2017 Asia-Pacific insurance outlook
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2017: a year of continued change

The Asia-Pacific insurance market will remain in transition in 2017, as the convergence of economic, technology, customer and regulatory forces remake the regional playing field. Healthy growth and climbing income levels will continue to fuel demand for insurance products and greater innovation. Advances in digital technology and the rise of Millennials are raising customer expectations for innovative insurance products and digitally-enabled business models.

At the same time, the regulatory landscape will continue to evolve as Asia-Pacific markets tighten capital requirements, adopt the Common Reporting Standard and introduce regulations on consumer protection and cybersecurity. For many insurers, 2017 will be a year of continued change and strategic reassessment of core businesses and distribution channels. While economic growth is expected to stay robust in the region, a Trump presidency in the US may leave China and its trading partners open to shocks that could derail market performance.
Global uncertainty weighs on market growth

Healthy economic growth and rising disposable incomes will continue to boost demand for insurance products in many markets, such as China1, India, Hong Kong, Singapore, Malaysia, Indonesia and Thailand. The IMF expects Asia-Pacific economic growth to remain stable at 5.3% in 2017, with the region’s emerging markets contracting slightly from 6.4% in 2016 to 6.3%. India is expected to outpace China due to strong domestic demand and net exports.

Munich Re Economic Research is forecasting overall premium growth to increase by more than 9.5% in 2017. For insurers with a foothold in the emerging market property and casualty (P&C) space, Munich Re Economic Research expects premium growth to remain strong at 9%, compared with 2.2% in mature Asian markets. Life products should also perform well in 2017, according to the reinsurance firm, with growth at 13.5% per annum in emerging markets vs. 2.5% in mature Asian markets1.

But Trump’s presidential victory in the US creates uncertainty around Asia’s growth prospects next year. On the one hand, if Trump follows through on his promise to impose trade tariffs on China and withdraws from the Trans-Pacific Partnership (TPP), it could dampen regional trade and growth and trigger a new bout of currency volatility. On the other hand, Trump’s plans to cut taxes and roll back financial regulation in the US could boost economic and financial market conditions. The economic impact of Brexit, together with the rise of economic nationalism and populism in other European markets, adds to the uncertainty.

There are also macro worries from within the region. Continued low or even negative interest rates in key markets, such as Japan, Hong Kong, Singapore, South Korea, Taiwan and China, will compress margins in 2017. For example, some insurers, including major overseas companies, are exiting the South Korean market, where insurers are offering returns on life products of roughly 3.5%-4.0%, although the 10-year government bond is now at around 1.5%, putting insurers in a negative position. In addition, the leadership crisis in South Korea and the failed currency reform in India are likely to have long-term implications.

Forecast real GDP growth (per annum)

<table>
<thead>
<tr>
<th>Market</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Australia</td>
<td>2.7%</td>
<td>2.1%</td>
</tr>
<tr>
<td>China</td>
<td>6.7%</td>
<td>6.3%</td>
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<tr>
<td>Hong Kong</td>
<td>1.2%</td>
<td>2.4%</td>
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<tr>
<td>India</td>
<td>7.4%</td>
<td>6.7%</td>
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<tr>
<td>Indonesia</td>
<td>5.1%</td>
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<tr>
<td>Japan</td>
<td>0.5%</td>
<td>0.4%</td>
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<tr>
<td>Taiwan</td>
<td>0.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>6.0%</td>
<td>6.5%</td>
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Source: National Institute of Economic and Social Research (NIESR).

Digitally-enabled customer innovation

Rapid advances in technology across the region, together with the rise of Millennials and a new middle class in emerging markets, are raising customer expectations for seamless cross-channel digital service and any-device access. In 2016, for example, there were approximately 330 million online insurance customers in China, an increase of more than 40% from the year before, according to Ant Financial and CNBData.

Growing demands for technology-driven solutions will push insurers to enhance digital capabilities in 2017. Insurers will increasingly use digital technology to reach new clients, upsell insurance services to existing ones, and enhance digital interfaces between sales agents and customers. Insurers will also take further steps to enhance the online customer experience and use technology to deliver simpler, faster and more affordable insurance processes, including new business models and micro-insurance solutions for the large underserved population in Asia-Pacific. Improving customer data analytics to understand and serve customers better will be a priority for insurers in 2017.

With almost two-thirds of the vast population of Asia-Pacific now using smartphones, InsurTech is expected to grow quickly in 2017, building on the foundation established in 2016. Over the last year, China Pacific partnered with Baidu to create an online auto insurance business; Aviva opened a “digital garage” in Singapore to develop digitally-enabled insurance services; and Manulife introduced its MOVE program in Hong Kong, offering discounts on health insurance to customers meeting a daily target of steps.

InsurTech will lead to further disruption in 2017, particularly as innovative start-ups eliminate the need for live agent-based distribution. For example, in Malaysia, the online life platform and start-up U for Life allows consumers to purchase life insurance products instantly online. In 2017, insurance companies will still invest in incubators, insure labs and also idea generators to explore InsurTech use cases and technology innovation.

As Asia-Pacific companies embrace digital technology, cyber insurance will rise as a growth opportunity for commercial insurers in the region. Pricing cyber risks will be important from both the buyer and vendor side, and building the information systems and data analytics capacity to measure those risks will be a key priority for 2017. For example, Nanyang Technological University in Singapore, in partnership with five global industry players – the Aon Centre for Innovation and Analytics (ACIA), Lloyd’s, MSIG Insurance, SCOR and TransRe – is exploring cyber loss data and analytics to help develop an efficient cyber-risk insurance market. Until the industry develops historical risk data and better underwriting models, cyber insurance will not achieve its full potential.

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Evolving regulations

China and the ASEAN states are coming together to create regulatory consistencies on many fronts. Here are the key emerging regulatory trends:

**Risk-based capital.** Regulators within the region will continue to synchronize their solvency regulations around risk-based capital frameworks that have been established in Europe. For example, in 2016, China began the gradual implementation of its China Risk Oriented Solvency System (C-ROSS). Next year, the Philippines will launch its new RBC-2 framework, and Hong Kong will lay the groundwork for its RBC program that will take effect in 2018. While insurers with multiple offices throughout Asia-Pacific will welcome a more consistent region-wide framework, these initiatives will also put increased pressure on capital positions, potentially pushing some firms into insolvency.

**Common Reporting Standard.** Another major legislative development in Asia-Pacific is the adoption of the OECD's Common Reporting Standard. These emerging rules will obligate insurers to identify and report nonresident account holder information. In 2017, insurers will need to fine-tune compliance plans for early adopter markets, such as Japan, South Korea and India, and prepare for 2018 adopters, such as China, Hong Kong and Singapore. Heightened tax transparency under these rules may alter insurance buying behaviors in the region, particularly in low-tax jurisdictions, such as Singapore and Hong Kong.

**Consumer protection and InsurTech.** Regulations on consumer protection are also on the rise in Asia-Pacific. Hong Kong's Office of the Commissioner of Insurance issued the Guidance Note on Underwriting Long-Term Business (GN 16), which encourages insurers to offer sales advice in a customer's best interest. These new rules came into effect in April 2016 for new products; in January 2017, the rules will apply to current products. Similarly, China is expected to impose regulations to crack down on questionable investment practices of smaller insurers. Meanwhile Australia, through the Corporations Amendment Bill 2016, has banned agents from collecting benefits on the sale of risk insurance products unless they meet specific requirements. The new rules are expected to turn the industry on its head, with significant impacts on current distribution models for life insurance products, and forcing life insurers and distributors to consider their business models carefully in 2017. Regulators in the country have also imposed strict codes of conduct committing life insurers to strong standards of customer service, with the aim of improving consumer protection in underwriting and claims. Compliance will be monitored on an ongoing basis, forcing life insurers to conduct regular audits of governance practices, and implement control systems around customer service best practice.

**Cybersecurity.** The well-publicized cyber attacks on financial institutions in Bangladesh and Vietnam have caused financial services regulators across Asia-Pacific to take major steps to meet growing cybersecurity threats. While much of the regulatory focus in Asia-Pacific has been on data protection and privacy, future regulations will set standards in areas such as threat identification, risk assessment, mitigation measures and incident response. Singapore, Malaysia, China and Japan have all announced regulations on cybersecurity.
In May 2016, the Hong Kong Monetary Authority (HKMA) announced its Cybersecurity Fortification Initiative (CFI) that establishes a framework for assessing vulnerability to cyber risks, creates a program for building cybersecurity expertise and provides a platform for industry sharing of cyber intelligence. This initiative is expected to lead to clearer standards for managing these risks. Similarly, China’s regulators have also sharpened their focus on cybersecurity with the passage of a Counter-Terrorism Law in January 2016, a second draft of the Cyber Security Law in July 2016, and the publication of new draft technology risk management guidelines by financial services sector regulators.

Competition and pricing

Competition will continue to heat up in Asia-Pacific as more countries liberalize foreign investment and encourage new business. For example, in India, the Government has taken steps to liberalize the insurance sector, which has led to a wave of M&A that will continue into 2017.

Max Life Insurance Co Ltd and HDFC Life Insurance Co Ltd have signed a merger agreement, which is expected to create India’s largest private-sector life insurance company. Lloyd’s, a UK-based reinsurer, plans to make its entry into Indian markets by early 2017, after receiving approval from the Insurance Regulatory and Development Authority (IRDA). India’s move to liberalize has also prompted international insurers, such as Swiss Re, SCOR SE, Hannover Re and Munich Re, to open branches in India.

Increased price competition will force rounds of cost cutting, while the reassessment of management strategies for a changing marketplace will top board agendas for 2017. In China and Malaysia, for example, companies are now permitted to set their own rates for automobile insurance, causing insurers to compete on price to increase market share. At the same time, growth trends in the region will be shifting from an export-driven model to a more domestic consumption-driven model. Consequently, revenues for certain P&C lines linked to North American and European export activity could come under pressure—particularly under a more protectionist Trump Administration.

Against this backdrop, a low-interest environment will continue to squeeze margins, forcing insurers to expand market share as quickly as possible. Low interest rates will continue to put pressure on the profitability margin of long-term annuity products as well. New capital requirements will also cause companies to rethink their organizational structures and consider spin-offs and acquisitions. Cross-channel marketing will be key to growth, as will the ongoing expansion of mobile applications.

5 ET Bureau, “HDFC, Max group merge life insurance businesses to create company worth Rs 67,000 crore,” The Economic Times, 9 August 2016, ©2016 Bennett, Coleman & Co. Ltd.
6 India Brand Equity Foundation, “Insurance sector in India,” August 2016, ©2010-2016 India Brand Equity Foundation.
7 George Matthew, “IRDA gives initial approval to 4 global reinsurers,” The Indian Express, 16 March 2016, ©2016 The Indian Express (P) Ltd.
Strategic priorities for 2017
The interplay of economic, regulatory and market shifts will reset strategic imperatives for Asian insurers in 2017. In a fast-evolving, digital environment, agility is key. This poses challenges for an industry that in the past has been slow to change. But today, organizational transformation is essential if the insurance industry is to survive and weather the unprecedented forces that it faces from both inside and outside the sector.

1. Put the customer at the center of your strategy
2. Drive performance through digital innovation
3. Reassess future business strategies
4. Prepare for widespread regulatory change
Make sure you fully understand your customers. According to Grant Peters, Insurance Sector Leader for EY Oceania, in times of market disruption, insurers with the best knowledge about their customers and regular, direct access will be the ones who win. However, in a diverse region such as Asia-Pacific, understanding and addressing the needs of customers across age, wealth and cultural demographics can be a daunting task. In 2017, using the latest technology and analytical tools to extract more value from existing customer data will be a top priority.

Target key customer segments, such as Millennials. With roughly 60% of the world’s Millennials located in Asia-Pacific and their spending power and market influence climbing, insurers will need to focus more heavily on this demographic in 2017. These steps will include greater personalization, product transparency, competitive pricing, new innovative business models and a 24/7 digital-first experience. To stay on top of the latest methods for targeting Millennials, insurers will want to monitor InsurTech players carefully. At the same time, insurers will need to address the rising expectations for health and life-annuity insurance from aging populations in mature economies such as Japan, South Korea and Singapore, and emerging markets like China. Input into strategic business decisions will also be essential.

Blend high-tech and high-touch approaches. Next year, insurers will increasingly apply smarter technologies, such as artificial intelligence, facial recognition and telematics, to understand and reach customers and drive further product and business model innovation. Incumbents should monitor the business models of a diverse range of InsurTech start-ups in Asia-Pacific, such as Direct Asia, a Singaporean start-up enabling customers to buy insurance products directly; Policybazaar, an online insurance comparison portal in India; and Zhong An, China’s first comprehensive online insurance platform. However, to grow their business, insurers will still need to invest in traditional agency channels, which will continue to play a very important role in the Asia-Pacific region. Insurers and agents that share customer information to develop customer relationships will be the winners in tomorrow’s transformed marketplace. The ultimate objective, according to EY’s Jeff Malatskey, is “to interact with customers in whatever way they want, whether it be direct access, through a kiosk or a telephone.”

“In the future, agents will recognize that their value is their skillset, experience, and consulting ability, rather than the fact that they control the name and address of some individual.”

Jeff Malatskey, EY Asia Insurance Practice Leader
Focus on robotics and process automation to generate efficiencies. With competition rising and margins under continued pressure, in 2017 insurers in Asia-Pacific will turn increasingly to robotics to streamline back-office operations. “Robotic technology provides insurers in Asia with a way to make the business model work better,” says Jonathan Zhao, Managing Partner and EY Asia-Pacific Insurance Leader. “It allows companies to reduce human intervention and make the process more efficient.” Next year, insurers will look for new opportunities to apply robotics across the value chain to improve productivity and customer service. Ultimately, once these processes are automated, they can be embedded into more formal policy administration systems and enhanced by smarter technologies, such as artificial intelligence and predictive analytics.

Extend the use of data analytics across the value chain. In 2017, insurers will take their use of data analytics to a higher level. Firms will apply data analytics up front to understand their customers better and personalize their interactions. At the same time, they will use data analytics to optimize channel flow, improve distribution, make pricing decisions, develop products and improve claims practices. Insurers will also act to get better control over the reams of scattered data in their orbit, exploring how they can leverage data internally in a more systematic way, while incorporating valuable external information into their analysis. Insurers will need to be strategic about how best to apply technology in a way that creates the most value for consumers and companies.

Three paths to digital innovation

1. Reinventing customer interaction. By drawing on the latest digital tools, insurers are creating a new electronic distribution model and a more seamless, digital-first customer experience. This step enables insurers to get closer to their customers, particularly Millennials.

2. Embracing InsurTech solutions. In 2017, the Asia-Pacific market will see the rise of a diverse selection of Insurtech offerings. These will range from aggregators providing pricing comparisons to on-demand sellers of travel and accident insurance products.

3. Full-scale digital transformation. These are companies that are transforming all parts of the business through digital technology, such as robotics and analytics. The most advanced organizations will use digital technology to reimagine their entire ecosystem by linking their insurance, banking, wealth management and payment operations all together.
As insurers become more digital and use more open IT architecture, the cyber risks grow exponentially. While firms rush ahead to innovate, they will also need to keep pace with mechanisms to protect against cyber attacks within their systems and their partner systems.”

Jonathan Zhao, Asia-Pacific Insurance Leader, EY
Reassess future business strategies

Reconsider your strategic positioning for the years ahead. With continued regulatory, technological and market disruptions ahead, 2017 will be a good time for CEOs to do a reality check on the future relevance of their current strategies. With competition and regulations increasing both at home and in local markets, companies need to assess the business benefit of playing in these countries. Management teams will need to make the hard decisions about which markets they should stay in or exit. Insurers should ask themselves similar strategic questions about which customer segments, lines of business and insurance competencies to focus on in the future. In the life and health sector, in a continuing low interest rate environment, insurers will want to continue to shift their focus from savings products to protection products such as disability, health or whole life insurance, and explore special segments of the market, such as old-age health care products or long-term care insurance. Meanwhile, insurers in the P&C space should continue to follow a strict underwriting discipline to ride out the cycle of low interest rates.

Evaluate external risk scenarios. Under the current veil of uncertainty surrounding US foreign policy and increasing political risk in the EU, insurers will want to evaluate alternative macro scenarios that could impact currencies, market conditions and interest rates. These scenarios should include the impact of greater trade protectionism, financial deregulation, and faster economic growth and higher interest rates in the US, as well as the effects from Brexit and increased political pressures in the EU. Because of the high degree of uncertainty, insurers will want to prepare contingency plans for alternative scenarios.

Use M&A to achieve your competitive objectives. While divesting may be the right strategy for some insurers, others will draw on M&A in 2017 to drive growth and build economies of scale. M&A will continue around the Asia-Pacific region, particularly in markets such as South Korea, Taiwan and Indonesia, where companies are getting out because of margin pressures or insolvency. Some companies are taking the opportunity to penetrate new Asia-Pacific markets, such as FWD, the insurance arm of the Pacific Century Group, which recently acquired AIG’s Fuji Life Insurance business in Japan. Chinese Oceanwide Company’s recent acquisition of Genworth Financial reflects the ongoing appetite of Asia-based firms to invest into the American and European markets.
Develop an action plan for complying with a growing labyrinth of regulations. Monitoring the progress of emerging regulations and assessing their impacts will be critical for insurers operating in Asia-Pacific in 2017. Establishing a fully trained compliance team with input into strategic business decisions will be essential for mapping out the right operational and strategic responses. For example, insurers should reconsider pricing formulas in countries where health care reform is on the agenda. Similarly, forward-looking management teams will be cleaning up their balance sheets and exploring restructuring plans to prepare for increasing RBC regulations. And with consumer protection on the regulatory agenda, insurers will want to review the ability of their people and agents to act in their customers’ best interest. Working with regulators to get more clarity on InsurTech applications will also be important.

Ensure your internal systems can keep up with regulatory change. From rules on consumer protection and cybersecurity to new common reporting standards and capital requirements across multiple markets, the regulatory landscape for insurers in Asia-Pacific has never been more complex. To keep up and comply with changing regulations, insurers will need to build advanced data management and analytics capabilities, extract more value from governance, risk and compliance (GRC) systems, and synchronize their three lines of defense among business operations, oversight teams and independent auditors. With solvency testing regulations on the rise in Asia-Pacific, in 2017, insurers will need to develop best-of-class analytical tools for conducting portfolio simulations under alternative scenarios.

Prepare for changing accounting standards. After years of discussion, Singapore’s FRS 115 standard on revenue recognition came into effect on January 1, 2017. This will be followed by a number of related accounting changes from the International Accounting Standards Board (IASB), such as IFRS 15 on revenue recognition, IFRS 9 on financial instruments and IFRS 16 on leases. Meanwhile, insurers will begin to prepare for IFRS 17 (the Standard), formerly referred to as IFRS 4 Phase II, accounting for insurance contracts that will be completed in 2017 and will come into effect in 2021. These standards will cause significant strain on insurance companies, which will need to hire more skilled actuaries to ensure their firms are in compliance. Companies will need to put robust systems and implementation plans in place in 2017 and may need to reconsider organizational structures.

“While you need to be active in innovation, companies must decide how much they can spend without getting an immediate return, in light of other business pressures, such as customer-led transformation and regulatory compliance. You can’t afford not to be focusing on strategic change. But you can’t afford to be on the bleeding edge of everything either.”

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