

Guangdong-Hong Kong-Macao Greater Bay Area: Opportunities for insurers, but challenges to navigate

In September 2021, an important milestone was achieved in the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), with the launch of Wealth Management Connect (WMC), the first cross-border investment scheme targeting the GBA. The population of GBA is more than 10 times that of Hong Kong, and market observers estimate the WMC scheme could generate nearly US\$500 million in annual fees for global and domestic banks. A similar scheme for insurance products, Insurance Connect, is also being developed. This provides significant potential for Hong Kong insurers, although various challenges will need to be overcome.

Overview

With the signing of the “Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area” on 1 July 2017, the development of the GBA was formally recognised as a policy priority for Guangdong, Hong Kong Special Administrative Region (SAR) and Macao SAR.

The GBA is comprised of nine cities in Guangdong Province (Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, and Zhaoqing), Hong Kong and Macao, otherwise known as the “9+2” cities. Of the 11 cities, the key node cities that have been identified are Hong Kong, Macao, Guangzhou, and Shenzhen.



A number of measures have been set out by the Communist Party of China (CPC) Central Committee and the State Council of the People's Republic of China in the “Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area.” These measures can be broadly categorised into 12 policy areas covering a wide range of economic sectors, including Financial Services, Innovation and Technology, Transportation and Logistics, Education, Medical Services, Arts & Culture, Creative Industries, and Intellectual Property.

Key objectives of the GBA



Further deepen cooperation between Guangdong, Hong Kong SAR, and Macao SAR



Fully leverage the advantages of the three places (e.g., Shenzhen’s reputation as a high-tech innovation hub, Hong Kong’s competitive advantage in professional and financial services, Macao’s reputation as a world-class recreational centre, and a commercial hub for Portuguese-speaking countries)



Facilitate in-depth integration within the GBA



Promote coordinated regional economic development

Quantifying the opportunity

The potential of the GBA is underpinned by two main factors: (i) its sizeable population; and (ii) the range of economic development among the GBA cities. Based on figures as at 2020, the total population in the GBA stands at over 86 million, generating a GDP of US\$1,669 billion.

FIGURE 1: PROFILE OF THE GBA

City	Population (m)	GDP (US\$ bn)	Tertiary industry share of GDP (%)
Above GBA-average income(^)			
Hong Kong	7.5	347	93(*)
Macao	0.7	24	96(*)
Shenzhen	17.6	401	62
Zhuhai	2.4	50	55
Guangzhou	18.7	363	73
Below GBA-average income(^)			
Foshan	9.5	157	42
Dongguan	10.5	140	46
Huizhou	6.0	61	44
Zhongshan	4.4	46	48
Jiangmen	4.8	46	50
Zhaoqing	4.1	34	42
Total	86.2	1,669	66

Note: GDP at current market prices, 2020 except (*), which represent 2019 figures; converted at annual average exchange rates

(^) Income as defined by GDP per capita. Average GDP per capita of the GBA is US\$19,400

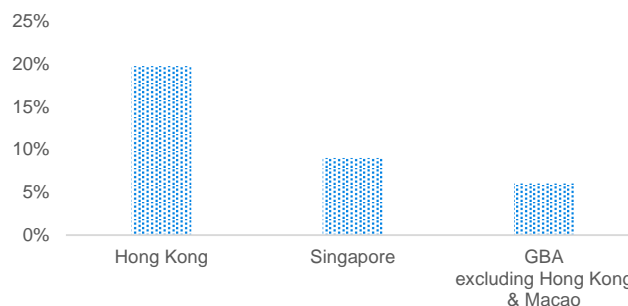
Source: Hong Kong Trade Development Council ("HKTDCC") Research

Continued development of the GBA, which is likely to result in a general rise in disposable income, is expected to generate growth opportunities across many economic sectors. In terms of composition, the tertiary industry share of GDP is expected to rise in the coming years as the nine cities in Guangdong shift more towards a service-based economy. As consumer income grows, coupled with improved financial literacy, the demand for a greater variety of financial and insurance products is expected to increase for both wealth management and protection purposes.

Among the industries poised to benefit from the GBA development is the insurance industry. There is ample room for further insurance growth among the GBA cities. In 2019, insurance penetration in the nine GBA cities in Guangdong stood at 6%, significantly lower than that in more developed

economies (for example, 9% in Singapore and 18% in Hong Kong). It is estimated that closing the insurance penetration gap with Singapore could result in additional premiums for the nine GBA cities of close to US\$40 billion per annum.

FIGURE 2: COMPARISON OF INSURANCE PENETRATION (2019 – LIFE AND NON-LIFE)



Source: Hong Kong Insurance Authority Annual Report 2019-20; OECD; HKTDCC Research

Insurance Connect

Accelerated growth of the insurance industry in the GBA is also supported by policy initiatives. The Hong Kong Federation of Insurers (HKFI) has been working closely with the Hong Kong Insurance Authority (HKIA) on the development of Insurance Connect, a proposed scheme to enable Hong Kong-based insurers to distribute insurance products to residents within the GBA. Among the features of the proposed scheme are:

- The setting up of two service centres in the Chinese mainland, which will provide after-sales services to policyholders living within the GBA. These services include premium payment, policy renewal, and claim management. The practical importance of having these service centres within close proximity to policyholders has been demonstrated during the COVID-19 pandemic.
- A so called "closed-loop" mechanism to manage insurance funds in order to prevent illicit capital outflows. Premiums are collected through the service centres, and proceeds from claims and surrender payments are credited directly to the policyholders' bank accounts in the Chinese mainland.

Wealth Management Connect

A key milestone stemming from the focus to promote mutual financial markets access in the GBA is the recent launch of the WMC in September 2021. The WMC, which provides residents of the GBA with wider access to investment products and features a closed-loop mechanism similar to that expected under the Insurance Connect scheme, also serves as a prototype for other similar initiatives which are due to follow.

Opportunities and challenges

The GBA provides a number of opportunities for insurers due to various enabling factors.

- **Cross-pollination of ideas.** The dismantling of physical and virtual cross-border barriers is conducive to the exchange of ideas and information across the three GBA areas (Guangdong, Hong Kong, and Macao). With the unique background and regulatory environment of each market, collaboration is likely to produce new solutions in areas such as product development, marketing, and asset-liability management.
- **Acceleration of digital strategies.** The popularity of technology-based solutions and high level of digital literacy in the Chinese mainland, combined with the market potential in the GBA, should serve as a catalyst to accelerate the implementation of InsurTech and digital innovation strategies of insurers.
- **Increasing standardisation and economies of scale.** Policy initiatives that aim to increase standardisation across the GBA and to develop a broad and deep talent pool also provide a supportive environment to improve operational efficiency. Insurers that operate in multiple jurisdictions within the GBA can potentially benefit from greater economies of scale and revenue synergies across the three GBA areas.
- **High net worth population.** The economic development of the GBA is likely to give rise to growing mass-affluent and affluent segments in other GBA cities, with consumers who will seek out richer and wider investment options.
- **Medical needs to address chronic diseases.** Lifestyle changes, for example, changes in diet and levels of daily physical activity due to improved living standards, are likely to result in a higher incidence of chronic diseases. This may be expected to lead to a higher demand for health insurance protection.

On the surface, the development of the GBA looks highly attractive for the insurance industry, but there are a number of important challenges that insurers will need to consider when framing their GBA strategies:

- **Operational capabilities.** Insurers will need to develop the capacity to effectively perform closed-loop fund management to ensure that funds are used to purchase designated products only and remain within the permissible limits.
- **Cross-border data compatibility.** Cross-boundary data flow and data sharing may be problematic in practice due to differences in regulations regarding data security. In addition, different computing ecosystems and data structures across the three GBA areas may make data incompatible, which reduces operational efficiency.
- **Tax implications.** Cross-boundary transactions may be complex and are likely to require an assessment and understanding of all potential tax costs.
- **Assumption setting.** There are likely to be differences in operating experience across the three GBA areas due to geographic and demographic factors. These will need to be factored in when setting assumptions for pricing and reserving.

Conclusion

With a population span of over 86 million, the GBA presents a significant opportunity for insurers to expand their current business, develop new product offerings, and accelerate digital development. However, success in unlocking the economic potential of the GBA will necessitate insurers navigating the various political, operational, and technical challenges involved. In practice, it will require patience and a GBA plan that is both sufficiently holistic and adaptive in nature.

For further information, please contact your usual Milliman consultant or those listed below.



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