

Press Release

LCQ16: Measures to facilitate the development of the insurance industry

Wednesday, July 5, 2017

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (July 5):

Question:

Since June 26 this year, the Insurance Authority (IA) has replaced the Office of the Commissioner of Insurance as the new insurance regulator in Hong Kong and taken over the Office's statutory functions, which include conducting thematic studies on the insurance industry and facilitating the development of the insurance industry. In this connection, will the Government inform this Council:

(1) whether it knows how IA will promote the use of financial technologies (Fintech) by the insurance industry, including whether IA will cooperate with start-ups engaged in Fintech research and development (R&D) or offer assistance to such start-ups (e.g. arranging sandbox testing or enhancing such start-ups' understanding of the regulatory regime of the insurance industry) with a view to applying the R&D results to the insurance industry; if IA will, of the details and timetable; if not, the reasons for that;

(2) given that following the rapid development of Fintech and innovative technology, the financial institutions in many countries are introducing services by smart robo-advisors which has resulted in a loss of frontline jobs in the financing and insurance industry of these countries, whether the Government knows IA's measures to assist local insurance practitioners in facing up to such problem; and

(3) whether it knows IA's measures to facilitate the development of the insurance industry, e.g. how IA will assist the insurance industry in Hong Kong in making use of its advantage and capitalising on the opportunities brought about by the nation's Belt and Road Initiative and the development plan of the Guangdong-Hong Kong-Macao Bay Area?

Reply:

President,

(1) The Office of the Commissioner of Insurance (OCI) (Note) has established a Fintech Liaison Team to facilitate the Fintech community's understanding of the current regulatory regime relevant to Fintech applications and act as a platform to enable exchange of ideas among key stakeholders on Fintech initiatives. The Insurance Authority (IA) will continue to run the Fintech Liaison Team after taking over the statutory functions of the OCI. Besides, the IA has also set up the Future Task Force comprising representatives from the insurance industry and academia to explore the future development of the industry. One of the key tasks of the Future Task Force is to draw up recommendations on promoting the application of Fintech in the insurance industry.

In other jurisdictions, insurance products are generally required to be approved by insurance supervisors before they can be launched in the market. To facilitate the development of Fintech, insurance supervisors of some jurisdictions establish "sandbox" under which new Fintech-enabled insurance products can be tested under specific conditions and duration, without the need to achieve full compliance with the usual supervisory requirements. In case the results of the new products do not live up to expectation, the relevant testing can be discontinued. The insurance regulatory regime in Hong Kong is different from those of other jurisdictions in that insurance products are not required to be approved by the IA before being launched. In this regard, a "product sandbox" may not be the most appropriate to the local industry.

On the other hand, the IA adopts an approach of explaining to individual insurers or start-ups the relevant regulatory requirements and directly helping them to implement their Fintech initiatives. The IA therefore considers that it would be more effective to apply the concept of "sandbox" on the streamlining of existing regulatory requirements. The IA will actively consider the streamlining of existing regulatory requirements, including the application of the concept of "sandbox", to help reducing the lead time for the launching of Fintech products, provided that the interests of policyholders will not be adversely affected.

(2) The development of Fintech may result in job loss to a certain extent. However, we believe that the advance of technology will, at the same time, stimulate the demand for more talents for sophisticated insurance services (e.g. the sales of more complex and professional policies, and the use of big data analytics to gain insights of customer's needs and market demand). The insurance industry will devote more resources on these high value-added positions. To help the industry to embrace these future challenges, the Future Task Force of the IA will recommend the IA on measures to enhance the skills and professional knowledge of practitioners. Furthermore, the Government launched a three-year "Pilot Programme to Enhance Talent Training for the Insurance Sector" last year, under which the "Financial Incentive Scheme for Professional Training" provides professional training to enable practitioners to cope with the development of the insurance industry.

(3) Hong Kong is committed to serving as an interface for our country and assisting Mainland enterprises to "go global". The Hong Kong insurance industry stands to benefit from the opportunities which will arise out of the Belt and Road initiative and the Guangdong-Hong Kong-Macao Bay Area by helping Mainland enterprises to manage their overseas risks. There are three aspects in this role:

Firstly, Hong Kong can provide direct insurance and insurance brokerage services to Mainland enterprises under the Belt and Road initiative. Hong Kong has a mature insurance market and well-established professional financial supporting services. At present, there are 159 insurers in Hong Kong, many of them are the world's top insurers. Hong Kong also has a number of international insurance brokerage firms. These companies have advanced technology and a wealth of experience in underwriting large-scale infrastructure projects and catastrophe risk. They can provide insurance coverage for large-scale investments and infrastructure projects of Mainland enterprises under the Belt and Road initiative.

Secondly, Hong Kong can provide reinsurance services to Mainland insurers. At present, there are 18 professional reinsurers in Hong Kong, including some internationally renowned firms which possess a wealth of technological know-how and experience in reinsurance. The Agreement on Trade in Services signed under the Mainland and Hong Kong Closer Economic Partnership Arrangement has introduced liberalisation measures encouraging

Mainland insurers to cede some of their business to reinsurers in Hong Kong. In addition, the OCI and the China Insurance Regulatory Commission (CIRC) signed the "Equivalence Assessment Framework Agreement on Solvency Regulatory Regime" on May 16, 2017. On the basis of this agreement, the IA will actively seek support from the CIRC for lowering the capital requirements of Mainland insurers on the business they cede to Hong Kong reinsurers. This will increase the competitiveness of Hong Kong reinsurers in obtaining insurance business from Mainland insurers and help to develop Hong Kong as a reinsurance center in the Bay Area.

Thirdly, Hong Kong is an ideal place for Mainland enterprises to set up captive insurers. By setting up captive insurers in Hong Kong, Mainland enterprises can pool the risks among group members, in particular those arising from infrastructure projects under the Belt and Road initiative, thereby reducing the costs of insurance and enhancing the enterprises' risk management capabilities. The Government has granted regulatory concessions to captive insurers, including lowering their capital and solvency margin requirements, etc. and provided 50 per cent tax concessions to profits arising from specified insurance business of captive insurers.

The IA will be in close contact with the insurance industry to help the industry to effectively strengthen its roles in the aforesaid areas.

Note: The Insurance Authority took over the statutory functions of the OCI on June 26, 2017.

Ends