Covered: Insurance regulation – Asia edition

Hong Kong's Insurance Amendment Bill

The Insurance (Amendment) Bill 2023 has been introduced to establish the statutory foundations for the new risk-based capital (RBC) regime for Hong Kong authorized insurers. The bill is expected to be in force in 2024.

The amendments introduced by the bill will see an end to the current solvency provisions of the Insurance Ordinance (IO) in favour of a Solvency II-style RBC regime, bringing Hong Kong in line with other key insurance hubs. This follows several rounds of consultations with the industry. In addition to changes to the IO, new rules will be introduced setting out the detail of the RBC regime.

Not only does the bill set conditions for RBC, it also introduces several other important updates of note to the IO including:

- introduction of the concept of "Designated Insurer", being foreign-incorporated insurers that carry on the majority of their business in Hong Kong. Designated Insurers will be subject to the same regime as Hong Kong-based insurers
- distinguishing between minority shareholder controllers (15% to 50%-) and majority shareholder controllers (50%+) and providing requirements for approval for minority controllers who propose to become majority controllers
- shoring-up provisions regarding notifications of changes in particulars of directors, controllers and other key persons
- a requirement that general insurers must also have approved actuaries and file periodic actuarial reports
- a requirement that insurers make certain public disclosures in relation to their solvency position
- provisions regarding the keeping of separate funds and accounts
- provisions in relation to assets that general insurers must maintain in Hong Kong
- providing new powers for the Insurance Authority (IA) to make investigations that it regards as "desirable for mitigating or controlling the risks posed to or by the business of the insurer" and requiring third-party reports.

The bill can be seen in the broader context of Hong Kong's determination to be a leading insurance hub and furthering the IA's objectives in modernising the jurisdiction's regulatory infrastructure. It also introduces some welcome clarifications to the IO. The new provisions beyond the RBC considerations will certainly have impact – the new "Designated Insurers" regime will cause some of the life businesses to consider redomiciling to Hong Kong (in respect of which separate legislation is currently being developed). The distinction between minority and majority shareholder controllers and the new approvals process will also impact group restructuring considerations. Further assessment will be needed once the new RBC rules are circulated.

More opportunities ahead for Hong Kong motor insurers

The long-awaited Northbound Travel for Hong Kong Vehicles (the Scheme) opened for applications on 1 June 2023, with approved travel commencing from midnight, 1 July 2023.

The Scheme allows Hong Kong residents to travel to Guangdong in their private cars via the Hong Kong-Zhuhai Macao Bridge (HZMB) as long as applicants meet stated requirements, one of which is obtaining motor insurance that covers both Hong Kong and the Mainland. The Scheme is expected to benefit more than 450,000 private vehicles (only 16,700 private vehicles were allowed to cross the border under the pre-1 July system).

This scheme takes its place within the wider Greater Bay Area project (GBA) and will increase movement and connectivity between the cities. The agreement between the regulators in Hong Kong and the Mainland to implement cross-border insurance coverage – a "Unilateral Recognition" policy – sets a precedent for further insurance schemes to follow and gives a boost to the insurance market. Each policy will be issued by a Hong Kong insurer with coverage extending to include third-party liability motor insurance in the Mainland. Sixteen Hong Kong carriers are set to offer the Unilateral Recognition motor insurance.

A factsheet for the scheme can be obtained from the Insurance Authority's website.

Unilateral Recognition products include mandatory top-up cover for third-party personal injury and/or property loss, with a limit of liability of RMB 200,000 per event (being the Mainland's statutory minimum requirement). Policyholders may also opt for additional selective top-up cover which protects against third-party personal injury and/or property loss in excess of the statutory minimum requirement in the Mainland as well as claims relating to the driver and passengers of the insured vehicles.

Singapore MAS to consult on changes to the Insurance Act and Insurance (Intermediaries) Regulations

The Monetary Authority of Singapore (MAS) has released a consultation paper outlining proposed amendments to the Insurance Act 1966 (IA) and the Insurance (Intermediaries) Regulations (IIR).

The proposed changes aim to enhance MAS' supervisory powers, clarify existing policy intent, align with other IA provisions and MAS-administered Acts, and reflect changes in policy intent.

The proposed changes to the IA include the introduction of an anti-commingling policy for licensed insurers and registered insurance brokers, prohibiting them from directly undertaking businesses other than insurance business and "permissible businesses."

Additionally, the sharing of names, logos, or trademarks by locally-owned insurers with entities other than themselves will require MAS' prior approval.

MAS also plans to strengthen its oversight of insurers' outsourcing arrangements which includes imposing requirements on insurers to conduct due diligence on service providers and the inclusion of specified provisions in policies, procedures, and contracts. There are also plans to introduce explicit powers requiring insurers to restitute their insurance funds for Participating (Par) and Investment-Linked (IL) policies.

In terms of policy intent clarification, proposed revisions would require captive insurers licensed for life business to establish insurance funds for IL/non-IL Policies and Par/non-Par Policies. Reinsurers will also be required to maintain separate insurance funds for different types of policies.

Further amendments are proposed with the aim to better align the provisions of the IA and other MAS-administered Acts (such as the Banking Act 1970). This includes removing the provision allowing public inspection of insurers' returns, increasing penalties for contravening return submission requirements, and introducing penalties for insurers and insurance brokers failing to ensure the accuracy of lodged returns.

Turning to the IIR, the proposed amendments suggest requiring registered insurance brokers to notify MAS of adverse developments affecting their business or the fitness and propriety of their substantial shareholders, controllers, and key officers. Brokers will also need to establish compliance arrangements, risk management policies, and internal controls appropriate to their business.

As the consultation period for the proposals has now closed, it is important for insurers and intermediaries to closely monitor the progress of the proposed amendments to stay abreast of their obligations.

ChatGPT's impact on insurance: adoption, potential and concerns

ChatGPT, the generative language model developed by OpenAI, reached over 100 million users in just two months when it was launched last November.

This record-breaking speed of adoption, outpacing the success of Instagram and TikTok, has garnered attention for its potential impact on the insurance industry.

Its deployment by insurance companies to enhance customer support is one area gaining particular traction. Chatbots powered by ChatGPT can provide instant responses to customer enquiries around the clock, helping customers to quickly and easily report claims, get answers to frequently asked questions, and receive support for other issues related to their policy.

Swiss Insurer, Helvetia, recently announced the launch of its direct customer service based on ChatGPT technology with the aim to make access to insurance and pension products more straightforward. Japanese Insurer, Tokio Marine are also reported to have partnered with an AI start-up with a system set to go live that will generate answers to queries related to coverage and procedures from policyholders and insurance agents.

ChatGPT equally has the potential to assist underwriters gathering and analysing large amounts of information, such as weather patterns, economic conditions and demographic trends, enabling better informed underwriting decisions.

Zurich is reported to be utilising ChatGPT technology to extract data from claims descriptions and documents, analysing the most recent six years of data to identify the specific cause of loss across a large set of claims, ultimately enhancing its underwriting practices.

The technology can be used to analyse customer data to better understand customers' needs and offer more targeted product recommendations as well as to streamline claims handling and detect fraud patterns and anomalies, allowing insurers to safeguard the interests of their customers and maintain the integrity of their claims processes.

Concerns have arisen regarding customer privacy, lack of personalization, accuracy and the trustworthiness of AI systems, as well as AI's technical limitations and issues that could arise from system outages. Additionally, the presence of biases in ChatGPT's AI algorithms can pose ethical concerns over potential discrimination and unfair treatment.

Despite these drawbacks, generative AI's value currently lies in automating essential but non-core tasks, saving time and boosting efficiency. Insurance companies are leveraging the underlying technology to jumpstart their own innovations and solve specific problems. While some specialty and commercial lines may take time to benefit from AI models due to data limitations, personal lines like home and auto insurance, with abundant data points, may see remarkable results.

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