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How reinsurers can strengthen Hong Kong's function as an international risk management centre

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How reinsurers can strengthen Hong Kong's function as an international risk management centre

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The role of
reinsurers

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Composition
of Hong Kong
reinsurance
market

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Role of
reinsurers in
helping Hong
Kong develop
the life
insurance
market

—
Reinsurers help
Hong Kong play
its role as an
international risk
management
centre

1 The role of reinsurers

Traditional Roles

VS

Advanced Roles

- Provide underwriting capacity

- Transfer and mitigate risks

- Relief capital strains

- Loss-sharing

- Provide reinsurance expertise

-

Technological transformation and digital innovation

- Assist insurers to invest in technology infrastructure, data analytics, and digital distribution channels, helping them to embrace digital innovations, enhance operational efficiency, and provide exceptional customer experiences

Catastrophe risk management

- Leverage data-driven and technological advancements to achieve precise catastrophe risk management

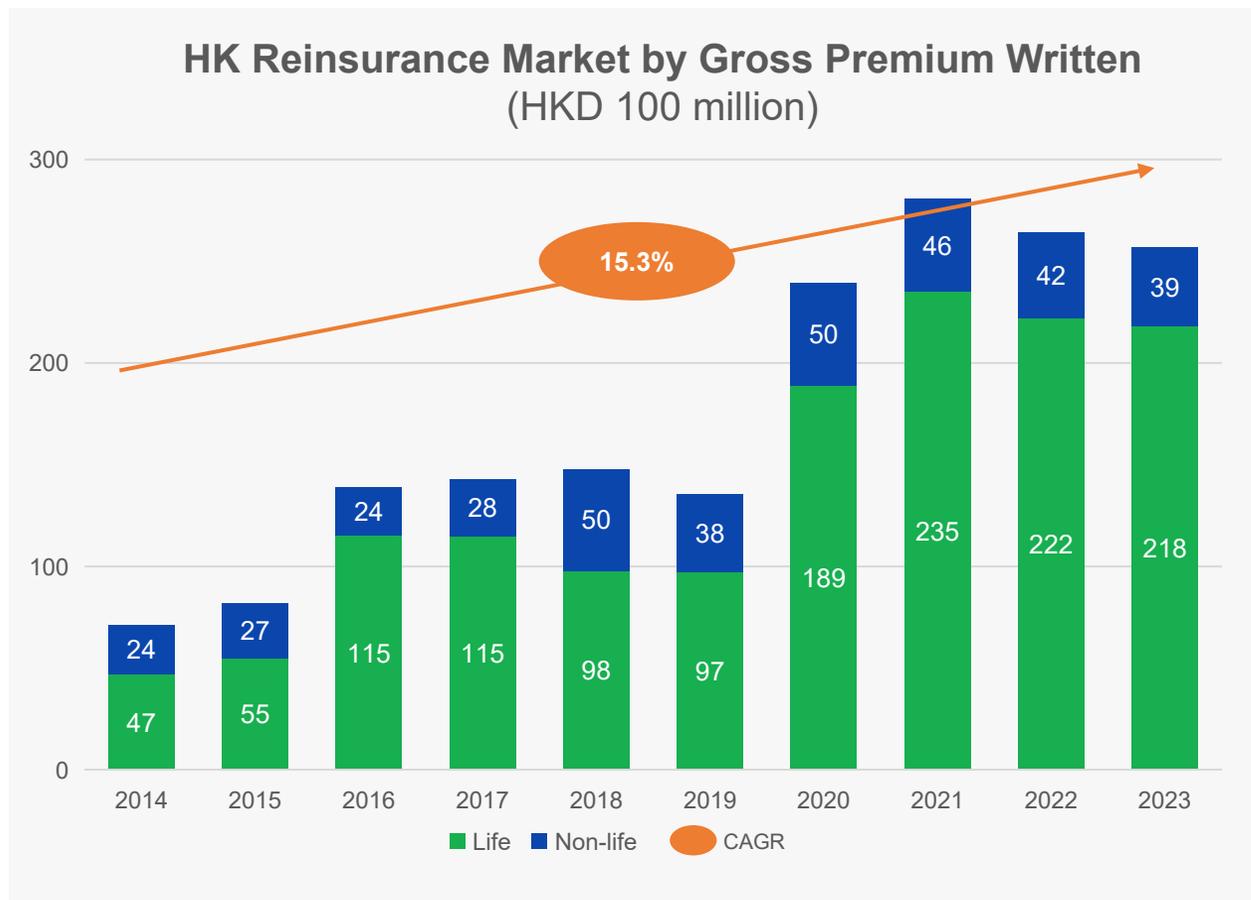
Promote green transformation to tackle global warming

- Innovate in green insurance products for renewable energy, green buildings, low-carbon technologies, etc., as well as risk solutions to address natural disasters, such as parametric (re)insurance and insurance-linked securities (ILS)

Provide comprehensive reinsurance service solution

- Build a comprehensive risk management and reinsurance service solution through in-depth integration of upstream and downstream industry chain resources

The Hong Kong reinsurance market is mainly made up of life business, with CAGR of 15% in the past 10 years



In Hong Kong, there are 16 professional reinsurance companies, most of which are composite reinsurers

Non-life reinsurers

6



Life reinsurers

2



Composite reinsurers

8



3 Opportunities and challenges of life insurance market in Hong Kong

Opportunities

- **Economic Recovery:** the **post-pandemic economic recovery** is expected to boost consumer spending on life insurance as people prioritize financial security.
- **Growing Demand:** for comprehensive financial planning solutions as driven by **aging population** and increasing awareness of the importance of life insurance.
- **Cross-Border Opportunities:** Hong Kong's strategic location and its role as a **gateway to Mainland China** present significant opportunities for cross-border insurance products and services.

Challenges

- **Regulatory Changes:** the industry must continuously adapt to evolving regulatory frameworks, such as new solvency requirements by **HKRBC**, and new accounting standard **IFRS 17**.
- **Market Competition:** intense competition from both local and international insurers requires companies to continuously **innovate and differentiate** their offerings.
- **Economic Uncertainty:** factors such as **inflation, interest rate fluctuations, and geopolitical tensions** can impact consumer confidence and market growth.

Role of reinsurers in helping the development of life insurance market in Hong Kong

Risk Management

- **Enhanced Risk Capacity:** Reinsurers enable life insurers to underwrite larger and more complex policies by **absorbing a portion of the risk**. This allows insurers to expand their product offerings and cater to a broader customer base.
- **Financial Risk Mitigation:** Reinsurers can provide financial contract or arrangement setup to **eliminate or reduce the losses under adverse events or adverse markets**.
- **Underwriting and Claims Expertise:** Reinsurers **leveraging their expertise** in underwriting and claims to help primary insurers manage their risk exposure more effectively and confidently.

Capital Optimization

- **Capital Relief:** Reinsurers provide capital relief to primary insurers by taking on a portion of their risks. This allows insurers to free up capital, which can be used to underwrite more policies or invest in new business opportunities. This **capital optimization** is crucial for the growth and expansion of the life insurance market in Hong Kong.
- **Regulatory Compliance:** Reinsurance helps insurers **meet stringent regulatory capital requirements**, ensuring they maintain adequate reserves and comply with local and international standards.

Innovation and collaboration

- **Product Innovation:** Reinsurers work closely with primary insurers to **identify emerging risks and market trends**. They help design products that address these needs, such as policies for critical illnesses, longevity risks, etc.
- **Technological Integration:** Reinsurers **invest in advanced technologies and share these innovations** with primary insurers. This collaboration helps insurers integrate digital solutions, improve customer service, and streamline their operations.
- **Collaborative Ecosystem:** Reinsurers go beyond traditional protection by offering comprehensive risk management solutions through **in-depth integration of upstream and downstream industry chain resources**.

Global Integration

- **Attraction of Global Reinsurers:** Leading global reinsurers enhance Hong Kong's market status, **attracting international business and boosting its reputation in risk management**. They also introduce best practices in line with global standards.
- **Facilitation of Cross-Border Transactions:** Reinsurers **facilitates cross-border transactions**, reinforcing Hong Kong's role as a gateway to Mainland China and other Asian markets. This is particularly true for the cross-border healthcare market in GBA, which has huge market potential.
- **Regulatory Excellence:** Hong Kong's **robust regulatory framework** adherence to international standards make it an attractive destination for reinsurers and other financial institutions.

Insurance- Linked Securities (ILS)

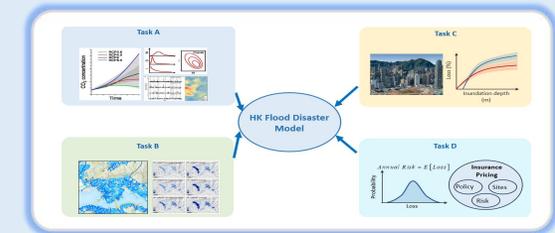
- Though full advantage has been taken on the current available resources, there still exists a large catastrophe protection gap in the market, which shows the **limitations of traditional capital in catastrophe coverage**
- In recent years, the industry has increasingly used **non-traditional capital**, such as ILS (e.g. CAT bond, sidecar, etc.), to narrow the protection gap and further transfer CAT risk
- Compared with Europe and the United States, the growth of non-traditional capital in Asia is limited, so Asian reinsurers should work to further unlock the usage of these non-traditional tool

Parametric Insurance

- More and more reinsurers are proactively exploring parametric insurance products, which is able to offer coverage on secondary perils that are often not compensated by traditional property insurance
- Parametric insurance is also important especially when dealing with low frequency but extreme events

Natural Catastrophe risk management

- Although there are well-known universal CAT models, the granularity and fineness of the catastrophe data for each specific country or region is not enough
- As reinsurers have more detailed local data, they are capable of developing more localized catastrophe models with improved level of granularity and sophistication



Captive Insurance

- With the government's promotion of captive insurance development in Hong Kong, preferential policies such as simplified capital and asset requirements, tax concession are introduced to attract local and foreign enterprises to form captives in Hong Kong
- Reinsurers in Hong Kong can integrate resources to serve captive insurers and "Belt and Road" construction, assisting captives registered in Hong Kong in their overseas projects, providing one-stop services and comprehensive risk solutions.



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