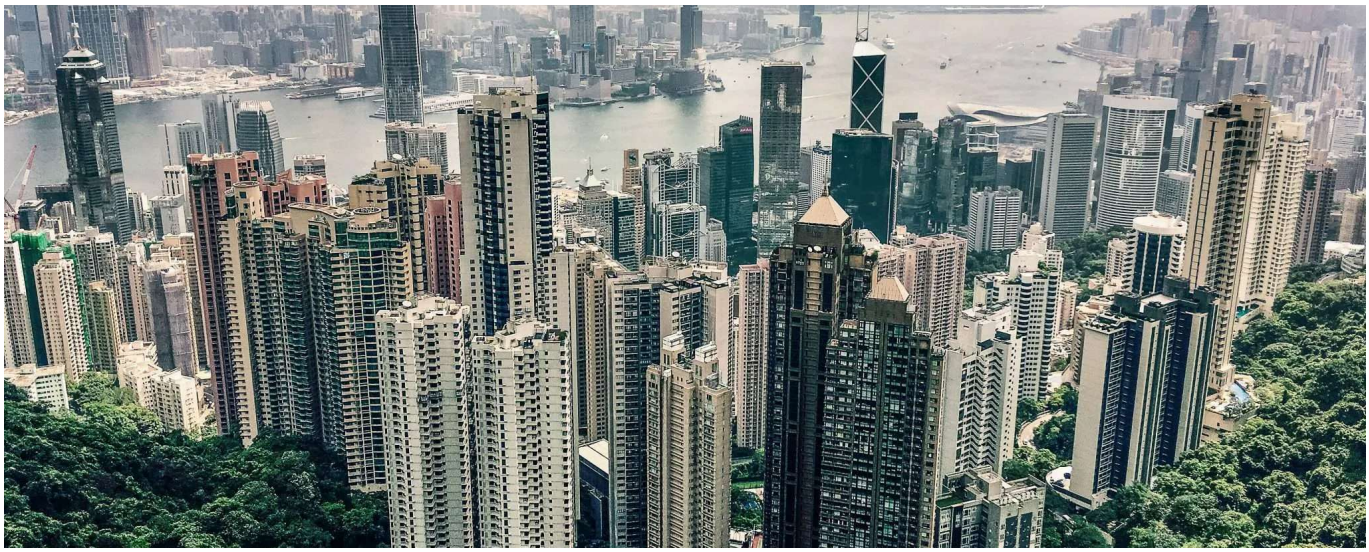
WEALTH MANAGEMENT

Hong Kong's insurance regulator flags premium financing risks



Richard Otsuki

25 August 2026

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The share of new business premiums in Hong Kong being financed has surged in 2026 and the local insurance regulator has issued a circular warning against excessive leverage risks with the potential of coverage loss.

Hong Kong's Insurance Authority (IA) flagged the risk of excessive leverage being used in the industry as premium financing in the city accounted for around 36% of new business premiums in

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"The use of leveraging amplifies risks embedded in these insurance policies for policyholders, and for insurers, it aggravates the risk of lapse with knock-on impacts on liquidity, especially where less liquid assets are held to back those policies. In stressed scenarios, concentrated premium financing exposures may unintentionally lead to correlated asset sales at depressed prices," IA said.

Product mismatch

IA said that premium-financed insurance products are generally designed for long-term objectives like wealth accumulation or estate planning, with greater allocation to alternatives and growth assets that are more volatile and illiquid. However, it observes that some policyholders use premium financing for shorter-term interest rate arbitrage which would "create a mismatch between the original product design and the policyholders' objective or expected holding period".

"Further, in some instances, insurers assume that where such a mismatch occurs and the actual lapse rates of the portfolio have significantly exceeded the assumptions adopted at original pricing, the resulting adverse financial impacts would be mitigated by reducing policyholders' non-guaranteed benefits under the participating mechanism," IA added.

Insurance plays a major role in Hong Kong's wealth management and banks commonly generate income through premium financing. According to IA, banks have been offering higher loan-to-value ratios and other incentives to further attract clients.

The insurance watchdog and the Hong Kong Monetary Authority (HKMA) have scheduled another round of joint inspection on premium financing in the second half of 2026 and will share its observations in due course.

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