

Hong Kong Insurance Authority: IA Levy

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1 Purpose

The Insurance Authority (IA) is self-financing with income streams both from the insurance industry and through a policyholder levy ('the levy').

The purpose of this document is to explain Lloyd's approach to the collection and payment of the levy to the IA, and the implications for HK coverholders and service companies.

2 Summary

- The IA required that insurers collect a premium levy from policyholders for certain lines of business to fund its operations from 1 January 2018.
- Due to complexities around reporting and audits, Lloyd's syndicates initially followed an Alternative Remittance Approach in respect to the levy. This moved to the Actual Remittance Approach on an accrual's basis from 1 April 2021 as per [IA's 'Note on Collection of Levy on Insurance Premium \(the "Note"\)'](#).
- Under the accrual basis, Hong Kong domiciled coverholders and service companies are required to collect the levy from the policyholder. The levy will be deemed to have been collected once the premium is due irrespective of when the actual payment of premium is made.
- Lloyd's will pay the levy to the IA centrally based on the information it receives via the monthly Hong Kong Risk bordereaux (submitted via Core Market Returns). Therefore, Hong Kong domiciled coverholders and service companies are not required to pay the levy directly to the IA, but to forward the levy collected on to the relevant syndicate(s) at the time the premium is remitted.
- The levy, payable centrally by Lloyd's syndicates, only applies to a policy written by a Hong Kong domiciled Coverholder or service company, for risks located both in Hong Kong and overseas.
- The levy is now calculated based on 0.1% of the premium with a cap on the maximum levy that can be paid of HKD5,000 (approximately GBP500). A change has been made to the monthly risk bordereaux template to ensure that the cap on the levy is correctly applied.
- Hong Kong domiciled coverholders and service companies will be required to produce documentation for policyholders certifying that the levy has been paid.

3 Implementation

3.1 Affected Business

The levy applies to all business underwritten in Hong Kong, with the exception of Marine, Aviation and Transport business and all reinsurance contracts.

Marine insurance and reinsurance is exempt from the application of the levy, but the IA has stipulated that the definition of "marine" only encompasses classes 5 (Aircraft), 6 (Ships), 7 (Goods in Transit), 11 (Aircraft Liability) and 12 (Liability for Ships) as described in Part 3 of Schedule 1 of the Cap.41 Insurance Ordinance (see below). Therefore, for example, coverage for freight forwarders, logistic operators, specie and stock, ports and terminals, warehouses, etc., would not be included within the definition of marine and are subject to the levy.

In the context of the Hong Kong regulatory reporting process this means that classes falling within Aircraft Damage and Liability, Ships Damage and Liability (Hull & Machinery; Local Vessels Liability; Forwarder Liability; Protection and Indemnity; Others) and Goods in Transit will only be exempt from the levy when the business falls within the definitions below. This will be of particular relevance to the Forwarder Liability, Ships Damage and Liability Others, and Goods in Transit classes.

Class	Description	Nature of Business
5	Aircraft	Effecting and carrying out contracts of insurance upon aircraft or upon the machinery, tackle, furniture or equipment of aircraft.
6	Ships	Effecting and carrying out contracts of insurance upon vessels used on the sea or on inland water, or upon the machinery, tackle, furniture or equipment of such vessels.
7	Goods in transit	Effecting and carrying out contracts of insurance against loss of or damage to merchandise, baggage and all other goods in transit, irrespective of the form of transport.
11	Aircraft liability	Effecting and carrying out contracts of insurance against damage arising out of or in connection with the use of aircraft, including third-party risks and carrier's liability.
12	Liability for ships	Effecting and carrying out contracts of insurance against damage arising out of or in connection with the use of vessels on the sea or on inland water, including third-party risks and carrier's liability.

3.2 Levy Rate

The levy is calculated as a percentage of the gross premium and the levy rate has gradually increased since its introduction, as set out in the table below.

The rate for determining the levy is determined by the policy inception date or anniversary date (i.e. renewal date). The same rate applies throughout the policy year irrespective of whether the policy year straddles more than one levy band and irrespective of the period of coverage by the policy.

A policy inception date, or a policy inception anniversary date (as the case may be) which marks the beginning of a policy year	Rate
From 1 January 2018 to 31 March 2019 (both dates inclusive)	0.040%
From 1 April 2019 to 31 March 2020 (both dates inclusive)	0.060%
From 1 April 2020 to 31 March 2021 (both dates inclusive)	0.085%
From 1 April 2021 onwards (inclusive of that date)	0.100%

3.3 Method of Collection

Under the Actual Remittance Approach, insurers may adopt a “cash basis” approach (whereby the levy is collected by the insurer when the premium is paid) or an “accrual basis” approach (whereby the levy is deemed to have been collected by the insurer once the premium is due, irrespective of when the actual premium is paid) for the reporting and remittance of the levy.

3.3.1 Lloyd's Approach

With effect from 1 April 2021 Lloyd's adopted the Actual Remittance Approach on an accruals basis. Under this approach, a remittance is made twice a year to the IA by Lloyd's, once by 31 May (for the period 1 October to 31 March) and once by 30 November (for the period 1 April to 30 September). The remittance return includes the calculation of the remittance amount, which is compiled by Lloyd's using the information provided by Hong Kong domiciled coverholders and service companies in the monthly risk bordereaux submitted via Core Market Returns (CMR).

Lloyd's is also required to submit an annual remittance report to the IA, which is subject to examination by an auditor appointed by Lloyd's. The audited remittance report is submitted in April each year.

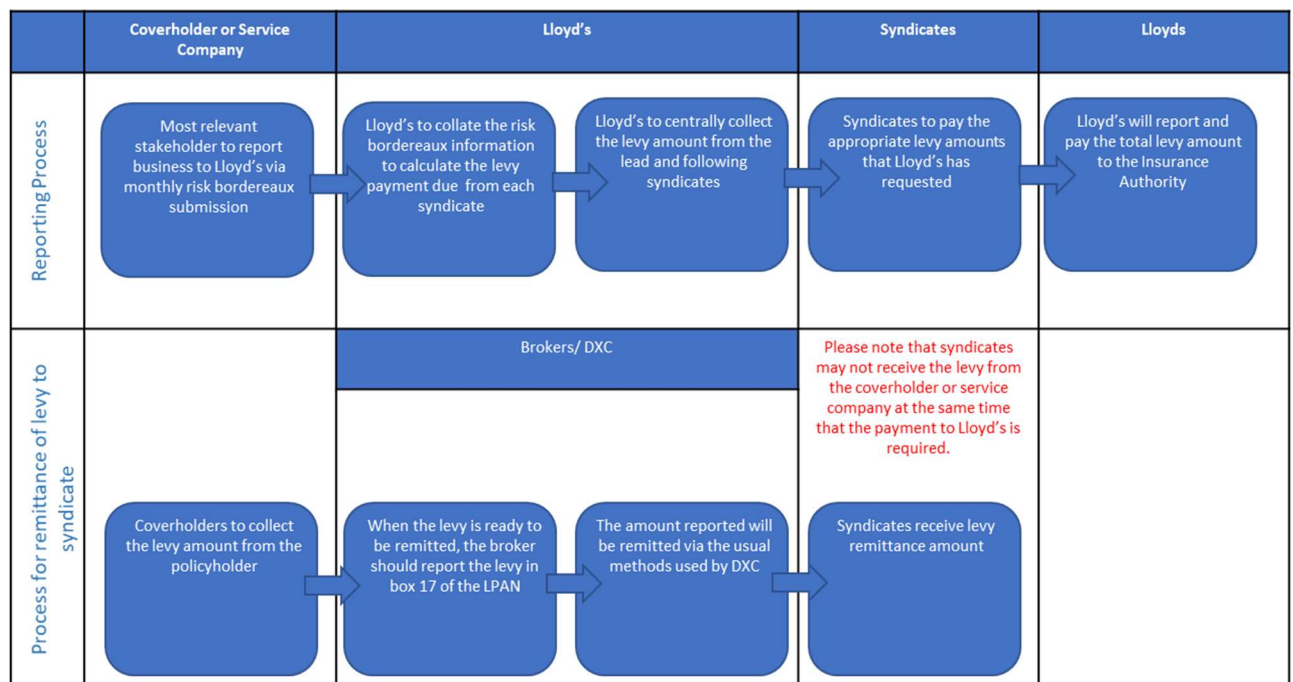
Hong Kong domiciled coverholders and service companies will need to collect the levy amount from policyholders and remit this to the relevant syndicate(s). Syndicates will no longer absorb the cost of the levy as they had done previously under the Alternative Remittance Approach. The levy will be deemed to have been collected once the premium is due irrespective of when the actual payment of premium is made.

Where Lloyd's is the lead insurer on a co-insurance policy with non-Lloyd's insurers, the Hong Kong domiciled coverholder or service company is required to collect the levy from the policyholder in relation to the entire policy. The levy should then be remitted to the Lloyd's syndicate(s) in proportion to the premium being settled.

Where Lloyd's is following a non-Lloyd's lead insurer, that insurer is responsible for the collection of the levy from the policyholder in relation to the entire policy and will arrange for the payment of the levy to the IA.

Before a placement is finalised, the Hong Kong coverholder or service company should ensure that consideration has been given to who is responsible for the collection of the levy from the policyholder and its remittance to the IA.

3.4 Actual Remittance Approach Process



4 Reporting requirements

4.1 Levy data fields in the monthly risk bordereaux template

Three columns are included in the HKR template after the “Management Expenses” column and are named “Coinsurance”, “Total Gross Written Premium” and “Levy Amount”.

The inclusion of these columns provides Lloyd’s with the relevant data to ensure it can meet the reporting and payment obligations relevant to the levy to the IA under the Actual Remittance Approach. Providing that all risks are accurately reported within the HKR template that is submitted, with the correct levy calculations, the most relevant stakeholder can be assured that Lloyd’s will report and pay the necessary levy to the IA. A copy of the HKR Template and HKR file specification are available on the CMR website.

These columns should be completed as follows:

4.1.1 Coinsurance (with non-Lloyd’s insurers)

The IA has advised that where a syndicate leads a co-insurance policy with non-Lloyd’s insurers that they are required to remit the levy for the 100% share of the policy. Therefore, it is critical for Lloyd’s to be able to identify when a risk has been written on a co-insurance basis and whether in a lead or following capacity.

Where coverholders or service companies are following a local company market lead insurer, that insurer will be responsible for collecting or paying the full levy remittance in respect of the policy. If the coverholder or service company has confirmation that the lead is not taking responsibility for paying the full levy, the coverholder or service company will need to record this. This will allow Lloyd’s to identify these scenarios and calculate the levy accordingly.

In the scenario of two or more Lloyd’s binders insuring a risk together, they would all be required to report their portion of the risk on their bordereaux as normal. The levy to be paid to the IA will be attributed to both the lead and following Lloyd’s market in accordance with their participation on the levy.

The column must be populated with one of the following options:

“L”: Lead: where Lloyds is the lead on a co-insurance arrangement.

“F”: Follower: where Lloyd’s is the follower on a co-insurance arrangement and the lead has confirmed they’re paying the levy on behalf of the follower.

“N”: N/A: where this is not a co-insurance arrangement.

“X” Follower: where lead has confirmed they're not paying the levy on behalf of the follower.

4.1.2 Total Gross Written Premium

This is the total amount of the gross written premium charged for the risk to the insured both in relation to the Lloyd’s portion and any other company market co-insurance participants. The original GWP column (column W) should only include the amount relevant to Lloyd’s proportion of the risk whereas the ‘Total Gross Written Premium’ column should be used solely in cases where the risk is a mixture of Lloyd’s and company market capacity, and therefore needs to show the total premium of the entire risk.

4.1.3 Levy Amount

This relates to the levy amount that is due on the risk and is to be paid by Lloyd's to the IA.

Where Lloyd's is the lead co-insurer on a risk written by Lloyd's syndicates and company market insurers then the levy amount should be calculated using the appropriate rate from the table shown in section 3 above and applied to the Total Gross Written Premium.

Where Lloyd's is a following market on a co-insurance risk, and it has been confirmed that the lead insurer is to pay the levy, then there is no need to provide the levy amount as it will be the responsibility of the lead co-insurer to pay the 100% share.

Where Lloyd's is a following market on a co-insurance risk, and the lead insurer has confirmed that they are not paying the levy on behalf of the followers, then the levy amount should be calculated using the appropriate rate from the table shown in section 3 above and applied to the Gross Written Premium (column W). The Total Gross Written Premium field would also need to be populated with the total premium for the entire risk. The Hong Kong domiciled coverholder or service company would need to ensure that they receive from the lead their proportion of the levy, along with the premium, for onward submission to the syndicate.

Where the risk written is not on a co-insurance basis, and solely written at Lloyd's, then the levy amount should be calculated using the appropriate rate from the table shown in section 3 above and applied to the Gross Written Premium (column W) and the Total Gross Written Premium field should be left empty.

For policies that incepted on or after 1 April 2021 the levy is calculated based on 0.1% of the premium with a cap on the maximum levy that can be paid of HKD5,000 (approximately GBP500). If the amount that is entered within the Hong Kong Risk bordereaux is over the maximum amount, when submitted via CMR an error message will appear and the levy amount will need to be amended.

If an Additional Premium (AP) is reported on a policy which results in the levy applicable to the policy exceeding the capped levy amount, a note must be entered in the notes column (column AJ) to explain why the exact levy amount is not being applied to the AP. Lloyd's will query any values which when applying the 0.1% levy rate do not match with what has been reported and no explanation has been given in the notes column (column AJ).

If a Return Premium (RP) is reported on a policy which previously exceeded the capped levy amount, a note must be entered in the notes column (column AJ) to explain why the exact levy amount is not being applied to the RP. Lloyd's will query any values which when applying the 0.1% levy rate do not match with what has been reported and no explanation has been given in the notes column (column AJ).

4.1.4 Notes Column

Lloyd's is also required to provide Levy Remittance (by Policy) information to the IA in accordance with Annex K of the [IA's 'Note on Collection of Levy on Insurance Premium \(the "Note"\)](#). To support Lloyd's in the provision of this data, the Hong Kong domiciled Coverholder or service company would need to ensure that where the premium payment schedule does **not** show the premium being charged on an annual basis, the notes section (column AJ) should be populated with one of the following options:

- “Levy code = QT”: (quarterly)
- “Levy code = HY”: (half-yearly)
- “Levy Code = MN”: (monthly)
- “Levy Code = SP”: (once in more than a year)
- “Levy Code = US”: (unscheduled)

Please note that short-period policies or one-off policies (e.g. for a single event, sendings, etc) which are non-renewable and paid in full would be classed as annual.

With respect to top-ups, extra payments or premium adjustments to a risk, Lloyd’s will centrally apply Levy Code TU where the Transaction Type (column S) has been populated with the code AP or RP and therefore there is no need to include the code TU within the notes column. If there are any other circumstances whereby a Hong Kong domiciled Coverholder or service company believes that the Levy Code TU should be used, then they should contact Lloyd’s General Representative for Hong Kong in the first instance.

4.2 Remittance of the levy to syndicates

Hong Kong domiciled coverholders and service companies are required to collect the levy amount from policyholders at the same time that the premium is paid (if the premium is paid in two instalments, then the levy would also be paid in two instalments). Once the premium is ready to be remitted to the syndicate, the Lloyd’s broker should ensure that the levy is reported separately to the premium and recorded in box 17 of the LPAN. This process will apply for Premium transactions, Additional Premiums (APs) and Return Premiums (RPs).

If the class of business of the binder held by a Hong Kong domiciled coverholder or service company being reported falls into one of the exempt classes, brokers will need to ensure that it is clearly indicated as an exempt class of business on the Market Reform Contract (MRC). If a levy has not been reported by the broker on a binder that inceptioned on or after 1 April 2021 and there is no indication on the MRC that it is an exempt class of business, it will be queried by Xchanging. For binders that inceptioned prior to 1 April 2021, Xchanging will process the levy where it is provided, but will not query where it is absent.

4.3 Billing of Levy

Service companies and coverholders are required to either set out the levy in billing documents, showing the levy proportion of the premium, or at least once a year send to policyholders the following statement:

‘Levy collected by the Insurance Authority has been imposed on this policy at the applicable rate. For further information, please visit <coverholder / service company website> or contact: <coverholder / service company phone number>.

Please note, the above statement is a suggested wording and can be updated to reflect a particular coverholder/service company’s circumstances.

This can be done via any means of communication; e.g. premium collection notices, email or SMS.

4.4 Proof of Levy Payment

Insurers are required to produce written proof of the levy payment to policyholders upon request. This is because it is the policyholder's legal responsibility to pay the levy, whilst in practice insurers are the entities collecting and paying over the levy on behalf of policyholders. As such, the following general statement should either be included on anniversary statements sent out to policyholders or provided to them upon request:

'Levy collected by the Insurance Authority has been imposed on this policy at the applicable rate and will be remitted in accordance with the prescribed arrangements. For further information, please visit <coverholder / service company website> or contact: <coverholder / service company phone number>

5 Frequently Asked Questions

- 1. I have noticed that the 'Note on Collection of Levy on Insurance Premium' refers to a cap of the levy to be paid, how does this apply?**

The capped amount of HKD5,000 (approximately GBP500) will be applied to all levy amounts that are reported with an inception date on or after 1 April 2021. Any levy amounts reported with an inception date prior to this will not have the cap applied. If an Additional Premium (AP) is reported on a policy and the overall levy exceeds the capped amount, only the amount left to pay to meet the capped amount should be reported. A note should be added to explain why the amount shown is not reporting the exact calculation of the levy.

- 2. What happens to the levy cap when a return premium (RP) is reported?**

Paragraph 13 and 14 in [the Note](#) on Collection of Levy on Insurance Premium requires insurers to refund policyholders if required. Lloyd's will ensure refunds are reported correctly to the IA based on the information received within the monthly Hong Kong Risk bordereaux, however, Hong Kong domiciled coverholders/service companies will need to ensure that refunds to a policyholder are processed appropriately and that proper records are kept.

If a Return Premium (RP) is reported on a policy that had previously exceeded the capped amount, consideration should be given as to whether the RP would bring the levy for the policy below the capped amount with the amount of levy to be refunded being the difference between the capped amount and what the levy would now be for the policy.

- 3. Are there any audit implications for the managing agent/coverholder/service companies?**

Other than the annual audit sampling process, that managing agents/coverholders/service companies are already familiar with, there are no further audit implications.

4. How will the levy work in cases of co-insurance?

The IA has placed the responsibility for the reporting and payment of the levy for co-insurance business on the lead insurer. Once the lead insurer has paid the levy (100% share) to the IA and reports as such to the IA (both undertaken centrally by Lloyd's), there is no need to report on details of the collection of the levy on behalf of the other underwriters on the programme. How the lead insurer distributes the share of the levy amongst other underwriters of the co-insurance programme is a matter for the insurer to determine. The lead insurer may forgo collecting the levy as long as the lead insurer remits the levy (100% share) to the IA. Lloyd's has taken the stance that where Lloyd's lead on a co-insurance, Lloyd's will be responsible for the payment of the levy for the entire contract. Where Lloyd's is following on a co-insurance, confirmation must be sought that the lead is collecting and remitting the levy on behalf of all parties to the contract. Where the lead has confirmed that they will not be paying the levy on behalf of the follower, this must be indicated using the correct code in CMR. The Hong Kong domiciled coverholder or service company should ensure that they receive their proportion of the levy at the time they receive the premium from the lead so that it can be submitted to the relevant syndicate(s).

5. Is an endorsement that is payable after 1 April 2021 under a master policy with an inception date that falls before 1 April 2021, subject to the Actual Remittance Approach?

An unscheduled endorsement would be a premium payment that cannot be attributed to the original terms of the contract. If an unscheduled endorsement is reported on or after 01 April 2021 the new levy rules apply. To determine whether a premium payment is categorised as scheduled or unscheduled, the terms of the insurance contract would need to be considered. If a payment can be attributed to a particular term within the contract, it would be scheduled. The IA advise that "as a rule of thumb, a scheduled payment/endorsement should normally be a small fraction of the premium payable for the master policy.

6. How is the levy applied to group policies?

Under the Actual Remittance Approach, a group policy is counted as one policy. The levy would be applied at policy level.

6 Further Information

For further information, please contact:

- **HK Coverholder Reporting**
Email: HKCoverholderReporting@lloyds.com
- **Eve Yeung** (Lloyd's General Representative for Hong Kong SAR)
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