CLIENT ALERT

Greater Bay Area Initiative to Create Opportunities for Insurers

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On February 18, the Central Committee of the Communist Party of China and the State Council promulgated a new economic development plan that promises to create a wealth of new opportunities for insurers in both Hong Kong and mainland China, and potentially beyond.

The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, commonly known as the "Blueprint," lays out China's vision for the "Greater Bay Area", a cluster of prosperous cities located in China's Pearl River Delta. The Greater Bay Area has a population of approximately 66 million and includes Hong Kong and 10 other cities, such as Shenzhen, Macao and Guangzhou. The vision set out in the Blueprint is part of a larger effort by China's central government to usher in a new era of reform and opening up reminiscent of the major economic reforms initiated by Deng Xiaoping in 1978.

The Blueprint sets out a comprehensive long-term plan for closer integration between Hong Kong and the rest of the region in a bid to transform the Pearl River Delta into an integrated economic powerhouse that can rival other global technological and financial centers, such as the Silicon Valley and Tokyo. It sets out a specific timetable, calling for the construction of a basic framework for the Greater Bay Area by 2022 and the achievement of a high degree of market integration by 2035. The key measures for realizing this vision include: improving infrastructure links; increasing commercial competitiveness through special economic zones, such as a Greater Bay Area international commercial zone; and harnessing the power of national development strategies, such as the Belt and Road Initiative.

At this early stage, many are predicting that Hong Kong's financial institutions, in particular its insurers, are likely to emerge as major beneficiaries of this initiative. Essentially, Hong Kong banks and insurers, as the strongest in the region, are in the best position to capitalize on the surge in cross-border insurance, banking and investment that this initiative will create.

With respect to insurance, the Blueprint specifically contemplates enabling more cross-border insurance policy sales and encouraging cross-boundary car and medical insurance products. As well, the China Banking and Insurance Regulatory Commission (CBIRC) has already promulgated measures designed to further the integration of Hong Kong's insurance industry with that of mainland China. For instance, on 16 May 2018, the CBIRC's predecessor, the China Insurance Regulatory Commission, concluded a framework agreement with the Hong Kong Office of the

Commissioner of Insurance, to achieve mutual recognition that the solvency regimes of China and Hong Kong are equivalent. This will allow Hong Kong insurers greater freedom to do business in mainland China, and vice versa. Further, on 2 July, 2018, the CBIRC promulgated the Notice on Issuing the Solvency Regulatory Rules for Insurance Companies, which provides that when a Chinese insurer cedes risk to a qualified Hong Kong reinsurer the capital requirement of the Chinese insurer will be reduced. This measure has the potential to facilitate very growth in the business of Hong Kong reinsurers in mainland China.

In addition to opening up massive new markets for Hong Kong insurers, the Blueprint should also have the effect of modernizing mainland Chinese insurers based in the region. In this regard, Shenzhen will likely also play a leading role, as the Blueprint calls for the establishment of an insurance innovation pilot zone in this city. We note that Shenzhen is already a major insurance centre in its own right, as it is the headquarters of Ping An Insurance, which, by some measures is the world's largest insurer.

All of this occurs in the context of the ongoing liberalization of China's insurance industry, which, since 2017 has seen a series of reforms designed to facilitate greater market access for foreign insurers. As China's insurance industry continues to open up and the Great Bay Area continues to integrate, it seems very likely that Hong Kong, with its liberal regulatory regime, will be the channel through which many foreign insurers enter the mainland Chinese market.

We will provide a further update on these developments in our upcoming 2018 China Insurance Review.

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