

# 2023 Risk Radar: Insurance Sector

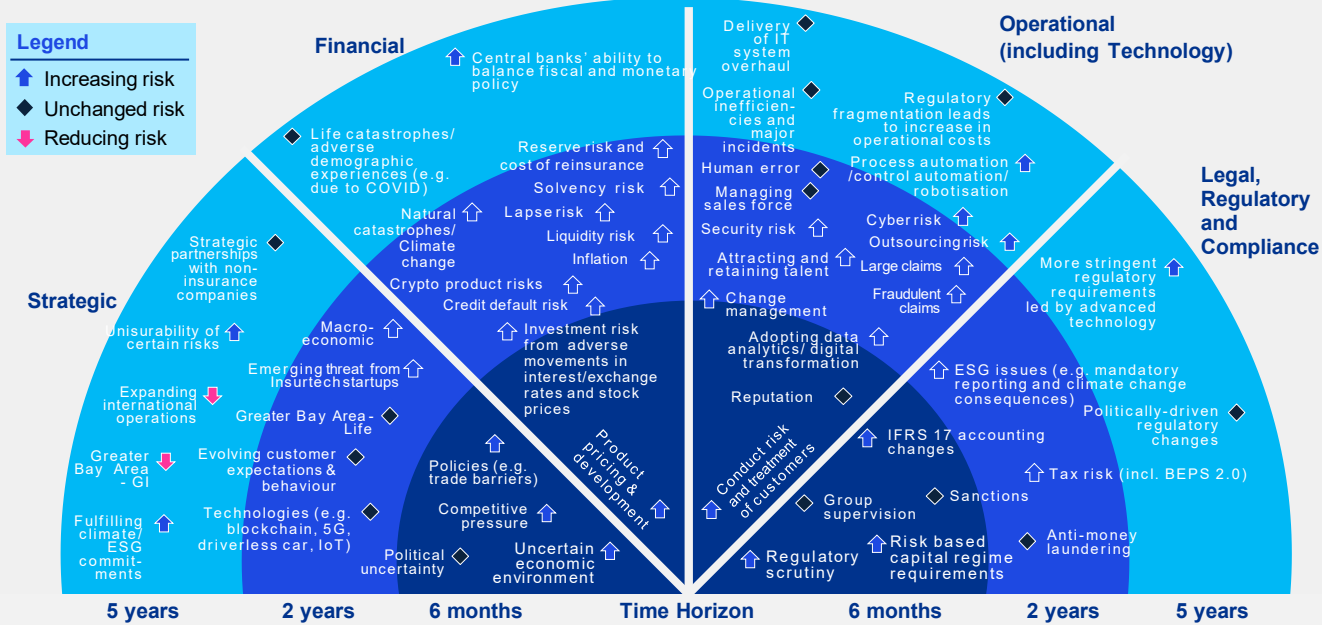
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As we approach the third quarter of 2023, the insurance sector has seen a number of major developments. In addition to the loosening of pandemic restrictions earlier this year, IFRS 17 has become effective. At the Asia Insurance Forum in 2022, the Hong Kong SAR Government announced a development roadmap for the sector. The roadmap attaches great importance to strengthening the role of Hong Kong as a global risk management centre and sophisticated insurance hub. Meanwhile, the insurance sector continues to respond to the challenging economic environment, customer expectations, talent shortage, regulatory requirements, digital transformation, cybersecurity and ESG initiatives. Firms that will achieve the most success in the future will be those that embrace change and effectively manage new risk exposures that arise, recognising that these are becoming more and more interconnected.

## Key trends affecting the insurance sector in Hong Kong and the Chinese Mainland:

- IFRS 17** - IFRS 17 has become effective this year, with first reporting and analyst education in full swing. As projects near completion, insurers will shift their focus to day-2 activities, such as control optimisation, automation and process streamlining.
- ESG** – Investors and the public are expecting companies to manage the ESG risks in their businesses. Insurers are reviewing their asset portfolios and embracing new product offerings (e.g. catastrophe bonds) with sustainability aspects, while revisiting their underwriting activities and product design to address changing customer behavior and preferences. With ESG regulations emerging, the Hong Kong Insurance Authority is expected to continue developing ESG disclosure policies.
- Geopolitical, operational and macroeconomic resilience** – The scope and complexity of global sanctions continue to increase, and geopolitical tensions are not easing, with possible impacts on key operations and business activities.
- Interest rate change and inflation** - Investment values and their returns are heavily impacted by increasing interest rates. At the same time, banking products may become increasingly attractive, leading to a risk of increased lapse rates. Inflation impacts the cost of claims, which has not always been translated into pricing.
- Conduct supervision** – The Hong Kong Insurance Authority is expected to continue increasing its focus on the conduct agenda, requiring Insurers to ensure that sufficient controls are in place to put the interests of their customers at the centre.



# Contact us



## Frank Mei

Head of Risk Consulting  
KPMG China  
T: +86 10 8508 7188  
E: frank.mei@kpmg.com



## Erik Bleekrode

Partner, Head of Insurance  
KPMG China & Asia Pacific  
T: +852 2826 7218  
E: erik.bleekrode@kpmg.com



## Walkman Lee

Partner, Co-Head of Insurance  
KPMG China  
T: +852 2140 2282/  
+86 10 8508 7043  
E: walkman.lee@kpmg.com



## Abhishek Kumar

Partner, Head of Actuarial &  
Insurance Risk Management  
KPMG China  
T: +852 2847 5120  
E: abhishek.kumar@kpmg.com



## Jonathon Ko

Partner, Actuarial & Insurance Risk  
Management; Insurance ESG Lead  
KPMG China  
T: +852 2685 7491  
E: jonathon.ko@kpmg.com



## Jens Kessler

Partner, Governance & Risk  
Compliance Services  
KPMG China  
T: +852 2143 8584  
E: jens.kessler@kpmg.com



## Fiona Chau

Partner, Actuarial & Insurance Risk  
Management  
KPMG China  
T: +852 2826 8027  
E: fiona.chau@kpmg.com



## Gianfran Liu

Director, Governance & Risk  
Compliance Services  
KPMG China  
T: +852 2847 5164  
E: gianfran.liu@kpmg.com



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