HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/25/2C
B9/25/4C

16 March 2018

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Transfer of General Insurance Business of The Hong Kong Mortgage Corporation Limited

As you may be aware, The Hong Kong Mortgage Corporation Limited ("HKMC") is planning to transfer its general insurance business ("GI business") to its wholly-owned subsidiary, HKMC Insurance Limited ("HKMCI")[1]. After the transfer, the HKMCI will replace the HKMC as the insurer or guarantor under the Mortgage Insurance Programme ("MIP"), Reverse Mortgage Programme, Premium Loan Insurance Scheme and SME Financing Guarantee Scheme (collectively referred to as "Programmes"), as the case may be. In addition, the performance of all the HKMCI's liabilities and obligations under the Programmes to its counterparties will be guaranteed by a standing parental guarantee issued by the HKMC ("HKMC Guarantee"). I am writing to set out the relevant supervisory treatments for the credit exposures insured or guaranteed by the HKMCI under the Programmes after the transfer.

Capital adequacy

The HKMA is processing the HKMCI's application to become a domestic public sector entity ("DPSE") for the purposes of the Banking (Capital) Rules ("BCR"). It is currently expected that the legislative process for the necessary amendment to the BCR will be completed by the end of 2018 at the earliest.

During the period after the transfer of the GI business and before the proposed amendment to the BCR comes into effect, authorized institutions ("AIs") may

[1] Subject to the approval of the transfer by the Insurance Authority, it is proposed that the transfer shall take effect on 1 May 2018 (see S. No.6 to Gazette No. 8/2018).

determine the capital requirements of their credit exposures covered by the Programmes (other than the 80% Guarantee Scheme discussed below) in accordance with the treatments set out in Annex 1 of this letter provided that (i) the HKMC Guarantee meets all the criteria set out in section 98, 132, 211 or 212 of the BCR, as the case requires; (ii) the AIs have not breached any of their obligations under the Programmes' master insurance policies or master guarantees, as the case may be; and (iii) the HKMCI is wholly-owned by the HKMC at the time the capital requirements are determined.

Special concessionary measure of the Government under the SME Financing Guarantee Scheme

Since 2012, the Government has been providing a guarantee for 80% of loans granted by AIs to SMEs under the SME Financing Guarantee Scheme ("80% Guarantee Scheme"). We understand that the role of the HKMC under the 80% Guarantee Scheme will likewise be taken over by the HKMCI after the business transfer. In this regard, the Government has issued a letter of comfort to the HKMA confirming its continuous commitment to the 80% Guarantee Scheme and the various obligations to the HKMCI under the Scheme. It follows therefore that the capital treatments for the 80% Guarantee Scheme set out in the circular of 27 June 2012[2] issued by the HKMA will continue to apply after the transfer of the GI business (see Annex 1 for more details). Similarly, the portion of any loan to an SME which is covered by the guarantee provided by the HKMCI under the 80% Guarantee Scheme will receive the same treatment as set out in the HKMA's circular of 15 July 2016[3] for the purposes of paragraph 3.2.4 of the SPM module CR-G-7 "Collateral and Guarantees".

Large exposures to a single counterparty

Currently, exposures to the HKMC under the MIP and 80% Guarantee Scheme are exempt from the limit on large exposure of AIs under section 81 of the Banking Ordinance ("BO").

The HKMA will initiate legislative amendments to section 81 of the BO, and is considering providing the same exemption to the MIP put under the HKMCI as part of the legal amendments. It is anticipated that such legislative changes may only take effect by 2019 at the earliest. In the interim period after the MIP is transferred to the HKMCI but before the legal amendments take effect, during

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[2] Exposure to HKMC: 80% Loan Guarantee Product under SME Financing Guarantee Scheme (27 June 2012)
(http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2012/20120627e1.pdf)

[3] Exposure to HKMC: 80% Loan Guarantee Product under SME Financing Guarantee Scheme (15 July 2016)
(http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2016/20160715e1.pdf)

which exposures to HKMCI under the MIP are not exempted when checking for compliance with section 81 of the BO, if an AI's exposures to the HKMC group are expected to exceed the statutory limit under section 81 of the BO, it is advised to approach its usual supervisory contact at the HKMA in advance and the HKMA will be prepared to grant an interim exemption to the institution's MIP exposures, based on the HKMC Guarantee.

Please note that the letter of comfort referred to above from the Government is acceptable for the purposes of section 81(6)(b)(ii) of the BO in respect of AIs' financial exposure to the HKMCI arising from the provision of the guarantee by the HKMCI under the 80% Guarantee Scheme. Such exposure can therefore be excluded from the calculation of the 25% limit under section 81(1) of the BO.

If you have any questions on this letter, please feel free to contact your usual contact at the HKMA for assistance.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

Encl

cc: The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Eureka Cheung)