

Business Ethics Forum 2016
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Speech by Dr Moses Cheng, Chairman, Insurance Authority

John (Maguire), Distinguished Guests, Colleagues & Friends, Ladies and Gentlemen, Good Afternoon !

1. I am delighted to join you all at this Business Ethics Forum. I would like to congratulate The Hong Kong Securities and Investment Institute in the choice of the theme for this year's Forum: Ethics in Action: Empowering Business Through Financial Innovation. Fintech is undoubtedly the most popular topic for discussion at conferences and symposiums in 2016. I am indeed honoured to have the opportunity to share with you some of my observations on this topic from the perspective of the insurance industry.

2. Fintech is not just a topic for us to talk about, it is actually happening in the insurance industry. Let me ask how many of you have heard of Zhong An Insurance (眾安保險)? Ping An, Tencent and Alibaba joined forces in 2013 to launch Zhong An, China's first truly digital and on-line insurer. It has underwritten over 630 million policies in its first year of its operation. Zhong An's business model exemplifies how big data and analytics can lower operation costs through accurate product design, product pricing and risk control. All these crystallise into insurance products that better meet the needs of clients at a lower price and a more efficient claim process. In the UK and US, there are technological applications to help detection of

insurance frauds, quantify cyber risks in monetary terms, and facilitate matching of clients and insurers. Even in Hong Kong, we have seen the pioneering efforts of some insurers in introducing products for the on-line market. All these happenings are telling us in no uncertain terms that we must be ready to embrace innovations and technology in the financial sector.

3. Fintech is meaningful not because of the mere application of technologies. It is only meaningful when it adds value to clients in general. No matter what and how technology is used to deliver financial services, clients must be treated fairly. And treating clients fairly can only come as a result of good business ethics, online or offline.
4. When you come to think about it, ethical issues concerning the application of Fintech are of greater relevance in the insurance industry than in other financial services. When you open a bank account or securities trading account, take out a mortgage loan, trade securities or forex online or offline, you only need to reveal personal particulars to satisfy the KYC (Know Your Client) requirements. But when you are buying insurance or making claims, you need to reveal much more details about yourself and others in addition to the KYC requirements.
5. Let me try to illustrate with this example, it must be the case that before David Beckham got his \$195 million insurance coverage for his legs in 2006, he had to tell his insurer a lot about his physical conditions, training routine and different aspects of his private life. And when he renews his insurance now, he may have to tell the insurer how many times he will be accompanying his

wife Victoria to visit her boutique in Hong Kong in a year for a better risk assessment.

6. Even if we are not celebrities insuring our body parts, we need to tell insurers a lot about ourselves. You need to state whether you smoke or not, and who is the beneficiary when taking out a life policy. You may need to undergo a body check and let the insurer have your clean bill of health before you get a life insurance. You need to tell your insurer your health conditions including pre-existing illnesses when taking out a medical insurance. You need to tell your insurer whether you will ski or participate in other high risk activities when taking out an appropriate travel insurance. It is all due to the principle of utmost good faith in insurance law. If the insured fails to disclose information according to the utmost good faith principle, he risks having his insurance contract void or his claim rejected.
7. So, a bank client may only suffer monetary loss from a data breach. But a data breach in an insurance operation could mean leakage of much more sensitive personal information, causing tremendous embarrassment or harm to the client. Ethical treatment of personal data will remain very important, if not becoming more important, when insurance business is moving more to the digital arena in which data breach could be very extensive and leakage could spread at lightning speed.
8. In insurance, many ethical issues are about the conduct of intermediaries. Unlike making a bank deposit, a client often needs the advice of an insurance agent or broker when taking out an insurance policy or making a claim. And

promoting good business practice of insurance intermediaries is at the center of conduct regulation. In the business model of Zhong An or other Fintech start-ups, the clients often get a tailor-made SOLUTION rather than advice. And technology could replace intermediaries sooner than we can imagine. Through voice recognition technology, a client may just “tell” an online portal or an app on a mobile phone the required information. And then, within tens of seconds, he gets what ought to be the best insurance for him according to the pre-set algorithm.

9. On the one hand, with better risk analysis and by getting rid of insurance intermediaries, Fintech may lower the distribution and cost of insurers and the client may get a lower-priced insurance policy. On the other hand, what if the algorithm is not ethically set but is designed to over-charge the policyholders. Data analytics is a double-edged sword. It could make insurance pricing more transparent or opaque. Also, what if a client makes a mistake in disclosing his information inadvertently when applying for insurance 100% digitally, will it be tantamount to failing the utmost good faith test? There could be no intermediary around to serve as a witness in the disclosure process. On-line behaviour tends to be impulsive and instantaneous. Without an intermediary giving advice or reminders, will a client just rush through the data input process to get an insurance as quickly as possible without understanding at least the most important features of an insurance policy? We are not talking speculative on-line day trading activities. We are talking about insurance protection against risks. And it is too late to regret you haven't got the adequate insurance cover after something untoward has happened. In handling claims, insurers sometimes

compensate the client on compassionate grounds, exceeding contractual obligations. If a digital claim process is purely based on big data analytics, will there be room for human factor in the formula? How to teach algorithm to be ethical, not just logical? These are the issues that we may have to ponder on if Artificial Intelligence is not yet ready to give us a solution.

10. As always, there are many unknowns in the process of technological development. We need timely regulatory responses to embrace technology and harness technology to minimise its risks and maximize its value. At the same time, key regulatory principles should not be compromised due to technological development. In the Insurance Core Principles published by the International Association of Insurance Supervisors (IAIS), it is stated that “the principles of transparency and disclosure applied to internet insurance activities are equivalent to those applied to insurance activities through traditional means.”
11. IAIS is considering the creation of a working group to analyse Fintech development and its impact on insurance regulation. The Insurance Authority has also established a Future Task Force to explore how Fintech will shape the insurance industry in Hong Kong. At the international level, I will be eager to keep in view the IAIS’s analysis. At the local level, I am keen on learning from members of the Future Task Force.
12. In closing, I would like to share with you a few principles in embracing technology from the regulatory perspective –

- i. regulation should be activity-based to maintain a level playing field;
 - ii. promoting innovation does not mean compromising policyholders' 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. Of course, such collaboration must not be seen as anti-competition by the Competition Commission;
 - iv. striking the right balance between facilitating technological innovation and personal privacy protection; and
 - v. encouraging the industry and policyholders to understand and take proper measures to reduce and manage cyber risks.
13. Ladies & Gentlemen, I am optimistic that Fintech will bring us new, ethical and trustworthy insurance services. One day in the not too distant future, we may see Victoria Beckham renewing her insurance policies with Zhong An or a digital insurer in Hong Kong via mobile app after inspecting the window display of her boutique at the Landmark. Thank you very much.