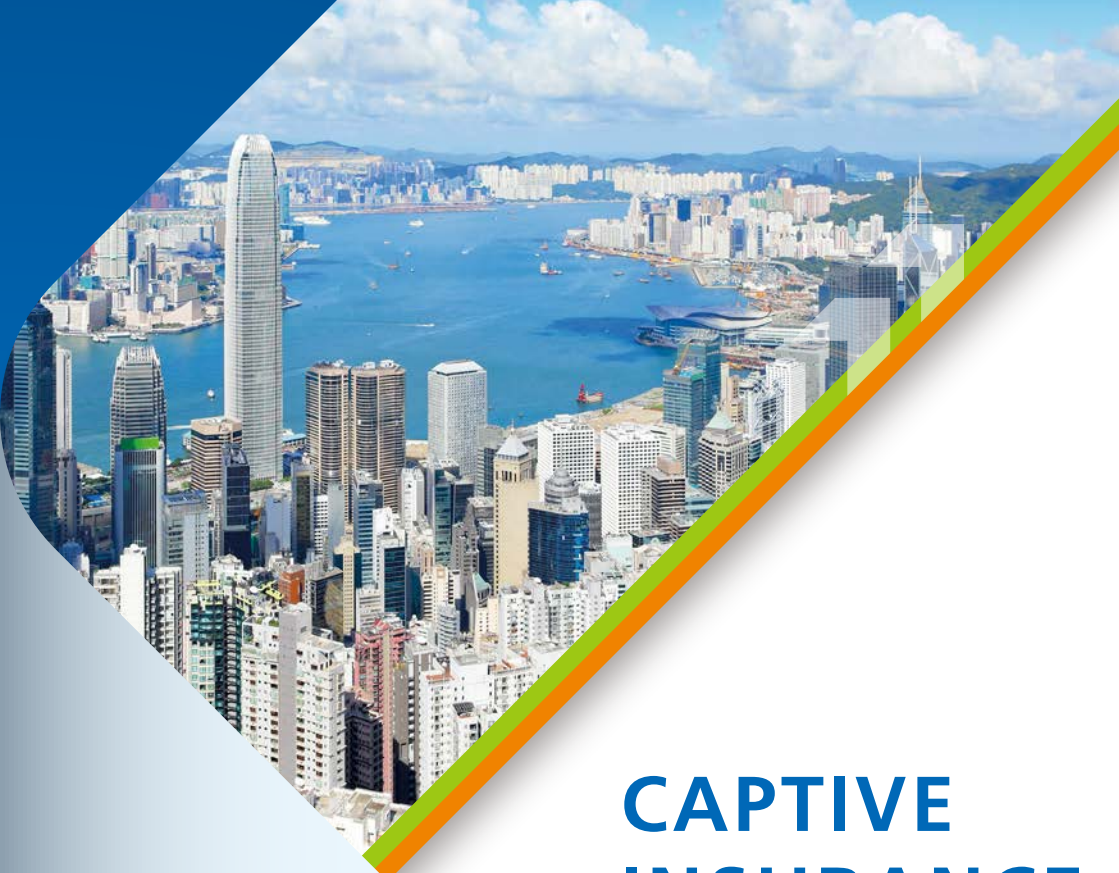




CAPTIVE INSURANCE

IN HONG KONG

WHAT IS A CAPTIVE INSURER ?

In general, a captive insurer (referred to as a captive below) is an insurance entity established by a parent company to insure its own risks, as well as the risks of its group companies. Through this structure, the corporate group retains control over its risk management rather than transferring its risks entirely to commercial insurers, thus achieving some degree of flexibility from commercial market constraints and agility in risk management.



STRATEGIC ADVANTAGES OF CAPTIVES

The following key advantages demonstrate how a successful captive insurance programme can enhance a corporate group's risk management capabilities while creating financial benefits:



Financial Benefits

Typically, a captive can reduce the corporate group's overall cost of insurance by self-insuring its own risks – as opposed to relying on commercial insurers (where premiums paid to them at times have gone to these insurers' administrative costs). In addition, the investments of a captive can be centrally managed by the corporate group, thereby increasing the investment income for the group. A captive's profits can also be returned to its parent through dividends, as long as the capital requirements prescribed by the relevant regulator are being met.

When the premium paid into the captive outweighs the loss and expenses incurred by the captive, the captive can capture such underwriting profit – essentially it would convert insurance from a pure expense into a potential profit centre.



Strategic Flexibility

A captive allows a corporate group to design insurance programmes tailored to its unique risk profiles, particularly for exposures that are difficult to insure or costly in traditional markets. With captive, a corporate group can benefit from consolidated purchasing power through a comprehensive programme design which enables direct access to reinsurance.



Enhanced Risk Management

A captive brings insurance operations in-house, providing direct visibility into claims patterns and loss drivers while aligning risk management with specific business objectives. This centralized approach enables a corporate group to collect loss data for predictive analytics. As historical data accumulates, the corporate group achieves more accurate risk pricing resulting in stable and predictable claim payouts, and can develop targeted solutions that address its unique operational exposures.

WHEN DO CAPTIVES MAKE SENSE ?

Corporate groups that utilize captives typically exhibit some of the following key characteristics:

1

Complex or Unique Risk Profiles

Corporate groups facing risk exposures that the commercial insurance market struggles to address, due to the specialized nature of the risk, unfavourable pricing, lack of available capacity, or limited coverage terms.

2

Predictable and Favourable Risk Profiles

Corporate groups with predictable risk patterns, including those with high-frequency, low-severity risks that have established loss history, as well as those with a long-standing pattern of paying high premiums despite remarkably low claims history. These corporate groups typically have the operational capability to retain and manage higher levels of risks without strain across their regional business units.

3

Strong Commitment to Holistic Risk Management and Risk Improvement

Corporate groups that are adopting or planning to adopt a holistic approach in risk management, taking into consideration the total cost of risks, rather than treating insurance as a simple commodity purchased at the lowest cost. These corporate groups invest in loss prevention and safety programmes, aiming to lower claim costs over time through improved risk performance, rather than simply focusing on short-term insurance savings.



A TYPICAL CAPTIVE JOURNEY

Interested in setting up a captive?

Here are the common key steps to bring the proposition to fruition:

Feasibility Study

- A corporate group evaluates its risk profile and insurance coverage to identify captive needs, taking factors such as programme structure, lines of coverage, loss history, financial benefits and cost, domicile review, etc. into consideration. Normally, the parent company also outlines its coverage requirements, which guides the development of specific policy terms and conditions as the captive structure is finalized.

Capitalization and Setup

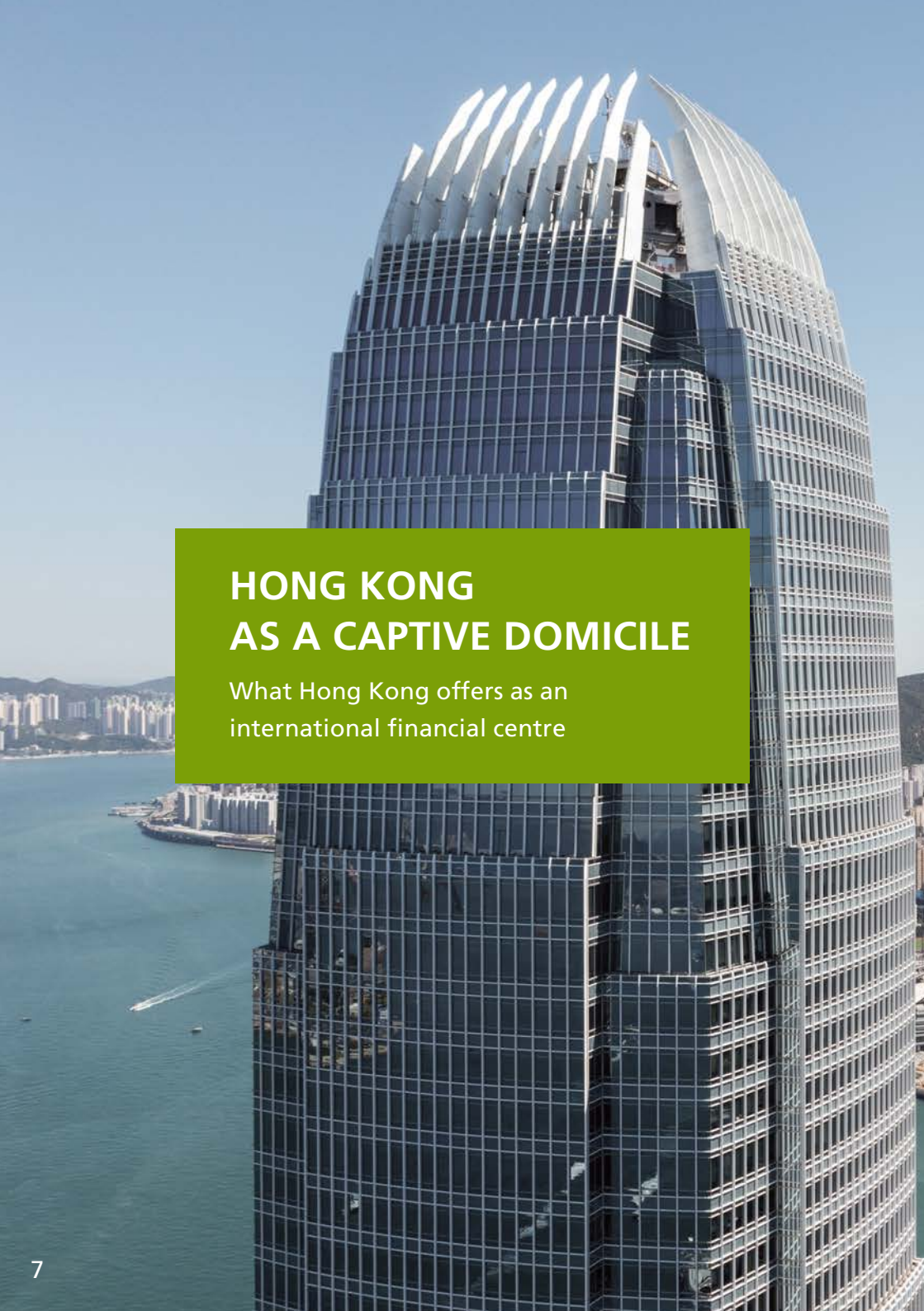
- The parent company then seeks and obtains authorization from the relevant regulator and ensures the captive obtains the required capital and establishes operational structures.

Commencement of Operations

- The captive begins underwriting policies and assuming risks from the parent company or other companies of the corporate group to which it belongs, issuing coverage documents and collecting premiums according to the established programme structure.

Ongoing Management

- Corporate governance
- Business expansion, as appropriate
- Investments:
 - ▶ Surplus accumulated from underwriting profits is managed to balance growth with reserves, and dividends are distributed when appropriate.
 - ▶ In the event of a potential shortfall in capital, the parent company should be ready to inject additional capital to comply with regulatory requirements at all times.



HONG KONG AS A CAPTIVE DOMICILE

What Hong Kong offers as an international financial centre

1 Strategic Location

Hong Kong's strategic location, within four hours from key Asian markets, enables captive insurers to maintain strong relationships with regional business units and risk managers. An ideal place for multinational conglomerates with Asian business presence, as well as Chinese Mainland enterprises with "going overseas" needs – the latter can particularly benefit from potential synergies with their corporate treasury centers and asset management arms already established in the city.



2 Vibrant Ecosystem of Professional Support

Hong Kong is home to an array of international insurers and reinsurers, complemented by established brokers, actuaries, lawyers and accountants. Together with the city's talent admission schemes, Hong Kong's ecosystem of professionals lays a solid foundation for the success of a captive insurer.

3 Tax Efficiency

Eligible authorized captive insurers in Hong Kong may benefit from a concessionary profits tax rate of 8.25% (i.e. 50% of the 16.5% corporate profits tax rate) on qualifying profits from their authorized captive insurance business¹.

¹ The actual tax benefits available will vary depending on the overall effective tax rate in Hong Kong applicable to your corporate group. For example, certain large multinational enterprise groups may not take advantage of the concessionary tax rate because of the 15% global minimum tax implemented in Hong Kong effective from 1 January 2025, in accordance with the BEPS 2.0 framework promulgated by the Organisation for Economic Co-operation and Development. Please refer to the Hong Kong Inland Revenue Department's guidance and obtain professional tax advice as appropriate.

DEDICATED REGULATORY REGIME FOR CAPTIVE INSURERS

In Hong Kong, a captive insurer is legally defined under section 2(7) of the Insurance Ordinance (Cap. 41) and is subject to the supervision and regulation of the Insurance Authority (“IA”). Salient features of the regulatory requirements applicable to a captive insurer are set out on the right:

Proportionate Capital Requirements

Relatively straightforward formula in assessing the capital needed, as prescribed in Insurance (Marine Insurers and Captive Insurers) Rules (Cap. 41U).

Wide Scope of Insurable Risks

Captives can be authorized to carry on the following classes of general insurance business in or from Hong Kong²:

Class	Description	Class	Description
1	Accident	10	Motor vehicle liability
2	Sickness	11	Aircraft liability
3	Land vehicles	12	Liability for ships
4	Railway rolling stock	13	General liability
5	Aircraft	14	Credit
6	Ships	15	Suretyship
7	Goods in transit	16	Miscellaneous financial loss
8	Fire and natural forces	17	Legal expenses
9	Damage to property		

In general, captives are expected to write intra-group risks only, though some captives may write other risks under certain circumstances. Captives which plan to write other risks should discuss with the IA in advance.

² Under section 2(7)(a)(i) of the Insurance Ordinance (Cap. 41), a captive insurer is not authorized to write any class of insurance business relating to liabilities or risks in respect of which persons are required by any Ordinance of Hong Kong to be insured.

Flexible Personnel Requirements

Subject to the nature, scale and complexity of the business and the associated risks of its operation, the IA expects a captive insurer to have a minimum of two directors, a senior management team comprising a locally-based chief executive and at least three responsible persons overseeing the key functions of its insurance business and operation (e.g. underwriting, claims and finance).

A partial/full outsourcing model is also allowed.

Efficient Asset Allocation and Management

With the exemption from local asset requirements³, captive insurers are provided with flexibility in asset location and management to fit operational needs. The captive may also loan-back any excess fund to its parent, aligning with the parent's investment strategy.

³ Section 25A of the Insurance Ordinance (Cap.41) and the Insurance (Maintenance of Assets in Hong Kong) Rules (Cap. 41T) requires an authorized insurer carrying on general business in or from Hong Kong, other than an HK insurer, a designated insurer and a captive insurer, to maintain assets in Hong Kong in respect of its general insurance business with onshore risk.



AUTHORIZATION PROCESS

Application processing time is approximately three months, subject to completeness and quality of application materials. Prospective applicants may consider engaging professional consultants (e.g. captive managers) for technical support if appropriate.

1

Get in touch with the IA's Market Development & External Promotion Section

Initial discussion to understand your captive insurance plans and our regulatory framework.

2

Preliminary Meeting with the IA's Supervision Division

Present your business plan and receive initial feedback on your proposed captive operation.

3

Draft Application

Submit a complete but unsigned draft application with supporting documents for the IA's assessment. Please refer to Guideline on Application for Authorization to Carry on Insurance Business in or from Hong Kong (GL5)⁴. Key documents include:

- Form IA-6C (Application for Authorization to carry on General Business as a Captive Insurer)⁵. The application form should be filed by the ultimate parent company of the proposed captive insurer;
- Three-year business plan;
- Financial projections for the first three years of operations after authorization; and
- Detailed information (prescribed forms and/or CVs) of the proposed directors, chief executive, and key personnel.

4

Formal Application

Upon receiving the IA's positive feedback on the draft application, the applicant will be invited to submit a signed formal application with certified supporting documents.

5

Approval-in-principle ("AIP")

If the IA is satisfied with the formal application, the IA will issue an AIP letter with conditions for formal authorization.

6

On-site Inspection

After issuing the AIP letter, the IA will conduct an office inspection to ascertain the applicant's readiness to commence insurance business upon formal authorization.

7

Formal Authorization

If the IA is satisfied that the applicant has complied with all the requirements and conditions specified in the AIP letter, the IA will issue the Certificate of Authorization.

⁴ GL5 can be accessed here:
https://www.ia.org.hk/en/legislative_framework/guidelines.php

⁵ Form IA-6C can be accessed here:
<https://www.ia.org.hk/en/infocenter/forms/insurers.html>

DISCLAIMER

The information provided by the Insurance Authority ("IA") in this document is for reference only. This document aims at setting out an overview of captive insurance and salient features of the regulatory regime for captives. While the IA endeavours to ensure the accuracy of the information, no express or implied warranty is given by the IA as to the accuracy or completeness of the information. The IA shall not be liable for any loss or damage, whether or not arising from any inaccuracy or omission or from any decision, action or non-action based on or in reliance upon information contained in this document howsoever arising from using or in reliance upon the whole or any part of the information in this document.

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