

Asian Financial Forum 2021

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Opening Remarks by Dr Moses Cheng Chairman of the Insurance Authority

Eric¹, distinguished panelists, friends and colleagues, ladies and gentlemen,

Good morning!

It is my great pleasure and honour to speak again at this Asian Financial Forum. On behalf of the Insurance Authority (“IA”), I welcome you all to this concurrent session on the topic of “Climate Change: Risks and Opportunities for Insurance”, where a panel of industry representatives gather to share their expertise and insights.

The rampage of COVID-19 might have been the focus of international attention in the past year, but it does not obliterate the harsh reality that climate change is the gravest peril faced by mankind.

It is real, it is imminent, it is destructive, and it affects every single creature on this planet with no mercy nor exception. Anyone having the slightest doubt on this claim would just have to get refreshed on the daily news about the aggravating natural disasters and extreme weather conditions as well as how they are impacting our daily lives.

¹ Mr Eric Hui, Chairman of the Hong Kong Federation of Insurers and Chief Executive Officer of Zurich Insurance (Hong Kong).

There is no dispute that 2019 and 2020 are two of the three hottest years recorded in history. Rising temperatures bring higher sea levels and affect ecosystems. What used to be called rarities such as super typhoons, severe blizzards, sprawling bushfires, parching droughts and drenching precipitation have become regular occurrences.

Ladies and Gentlemen, as climate change entails long-term impact across societal, environmental and economic dimensions, it requires a coordinated response. Nearly 200 governments entered into the Paris Agreement in December 2015 for a collective effort to reduce greenhouse gas emissions and accelerate the transition to a lower-carbon economy, by moving away from fossil fuel and related physical assets, as well as increasing deployment of clean and efficient technologies. The scale and complexity of this undertaking makes it uniquely challenging, while the potential downside is not yet fully captured by enterprises, investors and the general population.

Barely two weeks ago, the Hong Kong Federation of Insurers and the Hong Kong Observatory released a joint research paper which estimated that direct economic loss inflicted by Super Typhoon Mangkhut in Hong Kong to be some HK\$4.6 billion. Indeed, economies in the Asia Pacific region are bearing more than their fair share of natural disasters - almost half of the 281 events in 2018, including eight out of the 10 most deadly ones.

This is hardly surprising as many of our neighbouring economies are situated along the Pacific Ring of Fire and thus subject to constant threat of earthquakes, tsunamis, and volcanic eruptions. Developing economies are inherently vulnerable because of looser building codes, less resilient infrastructures and lower insurance penetration.

Despite enhanced technology and data availability, natural disasters triggered by climate change tend to deviate from historical patterns and are difficult to model.

So enough has been said about the problem, where is the solution?

When faced with a situation like this, I am always guided by the philosophy that inside every problem lies an opportunity. Apart from diligently fulfilling the duty to act as a good corporate citizen, the insurance industry does have a multiple role to play as risk assessors, risk advisers, risk underwriters and institutional investors. Viewed in this context, climate change presents huge prospects for those who are able to facilitate adaptation and mitigation.

First, the insurance industry should come up with pragmatic and innovative products. Under the auspices of the World Bank, coverage was procured for a hydropower plant in South America against reduced output caused by drought, which could be a useful source of reference for energy projects related to the Belt and Road Initiative which are environmentally friendly. I know that our panelists will be able to shed light on even more relevant case studies and the contribution that Hong Kong could render as a global risk management centre.

Secondly, the insurance industry should influence client behaviour by differentiated underwriting policies. I am aware that a major international reinsurer has announced its intention to cease transacting with the top 10% of carbon-intensive oil and gas producers by 2023. Applying a similar approach on the demand side by designing suitable incentives for energy-efficient vehicles, buildings or businesses might bring about complementary outcomes.

Thirdly, the insurance industry should practice “Impact Investing” by channeling assets away from carbon-intensive industries and into climate-resilient companies. A recent decision made by members of the Net-Zero Asset Owners Alliance to turn their portfolio worth US\$4.6 trillion carbon neutral by 2050 is the enlightened way to go, and there is evidence suggesting that investors are willing to pay a premium on the stocks or fixed income instruments issued by these companies. The path to a sustained future could be mutually beneficial.

Finally, the Government must take the lead in adopting ambitious targets. The Chief Executive, the Hon Mrs Carrie Lam, did so by announcing in her latest Policy Address that Hong Kong will strive to achieve carbon neutrality by 2050. The Environment Bureau is taking bold action to update the “Hong Kong’s Climate Action Plan”. On our part, the Insurance Authority has joined the Green and Sustainable Finance Cross-Agency Steering Group co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission since its formation in May last year. Through active participation in the two workstreams of regulatory and market development, we shall mobilise the Hong Kong Federation of Insurers and engage with the Hong Kong Green Finance Association to spearhead new initiatives aimed at turning the looming threat imposed by climate change into emerging opportunities.

So Ladies and Gentlemen, it is therefore most opportune for us to devote this panel session to consider and deliberate on how our industry can collaborate in tackling this gravest peril faced by mankind. As pointed out by the former Secretary-General of the United Nations, Mr Ban Ki-Moon, and I quote -

“Climate change is the single greatest threat to a sustainable future but, at the same time, addressing the climate challenge presents a golden opportunity to promote prosperity, security and a brighter future for all.”

On that note, I would very much look forward to a stimulating and rewarding discussion at this panel session, addressing the climate challenge and promoting prosperity, security and a bright future for all.

Thank you very much.