Goldmines and landmines

Asia remains the largest growth market in the world with vibrant, diverse population. We talk to several insurers operating in the region to get a view on the opportunities and pitfalls for the 2017.

By Ahmad Zaki

Insurers across Asia are still eager to capitalise on the latent potential the region offers. Markets of Vietnam and the Philippines have been seeing, and will continue to see, vibrant growth in the terms of investment and insurance penetration.

"Further, the increase in commodity prices from lows earlier this year underline the positive opportunity that exists to participate in the transformation underway in these Asian economies," said Mr Mark Lingafelter, Managing Director, Asia Pacific at QBE Insurance.

Positive sentiments on the growth of emerging markets in Asia is echoed throughout the industry. A Fitch report released recently forecast the median real GDP growth for 2017 in the 11 emerging Asian markets to be at 5.5%, substantially higher than other regions – 3.5% for emerging markets in Middle East and Africa, 2.9% for emerging markets in Latin America and 2.8% for emerging markets in Europe.

Staying flexible

The challenges still remain, however. Mr Alan J. Wilson, Regional CEO at MSIG pointed out that heightened regulations such as more stringent capital requirements, and detarrification of motor and fire insurance premiums in Malaysia will put many insurers to the test. "The ones who are able to adapt and innovate will better withstand these challenges," he said.

Mr Wilson added that staying customer-centric, by acting through a customer-focused lens and providing positive impact for customers is the only way to stay relevant in this tough economic environment and constantly changing world. "It is during these volatile times that service excellence will be more important than ever."

Generally, sluggish trade over the past few years, combined with the impact of cumulative price reductions has significantly increased the difficulty of navigating these markets. "There are simply times when the right move is

Highlights

- Positive sentiments on the growth of emerging markets in Asia is echoed throughout the industry;
- Challenges exist and staying customer-centric and investing in innovation are key ways for insurers to stay relevant; and
- People living to the age of 120 will become the norm within the near future.


Mr Mark Lingafelter


Mr Alan J Wilson


Mr Jason Sadler


Mr Mark Saunders


Mr Kevin Strain


Mr Kenrick Law


Mr Peter Book

to pull back and redirect resource to products and channels that deliver the return required by our stakeholders," said Mr Lingafelter.

Political uncertainties within several Asian nations might also have negative effects on credit profiles in the coming year. Much of the political risk stems from relatively weak governance standards, with Malaysia's ongoing issues with the state-owned fund 1Malaysia Development Berhad (1MDB) setting a prime example.

The Fitch report said that there is currently no discernible negative impact on economic policy-making, however, although the situation bears continuous monitoring, especially if it has an effect on policy-making or investor confidence.

Dealing with an ageing population

Asia's ageing population woes are well-documented, with the more developed nations of Japan, Korea, Thailand and Singapore facing a greying citizenry, even as healthcare and living standards continue to improve.

This had led to a rise in non-communicable diseases (NCDs), such as diabetes due to obesity, said Mr Jason Sadler President of International Markets at Cigna.

Living longer

At the same time, not only is the population ageing, but people are living longer in general. Mr Mark Saunders, Group Chief Strategy and Marketing Officer at AIA calls this the "biggest socioeconomic issue" the world is currently facing, with people living to the age of 120 to become the norm within the near future.

"We got to look after ourselves to be healthier because you don't want to get to 60 and not be in very good health and still have 50 or 60 years to go," he said.

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Promoting healthier lifestyles

For Cigna and AIA , there are great opportunities that lie within this ageing, longer-living population. Promoting a healthier lifestyle through a series of digital and social initiatives – AIA is running the Vitality programme, while Cigna has launched Coach by Cigna, Grown Ups in New Zealand and Heyday in Korea – both insurers are looking at helping the older population lead more comfortable, sustainable lifestyles in this new ageing dynamic.

At the same time, Cigna has also launched a healthcare app called kokdoc, which utilises Cigna's Global Health Benefits network of 11,000 hospitals across 150 countries to offer an international concierge and hospital reservation service. Also, after trials in the UK, the insurer plans to roll out their global health app across the globe in 2017.

AIA's Vitality wellness programme is aimed at people of all ages overcome negative lifestyle choices which lead to cancer, diabetes, lung disease

and heart disease. According to Mr Saunders, the programme is helping them pinpoint exactly how to engage with their customers and move away from a purely transactional operation model that life insurers traditionally undertake.

Offering appropriate products

In Taiwan, Fubon Life has been playing a more active role in the area of group annuity and the mutual fund platform introduced by the Financial Supervisory Commission to recommend appropriate products based on the needs and risk profiles of the clients, in addition to savings and retirement product planning.

Meanwhile, to delay ageing and health deterioration, Fubon Life also considers offering usage-based insurance products. Such products are distinguished by their positive effect that can encourage policyholders to exercise to reduce premium.

Fubon Life also recommends that life insurers develop a diversified portfolio. "Life companies should also consider investing in senior industry or cross-industry joint ventures to provide a one-stop service for the elderly," said their spokesperson. "We should focus on protective insurance products, long-term care and annuity insurance products."

Plugging in

The other big conversation amongst insurers is the rise of InsurTech and how digital has, and will continue, to transform the industry.

"The development of FinTech and InsurTech in the digital and mobile space continues to change the landscape. Continuous innovation is key in order to stay relevant and expand our offering to our customers and acquire new ones," said Mr Wilson.

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Along with AIA and Cigna's healthcare apps targeting a growing demographic of smartphone users in Asia, Sun Life is also developing digital distribution tools for their clients, advisers and bancassurance partners. At the same time, the life insurer is looking at alternative channels, such as telecommunication providers and WeChat. "These themes which have been prevalent over the last few years will play an even bigger role in 2017," said Mr Kevin Strain, President of Sun Life Financial Asia.

Within the healthcare industry alone, technology is changing the way both healthcare providers and insurers operate, by making healthcare more accessible and affordable than ever before. "Hospitals are using smart chips, RFID tags, and location services to improve coordination and flow of patients and staff. Wearables, and even ingestibles, are helping improve diagnostics and response," said Mr Sadler. "This all has an impact on the products and services we provide our customers."

Regulators encouraging use of technology

At the same time, the regulators in many Asian nations have been promoting the use of Big Data and technology in the financial and insurance industry.

In Taiwan, for instance, the regulator has been actively encouraging the use of technology in underwriting, claims application and pricing of policies. This has led to an increased transparency and efficiency of claims handling via remote assessment systems.

Fubon Life's spokesperson however urged for more access, saying: "We would urge the government to establish a common platform with proper privacy protection mechanism for life insurers to access the medical records of the NHI system to accelerate the underwriting process."

Cyber risks a growing cause of concern

All is not sunshine and roses on this front though. Mr Wilson is quick to point out the emerging risks that come from advancing technology, namely an increased exposure to cyber risks. "Client, employee and other key data need to be protected and kept secure. Cyber attacks are a growing concern as the industry migrates more online," he said.

Upgrading technology and migrating to new online systems adds layers

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of complexity to traditional data security concerns. This, in turn increases the burden on insurers to embrace Big Data, telematics and advanced data analytics. "The industry needs to be agile, innovative and constantly rethink approaches to stay ahead of the challenges and monetise the opportunities," said Mr Wilson.

Mr Kenrick Law, Asia Pacific Regional CEO at Allianz Re agreed with this sentiment: "One important consideration is how to make the most of the developments in risk analytics and convergence between reinsurance and capital markets to provide a more efficient way to manage and transfer routine risks."

He added that the basis of such developments will be high quality underwriting, technical excellence in assessing, pricing and wording of assumed risk coverage, paired with innovative and customer-focused solutions addressing new and emerging risks.

Fitch Report:
China slowdown will have heavy repercussions on the region

A Fitch report on the 2017 outlook on emerging Asian markets forecasted a potential gradual slowdown in China, caused by the government's policy settings that continue to prioritise rapid economic growth over macroeconomic stability. The implication is of continued vulnerabilities building in the country, with a larger adjustment likely to happen later on.

The report also forecasted a real GDP growth of 6.4%, down from a projected 6.7% in 2016, due to the impact of recent macroprudential tightening measures targeting the housing market.

Nonetheless, there is some tangible evidence of China's ongoing structural rebalancing, evident from consumption contribution of more than two-thirds toward overall growth and rapid growth of the services sector. While commodity prices are still subdued, some commodities are recovering, such as coal, which is a major export for countries such as Indonesia.

As for the other countries, the impact of an external shock on individual countries' credit profiles depends, to a large extent, on the credibility and policy coherence of authorities' policy responses, the report said.

Other factors that might have an impact on emerging Asian markets are the possible trade disruptions between China and the US. According to the report:

"If more aggressive tariff policies were pursued by the US, Fitch believes China would take counter measures, including but not necessarily limited to, tariffs on US imports. A trade war would have adverse consequences for GDP growth and inflation in both countries, and could lead to the depreciation of the Chinese yuan and jolts to the financial markets that would be likely to spill over to other emerging markets in the region."

Good growth on farms

With the rapid growth of the Indian and Chinese markets, the two largest agricultural markets in the Asia, more governments will be looking to implement agriculture insurance schemes to protect their citizens and their livelihoods.

Mr Peter Book, Head of Agriculture, Asia Pacific at Allianz SE, said: "The discussion will change from 'How much does it cost to have government supported insurance' to 'How much is it costing us, as a country, to not have government supporting agriculture insurance'."

Food security in the face of constant climate variability and volatile global trade conditions is increasing in importance and a broad approach needs to be taken as to how education, resilience and investment can be promoted in the agricultural sector.

Mr Book also noted that current protectionist regulations – common in Indonesia and India – will have its repercussions on agriculture as well. Farmers, insurers, reinsurers and governments will be looking at relatively short-term data sets – under 20 years – for yield, weather, mortality and other factors important to agriculture modelling. This might cause a failure to see the true potential loss in their business, portfolio or country.

"This will lead to excessive local risk retention and potential bankruptcy as well as market failures when extreme events occur. Such a scenario will result in long term reputational damage to the agriculture and insurance sector which could potentially affect government cash flows and sovereign risk."

However, increased awareness on the importance of agriculture insurance and enhanced access to information has been leading to an exponential increase in awareness of risk management and agricultural best practices. "This will drive change from within or from the bottom up as farmers seek access to improved technologies, the investment it requires and the reduction in risk offered by insurance available to farmers in other markets," said Mr Book.

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