Enhancing Hong Kong’s Role as a Leading Life Insurance Centre
Preamble and Overview of Paper

The paper recommends actions for enhancing Hong Kong’s role as a leading life insurance centre with the purpose of establishing and promoting Hong Kong as a leading headquarters centre/hub for life insurers consistent with Hong Kong’s ambition to be a leading Financial Centre.

Historically Hong Kong has enjoyed a leading position for location of regional Headquarters for Asian businesses of multinational insurers and reinsurers. Recently that position is being eroded/challenged and Hong Kong needs to re-establish itself as a widely recognised centre of excellence and attractive location for regional headquarters of life insurers. And aspirationally for international, and potentially global, headquarters.

This paper represents a collaborative effort of numerous leaders and professionals in the life insurance industry supported by members of the FSDC with input from myriad other organisations, individuals and representatives from other sectors and is aimed at bodies who can take required appropriate action and is also to raise awareness and understanding of the life insurance industry more widely.

It begins with an executive summary of recommended actions in seven key areas:- economically determined capital requirements; supply of appropriate long term assets; advantaged opportunities in the Mainland; taxation advantages; support for an environment of creating shared value; development as an InsurTech centre of excellence; and attracting and developing leading talent. All, and importantly, facilitated by a Working Group highly focused on Life Insurance which will collaborate with, and utilise the work of, existing relevant industry bodies, including Government and regulators, and be focused on promoting, encouraging, monitoring and regularly reporting on progress and needed areas of further action with regard to the recommendations of this paper.

It then provides context and overview of the life insurance industry followed by details to support the recommended actions. And then covers how the insurance sector brings social and economic value; the future of life insurance; current landscape and the ‘state of play’ of life insurance; what defines Hong Kong’s current and future competitive positioning; how other jurisdictions measure up to the competitive criteria relative to Hong Kong; and what is needed for Hong Kong to win and take the leading position in the future. And finally provides supporting details in the appendicies.

Note: Monetary amounts throughout are expressed in HK$ unless explicitly indicated otherwise.
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1 Executive Summary

Background

1.1 Hong Kong presents itself as a key international life insurance centre (ILIC) – that is, an ideal location for multinational life insurers (MLIs) to establish and continue their international and regional offices (IROs). Hong Kong is also a jurisdiction of deep and specialised services available to the international and regional life insurance industry and to the financial services industry more broadly, including asset and wealth management.

1.2 Populations in Asia and their demand for financial services (including life insurance) continue to grow significantly, particularly in Mainland China.

1.3 Demographically, populations in Asia are growing older, people are living longer and social welfare, healthcare, and retirement systems are under pressure.

1.4 Hong Kong faces increasing competition from other financial centres, including Singapore.

1.5 Without a clear strategy and focused implementation, Hong Kong risks losing its place as a leading ILIC. There are some recent examples where other jurisdictions have been preferred over Hong Kong. That adverse trend must be addressed.

1.6 Governments of jurisdictions focused on the financial services industry are increasingly playing a key part in ensuring their own competitiveness.

1.7 Financial Services contributes a very significant part of around 18% of Hong Kong’s GDP and employs more than 200,000 people. The life insurance sector is a significant component of that and plays an important role in social and economic development.

1.8 Today’s rapid pace of change and increasing demand for safe and secure solutions for well-being throughout extended life spans is driving evolution in life insurance products, services and management. So there is a clear opportunity for Hong Kong as an ILIC to articulate its unique proposition in order to help insurers evolve and prosper.

Key Action Points

1.9 Capital: Hong Kong can make it financially attractive for IROs to remain in Hong Kong by implementing economic capital requirements that are ‘fit for purpose’. These should include appropriate relief to encourage businesses to be run on a sound economic basis with the right types of investments and with products and propositions that appeal to customers and meet their needs. Capital requirements must not be
unduly intensive and therefore should be set on a reasonable commercial and economic basis.

1.10 Assets: addressing the supply of much-needed assets for life insurers. Deep and liquid capital markets can be fostered through the issuance of long-term Government bonds and the Government’s encouragement of corporations to issue their own long term securities. Supportive relief for life business on capital charges on assets appropriate for matching long-term liabilities (such as guarantees) would make them more attractive to life insurers, a natural buyer of long dated assets.

1.11 Market access: focusing on Hong Kong’s advantageous position with respect to the Mainland. Hong Kong should remain a focus of an MLI’s international and regional activity – and thus an ideal IRO location – by offering special opportunities for appropriately qualified life insurance operations⁴ (i.e. those that meet the criteria of desirable economic and social outcomes for Hong Kong). These opportunities lie in a number of areas including the Greater Bay Area (GBA), the Belt and Road Initiative and in the creation of a ‘Life Insurance Connect’ as part of a collaborative approach to wider insurance distribution within the Mainland. Other ‘special/preferred treatment’ with regard to accessing the Mainland market would also boost appeal, e.g. an accelerated pathway to 100% ownership nationwide for appropriately qualified life insurance operations, as opposed to the recently announced three year timeline. Firmly establishing a core role and differentiated position delivering distinctive value for the success of GBA is a strategic imperative for Hong Kong’s sustained growth and prosperous future, and being a widely recognised centre of excellence in life insurance is a route to achieving that.

1.12 Taxation: The Government has made good progress expanding the international tax treaty coverage for Hong Kong and needs to continue to work towards an extensive tax treaty network with short term emphasis on countries of strategic importance in insurance to attract and retain MLIs. The Government needs to retain the simple, predictable and low rate tax system and develop appropriate tax incentives for insurance and reinsurance groups establishing and maintaining regional headquarters in Hong Kong (including income tax deductions for insurance premiums of certain qualifying insurance products helping make them even more attractive for policyholders). At the same time a programme of corporate tax incentives and certain personal tax benefits need to be explored to assist in attracting and retaining the very best and needed talent.

1.13 Creating Shared Value: The Government can promote an environment conducive to the creation of products and propositions that appeal to Hong Kong’s population and

⁴ The definition of “appropriately qualified life insurance operations” is given at paragraph 3.4.
help meet social needs. These include helping people live healthier for longer and providing better health care and financial support in retirement. For example, the Government could perform a key role as lender of last resort (analogous to a stop-loss reinsurer) for defined long tail events or provide platforms that assist the development of a healthy ‘Predict-Prevent-Treat-Recover’ eco-system. This contrasts with the historic ‘just pay for treatment’ paradigm by helping to intervene on the path to ill-health, helping ensure the right treatment at the right cost is received, providing quality health outcomes and ensuring people recover expeditiously and effectively.

1.14 **Insurtech:** Hong Kong needs to continue to encourage the local development and deployment of state of the art technology innovations in the insurance value chain, provide appropriate incentives to attract suitable talent and identify and implement further enabling programmes through expanded sandbox and other appropriate regulatory platforms. This will position and maintain Hong Kong as a key insurance technology innovation centre in the Greater Bay Area and beyond.

1.15 **Human Capital:** Hong Kong needs to attract, promote and develop talent. In doing so as an ILIC, Hong Kong can establish itself as a centre of life insurance excellence and a preferred IRO hub for MLIs.

**Focus for Implementation**

1.16 In order to continue to explore, actively pursue and facilitate implementation of these opportunities we recommend a Working Group highly focused on Life Insurance, collaborates with, and utilises the work of, existing relevant industry bodies, including Government and regulators, and promotes, encourages, monitors and regularly reports on progress and needed areas of further action with regard to the recommendations of this paper.

1.17 The foregoing is a brief overview. Detailed Recommendations are set out in Chapter 3 of this paper.
2 Introduction and Overview

2.1 Life insurance has been an important pillar of the global economy since the 18th century. It has provided vital protection for individuals, families and businesses – at first, through mutual societies and later through limited liability companies. The growth of the life insurance sector has created significant pools of investable assets, referred to as ‘life funds’. Life insurers are large employers and provide a substantial number of business opportunities to independent agents, brokers and financial advisers. They are significant consumers of professional services (including accounting, actuarial, financial, tax and legal) and are very large investors in short, medium and long term assets (including infrastructure).

2.2 The Hong Kong life insurance industry total gross premiums in 2017 increased by 9.5% to HK$441.5 billion. For context and reference, to help demonstrate the size and importance of the industry, this figure is almost 30% higher than Hong Kong’s GDP in 2017.

2.3 Hong Kong Government statistics reveal that as of December 2017, a total of 227,200 people were employed in the ‘Financing and Insurance’ industry. In this regard, according to the statistics as at 30 September 2018 provided by the Insurance Agents Registration Board (IARB), there were 2,417 insurance agencies, 65,464 individual agents and 25,221 responsible officers/technical representatives registered with the IARB. There were also 778 authorised insurance brokers as at 30 September 2018. In addition, there were 9,436 people registered as chief executives/technical representatives of these authorised brokers as at 30 September 2018. Hong Kong is already home to the IROs of many leading MLIs – indeed, more than any other financial centre in Asia. That position is, however, showing signs of weakening, which needs to be addressed.

2.4 As a financial centre in China with a newly independent insurance regulator, the Insurance Authority (IA), Hong Kong stands at a crossroads between existing and new geographical and regulatory opportunities and challenges. There is a new insurance sector regulator in the Mainland – the China Banking and Insurance Regulatory Commission (CBIRC). This paper discusses the importance of the life insurance sector to Hong Kong and some significant opportunities to further enhance the industry’s contribution to Hong Kong’s economy, society as a whole, and successful future.

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2.5 The opportunities to promote Hong Kong as the destination of choice for an MLI’s IRO fall into several important categories – these form the basis of the recommendations made in this paper. They include the following:

2.5.1 First, there is an opportunity to promote Hong Kong as a centre of excellence for the management of MLIs’ IROs through a combination of fiscal, capital market, education, immigration, regulatory, taxation and other initiatives.

2.5.2 Second, given Hong Kong’s financial sophistication, there are opportunities to expand the scope of life and long-term health products offered by life insurers, to provide greater protection not only to cover death, critical illness and health care but also (due to the increasing risk of people out-living their savings) for wealth management and retirement purposes. Potentially, both Hong Kong and the wider regional population would reap the benefit of seizing these opportunities (see Appendix I).

2.5.3 Third, Hong Kong can be a leader in demonstrating how life insurance can evolve into a pure, practical form of shared value creation – treating social problems as business objectives that offer tremendous opportunities for growth and innovation. For example, life insurers can play a key role in helping customers live healthier for longer. This benefits not just the life insurer’s business but also the customer, their family and their employers as well as Hong Kong’s society and economy more widely. Indeed, improving population health, paying to help people be healthier for longer, makes commercial sense for both life and health insurers and governments.

2.5.4 Fourth, Hong Kong’s position within the GBA places it in a unique position to offer GBA residents a wider variety of currency, coverage and other financial products than are available elsewhere in the region. Clearly articulated cross-border regulatory provisions and controls also provide for enhanced customer protection and service quality.

2.5.5 Fifth, the Belt and Road Initiative provides Hong Kong with opportunities both from a product as well as an investment perspective that, given its close proximity, Hong Kong needs to tap, positioning itself with a unique China proposition.

2.5.6 Sixth, more broadly, Hong Kong has already developed various programmes with the Mainland for mutual access, including the Stock Connect and Bond Connect initiatives, Mutual Recognition of Funds and the QDII programmes. There is also discussion of further initiatives, including ETF Connect. A ‘Life Insurance Connect’ would further expand the opportunities for the life insurance industry.
2.5.7 Seventh, other opportunities include lobbying CBIRC for ‘special/preferred
treatment’ on a par with domestic Mainland players with regard to access to
the mainland market. Appropriately qualified life insurance operations could
be offered an accelerated pathway to 100% ownership, in advance of the
recently announced three-year timeline.

2.5.8 Finally, and eighth, Hong Kong has been a leader in regulatory simplicity
while ensuring the protection of customers. The IA has already – less than a
year since its inception – made substantial efforts to introduce regulatory and
industry advancement through technological innovations and financial
technologies (InsurTech). Further opportunities to assist in the development of
new products and distribution models, including the use of AI and blockchain
technologies, are discussed in this paper.

2.6 As a corollary to these objectives and propositions, Hong Kong is well placed to cater
to the public’s need for compelling long term savings products to mitigate the risk of
outliving one’s savings. This could be achieved by reference to risk protection and
increasing the supply of longer-duration assets, potentially to meet a life insurer’s
long-term liabilities together with less onerous capital charges. This issue will become
increasingly important as Hong Kong’s dependent population continues to grow (see
Appendix I).

2.7 By combining personnel, product, market and regulatory strategies, as well as
pursuing InsurTech innovation, Hong Kong can seize the opportunity to enhance its
position as a well-regarded and widely preferred ILIC for MLIs’ IROs.
3 Recommendations

3.1 We recommend a number of key initiatives to enhance Hong Kong’s attractiveness so that MLIs establish and maintain their IROs here and to promote Hong Kong as a suitable location for the base of their international operations.

3.2 In order to continue to explore, actively pursue and facilitate implementation of these opportunities we recommend a Working Group highly focused on Life Insurance, collaborates with, and utilises the work of, existing relevant industry bodies, including Government and regulators, and promotes, encourages, monitors and regularly reports on progress and needed areas of further action with regard to the recommendations of this paper.

Hong Kong’s Mainland and International Relations

3.3 Part of Hong Kong’s attractiveness to MLIs is its status as an ILIC. The Central Government’s Belt and Road and GBA initiatives are key, if harnessed effectively, to the enhancement of Hong Kong’s status. The further opening of the Mainland Chinese life insurance market to overseas investment, and the exploration of appropriately qualified Hong Kong life insurance operations being provided with an accelerated pathway to 100% ownership nationwide and treated on a par with domestic Mainland insurers also provide Hong Kong life insurers with immense opportunities to appropriately service overseas markets.

3.4 The reference to “appropriately qualified life insurance operations” for the purposes of this paper and for the application of all recommendations in the paper means companies licensed in Hong Kong, and with appropriate experience, capacity and financial strength as determined by the regulator. In line with Hong Kong policy, the qualification should be applied on a non-discriminatory basis to all licensed Hong Kong companies without regard to the ultimate domicile of their parent company but having regard to their commitment to Hong Kong by establishing and maintaining IROs, enhancing local employment, developing and locating expertise in Hong Kong - thereby making a material contribution to the local economy and society.

3.5 We recommend that the Government (with input from the Working Group, other relevant organisations, and the IA) continue to capitalise on the unique advantages of Hong Kong (such as its proximity to the Mainland and being a leading international gateway and a centre of excellence for the financial sector and innovation) and commence a dialogue with the Central Government to identify specific projects in which Hong Kong based MLIs can participate. These could include, for example:
3.5.1 Implementing measures to better align Hong Kong with the Mainland’s broad development strategies, in support of the nation’s ‘Going Global’ initiative.\(^4\)

3.5.2 Continuing to leverage Hong Kong's unique position as a pivotal hub for offshore renminbi business.\(^5\)

3.5.3 An incentive plan to encourage Mainland Chinese life insurance firms to use and benefit from the expertise of Hong Kong life insurance and reinsurance service providers (including life insurers, life reinsurers, actuaries, accountants and lawyers), to further enhance their propositions, value and service they provide for their customers and success of the life insurance industry of the Mainland.

3.5.4 Incentives for Mainland Chinese firms to use local and international operations of Hong Kong based MLIs for certain aspects of the firms’ international expansion along the Belt and Road.

3.5.5 Launch ‘Life Insurance Connect’, focusing on a specific set of life insurance, medical protection and investment products offered to Mainland Chinese and Hong Kong residents within the GBA. This should be governed by appropriate and mutually recognised regulations across the GBA through an MLI’s own distribution channels. This ‘Life Insurance Connect’ could build upon the existing Qualified Domestic Institutional Investor scheme and the Stock and Bond Connect initiatives. Life Insurance Connect might be expanded later to allow for uniform GBA regulation of distribution as well.

3.5.6 Accelerating and enhancing access to the Mainland Chinese market for eligible Hong Kong life insurance companies, over and above the recently announced policy of three years for all overseas interests.

3.5.7 Working towards an international treaty to align Hong Kong with other members of the ASEAN Economic Community in terms of the flow of trade in life insurance services.

3.5.8 Building a regulatory environment recognised as world-class at both a regional and global level.

3.5.9 Finalising mutually recognised capital rules that facilitate the inward and outward capital transactions of MLIs between their IRO in Hong Kong, counterparties in the Mainland and other significant trading partners.

\(^4\) See FSDC, Chinese Enterprises “Going Global” : Opportunities and Hong Kong’s Policy Responses (April 2015, FSDC, Hong Kong)

\(^5\) See FSDC, Recommendations for Capitalising on the Unique Advantages of Hong Kong in the Process of Renminbi Capital Account Convertibility (April 2016, FSDC, Hong Kong)
3.5.10 Providing sophisticated and high quality, value-added reinsurance and risk management activities to enhance the development of Mainland Chinese life insurers.

3.5.11 Achieving statutory minimum solvency and capital requirement equivalence with major jurisdictions globally, to avoid capital overlays in Hong Kong in relation to an MLI’s overseas business.6

Life Insurer Investments

3.6 Insurers are very significant investors. In this regard, in the 2017 Individual Life category net liabilities – and therefore assets invested – amounted to HK$1,849.9 billion.7 For Group Life business net liabilities were HK$1 billion for the same period.8 The following are some examples of asset classes that can be created and fostered to enhance the role of life insurers in the economy:

3.6.1 Longer yield assets. Life insurance liabilities, assumed through long term life insurance policies such as whole of life policies, are very long term in nature. They involve a life insurer in substantial exposure to interest rate risk. This in turn poses a tremendous challenge for life insurers in attracting their investors and serving the interests of their shareholders while also servicing policyholders and developing attractive new products (including those with guaranteed return).

3.6.2 The establishment of a market for longer term Government bonds and in turn increase long term corporate bonds to deepen the debt market would also provide the Hong Kong Government and corporates with a new funding pool to invest in social service provision, infrastructure and community schemes. Such investments can help overcome market failures and sustain public goods and services that enrich the welfare of Hong Kong citizens.

3.6.3 Green finance. This presents a significant opportunity for Hong Kong to build its bond and project finance markets, providing numerous benefits from increased employment to growth in the investment management, derivative, insurance and private equity industries.

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6 See FSDC, Turning Crisis into Opportunities: Hong Kong as an Insurance Hub with Development Focuses on Reinsurance, Marine and Captive (March 2017, FSDC, Hong Kong)
3.6.4 Renminbi financial assets. As the Mainland continues to open up its financial sector and promote capital account convertibility, huge opportunities will continue to become available to Hong Kong financial markets.

3.6.5 Belt and Road investments. The Belt and Road Initiative should provide favourable opportunities to Hong Kong insurers to invest in new capital market and infrastructure projects across the region and internationally. The Belt and Road Initiative has five major goals: policy coordination; facilities connectivity; unimpeded trade; financial integration; and people-to-people bonds. To facilitate all of these goals will require significant capital investment, which could be partially funded via the Hong Kong Government releasing longer term bonds. Estimates suggest funding requirements for the Belt and Road Initiative rising to between US$4 trillion and US$8 trillion (HK$31 and HK$62 trillion respectively).

3.7 We recommend that the FSTB work with the Working Group, other relevant organisations, and the IA to foster the development of a deep and liquid long-dated corporate bond market and to create a series of long-term Government bonds:

3.7.1 To support life insurers to better match their assets and liabilities by using local instruments. This, in turn, would support and sustain the newly created market.

3.7.2 To reduce capital requirements for life insurers who currently fail to adequately match their assets and liabilities. More importantly, it would create a new source of capital for companies to use for investments supporting the Belt and Road Initiative.

3.7.3 To provide capital for companies investing along the Belt and Road and incentives for the use of Hong Kong’s bond market for that purpose.

3.7.4 To enhance Hong Kong’s international appeal as a centre of excellence for socially conscious investors focused on environmental, social and good governance criteria.

3.7.5 To achieve Hong Kong’s strategic goals in medical know-how and services, education, mid-market housing and other long term social endeavours.

3.7.6 To support the development of Hong Kong’s green finance sector and, for that purpose, to better inform stakeholders about the market’s potential and

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improve their understanding, thereby encouraging the insurance sector's demand for related investment products.\(^{10}\)

3.7.7 To take account of how any new solvency regime levies capital charges on long term investments. Regulators in Europe and the US have looked at modifying solvency regimes so that qualifying infrastructure investments receive a reduced capital charge.

3.8 *We also recommend* that the Working Group, other relevant organisations, and the IA work with the accounting standards body in Hong Kong and other professional bodies, such as the Actuarial Society of Hong Kong, to refine the relevant accounting rules and regulatory capital requirements that tend to give rise to a conflict between accounting/reporting and economic perspectives.

**Taxation Matters**

Hong Kong’s tax system forms an integral part of the landscape against which the life insurance industry operates. In order for Hong Kong to develop into a world-class ILIC and flourish thereafter, we recommend that the FSTB undertake the following projects:

*Continue to expand Hong Kong’s tax treaty network, with a focus on strategic tax treaty partners*

3.9 We applaud the efforts taken to date by the Government to expand Hong Kong’s tax treaty network to drive business to Hong Kong and so enhance its economic competitiveness and investment growth. Having an extensive tax treaty network is essential to attract multinational corporations (including large MLIs and regional insurers) to Hong Kong. However, it is important that the focus is not solely on increasing the number of tax treaties Hong Kong has signed, but is also on signing tax treaties with more strategic economic partners. By this, we mean those partners that are more likely to help shape Hong Kong’s tax treaty landscape into one that supports MLIs’ businesses at both a regional and global level. Therefore, we recommend that the Government focus on:

3.9.1 Jurisdictions in the Asia Pacific region. Hong Kong requires an extensive regional tax treaty network to attract MLIs to set up and keep their IROs in Hong Kong – that is, a network at least on a par with Hong Kong’s primary regional competitors (e.g. Singapore). Key Asia-Pacific jurisdictions with which Hong Kong does not yet have a comprehensive tax treaty include Taiwan, Singapore, the Philippines, and Macao – all of which ranked among

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\(^{10}\) *See FSDC, Hong Kong as a Regional Green Finance Hub (May 2016, FSDC, Hong Kong)*
Hong Kong’s top 20 trading partners in 2017\textsuperscript{11}. In addition, Hong Kong does not have comprehensive tax treaties with other emerging Asian markets – such as Cambodia, Myanmar, Bangladesh, Mongolia, Laos and Nepal.

3.9.2 Jurisdictions where the largest MLIs are headquartered. Besides Hong Kong, these include Canada, the Mainland, France, Germany, Italy, Japan, Switzerland, the UK and the US. Of these jurisdictions, Hong Kong does not have a comprehensive tax treaty with the US or Germany. It is pleasing to note, however, that comprehensive tax treaty negotiation with German authorities is underway – as these two countries should be high on the Government’s priority list of potential tax treaty partners.

**Tax incentives for life insurance**

3.10 To acknowledge the benefits of life insurance to Hong Kong consumers and the contribution which life insurers make to Hong Kong’s society and economy, including employment and investments, the Government should consider providing income tax deductions on insurance premiums for certain qualifying insurance products, for example, for medical and life protection products helping make them even more attractive for policyholders. Many jurisdictions provide various forms of tax related incentives. Examples include: Singapore, Malaysia, Thailand, Japan and Germany\textsuperscript{12}.

**Explore tax incentives for setting up regional headquarters in Hong Kong**

3.11 To entice multinational corporations (MNCs) to conduct their business in Hong Kong, the Government should explore offering tax incentives for them to set up their regional headquarters here. Bringing in tax incentives to attract MLIs to set up or move their IROs to Hong Kong is important. Not only will it complement Hong Kong’s business environment and simple tax regime (see below), but it will make Hong Kong more competitive as a regional hub.

3.12 By way of example, the Singapore Government’s pro-growth policies are targeted at attracting large MNCs to their shores, with a view to anchoring and strengthening the Singapore market’s knowledge and capabilities. In Singapore, approved regional headquarters are taxed at a concessionary rate on qualifying overseas income and international headquarters can apply for various tax incentives, including tax exemptions and concessionary tax rates on qualifying income.

\textsuperscript{11} Trade and Industry Department, *Hong Kong's Principal Trading Partners in 2017*  

\textsuperscript{12} EY 2018-2019 Worldwide Personal Tax and Immigration Guide (EY Guide)
3.12.1 These Singaporean incentives have proved to be an effective fiscal policy tool. If Hong Kong had comparable tax incentives, it would make Hong Kong more competitive and strengthen its position as an international and regional hub for MNCs, including as an ILIC for MLIs.

3.13 Attracting Talent: A programme of corporate tax incentives including certain personal tax benefits need to be explored to assist in attracting and retaining the very best and needed talent.

*Offer research and development (R&D) ‘super tax deduction’ equally to life insurance companies*

3.14 The Government has recently introduced a super tax deduction for R&D expenditure in Hong Kong in order to drive Hong Kong’s economic growth. We applaud this initiative. Insurance companies are bound to increase their R&D expenditure over the next few years to keep pace with the rise of InsurTech. It is fair to say that Hong Kong has been lagging behind in technological development, prompting the recent unveiling of various measures to help catch up.\(^\text{13}\) We recommend that Hong Kong’s tax system support and promote the growth of InsurTech, other financial services technologies (FinTech) and innovation generally. Offering the R&D super tax deduction is a great start. Since many life insurance companies are taxed under a specific tax regime in Hong Kong, we hope the R&D super tax deduction regime can be modified to apply equally to all life insurance companies in Hong Kong, irrespective of their taxation basis.

*Keep Hong Kong’s tax regime simple*

3.15 Hong Kong currently offers tax incentives for professional reinsurers at 50% of the normal profits tax rate (currently 8.25%). We are pleased to see that the Government has recently extended the coverage of this concessionary rate to professional reinsurers’ domestic profits (i.e. onshore business) and also to their life business.\(^\text{14}\) These changes and more would put Hong Kong’s tax regime in a better position to compete with Singapore.

3.16 Hong Kong prides itself on having a simple, predictable and low tax system. Unlike Singapore, Hong Kong does not have any indirect taxes in the nature of GST or VAT. Although the Government may consider broadening its tax base in the future, it is important to note that the absence of a value added tax is one of the key attractions of Hong Kong’s tax regime.

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\(^{13}\) See FSDC, *The Future of FinTech in Hong Kong* (May 2017, FSDC, Hong Kong)

\(^{14}\) Inland Revenue Ordinance (Cap.112), ss.14B.
It is important for the future of Hong Kong based MLIs and IROs that the Hong Kong authority always aspire to be ranked among the leading modern regulators of other large insurance and capital markets centres.

The IA, as an independent statutory body supervising the insurance industry, assumed the regulatory functions of the former Office of the Commissioner of Insurance on 26 June 2017. Its important functions include considering and proposing reforms of the law relating to insurance business and to review and, if necessary, propose reforms of the systems for regulating authorised insurers and (soon to be licensed) insurance intermediaries. These important powers can be utilised to explore simplification of regulation and to promote engagement with industry, facilitating advancements in insurance coverage and services and enhancing world-class insurance thought leadership.

The Insurance Ordinance was substantially amended in 2015, and the licensing system of the intermediaries is underway, with the commencement of certain provisions relating to the regulation of intermediaries expected soon. Following that final stage, the IA will have more direct powers over life insurance distribution – providing the regulator with a significant opportunity to raise the reputation of the industry and intermediaries on a global scale and enhance the role which insurance sector service providers play in financial markets.

The progress which the IA has made (in consultation with the FSTB) towards adopting a widely recognised and internationally respected economic assessment of capital requirements (i.e. risk based capital standards) is a move in the right direction, but we note that there is still a long way to go.

The IA must also build close ties with the Mainland’s new insurance regulatory body, the CBIRC.

We recommend that the Working Group work with other relevant organisations and the IA on the following further improvements to the regulatory environment:

Equivalence and mutual recognition of regulatory capital requirements for the overseas life insurance operations of Hong Kong based MLIs.

Clear codes of conduct, with clear guidelines on how to comply with business conduct requirements – including a focus on selling practices and suitability criteria – and guidance on what to do when an insurer makes a mistake.

A focus on financial inclusion across the Hong Kong and GBA markets – making it easier for all to access life and health protection products.
Education

3.19 The financial services industry is one of the key employers of high-end talent in Hong Kong. However, there are still talent shortages across different sectors – particularly in the area of insurance\(^\text{15}\). As the Mainland continues its market reform, the demand for talent across the financial services industry is expected to increase significantly in the next few years. In filling the gap, the insurance sector needs to employ more staff who understand the products and relevant regulatory regimes and can serve Mainland clients. Hong Kong should establish a talent development framework to retain existing staff and attract candidates, both locally and from overseas, to the insurance industry.

3.20 Areas for enhancement include:-

3.20.1 Early Financial Literacy: an understanding of how to use financial resources to achieve life-long financial security should begin at an early age and be part of a well-rounded high school education.

3.20.2 Degree Based Education: graduate education relating to insurance has in large part focused upon actuarial sciences, a key and core service for the insurance sector. In many other segments of the financial services industry, degree courses exist that focus on specialisation: for example, banking and securities. Insurance industry education needs to focus on all aspects of the life insurance value chain including (but not limited to) underwriting, claims, distribution, product and proposition design and development, and customer services. Also need to position for new skills needed in the future in newer Technology and Digital fields, e.g. Data scientists for insurance, advanced analytics, Artificial Intelligence, increased automation etc.

3.20.3 Professional Talent Development: there is a wide variety of post-graduate diploma programmes and professional certificate courses but none of them (apart from actuarial science-related courses) focus on insurance or related services. Finance, management and marketing courses all exist, but none really focuses on how this learning can be used to improve participation and success in the insurance business of today and the future.

3.21 **We recommend** that the FSTB, the Working Group, industry bodies, other relevant organisations, and the IA work with the Education Bureau, universities, business colleges and schools to create a career education plan for high school students and graduates. This could include (for example) the introduction of high school learning elements that deal with savings, protection and financial security; degree programmes

\(^{15}\) See FSDC, *Developing Hong Kong’s Human Capital in Financial Services* (Jan 2015,FSDC, Hong Kong)
with appropriate majors in life insurance; post-graduate diplomas for students that study both insurance and non-insurance degrees; and a series of accredited professional certificate and diploma programmes. These education programmes will benefit both the insurance industry and the IA and could be tailored to suit local and international students alike, elevating Hong Kong to a position of international excellence in life insurance education.

3.22 **We also recommend** that, as a consequence, the Working Group, industry bodies and other relevant organisations assist the IA to amend certain regulations to recognise completion of these educational programmes as a qualifying criterion. For example, new regulations could provide for ready recognition of graduating students entering certain roles, including key persons in control functions, senior management and directorships of authorised insurers.

**Infrastructure**

3.23 Hong Kong’s continued growth requires ongoing investment in key infrastructure to support MLIs establishing their IROs in Hong Kong. In recent years Hong Kong has faced challenges such as insufficient international school places, high housing and office rental costs, air pollution and limited cultural offerings. These factors have reduced Hong Kong's attractiveness as a work destination for global professionals.

3.24 **We recommend** that Government bureaus further step up their collaborative efforts to improve the living environment for people in Hong Kong and address longstanding concerns around international school places, high rental and property costs and air quality. In the past decade, London, New York, Singapore, and Shanghai – among others – have conducted strategic reviews to come up with initiatives aimed at remaining competitive and moving ahead of other financial centres in the long term. Hong Kong needs to make a similar effort to keep up and preserve its status as one of the most important international financial centres in the world.

**Technology**

3.25 Hong Kong is investing substantially in technology through the Innovation and Technology Fund administered by the Innovation and Technology Commission (ITC). The IA is also focusing on FinTech-related projects. This area is fast moving and internationally very competitive. Hong Kong needs a dedicated specialty group to assist it in keeping ahead of the curve.

3.26 FinTech initiatives include:

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16 See FSDC, *Strengthening Hong Kong as a Leading Global International Financial Centre* (November 2013, FSDC, Hong Kong)
3.26.1 Blockchain: many jurisdictions are taking a proactive approach to developing distributed ledger technology (DLT). However, the effort made in Hong Kong so far has been modest and the initiatives scattered. Hong Kong needs to engage more deeply with DLT to improve the efficiency of its financial sector.17

3.26.2 InsurTech: in relation to robo-advisory, many financial institutions are already providing online facilities for self-service by the customer. However, life insurance advice is generally bundled with a human adviser. Hong Kong can enable and enhance human delivery agents to deliver products at reduced costs and increased efficiencies by engaging in innovative InsurTech models and platforms.

3.26.3 Digital ID and Know Your Customer (KYC) utility: verifying customer identity, ascertaining suitability for new customers and ongoing KYC review are major burdens for the financial sector. A FinTech solution in the form of a sector-wide digital ID utility to address KYC requirements and support insurance claims would be welcomed by the industry.18

3.26.4 Wider user of AI and Machine Learning, Advanced Analytics and specialist emerging areas such as data scientists for insurers.

3.27 We recommend that Hong Kong forms a specialised division of the ITC, focused on the life insurance industry, to work with and sponsor technology firms on FinTech in life insurance and to work with the Working Group, other relevant organisations, and the IA on appropriate developments in regulation. The division should facilitate implementation of new initiatives following successful deployment in a regulatory sandbox environment.

Other considerations

3.28 The presence of successful life insurance professionals and service providers from all around the world deepens Hong Kong’s diversity and the expertise available in its talent pool. Talents need to be nurtured: diversity in all its forms should be encouraged and embraced.

3.29 Given its strong economic and business infrastructure, Hong Kong hosts many global financial institutions. However, the level of asset management in Hong Kong lags behind London and New York. Hong Kong also faces competition with other asset management centres (“AMCs”) in Asia, such as Singapore and Tokyo.

17 See FSDC, Hong Kong – Building Trust Using Distributed Ledger Technology (May 2017, FSDC, Hong Kong)
18 See FSDC, Building the Technological and Regulatory Infrastructure of a 21st Century International Financial Centre: Digital ID and KYC Utilities for Financial Inclusion, Integrity and Competitiveness (June 2018, FSDC, Hong Kong)
3.30 There are qualitative and quantitative benefits for Hong Kong to become a preferred AMC for regional and global insurers. For example, the increased asset allocation, liquidity and volume of transactions will translate into significant financial revenues for Hong Kong and also promote an increased pool of talent and job creation.

3.31 **We recommend** that:

3.31.1 Hong Kong seeks to become the first choice of destination in establishing an AMC for certain life insurance investments for Mainland financial institutions as well as other financial institutions with a nexus to Hong Kong. Enhancing Hong Kong’s role as a preferred domicile for AMC will encourage more investment activity in Hong Kong, deepen Hong Kong’s talent pool to support the investment of life insurance assets and assist life insurers in their asset liability management, as well as promoting Hong Kong’s position as an international financial centre. The FSDC has identified various ‘push' factors which may potentially push financial institutions to establish AMCs outside their current investment location, as well as 'pull' factors which may attract financial institutions to establish a new centre in Hong Kong.¹⁹

3.31.2 Hong Kong’s efforts to attract diverse talent, improve education in life insurance and provide improved infrastructure and a better lifestyle should be promoted through talent-aware advertising that is carefully aligned with international insurance and financial forums held outside Hong Kong. An appropriate slogan and programme needs to be developed to carry this theme forward.

3.31.3 Life insurers are encouraged to work more closely with social impact initiatives such as the Social Innovation and Entrepreneurship Development Fund, in order to demonstrate more clearly the social and economic good that insurers do. As well as improving public understanding and perception of the life insurance industry in Hong Kong, this will give rise to an ecosystem whereby social entrepreneurs can thrive and innovative ideas, products and services can more directly benefit society by meeting underserved needs, unleashing under-utilised talent in this regard. This will in turn foster hope, dignity and self-worth among Hong Kong’s under-privileged communities.

3.32 The incentive to invest in these recommendations are summarised in the table below, by highlighting the more significant benefits to the Hong Kong economy and insurance sector:

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¹⁹ See FSDC, Enhancing Hong Kong’s Role as a Centre for Regional and International Financial Institution Operations: Booking (September 2015, FSDC, Hong Kong)
| Hong Kong’s Mainland and International Relations  
(section 3.3 – 3.5) | Attract and retain MLIs  
auxiliary businesses | Industry efficiency  
improvements | Increase economic activity growth | Reduce Basle  
Government | Increase government income | Increase long-term  
investment planning | Support long-term capital markets | Funding support  
in infrastructure projects | Increase social security | Increased employment | Uplifting workforce | Attract and retain talent | Support Belt and Road and GBA initiatives |
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<td>Implement measures to better align HK with Mainland’s strategies</td>
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<td>Leverage HK’s position as a pivotal hub for offshore renminbi business</td>
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<td>Incentives to encourage Mainland insurers to use HK life insurers and reinsurance services</td>
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<td>Incentives for Mainland Firms to use HK-based MLIs for aspects of their Belt and Road expansion</td>
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<td>Launch “Life insurance Connect”</td>
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<td>Accelerate and enhance access to the Mainland market for eligible HK life insurers</td>
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<td>Working towards an international treaty to align HK with other members of ASEAN</td>
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<td>Building a world-class regulatory environment</td>
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<td>Finalize capital rules that facilitate the inward and outward capital transactions</td>
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<td>Participate in reinsurance and risk management activities to support growth of Mainland insurers</td>
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<td>Achieve statutory minimum solvency and capital requirements equivalence with major jurisdictions</td>
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<td>Life Insurers Investments (section 3.6 – 3.8)</td>
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<td>Develop a deep/liquid long dated corporate bond market and more long term Government bonds</td>
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<td>To support HK’s green finance sector</td>
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<td>To review the limit on equity which life insurance companies are allowed to hold in companies</td>
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<td>To take account of how any new solvency regime levies capital charges on long term investments</td>
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<td>To work with the accounting standards body in HK to refine the relevant accounting rules and regulatory capital requirements</td>
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<td>Taxation Matters (section 3.9 - 3.16)</td>
<td>Attract and retain MLIs</td>
<td>Wider industry growth</td>
<td>auxiliary businesses</td>
<td>Industry efficiency improvements</td>
<td>Increased activity growth</td>
<td>Reduce burden on Government</td>
<td>Increase government income</td>
<td>Saving and reinvestment planning</td>
<td>Support MNCs’s long-term investment strategies</td>
<td>Ease capital raising/support infrastructure projects</td>
<td>Increased social security</td>
<td>Increased employment</td>
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<td>Expanded tax treaty network – specifically with jurisdictions in the Asia Pacific region and where the largest MLIs are headquartered</td>
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<td>Providing income tax reductions for certain qualifying insurance premiums</td>
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<td>Providing tax incentives for MNCs to conduct their business in HK – specifically for them to set up their regional headquarters here</td>
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<td>Offering research and development (R&amp;D) super tax deduction equally to life insurers</td>
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<td>Keeping HK’s tax regime simple and with a low tax rate (without any GST or VAT)</td>
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<td>Regulation (section 3.17 to 3.18)</td>
<td>Equivalence and mutual recognition of regulatory capital requirements</td>
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<td>Clear codes of conduct – with clear guidelines on how to comply</td>
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<td>Financial inclusion across HK and GBA markets</td>
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<td>Education (section 3.19 to 3.22)</td>
<td>Insurance focused education programmes and professional talent development</td>
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<td>Amend certain regulation to recognize completion of the above educational programmes as a qualifying factor</td>
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<td>Infrastructure (section 3.23 to 3.24)</td>
<td>Improve living environment in HK and address longstanding concerns around international school places, high rental/property costs and air quality</td>
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<td>Technology (section 3.25 to 3.27)</td>
<td>Forming a division of the ITC, focused on life insurance, to work with and sponsor technology firms on Fintech and develop regulation</td>
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<td>Other considerations (section 3.28 to 3.31)</td>
<td>Become the first choice of destination in establishing an AMC for certain life insurance investments for Mainland financial institutions</td>
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<td>Promote HK through talent-aware advertisement</td>
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<td>Life insurers to be encouraged to work more closely with the Social Innovation and Entrepreneurship Development Fund</td>
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4 How the life insurance sector brings social and economic value

4.1 The continued growth and development of the life insurance sector is important not only for life insurance companies but also for their customers, their employees and the economy as a whole. Life insurance contributes to economic growth through its utilisation of significant human resources and through the investment of insurance premiums as funds under management. It also provides broader social benefits in that it encourages better wealth protection and sustainable retirement solutions.

Life insurance creates employment

4.2 As Hong Kong has seen its economic base shift from agriculture, through manufacturing, to high value-added professional services over the years, sectors such as life insurance have become essential to sustainable economic growth through high quality job creation. Insurance, services auxiliary to insurance and pension funding have contributed more than 80,000 jobs to the Hong Kong economy and approximately 10% of Hong Kong’s services exports over the past three years. In the insurance industry alone, as of 2016, there were 62,400 people employed.

Life insurance promotes economic activity and business growth

4.3 By pooling individual risks, life insurance mitigates the adverse effects of events over which individuals have no control. Insurance protection allows the insured and/or their dependents to recover from sudden misfortune, such as death or critical illness, by providing capital and/or income following an event which might otherwise be financially catastrophic. This additional security encourages greater consumer spending and individual investment, thereby stimulating broader economic activity.

Life insurance reduces the burden on government and promotes financial stability

4.4 Insurance enhances the effect of social welfare systems by relieving the total burden on the public sector. This is especially important for a rapidly ageing society such as Hong Kong’s.

4.5 Insurance companies are generally less prone to liquidity shortages, which mean that they are more resilient to short-term market stress. This allows life insurers to play a counter-cyclical role when it is most needed in the economy. This inherent combination of long-term investment capacity and short-term market resilience enables insurance companies to contribute to financial stability. They are a natural hedge for the broader economy.

Life insurance promotes long-term savings and retirement planning

4.6 Life products support individuals’ savings and asset accumulation, because of their long-term contractual nature.

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20 See Note 3.
Increased asset accumulation is especially important as the aged dependent population in Hong Kong grows. Retirees are expected to account for almost a quarter of the total Hong Kong population by 2025. As the population ages, the dependency ratio is expected to increase to 10 working age persons needing to support five dependents by 2025.

In Hong Kong, private savings are especially important in managing the risk that an individual might outlive their assets; this presents a widespread need to supplement insufficient savings from public schemes. Total insurance penetration (including long term business and general) in Hong Kong reached 18.4% of GDP as of 2017, inclusive of demand from mainland Chinese visitors (see Appendix I). Currently, over 80% of Hong Kong’s workforce is covered by the MPF system or by other retirement protection schemes, but formal pension systems in Hong Kong cover only 37% of GDP, compared to the OECD average of 123.6%. Insurance companies can help address these gaps by offering protection products and raising awareness of how insurance products can augment consumers’ savings.

Life insurance promotes financial security

Hong Kong’s rapidly aging population also faces higher medical costs. Medical costs in both public and private sectors have risen by more than 20% in real terms (inflation adjusted) in the past decade and these trends are expected to continue. Less than 60% of Hong Kong residents are covered by healthcare insurance.

Individuals’ demands for life protection products, such as critical illness and medical insurance cover, are rising as consumers’ wish to avoid exhaustion of their life savings before or during retirement.

The security which insurance cover provides has a broader social benefit, enabling families to provide for their needs in terms of healthcare, education, retirement income and housing. Stronger financial stability, based on good life cover, necessarily results in a better quality of life.

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22 Defined as aged 65+.
23 PopulationPyramid.net, Population Pyramids of the World from 1950 to 2100 – China, Hong Kong SAR 2025
https://www.populationpyramid.net/china-hong-kong-sar/2025/
25 Organisation for Economic Co-operation and Development (OECD), Pension Markets In Focus 2016, Figure 3. http://www.oecd.org/daf/fin/private-pensions/Pension-Markets-In-Focus-2016.pdf
26 Census and Statistics Department, THS Report No. 63 - Health Status of Hong Kong Residents Survey Period: October 2016 to January 2017 (December 2017, Hong Kong)
Life insurance activity converts domestic savings into productive investments and supports long-term domestic capital markets

4.12 Unlike commercial banks, which specialise in deposit-taking and relatively short-term lending, life insurance companies adopt a longer-term perspective. Their commitments to their policyholders and the stability of their cash flows mean that life insurers are ideal sources of long-term financing, not only for the government and corporate bonds typically issued for public and private sector finance, but also for real estate, equities, infrastructure projects and other types of investment.

4.13 This accumulation and deployment of premiums transforms the dormant capital of vast numbers of policyholders into productive long-term capital to support strong economic growth. In particular, governments across Asia recognise that sustainable growth necessitates the proper design and investor availability of infrastructure projects. Hong Kong insurers can play a critical role in productive collaboration with Government to finance long-term capital projects, such as those foreseen under the Belt and Road Initiative.
5 The current landscape and the ‘state of play’ of life insurance

5.1 The Hong Kong individual life insurance market is comprised of individual life products, retirement contracts, group life insurance and annuity products. IA statistics show that premiums in 2017 totaled HK$440.9 billion, the overwhelming majority (approximately 94%) of which represents individual insurance business. The total can be broken down as follows:27

5.1.1 HK$415.1 billion in premiums was paid under 12.5 million individual life policies, with net liabilities of HK$1,850 billion.

5.1.2 HK$8.9 billion in premiums was contributed to 62,271 retirement contracts, with net liabilities of HK$125.2 billion.

5.1.3 HK$3.4 billion in premiums was contributed to 19,327 group life policies, with net liabilities of HK$1 billion.

5.1.4 HK$13.6 billion in premiums was contributed to 343,573 annuity (and other health-related) contracts.

5.2 Office premiums for new individual life business were HK$150.6 billion in 2017. New office premiums for individual life (non-linked) business was HK$137.9 billion, while individual life (linked) business was HK$12.7 billion in terms of new office premiums. The total number of new individual life policies was 1.3 million in 2017 (minimal change).28

5.3 For in-force business, the total office premiums increased by 23.8% from HK$328.1 billion in 2015 to HK$406.2 billion in 2016. The individual life category remained the dominant line of business, making up HK$384.6 billion or 94.7% of total business.

Market Participants

5.4 More than 227,000 people are employed in the ‘Financing and Insurance’ industry in Hong Kong.

5.5 As at 30 September 2018, there were 161 insurers authorised to carry on insurance business in or from Hong Kong, comprising:

5.5.1 94 general business insurers.

5.5.2 48 long-term business (life) insurers.

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27 See IA, Annual Statistics for Long Term Business 2017

28 IA, Annual Long Term Business Statistics
5.5.3 19 composite insurers (both general and long-term).\footnote{IA, The Market, \url{https://www.ia.org.hk/en/infocenter/statistics/market.html}}

5.6 87\footnote{IA, Register of Insurers, \url{https://www.ia.org.hk/en/supervision/reg_insurers_lloyd/register_of_authorized_insurers.html} (as of 6 December 2018).} of these 161 insurers were incorporated in Hong Kong, mostly as local subsidiaries of MLIs, with the balance coming from 22 different jurisdictions – predominantly the US (11), Bermuda (12) and the UK (10).

Regulatory Regime

5.7 The IA administers the Insurance Ordinance to regulate insurers and insurance intermediaries (agents and brokers) in Hong Kong.

5.8 An insurer must be authorised by the IA before it carries on insurance business in or from Hong Kong. The Hong Kong Federation of Insurers (HKFI) has published (among other things) the Code of Conduct for Insurers and the Code of Practice for the Administration of Insurance Agents. These Codes aim to promote good practice among insurers in the conduct of their insurance business and the administration of their insurance agents.

5.9 Currently, insurance brokers must be authorised by the IA or admitted as members of self-regulatory organisations approved by the IA. The two IA-approved broker bodies are the Hong Kong Confederation of Insurance Brokers (HKCIB) and the Professional Insurance Brokers Association (PIBA). The Insurance Agents Registration Board (IARB) established under the HKFI is responsible for registering insurance agents in accordance with the Code of Practice for the Administration of Insurance Agents.

5.10 According to statistics provided by the IARB, as at 30 September 2018, there were 2,417 insurance agencies, 65,464 individual agents and 25,221 responsible officers / technical representatives registered with the IARB.\footnote{See Note 29.}

5.11 There were 760 authorised insurance brokers as at 30 September 2017, all members of the HKCIB or PIBA. 9,454 persons were registered as chief executives / technical representatives of these authorised brokers.

5.12 Appointed insurance agents and authorised insurance brokers under the self-regulatory regime will become IA-licensed intermediaries under certain amendments to the Insurance Ordinance that are set to come into effect at some stage during the next 12 months.
Market Trends

5.13 The insurance market in Hong Kong is evolving more rapidly now than at any point in the past. This is reflected in a variety of discrete but interconnected trends, notably: the forging of new strategic alliances and distribution models, a digitisation revolution, the emergence of the InsurTech industry and the growth of a vocal retirement segment. These trends pose challenges to and present new opportunities for incumbents and new market participants alike.

New Strategic Alliances

5.14 Hong Kong insurance distribution channels have historically consisted of a mix of agents (registered to their insurer principals), brokers (selecting solutions from a variety of providers for their customer principals) and banks through their branch networks. Insurance companies have traditionally aligned with one or more banks in this regard, but not in an exclusive manner, as they have also traditionally relied for the most part on their own agency forces.

5.15 More recently, complementary strategic alliances have been emerging that focus on the mutual benefits for partners in creating solutions that are tailored to their joint customer bases. These are reflected in longer term exclusive arrangements (e.g. bancassurance joint ventures) and bespoke technology partnerships (such as the emergence of health-related technological platforms). The nature of technological change means that life insurance companies are becoming more nimble and strategic in their approach to forming alliances.

Digitisation

5.16 The acceleration of technological solutions in the insurance market is transforming the experience insurers offer their customers, both with respect to traditional insurance business as well as for new market participants. Customers feel that their needs are met not only by the concrete benefits of their purchase but also increasingly by the service and added value which they perceive their provider is delivering.

5.17 Further digitisation in the life insurance sector should result in more satisfied customers, more efficient companies and more flexibility for all market participants – including the regulator itself. The IA has been particularly vocal in urging insurance companies to embrace financial technology and big data analytics.

5.18 Over 47% of respondents to PWC’s Hong Kong FinTech Survey 2017 said that they would adopt some form of process automation over the next 12 months.\(^2\) AI, data analytics and other emerging technologies and digital techniques are being developed alongside more traditional digitisation (such as ‘straight-through’ processing,

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\(^2\) PwC, Hong Kong FinTech Survey 2017 (April 2017, PwC Hong Kong), 10.  
customer-centric electronic touch points and paperless products). All will be future points of differentiation.

**InsurTech**

5.19 82% of financial institutions intend to enter into FinTech partnerships with start-ups in the coming 3-5 years. An abundance of private unallocated capital and Hong Kong’s business-friendly environment, advanced infrastructure, legal system and international talent pool have a combined supportive effect on the emergence of Hong Kong as a major FinTech incubator.

5.20 InsurTech, the subset of emerging technologies in the insurance industry, has been encouraged by the IA through the creation of an InsurTech Sandbox, coupled with a pilot scheme to fast track authorisation applications by insurers intending to carry on business through solely digital means. Both pilot initiatives were launched in September 2017.

5.21 The Sandbox allows insurers to test new initiatives and user experience models with real market data in a controlled environment, before launching them into the market. This provides participants with a ‘safe’ point of market entry, while it provides the regulator with valuable input to continue to refine its supervisory requirements based on the latest technological advancements.

5.22 The ’Fast Track’ applications channel provides a dedicated queue for participants intending to create digital propositions in the marketplace to be authorised in or from Hong Kong for solely digital distribution – that is, without the use of any conventional agency, broking or bank distribution. In order to access the fast track, the IA requires an applicant’s offering to benefit consumers in Hong Kong through better product development, service delivery and cost efficiencies.

5.23 Regulatory accelerators are also complemented by general corporate accelerators (such as the Cyberport Incubation Programme) and a number of incubators/accelerators specifically tailored to the needs of the insurance, banking and professional services sectors.

5.24 The entry of new tech participants into the insurance market means that new market specialists are emerging. This provides opportunities to disaggregate traditional value chains. Areas of opportunity documented by FinTechNews.hk include (among other new disciplines) digital distribution, fraud solutions, cyber security and digital health. These will all have an impact on the competitiveness of traditional life insurance providers.

33 *ibid*, 1.
Retirement Segment

5.25 According to the Hong Kong Census and Statistics Department, the Hong Kong resident population is projected to increase from 7.34 million in mid-2016 to a peak of 8.22 million in mid-2043.\(^{35}\) In the last 30 years the elderly population doubled from 8% (1985) to 16% (2015) and is expected to double again by 2050 to constitute a third of Hong Kong’s population.\(^{36}\)

5.26 The rise of an increasingly vocal consumer base for retirement products has supported the creation of new life products to augment traditional investments in property and securities for retirees. The growth of the Hong Kong MPF system also represents a growing pool of deferred income. Overall, levels of average wealth are increasing and this increased wealth should be invested in customer-centric post-retirement product innovation.

5.27 Another reason that this segment of the market is of increasing importance to life insurance companies is that the Hong Kong Government is encouraging more self-sufficiency in retirement, at a time when more people are moving from accumulation into the “draw-down” phase of their life.

5.28 According to BlackRock, Hong Kong is already home to the world’s most retirement-conscious population and leads the Asia-Pacific region in moving out of cash to generate retirement income.\(^{37}\) 86% of Hong Kong’s investors have set savings aside for retirement, ahead of all markets both globally and regionally (including the Asia-Pacific average of 74%). This wealth was primarily invested in equities and insurance-linked products.\(^{38}\)

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\(^{36}\) Ibid.


\(^{38}\) Ibid.
6 The future of life insurance

Technology

6.1 Technology will play an important role to enhance the professionalism, productivity, and quality of personal insurance advisory distribution, including raising efficiency, better analysing and serving customer needs, training, compliance, customer experience and service. InsurTech is changing the current industry model and the way insurers engage with customers. Companies will need to harness technological solutions to enhance their existing market propositions and cater to future customer needs. This is set to add revolutionary flexibility to an insurer’s interactions with policyholders.

6.2 The main areas for technological innovation are:

6.2.1 **Digital.** With the number of people connected to the internet globally expected to rise to 5 billion by 2020, self-service consumers are bound to increase as a proportion of market activity. This entails a reduction in direct access to customers and consequential disruption to established distribution and service models. There is already an accelerating shift in how policyholders want to interact with their insurer, as their preferences move from intermediary involvement to direct insurer communication. Digital distribution will be key to developing new routes of market access. In short, we are moving from an industry where intermediaries define interactions and communications to an industry where consumers are increasingly selecting the medium. Customer preferences go beyond digital purchasing, however. Other areas that are becoming increasingly digitised include:

6.2.1.1 Social media interactions and online ratings.

6.2.1.2 ‘Gamification’ of insurance, through interactive apps and rewards programmes that are helping to tap into a millennial customer base.

6.2.1.3 Regular engagement via multiple channels throughout the policy term, in contrast to the traditional insurance ‘journey’.

6.2.1.4 Paperless applications and electronic policy deliverables.

6.2.1.5 Advice delivered on phones, tablets and other mobile devices rather than face-to-face.

6.2.1.6 Digitally optimised processes for claims and servicing.

6.2.2 **Big data and data analytics.** Analytical techniques and data sources are increasing in sophistication, helping to tap into big data and the internet of
things to enhance the value insurance products provide. Sources of information that help to build a holistic view of the customer include social media, health records, credit scores and transactional and behavioural data. Data analytics can then paint a synthetic picture of customers’ behaviour, needs and expectations. Utilising these high-quality data techniques will allow insurers to drive business opportunities through:

6.2.2.1 Improved market segmentation of different customer groups.

6.2.2.2 Being able to tailor interactions, distribution and products to the individual customer.

6.2.2.3 Dynamic pricing to further optimise the customer’s experience.

6.2.2.4 Better identification of potential risks and fraud issues.

6.2.2.5 Better understanding of back-book customers and identification of further opportunities to meet customer needs.

6.2.3 Artificial intelligence (AI). AI supplements big data and data analytical trends in driving new business opportunities. There are many areas of AI that will continue to shape the way life insurers operate, including:

6.2.3.1 Machine learning, which can be used across the whole value chain to understand risk, claims and overall customer experience. Machine learning takes advantage of the power of data analytics and is capable of computing seemingly unrelated datasets across multiple sources to identify trends and develop fraud models.

6.2.3.2 Audio and speech analytics, which can analyse customers’ voices and spoken words to identify the reason for the call and even their emotional state. This learning can be applied as tailored to different human interactions.

6.2.3.3 Robo-advice or ‘Chatbots’, powered by natural language processing. These are fast and efficient and customers can interact with them in whatever way they are most comfortable. Virtual advice is not geographically limited and so can reach an unlimited amount of the market globally; in this way it will support human advice without wholly replacing it. However, chatbots are likely to be the next big data vulnerability. Therefore before implementing a chatbot, insurers must establish policies regarding data handling and storage, and strengthen the encryption of relevant channels to control any data security risk posed by the use of chatbots.
6.2.4 *Medical advances*. Medical advances not only provide an opportunity to simplify the medical underwriting process but also facilitate the minimisation and management of health risks. This is an optimal outcome for both insurer and customer: an insurer can give its customers ever greater control over their own healthcare, especially in cases of non-communicable diseases or illnesses caused by lifestyle/environmental factors. As such, insurers are increasingly taking a more holistic approach to policyholder protection – providing customers with a ‘health ecosystem’ for proactive management. This may represent a broader shift in the role of the medical insurer, from writing commoditised risk cover to providing access to a healthcare network. Some particular advances in health and wellness technology that allow insurers to do so include:

6.2.4.1 Biometric sensors and wearable technology, monitoring health and providing real-time data, coaching and incentives to customers, while allowing insurers to simplify their underwriting.

6.2.4.2 Facial analytics (using customer ‘selfies’), which can be used to extract information on biological, genetic and behavioural traits to further simplify underwriting.

6.2.4.3 Biotech, which will drive more rapid diagnoses, more cures for illnesses, earlier interventions and lead to people living significantly longer – including scientific advances in stem cell technology.

6.2.4.4 Genetic testing, which is clarifying certain new risks and allowing earlier intervention, with the added potential of being able to identify risks pre-birth.

6.2.4.5 Precision medicine, which allows for medical decisions, practice and products to be tailored to individual patients, giving consumers a better chance to address their health risks.

6.2.4.6 Virtual healthcare, which helps increase accessibility irrespective of geography.

6.2.4.7 Blockchain technology that links insurers up with hospitals and other healthcare providers, which enables the seamless flow of information between multiple parties for better underwriting and claims processes in the holistic delivery of the healthcare product to a policyholder.
Implications for Customer Propositions

6.3 Advances in technology will be instrumental in shaping the future of the life insurance sector. These advances will transform existing delivery methods thus enhancing business decisions and improving overall user experiences, such as:

6.3.1 Improving how insurers meet customer needs.

6.3.2 Improving the way insurers interact with customers, by tailoring this to each individual’s specific preferences.

6.3.3 Meeting evolving customer needs by responding to these more quickly.

6.4 Health and retirement are the two main customer drivers for change in the industry. Decreasing social security, the increasingly strained provision of public services, a lower fertility rate and an aging population are all contributing to the importance of insurers addressing these two issues and meeting these customer needs, as follows:

**Health and wellness**

6.4.1 This is the most important contribution life insurers can make to customers’ lives. Health and wellness represents customers’ largest concern – that is to say, customer research consistently shows that the main thing people worry about is their health and their family’s health (the HSBC Power of Protection Survey 2017 showed that 73% of consumers globally say their top worry is their family’s health). Insurers have been responding to this by supporting customers during all stages of a healthy life, in the development of a holistic healthcare ecosystem. Life insurance is important for managing customers’ risks and as a public policy tool in this regard.

6.4.2 Developments in genetic testing are now allowing us to understand more about our health. With this, new risks will become increasingly understood, which will give rise to two new areas of risk management:

6.4.2.1 Managing the health of those with known risks or present health conditions.

6.4.2.2 Insuring against residual, unknown medical risks and accidents.

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6.4.3 This provides the customer with the occasion to take ownership of their own health and, for insurers, presents a great market opportunity to enable customers to do so. Insurers can use data to underwrite and price policies appropriately, in incentivising customers’ healthy lifestyles by rewarding good habits and behaviour.

6.4.4 Insurers also have the opportunity to create an ecosystem, where they work together with public/private healthcare providers to deliver a simplified customer experience of easy data-sharing between all parties concerned. This will be supported by the ongoing development of mobile apps and wearable technology, which track and monitor policyholders’ health. Improved health not only benefits a policyholder’s quality of life but also serves their insurer’s commercial interests.

*Longevity and retirement*

6.4.5 By the year 2066, 36.6% of Hong Kong people will be aged 65 or older.⁴⁰ Similar demographic trends are expected in most markets, but will be particularly marked in the Mainland.

6.4.6 As the average age of the population rises, it is more important than ever to secure customers’ retirement income and drive increased savings. Customers will be looking for suitable advice on potential asset solutions and what levels of income might best meet their needs. The job of the life underwriter will be to ensure that suitable products are available.

6.4.7 Insurers will play a key role in improving customers’ quality of life in retirement. One way will be through improved product design, featuring:

6.4.7.1 Asset solutions that balance the need for long-term growth with need for an immediate income.

6.4.7.2 Underlying investment guarantees for risk-averse customers.

6.4.7.3 Insurance against unexpected costs, such as critical medical and long-term care.

6.4.7.4 Longevity cover to reduce the risk that customers run out of money if they ‘live too long’.

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⁴⁰ Note 35, paragraph 2.5.
6.4.8 Apart from developing their product offering, insurers should build on the wider retirement proposition using their scale and networks to provide customers with access to (among other medical service providers) retirement villages, day-care clinics and home nursing professionals.

6.5 The life insurance industry has an important role here, working with Government and regulators to develop the market, which is clearly extremely important from the perspective of public policy.

6.6 The next decade will see the most radically improved customer prospects in the history of the insurance industry. Against the backdrop of generally favourable demographics, this will drive continued double-digit rates of business growth across the region. However, there are also substantial disruptions on the horizon. The ‘winners’ will be those companies that adapt to the challenge and focus their investments on prioritising customers and their individualised needs.

Challenges

6.7 People. The most important constraint to accessing these opportunities will be developing and retaining skilled staff. Rapid industry growth will depend on employing personnel who can understand customers and technology and can drive continuing innovation. Unfortunately, it is becoming harder to retain and recruit this type of human capital, as competing industries (such as IT) are looking for people with similar skillsets. Companies in other industries that are able to successfully engage customers digitally will pose a particular threat. In order to overcome this challenge, there needs to be an industry-wide initiative to attract talented staff to the insurance sector. Investment in recruitment and workforce training also needs to rise.

6.8 Regulation. Growth of the business must be balanced with prudential and conduct risk, so that customers are not negatively affected. The regulator needs to allow sufficient experimentation in the form of robo-advice, product and asset innovation, as this may help insurers to meet customers’ needs more efficiently and effectively. The ethics of using genetic data and biotech will also need to be managed. Sustainable growth will necessitate close collaboration between the regulator and industry.

6.9 Systems and data protection. Big data is a valuable resource, but needs to be utilised in a way that provides good quality and useful information. Misuse or abuse of this data can represent risk and security concerns. Data also needs to be fed into systems that have the capability to process it into a meaningful solution, and systems must have the capability to turn around products quickly. This is the only way in which insurers will be able to keep up with the pace of change. Seamless data-sharing may allow insurers to better leverage the different types of data held by multiple parties across the industry. Hiring the right people with a combination of analytic and
insurance knowledge will be key, however – as will strong short-term investment in systems upgrades and maintenance.

6.10 Public Policy Deliberation. We would encourage the Working Group, other relevant organisations, and IA to engage in in-depth discussions to consider the issues above and others to ensure that policy reflects the right balance of innovation and safeguards. For example:

6.10.1 How to balance privacy with risk analysis and research

6.10.2 How to preserve pooling with greater risk-based pricing without making certain risks uncoverable or prohibitively expensive

6.10.3 How to build – both conceptually and practically – governance around machine-based learning given the speed of intervention that will be required – i.e. is it possible – and if so how – to set rules and standards for what a machine can do to ensure its outputs are both legal, moral and consistent with consumers’ interests and to do so in a manner which is operationally practicable.

6.10.4 How to balance regulatory objectives - which are narrowly and conservatively framed - with the need for innovation/competition and competitiveness
7 What defines Hong Kong’s current and future competitive positioning?

Introduction

7.1 In this Chapter and in Appendix II we set out the key criteria for success as a leading ILIC. By this we mean a jurisdiction where MLIs establish their IROs so that it wields global influence in terms of regulation, market access, customer propositions and innovation. We then consider how Hong Kong measures up to those criteria at present.

7.2 The eight criteria we have identified as determining the attractiveness of different hubs are based on Global Financial Centre Index (GFCI) methodology and informed by discussions with senior executives in the industry and experts in financial competitiveness. As the GFCI rankings make clear, the picture is not static. The factors that determine attractiveness change with time, as does each financial centre’s ability to measure up to them. So, as insurers evaluate competing locations, they do not simply consider the status quo: rather, they will make medium- and long-term projections using the present state of each location as a baseline.

Criterion 1: Size and nature of the domestic market

7.3 When building the case for a particular location as a leading ILIC, the state of its domestic market can be a powerful lure. The overall size of the market, its customer profiles, demographics and urbanisation and (not least) how these statistics are expected to change will help determine its attractiveness. The 2017 figures are summarized below:-

<table>
<thead>
<tr>
<th>Hong Kong GDP</th>
<th>HKD 359,000+ per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium volume</td>
<td>HKD 441 billion</td>
</tr>
<tr>
<td>Life insurance density</td>
<td>HKD 59,650 per capita</td>
</tr>
<tr>
<td>Life insurance penetration</td>
<td>16.6%</td>
</tr>
</tbody>
</table>

7.4 When an MLI’s senior management are evaluating whether to move executives to a location so as to react more quickly to market needs, they will want to know its current and projected gross annual life premium and the size of the industry relative to GDP (i.e. market penetration). Above all, insurers will be interested in the customer profile in the target market and customers’ appetite for higher-value insurance products there.

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41 See Long Finance, Global Financial Centres Index 24 (September 2018, London)
https://www.longfinance.net/media/documents/GFCI_24_final_Report_7kGxEKS.pdf
42 Note 24.
Criterion 2: An investment centre with access to other markets

7.5 Insurers are constantly seeking to identify assets that match their long-term liabilities and generate returns, by investing in a mix of financial instruments falling across a variety of different asset classes with different risk profiles. Again, the potential ILIC’s case is stronger if it can offer a good depth and breadth of domestic investment options. Other indicators such as how the market ranks globally, its level of available capital and levels of IPO activity on its domestic stock exchange will also be critical.

| Hong Kong stock market size (market capitalization as at June 2017) | 7th largest in the world | 3rd largest in Asia |

7.6 As mentioned under Criterion 1 above, a leading ILIC must have a vibrant domestic market – but ready access to other attractive markets can also give the jurisdiction a real competitive advantage. If insurers can supply their products to adjacent markets and invest in other jurisdictions with relative ease from the target location, this represents scope for continued growth and increased shareholder value. Of course, if these conditions are met, the jurisdiction is likely to attract a sufficiently large number of global or regional financial services firms to spur increased competition in recruitment.

| Number of asset management firms operating in Hong Kong | 600+ |

Criterion 3: Political stability

7.7 Other criteria for ILIC advantage can rapidly diminish in importance if investor confidence, or even day-to-day business, is disrupted by political instability or the fear of terrorism. Political stability is an essential pre-condition for the implementation of consistent policy. This, in turn, provides the necessary environment for insurance companies to make long term decisions (not least regarding their investments, which may be fundamentally affected). For example, the World Bank awards country ratings based on the perceived likelihood that their governments may be destabilised or overthrown by unconstitutional or violent means.43

Criterion 4: Regulatory environment and rule of law

7.8 The insurance regulator’s approach and regulatory frameworks in different potential ILICs will have a direct impact on the market activities of insurers and the range of investments they can make there. Regulators that are actively working with the industry and provide policyholders and their insurers with more balanced opportunities will make their jurisdiction more attractive as an ILIC. Overlaps between different regulatory bodies in a jurisdiction (i.e. regulatory ‘turf wars’) can

result in uncertainty, duplication of compliance work or both. This means extra costs for the insurer, which would diminish the ILIC’s attraction.

7.9 Insurance companies will seek a clear, predictable and accountable regulatory system that fosters a stable and fair macroeconomic environment. This means that regulatory powers need to be clearly articulated and not open to abuse. The level of respect for rule of law is important, as well as other issues such as how widely English is used.

7.10 Insurers will also be attracted to an environment that allows for sustained growth and does not stifle innovation. So, regulators need to be proactive and proportionate in their responses to market developments and to possess suitable levels of expertise. They also need to be internationally focused and strong in international supervisory standards. This will encourage the tracking of international developments and compatibility with other jurisdictions, as well as closer engagement with and stronger influence over multinational regulatory conferences (e.g. the International Association of Insurance Supervisors).

7.11 Last but not least, a legal system firmly based on rule of law represents a key consideration for an MLI deciding where to establish its IRO.

Criterion 5: Tax environment

7.12 There are numerous factors that can render a jurisdiction’s tax environment more or less attractive to MLIs looking to establish their IRO there. Corporate and personal tax rates are the ‘headline’ numbers that can certainly encourage company formation and help attract talent. But a variety of other levies – from stamp duty to sales taxes – will also influence the case for or against. Likewise, an efficient tax treatment of dividends – both into and out of the target jurisdiction – is critical to ensuring a fair flow of funds to a life insurer’s investors (as a reasonable return on their investment). This means that a jurisdiction’s ILIC eligibility is impacted by the breath and content of tax treaties available.

<table>
<thead>
<tr>
<th>Hong Kong Corporate tax rate</th>
<th>16.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong Individuals salary tax rate</td>
<td>Maximum of 15%</td>
</tr>
</tbody>
</table>

7.13 As life insurers plan in terms of multi-year business scenarios, a great deal of the features of any given taxation regime become pertinent. For example, specific tax incentives or relief, the treatment of tax losses and transfer pricing rules will have a major bearing on financial planning. An insurer’s ability to attract and retain top-quality personnel will also fall subject to rules on, for instance, individual taxation and the tax treatment of super contributions.

7.14 Essentially, life insurers are looking for a simple and predictable tax regime. This means spending less time and money on complying with their tax obligations.
Changes to the tax regime should be infrequent. The business-friendly approach of the tax authorities is also important.

7.15 Tax authorities can also help to drive growth in the industry and ease the burden on governments by giving tax incentives to policyholders in respect of specific products (e.g. pensions) – for example, by allowing for full or partial deduction of premiums in the assessment of an individual policyholder’s income tax liability.

Criterion 6: Access to skills

7.16 Low personal taxation can be a boon to recruiting and retaining talent. However, immigration and employment laws are arguably of even more fundamental importance. An inflexible visa system – for example, strongly based on quotas – could negate the most attractive tax regime. Equally, if employment law imposes too many obligations on an employer – for example, by prescribing certain minimum mandatory benefits or termination rights for employees – other features of attraction for a jurisdiction could become moot.

7.17 An incoming life insurer planning for the long term will be looking for enlightened employment policies that encourage diversity and prohibit pay disparities or discrimination against minorities. An enlightened regime should also be flexible enough to accommodate changing values and the evolving work culture of successive generations – for example, by recognising flexible working hours.

7.18 Another important aspect of long-term human resource planning is the local talent pool and the quality of relevant and future-proofed education and training. This will have a major impact on recruitment and attrition rates, as well as on the need to bring people into the ILIC from overseas (i.e. on international assignments).

<table>
<thead>
<tr>
<th>Quality of talent in Hong Kong 44 (assessing employees’ skills, including education, worker motivation, language skills, remuneration, etc.)</th>
<th>#2 in Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#18 Globally</td>
</tr>
</tbody>
</table>

Criterion 7: Technology and infrastructure

7.19 An MLI looking for an ILIC in which to establish its IRO will expect to find a high level of local technological adoption and sound infrastructure, in terms of transportation, technology and real estate. In addition, the firm will want to see

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evidence that the jurisdiction has plans in place to keep up with – and ideally exceed – the global pace of technological innovation and R&D.

7.20 The rapid evolution of FinTech means that both the public and the private sector need to be actively engaged if an economy is going to have a chance to stand out in this field. Governments need to be ready to invest in research and should have a strategy in place to ensure a growing supply of STEM (i.e. science, technology, engineering and mathematics) graduates. The business and investment community need to foster a thriving FinTech ecosystem of start-ups and business accelerators. Regulators need to be well-informed about global developments and open to innovative products and services.

7.21 None of this can happen without excellent internet connectivity and service penetration (both broadband and mobile), or without investment plans to ensure these are constantly upgraded and maintained. The target jurisdiction will also need to be implementing a comprehensive public and private sector policy on cybersecurity. Hong Kong’s status in information technology is as follows:-

<table>
<thead>
<tr>
<th>Network Readiness Index</th>
<th>Hong Kong ranked 3rd in Asia, 12th globally</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Internet Bandwidth per user</td>
<td>Hong Kong ranked 1st in Asia, 2nd globally</td>
</tr>
</tbody>
</table>

7.22 This local technological infrastructure will be more attractive if the jurisdiction also features fast, efficient transport links and good quality, affordable commercial real estate. These two factors also have a major impact on quality of life, as mentioned under Criterion 8 below.

| Hong Kong air freight volume (in 2017) | 4.5 million tonnes |

Criterion 8: Lifestyle factors

7.23 We have already mentioned how taxation and employment policies can attract or deter skilled people. The personal cost of living in an ILIC is the other important part of this equation. Rents or mortgage levels, as well as the cost of the weekly shop and services like child care, all contribute to an MLI’s judgment call.

7.24 Other major factors that will affect lifestyle include the quality of transport, the availability of schooling, entertainment and cultural amenities, social diversity and


inclusion, crime rates and pollution levels. It is essential to meet minimum standards in these areas in order for a jurisdiction to be attractive to the best overseas talent. The more attractive an ILIC is for an MLI’s personnel to live and work in, the more comfortable an MLI will be in establishing its IRO there.

<table>
<thead>
<tr>
<th>Percentage of foreign employees in organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore (1st place)</td>
</tr>
<tr>
<td>Hong Kong (2nd Place)</td>
</tr>
</tbody>
</table>
8 How other jurisdictions measure up to the competitive criteria relative to Hong Kong

8.1 This Chapter analyses Hong Kong’s competitiveness as a global insurance hub relative to other jurisdictions. Taking both a quantitative and qualitative approach, it analyses areas in which Hong Kong maintains a competitive advantage over other cities, as well those where it may be lagging behind other jurisdictions, thereby suggesting potential areas of focus for the Hong Kong authorities.

8.2 This Chapter looks at Hong Kong’s competitiveness across a range of criteria based on publicly available quantitative data, relative to six major international financial centres - New York, London, Frankfurt, Shanghai, Singapore and Sydney.

8.3 We have sourced and included recommended supporting charts for each criterion, as shown in the sections below.

Domestic market size and nature

8.4 Hong Kong has a vibrant domestic insurance market when compared to other hubs. Both the authorities and Hong Kong consumers clearly recognise the importance of the insurance sector and the contribution it makes to enhancing the financial security of consumers and to the broader economy. That awareness and vibrancy puts Hong Kong in a good position to pursue its leading ILIC ambitions globally.

Investment centre / Access to other markets

8.5 Hong Kong continues to lag behind other financial centres when it comes to the capitalisation of and trading volumes in its equities, foreign exchange and debt markets. This may give pause to MLIs considering conducting their IRO operations here.

8.6 That said, Hong Kong does benefit significantly from its proximity to the Mainland - one of the fastest-growing insurance markets in the world - as well as other large insurance markets, such as Japan, India, Korea, and Taiwan. Hong Kong’s vibrant IPO activity also reflects the value of its connection to the Mainland economy. The IPO market could be particularly appealing to insurers looking to carry out their own listings.

Political stability

8.7 Hong Kong performs well by most measures of political stability, but so do its competitors for ILIC status. Hong Kong’s rule of law, public sector efficiency and secure environment are all strengths, but do not necessarily significantly differentiate
Hong Kong from other hubs. Nonetheless, continued strength in these areas is a prerequisite for Hong Kong’s longer term attractiveness as an ILIC.

*Regulatory environment and rule of law*

8.8 Hong Kong has a strong regulatory environment and rule of law, but by some measures slightly lags behind Singapore and London, such as in the perception of corruption.

8.9 As in the political stability stakes, Hong Kong’s sound regulatory and legal environment is more of a prerequisite to its becoming (or remaining) an insurance hub, rather than a substantial differentiator.

*Tax environment*

8.10 Hong Kong’s simple and transparent tax regime remains a strength and supports its international competitiveness as a business hub, particularly by comparison to New York and London.

*Access to skills*

8.11 Hong Kong benefits from an educated and relatively young workforce that would appeal to MLIs, although salaries are relatively high. This also allows Hong Kong to meet the standards required to be competitive as an ILIC, but again is not a major differentiator versus (for example) London, Singapore or New York.

*Technology and infrastructure*

8.12 Technology and infrastructure is an area in which Hong Kong should concentrate to improve its competitiveness. Hong Kong consistently trails London, Singapore and New York in most standard measures of innovation and entrepreneurship, which suggests this could be an area of focus for the Hong Kong authorities.

*Lifestyle factors*

8.13 Hong Kong fares well by most measures of quality of life, especially as regards safety, recreational activities and overall cost of living. Housing costs, however, are particularly expensive and an area in which Hong Kong lags behind other financial centres.

8.14 We conducted a number of interviews with industry and financial sectors participants to support and inform our recommendations.

8.15 Some helpful Case Studies relevant to our recommendations are outlined below:

8.15.1 *Singapore: Asia’s Fintech Centre*
Singapore has emerged as one of Hong Kong’s main rivals for the title of Asia’s primary financial hub, with key competitive differentiators in human capital and a strong financial innovation ecosystem.

The Monetary Authority of Singapore’s (MAS) vision of the country as a “Smart Financial Centre” has been the foundation for much of this development. In August 2015, MAS formed a Financial Technology & Innovation Group responsible for “formulating regulatory policies and developing strategies to facilitate the use of technology and innovation to better manage risks, enhance efficiency, and strengthen competitiveness in the financial sector.”

The regulator has simplified the process for starting new companies and venture capital businesses. It has also committed S$225 million over five years to attract start-ups and larger financial institutions to set up their innovation labs in Singapore, forged strategic FinTech partnerships with other regulatory agencies in the region (including the Japanese Financial Services Agency) and led the regional development of the “regulatory sandbox” concept, which relaxes legal and regulatory requirements under certain conditions to encourage new forms of financial innovation.

The results have been impressive, with more than 400 FinTech enterprises setting up base in Singapore.

8.15.2 Shanghai: Mainland China’s Financial Hub

Shanghai was ranked 5th in the latest Global Financial Centres Index, rising one places from the previous year and overtook Tokyo (as Hong Kong held on to its #3 ranking). The city placed in the top 10 in all criteria used to determine the overall rankings – business environment, level of financial development, infrastructure, human capital and reputation – and topped a separate list of 15 financial hubs likely to become even more significant in the future.

These results highlight the growth of Shanghai into Mainland China’s preferred financial hub and mark a new phase in the Chinese Government’s ambitions to turn the city into an international financial centre by 2020.

The growth of Shanghai has been predicated on its connection to the Mainland Chinese economy. Many foreign commercial banks have already incorporated there locally and leading global investment banks are keen to continue to develop their presence. The Chinese Government’s announcement in November 2017 that it plans to eliminate foreign ownership limits for insurance companies and other financial institutions in

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Note 41.
Mainland China within five years will likely provide a further tailwind for the expansion of foreign financial institutions in the market.

Mainland China’s Belt and Road Initiative, an ambitious long-term plan to foster economic development in and market access to a variety of countries across Asia, is also likely to provide support for the continued development of Shanghai as a financial hub – backed by Beijing’s efforts to promote the use of RMB as a global reserve currency.

8.15.3 Bermuda: The Global Reinsurance Hub

Bermuda is a thriving hub for the international non-life and reinsurance markets. The island country in the North Atlantic Ocean is the world’s second largest reinsurance market, making up about 36% of global property/casualty net premiums, according to credit rating agency AM Best Co. Bermuda has a greater concentration of insurance-related talent than any other market except New York and London. Around twenty reinsurers and insurers maintain major presences in Bermuda, while dozens of other companies have representative offices there.

Insurers cite Bermuda’s level of regulation and capital requirements as the top benefits of doing business in the jurisdiction. Bermuda has developed a regulatory system which involves a high degree of cooperation between insurance companies and regulators and also involves lower regulatory burden in comparison with cities such as London and New York. New companies can be incorporated more quickly and easily than in many other jurisdictions. Bermuda also levies no corporate income tax.

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9 What is needed for Hong Kong to win and take the leading position in the future

9.1 This Chapter considers how Hong Kong may maintain its leading position as a regional centre for the life insurance industry.

9.2 Hong Kong currently enjoys the following ‘positives’ as a uniquely strategic ILIC:

9.2.1 That it continues to remain the prime international gateway to the Mainland, with its accessibility to the Mainland through multiple unique channels.

9.2.2 The new Insurance Ordinance has the potential to become a regional blueprint.

9.2.3 The market is strongly committed to being business and customer oriented.

9.2.4 Competitive corporate and individual tax rates.

9.2.5 Strong rule of law based on the UK legal system, which invites international recognition of and respect for its application of common law principles of sound jurisprudence.

9.3 If these strengths are continuously developed and further promoted while embracing the ever-growing economic strength of Mainland China, then Hong Kong can become the ILIC of choice in Asia.

9.4 We would summarise Hong Kong’s potential to secure this position in terms of the following SWOT analysis:

Strengths

9.4.1 Newly introduced regulatory reform.

9.4.2 Socio-economic proximity to market experiencing extraordinary premium growth.

9.4.3 Positive global reputation.

9.4.4 Extensive infrastructure and transport capabilities.

9.4.5 Availability of a well-educated, multi-lingual and experienced workforce,

9.4.6 Competitive corporate and individual tax rates.
9.4.7 Rule of law.

**Weaknesses**

9.4.8 Regulatory reforms yet to be fully implemented (e.g. licensing of insurance intermediaries).

9.4.9 Insufficient long dated debt market

9.4.10 Limited local growth potential.

9.4.11 High costs of living and operating (i.e. commercial/residential property market prices).

9.4.12 Limited integration with Mainland Chinese market and slow pace of progress in this regard.

**Opportunities**

9.4.13 Business partnering with regulators and Hong Kong liaising with competitors to advance local regulatory reform.

9.4.14 Partnering with select universities to develop essential skillsets and talent.

9.4.15 Digital innovation.

9.4.16 Development of capital trading platforms for RMB and USD.

9.4.17 Setting a regional standard for being customer-first in the life insurance industry.

9.4.18 Further enhancing the development of professional advisers and multi-channel distribution.

**Threats**

9.4.19 The Mainland’s market transition has been drawn out over three decades and may continue to unfold slowly.

9.4.20 Market uncertainty.

9.4.21 Legal uncertainty.

9.4.22 Emerging competition from Singapore and Shanghai.
9.4.23 Increasing costs of living and operating.

9.4.24 Digital emergence of more globalised insurance markets.

Rationale

9.5 Hong Kong is arguably already Asia’s leading ILIC. It has a strong global profile, with many major MLIs well represented with regional headquarters established here.

9.6 Hong Kong is widely seen as a ‘tier one market’ for the life insurance industry.

9.7 Subsidiary legislation under the new Insurance Ordinance has also enabled the IA to fund itself from a levy imposed on policyholders and from fees payable by all insurance companies for various service items (e.g. statutory filings).50

The outlook for life insurance

9.8 Hong Kong’s status as a gateway city to the Mainland (and the virtually unlimited growth potential of that market), coupled with the strong commitment of its administration to the rule of law under the ‘One Country, Two Systems’ model, is the key to the local insurance industry’s maintenance of its clearly leading regional position.

9.9 Strong competition with other financial services sectors and within the life insurance sector across Southeast Asia is not a new phenomenon – so it does not seem to cause Hong Kong’s life insurers any significant concern, as the city has consistently maintained its competitive edge.

9.10 The disparity in per capita GDP between Hong Kong and the Mainland is a stark measure of where the city sits in relative economic terms, but the rate of per capita growth in the Mainland has been extraordinary. Recent data shows that the Mainland’s per capita GDP grew from just US$781 in 1997 to US$8,827 in 2017, whereas Hong Kong’s growth over the same period was much more subdued (from US$27,330 to US$46,193).51

9.11 In addition to the development potential of the Mainland Chinese market, Hong Kong is also well positioned to take advantage of opportunities presented by the large emerging markets of India and Indonesia. These markets will also be targeted by Singaporean offices, given their closer proximity, but their rates of GDP growth


suggest that there will be enough room for all regional players (with regulatory approval) to enter.

**Industry growth**

9.12 According to the OECD, growth in the more mature life insurance markets of Europe and North America is projected to remain relatively stable at 4%, so it is reasonable to assume that markets in South America and Asia will continue to develop more rapidly – if their current growth rate of 8-11% can be sustained - gaining in size, premium density potential and revenue.

9.13 This prospect is confirmed by Swiss Re’s ‘Global insurance review and outlook 2017/18’, which identifies the largest growth in the insurance industry as occurring in Asia (11%), followed by Latin America (8%) and Africa (5%); the US, the UK and the rest of Europe are quoted at a modest 4% or less. London is acknowledged as the largest underwriter for commercial and specialty risk insurance, with growth in Bermuda and Singapore standing out in this sector. However, the growth rate across Mainland China clearly eclipses all of these markets.

9.14 Certainly, the focus of the insurance industry in Hong Kong should be to understand the sources, nature and extent of its competition and how best to counter it, to continue maintaining its edge. This competition is likely to come partly from financial centres like Singapore and Shanghai, but also from newer and (as yet) not fully understood or even discerned sources. The banking industry, with its network of shop-fronts, is moving into the insurance market with increasing speed – often in conjunction with existing providers.

9.15 Fully digitised companies operating out of the Mainland (such as Zhong An – created by Ping An, Alibaba and Tencent in collaboration) and Europe (where Digital Insurer and Swiss Re have entered into a digital partnership) may diminish and eventually eliminate high street shop-fronts and traditional intermediary-based operations. Consumers increasingly make purchasing decisions based on information derived from Google searches, various market and consumer-led forums and social media, rather than from direct marketing. This highlights the urgent need for Hong Kong insurers to secure their website quality, management and layout; operational efficiency should be at the forefront of their strategic thinking.

9.16 Although at present the uptake of internet-based customer engagement is low in Hong Kong and the Mainland, online retail markets are growing. This new phenomenon may ultimately impact on the economic viability of some 75,000-odd currently registered intermediaries and employed staff and may produce a radical ‘Uber-esque’ disruption to the life industry.

**Competition**
9.17 Over recent years, other financial institutions (e.g. large bank networks) and non-financial entities (e.g. airlines) have directly and indirectly encroached on the life insurance market in Hong Kong. All have moved quickly and aggressively to establish and increase their market share. Their strategy has been to broaden the range and pricing of their products and to maximise their advantage of direct contact with consumers through their branch networks.

9.18 The banking sector’s general strategy, in particular, may have had a negative effect on underwriters’ own staff and intermediaries’ sales – eroding their numbers and so diminishing the market share of established distribution models.

9.19 However, this ‘upstart’ advantage may be short-lived as consumer focus shifts away from ‘bricks and mortar’ interactions to the internet.

9.20 Recent events have been put forward as impacting Hong Kong’s established reputation for socio-economic and political stability. This has arguably exacerbated the threat of ILIC competition from both Singapore and Shanghai. Recent global expansion by and mergers and alliances between MLIs and banks in Asia have been focused mainly on these two cities, arguably at Hong Kong’s expense.

9.21 For all their obvious similarities, there are also some interesting differences between Hong Kong and Singapore. Only 32 billionaires reside in Singapore, whereas Hong Kong has 82. The International Monetary Fund claims that the annualised cost of living per capita in Singapore is US$75K, but US$116K in Hong Kong. Cantonese is the main language spoken in Hong Kong (among 95% of its population), whereas only 76% of Singapore’s population is ethnically Chinese – so that Singaporeans more commonly speak Mandarin (the official/national language in the Mainland). English is widely spoken in both cities, but English literacy rates are higher in Singapore.

Securing Hong Kong’s competitive advantage under the influence of the Mainland

9.22 Financial services hubs in the Mainland and other ‘disruptive’ market entrants are bound to face difficulties gaining significant market share at Hong Kong’s expense, given Hong Kong’s long-standing connection to the world’s major financial capitals.

9.23 It is clear that Singapore is currently Hong Kong’s major source of competition as an Asian ILIC. Singapore has rapidly developed its position at the head of the table in ASEAN and its ‘SMART city’ aspirations are testament to this. Whatever happens to Hong Kong, continued development of Singapore seems certain and the city will likely continue in its commercial domination of Southeast Asia. Hong Kong must accept the natural market segmentation which this has caused and take the lead in developing market prospects to the northwest of the region, looking to the Mainland in order to maintain its overall regional leadership and to strengthen its long-established links with mature global markets in the UK, Europe and North America.
However, it is equally clear that Hong Kong will become subject to further competitive pressure from Shanghai. Its free trade zone matches the Central Government’s stated ambition for Shanghai to rival the global financial centres of both London and New York, as indeed it once did (over a century ago).

The Central Government does not appear to consider Hong Kong, Guangzhou or Singapore as any impediment to the achievement of this Shanghainese ambition. With continued liberalisation and facilitation of access to the Mainland Chinese market and the continued development of its major conurbations, it seems almost inevitable that Hong Kong will lose some of the competitive advantage it has enjoyed as a global gateway to China. However, these trends may also present Hong Kong with new competitive opportunities.

The Central Government should leverage Hong Kong’s unique history in realising that its vibrant dynamism can only advance China’s interests and mitigate the threat from Singapore. Conversely, allowing Shanghai or any other Mainland cities to assume stronger financial services roles may only serve to weaken the long-standing links which Hong Kong has built up over the centuries in its global financial services network.

Simultaneously, the financial services industry in Hong Kong must recognise that the cultural divide between them and the Mainland must be addressed in their dealings with customers – particularly their entrenched Mainland customer base. Hong Kong’s 2016 Census shows that 63% of the population has identified themselves as being primarily a resident of the city, while only 34% regard themselves as being primarily Chinese.

Mainland China’s aggressive economic transition (from a largely closed, agrarian, socialist economy to an open, assertive, capitalistic global economy) has seen the emergence of a middle-class of some half a billion individuals. According to the World Bank, economic growth in Mainland China is forecast to reach or exceed 7% for at least the next generation and another 45-50 million people will join the Chinese middle class over the next ten years (see Appendix I).

This shift has not only raised levels of individual wealth but also increased individuals’ insurable interests. Rates of home ownership – and consequent demand for various forms of insurance to protect these homes – have exploded.

To deal with this unique market, the industry’s approach in Hong Kong needs to be measured, refined and nuanced. Unique product marketing directed toward specifically Mainland Chinese consumers and segments, research into the Mainland customer experience, smarter pricing and market positioning to meet customer needs
in the Mainland will determine how successfully an insurer can exploit Hong Kong’s advantage.

**Looking forward**

9.31 The Belt and Road Initiative offers Hong Kong the opportunity to present itself as the natural terminus of China’s modern-day ‘Maritime Silk Road’ – the place where global onshore trading in anything from shipping containers to RMB is best and most efficiently conducted.

9.32 Hong Kong’s role as a point of commercial mediation and business facilitation with the Mainland, based on strong rule of law and robustly ethical institutions, will always be a valuable trait to the West. Hong Kong also does much to legitimise the international development of Mainland China’s Asian Infrastructure Investment Bank. On top of that, its well-educated, multilingual and internationally experienced talent pool and unique position as a hub for global sea and air cargo trans-shipment mean that – in short – Hong Kong is not going anywhere.

9.33 Hong Kong insurers would do well to forge ‘cousin’ style relationships with their well-established counterparts in Shanghai and elsewhere in the Mainland, to develop their understanding of Mainland consumer needs and to facilitate access to the Mainland market. Successful alliances with providers such as Zhong An (Online), Ping An and Taikang Insurance would give Hong Kong insurers the best potential to adjust their commercial strategy to the specific circumstances of the Mainland market.

9.34 The Government noted that Hong Kong is an ideal place for Mainland Chinese enterprises to set up captive insurers. By setting up captives in Hong Kong, these Mainland enterprises might pool their risk among members of a corporate group – in particular, those risks arising from infrastructure projects under the Belt and Road Initiative. This should reduce their costs of insurance and enhance their risk management capabilities. The Government also noted that Hong Kong has granted regulatory concessions to captive insurers, lowered its capital and solvency margin requirements in that regard and provided a 50% tax concessions on profits arising from specified captive insurance business.52

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10 Closing

10.1 Finally, in closing the main body of the paper we draw the reader’s attention back to the key recommendations laid out in the Executive Summary (Chapter 1) and more supporting Detailed Recommendations thereof in Chapter 3.

10.2 As a reminder, the Executive Summary of recommended actions covered seven key areas:
   — economically determined capital requirements;
   — supply of appropriate long term assets;
   — advantaged opportunities in the Mainland;
   — taxation advantages;
   — support for an environment of creating shared value;
   — development as an InsurTech centre of excellence; and
   — attracting and developing leading talent.

10.3 All, and critically, facilitated by a Working Group highly focused on Life Insurance which will collaborate with, and utilise the work of, existing relevant industry bodies, including Government and regulators, and be focused on promoting, encouraging, monitoring and regularly reporting on progress and needed areas of further action with regard to the recommendations of this paper. And finally to note, we already have willing volunteers, to continue to be part of the Working Group to work collaboratively with the existing industry bodies, the Government and the regulators.
APPENDIX I – Facts and Figures of Hong Kong and Mainland China

Figure 1: Population in Guangdong-Hong Kong-Macao Bay Area; source: https://www.bayarea.gov.hk/en/about/the-cities.html

Figure 2: Population of the countries joining the Belt and Road Initiative; source: https://www.slideshare.net/ciltinternational/hong-kong-your-belt-and-road-partner

Figure 4: The changes in proportions of each social class in Mainland China - from 2012 to 2022; source: https://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class
**Figure 5: Number of jurisdictions which signed Avoidance of Double Taxation Agreement with Hong Kong and Singapore**


For Hong Kong, as of 8 October 2018, 40 treaties are signed. Out of which, 38 are effective and 2 (India and Finland) are not yet effective. For Singapore, as of the same date, 90 treaties are signed. Out of which, 85 are effective and 5 are not yet effective (Brazil, Gabon, Ghana, Kenya, Tunisia).

**Source:** Hong Kong population projections for 2017 to 2066, Census and Statistics Department
APPENDIX II – What defines Hong Kong’s current and future competitive positioning?

Following GFCI methodology, in order to inform our considerations and development of our recommendations, we have broken down the eight Criteria into a checklist of features to determine the attractiveness of a global or regional insurance hub. The checklist we used is as follows:-

**Criterion 1: Size and nature of the domestic market**
- Gross annual life premium
- Insurance Penetration as a % of GDP
- Premium Growth rate

**Criterion 2: An investment centre with access to other markets**
- Local share of global capital markets activity
- Secondary market trading volumes and volatility (FX, debt, equities, derivatives, ETFs)
- AUM size
- IPO (debt and equity) issuance
- Financial market sophistication (variety of asset classes and instruments available)

**Criterion 3: Political stability**
- Please refer to: http://info.worldbank.org/governance/wgi/#reports

**Criterion 4: Regulatory environment and rule of law**

*System design*
- Level of risk coverage
- Presence of coordination mechanisms between regulatory bodies to prevent duplication/excessive costs
- Frequency of assessments on the impact of policies

*Predictability and accountability*
- Degree of openness within the industry
- Regulatory powers which are clearly articulated and are not open to abuse (i.e. regulatory decisions can be challenged)
- Level of independence and predictability of the legal framework
- Level of respect for the rule of law
- Level of English usage
- The extent to which decisions are subject to judicial review and democratic accountability

*Proportionate and credible*
- The extent to which innovations are either stifled or encouraged
- The degree to which institutions are supervised in proportion to the risks they pose
- Level of expertise held by regulatory bodies
**Internationally focused**
- Internationally consistent regulation
- The level of engagement and influence that the regulators enjoy in international bodies
- The level of co-ordination between regulators and their counterparts in other major jurisdictions.

**Criterion 5: Tax environment:**

**Tax burden**
- What tax costs will be incurred? Lower tax rates make a destination more attractive for firm formations and help attract talent.
- Corporate tax (CT) rates
- Personal tax rates
- Employment taxes
- Value added Tax (VAT) / Goods & Services Tax (GST) rates
- Withholding tax rates
- Sector specific CT and VAT/GST costs
- Number of double taxation treaties

**Features of regime**
- Is the regime attractive to business? A differentiating factor may make one region more attractive than the rest.
- Taxation of dividends from subsidiaries and profit distribution from branches
- Restrictions on interest deductions
- Treatment of losses
- Transfer pricing requirements
- Sector specific taxes
- Incentive regimes
- Foreign tax credit system
- Controlled foreign corporation regime
- Individual tax incentives
- Pension rules

**Simplicity**
- Modern, simple regimes allow companies to reduce the time and cost required to fulfil their tax obligations.
- Length of tax administration process
- Similarity of legislation with other countries

**Predictability of regime**
- Does the regime change frequently? A consistent tax regime makes fulfilling tax obligations less time consuming and costly.
- Stability of system
- Associated legal system
- Global initiatives are followed
**Tax authority approach**
- Do they assist businesses in complying? The level of assistance from the tax authority can reduce operational costs.
- How they interact with taxpayers
- Understanding of insurance sector transactions / products
- Ability to gain clearances

**Link to regulatory regime**
- Is tax at odds with regulatory requirements? This is one factor which affects the ease of operating in that location.
- Tax authorities’ interactions with regulators
- Legislation written with regulatory framework in mind
- Use of tax as a behaviour-changing tool

**Cost of compliance**
- How much time/cost is required for compliance. A high cost of compliance may indicate a restrictive regime which does not encourage business/investment.
- Tax transparency reporting
- Prevention of tax evasion reporting
- Sector specific reporting (e.g. customer reporting)
- Compliance regimes (e.g. SAO, tax strategy)

**Criterion 6: Access to skills**

**Immigration law**
- Ability to obtain visas for talent
- Costs of immigration application
- Compliance regime and associated costs
- Minimum salaries
- Quotas / restrictions on number of visas
- The prevailing employment law regime, including attractiveness to business

**Employment law regime**
- Workers’ rights, including minimum salary levels and employer obligations, (e.g. mandatory pension contributions)
- Employee representation obligations
- Self-employed/contractor models
- Termination rights/severance obligations

**Compensation for employees**
- Salary caps,
- Income tax rates,
- Treatment of bonuses,
- Competitiveness of salaries/cost of living against other locations
- Employer value propositions – wider incentive than pay and costs
Diversity
• Pay disparities between men and women
• Treatment of minorities
• Recognition/treatment of unmarried/same-sex partnerships
• Changing nature/values of workforce (i.e. millennials, flexible working, more women in the workforce, etc.)
• Degree and skill level requirements

Skills Pool/Pipeline
• Quality of education/training (world ranking)
• Baseline of skills pool/skill levels within particular area
• Generalist vs specialist
• Understanding attrition rates
• Growing requirements for international assignments
• Recruitment into the FS sector, skills needed, more individualised

Criterion 7: Technology and Infrastructure

Technology sector and innovation
• Government support and research spend on technology
• Number of STEM graduates

Financial services technology
• Number of FinTech related start-ups,
• Level of funding, number of accelerators
• Financial services regulators’ attitude to technology and innovation.

Technology infrastructure
• Reliability, speed and cost of fixed (broadband) and mobile telecoms
• Broadband and mobile penetration
• Reliability, speed and cost of Cloud servers
• National cybersecurity infrastructure
• Mobile penetration

Transport infrastructure
• Domestic intra- and inter-city rail links
• Number of international airports
• Number of flights to a set destination
• International rail links, transport speed and reliability

Commercial real estate
• Cost of real estate (including ancillary costs)
• Availability of existing real estate
• Capacity and flexibility of building real estate
Criterion 8: Lifestyle factors

Cost of living
- Rent
- Mortgages
- Cost of a basket of goods
- Child care
- VAT and income tax
- Energy prices

Transport and infrastructure
- National and international networks
- Intra and intercity transport
- Major international hubs
- Transport speed and reliability

Family and schooling
- Number of child care facilities
- Calibre of education systems (ranking)
- Annual leave and maternity leave entitlement

Quality of life
- Quality of healthcare provision
- Crime rates
- Pollution level
- Daylight hours
- Climate
- Family friendly

Culture and entertainment
- Quality of restaurants
- Theatres
- Museums and art
- History and heritage
- Culture
- Sports
- Music

Diversity
- Ethnicity and religious mix
- Immigration and anti-discriminatory laws
- Gender equality
### Additional references

#### Human Capital

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## Financial Sector Development

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<td>20th CEO Survey / Key findings in the Insurance</td>
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<td>Industry</td>
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### Infrastructure

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## Reputational & General Factors:

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About the Financial Services Development Council

The Hong Kong SAR Government announced in January 2013 the establishment of the Financial Services Development Council (FSDC) as a high-level and cross-sector platform to engage the industry and formulate proposals to promote the further development of Hong Kong’s financial services industry and map out the strategic direction for development. The FSDC advises the Government on areas related to diversifying the financial services industry, enhancing Hong Kong’s position and functions as an international financial centre of our country and in the region, and further consolidating our competitiveness through leveraging the Mainland to become more global.

Contact us

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Tel: (852) 2493 1313
Website: www.fsdc.org.hk