

# **Deloitte's Global Financial Services LCSP Forum**

**11 April 2018**

**Speech by Dr Moses Cheng**

**Chairman of the Insurance Authority**

Bob<sup>1</sup>, distinguished guests, ladies and gentlemen,

Good Morning. I am most delighted to join you this morning at the Deloitte's Global Financial Services meeting.

Since taking over the statutory functions of the Office of the Commissioner of Insurance (OCI) on 26 June 2017, the Insurance Authority (IA) has taken up the important new roles of facilitating the sustainable market development of the insurance industry and promoting the competitiveness of the insurance industry in the global insurance market. All of us at the IA are excited to take on such new roles, and are fully dedicated to strengthening Hong Kong's position as a regional insurance hub.

## **Facilitating Market Growth**

Hong Kong has strategically positioned itself as an international trade and finance centre of the Mainland. Under the Belt and Road Initiative, Hong Kong's insurance industry can contribute its dynamic and sophisticated risk management advantages to support Mainland enterprises going global and investing in countries along the Belt and Road. We welcome and embrace fully such golden opportunities offered by the Belt and Road Initiative.

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As such, the IA plans to establish a platform to facilitate insurance and reinsurance placements and services for Mainland State-owned Enterprises (SoEs) and relevant Belt and Road investing entities, and to serve as an integrated resource centre for potential captive applicants. The proposed platform could also facilitate the formation of a cluster of service providers in the value chain of captive insurance for the sake of connecting captives, captive applicants and the relevant professionals. The insurance market players including insurance brokers and other insurance service providers would also be invited to join our platform in a partnership.

In June 2018, the IA will be staging a thematic breakout session in the 2018 Belt and Road Summit organised by the Hong Kong Trade Development Council. We aim to facilitate the formation of a cluster of interested parties, including the Mainland SoEs, specialty syndicates and relevant professionals, and to promote the risk management role of Hong Kong's insurance industry.

At the same time, we are exploring the development of alternative risk transfer tools such as encouraging the issuance of insurance linked securities in Hong Kong to expand the insurance capacity and enhance effective risk management.

Meanwhile, the concept of an integrated economic and business hub in the Greater Bay Area will support Hong Kong's integration with the Mainland and bring about closer economic cooperation within our neighbourhood. Our insurance industry has advanced the proposal of allowing Hong Kong insurance companies in setting up service centres in the Greater Bay Area to serve Hong Kong policy holders residing in the area and Mainland clients who have bought Hong Kong insurance products. These service centres may provide claims processing and policy servicing to existing customers. The IA will further explore the feasibility of the proposal with the newly established China Banking

and Insurance Regulatory Commission (CBIRC). In the longer run, we would also explore the setting up of an “Insurance Connect” platform to allow for the sales of Hong Kong insurance products in the Greater Bay Area and vice versa, similar to the concept of Stock Connect, leveraging the complementary strengths of the two markets.

On the international front, the IA has started participating more actively in international and regional organisations, fora and conferences. We have joined the Implementation and Assessment Committee and the Market Conduct Working Group of the International Association of Insurance Supervisors (IAIS). In June this year, the IA will host the 13<sup>th</sup> Annual Conference of the Asian Forum of Insurance Regulators (AFIR) in Hong Kong. The AFIR brings together various insurance regulators of Asian economies for regulatory cooperation and information exchange to promote the stable and sustainable development of the Asian insurance market. Hong Kong is prepared to take up the chairmanship of the AFIR after the Annual Conference and play a bigger role in promoting regional cooperation. On December the 11<sup>th</sup> this year, we will host the first Hong Kong Insurance Summit at the Convention and Exhibition Centre. The Summit will bring together local and external stakeholders including representatives from the IAIS, CBIRC and other insurance regulators in the region to explore thematic issues of common interest and explore how Hong Kong can strengthen its role as a regional insurance hub.

### **Regulatory Reforms**

Turning to regulatory reforms and the development of domestic regulations, the Risk-based Capital (RBC) regime, the Policy Holders’ Protection Scheme (PPS) and the statutory licensing regime for insurance intermediaries (replacing the

current indirect regulation by the three Self-Regulatory Organisations) are the three key priorities of the IA's regulatory reforms in the coming years.

For the RBC regime, we just completed industry data collection under the first Quantitative Impact Study (QIS1) last year. We are now working closely with the industry stakeholders for launching QIS2 in the second half of 2018. QIS3, hopefully the last QIS, will be conducted in the second half of 2019. We shall then finalise the detailed rules and conduct public consultation before introducing legislative amendments in the Legislative Council (LegCo). We hope that the RBC rules can be implemented incrementally, starting from 2021-22. Meanwhile, to nourish the risk culture of insurance companies, we are drafting a new guideline on Enterprise Risk Management and Own Risk and Solvency Assessment to promote effective risk management. We shall consult the industry on the draft guideline later this year, with a view to commence implementation in 2020.

As regards the Policy Holders' Protection Scheme, we are helping the Financial Services and the Treasury Bureau (FSTB) of the HKSAR Government to prepare the enabling legislation and continue to engage with industry stakeholders in ironing out a few outstanding issues. The FSTB aims to introduce the Bill into the LegCo in the 2018-19 legislative year.

Last but not least, we are working diligently to set up the statutory licensing regime for insurance intermediaries by mid-2019. A working group involving industry representatives has been set up to collate comments and inputs from the industry. Industry and public consultation on over 10 sets of rules, codes and guidelines is expected to be launched in the second half of 2018. Meanwhile, we are recruiting new staff to take up licensing, investigation and disciplinary work arising from the new regime.

## **Growth of Insurtech and Regulator's Role**

Let me now switch to a juicier and, some may say, disruptive or paradigm-changing topic – Insurtech. Digitalisation has been becoming the key for a sustainable insurance market. We see the development of Insurtech continuing to grow at a rapid pace. According to a market report, the total value of Insurtech funding globally reached US\$2.3 billion in 2017, representing a 32 percent increase on the previous year.

Another recent survey of over 1,000 insurance professionals from around the globe found that digital innovation is the top priority for insurers internationally in all key regions, in terms of where insurers are investing money, time, staff and training resources over the next 12 to 18 months.

As you may all agree, insurance is a very well established industry with a long history of development and progression. Many insurance companies, especially international insurance groups, have their own legacy IT systems. The leverage of new technology, especially on mobile devices, to improve efficiency and underwriting might be slower at the very beginning for the industry. However, things have been changing in recent years. I am excited to see progressive and positive development of Insurtech globally and in Hong Kong. Insurers are looking beyond protection and proactively exploring into areas for prevention of risks. The use of health monitoring devices by insurers is one typical example. Another example is the use of telematics which has been gaining popularity. An app of telematics would record each ride in detail and rate the driver based on a comprehensive range of factors including smooth acceleration, braking technique, turning technique and safe speed. Policy holders may be rewarded with cash rebates based on their driving scores. This demonstrates how the combination of

advanced analytics and sensor technologies could enhance customer experience and insight into customer behaviour and related risks.

As I mentioned, the IA has put in every effort to facilitate the sustainable market development and promote the competitiveness of the Hong Kong insurance industry. In terms of encouraging innovation, the IA launched two new initiatives last September. We introduced the Insurtech Sandbox as a means of encouraging insurance companies to be more innovative. The Sandbox provides a “safe space” in which insurers can experiment with new ideas in a controlled environment before making a formal market launch extensively.

We also launched the Fast Track which is a new dedicated queue for applications for authorization of new insurers owning and operating solely digital distribution channels. The Fast Track would hopefully encourage insurance companies or technology firms to adopt more innovative business models and set up dedicated digital insurance operations.

The facilitation of Insurtech would, undoubtedly, enhance policy holders’ experience, project a positive image of the insurance industry and promote innovative products and services, which would spur further growth and development of the insurance industry.

I read recently in an article entitled “Insurtech – the threat that inspires” published by McKensie & Company last year a very interesting observation which I would like to share with you, it said and I quote –

“Like fintechs, Insurtechs are extending innovation throughout the sector, creating a competitive threat to incumbents but also potentially valuable opportunities for partnering on the changing terrain. ... While Insurtechs have not

yet made deep inroads into the sector, they are growing fast and stand to capture a meaningful share of value pools within a few years. How quickly incumbents adapt to these inexorable market changes will determine the size of their share in the next generation of the insurance industry.”

The IA is committed to facilitate the use of Insurtech by the insurance industry, provide a business friendly environment for the use of Insurtech, and encourage the industry’s feedback to us.

Ladies and gentlemen, I hope that I have, within the time allotted to me, been able to provide you with a meaningful highlight of what has been happening at the IA since the inception of our statutory functions on the 26<sup>th</sup> June, last year. In closing, may I thank the organisers for bringing everybody together in this Forum and may I wish you all very successful and fruitful sharing and deliberations in this Forum. Thank you very much.