

Opening Keynote Address at Financial Times Asia Insurance Summit

**“Digitisation, Dynamism and Demand:
Embedding Resilience across the Region”**

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Oliver (Oliver Ralph, FT Insurance Correspondent), distinguished guests, ladies and gentlemen,

Good Morning. I am most delighted to join you here this morning at the Financial Times Asia Insurance Summit. This is the third time I address the Summit but my position has changed from the Commissioner of Insurance, a civil service post, to the CEO of a new, independent statutory body, the Insurance Authority (IA). As the CEO, I am responsible for the transition to a modernised insurance regulatory regime in line with international standards.

The IA has widened its regulatory oversight over insurance companies and will directly supervise insurance intermediaries by mid-2019. We aim to provide policy holders with better and more comprehensive protection while promoting the prudential stability of the industry.

Under my tenure, the IA will treasure and uphold a number of core values, what we call “ABCDE”, namely “Agile and Accountable, Building Trust, Collaboration, Driving Change and Embracing Innovation”. We look forward to working closely with the industry and other stakeholders, both in and outside Hong Kong, to achieve our new mission of facilitating the

sustainable development of the industry and promoting Hong Kong's competitiveness as a global insurance hub.

As an agile regulator, we are indeed embracing the three "Ds" of today's theme, i.e. Digitisation, Dynamism and Demand, to promote the development of the insurance industry in Hong Kong.

Digitisation

First on Digitisation, the IA has recently introduced two new initiatives to promote the development of Insurtech and digitisation in Hong Kong, namely, the Insurtech Sandbox and the Fast Track for applications for authorisation of new insurers owning and operating solely digital distribution channels.

The Sandbox is designed to create a "safe space" in which insurers and their technology partners can experiment their new ideas using innovative technology, under our oversight and with our support. Under the Insurtech Sandbox, customer protection is also a very important consideration. Protection measures may include appropriate withdrawal arrangements from the trial for customers, such as refund of premiums. Also, the insurer concerned should have an exit strategy for the pilot run if it is terminated for various reasons.

While each of Hong Kong's financial regulator, namely the Hong Kong Monetary Authority, the Securities and Futures Commission and the IA, each has its own Fintech sandbox, the three regulators would collaborate closely when it comes to cross-sector Fintech development. If a firm

intends to conduct a pilot trial of a cross-sector Fintech product, it may apply to the regulator it considers most relevant. The regulator would then act as the primary point of contact and assist in liaising with the other regulators, to enable the firm to access the sandboxes concurrently.

While insurers can use the Sandbox to test their Insurtech initiatives before launching them into the market, the IA can also make use of Sandbox inputs to refine its supervisory requirements, taking into account the latest technological applications in the industry.

Another important initiative of the IA is the pilot scheme of the Fast Track. It provides a dedicated queue for new authorisation applications from applicants which own and operate solely digital distribution channels. We expect that applicants under the Fast Track should have an innovative and robust business model using digital distribution to bring benefits to the consumers.

While these two initiatives were just launched less than three weeks ago, we have already received very positive responses from interested market players. To complement these initiatives, we have also strengthened our Insurtech Facilitation Team and the Working Group on Embracing Fintech under the IA's Future Task Force to enhance the communication with the Fintech community and the industry and to serve as a platform for exchanging innovative ideas among key stakeholders.

Dynamism

The speed at which the IA rolled out new initiatives to facilitate Insurtech

and digitisation demonstrated our determination to stay agile and dynamic in responding to evolving market needs. Being independent of the Government gives us the operational flexibility we need to adopt a more nimble regulatory approach to benefit the industry and policy holders.

To become a dynamic organisation, we need to start from within -- building a performance-driven culture that is founded on the core values “ABCDE” I mentioned earlier. To help our staff respond more efficiently to the ever changing market and carrying out our statutory functions more effectively, we’re working very hard to enhance the breadth and depth of their technical know-how and broaden their exposure. On this front, we are formulating a Staff Training and Development Strategy with new emphases on promoting a risk-based regulatory approach, fostering innovation and developing resilience, and understanding the latest developments in the market.

With high staff morale and strong team spirit, my colleagues and I are ready to face the challenge of developing a new regulatory regime for insurance intermediaries under a very tight timeframe in the next 20 months, and in close collaboration with industry practitioners and other stakeholders.

Demand

Last but not least, let me briefly touch on the demand side of Hong Kong’s insurance industry. Demand may be seen from two different but related perspectives, namely, the quality and quantity aspects of insurance services.

The quality of service issues are being addressed by Insurtech and

digitisation, e.g. easier access to insurance products, easier claim process, lower premiums, more personalised insurance solutions and better value-added services, such as health and fitness monitoring and roadside assistance.

The IA also plays a key part in quality assurance as we are taking up an enhanced conduct regulatory role. We are working on some 20 sets of rules, codes and guidelines for regulating the conduct and professional standards of intermediaries. The complaints handling, investigation and disciplinary functions will also be strengthened. The new regime will enhance the confidence of the insuring public in the service quality of intermediaries.

On the quantity side, i.e. demand for new insurance services, Hong Kong remains a fast-growing insurance market especially in life insurance business. For example, in 2016, the total gross premiums increased by over 20% while the growth rate in the first half of 2017 was 14% over the corresponding period in 2016. While the increase may be partly explained by the increase in Mainland visitors buying insurance policies in Hong Kong, there are also rising domestic demands for retirement savings insurance and medical insurance.

With Hong Kong moving rapidly towards an aging society, there are ample business opportunities for the insurance industry in the coming years. Persons aged 65 and above accounted for about 16% of the total population in 2016. In 25 years' time, i.e. by 2041, we expect that 30% of the population will be aged 65 or above. With the life expectancy of Hong

Kong people becoming the longest in the world, the “silver hair population” will create vast demand for retirement protection financial products and healthcare services.

Amongst various retirement savings products, annuities can provide regular income stream to the annuitants. While annuity products, especially life annuity products, are attractive to retirees, the longevity risk presents a great challenge to insurers. That may explain why only around 10 insurers are selling annuity products in Hong Kong, most of them being annuity certain policies. According to the latest market statistics, annuity business only accounted for around 3% of the total premiums of the long term business.

Recently, the Hong Kong Mortgage Corporation (HKMC) has announced its plan to roll out a new life annuity product through a new subsidiary in mid-2018. The IA welcomes this initiative to provide an additional financial planning option for the elderly and would give priority to the authorisation application by the HKMC’s new subsidiary. We hope that other insurers will see opportunities in offering new competitive annuity products, thus enlivening the annuity business in the longer term.

Meanwhile, as the Chief Executive of Hong Kong SAR announced in her Policy Address last week, the Voluntary Health Insurance Scheme (VHIS) will be implemented next year. The VHIS will require insurers to offer individual indemnity hospital insurance products that comply with a set of minimum standards for protecting the interests of policy holders. Qualified VHIS policy holders will also enjoy tax incentive. I expect it will serve as an added impetus for the further growth of medical insurance

in Hong Kong.

On the general insurance side, the Belt and Road Initiative is expected to bring enormous new business opportunities in the coming years. The Belt and Road Summit held in Hong Kong last month attracted the participation of government officials and business leaders from 51 economies and generated very encouraging responses from the business sector.

From the perspective of the Hong Kong insurance industry, we can play a key role in providing insurance and brokerage services for the large-scale investment and infrastructure projects under the Belt and Road Initiative. We can also provide reinsurance services for Mainland insurers underwriting Belt and Road infrastructure projects. At present, there are 18 professional reinsurers in Hong Kong, including a number of internationally renowned firms which possess a wealth of technological know-how and experience in international reinsurance placement. The “Equivalence Assessment Framework Agreement on Solvency Regulatory Regime” signed between the insurance regulators of Hong Kong and Mainland China in May this year will strengthen the competitiveness of Hong Kong reinsurers in arranging reinsurance coverage for Mainland insurers for better managing and diversifying their risks.

Furthermore, Hong Kong is an ideal place for Mainland enterprises to set up captive insurers as we have in place various policies to facilitate the setting up of captives here. With more Mainland enterprises seeking to “go global” under the Belt and Road Initiative, setting up a captive in Hong Kong can help them manage their new risk exposures, including those along the Belt and Road.

Looking ahead, there are numerous new opportunities for us to grasp in

2018. The three “Ds” mentioned earlier will offer keys to success. At the same time, 2018 will be a challenging year for all of us, especially as the global economy and international relations are heading towards an era of uncertainties. These seem to be quite a few black swans and grey rhinos out there in the horizon. There is no crystal ball in this meeting hall. “Resilience” may become a buzzword in 2018. I hope all of us can gain insights from the speakers in this Summit.

Thank you very much.