

2020 Asia-Pacific Insurance Outlook

Driving innovation and
transformation to seize
opportunities and sustain growth



Building a better
working world



About the EY Insurance Outlooks

The annual EY Insurance Outlooks represent a preview of key issues shaping the industry in the near term (three years). They complement the NextWave series, which takes a longer-term perspective (five years and beyond).

This year's report was developed based on our collective sector know-how, virtual workshops with insurance leadership across the globe, a formal internal survey of EY insurance professionals, and inputs from select clients and external analysts. We are pleased to hear that so many clients and industry stakeholders value our reports. We'd be delighted to hear from you about other topics that are top of mind or of growing concern.



Table of contents

Executive summary	04
Non-life: Key trends and imperatives	12
Life: Key trends and imperatives	20
Country snapshots	29
Authors and contributors	30

Executive summary

For insurers across the diverse markets of the Asia-Pacific region, it's a time of considerable opportunity, though it varies in scope.

Even as the industry's fundamentals look sound, a range of challenges – such as intensifying regulations, economic uncertainty and local issues in individual countries – have emerged to cloud the outlook for the next few years.

In many ways, the Asia-Pacific region holds the key to the insurance industry's future. It is home to nearly one-third of the world's population, a few of the fastest-growing economies and multiple countries with rapidly expanding middle-class populations. Furthermore, China has rapidly become the second largest economy in the world and is on track to become the largest by 2030.

The extremely high expectations of consumers in the region for seamless and personalized digital experiences inspire a great deal of innovation. Firms in mainland China and other markets are experimenting widely – and delivering impressive results – with new products, new distribution models and new technology. The top performers are both capitalizing on near-term opportunities and establishing a strong foundation for long-term success.

But several challenges cloud the horizon for Asia-Pacific insurers, some unique to the region and others they have in common with their peers around the world. The local details differ, but regulators in multiple jurisdictions are increasingly focused on capital standards, consumer protection and financial reporting. Some new requirements are being shaped by emerging global standards.

Still, rising economic uncertainty, largely due to global trade tensions, is already slowing growth in several countries, including those that experienced the strongest recent growth, while creating new winners in global trade.

Low interest rates are a major issue, particularly in the advanced markets, though developing ones are increasingly impacted, too. Weakening domestic demand and aging populations temper prospects for growth in mature markets, such as Japan, South Korea and Australia, and to a lesser extent even in major developing markets, such as mainland China and Thailand.

In response, insurers have taken up a range of new investments and initiatives. The top priorities include cost reduction, especially in light of rising compliance costs and increased regulatory focus, digitization of the sales force and more effective use of technology generally. Technology is critical to success on both the bottom and top lines; that is, automating processes can help reduce expenses, while better customer experiences and more productive agents can lead to more revenue.

But technology alone is not enough. New skills and expertise are also high on the strategic agenda, for life and non-life insurers alike. The combination of the right talent and powerful technology will enable Asia-Pacific insurers to seize the huge growth opportunities on the horizon and successfully navigate the new and existing risks.

The extremely high expectations of consumers in the region for seamless and personalized digital experiences inspire a great deal of innovation.

As this report details, the key trends that insurers must address include:

Non-life:



- 1 **Embrace regulatory change:** New accounting standards and regulations represent a performance improvement opportunity
- 2 **Achieve cost efficiency:** A mix of technology and location strategies is producing results
- 3 **Deliver value with new technology and data:** Experimentation is driving innovation
- 4 **Digitize the sales force:** Insurers must deliver the omni-channel experience consumers expect

Life:



- 1 **Manage the persistent regulatory focus:** A coordinated and cost-effective approach is required
- 2 **Win the war for talent and skills:** The right talent is critical for successful transformation
- 3 **Achieve cost efficiency:** Cost optimization strategies must account for investments in the future
- 4 **Digitize the sales force:** More effective distribution can create growth opportunities and address regulatory challenges
- 5 **Drive growth through direct-to-consumer (D2C):** Direct channels and ecosystems drive the shift from selling policies to engaging customers

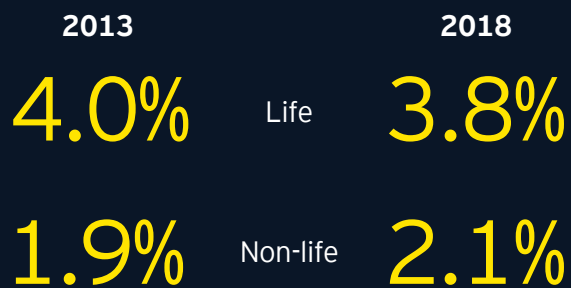
This report covers the ASEAN countries, Greater China, South Korea, Japan and Oceania. Of course, individual countries have their own unique dynamics, which we reference throughout. We also highlight the impact of global developments, such as regulatory trends, that impact the Asia-Pacific region.

This year's report also features snapshots of specific markets in the region and reviews of last year's imperatives. The contacts listed on the last page would be delighted to discuss your firm's particular outlook through 2022 and beyond.

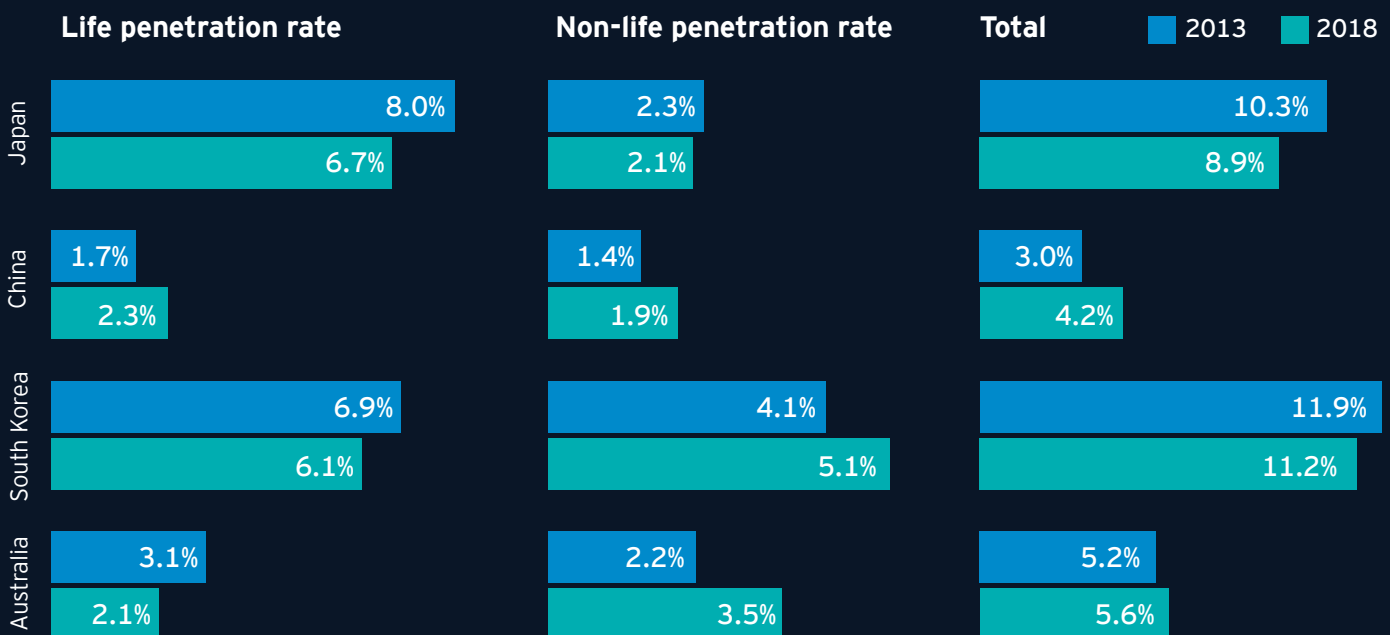
A complex environment with strong fundamentals and emerging challenges

The Asia-Pacific insurance industry is still riding a strong growth spurt, driven by China but also buoyed by positive performance in South Korea. Both premiums and penetration have risen. However, some mature markets have struggled as their populations age and consumer expectations shift.

Insurance penetration rate, Asia-Pacific



Protection gap in Asia-Pacific, USD, 2018



Source: Swiss Re Sigma

Setting the global standard for customer expectations:

Customer expectations in the region, especially around digital interactions and experiences, are very advanced. China leads the way; from mobile payment apps to digital media platforms, Chinese consumers are wholeheartedly embracing innovation at astonishing speed. Chinese insurers – unencumbered by legacy systems – are creating new offers and experiences to engage them. The sheer size of China, its physical proximity to other countries in the region and the ability to leapfrog on the most advanced technology drive both the inexorable rise in expectations and the push toward innovation across the region.

Consumer preference for interactions and relationships with insurers skews strongly toward digital. That's true even for life insurers, particularly in mainland China, Thailand and Australia, where consumers prefer digital channels over traditional agencies by significant margins. In Singapore and Malaysia, however, consumers prefer agents.

Asia-Pacific insurers have committed to innovations across the business. There's little doubt that they will continue to raise the bar in developing new products and engaging customers in new ways. While insurers in other regions envision the customer of the future and model their needs and expectations, the future is happening now in the Asia-Pacific region.

The most successful companies will be those that can localize experiences on an international scale by efficiently and effectively serving customers in some of the fastest growing markets in the world. In the meantime, insurers around the world can learn a great deal from their peers in the Asia-Pacific region, and in mainland China particularly.

73%

Asia-Pacific consumers who believe they should be able to accomplish any financial task on a mobile device

Source: Forrester

Consumer channel preference for life insurance

Digital		Agent
59%	Mainland China	16%
55%	Thailand	19%
44%	Australia	9%

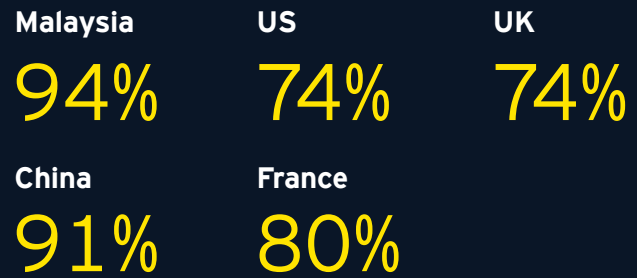
Source: Forrester

A complex environment with strong fundamentals and emerging challenges

Shifting demographics: Population-related challenges vary across Asia-Pacific insurance markets. Japanese and South Korean insurers face significant threats on existing portfolios as the population grows older and low birthrates persist. In contrast, the emerging middle class and millennials in younger Asia-Pacific countries are ahead of their peers in other global regions in metrics as diverse as digital adoption and home ownership. However, they face the risk of growing old before they grow rich.

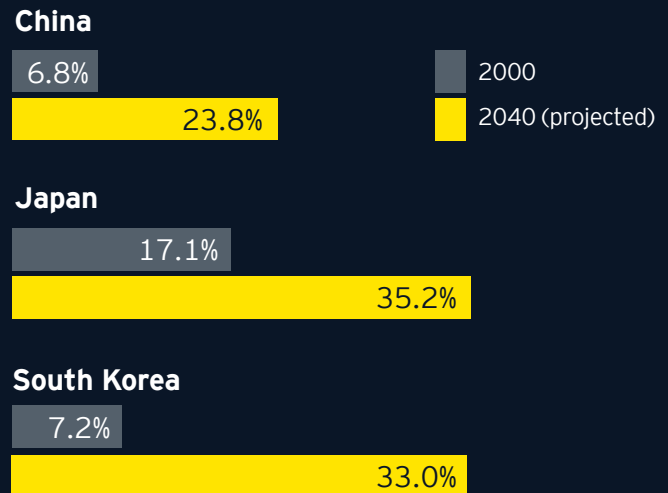
Insurers must choose the demographics on which they want to focus, while keeping a close eye on the rapidly changing market dynamics. These include, for example, relatively fast population aging in China and accelerated middle class growth in Vietnam.

Millennials intending to buy a home in the next five years



Source: HSBC

% of population 65+ years of age in key Asian markets



Source: Oxford Economics

Insurers must choose the demographics on which they want to focus, while keeping a close eye on the rapidly changing market dynamics.

A complex environment with strong fundamentals and emerging challenges

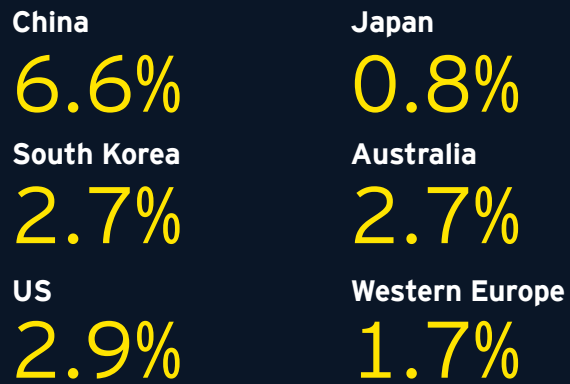
Slowing growth and rising uncertainty: Compared to the rest of the world, the Asia-Pacific region faces both similar macroeconomic challenges and unique threats. Low interest rates and falling yields on treasury bonds are common challenges. Several Asia-Pacific central banks have recently cut rates. Further cuts are expected in the future. But central banks in most Asia-Pacific countries have more room to maneuver than those in other regions. Thus, the impact of falling interest rates is relatively less severe.

Other common challenges are slowing productivity growth and aging populations. The unique threats include the increasing trade tensions between multiple countries inside and outside the region. The slowing momentum in China and increased financial market volatility compound these challenges.

Fortunately, economic growth rates have been higher than in other markets. Savings propensity is fairly high and the region is very much at the forefront of digitization. This combination of forces is driving insurers to develop new value propositions, such as those related to financial wellbeing, and facilitating a shift toward fee-based products.

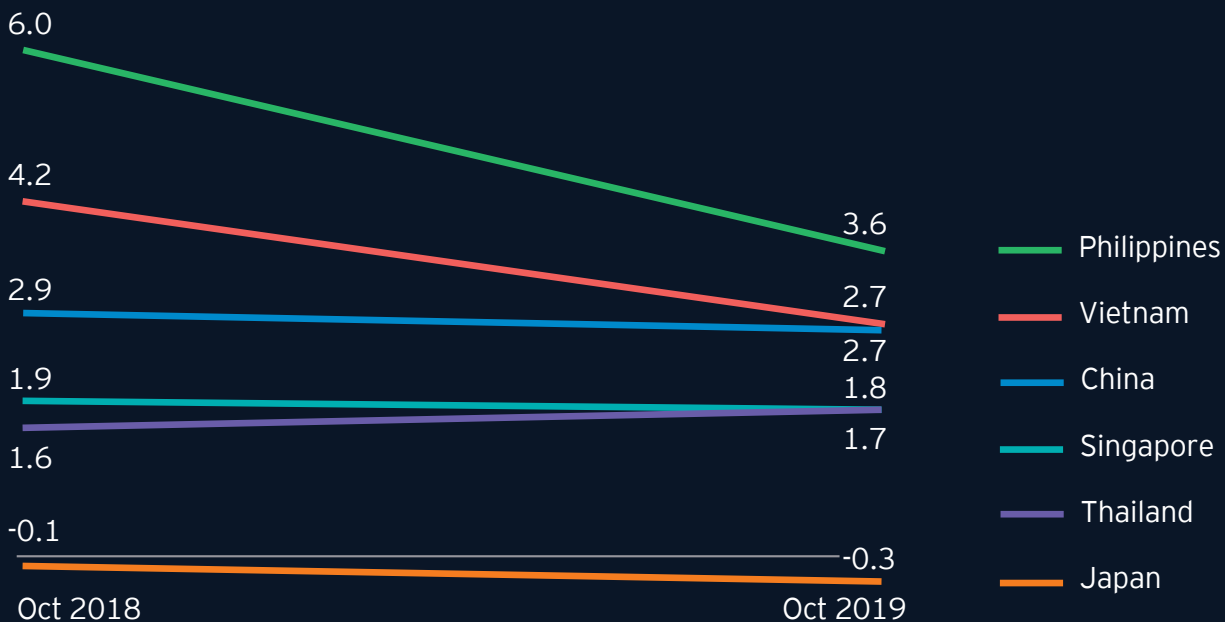
While insurance executives in Europe and the Americas actively prepare for potential recession, the economic environment in the Asia-Pacific region – especially in the less advanced markets – is not quite as stark. Still, global trade tensions threaten the booming growth cycle that has been running for years in many markets. China’s healthy growth rate has slowed noticeably and both Japan and Singapore are on the verge of falling into recession. A slowdown in other global regions would inevitably hurt the Asia-Pacific insurance industry. The economic impact of political uncertainty is another consideration, both in the region and around the globe.

Growth in gross domestic product, 2018



Source: Oxford Economics

Asia-Pacific one-year Treasury bond yields



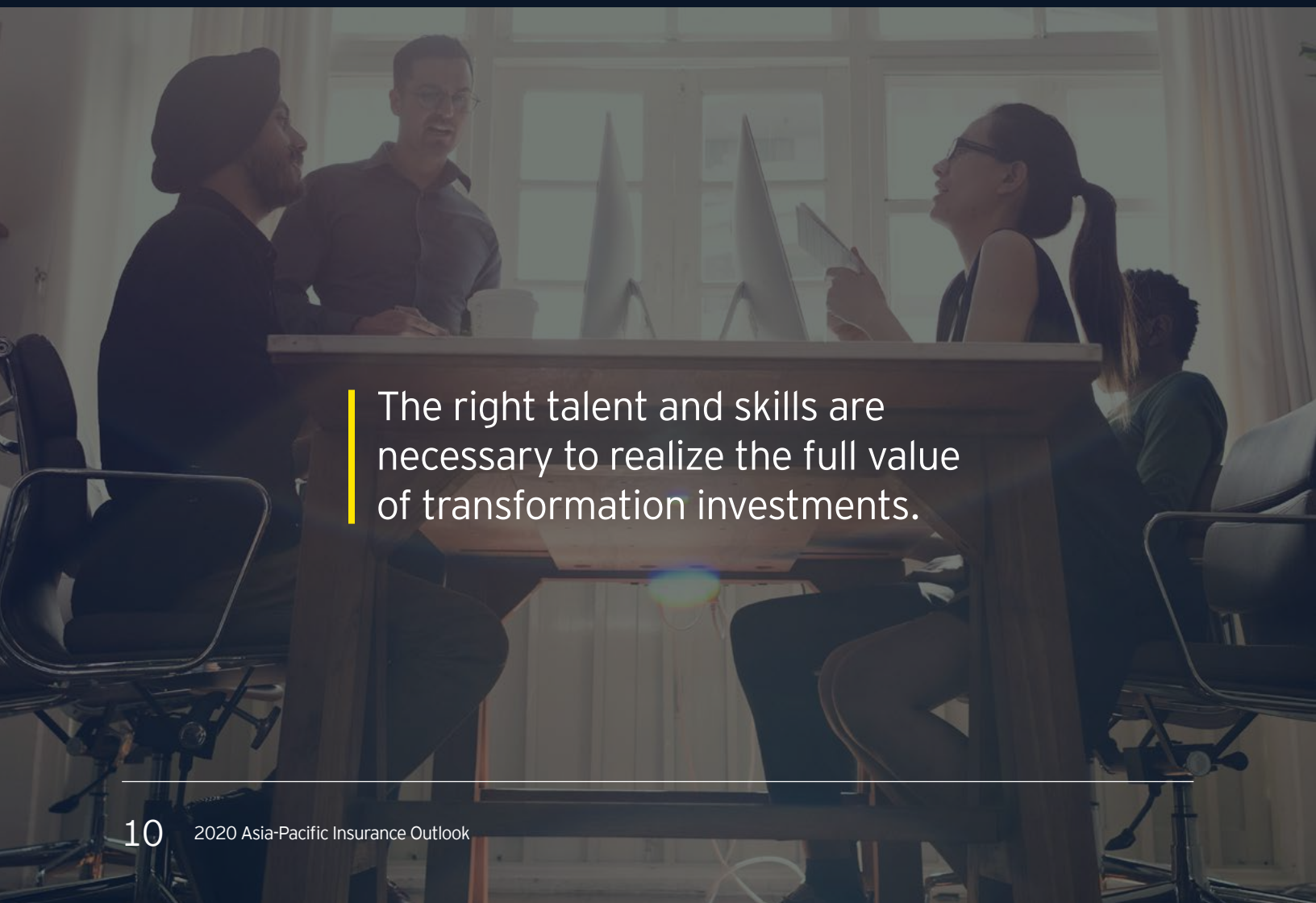
Scarce talent: Cultural and people issues bear mention. In the fastest growing markets insurers have not been able to find the right homegrown talent fast enough to keep up. It's an unprecedented challenge in the global insurance industry.

Hiring expatriate talent in key areas, such as data science, will be prohibitively expensive. So the focus will continue to be on training and up-skilling existing staff. The talent war will intensify as more foreign insurers enter the market as deregulation continues.

As both life and non-life insurers become more digital in their operations, they will need technical talent to design and support specific disruptive technologies, like AI and blockchain. Analytics and experience design are other high-priority skillsets. The ability of the largest Chinese insurer to rebrand itself as a technology firm has helped it attract top talent in these areas, not only from the insurance industry but also from other tech firms.

Some companies also need knowledge and experience in underwriting and other traditional insurance functions. This is especially true relative to new product development, whether protection-oriented life products or on-demand P&C products.

Increasing regulatory scrutiny also places a premium on finance and risk management skills. Forward-looking executives recognize that the right talent and skills are necessary to realize the full value of transformation investments and to successfully navigate markets that shift quickly and evolve continuously.



The right talent and skills are necessary to realize the full value of transformation investments.

How insurers can move forward

For years, insurers across the Asia-Pacific region have understandably focused on seizing the growth opportunities that have been presented by healthy economies and a growing middle class. In some markets, the focus on driving growth has left key parts of the value chain – such as underwriting, claims and other internal processes – lagging best-in-class standards. At the same time, digital capabilities have often been built on top of existing operations and without end-to-end digitization plans.

Some insurers have tackled these challenges head on and have created pockets of excellence and innovation. Insurers should identify leading examples they can emulate and decide which niches are most appropriate for them.

Opportunities, strategies and priorities will vary. Many insurers will need to focus on underwriting, the shift to fee-based, unit-linked products and stringent capital requirements. They will also need to revamp their strategies to put digital at the heart of their offerings and operations, focusing on customer needs and embracing ecosystems.

All insurers will want to examine the repeatability of their business models, especially if they want to expand into other markets and regions or scale up for growth. Partnerships and mergers and acquisitions (M&A) decisions will be critical in accelerating this journey.

As interest rates fall and savings growth tapers, insurers will also have to find ways to de-risk their balance sheets, downplaying products that offer higher returns in favor of those that can reliably perform in the current landscape. Adding more fee-based products, along with a higher share of market-linked products, is a step in the right direction.

Finally, insurers will have to be careful about their capital management. On the one hand, they have to manage the increasingly stringent solvency norms; on the other, they need to ensure that they are investing enough to stay future-ready. These investments should be informed more by the most pressing business needs than by the latest technological trends.

In evaluating, selecting and deploying new tech, insurers must take a holistic approach. Even the most powerful tools won't solve problems by themselves. That's why they shouldn't be deployed for their own sake. Instead, they must be used to solve specific and well-defined business problems (like automating processes to reduce costs) and meet specific objectives (like direct engagement with consumers). Indeed, technology is just one variable in the equation for successful long-term change.

The need to master all of these dimensions of the enterprise reflects the complex matrix of issues facing the industry. For more detail on these trends, please see the [**EY Global Insurance Outlook**](#) >

Insurers must ensure they are investing enough to be future-ready and deploying new technology holistically.

Key trends and imperatives

Non-life

In the Asia-Pacific region, growth in non-life lines has outpaced life insurance.

However, growth has slowed in recent years. That trend looks likely to continue, given increasing macroeconomic and regulatory concerns in the region.

P&C premiums in Asia-Pacific grew at a compound annual growth rate (CAGR) of 7.5% from 2013 to 2018. Life health premiums grew only 4.0% during the same period.

The Asia-Pacific non-life sector at a glance

Gross written premium (GWP)

2018: **\$564 billion**

2013: **\$392 billion**

CAGR, 2013-2018: **7.5%**

Penetration (% of GDP)

2018: **2.1%**

2013: **1.9%**

Source: Swiss Re Sigma

Non-life: Key trends and imperatives

Increased foreign ownership in some key markets – particularly China – should support long-term growth. Foreign players will drive increasing penetration in markets where local players have traditionally dominated. For example, Myanmar announced in January 2019 that foreign insurers could enter into the country's largely untapped insurance market as part of an ongoing liberalization effort. Vietnam has also taken steps to increase foreign ownership limits for listed companies in insurance and other sectors.

The insurance companies that win the future will be those that can develop the right offerings for a dynamic risk landscape, comprehensively address new customer expectations and use new technology to enhance efficiency, reduce costs and scale up across the region. They must also leverage emerging digital platforms to anticipate and meet evolving market needs.

	Loss ratio	Expense ratio	Combined ratio
2018:	62%	34%	96%
2013:	70%	31%	101%

Source: S&P Global Market Intelligence

Tomorrow's top-performing insurers will have offerings to meet evolving market needs and effectively use technology to increase operational efficiency.

The forces reshaping the non-life market through 2022

The following illustration is based on a survey of EY insurance professionals in the Asia-Pacific region and follow-up collaborative workshops among the regional insurance leaders. It's important to note that the trends highlighted below are rated based on their likelihood and impact during the next three years.

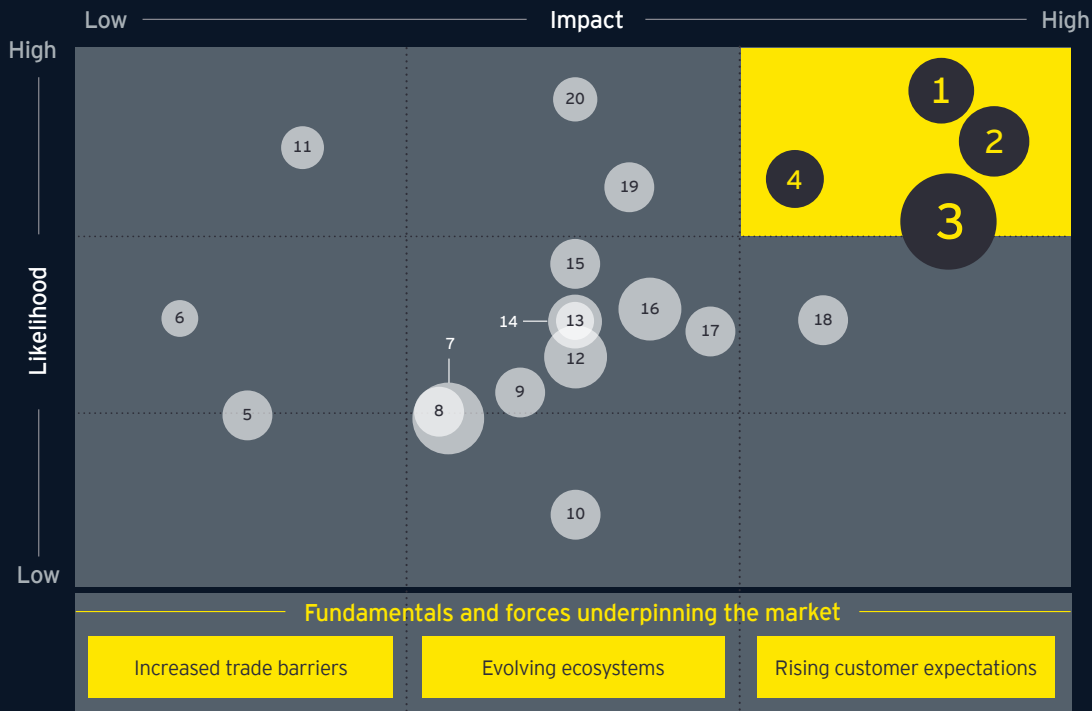
Many of these trends will influence the industry on a longer time horizon or are not as likely to come to fruition. For instance, we believe both AI and subscription models will have a profound impact on the industry, though the full effect won't be felt for a few years.

Others – such as the significant opportunities in commercial insurance, Internet of Things (IoT)-enabled products and services and on-demand or subscription models – will depend on the actions of insurers in the near and mid-terms. We also recognize that the impacts will be felt differently by different insurers.

For the EY perspective on these longer-term trends, please consult **EY NextWave Insurance: personal lines and small commercial report** > Note: NextWave reports on large commercial and reinsurance and life insurance will be released in the first half of 2020.

Top trends: Highest impact, greatest likelihood

- 1** Embrace regulatory change
- 2** Achieve cost efficiency
- 3** Deliver value with new technology
- 4** Digitize the sales force



Bubble size determined by number of responses

Other surveyed trends

- | | |
|---|---|
| <ul style="list-style-type: none"> 5 Insurance for sharing/gig economy 6 Growing commercial insurance opportunity 7 Evolving ecosystems 8 Financial wellbeing 9 Emergence of new risk pools 10 Rise of on-demand insurance 11 Ethical considerations 12 Growth and expansion of D2C | <ul style="list-style-type: none"> 13 Emergence of subscription models 14 New health risks and aging population 15 Risk prevention as a service 16 Partner/compete with InsurTechs 17 P&C M&A for scale and diversification 18 Sustainability and climate change 19 Preparing for next economic crisis 20 War for talent and skills |
|---|---|

1 Embrace regulatory change:

New accounting standards and regulations represent a performance improvement opportunity

Increasing regulations, from local requirements to global accounting standards, remains a top agenda item for insurance executives across the region. Companies are adopting various strategies to achieve compliance. Around IFRS 17, for example, there is a fundamental split; larger insurers are seizing the opportunity to transform finance and actuarial functions, while smaller, less capitalized insurers – especially in highly competitive markets such as Hong Kong – are making the minimal effort to achieve compliance.

Risk-based capital (RBC) standards have recently been or soon will be implemented in key markets. These may push some smaller players toward consolidation or put them at risk of insolvency. However, proactive regulators in the region are taking measures to soften the standards and provide smaller firms time to strengthen their balance sheets. For example, Hong Kong's Insurance Authority has proposed a RBC regime, based on the principles of Europe's Solvency II. Scheduled to go live in 2022, the policy is being tested through quantitative impact studies aimed at helping the sector manage the transition.

In Thailand, the Office of the Insurance Commission (OIC) issued minimum risk management requirements for insurers in 2018. It has also expressed a willingness to adjust them after learning more about the impact on insurers. Rollout of a full risk-based capital regime is scheduled for the end of 2019.

Insurers are weighing their options. Some are planning to move their finance function and key finance and reporting processes to managed services models. Others are looking into consolidation as a means to manage compliance costs.

Insurers must also look beyond local regulations and stay informed about global regulatory changes, paying particular attention to standards around conduct risk and consumer protection, such as General Data Protection Regulation (GDPR). Regulatory matters will remain near the top of the agenda as it's likely that regulators around the world will only become bolder and more aggressive in the future.

Insurers must also look beyond local regulations and stay informed about global regulatory changes, paying particular attention to standards around conduct risk and consumer protection.

2 Achieve cost efficiency: A mix of technology and location strategies is producing results

As with their counterparts in other regions, insurers in the Asia-Pacific region feel considerable pressure to reduce costs, due largely to thin profit margins and rising regulatory costs.

Distribution expenses are a top target. Currently, insurers are playing a volume game to generate profitability, but slowing economic growth could make that a difficult strategy to sustain.

Other cost optimization efforts involve transforming core systems and boosting productivity. Robotic process automation (RPA) has been a focus across the region.

Insurers are also implementing regional shared service centers and embedding straight-through processing to reduce costs and improve process performance. In recent years, global insurers established large service centers in Malaysia and the Philippines, which cater to regional strategic priorities. Functioning as IT hubs and housing specific functional expertise (e.g., actuarial), these centers are designed to develop digital and technical capabilities more efficiently and cost-effectively.

However, activity levels around core platform transformation and legacy system modernization are lower than in other regions. That's true for two primary reasons:

1. Legacy systems are not as old in the Asia-Pacific region, compared to those in mature markets elsewhere.
2. Insurers in fragmented markets simply can't afford expensive transformation programs.

One exception worth noting: Japanese and Australian insurers are focusing more on platform transformation than their regional peers.

The link between cost reduction and improved use of technology is strong now and will only get stronger. It's also affected by regulatory and competitive developments. Consider how proactive regulators in mainland China, Hong Kong and Singapore are inviting InsurTechs and FinTechs into their markets and providing insurance licenses to promote more digital offerings. That forces incumbents to stay agile and implement initiatives, such as large scale straight-through processing in underwriting and claims and for all types of products.

China already has four online-only insurance companies offering a wide range of P&C products, including new and unconventional products, such as shipping return and personal clinic coverage.

Cost optimization does not come through technology adoption alone.

3 Deliver value with new technology and data: Experimentation is driving innovation

Emerging and disruptive technologies, as well as the massive increase in data volumes, will have a big impact on the Asia-Pacific insurance industry in the next few years. Big data platform providers have entered the market, particularly in mainland China. There is reason to believe more non-traditional competitors will follow suit. However, it's important to note that the trend is very regional, with some markets, such as Hong Kong, lagging behind.

Varying expectations regarding data privacy will also shape the use of technology. In Japan, for instance, consumers and regulators are extremely interested in data privacy, limiting what insurers and technology players alike can do in generating insights and sharing personal recommendations. In China, however, consumers are less concerned with data privacy and regulators have taken a different approach, which has led to impressive innovations with data analytics.

Technology can certainly drive explosive growth. One China-based FinTech offers a mutual health protection plan that is delivered via a platform and a mobile app and covers costs related to 100 illnesses. Nearly half of its customers are migrant workers in rural areas.

Adoption of IoT, drones and connected insurance models is mostly in the experimentation stage, though a few insurers have taken early steps to embed solutions in their offerings. Typically, the objective is to improve customer engagement and the overall experience, which are high priorities for insurers.

On-demand and usage-based insurance is gaining traction in the region, as insurers offer products targeted at specific consumer needs. Some markets, such as Singapore, are more focused on enhancing digital experiences.

Relative to all of these technologies, insurers are concerned about attracting the right talent and scaling their use where relevant. Insurers must develop a roadmap of skills that they need in the next three years if they are to maximize their tech ROI and fulfill their ambitions for digital transformation.

Customers of Ant Financial Xiang Hu Bao platform since October 2018 launch

August 2019: **80 million**

By 2021: **300 million**
(targeted)

Source: KR-Asia.com; South China Morning Post

On-demand and usage-based insurance is gaining traction in the region, as insurers offer products targeted at specific consumer needs.

4 Digitize the sales force: Insurers must deliver the omni-channel experience consumers expect

Distribution patterns and practices vary widely across the region. In China and Australia, direct-to-consumer channels are more prevalent and intermediaries (e.g., brokers and agents) are gradually ceding ground to digital. But in other markets, such as Malaysia and Indonesia, intermediaries dominate.

Asia-Pacific consumers are more receptive to new platforms and better digital tools than those in other regions. But platform and channel integration can be a major challenge for insurers that want to deliver a true omni-channel experience. For instance, in the case of bancassurance, which is more prevalent in life than non-life, few insurers offer customized products, which limits their opportunities to increase penetration.

On the commercial side, brokers and other intermediaries maintain strong relationships with insurers, thanks to their strong access to clients and rich understanding of their markets. For example, brokers in Singapore scout for overseas business that can be written by insurers at home. Thus, they help increase new business volumes.

Within commercial lines, small and medium enterprises (SME) are a promising opportunity and underpenetrated segment. Insurers must develop easier ways for such businesses to access policies and manage their coverage, which will require the enhancement of direct channels.

Across sectors, the objective is to engage more customers with the intuitive and personalized experiences they want. A strong digital platform can help insurers meet those goals, as well as reducing costs, increasing efficiency and – ultimately – selling more products.

Non-life market share, China's first online-only insurance company

2016: **0.37%**

2018: **0.97%**

Source: China Banking and Insurance Regulatory Commission (CBIRC)

Cost reduction is strongly correlated to improved technology usage.

Imperatives for non-life/P&C insurers

- 1 Embed digital in everything:** Start with core business problems and identify the technologies that will best solve them; develop an agile approach, test new tech and quickly scale up winning experiments; adapt offerings and experiences to consumer preferences in individual markets.
- 2 Assess regulatory impacts and transform accordingly:** Identify innovation and performance improvement opportunities relative to compliance initiatives, such as those around financial reporting and capital requirements; minimize effort and investment in other areas.
- 3 Set specific and measurable cost efficiency targets across the business:** Compare and contrast the costs and benefits of different efficiency options such as robotic process automation (RPA), core system transformation and regional service centers; diligently measure progress with holistic metrics.
- 4 Re-orient the distribution strategy toward omni-channel:** Consider which products and offerings are best suited to digital channels, experiment with them and decide where to scale; embed digitized experiences to offer genuinely omni-channel propositions.

2019 vs. 2020: Last year's EY Insurance Outlook encouraged P&C insurers to explore new outcome-based plans in the health market and find ecosystem partners to roll them out. Similarly, we recommended insurers begin modeling intangible risks (e.g., intellectual property, cyber) with new data sets and specialized partners.

For 2020, the strategic focus is on optimizing existing operations and seizing the most compelling growth opportunities. That means using digital channels and products to address customer needs in different markets, deploying technology for automation and ensuring omni-channel distribution is well suited to individual consumer segments and product lines. In such a dynamic market, it's no surprise that priorities are shifting.

Life



Life insurers in most markets in the Asia-Pacific region have experienced slowing growth.

Developed markets have seen the greatest pressures on growth. Interest rates have dropped precipitously and rapidly – leading to major ramifications for life insurance companies. Many liabilities will become extremely expensive to honor and existing reserves will be severely strained if rates continue to drop, which they look likely to do.

To navigate these challenges, Asia-Pacific life insurers are shifting toward protection-based products, with a greater focus on health and accident policies, rather than fee-based products. The trend is particularly pronounced in ASEAN markets, as well as Hong Kong.

The Asia-Pacific life sector at a glance

Gross written premium (GWP)

2018: **\$1,019 billion**

2013: **\$839 billion**

CAGR, 2013-2018: **4.0%**

Penetration (% of GDP)

2018: **3.8%**

2013: **4.0%**

Source: Swiss Re Sigma

Life: Key trends and imperatives

In Japan, where local interest rates have made insurance unattractive, products denominated in foreign currency have seen explosive growth recently. They will continue to play an important role, though greater regulatory scrutiny of aggressive marketing tactics will inevitably dampen demand.

While a number of common challenges – such as global economic uncertainty – confront life insurers across the region, local conditions differentiate individual markets.

- ▶ In Australia, more stringent regulation is the main challenge
- ▶ In Hong Kong, unprecedented social unrest is making this market less attractive for customers from mainland China, a key target for insurers historically
- ▶ Japan is stuck in a low-growth environment, with sub-zero interest rates
- ▶ Aging populations are a top concern for insurers in Japan, South Korea and Thailand, among other markets

Operating margin

2018: **9%**

2013: **8%**

Cost ratio

2018: **20%**

2013: **19%**

Source: S&P Global Market Intelligence

Sales of savings-type insurance products denominated in foreign currencies, by five major Japanese life insurers, April 2018-March 2019

JPY: **3.6 trillion**

USD: **33.3 billion**

YoY increase: **50%**

Source: Asia Insurance Review

While a number of common challenges – such as global economic uncertainty – confront life insurers across the region, local conditions differentiate individual markets.

The forces reshaping the life market through 2022

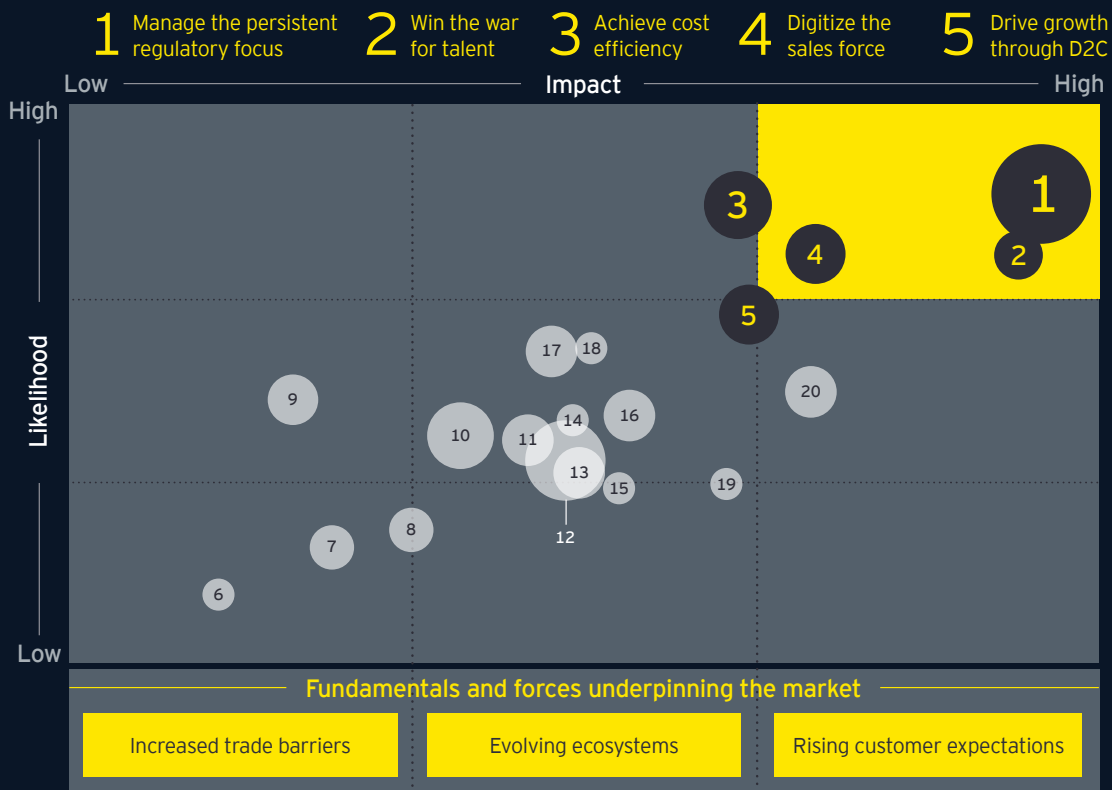
The following illustration is based on a survey of EY's insurance professionals in the Asia-Pacific region and follow-up collaborative workshops among our regional insurance leaders. It's important to note that the trends highlighted below are rated based on their likelihood and impact during the next three years.

such as significant opportunities in commercial, Internet of Things (IoT)-enabled products and services and on-demand or subscription models – depend on the actions of insurers in the near and mid-terms. We also recognize the impacts will be felt differently by different insurers.

Many of these trends will influence the industry on a longer time horizon or are less likely to come to fruition. For instance, we believe both AI, connected insurance and subscription models will have a profound impact on the industry, though they won't be felt for a few years. Others –

For the EY perspective on these longer-term trends, please consult our [NextWave Insurance: personal lines and small commercial report](#) > Note: NextWave reports on large commercial and reinsurance and life insurance will be released in the first half of 2020.

Top trends: Highest impact, greatest likelihood



Bubble size determined by number of responses

Other surveyed trends

- 6 Insurance for sharing/gig economy
- 7 Financial inclusion
- 8 Blockchain for transparency
- 9 Sustainability and climate change
- 10 Financial wellbeing
- 11 Partner/compete with InsurTechs
- 12 Growing adoption of AI
- 13 Evolving ecosystems
- 14 Open API/open insurance
- 15 IoT and connected insurance
- 16 New health risks and aging population
- 17 Migration to cloud
- 18 Preparing for next economic crisis
- 19 Rise of on-demand insurance
- 20 Ethical considerations

1

Manage the persistent regulatory focus: A coordinated and cost-effective approach is required

Increasing regulations are profoundly influencing insurance markets across the Asia-Pacific region. The coordination among regulatory bodies across the globe is also playing a role and leading to a waterfall effect of best practices. In Australia, for instance, customer protection laws follow the template from those in the UK and global Insurance Capital Standards – often inspired by Solvency II – are being adopted with local variations by regulators in South Korea, Hong Kong and Japan.

This standardization of regulatory guidance is also being driven by specific events that reach across geographies and jurisdictional boundaries. For example, the demerger and relocation of Prudential plc is prompting regulators in the UK and Hong Kong to work together more closely than before.

IFRS 17 remains a key focus area as the implementation date approaches. It is straining resources in markets already facing major regulatory changes around capital adequacy and customer protection. Another impact related to IFRS 17: insurers will need to define new key performance indicators (KPIs) and other reporting metrics, requiring them to articulate for investors new storylines and explanations of performance.

The implementation of RBC norms has been in the works in the region for several years. Multiple markets, including mainland China and South Korea, have already implemented them, while others are working toward them. Hong Kong is testing the impact of its proposed RBC regime, which is modelled on Europe's Solvency II, with a targeted implementation date of 2022. Even in markets with existing RBC standards, regulators are executing continuous stress testing to ensure that the insurance companies remain solvent in the current volatile economic environment.

Customer protection is high on regulators' agenda. New codes of conduct and broader financial services and insurance guidance are expected to lead to stringent oversight. Regulators want to ensure that insurers are providing customer value in the form of appropriate guidance and products. New restrictions on agent commissions in some markets are designed to promote customer-centric advice, rather than commission-driven selling.

Enhanced transparency in pricing and fee disclosure for different products is another regulatory objective. It will be a particularly important issue for with-profits products in Hong Kong. Takaful insurance is also receiving more attention, particularly in Malaysia. Starting 2018, life insurers there have been required to use a balanced scorecard approach including non-sales KPIs as part of the compensation systems for intermediaries. The goal is to promote prudent sales practices and fair treatment of customers.

While regulatory compliance is often burdensome, it can align well with insurers' goals in terms of meeting consumer needs. Insurers must gain clearer and deeper understanding of those needs, while keeping customers' best interests in mind, when designing products and delivering service throughout the relationship lifecycle. To sustain such insight over time, insurers need efficient systems and processes in place, as well as rich and relevant data sets and strong analytical capabilities.

2

Win the war for talent and skills:

The right talent is critical for successful transformation

Asia-Pacific insurers, like their counterparts in other regions, are focused on finding scarce digital and data science talent, as well as functional experts in underwriting and other areas. Looking ahead, more insurers in the region will look to invest in developing their own talent bases, given that foreign and expatriate resources are more expensive.

In addition, in light of low interest rates, some insurers are emphasizing protection-oriented products, rather than fee-based services, which have become more prevalent in other regions. However, scarce underwriting talent for these types of products is hindering development, especially within ASEAN markets and Hong Kong.

Given the stringent regulatory focus, insurers also need resources with relevant skills. Professionals who can combine IFRS 17 expertise with strong digital know-how are in particularly high demand. Underwriting, claims, actuarial, risk and finance are other areas where insurers are looking for technical skills and knowledge, as they consider the implications of widespread retirements in coming years.

How traditional insurers position their brands is important to attract younger workers deciding if they would like to pursue careers in the industry. Less competitive salaries is another reason why insurers struggle in the war for talent, especially against technology companies.

It will be difficult for traditional firms to evolve their brand perceptions in this way. That's one reason why some are exploring new, "green field" brands. Other firms are exploring partnerships with established tech firms to access the necessary skills.

The pressure to retool or even transform the workforce is critical for firms actively seeking to diversify beyond plain vanilla products and launch new business models that vertically integrate the value chain. Besides the regular workforce, such firms need easier access to specialists who can drive such diversification and transformation.

Top future threats to life and health insurance in Asia's emerging markets

1. Shortage of talent

2. Low interest rates

Source: *Emerging Asia Life Insurance Pulse 2019 – Peak Re*

3

Achieve cost efficiency:

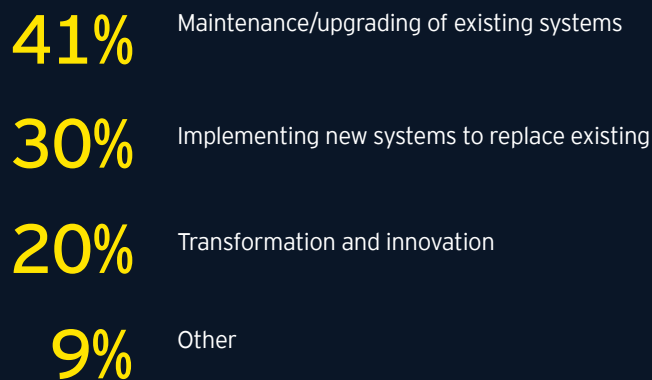
Cost optimization strategies must account for investments in the future

Life insurers have been trying to reduce their costs for much of the last decade. But lower costs alone won't sustain long-term profitability. The key is to ensure cost efficiency measures do not stifle innovation or compromise investments that are necessary for future growth.

The pressure to cut costs and improve margins remains strong, given declining sales in mature markets and slowing growth in emerging markets, in addition to weak investment income. In China, profitability deteriorated in 2018, due to investment yields falling to 4.3%, the lowest since 2012, reflecting the fall of equity markets. Thus, productivity and cost efficiency have risen higher on the agendas of senior leaders.

Process automation and straight-through processing in claims and policy administration are among the priorities. Core system transformation, shared service centers, centers of excellence and cloud migrations are other common strategies to reduce costs. The ability to set up highly efficient and centralized models has proven to be a strategic differentiator for large insurers with multi-national presence in the Asia-Pacific region.

IT budget allocation



Source: Celent

Lower costs alone won't sustain long-term profitability.

4

Digitize the sales force:

More effective distribution can create growth opportunities and address regulatory challenges

Insurers in the region have made progress in digitizing the workforce in recent years, largely by providing tools for agents to maximize their productivity. ROI on such digitization initiatives has not been as large as hoped, given the size of the investments.

But things are changing quickly, especially in mature markets such as Australia. There has been a shift in how digital is viewed by the sales force. Until recently, agents viewed digital channels as major threats to their profession. Now, they realize digitization increases efficiency and helps with recruitment by making the industry look more innovative.

A similar shift is coming also to developing markets where – despite healthy growth rates – insurance penetration is still low. Huge sales forces are in place, but their productivity is far from optimal. New digital tools are key to addressing this challenge and improving productivity, not only for agents, but also within bancassurance, one of the fastest growing channels in the region. Empowering the sales force is a critical goal regardless of channels.

Reduction in number of life insurance solicitors, South Korea, 2013-2018

30%

Source: Korea Insurance Research Institute

Genuinely omni-channel propositions, with a perfect mix of digital and human, are the ultimate goal. That mix requires seamless transitions, consistent experiences and synchronized data across channels. It will take considerable effort and investment to make that a reality, but the benefits of increased engagement are worthwhile.

However, the success of distribution digitization is contingent upon local conditions. In Australia, for example, regulatory scrutiny of commissions may limit the ability of insurers to invest in technology, especially for advisors. In the past, insurers were able to recoup some of these investments through ad hoc negotiation on embedded commissions. The Hayne Royal Commission report, which investigated misconduct in financial services, recommended the elimination of commissions from the sale of life insurance unless insurers could make “clear justification” for their existence.

Number of agents, many of them recruited and trained via AI, affiliated with largest online-only Chinese insurer

1.5 million

Source: The Economist

The Commission also recommended more stringent and extensive disclosures. Beyond lost sales and higher training and compliance costs, the implementation of these measures will force distribution models toward fee-for-service and greater cost transparency for consumers.

The risk is that the middle and mass markets may shrink significantly. That was the effect of the Retail Distribution Review in the UK in 2012, where the number of advisors dropped by 20% within one year of implementation. Another unintended consequence: as advisors focus on clients with more assets, investors with smaller portfolios struggle to get personalized guidance.

Similar regulation is likely to be implemented in other markets in the future. The effects will vary, but it seems likely to reduce expected growth. Insurers will have to keep a close eye on regulatory trends.

Those insurers that can successfully transform their sales force and effectively digitize distribution channels will seize the promise of higher efficiency and unlock significant growth opportunities.

5 Drive growth through D2C: Direct channels and ecosystems drive the shift from selling policies to engaging customers

Many insurers are working to vertically integrate their business models, particularly in health lines. Such models may include hospitals, nursing homes and doctors, replicating some of the closed-loop ecosystem models that have succeeded in China. In fact, some Chinese market leaders are looking to enter other markets in Southeast Asia, which would elevate the competition.

Direct engagement with digital-first customers through platforms is another critical component of growth strategies for insurers across the region. Outside of the largest players in China, very few have gained traction in direct channels.

Online customers served by China's first online-only insurance company

>400 million

Percentage of customers age 25-30

60%

Source: *Financial Times, Reuters*

Increased investment and activity in this space are to be expected, even though it's well understood that initial returns may be modest. Forward-looking executives take a long-term perspective on direct and digital investments, recognizing they need the right capabilities to be successful in the future.

Regulators in some markets are facilitating the shift to digital and direct. In Singapore, the approval of a full direct life insurance license to a well-capitalized InsurTech in 2017 was the first local insurer to win approval in nearly 50 years. In Hong Kong, the first virtual insurance license was granted in 2018. Part of the local government's push to develop the city's online financial services industry, the license prohibits the sale of life policies via agents or banks. However, the success of new digital-only insurers is far from guaranteed, as evidenced by the low level of sales in several markets.

Not all insurers will make the same decisions on direct channels. Some won't have the appetite to cannibalize existing channels. Others simply won't be able to afford the necessary investments in direct channels. But whatever the situation of individual insurers, none can afford to ignore this trend. Insurers must decide what role they want to play in nascent ecosystems and whether they should develop their own or partner with other organizations in theirs.

Increased investment and activity in digital and direct are to be expected, even though initial returns may be modest.

Imperatives for life insurers

- 1 Assess the impact of global regulatory convergence:** Streamline processes to prepare for new and existing requirements (e.g., IFRS 17 and RBC standards) and evaluate the knock-on impact on sourcing strategies, including M&A and partnerships.
- 2 Identify talent gaps to devise a workforce strategy:** Determine where internal talent must be developed and where external talent is necessary; consider rebranding and communications tactics to attract important talent.
- 3 Set specific and measurable cost efficiency targets across the business:** Compare and contrast the costs and benefits of different efficiency options – such as RPA, core system transformation and regional service centers; diligently measure progress with holistic metrics.
- 4 Review distribution options and experiment with channel mix:** Assess options based on new value propositions and identify a limited number of initiatives for each channel; measure progress to determine which can be scaled for maximum impact.

2019 vs. 2020: Last year's EY Insurance Outlook encouraged life insurers to prepare for regulatory change by aligning implementation plans and investments with business transformation initiatives. That is still a good idea looking ahead to 2020 and beyond, with executives needing to keep a more watchful eye on international regulatory developments.

Cost efficiency remains as important – perhaps even more so – this year as it was last year. In distribution, life insurers are still seeking the right mix of human touch and digital efficiency. As they press forward on the journey to growth, regulatory, cost efficiency and distribution issues remain important signposts.

Country snapshots:

Key developments in top markets in the Asia-Pacific region



China: Addressing risks and opportunities in a time of impressive growth

After a slowdown in 2018, the Chinese insurance market bounced back with double-digit growth in 2019. Still, insurers must improve efficiencies and enhance experiences to sustain the growth.

[Read full China report >](#)

Compound annual growth in gross written premium, USD, China, 2013-2018

15.5% Total

15.4% Life

15.6% Non-life

Source: Swiss Re Sigma



Japan: Navigating a difficult environment with a focus on new products and richer experiences

Among the largest in the world, Japan's life and P&C insurance markets are challenged by low birthrates, an aging population and persistent low interest rates.

[Read full Japan report >](#)

Compound annual growth in gross written premium, USD, Japan, 2013-2018

-2.4% Total

-2.7% Life

-0.8% Non-life

Source: Swiss Re Sigma



South Korea: Strong growth but looming challenges require innovation and change

The South Korea insurance market has grown at a healthier rate than many other developed markets. Slowing economic growth and low interest rates are challenges, even as increased regulation boosts industry capitalization.

[Read full South Korea report >](#)

Compound annual growth in gross written premium, USD, South Korea, 2013-2018

4.2% Total

1.4% Life

8.3% Non-life

Source: Swiss Re Sigma

Authors

Grant Peters

EY Asia-Pacific Insurance Leader
grant.peters@au.ey.com



Isabelle Santenac

EY Global Insurance Leader
isabelle.santenac@fr.ey.com



Luca Russignan

EY Global Insurance Knowledge Leader
luca.russignan@it.ey.com



Contributors

Brandon Bruce

Tze Ping Chng

Jaslin Du

Nilabh Kumar

Louis Moran

Walter Poetscher

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. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2019 EYGM Limited.

All Rights Reserved.

EYG no. 005343-19Gbl

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.

ey.com