

# Decrease the financial pressure suffered by Hong Kong insurance companies coming to the mainland through digitization

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**Abstract.** Nowadays more Hong Kong insurance companies are expanding their business into mainland, some of the researchers found that the cross-boundary costs are quite high and exist as the major challenge for those Hong Kong insurance companies. However, the hidden solution to this problem is still lacking. Therefore, this material would focus on the digitalization process to solve this high-cost problem. The methodology is like the following: through the collection of data and information from 3 websites called EBSCO, Zhangqiao Scientific Research and Scopus, and set the key words to scrutinize and analyze the documents. digitalization is a crucial and effective way for Hong Kong insurance companies who want to expand their business in China's mainland to decrease the cross-boundary managerial costs. Although digitalization has a high initial cost, it is still important to decrease the operational costs in the long run with the adaptation to today's Artificial Intelligence emerging period. The result of the research is that the financial pressure caused by expanding business into mainland market by Hong Kong insurance companies can be decreased by digitalization process through several specific steps, which would be explained in detail later.

**Keywords:** Hong Kong insurance companies, digitalization, reduction of cross-boundary costs.

## 1. Introduction

With the reopening of Hong Kong, which serves as a free and well-monitored market, more and more HK insurance industry fix their gaze on the mainland, which has great market potential [1]. According to the financial report of Hong Kong Life Insurance Company, its second quarter's overall insurance fees in 2024 achieved \$1690 billion. Moreover, the data collected from the Hong Kong Insurance Authority shows that 35% of the insurance fees of the HK insurance industry come from mainland customers throughout the whole year of 2024, which means there must be one Hong Kong insurance policy bought by mainlanders among every three new Hong Kong insurance policies [2]. This further accentuates that the mainland market is worthwhile investing. At the same time, the mainland government intends to increase the monetary value of RMB by improving the scrutiny on the outflow of finance. This further encourages mainland individuals to purchase insurance policies in HK, especially those priced in dollars or HK dollars, as these insurance policies can help resist the fluctuations of the RMB. However, due to the limitation on the outflow and inflow of finance across boundaries, and the difference in the monitoring ability of HK and the mainland's paying ability, there still exist some problems, such as relatively high financial costs [3]. Therefore, this topic would focus on deep research on the cross-boundary financial practice.

According to Xinhua News Network, financial strategies of the HK insurance industry focus mainly on joint ventures and WFOE until now, and joint venture serves as a more flexible solution comparatively. To be more specific, a joint venture sets a more extensive goal covering a larger domain [4]. Basically, HK uses the joint venture strategy with the mainland to gain mainland technology and market resources, so that HK would have a larger possibility to dominate the global market. On the other hand, the financial flow efficiency is relatively low under the WFOE model, especially under the prerequisite of foreign exchange approval [5].

However, the HK insurance industry still encounters challenges. The relatively high quantified customer acquisition cost, which attains more than 25% of the insurance income, still has room for decrease [6]. Furthermore, current documents have not analyzed the cost reduction space through

some digital ways. This serves as a chance for the HK insurance industry to seize the opportunity to improve the room for cost reduction by slashing profits during the Artificial Intelligence period.

So, this material focuses research on cross-boundary financial practice, and the specific research question is how to decrease the financial pressure suffered by Hong Kong insurance companies coming to mainland through digitization.

This material applies the systematic literature analysis method. It specifically focuses on scrutinizing the ‘cross-boundary insurance + financial strategy’ documents and the analysis on overt data through the websites of Scopus and EBSCO. Then it will winnow 5 mainlands important KPI from 5 of the HK public companies’ financial risk report, which are ‘the percentage of insurance fees’ ‘expense rate’ ‘foreign exchange exposure’ ‘the abundance rate of finance’ to provide capital distribution decision bases for those public companies’ CFOs.

## **2. Methodology**

### **2.1. Research Method**

This material applies the systematic literature review, which not only prevents the subjectivity produced from the traditional literature review of relying too much on writer’s own ability and experience, but also assures enough transparency and prudence through the whole research process. The method would mainly undergo five steps: (1) Select the data base; (2) Set the key word; (3) Absorb the documents that achieve the standard; (4) Exclude the documents that do not achieve the standard; (5) Build the analysis framework.

### **2.2. Scrutinizing the documents**

During the process of scrutinizing the documents, the method would focus on ‘Hong Kong insurance, China's mainland, opportunities and threats, financial strategy’ as key words to search in 3 websites called EBSCO, Zhangqiao Scientific Research and Scopus.

### **2.3. Disciplines and process in winnowing documents**

When progressed into the process of selecting documents, the method would absorb the industry reports including financial data as well as the documents either in Chinese or in English to use as a winnowing standard. At the same time, excluding those unverified data for those not cross-boundary insurance. Generally speaking, to build the analysis framework according to the strategy, challenges and performance coding.

## **3. Analysis**

### **3.1 AIA & PRUDENTIAL development background**

According to the statistics shown in Hong Kong insurance companies’ websites, AIA and PRUDENTIAL remain in a relatively high rank. For AIA, it achieved a market ratio of 11.2% and an overall insurance fee of 129 hundred million dollars in 2025. PRUDENTIAL achieved a market ratio of 6.9% and a total insurance fee of 79 hundred million dollars. Apart from their position in Hong Kong insurance market, these two insurance companies have many other similarities, like the products structures and the stability of their financial position. Therefore, it is worthwhile to compare these two similar Hong Kong companies with a focus on their digitalization strategy to see how significant the digitalization process is to the development of insurance company, and to search new digital ways to lower the cross-boundary costs for those Hong Kong companies who would like to come to mainland [7].

### 3.2.1. AIA’s historic digitalization process and data analysis

According to the news posed by China.com, AIA is a Hong Kong insurance company who concentrated a lot on digitalization in the past few years. For instance, in 2021, AIA invented an application called ‘AIA YouBang’ to improve users’ satisfaction level through insurance technology. Moreover, AIA also invented the RCS, which is a real-time customer feedback system to understand the feelings of its customers more in 2023. Actually, AIA’s online channel achieved 45% of its total transaction, which decreased its expense rate by 12%. Through such digitalization process, AIA successfully spent few time on collecting users’ feedback through interview or off-line ways. This effectively decrease the operation cost for AIA [8].

**Table 1.** AIA’s financial data collected from its financial report.

	2019	2020	2021	2022	2023
Expense rate	7.1%	0.6%	7.8%	7.8%	7.5%
Financial expenses (in million Dollar)	(283)	(292)	(357)	(377)	(453)
Weighted total income (in million Dollar)	34002	35408	36859	36176	37939

The expense rate, financial expenses and weighted total income of AIA are summarized in Table 1. It can be seen from the financial data of AIA that the highest expense rate is in 2021, which is the first time while AIA starting digitalization. In 2023, the expense rate decreased, which reflects the operation efficiency increased to an extent due to the digitalization process. Usually digitalization needs some initial investment that may increase companies’ costs, but later due to higher efficiency, the total costs would decrease in a long run [9].

The financial expenses kept increasing through the five years may also indicate that AIA insurance company is seeking expanding opportunities and borrowing some finance from banks. This is corresponding to the fact that AIA tried more than one time in five years to invest in digitalization to improve the operation efficiency and decrease the long-run costs [10].

In fact, the digitalization process achieved success throughout the five years and made the weighted total income increased from \$34002 millions toward \$37939 millions.

### 3.2.2. PRUDENTIAL’s historic digitalization process and data analysis

Compared with the deep digitalization process done by AIA insurance company, PRUDENTIAL was relatively lacking some innovation in cost reduction through digital ways according to the Baoguan news. It mentioned that in the five years from 2019 to 2023, PRUDENTIAL was trapped in a bundle of dilemma, like the decreasing rate of its growth, the bad performance of its stock as well as the delay of its digitalization process [11].

**Table 2.** PRUDENTIAL’s financial data collected from its financial report.

	2019	2020	2021	2022	2023
Expense rate	1.3%	1.0%	1.4%	0.86%	0.74%
Financial expenses (in million Dollar)	(589)	(445)	(328)	(200)	(146)
Weighted total income (in million Dollar)	45064	42521	24217	23344	19503

The expense rate, financial expenses and weighted total income of PRUDENTIAL are summarized in Table 2. It can be seen from the data of PRUDENTIAL that the weighted total income kept decreasing a lot throughout the five years from 2019 to 2023. Along with the shrinking of total income, its expense rate as well as the financial expenses are also shown in a decreasing trend. These two data which reflected the expenses did not refer to accentuate the decreasing costs. Instead, they are more tend to tell the likely shrinking scale of PRUDENTIAL insurance company due to the lack of innovation on digitalization process [12].

#### **4. Comparisons and future prospects**

Moreover, the two insurance companies' performance can also be shown by the data provided in their 2023's financial report. It is shown by the report that AIA's mainland transaction donated the whole enterprise's new transaction value of around 32%, which only attained 18% of the whole enterprise's transaction value in 2019. This information inevitably shows that AIA gained a lot of benefits and growing potential from its usage of digitalization process. On the other hand, PRUDENTIAL's profit rate in mainland has only achieved 8.5% in 2023, compared to the relatively high rate of 21.3% in Hong Kong. It is obviously to see that PRUDENTIAL maintained only a small part of mainland market compared to the fast growing AIA. Actually its relatively low growth rate in mainland market can also be seen from its relatively low intention to innovate or make specialized products based on different customers' needs.

For the future prospects of AIA, PRUDENTIAL as well as other Hong Kong insurance companies who intend to come to mainland to expand their business, digitalization is inevitably a crucial way for them to apply to resist the high costs from adapting to the new monitoring and managing style of mainland government. In this way, Hong Kong insurance companies who plan to expand businesses in mainland need to consider new ways in financial innovation like the digitalization to decrease the cross-boundary costs to earn higher profit margin.

Insurance companies are better to apply digital ways in more extensive aspects of operating the company with the fast development of Artificial Intelligent. The decreasing growth rate of PRUDENTIAL is a typical adverse example of not adapting to the market needs quickly with the application of digital method. Although some companies may feel comfortable to fit in their original operating style, other insurance companies are more likely to use the emerging Artificial Intelligent flexibly to decrease operating costs in the long run. This would further increase the profit gap between those companies who are willing to embrace the change and apply digital ways, and those companies who tend to fix on the original style and resist digital change only due to its high initial cost. Therefore, Hong Kong insurance companies need to struggle to adapt to the digital ways to decrease costs in the long run, although these companies need to shoulder up the high cross-boundary costs imposed by mainland government and digitalization would cost high initially.

#### **5. Specific steps taken by digitalization process**

To be more specific in how to apply digitalization in expanding Hong Kong insurance companies' scale, the process can be divided into steps.

The first step is to select the suitable customers as insurance companies' users. It is common that Hong Kong insurance remains a huge difference from mainland insurance, which is that Hong Kong insurance provides the insurance products with higher return but also a higher risk, while mainland insurance generally focus on the stability and the assured but relatively low return. Therefore, Hong Kong insurance companies would better remain their characteristics in providing the relatively high-return insurance, but to target on a smaller amount of mainland customers who generally aim to purchase high-return insurance products with the willingness to afford certain risk. That's because mainland insurance companies with the same scale extent must be more familiar with the government policy and have stronger ability to compete with Hong Kong insurance companies who come to mainland newly. It would be definitely hard for those Hong Kong insurance companies to compete with those entrenched mainland insurance companies in the same racetrack, like providing stable-return insurance products. Instead, Hong Kong companies should differentiate themselves from the large amount of mainland insurance companies by providing new types of insurance products with an attracting high-return. With the low economic development in recent years, fewer people are willing to invest in stocks or other high-risk products, those people with some spare money are tend to purchase insurance with a relatively low fluctuation but also can enjoy certain return. Therefore, Hong Kong insurance companies should better target on those customers with middle class or above, as only these people would have enough spare money to afford the risk and are more possible to be

attracted by the potentially high-return insurance. So they can set the data standards and apply the Artificial Intelligent model like RPA to scrutinize the mainland overt financial data from the financial report of the mainland companies. As long as the Artificial Intelligent model found the data met the standards set by the Hong Kong insurance companies, the model can automatically collect these data into a form for the second-round check. For the second-round check, the model would see through the form containing of the extensive data information from the customers found in other mainland companies and analyze the general financial ability of the customer to see whether the person fits in the category of middle class or above. Then the first step of using Artificial Intelligent model to winnow suitable customers for Hong Kong insurance companies is done.

The second step is to promote and provide services for those selected mainland customers. Apart from the promotion process of buying online advertisement place, the service process can also use Intelligent Robot as a partner. For the consideration of the convenience for the customers, Hong Kong insurance companies are better to provide enough information online to display their products, and arrange an AI Robot as the guider to answer some consulting questions from the customers. This not only increase the satisfactory extent of the customers, but also increase the operation efficiency.

The last step is the after-sale process, it can be inspired from the AIA's RCS system, which can provide real-time customer feedback. Hong Kong companies are better to employ a higher percentage of their finance in investing such new applications to know the customers' feedback, so that they can better see through customers' needs and provide specialized products in the future.

## **6. Conclusion**

This material analyzed the development trend of some typical Hong Kong insurance companies compared to their application of digitalization process, and found that the application of digitalization played a significant role in reducing the cross-boundary costs between mainland and Hong Kong, which provided a new perspective of future development for those Hong Kong insurance companies who plan to expand in China's mainland. For the significance of this material, due to the existence of only few documents that had analyzed the potential of Hong Kong insurance market expansion into China's mainland, the material covered the gap of lacking detailed research in such field, and provided some new insights for insurance companies' development in today's fast development Artificial Intelligence era. This material revealed that digitalization is a crucial and effective way for Hong Kong insurance companies who want to expand their business in China's mainland to decrease the cross-boundary managerial costs. Although digitalization has a high initial cost, it is still important to decrease the operational costs in the long run with the adaptation to today's Artificial Intelligence emerging period. The limitation to this research is the relatively small sample number, which only selected two typical insurance companies from Hong Kong insurance industry. Therefore, the universalism of the conclusion may be affected to some extent. Future research may verify the research result further through ways like increasing the sample number or other methods. To develop deeper research, future research may consider to induce more varieties. For example, to do a research on the more complex relationship between the percentage of finance the insurance company input in digitalization innovation of the whole company budget and the percentage increase of the company's yearly profit. Future research can also apply the longitudinal design to confirm this material's research result. Generally speaking, this research provided new insights for Hong Kong insurance companies to expand in the mainland market. Hope this material can donate useful references for future related research.

## **Acknowledgements**

The authors gratefully acknowledge the financial support from xxx funds.

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