Leveraging digital transformation in Asia Pacific to drive insurance industry growth

Insurance companies globally have faced the dual challenge of serious operational disruption during the COVID-19 pandemic, and increasing pressures on profits, largely due to a prolonged period of low interest rates. Insurers are therefore investing in new, fast-growing markets in the pursuit of growth, most notably in Asia Pacific.

Divya Menon, Executive Director, Cash Sales at Standard Chartered emphasises,

"To do this, they are leveraging digital technologies to drive greater efficiency and increase market share, engage with customers in new ways and create a better customer experience. As we emerge from the COVID-19 crisis, the most successful insurance companies will be those that can deliver innovative solutions across the region to meet customers' digital preferences, whilst localising their solutions to meet regulatory demands."

Insurance industry trends

Global insurance is a USD5 trillion industry, with 12 per cent growth expected in 2021 following weak performance during the COVID-19 pandemic, and a further 6 per cent year-on-year growth in 2022[1] , a much faster rebound than after the global financial crisis. This additional demand is skewed strongly towards emerging markets, including Asia Pacific. Global insurers are therefore engaged in a race to attract market share by embracing digital solutions to drive efficient distribution, and create an excellent customer experience. There are three distinct trends that are shaping the future of global insurers in Asia Pacific:

Market expansion

Asia Pacific will play a major role in the growth of the insurance industry over the next decade. China is already the world's second largest insurance market with annual premiums of USD656 billion in 2020. Market liberalisation means that foreign companies can now take 100 per cent ownership of entities in China, which in turn will encourage greater investment.

This investment is further encouraged by controlled deregulation in the Greater Bay Area (GBA). This will enable Hong Kong insurers to tap into the USD50 billion health protection gap that exists in Guangdong alone[2].

1 https://www.statista.com/statistics/1192960/forecast-global-insurance-market/

2 Swiss Re

Dick Fong, management consultant says,

"The GBA alone has a population of 80 million within two hours' drive of Hong Kong. As yet, insurance solutions integrating healthcare, retirement, wealth, pension and family succession planning are relatively under-developed in this region, but there is significant appetite for innovative products."

Insurance Connect, a cross-border connect scheme across Hong Kong, Macau and nine cities in mainland China will enhance connectivity of cross-border insurance services and make it easier to access the GBA customer base. Fong continues,

"The regulatory direction of travel in GBA is likely to continue towards liberalisation, but the timing of these changes is yet to be finalised. Foreign multinational corporations are looking at what they need to do to prepare, and deciding when best to invest."

As a first step, insurers will be allowed to provide policy servicing in GBA for their customers, with the awareness of and compliance to specific regulatory conditions, such as around data security.

GBA may also pioneer the use of China's Central Bank Digital Currency (CBDC), e-CNY, which could help address the challenge of e-KYC (electronic Know Your Customer) in the insurance space, further increasing growth potential. The Hong Kong Monetary Authority (HKMA) has already launched a cross-border "m-bridge" pilot project based on blockchain technology that connects the CBDC infrastructure in Hong Kong with e-CNY in Mainland China and central banks in ASEAN and the Middle East.

Changes in regulation and risk

Insurers face global regulatory and reporting changes, such as IFRS17 and risk-based capital rules that will impact solvency and product design, in addition to sales and operation-related regulations and rules in each market in which they operate. The concept of risk is also changing. For example, rating agencies are refreshing their rating models to incorporate more dynamic risk scenarios, not least around environmental, social and governance (ESG) models. Regulators are also exploring with the industry ways to collaborate on data to manage risks such as claims and ESG topics more effectively. There are also structural changes taking place. For example, reinsurers are playing a greater role in co-insurance and introducing new product innovation at an unprecedented rate.

Technology as an enabler and disruptor

Asia Pacific was already a pioneer of digital industry transformation before the pandemic, with high digital expectations amongst consumers. COVID-19 has accelerated this transformation by three to seven years. Before the crisis, we saw over $20 billion invested in insurtech over a five-year period.

Increasingly, insurers have been adapting to a younger customer base, developing digital platforms focused on preventative healthcare, whilst improving accessibility and making it easier for customers to make payments and receive benefits, as **Jitesh Malik**, Director of Digital Payments & Loyalty Programs at Prudential Plc describes in Box 1 .

Peter Wong, Executive Director, Structured Solutions Development for the Greater China and North Asia comments,

“Insurance contracts are complex, so companies are looking at how best to use insurtech to streamline onboarding, processes and optimise the customer experience. Insurers are now creating and commercialising new tools and solutions such as in telemedicine, predictive underwriting and subscription-based customer products using artificial intelligence (AI) and internet-of-things (IoT) connected to portable devices.”

Box 1: Creating an app-based digital ecosystem at Prudential Plc

Pulse is an app to help improve health and wealth across Prudential’s ecosystem. With 30 million downloads across Asia and Africa, we help customers stay healthier, with an AI-based symptom checker, nutritional advice and preventative health information. The app also provides wealth services, including education, financial planning advice and information on financial products.

As well as offering health and wealth benefits to our customers via Pulse, we make it easier for them to pay, with frictionless, 24/7 payments across a wide and growing range of payment methods.

Looking ahead, our Pulse strategy has three key components:

1. Expanding the range of health and wealth services, including financial solutions, that we offer through Pulse
2. Exploring ways to deliver ‘payments as infrastructure’, providing a standardised payment process across all products so we can onboard additional products more quickly in the future and provide a better customer experience
3. Expand our range of direct-to-consumer (D2C) products and enhance the customer experience, including encouraging higher online to offline lead conversion

Jitesh Malik
Director of Digital Payments & Loyalty Programs at Prudential Plc

Box 2: Q&A with Ferdinand Jahnel, Vice President & Global Treasurer, March McLennan & Company

How did you respond initially to the crisis?
When we went into lockdown in March 2020, our primary concern was to support our clients in industries that bore the brunt of the crisis, such as airlines and hospitality, which may struggle to pay on time. We were conscious, however, that our clients' inability to pay could create a significant liquidity impact, which we worked quickly to mitigate. We already had a five-year revolving credit facility in place, which we supplemented with an additional credit line in April 2020. In reality, we did not need to rely on these, but it was important to create certainty and assurance for the business.

We undertook a cash initiative across the business with a focus on invoicing promptly, getting paid on time, and centralising cash. This was a highly successful project, resulting in strong inflows, more efficient cash management processes and greater automation that have benefitted the business as the immediate effects of the crisis have subsided.

What other cash management steps have you taken over the past 18 months?
As we entered the crisis, we had two treasury hubs based in New York and London, together with a global, multi-currency cash pool. We decided to set up a third hub in Asia Pacific to reflect the growth of our business in the region. The new hub would manage our local and regional banking relationships, and optimise cash management in local timezones, which had been difficult to achieve from London. We are also working with our businesses to enhance and streamline our bank connectivity in each country as an ongoing improvement process. As we look ahead, we are considering local FX management to become more responsive to the needs of the business.

Digital innovation in treasury

Digital innovations are also having a significant impact on cash and treasury management, from payments and collections through to treasury processes such as reconciliation, liquidity management and decision support. The COVID-19 pandemic accelerated innovation and forced insurance company treasurers to think differently, embracing digital solutions to distribute policies, enable remote working and drive greater efficiency, as the experience of Marsh McLennan demonstrates in Box 2.

This shift towards digital solutions accelerated a trend that was already underway as payments moved from batch processing to 24/7, real-time, connectivity channels such as APIs enabled real-time exchange of transactions and data, and treasurers started to seek real-time liquidity management tools to manage global cash.

Selina Lau, Chief Executive of the Hong Kong Federation of Insurers comments,

"The COVID-19 crisis has had a huge impact on insurance companies' distribution channels, so we helped to find ways for intermediaries to service customer needs without face-to-face contact, including gaining regulatory approval for a virtual onboarding platform using video conferencing that could be used cost-effectively by all member companies."

The impact of instant payments

Although the insurance industry processes around USD3 trillion in claims payments each year, many companies still rely on outdated bank connectivity channels, manual processes and payment methods.

Darren Snoxell, Executive Director, Cash Sales for Standard Chartered in Europe explains,

"For example, many still settle claims via check, which are vulnerable to fraud and more expensive to process than digital payments. It is also difficult to manage working capital when the settlement timing is uncertain. By using instant payments, insurers can reduce costs and increase efficiency within their own operations. Just as importantly, create a better experience for customers and develop new business models, particularly when embedding payment solutions into customer platforms using application programming interfaces (APIs)."

The growth of mobile money

Asia Pacific was already a world leader in the use of mobile devices to access products and services, often through social media, before the COVID-19 pandemic. Mobile money plays a major role in this, embedding the payment seamlessly into the customer experience. During lockdowns, mobile devices – and mobile money – played a major role in keeping people connected, accessing goods and services, and distributing financial support. At the same time, making and receiving payments to and from digital wallets, particularly when using omnichannel connectivity and APIs, supports greater cost-efficiency and streamlined processes for insurers.

Mobile commerce and mobile money also offer the opportunity to increase financial inclusion. For example, mobile-enabled micro insurance has enabled millions of previously uninsured people to protect themselves and their families. Insurance providers have encouraged this growth by extending coverage from traditional life and health policies to general insurance and income protection products. They have also shifted from deduction of airtime to premium collection via mobile money. Likewise, small businesses are also benefitting from the shift to digital insurance. With mobile access to policies, small-scale farmers now find it easier to access parametric or index insurance. This means they can buy policies based on a rainfall, drought or a crop yield loss index which automatically pays out when an index triggers a certain threshold.

Looking ahead

The Asia Pacific region is set to be the biggest engine of growth for global insurance companies in the years ahead, including emerging opportunities in GBA but also more widely, such as across ASEAN.

Douglas Rochman, Associate Director, Cash Sales, Standard Chartered concludes,

"Standard Chartered remains committed to providing innovative local, regional and global cash management solutions to our insurance clients in Asia Pacific. We take a collaborative approach to working with clients and fintech partners to co-create solutions that address the challenges that our clients are facing, and enable them to grab opportunities to drive competitive advantage by pioneering new business models and creating an excellent experience for customers."