Analysis of the Prospects and Development of Insurance Premium Trust Products in Hong Kong

Junwen Guan¹ and Yanhao Gong²
¹School of Humanities and Management, Guangdong Medical University, Dongguan 523000, China
²School of Science, Shanghai Institute of Technology, Shanghai 200040, China
Corresponding Author: Junwen Guan, E-mail: 2984805360@qq.com

ABSTRACT
Insurance premium trust is a hybrid model that combines insurance and trust services. In recent years, with the gradual improvement of China’s economy, there has been a heightened awareness of wealth management among people. To meet this growing demand, the insurance market has expanded greatly, resulting in the emergence of various new insurance products, including insurance premium trust products. Based on the status of the domestic insurance market and Hong Kong insurance market in recent years, this paper summarizes the advantages and disadvantages of insurance premium trust products launched by the Hong Kong insurance industry. Furthermore, it discusses the prospects and development of the Hong Kong insurance premium trust model against the background of the establishment of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA).

KEYWORDS
Hong Kong insurance industry; insurance premium trust; wealth management; risk management; development trends.

ARTICLE INFORMATION
ACCEPTED: 26 April 2024
PUBLISHED: 07 May 2024
DOI: 10.32996/jefas.2024.6.3.1

1. Introduction
1.1 Research Background
With its strategic location, profound historical background, and legal and regulatory framework aligned with international standards, Hong Kong has established itself as a globally important international financial center. Hong Kong’s highly internationalized and liquid financial market makes it a key hub for global capital investment. In such a financial environment, the insurance industry serves a vital role. On the one hand, it provides risk protection and wealth management to hedge risks and ensure financial security for individuals and corporations. On the other hand, it facilitates liquidity in the capital market through investment strategies and creates employment opportunities for the financial services industry. Through various innovative products and services, Hong Kong’s insurance industry supports its reputation as an international financial center and performs a catalytic role in its economic activities. In recent years, mainland visitors have flocked to Hong Kong to buy insurance, prompting the rapid development of Hong Kong’s insurance industry. In 2023, the insurance industry in Hong Kong was even steadily ranked first in the world in terms of the Global Financial Center Index (GFCI), insurance density, and insurance depth, making it the world’s largest insurance market. However, the insurance industry in the mainland is developing equally rapidly, with the number and scale of insurance companies rising. To enhance the competitiveness of the insurance market, AIA Hong Kong launched its first premium trust product in 2019. This cross-sector innovative trust product has not only been favored by consumers and investors but also strengthened the exchange and interaction between insurance and trust, innovating financial services. The development is of great strategic significance in Hong Kong.
1.2 Literature Review

1.2.1 Domestic Literature
Most domestic scholars have extensively explored the development of insurance premium trust products and analyzed their characteristics, advantages, and legal structures.

Wang (2023) elaborated on the operation mechanism and legal framework of the insurance trust model. He compared premium trust models in the United States and China, highlighting the deficiencies and proposing solutions for both the separation model and the aggregation model. Liu (2023) summarized the advantages, disadvantages, opportunities, and threats of insurance premium trust products by combining market management theory and marketing theory.

Yang (2020) generalized the American premium fund trust model and discussed the insurance premium trust models of Japan and China Taiwan, stating that the American model conforms more to the market demand. Additionally, he proposed to borrow the U.S. model for the development of China’s insurance premium trusts. Chen (2020) designed an operating model for the Chinese insurance premium trust model by analyzing overseas insurance premium trust products.

Fan (2021) gave an overview of the development of Hong Kong’s trust industry during the pandemic and gave an outlook on its future.

Based on a study of judicial cases and existing laws and regulations, Zhao (2021) proposed suggestions for the development of insurance fund premium products in terms of legislation and supervision.

1.2.2 Foreign Literature
Goodell (2020) outlined the direct or indirect impact of the epidemic on financial markets and institutions, offering insights into future development based on historical precedents.

Mattila et al. (2023) conducted a study on the development of the digital economy in Hong Kong, briefly describing the benefits and development of blockchain, virtual currencies, and their current applications and impacts in Hong Kong. Liao and Zeng (2021) highlighted the development status and prospects of blockchain technology in the GBA and proposed to strengthen legislative supervision, build a sharing platform, and stimulate the scientific and technological innovation capacity of the GBA. Srivalli et al. (2023) pointed out major platforms used for blockchain technology, focusing on models like B3i. Furthermore, the challenges that must be addressed when adopting blockchain technology are discussed.

Yu and Yen (2020) explored the needs and opportunities, technology adoption, and risk challenges of insurance technology, identifying the essential elements of the insurance ecosystem and characterizing the insurance technology framework based on risk information and risk financing.

1.3 Research Objectives
This paper aims to evaluate the development and prospects of insurance premium trust products based on their advantages and current status. It also investigates risk management methods for the risks associated with these products, covering assessment, control, and prevention strategies. Moreover, based on the research results, recommendations and expectations are proposed for the future development of insurance premium trust products, serving as a valuable reference for researchers and investors in this field.

1.3.1 Theoretical Significance
As an emerging financial product in the current financial environment of Hong Kong, insurance premium trust bears a positive significance in boosting the development of Hong Kong’s financial industry. However, existing research on insurance trust products is limited, with little systematic analysis of the market demand, development direction, and risk management for insurance premium products. Firstly, the research provides an in-depth study of the outlook and development of Hong Kong’s insurance premium trust products, analyzing their development, current status, and future trends. Then, the market demand for Hong Kong’s insurance premium trust products is explored, revealing key factors that make insurance premium trust products attractive to consumers and investors. Finally, research on risk management methodology is conducted, and then specific development strategies are proposed, aiming to provide theoretical support and practical guidance for the sustainable development of Hong Kong’s insurance premium products.

1.3.2 Practical Significance
As one of the global financial centers, Hong Kong attracts consumers worldwide to invest and consume with its unique advantages. However, the vast array of investment products in Hong Kong’s financial market and the relatively short development time of
insurance premium trust products have led to insufficient public awareness of insurance fund trust products, making it difficult for insurance fund trust products to stand out under the fierce price competition. This study investigates the direction and prospects of the development of insurance premium trust products in Hong Kong, enabling consumers to clearly understand the benefits of insurance premium trust products and facilitating the diversified development of Hong Kong’s financial market.

2. Current Status of Insurance Premium Trusts in Hong Kong

2.1 Development of Insurance Premium Trusts in Hong Kong

The insurance industry mirrors the true picture of Hong Kong’s historical development and is one of the oldest industries in Hong Kong. Since 1941, when the Jardine Matheson Co. moved from Guangzhou to Hong Kong, Hong Kong’s insurance industry has undergone nearly two hundred years of development and has grown to be one of the most influential and vibrant insurance markets. After the return of Hong Kong, the Hong Kong insurance industry underwent reforms in regulatory regimes, insurance technology, and personal insurance (Zhu, 2022). Today, Hong Kong’s insurance market ranks as one of the most developed and competitive markets in the Asia-Pacific region, known for its highly internationalized and diversified range of insurance products and services. In recent years, the Hong Kong insurance market has displayed a trend away from the traditional insurance business towards more diversified and innovative services, including technology-driven insurance technology (InsurTech) solutions (Yu & Yen, 2020). This shift has not only boosted business efficiency but also improved customer experience, leading to more customization and personalization of insurance products and services. In addition, supported by Hong Kong’s policy and geographical advantages, this market is expected to maintain stable growth, driving further service innovation and market expansion in the future.

Statistics released by the Insurance Authority of Hong Kong (IAHK) indicate that as of September 30, 2023, there are 163 authorized insurers in the Hong Kong insurance market, of which 88 are general companies, 53 are long-term companies, 19 are composite insurers, and 3 are special purpose insurers. Meanwhile, there are 1,708 licensed insurance agencies, 78,522 licensed personal insurance agents, and 23,894 licensed technical representatives. According to IAHK’s statistics on the Hong Kong insurance industry, long-term effective business accounts for the largest share of Hong Kong’s insurance market, which is dominated by individual life businesses. In the first quarter of 2023, gross premiums totaled HK$147.2 billion, with premium income from long-term effective business contributing HK$126.6 billion, including premiums from new policies of HK$47.0 billion. Gross premium income from the general insurance business reached HK$20.7 billion, with net premiums of HK$12.5 billion. The development of the insurance industry has laid the foundation for the subsequent rise of insurance premium trust products.

With the continuous expansion of Hong Kong’s financial market, traditional insurance products with a single claim payment method fail to meet the diversified needs of consumers. When traditional insurance products are insured, the insurance payout is delivered to the beneficiaries after underwriting. Problems such as beneficiaries being too young and conflicts of interest among beneficiaries may occur, impeding the further development of Hong Kong’s financial market. In response to market demand, the Hong Kong insurance market has been actively iterating its insurance products, resulting in the emergence of insurance premium trust products. Simultaneously, relevant laws are constantly revised and updated to provide legal protection. Against this background, insurance premium trust products have gained wide recognition among investors and have rapidly become popular within the financial industry.

2.2 Characteristics and Advantages of the Insurance Premium Trust Model

The premium trust model represents an innovative approach to modern wealth inheritance and management, significantly enhancing an individual’s flexibility and control in asset planning. AIA Hong Kong launched insurance premium trust products in 2019. Under this model, when a customer purchases insurance with a lump-sum premium of $1 million or an annual premium of $100,000 or more, AIA will offer the option of insurance premium trust referral services. If customers have relevant needs, AIA will arrange referrals to trust companies. The trust companies will establish a trust structure tailored to customers’ needs after charging a certain management fee. The trust services will be on standby before the occurrence of the insurance, the trust will be activated after the occurrence of the insurance, and the trust companies will manage and distribute the insurance proceeds to maximize the interests of the policyholders and satisfy the customers’ needs for wealth management. The trust services are in standby status before accidents and will be activated after accidents. Trust companies will manage and distribute insurance premiums in the best interests of policyholders to fulfill customers’ needs for wealth management.

The premium trust model allows for a more thoughtful and customized distribution of funds, which contrasts with traditional insurance products, where insurance money is usually paid directly to beneficiaries. One significant tax advantage of this approach is that insurance payouts held in trust can potentially avoid inheritance tax under specific conditions, which is especially attractive for individuals who may face a high inheritance tax burden. Since the insurance money in the trust is considered part of the policyholder’s estate, it will not increase the tax value of the estate, thereby mitigating the impact of estate taxes (Chen, 2020).
In terms of asset protection, insurance premium trusts provide an additional layer of security, as the trust structure safeguards the insurance proceeds from creditors’ claims. Furthermore, trusts typically feature enhanced privacy because the details of trusts do not need to be disclosed in public, providing additional confidentiality for estate planning.

Moreover, premium trusts are distinguished by their flexibility in wealth management. Trust founders can accurately formulate the conditions for beneficiaries to receive funds, such as designating the use of funds (such as education or health expenditure), allocating schedules, and even encouraging or restricting beneficiaries to perform certain behaviors. This customized distribution allows the establisher to influence the use of the funds and the welfare of the beneficiaries even when they are not alive.

The insurance trust model offers a higher level of control over wealth inheritance compared to traditional insurance products, along with additional benefits such as tax incentives, asset protection, and flexibility in wealth management. For individuals who seek to provide long-term and sound financial planning for themselves and their beneficiaries, insurance trust is an effective tool worth considering.

3. Analysis of Market Demand for Insurance Premium Trust Products
3.1 Consumer Demand
The core needs of consumers for insurance fund trust products include safety, profitability, and flexibility. Relevant data reveals that although various age groups and economic groups hold different needs for insurance premium trust products, safety is the primary factor considered by consumers. To meet this demand, precise positioning and customized services for insurance trust products are essential. By offering these services, providers can satisfy consumer demands while ensuring both safety and profitability. Meanwhile, as the world’s third-largest financial center with a large high-net-worth population, Hong Kong has a great demand for wealth management, but there is still a considerable number of people unable to invest in family trusts due to insufficient assets. The introduction of insurance premium trust products allows investors to access some functions of family trusts at a lower cost and distribute or inherit property according to the investor’s wishes, thus increasing the flexibility of distribution. On the other hand, they can reduce taxes and preserve assets. Insurance benefits fall under tax-free assets, meaning that after an accident, the assets from insurance claims will enter the trust structure directly without incurring taxes.

3.2 Investor Demand
Investor demand directly affects the sales and development of insurance premium trust products. Sales data of insurance premium trust products released by various insurance companies in Hong Kong indicate that the main factors for investors in choosing the products are the investment return rate and transparency of the products, as well as the degree of information disclosure. In terms of rate of return, Hong Kong insurance products feature a leverage function, coupled with the operation and management of trust companies, to achieve small bets for large gains, displaying huge market potential. Concerning investment preferences, investors prefer to obtain true and perfect product information, choose products that meet their investment preferences, and protect high returns under controllable risks. Therefore, only by fully understanding the needs of investors and clarifying their investment behavior and psychology can we design insurance premium trust products that are more compatible with the market, thus satisfying investors’ needs and promoting the healthy development of the market.

4. Future Development Direction of Insurance Premium Trust Products
4.1 Development Prospects
Data released by the National Bureau of Statistics (NBS) reveals that the total population in 2023 has declined, with a total population of 1,409.67 million, of which 296.97 million were over 60 years old, accounting for 21.1% of the total population.

With the aging of the population, an increasing number of people need to manage and inherit their wealth. There is a huge market potential for insurance premium trust products in the future, considering their advantages. In addition, under the dual circulation strategy and the establishment of the GBA, economic ties between the mainland and Hong Kong are strengthening, which will further boost the demand for Hong Kong insurance among mainland consumers. Simultaneously, the vast insurance market on the mainland will drive the evolution and renewal of Hong Kong premium trust products.
4.2 Blockchain Technology

With the rapid development of financial technology, insurance premium trust products will accelerate the transformation towards digitalization and intelligence, achieving more efficient fund management and risk control. Hong Kong has emerged as a key center of the initial coin offering (ICO) in Asia. There are 18 industries mentioned in the Hong Kong Blockchain Summit, including the insurance industry in Hong Kong. Of new blockchain companies introduced in Hong Kong in 2019, 27% were trading platforms for digital assets, 14% were custodians of digital assets, and 5% were tokens. As a result, Hong Kong cryptocurrency fund advisors and dealers were authorized to join the market in 2020. Blockchain technology is characterized by fast speed, making it ideal for efficient and cost-effective financial receipts, payments, and settlements. It is highly suitable for the application of insurance premium trust products with huge amounts of money and cross-border transactions. Further, the addition of virtual assets and tokens activates the Hong Kong financial market as well (Mattila et al., 2023). Meanwhile, mainland China gives full play to the advantages of perfect infrastructure and developed manufacturing industry to conduct a series of applications and innovations of blockchain technology, injecting scientific and technological elements into finance while promoting the construction of infrastructure. The synergy between mainland manufacturing and Hong Kong’s economic advantages creates endless possibilities for blockchain technology in the GBA (Liao & Zeng, 2021).

5. Challenges

Insurance premium trust products in Hong Kong, in upholding their leading position in the business, face various challenges. Firstly, as indicated in the Hong Kong Trust Industry Report: Building a Core Position jointly published by KPMG and Hong Kong Trustee, 88% of the respondents believe that the huge demand for insurance premium trust products in the mainland remains an endogenous driving force for the Hong Kong market, with an increasing number of budding entrepreneurs and high-net-worth individuals from the mainland. Although Hong Kong will increase the investment dividends of the emerging products to attract consumers, the current short period of development of the domestic insurance premium trust has led to limited theoretical research by scholars and insufficient awareness of people on the insurance premium trust products. To further facilitate the development and maturity of insurance premium trust products, there is a need to enhance the publicity of insurance premium trust products and increase consumer awareness of them.

There are bound to be certain risks associated with emerging insurance fund trust products. The first is investment risk, where market supply and demand fluctuate with changes in the macroeconomic environment, leading to a rise in the risk premium in Hong Kong, and the volatility of the portfolio has become the main source of risk. The second is credit risk. For consumers,
low upfront cash value of Hong Kong insurance products will cause substantial losses in the event of default by the policyholder (Zhao, 2021). In terms of insurance companies, premium trust products entail large labor costs, and when there are adverse selections or moral problems among consumers, insurance companies will bear huge losses. Furthermore, there is operational risk. Considering that the insurance premium trust products are still immature, although there are specific laws to protect the products, it is still not possible to rule out operational errors.

These risks will certainly be a concern for people choosing insurance premium trust products. Therefore, appropriate risk management can effectively minimize people’s concerns about insurance premium trust products and contribute to the prosperity of Hong Kong’s financial market.

6. Recommendations and Expectations
Aiming at the above challenges, this paper puts forward relevant suggestions for consideration. For investors, given the dynamic nature of the financial market, financial derivatives such as futures can be utilized for risk hedging against financial risks, and diversified investment strategies can be adopted to help diversify investment risks and enhance the risk-resistant ability of asset portfolios. With regard to credit risks, insurance companies are encouraged to set up a comprehensive risk management system and determine reasonable cash values to limit the costs of consumer defaults. Meanwhile, a strict credit review mechanism should be established to avoid losses resulting from consumer adverse selection or moral hazard. Concerning operational risks, it is recommended that insurance companies and trust companies develop strict internal systems to eliminate unreasonable distribution of work by establishing strict process specifications. In addition, regular staff training should be conducted to improve the work quality and risk awareness of employees. Through the identification and quantification of different risk factors, as well as the application of effective asset allocation and risk management tools, the degree of risk exposure can be effectively reduced to protect the rights and interests of investors. Furthermore, the growth of insurance fund trust products is also inseparable from the guidance of Hong Kong regulatory authorities. Therefore, the legal status of insurance premium trust products must be established to ensure that the right to claim insurance premiums can be implemented in accordance with the law (Zhao, 2021).

To address the issue of limited awareness of insurance premium trust products, insurance companies, trust companies, and the Hong Kong Government must make concerted efforts to satisfy consumers from market sales to after-sale services. First, relevant market research and analysis should be performed to understand customer groups and their needs, including their income levels and investment preferences, to establish an effective database. Then, promotion efforts shall be strengthened by fully utilizing the advantages of the Internet. Online and offline promotion channels ought to be integrated to expand product popularity and channel coverage. Lastly, a comprehensive customer service system is expected to be built to provide personalized professional consulting and investment advice, as well as real-time follow-up of customer feedback to make timely adjustments and optimize marketing strategies.

7. Conclusion
The study focuses on the role of Hong Kong insurance premium products in comprehensive wealth planning and analyzes how they can help clients manage and protect their long-term wealth. The study begins with an overview of the development of insurance premium trusts, followed by an in-depth analysis of the specific features and advantages of the products. Quantitative data analysis and comparative studies were conducted, showing that insurance benefit trusts provide an avenue for wealth transmission to avoid high estate taxes while ensuring a smooth transition of the estate and financial security for beneficiaries. Furthermore, the legal structure of the trusts provides flexibility and privacy in the administration of the estate, as well as additional protection against outside vicissitudes that may affect the interests of beneficiaries. Further analysis reveals that clients’ decision to choose insurance premium trust products is influenced by multiple factors, including their wealth scale, wealth inheritance will, and intentions in the legal and tax environments. Compared with other wealth management tools, insurance premium trusts demonstrate their unique applicability, especially among client groups with clear needs for asset control and long-term wealth planning. In particular, as population aging intensifies, the benefits of insurance premium trusts, such as tax incentives and asset protection, offer an even broader market for these products.

Several key practical recommendations are suggested for consideration, including enhancing understanding of the features of insurance premium trust products, refining communication strategies with customers, and urging policymakers to consider ways to better support the innovation and application of premium trust structures in regulatory design. These findings present important insights for promoting the development of the financial services industry, optimizing customer service, and providing clients with more sensible wealth management solutions. However, there are limitations to the study. Due to the lack of domestic and international studies on Hong Kong insurance premium trusts and the constraints of Hong Kong insurance companies on the privacy protection of insurance premium trust products, it is challenging to obtain detailed data on the utilization of individual insurance premium trusts, resulting in insufficient data available in the literature. Meanwhile, this study lacks the support of a
thorough investigation of individual customer behavior, which makes it difficult to establish a robust data model. Therefore, the findings of this study may be affected by sample selection bias.

Supported by a favorable legal environment and improving service quality, Hong Kong’s insurance premium trust model presents a broad development prospect. Along with the integration of technology and the introduction of innovative services, Hong Kong is expected to further consolidate and enhance its position as an international financial and insurance center. In the future, only by making continuous progress, actively adapting, and strictly following the path of legal development can Hong Kong’s insurance premium trust industry stand out in the global competition and embrace a prosperous tomorrow.

**Funding:** This research received no external funding.

**Conflicts of Interest:** The authors declare no conflict of interest.

**Publisher’s Note:** All claims expressed in this article are solely those of the authors and do not necessarily represent those of their affiliated organizations, or those of the publisher, the editors and the reviewers.

**References**


