

The Greater Bay Area: A Golden Opportunity for the Hong Kong Insurance Industry?

February 22, 2019

Background. On 18 February the PRC State Council published its blueprint (the “Blueprint”) for the development of the Greater Bay Area, an area comprising Hong Kong, Macau, Shenzhen, Guangzhou and a number of other cities in Guangdong province.

The goal of the Greater Bay Area initiative is to develop the area into an international economic, technology and financial services hub that would ultimately rival other “bay” areas (such as those in San Francisco and Tokyo) in terms of economic strength and integration.

**Debevoise
& Plimpton**

There is powerful political force behind the initiative. Enhanced social and economic integration of the Greater Bay Area is regarded as highly desirable by the Chinese central government from a political point of view, and the fact that the initiative has been announced as being personally promoted by President Xi Jinping is evidence of its strategic importance. Recently completed transport infrastructure projects, such as the bridge connecting Hong Kong, Zhuhai and Macau and the high-speed rail service between Hong Kong and Guangzhou have demonstrated both material and symbolic support for the Greater Bay Area project.

The Greater Bay Area initiative may provide important growth opportunities for Hong Kong insurers. The Blueprint refers to insurance in several places, and although the detail is limited, those references are significant when taken in the context of existing initiatives involving the Hong Kong insurance industry.

Mutual Market Access and Cross-Border Products. In a key passage on mutual access to financial markets, the Blueprint refers to “progressively promoting” cross-border insurance transactions and establishing a mechanism for mutual access to financial products (which would include insurance). This can be read as an explicit endorsement of the “Insurance Connect” initiative currently being discussed between the Hong Kong and Mainland China insurance regulators. In the first phase of this initiative, insurers authorized in Hong Kong would set up service centres in the Greater Bay Area to handle renewals and to receive claims for insurance products purchased from them.

If the results from this initial stage are positive, the scheme could be expanded so that Mainland Chinese residents could buy policies from Hong Kong authorized insurers in the Greater Bay Area and vice versa. Since the Greater Bay Area has close to 70 million residents, that would open a significant market to Hong Kong insurers. Further, preferential access to the Greater Bay Area market could be a first step towards access to the Mainland China market as a whole. In a nod to this possibility, the Blueprint refers to preferential access schemes beyond the Closer Economic Partnership Arrangement in place between Hong Kong and Mainland China.

The main concern of the China Banking and Insurance Regulatory Commission (CBIRC) in an Insurance Connect scheme is controlling capital outflows, so the question of how cross-border fund flows could be controlled under the scheme is currently being assessed. The closed-loop fund flow model used in the “Stock Connect” schemes connecting the Hong Kong, Shanghai and Shenzhen stock exchanges provides a starting point, but since life insurance premium payments are often made for long periods of time and claims payments to beneficiaries may fall due after many years, a more sophisticated model would need to be designed for an insurance scheme.

None of these issues are referred to in the Blueprint. However, the Blueprint’s endorsement of mutual access and cross-border transactions lends important support to the Insurance Connect initiative, which – if fully implemented – could well become the first “passporting” regime for insurance products in Asia. As mutual access relies on some level of regulatory alignment, the Blueprint also refers to a “coordination and cooperation mechanism for financial regulation”.

On a related point, the Blueprint states that insurance companies in Guangdong, Hong Kong and Macau will be encouraged jointly to develop cross-border car and medical insurance products. The development of such products could create interesting opportunities for Hong Kong medical and motor insurers, although this would depend on pricing constraints and other factors.

The Blueprint also refers to the facilitation of cross-border underwriting and claims handling in this context. This is consistent with the idea of having service centres at the initial stage of the Insurance Connect scheme. While the Insurance Connect initiative was mainly conceived with regard to life insurance, medical and motor insurance are obvious areas for similar types of cooperation.

The Blueprint also refers to Hong Kong insurers being encouraged to establish operations in the special economic zones of the Greater Bay Area, such as the Qianhai zone in Shenzhen. The lower tax rates and other benefits of these zones could become attractive once Hong Kong insurers are able to establish service centres or even operating companies across the border.

However, an Insurance Connect scheme may introduce threats as well as opportunities for Hong Kong insurers, since Mainland Chinese insurers would likely be permitted to sell their products in Hong Kong, thereby increasing competition and pricing pressure. For insurers already operating in Mainland China via a joint venture, the implications of relevant non-compete provisions for their participation in an Insurance Connect scheme should be considered.

InsurTech Cooperation. The Blueprint proposes the development of an InsurTech innovation zone in Shenzhen and the cooperation between Shenzhen and Hong Kong in related matters. Such an arrangement could have a significant impact on the development of InsurTech in the region. Many large insurers have established their InsurTech labs in Singapore rather than Hong Kong. However, the insurance market is small in Singapore and still developing in the rest of South East Asia, making for a limited testing ground.

Shenzhen already has much of the talent and infrastructure needed for FinTech innovation and is strategically placed for access to the huge China market. With the right incentives (particularly for the recruitment of InsurTech talent), having a Shenzhen-Hong Kong axis for InsurTech development could be a very attractive proposition for insurers.

Reinsurance and Marine Business. The Blueprint also refers to the strengthening of cross-border RMB reinsurance business. Since the limitations to such business are currently more of a business than a regulatory nature, this is perhaps a less significant proposal. However, since last year Hong Kong reinsurers have benefited from a preferential regulatory capital charge applied to Mainland cedants reinsuring with them. That concession has led to significant growth in the Hong Kong reinsurance market, and no doubt reinsurers will be able to benefit from the market opportunities created by the development of the Greater Bay Area.

Finally, the Blueprint calls for Hong Kong to be developed as a marine insurance centre, building on its existing role as a transport and logistics hub. This idea has been promoted by the Hong Kong Financial Services Development Council for some time. Its realization will depend on whether Hong Kong can offer sufficient incentives and draw in the talent needed to regain the market share that has in large part been lost to Singapore.

Outlook. Depending on the speed with which Greater Bay Area initiatives are implemented and the details of the preferential arrangements that are put in place, the Greater Bay Area insurance initiatives, with their potential link to the huge China market, may be an opportunity for Hong Kong to regain ground as a predominant insurance hub in Asia. It may also pose a unique opportunity for overseas insurers

seeking to benefit from the growth potential that the Hong Kong and Mainland China markets offer.

* * *

Please do not hesitate to contact us with any questions.

HONG KONG



Edwin Northover
enorthover@debevoise.com



Jan Buschmann
jbuschmann@debevoise.com