

# Hong Kong regulatory updates

RBC framework

GN15

GN16

7 November 2015

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# Agenda



## 01 Hong Kong risk-based capital development

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### 02 GN15 Guidance note on underwriting Investment-Linked Assurance Schemes (“ILAS”) business

**GN16**  
Guidance note on underwriting long term insurance business

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### 03 The timetable for change

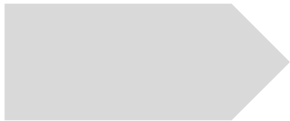
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# HK proposed risk-based capital - framework overview

## ICPs relevant to HK RBC framework

- ICP 7 Corporate Governance
- ICP 8 Risk Management and Internal Controls
- ICP 14 Valuation
- ICP 15 Investment
- ICP 16 Enterprise Risk Management for Solvency Purposes
- ICP 17 Capital Adequacy
- ICP 20 Public Disclosure
- ICP 23 Group-wide Supervision

## Hong Kong Risk-based capital framework

### PILLAR 1

#### Quantitative requirements

- Capital adequacy
- Valuation of assets and liabilities

### PILLAR 2

#### Qualitative requirements

- Corporate governance
- ERM
- ORSA

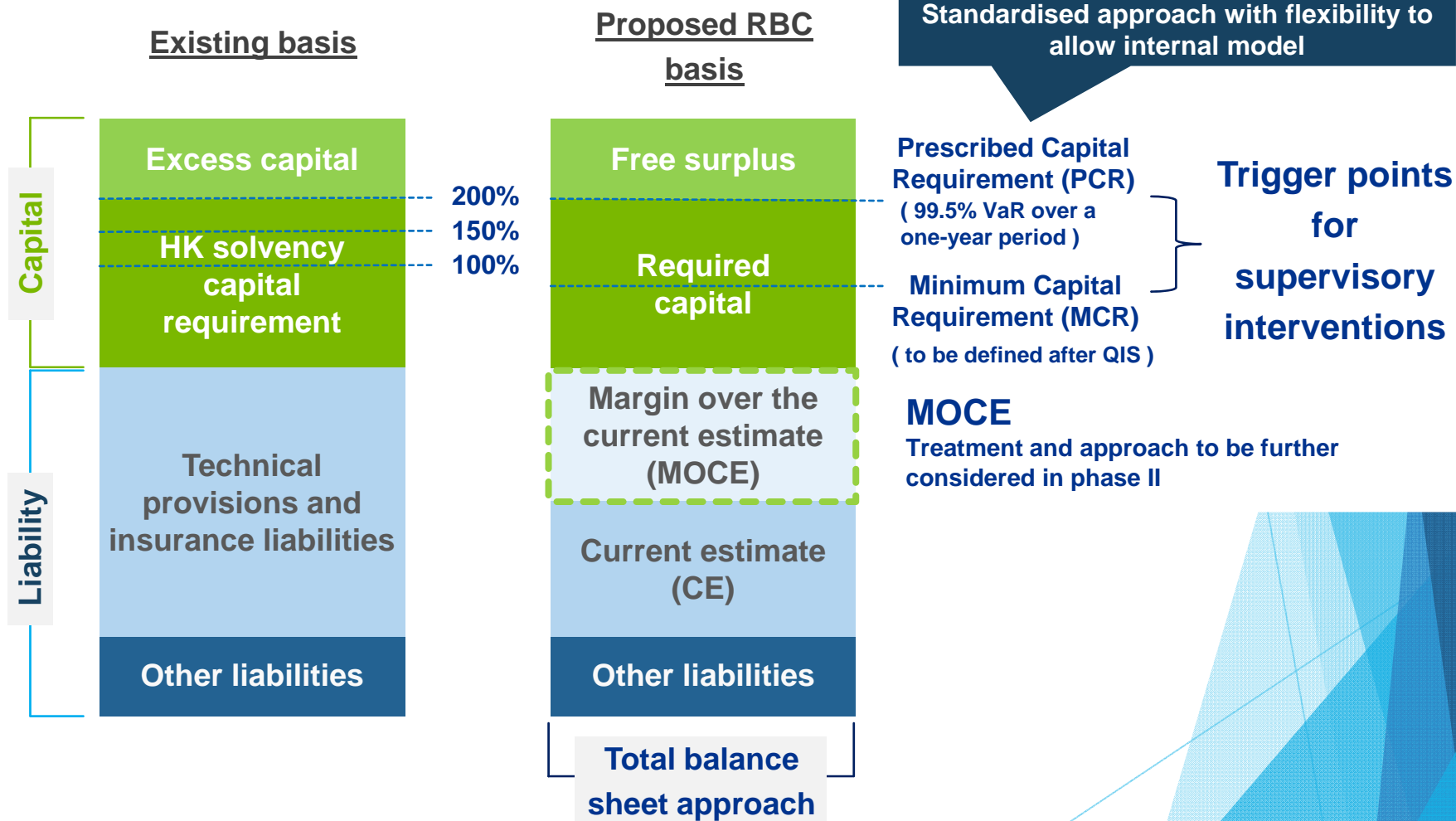
### PILLAR 3

#### Disclosure and transparency

- Public disclosures

Group-wide supervision requirements across all 3 pillars (3 tier approach)

# Framework overview - Pillar 1



This diagram is for illustrative purposes and does not demonstrate the relative size of each component or level of capital requirement between the existing framework and the proposed RBC framework

# Overview on Pillar 1 aspects

## Valuation of assets and liabilities

### Overall approach

- Total Balance Sheet approach (*ICP 14 Valuation*)
- An internally consistent basis for valuation of assets and liabilities
- Principle-based asset allocation requirements

### For insurance liabilities

- Allowance of time value of money
- Allowance for embedded options and guarantees
- Contract boundaries: align with general purpose financial statements under HKFRS or IFRS

## Capital requirement (*ICP 17 Capital Adequacy*)

- Two solvency control levels (PCR and MCR)
- Going-concern basis for PCR
- PCR set at 99.5% VaR over a one-year period
- MCR approach will be simpler than PCR
- A standardised approach with flexibility in future to use internal models
- Four risk categories: market risk, credit risk, underwriting risk and operational risk
- Legal risk, strategic risk and reputational risk to be addressed through risk management processes
- Liquidity risk will be addressed via supervisory oversight of ALM

## Risk category

### Long-term business

- Market risk: Stress-test approach
- Underwriting risk: Stress-test approach

### General insurance business

- Market risk: Stress-test approach
- Underwriting: Risk-factor approach (To be assessed further in QIS)

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# Overview of GN15 and GN16 requirements

## Background

IAIS and global insurance industry have placed increasing emphasis on fair treatment of customers

Fair treatment of customers encompasses (*ICP 19.2.4*):

- Developing and marketing products in a way that pays due regard to the interests of customers
- Providing customers with clear information before, during and after the point of sale
- Reducing the risk of sales which are not appropriate to customers' needs
- Ensuring that any advice given is of a high quality
- Managing the reasonable expectations of customers

## **GN15 and GN16 aim to set out the proper standards of conduct and business practices for insurers**

- Product Design should be sustainable and reflect customers' needs
- Clear communication on key product features and risks, fee and charges, surrender penalties to customers
- Assessment of suitability of product for customers
- Appropriate remuneration structure
- Proper selling processes
- Post-sale monitoring and control



## Overview of GN15 and GN16 requirements (Cont'd)

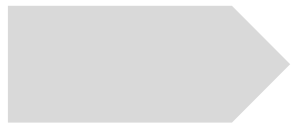
### For investment-linked assurance scheme – GN15

- Insurers and intermediaries should properly manage conflict of interest
- Investment instructions of policyholders must be followed

### For participating products and universal life products – GN16

- Policyholder's reasonable expectation (PRE) means policyholders expect to receive a fair proportion of non-guaranteed benefits
- Corporate policy that describes management of non-guaranteed benefits
- Disclosure requirements for non-guaranteed benefits in illustration at point-of-sales and during policy life

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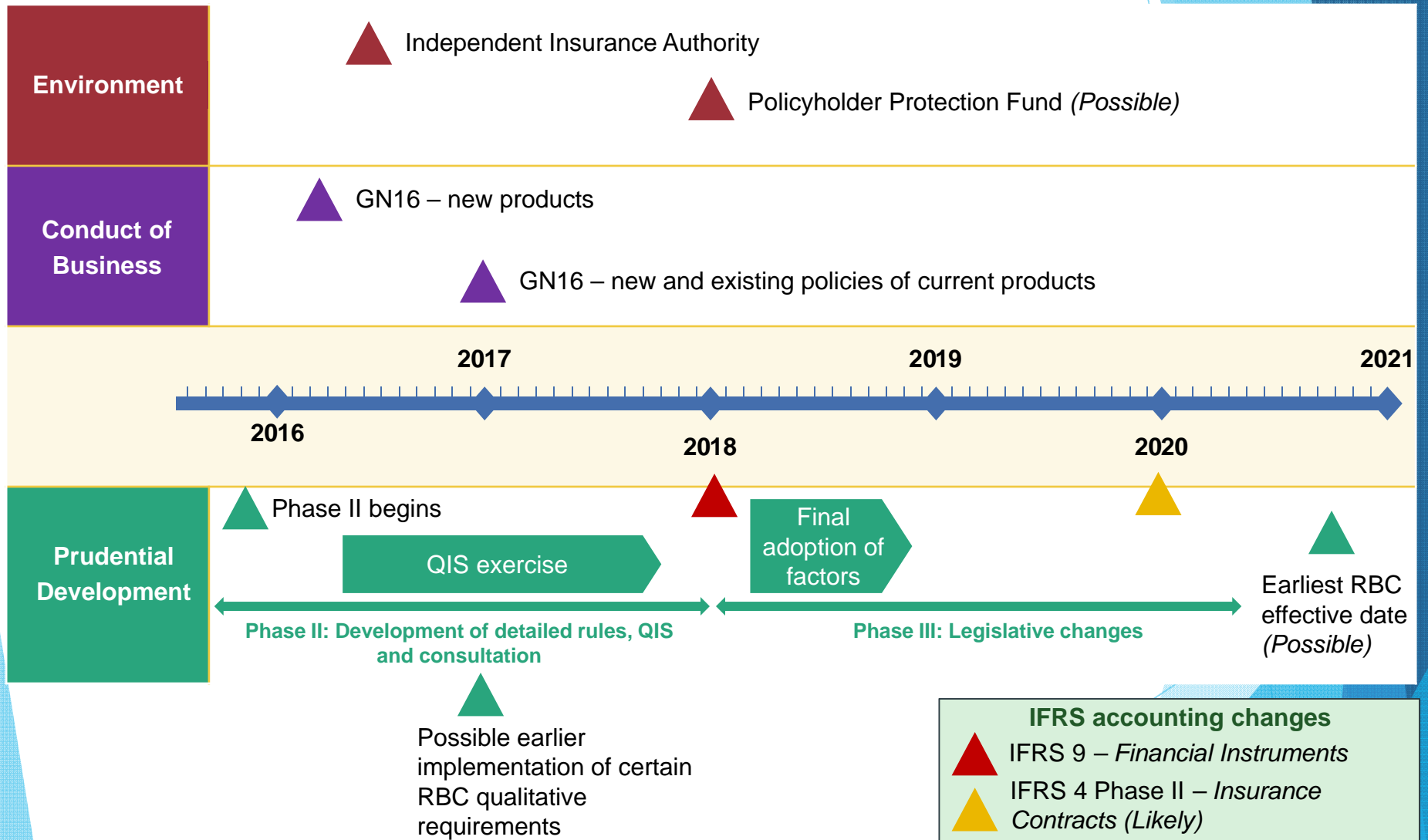
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**03** **The timetable for change**

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# The timetable for change



**Thank you!**