

**Insurance Summit of the Institute of Professional Education and Knowledge
Vocational Training Council
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Speech by Dr Moses Cheng, Chairman, Insurance Authority

***The Independent Insurance Authority –
A Partner in the Sustainable Growth of the Insurance Industry***

Chairlady Mrs. Agnes Koon, Honoured Guests, colleagues and friends, Ladies and Gentlemen, good afternoon!

1. It is my great honour and pleasure to join you at this first Insurance Summit. Thank you so much for the opportunity to address you on the topic “The IIA – A Partner in the Sustainable Growth of the Insurance Industry”. As most of you may know, the IIA is currently busily engaged in recruiting and empanelling its staff; and the regulatory function is still being undertaken by the Office of the Commissioner of Insurance, I feel that I am running out of new and exciting items to be shared with you and might appear to be repeating the same messages over and over to you.

2. I have been asked to share with you some ideas on “How would the IIA’s new statutory functions and its implementing plans facilitate the insurance industry’s sustainable market development and how would the regulatory changes be supporting the growth and development of the Insurance industry thus underpinning the position of Hong Kong as an international financial centre .

3. As I said before, the IIA was not established solely to regulate the Insurance industry, so I am most pleased that you have, in choosing the title of my address to you, described the IIA as “ A partner in the sustainable development of the

Insurance Industry.” I must take this opportunity to reiterate that every one of us at the IIA is looking forward to collaborating with you all as your partner in the sustainable development of the Insurance Industry.

4. I must congratulate the organisers for bringing very ambitiously three distinct but very relevant issues facing the Insurance industry, namely competition, technology and regulatory development together in this Summit. However I must protest that speaking after the very eloquent Ms Anna Wu, and Ms Annie Choi are indeed very tough acts to follow.

5. The implementation of the new Competition legislations, the promotion of Technological Innovations, and establishing an independent regulatory authority for the Insurance Industry might appear to be quite distinct. However if you look more deeply and carefully it is not difficult to appreciate that they are all interrelated and supportive to each other. Competition is conducive to innovation. Innovation drives growth and development; facilitated by a healthy regulatory regime. As we have so often been told, a regulator must understand the importance of competition and innovation well so as to regulate smart, not to regulate hard.

6. As some of you with background in economics will know, if competition is effective in ensuring parties to behave fairly and properly there is no need for legislation and regulation. And innovation often brings about disruptive technologies resulting in making regulation inappropriate or inadequate as legislation and regulation can seldom provide or cater for the future. We understand from the experience of other countries that a healthy competitive environment is always conducive to sustainable growth of trade and industries. And inappropriate or over-regulation would kill innovation and competition. So in promoting the sustainable growth and development of the Insurance

Industry, it is most important for competition, innovation and regulation to collaborate and work well together.

7. Let us examine firstly how the insurance market currently embraces competition. In Hong Kong, we have a highly competitive insurance market with more than 160 authorized insurers, large and small. According to the Swiss Re Sigma Report 2016, we have the highest insurance density in Asia¹ and one of the highest concentrations of insurers in the world. We also have consistently recorded robust growth in terms of total premium income for the past years, particularly in the life sector, which constitutes nearly 90% of the total insurance business in Hong Kong. All these are outcome of the industry's endeavour and commitment in product innovation and service improvement, and, of course, a level playing field.

8. If competition is so powerful as an invisible hand to push players to behave, why do we need regulation? You can easily find a load of research and scholarly articles on this topic. I shall venture to elaborate on two areas of inadequacy in the insurance sector. Firstly, in even the most perfect competitive environment we cannot ensure that all insurers are adequately capitalised to honour their obligations to policyholders. In fact, in the insurance market, a highly if not cutthroat competitive environment, insurers may be induced to underprice their products. As such it may result in them not being financially sound to meet their obligations. This is exactly what I have been given to understand that once happened in the motor insurance market in Mexico.

9. Secondly, insurance would more often than not entail entering into a

¹ Swiss Re, Sigma Report 2016

complicated contract with terms and conditions that an ordinary client would not be able to understand fully at the point of sale. And they would only find out some hiccups, misunderstanding or even misrepresentations when an unfortunate event occurred necessitating making a claim some time after taking out the insurance policy. Insurance is a good example of a market of information asymmetry. Competition will not be able to address the problem of information asymmetry fully because even if insurers are compelled to make full disclosure of all essential information in plain and clear language in a strong competitive market, the receiving end, i.e. the clients, may still not be able to understand it fully.

10. Neither can regulation do, but regulation helps enforce information disclosure, deter misconduct and encourage fair treatment of policyholders.

11. This explains why in advanced economies with well-established competition regimes, it is still necessary to have robust prudential regulation to maintain the stability of the insurance industry and conduct regulation to address the problem of information asymmetry to protect policyholders.

12. On this front, two priorities of the IIA are to work closely with the industry to develop a suitable Risk-based Capital Framework, improve upon our prudential regulatory regime and to ensure observance of the statutory conduct principles laid down in the amended Insurance Companies Ordinance. Financial soundness, good business ethics and conduct will underpin public confidence in the insurance industry in Hong Kong.

13. On the issue of enhancing public confidence in the Insurance Industry, the IIA is looking forward to collaborating fully with you to project a proper image of the industry to the Public. We must let the public know more deeply and fully the different aspects of the industry and how it operates. This would

ensure that the industry would be fairly treated and respected by the community, and that you would be able to attract more talents choosing insurance as their career.

14. Ensuring the competency of insurance practitioners and an adequate supply of talents would help strengthen public confidence in the industry. With more than 95,000 insurance intermediaries and a large number of other professionals, including underwriters, actuaries, accountants and insurance lawyers, there is much we can pursue to strengthen our talent pool to facilitate the sustainable growth of the industry.

15. At the macro-level, the insurance industry has been disadvantaged in competing with other sectors in financial services for talents due to a lack of understanding of the insurance industry, and a low public awareness of the wide range of career opportunities and the career paths of professionals in different functions of insurance.

16. There is also a shortage of skills in middle- and back-office areas such as professional brokerage and technical areas including underwriting, claims management, and regulatory compliance. These functions are technical and highly specialised, meaning that the learning curve for performing these functions satisfactorily is long and steep.

17. I fully support the Government's pilot scheme with a dedicated fund of about \$50 million to enhance talent development and training for the insurance sector. The industry as a whole needs to highlight to the public that insurance is in fact an important risk management financial tool for the society and educate the public that jobs in insurance are not only about sales and marketing. I understand that the Government and the industry are discussing various initiatives to promote the image of the insurance industry and enable the younger

generation to understand the career paths of different technical jobs in insurance. I firmly believe that focusing on talent development is on the right track of enabling the sustainable growth of the industry. We must invest in people as well as technology.

18. Technology can drive growth. Fintech is evolutionary and dynamic. It can also be revolutionary and disruptive. I believe that Ms Annie Choi has adequately covered the topic. I just want to quote one of the key findings from a research on Fintech² of the World Economic Forum. It says that while the most imminent effects of disruption of Fintech will be felt in the banking sector, the greatest impact of disruption is likely to be felt in the insurance sector. In particular, the study pinpoints that the insurance sector will be influenced by two disruptive trends, namely, insurance disaggregation and connected insurance. By insurance disaggregation, the emergence of online insurance marketplaces and homogenisation of risks will force big changes in insurers' strategies. By connected insurance, the ubiquity of connected devices will enable insurers to highly personalise insurance services and proactively manage clients' risks.

19. When embracing Fintech, I believe the IIA must be mindful of the following principles –

- a. Regulation should be activity-based to maintain a level playing field;
- b. Promoting innovation does not mean compromising policyholder protection;
- c. Although innovative technology is often proprietary, encouraging

² World Economic Forum, "The Future of Financial Services – How disruptive innovations are reshaping the way financial services are structured, provisioned and consumed", June 2015.

industry collaboration in technology development and application may bring synergy and multiply the benefits to the industry and policyholders. Of course, such collaboration must not be seen as anti-competition by the Competition Commission;

d. Striking the right balance between facilitating technological innovation and personal privacy protection; and

e. Cyber opportunities come with cyber risks. The regulator should be responsible for enabling the industry and policyholders understand both and minimise the latter while maximising the former.

20. The future of Fintech and its impact on the insurance industry is not readily known at the moment. Fintech may bring about a paradigm shift in its business model as well as the regulatory approach. And technology is just one of the drivers that are reshaping the insurance industry. The IIA is eager to listen and learn from experts from the industry and other sectors on what the future holds for the insurance industry and how the regulatory regime should be responding. That is why the IIA has agreed to set up a Future Task Force to examine what are the changes facing the industry and how it should be managing such changes.

21. Researches from different countries are suggesting the industry is heading for some paradigm shift and departure from traditional mindset. We are encouraged by the successes of some pioneering efforts; whilst we understand full well that we need to be cautious and pragmatic as we are sailing in uncharted territory.

22. Ladies and Gentlemen, the world we are living in is changing rapidly and so must we.

23. John F. Kennedy once said, and I quote

“Change is the law of life. And those who look only to the past or present are certain to miss the future.”

24. I appeal to all of you who are interested in exploring the future of the insurance industry to step forward and volunteer your time and expertise.

25. Let's join hand to build the new IIA and meet the challenges ahead.

26. Thank you.