

29th Pacific Insurance Conference
“Challenge Everything: Asia’s Journey to Success”
18 November 2019

Welcome Keynote by Mr Clement Cheung
Chief Executive Officer of the Insurance Authority

Gary¹, Guy², distinguished guests, ladies and gentlemen,

I feel honoured to take part in the 29th Pacific Insurance Conference and would like to start by giving you a warm welcome. Although this is not the perfect time to visit Hong Kong, we do hope that by being here in person, you would appreciate that despite social events widely reported by the media, our financial system is functioning normally and effectively.

You have made a smart choice by picking “Challenge Everything: Asia’s Journey to Success” as the theme of this conference. Everybody knows that Asia promises to be an engine of growth for the world economy in the decades to come but few, including myself, could claim to know it well. Asia is vast and diverse - it covers 45 million square kilometres or 30% of total land area on this planet, and is the home to 4.5 billion people or roughly 60% of the global population. There are 48 nations with different cultural backgrounds, religious beliefs and states of development. As a local guy born and raised here, even I have not set foot on more than 10 Asian countries, let alone

¹ Mr Gary Comerford, Chairman, PIC Advisory Council

² Mr Guy Mills, Chief Executive Officer, Manulife (International) Limited

advising on their business potential. So how does one go about exploring this region?

My suggestion is to look for a base camp which is within comfortable reach of all major markets, where you could muster a pool of talents with the right knowledge and expertise, where you enjoy freedom of information and capital flow, where you operate under a sound legal system and an independent judiciary, and where you pay low and simple taxes. If it is still not obvious that Hong Kong is the right place to be, wait until I finish telling you a story about what the Insurance Authority (“IA”), a start-up that came into being two years ago as an independent regulator, is striving to pursue for an exciting and sustainable future.

With concerted effort of slightly less than 300 colleagues, a great deal has been achieved. Only two months ago in September, we migrated smoothly from a self-regulatory scheme of 120 000 insurance intermediaries to a statutory scheme operating directly by the IA. It involves promulgation or revamping of 13 rules, codes and guidelines; installation of a computer system that automates licence application and renewal; provision of public access to an online register of licensees; and introduction of a disciplinary mechanism that provides ample chances to be heard by both the complainant and the regulated person. At the same time, four trials conducted using Insurtech Sandbox have been successfully rolled out and two virtual insurers have received authorization. In a market where 97% of long term policies are sold through agents or brokers, this is a big step that will elevate professionalism and ensure that customers are treated fairly.

Other notable reforms in the pipeline include the Risk-based Capital Regime which is undergoing final field testing, a group-wide supervision framework, legal provisions governing special purpose vehicles set up for the sole purpose of issuing insurance-linked securities, enlarged scope of business capable of being underwritten by captives, granting of tax concession for marine and specialty insurance, establishment of the Policy Holders' Protection Scheme, and there are more.

Why does the IA pursue these reforms? Although Hong Kong boasts impressive insurance penetration rate and density, it suffers from protection gap and structural imbalance. Driven by mainstream demands, the long term sector is dominated by products with savings or investment features. This could result in accumulating concentration risk, poor resilience under stressful conditions, failure to address societal needs and lack of impetus for growth. We must therefore seek to expand the product mix to satisfy protection needs of an individual throughout his/her lifetime and strengthen the status of Hong Kong as a preferred headquarters for insurance groups. Resounding success of the Qualifying Deferred Annuity Policy and Voluntary Health Insurance Scheme as well as our recent appointment as the group-wide supervisor of Prudential plc after its demerger are fine examples of what could be done. On the general sector, we should place dual emphasis on tackling recurring losses of the statutory compulsory lines and opening up new frontiers that play to the core competence of Hong Kong. A gradual return to profitability for Employees' Compensation insurance and an upward adjustment of rates for Motor Vehicle insurance are signs of progress. Active participation of Mainland authorities in our efforts to encourage state-owned

enterprises to set up captives in Hong Kong also bodes well for a breakthrough.

Furthermore, a common thread that runs across the two grand visions of Belt and Road Initiative (“BRI”) and Greater Bay Area (“GBA”) is connectivity - the ease of movement for goods, people, capital and information. Under “one country two systems”, Hong Kong is ideally placed to contribute towards building up external connectivity associated with BRI given its international outreach, and internal connectivity related to GBA given its cultural affinity and geographical advantage. Friends and colleagues, the IA is looking forward to forging a trustful partnership with you for the betterment of the community in Hong Kong.

Before closing, it will be remiss of me not to report on the International Association of Insurance Supervisors Annual General Meeting that took place in Abu Dhabi last week. In summary, agreement has been reached on the Common Framework that serves as an effective tool for consistent supervision of Internationally Active Insurance Groups (“IAIGs”), commencement of a five-year monitoring period for the Insurance Capital Standard that aims at creating a common language for supervisory college discussions on group solvency of IAIGs, and introduction of the Holistic Framework that entails a global monitoring exercise comprising individual insurer monitoring, sector-wide monitoring, collective discussion and robust implementation assessment.

These outcomes were arrived at after long, tough and sometimes frustrating negotiations that went late into the evening. To borrow your theme for this

conference, this is a “journey to success” that reflects wisdom, determination, perseverance and accommodation by all parties.

On this note, let me conclude my speech with an inspiring quote from Winston Churchill “Success is not final; failure is not fatal: it is the courage to continue that counts”.

I wish you a rewarding and fruitful discussion.