

FT Asia Insurance Summit 2019
“Charting a course for growth”

Regulatory Keynote Speech by Mr Raymond Tam
Executive Director (Policy and Development) of Insurance Authority
9 October 2019

Ravi¹, distinguished guests, ladies and gentlemen,

Good morning. It is a great pleasure to join you all here at the Financial Times Asia Insurance Summit with the theme of *“Charting a course for growth”*. Given the volatile global economic and business environment today and the continued development of disruptive innovation, this is certainly a befitting topic for all of us to give some thoughts about the way forward for the insurance industry in the region.

Outlook for Insurers in Asia-Pacific

Indeed, there have been signs of slowing down in the growth of the Asian insurance sector. According to the latest statistics from Allianz Research, the growth in insurance premiums of Asia (excluding Japan) decreased from 10% in 2017 to 2.3% last year. The drop was mainly driven by the slowdown in the life insurance markets in China and South Korea, which together made up 40% of the total regional premium pool. Quoting from Capgemini, wealth of high net worth individuals in the Asia-Pacific region decreased by 4.8% last year, which was the first decline noted since 2008.

¹ Mr Ravi Mattu, Deputy Asia News Editor of the Financial Times and Chair of the Summit

This notwithstanding, it is encouraging that the Asian insurance market will likely continue to be strong, with emerging economies being the growth engines. According to the Insurance Market Outlook issued by Munich Re, emerging markets in Asia are still expected to have rapid growth till 2030. From now to 2030, the insurance premiums of Asia will expect an average annual growth rate of 7.0% and 7.6% for general insurance and life insurance respectively.

We can see insurers in the region are adopting various strategies, including to invest more in technology, to sustain growth and enhance productivity. As a regulator, the Insurance Authority (“IA”) has amongst its principal functions to promote general stability of the insurance industry of Hong Kong and to protect policy holders. Under these overarching functions, we also have the statutory missions to facilitate the sustainable market development and promote the competitiveness of the insurance industry of Hong Kong in the global market. Since the IA’s establishment two years ago, we have been endeavouring to fulfil our responsibilities on these fronts.

Enhancing market breadth and depth

In the light of keen global competition, we have been rolling out measures to enhance the breadth and depth of our insurance industry. For example, a 50% profits tax relief will be introduced to promote the development of marine insurance and the underwriting of specialty risks, such as catastrophic, trade credit and political risks. The ground-breaking launch of two tax-deductible products, namely the Voluntary Health Insurance Scheme and the Qualified Deferred Annuity Policy which have been very well-received by the public, not only energized the insurance market but also offered protection alternatives for our aging population and the underinsured.

We are also keen to facilitate the issuance of insurance-linked securities (“ILS”) in Hong Kong. Compared with the American and European markets, the ILS market in Asia is still relatively small. We are actively planning for legislative amendments to make Hong Kong a more conducive domicile for ILS, in particular catastrophe bonds. This will enable insurers to capture business opportunities and, more importantly, improve the capacity of our industry and in turn enhance its sustainable development.

Hong Kong as a regional insurance hub and global risk management centre

With a population of almost 70 million and GDP of US\$1.5 trillion, the development of the Guangdong-Hong Kong-Macao Greater Bay Area (“GBA”) will promote better financial connectivity as well as closer economic collaboration within the region. The Outline Development Plan for GBA announced by the State Council earlier this year suggested initiatives for the insurance industry, including the promotion of cross-border Renminbi reinsurance business, development of innovative cross-border motor and medical insurance products, as well as after-sale service for cross-border policy holders. These no doubt will open new horizons and gain new momentum for our insurance industry.

With strong technical expertise and world-class professional services, Hong Kong is well-positioned as a global risk management centre for China. In addition to development in GBA, the Belt and Road Initiative (“BRI”) also bolsters this role of ours. 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. In December last year, the IA established the Belt and Road Insurance Exchange Facilitation (also known as “BRIEF”) to provide a platform to promote the exchange of intelligence, foster

alliances and facilitate networking for capturing opportunities arising from BRI projects. The recent extension of preferential treatment to Hong Kong reinsurers by the China Banking and Insurance Regulatory Commission under the “C-ROSS” solvency regime for China further strengthened Hong Kong reinsurers’ competitiveness to participate in BRI projects.

Digitalization and innovation

Technology continues to have a growing impact on the insurance industry, and it is not surprising that digitalization and innovation are prominently featured in the programme today. Cyberport, which is the digital flagship of Hong Kong, currently counts over 370 Fintech start-ups, in which 33 are focused on Insurtech. In fact it is the fastest growing segment of Cyberport. Insurance companies are also seen to increase their spending in digitalization and automation.

As a regulator, 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, we encourage positive disruption to the insurance industry. While we consider that products offered through digital channels should be simple and contain high protection elements, we are also mindful that innovation should not be stifled by regulation. The two new initiatives rolled out by the IA, namely Fast Track for authorization of virtual insurers and Insurtech Sandbox for testing of new products or services, continued to be positively received by the market. We believe that the development of Insurtech will in turn promote insurance inclusiveness and facilitate the development of a more balanced market with more demand for protection-type insurance products. Consumers will also be empowered with more product choices and easier access, and provided with improved customer experience.

Second, we strive to foster a healthy ecosystem for Insurtech. The IA has been engaging in two-way communication with fellow financial regulators (such as the Hong Kong Monetary Authority and the Securities and Futures Commission) as well as the insurance industry to develop the appropriate infrastructure, with a view to supporting insurers and intermediaries and sustaining the growth of Insurtech in Hong Kong. For example, we are exploring with the industry about an open-API framework for the development of Insurtech applications. The industry also started to adopt big data analytics, artificial intelligence and block-chain technology to detect insurance fraud.

Finally, technology will help reduce the industry's compliance burden, in particular upon the implementation of the Risk-based Capital solvency regime expected to be in place in 2022 under which more comprehensive and granular data will be collected from insurers. Upon taking over the functions of licensing and direct regulation from the Self-Regulatory Organisations last month, the IA has also been digitalizing the relevant procedures to facilitate insurance intermediaries.

On the regulatory front, as part of our effort to mitigate risks arising from Insurtech development, the IA issued a new Guideline on Cybersecurity earlier this year. Drawing reference from the Group of Seven's Fundamental Elements on Cybersecurity for the Financial Sector, the guideline provides insurers with guiding principles for developing their cybersecurity framework.

Conclusion

Looking ahead, despite the challenges and uncertainties amidst the global economic situation, the evolving Asian insurance market is still full of opportunities for growth. In the upcoming sessions today, I am sure the expert speakers will shed light on how

market players can chart the best course and on this note, I wish you all a successful and very rewarding Summit.

Thank you very much.