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Development Roadmap for the Insurance Sector in Hong Kong

This document is published by the Financial Services and the Treasury Bureau ("FSTB") to set out a development roadmap for the insurance sector in Hong Kong.

Introduction

2. Insurance plays a distinctive and significant role in our financial markets, as it helps shield people and businesses from unexpected perils. Effective pooling and mitigation of risks improve lifestyle planning, provide backing against uncertainties and encourage investments, conferring benefits to society and economic development. Aftermath of the pandemic and elevating geo-political tensions have prompted market participants around the globe to assess risks in a different light and reprioritise them on their agenda.

3. As our country progresses towards the path of sustainable, equitable and quality development, national strategies such as the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA") development and the Belt and Road ("B&R") Initiative present strong impetus to grow our insurance sector. With over 160 insurers operating in Hong Kong (12 of which are the world's top 20) generating over HK$580 billion of gross premiums[1], the insurance sector is in good stead to take part in the "Dual Circulation" strategy as both a "promotor" and a "facilitator". It is therefore timely to publish this roadmap so that the Government, Insurance Authority ("IA") and industry stakeholders can work together and propel our insurance sector to new heights.

[1] Total gross premiums for 2021.

Visions and missions

4. The visions and missions of the Government for developing the Hong Kong insurance sector are outlined below -

(a) to sharpen our competitive edge as a global risk management centre, and boost the synergies between different financial sectors to provide holistic risk and wealth management solutions facing a global clientele;

(b) to enlarge the market accessible by our insurance sector through proactive policy initiatives and facilitative legislation;

(c) to achieve balanced development of long term and general businesses, strengthening Hong Kong as a sophisticated insurance hub;

(d) to leverage on our unique advantages under the "One Country, Two Systems" principle and integrate the insurance sector into national development riding on the "Dual Circulation" strategy; and

(e) to give full play to the distinctive role of insurance in providing comprehensive risk management and mitigation solutions to all members of the public, thereby unleashing its social value.

"Dual Circulation" strategy – domestic circulation

5. The GBA is an ideal entry point for Hong Kong to participate as a "promotor" of domestic circulation under the "Dual Circulation" strategy, enlarging the market accessible by our insurance sector. For instance, cross-boundary insurance products tailored for entrepreneurs who shuttle frequently between 11 cities in the GBA will speed up the mobility of production factors like people, goods, capital, and data that results in common prosperity. We are striving to set up after-sales service centres in

locations such as Nansha and Qianhai so that those who are holding insurance policies issued in Hong Kong could obtain a suite of support. Reference will also be drawn from the outcome of existing mutual access programmes to explore feasible ways of connecting insurance markets in the Mainland and Hong Kong.

<u>"Dual Circulation" strategy – international circulation</u>

6. Launching of an enhanced legislative framework in March 2021 and the subsequent designation of three insurance groups has put Hong Kong at the forefront of group-wide supervision. To be a "facilitator" of international circulation, we should do our utmost to convince insurance groups that Hong Kong is the location of choice for their headquarters. Also, qualified insurance groups with fundraising needs are welcome to seek listing in Hong Kong. With support from the China Securities Regulatory Commission, in the future international insurance groups that are primary listed in Hong Kong may be eligible for trading under the Southbound Stock Connect, plugging them into a much wider investor base. Moreover, an impressive array of insurers, reinsurers and advisers makes us the perfect captive domicile for state-owned enterprises interested in managing the risk exposures of overseas projects, especially those arising from B&R countries. The Government stands ready to assist as part of our wider campaign on "competing for enterprises".

7. Review and refinement of our supervisory regime by benchmarking against prevailing international standards is vital in ensuring that our insurance sector could connect the Mainland with the rest of the world. We are on track to implement in 2024 a risk-based capital regime that comprises the three pillars of quantitative assessment, corporate governance, and disclosure to align capital requirements with the risk profile and asset-liability matching of insurers.

<u>Consolidating our risk management capabilities</u>

8. We are keen to achieve balanced development of the insurance sector as an integral part of our offerings as a global risk management centre. Given that Hong

Kong is playing host to nine out of the world's top 10 general insurers, we will build on this foundation and reinvigorate the ecosystem, with a view to transforming Hong Kong into a sophisticated insurance hub. In this regard, Catastrophe bond is the most prevalent form of insurance-linked securities ("ILS") that functions as a vehicle to transfer underwriting risks to the capital market. A streamlined regulatory regime conceived by the IA, reinforced by a pilot grant scheme of the Government, has led to two ILS issuances since mid-2021. We will strive to increase the number and enrich the variety of such issuances in future.

9. When suitably deployed, tax concession is a powerful tool to attract inward investments and build the critical mass for a sustainable market. The profits tax rate for all general reinsurance business and selected general insurance business of direct insurers, as well as for selected insurance brokerage business has been cut by half since March 2021, targeted at Mainland and foreign enterprises undertaking large-scale infrastructure projects. A similar 50% reduction of profits tax rate is also available for captive insurers, and we will lobby for Mainland conglomerates to consolidate intra-group risk discovery and management in Hong Kong by setting up such units.

Unleashing the social value of insurance

10. The social value of insurance is best illustrated by the scope and extent of safeguard accorded to policyholders, which in turn has bearing on financial inclusion defined as access to appropriate, affordable, and timely insurance products. For this reason, the Government, IA, and the insurance sector unveiled the tax-deductible Qualified Deferred Annuity Policies ("QDAP") in 2019. At present, there are over 230,000 in-force QDAP policies with annualised average premium per policy at around HK$71,000, and average policy holder's age is at 47 years old[2]. The momentum has been maintained by the Protection Linked Plan ("PLP") with simple product structure, reasonable mortality protection, and transparent fees that allows

[2] As of end-October 2022.

policyholders to acquire mutual funds (including Environmental, Social and Governance funds) authorised by the Securities and Futures Commission. We will continue to work with the IA on ideas to narrow the protection gap in Hong Kong.

11. Another notable initiative is to put in place a policyholders' protection scheme that serves as the safety net for most insurance policies affecting individuals as well as small and medium enterprises if an insurer becomes insolvent. A public consultation exercise for this purpose will be commenced within 2022.

New Opportunities ahead

12. Fintech is disrupting the way financial services are planned, promoted and tendered, and insurance is no exception. With over 800 Fintech companies thriving in Hong Kong, many of them being small start-ups, the Government is determined to intensify cross-sector collaboration. Two rounds of Fintech Proof-of-Concept Subsidy Scheme have already been launched, and we urge insurance companies and Insurtech start-ups to make better use of this scheme.

13. The IA has taken deliberated steps to inject additional impetus by granting new authorisation to four virtual insurers and facilitating remote onboarding of and interaction with customers during the pandemic. The outcome is overwhelming as around 80% of insurers are now deploying digital platforms for client acquisition and servicing, and 12% of employees in the insurance sector are engaged in tech-related areas. Looking ahead, the widened ambit of the Insurtech Sandbox and advent of the Open-API framework will accelerate the pace of transformation.

14. The impact of climate change is clear and it presents dangers to mankind, yet the insurance sector could cope with the risks and harness the opportunities involved. Examples on these include exploring differential underwriting to inducing adoption of planet-friendly practices, adopting progressive impact investment mandates, adhering to emerging carbon disclosure requirements, and churning out innovative products underpinned by green assets.

Conclusions

15. Our visions and missions to develop the insurance sector must be supported by the following enablers:

(a) **Connectivity:** connectivity with markets in the Mainland and rest of the world is the key to a trove of exciting prospects. The legislative frameworks and regulatory regimes should be constantly refined to convince insurance groups to deepen their anchorage in Hong Kong, especially via participation in development of GBA that contributes to the "Dual Circulation" strategy while creating local employment opportunities;

(b) **Talent:** prime attention should be placed on attracting seasoned professionals from abroad and nurturing local talents so as to provide the lifeblood for future expansion. Initiatives like the Financial Practitioners FinTech Training Programme are the frontrunners in this regard. Also, the Government will step up efforts to bring in bright minds from the Mainland and overseas through the coordination of a newly established Talents Service Unit as well as enhancements to existing talent admission schemes. For instance, we are engaging with industry stakeholders to update the Talent List to better reflect manpower needs in specialty insurance;

(c) **Technology:** Fintech is capable of reshaping the delivery of insurance services, spanning across the whole value chain of client acquisition, onboarding, advisory and servicing. The Government will lose no effort in spurring collaboration between start-ups and insurance companies to usher in an improved ecosystem; and

(d) **Data:** data is a valuable asset as it facilitates risk assessment, modelling, and product design. Apart from ensuring and enhancing data accessibility and reliability, the IA will work with industry stakeholders to identify new sources, e.g. a mortality table for GBA to refine cross-boundary medical coverages.

16. The Government will work closely with the IA, market participants and industry stakeholders to realise this roadmap, propelling the insurance sector to new heights for greater social benefits and further contributions to the development of Hong Kong and our country.

5 December 2022

Financial Services and the Treasury Bureau
The Government of the Hong Kong Special Administrative Region

Ends