

Evolution and Challenges of Insurance Industry in Hong Kong: From a Backward Investment Channel to a Leading Financial Product

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Abstract

The objective of the study is to explore the growth trajectory of Hong Kong's insurance industry and its changing position in the financial market, this study uses historical literature analysis, market data analysis, and case studies to conduct an in-depth investigation of the development of Hong Kong's insurance industry from the 1980s to the present. The study found that the Hong Kong insurance industry has experienced a transformation from a marginal investment channel to a core financial product, and the product attributes have also undergone significant changes with market demand and technological progress. The analysis shows that the growth of the individual life insurance market is mainly driven by factors such as increased consumer awareness, market policy support, and stable economic environment. However, the study also identified challenges facing the industry, such as market saturation, regulatory changes, and declining consumer trust. Based on these findings, it is recommended to adopt diversified product strategies, strengthen consumer education, and improve service quality to maintain the vitality and sustainability of Hong Kong's insurance industry. The results of this study not only reveal the evolution law of the insurance industry, but also have important theoretical and practical significance for promoting the realization of financial freedom, enhancing industry competitiveness, and formulating future market strategies.

Keywords

insurance industry, Hong Kong, investment channel, financial product, sustainability

1. Introduction

This study aims to explore the development, influencing factors, and challenges faced by Hong Kong's insurance industry from 1998 to 2023. By analyzing market data and policy changes across different time periods, the research identifies that Hong Kong's insurance industry has undergone a journey from post-financial crisis recovery and growth to market diversification, and then to adjustment and transformation under the impact of the pandemic, finally embracing new development opportunities in the post-pandemic era. Utilizing a combination of quantitative and qualitative methods, the study outlines factors contributing to the growth of personal life insurance, such as economic growth, an aging population, increased consumer awareness, government policy support, and product innovation. Meanwhile, the research identifies challenges facing the industry, including market transformation, increased global risks, and the need for industry innovation. In response to these challenges, feasible solutions are proposed, such as actively embracing

digitalization, building a customer-centric ecosystem, integrating ESG principles, and achieving growth through data analytics and mergers and acquisitions. This study holds significant importance for understanding the evolution of Hong Kong's insurance industry, formulating future strategic development, and maintaining the vitality and sustainability of the industry.

1.1 Historical Development of the Insurance Industry in Hong Kong

The following will cover four time periods: 1998, 2007, 2019, and 2022 to the present, which respectively represent the recovery and growth of Hong Kong's insurance industry after the financial crisis, its stable expansion, the diversification of products and services, the adjustment and transformation under the impact of the pandemic, and finally, the market recovery and new opportunities in the post-pandemic era. Each period has its unique economic context, market challenges, and industry development characteristics.

1.1.1 1998~2007 Hong Kong Insurance Industry Development

From 1998 to 2007, the Hong Kong insurance market has experienced rapid growth and sustained expansion. The development of the insurance industry has become an important pillar of Hong Kong's economic development. Figure 1 presents the growth of the Hong Kong insurance market in various aspects from 1998 to 2007. In 1998, the total gross premium of the Hong Kong insurance market was only HKD 54.2 billion, with an insurance density of HKD 8,280 and an insurance depth of 4.3%. By 2007, the total gross premium of the Hong Kong market had reached a high of HKD 197.3 billion, with an average annual growth rate of 15%; the insurance density was HKD 28,483, ranking 1st in Asia and 13th globally; and the insurance depth was 12.2%, ranking 3rd in Asia and 6th globally (Wei et al., 1998).

1.1.2 2007-2019 Hong Kong Insurance Industry Status

From 2007 to 2019, the Hong Kong insurance industry maintained a strong growth momentum, with insurance premium income continuously increasing and the insurance market gradually expanding. According to data from the Hong Kong Insurance Authority, the total new business premium for individual life insurance reached HKD 172.3 billion in 2019, up 6.5% from the same period in 2018.

Additionally, during this period, the Hong Kong insurance market diversified, with new types of insurance products constantly emerging, such as health insurance and travel insurance. These new insurance products met the needs of different consumers, driving market growth.

1.1.3 Hong Kong Insurance Industry and Economic Status during the Pandemic (2020-2022)

The COVID-19 pandemic affected Hong Kong's economy, leading to business challenges and insurance market impacts. Travel restrictions and economic instability reduced demand for some insurance products, particularly affecting new customer acquisition and mainland business premiums, which plummeted from HKD 43.38 billion in 2019 to HKD 2.07 billion in 2022. As the pandemic eases and the economy recovers with government support, new opportunities are emerging for the insurance industry (Liu, 2024).

1.1.4 Post-Pandemic Hong Kong Insurance Industry Status (2022-Present)

With the end of the pandemic, the economic situation in Hong Kong gradually recovered, and the demand for mainland visitors increased. The Hong Kong insurance market quickly recovered in 2023. As of the first half of 2023, the total premium income from long-term business reached HKD 258.7 billion (a year-on-year decrease of 2.2%), and the new business premium from long-term business was HKD 103.1 billion. Since the beginning of 2023, with the subsidence of the pandemic, the number of mainland visitors to Hong Kong has begun to surge. In the second quarter of 2023, the new business premium from mainland customers reached HKD 22.28 billion, a year-on-year increase of 113.25% (Wang, 2023).

With the gradual easing of the pandemic and the recovery of the economy, supported by government assistance and the implementation of corresponding measures, Hong Kong's economy is gradually recovering and demonstrating new development opportunities (Su & Leng, 2024).

1.2 Trends in Product Attributes of the Global Insurance Industry

The insurance industry is experiencing significant changes in product attributes driven by evolving customer needs, technological advancements, and regulatory developments. Here are some key trends shaping the future of insurance products:

1.2.1 Personalization and Customization

Insurers are moving away from one-size-fits-all policies and offering more personalized options. This includes considering individual risk factors, lifestyle choices, and specific needs to create customized coverage.

UBI uses data from IoT devices, such as telematics in vehicles, to price insurance based on individual behavior and usage patterns. This allows for more accurate risk assessment and potential cost savings for responsible customers.

Microinsurance offers affordable coverage for low-income individuals and communities, providing protection against specific risks like health issues, accidents, or crop failure. This helps improve financial resilience and promote social inclusion.

1.2.2 Technology-Driven Innovations

Insurtech startups are leveraging technology to disrupt traditional insurance models. They offer innovative products and services like on-demand insurance, peer-to-peer insurance, and parametric insurance.

AI is being used for risk assessment, fraud detection, customer service, and claims processing. This improves efficiency, reduces costs, and enhances the overall customer experience.

IoT devices provide valuable data that can be used to better understand risks and develop more accurate insurance products. For example, wearable devices can track health metrics, while smart home sensors can monitor potential hazards.

1.2.3 Regulatory Developments

The Solvency II directive in the European Union aims to ensure that insurers have sufficient capital to cover their liabilities. This has led to increased focus on risk management and product design.

Insurers are increasingly considering climate change risks in their product offerings. This includes developing new products to cover extreme events and incorporating sustainability factors into underwriting and investment decisions. The rise of cyber threats has prompted insurers to offer cyber insurance products to protect businesses and individuals against data breaches, ransomware attacks, and other cyber risks.

1.2.4 New Product Areas

The growing focus on healthcare drives innovation in health insurance. This includes coverage for alternative therapies, telemedicine, and devices that promote healthy lifestyles.

With people living longer, insurers are developing products to address the financial risks associated with longevity. This includes annuities, life insurance with longevity riders, and long-term care insurance.

Parametric insurance pays out based on predefined triggers, such as the occurrence of a natural disaster. This provides quick and efficient compensation without the need for detailed assessments.

The global insurance industry is undergoing a transformative shift in product attributes. By embracing innovation, leveraging technology, and addressing evolving customer needs, insurers can position themselves for success in the future.

2. Facts and Challenges to the Growth of Personal Life Insurance

With the development of the insurance industry in Hong Kong, there are many challenges and opportunities. This will be divided into three parts, which will analyze the causes of the rapid development of the insurance industry in Hong Kong, the challenges and opportunities brought by it, and the solutions to maintain the vitality of the insurance industry in Hong Kong.

2.1 Factors Contributing to the Growth of Personal Life Insurance in Hong Kong

2.1.1 Increasing Wealth and Affluence

Hong Kong's economic growth has spurred income rises, prompting individuals to safeguard their assets and family's financial condition. Life insurance acts as a financial cushion, securing loved ones in case of premature death and stabilizing their finances. As asset accumulation increases, so does the risk of loss, making life insurance crucial for replacing lost assets or covering related costs due to unforeseen events. Additionally, it aids in efficient estate planning, allowing for tax-smart transfer to beneficiaries, which is vital for those with substantial assets (Deng, 2006).

2.1.2 Aging Population

Hong Kong's high life expectancy necessitates robust retirement planning to ensure financial security and cover extended medical expenses. The aging population is more prone to health issues, making healthcare costs a significant concern without proper financial planning. Life insurance serves as a crucial financial safeguard, offering death and critical illness benefits, and aids in estate planning to protect family assets and minimize taxes. In light of longevity and rising healthcare costs, life insurance is vital for a comprehensive financial strategy in Hong Kong.

Table 1: Number of live births by gender and average expected life at birth

	Number of live births						Average life expectancy at birth	
	Number			Year-on-year percentage change			Female	Male
Gender	Female	Male	Combined	Female	Male	Combined		
Year								
2020	20568	22 463	43 031	-18.3	-18.9	-18.6	87.7	83.4
2021	17 993	18 960	36 953	-12.5	-15.6	-14.1	87.9	83.2
2022	15 663	16 838	32 501	-12.9	-11.2	-12.0	87.2	81.3

Source: Based on the annual statistics of Census and Statistics Department, Hong Kong.

2.1.3 Awareness and Education

As financial literacy becomes more widespread, individuals are increasingly recognizing the vital role that insurance plays in safeguarding against unforeseen circumstances and advancing their financial aspirations. This heightened awareness has led to a growing segment of the population that is eager to understand how insurance can be integrated into their financial planning.

In response to this trend, insurers have intensified their marketing efforts, focusing on educating consumers about the myriad advantages of life insurance. Through various educational campaigns, they aim to clarify the value proposition of life insurance, encouraging more people to consider purchasing policies. These efforts are designed to ensure that individuals make informed decisions that align with their personal financial strategies and contribute to their long-term security.

2.1.4 Government Initiatives

The Mandatory Provident Fund (MPF) scheme has been instrumental in encouraging individuals to save for their retirement, thereby fostering a greater awareness of the importance of long-term financial planning. By making it a mandatory requirement, the scheme ensures that people start thinking about their financial future early on (Huang, 2008).

Furthermore, the government has made certain types of insurance products more attractive to consumers by offering tax incentives for their purchase. This move not only enhances the appeal of these financial products but also reinforces the message that securing one's financial well-being through insurance is a wise and beneficial decision.

2.1.5 Competitive Market

Competition Drives Innovation: The competitive insurance market in Hong Kong encourages insurers to innovate and develop new products and services to attract customers.

Consumers have access to online comparison tools and platforms, allowing them to compare different insurance products and choose the best option for their needs (Zhu, 2022).

Insurers offer a wide range of life insurance products to cater to different needs, including term insurance, whole life insurance, endowment plans, and investment-linked policies.

Many life insurance policies offer flexible payment options and customizable features, allowing individuals to tailor their coverage to their specific needs.

2.1.6 Distribution Channels

Traditional distribution channels, such as insurance agents and bancassurance partnerships, continue to be integral in the sales process for life insurance products. These channels provide a level of personalized service and expert guidance that remains highly valued by consumers, ensuring their ongoing relevance in the market.

Simultaneously, insurers are embracing digital channels to expand their reach and cater to a broader audience. Online platforms and mobile apps are being utilized to enhance customer convenience, allowing individuals to access information, compare policies, and purchase insurance with ease, anytime and anywhere.

2.2 Challenges and Opportunities for Hong Kong's Insurance Industry

2.2.1 Industry Transformation

Over the past decade, the insurance industry in Hong Kong has undergone significant changes. Over the next five years, leaders in the insurance sector need to consider how to remain competitive in an ever-changing environment. Key growth drivers include: the widening trust gap in an uncertain world, rapid changes in customer needs and preferences, an increasingly digital and AI-driven world, climate risks, and a focus on sustainability (Zhu & Cao, 2009).

Entering 2024, the insurance industry is on the brink of significant transformation, preparing to enhance its overall mission to distribute risk, reduce financial uncertainty, and make unexpected losses manageable, thereby benefiting society. Deloitte believes that insurtech, green insurance, inclusive insurance, and digital insurance will become priorities for most insurance companies (Wu, 2024).

2.2.2 Response Strategies

PwC suggests that insurance companies might consider adopting the following five strategies: actively embracing digitalization, embracing a customer-centric ecosystem, embedding ESG (Environmental, Social, and Governance) principles, using data and analytics to create value, and achieving growth through mergers and acquisitions (Wu, 2024).

2.2.3 Increased Global Risks

From climate change to cybercrime, the escalation of global risks challenges the insurance industry's ability and readiness as a financial safety net for society. Analysis by Deloitte shows that an increasing number of insurance companies are aware of this situation and are deciding to take action to prevent risks, mitigate loss severity, and narrow the protection gap in the global life and non-life insurance markets.

2.3 Feasible Solutions for Maintaining the Vitality and Sustainability of Hong Kong's Insurance Industry

2.3.1 Actively Adopt Digitalization

Actively Adopt Digitalization Insurance companies must proactively embrace digitalization to keep pace with the evolving technological landscape. By leveraging cutting-edge technology, they can streamline operations, automate processes, and enhance the overall efficiency of their services. This includes the integration of artificial intelligence, machine learning, and blockchain to improve underwriting, claims processing, and customer service, ensuring a seamless and high-quality experience for policyholders.

For example, Geico allows customers to purchase insurance directly through its website or mobile application without the need to speak with an agent (Wan, 2020).

2.3.2 Embrace a Customer-Centric Ecosystem

Embrace a Customer-Centric Ecosystem Insurance providers should prioritize the needs and preferences of their customers by developing a business model that revolves around them. This involves conducting thorough market research to understand customer expectations, designing personalized insurance products, and creating a user-friendly interface for all customer interactions. By fostering a customer-centric ecosystem, insurance companies can build loyalty, increase retention, and drive growth through positive word-of-mouth.

2.3.3 Embed ESG (Environmental, Social, and Governance) Principles

Embed ESG principles insurance companies have a responsibility to integrate ESG principles into their core offerings and business practices. This means developing insurance products that mitigate environmental risks, support social welfare, and adhere to strong governance standards. By addressing climate risks and promoting sustainability, insurers can not only contribute to a healthier planet but also appeal to a growing market of environmentally conscious consumers.

2.3.4 Create Value Through Data and Analytics

Create Value Through Data and Analytics The insurance industry generates vast amounts of data, and leveraging this through sophisticated data analytics can provide invaluable insights into market trends and customer behavior. Insurance companies should invest in advanced analytics tools and expertise to process this data, enabling them to develop more targeted insurance products, optimize pricing strategies, and enhance risk management capabilities (Xiong, 2021).

2.3.5 Achieve Growth Through Mergers and Acquisitions

Achieve Growth Through Mergers and Acquisitions To strengthen their competitive position, insurance companies should consider strategic mergers and acquisitions. By combining resources, expertise, and market presence, insurers can expand their product and service offerings, enter new markets, and achieve economies of scale. Careful planning and execution of such transactions can lead to increased market share and a more robust financial profile, positioning the company for long-term success.

3. Miscellaneous

3.1 Limitation of Study

The scope of this study is focused on the development and challenges of the insurance industry in Hong Kong, excluding research on other financial sectors or regional insurance markets. Due to the reliance on publicly available data and information, access to certain internal or proprietary data may be limited. Researchers will endeavor to ensure the completeness, accuracy, and timeliness of the data, albeit without absolute guarantee.

Given the data availability and research resources, this study may primarily employ qualitative analysis and case studies, which could limit the scope for quantitative analysis. The selected research methods may impact the universality and generalizability of the findings.

The study may not encompass all participants in the Hong Kong insurance market. Sample selection could be constrained by accessibility and resource limitations, potentially affecting the comprehensiveness of the results. Fully controlling the influence of external economic, political, and social factors on the insurance industry is challenging, and changes in these factors may influence the research outcomes.

Due to the dynamic nature of the insurance industry, the research may not capture the latest market dynamics and trends in real time. The research perspective, which may be focused on specific aspects such as consumer protection or market efficiency, could limit the exploration of other significant perspectives.

The conclusions and recommendations derived from this research are based on current data and analysis. They may need to be revised in light of market and industry developments.

3.2 Areas of Further Study

By delving into the historical evolution of Hong Kong's insurance sector, we can assess how shifts in market structure have influenced the landscape of insurance products and services, highlighting the dynamic nature of the market.

Investigating the role of regulatory policies in shaping innovation and growth within the insurance industry allows us to consider the equilibrium between consumer safeguarding and market autonomy, emphasizing the importance of a balanced regulatory environment.

Examining the evolving perceptions of consumers towards insurance products reveals how these shifts are catalysts for innovation and the diversification of insurance offerings, underscoring the significance of consumer behavior in driving industry change.

Evaluating how cutting-edge technologies, including blockchain and artificial intelligence, are revolutionizing the operational frameworks and service provisions in the insurance industry showcases the impact of technological advancement on the sector.

Exploring the transition of insurance products from conventional risk management to sophisticated financial instruments with significant investment value highlights the industry's move towards product innovation and added financial value.

Conducting a comparative analysis of Hong Kong's insurance industry with global counterparts not only highlights its distinctive features but also offers potential insights for broader application, emphasizing the value of an international perspective.

4. Conclusion

The insurance industry in Hong Kong has undergone a remarkable transformation, evolving from a backward investment channel in the 1980s to a leading financial product today. This paper has identified key factors contributing to the growth of the personal life insurance sector, including changes in product attributes and the industry's ability to adapt to global trends.

Despite the industry's success, several challenges remain, including the need for continued innovation, addressing the impact of demographic changes, and ensuring regulatory compliance.

Feasible solutions proposed include embracing digitalization, enhancing customer-centric approaches, and integrating ESG principles into insurance products. By adopting these strategies, the insurance industry in Hong Kong can maintain its vitality and sustainability. Furthermore, the industry's noteworthy practices in promoting financial freedom highlight its potential to make a significant impact on its citizens.

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Conflicts of Interest

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