Speech

Speech by SFST at International Actuarial Association Life Section Colloquium 2016 (English only)

Tuesday, April 26, 2016

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the International Actuarial Association Life Section Colloquium 2016 today (April 26):

Ka Man (Wong), Fred (Rowley), ladies and gentlemen,

Good morning. It is a great pleasure for me to join you today at the International Actuarial Association (IAA) Life Colloquium 2016, the flagship event of the IAA. A very warm welcome to many of you who have flown in for this event.

The theme of today's colloquium is "change is the only constant". The global insurance industry, let me assure you, is not the only one in seeing ongoing regulatory changes. In this new landscape, actuaries are being called upon by their employers and clients, as well as by the regulators, to take on greater responsibilities in risk management.

Under the Hong Kong laws, the Insurance Authority counts on appointed actuaries to help ensure the robustness of the regulatory regime. They have a statutory duty to alert the Insurance Authority if they are aware of any material risk, default or failure, etc, of the insurer. The Actuarial Society of Hong Kong has also been working closely with the Insurance Authority in many regulatory initiatives being undertaken.

Besides risk management, actuaries also help determine profitability of insurance products. They play an important role in driving product innovation in various stages of the value chain, all the way from product development, underwriting and contract development to policy administration and distribution.

I agree with the points made earlier about the changing investment landscape, the low interest rate and the equity volatility and so on. They are issues affecting the regulators and we are looking to you for answers.

Sustained development of the actuarial profession underpins further growth of the insurance sector as actuaries play a central role when we explore new opportunities. These include meeting the increasing demand for long term insurance products, such as annuities, the development of personalised products enabled by the adoption of financial technology (Fintech), as well as opportunities arising from further regional integration. In our part of the world, we are quite excited and interested in the Belt and Road Initiative, which seeks to further regional integration as well as trade and investment flows in this region.

Let me just speak a little bit about the industry landscape in Hong Kong and the region. As one of the most open and established insurance centres in the world, Hong Kong is ready to take on many of these new opportunities. As at end March 2016, we had 157 insurers, including 14 of the world's top 20 insurers, authorised to carry out insurance business in Hong Kong. Among them, 86 were incorporated in Hong Kong and the remaining 71 were incorporated in 22 other countries.

In 2014, Hong Kong ranked top in Asia in terms of insurance density. For the past six years, we have consistently recorded double-digit year-on-year growth in the total gross premium income. According to the provisional statistics of the Hong Kong insurance industry for 2015, the total gross premium income amounted to $366 billion (US$47 billion), representing a year-on-year increase of 10.9 per cent.

Beyond Hong Kong, the Asian market as a whole is also driving global insurance growth. Munich Re, a leading reinsurer, projected that Asia will account for 40 per cent of the global insurance market by 2020. Five of the top 10 primary growth markets will also be in Asia Pacific.

Among drivers of market growth, demographic change is the most imminent issue affecting the insurance industry. It is forecast that Asia will account for 62 per cent of the aged population globally by 2050. The need for pensions and old age protection will stimulate demand for insurance coverage. Health care reform is also on the agenda of several Asia-Pacific countries. This will incentivise insurers to develop a wider variety of medical and health insurance products and better position themselves in formulating their marketing and pricing strategies. A good grasp of economic, demographic and social processes that underlie actuarial models and projections is much needed indeed.

Going to the regional market, we believe Hong Kong is an ideal hub for developing regional insurance business in Asia. Just to share a little bit of the figures, in 2015, office premiums derived from new policies issued to Mainland visitors amounted to $31.6 billion, representing 24.2 per cent of the total new office premiums for individual business.

Renminbi (RMB) insurance business represented 7 per cent of the total new long-term business. As of end 2015, there were more than 215,000 RMB-denominated insurance policies sold with total cumulative premiums of over RMB56 billion. Thirteen insurers have obtained the approval from the People's Bank of China to participate in the Mainland's interbank bond market. The ability to access the Mainland's interbank bond market provides the relevant insurers with a wider choice of investment instruments to match their RMB denominated liabilities.

To further develop our RMB insurance market, we are also encouraging Mainland insurers to cede reinsurance in RMB in Hong Kong. By doing so, they can limit their exposure to currency risk associated with conventional cross-border reinsurance transactions denominated in foreign currency.

The agreement signed under CEPA, our free trade agreement with Mainland China, in December 2014 included statements supporting two-way cross-border RMB reinsurance from Guangdong insurers to Hong Kong reinsurers, and from Hong Kong insurers to Mainland reinsurers. The initiative was further extended to all Mainland insurers in the new CEPA agreement signed last November.

I mentioned earlier about the Belt and Road Initiative. We believe there are vast opportunities brought about by projects under the Initiative. It offers companies opportunities to tap into new markets and explore the tremendous potential of the Mainland, ASEAN countries and many other economies along the Belt and Road. Home to 30 per cent of world GDP; 35 per cent of world trade and 63 per cent of world population, the region needs the right infrastructure to support further economic development. Infrastructure development is, therefore, a priority in the Belt and Road Initiative, and clearly in the mandate of the Asian Infrastructure Investment Bank. Increase in the number and value of infrastructural projects will no doubt drive demands for insurance.

Hong Kong has a mature insurance market with experience and knowledge in insuring major infrastructure projects, along with talented professionals and an established legal structure. We are well placed to become the insurance and risk management centre for investments under the Belt and Road Initiative. Furthermore, as Mainland enterprises are seeking to "go global", they will find it advantageous to establish captive insurance companies in Hong Kong to make insurance arrangements and manage risks for their overseas businesses.

To further explore opportunities through Hong Kong under the Belt and Road Initiative, the HKSAR Government will be hosting a Belt and Road Summit next month with the support of the National Development and Reform Commission, the Ministry of Commerce, the People's Bank of China and the Ministry of Foreign Affairs. The Summit underlines the important roles played by Hong Kong in the national development strategy.

There are other changes taking place in the market, also in the region. For example, the wealth management industry. As the region is accumulating wealth and individuals are seeking to manage their wealth, we see that Hong Kong provides a great opportunity for wealth management business, and insurance, of course, forms an integral part of the asset and wealth management market. According to our Securities and Futures Commission, the total combined fund management business in Hong Kong achieved a record high of $17.6 trillion in 2014, and the insurance sector alone reported more than $450 billion of assets under management, representing a year-on-year increase of 24 per cent.

To help the industry meet the demands for wealth management industry, the Government supported the set-up of the Private Wealth Management Association in 2013. The Association has launched an Enhanced Competency Framework and developed a professional qualification for certified private wealth management professionals. To date, there are already over 1,500 certified professionals who have completed the programme and examination requirements.

And also, we have reformed our trust laws in late 2013 to enhance our status as an international asset management centre. The new regime gives us a competitive edge over other major common law jurisdictions by enabling settlors to establish perpetual trusts.

Another initiative I want to mention is that we have allocated $100 million to take forward a three-year pilot programme to enhance talent training for the insurance and asset management sectors. When we talked to the insurance industry, we asked about the top thing they needed on their agenda and they asked us to help train practitioners and get more graduates into the profession. We then put forward the initiative to see how we can help by encouraging companies to take on interns and by supporting the creation of educational courses for the industry. We hope to start the programme rolling in the latter half of this year.

A word about Fintech. As I have mentioned, a number of emerging forces are creating pressure not only on the insurance industry but also on the banking sector and financial institutions as a whole. The emergence of online aggregators and entry of technology providers may well displace traditional distribution channels and render insurance products increasingly commoditised. Insurers' ability to benchmark against competitors will become more important as customers gain ability to comparison-shop. And with increased margin pressure, insurers will also need to increase their size by expanding in scope or scale.

At the same time, the emergence of the concept of "connected insurance" i.e. the use of connected devices along the insurance value chain will enable insurers to personalise insurance and proactively manage clients' risks. Customers' data is becoming increasingly important and easily accessible. Big data modelling can help actuaries to better estimate life expectancy, monitor and predict disease outbreaks. It is clear that more and more innovative Fintech ideas and solutions will emerge.

Hong Kong has all the necessary ingredients to develop and embrace Fintech, through leveraging our role as an international financial centre, the highly developed information and communication infrastructure, and ample finance and entrepreneurship talent. The Government will continue our efforts to promote our strengths as a Fintech hub.

I am glad to note that the Hong Kong insurance industry has also been embracing Fintech. Some Hong Kong life insurers have made use of wearable devices and mobile apps to launch health and lifestyle management programmes that encourage healthier lifestyles. Three major insurers in Hong Kong have signed up with an international networking and marketing platform to help insurance agents and financial planners manage their social media presence. There are also insurers who have formulated comprehensive digital strategies and invested in research laboratories for the application of Fintech in insurance business.

We welcome all these initiatives and will work with the insurance industry and the Fintech community in their development of more innovative insurance products and services.

Our regulatory framework needs to be technology-neutral as well as technology-conducive. We encourage the industry to make use of the dedicated platform set up under the Office of the Commissioner of Insurance to better understand regulatory requirements for a balanced and sustainable approach in developing Fintech in the insurance business.

There is no dispute that the regulatory regime needs to be updated in tandem to meet new challenges. In Hong Kong, we are setting up a new independent Insurance Authority to enhance policyholder protection and provide a modern and more conducive environment for sustainable development of the industry. The establishment of a new regulator will bring in a more accountable framework for promoting compliance and transparency in regulation.

Last but not least, it is encouraging to note that we are moving towards a risk-based capital framework, which allows insurers to develop a more risk-sensitive capital framework, enables Hong Kong to better align with international standards, and creates more job opportunities for the actuarial profession.

Ladies and gentlemen, change is indeed a part of life in the insurance industry. It is particularly true for Hong Kong, as we are setting up the new regulatory regime, and also particularly true today, as technology has started to transform finance. However, I am confident that today's forum will give you some clues as to what might be ahead. I wish you all a very rewarding forum and an enjoyable stay in Hong Kong.

Thank you.

Ends