SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

Circular

28 April 2023

Circular to Licensed Corporations which are Participants of The Stock Exchange of Hong Kong Limited or Hong Kong Futures Exchange Limited

Licence Holders Insurance Scheme for Exchange Participants

This circular sets out the arrangements of the licence holders insurance scheme applicable to the following categories of licensed corporations for the scheme year from 1 April 2023 to 31 March 2024 (both dates inclusive):-

Category 1: Participants of The Stock Exchange of Hong Kong Limited and licensed for Type 1 regulated activity (i.e. dealing in securities);

Category 2: Participants of Hong Kong Futures Exchange Limited and licensed for Type 2 regulated activity (i.e. dealing in futures contracts).

The insurance requirements

Under the Securities and Futures Ordinance, corporations that are licensed to carry on certain regulated activities are required, as a condition of their licences, to take out and maintain insurance in the manner prescribed by the Securities and Futures (Insurance) Rules (Rules).

The Rules provide, amongst other things, that the licensed corporations in the above categories must take out and maintain insurance in relation to specified risks, for not less than an amount specified in the Rules, when the SFC has approved a master policy of insurance applicable to them.

Arrangement of the scheme and approval of master policies of insurance

In order to arrange for an appropriate insurance scheme for the purposes of the Rules, an Industry Working Group (IWG) comprising representatives of various brokers' associations and brokerage houses was formed[1]. It operates with secretariat support from the SFC.

IWG members unanimously decided to re-appoint Marsh (Hong Kong) Limited (Marsh) as the insurance broker and scheme administrator for the scheme year 2023/2024. Marsh has already arranged the placements of two master policies of insurance covering respectively the licensed corporations in Category 1 and those in Category 2. The master policies of insurance are co-underwritten by Antares Syndicate 1274 (Lloyd's of London) (25%), Markel Syndicate 3000 (Lloyd's of London) (12.5%), Mosaic Syndicate 1609 (Lloyd's of London) (15%), Faraday Syndicate 0435 (Lloyd's of London) (15%), Casper Specialty UK Limited

1 The IWG is chaired by Mr Lee Vincent Marshall Kwan Ho, and comprises representatives of The Institute of Securities Dealers Limited, Hong Kong Securities Association Limited, Hong Kong Securities Professionals Association, BOC International, DBS Vickers, KGI, and Bank of America Merrill Lynch.

(10%), QBE FINPRO FI [Sec A] Facility 100% QBE Syndicate 5555 (7.5%) and Allied World Assurance Company Limited (15%).

Under each master policy of insurance, an insured participant will be indemnified for financial losses due to fidelity risks relating to its activities of dealing in securities, futures contracts or both (as the case may be), subject to an indemnity limit of $15 million per regulated activity per year and a deductible amount of $3 million per claim or loss. For details of the risk coverage, indemnity level, deductible amount and other terms and conditions, please refer to the insurance documents to be distributed to you separately by Marsh.

Meanwhile, the SFC will provide Marsh with the information necessary for the arrangement of the master policies of insurance to be approved pursuant to the Rules for the scheme year 2023/2024. Such information will include the names of the participants covered under the policies, their correspondence details and information required by Marsh to allocate the gross premium among the participants based on the methodology agreed by the IWG.

Premium allocation

For each scheme year, the IWG seeks professional advice from the selected insurance broker regarding the premium allocation methodology with a view to catering for any unforeseen circumstances and looking for possible refinements to the methodology where appropriate.

<u>Basic premium and variable premium</u>

The IWG has approved the same allocation methodology of gross premium adopted in the last scheme year, whereby the premium amount that an insured participant is required to pay equals the sum of a minimum basic premium and a variable premium.

Minimum basic premium (20% of the gross premium quoted for each Category) represents the administration cost that insurers accord to the scheme. This portion will be equally shared by all participants in the same Category. Variable premium (the remaining 80% of the gross premium) will be allocated based on the annual turnover[2] of individual participants during the previous calendar year as a proportion of the total turnover of all participants under the same Category, subject to adjustments for any premium loading and/or discount (mentioned below) where applicable.

<u>Premium loading</u>

As in the previous year, the IWG has also approved that a fixed premium loading amount of $15,000 will apply to a participant with respect to each <u>claim notification</u> lodged during the preceding scheme year (i.e. from 1 April 2022 to 31 March 2023).

In addition, a premium loading based on <u>paid claims</u> will continue to apply to participants that have had claims actually paid above the deductible with reference to the following loading factors: -

[2] As reported by licensed corporations under "Total value of transactions in securities dealing" and/or "Total number of contracts of dealing in futures and options contracts" in their monthly financial returns submitted to the SFC.

	Loading factors to be applied	
	Paid claim in excess of $5 million	**Paid claim of $5 million or below**
1st year after the paid claim	60%	30%
2nd year after the paid claim	48%	24%
3rd year after the paid claim	36%	18%
4th year after the paid claim	24%	12%
5th year after the paid claim	12%	6%

The paid claims loading will be computed as a percentage (as listed above) of the premium amount that the insured participants would have been required to pay had there been no claim(s) paid.

The gross premium, after deducting the premiums shared by those participants with additional premium loading, will then be allocated amongst those participants without such claims.

Premium discount in relation to turnover (for Category 2 participants only)

As in the previous year, a premium discount will reduce the premium payable by any Category 2 participant whose annual turnover in the last calendar year falls within the following bands:-

A participant's annual turnover as a percentage of the market total	Discount to be applied to that participant's premium share
Over 10% to 20%	12%
Over 20% to 30%	24%
Over 30% to 40%	36%
Over 40% to 60%	48%
Over 60%	60%

The amount of the discount will be returned to the pool and allocated among the rest of the participants proportionally according to their respective turnovers. The total premium borne by the entire industry, therefore, will not change.

Scheme administration

As the scheme administrator, Marsh is responsible for implementing and providing administrative services to the participants. It will allocate the gross premium based on the above-mentioned methodology and send you the debit note and insurance documents. Please ensure that you take out and maintain insurance as required under the Rules.

If you have any queries on the insurance scheme, please contact either your licensing case officer or the scheme administrator. The contact information of the scheme administrator is set out as below:-

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<u>Contact persons:</u>

Ms Celine WONG	(Phone: 2864 5479 / 6822 7071)
Mr Sky CHU	(Phone: 2301 7203 / 6052 1832)
Ms Mabel CHIU	(Phone: 2864 5348)
Mr Harry SHORT	(Phone: 5727 2078)

Licensing Department
Intermediaries Division
Securities and Futures Commission