

Insurance - Multi-line - Hong Kong

MCV business outlook based on HKIA data

Industry Overview

Total MCV FYP at HKD59bn in 2023, exceeding 2017/18

According to Hong Kong Insurance Authority (HKIA), the total FYP (First Year Premium) from MCVs (Mainland China Visitors) amounted to HKD59bn (USD7.6bn) in 2023, exceeding the size in 2017/18 before the pandemic and only next to HKD73bn in 2016. Further information from the regulator includes 1) QoQ decline was witnessed in 3Q23 and 4Q23; 2) HKD40-50bn FYP is expected in 2024 if no major policy and rate changes; 3) savings products accounted for 60% of the total FYP while protection was at 40%; 4) pent-up demand was one of the key reasons for the surge in 2023; 5) no "Insurance Connect" is planned in the near future.

Quarterly average FYP is expected at HKD13-16bn

Based on HKIA data, the quarterly MCV FYP size in 1Q-4Q23 amounted to HKD9.6/22.3/15.0/12.2bn respectively. As Hong Kong officially reopened in early Feb 2023, 1Q23 was an incomplete quarter and 3Q/4Q23, post the surge in 2Q23 driven by pent-up demands, was more like normalized level. With the further increase of MCVs, though slowly, we expect the quarterly average FYP in 2024 to be at HKD13-16bn. For AIA, we expect its MCV VNB (Value of New Business) to report 20% YoY growth in 2024 due partially to the recovery of VNB margin.

Can VNB margin recover?

As the market now expects later-than-expected rate cut in 2024, savings products may continue to be attractive to clients, including MCVs due to China's prolonged low interest rate environment. Thus, we expect the mix of savings products will remain high, but to large insurers with strong agency force which could sell "second" or "third" policies to their clients, protection mix rebounds in 2024 could be expected. We believe the worst time of VNB margin in Hong Kong is behind us. In 2Q23, the high mix of single premium, which could be calculated from FYP APE/FYP ratios from HKIA's disclosure, reached the peak and dropped to normalized level in 3Q23 and insurers have better chances to improve their product mix and VNB margin in 2024.

Insurance Connect is more difficult than other Connects

Market has low expectation of "Insurance Connect" and we do not believe the lack of progress will disappoint investors. Compared with Stock Connect and Wealth Management Connect, Insurance Connect, which may lead to more concerns, like domestic competition and capital flight, is not the priority of the regulators in China. HKIA believes the rising MCV FYP does not mean capital flight, but policy risks remain the key concern of investors.

21 February 2024

Equity
Hong Kong
Insurance - Multi-line

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Timestamp: 21 February 2024 01:46AM EST

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