New Outsourcing Guidelines from the Hong Kong Office of the Commissioner of Insurance

The Hong Kong Office of the Commissioner of Insurance recently published a Guidance Note on Outsourcing (GN14), to regulate the business and operational risks created by the outsourcing of business activities by insurers.

**Essential Issues**

GN14 sets out the essential issues which an insurer should take into account in formulating and monitoring its outsourcing arrangements. These are:

- Outsourcing Policy
- Materiality Assessment
- Risk Assessment
- Service Provider Due Diligence
- Outsourcing Agreement
- Information Confidentiality
- Monitoring and Control
- Contingency Planning
- Overseas Outsourcing
- Sub Contracting

**Supervisory Approach**

The supervisory approach of the Insurance Authority under GN14 requires insurers to notify the Insurance Authority before entering into a material outsourcing arrangement (or significantly varying an existing one) and to provide the Insurance Authority with information in relation to the outsourcing arrangement, to satisfy the Insurance Authority that GN14 has properly been complied with.

**Application**

GN14 applies to all insurers in Hong Kong and it covers the outsourcing of services to service providers, be they third parties (including group companies) or other business units of the same company (such as foreign branches and head offices).

For insurers incorporated or based in Hong Kong, GN14 will apply to all outsourcing arrangements. For other insurers, GN14 will only apply to those outsourcing arrangements relating to their operations in Hong Kong.

**Commencement**

GN14 will come into effect on 1 January 2013.
Transitional Arrangements

As at 1 January 2013, insurers with ongoing material outsourcing arrangements (not expiring before 31 March 2013) are required to furnish the Insurance Authority with the information prescribed by GN14 within 30 days.

All insurers are expected to conduct materiality and risk assessments on all existing outsourcing arrangements within the First Quarter of 2013.

If existing outsourcing arrangements do not comply with GN14, then insurers have until the end of 2013 to bring them into line.

What do you need to do now?

There are now less than 3 months before GN14 comes into force. As a first step, Insurers should immediately take steps to:

- Ensure that appropriate policies are in place to manage outsourcing
- Designate specific staff to manage the outsourcing agenda
- Create a central list of all outsourcing arrangements
- Review existing outsourcing arrangements to ensure compliance with GN14
- Determine the level of disclosure to the Insurance Authority that will be required in respect of existing outsourcing arrangements
- Determine what changes will be required to existing outsourcing arrangements
- Consider GN14 for all new outsourcing arrangements
- Seek appropriate advice where required

Most insurers should not have to make to many changes to their existing outsourcing arrangements or policies as GN14 reflects good practice that should already be in place. However, the new supervisory approach means that insurers will now need to clearly document outsourcing policies, processes and arrangements and satisfy the Insurance Authority that they are doing so.

Further information

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