

SETTING UP A SYNDICATE SERVICE COMPANY IN HONG KONG

2012

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BACKGROUND TO LLOYD'S OPERATION IN HONG KONG

The Lloyd's licence in Hong Kong allows business to be written either by coverholders based in Hong Kong (or elsewhere), or syndicates directly in London.

Coverholders based in Hong Kong are subject to the regulations regarding insurance intermediaries in Hong Kong. A syndicate service company would operate as an insurance agent in Hong Kong.

Key considerations for becoming a coverholder in Hong Kong

- Intermediary regulation
- Lloyd's deposit
- Tax
- Regulatory reporting

Intermediary regulation

- Intermediaries in Hong Kong must be an insurance agent, or insurance broker.
- Firstly they must set up a Hong Kong registered company and should seek local legal and tax advice on this.
- Insurance agents must register with the Insurance Agents Registration Board (IARB) which is run by Hong Kong Federation of Insurers (HKFI). They must appoint a responsible officer who is qualified and fit and proper. Agents must follow codes of conduct and can only act for a maximum of four principals (Lloyd's counts as one principal no matter the number of binders). Agents must inform Lloyd's HK of any changes to binding authorities that should be notified to the IARB. Details of the IARB can be found on the HKFI website: www.hkfi.org.hk. There are also CPD requirements.
- Brokers must be registered with the Confederation of Insurance Brokers (CIB), or the Professional Insurance Brokers Association (PIBA), or be individually regulated by the Insurance Authority. For both PIBA and CIB the minimum paid up capital and net asset value must not be less than HK\$100,000. Brokers can be coverholders only if the coverholder business is an incidental part of their overall business.
- CIB requirements can be found on www.hkcib.org
- PIBA requirements can be found on www.piba.org.hk.

Lloyd's deposit

- Lloyd's has a deposit lodged with the Insurance Authority and is adjusted annually. It is currently funded by syndicates writing Hong Kong coverholder business via a collateralized letter of credit which is managed by ASL. The deposit is based on Lloyd's total liabilities: the greater of either a) 40% of gross insurance liabilities (before deduction of amount reinsured); or b) 80% of net insurance liabilities (after deduction of amount reinsured); plus an additional specified amount.

Tax

- There is no premium tax in Hong Kong, nor is there any VAT/ GST.
- Lloyd's underwriters are subject to income tax at prevailing rates, subject to losses brought forward. This is collected, where payable, by Lloyd's taxation department via Central Accounting.
- Intermediaries as companies in Hong Kong will have to pay their own local taxes such as profits tax, salaries tax for which local taxation advice should be sought.

Regulatory reporting

- Lloyd's regulatory reporting is compiled by Lloyd's centrally, using which is obtained directly from coverholders.
- On a quarterly basis, and annual, Lloyd's must submit regulatory statistics to the Insurance Authority.

COVERHOLDER APPLICATION

The coverholder application process should be started first. Once the approval is granted, then the Lloyd's Hong Kong office is able to sign support for the insurance agency registration.

The link to the application process is here:

<http://lloyds.com/the-market/i-am-a/delegated-authority/applications-and-processes>

APPLICATION FOR AN INSURANCE AGENCY

The company must first be registered as a Hong Kong company and obtain a business registration. The personnel should have the correct employment status (e.g. permanent resident or employment visa). The binding authority should be in place prior to the application but for a start-up Lloyd's can work with the applicant on this concurrently with the coverholder application.

An agent may work for up to four principals (insurers). Lloyd's syndicates count as one principal so the agent may hold any number of Lloyd's binding authorities.

Qualifications

The responsible officer and technical representative must pass the Insurance Intermediaries Qualifying Examination unless they are exempt by holding ACII or equivalent. There can be waiting lists for these exams so applicants are advised to register in advance.

Details of the examinations required and acceptable exemptions are:

<http://www.oci.gov.hk/download/iiqas-fs.pdf>

Positions

An insurance agency must have a responsible officer who is the person responsible for the overall conduct of the insurance intermediary business.

Their technical representatives are people who provide advice on insurance matters to policyholders or potential policyholders for insurance intermediaries, or negotiate or arrange contracts of insurance in or from Hong Kong on behalf of insurance intermediaries.

Registration Fee

The registration fee must be paid prior to the submission of the application and the receipt attached to the application forms.

- Agent registration/renewal fee (for a period of three years) HK\$410
- Administration fee for registering every additional insurer HK\$70 (if agent is already established and just adding Lloyd's as a principal)

One fee is payable for the registration of an agency and its responsible officer; a separate fee is payable for each technical representative or additional agent.

Payment methods can be found:

http://www.hkfi.org.hk/en_for_agents_registration_fee.htm

Forms

A checklist of the forms to be submitted can be found: [Checklist of Registration Documents](#)

The application forms can be downloaded from the HKFI website:

1. Form A - [Individual Agent](#)
2. Form B - [Insurance Agency](#)
 - Appendix B1 - [Declaration by Insurance Agency / Agent appointed by the Applicant](#)
 - Appendix B2 - [Details of place\(s\) of business of the Applicant other than the address filled in Part II of the Application Form B](#)
 - Appendix B3 - [Declarations on personal data by the Directors of the Applicant named in Part VI of the Application Form B](#)
3. Form C - [Responsible Officer of Insurance Agency](#)
4. Form D - [Technical Representative of Insurance Agent](#)

Confirmation of Registration

1. Form A-C - [Individual Agent](#)
2. Form B-C - [Insurance Agency](#)
3. Form C-C - [Responsible Officer of Insurance Agency](#)

Submission of Forms

The forms should be completed by the coverholder and the syndicate should fill out the section for appointing insurer.

The General Representative for Lloyd's should then certify all the forms and appendices for submission to the IARB. The registration of the Lloyd's binding authority should take the following form: "[Name of agent] a/f certain syndicates at Lloyd's".

The IARB pledges to deal with complete applications within three working days. The IARB will issue agent and agency numbers. The agent number must be included on business cards.

Registration of additional technical representatives and agents can be done by the coverholder and do not need to be signed by the General Representative.

Additional Lloyd's binding authorities

Each additional Lloyd's binding authority granted to a coverholder should be registered with the IARB if there is a different lead syndicate. The Lloyd's General Representative should be informed within seven days of the granting of the binding authority and will notify the IARB.

Code of Practice for the Administration of Insurance Agents

The Ordinance requires the HKFI to issue a Code of Practice for the Administration of Insurance Agents, which is binding on insurers. A copy of the Code of Practice is available from the HKFI website: www.hkfi.org.hk, under 'Publications'.

Lead underwriters and their coverholders are jointly responsible for ensuring that they comply with the Code of Practice.

Where necessary Lloyd's coverholder approval/binding authority registration processes reflect the duties placed upon coverholders and their sponsoring Lloyd's underwriters by the Code of Practice.

Prior to writing any business for a Lloyd's syndicate there must be a written agreement in place between the coverholder and the syndicate. This must include a clause requiring the coverholder to abide by Part F of the Code of Practice. Part F sets out guidelines for the conduct of insurance agents. No business should be written under the binder until there is a written agreement that incorporates section F.

Coverholders should note that the Code of Practice includes ongoing requirements and that compliance does not end with registration/re-registration.

Regulatory reporting

The reporting requirements for Lloyd's are specified in section 50C of the Insurance Companies (Amendment) Ordinance (ICO) 1999.

Lloyd's prepares the General business return which is audited and an actuarial review on the Employees' compensation and motor classes. In addition Lloyd's files copies of its globals and return to the FSA.

Lloyd's is also required to report figures on a quarterly basis. These are derived from data provided directly from coverholders (or the associated broker or managing agent) on a monthly basis to the Lloyd's Core Market Return system. After the Hong Kong coverholder is established, Lloyd's will provide the relevant reporting templates and guidance on the requirements for regulatory reporting.

In addition, Lloyd's is required to provide the regulator, on a quarterly basis, with a list of its coverholders in Hong Kong within one month after the close of the quarter to which it relates. The list must include details of the types of business carried on by each of them. The Lloyd's representative office obtains this from the coverholders each quarter.