

4th October 2017

Dear Client / Policyholder,

**Commencement of Collection of Levy from Policyholder by the
Insurance Authority from 1 January 2018**

The independent Insurance Authority was established in December 2015, after a period of hiring and preparation, it had on 26 June 2017 taken over the supervision of insurance companies and in approximately 2 years thereafter it will also takeover supervision of insurance brokers and agents.

Noticeable change from a policyholder's prospective

The most noticeable impact of the current stage of the implementation of the new regulatory regime would be that for policy which has an inception date or an inception anniversary date after 1 January 2018, a levy calculated at a % of the premium will be collected from the policyholder.

Rates of the Levy

An incremental approach will be adopted for the introduction of levy to reduce the impact on policyholders. The levy rate will start at 0.04% and increase gradually on a yearly basis until it reaches the target level of 0.1%. The levy will be capped. The maximum levy payable for a general insurance policy (including any group life insurance policies with medical protection offered by employers) shall be subject to a cap of \$5,000 when the target level of levy at 0.1% is imposed. The Rates of Levy to be charged at different stages of the implementation are as follows:

Rates of Levy			
Period	Levy Rate	Maximum levy for General Insurance Business	Maximum levy for Long Term Insurance Business
From 1 Jan 2018 to 31 Mar 2019	0.04%	\$2,000	\$40
From 1 Apr 2019 to 31 Mar 2020	0.06%	\$3,000	\$60
From 1 Apr 2020 to 31 Mar 2021	0.085%	\$4,250	\$85
From 1 Apr 2021 onwards	0.1%	\$5,000	\$100

Exempted class of insurance business

Certain classes of insurance business will be exempted from the levy and these include marine, aviation, goods-in-transits, reinsurance and captive business.

In force policies which are already paid up before 1 January 2018 are not subject to the levy.

Why a levy?

The levy will be a permanent feature of the new regulatory regime as the regulator of the Hong Kong insurance industry will move from the Office of Commissioner of Insurance, which is a government department, to a statutory authority independent from the government. Whilst the government provided funding to support the Insurance Authority's establishment and the initial years of its operation, in order to maintain its independence in the long run the Insurance Authority will be financed by levy from policyholders and various fees from insurance companies and intermediaries.

Payment of Levy

The Insurance Authority will collect the levy through insurers and if a policy is placed through an intermediary, the intermediary will collect and forward the amount of the levy to the insurer.

The levy is payable by the policyholder at time when premium is paid.

If premium is refunded, corresponding levy will be returned to the policyholder.

If a policyholder fails to pay levy, the Insurance Authority may impose a fine of a sum not exceeding \$5,000.

We shall liaise with the insurers to provide you with details of any levy chargeable to your policies and if you would like to learn more about the various the functions of the Insurance Authority such as their role on consumer protection, you can visit their website at www.ia.org.hk.

Yours faithfully,

Lockton Companies (Hong Kong) Limited