether the accounts of the body corporate display a financially sound and stable position;
  - (b) is subject to receivership, administration, liquidation or other similar proceedings;

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<sup>5</sup> In Hong Kong, “appointed actuary” means an actuary appointed under section 15AAA(1)(a) or (b) of the Ordinance. “Certifying actuary” means an actuary appointed under section 15AAA(1)(c) or (d) of the Ordinance.

- (c) has entered into a scheme of arrangement with its creditors or failed to satisfy any judgment debt under an order of a court in Hong Kong or elsewhere;
- (d) has been refused or restricted from the right to carry on any trade, business or profession by any regulatory authority in Hong Kong or elsewhere;
- (e) has been censured, disciplined or publicly criticized by any regulatory authority in Hong Kong or elsewhere;
- (f) has been the subject of an investigation or disciplinary proceedings by any regulatory authority or law enforcement agency in Hong Kong or elsewhere;
- (g) was a controller (with the same meaning as section 9 of the Ordinance), shareholder controller or director of a body corporate or an insurer, in Hong Kong or elsewhere, which has been compulsorily wound up or made any compromise or arrangement with its creditors or ceased trading in circumstances where its creditors did not receive or have not yet received full settlement of their claims, either whilst the body corporate concerned was a controller, shareholder controller or director or within one year after the body corporate concerned ceased to be such a controller, shareholder controller or director;
- (h) was or has been, in connection with the management of a body corporate or an insurer in Hong Kong or elsewhere, a controller (with the same meaning as section 9 of the Ordinance), shareholder controller or director of a body corporate or insurer, which
  - (i) with the consent or connivance of, or because of the neglect or omission by, the body corporate concerned, failed to comply with any legal or regulatory requirements, or any regulatory instruments made thereunder;
  - (ii) was or has been convicted of a criminal offence by any court, or is the subject of unresolved criminal charges, in Hong Kong or elsewhere; or
  - (iii) was or has been adjudicated by any court or other competent authority civilly liable for any fraud,

misfeasance or misconduct, in Hong Kong or elsewhere;

- (i) has a controller (with the same meaning as section 9 of the Ordinance), shareholder controller, chief executive, director or key person in control functions (if applicable) who fails to meet the requirements set out above for individuals (other than those relating to qualifications and experience), or the requirements set out herein for body corporate, as applicable;
- (j) has been untruthful to, has provided false or misleading information to, or has been subject to adverse comment from, any regulatory authority in Hong Kong or elsewhere;
- (k) has in place sound corporate governance structure, for example, the composition of the Board and board committees including the proportion of directors being independent non-executive directors;
- (l) has in place adequate internal control systems and procedures that would reasonably ensure that the persons that it appoints to act on its behalf, in relation to its conduct of the activity regulated under the relevant legal or regulatory requirements, meet the fit and proper criteria relevant to the regulated activity;
- (m) maintains effective systems of risk management and internal controls and that risks are properly monitored and managed at the entity level or at group-wide basis; or
- (n) has established adequate internal controls on financial reporting that is effective to provide reasonable assurance regarding the reliability of financial statements or regulatory submissions (where relevant) in accordance with relevant principles.

B.S/4.2 Where a body corporate intends to become or has become a shareholder controller of a designated insurance holding company, the IA will, in addition to the matters referred to in B.S/4.1 above, take into account matters referred to in paragraphs B.S/2.4 to B.S/2.6 which are also applicable to the body

corporate.

- B.S/4.3 With regard to a prospective majority shareholder controller, in considering its internal controls and corporate governance, the IA will take into account whether the body corporate is subject to any prudential supervision by any regulatory authority in Hong Kong or elsewhere.
- B.S/4.4 In respect of any event listed in B.S/4.1 above, the IA, in considering whether the body corporate is fit and proper, will have regard to, inter alia, the relevance of the event, the passage of time since the event, the nature and seriousness of the event, the degree of involvement of the body corporate in the event and any information in the possession of the IA (whether provided by the body corporate or not) relating to any other company within the group of companies of the body corporate, as well as any information relating to the substantial shareholder and officer of the body corporate or such other company referred to above. If necessary, the IA may require further information regarding the event from the body corporate, the designated insurance holding company or the relevant party concerned.

**MODULE C**

**MODULE C**  
**GROUP CAPITAL ADEQUACY**

## **C.P            PRINCIPLES**

- C.P/1            A designated insurance holding company should ensure adequate capital is maintained at all times within its supervised group and is available to absorb significant unforeseen losses across its supervised group.

## **C.S            STANDARDS**

### **C.S/1            Group capital adequacy**

#### ***Rule 3 – Group capital adequacy requirements***

- C.S/1.1            If the IA is of the opinion that a designated insurance holding company has failed to comply with the capital requirements in Rule 3 of the Group Capital Rules, the IA may, pursuant to section 95ZI(4) of the Ordinance, by a written notice served on the designated insurance holding company, require the designated insurance holding company to do any of the following acts within the period specified in the notice –
- (a)    submit to the IA the designated insurance holding company's plan for –
    - (i)    restoring the supervised group of the designated insurance holding company to a sound financial position; and
    - (ii)   bringing the group back into a position as soon as reasonably practicable where the group capital requirements for the group are complied with;
  - (b)    if the IA considers a plan submitted inadequate, propose modifications to the plan to the satisfaction of the IA; and
  - (c)    give effect to the plan accepted by the IA.
- C.S/1.2            In considering whether the designated insurance holding company's plan is adequate, the IA will expect the plan to contain sufficient practicable measures to bring the group back into a position where the group capital requirements for its supervised group are complied with within 6 months. The IA may in exceptional circumstances allow a longer period of 9 months, provided it considers such longer period is necessary to ensure the interests of policy holders of the

supervised group are safeguarded or does not jeopardize the interests of policy holders of the supervised group.

- C.S/1.3 The designated insurance holding company's plan should, at a minimum –
- (a) identify the conditions that led to the failure to comply with the group capital requirements;
  - (b) contain proposals for bringing the supervised group back into a position where the group capital requirements for the group are complied with within 6 months, or 9 months where allowed by the IA;
  - (c) provide projections for the supervised group's financial results for the year in which the plan is submitted and at least 3 succeeding years; and
  - (d) identify the key assumptions impacting the supervised group's projections and the sensitivity of the projections to the assumptions.
- C.S/1.4 The IA will, depending on the circumstances, specify a period in the notice for the submission of the designated insurance holding company's plan of no more than 2 months.
- C.S/1.5 The designated insurance holding company should submit a progress report to the IA every 3 months on the implementation and progress of its plan, until such time as the IA is satisfied that its supervised group has been restored to a sound financial position.

*Rule 4 – Calculation of group minimum capital requirement*

- C.S/1.6 Pursuant to Rule 3(a) of the Group Capital Rules, a designated insurance holding company is required, in relation to its supervised group, to ensure that at all times the tier 1 group capital of its supervised group is not less than the group minimum capital requirement ("GMCR"). Rule 4 of the Group Capital Rules sets out the calculation method of the GMCR which, in broad terms, is the summation of the minimum capital requirements applicable to each supervised group member in the supervised group. The IA may from time to time publish examples of the calculation of the GMCR to

demonstrate how the Group Capital Rules apply to differing supervised group structures.

C.S/1.7 Rule 4(2) of the Group Capital Rules defines the minimum capital requirement applicable to a supervised group member in a supervised group. For a supervised group member which is a regulated entity, its minimum capital requirement is the minimum eligible capital resources that the supervised group member is required to maintain in accordance with the laws relating to regulatory capital in the jurisdiction in which the supervised group member is authorized as a regulated entity and which, if contravened, may result in (among others) “the severest penalty that can be imposed” or “the most extreme intervention measures that can be taken under the laws relating to regulatory capital in the jurisdiction in which the supervised group member is authorized”. In this regard the reference to “severest penalty”, or “most extreme intervention measures” would include, without limitation, -

- (a) stopping the activities which the supervised group member carried on as a regulated entity,
- (b) requiring the supervised group member to stop underwriting new business and to run-off its portfolio,
- (c) requiring the supervised group member to transfer its portfolio to another regulated entity, or ring-fencing the supervised group member’s assets and stopping it from underwriting new business pending the transfer of its portfolio to another regulated entity, or
- (d) entitling the involved supervisor of the supervised group member to petition the court to wind-up the supervised group member (or take such equivalent action under the laws of the relevant jurisdiction).

C.S/1.8 The IA may consult the involved supervisor of a supervised group member in the jurisdiction in which the supervised group member is authorized as a regulated entity in order to assist the designated insurance holding company of the supervised group member to identify the minimum capital requirement applicable to the supervised group member for the purposes of Rule 4 of the Group Capital Rules.

C.S/1.9 Pursuant to section 95ZI(2) of the Ordinance, the IA may vary the GMCR applicable to a designated insurance holding company in

relation to its supervised group, if the IA is satisfied on reasonable grounds, that it is prudent to make the variation so that the GMCR is commensurate with the risks associated with the supervised group. The type of criteria and considerations to which the IA will have regard in determining whether or not to vary the GMCR and the amount of such variation are set out in C.A-A of this Module. The IA will conduct its decision-making process with regards to making such determination in a way which is fair and, without limitation to that, will generally follow the procedure described in C.A-B of this Module. A variation made by the IA pursuant to section 95ZI(2) of the Ordinance to the GMCR for a designated insurance holding company in relation to its supervised group does not operate to alter the capital requirements applicable to any of the individual supervised group members other than the designated insurance holding company in relation to its supervised group.

*Rule 5 – Calculation of group prescribed capital requirement*

- C.S/1.10 Pursuant to Rule 3(b) of the Group Capital Rules, a designated insurance holding company is required, in relation to its supervised group, to ensure that at all times the sum of tier 1 and tier 2 group capital of its supervised group is not less than the group prescribed capital requirement of the supervised group (“GPCR”). Rule 5 of the Group Capital Rules sets out the calculation method of the GPCR which, in broad terms, is the summation of the prescribed capital requirements applicable to each supervised group member in the supervised group. The IA may from time to time publish examples of the calculation of the GPCR to demonstrate how the Group Capital Rules apply to differing supervised group structures.
- C.S/1.11 The IA may consult the involved supervisor of a supervised group member in the jurisdiction in which the supervised group member is authorized as a regulated entity in order to assist the designated insurance holding company of the supervised group member to identify the prescribed capital requirement applicable to the supervised group member for the purposes of Rule 5 of the Group Capital Rules.
- C.S/1.12 Pursuant to section 95ZI(2) of the Ordinance, the IA may vary the GPCR applicable to a designated insurance holding company in relation to its supervised group, if the IA is satisfied on reasonable grounds, that it is prudent to make the variation so that the GPCR is

commensurate with the risks associated with the supervised group. The type of criteria and considerations to which the IA will have regard in determining whether or not to vary the GPCR and the amount of such variation are set out in C.A-A of this Module. The IA will conduct its decision-making process with regards to making such determination in a way which is fair and, without limitation to that, will generally follow the procedure described in C.A-B of this Module. A variation made by the IA pursuant to section 95ZI(2) of the Ordinance to the GPCR for a designated insurance holding company in relation to its supervised group does not operate to alter the capital requirements applicable to any of the individual supervised group members other than the designated insurance holding company in relation to its supervised group.

*Rule 6 – Eligible group capital resources*

- C.S/1.13 Pursuant to Rule 6 of the Group Capital Rules, a designated insurance holding company must only include the eligible group capital resources of its supervised group in the tier 1 group capital or tier 2 group capital of its supervised group, in establishing compliance with its GMCR (tier 1 group capital only) and GPCR (tier 1 and tier 2 group capital). The eligible group capital resources of a supervised group consist of the eligible capital resources of all supervised group members of the supervised group (Rule 6(2) of the Group Capital Rules), thereby following a similar summation approach to that used for calculating the GMCR and GPCR.
- C.S/1.14 Rule 6(3) of the Group Capital Rules sets out how the eligible capital resources of supervised group members are identified. For the purpose of Rule 6(3) of the Group Capital Rules, the following is provided as guidance:
- (a) the ‘equity’ of a supervised group member that is a non-regulated entity is the residual interest in the assets of the entity after deducting all its liabilities as presented in its financial statements according to the International Financial Reporting Standards set by the International Accounting Standards Board. In principle, ‘equity’ represents the amount of money that would be returned to the shareholders if all of the assets of the supervised group member are liquidated after all its debts are paid off.

- (b) for the avoidance of doubt, any financial instruments or resources of a supervised group member that is a non-regulated entity that cannot satisfy the criteria in Schedule 1 or 2 of the Group Capital Rules should be considered as a financial liability, instead of an equity, unless prior approval from the IA has been granted for the recognition of the financial instrument as part of the eligible group capital resources of its supervised group under Rule 9 or Rule 10 of the Group Capital Rules.
- (c) 'other intangible asset' refers to an intangible asset as defined by the International Accounting Standard 38.

C.S/1.15 Pursuant to section 95ZI(2) of the Ordinance, the IA may vary the eligibility and value of the eligible group capital resources which a designated insurance holding company may include for the purpose its compliance with the GMCR or GPCR in relation to its supervised group, if the IA is satisfied on reasonable grounds, that it is prudent to make such variation so that the group capital requirements applicable to the designated insurance holding company are commensurate with the risks associated with its supervised group. The type of criteria and considerations to which the IA will have regard in determining whether or not to vary the eligibility and value of the group capital resources are set out in C.A-A of this Module. The IA will conduct its decision-making process with regards to making such determination in a way which is fair and, without limitation to that, will generally follow the procedure described in C.A-B of this Module. A variation made by the IA pursuant to section 95ZI(2) of the Ordinance to the eligibility and value of the eligible group capital resources which a designated insurance holding company may include for the purpose of its compliance with the GMCR or GPCR does not operate to alter the capital requirements applicable to any of the individual supervised group members other than the designated insurance holding company in relation to its supervised group.

#### Rule 8 – Treatment of double counting

C.S/1.16 Rule 8 of the Group Capital Rules sets out requirements aimed at eliminating double counting of eligible capital resources, minimum capital requirements and prescribed capital requirements when using the summation approach to calculate the GMCR, GPCR and eligible group capital resources for a designated insurance holding company

in relation to its supervised group. The IA may from time to time publish examples showing how these requirements apply to eliminate double-counting in the calculation of the GMCR, GPCR and eligible group capital resources.

C.S/1.17 Rule 8(1) of the Group Capital Rules provides that the designated insurance holding company must not include any resource or financial instrument of a supervised group member in the eligible group capital resources of its supervised group more than once.

C.S/1.18 Rules 8(2), (3) and (4) of the Group Capital Rules set out the requirements to eliminate double-counting where a supervised group member is the holding company of another supervised group member and a consolidation approach is used to calculate the regulatory capital requirements applicable to the holding company. For the avoidance of doubt, the reference to “holding company” in Rules 8(2), (3) and (4) of the Group Capital Rules includes an intermediate or ultimate holding company of a supervised group member within a supervised group.

C.S/1.19 Rule 8(5) of the Group Capital Rules sets out the requirements to eliminate double-counting where a supervised group member is a regulated entity in more than one jurisdiction including the jurisdiction where it is incorporated or formed. This may be the case, for example, where a supervised group member is authorized to carry on insurance business in the jurisdiction in which it is incorporated or formed (and thereby subject to regulatory capital requirements in that jurisdiction, being its home jurisdiction) and also has a place of business (i.e. a branch) in another jurisdiction (a host jurisdiction) through which it is authorized to carry on insurance business in that host jurisdiction (and is thereby also subject to regulatory capital requirements in the host jurisdiction). In this situation, for the purpose of Rule 4(1), Rule 5(1) and Rule 6(2) of the Group Capital Rules,

- (a) the supervised group member is treated as a single supervised group member (i.e. the branch of the supervised group member is not considered as a separate supervised group member);
- (b) only the minimum capital requirement and prescribed capital requirement applicable to the supervised group member in the jurisdiction where it is incorporated or formed must be included in the GMCR and GPCR of its supervised group; and

- (c) only the capital resources of the supervised group member which are eligible to be counted towards satisfying the minimum capital requirement or prescribed capital requirement, as the case may be, applicable to the supervised group member in the jurisdiction where it is incorporated or formed must be included in the eligible group capital resources of its supervised group.

C.S/1.20 Rule 8(6) of the Group Capital Rules sets out the requirements to eliminate double-counting where a supervised group member is a regulated entity only in jurisdictions other than the jurisdiction in which it is incorporated or formed. This may be the case, for example, where a supervised group member is not authorized to carry on insurance business in the jurisdiction in which it is incorporated or formed, but has a place of business (i.e. a branch), or places of business (i.e. branches), in another or other jurisdictions (“host” jurisdictions) through which it is authorized to carry on insurance business in that/those host jurisdiction(s) (and is thereby subject to regulatory capital requirements in the “host” jurisdiction(s)). In this situation, for the purpose of Rule 4(1), Rule 5(1) and Rule 6(2) of the Group Capital Rules, the following applies:

- (a) the supervised group member is treated as a single supervised group member (i.e. the branch(es) of the supervised group member is/are not considered as a separate supervised group member(s)).
- (b) only the minimum capital requirement and prescribed capital requirement applicable to the supervised group member in the jurisdiction where it is a regulated entity or, if it is a regulated entity in more than one jurisdiction, the sum of the minimum capital requirements and the sum of the prescribed capital requirements where it is a regulated entity, must be included in the GMCR and GPCR of its supervised group.
- (c) the resources and financial instruments of the supervised group member which are eligible to be counted towards satisfying the minimum capital requirements or prescribed capital requirements, as the case may be, applicable to the supervised group member in the jurisdictions where the supervised group member is a regulated entity must be included in the eligible group capital resources of the supervised group.

- (d) any additional resources and financial instruments of the supervised group member (i.e. additional to those resources or financial instruments referenced in (c) above) may also be included in eligible group capital resources of the supervised group, if they are:
  - (i) resources that are classified as equity in accordance with recognised international accounting standards, less goodwill and any other intangible assets (see also C.S/1.14 above); and
  - (ii) financial instruments that are not included in C.S/1.20(d)(i) above but which satisfy the criteria for tier 1 group capital or tier 2 group capital, as the case may be, in Schedule 1 or 2 of the Group Capital Rules.
- (e) in terms of allocating the resources and financial instruments of the supervised group member which are eligible group capital resources to either tier 1 group capital, tier 1 limited group capital or tier 2 group capital,
  - (i) the capital resources of the supervised group member which are included in the eligible group capital resources of its supervised group by reason of C.S/1.20(c) must be allocated to the tier 1 group capital, tier 1 limited group capital or tier 2 group capital of the supervised group, as the case may be, on the basis that the supervised group member is a regulated entity and the laws relating to regulatory capital are those applicable in the jurisdiction in which the supervised group member is a regulated entity; and
  - (ii) the capital resources of the supervised group member which are included in the eligible group capital resources of the supervised group by reason of C.S/1.20(d) must be allocated to the tier 1 group capital, tier 1 limited group capital or tier 2 group capital of the supervised group, as the case may be, on the basis that the supervised group member is a non-regulated entity.

C.S/1.21 Rules 8(7), (8) and (9) of the Group Capital Rules set out the requirements for a designated insurance holding company to deduct from the eligible group capital resources for its supervised group (to the extent that such amounts have been included in its eligible group capital resources) the value of any shares held by a supervised group

member in another supervised group member and the value of any financial instrument held by a supervised group member which has been issued by another supervised group member.

Rule 9 – Transitional arrangements in relation to group capital

- C.S/1.22 Transitional arrangements for financial instruments issued by an insurance group prior to the date of designation of its designated insurance holding company, which after designation do not qualify for inclusion in the eligible group capital resources of its supervised group in accordance with Rule 6 of the Group Capital Rules, are set out in Rule 9 of the Group Capital Rules.
- C.S/1.23 In relation to such financial instruments, the designated insurance holding company (per Rule 9 of the Group Capital Rules) may apply in writing for approval from the IA for any such financial instrument to be included as part of the eligible group capital resources of its supervised group, notwithstanding the fact that the instrument does not qualify for inclusion in the eligible group capital resources in accordance with Rule 6 of the Group Capital Rules. Such application, however, must be made within 3 months of the designation date of the designated insurance holding company. The IA may approve the application, subject to such conditions as the IA may impose including, without limitation, as to the amount of the financial instrument which may be included as eligible group capital resources. The IA may also direct which tier of capital the financial instrument may be included in. Alternatively, the IA may reject the application, subject to Rule 9(5) of the Group Capital Rules (see also C.S/1.28 – C.S/1.30).
- C.S/1.24 An application made by a designated insurance holding company to the IA pursuant to Rule 9 of the Group Capital Rules should include, without limitation –
- (a) the prospectus for the financial instrument proposed for inclusion as the eligible group capital resources of the supervised group (“pre-existing financial instrument”);
  - (b) the contractual documentation and terms and conditions of the pre-existing financial instrument;
  - (c) an assessment setting out which of the criteria in Schedule 1 and 2 of the Group Capital Rules that the pre-existing

financial instrument satisfies and which such criteria it does not satisfy;

- (d) an indication as to whether the designated insurance holding company is applying for pre-existing financial instrument to be classified as tier 1 group capital, tier 1 group limited capital or tier 2 group capital of the supervised group;
- (e) the corporate structure chart of the supervised group;
- (f) the capital structure of the supervised group;
- (g) the financial statements of the supervised group;
- (h) a three-year capital plan with the target leverage ratio of the supervised group;
- (i) the proposed transition period of the pre-existing financial instruments which are the subject of the application;
- (j) the debt maturity profile of the supervised group;
- (k) (where applicable) plans for issuing new qualifying financial instruments and/ or replacing the pre-existing financial instruments which are the subject of the application; and
- (l) any other information requested by the IA that the IA may consider is relevant for its consideration of the application.

C.S/1.25

The IA in considering whether the application is to be approved (or rejected) and/or any limitations which might be applied to any such approval, may take into account the following factors: –

- (a) the extent to which the pre-existing financial instruments which are the subject of the application deviate from the criteria in the Group Capital Rules for eligible group capital resources and the extent to which this detrimentally impacts their quality as capital;
- (b) the qualities of the pre-existing financial instrument as a capital instrument, by reference to the following qualities:
  - (i) the extent to which the pre-existing financial instrument can absorb losses on a going-concern basis and in winding-up;

- (ii) the extent to which the pre-existing financial instrument is perpetual or has any terms and conditions which provide an incentive for the issuer to redeem the pre-existing financial instrument;
  - (iii) the extent to which the interests of the holders of the pre-existing financial instrument are subordinated to the policy holders of the supervised group and other non-subordinated creditors of the supervised group member which issued the pre-existing financial instrument;
  - (iv) the extent to which the pre-existing financial instrument is fully paid-up; and
  - (v) the extent to which the pre-existing financial instrument is free from mandatory payments or encumbrances.
- (c) the value of such pre-existing financial instruments as a proportion of the entirety of the value of the eligible group capital resources of the supervised group;
  - (d) the corporate structure of the supervised group; and
  - (e) the financial condition, including but not limited to the amount of eligible group capital resources, GMCR, GPCR, and the capital structure of the supervised group.

C.S/1.26 The IA, if it considers it appropriate to do so, may discuss with the designated insurance holding company any area of concern the IA has with regards to the pre-existing financial instrument which is the subject of such application.

C.S/1.27 For the purpose of Rule 9(4)(a) of the Group Capital Rules, the conditions that the IA may impose on any approval of an application, without limitation, may include a limitation on the period during which the pre-existing financial instruments may be included as eligible group capital resources of the supervised group. In considering the period to impose, the IA shall take into account the needs of the designated insurance holding company to achieve a managed transition of its supervised group's capital structure into compliance with the Group Capital Rules, without this resulting in volatility to its capital adequacy position.

- C.S/1.28 If the IA intends to reject an application, the IA must serve on the designated insurance holding company a preliminary written notice stating the reasons why the IA is considering to reject the application. The company may, within the period specified in the notice, make written or oral representations to the IA.
- C.S/1.29 If representations are made, the IA must take them into account before making its decision on the application.
- C.S/1.30 The IA shall aim to inform the designated insurance holding company of the result of its application under Rule 9 of the Group Capital Rules in writing, within 3 months after receiving all the necessary information and clarifications, including any written or oral representations, from the designated insurance holding company in relation to the application.

Schedule 2 – Tier 2 group capital

- C.S/1.31 Rule 7 of the Group Capital Rules sets out the requirements for the tiering of the eligible group capital resources in relation to a supervised group of a designated insurance holding company, into tier 1 group capital, tier 1 limited group capital and tier 2 group capital.
- C.S/1.32 Per Rules 7(1)(b), (2) and (3)(b) of the Group Capital Rules, the appropriate tier to which the eligible capital resources of a non-regulated supervised group member should be allocated is decided by reference to the characteristics set out in Schedule 1 (for tier 1 group capital and tier 1 limited group capital) and Schedule 2 (for tier 2 group capital) of the Group Capital Rules.
- C.S/1.33 In the case of tier 2 group capital, the characteristic in section 1(b) of Schedule 2 of the Group Capital Rules requires that the financial instrument is subordinated to policy holders and other non-subordinated creditors of the supervised group if the form of subordination is contractual subordination or to policy holders of the supervised group if the form of subordination is structural subordination. Further, for a financial instrument that is subject to structural subordination, approval from the IA must be obtained under section 3(4) of Schedule 2 of the Group Capital Rules for the instrument to be included in tier 2 group capital.

- C.S/1.34 For contractual subordination, the financial instrument is required to be subordinated to policy holders and other non-subordinated creditors of the supervised group. “Other non-subordinated creditors”, in this regard, refers to those creditors who would rank senior to the instrument holder in a winding-up (i.e. those who rank pari-passu with the instrument holders would not be “non-subordinated creditors” for this purpose).
- C.S/1.35 For instruments that are subject to structural subordination, the instrument is required to be subject to conditions or other arrangements that are adequate to ensure subordination of the instrument to policy holders of the supervised group. The instrument does not, however, need to be subordinated to other non-subordinated creditors of the supervised group member issuing the instrument.
- C.S/1.36 In considering whether or not to approve a financial instrument that is subject to structural subordination for inclusion in the tier 2 group capital of the supervised group (and whether such approval should be subject to any conditions), the IA will take into account the following factors:
- (a) whether the financial instrument is subject to conditions or other arrangements that are adequate to ensure subordination of the instrument to the policy holders of the supervised group member which carries on insurance business, to which the proceeds of the instrument have been down-streamed;
  - (b) whether the financial instrument satisfies the principles, standards and guidance established by the IAIS relating to structural subordination of financial instruments prevailing at the time of the application; and
  - (c) whether the financial instrument satisfies the other characteristics in section 1 of Schedule 2 of the Group Capital Rules which apply to a financial instrument with structural subordination.
- C.S/1.37 Further, with regards to C.S/1.36(a) the IA will consider the following conditions and arrangements as being necessary to ensure subordination of the instrument to the policy holders of the supervised group member which carries on insurance business, to which the proceeds of the instrument have been down-streamed:

- (a) the financial instrument has been issued by a supervised group member that is a non-regulated entity and a clean holding company;
- (b) the proceeds of the financial instrument are down-streamed by the supervised group member issuing the financial instrument to another supervised group member which carries on insurance business;
- (c) the designated insurance holding company of the supervised group and the IA have determined that the proceeds of the financial instrument, which have been down-streamed into the supervised group member which carries on insurance business, are being tracked and reported appropriately;
- (d) the supervised group member which carries on insurance business and to which the proceeds from the issuance of the financial instrument have been down-streamed is formed or incorporated in a jurisdiction that has a regulatory regime which enforces structural subordination through appropriate regulatory or supervisory controls over distributions from insurers to the satisfaction of the IA; and
- (e) when a distribution is paid by the supervised group member which carries on insurance business and to which the proceeds of the instrument have been down-streamed, the designated insurance holding company shall notify the IA of the distribution and of the proposed adjustment to the treatment of the financial instrument in the calculation of the group capital adequacy of its supervised group.

C.S/1.38 For the purpose of C.S/1.37(c) above regarding the tracking and reporting of down-streamed proceeds of the financial instrument, the IA may consider that the condition is satisfied if the down-streamed proceeds in the supervised group member which carries on insurance business are held as share capital or subordinated debt and the subordination is not undermined by other arrangements that may exist between the supervised group member and any other supervised group member.

C.S/1.39 For the purposes of C.S/1.37(d) above regarding the adequacy of the regulatory or supervisory controls over distributions from insurers in a jurisdiction where a supervised group member which carries on

insurance business is incorporated or formed, the IA will take into consideration:

- (a) whether the distributions by the supervised group member are subject to supervisory review or prior supervisory approval by the involved supervisor of the supervised group member, such that the involved supervisor is able to limit, defer, or disallow the payment of any distributions should it find that the supervised group member is presently, or may potentially become, financially distressed; and
- (b) whether, as part of its review or prior approval process of distributions, the involved supervisor considers the adequacy of the supervised group member's surplus capital, financial flexibility, the quality of its earnings, and other factors deemed to be pertinent as they relate to the financial strength of the supervised group member and protection of its policy holders.

C.S/1.40 The characteristics in sections 1(e), (f) and (g) of Schedule 2 of the Group Capital Rules also require supervisory approval for certain actions to be taken in relation to a financial instrument for it to qualify as tier 2 group capital. In assessing whether a financial instrument that is subject to structural subordination satisfies these requirements, the IA will consider: -

- (a) regarding section 1(e) of Schedule 2, the requirement for supervisory approval of redemptions to be fulfilled if supervisory approval is required to be given by the involved supervisor to the distribution (including, without limitation, through dividends or share repurchases) being made by the supervised group member (to which the proceeds of the issuance had been down-streamed) to the supervised group member that issues the financial instrument, so that the redemption of the financial instrument can be effected;
- (b) regarding section 1(f) of Schedule 2, the requirement for supervisory approval of a call on a financial instrument that may be called within 5 years from the date of issue, to be fulfilled if the prior consent of the involved supervisor is required in order for (i) the call to be made and (ii) any distribution to be made by the supervisory group member to which the proceeds of the financial instrument have been down-streamed, in order for the call to be effected; and neither

the call nor the distribution can be effected without such prior consent; and

- (c) regarding section 1(g) of Schedule 2, the requirement for supervisory approval for the repurchase of the financial instrument is fulfilled if supervisory approval is required to be given by the involved supervisor to distributions (including, without limitation, dividends or share repurchases) by the supervised group member making the distribution (to which the proceeds of the issuance had been down-streamed) to the supervised group member that issues the financial instrument, so that the repurchase of the financial instrument can be effected.

## **C.S/2        Supervisory reporting and public disclosure in relation to group capital adequacy**

### **Rule 11 – Submission of reports on group capital adequacy to the IA**

- C.S/2.1        Rule 11(1) of the Group Capital Rules requires a designated insurance holding company in relation to its supervised group to prepare a group capital adequacy report as at 31 December each year. (referred to as the “relevant reporting date” in C.S/2.2). The report should include a breakdown of information in relation to each material supervised group member (based on the definition of “material supervised group member” in Rule 11(6) of the Group Capital Rules<sup>6</sup>) in the supervised group.
- C.S/2.2        Rule 11(4) of the Group Capital Rules requires a designated insurance holding company to submit its group capital adequacy report to the IA within 5 months after the relevant reporting date and signed by two directors and a chief executive of the designated insurance holding company, declaring that the information in the group capital adequacy report is true and correct.
- C.S/2.3        To ensure effective oversight and regulatory supervision of the capital adequacy position of a supervised group, a designated insurance holding company should submit the following additional information to the IA in relation to its supervised group:

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<sup>6</sup> For clarification, the assets and liabilities mentioned under Rule 11(6)(b) of the Group Capital Rules refer to the assets and liabilities that are defined in accordance with the applicable financial reporting standards.

- (a) the capital adequacy supplementary information (“CASI”); and
- (b) the group business and capital management plan.

### CASI

C.S/2.4 The CASI is split into three sections according to its submission frequency.

- (a) Quarterly submission<sup>7</sup> – covers the capital position of the supervised group and its material supervised group members and other relevant financial information. A designated insurance holding company should submit quarterly submission to the IA within 2 months after the relevant quarter end date;
- (b) Semi-annual submission<sup>8</sup> – covers the capital position of the supervised group and its material supervised group members under stress scenarios prescribed by the IA. A designated insurance holding company should submit to the IA within 3 months after the relevant half year end date; and
- (c) Annual submission<sup>9</sup> – covers supporting information that facilitate the IA’s understanding of the supervised group and assessment of its overall capital adequacy. A designated insurance holding company should submit to the IA within 3 months after the relevant year end date or in a timely manner when there are material updates.

C.S/2.5 A designated insurance holding company should submit its CASI using the template issued by the IA, which is available on the IA’s official website for downloading.

C.S/2.6 Each CASI submission to the IA should be signed by a key person(s) in control function for financial control, risk management or actuarial appointed by the designated insurance holding company.

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<sup>7</sup> The reporting dates for quarterly submission will be 31 March, 30 June, 30 September and 31 December of each year.

<sup>8</sup> The reporting dates for semi-annual submission will be 30 June and 31 December of each year

<sup>9</sup> The reporting date for annual submission will be 31 December of each year

- C.S/2.7 A designated insurance holding company shall promptly update the IA on any material changes to information provided in the CASI submissions in relation to its supervised group between reporting dates.

*Group business and capital management plan*

- C.S/2.8 The group business and capital management plan should cover a projection period of not less than 3 years and at a minimum include the information set out in C.A-C of this Module.
- C.S/2.9 A designated insurance holding company is required to submit the group business and capital management plan to the IA at least annually or when there are material updates. The relevant group business and capital management plan should be submitted to the IA within 2 weeks after the Group Board meeting in relation to its supervised group at which the plan is approved by the Group Board. The submission to the IA shall be made by personnel with the requisite authorization from the Group Board to sign the plan on its behalf.

*Rule 12 – Report to the IA of certain events*

- C.S/2.10 Rule 12 of the Group Capital Rules requires a designated insurance holding company in relation to its supervised group forthwith to notify the IA of certain matters. Per Rule 12(1)(c), one of these matters to be notified is where the directors, chief executive or any key person in control function of the designated insurance holding company knows or has reason to believe that a significant event has occurred in relation to the supervised group. “Significant event” is defined in Rule 12(3).
- C.S/2.11 In order to comply with the reporting requirement in relation to significant events referred to in C.S/2.10 above, a designated insurance holding company should establish and implement a suitable governance process to identify, escalate and report to the IA any such significant events. The governance process should include appropriate benchmarks formulated by the designated insurance holding company to identify events which meet the criteria set out in the definition of “significant events” as defined in Rule 12(3) of the Group Capital Rules.

- C.S/2.12 The designated insurance holding company should notify the IA in a timely manner of any updates to the governance process or benchmarks described in C.S/2.11 above. It should address any comments made by the IA on such governance process and benchmarks in a timely manner and provide any necessary information to the IA in relation such governance process and benchmarks upon request.
- C.S/2.13 As part of its function of supervising a designated insurance holding company in relation to its supervised group, the IA may from time to time request the company to provide information that, in the IA's reasonable opinion, is required to demonstrate compliance with the Group Capital Rules by the company in relation to its supervised group. When such request is made, the designated insurance holding company should provide such information in a timely manner.

*Rule 13 – Public disclosure in relation to group capital*

- C.S/2.14 The disclosure requirements applicable to a designated insurance holding company are further specified in Module D – Disclosure for Supervised Groups.

**C.A-A      Annex A**

**C.A-A/1      Criteria and considerations for varying the GMCR, GPCR and eligible group capital resources of a designated insurance holding company in relation to its supervised group**

C.A-A/1.1      In considering whether it is satisfied on reasonable grounds that it is prudent to make a variation to the GMCR, GPCR or eligible group capital resources of the designated insurance holding company in relation to its supervised group, so that the GMCR, GPCR or eligible group capital resources is commensurate with the risks associated with the supervised group, the IA will form a view on the capital adequacy of the supervised group as a whole, taking account of the full range of the material risks of the supervised group (including those risks which are not captured in the capital requirements).

C.A-A/1.2      In making this assessment, the matters the IA may take into account, include without limitation:

- (a)    the designated insurance holding company's:
  - (i)    GIECA in relation to its supervised group,
  - (ii)   recovery plan for its supervised group,
  - (iii)   group-wide ORSA for its supervised group; and
  - (iv)   group-wide risk and governance framework and controls (and, in particular, the adequacy of such governance and controls) for its supervised group;
- (b)    the extent to which the capital requirements of the regulatory regime to which any supervised group member, being a regulated entity, is subject to, reflect the full range of material risks of the supervised group member and the extent to which such capital requirements are set at an adequate level to absorb losses arising from the supervised group member's risk profile;
- (c)    the quality of the capital resources of any supervised group member which is a regulated entity, by reference to the criteria in Schedule 1 and Schedule 2 of the Group Capital Rules;

- (d) the extent to which any risk associated with the business or transactions involving any supervised group member, being a non-regulated entity, exposes the supervised group to risk;
- (e) the extent to which the capital resources of a supervised group member in excess of its regulatory regime's capital requirements are legally prohibited from being made available to other supervised group members. In this regard, the IA will take into account any management actions which are or may become available to the designated insurance holding company to allow such excess capital resources to be made available to other supervised group members;
- (f) the extent and impact of intra-group transactions and contingent liabilities (including in relation to subordinated debt and overall quality of capital) on the risk profile of the supervised group;
- (g) any group risks within or associated with the supervised group;
- (h) the effect of diversification of risk across the supervised group under normal and stress conditions;
- (i) any significant events reported by the designated insurance holding company in relation to its supervised group and the potential impact of such event on the capital adequacy of the supervised group;
- (j) any other matters that affect the risk profile or capital adequacy of the supervised group, with specific consideration being given to the prevailing standards and guidance provided by the IAIS in relation to capital adequacy; and
- (k) any relevant comments from other involved supervisors of members of the supervised group, as appropriate.

**C.A-B      Annex B**

**C.A-B/1      Process of varying the GMCR, GPCR and eligible group capital resources of a designated insurance holding company in relation to its supervised group**

C.A-B/1.1      The IA will conduct its decision-making process with regards to making a determination on whether or not to vary the GMCR, GPCR or eligible group capital resources of a designated insurance holding company in relation to its supervised group, in a way which is fair and, without limitation to that, will generally follow the following procedure:

- (a)      The IA will consider the items identified in C.A-A of this Module on at least an annual basis and, as part of this annual review, may consider whether or not to vary the GMCR, GPCR or eligible group capital resources of the designated insurance holding company in relation to its supervised group.
- (b)      Prior to making any determination as to whether or not to vary the GMCR, GPCR or eligible group capital resources of a designated insurance holding company in relation to its supervised group, the IA will consult the designated insurance holding company on the issues identified by the IA which suggest, in the IA's opinion, that a determination may need to be made. By reference to such issues, the IA will set out in writing why in its opinion such issues indicate a determination to vary to the GMCR, GPCR or eligible capital resources, as the case may be, should be made and indicate the variation that it is considering based on the issues and information identified.
- (c)      The designated insurance holding company will have the opportunity to provide its input and views on the matters which the IA has set. The designated insurance holding company may provide such input and views both in writing ("written representations") and orally in discussions with the IA. The IA will take into account the input and views of the designated insurance holding company prior to making any final determination to vary the GMCR, GPCR or eligible group capital resources of the designated insurance holding company in relation to its supervised group, as the case may be.

- (d) The IA will share its proposed determination for any variation, together with any written representations of the designated insurance holding company, with the relevant Supervisory College of the insurance group to which the designated insurance holding company belongs, prior to the IA making its final determination.
- (e) If the IA determines to vary the GMCR, GPCR or eligible group capital resources, this will be effected by giving notice in writing to the designated insurance holding company (per Section 95ZI(2) of the Ordinance). The communication from the IA will set out the following: -
  - (i) the reasons as to why the supervisory variation has been applied,
  - (ii) the period over which the supervisory variation will apply, and
  - (iii) if appropriate, the actions that must be taken by the designated insurance holding company in relation to its supervised group in order for the IA to consider removing the supervisory variation.
- (f) The supervisory variation will not be subject to mandatory external disclosure by the designated insurance holding company.
- (g) A decision made by the IA under section 95ZI(2) of the Ordinance to vary the capital requirements is a specified decision and thus subject to review by the IAT. Accordingly, if the designated insurance holding company is aggrieved by the decision of the IA, it may apply to the IAT for review.
- (h) The IA will review any supervisory variation regularly to ascertain whether the grounds and considerations on which the variation applied remain current and whether such variation (or the extent of such variation) remains necessary to ensure the designated insurance holding company's capital requirements remain commensurate with the full range of the material risks faced by the insurance group.

**C.A-C      Annex C**

**C.A-C/1      Coverage of the group business and capital management plan**

C.A-C/1.1      The group business and capital management plan of a designated insurance holding company in relation to its supervised group should at a minimum include the following information.

- (a)      Information on the main trends and factors that contribute to the development, performance and position of the supervised group over its business planning horizon, including competitive positions and any significant legal or regulatory issues.
- (b)      A description of the business objectives of the supervised group, including the relevant strategies and time frames. This includes any plans for structural change and/or acquisition/disposal.
- (c)      Qualitative and quantitative information regarding projections of financial metrics, for the supervised group and its material supervised group members, over the business planning horizon. This includes:
  - (i)      Business performance (including sales, new business and in-force business profitability, embedded value and capital generation);
  - (ii)      Capital adequacy of the supervised group and material supervised group members;
  - (iii)      Group liquidity (including liquidity coverage measures, remittances and other material cash flows to/from operating entities, holding company cash stock and liquid assets); and
  - (iv)      Assessment of the significant risk factors that might impact group capital and liquidity position, including appropriate sensitivities and stress and scenario testing (“SST”), and demonstrate that the projections are within the group’s risk appetite.
- (d)      Plans to repay or redeem any financial instruments or to raise additional capital.

- (e) An overview of any material risk exposures, including risk concentrations, anticipated over the business planning horizon given the group's business strategy, and how these risk exposures will be managed.
- (f) Information on any reasonable foreseeable risk of non-compliance with the GMCR or GPCR, and the supervised group's plans for ensuring that compliance with each is maintained.
- (g) The key working assumptions which the supervised group makes in its business planning process over the business planning horizon. The working assumptions may include, but are not limited to, the economic environment which the group operates in, actuarial assumptions adopted in financial projections, anticipated changes in business mix and regulations etc.
- (h) Independent opinions from the Risk Management function on the business and capital management plan, including areas of concern that it wishes to highlight to Board and senior management.
- (i) Any other supporting information that would facilitate the IA to understand the supervised group's business and capital management plan.

**MODULE D**

**MODULE D**

**DISCLOSURE FOR SUPERVISED GROUPS**

**D.P Principle**

- D.P/1 A designated insurance holding company should publicly disclose relevant and comprehensive information in relation to its supervised group on a timely basis in order to give policy holders of members of the group which carry on insurance business and market participants a clear view of the group's business activities, risks, performance and financial position.
- D.P/2 Information disclosed by a designated insurance holding company in relation to its supervised group should be readily accessible and sufficiently comprehensive to enable policy holders of members of the supervised group which carry on insurance business and market participants to form a well-rounded view of the supervised group's financial condition and performance, business activities, and the risks related to those activities.

**D.S Standards****D.S/1 Group Capital Rules**

- D.S/1.1 A designated insurance holding company must comply with the requirements for disclosure of information in respect of its supervised group, in the Group Capital Rules made by the IA.
- D.S/1.2 A designated insurance holding company must publish on its website the disclosures which it is required to make in accordance with Rule 13(1) under the Group Capital Rules so that it provides policy holders of members of the supervised group which carry on insurance business and other readers, with a readily accessible source of information on the prudential measures applicable to its supervised group.

**D.S/2 Disclosure of financial statements and auditor's reports**

- D.S/2.1 A designated insurance holding company should disclose on its website the specified financial statements and auditor's report which it is required to submit to the IA pursuant to section 95ZH of the Ordinance.

**D.S/3      Non-Generally Accepted Accounting Principles (“non-GAAP”) financial measures**

D.S/3.1      If a designated insurance holding company makes disclosures in relation to its supervised group which include non-GAAP financial measures, the company is required to adhere to the specified practices regarding those measures, where applicable.

**D.S/4      Group profile**

D.S/4.1      Rule 13(1)(a) of the Group Capital Rules requires a designated insurance holding company to disclose the profile of its supervised group. The profile of its supervised group should include information on the following in relation to the supervised group:

- (a)    the nature of its business;
- (b)    its corporate structure;
- (c)    its key business segments;
- (d)    its status as an IAIG (if it has been identified as such in accordance with IAIS principles);
- (e)    the external environment in which it operates; and
- (f)    its objectives and the strategies for achieving those objectives.

**D.S/5      Corporate governance framework**

D.S/5.1      Rule 13(1)(b) of the Group Capital Rules requires a designated insurance holding company to disclose a description of the corporate governance framework established and implemented by the designated insurance holding company in relation to its supervised group. This disclosure should provide information on the key features of the corporate governance framework, including the designated insurance holding company’s internal controls and risk management for its supervised group, and how they are implemented.

**D.S/6      Technical provisions**

D.S/6.1      Rule 13(1)(c) of the Group Capital Rules requires a designated insurance holding company to disclose the technical provisions of its supervised group as reflected in the consolidated financial statements for the financial year submitted to the IA by the designated insurance holding company in respect of its supervised group. Disclosure of technical provisions should include, where relevant, information on:

- (a)    the future cash flow assumptions;
- (b)    the rationale for the choice of discount rates;
- (c)    the risk adjustment methodology where used; and
- (d)    other information as appropriate to provide a description of the method used.

**D.S/7      Risk exposures**

D.S/7.1      Rule 13(1)(d) of the Group Capital Rules requires a designated insurance holding company to disclose a description of various risk exposures in respect of its supervised group. In this regard, a designated insurance holding company should disclose reasonably foreseeable and material risk exposures, and information on how they are managed. Examples of material risk exposures include but are not limited to:

- (a)    insurance risk;
- (b)    market risk; and
- (c)    liquidity risk.

D.S/7.2      For insurance risk exposures, a designated insurance holding company should include in its disclosure, at a minimum the following:

- (a)    the nature, scale and complexity of risks arising from insurance contracts entered into by members of the supervised group carrying on insurance business;
- (b)    the risk management objectives and policies of the supervised group;

- (c) models and techniques for managing insurance risks (including underwriting processes);
  - (d) the use of reinsurance or other forms of risk transfer by the supervised group; and
  - (e) the insurance risk concentrations of the supervised group.
- D.S/7.3 For market risk exposures, a designated insurance holding company should include in its disclosure, at a minimum, quantitative information regarding its supervised group's exposure to:
- (a) currency risk;
  - (b) interest rate risk;
  - (c) equity risk;
  - (d) credit risk; and
  - (e) concentration risk.
- D.S/7.4 For liquidity risk exposures, a designated insurance holding company should disclose sufficient quantitative and qualitative information to allow the reader to obtain an understanding of the supervised group's material liquidity risk exposures.
- D.S/7.5 For climate-related and environmental risks, a designated insurance holding company should disclose its approach to managing climate-related and environmental risks and the potential impact of material climate-related and environmental risks to the supervised group at least annually in accordance with the local and/or international reporting requirements or frameworks where appropriate.

## **D.S/8 Financial instruments and other investments**

- D.S/8.1 Rule 13(1)(e) of the Group Capital Rules requires a designated insurance holding company to disclose a description of the financial instruments and other investments in respect of its supervised group. For this purpose, a designated insurance holding company in relation to its supervised group should include information in its disclosure on:
- (a) financial instruments and investments by asset class;

- (b) investment management objectives, policies and processes; and
- (c) values, assumptions and methods used for general purpose financial reporting and solvency purposes, as well as an explanation of any differences, where applicable.

**D.S/9      Asset-liability management**

- D.S/9.1      Rule 13(1)(f) of the Group Capital Rules requires a designated insurance holding company to disclose how it carries out ALM in relation to its supervised group. This disclosure should include information on:
- (a) ALM in respect of the total assets and liabilities of the supervised group and, where appropriate, at a segmented level;
  - (b) the methodology used and the key assumptions employed in measuring assets and liabilities for ALM purposes; and
  - (c) a description of mismatches between assets and liabilities and risks arising from these mismatches.

**D.S/10      Capital adequacy**

- D.S/10.1      Rule 13(1)(g) of the Group Capital Rules requires a designated insurance holding company to disclose the adequacy of the eligible group capital resources of its supervised group to meet the group capital requirements applicable to the supervised group. Such disclosure should include information on:
- (a) the designated insurance holding company's objectives, policies and processes for managing capital and assessing capital adequacy of its supervised group; and
  - (b) the GMCR and GPCR of the supervised group as determined in accordance with the Group Capital Rules; and
  - (c) the tier 1 group capital of the supervised group available to meet its GMCR; and

- (d) the eligible group capital resources of the supervised group available to meet its GPCR; and
- (e) the tier 1 group capital coverage ratio, defined as the ratio of tier 1 group capital of the supervised group to its GMCR; and
- (f) the eligible group capital resources coverage ratio, defined as the ratio of eligible group capital resources of the supervised group to its GPCR.

D.S/10.2 Such disclosure should also include information on:

- (a) how GMCR, GPCR, tier 1 group capital and eligible group capital resources are calculated; and
- (b) any material change in GMCR, GPCR, tier 1 group capital or eligible group capital resources from the previous disclosure, and the reason for such change.

## **D.S/11 Financial performance**

D.S/11.1 Rule 13(1)(h) of the Group Capital Rules requires a designated insurance holding company to disclose a description of the financial performance of its supervised group. In this regard, a designated insurance holding company's disclosures should be made on a total and at a segmented level, and should include information on:

- (a) earnings analysis;
- (b) underwriting performance;
- (c) pricing adequacy; and
- (d) investment performance.

D.S/11.2 Disclosures may include information on the supervised group's operating segments and how they were determined. For this purpose "operating segment" in relation to a supervised group, means the component of the members of the group that engage in business activities from which the group may earn revenues and incur expenses, the operating results of which are regularly reviewed by the group's senior management to make decisions about resources to be allocated.

**D.S/12      Material intra-group transactions**

- D.S/12.1      Rule 13(1)(i) of the Group Capital Rules requires a designated insurance holding company to disclose a description of the material intra-group transactions of its supervised group. In this regard, a designated insurance holding company's disclosures should include the nature, scale and complexity of intra-group transactions, the significance and associated risks of such transactions and disclosures on:
- (a)      mechanisms to keep track of intra-group transactions that are of importance to, and have a significant consequence for, the supervised group;
  - (b)      identification of the risks arising from intra-group transactions; and
  - (c)      the qualitative and quantitative restrictions on such risks.

**D.S/13      Timing of public disclosure**

- D.S/13.1      A designated insurance holding company should publish on its website all disclosures required by the standards in this Module in relation to its supervised group within 5 months after the financial year end date. The IA may agree to extend the period by not more than 3 months.

**D.S/14      Variation of information to be disclosed**

- D.S/14.1      The IA may vary the information of all disclosure requirements in this Module to which a designated insurance holding company is required to publish on its website in relation to its supervised group. The IA may, at the request in writing of the designated insurance holding company, vary the standards in relation to disclosures set out in this Module as they apply to the company.

**MODULE E**

**MODULE E**  
**MAJOR ACQUISITIONS BY SUPERVISED**  
**GROUPS**

**E.P Principles**

E.P/1 A designated insurance holding company should ensure that the risks associated with any proposed acquisition to be made by itself or any other member of its supervised group are adequately assessed to take account of the potential adverse impact which the acquisition may have to the supervised group.

E.P/2 A designated insurance holding company should not make an acquisition, or allow an acquisition to be made, that would jeopardize the financial position of the supervised group or prejudice the interests of the policy holders of the supervised group.

**E.S Standards**

**E.S/1 Supervisory approach**

E.S/1.1 Section 95ZJ(1) of the Ordinance requires that a designated insurance holding company must not make or allow the making of a major acquisition by another member of its supervised group unless:

- (a) the major acquisition has been approved by the IA; or
- (b) the major acquisition has been assessed, through an assessment framework approved by the IA under section 95ZM of the Ordinance, as being not material to its supervised group.

E.S/1.2 If a designated insurance holding company has not established and implemented an assessment framework which has been approved by the IA as referenced in E.S/1.1, the designated insurance holding company must obtain the IA's prior approval for any proposed major acquisition to be made by any member of its supervised group and must not proceed with the acquisition unless such approval is obtained.

**E.S/2 Major acquisitions**

E.S/2.1 In section 95ZE of the Ordinance, in relation to a designated insurance holding company, a "major acquisition" is defined as:

*“...the acquisition by any member of its supervised group alone, or with an associate or another member of the group, or through a nominee, of –*

- (a) the control of 50% or more of the voting power at a general meeting of a body corporate; or*
- (b) 50% or more of the issued share capital of a body corporate.”*

E.S/2.2 In identifying whether a transaction is a major acquisition, a designated insurance holding company must take into account all elements of the definition cited in E.S/2.1 above. An acquisition which would result in the supervised group (including together with an associate of any member of the supervised group) holding an aggregate of 50% or more of (a) the voting power or (b) the issued share capital of a body corporate at the time of acquisition would be a major acquisition. The establishment of a body corporate would also fall within the scope of the definition of “major acquisition” if all the elements of the definition are met.

E.S/2.3 The following is a non-exhaustive list of illustrative examples of acquisitions which would be “major acquisitions” as per the definition in section 95ZE of the Ordinance cited in E.S/2.1 above:

- (a) An acquisition of 50% or more of the shareholding of a body corporate by any member of a designated insurance holding company’s supervised group.
- (b) An acquisition of 20% or more of the shareholding of a body corporate by a member of the supervised group whose other member(s) already hold(s) an existing shareholding of 30% in the same body corporate. This would result in the aggregate shareholding in the body corporate of all members of the supervised group, post-acquisition, being at least 50%.
- (c) An acquisition by a member of a supervised group (Company A) of 15% of the shareholding in a body corporate in which,
  - (i) other members of the supervised group, in aggregate, hold an existing 30% shareholding; and
  - (ii) a subsidiary of Company A (namely “Company B”) which is not a member of the supervised group as it has been excluded from the supervised group pursuant to section 95D(4) of the Ordinance, holds an existing 10%

shareholding.

In this example, even though Company B is not a member of the supervised group, it is an “associate” of Company A as defined under section 95A(1) of the Ordinance. As such, shareholding in the body corporate to be acquired by Company A (15%) is aggregated together with existing shareholding in the corporate held by other members in the supervised group (30%) and that held by Company B (10%), rendering the proposed acquisition a major one.

- (d) An establishment of a new subsidiary by any member of the supervised group.

E.S/2.4      Where the IA’s prior approval has been obtained by a designated insurance holding company for a major acquisition pursuant to section 95ZK of the Ordinance, and the acquisition proceeds so that the shareholding in the body corporate by the designated insurance holding company or its supervised group member(s) is more than 50% but less than 100%, the designated insurance holding company does not need to obtain another separate approval from the IA to increase its (or its members) shareholding in the body corporate. The subsequent acquisition of shareholding in the body corporate may, however, be subject to reporting requirements under Rule 12 of the Group Capital Rules if it is a “significant event” per that Rule.

E.S/2.5      A supervised group engaging in transactions (regardless of whether they are major acquisitions) that are likely to have a material adverse impact on the group (regardless of whether they are captured under the assessment framework for major acquisitions) would be required to notify the IA pursuant to Rule 12 of the Group Capital Rules.

### **E.S/3      Exemptions from requirements in relation to major acquisitions**

E.S/3.1      Section 95ZJ(6) of the Ordinance excludes certain types of major acquisitions from the prior “approval requirement” under section 95ZJ(1) of the Ordinance. Accordingly, per section 95ZJ(6) of the Ordinance, the following types of major acquisitions do not require the IA’s prior approval:

- (a) the major acquisition is made pursuant to a written agreement which is entered into before the date of designation of the

designated insurance holding company and is binding on the entity within the supervised group that makes the acquisition; or

- (b) the major acquisition is made solely for investment purposes as part of the insurance business carried on by any member of the supervised group of the designated insurance holding company.

E.S/3.2      A major acquisition described in E.S/3.1(a) (which reflects section 95ZJ(6)(a) of the Ordinance) would include a situation where a sale and purchase agreement to acquire the shareholding in a body corporate such that it would be a major acquisition, has been entered into prior to the date of designation of a designated insurance holding company, but the completion of the major acquisition has not taken place pursuant to the terms of that agreement as at the date of designation. Where the major acquisition is then completed pursuant to the terms of the sale and purchase agreement after the designation date, no prior approval from the IA is required under section 95ZJ(1) of the Ordinance.

E.S/3.3      The major acquisitions described in E.S/3.1(b) (which reflects section 95ZJ(6)(b) of the Ordinance) are major acquisitions acquired specifically as investments to back the insurance business (including insurance liabilities and any capital requirement) of a member of the supervised group which carries on insurance business. For example, an investment made by a supervised group member which is an insurer will be exempted if it is an investment which is made in accordance with the investment mandates for the investments of the insurer. These investments may be made by the members of the supervised group carrying on insurance business, or by another member of the supervised group engaged by the members of the supervised group carrying on insurance business to carry on their investment management function.

E.S/3.4      A designated insurance holding company should ensure that proper documentation is maintained for the major acquisitions exempted under section 95ZJ(6) of the Ordinance. Such documentation should be made available for the IA's inspection upon request.

#### **E.S/4        Approval of major acquisitions**

##### **Matters to be considered by the IA**

- E.S/4.1        Pursuant to section 95ZK of the Ordinance, the IA may approve an application by a designated insurance holding company in relation to a major acquisition to be made by a member or members of its supervised group, if the IA is satisfied that the proposed major acquisition will not be prejudicial, or is unlikely to be prejudicial, to the interests of the policy holders of the supervised group.
- E.S/4.2        The IA may take into account when determining whether to approve or reject a major acquisition any decision or approval made by any other authority in the place of incorporation of the body corporate being acquired pursuant to the proposed major acquisition.
- E.S/4.3        The factors which the IA may take into account when determining whether to approve or reject a major acquisition include, without limitation:
- (a)    the present and estimated future financial condition and needs of the body corporate being acquired in terms of injections of capital and liquidity, and the consequent financial impact of the acquisition on the capital adequacy of the supervised group;
  - (b)    the risks to which the supervised group may be exposed arising from the acquisition and how such risk will be mitigated and managed;
  - (c)    whether the risk profile of the body corporate which is being acquired is commensurate with the supervised group's risk profile and risk appetite statement prepared in accordance with Module K – Enterprise Risk Management For Supervised Groups;
  - (d)    the adequacy of the management oversight to be provided by the supervised group to ensure that the activities of the body corporate to be acquired will be conducted in a prudent manner; and
  - (e)    any relevant comments or views from the involved supervisors of the relevant members of the supervised group.

*Application process for approval of major acquisitions*

- E.S/4.4 Applications for approval of major acquisitions should be submitted by a designated insurance holding company in writing to the IA and must satisfy the requirements under section 95ZJ(3) and (4) of the Ordinance. The designated insurance holding company should contact the IA at an early stage before submitting its application in order to discuss any matters which the application should cover in order to facilitate the IA's consideration of the application. The application must contain the particulars of the major acquisition proposed to be made and the entity proposing to make the acquisition. The designated insurance holding company concerned must also provide the IA with the following:
- (a) if the acquisition has been assessed to be material, through an assessment framework approved by the IA under section 95ZM of the Ordinance, a copy of the assessment; and
  - (b) any other information that the IA reasonably requires to enable it to consider the application pursuant to section 95ZJ(4)(b)(i) of the Ordinance.
- E.S/4.5 The designated insurance holding company should notify the IA in writing of any major changes to the information or documents submitted in support of the application prior to any approval to enable the IA to consider the approval of the major acquisition based on all relevant information.
- E.S/4.6 For the avoidance of doubt, the IA will handle any information or documents received from a designated insurance holding company in respect of any proposed major acquisition in strict accordance with the secrecy provisions in the Ordinance (including but not limited to sections 53A and 53B of the Ordinance).
- E.S/4.7 The designated insurance holding company must pay a prescribed fee for the application. Please refer to the Insurance (Prescribed Fees) Regulation (Cap. 41B) for the amount of fee payable.
- E.S/4.8 Pursuant to section 95ZK(2) and (3) of the Ordinance, if the IA intends to reject an application, the IA must serve on the designated insurance holding company a preliminary written notice stating—
- (a) that the IA is considering rejecting the application;
  - (b) the reasons why the IA is considering doing so; and

- (c) that the designated insurance holding company may, within the period specified in the preliminary notice—
  - (i) make written representations to the IA; and
  - (ii) if the designated insurance holding company so requests, make oral representations to a person appointed for that purpose by the IA.

If the designated insurance holding company makes representations, the IA must take them into account before making a final decision on whether or not to reject the application.

- E.S/4.9 The time for the IA to make a decision on the application will be agreed between the IA and the designated insurance holding company on a case by case basis and the IA will deal with the designated insurance holding company in a transparent manner.
- E.S/4.10 Pursuant to section 95ZK(4) of the Ordinance, after deciding the application, the IA must give the designated insurance holding company a written notice of the result of the application. Where the IA approves the application, it may impose such conditions on its approval as it considers appropriate and these will be included in the written notice. Pursuant to section 95ZK(5) of the Ordinance, if the application is rejected, the written notice must include a statement of the reasons for the rejection.
- E.S/4.11 A refusal by the IA to approve a major acquisition is a “specified decision” under section 96 of the Ordinance and may be subject to a review by the IAT pursuant to Part XII of the Ordinance.

## **E.S/5 Approval of assessment framework for major acquisitions**

### **Matters to be considered by the IA**

- E.S/5.1 As an alternative to obtaining approval for a major acquisition, sections 95ZJ(1)(b), 95ZL and 95ZM of the Ordinance enable a designated insurance holding company to establish and implement an assessment framework for major acquisitions and apply for approval from the IA for such assessment framework. Provided the assessment framework is approved by the IA under section 95ZM of the Ordinance and the major acquisition is assessed through the assessment framework as not material to the supervised group, the designated insurance holding company needs not seek prior approval

for the major acquisition from the IA.

E.S/5.2 Pursuant to section 95ZM of the Ordinance, on an application by a designated insurance holding company under section 95ZL of the Ordinance for approval of an assessment framework, the IA may approve the assessment framework if the IA is satisfied that the proposed assessment framework is appropriate for assessing whether a major acquisition is material to the supervised group of a designated insurance holding company.

E.S/5.3 In order for the IA to be satisfied that the proposed assessment framework is appropriate for assessing whether a major acquisition is material to the supervised group of a designated insurance holding company, the designated insurance holding company must demonstrate that the proposed assessment framework, as per section 95ZE of the Ordinance:

- (a) is established within the supervised group of the designated insurance holding company for assessing whether a major acquisition is material to the group; and
- (b) involves, for that purpose—
  - (i) the quantification of the overall adverse impact that the acquisition may have on the supervised group, taking into account any adverse impact on—
    - (A) the capital resources of the supervised group;
    - (B) the risk profile of the supervised group;
    - (C) the ongoing ability of the group to maintain compliance with the group capital requirements for the supervised group; and
    - (D) any other matters that the IA considers to be relevant; and
  - (ii) the setting of an amount that the quantified adverse impact on the supervised group must not exceed in order for the acquisition to be assessed as not material;

E.S/5.4 Without prejudice to the scope of the matters the IA may take into account when considering a proposed assessment framework (including whether it covers the requirements of an “assessment framework” as defined in section 95ZE of the Ordinance, its

appropriateness for assessing whether a major acquisition is material to the supervised group of a designated insurance holding company, and any relevant comments or views from other involved supervisors of members of the supervised group, as appropriate), as a general rule the IA would consider an assessment framework which assesses the following proposed major acquisitions to be non-material, as appropriate, provided the framework also includes within it a risk assessment process on the proposed acquisition which addresses the risks to the supervised group and identifies how those risks are to be mitigated or managed:

- (a) the aggregate value of shares in the body corporate to be held by the supervised group after the acquisition is completed (i.e. including any shareholding in the body corporate held by any members in the supervised group, prior to the completion of the acquisition) would be less than 5% of the tier 1 group capital of the supervised group at the time of the acquisition; or
- (b) the body corporate to be acquired is already a member of the supervised group.

E.S/5.5 For the purpose of calculating the 5% threshold referenced in E.S/5.4 above, the value of such shares is their value as would be recorded in the books of the supervised group member(s) making the acquisition as at the date the acquisition is targeted to be completed, together with the amount for the time being remaining unpaid on the shares, if any. Normally this value will be determined by the cost of acquisition. Further, “tier 1 group capital” is as defined under Rule 2 of the Group Capital Rules.

E.S/5.6 It remains the responsibility of a designated insurance holding company to demonstrate to the IA’s satisfaction that coverage of, and materiality thresholds in, the proposed assessment framework for its supervised group are adequate to encompass all relevant factors pertaining to the operations and circumstances of its supervised group and are set at appropriate levels to ensure the materiality of a proposed major acquisition to the supervised group can be adequately assessed.

E.S/5.7 The IA expects the governance structure incorporated as part of the assessment framework to include:

- (a) proper systems, procedures and controls for implementation

(in particular the identification and reporting of major acquisitions, risk assessment and materiality determination, as well as internal approval process);

- (b) procedures to ensure members of the supervised group notify and escalate proposed major acquisitions to personnel assigned with the responsibility of assessing the major acquisitions under the assessment framework;
- (c) procedures to ensure proposed major acquisitions are considered by the board or senior management of the supervised group members with appropriate authority and expertise to ensure full account is taken of all material risks regarding the proposed major acquisition and with adequate checks and balances;
- (d) the decision on materiality is taken by the board or senior management of the supervised group members with appropriate authority and expertise; and
- (e) an appropriate review mechanism to ensure that the assessment framework functions effectively.

#### Application process for assessment framework

E.S/5.8 An application for approval by the IA of an assessment framework must be submitted by a designated insurance holding company to the IA pursuant to section 95ZL of the Ordinance and must meet the requirements of section 95ZL(2) and (3). Accordingly, the application—

- (a) must be made in writing;
- (b) must be served on the IA; and
- (c) must contain the particulars of the assessment framework.

The designated insurance holding company must pay a prescribed fee for the application. Please refer to the Insurance (Prescribed Fees) Regulation (Cap. 41B) for the amount of fee payable.

The designated insurance holding company must also provide to the IA any information that the IA reasonably requires to enable it to consider the application.

- E.S/5.9      The particulars of the assessment framework in the application should include the following:
- (a)    particulars of the assessment framework, how it satisfies all elements of an assessment framework referenced in E.S/5.3 above;
  - (b)    details on how the risk assessment mechanism works, as well as the materiality criteria and thresholds. Justifications should be given as to how the criteria and thresholds are adequate to assess the materiality of a proposed major acquisition to the supervised group; and
  - (c)    details on the governance structure, including relevant written policies and manuals, as well as the review mechanism.
- E.S/5.10     Pursuant to section 95ZM of the Ordinance, if the IA intends to reject an application, the IA must serve on the designated insurance holding company a preliminary written notice stating —
- (a)    that the IA is considering rejecting the application;
  - (b)    the reasons why the IA is considering doing so; and
  - (c)    that the designated insurance holding company may, within the period specified in the preliminary notice—
    - (i)    make written representations to the IA; and
    - (ii)   if the company so requests, make oral representations to a person appointed for that purpose by the IA.

If representations are made, the IA must take them into account before reaching a final decision on whether or not to reject the application.

- E.S/5.11     Pursuant to section 95ZM(4) of the Ordinance, after deciding on the application, the IA must give the designated insurance holding company a written notice of the result of the application. Where the IA approves the application, it may impose such conditions on its approval as it considers appropriate and these will be included in the written notice. Pursuant to section 95ZM(5) of the Ordinance, if the application is rejected, the notice must include a statement of the reasons for the rejection.

- E.S/5.12 A refusal by the IA to approve an assessment framework is a “specified decision” under section 96 of the Ordinance and may be subject to a review by the IAT pursuant to Part XII of the Ordinance.

**E.S/6            Changes to an approved assessment framework for major acquisitions**

- E.S/6.1        Where a designated insurance holding company proposes to make any changes to an assessment framework for the materiality of major acquisitions which has been approved by the IA under section 95ZM of the Ordinance, the designated insurance holding company should consult the IA on the proposed changes by providing to the IA written details of the proposed changes, the justifications for such changes and the impact on the assessment framework of such changes, at least 2 months before making such changes.
- E.S/6.2        The IA may provide comments on the proposed changes to the assessment framework and the designated insurance holding company is expected to take into account such comments in finalizing the changes made to the assessment framework. For the avoidance of doubt, the process outlined in E.S/6.1 is a consultation process and no formal approval should be expected from the IA.
- E.S/6.3        A designated insurance holding company should note, however, that where the IA considers that the changes proposed are of sufficient significance and magnitude as to make the assessment framework an entirely new assessment framework, then approval for the new assessment framework should be sought pursuant to section 95ZL of the Ordinance.

**MODULE F**

**MODULE F**

**EXERCISE OF INSURANCE AUTHORITY'S  
POWER TO IMPOSE PECUNIARY PENALTY IN  
RESPECT OF DESIGNATED INSURANCE  
HOLDING COMPANIES**

**F.P Principles**

- F.P/1 The IA shall exercise its power to impose a pecuniary penalty on a designated insurance holding company under section 95ZZS of the Ordinance, in a manner that is effective, proportionate and fair.

**F.S Standards**

**F.S/1 Disciplinary actions under the Ordinance**

- F.S/1.1 Pursuant to section 95ZZS of the Ordinance, the IA may exercise disciplinary powers in respect of a designated insurance holding company if the company is or was guilty of misconduct, or when a person is or was, in the opinion of the IA, not fit and proper to hold the position as a shareholder controller, chief executive, director or key person in control functions of the company.
- F.S/1.2 Pursuant to section 95ZZS of the Ordinance, the IA may, amongst other powers, order a designated insurance holding company to pay a pecuniary penalty (section 95ZZS(2)(b)).
- F.S/1.3 Pursuant to section 95ZZU of the Ordinance, in exercising the power to impose pecuniary penalty under section 95ZZS, the IA shall have regard to this Module which indicates the way in which it proposes to exercise that power.
- F.S/1.4 Pursuant to section 95ZZS(3) of the Ordinance, the IA may disclose to the public details of its decision, the reasons for which the decision was made and any material facts relating the case.

**F.S/2 Principal purposes in exercising IA's power to impose pecuniary penalty**

- F.S/2.1 The principal purposes for the IA in imposing a pecuniary penalty are:
- (a) to promote and encourage designated insurance holding companies to implement and follow in relation to their supervised groups proper standards of conduct and sound and prudent business practices so as to protect policy holders and potential policy holders and the public interest by deterring the designated insurance holding companies which

have engaged in misconduct from engaging in further misconduct, and to help deter other designated insurance holding companies from engaging in similar misconduct;

- (b) to deter chief executives, directors and key persons in control functions of designated insurance holding companies from conduct that would render them, in the opinion of the IA, not fit and proper to continue to hold their respective positions;
- (c) to sanction designated insurance holding companies which engaged a person who was not fit and proper to hold the position of chief executive, director or key person in control functions of the companies;
- (d) to sanction a designated insurance holding company if it has/had a shareholder controller who is/was not fit and proper; and
- (e) to ensure that a designated insurance holding company guilty of misconduct should not benefit from such misconduct.

**F.S/3      Considerations in exercising IA’s power to impose pecuniary penalty**

F.S/3.1      A pecuniary penalty should be effective, proportionate and fair. The more serious the misconduct, the greater the likelihood that the IA will impose a pecuniary penalty and that the amount of the penalty will be higher. When considering whether to impose a pecuniary penalty and the amount of the penalty, the IA will consider all the circumstances of the particular case, including relevant factors listed in F.S/3.2 to F.S/3.5 below. These factors are not exhaustive and not all of these factors may be applicable in a particular case, and there may be other factors, not listed, that are relevant.

*The nature, seriousness and impact of the conduct*

- F.S/3.2      The nature, seriousness and impact of the conduct, including:
- (a) nature of the conduct (e.g. whether it was intentional, reckless, fraudulent, negligent or a technical breach);
  - (b) impact of the conduct on the interests of policy holders,

potential policy holders or the public interest;

- (c) costs imposed on and loss or risk of loss caused to policy holders and/or potential policy holders;
- (d) duration and frequency of the conduct;
- (e) the amount of profits gained or loss avoided;
- (f) whether the conduct is potentially damaging or detrimental to the integrity and stability of the insurance industry, the overall safety and soundness of the international financial system, and/or the reputation of Hong Kong as an international financial centre;
- (g) whether there are a number of smaller issues, which individually may not justify a disciplinary action, but which do so when taken collectively;
- (h) whether the conduct is or was part of a more serious misconduct;
- (i) whether the conduct of the designated insurance holding company was followed or acted upon by other members in its supervised group to the detriment of policy holders, potential policy holders or the public interest and the extent of the other members' involvement and resulting detriment;
- (j) whether the conduct of the designated insurance holding company resulted in or failed to prevent acts or omissions by members of its supervised group which were detrimental to the interests of policy holders or potential policy holders or the public interest and the extent of the other members' involvement and resulting detriment;
- (k) the nature and extent of any financial crime facilitated, occasioned or otherwise attributable to the conduct;
- (l) the level of senior management involved and the extent of their involvement;
- (m) whether there is a breach of fiduciary duty; and
- (n) whether the conduct reveals of serious or systemic weaknesses of governance, risk management systems or internal control failures for which the designated insurance

holding company is responsible in relation to its supervised group.

*The behaviour of the designated insurance holding company*

F.S/3.3 The behaviour of the designated insurance holding company since the conduct was identified, including:

- (a) manner of reporting the conduct by the designated insurance holding company (e.g. whether it takes a proactive approach and has timely and comprehensively reported the conduct to the IA or another relevant regulatory authority);
- (b) whether the designated insurance holding company attempted to conceal the conduct;
- (c) the degree of co-operation with the IA and other authorities;
- (d) remedial steps taken since the identification of the conduct; and
- (e) the likelihood that the designated insurance holding company will engage in the same type of conduct in the future.

*The previous disciplinary record and compliance history of the designated insurance holding company*

F.S/3.4 The previous disciplinary record and compliance history of the designated insurance holding company, including:

- (a) previous disciplinary record and compliance history of the designated insurance holding company; and
- (b) whether the designated insurance holding company has previously undertaken not to engage in a particular conduct.

*Other relevant factors*

F.S/3.5 Other relevant factors, including:

- (a) guidelines issued by the IA – generally, the IA will not take disciplinary action against a designated insurance holding company for conduct that it considers to be in line with any guideline that was current at the time of the conduct in question;
- (b) the IA’s action or decision in previous similar cases;
- (c) financial jeopardy – generally, a pecuniary penalty should not have the likely effect of putting the designated insurance holding company concerned (or the supervised group to which it belongs) in financial jeopardy so that the interests of policy holders, potential policy holders or the public interest may be adversely affected;
- (d) actions taken by other domestic or overseas regulatory authorities in respect of the conduct in question; and
- (e) the result or likely result of any civil action taken or likely to be taken against the designated insurance holding company (or member(s) of the supervised group to which it belongs) in respect of the conduct in question.

**MODULE G**

**MODULE G**  
**CORPORATE GOVERNANCE FOR**  
**SUPERVISED GROUPS**

**G.P Principle**

G.P/1 A designated insurance holding company should establish and implement a corporate governance framework for its supervised group, which (a) provides for sound and prudent management and oversight of the supervised group's business; and (b) adequately recognises and protects the interests of policy holders of members of the supervised group which carry on insurance business.

**G.S Standards**

**G.S/1 Organizational structures**

G.S/1.1 A designated insurance holding company should:

- (a) document the legal and management structures of, and inter-relationships within, its supervised group to enable an understanding of its structure to help identify risks and how they are managed;
- (b) ensure that the corporate governance framework of its supervised group is appropriate to the structure, business and risks of the supervised group and each of its members; and
- (c) establish clear reporting lines between the designated insurance holding company and all other members within the supervised group.

**G.S/2 Appropriate allocation of oversight and management responsibilities**

G.S/2.1 The Group Board of the designated insurance holding company should in relation to its supervised group:

- (a) ensure that the roles and responsibilities allocated to the Group Board, senior management and key person(s) in control functions are clearly defined so as to promote an appropriate separation of the oversight function from the management responsibilities;
- (b) provide oversight of the senior management; and

- (c) establish a well-defined governance structure for the supervised group, which promotes effective oversight of the operations of the group independent of day-to-day management of the group.

**G.S/3 Corporate culture, business objectives and strategies of the group**

- G.S/3.1 The Group Board should oversee the implementation of the corporate culture, business objectives and strategies for achieving those objectives, in line with the long-term interests and viability of the supervised group.
- G.S/3.2 The Group Board should take the lead in setting the appropriate “tone at the top” including adherence to the corporate values and risk culture to avoid excessive risk taking, which should be reflected in the supervised group’s code of ethics, or similar group policy, as to what the supervised group considers to be acceptable and unacceptable conduct.
- G.S/3.3 The Group Board should ensure that the business objectives for the supervised group, and strategies for achieving those objectives, take into account at least the following:
  - (a) applicable laws and regulations of, and the risks which may arise from doing business in the jurisdictions in which the members of the supervised group operate;
  - (b) long-term financial safety and soundness of the supervised group;
  - (c) the interests of policy holders and other stakeholders;
  - (d) fair treatment of customers; and
  - (e) the interests and objectives of the members of the supervised group which carry on insurance business.

**G.S/4 Structure and governance of the Group Board**

- G.S/4.1 The Group Board should, on an on-going basis:

- (a) have an appropriate number and mix of individuals to ensure that there is an overall adequate level of competence at the Group Board level commensurate with the governance structure;
- (b) have sufficient knowledge and breadth of experience appropriate to guide the supervised group and oversee its activities effectively, as the Board of the designated insurance holding company of the supervised group. In view of the wide spectrum of professional knowledge required in administering the business and affairs of a supervised group, the Group Board should have an adequate spread and level of expertise in areas as appropriate to the supervised group's business;
- (c) ensure the supervised group maintains appropriate checks and balances against the influence of management and shareholder controllers. As a general principle, at least one-third of the Group Board is required to be composed of Independent Non-Executive Directors ("INED"). Under exceptional circumstances where the number of INEDs has to be lowered temporarily, the group should seek approval from the IA for temporary exemption with valid justification as soon as reasonably practical. The exemption period will be determined on a case-by-case basis. The role of chairman and chief executive should be separate and should not be performed by the same individual;
- (d) ensure the supervised group has appropriate internal governance practices and procedures to support the work of the Group Board in a manner that promotes the efficient, objective and independent judgement and decision making by the Group Board; and
- (e) have adequate powers and resources required to discharge its duties fully and effectively.

G.S/4.2 The Group Board should demonstrate a collective understanding of at least:

- (a) the corporate governance framework and corporate structure of the supervised group;
- (b) the activities of members of the supervised group, including associated risks;

- (c) the supervisory regimes applicable to the supervised group members of the supervised group;
- (d) the issues that arise from cross-border business and international transactions involving members of the supervised group; and
- (e) the risk management, compliance, audit, actuarial and related areas of the supervised group.

**G.S/4.3 The Group Board should:**

- (a) review, at least annually, its own performance to ascertain whether directors collectively and individually remain effective in discharging the respective roles and responsibilities assigned to them and identify opportunities to improve the performance of the Group Board as a whole; and
- (b) ensure that the corporate governance framework of the supervised group includes policies and processes to identify and avoid, or manage, conflicts of interest that may adversely affect the supervised group as a whole or any of its members.

**G.S/4.4 The Group Board may, as appropriate, delegate some of the activities or tasks associated with its own roles and responsibilities to designated committees or groups of persons. Notwithstanding such delegations, the Group Board retains the ultimate responsibility. Where the Group Board makes any delegations, it should ensure that the delegation:**

- (a) is appropriate with regard to the tasks and parties and without leading to any undue concentration of powers;
- (b) is made under a clear mandate with well-defined terms and is supported by adequate resources; and
- (c) can be effectively monitored, assessed and withdrawn if the delegated tasks are not properly carried out.

**G.S/5 Duties of individual Group Board members**

**G.S/5.1 A director on the Group Board should:**

- (a) act in good faith, honestly and reasonably;

- (b) exercise due care and diligence;
- (c) act in the interests of the designated insurance holding company and its supervised group and protect the interests of policy holders of members of the supervised group which carry on insurance business, putting those interests ahead of his/her own interests to avoid actual, potential or perceived conflicts of interest;
- (d) exercise independent judgement and objectivity in his/her decision making, taking due account of the interests of the designated insurance holding company and its supervised group and policy holders of members of the supervised group which carry on insurance business; and
- (e) not use his/her position to gain undue personal advantage or cause any detriment to the designated insurance holding company or its supervised group.

## **G.S/6      Group Board matters**

- G.S/6.1      The directors on the Group Board should satisfy themselves that all the directors, chief executive and key person(s) in control functions of the designated insurance holding company are fit and proper persons. For the purposes of this paragraph G.S/6.1, in ascertaining the fit and propriety of a person, reference shall be made to the relevant provisions in the Ordinance and any other relevant guideline(s) issued by the IA from time to time.
- G.S/6.2      A formal, documented and transparent process, preferably overseen by a nomination committee, should be in place for the nomination, selection, appointment, removal as well as succession of directors, senior management, chief executive and key person(s) in control functions of a designated insurance holding company.
- G.S/6.3      All directors on the Group Board should be provided and updated on a timely basis with accurate and relevant information to enable them to fulfil their responsibilities effectively. The directors on the Group Board should have power to access the relevant persons within the supervised group for obtaining such information.

- G.S/6.4 The directors on the Group Board should have recourse to independent professional advice which is to be paid for by the designated insurance holding company when performing their duties.
- G.S/6.5 A newly appointed director to the Group Board or newly appointed chief executive of a designated insurance holding company should be provided with suitable induction to enable him/her to discharge his/her duties properly.
- G.S/6.6 Directors on the Group Board should meet as a board as frequently as is necessary for them to discuss and consider the corporate affairs of the designated insurance holding company and its supervised group and to respond to the market changes by devising suitable strategies.
- G.S/6.7 Full minutes of Group Board meetings should be kept for record and reference purposes.
- G.S/6.8 The Group Board should review the membership of its board appointed committees at least annually.
- G.S/6.9 The Group Board should implement appropriate measures including a training programme for directors, to address any identified inadequacies and to improve performance of the Group Board.

**G.S/7 Independent Non-Executive Directors**

- G.S/7.1 INEDs mainly provide an independent perspective to and a broader outlook on the decision-making by the Group Board in relation to matters concerning the supervised group. In this respect their role includes assisting the senior management to set the corporate objectives and strategies, scrutinizing the approach of the management or attending to the affairs of the board appointed committees (e.g. the audit committee).
- G.S/7.2 The IA is not likely to be satisfied that a director is an INED of a designated insurance holding company if:
  - (a) he is an employee of that designated insurance holding company or of a company within the supervised group, or has been such an employee within the last three years;

- (b) he is a director, other than an INED, of a company within the supervised group of the designated insurance holding company;
- (c) he is a controller of that designated insurance holding company or of a company within the supervised group of the designated insurance holding company;
- (d) he is an associate (as defined under section 95A(1) of the Ordinance) of a director or controller of a company within the supervised group of the designated insurance holding company;
- (e) he is a director or controller of a corporation that has significant financial interests with that designated insurance holding company or any companies within the same group of companies as that of the designated insurance holding company. For example, he is a major service provider of the designated insurance holding company; or
- (f) he has significant financial association with that designated insurance holding company or with a company within the same group of companies as that of the designated insurance holding company that could affect the impartiality of his independent judgement. For example, he has significant loans due from or to that designated insurance holding company. For the avoidance of doubt, remuneration for a director generally does not constitute significant financial association.

**G.S/8            Duties related to risk management and internal controls**

- G.S/8.1        The Group Board should provide oversight in respect of the design and implementation of risk management and internal controls across the supervised group. This includes the requirement for members of the supervised group to take effective measures to deter, prevent, detect, report and remedy non-compliance with relevant legal and regulatory requirements and fraud in insurance.

**G.S/9            Duties related to remuneration**

- G.S/9.1        The Group Board should:

- (a) adopt, approve and oversee the effective implementation of a written remuneration policy for the designated insurance holding company and its supervised group, which does not induce excessive or inappropriate risk taking, is in line with the corporate culture, objectives, strategies, identified risk appetite, and long-term interests of the supervised group, and has proper regard to the interests of policy holders of members of the supervised group carrying on insurance business and other stakeholders of the group; and
- (b) ensure that the remuneration policy, at a minimum, covers those individuals who are directors on the Group Board, members of the senior management or key person(s) in control functions of the designated insurance holding company and other employees of any member of the supervised group whose actions may have a material impact on the risk exposure of the supervised group (major risk-taking staff<sup>10</sup>).

G.S/9.2 The remuneration policy of a designated insurance holding company in relation to its supervised group should include, without limitation:

- (a) the remuneration structure;
- (b) the criteria for performance measurement;
- (c) any specific factors relevant to the remuneration of directors on the Group Board, senior management and key persons in control functions of a designated insurance holding company and major risk taking employees; and
- (d) severance payments.

#### Remuneration structure<sup>11</sup>

G.S/9.3 Subject to local laws, regulations and rules, the remuneration structure should include fixed and variable components. In determining the variable remuneration component, the following considerations should be taken in account:

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<sup>10</sup> These may include staff authorized to make decisions on underwriting activities or investment activities.

<sup>11</sup> Variable remuneration is not applicable to INEDs.

- (a) individual performance and/or performance of the designated insurance holding company and its supervised group;
- (b) prudent limits that are consistent with the designated insurance holding company's capital management strategy for its supervised group and the ability of the group to maintain a sound capital base taking account of its targets or group capital requirements;
- (c) if the variable component of remuneration is significant, the major part of any variable remuneration should be deferred for an appropriate period. The deferral period<sup>12</sup> usually varies on the level of seniority<sup>13</sup>, responsibility of the individual, and the nature and time horizon of the risks undertaken by the individual. Under exceptional circumstances and subject to the approval of the Group Board (or the approval of the remuneration committee, if a remuneration committee is in place) and proper documentation, the designated insurance holding company may exercise discretion to pay remuneration within the deferral period; and
- (d) where variable remuneration comprises share-based elements (such as shares and share options), the following safeguards should be implemented to align incentives to the longer term interests of the supervised group:
  - (i) Vesting restrictions – Vesting conditions and vesting schedules where shares should be vested over a period of at least three years after their award;
  - (ii) Holding restrictions – share options should not be exercisable for a minimum of at least three years after their award; and
  - (iii) Retention restrictions – an appropriate proportion of the shares should be retained after vesting or exercise. The retention portion and period set should take account of factors including seniority level, nature and time

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<sup>12</sup> Implementation Standards (No. 7) for the Financial Stability Board Principles for Sound Compensation Practices suggests a minimum deferral period of three years.

<sup>13</sup> Implementation Standards (No. 6) for the Financial Stability Board Principles for Sound Compensation Practices suggest the proportion of variable remuneration subject to deferral be set at 40%-60% for Senior Executives and other employees whose actions have a material impact on the risk exposure of the company; and over 60% for most senior management and most highly paid employees.

horizon of risks undertaken, and the relevant vesting period or holding period of shares.

- G.S/9.4      There should be a malus provision for the unvested portion of the deferred remunerations and preferably clawback provisions for the vested portion of the deferred remunerations if the financial performance of the supervised group or the circumstances under which the performance is measured has been proved not to be genuine. This includes, but is not limited to misstatement of data, fraud, malfeasance or violation of policies.

Criteria for performance measurement

- G.S/9.5      The performance criteria applicable to the variable remuneration should promote a complete assessment of the risk-adjusted performance, and should have the following characteristics:
- (a) be clearly defined, pre-determined and objectively measurable;
  - (b) include both financial and non-financial factors as appropriate;
  - (c) be based on the performance of the individual, the business unit, the overall results of the supervised group as appropriate;
  - (d) be set in a multi-year framework (e.g. three-to-five years) to allow adjustments for material current and future risks and/or performance, as appropriate. This approach can align the remuneration with long-term performance and prevent short-term gains by taking greater risks; and
  - (e) not adopt growth or volume targets as isolated criteria.

Key persons in control functions

- G.S/9.6      The remuneration of key persons in a control function of a designated insurance holding company should:
- (a) be based on the effective achievement of the objectives appropriate to such control functions;

- (b) not be solely linked to the performance of any business units which are subject to their control or oversight; and
- (c) be adequate to attract and retain staff with the requisite skills, knowledge and expertise to discharge those control functions effectively.

G.S/9.7 Where the control function is outsourced, the remuneration payable to the service provider should be consistent with the remuneration policy and objectives of the supervised group.

### Severance payments

G.S/9.8 Discretionary payouts on termination of employment, if paid, should be in line with the financial condition and performance of the supervised group and any relevant business units over an appropriate time horizon. Discretionary severance payments should not be paid in case of failure or threatened failure of the supervised group, particularly to an individual whose actions have contributed to the failure or potential failure of the group.

## **G.S/10 Reliable and transparent financial reporting**

G.S/10.1 The Group Board should ensure there is a reliable financial reporting process for all financial reports of the designated insurance holding company and its supervised group (including such reports which need to be submitted to the involved supervisors of members of the supervised group). This should include clearly defined roles and responsibilities for the Group Board, senior management and the external auditor appointed by the designated insurance holding company for the supervised group.

## **G.S/11 Declaration of dividends**

G.S/11.1 A designated insurance holding company should establish a policy on the declaration of dividends by members in its supervised group to shareholders and to participating policy holders of members of the supervised group carrying on insurance business. The dividend policy must comply with all relevant statutory requirements, should fulfil the reasonable expectations of shareholders and participating

policy holders and conform with the terms of any relevant insurance policies and be fair and equitable.

**G.S/12      External audit**

- G.S/12.1      The Group Board should ensure that there is adequate governance and oversight of the external audit process for the designated insurance holding company and its supervised group.

**G.S/13      Communications and updates to the IA**

- G.S/13.1      The Group Board should establish and maintain systems and controls to ensure appropriate, timely and effective communications with the IA on the governance of its designated insurance holding company and its supervised group.

- G.S/13.2      As part of the systems and controls referenced in G.S/13.1, a designated insurance holding company should establish a process for updating the IA of key issues that have been considered by its Group Board at board meetings (“Group Board Updates”). The IA expects that certain typical issues should be escalated to the Group Board and therefore be covered in the Group Board Updates to be provided to the IA. These issues are described in the Annex to this Module, which are non-exhaustive and do not limit the key issues that should be notified to the IA.

- G.S/13.3      A designated insurance holding company should submit its Group Board Updates to the IA within 2 weeks after each Group Board meeting in relation to its supervised group. It should ensure such Group Board Updates are provided by personnel with the requisite authorization from the Group Board to provide such updates.

**G.S/14      Duties of senior management**

- G.S/14.1      The designated insurance holding company should ensure that its senior management:
- (a) carries out the day-to-day operations of the designated insurance holding company in relation to management and oversight of its supervised group effectively and in accordance with the corporate culture, business objectives and

strategies for achieving those objectives in line with the long term interests and viability of the supervised group;

- (b) promotes sound risk management, compliance and fair treatment of customers;
- (c) provides the Group Board with adequate and timely information to enable the Group Board to carry out its duties and functions including monitoring and reviewing the performance and risk exposures of the supervised group, and the performance of senior management; and
- (d) maintains adequate and orderly records, as required.

#### **G.S/15 Business continuity planning**

G.S/15.1 Subject to liquidation or winding-up proceedings or corporate reorganizations taken in the ordinary course of business, a designated insurance holding company should maintain a business continuity policy and business continuity plan (“BCP”) for its supervised group for both going-concern and gone-concern situations.

G.S/15.2 The business continuity policy should cover:

- (a) the governance structure for the policy’s approval, activation of the BCP and decision-making during a business continuity event;
- (b) the identification of plausible disruptions to business continuity and the impact to the members of the supervised group; and
- (c) the approach to continue and restore the business activities of the members of the supervised group.

G.S/15.3 If the designated insurance holding company in any circumstances needs to activate the BCP for its supervised group, it has to inform the IA promptly, and provide information of the disruptions, actions taken, potential impacts and the recovery timeline. Progress reports should be provided thereafter until the position or business activities are restored or resumed normal.

## **G.S/16 Compliance with laws, regulations and rules**

- G.S/16.1 The Group Board is responsible for having structures in place to ensure compliance by its designated insurance holding company and its supervised group with all the relevant laws, regulations, rules, guidance notes, guidelines and codes issued by the involved supervisors of the supervised group; and applicable standards and codes issued by any relevant industry bodies.
- G.S/16.2 A designated insurance holding company should, upon the IA's request, submit to the IA detailed information on the internal control system established and maintained for its supervised group and strengthen such system if required by the IA.

## **G.S/17 Committees**

- G.S/17.1 The Group Board should at a minimum establish an audit committee and a risk committee for the designated insurance holding company in relation to its supervised group<sup>14</sup>. Other committees as part of the corporate governance framework established by a designated insurance holding company for its supervised group can include the nomination committee, remuneration committee, investment committee, underwriting committee, claims settlement committee, and reinsurance committee.

### *Audit committee*

- G.S/17.2 The audit committee should assist the Group Board by providing an independent review of the effectiveness of the financial reporting process and internal control system of the designated insurance holding company in relation to its supervised group. The audit committee should make recommendations on the appointment, re-appointment and removal of external auditors appointed by the designated insurance holding company in relation to its supervised

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<sup>14</sup> For this purpose, the Group Board may appoint committees established by its holding company to serve as the committees for the designated insurance holding company in relation to its supervised group, if it is appropriate to do so in the context of the supervised group's structure. This would only be appropriate, however, if the committees at the holding company level take full account of the supervised group and the relevant principles and standards in this Guideline, appropriate directors from the Group Board serve in that capacity as members of such committees so as to meet the relevant principles and standards in this Guideline as to committee membership, and such committees also report directly to the Group Board (as well as to the board of the holding company). This may be the case, for example, where the directors of the Group Board also serve as directors on the board of the holding company.

group. The audit committee should comprise of a minimum of three directors from the Group Board, including at least one INED, and preferably INEDs in majority.

#### Risk committee

- G.S/17.3 The risk committee oversees the establishment and operation of the risk management system independently of the supervised group. The majority of the risk committee members should preferably be INEDs from the Group Board. The duties of the risk committee include advising the Group Board on the supervised group's risk appetite, reviewing the adequacy and effectiveness of the risk management policies for material risks on a regular basis and ensuring sufficient resources are in place for risk management for the supervised group. The risk committee should have access to information provided by senior management and key person(s) in the risk management function for the designated insurance holding company (often referred to as the Group Chief Risk Officer).

#### Nomination committee

- G.S/17.4 If a nomination committee is established, it should nominate suitable candidates for the appointment of directors of the designated insurance holding company. In making a nomination, the committee is required to ensure, amongst other things, the qualifications and experience of the nominee meets the relevant requirements. The nomination committee should comprise of at least one INED.

#### Remuneration committee

- G.S/17.5 If a remuneration committee is established, it should review and recommend the remuneration of the designated insurance holding company's directors, senior management and key person(s) in control functions and material risk-taking employees for its supervised group. The remuneration committee should comprise of directors from the Group Board, including INEDs and be chaired by an INED. Members should be competent and be able to exercise independent judgement on the remuneration policy and practices of the designated insurance holding company in relation to its

supervised group. The remuneration committee should work closely with other relevant committees such as the risk committee to assess the impact of the remuneration policy on the risk-taking behavior of the supervised group.

**G.S/18      Servicing of customers**

G.S/18.1      Fair treatment of customers is an important concept and should be an integral part of the business culture, strategy as well as internal controls established and maintained by the designated insurance holding company in relation to its supervised group.

G.S/18.2      The Group Board has ultimate responsibility for the fair treatment of customers by members of the supervised group. A designated insurance holding company should set out clear and proper policies and procedures regarding servicing of customers of members of the supervised group, including in particular disclosure of policy benefits, risks and responsibilities, pricing of insurance policies, handling of customers' complaints, settling of insurance claims, and processes for monitoring the adherence to such policies and procedures.

**G.S/19      Supervisory review**

G.S/19.1      A designated insurance holding company should be in a position to demonstrate the adequacy and effectiveness of the corporate governance framework of its supervised group to the IA, on the IA's request.

**G.S/20      Proper books and records**

G.S/20.1      A designated insurance holding company should keep proper books of accounts which sufficiently exhibit and explain all transactions entered into by its supervised group in the course of any business carried on by the members of the group. These books of accounts 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.

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| <b>G.A</b>   | <b>Annex</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>G.A/1</b> | <b>Typical issues that should be escalated to the Group Board and therefore be covered in the Group Board Updates</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| G.A/1.1      | <p>Updates to the Business and Capital Management Plan</p> <ul style="list-style-type: none"> <li>(a) Updates to the Business and Capital Management Plan (as referred in Module C – Group Capital Adequacy – C.S/2.8) last submitted to the IA.</li> <li>(b) Updates may include, but not limited to: <ul style="list-style-type: none"> <li>(i) business performance (e.g. sales, new business and in-force business profitability, earnings, embedded value and capital generation), capital adequacy and liquidity against plan and against previous year of the supervised group;</li> <li>(ii) delivery progress on key strategic priorities;</li> <li>(iii) impacts from ongoing material strategic projects (e.g. delivery, execution, delays and issues of key strategic project, from the annual business plan);</li> <li>(iv) impacts from ongoing material inorganic investments (e.g. mergers and acquisitions, partnership distribution deals);</li> <li>(v) major financing initiatives for the purpose of funding strategic projects (e.g. upcoming debt / equity issuance plans); and</li> <li>(vi) key strategic projects and inorganic investments in the pipeline for Group Board’s consideration.</li> </ul> </li> <li>(c) Any emerging matters that have been brought to the Group Board’s attention (e.g. initiatives in pipeline and their associated risks) should be included.</li> <li>(d) Opinions from the Chief Executive and other relevant key persons in control functions with any forward-looking view expected on the supervised group’s development.</li> </ul> |
| G.A/1.2      | Updates related to Risk Management, Governance and Audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

- (a) Updates with respect to the ORSA Report (as referred in Module K – Enterprise Risk Management for Supervised Groups – K.S/13.6) last submitted to the IA, as well as key matters related to risk management, corporate governance, audit and internal control.
- (b) Updates may include, but not limited to:
  - (i) changes in the top risks of the supervised group;
  - (ii) any material operational incidents and mitigating actions;
  - (iii) any material compliances breaches, regulatory breaches or breaching of the group's risk appetite and limits;
  - (iv) any material changes to the legal structure of the group and corporate restructuring;
  - (v) nomination, selection, appointment, removal and succession plans of the directors, senior management, chief executive and/or other key persons in control functions of the designated insurance holding company;
  - (vi) key findings from any assessments of internal control effectiveness; and
  - (vii) any emerging matters about the Group's ERM framework that have been brought to the Group Board's attention.
- (c) Any matters or issues related to risk management, corporate governance, audit and internal control that have been escalated to Group Board level.
- (d) Opinions from the Chief Executive and other relevant key persons in control functions with any forward-looking view expected on the supervised group's development.

**MODULE H**

**MODULE H**

**RISK MANAGEMENT AND INTERNAL  
CONTROLS FOR SUPERVISED GROUPS**

**H.P****Principle**

H.P/1

A designated insurance holding company should have, as part of its overall corporate governance framework for its supervised group, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, internal audit and financial control.

**H.S****Standards****H.S/1****Systems for risk management and internal controls**

H.S/1.1

A designated insurance holding company should establish in relation to its supervised group, and ensure that its supervised group operates within, an effective and documented risk management system, which includes, at a minimum:

- (a) a risk management strategy that defines the risk appetite for the supervised group;
- (b) a risk management policy outlining how all material risks are managed within the risk appetite for the supervised group; and
- (c) the ability to respond to changes in the supervised group's risk profile in a timely manner.

H.S/1.2

A designated insurance holding company should have in place effective measures across the supervised group to combat the risk of any member of its supervised group being used for money laundering or financing of terrorism and to ensure that all members of its supervised group comply with local laws and regulatory requirements on anti-money laundering and countering terrorist financing.

H.S/1.3

A designated insurance holding company should ensure that the risk management system of its supervised group covers, at least:

- (a) the diversity and geographical reach of the activities of the supervised group;
- (b) the nature and degree of risks of the members of the supervised group and their business lines;

- (c) the aggregation of risks of all members of the supervised group, including cross-border risks;
- (d) the interconnectedness of the members of the supervised group;
- (e) the level of sophistication and functionality of information and reporting systems in addressing key risks to the supervised group; and
- (f) the applicable laws and regulations of the jurisdictions where the members of the supervised group operate.

H.S/1.4 A designated insurance holding company should reflect, in the documentation of its risk management system for its supervised group, material differences in risk management that may apply to different members of its supervised group and their associated risks.

H.S/1.5 A designated insurance holding company should have a risk management policy in place for its supervised group to help staff throughout the group understand their responsibilities regarding risk management. The risk management policy for the supervised group should reflect how the risk management system relates to the overall corporate governance framework of the supervised group.

H.S/1.6 A designated insurance holding company should:

- (a) review, at least annually, the risk management system of its supervised group to ensure that existing and emerging risks as well as changes in the supervised group's structure and business strategy, are taken into account;
- (b) document material changes to the risk management system of the supervised group; and
- (c) identify and make the necessary modifications and improvements in a timely manner.

## **H.S/2 Internal controls**

H.S/2.1 A designated insurance holding company should establish, and ensure that its supervised group operate within, an effective and documented system of internal controls for the group. Such internal controls system should include:

- (a) appropriate segregation of duties and prevention of conflicts of interest;
- (b) appropriate controls for all key business processes and policies;
- (c) appropriate measures to deter, prevent, detect, report and remedy non-compliance with relevant legal and regulatory requirements and fraud;
- (d) appropriate controls to support the accuracy and completeness of the books, records, and accounts of members of the supervised group which carry on insurance business and other financial consolidation reporting, including the reporting made to the supervisors of the members of the supervised group; and
- (e) sufficient monitoring and review of internal controls.

H.S/2.2 A designated insurance holding company should ensure that the internal controls system for its supervised group at the group level takes into account at least:

- (a) the diversity and geographical reach of the activities of the supervised group;
- (b) the intra-group transactions;
- (c) the interconnectedness of the members of the supervised group; and
- (d) applicable laws and regulations of the jurisdictions where the members of the supervised group operate.

H.S/2.3 A designated insurance holding company should ensure that a cycle of periodic testing, assessing and reporting is carried out by an independent external or internal party to assess the coherence, completeness and effectiveness of the internal controls system within its supervised group and the system's utility to the Group Board and senior management.

### **H.S/3      Control functions (general)**

- H.S/3.1      A designated insurance holding company should have staff responsible for discharging effective control functions<sup>15</sup>, and ensure that they have or are equipped with the necessary skills, authority, independence and resources to perform their roles.
- H.S/3.2      A designated insurance holding company should ensure that:
- (a)      the tasks and responsibilities of the control functions of the designated insurance holding company and its supervised group, whether located at the group level or within another member of its supervised group, are clearly defined; and
  - (b)      the control functions of the designated insurance holding company do not limit the tasks and responsibilities of control functions of the other members of its supervised group.
- H.S/3.3      A designated insurance holding company should ensure that the staff responsible for the control functions of the company:
- (a)      coordinate with the control functions of other members of its supervised group; and
  - (b)      ensure effective group-wide reporting.
- H.S/3.4      The Group Board should ensure that the control functions of its designated insurance holding company:
- (a)      are sufficiently segmented, unless exceptional circumstances apply;
  - (b)      are subject to periodic review either by the internal audit function or an independent external party;
  - (c)      have unrestricted access and periodically report to the Group Board or one of its committees; and
  - (d)      have access to people and information across its supervised group to carry out their responsibilities.

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<sup>15</sup> Control functions for a designated insurance holding company includes those defined in section 95A(1) of the Ordinance i.e. risk management, financial control, compliance, internal audit and actuarial.

#### **H.S/4            Group risk management function**

H.S/4.1        A designated insurance holding company should have staff responsible for discharging an effective group risk management function for assisting its supervised group to:

- (a)    identify, assess, monitor, mitigate and report on the key risks to its supervised group in a timely manner; and
- (b)    promote and sustain a sound risk culture across its supervised group.

H.S/4.2        A designated insurance holding company should ensure that the relevant staff responsible for the group risk management function, at least:

- (a)    have access to the Group Board and provide at least quarterly risk management reports to the Group Board or one of its committees;
- (b)    assist the Group Board and senior management of the designated insurance holding company in carrying out their respective responsibilities, including by providing specialist analysis and performing risk reviews;
- (c)    set out expectations relating to the group-wide responsibilities and reporting of the risk management function of each member in its supervised group, as applicable;
- (d)    annually plan and conduct an assessment of risks to its supervised group, including those which arise from the members of the supervised group and the material business lines of such members;
- (e)    assess the risk management strategy for its supervised group, which is approved by the Group Board, and ensure that this risk management strategy, including supporting processes, is implemented across the supervised group;
- (f)    sets strategies, policies and processes to manage different types of risks and effective interaction between the risk management functions of the designated insurance holding company and of the members of its supervised group; and
- (g)    coordinates and monitors consistent and effective implementation of risk management mechanisms and

activities at the supervised group level (i.e. at the level of the designated insurance holding company) and at the level of the members in the supervised group.

- H.S/4.3 The key persons in control function for the risk management function of a designated insurance holding company (often referred to as the Group Chief Risk Officer) should have the authority and obligation to inform the Group Board promptly of any circumstances that may have a material effect on the risk management system of the designated insurance holding company in relation to its supervised group. The risk management function of the designated insurance holding company should be independent from risk taking activities in its supervised group.

#### **H.S/5 Group compliance function**

- H.S/5.1 A designated insurance holding company should ensure that its supervised group has staff responsible for discharging an effective compliance function capable of assisting the supervised group:
- (a) to meet its legal, regulatory and supervisory obligations; and
  - (b) to promote and sustain an effective compliance culture and monitor compliance with related internal policies across the supervised group.
- H.S/5.2 The staff responsible for discharging the compliance function of a designated insurance holding company in relation to its supervised group should have access and provide written reports to senior management, key persons in control functions and the Group Board of the designated insurance holding company. The key person in compliance function for a designated insurance holding company (often referred to as the Group Chief Compliance Officer) should have the authority and obligation to inform the Group Board or the audit or risk committee or its chairperson promptly and directly of any major non-compliance by a member of senior management of the designated insurance holding company or a material non-compliance by a member the supervised group with an external obligation if in either case he or she believes that the senior management or other persons in authority are not taking the necessary corrective actions and a delay would be detrimental to the supervised group or the policy holders of members of the supervised group which carry on insurance obligations.

H.S/5.3 A designated insurance holding company should ensure that the staff responsible for the group compliance function at least:

- (a) recommend to the Group Board appropriate policies and processes regarding compliance with the legal and regulatory obligations of the designated insurance holding company and the members in its supervised group;
- (b) coordinate and monitor consistent and effective implementation of compliance mechanisms and activities at the supervised group level (i.e. at the level of the designated insurance holding company) and at the level of the members in the supervised group;
- (c) support the Group Board in fostering an effective corporate compliance culture throughout the supervised group;
- (d) assess how the designated insurance holding company and the members in its supervised group are, performing against the compliance standards and goals of the designated insurance holding company in relation to its supervised group;
- (e) assess the material legal and regulatory obligations and compliance risks of the supervised group, and the steps being taken to fulfil or address them, at least annually and as required by the Group Board; and
- (f) provide at least quarterly written reports on their activities to the Group Board or one of its committees.

## **H.S/6 Group actuarial function**

H.S/6.1 A designated insurance holding company should have staff responsible for discharging an effective group actuarial function for evaluating, monitoring and providing advice regarding, at a minimum, technical provisions, premium, and pricing strategies, reserving and investment policies and reinsurance arrangements of the members in the supervised group which carry on insurance business, the policies and controls in respect to the supervised group's members' vulnerability to fluctuations in risk exposures and distribution policies, the capital adequacy of its supervised group and compliance with related statutory and regulatory requirements.

H.S/6.2 A designated insurance holding company should ensure that relevant staff responsible for the group actuarial function perform an overview of the actuarial activities, functions and risks emanating from members in the supervised group which carry on insurance business. This overview should include, at least:

- (a) management of policies and controls relevant to govern the activities of the group actuarial function of the designated insurance holding company;
- (b) actuarial concerns related to any of the members in the supervised group which carry on insurance business, or the supervised group as a whole, as applicable;
- (c) the supervised group's solvency position, based on calculations of group capital requirements and technical provisions;
- (d) the supervised group's prospective solvency position, based on capital adequacy assessments and stress tests, under various scenarios, and their relative impact on assets, liabilities, and actual and future capital levels of the supervised group;
- (e) the adequacy of the reinsurance arrangements for the members of the supervised group carrying on insurance business; and
- (f) actuarial-related risk modelling used in the designated insurance holding company's ORSA and GIECA for its supervised group.

H.S/6.3 A designated insurance holding company should ensure that its group actuarial function of the supervised group:

- (a) works with the actuarial functions of the other members in its supervised group; and
- (b) provides independent advice and at least annually reports to the Group Board or one of its committees on the insurance activities of the members in the supervised group which carry on insurance business and the risks posed to the supervised group.

## **H.S/7        Group internal audit function**

- H.S/7.1        A designated insurance holding company should have staff responsible for discharging an effective internal audit function capable of providing the Group Board with independent assurance in respect of the quality and effectiveness of the corporate governance framework of its supervised group. The group internal audit function should establish, implement and maintain a risk-based audit plan to examine and evaluate the adequacy and effectiveness of the controls to manage risks of the supervised group.
- H.S/7.2        The key person in the group internal audit function of a designated insurance holding company (often referred to as the Group Chief Internal Auditor) should report to the Group Board or to the audit committee or its Chair. The key person in the group internal audit function should be authorized to communicate directly, and meet periodically, with the head of the audit committee or the Chair of the Group Board without management present.
- H.S/7.3        The Group Board should ensure that the group internal audit function provides independent assessment and assurance to the Group Board regarding at least, the following:
- (a)    group-wide policies, processes, and controls;
  - (b)    the overall means by which the supervised group preserves its assets, and those of policy holders of members of the supervised group which carry on insurance business, and seeks to prevent fraud, misappropriation or misapplication of such assets;
  - (c)    reliability, integrity and completeness of accounting, financial, management, information technology systems and risk reporting information;
  - (d)    capability and adaptability of information technology systems to provide information in an accurate and timely manner to the Group Board and senior management of the designated insurance holding company; and
  - (e)    design and operational effectiveness of the risk management and internal controls systems for the supervised group, both at the level of the members of the supervised group and at the group level (i.e. at the level of the designated insurance holding company).

- H.S/7.4      A designated insurance holding company should:
- (a)    ensure that its group internal audit function has appropriate skills and capabilities to perform its duties;
  - (b)    enable the IA to request meetings with the group internal audit and external audit functions under a trilateral arrangement; and
  - (c)    enable group internal audit to provide the IA with information.

**H.S/8            Group financial control function**

- H.S/8.1      A designated insurance holding company should have staff responsible for discharging an effective financial control function capable of overseeing all financial matters (including investments, accounting and financial reporting) of the designated insurance holding company and its supervised group.

**MODULE I**

**MODULE I**  
**OUTSOURCING FOR SUPERVISED GROUPS**

**I.P Principle**

- I.P/1 A designated insurance holding company is required to adopt a sound and responsive framework in formulating and monitoring the outsourcing arrangements for its supervised group. A designated insurance holding company is required to establish a group outsourcing policy to formulate and monitor outsourcing arrangements for the protection of the interests of existing and potential policy holders of members of the supervised group which carry on insurance business.

**I.S Standards**

**I.S/1 Legal and regulatory obligations**

- I.S/1.1 Whilst a designated insurance holding company and the members of its supervised group have the flexibility to carry out their operations in the way best suited to accomplishing the supervised group's corporate objectives, the supervised group members which enter into any outsourcing arrangement retain ultimate accountability for all relevant outsourced services. The Group Board and senior management of the designated insurance holding company of a supervised group are required to ensure that accountability and responsibility for any services outsourced by members of its supervised group, is retained within the supervised group. A designated insurance holding company's corporate governance framework and systems of risk management and internal controls should be implemented to enable the Group Board and senior management of the designated insurance holding company to exercise oversight and management of material outsourcing arrangements of the supervised group. The responsibility of the designated insurance holding company for the oversight of the performance of functions performed by any members of its supervised group (and direct responsibility for the designated insurance holding company's own functions) shall not be restricted or limited by way of outsourcing of any of those functions.
- I.S/1.2 Outsourcing arrangement does not diminish the obligations of the designated insurance holding company to comply with, and ensure that the outsourcing arrangements of its supervised group are in compliance with relevant laws, regulations and rules. Specifically, a designated insurance holding company must ensure that it maintains

proper books of accounts and records which may be made available for inspection by the IA in Hong Kong when required. It must also ensure that adequate and up-to-date data can be retrieved from members of its supervised group or the service provider in a timely manner. A designated insurance holding company should ensure that an outsourcing arrangement would not impede the IA's ability to exercise its statutory responsibilities as group supervisor.

- I.S/1.3 The supervisory approach to material group outsourcing arrangements as described in I.S/3, does not supersede any other regulatory obligations with regard to outsourcing arrangements that impact the risk profile of other members of its supervised group. Regulatory obligations on outsourcing arrangements applicable to supervised group members must be fulfilled in addition to the requirements prescribed in this Module.

## **I.S/2 Essential issues**

### **Outsourcing policy**

- I.S/2.1 A designated insurance holding company should develop an outsourcing policy<sup>16</sup> for its supervised group, approved by the Group Board or delegated<sup>17</sup> by the Group Board to a designated committee or groups of persons designated by the Group Board, that sets out the internal review and approvals required and provides guidance on the contractual and other risk issues to consider which includes, among other things, the following:
- (a) the objectives of outsourcing and criteria for approving an outsourcing arrangement by any member of its supervised group;
  - (b) the framework for evaluating the materiality of outsourcing arrangements to its supervised group;
  - (c) the framework for a comprehensive assessment of risks involved in any outsourcing undertaken by any member of its supervised group;

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<sup>16</sup> An outsourcing policy may be part of or a subset of another policy without regard to how it is named.

<sup>17</sup> See also Module G – Corporate Governance for Supervised Groups with regard to the expectation and guiding principles on delegation.

- (d) the framework for monitoring and controlling outsourcing arrangements by members of its supervised group;
- (e) the identities of the parties involved and their roles and responsibilities in approving, assessing and monitoring the outsourcing arrangements, and how those responsibilities may be delegated and details of any authority limits; and
- (f) the review mechanism to ensure the outsourcing policy and the monitoring and control procedures are capable of being adapted to accommodate changing circumstances of the supervised group and cater for market, legal and regulatory developments. Such considerations should include the identification and review of the cumulative risks of all outsourced activities and functions across the supervised group and how those risks are addressed.

I.S/2.2 A designated insurance holding company should document its outsourcing policy, cascade it down to all members in the supervised group and ensure that procedures are in place such that all relevant staff of members of its supervised group are aware of, and comply with, the outsourcing policy.

*Materiality assessment to identify material group outsourcing arrangements*

I.S/2.3 A designated insurance holding company should develop a framework for assessing the materiality of an outsourcing arrangement to be entered into by a member of its supervised group, to assess whether such arrangement is a material group outsourcing arrangement. The assessment of a material group outsourcing arrangement may include the materiality of the member of the supervised group insofar that such outsourcing arrangement by a member of the supervised group would not significantly and adversely impact the supervised group (as a whole). A material group outsourcing arrangement is a function or service to be outsourced by any member (or members) of the supervised group, which if it is disrupted or falls short of the performance standards set, would significantly and adversely impact:

- (a) the financial position, business operation and reputation of the supervised group (as a whole);

- (b) the ability of the member(s) of the supervised group, which carry on insurance business, to meet obligations or provide adequate services to policy holders; or
- (c) the ability of the member(s) of the supervised group to comply with applicable legal and regulatory requirements.

#### I.S/2.4

Factors that a designated insurance holding company should ensure are taken into account when deciding whether a proposed outsourcing arrangement is a material group outsourcing arrangement include, but are not limited to:

- (a) the impact on the financial position of its supervised group (e.g. solvency and liquidity), business operation (e.g. provision of adequate services to customers) and reputation of the supervised group if the outsourced service is disrupted or falls short of acceptable standards;
- (b) the impact on the ability of its supervised group to maintain adequate internal controls and comply with legal and regulatory requirements if the outsourced service is disrupted or falls short of acceptable standards;
- (c) the cost of outsourcing as a proportion of the total operating costs of the supervised group;
- (d) the degree of difficulty and time required to find an alternative service provider or to bring the outsourced service in-house (i.e. the member which outsources the service, takes on the function itself), if necessary;
- (e) the number of members of the supervised group which will be utilizing the outsourcing arrangement; and
- (f) the degree to which the outsourcing arrangement involves cross-border outsourcing.

#### I.S/2.5

In carrying out the materiality assessment, particular attention should be paid to outsourcing arrangements whereby several members of the supervised group are outsourcing a service or function to be performed by another member of the supervised group. Such arrangements, where they involve cross-border outsourcing (e.g. outsourcing to a shared-service hub), should be considered material if the outsourced service or function is needed to effect the recovery planning and/or resolution planning of the designated

insurance holding company or its supervised group (as the case may be).

I.S/2.6 A designated insurance holding company should ensure that the materiality assessment of a potential outsourcing arrangement is performed at the outset of the procurement process and updated periodically thereafter, including both during the procurement process and after the outsourcing arrangement is implemented and whenever there is any significant variation made to the outsourcing arrangement. An outsourcing arrangement which was previously immaterial may become material due to, for instance:

- (a) a decision to increase the number of members of the supervised group which will be utilizing the outsourced services (whether the decision is made before the completion of the procurement process or after the outsourcing arrangement has been implemented);
- (b) changes in the volume and the nature of the service outsourced to the service provider, caused by an increase in the use of, or reliance placed on the service by the members of the supervised group;
- (c) a significant variation is made to the outsourcing arrangement after it has been implemented such as to create some other significant change that causes it to be considered a material group outsourcing arrangement.

I.S/2.7 The standards in I.S/3 in this Module shall apply to all material group outsourcing arrangements or potential material group outsourcing arrangements, identified by the designated insurance holding company as being material in accordance with either the initial or any subsequent periodic materiality assessments carried out in accordance with sections I.S/2.3 to I.S/2.6.

### Risk assessment

I.S/2.8 A designated insurance holding company should ensure that a comprehensive risk assessment of the outsourcing arrangement is conducted (either by the company or the member of the supervised group seeking to enter into the outsourcing arrangement) before a new outsourcing arrangement is entered into, or an existing outsourcing arrangement is renewed or varied. The assessment

should take into account all relevant and systemic risks including impact on financial, operational, legal and reputation aspects and potential losses to customers and its supervised group in the event of a failure by the service provider to perform the outsourced service. The designated insurance holding company should exercise (or should ensure that the relevant member of its supervised group exercises) due care and diligence to ensure that all identified risks associated with the outsourcing arrangement have been addressed by (i) either the Group Board or senior management for material group outsourcing arrangements, or (ii) the personnel within the supervised group who have authority from the Group Board and senior management to make decisions in relation to the outsourcing arrangement where the arrangement is not material, prior to the implementation of, or amendment to, the outsourcing arrangement.

- I.S/2.9 A designated insurance holding company should ensure that periodic assessments on the cumulative risks of the existing outsourcing arrangements of its supervised group are conducted regularly to address identified risks.

#### Outsourcing of material activities or function

- I.S/2.10 A designated insurance holding company should retain at least the same degree of oversight of, and accountability for any material outsourcing by its supervised group (including outsourcing of a control function) as would apply to any activities or functions which are not outsourced.

#### Service provider

- I.S/2.11 A designated insurance holding company should ensure that due diligence and care is exercised when selecting a service provider for an outsourcing arrangement involving its supervised group. Such due diligence should, among other things, take into account the following factors when selecting a service provider:
- (a) aggregate exposure and concentration to the service provider;
  - (b) conflicts of interests;
  - (c) pricing and benefits gained with the outsourcing arrangement;

- (d) reputation, experience and quality of service;
- (e) financial soundness, in particular, the ability to continue to provide the expected level of service;
- (f) managerial skills, technical and operational expertise and competence, in particular, the ability to deal with disruptions in business continuity;
- (g) whether the service provider has the necessary resources to perform the outsourced activities or functions in a proper and reliable way including any reliance on sub-contractors;
- (h) any licence, registration, permission or authorization required by law to perform the outsourced service; and
- (i) ability and capacity to deliver the outsourced activities or functions.

I.S/2.12 A designated insurance holding company should ensure that the performance (including, but not limited to the financial strength and technical competencies) of the service providers for the supervised group's outsourcing arrangements is reviewed annually to ascertain whether they can continue to provide the expected level of service.

### Outsourcing agreement

I.S/2.13 An outsourcing arrangement should be undertaken in the form of a legally binding written agreement. The written agreement should describe all material aspects of the outsourcing arrangement, including the rights and responsibilities and expectations of all parties. In negotiating the contract with the service provider, the designated insurance holding company should ensure, among other things, the following matters are considered (or should ensure that the member of the supervised group which is to be the contracting party to the outsourcing agreement considers the following matters):

- (a) scope of the outsourced service;
- (b) location where the outsourced service will be performed;
- (c) effective period of the outsourcing arrangement;

- (d) contractual obligations and liabilities of the member of the supervised group which is the contracting party to the outsourcing agreement and the service provider;
- (e) performance standards to be attained in respect of the outsourced service;
- (f) reporting or notification requirements that the designated insurance holding company (or the member in the supervised group which is the contracting party to the outsourcing agreement) may wish to impose on the service provider;
- (g) the way in which the service provider's performance under the agreement should be monitored (e.g. evaluation of performance through service delivery reports, periodic self-certification, independent reviews by the service provider's auditors or auditors of the member of the supervised group which is the contracting party to the outsourcing agreement);
- (h) information and asset ownership rights, information technology security and protection of confidential information;
- (i) rules and restrictions on sub-contracting, e.g. requiring prior consent of the member of the supervised group which is the contracting party on sub-contracting of the outsourced service. The designated insurance holding company should ensure that the ability to maintain similar control over its supervised group's outsourcing risks is retained when a service provider uses a sub-contractor;
- (j) remedial action and escalation process for dealing with inadequate performance;
- (k) contingency planning of the service provider to provide business continuity for the outsourced service;
- (l) management and approval process for changes to the outsourcing arrangement;
- (m) conditions under which either party (i.e. the member of the supervised group which is the contracting party to the outsourcing agreement and the service provider) can terminate the outsourcing agreement;

- (n) termination agreements, including intellectual property and information rights and clarification of the process to ensure the smooth transfer of the outsourced service either to another service provider or back to the member of the supervised group which is the contracting party to the outsourcing agreement;
- (o) guarantee or indemnity from the service provider, e.g. an indemnity to the effect that any sub-contracting by the service provider of the outsourced service will be the responsibility of the service provider including liability for any failure on the part of the sub-contractor;
- (p) requirement for the service provider to hold relevant insurance;
- (q) mechanism to resolve disputes that might arise under the outsourcing arrangement;
- (r) the service provider's agreement to allow access by the auditors and (if applicable) actuary and involved supervisor of the member of the supervised group which is the contracting party to the outsourcing agreement, to any books, records and information which facilitate them to discharge their statutory duties and obligations;
- (s) governing law and jurisdiction of the outsourcing agreement. (If the designated insurance holding company is the contracting party to the outsourcing agreement, the governing law of the outsourcing agreement should preferably be governed by Hong Kong law. The courts of Hong Kong should preferably have exclusive jurisdiction over any disputes arising under or in relation to the agreement); and
- (t) clarity of terms and conditions. (If the agreement is a master agreement between the designated insurance holding company and the service provider in relation to services to be provided to multiple members in the supervised group, the legal mechanism whereby a member of the supervised group can enforce the contract (either in its own name or through the designated insurance holding company) and any jurisdiction specific terms and conditions in relation to the services to be provided under the agreement should be clearly stated).

- I.S/2.14 (a) The requirements in this Module also apply to intra-group outsourcing, namely where a member in a supervised group outsources a function to be performed by a service provider which is another member of the supervised group.
- (b) If the service provider is the head office or another branch of a member of the supervised group and the services are to be provided to such member of the supervised group, a memorandum of understanding which has been endorsed by the board of directors of such member may be acceptable.

#### Information confidentiality

- I.S/2.15 A designated insurance holding company should ensure that the outsourcing arrangements of its supervised group comply with relevant laws and statutory requirements on customer confidentiality and data privacy and have proper safeguards in place to protect the integrity and confidentiality of the information and customer data of its supervised group.
- I.S/2.16 A designated insurance holding company should also ensure any legal or contractual obligation to notify customers of an outsourcing arrangement and circumstances under which their personal data may be disclosed or lost, is taken into account. In the event of the termination of the outsourcing agreement, a designated insurance holding company should ensure that the member of the supervised group which is the contracting party to the outsourcing agreement exercises its rights under the agreement to ensure that all personal customer data is either retrieved from the service provider or destroyed.
- I.S/2.17 Any material unauthorized access or breach of confidentiality by the service provider or its sub-contractor that affects a member of a supervised group or its customers should be notified to the involved supervisor of the member in accordance with the relevant local regulatory requirements.

#### Monitoring and control

- I.S/2.18 A designated insurance holding company should ensure that the members of its supervised group have sufficient and appropriate

resources to monitor and control their outsourcing arrangements at all times. Effective monitoring and control of the outsourcing arrangements, should include, among other things:

- (a) ensuring the responsibility for monitoring the service provider and the outsourced service is assigned to staff with appropriate expertise;
- (b) exercising due diligence and care to monitor each outsourcing arrangement to ensure the service is being delivered in the manner expected, and to ensure the provisions included in the outsourcing agreement are properly effected; and
- (c) conducting reviews or audits periodically (at least annually) to ensure that the outsourcing policy and the monitoring and control procedures are being effectively complied with.

I.S/2.19 Once an outsourcing arrangement has commenced, a designated insurance holding company should ensure that the effectiveness and adequacy of the controls in place to monitor the performance of the service provider and manage the risks associated with the outsourced service, is regularly reviewed. The designated insurance holding company should ensure that its supervised group has in place reporting procedures that can promptly escalate problems relating to the outsourced service to the attention of the senior management of the designated insurance holding company (or appropriate level of management within the supervised group) and the service provider. It should take appropriate rectification actions forthwith if deficiencies are identified. A designated insurance holding company is expected to notify the IA forthwith of any significant problem in relation to a material group outsourcing arrangement that may materially affect its supervised group's financial position, business operations or compliance with legal and regulatory requirements.

### Contingency planning

I.S/2.20 In relation to an outsourcing arrangement to a service provider by a member of its supervised group, a designated insurance holding company should ensure a contingency plan is put in place to ensure that the member's business would not be disrupted as a result of undesired contingencies (e.g. systems failure) of the service provider. The following issues should be considered and properly addressed in formulating such contingency plan:

- (a) back-up facilities or availability of alternative service provider or possibility of bringing the outsourced service back in-house;
- (b) procedures to be followed and the persons responsible for respective activities if business continuity problem arises; and
- (c) procedures for regular reviews and testing of the contingency plan on a risk-based approach.

I.S/2.21 A designated insurance holding company should also ensure (whether itself or through the member of its supervised group that is the contracting party to the outsourcing arrangement) that the service provider has its own contingency plan in respect of daily operational and systems problems. The designated insurance holding company should ensure that the relevant member of its supervised group has an adequate understanding of the service provider's contingency plan and that consideration is given to the implications for its own contingency planning in the event that the outsourced service is interrupted due to undesired contingencies of the service provider.

#### Outsourcing arrangements in other jurisdictions

I.S/2.22 In addition to the essential issues mentioned above, a designated insurance holding company should ensure particular attention is paid to the following issues in relation to outsourcing arrangements in other jurisdictions:

- (a) Jurisdiction risk – The risks associated with a member of the supervised group outsourcing functions to be performed in another jurisdiction, should be taken into account. Such risks cover the social, economic and political conditions and the legal and regulatory systems of the jurisdiction where the outsourced function is to be performed which may adversely affect the ability of the service provider to carry out its obligations under the outsourcing agreement and the ability of the designated insurance holding company or the members of its supervised group to effectively monitor the outsourced service and the service provider.
- (b) Information confidentiality – There may be circumstances under which the information and customer data of members in the supervised group are subject to the right of access by an

overseas authority (e.g. police and tax authority). The designated insurance holding company should ensure the extent and possibility of such access right in business as usual and disaster recovery/resolution/crisis events is taken into account and, if considered appropriate, legal advice is sought to clarify the position. In case an overseas authority seeks access to a member of the supervised group's customer data, the involved supervisor of the member should be notified, and if appropriate, the designated insurance holding company should notify the IA.

- (c) Notification to customers – Having regard to the additional risks posed by overseas outsourcing, a designated insurance holding company should require the members of its supervised group to consider the need to inform their customers of the jurisdiction in which the service is to be performed, subject to any local regulatory requirements, and any right of access available to overseas authorities.
- (d) Examination by the IA or other involved supervisors – If the designated insurance holding company is outsourcing any of its functions to a service provider to be performed outside Hong Kong, it should ensure such arrangement would not impede the ability of the IA to access in Hong Kong the books and records and other information of the designated insurance holding company as necessary for the IA to carry out its statutory responsibilities. Similarly, the designated insurance holding company should ensure that if a member of its supervised group is outsourcing a function to a different jurisdiction, such arrangement would not impede the ability of the involved supervisor to perform its supervisory functions in relation to the member.
- (e) Transfer of personal data – A designated insurance holding company should ensure particular attention is paid to relevant provisions of all applicable legislation which regulates the processing or transfer of personal data, if any outsourcing arrangement involving any member of its supervised group requires the transfer of personal data from one jurisdiction to another.
- (f) Governing law and jurisdiction of the outsourcing agreement – If the designated insurance holding company is the contracting party to the outsourcing agreement, the governing

law of the outsourcing agreement should preferably be governed by Hong Kong law. The courts of Hong Kong should preferably have exclusive jurisdiction over any disputes arising under or in relation to the agreement.

### Sub-contracting

- I.S/2.23 Additional risk will be posed to a supervised group if the service provider of an outsourcing arrangement in respect of the supervised group is allowed to further contract the service out to other parties. The designated insurance holding company should ensure adequate procedures to control and monitor such subcontracting arrangements are put in place and ensure that the service provider will take into account the essential issues set out in this Module of the Guideline as if it was the member of the supervised group which outsourced the function, when further contracting out the service.
- I.S/2.24 A designated insurance holding company should ensure an outsourcing agreement involving a member of its supervised group incorporate rules and restrictions on sub-contracting, e.g. requiring the contracting party member's prior consent for sub-contracting and making the service provider liable for the capability of the sub-contractor. The designated insurance holding company should (either itself or through the member of its supervised group which is the contracting party to the outsourcing arrangement) ensure that the service provider would not engage in sub-contracting arrangements which may impede its ability to carry out the provisions of the outsourcing agreement, in particular, the requirements on information confidentiality, contingency planning and information access right by the involved supervisor.

### **I.S/3 Supervisory approach to material group outsourcing arrangements**

- I.S/3.1 The requirements in this section I.S/3 apply to all outsourcing arrangements identified by a materiality assessment to be a material group outsourcing arrangement. A designated insurance holding company should ensure that all material group outsourcing arrangements of its supervised group comply with the standards in I.S/3 in addition to all other principle and standards in this Module.

### Consultation with the IA

- I.S/3.2      Where a proposed outsourcing arrangement is identified as a material group outsourcing arrangement by the materiality assessment carried out at the outset of the procurement process, a designated insurance holding company should consult as soon as reasonably practicable with the IA on the proposed material group outsourcing arrangement, as part of its ongoing engagement with the IA. For the purposes of this consultation, the designated insurance holding company should:
- (a)    provide a brief outline of the proposed material group outsourcing arrangement to the IA;
  - (b)    provide a copy of the relevant materiality assessment to the IA; and
  - (c)    highlight to the IA any significant issues identified in the relevant materiality assessment and how these are to be addressed during the procurement or implementation process for the proposed material group outsourcing arrangement.
- I.S/3.3      Where an outsourcing arrangement is not considered material in its initial materiality assessment, but later rated as material as described in section I.S/2.6, a designated insurance holding company should consult with the IA on the arrangement as soon as reasonably practicable by:
- (a)    providing a brief outline of the material group outsourcing arrangement to the IA;
  - (b)    providing a copy of the materiality assessment to the IA which has rated the outsourcing arrangement material; and
  - (c)    highlighting any significant issues identified in the materiality assessment, how these issues have already been addressed, or any changes which need to be made to the arrangement in order to address them.
- I.S/3.4      Where a material group outsourcing arrangement has been implemented and the designated insurance holding company or the relevant supervised group member proposes to make a significant

variation to the arrangement, the company should consult with the IA on the proposed variation by:

- (a) providing to the IA a brief outline of the material group outsourcing arrangement and the proposed significant change to it;
- (b) providing to the IA a copy of the materiality assessment carried out in respect of the proposed significant change to the material group outsourcing arrangement; and
- (c) highlighting any significant issues identified in the materiality assessment, how these issues have already been addressed, or any changes which need to be made to the arrangement in order to address them.

I.S/3.5 It should be noted that the process in I.S/3.2, 3.3 and 3.4 (along with any further information provided as per I.S/3.6), as the case may be, is a consultation process. It is not a process which requires the IA to give approval or its express non-objection to the material group outsourcing arrangement or the changes to it. As part of the consultation process, the IA may provide comments on the outsourcing arrangement (or the changes to it), which the designated insurance holding company should take into account in the implementation of the outsourcing arrangement (or the changes to it). The IA may also ask questions to understand, for example, how the proposed material group outsourcing arrangement (or the proposed change to it) may affect the risk profile of the supervised group (and the designated insurance holding company should answer such questions). Further, if the IA requests to be consulted on any specific matters (such as the risk assessment) then the designated insurance holding company should comply with such request in a timely manner. Accordingly, if there are any such comments, questions or requests, the IA shall make such comments, questions or requests in a timely manner and as soon as reasonably practicable. As the review time would depend on the complexities of the proposed outsourcing arrangements, the IA will communicate with the designated insurance holding company on the appropriate timeline taking into account of the circumstances of the proposed outsourcing arrangement.

I.S/3.6 In terms of the ongoing consultation with the IA (following the initial consultation as per I.S/3.2, 3.3 or 3.4), a designated insurance holding company should:

- (a) inform the IA if at any point the company or the relevant supervised group member decides not to proceed with the outsourcing arrangement or changes to the existing outsourcing arrangement;
- (b) inform the IA when the proposed outsourcing arrangement (or the proposed changes to the outsourcing arrangement) is to be placed before its risk management committee, Group Board or other senior management committee for approval and highlight any matters arising in those discussions; and
- (c) inform the IA of when the outsourcing arrangement (or changes to it), is proposed to be implemented.

I.S/3.7 It remains the case that, notwithstanding any comments (if any) made by the IA as part of the consultation process, the designated insurance holding company, its Group Board and its senior management remain fully responsible and accountable for the implementation and performance of the outsourced service and for this purpose, must ensure such material group outsourcing arrangement complies with the requirements in I.S/2 of this Module.

*Material group outsourcing arrangements register and supporting documentation*

I.S/3.8 A designated insurance holding company should maintain a register of all material group outsourcing arrangements of its supervised group (“material group outsourcing arrangement register”). The designated insurance holding company should also have processes in place to be able to access all back-up information demonstrating the correctness of the information identified in the register in respect of each of its material group outsourcing arrangements.

I.S/3.9 A designated insurance holding company should submit a copy of its material group outsourcing arrangement register to the IA,

- (a) within 6 months after each financial year end; and
- (b) in a timely manner whenever a new material group outsourcing arrangement is added to the register.

I.S/3.10 A designated insurance holding company should submit the material group outsourcing arrangement register using the template issued by

the IA, which is available on the IA's official website for downloading.

- I.S/3.11 The material group outsourcing arrangement register submitted to the IA should be signed by a key person(s) in control function for financial control, risk management or compliance.

Ongoing supervision and monitoring

- I.S/3.12 Where the IA requests a designated insurance holding company to demonstrate its compliance with this Module in respect of any particular material group outsourcing arrangement, whether during an inspection or as part of the IA's ongoing supervision, the company should provide the IA with access to or copies of all information, demonstrating such compliance including, without limitation, all back-up information demonstrating the correctness of the information shown on the company's material group outsourcing arrangements register. The IA may request any additional information from the designated insurance holding company where the IA considers it necessary in order to assess the potential impact on the supervised group's risk profile of any particular material group outsourcing arrangement. For material group outsourcing arrangements in jurisdictions outside of Hong Kong, the IA may also wish to communicate with the service provider to seek clarification or confirmation on relevant issues as considered necessary.
- I.S/3.13 Results of the periodic reviews or audits which ensure that the outsourcing policy and the monitoring and control procedures for material group outsourcing arrangements are being effectively complied with (per I.S/2.18(c)) should be reported to the Group Board, audit committee or other relevant committee(s) of the designated insurance holding company. These reports on material group outsourcing arrangements should also be made available to the IA on request.

**MODULE J**

**MODULE J**  
**INVESTMENT MANAGEMENT FOR**  
**SUPERVISED GROUPS**

**J.P Principle**

J.P/1 A designated insurance holding company should monitor its supervised group's investment risk exposures on an aggregate basis for the supervised group as a whole, in addition to ensuring controls are in place to ensure each member in the supervised group meets the qualitative and quantitative investment requirements which apply to it.

**J.S Standards**

**J.S/1 Investment considerations relating to the asset portfolio**

J.S/1.1 A designated insurance holding company should ensure that the members of its supervised group only invest in assets<sup>18</sup> such that, for the group's portfolio as a whole:

- (a) assets are sufficiently secure and are held in the appropriate location for their availability;
- (b) payments to policy holders or creditors of members of the supervised group can be made as they fall due; and
- (c) assets are adequately diversified.

**J.S/2 Security**

J.S/2.1 A designated insurance holding company, in providing oversight for the investments of members of its supervised group as whole, should ensure that such investments<sup>19</sup> are sufficiently secure so that obligations to policy holders of members of the supervised group carrying on insurance business can be met.

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<sup>18</sup> Excluding any third party assets (i.e. assets of persons who are not members of the supervised group) which are under management by an asset management business of a member of the supervised group conducted on a third party basis, i.e. where a member providing the asset management services is managing the assets of third parties. (Note, this exclusion would not apply in respect of assets which the member is managing for other members of the supervised group under an outsourcing arrangement or in accordance with investment mandates for investments of the supervised group approved by the Group Board or delegated committee).

<sup>19</sup> See footnote above.

J.S/2.2      A designated insurance holding company should ensure that undue reliance is not placed on assessments by credit rating agencies with regard to investment selection and risk management process in respect of investments made by members of its supervised group and sufficient due diligence is done within the group to avoid such undue reliance.

**J.S/3      Liquidity**

J.S/3.1      A designated insurance holding company should ensure the members of its supervised group have assets that generate sufficient cash flows to pay policy holder claims when due, as well as all other obligations. The cash generated from investments includes disposals, maturity, and coupon or dividend payments.

J.S/3.2      A designated insurance holding company should ensure consideration is given to the effect of potential legal and operational impediments that would limit the ability of the members of its supervised group transferring capital and assets cross-border.

**J.S/4      Diversification**

J.S/4.1      A designated insurance holding company should ensure that the investment portfolio of the members of its supervised group, when viewed as a whole, is diversified within and between risk categories, taking into account the nature of the liabilities.

**J.S/5      Considerations relating to the nature of the liabilities**

J.S/5.1      A designated insurance holding company should ensure that the members of its supervised group invest in a manner that is appropriate to the nature and duration of their liabilities. The assets that are held to cover policy holder liabilities and those covering group capital requirements should be invested in a manner which is appropriate to the nature of the liabilities.

**J.S/6            Considerations regarding assessing risk**

J.S/6.1        A designated insurance holding company should ensure that the members of its supervised group only invest in assets, the risks of which can be properly assessed and managed.

**J.S/7            Considerations relating to specific financial instruments**

J.S/7.1        Where the members of its supervised group are investing in more complex and less transparent classes of assets, and/or have investments in markets or instruments that are subject to limited governance or regulation, a designated insurance holding company should ensure appropriate tools and techniques are used for assessing and managing the risks of such assets, particularly in regards to:

- (a)    off-balance sheet structures;
- (b)    investments in structured credit products; and
- (c)    use of derivatives and similar commitments.

**J.S/8            Investment process**

**The Group Board**

J.S/8.1        The Group Board should be responsible for the formulation and approval of the investment policy for its supervised group, taking account of the analysis of the asset/liability relationship, the designated insurance holding company's risk tolerance, long-term risk-return requirements and liquidity requirements for investments of members of its supervised group and the solvency position of the supervised group as a whole and each of its members. This responsibility can be delegated to an appropriately constituted committee such as an investments committee.

**MODULE K**

**MODULE K**  
**ENTERPRISE RISK MANAGEMENT FOR**  
**SUPERVISED GROUPS**

**K.P Principle**

K.P/1 A designated insurance holding company should establish an ERM system for its supervised group, which incorporates an ERM framework for solvency purposes to identify, measure, report and manage the supervised group's risks on an ongoing basis and integrated manner.

**K.S Standards**

**K.S/1 ERM framework – governance**

K.S/1.1 The ERM governance which forms part of the ERM framework for a supervised group, should be appropriate for the supervised group's operations and circumstances.

*The Group Board*

K.S/1.2 The Group Board has overall responsibility for establishing and overseeing an effective group ERM framework in relation to its supervised group. In fulfilling this responsibility, the Group Board should give consideration and take action to:

- (a) establish an organizational structure for risk management, with clearly defined roles and responsibilities. This typically includes a risk committee with the responsibilities outlined in K.S/1.5 and K.S/1.6 below ("risk committee"), group senior management and key person(s) in control functions for the risk management function of the supervised group;
- (b) ensure that the group ERM framework is properly supported by suitable and sufficient resources;

- (c) set up and embrace a sound risk culture<sup>20</sup> and effective risk management practices throughout the supervised group's business;
- (d) review at least annually and approve the risk appetite statement for the supervised group and ensure that it is effectively communicated throughout the supervised group and consistently adopted in the group's business activities;
- (e) approve the risk management policies and key procedures;
- (f) understand the risk exposure of the business of the supervised group and the approaches taken to manage those risks;
- (g) assess and approve material business activities of the supervised group that may deviate from the existing risk appetite and tolerable risk limits;
- (h) review and challenge the results and assumptions underlying the ORSA for the supervised group, including, if any, the stress and scenario testing ("SST"), continuity analysis, business failure analysis and recovery plan;
- (i) have overall control of and responsibility for the use of the GIECA for the supervised group<sup>21</sup> including:
  - (i) having a sufficient understanding, knowledge of the key elements, assumptions and limitations;
  - (ii) understanding the consequences of the GIECA outputs for risk and capital decisions; and
  - (iii) signing-off on all significant changes to the assessment, and submission of the GIECA to the IA;

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<sup>20</sup> As reference, the Financial Stability Board issued the 'Guidance on Supervisory Interaction with Financial Institutions on Risk Culture' in 2014 <<http://www.fsb.org/wp-content/uploads/140407.pdf>> which stated that "A sound risk culture should emphasize throughout the institution the importance of ensuring that: (i) an appropriate risk-reward balance consistent with the institution's risk appetite is achieved when taking on risks; (ii) an effective system of controls commensurate with the scale and complexity of the financial institution is properly put in place; (iii) the quality of risk models, data accuracy, capability of available tools to accurately measure risks, and justifications for risk taking can be challenged, and (iv) all limit breaches, deviations from established policies, and operational incidents are thoroughly followed up with proportionate disciplinary actions when necessary".

<sup>21</sup> See also Module L – Group Internal Economic Capital Assessment ("GIECA") For Supervised Groups.

- (j) demonstrate the ongoing use of the ORSA's results as part of its strategic and other business decision-making processes; and
  - (k) review the adequacy and effectiveness of the ERM framework for the supervised group, including the ORSA.
- K.S/1.3 The Group Board may delegate<sup>22</sup> part of its authority in respect to the ERM to the risk committee or other competent individuals or committees. However, the Group Board shall retain ultimate responsibility. The Group Board needs to oversee the exercise of delegated authority by the relevant individuals or committees.
- K.S/1.4 The Group Board should articulate clearly the authority reserved by the Group Board in respect of the ERM framework for the supervised group and the manner in which the risk committee and group senior management should report and escalate significant matters to it.

### Risk committee

- K.S/1.5 Where a risk committee is established, its ERM responsibilities should include the following matters, to the extent applicable:
  - (a) advising the Group Board on the supervised group's risk appetite statement as well as key risk management policies and procedures;
  - (b) independently reviewing the identification, measurement, monitoring and management of material risks and any areas of material non-compliance with the ERM framework for the supervised group;
  - (c) regularly reporting to the Group Board on matters of risk management and escalating issues of importance when necessary;
  - (d) advising the Group Board on risk quantification that may include appropriately challenging or validating risk and capital measures and models, stresses and scenarios used and the corresponding results; and

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<sup>22</sup> See also Module G - Corporate Governance for Supervised Groups with regard to the expectation and guiding principles on delegation.

- (e) advising the Group Board in reviewing the adequacy and effectiveness of the ERM framework for the supervised group.

K.S/1.6 In fulfilling its responsibilities, the risk committee should be given full access to all necessary information by senior management and key person(s) in control functions for the risk management function of the designated insurance holding company of the supervised group.

#### Group senior management

K.S/1.7 The senior management of the designated insurance holding company of the supervised group, have responsibility for implementing the ERM framework of the supervised group and should endeavor to ensure that:

- (a) day-to-day risk management activities are carried out in accordance with the approved risk policies and procedures of the ERM framework and in line with the group risk appetite statement;
- (b) there is regular risk monitoring and risk reporting to the Group Board and/or risk committee and that material issues and material non-compliance with the ERM framework are quickly escalated to the Group Board and/or risk committee;
- (c) the Group Board can execute its responsibilities for overall control of and responsibility of the use of the GIECA;
- (d) adequate ERM training has been provided to the relevant staff throughout the supervised group on a regular basis; and
- (e) appropriate communication channels are established such that relevant staff throughout the supervised group understand and adhere to the policies and procedures.

#### Risk management function

K.S/1.8 A designated insurance holding company should establish a risk management function for its supervised group. The key person(s) in control functions for the risk management function (often referred to as the Group Chief Risk Officer) has the responsibility for providing

support and opinion to the Group Board, risk committee or senior management to establish and implement appropriate policies and procedures in relation to the ERM framework for the supervised group.

**K.S/2            ERM framework – risk identification**

K.S/2.1        The ERM framework for a supervised group should provide for the identification of all reasonably foreseeable and relevant material risks and risk interdependencies for risk and capital management.

K.S/2.2        A designated insurance holding company, in relation to its supervised group, should ensure:

- (a)    the ERM framework of the supervised group is as consistent as possible across the members of the supervised group; and
- (b)    any material differences between the ERM framework of the supervised group and the ERM framework of any supervised group member within the supervised group are identified and attributed to legal and supervisory requirements in the jurisdictions where that member operates, and the risks associated with business conducted in those jurisdictions.

K.S/2.3        The ERM framework of a supervised group should include strategies, policies and processes to effectively manage material risks, particularly in relation to the management of such risks in a cross-border context. Examples of risks to consider should include:

- (a)    insurance risk;
- (b)    market risk;
- (c)    credit risk;
- (d)    cyber risk;
- (e)    liquidity risk;
- (f)    concentration risk;
- (g)    operational risk;
- (h)    conduct risk;

- (i) climate risk;
- (j) environmental risk;
- (k) group risk; and
- (l) strategic risk.

K.S/2.4 A designated insurance holding company in relation to its supervised group, should design and structure its strategies, policies and processes in the ERM framework for the supervised group to reflect the risk profile and risk management practices across the supervised group. The designated insurance holding company should be able to demonstrate that the ERM framework for the supervised group adequately addresses the risks as per K.S/2.3 of this Module.

K.S/2.5 The ERM framework for the supervised group should take into account intra-group transactions and include:

- (a) mechanisms to keep track of intra-group transactions that are of importance to, and have a significant consequence for, the supervised group;
- (b) identification of the risks arising from intra-group transactions; and
- (c) the qualitative and quantitative restrictions on such risks.

### **K.S/3 ERM framework – quantitative techniques to measure risk**

K.S/3.1 The ERM framework of a supervised group should:

- (a) provide for the quantification of risk and risk interdependencies under a sufficiently wide range of techniques for risk and capital management;
- (b) as necessary, include the performance of SST to assess the resilience of the total balance sheet of the supervised group against macroeconomic stresses;
- (c) cover all material risks, (both current and those reasonably foreseeable to arise in future), including risks not covered by the group capital requirements; and

- (d) be based on a consistent assessment of the group capital requirements applicable to the supervised group taking into account the distribution of future cash flows to assess the level of risks.
- K.S/3.2 A designated insurance holding company should measure all reasonably foreseeable, quantifiable, and relevant material risks in relation to its supervised group using the GIECA whilst taking into account the risks that the supervised group faces in different sectors, jurisdictions and economic environments. The GIECA should be calibrated on the basis of defined modelling criteria described in the Module L – Group Internal Economic Capital Assessment (“GIECA”) For Supervised Groups.
- K.S/3.3 The risk measurement should include SST and reverse stress testing (“RST”) which the designated insurance holding company considers relevant to the risk profile of its supervised group.
- K.S/4 ERM framework – inter-relationship of risk appetite, risk limits and capital adequacy**
- K.S/4.1 The ERM framework of a supervised group should reflect the relationship between the supervised group’s risk appetite, risk limits, group capital requirements, economic capital and the processes and methods for monitoring risk. Risks should be monitored and reported to the Group Board and senior management of the designated insurance holding company, in a regular and timely manner.
- K.S/4.2 The ERM framework of a supervised group should also include consideration of the group’s reinsurance arrangements and how they:
  - (a) reflect the group’s risk limits structure;
  - (b) play a role in mitigating risk; and
  - (c) impact the group capital requirements applicable to the supervised group.

The use of non-traditional forms of reinsurance (e.g. finite reinsurance) should also be addressed in the ERM framework.
- K.S/4.3 A designated insurance holding company should ensure that its supervised group maintains a sufficient amount of capital (“Target

Capital”) to meet the supervised group’s capital needs, factoring in the full range of material risks to which the group is exposed or which it acquires. Such risks include those risks not captured in the structure of the group capital requirements calculation applicable to the supervised group, or where the group capital stresses do not adequately reflect the level of risk to which the group is exposed.

- K.S/4.4 To determine the Target Capital for its supervised group, a designated insurance holding company may use the risks captured by the group capital requirements applicable to the supervised group, provided that the group considers such use to be appropriate and reflects this in the annual ORSA Report. Furthermore, in determining the Target Capital, the designated insurance holding company should also take account of the supervised group’s risk appetite, GIECA, business plans, capital management plan, risk mitigation initiatives, diversification and time horizon.
- K.S/4.5 For the avoidance of doubt, the Target Capital must not be lower than the group capital requirements applicable to the supervised group.
- K.S/4.6 A designated insurance holding company should conduct SST based on material risks to assess its supervised group’s risk profile as well as the relative movements in eligible group capital resources and group capital requirements based on assumed adverse movements in key risk factors. SST involves considering insurer-specific adverse event(s) and macroeconomic stresses, and assessing their implications to the supervised group.
- K.S/4.7 Based on the nature, scale, and complexity of the operations of its supervised group, a designated insurance holding company should consider performing analysis to identify scenarios that could result in business failure. The use of RST<sup>23</sup> may be one of the means to conduct business failure analysis, with focus on identifying appropriate risk management actions. Alternative scenarios cover operational dependency, reliance on parental financial support, limits to fungibility of capital, intra-group reinsurance, stock-lending or liquidity facilities.

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<sup>23</sup> Depending on the nature, size and complexity of the supervised group and the risk it faces, RST could be performed through quantitative modelling, qualitative analysis, or a hybrid approach. RST could start with the outcome of a business failure or the financial condition falling below a predefined level, and then analysing different scenarios under which such failure or financial condition may occur.

## **K.S/5            ERM framework – risk appetite statement**

K.S/5.1        The Group Board is ultimately responsible for, and should approve the risk appetite statement of its supervised group. The risk appetite statement of the supervised group should:

- (a)    articulate the aggregate level and types of risk the designated insurance holding company is willing for its supervised group to assume within the group's risk capacity to achieve the company's financial and strategic objectives, and business plan for the group;
- (b)    take into account all relevant and material categories of risk and their interdependencies within the supervised group's current and target risk profiles;
- (c)    be operationalized in the business strategy for and day-to-day operations of the supervised group through a more granular risk limits structure; and
- (d)    be reviewed at least annually by the Group Board or when there is a material change in the risks or business environment.

K.S/5.2        A risk appetite statement for a supervised group should include qualitative statements as well as quantitative measures on all relevant measures, e.g. capital, risk measures, liquidity and other relevant measures as appropriate.

K.S/5.3        The ERM framework for a supervised group should incorporate processes to communicate the risk appetite of the supervised group internally and externally.

## **K.S/6            ERM framework – asset-liability management**

K.S/6.1        The policies incorporated in the ERM framework for a supervised group should specify principles for ALM, including the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management.

K.S/6.2        In respect of ALM, the risk policies should:

- (a)    recognise the interdependence between the liabilities of the members in a supervised group and the assets which back such liabilities and take into account the correlation of risk

between different asset classes as well as the correlation between different products and business lines;

- (b) take into account any off-balance sheet exposures that the members of the supervised group may have and the contingency that risks transferred may revert to the members of the group; and
- (c) take into account any legislation that may apply to the treatment of assets and liabilities within the jurisdiction in which the relevant member of the supervised group operates.

**K.S/7      ERM framework – Investment management**

K.S/7.1      The policies incorporated in the ERM framework for a supervised group should specify requirements for investment management, where relevant and material, that:

- (a) address investment risk according to the supervised group's risk appetite and risk limits structure;
- (b) specify the nature, role and extent of the investment activities of the members of the supervised group and how the members of the group comply with regulatory investment requirements; and
- (c) establish explicit risk management procedures with regard to more complex and less transparent classes of asset and investments in markets or instruments that are subject to limited governance or regulation.

K.S/7.2      A designated insurance holding company should, in relation to its supervised group:

- (a) establish and maintain a risk policy, where relevant and material, that sets criteria for investment quality and addresses the selection of, and exposure to, low-quality investments or investments whose security is difficult to assess;
- (b) set limits, or other requirements, so that assets are properly diversified and asset concentration risk is mitigated;
- (c) have a counterparty risk appetite statement;

- (d) establish criteria on intra-group investments; and
- (e) monitor investments on a group basis to identify levels of investment exposure that do not comply with the supervised group's risk policy.

**K.S/8                      ERM framework – underwriting management**

**K.S/8.1**                      The policies incorporated in the ERM framework for a supervised group should specify requirements for underwriting management, where relevant and material, that address the:

- (a) underwriting risk of the members of the supervised group, which carry on insurance business, according to the group's risk appetite and risk limits structure;
- (b) nature of risks to be underwritten, including any material relationships with macroeconomic conditions;
- (c) interaction of the underwriting strategy with the supervised group's reinsurance strategy and pricing;
- (d) identification of underwriting risks including, preferably, emerging risks;
- (e) quantification of underwriting risk;
- (f) monitoring and reporting of underwriting risks;
- (g) mitigation and control of underwriting risks; and
- (h) regular review of underwriting activities and the underwriting policy.

**K.S/8.2**                      A designated insurance holding company should in relation to its supervised group ensure that it implements the ERM framework of the supervised group by establishing procedures and monitoring practices for the use of sufficient, reliable and relevant data for the group's underwriting, claims management, pricing, reserving and reinsurance processes.

### Group claims management

K.S/8.3 The policies incorporated in the ERM framework for a supervised group should, in respect of claims management, where relevant and material, include standards for:

- (a) claims estimation and settlement;
- (b) feedback into the underwriting and reinsurance processes and strategy for members of the supervised group which carry on insurance business; and
- (c) claims data reporting for group analysis.

### Group strategy for reinsurance and other forms of risk transfer

K.S/8.4 A designated insurance holding company should, in relation to its supervised group, establish and maintain a group strategy for reinsurance and other forms of risk transfer as part of the ERM framework for its supervised group. The group strategy for reinsurance and other forms of risk transfer should consider the following issues, to the extent applicable:

- (a) the interaction with the group risk and capital management strategies;
- (b) how the risk appetite is achieved, on both a gross limit and net retention basis;
- (c) the appetite for reinsurer credit risk, including approved security criteria for reinsurance transactions and aggregate exposure criteria to individual or related reinsurers;
- (d) the autonomy afforded to members of the supervised group which carry on insurance business to enter into “entity specific” reinsurance arrangements, and the management and the aggregation of these exposures in the group context;
- (e) standards for managing reinsurance recoverables, including but not limited to regulatory financial reporting and required reporting from the supervised group;
- (f) intra-group reinsurance strategy and practice;

- (g) ensuring the establishment of effective internal controls over the implementation of the reinsurance programme for the supervised group;
- (h) the economic impact of the risk transfer originating from reinsurance contracts by members of its supervised group;
- (i) the regulatory requirements when purchasing reinsurance across borders;
- (j) the impact of reinsurance as part of liquidity management;
- (k) addressing any issues that may arise as a result of risk transfer to capital markets including an understanding and assessment of the structure and operation of such risk transfer arrangements;
- (l) use of alternative risk transfer, including capital markets risk transfer products; and
- (m) effectiveness of risk transfer in adverse circumstances.

#### Group actuarial

K.S/8.5 A designated insurance holding company should, in relation to its supervised group, establish and maintain policies as part of the ERM framework of the supervised group, which in respect of actuarial matters where relevant and material, set out group practice standards, covering at least:

- (a) the process to assess the appropriateness, at the supervised group level, of the data, methodologies and underlying models used, as well as the assumptions made in the calculation of eligible group capital resources, group capital requirements, GIECA capital requirements and GIECA technical provisions;
- (b) the process to calculate the value of reinsurance recoverable assets taking into account the design of the reinsurance programme under the reinsurance strategy of the supervised group;
- (c) distribution of bonuses or dividends for participating policies, determination of crediting interest rates for universal life

policies and determination of other discretionary or non-guaranteed benefits for other policies issued by members of the supervised group which carry on insurance business; and

- (d) model risk management of the GIECA and any other models that generate actuarial and financial projections for group capital adequacy or GIECA purposes.

K.S/8.6 The actuarial function, as part of the ERM framework for the supervised group, should report annually (whether certified or not) to the Group Board on at least the following:

- (a) a prospective actuarial analysis of the financial condition of the supervised group which goes beyond the current balance sheet of the supervised group;
- (b) the reliability and sufficiency of the technical provisions;
- (c) the adequacy of reinsurance credit for technical provisions; and
- (d) consideration of members of the supervised group which do not carry on insurance business and members which are not regulated.

#### Group liquidity

K.S/8.7 The ERM framework for the supervised group should explicitly address liquidity risk and contain strategies to maintain adequate liquidity for members of the supervised group to meet their liabilities as they fall due in normal and stressed conditions.

K.S/8.8 A designated insurance holding company should, in relation to its supervised group, establish more detailed liquidity risk management processes as part of the ERM framework for the supervised group that include liquidity stress testing, maintenance of a portfolio of unencumbered highly liquid assets in appropriate locations and a contingency funding plan.

K.S/8.9 A designated insurance holding company should report to the IA on its management of liquidity risk in relation to its supervised group. The report, in relation to the supervised group, should include at least the following:

- (a) a liquidity risk appetite statement;
  - (b) established liquidity risk limits;
  - (c) a discussion of the current liquidity position of the group in relation to its liquidity risk appetite and limits;
  - (d) a summary of strategies, policies and processes that the supervised group has in place to manage liquidity risk;
  - (e) a discussion of potential vulnerabilities in the group's liabilities as well as the means of enhancing the liquidity position; and
  - (f) the group's approach to and results of liquidity stress testing.
- K.S/8.10 A designated insurance holding company, in relation to its supervised group, should assess the group's resilience against severe but plausible liquidity stresses to determine whether current exposures are within the group's liquidity risk appetite.
- K.S/8.11 A designated insurance holding company should, in relation to its supervised group, ensure that an adequate level of unencumbered highly liquid assets in appropriate locations is established and maintained, taking into account the requirements of relevant local law applicable to members of the supervised group.
- K.S/8.12 A designated insurance holding company should maintain a contingency funding plan to respond to liquidity stress events in relation to its supervised group.

**K.S/9 ERM framework – conduct risk**

- K.S/9.1 A designated insurance holding company, in relation to its supervised group, should ensure that members in its supervised group which carry on insurance business, conduct business in a manner that treats customers fairly, both before a contract of insurance is entered into and through to the point at which all obligations under a contract of insurance have been satisfied.
- K.S/9.2 The ERM framework for the supervised group should incorporate a group risk management policy on conduct risk (or "conduct risk policy"), as appropriate, that ensures fair treatment of customers of the supervised group. Sources of conduct risks are inherent in the

nature of insurance business and service provision. The designated insurance holding company of the supervised group has the responsibility for ensuring good conduct of business across the group throughout the insurance life cycle, and for extending good conduct to those functions or activities that are outsourced.

K.S/9.3 The conduct risk policy of the supervised group must incorporate processes and procedures to identify, monitor, manage or mitigate conduct risk in the provision of insurance products and services to policy holders and customers of the members of the supervised group which carry on insurance business.

K.S/9.4 Conduct risk identification may be relatively qualitative. The conduct risk policy of a supervised group should address the approaches and controls to:

- (a) act fairly and honestly with integrity, and act with due skill, care and diligence when dealing with customers;
- (b) establish and implement policies and procedures on the fair treatment of customers, as an integral part of the business culture across the group;
- (c) avoid or properly manage any potential conflicts of interest;
- (d) have arrangements in place in dealing with intermediaries to ensure fair treatment of customers;
- (e) take account of the interests of different types of consumers when designing, developing and distributing insurance products;
- (f) promote products and services in a manner that is clear, fair and not misleading;
- (g) provide timely, clear and adequate pre-contractual and contractual information to customers;
- (h) ensure the advice provided by the insurance entities within the group takes into account circumstances disclosed by the customer before concluding a contract of insurance;
- (i) service insurance policies appropriately through to the point at which all obligations under the policy have been satisfied;

- (j) disclose to the policy holder information on any contractual changes during the life of the contract of insurance;
- (k) disclose to the policy holder further relevant information depending on the type of insurance product (e.g. information on the ongoing suitability of the product, if such a service is provided);
- (l) handle claims in a timely, fair and transparent manner;
- (m) handle complaints in a timely and fair manner;
- (n) have in place policies and procedures for the protection and use of information on customers; and
- (o) ensure its supervised group members observe and comply with the relevant local conduct regulatory requirements.

#### **K.S/10 ERM framework – other policies**

##### Group cyber risk management

K.S/10.1 The policies incorporated in the ERM framework for a supervised group should include standards for cyber risk management, as appropriate, that are commensurate with the scale and complexity of the business of the supervised group, to identify, prevent, detect and mitigate cyber security threats.

##### Internal controls

K.S/10.2 The ERM framework for a supervised group should include internal controls, systems and functions<sup>24</sup> that are adequate for the group's objectives, strategies, risk profile, and the applicable legal and regulatory requirements, and be adaptable to internal and external changes.

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<sup>24</sup> "Controls, systems and functions" here includes the strategies, policies, processes and controls in place. This does not restrict the carrying out of the functions related to internal controls by several divisions or departments within the insurance group.

### Data quality

- K.S/10.3 The policies incorporated in the ERM framework for a supervised group should include standards for data quality, as appropriate, that ensure data (both internally developed and externally supplied) are current, accurate and complete; and protect a group against the risk of loss from inadequate or failed internal processes and systems, human error or from external events impacting data quality.

### **K.S/11 Risk monitoring and reporting**

- K.S/11.1 The ERM framework for a supervised group should include risk management policies that set out how the results of the risk identification and risk quantification activities are monitored and reported to the Group Board, risk committee and senior management, together with clear reporting lines.

### **K.S/12 Risk management review and actions**

- K.S/12.1 The ERM framework for a supervised group should enable well-informed business decisions and risk management actions to be taken. The identification and quantification of risks should ensure appropriate and timely management actions are taken when required.

### **K.S/13 Own risk and solvency assessment**

- K.S/13.1 A designated insurance holding company should, in relation to its supervised group, regularly perform an ORSA to assess the adequacy of the group's risk management and current, and likely future, solvency position.
- K.S/13.2 The Group Board and senior management should be responsible for the ORSA. This includes adopting a rigorous process for setting, approving, and overseeing the effective implementation by senior management of the supervised group's ORSA.
- K.S/13.3 The ORSA should be performed at least annually, and whenever there are material changes to the risk profile of the supervised group, so that the ORSA continues to provide relevant information for decision making at the Group Board, risk committee and senior

management levels and for the purposes of the risk management control functions.

- K.S/13.4 The ORSA in relation to a supervised group should:
- (a) encompass all reasonably foreseeable and relevant material risks including, at a minimum, insurance, credit, market, concentration, operational, liquidity, conduct risks and group risk;
  - (b) identify the relationship between risk management and the level and quality of financial resources needed and available;
  - (c) assess the group's resilience against severe but plausible macroeconomic stresses through scenario analysis or stress testing;
  - (d) assess aggregate counterparty exposures and analyse the effect of stress events on material counterparty exposures through scenario analysis and stress testing; and
  - (e) be forward-looking with a time horizon consistent with business planning, and remain viable under both normal and stressed conditions.
- K.S/13.5 A designated insurance holding company should perform an ORSA in relation to its supervised group, using both quantitative and qualitative approaches, which takes into account at least:
- (a) the legal and management structures of the group;
  - (b) risk aggregation;
  - (c) non-insurance members in the supervised group (regulated or unregulated) and partly-owned members in the supervised group;
  - (d) the fungibility of capital and the transferability of assets within the group; and
  - (e) the outputs of the GIECA and the group capital requirements applicable to the designated insurance holding company in relation to its supervised group.
- K.S/13.6 The IA expects the main outcomes of the ORSA be documented in the form of a report ("ORSA Report").

**K.S/14      ORSA – economic and regulatory capital**

K.S/14.1      A designated insurance holding company should, for the purposes of its ORSA in relation to its supervised group:

- (a) determine, as part of the ORSA, the overall financial resources it needs to manage the group's business given its risk appetite and business plans;
- (b) base its risk management actions on consideration of the GIECA, group regulatory capital requirements as defined in the Group Capital Rules and Module C – Group Capital Adequacy, financial resources, and ORSA of the supervised group; and
- (c) assess the quality and adequacy of the eligible group capital resources of the supervised group to meet group regulatory capital requirements and any additional capital needs.

**K.S/15      ORSA – continuity analysis**

K.S/15.1      A designated insurance holding company should:

- (a) as part of the ORSA for its supervised group, analyse the group's ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine group capital requirements;
- (b) as part of its supervised group's continuity analysis, address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the group and include projections of the group's future financial position and analysis of its ability to meet future group capital requirements;
- (c) plan for adverse scenarios and facilitate the development of management actions that deal with such situations; and

- (d) develop contingency<sup>25</sup> or recovery plans (as referred in K.S/17.2(a)) for use in going concern situations to restore financial strength and viability.

K.S/15.2 A designated insurance holding company in relation to its supervised group should also consider the group's ability to continue to exist as a supervised group, potential changes in group structure and the ability of the legal entities in the group to continue in business.

## **K.S/16 Preventative measures**

K.S/16.1 A designated insurance holding company should take preventative measures if it appears likely to the company that a member of its supervised group will operate in a manner that would:

- (a) have a material adverse effect on the supervised group as a whole; or
- (b) contravene regulatory requirements.

K.S/16.2 The designated insurance holding company should take corrective measures if it or any of its members of its supervised group, contravenes regulatory requirements and should address any concerns which the IA identifies with the designated insurance holding company's continued compliance with the regulatory requirements which apply to the company in relation to its supervised group.

## **K.S/17 Recovery planning**

K.S/17.1 A designated insurance holding company in relation to its supervised group should evaluate in advance the specific risks to the group and options in possible recovery scenarios.

K.S/17.2 Based on the nature, scale and complexity of the operations, the designated insurance holding company in relation to its supervised group, should:

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<sup>25</sup> A contingency plan describes the necessary actions and resources to manage and control business disruption and losses. For example, a contingency plan may include plans designed to ensure that the essential business functions could continue to operate during and after a disaster.

- (a) develop a recovery plan that identifies in advance options to restore the financial position and viability of the group;
  - (b) review and update the group's recovery plan on a regular basis, or when there are material changes; and
  - (c) take actions for recovery if the group comes under severe stress.
- K.S/17.3 A designated insurance holding company in relation to its supervised group should have and maintain a group management information system that is able to produce information relevant to the recovery plan on a timely basis.
- K.S/17.4 The analysis to support the recovery plan should include a detailed overview of the group structure of the supervised group and any consequences for recovery of the group's business. The designated insurance holding company in relation to its supervised group should consider which, if any, of the group's key functions it considers to be economically significant and critically important to the Hong Kong economy and financial system, or other economy and financial system of another major jurisdiction where the group operates.

## **K.S/18 Resolution planning**

- K.S/18.1 Where required by the IA and/or in coordination with the Crisis Management Group ("CMG") established in relation to its supervised group (by the involved supervisors of members of the supervised group), a designated insurance holding company in relation to its supervised group may need to provide input into a resolution plan and take prospective actions to improve its resolvability, which should include a substantive resolution strategy and operational plan for its implementation and identify, in particular:
- (a) specific operations and risks in possible resolution scenarios and to put in place procedures for use during resolution;
  - (b) financial and economic functions that need to be continued to achieve the resolution objectives for the group;
  - (c) suitable resolution options to preserve such functions or to wind them down in an orderly manner;

- (d) data requirements for the group's business operations, structures and financial and economic functions;
- (e) potential barriers to effective resolution and actions to mitigate those barriers; and
- (f) actions to protect policy holders.

K.S/18.2 A designated insurance holding company in relation to its supervised group should have and maintain a group management information system that is able to produce information for the IA and other supervisors and/or resolution authorities relevant to the resolution planning and actions on a timely basis.

## **K.S/19 ERM framework review**

K.S/19.1 A designated insurance holding company should arrange to have the ERM framework for its supervised group independently reviewed at least once every three years, in order to ascertain that it remains fit for purpose.

K.S/19.2 Depending on the nature, scale and complexity of a group, the effectiveness of the ERM framework and the ORSA for a supervised group should be regularly reviewed in order to ascertain that the ERM framework for the group remains fit for purpose. A feedback loop is required to make necessary and timely remedial actions or improvements to the ERM framework and the ORSA for a supervised group.

K.S/19.3 The effectiveness of the ORSA should be regularly assessed through independent review<sup>26</sup> by suitably experienced individual(s) who report directly to, or are themselves members of the Group Board.

## **K.S/20 Supervisory review of the ERM framework**

K.S/20.1 The IA will undertake reviews of the ERM framework established and maintained by a designated insurance holding company in relation to its supervised group, including the ORSA for the supervised group. Where necessary, the IA may require a

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<sup>26</sup> Independent review may be carried out by an internal or external body as long as the reviewer is independent, is not responsible for, and has not been actively involved in, the part of the ERM framework that it reviews.

strengthening of the ERM framework, solvency assessment and capital management processes.

**K.S/21      Reporting to the IA**

- K.S/21.1      In order to demonstrate that it has satisfied the standards in this Module in relation to the ORSA, recovery planning and liquidity risk management, a designated insurance holding company is required to submit to the IA the ORSA Report (as referred in K.S/13.6), the recovery plan (as referred in K.S/17.2(a)), and the liquidity risk management report (as referred in K.S/8.9), in relation to its supervised group as at:
- (a)    each financial year end annually; or
  - (b)    a date when there are material changes in the risk profile for the supervised group
- (each of (a) and (b) referred to as the “relevant date” in K.S/21.2 and K.S/21.3)
- K.S/21.2      The designated insurance holding company is required to submit the ORSA Report to the IA within 5 months of the relevant date. The IA may extend the aforesaid period by a period not exceeding 3 months if it appears to the IA that the circumstances are such that a period longer than 5 months should be allowed.
- K.S/21.3      The designated insurance holding company is required to submit the recovery plan and the liquidity risk management report to the IA within 6 months of the relevant date.
- K.S/21.4      The ORSA Report, the recovery plan, and the liquidity risk management report to be submitted by a designated insurance holding company should be approved by the Group Board or the risk committee of the designated insurance holding company and should be signed by a key person(s) in the control function for risk management appointed by the company.

**MODULE L**

**MODULE L**

**GROUP INTERNAL ECONOMIC CAPITAL  
ASSESSMENT (“GIECA”) FOR SUPERVISED  
GROUPS**

**L.P Principles**

L.P/1 A designated insurance holding company should develop, carry out and use a GIECA to:

- (a) analyse the overall risk position of its supervised group;
- (b) quantify all reasonably foreseeable, relevant and material risks to which its supervised group is exposed, taking into account the risk exposures to the group in respect of the different sectors, jurisdictions and economic environments in which the members of the group operate; and
- (c) determine the economic capital which its supervised group requires to meet its risk exposures.

**L.S Standards**

**L.S/1 Scope**

L.S/1.1 A designated insurance holding company should include all members of its supervised group in its GIECA. Where the percentage shareholding or ownership in a member of the group held directly or indirectly by the designated insurance holding company (or by another supervised group member in the same supervised group) is less than 100%, the designated insurance holding company need only include such member in its GIECA to the extent of such proportional shareholding or ownership.

**L.S/2 GIECA capital requirements**

Modelling criteria

L.S/2.1 A designated insurance holding company should:

- (a) calibrate its GIECA to calculate the economic capital for its supervised group to a target of 99.5% value-at-risk over a 1-year time horizon, or equivalent<sup>27</sup>;
- (b) ensure that the methodologies used in its GIECA are compatible with the ERM framework of the supervised group (see Module K – Enterprise Risk Management For Supervised Groups);
- (c) ensure that its GIECA assumes on-going business operations by members of its supervised group who are engaged in such;
- (d) if in its GIECA any allowance is included for new business,
  - (i) ensure the GIECA factors in the risks associated with writing such new business; and
  - (ii) also produce and review a version of the GIECA which does not make any allowance for such new business, and share the results with the IA;
- (e) ensure the GIECA can be (and is) used in assessing the capital requirements for the ORSA of its supervised group (e.g. Target Capital – see Module K – Enterprise Risk Management For Supervised Groups) and for the purpose of the supervised group’s recovery planning and resolution planning; and
- (f) calibrate its GIECA
  - (i) to take into account the probability distribution of risk drivers; and
  - (ii) at an appropriate level of granularity and frequency and include a sufficient range of scenarios, such that the GIECA can be (and is) used in the designated insurance holding company’s decision making in respect of its supervised group.

### Valuation bases

L.S/2.2 A designated insurance holding company should:

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<sup>27</sup> If the designated insurance holding company calibrates its GIECA to calculate the economic capital of its supervised group other than to a target of 99.5% value-at-risk over a 1-year time horizon, so as to be the equivalent of a target of 99.5% value-at-risk over a 1-year time horizon, the company must justify to the IA in its GIECA methodology report about how the approach is equivalent and fully document such justification, and this should be considered as part of the GIECA validation.

- (a) establish standards as described in the Annex to this Module, for the purposes of valuing the assets and liabilities of its supervised group for its GIECA and ensure such standards are followed in its GIECA;
- (b) ensure its GIECA values the assets and liabilities of its supervised group using a total balance sheet approach with consistency across the methods used to determine the assets, liabilities and capital requirements of its supervised group, including the approaches taken on contractual options, guarantees, future management actions and future discretionary benefits;
- (c) ensure its GIECA is based on assumptions that are data-driven and, as far as possible, remove subjectivity<sup>28</sup>; and
- (d) ensure that data used for the purposes of its GIECA is current and sufficiently credible, accurate, complete and appropriate.

### Risks to be modelled

L.S/2.3 A designated insurance holding company should ensure that its GIECA:

- (a) incorporates risk modelling techniques and approaches which are appropriate to the nature, scale and complexity of current risks of its supervised group and the risks factored in by the designated insurance holding company as part of the ERM framework of its supervised group and to the business objectives of the supervised group;
- (b) reflects all relevant and material categories of risk including, at a minimum – insurance risk, credit risk, market risk and operational risk;
- (c) takes into account risk concentrations, including economic risk factors, market sectors and individual counterparties;
- (d) assesses risks at a modular level, where used on a risk-by-risk basis, to conduct an overall risk assessment and aggregate the

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<sup>28</sup> A designated insurance holding company should ensure sensitivity analysis is conducted where assumptions having a material impact are based on expert judgement.

results for each of these risks both within and across business lines;

- (e) reflects the dependencies and inter-relationships between and within risk categories, particularly how dependencies change under stressed conditions;
- (f) appropriately factors in capital and risk transfer instruments and documents (as part of the GIECA) the treatment of such instruments; and
- (g) takes into account the possibility of a breakdown in the effectiveness of the risk transfer and the security of the counterparty, particularly in stressed conditions where reinsurance, derivatives and other such risk mitigants are used.

#### Treatment of intra-group transactions

L.S/2.4 A designated insurance holding company should:

- (a) ensure that its GIECA only includes credit for risk mitigation to the extent that the risk is transferred outside the supervised group; and
- (b) for the purposes of its GIECA, consider and document the impact arising from the treatment of material intra-group transactions including, but not limited to, loans, guarantees, issuance of contingent capital, payment of dividends, cost-sharing structures, service contracts, management arrangements and outsourcing, reinsurance, transactions across different financial services entities within the supervised group, equity holdings and other hybrid instruments, including an assessment of their different trigger levels.

#### Recognition of diversification across the group

L.S/2.5 A designated insurance holding company should:

- (a) ensure that its GIECA incorporates an assessment of the dependencies and inter-relations of risks across different members in its supervised group;

- (b) consider and document how the model used for its GIECA allows for and models fungibility of capital and transferability of assets across the supervised group;
- (c) for the purposes of (b) above, ensure all assumptions are documented and specifically address, in such documentation, the treatment of intra-group transactions and the free flow of assets and of liabilities across different jurisdictions; and
- (d) as part of its GIECA, consider the allocation of capital to members of its supervised group which carry on insurance implied by the assessment and how this would change in times of stress.

*Approach to group-wide capital adequacy (at group and legal entity level)*

L.S/2.6 A designated insurance holding company should, as part of its GIECA, include a comparison against the regulatory capital requirements as defined in the Group Capital Rules and Module C – Group Capital Adequacy which apply to the designated insurance holding company in relation to its supervised group (and the capital position of the supervised group in relation to those requirements). This comparison should also be made for each material supervised group member (based on the definition of “material supervised group member” in Rule 11(6) of the Group Capital Rules). The results of the comparison should be shared with the IA. The designated insurance holding company should also, as part of the comparison, consider and document the quality and suitability of the capital resources of the supervised group.

**L.S/3 GIECA governance**

*Validation*

L.S/3.1 A designated insurance holding company should ensure that its GIECA is validated by:

- (a) regularly reviewing and validating its GIECA for ongoing appropriateness;
- (b) subjecting its GIECA to a minimum of three tests: statistical quality test, calibration test and use test (as further detailed in

sections L.S/3.3 to L.S/3.5 below and demonstrating the results of each test);

- (c) ensuring, through regular review and validation, that its GIECA remains fit for assessing the economic capital of the supervised group in changing circumstances against the criteria of the statistical quality test, calibration test and use test;
- (d) arranging for its GIECA to be validated by individuals who are suitably experienced and are independent from those who develop and operate the GIECA (if, in the opinion of the IA, the validation team is considered insufficiently independent or experienced, the designated insurance holding company should arrange for its GIECA to be validated by an independent third party);
- (e) ensuring the following are documented:
  - (i) the scope and period covered by the validation activity;
  - (ii) the results of the statistical quality test, calibration test and use test;
  - (iii) the validation process, including explanation as to how the GIECA remains fit for assessing the economic capital of the supervised group in changing circumstances against the criteria of the statistical quality test, calibration test and use test;
  - (iv) the functions involved in the validation and the independence of the validation team; and
  - (v) the tools used in validation, including SST; and
- (f) initially validating its GIECA against the criteria in (b), (d) and (e) (excluding use test) above prior to utilizing the GIECA to calculate the supervised group's economic capital, and also complying with any request by the IA for the GIECA to be validated by an independent third party (whether before or after implementation of the GIECA to calculate the supervised group's economic capital).

### Ownership

- L.S/3.2      The Group Board (being the directors on the board of directors of the designated insurance holding company):
- (a)    is responsible for developing and approving the governance framework for the GIECA and ensuring that the framework is adopted and embedded across the supervised group;
  - (b)    has overall control of and responsibility for the design, development and use of the GIECA;
  - (c)    should have a sufficient understanding of the GIECA's construction and results; such understanding should extend to the key elements, assumptions, proposed management actions and limitations of the GIECA;
  - (d)    should understand the consequences of the GIECA's outputs and limitations for risk and capital management decisions;
  - (e)    should ensure that the GIECA is updated to take into account relevant changes in respect of the supervised group e.g. a change to the risks to the supervised group identified by the group's ERM framework; and
  - (f)    should approve all material changes to the GIECA and the GIECA results report, GIECA methodology report and documentation to be submitted to the IA.

### Statistical quality test

- L.S/3.3      The designated insurance holding company should ensure that its GIECA is subject to a statistical quality test which:
- (a)    assesses the base quantitative methodology of the GIECA;
  - (b)    demonstrates the appropriateness of the assessment methodology used in the GIECA, including the choice of inputs and parameters, simplifications, the aggregation of data and the statistical measures used to construct the GIECA;
  - (c)    documents the assumptions and rationale underlying the assessment methodology used in the GIECA, including the application of expert judgement;

- (d) demonstrates that the GIECA addresses the overall risk position of the supervised group, with appropriate allowance for guarantees, embedded options, management actions and policy holder expectations; and
- (e) demonstrates that the underlying data used in the GIECA is accurate and complete.

#### Calibration Test

L.S/3.4 A designated insurance holding company should ensure that its GIECA is subject to a calibration test to demonstrate that the economic capital assessment determined by the GIECA satisfies the specified modelling criteria in section L.S/2.1(a).

#### Use Test

L.S/3.5 A designated insurance holding company should ensure that its GIECA is subject to a use test to demonstrate that:

- (a) its GIECA is embedded into the ERM framework of its supervised group, including but not limited to business planning and performance management, capital management, risk management including risk appetite setting and risk transfer, pricing, acquisition and disposal;
- (b) its GIECA is comprehensively documented in terms of its application across business units in the supervised group, including outlining the responsibility for the production and use of information available from the GIECA, the purpose and type of management information available from the GIECA, and the decisions to be taken using that information; and
- (c) its GIECA is reviewed at least annually, including an analysis of the causes of movement in supervised group's economic capital and profit and loss, when compared to the previous year.

Documentation and internal controls

L.S/3.6 The designated insurance holding company should ensure that:

- (a) adequate governance, internal controls and standards are in place for its GIECA with respect to the maintenance and use of and changes to the GIECA and its associated data inputs and outputs;
- (b) the personnel who are responsible for its GIECA are properly trained and have sufficient expertise to be able to provide ongoing management of the GIECA;
- (c) there are in place clear and delineated roles and responsibilities for the development, maintenance, execution and change management in respect of its GIECA;
- (d) the design, construction and governance of its GIECA are fully documented, including an outline of the rationale and assumptions underlying its methodology, including methodologies and assumptions related to the valuation of assets and liabilities;
- (e) its documentation in respect of its GIECA is fully transparent and sufficient to demonstrate compliance with the validation requirements in this Module and to enable a reasonable professional (conversant with economic capital models) to be able to understand the GIECA design and construction requirements, including the statistical quality test, calibration test and use test;
- (f) the assumptions in its GIECA are subject to challenge, and approved at appropriate levels of seniority, according to their materiality, up to the level of the Group Board or delegated committee;
- (g) if any aspect of its GIECA has inputs or relies on external models or data, that:
  - (i) the external components are sufficiently understood;
  - (ii) the use of such external models or data in the GIECA is sufficiently justified;
  - (iii) the company has performed its own validation of such external components;

- (iv) it retains responsibility for the use of such external components in its GIECA; and
- (v) the use of such external components in the GIECA is properly documented in line with the documentation standards.
- (h) the internal audit function in its supervised group monitors and evaluates the adequacy and appropriateness of the GIECA's governance and control procedures.

### Supervisory reporting

#### L.S/3.7 GIECA Supervisory Reporting

- (a) A designated insurance holding company should submit to the IA a report on the GIECA results for its supervised group ("GIECA results report") as at 30 June and 31 December ("results reporting date") of each year, stating the economic capital for its supervised group as assessed by the GIECA as at the results reporting date. The GIECA results report submitted by a designated insurance holding company in relation to its supervised group should include at a minimum the following matters:
  - (i) the economic capital for the supervised group as a whole and for each material supervised group member in the supervised group;
  - (ii) a comparison of the economic capital for its supervised group and for each material supervised group member with the regulatory capital position (as referred in L.S/2.6); and
  - (iii) the relevant reporting requirements as described in the Annex to this Module.
- (b) A designated insurance holding company should also submit to the IA a report on the GIECA for its supervised group ("GIECA methodology report") as at 31 December ("methodology reporting date") of each year, describing the methodology, key assumptions, model governance, validation of the GIECA as at the methodology reporting date, and

relevant reporting requirements as described in the Annex to this Module.

- (c) A designated insurance holding company is required to submit the GIECA results report and the GIECA methodology report to the IA within 5 months of the relevant reporting date. Both the GIECA results report and GIECA methodology report, including any subsequent updates to either reports, should be approved by the Group Board or risk committee and be signed by a key person(s) in control function for financial control, risk management or actuarial appointed by the designated insurance holding company.
- (d) A designated insurance holding company should make available to the IA, where the IA requests, any further information the IA reasonably considers it needs to understand the operation of the company's GIECA and the GIECA outputs and to assess the GIECA against the Principles and Standards set out in this Module.
- (e) Throughout the year, a designated insurance holding company should report to the IA in a timely manner for any material changes made to its GIECA. Any non-material changes to its GIECA should also be listed in the relevant GIECA methodology report submitted by the designated insurance holding company to the IA.
- (f) A designated insurance holding company should submit to the IA approximate results from its GIECA outside of the reporting dates, where the IA requests these to be provided in order for the IA to have a snap shot of the supervised group's economic capital position in times of market volatility.
- (g) The information in the GIECA results report and the GIECA methodology report may be used by the IA in considering whether or not to make a variation to the group capital requirements applicable to a designated insurance holding company in relation to its supervised group so that the group capital requirements for the group are commensurate with the risks associated with the group, per section 95ZI of the Ordinance.

**L.A            Annex**

**L.A/1            Valuation of assets and liabilities for GIECA purposes**

L.A/1.1            A designated insurance holding company should, as part of its GIECA, set valuation requirements for the recognition or non-recognition of assets and liabilities to the extent they are recognised, and their measurement in accordance with the following requirements:

- (a)    The recognition or non-recognition of assets and liabilities (and the amount of such assets and liabilities recognised or not recognised) for the purposes of the GIECA should be based on standards which include consideration of the risks associated with the asset or liability. To the extent the financial reporting standards in accordance with which the financial statements for the supervised group are prepared factor in such risks, then those standards may be used for this purpose;
- (b)    Contracts for ceded reinsurance are required to be recognised and valued so as to correspond to the recognition of the risks which they are mitigating. Where a current reinsurance policy is contracted to cover future direct policies, the value of the reinsurance policy should not include any amount in respect of future direct policies that have not been recognised; and
- (c)    The purchase of reinsurance should not result in the de-recognition of insurance liabilities unless the purchase of that reinsurance results effectively in the extinguishment or novation of the insurance contracts.

L.A/1.2            The valuation of assets and liabilities should be undertaken on consistent basis. The overall financial position of a supervised group should be based on the consistent measurement of assets and liabilities, the explicit identification and consistent measurement of risks and their potential impact on all material components of the consolidated balance sheet of the supervised group.

L.A/1.3            The valuation of assets and liabilities should be undertaken in a reliable and transparent manner and in a way which assists decision making within the supervised group.

- (a)    The values placed on assets and liabilities for GIECA

purposes are required, as far as possible, to be a fair measure of their value at the valuation date.

- (b) The valuation of assets and liabilities should be objective and not inappropriately influenced by the management of the designated insurance holding company or its supervised group.
- (c) A designated insurance holding company should regularly subject the valuations of its supervised group's assets and liabilities to an independent review<sup>29</sup>.
- (d) The valuation methods should assist decision-making for capital and risk management purposes.
- (e) A designated insurance holding company should ensure that the approaches used for the valuation of assets and liabilities for GIECA purposes are documented in the GIECA methodology report. Documentation should cover the matters in respect of the valuation approaches used: reliability, consistency and the extent of their assistance to decision-making in the supervised group.

L.A/1.4 The valuation of assets and liabilities should be an economic valuation. The assessment of a supervised group's financial position should not be obscured by hidden or inherent conservatism or optimism in the valuation.

L.A/1.5 The economic valuation of assets and liabilities should reflect the risk-adjusted present values of their cash flows.

- (a) The economic valuation should reflect the prospective valuation of the future cash flows of the asset or liability allowing for the riskiness of those cash flows and the time value of money. A current quoted market value or a current sale or purchase value may also reflect the prospective valuation of cash flows.
- (b) A designated insurance holding company, in relation to its supervised group, is required to take into account all relevant information available about current market assessments of value and risk and the principles, methodologies and parameters used in the relevant markets for assessing the

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<sup>29</sup> Independent review may be carried out by an internal or external body as long as the reviewer is independent, is not responsible for, and has not been actively involved in, the part of the relevant valuation that it reviews.

value of an asset or liability.

L.A/1.6 The economic valuation of assets and liabilities can be based on the use of any one of a number of economic valuation methods including but not limited to market adjusted valuation and fulfilment basis.

- (a) A comparison between the valuation of insurance liabilities in the GIECA and the technical provisions as defined in the financial statements of the supervised group and the insurance liabilities that contribute to the eligible group capital resources should be reported in the GIECA results report on an annual basis. This comparison should include differences in data, discount rate, methodology and assumptions used together with the rationale for any different approach being used for GIECA purposes.
- (b) The IA may request, with reasonable notice, a designated insurance holding company to perform additional sensitivities on the valuation basis.

L.A/1.7 Technical provisions represent the economic value of an insurer fulfilling its insurance obligations to policy holders and other beneficiaries arising over the lifetime of the insurer's portfolio of insurance policies. This normally includes a current estimate of the obligations and a margin to cover the inherent uncertainty of those obligations.

- (a) Current estimate is the expected present value of the cash flows associated with fulfilling the insurance obligations of the members of the supervised group carrying on insurance business.
- (b) The current estimate and margin over current estimate (if applicable) should be separately reported in the GIECA results report. If the methodology for GIECA technical provisions does not include a margin over current estimate, the justification for the non-inclusion needs to be provided to the IA.
- (c) Material changes in underlying methodology or assumptions generating a significant change in technical provisions should be reported in the GIECA results report and justified so that consistency, reliability and relevance may be maintained and arbitrary changes over time are avoided.

- L.A/1.8 The value of technical provisions and other liabilities should not reflect a supervised group's own credit standing.
- L.A/1.9 The current estimate should reflect the expected present value of all relevant future cash flows that arise in fulfilling insurance obligations, using unbiased and current assumptions.
- (a) The current estimate should be determined using appropriate actuarial and statistical techniques, including deterministic, analytical and simulation techniques.
  - (b) The current estimate should reflect all future cash flows under an existing insurance contract to the extent that they are integral to the fulfilment of the obligations under that contract. This encompasses all cash flows, including non-guaranteed optional or discretionary cash flows, where they are established as stemming from the contractual relationship between the insurer and the policy holder. This reflects the commercial substance of the contract and therefore reflects economic reality.
  - (c) An insurance contract should be considered as a whole. In particular, where the contract provides for the payment of future premiums, such premiums are integral to the fulfilment of the obligations under that contract. Valuation of the insurance liability requires consideration of all of the associated cash flows, including the contractual, premium inflows. The uncertainty associated with those cash flows along with that of the other relevant cash flows are reflected in the probability weightings applied in calculating the current estimate.
  - (d) Insurance contracts are subject to boundary constraints that reflect the economic nature of the underlying liabilities and how the business is managed.
  - (e) When establishing the future cash flows to include in the determination of technical provisions, consideration should be given to all payments, including discretionary payments, regardless of whether these payments are contractually guaranteed under an insurance contract. A designated insurance holding company should ensure that reasonable policy holder expectations are considered in determining the treatment of discretionary payments. Assumptions of

management actions should be consistent with actual or expected practice.

- (f) Unbiased current assumptions, used in the determination of current estimates, are derived from a combination of relevant, credible experience as well as judgment about expected future development. Unbiased assumptions neither deliberately overstate nor understate the expected outcome. A designated insurance holding company should ensure such data and assumptions remain appropriate to current conditions.
- (g) Where assumptions are derived from observed values in the market, these are required to be the observed values as at the valuation date.
- (h) Regular experience analysis should be undertaken to support the assumptions used for insurance technical risks, taking care to ensure the assumptions are based on credible experience.

L.A/1.10 The valuation of technical provisions should allow for the time value of money.

- (a) The discount rate should be set with consideration of the economics of the insurance obligations in each jurisdiction including their nature, structure and term and the extent (if any) to which benefits are dependent on underlying assets.
- (b) The criteria for determining appropriate interest rates to be used in the discounting of technical provisions should recognise that the appropriate interest rates may not be directly observable and apply adjustments based on observable economic and market data of a general nature as appropriate.
- (c) To the extent that a risk is provided for elsewhere in the balance sheet by alternative means, there should be no allowance for that risk in the chosen discount rates.
- (d) As the discount rates should reflect the economics of the insurance obligations, any observed yield curve may be adjusted to account for differences between the economics of the observed instrument with those of the insurance obligations. In particular, the discount rates could allow for

expected risk premiums where these can be realistically earned (e.g. those on assets backing long-term liabilities) as long as the risk in doing so is appropriately allowed for in the required capital assessment.

- (e) The discount rates may need appropriate interpolation and extrapolation for non-observable market data and maturities. To provide for consistent and reliable economic values, the methodology in constructing the discount rates should utilise the entire interest rate term structure.
- (f) In principle, if an investment has a reliable market value and fully replicates or hedges an element of the insurance obligations or risks, such a value is presumed to reflect the time value of money.

L.A/1.11 The valuation of technical provisions should make appropriate allowance for any material embedded options and guarantees. The determination of the technical provisions should make explicit allowance for any material options of the policy holder or insurer and for material guarantees embedded in the insurance contract, such as lapse, surrender, guaranteed minimum benefits and interest rate guarantees. The method used to value embedded options and guarantees should be appropriate to the nature, scale and complexity of risk and may include stochastic simulation or simplified methods as appropriate.

**AX/1**

**APPENDIX: SUMMARY OF REGULATORY AND SUPERVISORY REPORTING REQUIREMENTS FOR DESIGNATED INSURANCE HOLDING COMPANIES**

**AX/1.1**

The table below summarizes the regulatory and supervisory reporting items, reporting frequency, submission timeline, and sign-off requirements for a designated insurance holding company in relation to its supervised group. The table does not specify the content of each reporting item. Detailed contents of each reporting item are covered within Part XIA of the Ordinance, the Group Capital Rules, and the respective Modules within the Guideline.

**AX/1.2**

This summary is not an exhaustive list and each designated insurance holding company (“DIHC”) should ensure compliance with all relevant requirements applicable to it.

**AX/1.3**

Pursuant to section 95ZO of the Ordinance, the IA has intervention powers to impose additional reporting requirements on designated insurance holding companies during the course of supervision.

| No. | Reporting item                                                                                                                                                                       | References                        | Reporting frequency                                                                                                                 | Submission deadline                                                                                                                                                                                                                                                      | Governance and sign-off                                                                                                                 |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| 1   | <p>(a) The specified financial statements of a financial reporting member for its supervised group</p> <p>(b) The member’s s.95ZF appointed auditor’s report on those statements</p> | <p>s.95ZH(1) of the Ordinance</p> | <p>Annually (for Hong Kong (“HK”) company)</p> <p>As required under the laws of its place of incorporation (for non-HK company)</p> | <p>Within 4 months after the end of the period to which the document relates</p> <p>IA may extend the 4-month period by a period not exceeding 3 months if it appears to the IA that the circumstances are such that a period longer than 4 months should be allowed</p> | <p>Documents submitted under s.95ZH(1) must comply with any requirements specified by the IA in a written notice served on the DIHC</p> |

| No. | Reporting item                                      | References                         | Reporting frequency                                                                                                                                                                                                                         | Submission deadline                                                                                                                                                                                                                                                                       | Governance and sign-off                                                                                                 |
|-----|-----------------------------------------------------|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| 2   | Group capital adequacy report                       | Rule 11 of the Group Capital Rules | Annually (as at 31 December of each year)                                                                                                                                                                                                   | <p>Within 5 months after the reporting date to which the report relates</p> <p>IA may, at the request in writing of a DIHC, extend by such period as IA thinks fit, <u>not exceeding 3 months</u>, if the circumstances are such that a longer period than 5 months should be allowed</p> | Signed by 2 directors and a chief executive of the DIHC                                                                 |
| 3   | Capital adequacy supplementary information ("CASI") | Module C                           | <p>Quarterly (as at 31 March, 30 June, 30 September and 31 December of each year)</p> <p>Semi-Annually (as at 30 June and 31 December of each year)</p> <p>Annually (as at 31 December of each year) or when there are material updates</p> | <p>Within 2 months after the relevant quarter end date</p> <p>Within 3 months after the relevant half year end date</p> <p>Within 3 months after the relevant year end date or in a timely manner when there are material updates</p>                                                     | Signed by a key person(s) in control function for financial control, risk management or actuarial appointed by the DIHC |
| 4   | Group business and capital management plan          | Module C                           | At least annually or when there are material updates                                                                                                                                                                                        | Within 2 weeks after the formal approval by the Group Board                                                                                                                                                                                                                               | Provide by personnel with the requisite authorization from the                                                          |

| No. | Reporting item                                         | References | Reporting frequency                                                                                                    | Submission deadline                                                                                                                                                                                                                          | Governance and sign-off                                                                                                                      |
|-----|--------------------------------------------------------|------------|------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
|     |                                                        |            |                                                                                                                        |                                                                                                                                                                                                                                              | Group Board to sign the plan on its behalf                                                                                                   |
| 5   | Group Board Updates                                    | Module G   | Align with the Group Board meetings schedule                                                                           | <u>Within 2 weeks</u> after the respective Group Board meetings                                                                                                                                                                              | Provide by personnel with the requisite authorization from the Group Board to provide such updates                                           |
| 6   | Material group outsourcing arrangement register        | Module I   | At each financial year end annually and whenever a new material group outsourcing arrangement is added to the register | <u>Within 6 months</u> after each financial year end or in a timely manner whenever a new material group outsourcing arrangement is added to the register                                                                                    | Signed by a key person(s) in control function for financial control, risk management or Compliance                                           |
| 7   | Group Own Risk and Solvency Assessment (“ORSA”) Report | Module K   | At each financial year end annually or when there are material changes in the risk profile for the supervised group    | <u>Within 5 months</u> of the relevant date<br><br>IA may extend the aforesaid period by a period not exceeding <u>3 months</u> if it appears to the IA that the circumstances are such that a period longer than 5 months should be allowed | Approval by Group Board or Risk Committee<br><br>Signed by a key person(s) in the control function for risk management appointed by the DIHC |
| 8   | Group recovery plan                                    | Module K   | At each financial year end annually or when there are material changes in the risk                                     | <u>Within 6 months</u> of the relevant date                                                                                                                                                                                                  | Approval by Group Board or Risk Committee                                                                                                    |

| No. | Reporting item                         | References | Reporting frequency                                                                                                 | Submission deadline                                           | Governance and sign-off                                                                                                                                         |
|-----|----------------------------------------|------------|---------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     |                                        |            | profile for the supervised group                                                                                    |                                                               | Signed by a key person(s) in the control function for risk management appointed by the DIHC                                                                     |
| 9   | Group liquidity risk management report | Module K   | At each financial year end annually or when there are material changes in the risk profile for the supervised group | <u>Within 6 months</u> of the relevant date                   | Approval by Group Board or Risk Committee<br><br>Signed by a key person(s) in the control function for risk management of the DIHC                              |
| 10  | GIECA results report                   | Module L   | Semi-Annually (as at 30 June and 31 December of each year)                                                          | <u>Within 5 months</u> of the relevant results reporting date | Approval by Group Board or Risk Committee<br><br>Signed by a key person(s) in control function for financial risk management or actuarial appointed by the DIHC |

| No. | Reporting item           | References | Reporting frequency                       | Submission deadline                                        | Governance and sign-off                                                                                                                                            |
|-----|--------------------------|------------|-------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11  | GIECA methodology report | Module L   | Annually (as at 31 December of each year) | Within 5 months of the relevant methodology reporting date | Approval by Board or Risk Committee<br><br>Signed by a key person(s) in control function for financial control, risk management or actuarial appointed by the DIHC |