

Prevenue Dinner of InsuranceCom Asia 2016
7 November 2016

Speech by Dr Moses Cheng, Chairman, Insurance Authority

Consul General Mr Renggli, Mr Schaefer, My friends, Ladies and Gentlemen,
good evening!

1. I am delighted to join you all for the prevenue dinner of this year's InsuranceCom Asia Senior Management Conference. I have to thank Mr Schaefer for kindly offering me this opportunity to meet with a dynamic group of insurers and digital start-ups to explore the future of the insurance industry.
2. It is not the first time InsuranceCom has chosen Hong Kong as the venue for its Asia conferences. Hong Kong's position as a regional insurance hub is well accepted. Last month, the International Union of Marine Insurance set up a new Asian hub in Hong Kong. It is the first time in the Union's 142 year history to establish a permanent presence outside of Europe. The Union's choice of Hong Kong exemplifies Hong Kong's unique role as a superconnector in the Asia Pacific Region.
3. The theme of the conference this year is "Transformation through innovation and leadership": a very timely choice indeed in my view. To excel in the business, good governance is one thing and innovation is another. In this era, innovation always goes hand in hand with technology.

4. We all know that Fintech will revolutionise the insurance business model. Since last year or so, professionals in the insurance industry have been using the term “Insurtech” which better reflects how technology facilitates the creation of greater value.
5. The Financial Times last month carried an article listing 10 promising Insurtech start-ups. For example, a start-up called “Cyence” is developing a system that could help both insurers and potential clients to assess cyber risks in monetary terms. Another start-up called SPIXII is developing a software that allows insurers, brokers and price comparison websites to talk to customers via Facebook Messenger and Skype.
6. I notice that embracing Fintech has been firmly marked on your action agenda. But it is not uncommon that insurers do find it baffling when it comes to the question of where and how to start. This is easily understandable as we are not talking about the traditional functions of senior insurance executives in refining actuarial models, designing new products or finding more profitable investment channels. Rather, insurers need to explore the unexplored. To complicate the matter further, there are difficulties in assessing the resource implications for the adoption of Fintech or whether certain Fintech initiatives could comply with relevant regulatory requirements.
7. In order to answer the question of where and how to start, it would be wise to start with looking at the new roles of the key players - insurers, Fintech companies and the regulator, and how they could collaborate to achieve our

goal to embrace Fintech.

8. To start with, insurers are central to the development of Fintech. In a recent report published by a consulting firm¹ which surveyed 79 executives from insurers worldwide, it is revealed that 90% of insurers fear losing at least part of their business to standalone Fintech companies. Part of this stems from increased investment in new technologies that are disrupting the legacy insurance industry. According to this consulting firm, annual investment in Insurtech start-ups has increased fivefold over the past three years, and the cumulative funding since 2010 has hit US\$3.4 billion. In my opinion, the worries of insurers are understandable but we should avoid undue fear as it is never a zero-sum game. Instead of creating winners and losers, Fintech can create the potential for new cost savings or growth opportunities for the whole industry.

9. Afterall, we are still talking about insurance business. Insurers have a key role to play because they know best about their insurance business, they are experts in all core insurance functions including product development, underwriting and claims management. On client relations, insurers are best positioned to understand clients' expectations. They also enjoy brand loyalty from their customers.

10. Fintech does not simply mean digitalisation. I believe Fintech should mean something more – something that should aim at making the insurance business “smarter”. I fully appreciate that many emerging Fintech

¹ Opportunities await: How InsurTech is reshaping insurance, Global FinTech Survey June 2016, PwC.

applications, such as those making use of mobile sensing technologies to adjust premiums calculations, are along that line of thinking. But I venture to say that there could be more unexplored potential of Fintech application. This is where Fintech companies could kick in.

11. As the second key player in the Fintech drive, Fintech companies could offer not only technological solutions to predefined problems, but also advice from a new perspective to uncover blind spots. On this note, I understand that the Office of the Commissioner of Insurance is assisting insurers to reach out to potential Fintech partners through establishing closer relations with major Fintech clusters such as the Hong Kong Science and Technology Park and Cyberport. InvestHK, the Government agency set up to attract foreign direct investment, has established a dedicated Fintech team to assist start-ups, investors and R&D institutions in establishing a presence and expanding in the city. InvestHK will also organise international events to promote Hong Kong's Fintech ecology including the first Hong Kong Fintech Week which will be held in early November as part of a new drive to position the city as the premier centre in Asia for Fintech companies and start-ups looking to grow their business as well as for accelerators, incubators and investors searching for Fintech innovation.

12. Finally, as the regulator, our primary role of course is to ensure that the adoption of Fintech will not compromise the stability of the financial system and policyholder protection. When embracing Fintech, I believe the Authority must be mindful of the following principles –

- (i) regulation should be activity-based to maintain a level playing field;
- (ii) promoting innovation does not mean compromising policyholder protection;
- (iii) although innovative technology is often proprietary, encouraging industry collaboration in technology development and application may bring synergy and maximize the benefits to the industry and policyholders;
- (iv) striking the right balance between facilitating technological innovation and personal privacy protection; and
- (v) finally encouraging the industry and policyholders to understand and take proper measures to reduce cyber risks.

13. Ladies and gentlemen, the future of Fintech and its impact on the insurance industry is not readily known at the moment. Fintech may bring about a paradigm shift in its business model as well as the regulatory approach. And technology is just one of the drivers that are reshaping the insurance industry. The Authority is eager to listen and learn from experts from the industry and other sectors on what the future holds for the insurance industry and how the regulatory regime should be responding. That is why the Authority will soon set up a Future Task Force to examine what are the changes facing the industry and how we should be managing such changes.

Lester Thurow, the former dean of MIT Sloan School of Management said,
“A competitive world offers two possibilities. You can lose. Or, if you want to win, you can change.”

14. In this fast moving landscape, we see our role as central to fostering a dynamic, diversified and sustainable market by working together with the industry, and developing a shared understanding of what we are trying to achieve, which will ultimately build confidence amongst policyholders. In the course of it, your participation and support is indispensable. The authority is looking forward to working closely with all of you – insurers, Fintech companies and all other stakeholders, in shaping a brighter and more prosperous future for the insurance industry in Hong Kong.
15. I wish everyone of you an enjoyable evening tonight and a fruitful conference tomorrow.
16. Thank you very much.