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**| RESEARCH ARTICLE**

## **A Study of Hong Kong's Insurance Industry Based on the New Development Pattern Model**

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**| ABSTRACT**

Against the backdrop of global economic changes and China's economic restructuring, the potential of Hong Kong's insurance industry as an investment channel is gaining increasing attention. This thesis aims to explore the opportunities and challenges of Hong Kong's insurance industry under the new development pattern. Through a combination of quantitative and qualitative analyses, it examines the historical data and future trends of Hong Kong's insurance market and conducts a study based on first-hand information obtained through data surveys and expert interviews, exploring the specific impacts of the new development pattern on the insurance industry, and incorporating the development of the Greater Bay Area into the research framework. Hong Kong's insurance industry harbours a wealth of investment opportunities in terms of expanding market size, product diversification, and policy support, but it also faces challenges such as intensifying market competition and international uncertainty. The study recommends that investors should focus on long-term trends to optimise their investment strategies and address market risks.

**| KEYWORDS**

Hong Kong Insurance Industry; New Development Pattern; Investment Strategy; Market Opportunities; Risk Assessment; Development of the Greater Bay Area.

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### **1. Introduction**

Against the backdrop of the restructuring of the global economic landscape and China's building of a new blueprint for development, Hong Kong's position and role in the global financial arena has become increasingly prominent. As an important bridge between the East and the West, Hong Kong has a unique strategic advantage in promoting the interaction and cyclical development of internal and external markets. Its open market environment and internationalised operating atmosphere have made it an indispensable central node for international financial exchanges and an ideal arena for international insurance companies to expand their business in the Asia-Pacific region. With the rapid development in areas such as financial technology, green finance, and digital economy, the insurance industry in the Hong Kong region has a once-in-a-lifetime historical opportunity to leverage the power of innovative technology to significantly improve its service quality while enhancing its competitiveness in the market. As China's economy transforms and consumption upgrades, the window, as a platform closely linked to the Mainland's financial system, can provide international insurers with a convenient channel to enter the Chinese market.

The insurance industry is facing multiple and complex challenges stemming from the interplay of factors such as global economic volatility, geopolitical tensions, and a changing regulatory environment. In the face of these potential risks, how to enhance the risk response capability of enterprises has become a core issue that needs to be addressed by insurers and industry experts. In this new era, this article focuses on how Hong Kong's insurance industry can keenly capture development opportunities, effectively cope with multiple challenges, and reveal its core position and indispensable role in China's financial system as a whole. In view of

the current complex situation, the insurance industry needs to innovate its response strategies to cope with the unpredictability of the external environment and to fully utilise its role as an important tool and key player in risk management.

**2. Hong Kong's Position and Impact on the New Development Landscape**

**2.1 The Role of the Traditional “Shop Front, Factory Back” Model**

In the traditional “front shop and back factory” model, Hong Kong acts as the “front shop”, mainly taking advantage of its overseas trading window to receive overseas orders and conduct marketing and external sales, while the Pearl River Delta Region acts as the “back factory” (May 2023). The Pearl River Delta Region acts as the “backyard”, making use of its advantages in the land, natural resources, and labour to process, manufacture and assemble products. This model embodies economic co-operation and division of labour among regions, enabling Hong Kong and the Pearl River Delta Region to give full play to their respective advantages and achieve economic complementarity and mutual benefits.

**2.2 Evolution of the “Shop-Front, Shop-Back” Model in the Context of New Developments**

With globalisation and regional co-operation, Hong Kong's role in the international cycle is evolving. The traditional “shop front, factory back” model has gradually expanded into a broader model of regional co-operation in the following areas:

**2.2.1 Deeper Integration of Finance and Trade**

As an international financial centre, Hong Kong not only provides financing and listing services to enterprises in the Pearl River Delta Region but also attracts global capital to participate in the economic development of the Mainland through its financial market connectivity mechanism.

On the trade front, Hong Kong continues to leverage its strengths as an international trade centre to facilitate trade between the Mainland and the global market.

**2.2.2 Cooperation in Science, Technology and Innovation**

Hong Kong is actively building an international innovation and technology centre, and it has launched in-depth co-operation with mainland cities in the areas of technological research and development and transformation of achievements. Such co-operation not only enhances Hong Kong's technological innovation capability, but also provides important support for industrial upgrading in the Mainland.

**2.2.3 New Opportunities for Synergistic Regional Development**

The construction of the Guangdong-Hong Kong-Macao Greater Bay Area offers new development opportunities for Hong Kong. The connectivity between Hong Kong and Mainland cities in terms of transport, communications, energy and other infrastructures provides a strong guarantee for synergistic regional development.

Through participation in the Belt and Road Initiative, Hong Kong has also strengthened economic and trade co-operation and cultural exchanges with the countries along the route, thereby further expanding its international influence.

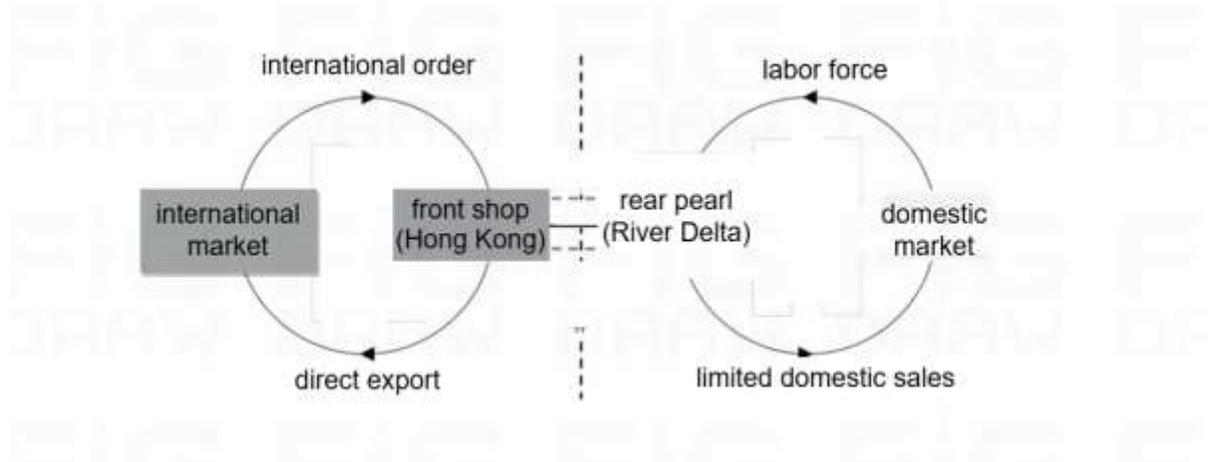


Figure 1 The “shop and factory” model under the externality and inward circulation system

**2.3 New “Front Shop Back Factory” and “Front Factory Back Shop” Models Under the CEPA Framework**

Under the framework of CEPA, the mode of economic co-operation between Hong Kong and the Mainland has gradually shifted from the traditional “front shop, back factory” mode to a new “front shop, back factory” mode. The core of this model lies in Hong Kong making use of its advantages as an international financial, trading and shipping centre to provide high-quality financial, trading and shipping services to mainland enterprises, while the Mainland serves as a production base to provide Hong Kong with a stable supply of commodities.

**2.3.1 Impacts and Opportunities**

Promoting industrial upgrading: The new “front shop and backyard factory” model will help promote the optimisation and upgrading of the industrial structure in the Mainland, and enhance the added value and competitiveness of products. The combination of Hong Kong's high-end service industry and the Mainland's manufacturing industry will create a favourable situation of complementary advantages and synergistic development.

**2.3.2 Expanding international markets:**

As a window to the international market, Hong Kong provides Mainland enterprises with wider market space and more convenient market access channels. Mainland enterprises can expand their international markets and achieve globalisation through Hong Kong.

**2.3.3 Enhancing the level of financial services:**

As an international financial centre, Hong Kong leads the world in the level of financial services. Mainland enterprises can obtain more professional financial services and wider financing channels through co-operation with financial institutions in Hong Kong.

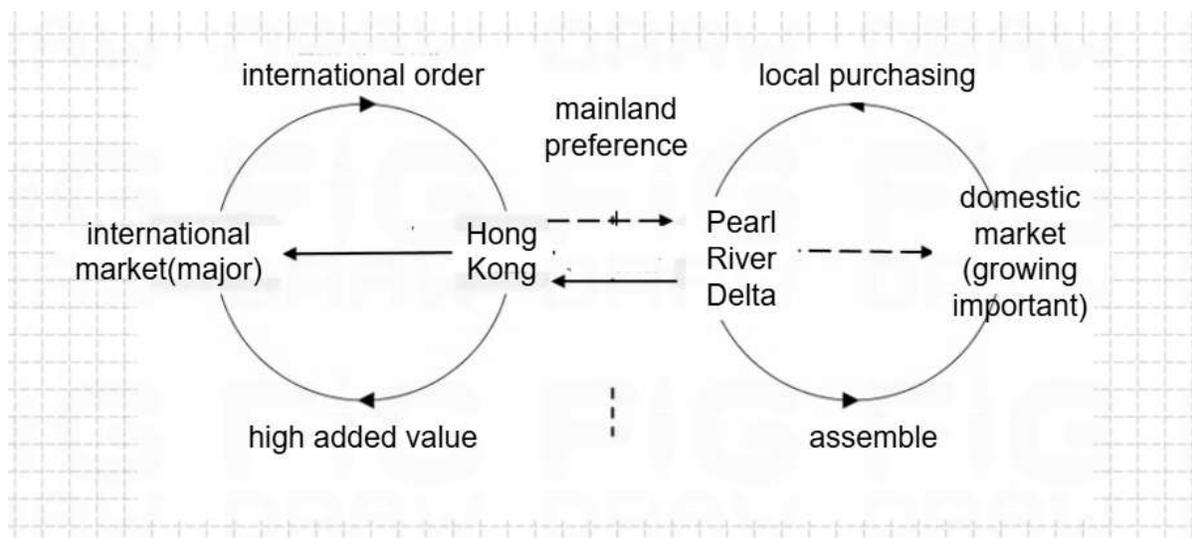


Figure 2 CEPA and the new “front shop, back factory” and “front factory, back shop” models

**2.4 Logic of Hong Kong's Development Under the New “Double-Cycle” Development Pattern**

**2.4.1 Strengthening the Position of International Financial Centres**

As the world's leading international financial centre, Hong Kong's well-developed financial system and open market make it a key financial platform in the new development pattern of the “double cycle”. On the internal cycle, Hong Kong can help Mainland enterprises make capital operations and optimise capital allocation through the provision of diversified financial products and services. Hong Kong's financial market can not only provide financing support to mainland enterprises, but also provide professional services in risk management and asset allocation, thereby promoting the high-quality development of the mainland economy. For the external circulation, Hong Kong's position as a financial centre helps attract international investors to the Chinese market, and at the same time provides financial support for Chinese enterprises to move towards the international market.

**2.4.2 Enhancement of the International Trade Hub Function**

With its unique geographical advantage and globalised trade network, Hong Kong is an important bridge connecting the Mainland and the international market. Under the new development pattern of “double-cycling”, Hong Kong can further leverage its advantages as an international trade centre to facilitate the expansion of Mainland enterprises into the international market. By enhancing trade facilitation and simplifying customs clearance procedures, Hong Kong can provide convenient services for Mainland enterprises to enter the global market. At the same time, Hong Kong's trade network and market experience can also

help international enterprises better enter the Chinese market, thus facilitating positive interaction between the internal and external cycles.

#### 2.4.3 Promoting Science and Technology Innovation and High-end Service Industries

Hong Kong has a strong foundation and advantages in technological innovation and high-end service industries. Through co-operation with the Mainland, Hong Kong can transform its technological innovations into practical applications and promote the upgrading and development of mainland industries. Hong Kong's high-end service industries, especially its professional services in areas such as finance, law and consultancy, can provide technical and management support to mainland enterprises, thus promoting the mainland economy to move up the middle and high end. Meanwhile, Hong Kong's investment in scientific research and education will also provide important support for the innovation-driven development of the Greater Bay Area.

#### 2.4.4 Promoting Economic Integration in the Greater Bay Area

As an important core city of the Greater Bay Area, Hong Kong will play a more active role in the new development pattern of the "double cycle". Hong Kong's economic development will be further integrated with that of other cities in the Greater Bay Area, and the process of economic integration in the Greater Bay Area will be promoted through optimising the allocation of resources, strengthening industrial synergy and promoting innovation and cooperation. Hong Kong can promote industrial co-operation and technological exchanges within the region through the construction of industrial parks and co-operation in research and development projects, so as to achieve effective integration and sharing of resources and enhance the overall international competitiveness of the Greater Bay Area (Wu et al., 2023).

#### 2.4.5 Promoting High-Quality Development of the Mainland Economy

Under the new development pattern of "double cycle", the high-quality development of the Mainland economy has become an important objective. As the connection point between the Mainland and the international market, Hong Kong can promote the structural optimisation and industrial upgrading of the Mainland economy through the introduction of advanced international technology and management experience. Hong Kong's high-end services and technological innovation can provide important support to the transformation of the Mainland economy and help it achieve higher quality and more sustainable development. Through in-depth co-operation between Hong Kong and the Mainland, the Mainland economy will be able to better integrate into the global value chain and achieve quality growth.

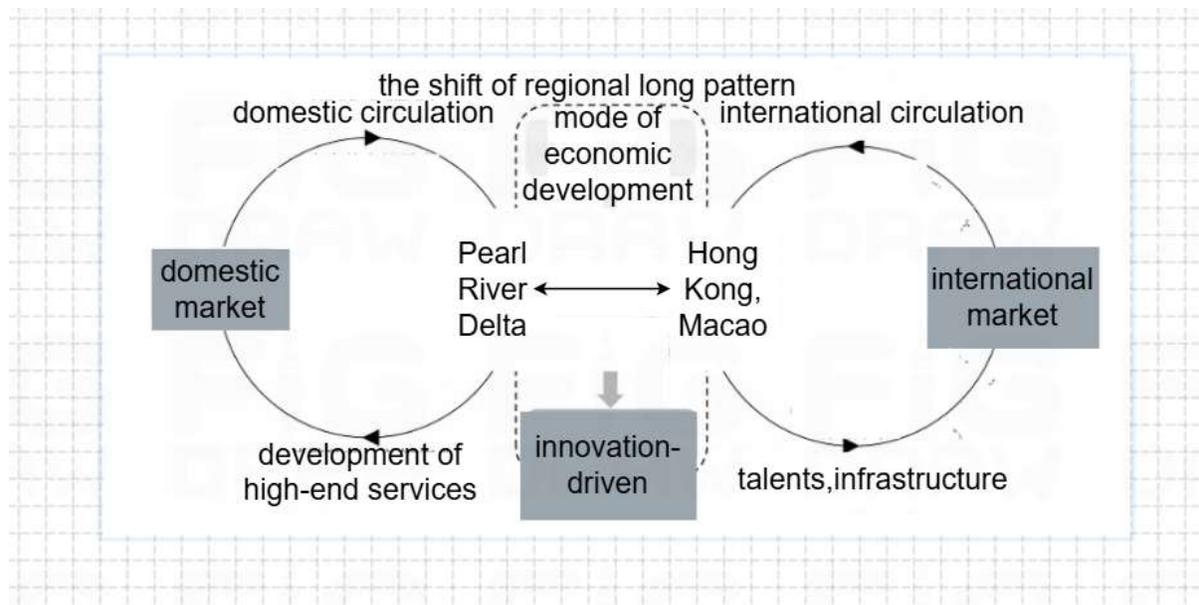


Figure 3 Guangdong-Hong Kong-Macao Greater Bay Area under the "double-cycle" system

### 3. Overview of the Insurance Industry in Hong Kong

#### 3.1 Development of the Hong Kong Insurance Market

Hong Kong's insurance industry has a long history (Liu, 2024), starting in 1841 with the relocation of the Admiralty Security Company. After the founding of New China, its status as a free economic zone attracted Western insurers, and after the 1997 handover, demand from mainland visitors drove market expansion, reinforcing its position as a centre for overseas insurance allocations. Despite the challenges posed by the New Crown Epidemic, the market recovered strongly in 2023 as the epidemic was brought under control and demand recovered: long-term insurance premiums declined marginally, and new policies surged by

25.9 percent; general insurance business grew steadily. Hong Kong's insurance industry brings together global institutions, with 164 authorised companies at the end of 2022, of which 98 are domiciled in Hong Kong. New policies plummeted during the epidemic, but rebounded significantly with the resumption of people movement from 2023 onwards, with new policy premiums from Mainland customers increasing by 113.25% year-on-year in the second quarter (Xin, 2024). Hong Kong's insurance market leads Asia and the world in terms of high competitiveness and features, with the highest depth and density of insurance and over US\$10,000 per capita, demonstrating good prospects for growth. As shown in Figure 4.

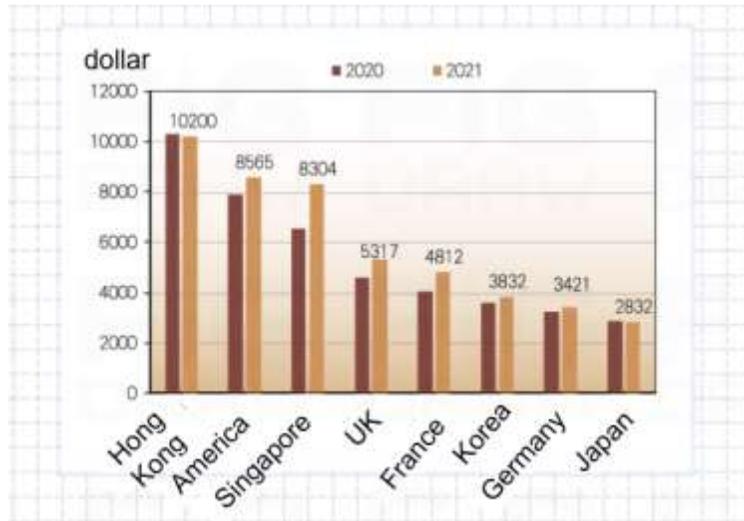


Figure 4 Depth of insurance in Hong Kong, China, compared with major developed economies in the world

Although the size of the insurance market in Mainland China is expanding, and the public's awareness of and demand for insurance continues to increase, the market has not yet reached a state of complete saturation, and there is still much room for development of the depth and density of insurance in certain areas. There are certain gaps and deficiencies, and the market still has a large potential for development. Data from 2012 to 2021 shows that the depth of insurance in the Mainland has increased from 2.9% to 3.9%, and the density of insurance has also increased from RMB1,144 to RMB3,179, a growth trend shown in Figure 5. While some progress has been made, the huge potential embedded in the market has yet to be tapped in depth.

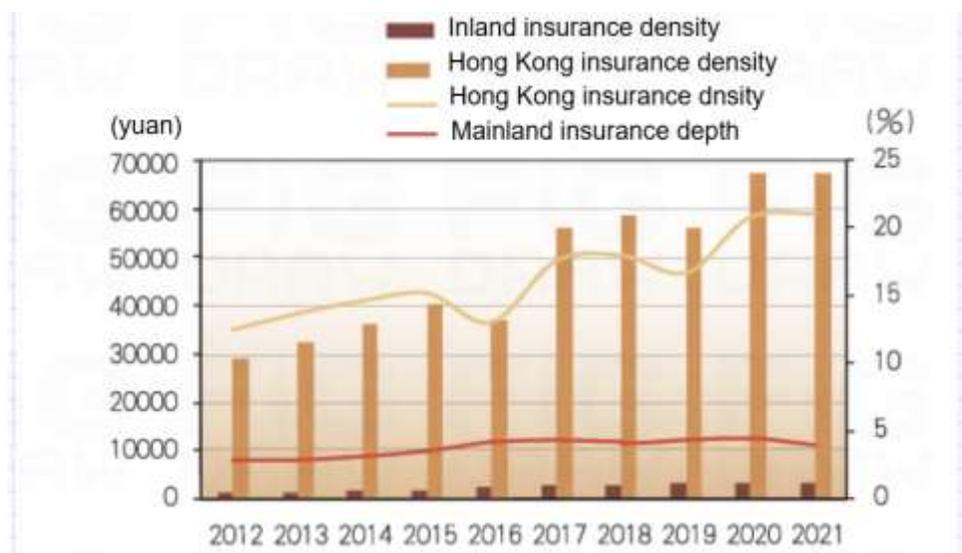


Figure 5 Comparison of Density and Depth of Mainland Insurance and Hong Kong Insurance

**3.2.1 Advantages of Hong Kong Insurance**

Taking savings insurance, which is particularly favoured by mainland Chinese customers, as an example, compared with mainland insurance products, overseas insurance products have demonstrated significant advantages in the following aspects (Huang, 2008):

a) Diversified Currency Options: Early overseas insurance products were mainly limited to US dollar and Hong Kong dollar policies, and the conversion between currencies was not interoperable (Zhang, 2002). However, today's overseas insurance products have been significantly expanded to cover a wide range of mainstream currencies such as RMB, USD, GBP, AUD, CAD, etc., and provide flexible conversion between different currencies. This diversified choice of currencies helps to enhance the competitiveness of insurance products, especially for risk-averse investors, which can effectively combat the risks of inflation and asset shrinkage.

b) Higher yields: Overseas savings insurance is centred on a dividend mechanism, and while the guaranteed return is usually no more than 1 percent of the cap, its expected annualised dividend return can reach an attractive level of 6-7 percent. In comparison, the annualised yield of Mainland savings insurance generally hovers around approximately 3.5%. Overseas insurance products generally adopt an innovative income model that combines "low fixed income + high expected return" to provide a wider scope for value enhancement.

c) Strong adaptability: Overseas Savings Insurance has a wide range of applicability as the basic requirements for policyholders are relatively relaxed. At the same time, the premium payment period is flexible and can be adjusted according to the actual financial situation of the policyholder, showing a high degree of personalisation.

### **3.2.2 Hong Kong Insurance Risks**

The insurance industry harbours a number of potential risks, mainly in the following two areas (Liu, 2013):

a) Uncertainty of dividend income: dividends offered by insurance companies are not absolutely guaranteed and are volatile and uncertain. Despite high expected returns, investors must be aware that their guaranteed returns are relatively low and are subject to investment risk. For example, the events of AXA Insurance in 2018 caused a significant decline in the net value of insurance products, with losses of up to 90% or more, leaving many policyholders with significant losses.

b) Differences in regulatory environment: While the insurance industry faces a relatively lax regulatory environment, it also has the opportunity and flexibility to invest globally. However, the offshore investment activities of mainland insurance funds are strictly supervised and regulated by the China Banking and Insurance Regulatory Commission (CBIRC), the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE). In contrast, the insurance industry relies more on industry self-regulation and expert wisdom, and relies more on the expertise and experience of industry professionals in the development of insurance products and the formulation of policy terms and conditions. Nonetheless, compared with the international insurance market, the regulatory system of the Mainland insurance market is more stringent and detailed, covering a wide range of aspects such as insurance premium rate policies and the use of insurance funds, with the aim of ensuring market stability and fairness. This difference and complexity also constitutes one of the risk factors that the industry cannot ignore.

## **4. Ideas for the Future Use of Insurance Funds**

### **4.1 Diversified Investment Strategies**

To achieve long-term asset appreciation, Hong Kong's insurance funds should continue to promote a diversified investment strategy. Including:

#### **4.1.1 Global Asset Allocation:**

Expand the investment universe to global markets, including developed and emerging markets, to diversify risk and capture investment opportunities in different regions.

#### **4.1.2 Alternative Investments:**

Increase allocations to alternative assets such as private equity, real estate, infrastructure, hedge funds, etc., to realise higher return potential.

#### **4.1.3 Green Investments:**

Investments in green bonds, environmental technology, etc., in conjunction with the trend of sustainable development to address the risks posed by climate change and in line with ESG (Environmental, Social, Governance) standards.

### **4.2 Technology-Driven Investment Management**

The use of technology to enhance the efficiency and effectiveness of the use of insurance funds, including:

#### **4.2.1 Big Data and Artificial Intelligence:**

Using big data analytics and artificial intelligence techniques for market forecasting, risk assessment and asset allocation optimisation.

#### **4.2.2 Blockchain Technology:**

Enhance transaction transparency, reduce operational costs, and ensure data security and accuracy through blockchain technology.

FinTech platforms: invest in FinTech startups or platforms to access innovative technologies and improve the investment process.

#### **4.2.3 Relevant cases:**

Ping An Group makes extensive use of technology in its insurance business to optimise the use of capital. Ping An uses big data analytics and artificial intelligence (AI) for risk assessment, asset allocation, and market forecasting. For example, Ping An uses AI algorithms to analyse customer data to optimise insurance product design and claims processes, and data-driven investment decisions to improve the efficiency of capital utilisation. The application of these technologies improves return on investment and reduces operating costs.

### **4.3 Risk Management and Asset Protection**

Risk management is at the centre of the use of insurance funds:

#### **4.3.1 Risk Hedging Strategies:**

The use of derivatives such as options, futures, swaps, etc. to hedge risk and reduce the impact of market volatility on assets.

#### **4.3.2 Dynamic adjustment:**

Dynamically adjust the asset allocation according to market changes and economic cycles to optimise the balance between risk and return.

Liquidity management: Maintaining an appropriate level of liquidity to respond to funding needs that may arise in the insurance business.

### **4.4 Opportunities in Local and Regional Markets**

To capitalise on the local market opportunities in Hong Kong and the Greater Bay Area:

#### **4.4.1 Construction of the Greater Bay Area:**

Invest in infrastructure development, technology parks, and innovative enterprises in the Greater Bay Area to share the dividends of regional economic growth.

#### **4.4.2 Local market innovation:**

Investing in innovative projects and start-ups in Hong Kong and neighbouring regions to support the diversification of the local economy.

### **4.5 Innovation in Insurance Products and Services**

For the insurance business itself, possible directions for future use include:

#### **4.5.1 Customised insurance products:**

To develop more personalised and customised insurance products to meet the needs of different customers and to enhance the efficiency of the use of insurance funds.

#### **4.5.2 Insurance technology application:**

Using technology to enhance the intelligent and automated services of insurance products, such as intelligent claims handling and online insurance management.

#### **4.5.3 Relevant cases:**

AXA's innovations in the field of InsurTech include the launch of an intelligent claims handling system and an online insurance service platform. Through these technological tools, AXA has streamlined the claims process, shortened processing time and improved customer experience. In addition, AXA has developed an insurance contract management system based on blockchain technology, which enhances contract transparency and security.

### **4.6 Internationalisation Strategy**

Promote the internationalisation of insurance funds and expand investment opportunities worldwide:

#### **4.6.1 Cross-border investments:**

Active participation in investment opportunities in international markets, including offshore assets and global investment projects.

#### 4.6.2 Partnerships:

Partnerships with international insurance companies, financial institutions and investment funds to develop and invest in global markets.

#### 4.6.3 Relevant cases:

Sun Hung Kai Insurance has been actively expanding its business in the international market, entering the European and North American markets through mergers and acquisitions and strategic partnerships. The Company establishes partnerships with international insurance and financial institutions to develop new investment opportunities and to realise its global business presence.

#### 4.7 Adaptation of the Policy and Regulatory Environment

Adapt to changes in the regulatory environment in Hong Kong and internationally to ensure compliance and safety in the use of insurance funds:

##### 4.7.1 Regulatory Compliance:

Follow the regulatory policies of the Hong Kong insurance industry and adjust investment strategies in a timely manner to meet new regulatory requirements.

##### 4.7.2 Policy risk management:

Focus on the impact of policy changes on the market and assess and adjust risks accordingly.

### 5. Conclusion

Against the backdrop of changes in the global economic landscape and the liberalisation of Hong Kong's financial markets, Hong Kong's insurance industry is presented with unprecedented development opportunities. Insurance companies can find suitable asset allocation options from traditional investment channels to emerging financial instruments, especially green bonds and innovative funds, which can help achieve long-term stable growth. The application of financial technology, such as big data analytics and artificial intelligence, improves the accuracy of investment decisions and risk management capabilities. Cross-border investment is a key strategy to diversify risks and enhance returns, and insurers should demonstrate an international perspective and respond flexibly to market changes. Meanwhile, the development and promotion of new life insurance products can meet diversified consumer needs and enhance market competitiveness. Risk management remains the core of the industry, and insurers need to build a comprehensive risk management system to cope with market risks. Overall, the insurance industry needs to proactively capture market opportunities, flexibly adjust investment strategies, promote product innovation and enhance risk management to gain an edge in the highly competitive market. In the future, the insurance industry should continue to demonstrate its strategic acumen and flexibility to adapt to changes and make positive contributions to the prosperity of the global financial market.

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