

HKGCC Town Hall Forum Series:

# Belt and Road Initiative (BRI) and Hong Kong's insurance industry

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Chairman of the Insurance Authority

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# What I intend to do

- Explore together with you and identify
  - Possible business opportunities for Hong Kong arising from the BRI,
  - some of the possible risks involved in BRI projects, and
  - how the insurance and risk management industry can help manage such risks.
- Share with you the IA's strategy on facilitating the insurance industry in exploring these BRI-related opportunities for the benefit of national, regional and global development

# The Insurance Authority (IA)

- Established in December 2015 as PIA
- An insurance regulator independent of the Government and the industry
- Took over statutory functions from the former Office of the Commissioner of Insurance (OCI) to regulate insurance companies in June 2017

**Regulate insurers and insurance intermediaries**

**Promote proper conduct and practices**

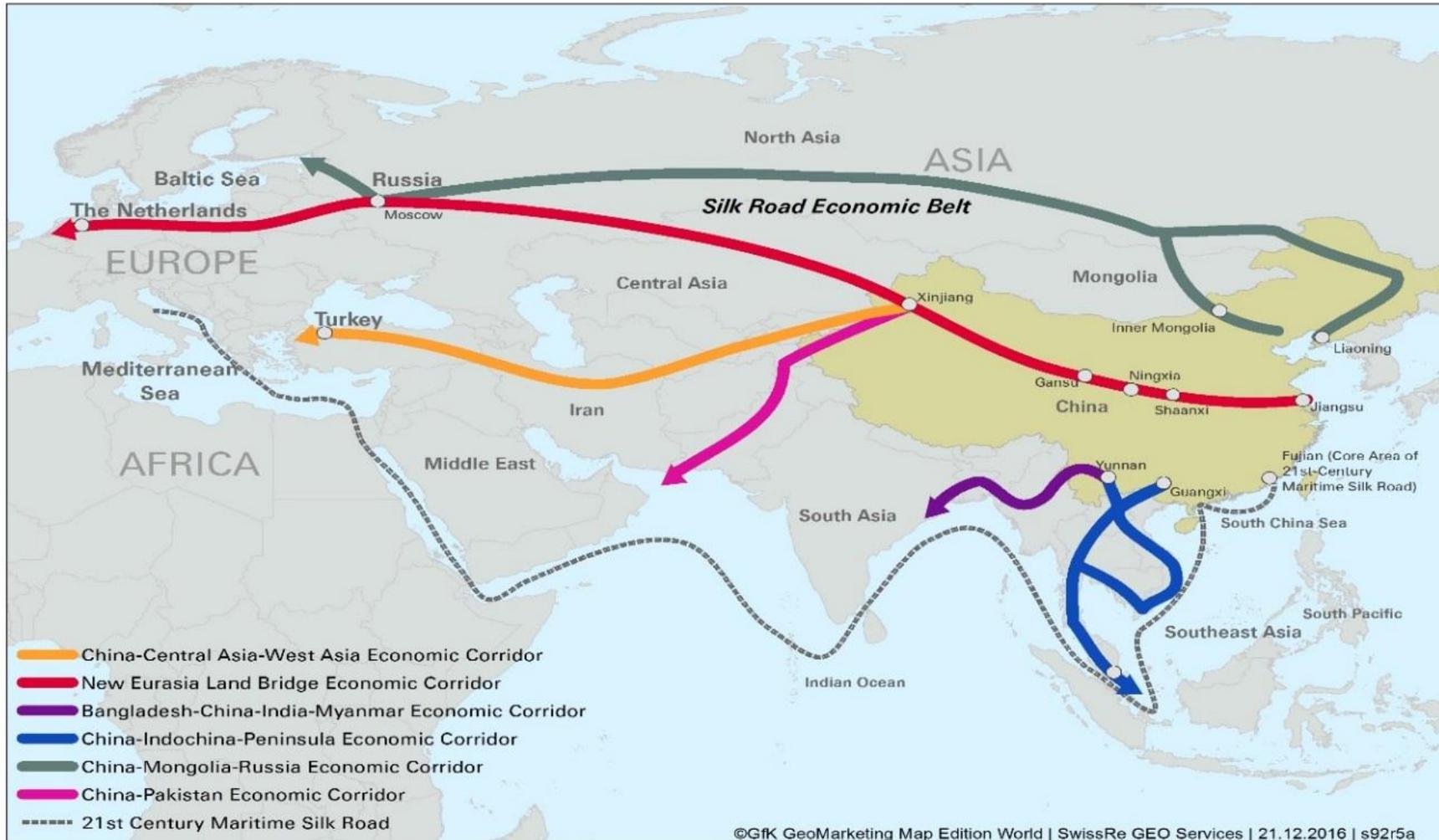
**Conduct studies, propose law reforms**

**Assist Financial Secretary to maintain financial stability**

**Facilitate market development, promote competitiveness**

**Promote public education**

# The Belt and Road Initiative (BRI)

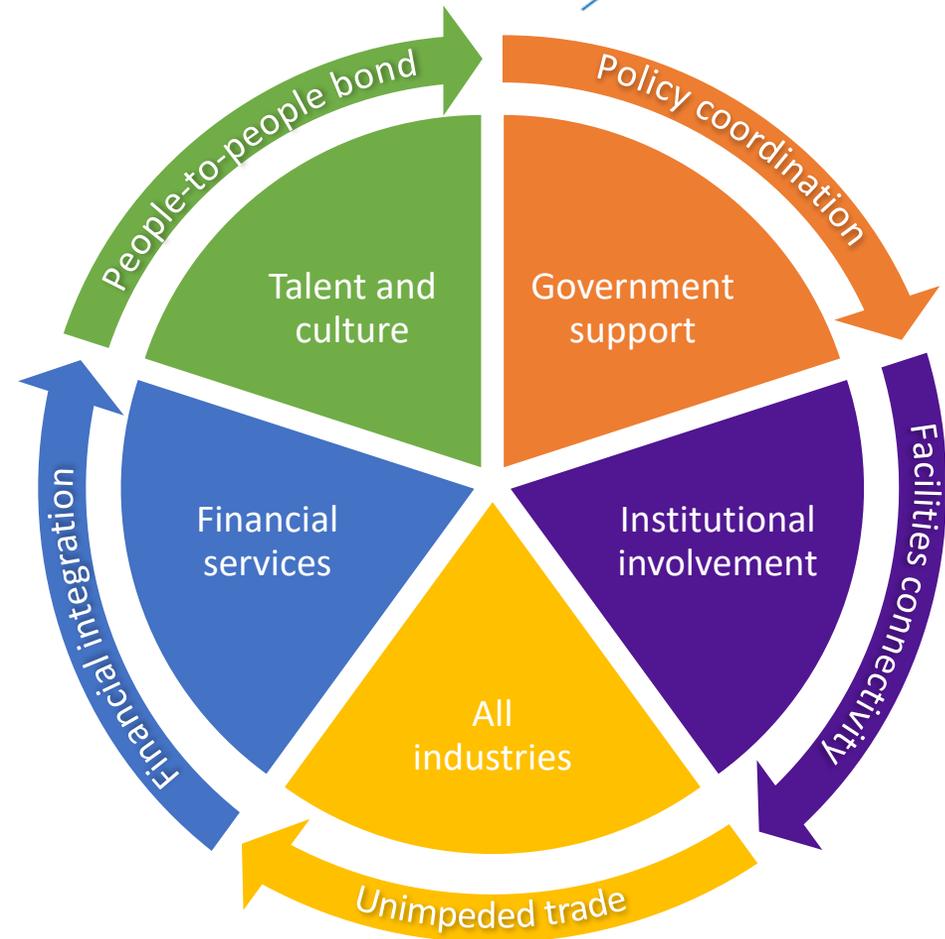


Source: Swiss Re Economic Research & Consulting.

# The Belt and Road Initiative (BRI) is not a new concept but re-focusing on Connectivity

## Five Areas of Connectivity:

- Policy coordination
- Facilities connectivity
- Unimpeded trade
- Financial integration
- People-to-people bond



# The fundamentals in connectivity : better flow of goods, people and finance

Types of project		Aggregate project value (USD billion)		
		China	Overseas	Total
Infrastructure	Transportation	649	1,557	2,206
	Telecommunication	203	546	749
	Water and sanitation	241	212	453
	Power and resources	662	1,211	1,873
	Other infrastructure	259	704	963
Agriculture	Agriculture, forestry, animal husbandry and fisheries	31	96	127
Cultural exchange, tourism	Cultural exchange, tourism	69	174	243
Others	Capacity cooperation	39	111	150
	Industrial parks	101	288	389
	Commercial building	85	204	289
<b>Total</b>		<b>2,339</b>	<b>5,103</b>	<b>7,442</b>

Source: Swiss Re Economic Research & Consulting estimates

# Estimated Premiums from BRI

Commercial insurance lines	Total Overseas (USD billion)
Construction phase	
Engineering	10.2
-Transportation	3.1
-Energy	2.4
-Others	4.7
Marine (general cargo)	2.9
Marine	0.5
Liability/PA	0.4
<b>Subtotal</b>	<b>14.0</b>

Commercial insurance lines	Total Overseas (USD billion)
Operational phase	
Property	13.5
-Transportation	0.9
-Energy	7.5
-Others	5.1
<b>Total</b>	<b>13.5</b>

Source: Swiss Re Economic Research & Consulting estimates

# What are the BRI-related risks?

<i>Project/Risks</i>	<i>Transportation projects</i>				<i>Power and energy projects</i>					
	Roads	Bridges	Ports	Airports	Gas Pipelines	T&D Lines	Hydro Power	Solar Power	Thermal Power	Wind Power
Fire	Low Risk	Low Risk	Low Risk	High Risk	High Risk	Low Risk	Medium Risk	Medium Risk	High Risk	High Risk
Explosion	Low Risk	Low Risk	Low Risk	Low Risk	High Risk	Low Risk	Low Risk	Low Risk	High Risk	Low Risk
Subsidence	High Risk	High Risk	High Risk	Medium Risk	Low Risk	Low Risk	Medium Risk	Low Risk	Low Risk	Low Risk
Flood	High Risk	High Risk	High Risk	High Risk	High Risk	Low Risk	High Risk	Low Risk	Medium Risk	Low Risk
Storm (Wind)	Low Risk	Medium Risk	Medium Risk	Low Risk	Low Risk	High Risk	Low Risk	High Risk	Low Risk	High Risk
Earthquake	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Low Risk	High Risk	Low Risk	Medium Risk	Low Risk
Lightning	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Medium Risk	Low Risk	Low Risk	Low Risk	High Risk
Terrorism	Low Risk	Low Risk	Medium Risk	High Risk	Medium Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk
Theft	Low Risk	Low Risk	Low Risk	Low Risk	Medium Risk	Medium Risk	Low Risk	Low Risk	Low Risk	Low Risk
Third Party Liability	Low Risk	Low Risk	Low Risk	High Risk	Low Risk	Medium Risk	Medium Risk	Low Risk	Medium Risk	Low Risk
Political Risk	Medium Risk	Low Risk	Medium Risk	Medium Risk	Low Risk	Low Risk	Medium Risk	Low Risk	Medium Risk	Low Risk
Employer's Liability	Low Risk	Low Risk	Medium Risk	Medium Risk	Low Risk	High Risk	Medium Risk	Low Risk	Medium Risk	Low Risk



Source: Swiss Re Economic Research & Consulting estimates

# Why is risk management important for BRI projects?

## Risk management

- Vital role given the unique BRI risk landscape
- Goes beyond industry-specific or single-country focus

## BRI risk landscape

- Requires a combination of technical expertise as well as strong political and country risk management with a per risk, per obligor and per country risk accumulation monitor and control
- Early intervention at the project inception phase is crucial

## Risk transfer

- For non-insurable risks: take a holistic view embracing prevention, mitigation, avoidance and **risk transfer**
- Where **risk transfer** option is viable, involvement of insurers, reinsurers and brokers with knowledge, capacity and global network is paramount



**Risks bring about new business prospects**

# Roles intended for the Hong Kong Insurance Industry?



Arrangement between the National Development and Reform Commission and HKSAR Government for full participation in and contribution to the Belt and Road Initiative  
(14 Dec 2017)

...to support Hong Kong to provide professional services such as insurance and re-insurance for large-scale infrastructure projects under the Belt and Road Initiative; and to encourage Mainland enterprises to establish captive insurance companies in Hong Kong as appropriate to underwrite the risks arising from for their overseas businesses, thereby enhancing their corporate risk management system

# Hong Kong was given the specific role of Risk Management Centre

## Insurance Authority and China Banking and Insurance Regulatory Commission implement preferential treatment to promote the development of Hong Kong reinsurance industry

17 July 2018

The Insurance Authority (IA) reached a consensus with the China Banking and Insurance Regulatory Commission (CBIRC) that under the "China Risk Oriented Solvency System" (C-ROSS), when a Mainland insurer cedes business to a qualified Hong Kong professional reinsurer, the capital requirement of the Mainland insurer will be reduced (preferential treatment).

The preferential treatment is based on the Equivalence Assessment Framework Agreement on Solvency Regulatory Regime (Agreement) signed between the former China Insurance Regulatory Commission and the former Office of the Commissioner of Insurance on 16 May 2017 for the insurance regulators in two places to carry out equivalence assessment on the solvency regulatory regimes. Both sides agreed to recognize temporarily the insurance solvency regulatory regime of each other as the same or similar to that of another during the four-year transitional period before the completion of the equivalence assessment. Based on the "mutual equivalence recognition", both sides will consider giving each other's industry preferential treatment to strengthen co-operation between the insurance sectors in two places.

Mr Chen Wenhui, Vice-Chairman of the CBIRC, said, "The CBIRC supports Hong Kong being Mainland's overseas risk management platform to assist Mainland enterprises in 'going global'. On the basis of the 'mutual equivalence recognition', the preferential factor under C-ROSS will be applicable to high-quality Hong Kong reinsurers, which will foster the development of the reinsurance business in Hong Kong."

Mr John Leung, Chief Executive Officer of the IA, said, "The preferential treatment will facilitate the co-operation between the Mainland and Hong Kong in cross-border reinsurance business, enabling the Hong Kong insurance industry to assist Mainland enterprises more effectively in diversifying and managing risks, including supporting Mainland enterprises' participation in the infrastructure and investment projects under the Belt and Road Initiative. The preferential treatment will also help sharpen the competitive edge of the Hong Kong insurance industry and strengthen Hong Kong's position as a reinsurance hub in Asia."

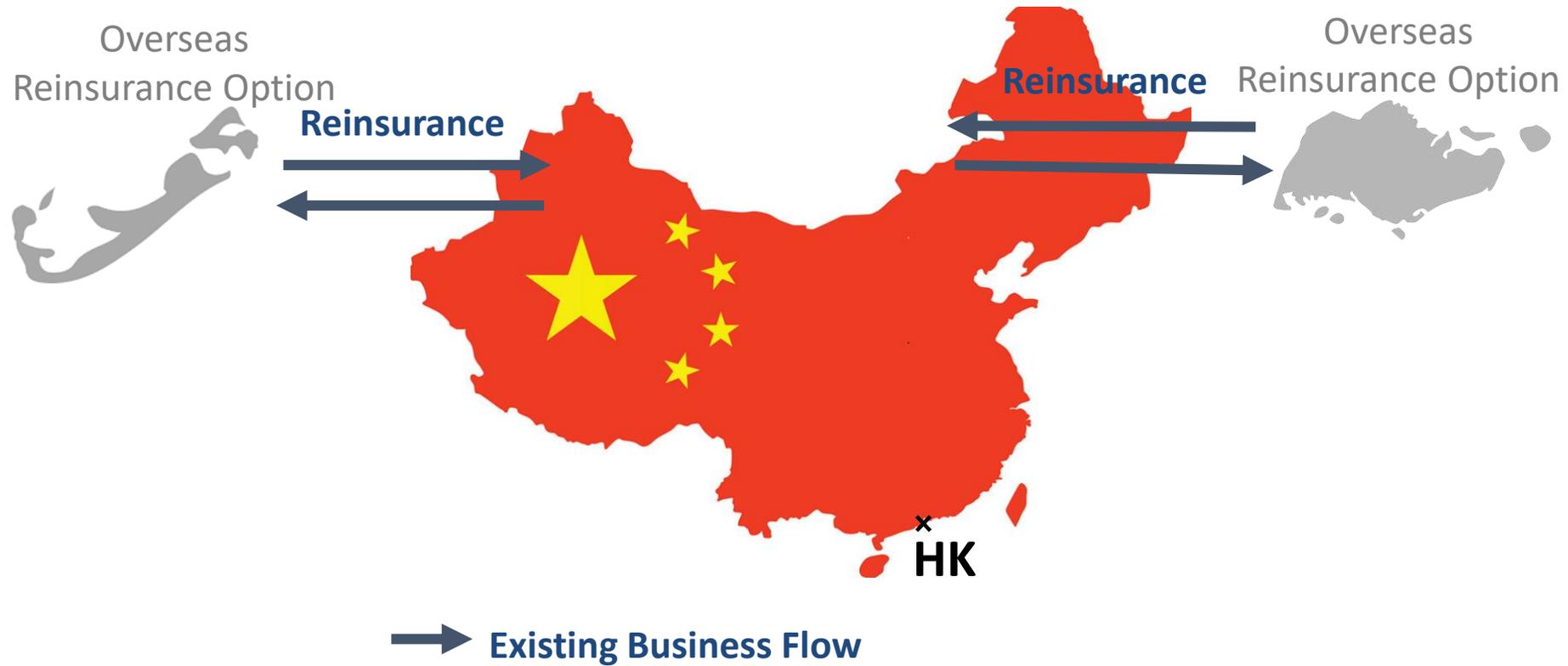
For details of the preferential treatment, please refer to the [notice](#) published by the CBIRC (Chinese

- Mr. Chen Wenhui, former Vice-Chairman of the CBIRC said:

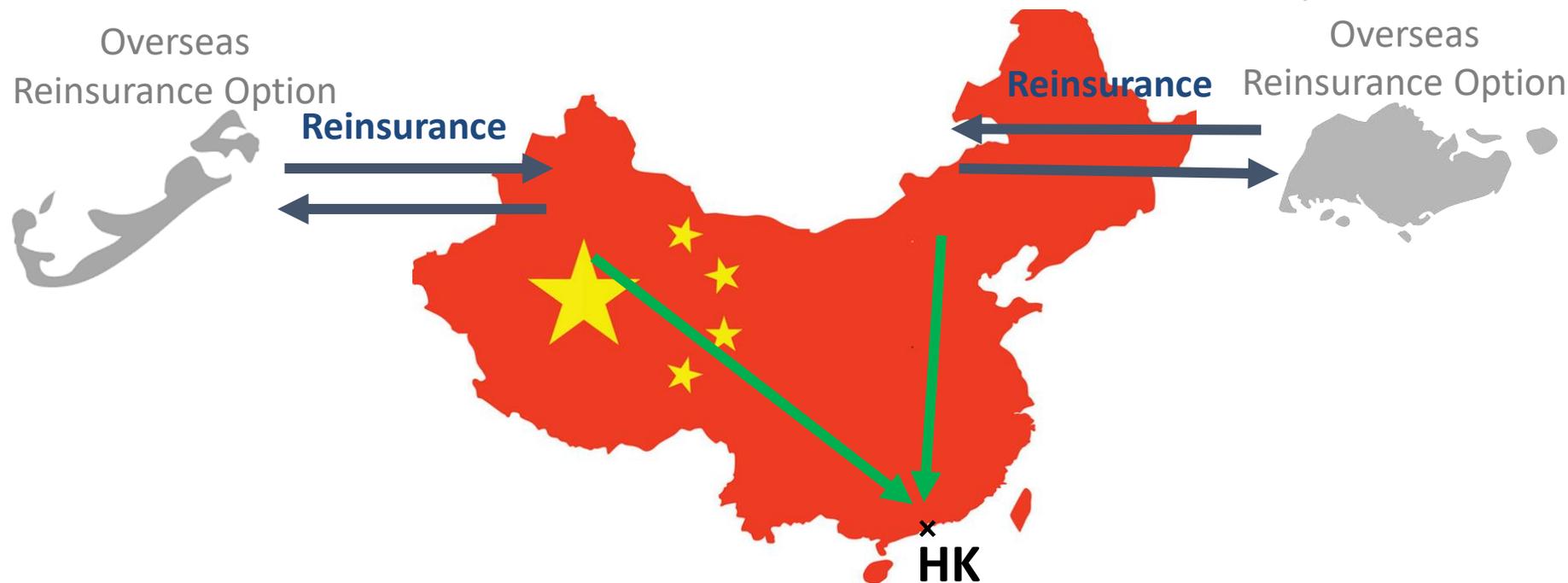
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# Capturing Business Flow - Existing



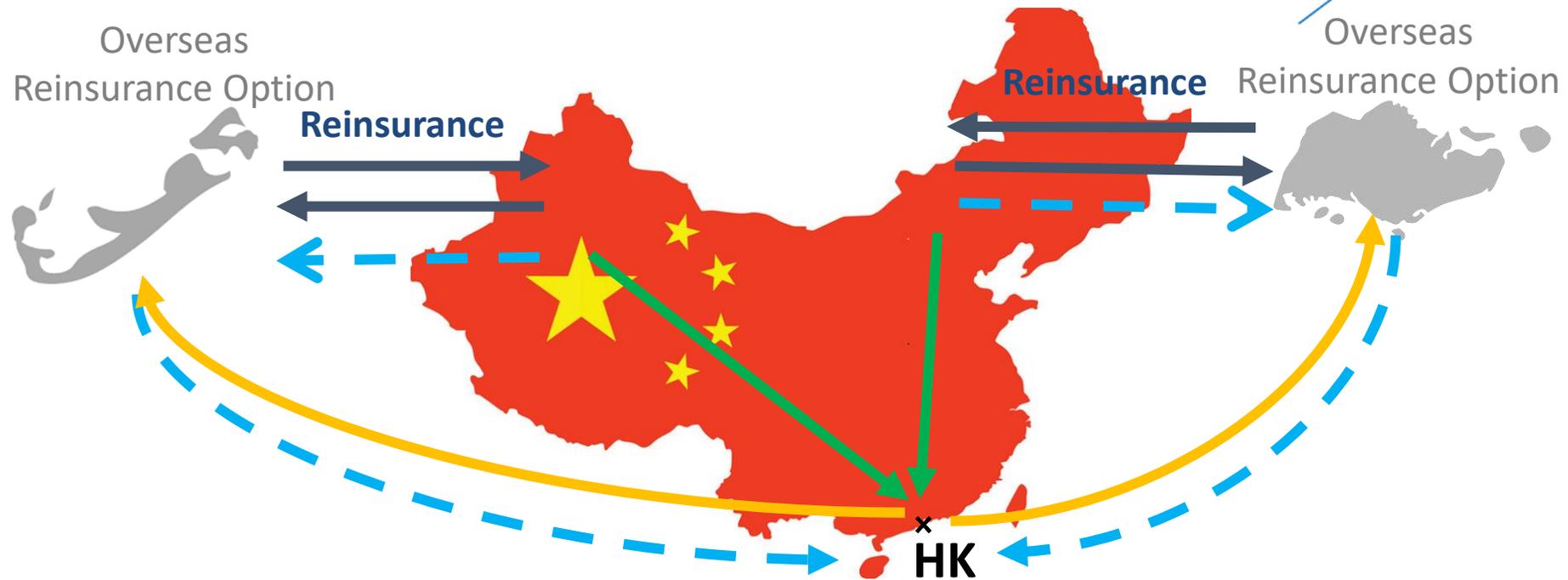
# Capturing Business Flow – Under Equivalence Assessment



→ Existing Business Flow

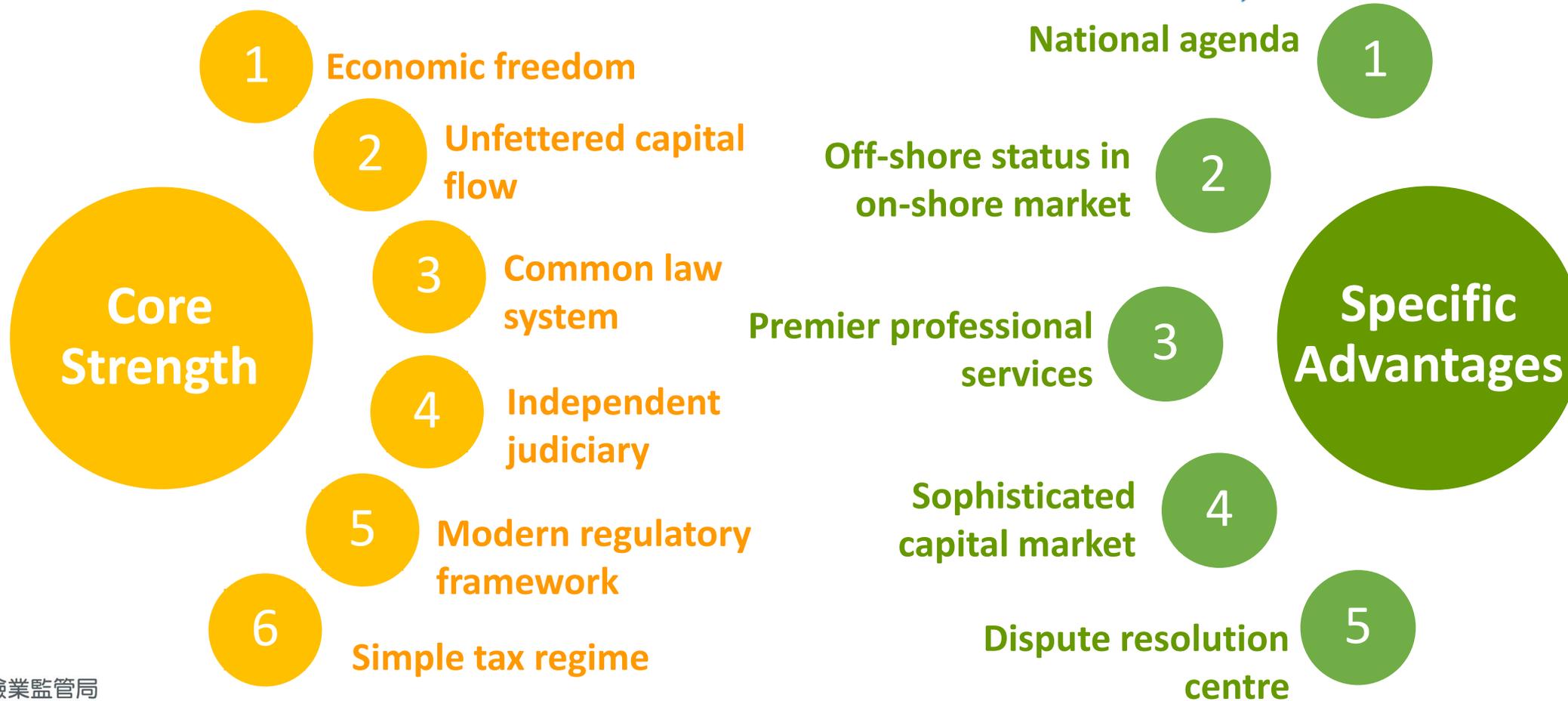
→ Under Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime

# Capturing Business Flow – with Captive



- Existing Business Flow
- Under Equivalence Assessment Framework Agreement on the Solvency Regulatory Regime
- Hong Kong as an Operating Base
- Future Business Flow

# Why Hong Kong ?



# Belt and Road Insurance Exchange Facilitation (“BRIEF”) platform

## Objectives:

- Provide a platform to promote exchange of intelligence, forge alliances and facilitate networking
- Establish Hong Kong as a global risk management centre and a regional insurance hub



# Belt and Road Insurance Exchange Facilitation (“BRIEF”) platform



保險交流促進平台  
Insurance Exchange Facilitation (BRIEF)



- Target members:
  - ✓ Enterprises engaging in BRI projects
  - ✓ Insurance-related companies
  - ✓ Professional service providers, e.g. legal, accounting, engineering, architectural and consulting firms
  - ✓ Others
- 29 members as of today
- [brief@ia.org.hk](mailto:brief@ia.org.hk)

# YES ! For the Hong Kong Insurance Industry

Right Time

Right Place

Right Support

**THANK YOU!**