

Keynote Address by
Mr John Leung, CEO, Insurance Authority
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*Recent Developments of the Hong Kong Insurance Industry
and the Insurance Authority*

Jonathan (Zhao^{*}), distinguished guests, ladies and gentlemen. Good morning.

I am most delighted to join you this morning at the Asian Insurance CFO Summit. Since 26th June last year, the Insurance Authority (IA) has taken over the statutory functions of the former Office of the Commissioner of Insurance. My colleagues and I have been working doubly hard to meet a number of challenges.

Internally, we are building up our strength through recruiting more staff and building a new organisational culture that embraces professionalism, passion, the drive to learn, caring and team spirit. We have already recruited some 50 new staff, many of whom with accountancy, actuarial, regulatory and compliance background. We will recruit over 80 new staff in the coming year to reinforce our workforce and perform new functions, such as licensing, investigation and disciplinary work arising from the new statutory licensing regime for insurance intermediaries.

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Regulatory Developments

On the regulatory front, our priorities are three-fold. First, we will be implementing the direct licensing regime for insurance intermediaries in place of the current indirect self-regulatory regime in mid-2019. A working group involving industry representatives has been set up to collate comments and inputs from the industry. We will launch industry and public consultation on over a dozen sets of rules, codes and guidelines by phases in the second half of this year.

Second, we are helping the Financial Services and the Treasury Bureau (FSTB) to prepare the enabling legislation for a new Policy Holders' Protection Scheme. We are engaging with industry stakeholders in ironing out a few outstanding issues. The Government aims to introduce the Bill into the Legislative Council (LegCo) in late 2018 or early 2019 legislative year.

Last but not least, we are developing the Risk-based Capital (RBC) regime earnestly. We have recently released a draft Guideline on Enterprise Risk Management (ERM) for industry consultation. Meanwhile, we are working closely with industry stakeholders to launch the second Quantitative Impact Study (QIS2) in the second half of this year. We aim to implement the new ERM Guideline and finalise the detailed RBC rules in 2020, introduce legislative amendments in 2020-21, and implement the rules gradually from 2021-22 onwards.

While the industry is busy preparing for the RBC regime, the implementation of IFRS 17 for insurance contracts in early 2021 which has been adopted by our accounting standards body, the Hong Kong Institute of Certified Public Accountants (HKICPA) as HKFRS 17, may pose more imminent challenges to our insurers and CFOs. The scale and pace of change that IFRS17 requires of

the industry has caused us to question if the length of time allocated for the transition is sufficient.

Specifically, our key concerns are three-fold:

- First, shortage of actuarial, finance and IT resources. In particular, due to the number of smaller insurers who do not have access to in-house actuarial resource in the market, we have seen high demand for external actuarial expertise.
- Second, delay in developing IT solutions. As far as we are aware, no IT implementation packages are available in the market yet. I have been told that complete IT solutions may only be available in late 2018 at the earliest. Such delay highlights the complexities of the IFRS 17 requirements of and the need to consider an extension to implementation.
- Third, overlapping initiatives. It would be logical for insurers to be able to finalise their systems in compliance with both the RBC regime and IFRS 17, rather than separately, as is currently likely to be the case.

Indeed I wrote to the HKICPA in October 2017 to reflect IA's concerns and proposed an extension to implementation for small and medium-sized insurers. Unfortunately, our proposal has not been accepted by the HKICPA.

Nevertheless, the HKICPA has established the Hong Kong Insurance Implementation Support Group ("HKIISG"), which is a forum for stakeholders to raise and discuss questions on and challenges in implementing HKFRS 17. The IA has joined the Group as an Observer. I would encourage industry representatives to participate more actively in the Group to raise your concrete concerns. I am pleased to see the business and finance impact of IFRS 17

featuring prominently in today's agenda and I look forward to hearing insights from experts in this area.

Market Development

In addition to the regulatory reforms, the IA has also taken up the important new role of facilitating the sustainable market development of the insurance industry and promoting the competitiveness of the insurance industry. It is our goal to strengthen the position of Hong Kong as a regional insurance hub and the IA will continue to work closely with our industry stakeholders to achieve this goal.

Hong Kong has all along been renowned in supplying all-rounded talents and excellent professional services. Our professionals can contribute to the Belt and Road Initiative that aspires to build infrastructure and connectivity projects that encourage trading and investment cooperation among China and the 60-plus countries along the Belt and Road. In particular, the Hong Kong insurance industry could make contributions through delivering our professional services to Mainland Chinese and other enterprises in risk management. As more Mainland enterprises are going global, our insurance industry, with its expertise in dynamic and sophisticated risk management, is ready to support them in identifying and managing their risks in overseas countries.

To assist our insurance industry to perform such role, the IA is planning to establish a platform in the coming months to facilitate Mainland enterprises to make insurance and reinsurance placements for their investments along the Belt and Road. Mainland State-owned Enterprises and other relevant project owners are exposed to different types of risks in their overseas investments. However, they may not have sufficient market information about the relevant insurance professionals and the services available. The proposed platform aims at lining up

all stakeholders together and forming a cluster of service providers in the value chain whereby insurance brokers, insurance and reinsurance companies, captive insurance companies and captive managers can map out their business needs through the platform. We aim to bring these key stakeholders together to be our partners and enhance collaboration in identifying insurance services and business and enabling knowledge sharing. We hope the proposed platform would connect the demand for and the supply of insurance services and serve as an integrated resource centre for the partners to share important business information.

The IA is partnering with the Hong Kong Trade Development Council to organize a session in the Belt and Road Summit to be held in Hong Kong on 28th June. It would provide a valuable opportunity for different stakeholders, including Mainland and overseas enterprises, specialty syndicates and relevant professionals, to build up their network. Through the formation of a cluster of interested parties, the risk management role of Hong Kong's insurance industry would be reinforced.

Meanwhile, our insurance industry has put forward the proposal of enabling Hong Kong insurance companies to set up service centres in the Greater Bay Area to serve Hong Kong policy holders residing in the area and Mainland clients who have bought Hong Kong insurance products. These service centres may provide claims processing and policy servicing to existing customers. The IA will further explore the feasibility of the proposal with the newly established China Banking and Insurance Regulatory Commission.

Insurtech

I notice that the development of Insurtech is also on today's agenda. According to a recent market report, the total value of global Insurtech funding reached US\$2.3 billion in 2017, representing a 32 percent increase over 2016. I am glad to see the progressive development of technological advanced solutions in Hong Kong's insurance industry. For example, our key industry body, the Hong Kong Federation of Insurers is developing an e-platform for motor insurance by adopting the Blockchain technology, and also a centralised Insurance Claims Fraud Prevention Database by employing advanced analytics to detect patterns of fraudulent insurance claims.

As you may be aware, the IA launched two new Insurtech-related initiatives last September. We introduced the Insurtech Sandbox as a means of encouraging insurance companies to be more innovative. The Sandbox provides a "safe space" in which insurers can experiment with new ideas in a controlled environment before making a formal market launch extensively.

We also launched the Fast Track which is a new dedicated queue for applications for authorisation of new insurers owning and operating solely digital distribution channels. The Fast Track would hopefully encourage insurance companies or technology firms to adopt innovative business models and set up dedicated digital insurance operations.

We have received a number of enquiries from insurers and technology start-ups in the past months. We expect that a few successful cases could reach the market in the latter half of this year.

Cybersecurity

In the era of Insurtech, the tremendous increase in digital connectivity results in an ever-rising level of insurers' exposure to cyber threat. Significant cyber events, such as cloud service disruption and mass software vulnerability, might lead to potential economic losses in terms of billions of US dollars. Apart from financial losses, major cyber breaches could cause severe reputational damages to the companies concerned.

The IA is developing a draft guideline on cybersecurity to promote more prudent cyber risk management and controls among insurers. We are setting up an expert panel involving IT experts from the Big Four and the academia to help us pursue this important task.

Tax Concession for Deferred Annuities

While Hong Kong is facing an aging population, there is a huge business potential for insurance companies to tap into this silver hair market. To hedge against longevity risk, Hong Kong people need to make financial planning for retirement. Annuity insurance is one of the favourable options.

The business size of annuity products is still relatively low compared with other life insurance lines. In order to encourage more working people to put aside retirement savings, the Hong Kong Government proposes to offer tax concessions on the contributions made to qualified deferred annuity products. The IA is developing a draft guideline, setting out the eligibility criteria for tax concessions. The relevant sales brochures would be subject to new disclosure requirements to

enable customers to make informed purchase decisions. We hope that legislative changes and the guideline can be finalised later this year.

Concluding Remark

Serving as the IA's CEO has been the most challenging and fascinating part of my 30 year+ career. I would love to continue sharing with you other pertinent issues, such as our project to nurture an agile and proactive IA culture. But as I have used up my time I think I should stop here. May I wish you all an insightful and rewarding Summit. Thank you very much.