FT Asia Insurance Summit 2018
Seeking Strategies for Growth
Regulatory Keynote Speech
on 11 October 2018

Distinguished guests, ladies and gentlemen,

I am delighted to be here at the Financial Times Asia Insurance Summit with the theme of “Seeking Strategies for Growth”. This is a deep and pertinent topic since despite a unanimous view that the next wave of economic growth will be propelled by Asia, the jury is still out on how best to capture opportunities arising from this consensus.

Prospects for Insurers

Numbers speak louder than words. According to Capgemini, high net worth individuals in Asia Pacific grew by 12% in 2017 to 6.2 million, making them most ubiquitous in this part of the world. Allianz Research found that insurance premiums of Asia excluding Japan grew by 10% in 2017 and accounted for 76% of the global increase. It is expected that, by 2020, around 40% of global premium income will be written in the this region, compared to just 10% a decade ago. According to Munich Re, insurance premiums of Asia excluding Japan will see an average annual growth rate of 7% and 8% for property-casualty and life insurance respectively between 2018 and 2030. Furthermore, Swiss Re estimated that the Belt and Road Initiative will bring about an additional US$28 billion in commercial insurance premiums by 2030. Notwithstanding a swash of impressive statistics, many Asian economies are still heavily underinsured. There is ample room to narrow the protection gap manifested in the form of low penetration rates or, in the case of Hong Kong, an imbalance towards endowments or investment-linked products. This in fact prompted the Government to make an unprecedented move to grant tax deduction for premiums paid under the

Voluntary Health Insurance Scheme and deferred annuities in an attempt to alleviate pressure mounting on the public health care facilities as well as the retirement benefit system due to demographic changes and longevity.

So what conclusion could we draw? A simple answer is that no serious player in the market could afford to miss out Asia in shaping their global footprints and when piecing together their corporate strategy.

Business Expansion and Risk Exposure

While contemplating business expansion, one must not lose sight of risk exposure. Risks take many forms and go hand-in-hand with return, so it is not difficult to imagine the delicate choice that actuaries and investment managers have to make between different portfolios in the current ultra-low interest rate environment. These guys, some say, have a heart of gold and nerves of steel. A survey recently commissioned by the Financial Stability Institute indicated that while there is a rising appetite for exotic assets, the tendency to trade off stability for yield is well-restrained, attributable to the long-term nature of insurance liabilities as well as variable capital charges embedded in risk-based solvency schemes. It is for this reason that the Insurance Authority (IA) is moving ahead with full steam to introduce the Risk-Based Capital (RBC) regime so as to align with prevailing international standards and best practices. I need not spend time explaining what the RBC regime is, suffice to say that it would assist insurers to better cope with existing and prospective risks, encourage them to put in place effective internal controls and asset-liability management models, and to enhance transparency and information disclosure. Admittedly, we are not a front-runner on this score, but starting late does confer the benefit of being able to reflect on the experience of other jurisdictions and to calibrate key parameters with established benchmarks. Introduction of the RBC regime will provide us with a useful tool to influence product mix in the market and safeguard against excessive offshore risk placements. It will also put Hong Kong in better readiness to negotiate for preferential treatment with the China Banking and Insurance Regulatory Commission under the Equivalence Assessment Framework Agreement on Solvency Regulatory Regime, which is crucial to fulfilling our designated role as risk management centre of the nation in pursuing the two grand undertakings of Belt and Road Initiative and Greater Bay Area Development.

Ideally, insurers will look for investments that represent a good fit to the nature and maturity date of its liabilities, while achieving optimal returns within a defined range of risk tolerance. In reality, however, insurers opt consciously for controlled asset-liability mismatch in order to achieve higher profitability, leading to vulnerabilities that should be closely tracked and promptly addressed. By participating in this Summit, I am sure that you would be able to glean valuable insights on contemporary thinking about this very important subject.

Innovation for Growth

Another topic that features prominently in the programme rundown today is Insurtech. Advancement of technology is an unstoppable force, and pervasiveness of Insurtech will be driven by high internet penetration, popularity of mobile payment gateways and evolving consumer behaviour. To illustrate this point, Hong Kong Monetary Authority has launched the Faster Payment System only last month that allows instant inter-bank transfer or stored value facility payment and accommodates local currency as well as renminbi. A total of 29 applications for the first batch of virtual banking licences have also been received. Increasingly, therefore, technology is seen as a positive transformative force rather than as negative disruption. According to a publication by Willis Towers Watson, both transactions and funding on Insurtech are expanding rapidly - US$724 million was made available in the first quarter of this year, more than doubling the amount in the corresponding period of 2017, and a record-breaking 66 transactions were executed during the same quarter.

With the adventurous disposition of Hong Kong people, there is tremendous potential in Insurtech given that less than 1% of new life insurance premiums in Hong Kong is currently derived from digital channels. Abiding by the technology-neutral principle, we set no artificial barriers for Insurtech, while ensuring that products offered on digital platforms carry a simple structure and heavy protection element. Sandbox and Fast Track, the two new initiatives rolled out by the IA in September last year to enable Insurers to test new ideas in a controlled environment and a dedicated queue for technology start-ups seeking to market products solely through digital channels respectively, were met with warm reception. The impact of Insurtech is already filtering through the entire value chain. Some typical examples include smart devices to assist in pricing and underwriting; flexible policy terms and tenure; insurable risk pool that covers identity theft, data security, business disruption, internet liability and intellectual property infringement; big data analytics and telematics that lead to extended coverage for high risk groups such as chronic patients; compressed cost structures; marketing and distribution channels suited to lifestyle of the young and tech-savvy; speedier and paperless claims settlement; minimum lead time for underwriting; 7x24 accessibility, chatbots and AI for customer enquiries etc.

It is our firm belief that given a clear vision and regulatory steer, Insurtech could lead to greater inclusiveness, enlarged clientele, wider risk sharing, better value proposition, stronger professionalism and ethics, reduced protection gap and, ultimately, lesser burden on society. Insurers, insuring public, intermediaries, consumers, regulators and governments should all come out as winners. For Hong Kong, it could help to redress the imbalance towards endowments and investment-linked products by offering a convenient way to procure simple and protective insurance products. For other Asian economies, it could become an expedient way to boost micro-insurance and augment traditional distribution channels in reaching out to the mass.

Data Privacy and Cybersecurity

It would not be a complete regulatory keynote speech if I talk about the positive impact of Insurtech without mentioning personal data protection and cybersecurity concerns. Regulators around the world are enacting new legislation to cope with emerging risks. The General Data Protection Regulation in the European Union, the Cyber Security Law in Mainland China, the Cybersecurity Act in Singapore and the Privacy Amendment (Notifiable Data Breaches) Act in Australia, the list goes on. Locally, Office of the Privacy Commissioner for Personal Data has issued a guideline for the insurance sector, listing out specific requirements for collecting, processing and storing personal data. On my part, the IA has promulgated Guideline on the Use of Internet for Insurance Activities that drew attention of service providers to key issues that deserve attention, and is about to circulate a draft guideline on cybersecurity for industry consultation, drawing reference from the Group of Seven's Fundamental Elements of Cybersecurity for the Financial Sector and support from an expert panel comprising academic and technical professionals. This stands us in good stead to detect and defend intrusions, and respond swiftly to emergency incidents.

Conclusion

Ladies and gentlemen, insurance regulators are sometimes torn between facilitating growth and encouraging innovation on the one hand, while striving to protect policy holders on the other. Progress of mankind has never been without a fair share of frustrations and trepidations. Each and every decision that we make, be it in life or in business, involves an element of uncertainty. It is our job to perceive and understand risks, then devise solutions to manage and mitigate them. On this note, l wish you all a successful and rewarding Summit!