Asian Financial Forum 2020

"Insurance and inclusive growth in Asia"

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Opening remarks by Dr Moses Cheng

Chairman of the Insurance Authority

Winnie[1], distinguished panel members, friends and colleagues, ladies and gentlemen, good afternoon!

On behalf of the Hong Kong Insurance Authority ("IA"), it is my great pleasure to welcome you all to this concurrent session of the Asian Financial Forum 2020 that is dedicated to insurance.

I would like to thank the organisers for choosing "Insurance and Inclusive Growth in Asia" as the theme of this session which is both meaningful and insightful. While "inclusive growth" is becoming a popular and much-talked-about issue, there have been very few occasions where people associate it with insurance.

Surprisingly, there seems to be no universal definition of "inclusive growth". As such, I would take it as its conventional meaning to be "economic growth that allows people from all walks of life to contribute to and benefit from". In Asia, the Asian Development Bank's ("ADB") Strategy 2030 is a development strategy anchored in inclusive growth. It envisions an Asia and Pacific that is inclusive, where the

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region's gains and opportunities are shared by all. Under the strategy, ADB's support for achieving inclusive growth in developing countries would include investments in infrastructure to achieve high sustainable economic progress, connect the poor to markets, and increase their access to basic productive assets. Basing on the above observations, one might wonder what the relevance of insurance to inclusive growth is!

Ladies and gentlemen, I am no expert in development economics and shall defer to our expert panellists to share with you their insights later on this afternoon. But let me try to explore how insurance can help promote inclusive growth.

To begin with, insurance helps the community build up resilience for financial shocks. Insurance can provide emergency funding in unfortunate events such as pre-mature death of the bread-winner, major property damage arising from fire and natural disasters. These tragedies would likely lead to economic difficulties. By allowing households, especially those from the grass-root sector, to transfer their risk, insurance helps them to focus on their productive expertise to grow their incomes and share the benefits of economic growth without over worrying about those misfortunes.

Secondly, insurance facilitates business development and entrepreneurship. By transferring risks to insurers, companies can also better deploy their resources for growth and development. At the same time, insurers may ask enterprises to put in place proper risk management plans and mitigation strategies before agreeing to take up their risks. This can provide incentives to enterprises, especially the small-to-medium ones, to adjust their behaviour and to adopt more prudent risk management practices, facilitating them to grow in a healthier manner, generating growth and providing job opportunities to the community to reduce unemployment and underemployment. This will allow the community to share the fruit of economic growth.

While being a global concept, inclusive growth is especially important in Asia, which has established itself as the growth engine of the world's economy and the insurance sector can play an active role in supporting inclusive growth in the region by offering protection to both lives and businesses. The International Monetary Fund forecasts that emerging Asia would continue to enjoy strong growth with projected real GDP growth rate of 6% in this year. The continuous economic development will generate a rising middle class with increasing demand for insurance of all kinds. Indeed, a major international reinsurer expects an average annual growth rate of 7% and 7.6% in the insurance premiums of Asia for general insurance and life insurance respectively from now to 2030. In particular, the experts estimate that insurance premiums of China will triple from 2018 to 2030.

These figures clearly demonstrate the enormous potential Asia offers for the insurance sector. But the question remains: how can we ensure insurance is leveraged as a tool for inclusive growth in the region? This would require the collective efforts of insurance supervisors and the insurance industry. Let me share with you the Hong Kong experience.

Our strategy is to enhance resilience of our community and the business sector. This is in line with the United Nation's "Sustainable Development Goals 2030" in which it clearly states that insurance is vital for building resilience for households and businesses and that promoting insurance inclusiveness could help ensure good health and well-being and achieve economic growth.

To strengthen household resilience, we see merits of Insurtech in providing insurance to the underserved market and in launching innovative new insurance products. To this end, we have rolled out the Fast Track licensing scheme. It is dedicated for new insurers seeking to operate solely through digital distribution channels. We have so far granted authorization to one long-term insurer and one general insurer, both of which are now operational. With their thinner corporate structure and easy-to-use online platforms combined with precision marketing, we hope that they can bring protective insurance products to underserved segments of the population such as the tech-savvy young people. When more people are protected by insurance, our society can respond quickly and vigorously to financial shocks and natural disasters.

In respect of building business resilience, we believe the key would be balanced and sustainable market development. Hong Kong enjoys high global ranking in insurance penetration and density but our life insurance sector has long been dominated by products with savings and investment features. To address this structural imbalance, we need more protective products. To this end, the Qualifying Deferred Annuity Policy and Voluntary Health Insurance Scheme were launched last April. These two are protective products combining tax incentive to encourage people to plan for their retirement and medical needs. These two products have been a resounding success. We hope that a more balanced market would help our industry to tide over market volatility and respond quickly to sudden market changes.

As for sustainable market development, we aim to develop Hong Kong as a regional insurance and reinsurance hub, an Insurance-linked Securities ("ILS") hub and a captive domicile by riding on the opportunities presented by the national strategies of Greater Bay Area and Belt and Road Initiative ("BRI").

In July 2018, the IA secured preferential treatment from the China Banking and Insurance Regulatory Commission ("CBIRC") under the national solvency regime known as C-ROSS. When a Mainland insurer cedes risks to a qualified professional reinsurer in Hong Kong, its capital requirements will be reduced. The CBIRC has agreed to extend this preferential treatment for another year and this arrangement has already been included in the Closer Economic Partnership Arrangement popularly known as CEPA. This will help maintain the competitiveness of our reinsurance sector and provide a sound risk management foundation for Hong Kong to participate in different BRI projects.

By nature, BRI projects are of high complexity and project owners are exposed to a multitude of bespoke specialty risks. Our insurance industry can play a key role in helping to prevent, manage or transfer such risks which in turn improve business resilience and productivity. With our strong and professional insurance sector, Hong Kong is privileged to be tasked by the National Development and Reform Commission to take on the strategic role to act as the risk management centre for State-owned Enterprises ("SoEs") seeking to take on BRI projects and expand their international footprint. To help our industry to capture the unprecedented opportunities arising from the BRI, the IA has set up the Belt and Road Insurance Exchange Facilitation (known as "BRIEF") to provide a platform for our industry players to exchange intelligence, foster alliances and facilitate networking. We now have 41 insurers, reinsurers, captive insurers, brokers and law firms participating as BRIEF members. The continuation of BRI will certainly provide sustainable business opportunities for our insurance industry in the coming decades.

Leveraging on our position as SoEs' strategic partner to take on BRI projects, we are also promoting Hong Kong as the preferred location for SoEs to set up their captives. There are already four such captives set up in Hong Kong. We are also expanding the scope of risks that captives can underwrite by way of legislation which can hopefully be passed by July this year. By having more captives domiciled in Hong Kong, we hope to bring in the whole value chain of insurance brokers, risk managers and underwriters to Hong Kong to generate economic benefits for the whole community.

As for ILS development, given the huge demand for tools that could effectively transfer catastrophic risks (e.g. typhoon and earthquake) to the capital market, the global demand for catastrophe bonds has been very strong and insurers and reinsurers are eager to tap into this market. With an open and mature capital market and a solid bilingual common law system, as well as a wealth of professional talents and the largest offshore RMB capital pool, Hong Kong is the ideal platform to issue such bonds, thereby adding momentum to the sustainable development of our financial services sector. To this end, we are actively pursuing legislative amendments to make Hong Kong a more conducive domicile for ILS, in particular catastrophe bonds. This will enable insurers to tap into new business opportunities and improve our underwriting capacity while consolidating Hong Kong's status as a regional risk management centre.

All these market development measures will help attract more insurers and reinsurers to set up or expand their business in Hong Kong, providing our population with more insurance choices and boosting our insurance inclusiveness which is conducive to sustainable economic growth.

Ladies and gentlemen, Confucius, the celebrated educator and philosopher in ancient China, said and I quote "子曰：「不患寡而患不均」". Translating into English, it means "Not worrying about poverty, but rather the uneven distribution of wealth."[2] Hence, economic growth per se is good, but it is not good enough if it does not include all sectors of the community. We should aim for inclusive and sustainable growth which our whole population can contribute to and benefit from. Insurance could play a key role in fostering such equitable growth but I dare not lift the curtain too high and too early and should let our learned panellists from the insurance and reinsurance sectors under the able moderation of Winnie share their first-hand insights with us.

May I take this opportunity to wish you all a very healthy and successful year ahead.

Without further ado, let me now pass the platform over to Winnie and distinguished members of the panel.

Thank you very much.

[2] 《論語・季氏篇》