

Speech by FS at Asian Insurance Forum 2018 Keynote Luncheon (with photo)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the Asian Insurance Forum 2018 Keynote Luncheon today (December 11):

Moses (Chairman of the Insurance Authority, Dr Moses Cheng), distinguished guests, ladies and gentlemen,

Good afternoon.

It is my pleasure to join you all for this luncheon of the Asian Insurance Forum. I must first congratulate the Insurance Authority on organising this inaugural forum. I am very pleased to see many industry leaders and regulators here to share ideas about the development of the insurance industry.

I have been travelling quite a lot lately. To name a few, in October, I paid my first visit to Papua New Guinea (PNG) to attend the Finance Ministers' Meeting of the Asia-Pacific Economic Cooperation (APEC). In November, I visited Beijing twice. For the first visit, I joined a Hong Kong – Macau delegation to Beijing to celebrate the 40th anniversary of the country's reform and opening up. And for the second one, I visited to meet with relevant officials in charge of financial and monetary policies. Earlier this month, I was in Argentina for the G20 Summit. From these trips, I will share with you some observations on the development of financial markets.

First stop in PNG. I was able to see first-hand how co-operation under the Belt and Road Initiative is bringing material benefits to the region. PNG's economic development has been held back by weak infrastructure such as transport, telecommunications and power supply. Infrastructure development is about productivity, connectivity and job opportunities. China's investment in the country is assisting PNG to start unleashing its potential for economic growth and thereby improving the living standards of the people there. To get infrastructure projects off the ground, the primary challenge is to secure sufficient funding.

In fact, in the Asia-Pacific region, there is a significant infrastructure financing deficit. According to data from the Global Infrastructure Hub (GIH), established under the G20 umbrella, the estimated investment needs for infrastructure projects are expected to average US\$2.1 trillion per year over the five-year period from 2020. Against this background, the APEC Finance Ministers suggested in the Joint Ministerial Statement that the investment needs could be "addressed by diversifying the available sources of long-term finance and fostering private sector involvement, including the creation of enabling conditions for attracting investment, generating pipelines of 'bankable' infrastructure projects and developing financing structures capable of attracting long-term institutional investor capital". And APEC member economies were encouraged to "adopt policy

approaches that follow good practices, facilitate project transparency, ensure timely access to qualitative and quantitative project information, and promote opportunities to potential investors".

I very much agree with the importance of "bankability" and "timely access to qualitative and quantitative project information". According to GIH, when assessing an infrastructure project, investors will look at whether they have efficient planning, an alignment of political will, a co-ordinated enabling environment, a reliable return, and sensible, shared risk allocation. If all the above criteria are met, investors may consider a project to be bankable.

So, one of the key determinants of the bankability of infrastructure projects is "sensible, shared risk allocation". Bankable projects must be in the first place sufficiently insured and reinsured such that risks are shared sensibly. Thus, increasing infrastructure projects in the region not only creates demand for financing but also demand for insurance and reinsurance to make them bankable. Insurers therefore play a very unique role in infrastructure development: On one hand, they are insurance providers enabling bankable infrastructure projects and, on the other hand, they are long-term institutional investors of such projects which generates stable returns.

The second important element is "timely access to qualitative and quantitative project information". Without accessible information, insurers and investors will not be able to assess the risks and returns of a project. In Hong Kong, the Hong Kong Monetary Authority (HKMA) set up the Infrastructure Financing Facilitation Office back in 2016 to provide a platform for banks, insurers, and construction companies to connect and collaborate on infrastructure projects under the Belt and Road Initiative.

I am very glad the Insurance Authority has just launched the Belt and Road Insurance Facilitation Platform for similar purpose but with a clear emphasis on insurance. I am sure the two platforms will complement each other to ensure that partners on the two platforms can have "timely access to qualitative and quantitative project information" so that they can collaborate to enable such projects through financing and risk management.

The huge demand for infrastructure investment will logically stimulate innovation in infrastructure financing to expand lending capacity. Due to capital adequacy requirements, banks have limits in financing long-term infrastructure projects. Thanks to securitisation, banks' lending capacity can be expanded through securitisation of infrastructure loans, which enable banks to move long-term assets off their balance sheets and relieve pressure resulting from tighter capital requirement regulations. After offloading, banks can then have capacity to finance new infrastructure projects. For example, the Japanese bank SMBC (Sumitomo Mitsui Banking Corporation) issued in 2016 its first project finance loan securitisation note to be sold to institutional investors. The loans were related to large-scale solar power plants.

I envisage that such securitisation will become more active in Asia in

the light of a significant infrastructure financing deficit. The Hong Kong Mortgage Corporation Limited, again under the HKMA, is pursuing the proposition of securitising infrastructure loans to provide banks with opportunity to offload their loans to those long-term investors. That will facilitate additional cash flow into infrastructure projects.

In the insurance sector, securitisation of risks, such as natural disaster risks, has also been developing fast. On one hand, insurance-linked securitisation can be seen as an alternative to reinsurance, thereby enriching the risk management tools in the market. By securitising insured risks, reinsurers can transfer the risks to capital markets, so as to expand the capacity of the reinsurance market. In parallel, insurance-linked securities (ILS) provide institutional investors with an investment alternative that is not related to economic cycles, helping them to diversify the risk of their investment portfolio.

That is why the Financial Leaders Forum, which I chair, has suggested earlier this year that we should take steps to encourage the development of the ILS market in Hong Kong. I am glad that the Insurance Authority is working closely with the Government on the legislative framework to facilitate the formation of Special Purpose Vehicles specifically for issuing ILS in Hong Kong. The target is to introduce the legislative amendments into the Legislative Council in the 2019-20 legislative session. I am sure Hong Kong is well positioned to benefit from increasing interest in ILS in the region, especially given that Mainland insurers would be interested in using different tools to manage a range of risks, be they agricultural, natural disaster or infrastructural risks.

Now let's move on to my Beijing trips. The first trip to celebrate the 40th anniversary of the country's reform and opening up prompted me to reflect on how Hong Kong has been facilitating the internationalisation and expansion of the Mainland financial markets. The first Mainland enterprise was listed in Hong Kong back in 1993. Today, more than half of the companies listed on our Stock Exchange are Mainland enterprises. Over the years, we have seen the development of Red Chip Shares and A+H shares, and the rolling out of mutual market access schemes, including the Stock Connects and the northbound Bond Connect. All these developments have exemplified the important role of Hong Kong in facilitating the development of the Mainland capital markets.

More recently, we are seeing Mainland companies with weighted voting right structure from the emerging and innovative sectors taking advantage of our reformed listing regime to list in Hong Kong. This is again a testimony of our position as China's leading financing hub. This role will not change as long as Hong Kong can act quickly in response to the changing financial landscape.

With the establishment of the Insurance Authority three years ago, we are more active in fostering co-operation between Hong Kong and the Mainland to spur further growth of the insurance industry. I envisage that the opening up of the Mainland insurance market will accelerate.

As you are probably aware, in April, the Mainland authority announced that the foreign ownership cap for life insurance joint ventures would be lifted from 50 per cent to 51 per cent and the cap would be removed completely in three years thereafter. And last month (November 25), the China Banking and Insurance Regulatory Commission (CBIRC) announced that it had approved the establishment of China's first foreign insurance holding company. With the support of national policies, insurers in Hong Kong will enjoy competitive advantages in the course of the opening up of the Mainland insurance market.

One recent example of such support is the CBIRC's decision in July that when a Mainland insurer cedes business to a qualified Hong Kong professional reinsurer, the capital requirement of the Mainland insurer will be reduced. This preferential treatment will facilitate co-operation between the Mainland and Hong Kong in cross-boundary reinsurance business, and enable Hong Kong's reinsurers to enjoy competitive advantages over other offshore reinsurers.

Indeed, we see much opportunity for the Hong Kong insurance industry to help and participate in the development of the country. Therefore during my second visit in Beijing, together with Clement (Cheung), the CEO of the Insurance Authority, we raised with the CBIRC specifically the possibility of allowing Hong Kong insurance companies to set up after-sales service centres in the Guangdong-Hong Kong-Macao Greater Bay Area to better serve the residents in the area.

Although opportunities abound and Hong Kong is well positioned to capture them, we should not be complacent. We need to strengthen our fundamentals continuously. Currently, professional reinsurers and captives can enjoy 50 per cent profits tax concession, meaning that the tax rate for them is only 8.25 per cent in Hong Kong. We are also working on tax relief measures to stimulate the growth of marine insurance and the underwriting of specialty risks in Hong Kong.

But tax is just one of the many factors in determining where insurance contracts will be placed. Ready availability of professionals underwriting specialty risks, structuring insurance-linked securitisation and advising on captive arrangements will be instrumental in sharpening Hong Kong's competitive edge as an insurance hub. Nurturing, attracting and retaining talent is an area we should focus on to ensure Hong Kong's continued success. On this topic, the Government announced in September this year a Talent List, which helps us attract quality professionals in specific sectors to accelerate our development into a high value-added and diversified economy. The Talent List currently focuses on 11 in-demand professions, including actuaries. I welcome more ideas from the insurance industry on how Hong Kong can attract and retain top-notch talent for the industry.

Ladies and gentlemen, looking ahead, there will be increasing uncertainties in the international economic and political arena. Volatility is becoming the new normal. Such concerns were discussed at length during the G20 Summit in Argentina last month. Amongst the outcomes of the Summit was a trade war truce agreed between China and the United States – the world's two largest economies. Whether this truce becomes a long-lasting peace remains to

be seen.

Hong Kong, a relatively small economy by comparison, is able to contribute to and benefit from our unique links with the Mainland under the "one country, two systems" arrangement. We are indeed fortunate to have unparalleled access to vast Mainland markets, access that will be further enhanced by the development of the Greater Bay Area. We will keep strengthening our fundamentals to continue to serve as an international financial centre and China's most important global financial hub. I will be happy to see the insurance sector playing a much bigger role in Hong Kong's financial scene.

I wish you all a fruitful discussion this afternoon and look forward to hearing your views on ways to enhance Hong Kong's attributes as an even more successful insurance hub.

Thank you very much indeed.

