



Process and Control  
Framework under HKRBC

June 2024



# Background

The Hong Kong insurance market is in the final stages of adopting the Hong Kong Risk-Based Capital (HKRBC) framework. This reform marks a significant step for the Hong Kong insurance regulations, which will align them with international standards and practices adopted in other jurisdictions. HKRBC will enhance the resilience and stability of the insurance market, ensuring it remains robust in the face of financial challenges.

Deloitte is at the forefront of this journey, having supported several Hong Kong insurers to implement HKRBC. Our extensive experience enabled us to appreciate all the aspects of HKRBC both in the implementation phase as well as in its operationalization across those insurers who successfully applied for the approval of HKRBC early adoption since 2022.

Armed with this background we have set out our point of view on a critical aspect of HKRBC compliance: the reporting of the HKRBC information to regulators and the market, this is usually referred to as the Pillar 3 of HKRBC. We believe that it is essential for insurers to appreciate the implications of HKRBC Pillar 3 for their operations and central to this is our view on how processes and Control should be designed, implemented and run effectively. We used our Process and Control Framework to present our point of view on how insurers could successfully navigate through the complexities of compliance with HKRBC Pillar 3.

We believe that insurance companies should establish a Detailed Roadmap and a Target Operating Model that outline the path to full implementation.

**We see these done through a two-step approach:**

**Design step:** development of a detailed Process and Control Design alongside a comprehensive Data Architecture. This phase is critical to implement HKRBC reporting that is both accurate and cost-effective.

**Implementation step:** rolling out the chosen HKRBC reporting solution, with a strong emphasis on implementing automation to streamline processes and reduce the potential for errors.

**In our experience, insurance companies that used our two-step approach could maintain transparency on the implementation progress and acquire long-term operational enhancements that improve efficiency and reduce running costs while achieving compliance with HKRBC Pillar 3 requirements.**

# What should insurers consider before the HKRBC implementation?

We believe that the creation of a Detailed Roadmap and a Target Operating Model to implement HKRBC requirements is not just a sound approach to ensure a business achieves compliance with these new regulatory requirements, but it should be seen as an opportunity to capture a strategic benefit that goes beyond the non-negotiable compliance status on go-live date. Investing time and effort at the outset of the implementation project to develop these tools would provide the insurance company with the benefit of a clear and actionable path to full implementation and the execution risk will be minimized because of that. Here, we explore the core components of these implementation tools.



## Detailed Roadmap

The Detailed Roadmap serves as the blueprint for the HKRBC implementation journey. An effective roadmap should include:

- **Comprehensive Phasing:** break down the implementation into manageable phases, each with defined scopes and outcomes.
- **Clear Timeline:** provide clear timelines for each phase, considering both regulatory deadlines and internal capacity constraints. The combination of the phasing and the timeline would produce the implementation “critical path” that would enable a proactive upfront project risk management.
- **Resource Allocation:** Detail the human, technological, and financial resources required at each stage.

Deloitte’s point of view is that the incremental value that these tools bring to an insurance company increases exponentially when the company acquires the expertise of partners who have built prior experience from an array of similar regulatory driven transformations and have deep understanding of the practicality of HKRBC gained from other companies which elected to apply for an early-adoption approval from the Insurance Authority.

## Target Operating Model (TOM)

The TOM acts as the framework for how the units in the insurance company will participate in keeping the company compliant with the HKRBC requirements. When it comes to the HKRBC reporting process discussed in this document, an effective TOM should include:

- **Process and procedure:** high-level process design includes streamlining data collection, validation, and reporting procedures.
- **Organizational Structure:** align business units such as actuarial, finance and investment departments to support the new processes, ensuring clear roles, responsibilities, and reporting lines.
- **Technology Integration:** utilize technology for automation and better data management.

## Our two-step approach

### The Design Step: Process and Control Design and Data Architecture

#### Well-Structured Process and Control Design

Customising process maps and control frameworks such that they align with both regulatory requirements and business-specific needs enables the capture of a more substantial business benefit if efforts are put into this step upfront and with the added contribution from prior experiences at other insurance companies.

#### How to achieve:

1. **Process Flow and Control Matrix:** illustrate and delineate the sequence of steps, decisions and Control needed to perform each process. This includes defining the control category, specifying control objectives, determining control frequency, and identifying control owners, with clear outline across insurance functions.
2. **Gap Analysis:** we observe that the current pre-HKRBC reporting process cannot support the granularity of financial data required under HKRBC. Conducting a thorough analysis to identify gaps for process flow and data is thus essential.

3. **Risk Assessment:** conduct a thorough risk assessment to identify potential risks that may impact the reporting and compliance with HKRBC.
4. **Control Measures:** control points are designed such that they are strategically positioned within the process to mitigate the risk of error. These control points act as critical checks to ensure the integrity and accuracy of the data reported and to achieve full compliance with HKRBC.

#### Integrated Data Architecture

We believe that a good data architecture is not just about the technology that stores the data; it is about integrating people, processes, and technology. These elements work together seamlessly to support data-driven decision-making in any business context. The HKRBC context calls for these characteristics with much greater emphasis because of the exponential increase in both volume and quality of the data feeding the HKRBC Pillar 3 reports.

#### How to achieve:

1. **Data Consolidation:** identify and design how to consolidate all necessary data sources. For example, most insurers face obstacles to retrieve sufficient investment data for HKRBC disclosure and they frequently discover that they need substantial computing power to map and transform the data. This step is crucial for eliminating costly data silos and ensuring that all relevant data is accessible.
2. **Data Quality Framework:** design a framework for ongoing data quality assurance, including processes for data cleansing, validation, and reconciliation. HKRBC requires proper allocation of balance sheet items into lines of business and allocation of profit and loss items. A good data quality framework always enhances the accuracy of reporting.
3. **Scalability and Flexibility:** design a data architecture that can grow and adapt with the general business evolution of the insurance company. This ensures long-term sustainability of a cost-effective data architecture with the ability to adopt future regulations.

## Our two-step approach

### The Implementation Step: Reporting Solution Implementation and Automation

#### Reporting Solution Capacity Assessment

It is crucial to evaluate the reporting solution's capability to manage efficiently the large and complex HKRBC datasets. This includes the ability to handle intricate mapping logic and process substantial volumes of investment and policy data. The solution should be scalable and possess high-performance computing capabilities to accommodate the larger data requirements and more complex calculations without compromising on speed or accuracy. Available reporting solutions in the market could be classified in two main categories:

- **System-based Reporting Solutions:** they are platforms with a wide range of tools and capabilities for data management, advanced analytics, business intelligence, and reporting.
- **Excel-based Reporting Solutions:** they are more limited in their breadth and depth of capabilities around data volume, data transfer, calculation, storage and reporting in MS Excel spreadsheet. These limitations are reflected in a lower cost of acquisition of these solutions.

#### Interdepartmental Collaboration

Fostering collaboration among different departments is essential for a cost-effective approach to reporting that minimises the risk of errors. Certain solutions support features like shared access, version control, and real-time updates to facilitate multi-team cooperation. While roles and responsibilities, ownerships of HKRBC returns and HKRBC reporting workflows should be clearly defined among different business functions, collaboration brings benefits in terms of lower costs and lower risk of error. The merits of acquiring a system with strong interdepartmental collaboration features can be tested during the end-to-end dry run of the overall workday timetable for HKRBC reporting. In our experience most companies have benefits from this system feature.

#### Audit Trail

An audit trail is indispensable for maintaining data integrity and complying with regulatory requirements. The system should automatically log all changes made to the data, including report modifications and user actions. This feature not

only helps in tracking the changes for accuracy and compliance but also provides a clear path for internal and external audit investigations or a supervisory inspection from the Insurance Authority. To achieve this, certain systems allow access grant to the external auditor or the supervisory team from the regulator to directly view the data, workflows and changes in the system.

#### Data Security Measures

Protecting sensitive data is of paramount importance. Implementing robust security measures such as role-based access control ensures that access to reports is restricted to authorized personnel only. This minimizes the risk of data breaches and unauthorized access, thereby safeguarding the company's confidential information and lowering the risk of error caused by deliberate or accidental data manipulation prior to the transmission of a report to the Insurance Authority.

# Maintaining Transparency and Enhancing Long-Term Operational Efficiency post HKRBC Implementation

## Process Documentation and Transparency

We believe that all processes and changes should be fully documented and transparent to stakeholders. This enhances trust and compliance.

Meticulous documentation of processes, particularly those pertaining to Pillar 1 (quantitative capital requirements) and Pillar 3 (reporting and disclosure), as mandated by the HKRBC framework, is crucial. Discussion and sharing of this documentation with the relevant internal stakeholders can accelerate the operationalisation of the new requirements and lower the total cost of compliance.

In our practical experience to date, this approach has often triggered views/suggestions on downstream impact to current operational processes, adding further benefits beyond the achievement of a fully compliant process. This combination of rigorous documentation standards and the softer skills to adopt the change in a spirit of internal transparency ensures the operational impact to current practice from adopting HKRBC is driven as constructively as necessary thus increasing the post-implementation success.

## Change Management and Communication

The implementation of HKRBC involves collaboration of multiple parties within the company and with external parties, namely the Insurance Authority and the external auditors.

Early engagement with involved parties brings up their concerns and needs, integrating their feedback into the implementation strategy at an earlier stage thus controlling the overall implementation cost.

This could be achieved with clear project plan and regular meeting among parties to identify gaps and difficulties at an early stage. Training sessions and ongoing support should also be provided to ensure smooth transitions, addressing specific operational challenges as they arise.

## Dynamic Landscape and Continuous Improvement

Continuous improvement is integral to the successful implementation of the HKRBC framework. The business of insurance companies will change over time with new business

developments, new types of investments, new insurance products. It is advantageous to establish a monitoring program to ensure ongoing adherence to evolving HKRBC regulations/practice, and regularly review processes and Control to accommodate changes.

During the implementation phase, the consideration for scalability and change could enhance operational efficiency and reduce long-term cost of compliance. By embracing a proactive and agile approach, insurers can enhance compliance, drive operational efficiency, and manage risks effectively.

Continuous improvement will enable insurers to navigate the evolving regulatory landscape and achieve sustainable success in keeping their business always compliant at a reasonable cost. This can be done while extracting information from the extensive HKRBC reporting to feed business analytics and competitive analysis across all the other HK insurers producing the same reports.

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