The future of insurance
A SEA perspective

Raj Juta, SEA Insurance Sector Leader
The growth story in Southeast Asia

### Premium growth

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Premium Volume, FY 2014 (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>2,562</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15,307</td>
</tr>
<tr>
<td>Philippines</td>
<td>5,788</td>
</tr>
<tr>
<td>Singapore</td>
<td>27,000</td>
</tr>
<tr>
<td>Thailand</td>
<td>21,696</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2,582</td>
</tr>
</tbody>
</table>

### Growth % across Southeast Asia

#### Growth rate (%)

- Vietnam: 7%
- Indonesia: 2%
- Malaysia: 6%
- Thailand: 6%
- Singapore: 8%
- Philippines: 6%
- Vietnam: 6%

#### Total Premium Volume (%)

- Vietnam: 7%
- Indonesia: 2%
- Malaysia: 6%
- Thailand: 6%
- Singapore: 8%
- Philippines: 6%

### Insurance Penetration 2014

- Life
- Non Life

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ASEAN Economic Community - A path to growth

A Survey by A.T. Kearney and JWT Association

% respondents rating the expected growth path after the AEC launch

- Organic growth: 54% - Easier to implement, but usually not fast enough
- Increased sales force in a new country: 50%
- Partnerships and joint ventures: 45% - Issues arising from complicated governance
- Mergers and acquisitions: 38% - Fastest way to increase scale and achieve growth
- Outreach to new distributors: 34%
- Outsourcing: 30%
- Increased in-country sales force: 22%
- Greenfield manufacturing: 8%

Source: A.T. Kearney and JWT Association “Countdown to 2015: Creating ASEAN Champions”
Key drivers of change

Our perspective

**Regulation**

- **Solvency Requirements** - Rigorous solvency requirements are unfolding across the region will strengthen the industry’s financial stability.
- **Risk Management Initiatives** - Growing regulatory pressures to improve risk management – i.e., ERM, including an ORSA requirement
- **Global Accounting Standards** - introduction of International Financial Reporting Standards (IFRS 4 Phase II) will require insurers in the region to report how they plan to implement these new accounting and disclosure changes.

**Technology**

- The rise of online aggregators and the potential entry of technology players could disaggregate the distribution of personal and small commercial policies
- The development of autonomous vehicles and advanced sensors will inherently reduce risk with home and auto while the proliferation of sharing economies will homogenize risks
- Increased connectivity may allow “personal” insurance policies to be adjusted frequently to match customers’ usage patterns
- Data rich insurers – capturing behavioral data
- Increased cyber threat focused on Data Loss Prevention

**Growth & Distribution**

- The world moves from globalisation to regionalisation
- Increasing middle class and high net worth consumers is fuelling consumption
- The rise of economic power, from government infrastructure, investment to population growth, all of which are creating greater need for insurance

**Integration**

- ASEAN’s insurance penetration rate is barely half the global average, even as the incidence and severity of natural catastrophes in ASEAN continue to increase.
- Catastrophe Insurance - Catastrophe insurance can strengthen ASEAN’s financial resilience against the growing frequency and severity of natural catastrophes in several ways.
Opportunities and threats

Exploit pocket of higher growth...

The increasing wealth …
…will create opportunities for insurers to introduce new products to consumers that protect their financial and physical assets.

SEA new market and platform opportunities...
SEA countries are expected to see stronger overall GDP growth. Trade liberalization is creating new market opportunities in SEA countries

Prospect of increased competition...
The introduction of a more liberalised market would improve industry standards, while also increasing the competitive pressures with the likely influx of more foreign players into Southeast Asia.

Getting capital right...
The past and present practice is to corral capital to protect policyholders. In the future, insurers with better own risk assessment, can give reward of lower capital requirement

Digital disruption and social media...
Location-based marketing technology and social media engagement will dominate the SEA marketing landscape in the coming years, yet few big insurance companies have the capacity, understanding or tools to take advantage of this.

Product distribution...
Establishing agreements with local distributors can prove difficult to new entrants. This is particularly important in a few SEA nations where a small number of local players can dominate the marketplace.

The changing landscape...
As governments across SEA co-operatively look for ways to streamline capital flows between countries, new opportunities are constantly emerging. Reacting quickly to capitalise on new regulations is challenging — but has its rewards.

Regulatory differences...
From country-to-country, regulations vary for the taxation and governance of investment funds. This prevents a single fund from being sold across SEA borders.

Digital holds the key to customer connection...
Customers are changing too through demographic change, increased expectations and empowerment. Technology and social media are making customers better informed and more connected.
The rise of digital

Consumer’s cross-industry expectations and behaviors are driving the rise of digital, requiring companies to let consumer have the control.

YESTERDAY
- Gain Awareness
- Product Centric
- Evaluate & Buy
- Manage Orders

TODAY
- Gain Awareness
- Professional Service
- CRM
- Evaluate & Buy
- Manage Orders

TOMORROW
- Direct Marketing & Loyalty
- Personalized Experience
- Customer
- Community & Social
- Multi-channel Convenience

Customer wants a single view of your organization

Seamless Omni-channel Experience & Consistent Customer Buying Experience is the key to “Be Digital”
Traditional Non-Life insurers could be losing relevance for customers because their products and services are failing to keep pace with rapid technological development in the connected world. The nature of business, as a low-touch product, makes it difficult for insurers to innovate as more than half of insurance customers only deal with their insurers once a year.

Deloitte research has identified nine applications of digital technology – the nine killer applications of Non-Life Insurance – that could have the greatest potential to disrupt or change Non-Life in the next ten years.

The nine applications were identified on the basis that they have the following characteristics:

- High potential demand among customers
- High potential impact on the bottom line
- Lack of regulatory barriers
- Technologically possible today

The applications include:

- Telematics-based services
- Self-driving car insurance
- Mobile Internet transactions
- Price comparison websites
- Peer-to-Peer insurance
- Social Brokers
- Cyber-risk insurance
- Sharing economy insurance
- Value comparison websites
Insurance disrupted
Change the future today

Proliferation of connected insurance models will create channels for insurers to better understand and engage more closely with their customers

Key characteristics of the future of insurance

<table>
<thead>
<tr>
<th>Potential effects</th>
<th>Necessary conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personalization</strong></td>
<td>Increased measurability and availability of personal data will allow insurers to pulverize their understanding of customers’ risks from cluster-based approach to individualized pricing</td>
</tr>
<tr>
<td><strong>Accuracy</strong></td>
<td>With better understanding of each individual’s risks, the pricing accuracy of insurers will improve and more customers will pay premiums appropriate for their risks (i.e., less cross-subsidization among customers)</td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>As customers’ usage and behaviors become more measurable, insurers will gain greater visibility into the circumstances surrounding claims and the opportunities for fraud will decrease</td>
</tr>
<tr>
<td><strong>Data-Rich</strong></td>
<td>Insurers will become a critical custodian of customer data as they gain access to behavioral data on their customers (vehicle movement), above and beyond historical and static data available today (type of vehicle owned)</td>
</tr>
<tr>
<td><strong>Engagement</strong></td>
<td>Insurers will be able to access additional channels to engage with their customers through mobile and other connected platforms and generate more relevant content for their customers based on data</td>
</tr>
</tbody>
</table>

Potential effects
Insurers use connected devices to track and continuously refine risk profiles with empirical data, enabling more accurate underwriting of individual risks
Customers use connected devices to buy event based coverages, personalising their policies for better protection

Necessary conditions
Widespread adoption of personal connected devices
Analytics that can constantly update underwriting of risks using real-time data
Collaboration among insurers, device manufacturers and telecommunications
Customers willing to share additional personal data with insurers

Connected devices help insurers interact more frequently with their customers and proactively manage their customers’ risks (e.g. health consultation based on data gathered through wearables)
Insurers increasingly look to social media to track customer response to innovations as interpreting and responding swiftly to feedback becomes a core differentiator of a digital insurer

Advanced analytics capable of predicting future risks
A clear grasp of the liabilities associated with advice
Customers who trust insurers to manage their risk and provide advice

Connected devices allow insurers to gather ongoing behavioural data to gain a fuller view of the customer identity and lifestyle
Insurers work with retailers and other outside parties to collect customer information for more targeted outreach
Market operates with lower barriers to entry as historically high costs associated with start-ups are driven down by low cost Cloud based solutions

Insurers that can persuade customers that their personal data is safe and will result in greater value
Compliance with existing and future regulations on usage of personal data
Regulatory approval for new entrants

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In conclusion

Three messages to takeaway

For insurance companies, trends such as demography, technology, regulatory and consumer behaviour can transform the way in which companies do business. Innovations that bring about changes can be disruptive to existing business models for some, and create new opportunities for others.

1. Observe emerging trends and study how they create opportunities even if these are not immediately relevant in today’s market.

2. Re-examine the way you do business internally and externally through a transformative lens — one that’s wide enough to allow synchronize and coordinate efforts across the organisation.

3. Have a clear strategic direction about ‘what you want to be’ – it will determine how you design your business to manage the risks and exploit the opportunities that come your way.
Speaker profile

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Raj leads our Deloitte Southeast Asia Insurance practice. He joined Deloitte on 1 May 2015 from AIG Inc. where he was the Global Head of IFRS Accounting Policy based in London. Raj has extensive experience in both the life insurance and non-life insurance sectors gained within senior roles in a professional services environment and multinational insurers. Raj is a subject matter expert on the forthcoming insurance contract standard and on Solvency II and is a frequent speaker at industry events. Raj has chaired the London Market general insurance forum and has extensive mergers and acquisitions experience with large multinational insurers. Raj is a qualified chartered accountant with a detailed knowledge of the IFRS, US GAAP and the SEC rules and a member of ICAEW (ACA) and SAICA.
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