

The 1st Belt & Road International Financial Cooperation Summit

“The role of the Hong Kong Insurance Industry in the Belt & Road Initiative”

Speech by Dr. Moses Cheng on 4 September 2017

Distinguished guests, ladies and gentlemen, Good Afternoon!

I feel extremely privileged to join you all at this Belt & Road International Financial Cooperation Summit and to participate on this meaningful financial cooperation platform, jointly organized by the Belt & Road International Financial Cooperation Annual Conference, the Dashun Foundation and the Hong Kong Financial Assets Management Ltd, to explore together with you the important role of the Hong Kong insurance industry under the Belt & Road Initiative.

In 2013, President Xi Jinping proposed the Belt & Road Initiative to create a network of railways, roads, pipelines, utility grids and other infrastructural facilities that would link China with the rest of Asia, the Middle East, Central and Eastern Europe. Going beyond physical connections, the Initiative will create the world’s largest platform for facilitating policy coordination, trade and financing, as well as social and cultural cooperation. It is undeniable that the Belt & Road Initiative will

bring about tremendous business opportunities, underpinned by substantive amount of capital and vast talent flow within the region.

Since our return to the Motherland, Hong Kong has been taking up the role as a “super-connector” of the Mainland to the rest of the world. The National 13th Five-Year Plan offers strong support for Hong Kong to leverage its unique advantages to enhance our role and functions in contributing to China’s economic development. The Central People’s Government also supports Hong Kong’s participation in the country’s two-way opening-up process and in the Belt and Road Initiative, and affirms Hong Kong as a key link for the Belt and Road. Hong Kong enjoys the “one country” advantage of being a part of China thereby benefiting from its development and its preferential policies towards Hong Kong. Hong Kong also enjoys the “two systems” advantage as it has stronger ties with the global capital market, compared with other Mainland cities. One would always question: in such an advantageous position, how would Hong Kong’s insurance industry be making good use of the new opportunities brought about by the Belt & Road Initiative?

According to a recent research report issued by an international renowned reinsurer, total investment in the Belt & Road countries outside China are expected to amount to some USD 5 trillion by 2030. Along with the tremendous investment and business opportunities, the transnational nature of the Initiative and the heterogeneity of the countries would expose investors in these projects to a multitude of risks, including political risks,

risks associated with labour disputes, occupational hazards, environmental liabilities and natural catastrophes, which can easily lead to project delays cost overruns, and claims for loss and damages. The report projected that the Belt & Road associated projects in countries outside China would create demand for commercial insurance with the total premiums accumulated to 28 billion USD by the year 2030. Being major investors in most of the Belt & Road projects, Mainland enterprises will definitely require robust risk management processes which include taking up appropriate insurance coverage to protect their investments and manage their risks. The Hong Kong insurance industry is best position to provide professional risk management services and effective insurance coverage for them.

The Report also estimated that out of the 28 billion USD insurance premiums generated under the Belt and Road Initiatives, about 16 billion USD insurance premiums would be written by insurance companies in the Mainland. In this connection, Mainland insurers require adequate reinsurance coverage to properly manage and diversify their insurance risks under the Belt & Road Initiative. The Hong Kong insurance industry has good experience and adequate resources to provide such risk management services. Let me tell you how Hong Kong can take part in this.

Firstly, Hong Kong can provide direct insurance and insurance brokerage services to Mainland enterprises under the Belt and Road Initiative. Hong

Kong has a mature insurance market and well established professional financial services. At present, there are 159 insurers in Hong Kong and many of them are the world's top insurers. Hong Kong also has a number of international insurance brokerage firms. These companies have advanced technology and a wealth of experience in underwriting large-scale infrastructure projects and catastrophe risks, expertise in managing multi-country exposures and alternative risk transfer capabilities. They have expertise and proven track records in providing insurance coverage for large-scale investments and infrastructure projects of Mainland enterprises under the Belt & Road Initiative.

Secondly, Hong Kong can provide reinsurance coverage to Mainland insurers underwriting risks in the Belt & Road Initiative. At present, there are 18 professional reinsurers in Hong Kong, including a number of internationally renowned firms which possess a wealth of technological know-how and experience in international reinsurance placement. The Agreement on Trade in Services signed under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) encourages Mainland insurers to cede some of their business to reinsurers in Hong Kong. In addition, the Office of the Commissioner of Insurance, IA's predecessor, signed the "Equivalence Assessment Framework Agreement on Solvency Regulatory Regime" with the China Insurance Regulatory Commission ("CIRC") on 16 May 2017. Based on this agreement, the IA is seeking the CIRC's support for lowering the capital requirements of Mainland insurers on the business they cede to Hong Kong reinsurers.

These measures will increase the capabilities of Hong Kong reinsurers in arranging reinsurance coverage for Mainland insurers for managing their risks in Belt & Road projects.

Thirdly, Hong Kong is an ideal place for Mainland enterprises to set up captive insurers. By setting up a captive insurer in Hong Kong, a Mainland group can pool the risks among its subsidiaries and associates, in particular those arising from the Belt and Road infrastructure projects, thereby reducing the costs of insurance and enhancing the enterprises' risk management capabilities. The Hong Kong SAR Government has granted regulatory concessions to captive insurers, including lowering their capital solvency margin requirement, etc. and providing 50% tax concessions to profits arising from specified insurance business of captive insurers.

Apart from the above, the Hong Kong SAR Government has set aside 50 million HKD to launch a three-year pilot programme to enhance talent training for the insurance sector. The courses offered under the programme aim to provide professional training on specific functional or topical areas in response to the industry's needs. Topics covered in the training courses already held include marine insurance, infrastructure projects insurance, and new developments in the regulatory regime, etc. These training courses were well received by the industry and helped prepare practitioners to seize the opportunities brought about by the Belt & Road Initiative.

President Xi Jinping, in his address at the start of the BRICS business forum in Xiamen yesterday, said,

“[The Belt and Road Initiative] is not a geopolitical tool but a pragmatic platform for cooperation. It is not a foreign aid plan, but an initiative for joint discussion, joint construction and shared interests,”

Ladies & Gentlemen,

It is our honour to be involved in the Belt and Road Initiative, China’s grand mission of creating the world’s largest economic platform for the benefits of various peoples and countries. It is our Mission to work closely with Hong Kong’s insurance industry to develop and expand the already mature insurance market, to enhance our efforts to provide for effective risk management services and professional insurance coverage. With the support of all our stakeholders, we shall strive to consolidate and further Hong Kong’s role as a “key link” and a “super-connector” for our country’s historical mission in pursuing the Belt & Road Initiative.

Thank you.