

Boosting Hong Kong's insurance sector

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Reinsurance

Marine insurance

Captive insurance

Other recommendations

On March 3 2017 the Hong Kong Financial Services Development Council released a report entitled *Turning Crisis into Opportunities: Hong Kong as an Insurance Hub with Development Focuses on Reinsurance, Marine and Captive*.⁽¹⁾ Pointing out that Hong Kong is facing stiff competition from regional competitors, the report identifies opportunities to strengthen Hong Kong's position in the reinsurance and insurance industry.

Reinsurance

Hong Kong plays an important role in supporting mainland Chinese companies in transferring and managing risks and, consequently, it has the potential to be a leading insurance and reinsurance hub in Asia.

With the rapid development of mainland China's primary insurance market, the report predicts that insurance-linked securities can be an important driving force in the positive growth of Hong Kong's reinsurance business. The report estimates that new business prospects for Hong Kong could potentially increase by as much as HK\$24 billion to HK\$50.4 billion.

Marine insurance

Hong Kong is a leading international maritime centre with an established and sophisticated community of international marine insurance specialists. Attributes of Hong Kong's maritime centre include:

- being the fourth-largest shipping registry in the world, representing 10% of the total number of vessels; and
- having world class transportation infrastructure, including container terminals, a cruise terminal, a state-of-the-art international airport and comprehensive logistics networks.

Further, the Hong Kong Maritime and Port Board was established in April 2016 to promote Hong Kong's maritime industry. Despite its obvious strengths, Hong Kong's marine insurance industry still faces stiff competition from other regional ports.

The Hong Kong Financial Services Development Council aims for Hong Kong to become a leading international marine insurance market with the cooperation of the Chinese government. The council has proposed an agreement with the Chinese Insurance Regulatory Commission to recognise Hong Kong as a special administrative region under the China Risk-Oriented Solvency System (C-ROSS) with equal status to China's major cities (including Guangzhou, Ningbo and Shanghai).⁽²⁾ At present, Hong Kong is recognised as an offshore region like other non-Chinese jurisdictions.

The council has also suggested tax incentives for marine insurers so that they can conduct business on a level playing field with other competitors.

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The report also considers whether Hong Kong insurance law should be revisited, particularly after the implementation of the UK Insurance Act 2015.

Captive insurance

Another objective is for Hong Kong to develop its captive insurance market. The Hong Kong Financial Services Development Council has targeted five to 10 captives to be licensed each year with a total of 50 captives by 2025.

To facilitate development of the Hong Kong captive market, the report suggests creating an in-house system in which insurers, claims professionals and underwriters can move into a niche environment after developing their skills in larger insurance companies. The report also suggests that the newly established Independent Insurance Authority (IIA) should take an active role to fill the information gaps regarding captives, which would include issuing guidance notes on captive management, operations and risk management.⁽³⁾

Other recommendations

Among its recommendations for improving Hong Kong's competitiveness, the Hong Kong Financial Services Development Council also highlighted the need for the government and local authorities (including the IIA, the Hong Kong Monetary Authority and the Trade Development Council) to work together to promote Hong Kong as an insurance hub (eg, by hosting insurance conferences and organising marketing events). It is also recommended that the government and the Hong Kong Federation of Insurers set up an education fund and provide specific insurance courses in tertiary institutions together with enhanced continued professional development programmes for talent development and retention in Hong Kong's insurance industry.

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Endnotes

(1) Turning Crisis into Opportunities: Hong Kong as an Insurance Hub with Development Focuses on Reinsurance, Marine and Captive, Paper 27, March 2017.

(2) Since January 2016, C-ROSS has provided preferential treatment to domestic insurers and reinsurers in mainland China. This has drained talent and reinsurance premiums from Hong Kong.

(3) The IIA will commence operation in 2017.

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