



## HONG KONG INSURANCE UPDATES

In briefing, Rosie Ng provides an update on developments in the insurance sector in Hong Kong.

**“Mr Cheung's... direct regulatory experience and close working relationship with the industry while being the Commissioner of Insurance from 2006 to 2009, we are confident that Mr Cheung will discharge the role and functions of CEO competently in ensuring the smooth commencement of the statutory licensing regime for insurance intermediaries and the sustainable development of the industry.”**

**Mr Paul Chan, Financial Secretary**

### **New CEO at the Hong Kong Insurance Authority (AI)**

On 27 July 2018, Clement Cheung Wan-ching was appointed the new Chief Executive Officer of the Insurance Authority (IA) of Hong Kong for a term of two years commencing 15 August 2018. Cheung was formerly the Commissioner of Insurance in Hong Kong from 2006 to 2009. He will be responsible for spearheading the proposed regulatory reforms to include the introduction of a Risk-Based Capital framework as well as the future supervision and regulation of intermediaries (brokers/agents).

### **Risk-Based Capital reforms: Enterprise Risk Management (ERM)**

#### **Overview**

The IA recently issued draft guidelines on Enterprise Risk Management (The Draft Guidelines). The consultation period ended on 6 July 2018. The risk-based capital reforms seek to ensure that capital requirements imposed upon insurers, correlate with risk exposure by taking into account the nature, scale and complexity of the business against such risk exposure.

The objective is to strengthen the risk culture in the insurance market, set out guidelines for the management of operational risks through an ERM framework and to impose greater accountability on management.

The draft Guidelines apply to all authorised insurers in Hong Kong save for the following:

- Insurers who have ceased to accept new business, are in the course of run-off and have an insignificant run-off portfolio in Hong Kong.
- Lloyd's.
- Captive insurers.
- Marine mutuals.

#### **Group wide 3-tier supervisory approach**

To encourage consistent and effective group-wide supervision, insurers who are members of a group fall into one of three tiers:

- Where the insurer is part of a group which is subject to the supervision of the IA.
- Insurance sub-groups which have operations significant to the Hong Kong insurance market or to its

whole group.

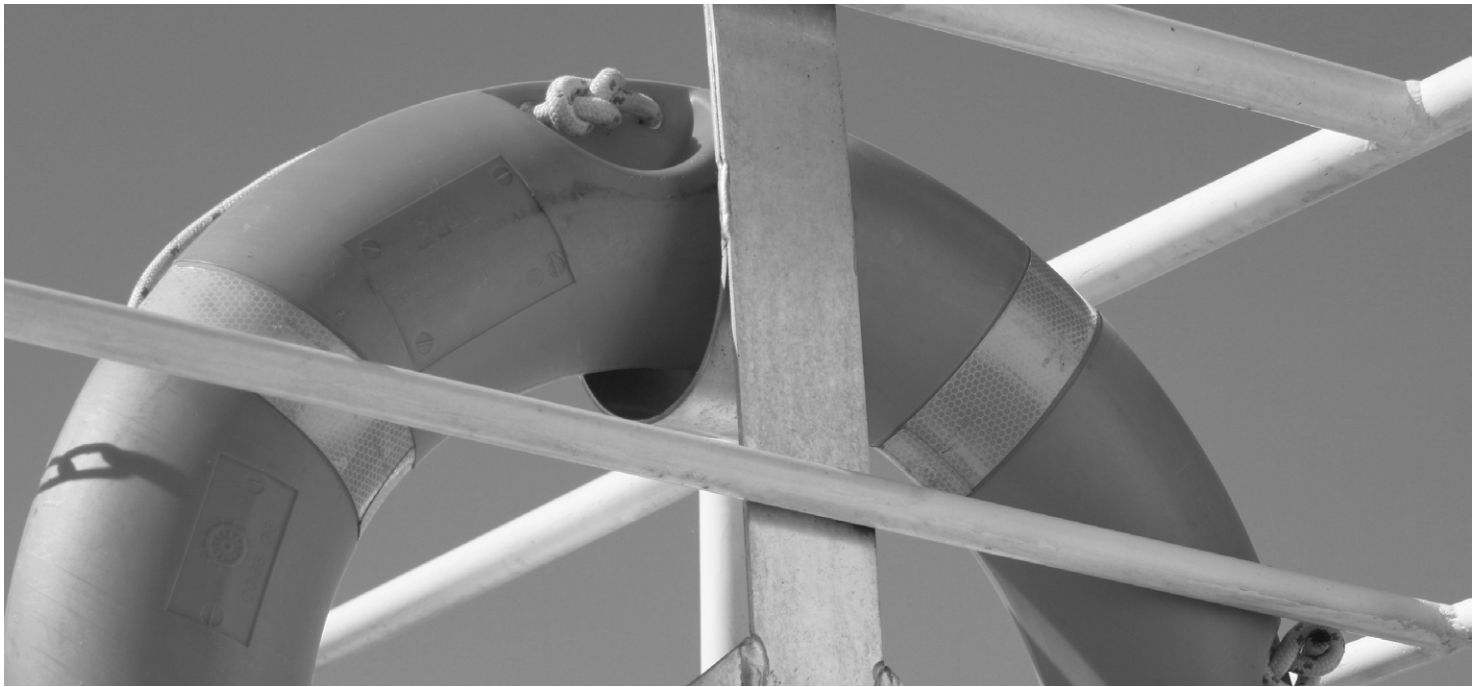
- Other insurers which are members of groups (and do not fall within the other two tier groups) which are subject to home supervision.

Annex A to the draft Guidelines sets out the supervisory approach.

#### **Main requirements**

These include the following:

- Establishing a clear and well-documented risk management structure which manages risk exposure taking into account the nature, scale and complexity of the risks.
- Risk management policies/procedures are subject to the approval of the Board. The Board has overall responsibility for establishing and overseeing the ERM framework (although delegation to a Risk Committee/individual is permitted). This necessarily includes:
  - Providing sufficient resources to implement an effective ERM framework.
  - Setting up appropriate reporting lines and



responsibility levels regarding risk management.

- Periodic reviews of the risk appetite statement.
- Risk Committees are required to be established under draft Guidelines on the Corporate Governance of Authorised Insurers (GLIO). Their responsibilities include:
  - Advising the Board on the risk appetite and key risk management policies procedures.
  - Reviewing the identification and monitoring of material risks.
  - Reporting to the Board on the effectiveness of the ERM.
- Risk appetite statement should reflect the nature, scale and complexity of the business and should include:
  - All material risks.
  - Future business plans.
  - Actual or anticipated breaches to the risk appetite statement.
- Providing for risk assessment and control activities on a regular basis (risk identification, risk quantification, risk

monitoring and reporting and management actions).

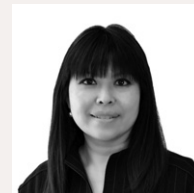
- Periodic review of current/ future risks against the risk appetite statement.
- Performance of an Own Risk and Solvency Assessment (ORSA) and submission of the ORSA report (approved by the Board and/or Risk Committee) to the IA within 4 months after each financial year and whenever there are material changes to the risk profile.

The aim is to finalise the draft Guidelines later this year with the intention that they come into effect on 1 January 2020.

### **Promoting Hong Kong reinsurance business**

Last month, in a move aimed at promoting reinsurance business in Hong Kong, the IA and the China Banking and Insurance Regulatory Commission (CBIRC) reached an agreement whereby Hong Kong reinsurers are charged a lower credit risk charge than 'offshore' reinsurers in the cession of PRC insurance business. This is a welcome step towards building on continuing efforts to promote reinsurance in Hong Kong.

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