


# For Foreign Insurers : Zooming into the Greater Bay Area



# BTT Consulting

Management Consulting for the Financial Services Industry

+852 9713 4339

 [contact@btt-consulting.com](mailto:contact@btt-consulting.com)

 [www.btt-consulting.com](http://www.btt-consulting.com)

## Co-authors

### **Ms. Liangliang Graham, CFA**

Director, BTT Consulting  
[liangliang.graham@btt-consulting.com](mailto:liangliang.graham@btt-consulting.com)

LL is an former Big4 Consultant in London and Hong Kong; a former transformation specialist at AXA Hong Kong and a former Treasury market risk analyst at Nationwide Building Society.

### **Ms. Dorothy Lay**

Associate Director, BTT Consulting  
[dorothy.lay@btt-consulting.com](mailto:dorothy.lay@btt-consulting.com)

Dorothy is a former Big4 Consultant in New York and Hong Kong; and a former HNWI strategist at AXA Hong Kong.

## With thanks to

### **Mr. Robert Graham**

Robert is a qualified CIMA accountant and a former senior executive at a large building society in the UK

### **Mr. Eric Li, CPA**

Eric is a CPA and a Partner of a boutique accounting firm in Shenzhen, China

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8. Numbers we calculated could be subject to rounding.
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## What do we know about 2019 and 2020 so far for the insurance industry in Hong Kong?

For the insurance industry in Hong Kong, a global hub with the presence of all major multinational insurers, 2019 and the first half of 2020 were mixed with both opportunity and risk:

- The opportunity was that on 6th December 2019, the China Banking and Insurance Regulatory Committee (CBIRC) officially announced that starting from 1st January 2020, the foreign ownership restriction on life insurers would be lifted completely. This is a positive signal for the opening of the enormous Chinese life insurance market, with Gross Written Premium (GWP) of CNY 2.96 trillion at the end of 2019, for healthy market competition.
- The risk, for those like myself who have been in the city for a significant amount of time, is the social unrest and impact of the COVID-19 pandemic. Especially the disruption caused by COVID-19 on many aspects of business activity and macro-economic outlook globally.

Amidst all that, what we have observed is the business resilience of the insurance industry in Hong Kong. Part of that has to be attributed to the nature of the insurance industry, especially life insurance, which is a business built upon the premise of sustainability and lasting for generations.

Many of the global insurance giants in Hong Kong today are those that already have a proven record of weathering global storms through time. Those that are relatively new will hopefully prove as time progresses that they are serious about the key mission of an insurer, to be there for their customers in the rainy days and for their futures in the sunny days; and thus will invest and run their companies with a view to long-term impact.

Despite being one of the top financial centres globally with HKD 382k per capita, Hong Kong itself is a relatively small market with a population of 7.5 million at the end of 2019.

The development plan of the Greater Bay Area (GBA) introduces a powerhouse for premium growth to foreign insurers in Hong Kong by combining the two Special Administration Regions of China and two of the Tier-1 cities (amongst others) in mainland China into a single unit.

## PREFACE (2/4)

The pandemic does not appear to have slowed down the Chinese regulator’s determination to support greater integration for the financial services industry within GBA and to extend its reach into the rest of the mainland:

- On 14th May 2020, “**Opinions on supporting the financial development of the Greater Bay Area**” was jointly released by PBOC, CBRIC, CSRC and SAFE, the top policy and regulation makers for Chinese financial markets. **This is a key document that both the Insurance Authority of Hong Kong and the Financial Services and Treasury Bureau of the SAR government referred to in their responses to our inquiries regarding this matter.**
- By 23rd May, CBIRC had already established a working group to support the GBA development plan.
- On 29th June a Joint Announcement was issued by PBOC, HKMA, and AMCM about the Launch of the Cross-boundary Wealth Management Connect Pilot Scheme – further enlarging the potential of what a Hong Kong-based insurer can distribute to mainland cities.
- In addition, **our recent experience of inquiring about GBA-related policy directly to the CBIRC, IA and FSTB were all met with positive responses, with some specific pointers to the next steps, indicating that they have progressed beyond the ‘concept’ stage.**

Our interpretation of the responses from the IA and FSTB are summarised below:

### Three areas are encouraged



### Three actions have been taken

- I. Preferential treatment of insurance regulation: under the China Risk Oriented Solvency System, the capital requirement of Mainland insurers would be reduced when they cede business to qualified Hong Kong professional reinsurers.
- II. The restriction on Hong Kong service suppliers to set up insurance loss adjusters on the Mainland has been lifted with effect from 1 June 2020.
- III. In response to the Central People’s Government having announced a measure of supporting Mainland insurers to issue catastrophe bonds in Hong Kong. FSTB introduced an amendment bill into the Legislative Council (“[LegCo](#)”) to provide a streamlined regulatory framework for insurance-linked securities (including catastrophe bonds) business. Subject to [LegCo](#)’s scrutiny, **current target is to commence the new ILS regime by end 2020 or early 2021**

## PREFACE (3/4)

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In light of the policy and regulatory implications for insurers in Hong Kong, we have developed our own financial models to project the market size in the mainland cities of GBA for health insurance and motor insurance sectors and conducted a S.W.O.T analysis looking at the foreign insurance industry as a whole. Our findings are the following:

### **Strengths:**

*Foreign insurers enjoy the benefits of global knowledge, proven record of sustainable business model, diversified product portfolio, strong corporate governance and often a flatter structure of corporate culture that cultivates innovation and attracts young talent, amongst others.*

### **Weaknesses:**

*When compared to the domestic insurers, foreign insurance companies have a relatively small market penetration and brand presence, a less developed end-to-end value chain, a less sophisticated ecosystem, and require more time to build rapport and trust with the Chinese regulators.*

### **Opportunities:**

*In addition to a strong signal of policy support from the relevant authorities and regulators, our financial models project that foreign insurers could take GWP of CNY 36 billion in the health insurance sector in the five years to 2025 in the mainland cities of GBA, and CNY 13.8 billion in the motor insurance sector over the same period.*

### **Threats:**

*One of the key success factors for foreign insurers is the ability to replicate the already-successful models in Hong Kong. Given the different systems between Hong Kong and the Mainland, it is sensible to plan execution with a view to the availability of the financial talent, data regulations, Forex and cash repatriation etc.*

Compared to the rest of the Mainland, decision makers in the foreign insurance industry should take into consideration the proximity of all GBA cities in terms of culture, language, weather and location; all of which are important in attracting a pool of international and local financial talent from Hong Kong.

Though COVID-19 has slowed down many agendas, **the Insurance Authority in Hong Kong has responded that "the impact on the progress of implementing the proposals will not be significant."**

We firmly believe that the opportunity in mainland China and particularly the mainland cities of GBA, is too significant to be missed by forward-looking leaders in the foreign insurance industry. Not only should they have a strategy, but they should also be looking to execute that strategy quickly to capitalise on first-mover advantage.

## PREFACE (4/4)

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Visionary leaders should think about how to utilise the financial hub position of Hong Kong, the policy and infrastructure benefits of GBA and the too-significant-to-ignore potential of the Pearl River Delta region, in order to grow their businesses in the post COVID-19 world.

In the current environment that we are all facing globally, it feels particularly appropriate to quote Louis Pasteur, a microbiologist:

Louis Pasteur – Microbiologist

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**Chance favours the  
prepared mind**

I translate it as:

**機會偏愛有準備及願嘗試的人**



It is irrefutable that the development of the GBA and China's focus on developing Shenzhen into the "Silicon Valley of China" will bring about many economic opportunities to multiple industries.

**This is particularly so within financial services where there will be increasing demand for more**

- *sophisticated banking services,*
- *wealth management solutions,*
- *cross-border motor insurance products, and*
- *holistic health insurance products*

...because many foreign insurers, especially companies that are established in Hong Kong and Macau will look to the mainland cities of GBA to capture more of the untapped market. Hong Kong's life premium per capita was nearly 14 times as high as that in the mainland cities of GBA in 2018.

The removal of restrictions on foreign ownership in joint venture life insurance companies has, in principle, allowed more access and control for foreign-invested insurers. They will now be able to take full control of their future strategic directions in China. In this white paper, we delve into insurance as a wealth management tool, cross-border health insurance considerations, market projection for health insurance growth, and the potential for the motor insurance market for foreign-invested insurers.

Though there will be challenges to enter and capture market share in mainland China, the market potential is proven to be too large to ignore. In the immediate term, foreign insurers should begin ramping up on digitalisation, creating brand awareness in mainland China, exploring distribution capabilities, understanding target markets, staying tuned on GBA regulations on product specifications, and licensing for the insurance business.

There is a saying in Chinese called 抛砖引玉, which literally means that we throw a brick in the hope of attracting jade. With this whitepaper, we are aiming at exactly that - we look forward to opening more dialogues with like-minded business leaders on opportunities in the GBA.

# 01



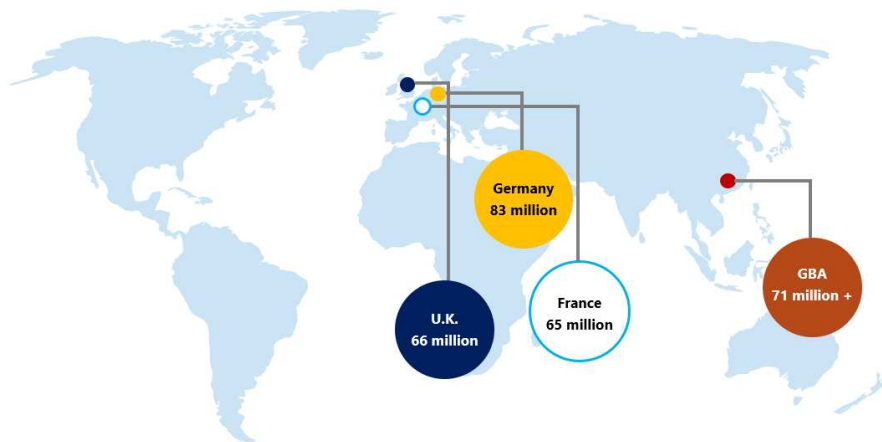
## INTRODUCTION TO THE GREATER BAY AREA

### Greater Bay Area at a glance

The Greater Bay Area (GBA) is an area covering 56,000 square kilometres, including two of China's Special Administrative Regions, Hong Kong and Macau, as well as nine cities in the neighbouring Guangdong province. These nine cities include two out of the four Tier-1 cities in mainland China – Shenzhen and Guangzhou. Together with Hong Kong and Macau, it represents an enormous economic zone and production powerhouse in southern China with the potential for access to the rest of China.

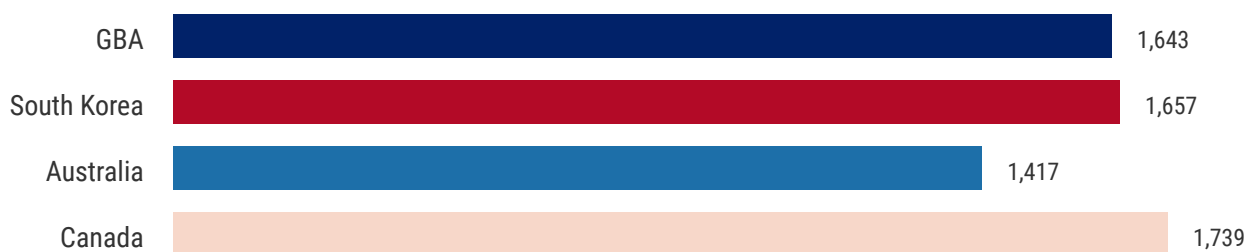
Here are a few illustrations to put some key facts of the GBA in perspective:

- The population of GBA is greater than 71 million as of the end of 2018, a little larger than the populations of the UK or France and a little less than that of Germany at the same time.



- The combined GDP of GBA is USD 1,643 billion at the end of 2018, close to the GDP of G20 countries such as South Korea, Australia, or Canada in 2019.

Comparison of GDP in G20 countries (in USD bn)

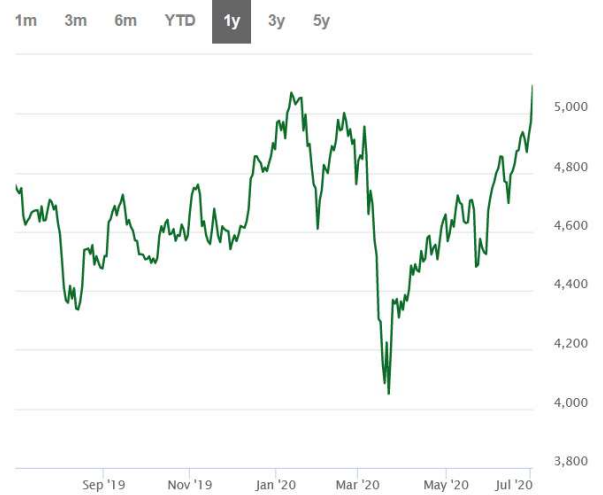


# 01



## INTRODUCTION TO THE GREATER BAY AREA

- According to the Hang Seng Stock Connect GBA Composite Index, there are currently 269 listed companies that are qualified for trading under the Stock Connect scheme in GBA. As of 2nd July 2020, the index performance showed an upward trend since its ditch point around March 2020 despite the many uncertainties in the current global economic environment.



As of 02 Jul 2020  
All information for an index prior to its launch date is back-tested, back-tested performance reflects hypothetical historical performance.

As part of China’s development blueprint, the GBA is a key strategic planning initiative. The policy areas cover 12 aspects leveraging the strengths of key cities in GBA. These policy areas include Innovation and Technology, Medical Services, and Financial Services. A full list is shown below :

 Innovation and Technology	 Financial Services	 Transportation and Logistics	 CEPA and Professional Services	 International Legal and Dispute Resolution Services	 Clearance Facilitation
 Medical Services	 Education	 Arts & Culture, Creative Industries and Intellectual Property	 Tourism	 Environmental Protection and Sustainable Development	 Youth Development

For the purpose of this study, we will zoom into the insurance industry, a key contributor in the financial services industry along with banking and wealth management. We will focus our efforts on assessing the market potential for the mainland cities in GBA from both qualitative and quantitative perspectives, given that this is an area that still presents early entrance advantages for foreign insurers that wish to expand their business across the border.

# 02

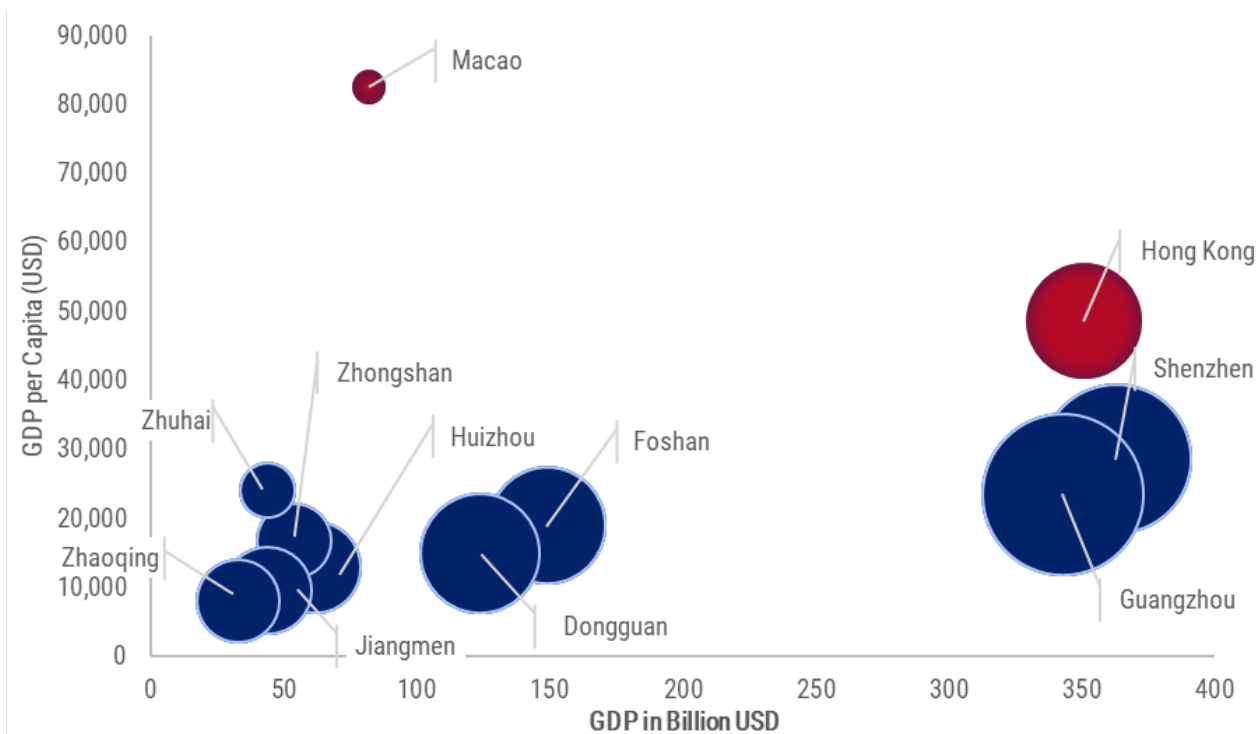


## MACROECONOMICS ENVIRONMENT

At the end of 2018, the total population of GBA was over 71 million with a total GDP of USD 1,643 billion and GDP per capita of USD 23,342. The GBA accounted for 13% of the total economy of China with less than 5% of its population.

Total GDP in Shenzhen has surpassed Hong Kong for the first time in 2018. In 2018, Guangdong's middle-class is the second highest, trailing behind Beijing and reaching 5,762,000 households.

The graph below shows GDP, GDP per capita (the size of the bubbles depicts the population size of each GBA city):



With increasing wealth, lifestyles of GBA residents will continue to evolve, creating a target market for the insurance industry. Markets that will be defined by characteristics such as enjoying travel, owning multiple properties and vehicles, demanding higher standards on healthcare, and growth of wealth management.

# 03



## Regulatory Landscape

### Did you know that the regulation in the Greater Bay Area involves three regulators?

These regulators are:

- China Banking and Insurance Regulatory Commission (CBIRC)
- Insurance Authority of Hong Kong SAR (IA)
- Monetary Authority of Macau (AMCM)

A few of the key supervision responsibilities of the CBIRC that are related to the insurance industry include:



Supervise and regulate to ensure legal and stable operations for the sector



Drafting laws and regulations for the sector



License insurance institutions and their business scopes



Formulate Code of Conduct



Supervision on activities such as risk management, internal control, solvency, and information disclosure, etc.



International regulatory standard-setting work for the sector

In general, the CBIRC carries out similar supervision and regulatory responsibilities relating to the insurance industry to the Insurance Authority (IA) in Hong Kong.

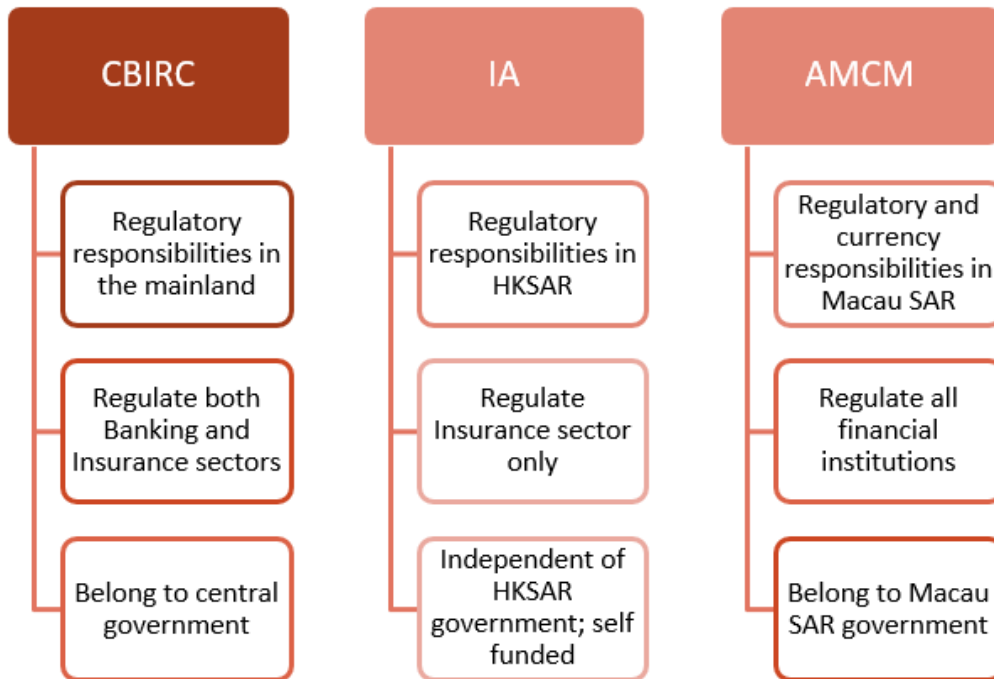
The CBIRC is different to IA in that they are also the supervision body and regulator for the banking industry in mainland China and that it is an arm of the central government, whilst IA is independent of the HKSAR government and is self-funded via fees generated from levies and other licensing and servicing.

# 03



## Regulatory Landscape

Let's take a closer look at the three regulators and their respective authorities and responsibilities:



As of 23rd May 2020, Chinese media reported that the CBIRC have designed the work plan to support GBA development for 2020, with the immediate next steps focusing on the implementation of the plan.

The relevant work plan specifically highlighted the support from CBIRC to develop innovative cross-border motor insurance and health insurance products. The CIBRIC also revealed that they are currently proactively exploring the setup of an insurance service centre in the Free Trade Zone of Guangzhou and the setup of insurance post sales service under CEPA .Specifically, CBIRC Guangdong and Shenzhen have already developed a work plan for an insurance service centre in GBA.

The regulatory environment is positive for foreign insurers to take progressive business decisions and seize the market opportunities in GBA, especially for the part in the mainland where foreign insurers' presence is very limited so far; for P&C insurers to focus on car insurance products and for Life Insurers to focus on health insurance products.



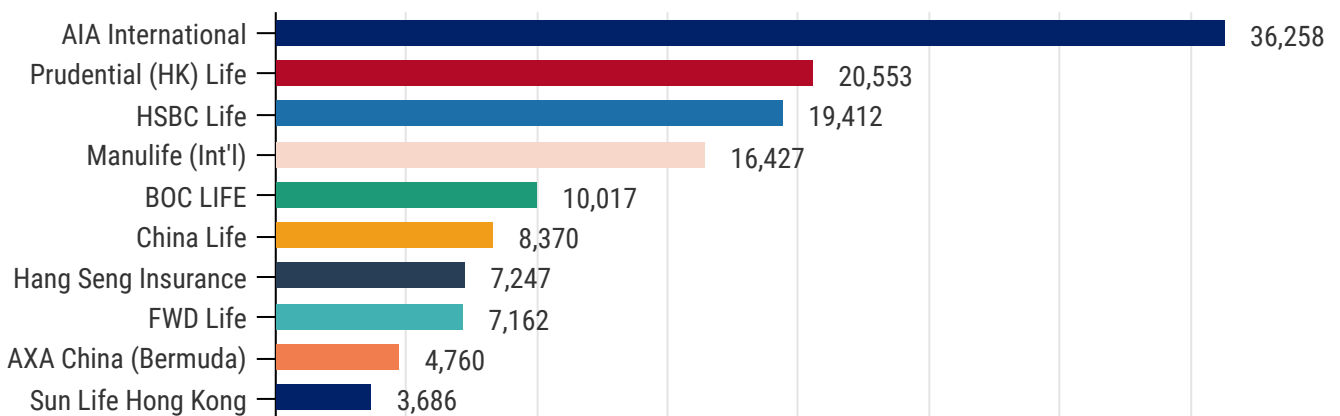
In this section, we further delve into the insurance industry, particularly those companies that are in top market positions in the life insurance and in the Property & Casualty markets in Hong Kong as well as Mainland China.

We conducted a market sizing exercise by developing a financial model to project the sector size for health and motor insurance. Though some analysts have rightly pointed out that the sector size does not have to be a fixed number, and that could be a range of projections (for example, based on Sensitivity Analysis) that are based on a particular client's confidence in growth as well as their risk appetite on potential entrance barriers; we have chosen to show the projections to reflect business confidence and risk appetite for the industry as a whole, as informed by our primary and secondary research.

### 1. Top 10 Life insurers in Hong Kong

The life insurance market in Hong Kong received close to HKD 150 billion of annual gross written premiums in 2018. The Top 10 life insurers in Hong Kong dominate the market with c.90% of the market share, the top three insurers share 51% of the market.

Top 10 Life Insurers in Hong Kong by GWP (in HKD Mn)



With a matured and saturated market in Hong Kong, insurers should consider racing towards other cities in GBA especially those in the mainland to capture a market of over 63 million people where the life premium per capita was only USD 537 in 2018.

By comparison, the annual life gross written premium per capita in the same year was USD 7,353 in Hong Kong, nearly 14 times as much as the mainland cities in the GBA, indicating a significant opportunity to close the gap and pursue growth.



## 85% are Mainland Chinese Visitors (MCV)

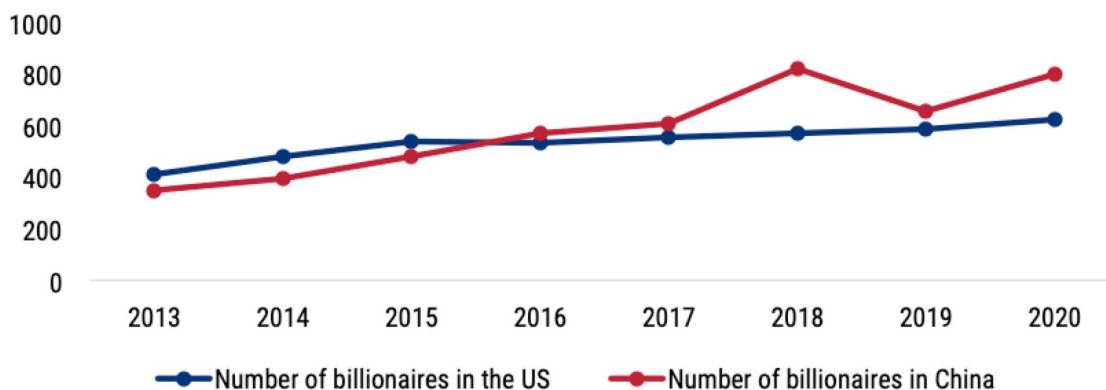
In Hong Kong, over 85% of clients that have spent over 1 million USD on insurance products in 2019 are Mainland Chinese Visitors (MCV), with over 70% of premiums spent in savings products.

Wealthy Chinese clients are attracted to purchasing wealth management and savings products from Hong Kong insurers as they are able to invest in funds worldwide. The guarantee on ROI (Return on Investment) is generally higher than those provided by mainland insurers at maturity (15 – 20 years).

These types of products serve as a great alternative investment for Mainland Chinese clients to diversify their investment portfolio with guaranteed benefits, life protection, and they allow clients to designate beneficiaries.

The number of billionaires (USD) in China has exceeded the US since 2016. Hong Kong, Shenzhen, and Guangzhou are within the top 10 cities where the richest reside. With China's ambition for Shenzhen to become the Silicon Valley of China, the demand for wealth management tools across the financial services industry including insurance will increase.

Billionaires in China has exceeded the US since 2016



Gathering from the most recent media update, the regulator CBIRC encourage insurers to spearhead cross-border motor and health insurance products in GBA. There are plenty of opportunities for foreign life insurers to further develop health products and compete on the market share league table.



### 2. Top 10 Life Insurers in Mainland China

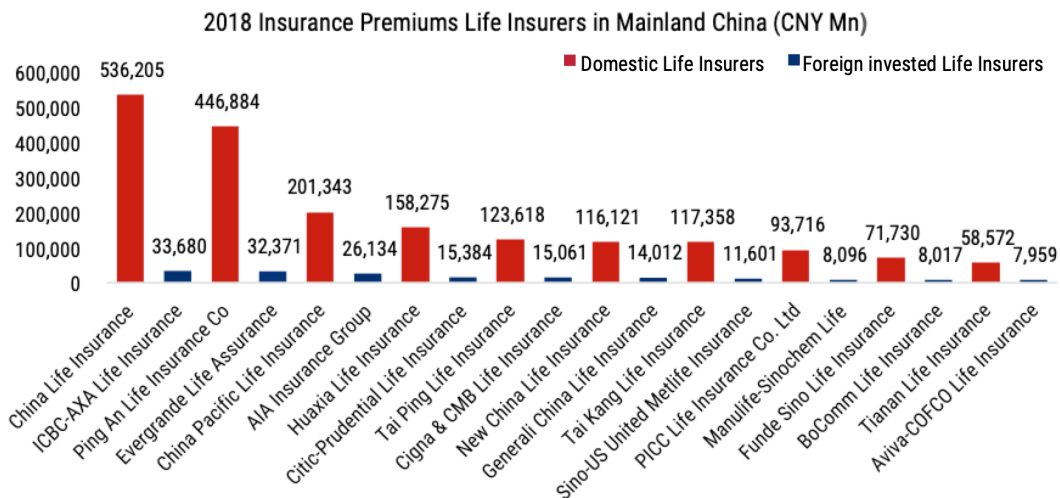
# 8%

## of life premiums

Are achieved by foreign-invested insurers in Mainland China in 2018

The gross written premium in Mainland China of life insurers totalled 2.62 trillion CNY in 2018. Given the regulatory and operating environments in China, foreign-invested insurers only shared 8% of the market in 2018.

What we saw from the data was that not a single foreign invested life insurer managed to get in the top 10 league table in the domestic China market. Within companies that achieved CNY 30 billion of premium income or above, only 2 are foreign invested life insurers.



The loosening of restrictions by the CBIRC such as allowing 100% foreign ownership of life insurers will allow foreign invested companies to operate more freely and increase their market footprint. Our research suggests that Chinese clients tend to have high brand affinity with local brands, and though Mainland Chinese visitors have fuelled most of the growth for insurance premiums in Hong Kong, the majority of mass affluent Chinese are likely to purchase life insurance from well-known Chinese insurers.

Foreign-invested insurers will need to start thinking about building their brands in Chinese local markets and to find ways of catering to the purchasing habits and the customer journey of their target clients. It should also be noted that this is a two-way-street, if the foreign invested companies fail to compete with them the Chinese owned ones will find it easier expand into territories previously the preserve of the foreign invested.



### 3. Health Insurance market

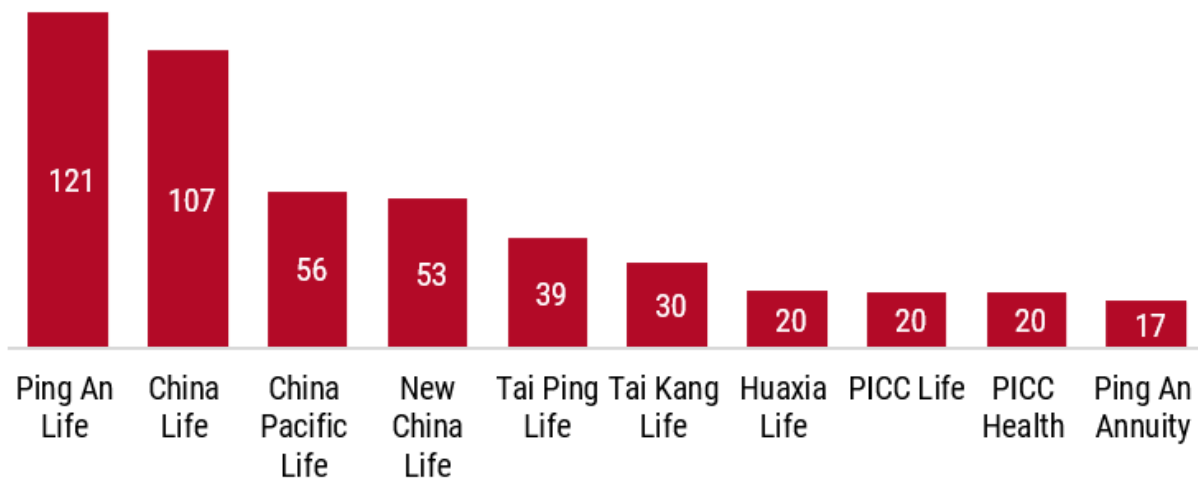
# 34%

## CAGR

was observed in the premiums of health insurance sector between 2014 and 2019 in China

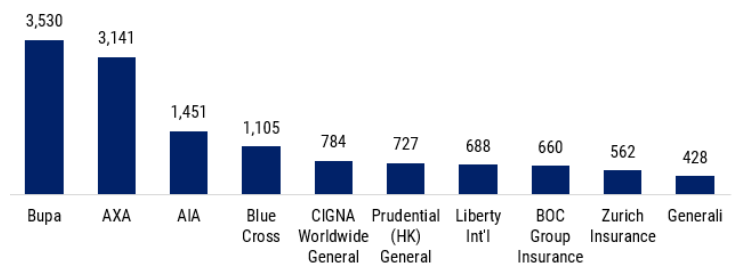
In 2019, total health premiums reached CNY 623 billion. 78% of the health premiums written were by the top 10 insurers in China. AIA is the largest foreign insurer who wrote close to CNY 18 billion in health insurance with a 2.9% market share.

Top 10 health insurers in mainland China, 2019 (CNY Bn)



Top 10 players in the Hong Kong Health Insurance Market enjoyed over 85% of the market share in Hong Kong, with the total Gross Written Premiums (GWP) in 2018 reaching HKD 15.8 billion.

Accident & Health GWP of Top 10 in HK, 2018 (HKD Mn)

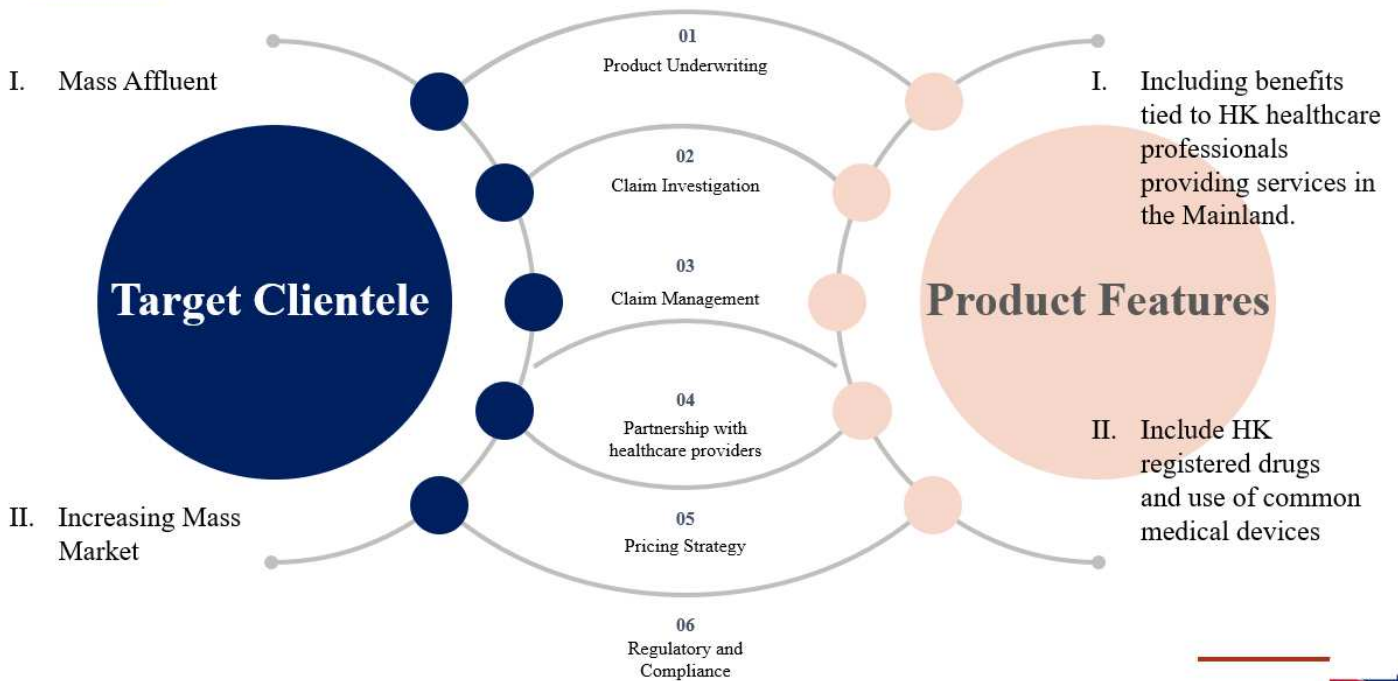


GBA mainland market is over four times the size of Hong Kong, providing numerous opportunities for growth. Development of GBA and the more tightly knitted integration of the economy and the development of cross-border health insurance products seem to present a significant chance to capture the less penetrated health insurance market within the mainland.



As the spending power of mainland residents in the GBA increases, demand for better healthcare and benefit providers will increase. To bridge the increasing healthcare needs, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) has allowed healthcare professionals licensed in Hong Kong for over five years to apply for opening solo clinics in the Mainland to provide services for up to three years without sitting the Mainland’s qualification examination. This may attract healthcare professionals to set up an office in the mainland, thus providing more options for healthcare for GBA residents. Foreign insurers may consider creating health product specifications that include these clinics.

Insurance companies may consider structuring products with the below considerations:





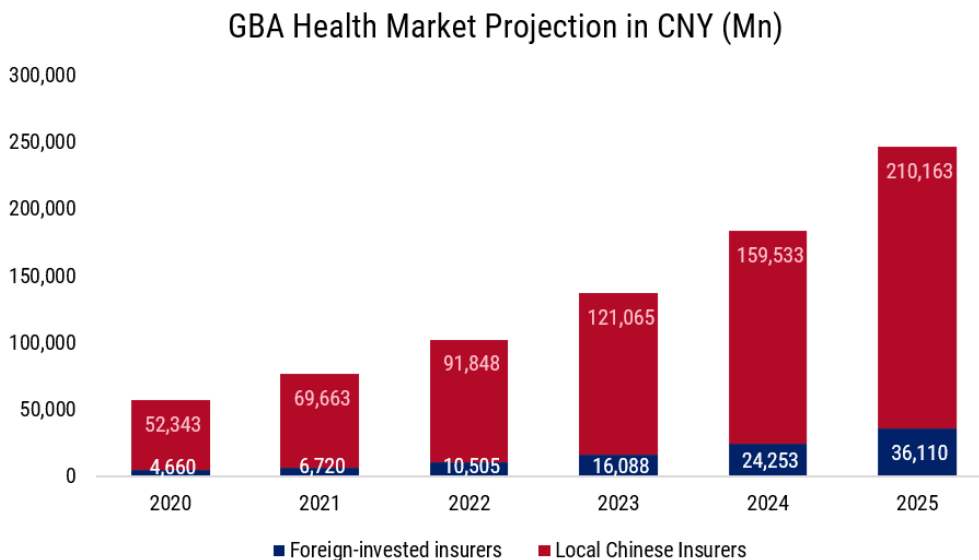
# 6%

of Chinese residents have cross-border or international medical insurance

Hong Kong’s healthcare has long been an attractive aspect for Mainland residents, however, in recent years with the reformed National Medical Products Administration, some western treatments and drugs have become more affordable and readily available in mainland China than Hong Kong. For example, some cancer drugs are 50 – 70% cheaper in the mainland than in Hong Kong . The convergence in level of healthcare in Shenzhen has levelled the playing field, and perhaps will prompt some Hong Kong residents to go to Shenzhen for medical treatments which further emphasises the potential for a two-way-street for Chinese/Foreign insurers that may threaten existing markets unless tackled head-on.

### 4. Health Insurance Market Projection for GBA mainland cities between 2020 to 2025

With a tremendous growth rate and an increasing number of Middle-Class within GBA, we project that the health market in the mainland cities of GBA will grow to 246 billion by 2025.



As the market matures and healthcare between Hong Kong and China converges, the market share of foreign-invested insurers will likely increase if opportunities are exploited. Projections for foreign-owned insurance market in the mainland cities of GBA could reach 36 billion CNY by 2025.

# 04



## MARKET LANDSCAPE

To support the projected data, we made key assumptions as below:



### Target Market

We believe that foreign insurers should target New-Middle-Class\* population in mainland GBA cities, as they are more likely to have global brand awareness and appreciate quality and service and less price sensitive.



### GWP Growth

The compounded annual growth rate between 2020 to 2025 for the target market is 34%, which is the same as the CAGR that was observed for the mass market between 2014 to 2019.



### Target Market Growth

We assume the population of New-Middle- Class as a portion of the overall Middle Class to stay stable at 29.3%, this is based on the stable Gini coefficient in China in recent years.



### Target Penetration Rate

Target penetration rate for health insurance provided by a foreign insurer in GBA is projected to be 14.7% by 2025. This is calculated based on our appetite for foreign insurers' ability to seize the target market.



### Achievable Rate

Penetration rate of health insurance underwritten by foreign insurers in the mass market is 8.1% in 2018. We predict that by 2022, the penetration rate will rise to 10.3% and by 2025 it will climb up to the 14.7% target.

\* A group of Chinese elites that are defined by Hurun China New-Middle-Class White Paper 2018

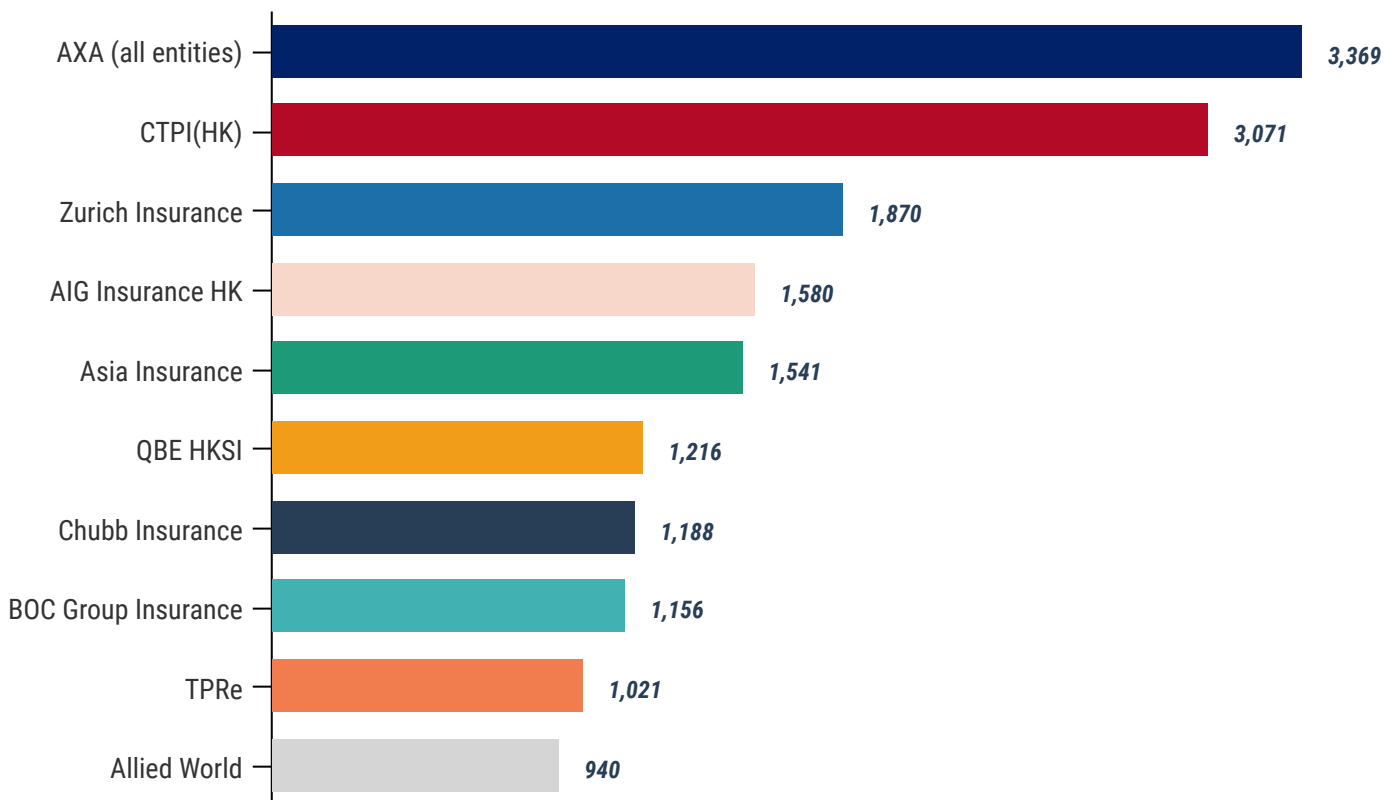


## 5. Overview of Property & Casualty (P&C) insurance in Hong Kong

As of May 2020, there is a total of 93 insurance entities in Hong Kong in the P&C market. The market size of P&C at the end of 2019 stood at GWP HK\$37 billion, with its top 10 players accounting for 45%.

After the merger with XL insurance group, AXA becomes the number 1 P&C insurer in the Hong Kong market, overtaking China Taiping Insurance (HK). Unlike the market landscape for life insurance, the P&C market is a lot more evenly spread, with each of the top 10 insurers occupying between 3 to 9% of the whole market.

Top 10 P&C insurers by annual premium in Hong Kong (in HKD mn)





### 6. Overview of Property & Casualty (P&C) insurance in Mainland China

# 1.94 %

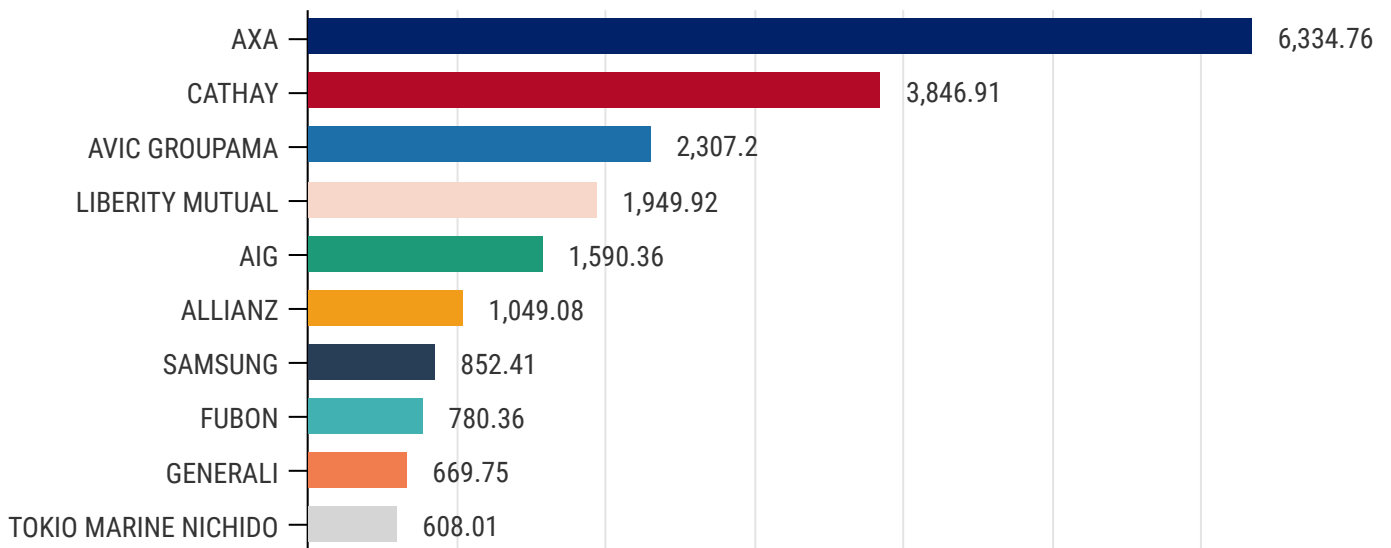
was written by foreign-invested insurers in 2018, totaling CNY 22.8 billion GWP

There were 22 foreign-invested P&C insurers in the Mainland Chinese market in 2018.

As of the end of 2018, there were 88 P&C insurers in the mainland Chinese market, of which 22 were foreign-invested. Despite not having the restrictions on its ownership percentage like those in life insurance prior to 2020, foreign-invested P&C insurers are still very small in their business scale compared to their Chinese counterparts.

The top 2 P&C Chinese insurers PICCP and Ping An reported GWP of CNY 38,800 million and CNY 24,744 million respectively over the same period, each of them underwrote more premiums than the combined size of all foreign-invested insurers in mainland China.

Top 10 foreign invested P&C insurers in China by annual premium (in CNY mn)



AXA, through owning 100% of its Joint Venture AXA Tianping Property insurance, is the only foreign P&C insurer that made the top 20 of the league table for P&C insurance in China as of the end of 2018, with GWP of CNY 6,335 million.



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# 1st Fully foreign-owned insurance holding company

*Goes to **Allianz**, following the approval from CBIRC in November 2019 to commence the setup process.*

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It is worth noting that both of the European insurance groups who were approved to fully own their business in China have chosen to set up their head offices in Shanghai, leaving space for those that are keen to explore the mainland GBA market especially under the current GBA development plan that encourages insurance development and a greater financial services integration.

Overall, it is believed that the gap between local and foreign insurers in the P&C market is largely due to the lack of large-scale distribution network capability. Still, the significant market gap indicates potential and opportunity for foreign P&C insurers to enter and ramp up their existing operating models in China.

## 6. Overview of Motor Insurance Market in Hong Kong

As of the end of 2019, there are 44 insurance entities that offer motor insurance in the local Hong Kong market, with the top 10 insurers taking up 67% of the market.

The market sector splits relatively evenly across the top 10 market players, in that there are no obvious dominators amongst them. This is usually a good signal of no obvious barrier of entrance to the market. However, the motor insurance industry as a whole made negative underwriting profits in 2019, although loss reductions were observed from the previous 2 years.

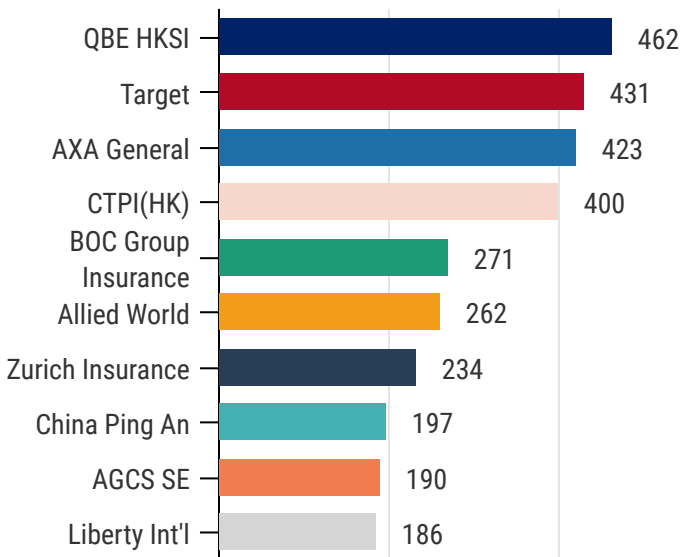
The performance of the direct Motor Vehicle business has continued to improve in 2019. Underwriting losses reduced from HK\$521 million in 2017 to HK\$441 million in 2018 and \$404 million in 2019, a loss reduction of 22.5% over the two-year period.

# 04

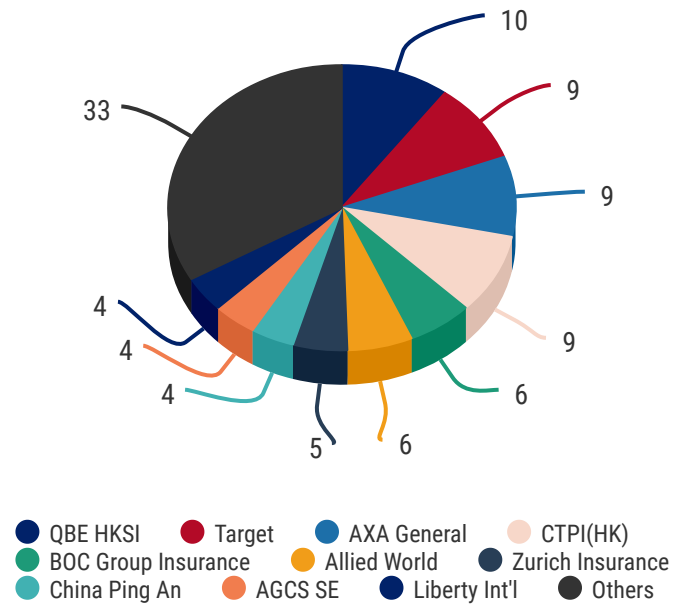


## MARKET LANDSCAPE

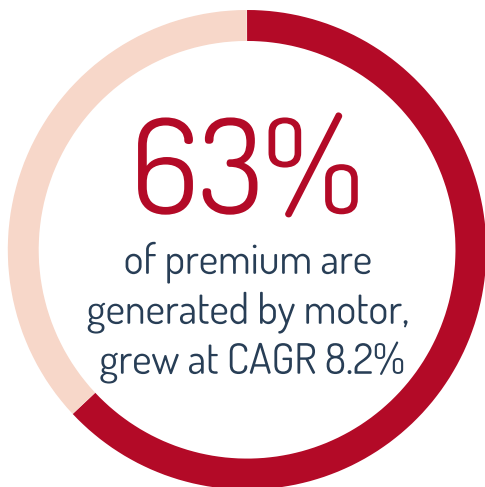
Top 10 Motor Insurers by premium (in HKD mn)



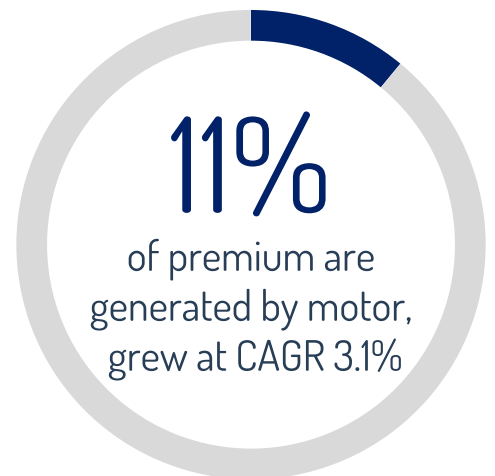
Top 10 Motor Insurers by market size %



The Gross Written Premium (Direct only) for motor insurance stood at \$4.6 billion and accounted for 11% of the total P&C GWP in 2019. This is very different from what was observed in the Mainland China market where motor insurance accounted for 63% of the entire P&C market over the same period. The sector has been growing at a CAGR of 3.1% over the 5 years from 2014 to 2019 in Hong Kong, compared to a CAGR of 8.2% in Mainland China over the same period. The significant differences in the two markets points to the needs of further analyses.



Mainland China vs. HK





Over the same period, the total Property and Casualty market has grown from HK\$32 billion to HK\$42 billion, indicating a CAGR of 5.7%, which is almost double the CAGR observed in motor insurance over the same period.

The observed trend in GWP supports the view that insurers in Hong Kong should explore opportunities by expanding their products and operations in other parts of GBA, whether it is Macau or mainland part of GBA.

In the next section, we will look at the potential motor insurance market size in dollar value for foreign insurers in the mainland cities of GBA.

## 7. Projected motor Insurance market by 2025 for mainland cities in GBA

Although various local analyst reported that the growth rate for motor insurance started to stabilise in recent years in the overall mainland market, however, we are inclined to apply the same CAGR projection between 2019 to 2025 in GBA mainland cities as the better connections and infrastructure with Hong Kong and Macau and the policy support for cross-border products are likely to boost the growth of GWP by attracting those that have a business need to travel between the mainland, Hong Kong and Macau.

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13.8  
bn

### Motor insurance in mainland part of GBA

*We estimate CNY 13.8 bn by 2025 for foreign owned  
motor insurers in the mainland cities of GBA*

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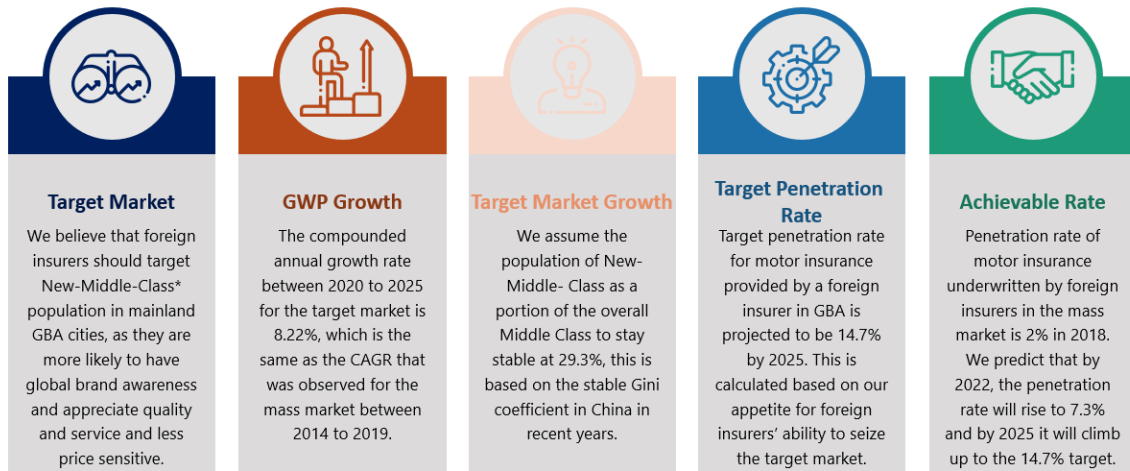
Our estimate for potential market size for motor insurance GWP by foreign insurers is CNY 1.2 billion in the mainland cities of the GBA in 2020, taking into consideration the economic impact of COVID-19 for the entire industry. With the recent CBRIC signal on the policy support encouraging P&C insurers to develop motor especially cross-border motor insurance products within the region, we project the potential market size to reach CNY 13.8 billion should the foreign insurers act quickly to grasp the market potential.

# 04



## MARKET LANDSCAPE

There are a few key assumptions behind the financial model for the market sizing projections:



\* A group of Chinese elites that are defined by Hurun China New-Middle-Class White Paper 2018

Using our financial model, the potential market size could reach CNY 13.8 billion by 2025 for foreign motor insurance underwriters in the mainland cities of the Greater Bay Area. As a comparison, the Hong Kong motor insurance market is HK\$4.6 billion (CNY 4.2 billion – exchange rate 1.1) as of the end of 2019. The potential niche market size by 2025 in the mainland part of the GBA is 3 times as much as the current mass-market size in Hong Kong for foreign insurers that are ready to invest for a holistic GBA strategy and implementation plan to seize the enormous market potential.

Combining the fact that there are two tier-1 mainland cities in the Greater Bay Area and multiple leading publishers' positive projections on the continued growth of Chinese High-Net-Worth-Individual, as well as the medium and long term development plan of the Greater Bay Area as a whole, we believe the potential market size is achievable by those that are willing to act early and commit to sustainable investment in the long term.



## 7. Strengths of local insurers in Mainland China



The strengths of the Chinese local insurers are obvious given that policy makers have only made it possible for foreign life insurers to own 100% of their companies in the Chinese mainland since 1st January 2020. For the Property and Casualty market, despite foreign insurers being allowed to own 100% equity, they make up less than 2% of the P&C market in 2018.

Whilst the local insurers' strengths are not limited to the 8 areas listed in the graph above, we believe these 8 areas are a reasonable representation of the key advantages we observed from local Chinese insurers:

1. For the mass market, brand awareness is critical when selecting an insurer and the local Chinese insurers have been building on this for a long time without too many foreign competitors in the domestic market.
2. High market penetration with the top 3 insurers occupying over 40% of the entire insurance market, achieving the economic scale for cross-selling opportunities.
3. A sophisticated insurance ecosystem, with strong distribution ability and established operations and servicing team to deal with claims and policy administration.
4. Good understanding of local customers' behaviours and preferences.
5. Highly digitalised direct sales channel integrated with local payment methods to significantly cut the cost and the lead time of sales.
6. Efficient Product and Pricing Strategies that are developed to cater to domestic consumers.
7. Strong solvency and capital injection abilities given that some of the top local insurers are state-owned entities.
8. Ability to better understand and communicate with the regulators.



Some of the core strengths above can be mirrored by foreign insurers via the hiring of talents that are available in the local market with local language skills, such as the understanding of local customers' behaviours and preferences.

Some are not easy to duplicate without a significant amount of investment as well as time. These include things such as building trust with the Chinese regulators, building brand awareness, and developing an end-to-end insurance ecosystem.

Insurance is an industry where long term investment and returns matter to its customers given the nature of the business and as such, one should always make strategic decisions bearing in mind long-term returns.

Despite these potential challenges, the market potential is too enormous to be ignored by any commercial leaders.

## 8. Strengths of foreign insurers

CBIRC's willingness to loosen its restrictions and allow foreign-invested insurers to become fully-owned subsidiaries in China is an encouraging sign for many insurers who are eyeing growth in the Chinese market. This will not only introduce healthy market competition but also allow more room for the market to grow.

Foreign-invested insurers are institutionalised and have proven records of stability with credible financial ratings globally from S&P, Moody's, and Fitch. For these reasons, foreign brands can sometimes be perceived as more prestigious especially for those that have experience living overseas or in Hong Kong.

With foreign insurance companies being able to operate within mainland China, products will not only be available for high-net-worth clients, but also for affluent or mass affluent clients who would not make a special trip to Hong Kong just to purchase insurance.



# 04



## MARKET LANDSCAPE

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Although insurance is a highly localised industry, foreign-invested insurers' international footprint allows them to facilitate knowledge exchange on the newest, most innovative insurance, medical, and motor solutions.

Chinese clients may opt for savings or life protection related products by foreign insurers so as to diversify their investment portfolio, especially if they have already invested heavily in the domestic stock market or domestic-based financial products.

Foreign-owned insurers that are set up in Hong Kong have well established and longstanding relationships with health centres, hospitals, and in-network doctors, and would facilitate better cross-border health products to be offered to residents of GBA.

### **8. Readiness of foreign insurers to compete with local insurers in the mainland**

#### **For foreign-invested life insurers – health insurance readiness**

Top companies like BOC Life, China Life, and Tai Ping Life Insurance (TPLHK) are wholly owned subsidiaries of Chinese companies and are likely to be able to take home-court advantage along with their established networks within Hong Kong.

With China being one of the fastest growing Insurtech leaders in the world, foreign-owned companies must play catch-up in order to be able to capture the fast-growing consumer base. On the next page, we selected top companies within the health insurance space in Hong Kong and took a look at their key features in order to compete effectively with established local Chinese insurers.

# 04



## MARKET LANDSCAPE

Insurer	Ownership	Sales and Service centres	Health Market	Digital Capabilities
<b><u>Bupa</u></b>	Representative office in Beijing for administrative and customer support for global health plans	Bupa offers medical centres in Guangzhou and Beijing for healthcare services (e.g., consultation, treatment, and post-treatment follow-up)	Bupa and Alltrust Insurance partner with Hang Seng Bank provides personal and corporate customers with medical insurance products	Basic website capabilities illustrating medical services provided in medical centres in China
<b><u>AXA</u></b>	JV with China's largest bank	ICBC AXA Life is headquartered in Shanghai, and as of the end of 2019, it has established 21 provincial branches across the country.	Though it is the largest foreign insurer with gross written premiums, health insurance written premiums only account for 7%.	Dedicated website for Chinese clients, no online sales. Limited online servicing
<b><u>AIA</u></b>	Obtained approval from CBIRC – China's first wholly off-shore owned life insurer, AIA to convert its Shanghai branch into a wholly-owned subsidiary	Operates in Shanghai, Beijing, Shenzhen, Guangdong, Jiangsu, Tianjin and Shijiazhuang.	AIA has the highest health market share within foreign-invested insurers, with 54% of gross written premiums from health products	AIA has a dedicated website for mainland Chinese clients with capabilities for online sales for specific medical insurance
<b><u>Bluecross</u></b>	BEA China and PICC P&C signed strategic partnership in 2016 to develop new products and services to mainland clients	BEA China and PICC P&C signed strategic partnership in 2016 to develop new products and services to mainland clients	Details of BEA and PICC agreement are not public	BEA China website focuses mainly on banking products and little information can be found regarding insurance
<b><u>Cigna</u></b>	50-50 with China Merchants bank	Licensed to set up branches in more than 15 provinces in China.	0.6% of total health market share in China	Dedicated Chinese website, focused on growing digital strategies: rolled out app-based online health assessment with advice on nearest doctors and hospitals and real-time monitoring of health status

In May 2020, HSBC Insurance (Asia) Limited has entered an agreement to acquire the remaining 50% stake in its life insurance joint venture in China, from The National Trust Limited . Though the company has taken full control over its Life operations in China, it does not offer any health insurance products currently, and therefore is not selected for the above study.



### For P&C foreign insurers – motor insurance readiness

Top Chinese motor insurance providers such as PICC, China Pacific, and Ping An all offer online quotations as well as online renewal of car insurance. They also offer easy online claims status inquiries and easy online claims for those that are under CNY 10k. Widely covered claim centre network and tow centres across the entire mainland.

In the following table, we examined the top 5 motor insurance providers in Hong Kong (by GWP as of the end of 2019) and assess how they compare to the top Chinese motor insurance providers in terms of market presence, sales, claims, renewal and digitalisation.

Insurer	Presence in P&C market in China	Sales convenience - Digitalisation (HK)	Claims convenience	Renewal convenience
<b><u>QBE</u></b> <b><u>HKSI</u></b>	NO	Not digitalised – lead generation only (e.g. brokers and bancassurance) and forms have to be downloaded.	Online claims available; inquiries of claims' progress available.	Most likely completed by paper policy renewal notice sent via the post.
<b><u>Target</u></b>	NO	From quote to payment to issuance of policy cover can be completed online. Policy document to be received by post.	Claims must be completed offline and mailed off to claim centre or completed at Target's office.	Most likely completed by paper policy renewal notice sent via the post.
<b><u>AXA</u></b>	YES	From quote to payment can be completed online	Claims must be completed offline and mailed to claim centre or emailed to a central mailbox.	By paper policy renewal notice sent via the post
<b><u>Allied</u></b> <b><u>World</u></b>	NO	Not digitalised – lead generation only and forms have to be downloaded.	Claims must be completed offline and mailed off to claim centre.	Most likely completed by paper policy renewal notice sent via the post.
<b><u>Zurich</u></b>	NO	Not digitalised – lead generation only	Claims must be completed offline and mailed to claim centre or emailed to a central mailbox.	Most likely completed by paper policy renewal notice sent via the post.

# 05



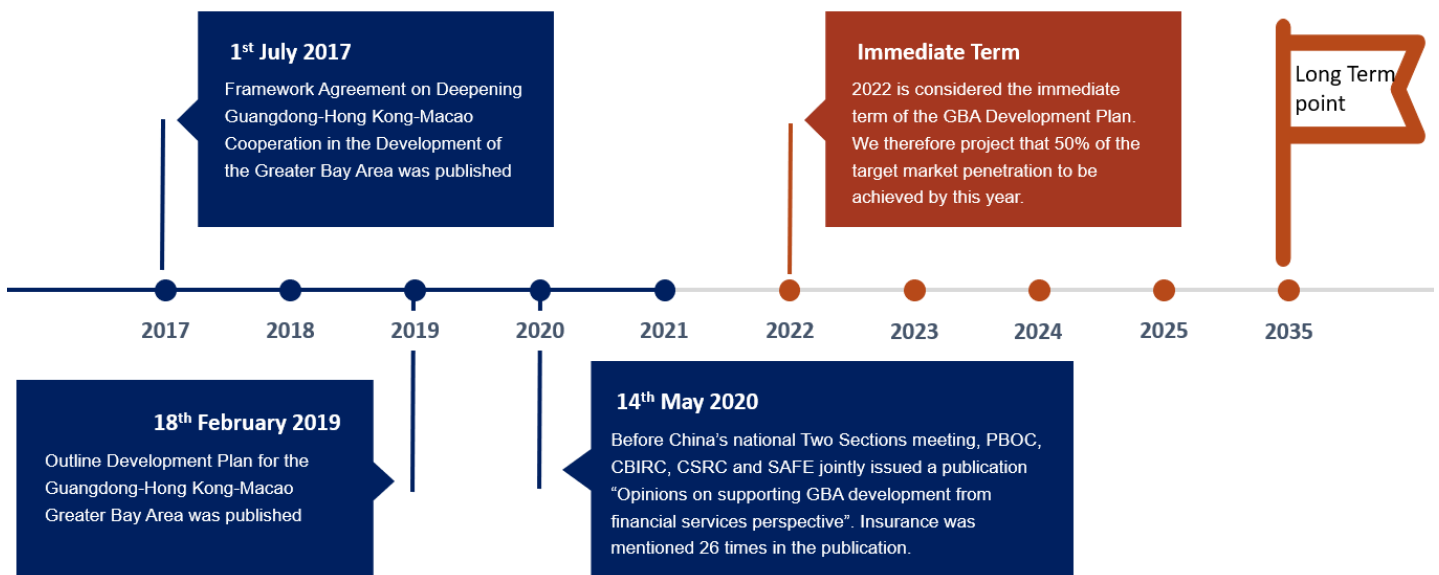
## IMPLEMENTATION CONSIDERATIONS

### The relevant Chinese financial regulators have shown advanced signs of support on speeding up the development agenda of the GBA.

The implementation roadmap at the moment is a directional high-level plan without too many specific timelines. However, since the release of the “Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area”, the relevant Chinese financial regulators have shown advanced signs of support on speeding up its development agenda, evidenced by removing the 50% ownership cap on foreign insurance firms in December 2019 and the recent news from key regulators about GBA before and since China’s “Two Sessions” meeting, despite the impact of COVID-19.

Below is a high-level summary of the key development milestones:

#### Key milestones in the development plan so far



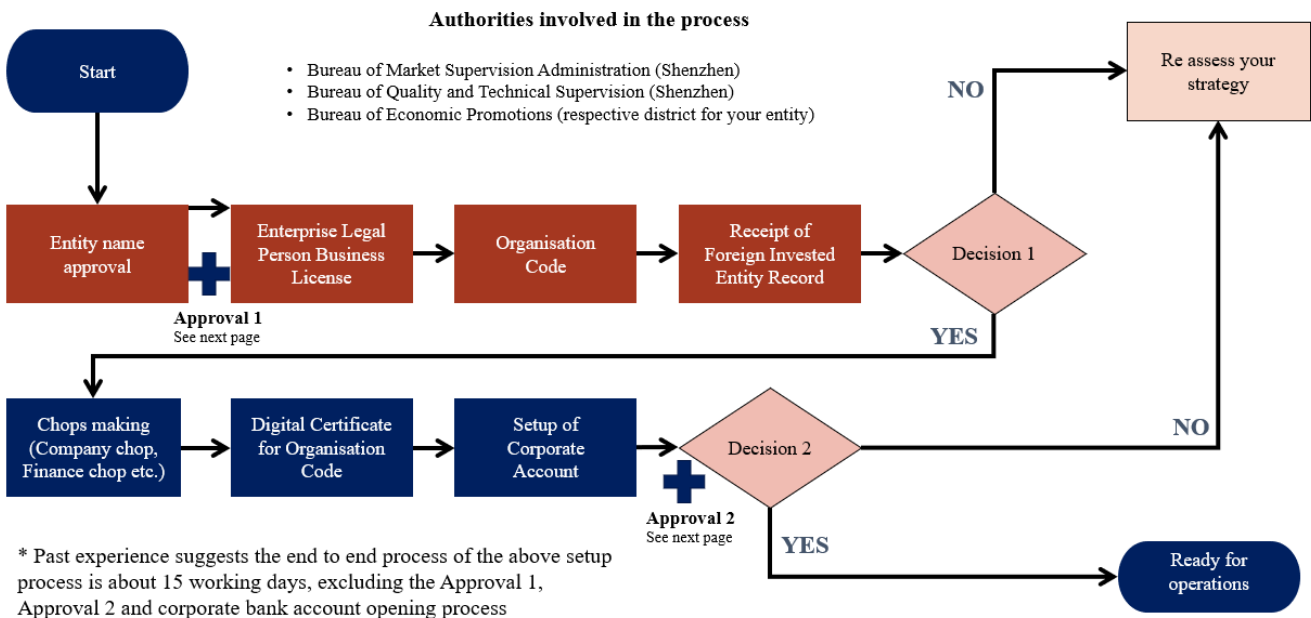


### If you are interested in expanding your brands in the GBA, here are some tips on the setup process and the involved approval authorities.

We have spoken to one of the partners of a boutique accounting firm based in Shenzhen, who is specialised in helping Chinese domestic and foreign investors to set up companies in China. The firm has assisted the successful establishment of thousands of different sized domestic and foreign entities in China, particularly in Shenzhen over the past 20 years.

Based on his experience, the following process flow illustrates how to set up a wholly foreign-owned entity in one of the key GBA cities, Shenzhen. Different cities will have different processes and responsible authorities but using the author’s experience in successfully setting up a wholly foreign-owned entity previously in Guangzhou, the process and timing were not fundamentally different and is relatively straight forward.

### Process of setting up a WFOE in China (Shenzhen as an example and assume no current presence) – Approval 1&2 are applicable to insurance companies



Source: Advice from subject matter experts and interpretation of policy document



# 05



## IMPLEMENTATION CONSIDERATIONS

**A prerequisite permit called "License for Insurance Business Operations" is the key to successfully establishing as a Wholly Foreign Owned Entity for your insurance brand.**

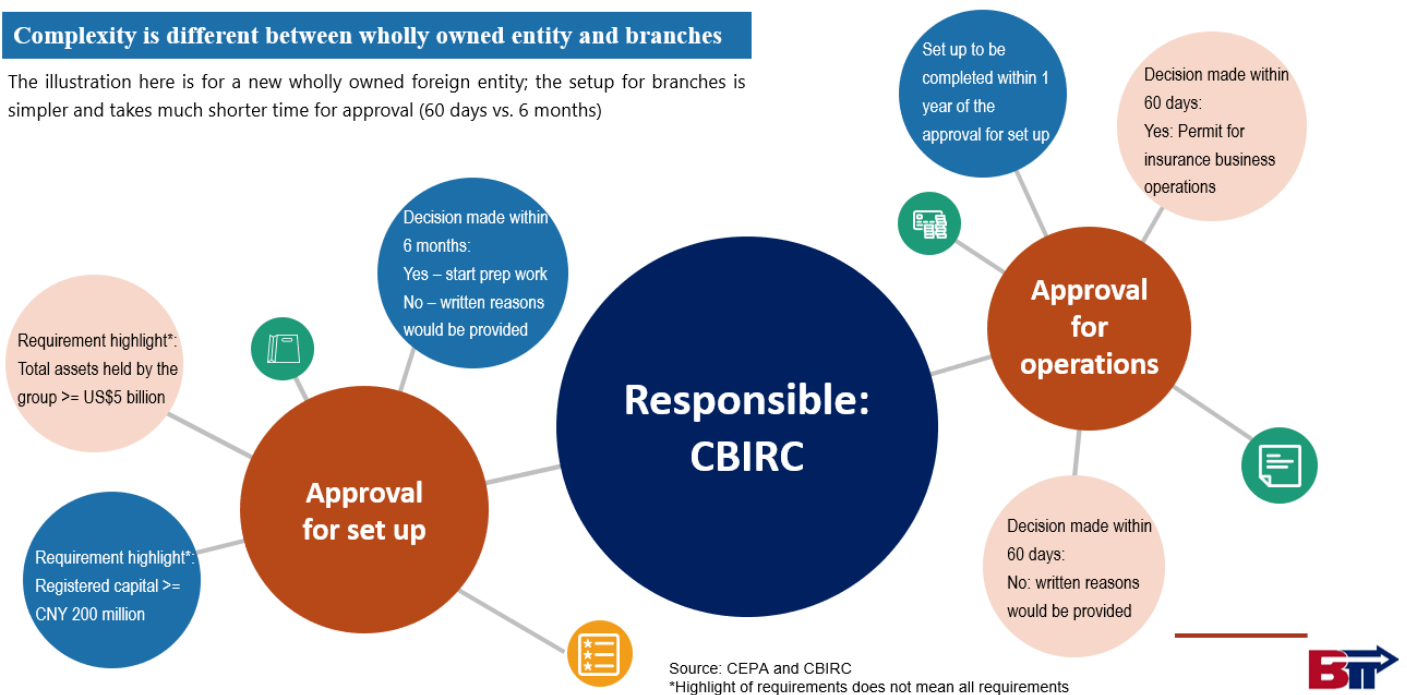
It is important to note that for the setup of an insurance company or its related branches and entities, a prerequisite permit called "License for Insurance Business Operations" is required (Approval 1). For foreign insurers that are interested in establishing in Shenzhen, this permit will involve China Banking and Insurance Regulatory Commission (CBIRC based in Beijing) and its Shenzhen office (CBIRC Shenzhen).

The graph below illustrates our understanding from the relevant policy documents from CBIRC and CEPA:

Two key steps to gain approvals from CBIRC to set up in Mainland China as a wholly foreign owned entity (applicable to insurers in Hong Kong under CEPA)

### Complexity is different between wholly owned entity and branches

The illustration here is for a new wholly owned foreign entity; the setup for branches is simpler and takes much shorter time for approval (60 days vs. 6 months)



We are unable to comment on the exact turnaround time for the prerequisite permit, however using the first granted life insurance license for a WFOE that was approved on 19th June as an example, we can safely say that for a reliable insurance company (AIA in this particular example) this doesn't take more than 6 months, in line with the suggestion from the CBIRC policy statement. Hopefully, with the market being gradually opened for foreign insurance investors, the process will be shortened in the future.

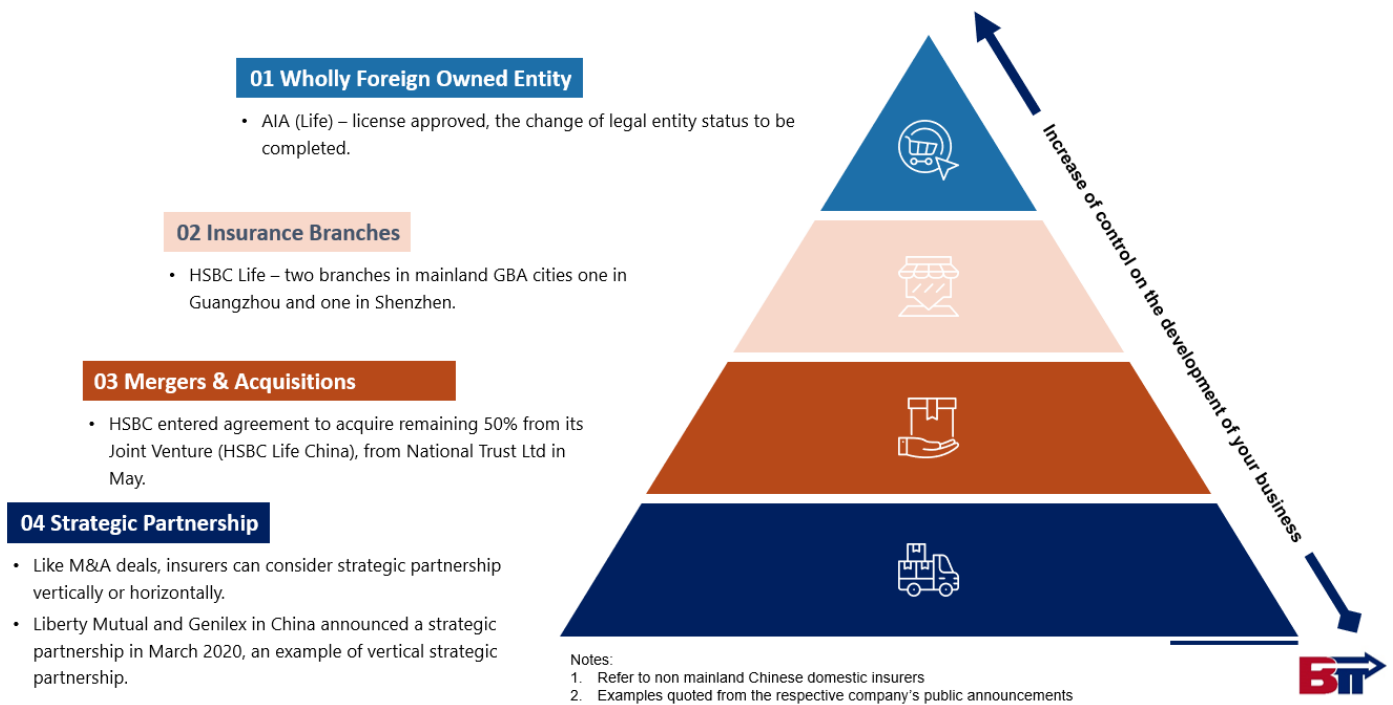


## What does this mean for your business?

Based on our assessment of the market size, regulatory environment, and execution feasibility, we strongly recommend foreign insurers to:

- Start now, holistically review your GBA strategy to determine your strategic direction for the remainder of 2020 and for the next 3 to 5 years.
- Depending on investment appetite and investment capital available to your company in the short and medium term, identify one of the options suitable to you to start building your business in the mainland cities of GBA, as illustrated:

Ways for a foreign insurer<sup>1</sup> to start building or expanding their brands in the mainland cities of GBA



- Start a business case building exercise and reviewing project financials internally to explore a feasibility and execution plan.
- Explain to your CFO the short, medium, and long term returns on investment, with an understanding of project risks.



## "Hot potato" for C-level executives

According to our primary survey, research, and discussions with industry experts, there are a few immediate questions to the C-level executives, P&L owners, and those that are in executive positions. We selected those that we consider "hot potato" topics below according to the general value chain of an insurance business:

Your Role	Questions you may have	How BTT Consulting can help
Chief Executive Officer, Chief Strategy Officer, Business P&L owner	I want to start assessing my company's strategy towards the Greater Bay Area.	Build company market entry strategy based on feasibility analysis, gap analysis ensuring they align with corporate strategy.  Help build a business case for your GBA strategy using data including but not limited to a set of management consulting methodologies such as SWOT Analysis, Competitor Analysis, Commercial Due Diligence and Benchmarking.
Chief Strategy Officer and Business P&L owners	I want to know about inorganic growth opportunities in China via Non-equity JV, Equity JV or Mergers and Acquisitions.	We can help with the pre-deal target screening and commercial due diligence work using publicly available data to support your business case.  We can act as an independent consultant to your selected accounting firm during the deal process and provide another point of contact for your client management with the target company.
Chief Legal and Compliance Officer	I want to know about the setup process in mainland GBA cities.	In strategic partnership with a well-established accounting firm in Shenzhen, who has been helping domestic and foreign business to establish their footprints in China, we are able to help you on the ground for this matter whilst bearing in mind the data confidentiality agreement.
Chief Operating Officer	I want to ensure that the entities set up in GBA can work with my Asia regional centre in Hong Kong or other places.	We can help you design a Target Operating Model (TOM) detailing the key 3 elements in your operating model – process, people and technology.
Chief Marketing Officer, Chief Product Officer and Chief Actuary	We need to better understand the market needs of GBA clients to define our product strategy and customer strategy.	Provide customer segmentation reports for target segments for your company, highlighting key expectations of clients on product specifications, prices, customer journey, level of digitalisation, and protection gap.

To be continued on the next page...



### ... to follow on from the previous page

Your Role	Questions you may have	How BTT Consulting can help
Chief Operating Officer and Project Delivery Head	Business P&L owners are happy with the strategy and feasibility study and would like to kick off the process of formally establishing project teams.	Based on your strategic assessment results and priority of the company, we can help articulate and define the scope of work for your GBA initiatives - what's in scope, funding, resources, expected time for return on investment, and create a strategic roadmap for the immediate, medium and long term.
Project Delivery Head	We already have an idea of what we would be doing in the GBA, but there is no dedicated person or team to take these ideas further.	Establish a programme team for managing each different initiative (licensing, service centre set up, branch set up, hiring, marketing etc.) and help you on executing these initiatives.
Chief Financial Officer	I want to know how the corporate service works and what about accounting rules integration such as IFRS 17.	<p>Provide corporate treasury advisory in areas such as Liquidity Management, Foreign Exchange Management, Treasury Best Practice and Treasury Technology through our strategic business partners in London and in Shenzhen.</p> <p>Provide external accounting advisory in Chinese and European accounting and taxation through our strategic business partners in the UK and in Shenzhen and Guangzhou.</p>

### Other questions from potential decision makers

- How do we go about setting up a wholly foreign-owned entity in the mainland cities of GBA?
- How do we go about setting up a branch in the mainland cities of GBA?
- I already have a branch in the mainland, how can I convert that to a wholly foreign-owned entity?
- How can we assess a potential JV or M&A target before we make a decision?

# 07



## THE CONCLUSION

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### So what next...

From the primary and secondary research we have conducted so far, the move by CBIRC to lift the ownership restrictions on foreign insurers has a clear positive impact on the investment confidence of foreign brands in the Mainland China market.

Large global insurers such as AIA, AXA, Allianz and HSBC Life are amongst those that have managed to make a move in gaining full ownership of their own brands in the mainland since December 2019.

Whilst many global financial institutions have opted to set their homes in Shanghai, perceived by many as the home of financial hub in mainland China, the potential of the Greater Bay Area should not be overlooked: you can get to Shenzhen and Guangzhou within an hour by high-speed rail from West Kowloon Station, and so daily commuting is possible for financial talent that wants to setup home in Hong Kong but work in the mainland.

Shenzhen is the home of many top Chinese enterprises: PingAn Insurance, China Merchant Bank, China CITIC, Tencent, and Huawei to name a few; and it provides a good alternative for foreign insurers that want to expand their homes across the border.

The impact of COVID-19 globally on both economic and policy fronts for the long term is still unclear; without a crystal ball, it is impossible to tell what your business investment today will exactly look like in ten years' time and therefore we do not want to be naive and suggest that these tremendous opportunities and market size come with no risks attached.

However, the Chinese policymakers appear to be patient and playing the long game with an emphasis on stability: these are the exact characteristics that an insurance company, especially a life insurance company, would value.

**We hope that you enjoyed reading this paper and if after reading it, you find yourself also asking one of the questions we listed in Section 06, we will be pleased to set up a meeting virtually or face-to-face to help answer.**

## REFERENCES

No.	Source
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4	Information from AMCM: <a href="http://www.amcm.gov.mo">http://www.amcm.gov.mo</a>
5	<a href="https://www.censtatd.gov.hk/hkstat/sub/sp250.jsp?tableID=030&amp;ID=0&amp;productType=8">https://www.censtatd.gov.hk/hkstat/sub/sp250.jsp?tableID=030&amp;ID=0&amp;productType=8</a> : data released on 15th May 2020
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17	National Bureau of Statistics ( <a href="http://data.stats.gov.cn/">http://data.stats.gov.cn/</a> )
18	Finance Sina 2019年意健险数据回顾与发展
19	Data on Health insurance in Hong Kong is taken under "Accident and Health", whereas for Mainland, it is taken under "Health Insurance" reported under Life insurance. This is due to difference in reporting in Mainland China and Hong Kong.
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21	Information Database on CEPA Service Sectors, Medical Services on Trade and Industry Department website of the Government of the Hong Kong Special Administrative Region
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23	"Hong Kong's cancer patients should get drugs at the same low prices as in mainland China" on SCMP by Dr Victor Hsue, consultant oncologist, Hong Kong University-Shenzhen Hospital
24	Company websites and announcements from the respective insurance companies mentioned in the paper

## ACRONYMS

Acronym	Full Name
GBA	The Greater Bay Area
GWP	Gross Written Premium
CBIRC	The China Banking and Insurance Authority
IA	Insurance Authority Hong Kong
AMCM	The Monetary and Foreign Exchange Authority of Macao
PBOC	People's Bank of China (The Central Bank of China)
CRSC	China Securities Regulatory Committee
SAFE	State Administration of Foreign Exchange
FSTB	Financial Services and Treasury Bureau
HKMA	Hong Kong Monetary Authority
CEPA	Mainland and Hong Kong Closer Economic Partnership Arrangement
P&C	Property & Casualty

# Thank you for reading



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