Market summary

Although Asia-Pacific insurers are likely to face diminishing economic growth in 2015, affecting demand for life and non-life insurance products, overall gross domestic product (GDP) growth nonetheless is forecasted to be 5.5% in 2015, according to the International Monetary Fund (IMF). This rate is well above forecasted growth in the US and European Union (EU). Consequently, the region’s continuing appeal to foreign insurers seeking growth opportunities remains strong.

The region’s economic growth will be driven, in part, by rising exports to the US and the EU as these economies recover. Since Asia-Pacific is exposed to growth shocks originating in China, that country’s decelerating growth in 2015 may affect trading partners such as Republic of South Korea and Vietnam, potentially curtailing stronger GDP growth across the region.
Another issue is possible interest rate changes, which could affect insurer portfolio returns and product pricing. Various countries may experience a rise in interest rates in response to higher global rates, potential stimulus measures by Japanese and European central banks, and efforts to control domestic inflation. However, both China and Vietnam are expected to reduce short-term rates. This may offset overall conditions and contribute to opportunities in the region for insurers.

Rising real estate and financial asset values generally are enabling insurers to generate higher premiums for increased protection levels. Nevertheless, if the U.S. Federal Reserve continues to reduce liquidity in 2015, real estate and financial asset price volatility may increase, as it did in 2013 and early 2014.

The IMF suggests an emerging risk to domestic demand is growing household indebtedness, with significant house-price corrections possible in Hong Kong SAR, New Zealand and Malaysia. Large declines should not be ruled out in other economies, particularly in cities where prices have grown much faster than rents. Nevertheless, past history indicates the actual effect of home-price reductions on wealth may be modest.

The growth of the region’s overall economy, middle class and high net worth (HNW) population offers enhanced opportunities to sell personal lines, commercial lines and health insurance. The middle class numbers 525 million people, more than the population of the EU. Roughly one-third of the world’s middle class today, it is expected to represent more than half the world’s middle class by 2020. As consumer wealth rises and more sophisticated financial advice and solutions are sought, the potential for premium from the sale of personal lines insurance to protect homes and automobiles increases.
In this evolving environment, insurers in Asia-Pacific will need to consider the following adjustments to their service, products and compliance efforts in 2015:

1. Streamline the value chain via the cloud and traditional business process outsourcing (BPO)
2. Expand products and services to address the growing needs of the HNW market
3. Adapt product strategies to the changing regulatory environment
4. Increase compliance to respond to growing sales and consumer protection regulations
5. Develop capital and M&A opportunities
6. Reposition investment strategies
7. Enhance data controls and metrics

Technology is accelerating mobile and web-based sales, advice and distribution opportunities in the region, which touts high levels of mobile device ownership and usage. Approximately 80% of customers are willing to use digital and remote contact channels for different types of interactions with their insurers. In 2015, non-life aggregators will continue to emerge and offer insurance products directly to consumers, and some life insurers will look beyond traditional agents to distribute products to middle-market consumers.

Consumer protections are extending beyond sales compliance to encompass data privacy and security. This evolution may slow insurer development of cloud-based technologies, efforts to deliver mobile sales and service applications, the increased use of telematics, back-office streamlining initiatives and regional reporting and risk management efforts.

Many countries also are considering tax reforms to sustain growth, maintain investor confidence and secure financial stability. Life insurers would benefit from tax increases, but only to the extent their products retain favorable tax status. In China, for example, ongoing VAT developments may address financial services, with a potential impact on insurance sales.

Similarly, rising GDP increases commercial insurance exposures and the need for protection against conventional business risks, as well as property, catastrophe and business interruption and extra expense exposures. Eight of the 10 countries in the world with the highest annual natural catastrophe losses as a percentage of GDP are located in Asia. The region’s elevated catastrophe risk, economic growth and low insurance penetration (premiums as a percentage of GDP) create significant opportunity for commercial lines premium growth.

The opportunity to offer private health insurance in Asia-Pacific is also expanding, due to rising individual income levels and government budget constraints. In China, the health insurance market is growing strongly as consumers turn to the private sector to fill in the gaps left by inadequate government schemes. Ping An Health (Ping An), for instance, reported that it was signing up 300 to 500 new lives a day. India is another promising market for personal health insurance; only 15% of the population is covered by government health insurance and 2.2% by private health insurance.

Technology is accelerating mobile and web-based sales, advice and distribution opportunities in the region, which touts high levels of mobile device ownership and usage. Approximately 80% of customers are willing to use digital and remote contact channels for different types of interactions with their insurers.

1 Centre for Research on the Epidemiology of Disasters
2 EY’s Global Consumer Insurance Survey 2014
Streamline the value chain via the cloud and traditional BPO

Successful insurers in Asia-Pacific in 2015 will streamline their value chain through cloud-based solutions and BPO. This is driven by a need to more efficiently deliver and administer products and services, respond to increasing competitive pressures on product margins and address rising regulatory reporting demands.

Efforts by some countries within the region to develop infrastructural and regulatory support for cloud development will accelerate usage of cloud-based solutions. China, for example, is pro-cloud development and, while its infrastructure is behind the regional curve, cloud adoption will grow as wireless access increases. Singapore is an early adopter of cloud solutions in terms of infrastructure. In Malaysia, data management policies and big data analytics projects position it for strong cloud development. Companies across diverse industries in the Philippines have migrated operations to the cloud at a rate that has doubled between 2011 and 2014. Other countries in the region are likely to follow these market leaders.

Insurers may take advantage of the growing availability of cloud computing analytics to reduce costs and standardize systems. Last year, Ping An partnered with IBM to develop a new cloud-based data storage solution that accelerated Ping An’s ability to collect data from its various databases from one month to one hour. This enabled Ping An to improve regulatory compliance and perform enhanced data analytics to improve pricing and profitability.

To further streamline the value chain in 2015, BPO is another growing approach. Some insurers will look to outsource operations to third-party service providers in regional BPO centers in the Philippines, India and China. Knowledge process outsourcing (KPO), the outsourcing of high-end activities and white-label support services, also is rising, particularly in knowledge-intensive sectors such as insurance.

Outsourcing will be under close monitoring by ASEAN regulators, which are checking data privacy and consumer protection. For example, the Monetary Authority of Singapore issued a consultation paper in 2014, advising the establishment of minimum outsourcing management standards.

India will continue to lead the offshore sourcing industry, but emerging destinations intend to increase their share of this market. In the Philippines, where call center BPO has been a major focus, non-voice BPO and KPO are catching up with the voice segment. According to the Philippine IT-BPO Roadmap 2016: Driving to Global Leadership, a report commissioned by Information Technology and Business Process Association of the Philippines (IBPAP), voice services fell from 65% to 60% of total outsourcing in the first half of 2014. IBPAP expects non-voice BPO services, including KPO and engineering services, to grow at about 20% in 2015.

In 2015, insurers will need to identify how they can best take advantage of both cloud-based and traditional solutions. Some insurers need to standardize their current data and systems. Others have to adjust their internal business processes to integrate them with external cloud-based or traditional outsourcing solutions. Many insurers must develop metrics and processes to measure the return on investment (ROI) of their streamlining initiatives.

Expand products and services to address the growing needs of the HNW market

Rapid growth in the HNW segment in Asia-Pacific, accompanied by the growing need to protect newly acquired assets, will stimulate further demand for savings and personal insurance products in 2015. Consumers also will seek financial advice and distribution methods matching their increasingly mobile and web-based lives.

The development of products to protect against the loss of accumulated assets and personal property will grow in 2015. Most HNW individuals in the region are first- or second-generation business owners, who need to finance their businesses, separate and protect their personal wealth and provide for their family’s financial security. Their portfolios are often concentrated in domestic Asian markets. With economic volatility a possibility, some HNW investors have reduced their positions in high-risk, high-return products and increased their...
allocations in moderate- and low-risk investments. This altered diversification has increased the sale of high-value life insurance policies to the HNW segment.

Many HNW consumers also invest in tangible assets such as real estate, given the region’s fast-changing property price increases. Nevertheless, many Asia-Pacific markets remain woefully underinsured in terms of non-life protection, presenting an opportunity for insurers and reinsurers to provide coverage for catastrophe perils and business income protection.

Serving the needs of HNW consumers may lead insurers to adjust their distribution models. An example is introducing or enhancing bancassurance distribution. In 2014, Citibank (China) Co., Ltd. and AIA China (AIA) announced a new bancassurance partnership, combining Citibank's advisory capabilities and AIA’s life protection solutions. The same year, Prudential Plc and Standard Chartered extended their current agreement for another 15 years, while Security Bank Corp. entered a bancassurance partnership deal with the FWD Group, the insurance arm of Hong Kong’s Pacific Century Group.

Consumers in Asia-Pacific are more willing to shift to digital channels than consumers in any other region globally, according to EY’s Global Consumer Insurance Survey 2014. Investing in mobile digital advice and service solutions thus becomes another key distribution strategy. Many HNW consumers want to have digital interactions that keep them informed and enable transactions.

Direct marketing of term life insurance and small business insurance (e.g., professional liability cover) is becoming more prevalent, even in emerging Asia-Pacific economies where sales typically occur via intermediaries. Many Asian insurers have also developed advanced direct online platforms. As these new distribution channels emerge, insurers will need to manage multiple touch-points with their consumers. They also need to address the impact of the changes on branding and compliance.

Adapt product strategies to the changing regulatory environment

The changing regulatory landscape in 2015 will create more cross-border sales opportunities for insurers. Countries such as China and the Republic of South Korea will continue to reform their pension systems and rules governing where individuals can accumulate retirement assets – within their home country or outside it. Indonesia recently reformed its health system to ensure that every person is insured. To take advantage of sales opportunities, insurers must manage these regulatory and administrative challenges.

Cross-border sales are growing for some insurers as more consumers purchase products outside their home jurisdiction, where the cost may be higher. In Hong Kong SAR, for example, mainland Chinese often cross the border to buy investment-linked assurance schemes (ILAS). Private bank Julius Baer, which predicts the number of mainland Chinese HNW consumers will reach 1.4 million in 2015, indicates that the majority have either engaged in cross-border investments or have considered it.

Regulatory changes continue to favor the creation of cross-border sales in 2015. For example, the ASEAN Framework for Cross-Border Offering of CIS (Collective Investment Scheme) became effective in August 2014 with three initial member jurisdictions – Singapore, Thailand and Malaysia. Singapore signed a Statement of Intent with the Republic of South Korea, Australia and New Zealand to establish the Asia Region Funds Passport (ARPF) in 2013, with a target date for implementation in January 2016. Thailand and the Philippines have expressed their intention to become part of the ARPF. Other regulatory developments include the Hong Kong-Mainland China Mutual Fund Recognition Scheme and the November
Increase compliance to respond to growing sales and consumer protection regulations

Regulators remain concerned about improper product sales by agents and the consequences of insurer insolvency. Insurers need to consider current and developing distributor disclosure initiatives to avoid reputational risk and heighten standards across the distribution chain, from the content of advertising material to distributor sales training and professional knowledge.

Numerous instances of misinformation and opaque sales practices, causing financial losses for policyholders, have increased regulatory attention. A case in point is the distributors’ inadequate disclosures of high fees and charges associated with early termination of the Hong Kong ILAS product. Regulators responded by requiring, or strengthening upfront, disclosures regarding distributor remuneration, all fees and charges and the reporting of financial information.

Insurers best equipped to manage these challenges will benefit from potentially significant sales increases. For example, the ASEAN passport offers access to three possible Asian passport/mutual recognition regions in Singapore, Thailand and Malaysia. Asset managers in those countries collectively managed approximately US$204 billion at the end of 2012, with the assets under management in ASEAN as a whole totaling approximately US$286 billion in December 2013. Mainland China constitutes the largest market of retail fund investors, which explains the growing anticipation surrounding the Hong Kong-Mainland China Mutual Fund Recognition Scheme.

2014 alignment by the Shanghai and Hong Kong stock markets to promote intra-Asian financial transactions.

Insurers seeking cross-border market opportunities need to manage these developing regulatory standards and prepare for emerging rules. Given the wide range of regulatory standards and differing expectations across the region, rules are sure to contain nuanced differences. For example, some regulators may resist the introduction of passporting schemes, due to the inclusion of jurisdictions that may not appear to have a comparable level of regulatory supervision. The potential of
2015 Asia-Pacific insurance outlook

commissions and establish appropriate insured financial limits and surrender values based on an insured’s age. In Indonesia, where the number of life insurance agents is expected to increase to 500,000 in 2015 from 300,000 in 2014, no agent has ever had a license revoked, suggesting that there is a clear need for regulators to ensure professional standards.

Regulators in the region are also strengthening their prudential supervision to protect policyholders in the event of insurer insolvency, given past failures. Australia’s Australian Prudential Regulation Authority, for instance, has taken actions to encourage disciplined risk management. Singapore has strengthened policyholder protections following a run on insurers during the financial crisis. International efforts on the part of the International Association of Insurance Supervisors for consistent approaches to policyholder risks is driven by the dizzying pace of growth for insurers in Asia-Pacific, which may increase the risk of their failure in the event of a severe economic downturn.

Develop capital and M&A opportunities

The introduction of stronger capital requirements and reduced foreign investment restrictions across the region will likely act as a catalyst for consolidation of smaller insurers in 2015. Collateral impact from Solvency II rules may also create pressures for banks to divest affiliated insurers, given changing views on bank-insurance linkages. As these pressures influence banks in Australia, the market changes could be significant because the bank-owned insurers are among the largest in the country. In Malaysia, recent bank mergers may disrupt long-standing relationships between banks and insurers, encouraging a review of existing bancassurance agreements.

China continues to maintain restrictions on offshore reinsurance cessions. Reinsurers will continue to evaluate the region’s considerable opportunity, despite these restrictions. They will also explore how data analytics and technology can enable them to underwrite and manage risk effectively, given the region’s inherent risks.

Several large, strong Asian insurers and investors will continue to extend their reach beyond Asia into other regions. Cross-border transactions in 2014 included Fosun’s acquisition of Caixa Seguros in Brazil, Orix’s acquisition of Hartford Life and Dai-Ichi Life’s acquisition of Protective Life. Recent moves into Lloyd’s of London include China Re’s syndicate 2088 (turnkeyed by Catlin), India’s GIC Re and Malaysia’s Labuan Re.

Reposition investment strategies

The changing regulatory environment and more volatile investment markets are compelling insurers to alter their investment strategies in 2015. For example, greater investment in real estate is encouraged...
Insurers will need to review and adjust to consumer and distributor data privacy controls as regulations continue to evolve.

by the new regulatory posture. With the exception of Taiwan, where real estate accounts for 4.8% of insurers’ investments, real estate holdings constitute a low percentage of insurers’ investments, ranging from 1% for Chinese insurers to 2.5% for insurers in South Korea. This compares to 5% for developed market insurers. Recent regulatory changes in these three countries now permit higher allocations to domestic real estate. They further invite insurers in the countries to explore opportunities in investment-grade properties in North America, Europe and Australia. Growth in Asian insurers’ assets also is expected to increase real estate investments, especially among insurers in China and Taiwan. As these actions progress, insurers must endeavor to understand complex tax and capital outflow considerations and investment channel choices.

Insurers also are expected to rebalance their portfolios, moving away from traditional holdings in sovereign bonds and short-term deposits into alternative asset classes such as global equities, corporate credit, illiquid assets and currencies. While the change may provide a higher return, it must be balanced against tax, capital charges, investment compliance and other regulatory considerations. Consequently, insurers pursuing these asset classes in 2015 will need guidance from in-house expertise or external counsel.

As insurers rethink their investment strategies, they are evaluating strategic asset allocation (SAA) and dynamic financial analysis (DFA), two quantitative disciplines to identify efficient frontiers in light of the changing risk-and-return dynamics. Insurers that find they lack the appropriate skills in-house for asset-liability matching will likely partner with external providers of these services. And the potential uptick in interest rates across some countries in the region is encouraging insurers to examine portfolio reallocation and interest-rate hedging programs to improve their investment returns.

Enhance data controls and metrics

Data theft and fraud are fast becoming key issues for regulators and law enforcement across Asia-Pacific, as elsewhere. Insurers are paying close attention to the new data privacy rules being drafted in response to the increased risks. Regional and global insurers with operations in the Asia-Pacific region also are grappling with the issue of data sovereignty – which can be transmitted among jurisdictions – as the data privacy regulations vary across the region. More stringent data protection rules in Australia and Singapore also may create questions about the identity of countries in which insurers store their data. A subpoena issued by a government to an insurer to provide certain data requires knowledge of where it has been physically stored. Insurers also will need to identify new metrics and processes to monitor data security and compliance.

Many insurers in the region will continue to enhance their data controls in 2015, prompted primarily by new and stricter regulations. Asia-Pacific insurers must pay closer attention to the changing cybersecurity laws and focus more stringently on data security, network crime legislation and law enforcement. Singapore’s Personal Data Protection Act, for example, includes rules on the collection, use, disclosure and care of personal data. The law establishes penalties for breaches and a “Do Not Call” registry. China, Indonesia, Japan, Thailand and Vietnam also are reviewing legislation and drafting bills or have set up government agencies and task forces to confront cybercrime.

Insurers will need to review and adjust to consumer and distributor data privacy controls as regulations continue to evolve. A key challenge across the region in 2015 remains the conflicting data security sovereignty issues. With the growth of regional insurers and cross-border sales, the need to identify the types of data that can be legally transmitted will be crucial to both investments and risk management. With the rise of the cloud and intra-territory data storage, companies also must be cognizant of where data is being stored.
Asia-Pacific country forecasts

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mature</td>
<td>Australia**</td>
<td>2.6%</td>
<td>2.9%</td>
<td>2.5%</td>
<td>2.7%</td>
<td>3.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td></td>
<td>Hong Kong (SAR)***</td>
<td>3.5%</td>
<td>3.6%</td>
<td>0.5%</td>
<td>0.7%</td>
<td>3.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td></td>
<td>Republic of South Korea*</td>
<td>3.0%</td>
<td>3.9%</td>
<td>2.7%</td>
<td>3.5%</td>
<td>2.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td></td>
<td>New Zealand**</td>
<td>3.5%</td>
<td>3.3%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>1.6%</td>
<td>1.3%</td>
</tr>
<tr>
<td></td>
<td>Singapore***</td>
<td>3.9%</td>
<td>4.1%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>3.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td></td>
<td>Taiwan***</td>
<td>2.7%</td>
<td>3.2%</td>
<td>1.9%</td>
<td>1.8%</td>
<td>1.1%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Developing</td>
<td>China*</td>
<td>7.3%</td>
<td>7.2%</td>
<td>4.9%</td>
<td>4.5%</td>
<td>3.1%</td>
<td>2.9%</td>
</tr>
<tr>
<td></td>
<td>India*</td>
<td>5.5%</td>
<td>6.0%</td>
<td>8.0%</td>
<td>8.6%</td>
<td>6.0%</td>
<td>5.8%</td>
</tr>
<tr>
<td></td>
<td>Malaysia*</td>
<td>4.8%</td>
<td>4.4%</td>
<td>3.2%</td>
<td>3.7%</td>
<td>2.9%</td>
<td>3.2%</td>
</tr>
<tr>
<td></td>
<td>Thailand*</td>
<td>3.4%</td>
<td>5.6%</td>
<td>2.6%</td>
<td>3.7%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Emerging</td>
<td>Indonesia*</td>
<td>5.4%</td>
<td>5.9%</td>
<td>7.8%</td>
<td>7.8%</td>
<td>6.3%</td>
<td>5.0%</td>
</tr>
<tr>
<td></td>
<td>Philippines***</td>
<td>6.6%</td>
<td>6.9%</td>
<td>3.8%</td>
<td>6.9%</td>
<td>4.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td></td>
<td>Vietnam*</td>
<td>5.4%</td>
<td>6.4%</td>
<td>7.0%</td>
<td>6.0%</td>
<td>6.5%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Sources: * EY Rapid-Growth Markets Forecast, July 2014  
** Organization for Economic Co-operation and Development (OECD) and trading economics  
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 EYGM Limited
All Rights Reserved.

EYG No. EG0227
BSC No. 1411-1356096
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.