ASIA INSURANCE OUTLOOK

Exploring the key issues impacting insurers across Asia, as the region adapts to the realities of a post-pandemic environment.

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Asia Insurance Outlook

Over the last year, the insurance industry – like so many others – has had to deal with unprecedented disruption. However, with change comes opportunity. As markets across Asia adapt to the new realities brought about by Covid-19, insurers and their clients are seeking answers to a host of questions to guide their future strategies.

InsuranceAsia News and Fitch Ratings recently teamed up to explore the key issues that will impact insurers across Asia as the region comes to terms with the post-pandemic environment. To this end, we brought together a panel of experts from across the industry to share their thoughts on the challenges and opportunities facing the market in the year ahead.

Covid-19's digital dividend

A combination of Covid-19 and ongoing technological innovation has accelerated a digital transformation that was already afoot across the industry – of that there is no doubt.

Lei Yu, QBE's chief executive officer for North Asia, shared her thoughts on what digital transformation means to her company and noted that the pandemic has put the issue on top of her and her colleagues' agenda. In particular, she said QBE was currently thinking about how it can digitalise their current operations, while also noting there was a need to "reinvent" the entire work process. In terms of IT infrastructure, she noted that the various Covid-inspired lockdowns and work-from-home drives have shown that company databases need to be accessible via the cloud.

"Our customers are asking us — and demanding from us — to have more digital and online transaction capability," she said.

SMEs, agents, brokers and customers all want to do business online — be it filing claims electronically or downloading documents, Yu said, adding that digital services need not be impersonal. In fact, when looking ahead, she said that the personalised service customers have enjoyed in the past can co-exist with the transformations affecting the industry right now.

"We need to digitalize our personal service. The pandemic forced us to think faster and act faster."

Frederic Boles, Lockton's Singapore chief executive officer, said clients' expectations in respect of digitalisation have evolved during the uncertainty of the last year, which has given companies an opportunity to re-evaluate their own risk exposure. The pandemic has also put a focus on resilience, Boles noted, adding that a lot of companies realised they were not as resilient as they thought.

It is important for brokers to provide their clients with digital solutions and Boles highlighted Singapore as one market in particular that has embraced technology and digitalisation.

"Our industry has to transform with them," he said. "The industry needs to work to one ecosystem."

Bill Song, the chief executive officer with ZA Tech, noted that the pandemic had had a real impact on customer behaviour — and made insurance a priority.

"The pandemic was a catalyst that drove the industry to move to digital," he said.

He added that customer behaviour had changed a lot — while noting that both enquiries and top line growth at the insurtech increased significantly over the past twelve months.

Song stressed the importance of having a cloud native infrastructure, while he also mentioned the success the Hong Kong-based insurtech had had via collaborations with regional digital platforms such as Indonesia's Ovo.

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Interest rates

Another issue that has affected the insurance industry across the APAC region significantly is the ongoing reality of low interest rates.

Jeffrey Liew, head of Asia-Pacific insurance at Fitch Ratings, said that as insurers seek higher yields, they might be tempted to buy “lower quality paper” that give higher returns. In addition, they may be more open to equities and alternative investments rather than the more traditional fixed income instruments often preferred by insurers.

Because of the decline in investment income that this “low-for-long” interest rate environment has created, Liew said life insurance companies may move away from products that have high interest rates guarantees. Meanwhile, general insurers will likely look to improve loss ratios by pushing rate hikes and cutting expense ratios.

For Japanese insurers, the ultra-low interest rates at home have made them look overseas as they seek higher yields — with some willing to take on more credit risk than in the past, Liew said. However, such an approach does add the element of currency risk, so the hedging costs of overseas investments will need to be considered by those considering increasing their international exposure. This pattern was also replicated to an extent in South Korea, he added, where insurers have also increased their appetite for international and alternative investments.

The ultimate impact of these lower investments returns will be a focus on underwriting, Liew said.

“Insurers’ earnings will definitely come under pressure and insurers will focus on underwriting profitability,” he said.

Overall, Liew predicted that insurers in the region will likely experience a recovery in 2021, even though he stressed that this was contingent on the efficacy of vaccine rollouts and a broader economic turnaround.

QBE’s Yu agreed that the low interest environment has put a renewed focus on underwriting profitability. She said that some insurance companies had grown complacent in the past when investment returns were more assured, adding that insurers really need to think about how risk is priced – and that digital and predictive analytics can improve underwriting profitability.

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Jeffrey Liew, Fitch Ratings’ head of Asia Pacific insurance

ESG

Karen Tan, Swiss Re’s chief risk officer for reinsurance in Asia, noted that there has been an increased focus on environmental, social and corporate governance (ESG) risks in Asia in recent years, especially in relation to climate change.

Tam noted the different kinds of risk involved when it comes to ESG, such as physical risks like rising temperatures and water levels, in addition to the “transition risk” that arises as firms embrace sustainability issues.

While Tan said ESG is very important from an asset management perspective, she said Swiss Re can have an even greater impact through its pricing.

“When we write insurance risk, the role that we play is even more critical,” she said.

“As we move to a cleaner, less carbon focused energy production — we are thinking about solar panels, windfarms – insurance companies have a really strong role to play to help support this transition,” Tan added, while noting China’s goal to be carbon neutral by 2060.

“China has taken a very strong role when it comes to pushing forward green technology,” she said.

“When we write insurance risk, the role that we play is even more critical.”

Karen Tan, Swiss Re’s chief risk officer for reinsurance in Asia

Regulation

Asia’s evolving regulatory environment was also dissected during the panel.

Fitch’s Liew pointed out that while regulators are relaxing some of the investment restrictions that have been placed on insurers in the past — China allowing its insurance companies to have more exposure to equities, for example— this have also been coupled with a tightening of the rules elsewhere, such as asset liability management.

ZA Tech's Song also noted that the regulatory environment in China has been very favourable to digital business over the last ten years

Swiss Re's Tan said there is an ongoing regulatory impetus across the globe to provide incentives to companies to commit to carbon neutral targets. She added that regulators are increasingly becoming more interested in this topic, and are introducing stress tests and other ESG-related requirements for insurers to comply with.

Tan also said that as governments become focused on data protection and localisation, insurers need to assure government that they take data governance seriously, so that they can continue to share data across borders to generate better analytics.

Outlook

Fitch Ratings' Jeffrey Liew states "Insurers in the APAC region will likely experience a recovery of in terms of core business fundamentals in 2021 after a low base in 2020 due to restricted business activities after the outbreak of coronavirus. Nonetheless, the pace of the recovery remains contingent on the effectiveness of the vaccination roll-out as well as the extent to which business operations could revert to pre-covid levels. Low interest rates are expected to linger, and continue to place pressure on APAC insurers' ability to strengthen their profitability margins and capital stability."

Looking ahead, QBE's Yu foresees more engagement and collaboration between insurers and their clients.

"In the next few years, you will see increased collaboration between insurance companies and policy holders," she said.

Responding to an audience question about the role of agents in a increasing digital environment, Yu said that in specialty insurance lines such as marine and engineering, the personal touch of an agent will still be needed.

ZA Tech's Song added that while a company like his parent Zhong An can sell health insurance online without agents, if the product being sold is complicated or expensive like life insurance, agents still have a role to play.

He also predicted that South-East Asia would also see the rapid digitalisation that has characterised China's economy over the last decade, noting the emergence of "super-apps" such as Grab in Indonesia — similar to WeChat in China — which are now issuing tens of millions of policies per year.

The full version of Asia Insurance Outlook webinar is now available on-demand here.

Relevant Fitch research for your reference:

- Prolonged Low Interest Rates Pose Long-Term Implications for APAC Insurers
- China's Fintech Evolves on Fast Track, Diversified Applications
- Chinese Insurers Embrace Digital Transformation to Boost Competitiveness
- APAC Insurers' Climate Strategies Advance; Change Likely to be Gradual
- The Next Phase: Developed Market Insurers in APAC Pioneer Climate Risk Initiatives
- Group-Wide Supervision to Improve Hong Kong Insurers' Capital Adequacy
- Rising Investment Risk Yet Resilient Growth for Chinese Lifers