

## **VTC Insurance Summit 2019**

**Opening Address by Dr Moses Cheng**

**Chairman of the Insurance Authority**

**11 October 2019**

Roy<sup>1</sup>, Aaron<sup>2</sup>, Allan<sup>3</sup>, distinguished guests, friends, colleagues, ladies and gentlemen,

Time flies. Three years ago, I attended the first-ever Insurance Summit organised by the Insurance Training Board and the Institute of Professional Education and Knowledge under the Vocational Training Council. At that time, the Insurance Authority (“IA”) was a start-up without any regulatory duties yet. There were quite some worries that I, another lawyer, would build a heavy-handed regulator. Over the years, I have been assuring the market that the IA is totally committed to fulfilling our statutory roles of being a dynamic regulator as well as a sustainable development partner of the industry.

In this short span of the last 3 years, a lot had happened. If I were to report all of them I would most probably take up too much of your time. So just let me highlight a few more significant ones.

The IA had taken up the prudential regulation of insurers from the Office of the Commissioner of Insurance (“OCI”) for more than two years, and

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by now I am quite sure that the industry must have discovered and hopefully convinced that the IA is not a heavy-handed, ruthless regulator but a facilitative and dynamic partner of the industry.

I once heard the remarks that if the regulated finds the regulator very amenable, then the regulator must be problematic in the discharge of its duties.

However ladies and gentleman, in my submission, it has nothing to do with my regulatory style but the fulfilment of our statutory responsibilities. We are uniquely tasked to be a prudential regulator, and to promote the stable and sustainable development of the Hong Kong insurance industry and its competitiveness in the global insurance market.

After two years of implementation, you must have come to realise that the two objectives are indeed the two sides of the same coin. Effective regulation is a public good, whose benefits are reaped by both the insuring public and all industry practitioners, as it provides for the institutional context of public trust and predictability within which the insurance market can grow and flourish.

Three weeks ago, we have taken one step forward and extended our regulatory ambit to insurance intermediaries. Taking over the regulation of insurance intermediaries and putting it on a statutory footing marks one of the most significant milestones in the insurance history of Hong Kong. Now the IA will be the sole authority for granting licences, conducting inspections and investigations and imposing disciplinary sanctions in appropriate cases.

You may well ask why are insurance intermediaries so important to the insurance sector and why do we need to put its regulation in statute? We live in a post-modern world where the division of labour is extremely fine. The insurance products and distribution channels have become increasingly sophisticated and diversified. But one thing has not changed: insurance intermediaries are still the frontline practitioners of the insurance industry and they serve as a vital conduit between the policy holders and the insurers. The following figures will provide the best support for this hypothesis. Insurance intermediaries (including banks) account for 99% of new office premiums of individual life policies and 97% of the number of new policies.

The vast majority of policy holders rely on quality services from insurance intermediaries who are their insurance experts within reach to provide timely and bespoke insurance advice to help them purchase suitable products. Hence, the professionalism of insurance intermediaries will directly impact on the whole insurance sector. Against this background, in 2014, the International Monetary Fund recommended Hong Kong to implement direct supervision on insurance intermediaries in its Financial Sector Assessment Programme report.

Against such background, the former OCI and the IA had put a lot of effort into the implementation of the statutory regulatory regime for insurance intermediaries. After years of consultation and preparation, we eventually launched the new statutory regulatory regime on 23 September 2019. We are confident that the new regime, predicated on fair and transparent regulation, will help enhance professional standard of insurance intermediaries, encourage adoption of proper conduct, and enhance insurers' oversight of insurance intermediaries.

As some of you would have noted, there are seven sets of related codes, guidelines and rules which we formulated in consultation with the industry and the public. At the same time, we have refined six existing guidelines on the sale of long term policies. The volume of those regulatory instruments appears huge but the basic principle is simple. Let me now summarise some of the most important requirements and changes that form the backbone of the new regime for you.

First of all, we have enhanced the minimum education and Continuing Professional Development (“CPD”) requirements. Newly licensed insurance intermediaries must attain Level 2 or above in five subjects in the Hong Kong Diploma of Secondary Education Examination. The subjects passed must include Chinese or English in addition to Mathematics. Newly approved Responsible Officers of insurance agencies and broker companies must possess a bachelor’s degree in addition to adequate experience. We have also increased the minimum number of CPD hours required from 10 to 15. From 1 August 2021 onwards, insurance intermediaries need to attend five more CPD hours every year, and three hours of which must be on topics related to “ethics or regulations”.

Secondly, we have enhanced the financial requirements on broker companies by increasing both their paid-up share capital amount and net asset amount from \$100,000 to \$500,000 and imposing minimum accounting disclosures for their broking business. Thirdly, the IA is now empowered to handle complaints related to the conduct of insurance intermediaries, conduct investigations into alleged non-compliance cases, and take effective enforcement actions. I will leave it to our CEO, Clement, to further explain the regulation of insurance intermediaries in a moment.

While the new regulatory regime for insurance intermediaries is one of the most significant developments affecting the insurance sector, we could not afford to lose sight on the positive disruption that Insurtech is bringing about or can bring about to the insurance market. Before David<sup>4</sup>, Wayne<sup>5</sup> and Fred<sup>6</sup> share with you their expert insights on Insurtech trends and how it could redefine insurance and narrow the protection gap, I must take advantage of speaking first to share with you some of my observations.

As a regulator and market enabler, the IA adopts a three-pronged strategy in response to the rapid development of Insurtech which has been applied to the entire value chain of insurance.

First, Insurtech provides the opportunity for both consumers and the industry by improving customer experience and enhancing inclusiveness. Data analytics and AI could achieve precision underwriting and extend insurance coverage to traditionally uninsurable risks. Robotic process automation could compress application and claims handling time from weeks to hours, leading to improved customer experience. Furthermore, virtual insurers could deliver suitable knowledge and products to traditionally underserved or even unserved segments through bespoke digital channels.

Secondly, we strike to foster a healthy ecosystem for Insurtech. Financial institutions may explore scope for collaboration, technology start-ups may develop support systems and enabling tools, while insurance

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intermediaries may uncover new client groups and better quality of service. In addition, the IA has been engaging with fellow regulators (e.g. Hong Kong Monetary Authority) as well as insurance industry to develop the appropriate infrastructure, to support insurers and intermediaries.

Finally, Insurtech could reduce compliance burden and induce greater supervisory efficiency, riding on the introduction of the Risk-Based Capital Regime in 2022. The aim is to minimise time and resources for insurers to adapt to the new reporting requirements, at the same time strengthening our internal capability to detect and manage risks both at the macro and company levels.

The IA has matched the Insurtech blueprint with concrete measures. We have rolled out the Insurtech Sandbox which provides a safe and controlled environment to test innovative solutions using real market data. Agreement has also been reached with the Hong Kong Monetary Authority and the Securities and Futures Commission to make this a cross-sectoral feat.

Another initiative is Fast Track, a pilot scheme for newcomers seeking to operate solely through digital distribution channels based on a robust business model that satisfies all prevailing regulatory requirements. Bowtie Life, which is present here today, is the frontrunner that received formal authorization to carry on long term business since last December. On the general business side, just three days ago, we have granted authorization to Avo, which is the first non-life virtual insurer under Fast Track. Avo will provide innovative and customer-centric products, such as health and travel insurance for underserved segments.

Meanwhile, we are dealing with a couple of other applications in the pipeline which I am sure will bring about further opportunity to the insurance market.

The famous Harvard Business School Professor Clayton Christensen once said, I quote “The reason why it is so difficult for existing firm to capitalise on disruptive innovations is that their processes and their business model that make them good at existing business actually make them bad at competing for the disruption.”

On this note, I appeal to all of you here to work hand-in-hand with the IA to embrace innovations and technology, perfect our regulatory regime, and maximise the value of Insurtech for the betterment of our community. Together, let’s usher in a New Era of the Hong Kong insurance market!