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In Brief: For several years, citizens from mainland China have been rushing into Hong Kong, buying life insurance policies that are then converted into foreign currency. Chinese authorities have openly disapproved of the practice, but can they stop it? Not likely. So long as demand for transferring capital out of China remains high, the Hong Kong insurance industry shows great versatility in adjusting to policy change.

In late March, the Office of the Commissioner of Insurance released its 2016 provisional statistics for the Hong Kong life insurance industry. However, something was missing – analysis of life insurance sales to non-Hong Kong residents. The omission is noteworthy. Unquestionably, sales of Hong Kong life insurance policies to fly-in-fly-out visitors from mainland China is a delicate topic. Chinese authorities view it as capital outflow (“走資”), which is supposed to be heavily restricted in China.

So, how does it all work?

In the past five years, the top-selling life insurance products in Hong Kong were all designed for the mainland Chinese segment. The sales process was streamlined via an arrangement between UnionPay, the largest bankcard payment system in China, and insurers in Hong Kong. Customers from China could make premium payment in Chinese Yuan using their China-issued UnionPay card. Then, foreign currency is accessible in several ways:

- Foreign-currency loans through Hong Kong banks using an insurance policy as collateral,
- Fully redeeming a policy (after several years) in a foreign currency, or
- Taking regular withdrawals (from eligible policies) in a foreign currency.

Previously, under pressure from authorities, UnionPay limited the maximum amount that could be spent per insurance transaction. Yet, there was no limit on the number of transactions per card that could take place. Therefore, if a high premium payment was due, insurers could 'swipe' a card over and over - in some cases for many hours - to cover the premium payment. But in October 2016, UnionPay made a major announcement. Customers could no longer use its cards to make premium payment for any life insurance policy with a savings or investment component.

Did that signal the end of moving money out of mainland China and into the Hong Kong insurance industry? Not at all. In fact, insurers in Hong Kong expect sales to mainland Chinese customers to keep growing in 2017.

Insurance agents and brokers have switched to new, underground solutions ("上有政策，下有對策") to assist clients. There are still many ways to transfer funds out of China and into Hong Kong, including: underground bankers, currency exchange shops, cash smuggled across the border, or even Bitcoins. And for mainland Chinese customers, life insurance remains an attractive investment: insurers accept cash payment of premiums (whereas banks will not accept large cash deposits). And life insurance is a far more liquid investment than, say, property.

Authorities must be frustrated at their inability to halt the capital outflow. But at least regulators can stop publishing statistics.

About the author

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