Market summary

A time of market transition
Across the diverse Asia-Pacific region, a number of forces are converging to create a pressing need for insurers to innovate throughout their entire value chain:

- Premium growth is slowing, even as new markets open.
- Consumer demands for digital products and services are increasing.
- Competition within, and from outside, the region is growing.
- Regulators are developing more complex rules to protect consumers and reduce market risks.

Over the years, insurance growth has lagged economic expansion, leaving a sizable gap in life protection, especially among the growing middle class market. With economic growth in the region trending slower than in recent decades, and trade activity subduced, the likelihood of a downturn is raising further concerns about the life insurance gap.

Health care reform is on the agenda of several Asia-Pacific countries in 2016, which will help insurers positioned to increase premiums. Penetrating the emerging health care market will require insurers to utilize digital technologies and strategic partnerships to deliver new products and services. For example, several non-life insurers in India have teamed up to create apps to process claims through mobiles or tablets. Similarly, a life insurer is partnering with a start-up company in Singapore to deliver a health care app to employee benefit clients.

Competition continues to heat up as more countries liberalize foreign investment and encourage new business. For example, in China, insurers in larger, developed markets are expanding within and outside the region. More than 50 applications to set up mutual insurance companies in China were awaiting approval from the China Insurance Regulatory Commission (CIRC) in 2015, driven by the government’s national “Internet plus” strategy to stimulate the Chinese economy.

Emerging regulations are disrupting traditional ways of managing business. Mainland China’s C-ROSS is just one illustration of how markets are strengthening their solvency rules, adding costs and potentially upending business models. At the same time, consumer protection concerns remain on the forefront of some regulatory agendas. For example, Hong Kong’s Guidance Note 16, which covers regulatory changes and increased protection to customers, is expected to have a significant impact when it becomes effective on April 1, 2016. The Australian Securities and Investments Commission (ASIC) is providing guidance on robo-advice, as advisory firms and start-ups look to develop new robo-advice models.

Despite these changes, one constant remains: the region’s high vulnerability to natural and man-made catastrophes. Businesses and non-life insurers would be wise to keep this at the forefront of their minds as they rethink their approaches for a fast-changing marketplace.

Impact of external factors on the Asia-Pacific insurance market in 2016
(0 = Low impact, 10 = High impact)

- Economy and interest rates
  Despite the recent economic slowdown in China, the Asia-Pacific region remains one of the most dynamic parts of the world and will continue to provide good growth prospects. Low interest rates will also help.

- Technology
  Digital technologies will continue to change customer behavior in 2016 and create opportunities for insurers to tap new sales and service channels. To succeed, insurers will need to drive innovation within their organizations and rethink how they interact with customers.

- Regulation
  Regulators across the region continue to strengthen solvency, protect consumers and encourage new products, such as private health insurance. C-ROSS, China’s second-generation solvency framework, will require insurers to make major strategic changes.

- Urbanization
  Rising industry concentration in cities will increase population density and risk accumulations. Urbanization will exacerbate loss exposure from natural and man-made catastrophes, continuing the recent trend toward mega-losses.

- Customer expectations
  Customer expectations for better products and services will require insurers to shift to a customer-centric approach. To make this transition, insurers will need to rethink many aspects of their business, from organizational structure to performance measurement.

- Demographics
  Rising consumer wealth will drive demand for insurance and investment products. Health care insurance will also grow, thanks to increasing consumer awareness and government steps to build a stronger private health insurance market.
Creating a framework for strategic change: priorities for 2016

In 2016, inexorable changes in the insurance market will compel insurers to embrace innovation and find new avenues to growth and profitability. To do this, insurers will need to ask themselves several strategic questions. What will it take to accelerate growth? How should we radically improve our value proposition? Will our organizational structure and culture support or hinder success?

In answering these questions, Asia-Pacific insurers will want to apply the following framework for strategic change:

1. Accelerate the shift to online and mobile access
2. Build business through health market innovation
3. Identify M&A and alliance opportunities
4. Transform underwriting and pricing analytics
5. Reinvent operations to reduce costs and drive growth
6. Set corporate governance as a strategic imperative
With mobile technology expanding across the region, Asia-Pacific insurers will need to extend their digital presence in 2016 and reconsider how they interact with customers and handle internal processes. Digitization is opening new avenues for insurers to leverage sales and service channels and accommodate rapidly changing customer preferences. For example, Generali will embed its native insurance app in Obi mobile phones in 20 high-growth markets, starting in Asia with Vietnam. Obi is a start-up that builds attractively priced state-of-the-art devices aimed at young customers in emerging markets.

Shift from a transactional to a relationship perspective. Driving digital growth begins by moving from a transactional to a relationship view of the customer. Rather than focusing on the number of products customers buy, insurers should weigh the strength and length of their customer relationships. Personalizing sales and marketing strategies and enriching the customer experience is critical to making this shift, which insurers are driving through better use of data and analytics.

Rethink products and customer interactions for the digital marketplace. As insurers refocus their internal business units, they will uncover new opportunities for expanding customer relationships. For example, Manulife now offers Hong Kong customers the ability to use a fitness tracker and mobile app to earn discounts on their health insurance premiums. Another, AIA, Hong Kong’s largest insurance company, has teamed up with Nest, an early-stage venture capital firm, to launch AIA Accelerator, which will focus on investing in health and wearable tech start-ups.

Expand beyond traditional insurance services. In many cases, they will need to develop robust claims departments to avoid paying unnecessary claims. Pricing models will need testing as experiential data may be lacking, or insufficient. Unlike other regions, insurers may find they lack strong pricing power with their provider services.

Priorities for 2016

Move from a product to a service orientation. In 2016, insurers in Asia-Pacific will want to change their role from sellers of insurance products to active health risk managers and advisors. In many cases, they will need to develop robust claims departments to avoid paying unnecessary claims. Pricing models will need testing as experiential data may be lacking, or insufficient. Unlike other regions, insurers may find they lack strong pricing power with their provider services.

Leverage partnerships to provide a stronger value proposition. Forming new strategic partnerships with other health care services or nontraditional partners will prove crucial when expanding into private health markets in the region. Alibaba Health Information Technology and CPIC Allianz Health Insurance, for example, will jointly promote health reform policies and explore commercial insurance services. Alibaba Health will also put CPIC Allianz’s health insurance products on the internet and develop new products in line with online demand. Both sides will search for commercial insurance products relating to community hospitals, family doctors, disease prevention and control, health management and chronic disease management.

Embrace wearable technology. As insurers move to a health advisory orientation, the development of wearable health technologies will play a vital role, thanks to their ability to provide risk data based on behavioral patterns rather than on probability. With data from wearables – such as wrist bands, wrist watches or glasses – insurers can set targets and incentives for policyholders to live a healthier lifestyle, encouraging them with the possibility of lower premiums. Although still in its early stages, wearables will likely help health insurers to promote wellness and measure risks more accurately, thereby improving profitability and efficiency.
Thanks to resilient economic conditions and favorable capital levels, in 2016 Asia-Pacific insurers will continue to pursue outbound and inbound M&A to achieve strategic objectives. To ensure their M&A activities succeed, Asia-Pacific insurers will want to put particular emphasis on careful partner selection and post-merger integration. A weaker renminbi may dampen outbound acquisition activity by Chinese insurers and financial investors.

**Priorities for 2016**

**Build an effective post-merger integration plan.** Regulatory and IT complexity is making it more difficult for insurers to integrate multi-country operations. These challenges are multiplied when M&A activity crosses borders or regulations change during an acquisition. That is why the creation of a sound integration plan – weaving together internal processes — should be a key part of an insurer’s M&A strategy.

**Explore alternatives to M&A.** Strategic goals can be accomplished through acquisition alternatives, such as building distribution capabilities via bancassurance partnerships and acquiring IT capabilities through investments in insurance service firms. Generali, for example, has created a new role that includes strategy as well as M&A, with a focus on fostering strategic alliances, partnerships and other initiatives to support the company’s Asian growth goals. Other examples include entering a partnership to build business in key regional markets or forming a relationship with a financial institution to gain access to the bank’s individual, group life and business customers.

**Be on the lookout for opportunities in emerging markets.** Fragmentation of regional economic growth in 2016 will likely favor emerging markets as recipients of stronger inbound deal flow. For example, some insurers have elected to pull out of established markets such as mainland China and Hong Kong in order to pursue other fast-growth markets in the region. In addition, other insurers have made significant cuts elsewhere in the world in order to add to their business in centers of economic growth in Asia.

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**Transform underwriting and pricing analytics**

In 2016, Asia-Pacific insurers will need to respond to changes in the insurance risk landscape and customer expectations by deploying more sophisticated analytics to support underwriting and more flexible, customer-tailored products. Underwriters will want to draw on new tools for managing exposures and customer needs across the broad risk spectrum, from large catastrophic events to personal lines products.

**Stay on top of risk patterns and alternative risk management solutions.** Recent large losses, such as the August 2015 Tianjin explosions and super typhoon Soudelor in the same month, raised awareness of elevated and growing loss magnitude potential in the region from man-made natural disasters. The magnitude of potential losses from large industrial accidents and natural catastrophes has led regulators to authorize and encourage the use of alternative products to cover peak risk. One example is China Re’s 2015 $50 million Panda Re catastrophe bond, which represents a major step toward the use of capital markets for reinsurance protection in a catastrophe-prone region.

**Leverage new sources of data and analytics.** Underwriters in the region will increasingly draw on the latest data and analytical tools to help with risk management, pricing and claims reduction. For example, a growing number of automobile insurers are using telematics-based data to provide pay-as-you-go and pay-how-you-drive insurance products. The trend toward usage-based insurance and custom-tailored products is expected to grow rapidly in Asia, so insurers will want to make efforts now to stay on top of these rapidly evolving markets.

**Capitalize on regulatory changes.** The liberalization of insurance pricing, seen recently in Malaysia and South Korea, underlines the imperative for insurers to use new analytical tools for product pricing. One example is the recent Life Insurance and Family Takaful Framework, which provides the structure for supporting long-term sustainable growth and development in the life insurance and family takaful industries. In late 2015, Bank Negara Malaysia committed to the de-tariff of the motor and fire insurance markets and introduction of market-driven pricing in the near term. Similarly, the Korean Financial Services Commission is introducing reforms in early 2016 that will allow local insurers to set their own rates. This will stimulate competition, but favor those insurers with more advanced capabilities for quantifying and pricing risk.
For many insurers, success in 2016 will depend on the rigor of their corporate governance systems. As their businesses increase in complexity across products, business lines and geographies, the potential for unexpected significant losses increases concomitantly. Governance plays a pivotal role in helping to identify hidden risks and finding solutions. As customer expectations continue to increase, demonstrating strong governance offers a major competitive advantage in attracting new customers.

Years of expansion through greenfield projects, acquisitions, and partnerships have left many Asia-Pacific insurers with inefficient patchworks of back office systems and processes. With some technologies dating back to the 1980s and 1990s, these systems are no longer fit for purpose in a marketplace where rich customer experiences, rapid innovation, quick response times and actionable insight are paramount. In 2016, top-performing Asia-Pacific insurers will need to transform their operations to provide an integrated customer experience across all channels and customer touch points. This transformation will require breaking down silos and will play out across several areas of the enterprise – IT, finance, customer service, marketing, distribution – all directed to achieving the dual objectives of managing costs and delivering a superior customer experience.

**Priorities for 2016**

**Speed transformation through shared services and outsourcing.** Leading insurers seeking to fast-track operational transformation are turning to outsourcing or shared services capabilities. Insurers and brokers employing a shared service model to support operations in Asia and elsewhere have established units in Singapore, Manila, Cebu, Kuala Lumpur and Mumbai. One example is an insurer that recently closed a shared service operation in the US in favor of moving the function to an Asia-Pacific site.

**Enhance efficiencies through digital technology.** Asia-Pacific insurers have access to a growing array of technological solutions for maximizing processing efficiencies. In India alone, there have been a number of recent examples: ICICI Lombard’s introduction of a mobile app that enables customers to buy policies and submit claims; Bajaj Allianz General Insurance’s tablet-based claims registration module for expediting claims settlements; and Liberty Videocon’s app to remotely enable motor claims staff to generate loss assessments and communications from distant locations.

**Transform operations to address both changes in regulatory and customer requirements.** To respond to global and local regulatory developments, insurers around the region are conducting gap analysis and evaluations of current operations with the aim of implementing process changes to ensure compliance. By re-engineering their operations to simultaneously achieve regulatory compliance and customer experience outcomes, forward-looking insurers will gain a market advantage in the fiercely competitive Asia-Pacific region.

**Set corporate governance as a strategic imperative**

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**Strengthen corporate governance.** In addition to setting solvency standards, the emerging risk-based capital (RBC) framework in Hong Kong includes improving corporate governance as a key objective. Pillar 2 of the proposed framework outlines qualitative requirements for corporate governance, and it may lead to elucidating the role of board members and establishing committees for key oversight areas. In mainland China, the introduction of C-ROSS will establish new risk charges according to business line, requiring boards to carefully consider optimal areas of focus, diversification and reinsurance strategies. Regulatory initiatives in the region, which include Singapore’s RBC 2, will provide a more precise assessment of insurers’ solvency in accordance with their individual risk profiles.

**Build better governance through people.** The speed and scale of regulatory change is requiring insurers to enhance their compliance audit functions, as well as align their local and corporate governance systems. To successfully manage this process in 2016, Asia-Pacific insurers will need to attract, develop and retain people with the requisite skills for implementing and managing these new governance systems. Filling knowledge gaps in data analysis and digital technology will be crucial, although such talent will be in short supply and high demand in the region.
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