

Insurance Authority
Estimates of Income and Expenditure for 2019-20

					Variance Proposed Estimates vs. Revised Estimates 2018-19 (vi)=(iii)-(ii) HK\$ million
	Note	Estimates 2018-19 (i) HK\$ <u>million</u>	Revised Estimates 2018-19 (ii) HK\$ <u>million</u>	Proposed Estimates 2019-20 (iii) HK\$ <u>million</u>	
A. <u>Income and Expenditure Statement</u>					
<u>Income</u>	1				
(a) Interest income	2	0.7	5.3	3.2	(2.1)
(b) Levy and fees	3	182.2	167.8	239.8	72.0
Total Income		182.9	173.1	243.0	69.9
<u>Operating Expenditure</u>					
(a) Staff costs	4	314.6	267.6	331.4	63.8
(b) Office rental and related expenses	5	24.0	21.1	23.1	2.0
(c) Engagement of professional services	6	9.2	5.0	10.4	5.4
(d) Information Technology ("IT") expenses	7	7.2	7.5	14.3	6.8
(e) External relations expenses	8	4.4	6.2	7.1	0.9
(f) Remuneration to Members		2.5	2.6	2.6	-
(g) Other operating expenses	9	16.9	15.4	18.1	2.7
(h) Depreciation	10	27.3	24.2	35.4	11.2
(i) Non-recurrent projects	11	12.0	6.8	4.1	(2.7)
Total Operating Expenditure		418.1	356.4	446.6	90.2
Result for the year		(235.2)	(183.3)	(203.6)	(20.3)
B. <u>Capital Expenditure Statement</u>					
(a) Office set-up	12	3.8	2.0	4.8	2.8
(b) IT systems and equipment	13	23.2	25.4	17.0	(8.4)
Total Capital Expenditure		27.0	27.3	21.8	(5.5)

Notes to the Proposed Estimates for 2019-20

1. Income

According to the consultancy study¹ commissioned by the Government, income of IA in the first four years of operation was insufficient to fully meet its expenditure, resulting in a total deficit of about \$650 million. Two lump-sum instalments have been received from the Government to help the IA bridge this shortfall. On 13 May 2016, LegCo approved the provision of \$450 million to the IA, followed by the second portion of \$200 million on 10 May 2018². They were recognized as capital upon receipt in the statement of financial position.

2. Interest income

With approval given by FS, the IA has adopted an interim investment strategy where funds not required for immediate use are placed into Hong Kong dollar fixed deposits.

3. Levy and Fees

Starting from 1 January 2018, a levy of 0.04% on insurance premiums is payable by policy holders. This levy rate will gradually increase until it reaches the target level of 0.1% in 2021- 22. However, a cap has been imposed on the levy for general insurance policies with annual premiums at or above \$5 million and long term insurance policies with single or annualized premiums at or above \$100,000. Insurance policies related to captives, contracts of reinsurance, marine, aviation and goods-in-transit are exempted from the levy.

The annual and authorization fees payable by insurance companies effective from 26 June 2017 consist of two elements, namely, (a) a fixed fee of \$300,000 (\$30,000 for captives and \$600,000 for composite insurers); and (b) a variable fee subject to a cap of \$7 million on insurance liabilities (\$14 million for composite insurers). The variable fee rate will rise gradually from the original 0.0001% to 0.0039%.

¹ The consultancy study was carried out by PricewaterhouseCoopers.

² Before obtaining funding approval from LegCo, the Government approved in February 2016 a small sum of \$3 million in 2015-16 for IA to meet mainly the cash flow requirement of the essential consultancy services. The allocation was received by IA in early-March 2016.

Since 26 June 2017, the IA has been charging user fees to recover the cost of providing 11 specific services, 10 of which are applicable to insurance companies.

4. Staff costs

Salaries, Mandatory Provident Fund contributions, health insurance scheme and employees' compensation insurance. The estimate for 2019-20 is predicated on full strength of about 300 staff.

5. Office rental and related expenses

Office rentals, management fees, utility charges, government rent/rates as well as other associated expenses such as general office insurance and telephone rental.

6. Engagement of professional services

This item mainly covers executive search services, consultancy, legal and audit services. The estimate for 2019-20 is higher than the revised estimate for 2018-19 mainly due to the anticipated increase in fees for legal advice and consultancy.

7. IT expenses

IT expenses include maintenance of server infrastructure, cybersecurity protection systems and IT applications. The estimate for 2019-20 exceeds the revised estimates for 2018-19 mainly due to the Document Management System.

8. External relations expenses

The revised estimate for 2018-19 is spent on public relations campaigns, the Asian Insurance Forum, online news and social media engagement, while the higher estimate for 2019-20 is aimed mostly at launching publicity for the new licensing regime of the insurance intermediaries.

9. Other operating expenses

Covers mainly staff training and development, travelling costs, social events and other incidental expenditure. The estimate for 2019-20 rose in step with the number of staff.

10. Depreciation

Depreciation is calculated to write off the cost of fixed assets (such as furniture and fixtures, office equipment, IT systems) using straight-line method over a period of three or five years.

11. Non-recurrent projects

This item mainly caters for consultancy studies related to the RBC regime³. Despite that the second Quantitative Impact Study has been completed in 2018-19, we will have to conduct further consultancy studies in 2019-20.

12. Office set-up

The estimate for 2019-20 represents mostly minor fitting-out works.

13. IT systems and equipment

Given the completion of several major IT systems in 2018-19 such as those for collection of levies and supervision of insurance intermediaries, the estimate for 2019-20 has decreased accordingly.

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³ The RBC regime seeks to strengthen the prudential regulation of insurance companies with a view to aligning their capital requirements with risk exposures and enterprise risk management.