There is always huge potential for insurance growth in underserved Asia

Vibrant Asian market to buoy insurance sector’s investment in technology

The growing economy bodes well for the insurance industry with the rising prominence of blockchain and AI.

The insurance sector in the Asia and Pacific region is expected to maintain its growth momentum as the region continues to experience economic expansion, underpinned by strong economic fundamentals, rising middle-income population, increasing domestic and regional demand and purchasing power, as well as rising interest rates. Research from the Asian Development Bank forecasts economic growth for developing Asia and the Pacific to average 6% over the next couple of years, which bodes well for the insurance sector for people in the region will ideally have higher disposable income—as a result of higher take home pay from increased economic activities—that can be allotted to insurance policies.

Boriwat Pinpradab, partner and managing director of Boston Consulting Group in Bangkok, shares this optimism, saying that the overall market in Asia remains vibrant, with compound annual growth rate doubling that of Europe and North America. “Life insurance will take the lion’s share of profits in Asia—making up around 75% ($50b) of Asia profit pool,” he said.

Dustin Ball, EY insurance transactions leader for Asia-Pacific, echoes this sentiment, noting that there is an expectation for the insurance markets across Asia to continue their current growth trajectory, with underlying growth continuing to be driven by rising household incomes. There is also a significant case about growing innovation, particularly in distribution, as insurers continue to invest in digital capabilities.

“We are seeing more digital-friendly regulation and government support, which will be critical in bringing new capabilities to the market,” Ball added. “New opportunities will also come from advances in telematics, robotics, and Internet of Things, which will create a need for new or enhanced insurance products.”

This optimism is also grounded on the fact that most markets in the region remain underserved, with insurance penetration and usage remaining low—opening up a huge space for opportunities and improvement in the region’s insurance sector. For instance, non-life insurance penetration rates in Asia-Pacific amounted to 1.4% on average in 2013.

“Asia is still an underserved region for insurance, hence, there’s always a huge potential for growth,” said **Maureen Nova Ledesma**, CEO and co-founder of VESL, a Singapore-based insurance protection platform for trade invoices. “In the past year, we’ve seen a lot of consolidation of traditional insurance players in

We are seeing more digital-friendly regulation and government support, which will be critical in bringing new capabilities to the market.

developing Asian countries, but this also means strong players prevail."

Sector activities will also be intense and fierce, according to **Alan Wilson**, regional CEO for MSIG Asia, as the soft market continues to expand, and digital disruption maintain its effects in the insurance sector. "There is definitely opportunity for growth in most markets and especially in markets such as Vietnam, the Philippines, and Indonesia, where insurance penetration is still relatively low as compared to more mature markets in Asia," he said.

Disruptive technology

Industry experts and practitioners are saying that technology will play a more central role in the next few years, with the rising prominence of insurtech and artificial intelligence. Ball noted that part of the charm of "disruptive" technology is that it allows a whole firm and a whole industry to find ways to simplify their overall processes and operations. In insurance, for instance, technology has allowed the industry to simplify the process of buying an overall insurance policy, find new and innovative ways to connect with consumers whilst enhancing efficiency across the board.

"This includes finding commercial uses for new technologies like blockchain, as well as developing broader ecosystems around their insurance offerings," he noted. "Further, developments like driverless cars will have insurers rethinking many of their product and system design principles to accommodate the new technology."

Part of the prominence of technology in the insurance sector in the region is the rise in the availability of data and the way firms process and digest this treasure trove of information—apart from the fact that technology making access a lesser challenge than it is years ago. This is also the basis of many of insurtech startups in the market today.

Pinpradab noted that this availability of data will greatly assist insurance companies in building relationships with customers. He said that the data provided by such technologies can be used by insurance companies to not only study the habits and behaviours of their customers, but also change them for the better.

For Ledesma, another disruptive nature of technology is that it levels the playing field, especially in an industry like insurance where incumbents usually dictate the progress (or lack thereof) of the whole brood. "Technology plays a big part in challenging and changing the insurance landscape with a particular focus on distribution," she said. "For example, the sharing economy trend continues to grow and could give rise to more shared policy/ mutual insurance concepts as long as the clients get enough coverage (risk reward of such products) at a competitive price."

Other trends

Apart from technology, there are other products that can be expected in the next 12 months for the insurance sector in the region. Ball reckoned that retirement and health insurance policies will likely continue their growth momentum as people in the region continue to enjoy greater longevity and health vitality.

"Retirement is also becoming increasingly important as Asian societies age and life expectancy increases," he said. "There is currently a shortage of retirement savings across the region, and we expect that companies will be finding ways to address this issue."

Ball noted that there is a continuing focus on expanding health insurance offerings and leveraging technology to grow the market whilst, at the same time, improving margins. This includes the use of advanced techniques to identify and reduce fraud, as well as increase efficiency through automation and robotics.

Anupam Sahay, partner and head of insurance practice in Asia-Pacific for Oliver Wyman concurred, saying that heightened interest in the health insurance sector is expected as reforms accelerates in large markets like India, China, and Indonesia, alongside greater experimentation with health-tech and insurer-medical provider linkages.

Alan Wilson

Anupam Sahay

Boriwat Pinpradab

Dustin Ball

Maureen Ledesma

"Healthcare continues to have potential for growth partly based on the increasing ageing demographic in much of Asia, including Singapore and Hong Kong," said Wilson, adding that China's One Belt One Road initiative, an infrastructure masterplan, will also usher in a surge of insurance opportunities given that majority of the infrastructure investments under the initiative will most likely be insured.

Sahay added that some of the other expected trends for the next 12 months include faster development of core underwriting/pricing capabilities; direct-to-customer propositions; digital partnerships in the general insurance sector; potential uplift in the life sector from rising interest rates and multi-channel distribution; and ongoing restructuring of portfolios by certain multinationals.

Challenges moving forward

Looking ahead, customer engagement will remain a major challenge for many insurers, according to Pinpradab. "Most insurers do not engage their customers more than once a year (if at all). They do not know much about their customer information and the interaction except when there is a claim" he reckoned.

Ball, on the other hand, said that despite the industry's evolution and the rise in interest and investment in technology and innovation, there is still a need to focus on the basics. "Insurance companies need to expand distribution and improve productivity. Across the region, there are still many markets where agent turnover and productivity are impacting results. At the same time, new distribution partnerships and tie-ups require considerable effort to get the desired outcome," he said.

Wilson, meanwhile, emphasised the need for insurance firms and companies to adopt to the digital life. "Companies need to adapt, or risk having their business left behind as the industry evolves," he noted. "It is always important for us to constantly innovate, and know that we, ourselves, should and can disrupt our own business."