The risk landscape and insurance opportunities in the Greater Bay Area of China
The coming of age of the "Bay Areas"

According to the World Bank, 60% of global economic output is concentrated in "Bay Areas" and surrounding regions. Seventy five percent of the world's largest cities and 70% of global industrial capital and population are concentrated around 100 kilometers from coast lines. The "Bay Area" economic zones have become the major driving force of global economic growth.

The Greater Bay Area (GBA) of China encompasses Hong Kong and Macau, and nine cities in Guangdong province. It is important because of its geographical location and its economic significance. The GBA accounts for 12% of China's total output and, importantly, it will play a prominent role in the Belt and Road Initiative by connecting southern China with the countries along the 21st Century Maritime Silk Road.

In February 2019, the central government of China and the State Council issued the "Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area", stating the objectives, development goals and guidance for the GBA up to 2035. The outline promotes coordinated economic development by leveraging the comparative advantages of Guangdong, Hong Kong and Macau in the advanced manufacturing, innovation, finance, shipping, trade, and leisure sectors.

We believe key to success of the GBA will be building overall resilience and improving risk management frameworks, with insurance a central component. With regional economic development and integration, the risk landscape facing the GBA will become more complex, and new risks will emerge. It is important that all stakeholders in the GBA ecosystem better understand the current and future risk landscape, and implement holistic risk management practice. Governments across the three jurisdictions will play a primary role in raising risk awareness, promoting institutional capacity to deal with existing and new risks, and fostering partnership with the re/insurance industry to improve risk assessment, transfer and financing.

Risk landscape and the role of insurance

With a combined GDP of over USD 1.6 trillion in 2018 (12% of China's total GDP) and a population of around 70 million (the densest region in China), the GBA is already a significant economic powerhouse. The complexity of the risk landscape is expected to rise alongside further economic development, as well as the increasing application of new technologies to industrial and city development. For instance, with a rapid increase in concentration of people, assets and infrastructure in the GBA region, the potential for large losses of an adverse event occurs will rise significantly.

The GBA is in one of the world’s most disaster-prone regions and natural catastrophes are a main risk facing the region. The most significant perils are typhoons, followed by storms and floods. Between 1990 and 2017, typhoons alone caused average annual economic losses of USD 1.4 billion in the GBA region, of which only 5% were covered by insurance. There is a huge natural catastrophe protection gap in the region. This will only increase over time if the expected rapid economic growth is not accompanied by increased uptake of insurance covers.

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2 List of these nine cities in Guangdong: Guangzhou, Shenzhen, Zhuhai, Dongguan, Huizhou, Zhongshan, Foshan, Zhaoqing and Jiangmen
3 The GBA region, bordering China, the South China Sea, and facing Southeast Asia, has always been the most important hub in southern China along the Maritime Silk Road. To the west, it is also adjacent to the North Bay area in Guangxi province, linking it to the ASEAN markets.
Building a modern integrated transportation system in the GBA will be a large intra-regional infrastructure project, presenting significant risk management challenges but also enormous opportunities for engineering-related lines of insurance business. An integrated transportation system is fundamental to build the region's international competitiveness. We expect there will be other such like "mega" infrastructure construction projects in the GBA, involving long and difficult construction phases, and complicated design. The cross-region nature of the projects will pose further challenges in risk assessment, harmonisation of standards and facilitation of holistic risk management systems.

China positions the GBA as becoming a major international trade and logistic hub, supported by the financial and insurance expertise available in Hong Kong. The expected increase in trade and financial activities will drive demand for corresponding insurance. For instance, higher volume of inland and international trade will boost demand for export credit and other marine/cargo insurance lines. The ability to streamline the flow of trade across jurisdictions by sharing information about insured cargo will be critical to improving operational efficiency and competitiveness in the region. The expected increase in cross-border financial transactions will introduce new risks to the GBA, but also opportunities such as the securitisation of insurance risks.

Green development is one of the cornerstones of the GBA. To this end, the authorities have been promoting environmental impairment liability insurance, for instance with a pilot scheme in Shenzhen in 2018. Clean energy, new energy vehicles (NEV) and other environmental-friendly industries are also high on the GBA agenda. The NEV market is already attracting the attention of insurers, with premiums from this sector in all of China estimated to reach CNY 470 billion by 2030. Given that Guangdong accounts for about 1/8 of national NEV production, the NEV premium potential for GBA alone could be as high as CNY 60 billion by 2030.

Innovation is another hallmark of the GBA, and is an area where insurers have a strong track record. Insurance can help to cover new liabilities arising from R&D in innovation, potential losses in case of test or third-party equipment failure, as well as cyber risks. Without insurance, the associated risks can be overwhelming and discourage innovation. Insurance can facilitate the building of smart cities by expanding the scope of insurance participation in social governance and providing more comprehensive risk protection and advice to societies and residents. In turn, insurers can reap benefits from the development of smart cities. With a well-developed information infrastructure and Big Data capability, insurers can reach more customers more often, gain deeper understanding of customer needs, and provide more customised/tailored services.

There could also be opportunities for life insurers in the GBA. With more trade and concentration of population comes increased risk of spread of infectious diseases. Also, as the high-net-worth population expands, there will be more demand for a greater scope of L&H products and services, and also opportunity for cross-border sales. The trend to unhealthy life styles in urban areas has seem to cause an increase in chronic diseases like obesity, cardiovascular disease and diabetes. At the same time, the deepening economic integration of GBA will facilitate standardisation and wider availability of medical services provisions across the region. It will also foster consolidation of the supply chain of services provision from diagnosis, treatment to rehabilitation and (insurance) financing. Talks to allow the establishment of services centres by Hong Kong-based insurers in the GBA region are already underway.

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5 Projections from the China Insurance Information Technology Management Ltd.
Improving economic resilience

Improving the economic resilience of GBA region requires joint effort by all stakeholders. The Chinese government will play a significant role in empowering and enhancing risk protection. Risk management should encompass risk mitigation, financing and transfer. We encourage local government to work closely with all stakeholders including multinational development organisations and insurers, and private enterprises to establish effective public-private partnerships to manage catastrophe risks. An important aspect will be the harmonisation of relevant laws and standards between the mainland insurance market and those in Hong Kong and Macau. Local government should foster an innovation-friendly environment to encourage application of new technologies in the insurance value chain.

As experienced managers of risk, re/insurance companies can support the development of GBA. Alongside deployment of traditional re/insurance solutions, they can expand the frontiers of insurability through innovative insurance solutions. The GBA region faces traditional risks like natural catastrophes, but also increasingly complex risks that are continually evolving (eg, cyber). To this end, innovative solutions will be needed to support the region's risk management requirements. Swiss Re is proactively engaging with local stakeholder to bring innovative insurance solutions to the Chinese market to cater for the country's increasingly complex risk landscape.

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