

SFST's speech at International Actuarial Colloquium (English only)

Following is the video speech by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, at the International Actuarial Colloquium this morning (April 27):

Alexander (President of the Actuarial Society of Hong Kong, Mr Alexander Wong), Micheline (President-Elect of the International Actuarial Association, Ms Micheline Dionne), Stephen (Chairman of the Insurance Authority (IA), Mr Stephen Yiu), distinguished guests, ladies and gentlemen,

It is my pleasure to join you today at the International Actuarial Colloquium. Carrying the theme "Global Pandemic – Beyond the New Normal", the two-day event has gathered over 400 senior actuaries and insurance professionals from Asia and around the world. It is a time for us to reflect on what we have learned from the fight against the pandemic, and to take a better look at what's in the new normal – the resilience of our insurance market and the enormous growth opportunities we are going to embrace.

Let me begin with "Resilience". Our insurance sector grew at an average rate of 5.9 per cent in the past five years from 2017 to 2021. We also ranked the first in terms of insurance penetration globally in 2020 – more than 20 per cent. A total of 13 of the world's top 20 insurers conduct their businesses in Hong Kong and a total of 17 insurance companies are currently listed on the HKEX, our stock exchange. By the end of 2021, their market value accounted for about 5.5 per cent of the total market value of our stock market, with six of them being the world's top 20 insurers by market value. In view of the opportunities presented by our market and the Greater Bay Area (GBA), many international financial institutions, including insurance companies, banks and wealth-management companies, will continue to expand their presence in Hong Kong.

The fifth wave of the epidemic indeed presented unprecedented challenges to all of us in the past few months, and all along the Government has been providing facilitative measures and regular guidance to the financial sector to ensure our operational resilience. I am pleased to see the rationalisation of travel restrictions announced earlier this month by the Chief Executive, including lifting the flight ban and early discharge of returning Hong Kong residents from designated quarantine hotels. The Government also announced last week that starting May 1, non-Hong Kong residents will be allowed to enter from overseas upon their compliance with some testing and quarantine requirements. Together with the suitable adjustment to the triggering thresholds for the route-specific flight suspension mechanism, those measures have received a warm welcome at home and abroad, of course including the business sector. As we bring the pandemic under control and gradually resume daily lives, opportunities are knocking on our doors and it's time for our economy and market to get prepared for a rebound.

Before looking into the future, let's review what has been done to further develop our insurance market. First of all, we have put in place a new regulatory framework for the issuance of insurance-linked securities (ILS) in Hong Kong in March last year, and shortly after we also launched a two-year pilot subsidy scheme to promote the development of Hong Kong as an ILS domicile. These efforts brought us encouraging results as the first ILS, which is in the form of a catastrophe bond offering protection against losses inflicted by typhoons in the Mainland, was then issued in Hong Kong in October last year.

Also, to provide financial incentives for new business development, half-rate profits tax concessions are provided to selected businesses, including marine and specialty insurance from March last year. They will enhance the competitiveness of our insurance industry in seizing new opportunities, including those arising from the Belt and Road Initiative (BRI).

At the same time, we have also expanded the scope of risks that could be underwritten by captive insurers formed in Hong Kong, in order to better meet the risk-management needs of multinationals, including Mainland enterprises that are seeking to "go global". This allows Hong Kong to capture the opportunities presented by our country's 14th Five-Year Plan, which positions Hong Kong as a risk-management centre.

Now it is time to look into the future. With our mature insurance market and established legal structure, we are well placed to embrace the enormous growth opportunities in the Greater Bay Area market. A key focus is to work with the Insurance Authority to promote mutual access of the insurance market in the GBA.

Initiatives in the works include early establishment of after-sales service centres by our Hong Kong insurance industry in the Mainland cities of the GBA, with a view to providing GBA residents who are holders of Hong Kong policies with comprehensive support in different areas including enquiries, claims and renewal of policies for eligible insurance policy types.

We are also striving for the early implementation of the unilateral recognition policy for Hong Kong motor vehicles entering Guangdong through the Hong Kong-Zhuhai-Macao Bridge control point, so as to extend the coverage of third-party insurance policies issued by Hong Kong insurers for these cross-boundary motor vehicles to cover third-party liability in the Mainland, thereby deeming such policies as equivalent to the mandatory traffic accident liability insurance in the Mainland.

I am also excited to tell you that two new measures are coming up. Later this year, a draft bill will be introduced to our Legislative Council on a risk-based capital regime. This will align Hong Kong's regulatory regime with international standards and make capital requirements more sensitive to the level of risk borne by insurance companies. The IA has maintained close contact with the industry in undertaking preparatory work, including

conducting three rounds of Quantitative Impact Studies to collect data for assessing the outcome on the solvency level of insurers and consulting the industry on the legislative proposals.

Another measure to come is the Policy Holders' Protection Scheme (PPS), which will more effectively protect insurance policyholders' interests and maintain market stability in the event of insurer insolvency. This scheme will serve as a safety net for policyholders by compensating policyholders or securing the continuity of insurance contracts in case an insurer becomes insolvent. At present, the IA is conducting a consultancy study to update the key parameters of the PPS, such as target fund sizes and lead time for accumulation. We plan to conduct public consultation on the details of the proposed PPS this year and target to bring the bill to the Legislative Council in the subsequent legislative session.

The latest opportunities and developments in the international insurance markets have driven transformation in our local regime, and it is indispensable that regulation needs to keep pace with this ever-changing environment. To this end, the IA has established a new group-wide supervision framework last year for insurance groups with a view to meeting international standards and establishing Hong Kong as a preferred base for large insurance groups in the Asia-Pacific region.

On the other hand, in advancing Hong Kong's role as a risk-management centre under the 14th Five-Year Plan, the Government and the IA have several measures in place. Firstly, we have reached consensus with the China Banking and Insurance Regulatory Commission. Under the China Risk Oriented Solvency System, the capital requirement of Mainland insurers would be reduced when they cede business to eligible Hong Kong professional reinsurers. The consensus has been regularised since 2022 and this increases the competitiveness of Hong Kong reinsurers in obtaining insurance business ceded from Mainland insurers. A lower capital charge applicable to insurers will help lower insurance price and thereby better support Mainland enterprises in their investments in the Belt and Road countries.

Speaking of the Belt and Road, I would also like to mention the launch of the Belt and Road Insurance Exchange Facilitation (BRIEF). This pools together a cluster of key stakeholders and fosters synergies in exploring the business prospects arising from BRI. So far, 43 companies and organisations, including insurers, captive insurers, risk-management experts, industry associations, etc, have joined BRIEF as members.

Last but not least, the IA also conceived the Specialty Risks Consortium to gather state-owned enterprises, captives, insurers, broker companies and risk advisers for deal matching and networking. Matching sessions have been arranged to probe into topics like political and credit risks, performance guarantee, employees' benefits, renewable energy, etc.

Ladies and gentlemen, just now I have shared with all of you the resilience of Hong Kong's insurance sector, and the opportunities we have in the future. Despite the many challenges brought by COVID-19, which should be

transitory, we are confident that the fundamentals underpinning Hong Kong's status as an international financial centre – our robust financial system and ample growth opportunities – remain strong and intact. With the staunch support from all of you, the actuarial and insurance industry professionals, the Government is committed to developing Hong Kong into an international insurance hub and risk-management centre and I am more than confident we will work together to herald a better future.

Finally, my thanks to the Actuarial Society of Hong Kong and International Actuarial Association's Life and Pensions, Benefits and Social Security Sections for organising this event under the logistical challenges brought by the epidemic. May I take this opportunity to wish you all a rewarding colloquium today and tomorrow, and a healthy and successful year ahead in 2022. Thank you.