

**L.N. 66 of 2024**

**Insurance (Lloyd's) Rules**

(Made by the Insurance Authority under section 129(1) of the Insurance Ordinance (Cap. 41))

**1. Commencement**

These Rules come into operation on the day on which sections 11 and 64 of the Insurance (Amendment) Ordinance 2023 (20 of 2023) come into operation.

**2. Interpretation**

In these Rules—

*earned premium* (滿期保費) has the meaning given by rule 60(1) of the Insurance (Valuation and Capital) Rules;

*general reinsurance business with offshore risk* (具離岸風險的一般再保險業務) has the meaning given by section 25AA(8) of the Ordinance;

*gross premium* (毛保費), in relation to a period of time, means the premiums paid or payable to Lloyd's in respect of contracts of insurance written or renewed in that period of time before deducting commissions of agents or brokers but after deducting any discounts specified in policies or refunds of premiums made in respect of any termination or reduction of risks;

*insurance liabilities* (保險負債) has the meaning given by rule 2(1) of the Insurance (Valuation and Capital) Rules;

*long term reinsurance business with offshore risk* (具離岸風險的長期再保險業務) has the meaning given by section 21B(11) of the Ordinance;

**net of reinsurance** (已減除再保險) has the meaning given by rule 2(1) of the Insurance (Valuation and Capital) Rules;

**net premium** (淨保費), in relation to a period of time, means the amount determined by deducting from gross premium, the amount of any premiums payable by Lloyd's in respect of reinsurance in that period of time covering insurance business other than long term business;

**recognized letter of credit** (認可信用狀), in relation to Unlimited Tier 1 capital of Lloyd's, means a letter of credit which satisfies the following criteria—

- (a) the letter of credit is from a bank, as defined in the Banking Ordinance (Cap. 155), in favour of the Authority; and
- (b) the terms and conditions attached to such a letter of credit are approved by the Authority;

**unearned premium** (未滿期保費) means the portion of the premium under a contract of insurance that is not earned premium as at valuation date.

### 3. Application

- (1) These Rules apply to Lloyd's.
- (2) Lloyd's is required to apply these Rules only in relation to the assets, liabilities and capital resources related to its business carried on in or from Hong Kong.
- (3) Where these Rules provide that a certain Part or rule in the Insurance (Valuation and Capital) Rules applies to Lloyd's, that Part or rule applies to Lloyd's as if a reference to an applicable insurer in that Part or rule were a reference to Lloyd's.
- (4) All amounts and calculations in these Rules are based on Hong Kong dollars, unless otherwise specified.

#### **4. Capital requirements**

- (1) For the purposes of section 10 of the Ordinance, Lloyd's must ensure at all times that its capital base as determined pursuant to rule 6 is not less than each of—
  - (a) the prescribed capital amount determined in accordance with rule 8;
  - (b) the minimum capital amount determined in accordance with subrule (3); and
  - (c) \$20,000,000.
- (2) If the Authority varies or relaxes any of the requirements in subrule (1) pursuant to section 10(3) or 130(1) of the Ordinance, Lloyd's must determine the requirement under subrule (1) as so varied or relaxed.
- (3) For the purposes of subrule (1)(b), the minimum capital amount is the same as the prescribed capital amount, unless the Authority by way of variation or relaxation mentioned in subrule (2) determines it to be different.

#### **5. Lloyd's must notify the Authority in respect of any contravention of rule 4**

Lloyd's must immediately notify the Authority in writing on its authorized representative—

- (a) reaching a view that Lloyd's is at risk of contravening rule 4; or
- (b) knowing or having reason to believe that a contravention by Lloyd's of rule 4 has occurred,

and provide the Authority with particulars of the notified case as required by the Authority.

#### **6. Determination of capital base**

- (1) For the purposes of rule 4—

- (a) the capital base of Lloyd's is the sum of its—
    - (i) Unlimited Tier 1 capital;
    - (ii) Limited Tier 1 capital; and
    - (iii) Tier 2 capital;
  - (b) the Limited Tier 1 capital of Lloyd's must not exceed 10% of the prescribed capital amount; and
  - (c) the Tier 2 capital of Lloyd's must not exceed 50% of the prescribed capital amount.
- (2) For the purposes of subrule (1)—
- (a) Lloyd's must determine its Unlimited Tier 1 capital as the amount of recognized letter of credit it maintains that—
    - (i) exceeds the amount of its total insurance liabilities (net of reinsurance) that must also be covered by recognized letter of credit; and
    - (ii) is determined after deducting the amounts in rule 8(3) and (4) of the Insurance (Valuation and Capital) Rules, which apply to Lloyd's for these purposes;
  - (b) Lloyd's must determine its Limited Tier 1 capital in accordance with rule 9 of the Insurance (Valuation and Capital) Rules, which applies to Lloyd's for these purposes; and
  - (c) Lloyd's must determine its Tier 2 capital in accordance with rule 10 of the Insurance (Valuation and Capital) Rules, which applies to Lloyd's for these purposes.

**7. Valuation of assets and liabilities**

Lloyd's must apply Part 4 of the Insurance (Valuation and Capital) Rules for the purposes of valuing its assets and liabilities.

**8. Determination of prescribed capital amount**

- (1) Subject to subrule (5), Lloyd's must determine its prescribed capital amount by—
- (a) determining its prescribed capital amount for general business in accordance with subrule (2);
  - (b) determining its prescribed capital amount for long term business in accordance with subrule (4); and
  - (c) summing the amounts mentioned in paragraphs (a) and (b).
- (2) For the purposes of subrule (1)(a), Lloyd's must determine its prescribed capital amount for general business as the applicable amount in column 3 of the following Table based on the applicable case in column 2.

**Table**

Column 1	Column 2	Column 3
Case	Particulars of the Case	Amount Applicable
1.	The net premium of Lloyd's for general business for the period commencing 12 months immediately preceding the valuation date and ending on the valuation date, or the relevant	\$10,000,000 or its equivalent

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Column 1	Column 2	Column 3
Case	Particulars of the Case	Amount Applicable
2.	claims outstanding of Lloyd's for general business as at the valuation date, whichever is the greater, did not exceed \$50,000,000 or its equivalent	
	The net premium of Lloyd's for general business for the period commencing 12 months immediately preceding the valuation date and ending on the valuation date, or the relevant claims outstanding of Lloyd's for general business as at the valuation date, whichever is the greater, exceeded \$50,000,000 but did not exceed \$200,000,000 or its equivalent	20% of the net premium, or 20% of the relevant claims outstanding, as the case may be

Column 1	Column 2	Column 3
Case	Particulars of the Case	Amount Applicable
3.	The net premium of Lloyd's for general business for the period commencing 12 months immediately preceding the valuation date and ending on the valuation date, or the relevant claims outstanding of Lloyd's for general business as at the valuation date, whichever is the greater, exceeded \$200,000,000 or its equivalent	<p>The sum of \$40,000,000 and—</p> <p>(a) 10% of the amount by which the net premium exceeded \$200,000,000; or</p> <p>(b) 10% of the amount by which the relevant claims outstanding exceeded \$200,000,000,</p> <p>as the case may be, or its equivalent</p>
(3)	For the purposes of subrule (2)—	
(a)	the relevant claims outstanding of Lloyd's for general business is determined as the sum of—	
(i)	the amount of outstanding claims liabilities of Lloyd's for general business net of reinsurance; and	
(ii)	the amount, floored at zero, determined by deducting the net unearned premiums of Lloyd's for general business from the net premium liabilities of Lloyd's for general business; and	

- (b) Lloyd's must determine its outstanding claims liabilities for general business and premium liabilities for general business in accordance with rule 30 of the Insurance (Valuation and Capital) Rules.
- (4) For the purposes of subrule (1)(b), Lloyd's must determine its prescribed capital amount for long term business in accordance with Part 5 of the Insurance (Valuation and Capital) Rules, which applies to Lloyd's in relation to its long term business for these purposes.
- (5) Lloyd's, for the purposes of subrule (1), may exclude from the calculation of its prescribed capital amount, its risk exposure in respect of assets and liabilities attributable to general reinsurance business with offshore risk or long term reinsurance business with offshore risk.

Stephen YIU Kin-wah  
Insurance Authority

29 April 2024

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### **Explanatory Note**

These Rules are made under section 129 of the Insurance Ordinance (Cap. 41) to set out the scope to which these Rules are applicable, as well as to provide for the valuation basis and capital requirements of Lloyd's.

2. Rule 1 sets out the date of commencement of these Rules.
3. Rule 2 defines the terms and expressions used in the Rules.
4. Rule 3 provides that these Rules apply to Lloyd's.
5. Rule 4 requires Lloyd's to maintain a capital base that is not less than each of its prescribed capital amount, minimum capital amount and \$20,000,000.
6. Rule 5 requires Lloyd's to notify the Insurance Authority immediately if it is at risk of breaching, or has breached, the capital requirements set out in rule 4.
7. Rule 6 classifies the capital base into three tiers: Unlimited Tier 1 capital, Limited Tier 1 capital and Tier 2 capital, based on their quality and loss absorbency, and imposes limits on the amount of Limited Tier 1 capital and Tier 2 capital that can be included in the capital base.
8. Rule 7 prescribes that Lloyd's must adopt the valuation basis of assets and liabilities in accordance with the Insurance (Valuation and Capital) Rules.
9. Rule 8 prescribes the determination of the prescribed capital amount of Lloyd's in respect of general business, which makes

reference to the premium and insurance liabilities level of Lloyd's. In respect of any long term business carried on by Lloyd's, the prescribed capital amount is determined in accordance with the Insurance (Valuation and Capital) Rules for that business. The total prescribed capital amount would be the sum of the prescribed capital amount of general business and that of long term business.