Belt and Road Initiative: A wide swath of opportunities – and risks

L-R: Dr Shen Yiming and Messrs Bryce Johns and Wang Zhongyao.

China's Belt and Road Initiative (BRI), a development strategy encompassing a silk road economic belt and a 21st century maritime silk road, will bring the global economy, enormous growth and investment opportunities. Estimates by Swiss Re suggest BRI could be worth an additional $23bn in commercial insurance premiums by 2030. However, BRI projects also bring with them risks. The first-ever Insurance Summit on BRI organised by *Asia Insurance Review* saw experts from the insurance industry, wider financial sector and academia discuss these issues.

By *Asia Insurance Review* team

The BRI has the potential to be truly transformative in providing an unprecedented opportunity for the private sector to be involved in infrastructure in the developing world. To facilitate BRI projects, a multitude of financial services is required – from strategic advisory and transactional banking services to risk management and project and export finance, said HSBC Holdings group head of insurance Bryce Johns in a wide-ranging international keynote address.

Highlighting BRI projects as having four principal risks – political, economic and financial, regulatory and operational, Mr Johns said that as risk appetite for financing in less developed BRI countries varies, political risk insurance and credit insurance have an important role to play independently and in conjunction with export credit agencies and development banks. Global banks, meanwhile, help with their presence and cross-border operations, and provide financing for infrastructure projects as well as financial advice.

"Infrastructure projects offer generally stable and predictable cash flows over long periods that are also more suited to investment by life insurance companies," he said. They allow for diversified exposure across a wide variety of geographies, sectors and risk types – and they often have risk and credit fundamentals that are superior to other investments.

Risks for China

Ms Ma Tieying

Providing an economist's perspective of BRI, DBS economist Ma Tieying said China remains a middle-income economy and is still at 'the early stage of exporting capital'. Chinese firms are thus not familiar with the various risks that come with emerging markets, like economic instability and forex volatility. Execution challenges also include creating positive relationships with local businesses, which might still prefer to import raw materials and workers from China at this early stage.

China's official estimate is that BRI countries will need infrastructure investment worth $10.6tn from 2016-2020, but total investment and loans as at end 2017 are less than $500bn. "How can this gap be filled, especially considering that Chinese banks are facing deleveraging pressure in China's domestic sector? How to involve non-banks' participation in BRI financing, how to involve private and foreign capital – this will become an important topic for policymakers to think about in the near future," she said.

A comprehensive ecosystem – including risk management and insurance

Mr Patrick Hanna

China may be on a 'going global boom', but Chinese firms must enhance their risk management capabilities and focus on the quality of their investments in order to achieve steady development, said EY partner and Southeast Asia financial services transaction advisory leader Patrick Hanna. Irrational investment activities have not only caused an outflow of China's foreign reserves, but also triggered potential risks in these overseas investments. Global instability along with the rise in protectionism and populism have contributed to political and economic uncertainties in China's major investment destinations and may cause losses for investors, Mr Hanna said.

Therefore, said Mr Hanna, an ecosystem needs to be put in place to support Chinese enterprises in carrying out more rational and strategic investment decisions, designing sound risk management frameworks, and building a solid foundation for these firms to navigate the global landscape.

The ecosystem that is currently being developed would ideally entail government support; RMB internationalisation (allowing for trade settlements and pricing in RMB); risk management support from insurance companies; project funding (via various methods including private investors, M&A); and the use of Singapore and Hong Kong as offshore centres for corporate and tax services.

In the development of a BRI ecosystem, Mr Hanna noted that the insurance industry will be looked upon even more to address the challenges and risks – particularly credit, political and operation risks – of venturing into external markets 'that some Chinese companies still underestimate.'

China's insurance gap

China Re P&C assistant general manager Wang Zhongyao said that the BRI exemplifies how Chinese interests abroad (CIA) would demand wider insurance coverage. According to China Re estimates, BRI implementation would generate about $16tn in risk-protection demand for engineering and property insurance from 2018-22.

He highlighted some of the product gaps in the Chinese market which foreign players could fill. Deficiencies in China's insurance supply for emerging risks like CEAR DSU, political, kidnapping and terrorism are usually met by foreign facultative insurance.

In addition, most domestic insurers, having few overseas offices and little experience in local markets other than on a fronting model, have 'servicing issues' with policy issuance and outdated overseas loss prevention and compensation services.

Finally, Chinese insurers are lagging behind in level of risk management and pricing tools for overseas business.

Risk management gap

Speakers continued to emphasise the importance of risk management throughout the conference. While Chinese firms seek to protect themselves by purchasing overseas investment and revenue management related insurance, insurance is not the be all and end all, said Marsh head of China client services and senior vice president Dr Shen Yiming.

Prior to embarking on a project, he highlighted that they should consider a risk-planning programme that encompassed elements like vision, stakeholder and asset management, financing and supply chain management, risk and insurance, exchange controls, as well as audit, legal and compliance.

Mr Matthew Hooker

Allianz Global Corporate & Specialty Asia Pacific regional head of engineering Matthew Hooker said that risk management, together with product development and innovation in niche areas, is a domain where international players can focus. "It is not viable to try to compete with the Chinese market on capacity or price," he said, as Chinese insurers are sufficiently enabled.

Prof Shaun Wang

Nanyang Technological University Insurance Risk and Finance Research Centre professor and director Shaun Wang said that there is a lack of economies of scale for insurers due to the large cost of analysing/underwriting individual projects and lack of information regarding potential political and legal risks. He proposed that insurer participation could be with a consortium-based approach with regulatory support that enables pooling of underwriting and analytical capabilities and reducing underwriting costs.

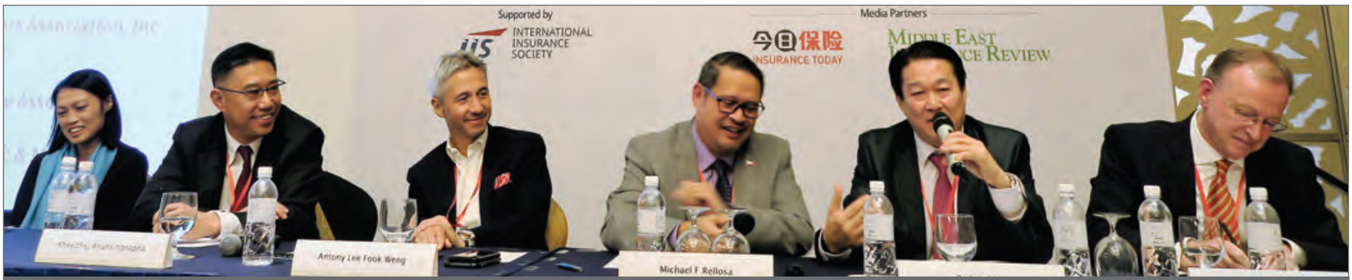
Sustainability, alternative and green finance

Mr Hooker also said that the complementary roles of banking, insurance and risk management are only starting to come together in China, while they have been well understood elsewhere. BRI would allow for the rise of bonds (eg, insurance-backed) as an alternative financing instrument to domestic banks.

With real progress in developing financial platforms for the coming stages of the BRI, it is also an opportunity for China to tackle climate change and for green financing – including bonds, loans, insurance and securities – to support projects, said HSBC's Mr Johns.

"Belt and Road will only succeed environmentally, socially and economically if appropriate

Country Profile – China



L-R: Ms Lee Chen Yin, Messrs Kheedhej Anansiriprapha, Antony Lee, Michael F Rellosa, Richard Lim and Anthony Egerton.

assessment and governance frameworks are developed that satisfy investors and regulators", he said.

ASEAN concerns

During a panel discussion on the role of ASEAN, regional representatives shared concerns that local insurance players would not get a slice of the BRI pie for projects hosted in their countries.

Administrator of the Singapore-based infrastructure consortium for BRI projects China Re Singapore CEO Richard Lim said that with the consortium, mid-sized players that would otherwise find it hard to access large scale projects on their own could do so. He expressed his wish that it would eventually be a more open framework which ASEAN members could join, for BRI to be a 'win-win'. The panellists also discussed how platforms like the ASEAN Insurance Council and regulators' meeting could promote BRI in ASEAN.

With speakers raising the issue of reinsurance from BRI projects ceded only to Chinese players, Huntington Underwriting principal officer Anthony Egerton, a member of Labuan IBFC's panel of specialists, said that host governments should be more proactive in developing local expertise and getting Chinese players to maximise local capacity for BRI projects first, which would help ASEAN reinsurers build their capacity. This would entail moving insurance and reinsurance up the agenda for discussion at the start of project negotiations, which he suggested, could be done through proactive lobbying of industry associations and regulators.

Hong Kong's role


Mr Peter Tam

A prime regional centre to support the BRI is Hong Kong, with its advantages as a hub in finance, trade, innovation and technology, maritime and dispute resolution matters, said Hong Kong Federation of Insurers chief executive Peter Tam. The territory enjoys a unique 'superconnector' status with its hinterland, forming the Greater Bay initiative of nine Chinese cities and the SARs of Hong Kong and Macau.

Although it has lost its edge in some insurance segments, with credit and political risk insurance centres moving to Singapore, JLJ Maritime Hong Kong managing director Jonathan Jones, who also acts as an agent of Asia Insurance Company Ltd and the Hong Kong China War Risk Syndicate, said that 'rather than being Singapore or Hong Kong, we should be talking about Hong Kong and Singapore working together.'

This was just one manifestation of the main sentiment arising from the conference that BRI could be a platform fostering cooperation rather than just competition, with risks also serving as opportunities to be shared by many far beyond the shores of China.

The conference, which attracted over 140 participants, was held in Singapore. It was sponsored by HSBC Insurance, DBS Bank, EY and Labuan IBFC, with the support of the International Insurance Society.

More exclusive coverage of the conference can be found on AIR+ at www.asiainsurancereview.com