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The Rising Healthcare Billing Conundrum

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The ASEAN Insurance Pulse 2018 – Key findings

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The ASEAN Insurance Pulse offers an authoritative overview of the current state and future prospects of the region's US$28 billion non-life insurance markets. It also takes the pulse of key insurance executives on protection gaps and their implications for the region's insurance markets and economies.

For the second year in a row, through the ASEAN Insurance Pulse, our exclusive partner Malaysian Re demonstrates its commitment to improving the transparency of the regional market place, providing the regional insurance community with an important benchmark for strategic and operational decision-making.

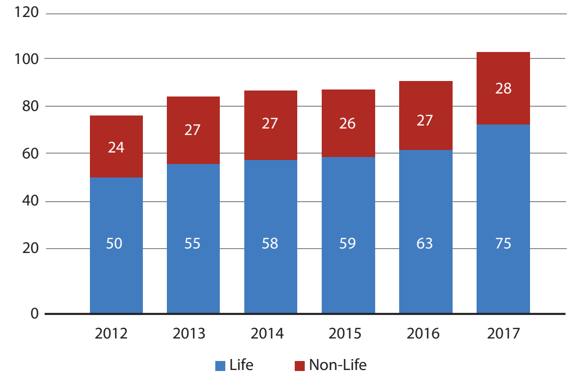
The 2018 edition draws on in-depth interviews with senior executives of 41 national, regional and international insurance and reinsurance companies, intermediaries and trade associations representing all 10 ASEAN countries. Interviewees were recommended by Malaysian Re and Willis Re. In addition, the General Insurance Association of Malaysia (PIAM) and the ASEAN Insurance Council (AIC) encouraged their respective members to support this research. The interviews were conducted between July and September 2018.

A FEW MARKET STATISTICS FIRST: ASEAN NON-LIFE INSURANCE PENETRATION STAGNATES

At a share of 73% of total premiums, life insurance business plays a particularly important role in the ASEAN region, in comparison with its global share of 54%. Having said this, the region's life insurance penetration (premiums as a share of GDP) still falls short of the global average (2.7% versus 3.3%).

The gap is far wider though in non-life insurance. In 2017, non-life insurance premiums accounted for just 0.9% of GDP, about a third of the global average (2.8%). From 2012 to 2017, ASEAN non-life insurance markets marginally outgrew the underlying economies (at a rate of 5.7%). The region's non-life insurance penetration, therefore, remained largely stable. In contrast, the ASEAN life insurance markets expanded by 9.6% p.a. over the same period of time, significantly faster than the region's economy as a whole. The region's life insurance penetration increased accordingly and continued to narrow the gap compared with the global average.

ASEAN insurance premiums by type (2012 – 2017, non-life versus life, in US$ billion)



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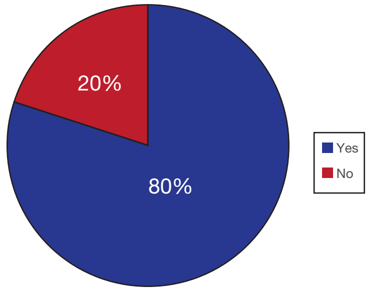
THE SURVEY FINDINGS: ASEAN PROTECTION GAPS MATTER TO ECONOMIC GROWTH

The vast majority (80%) of executive interviewees consider non-life protection gaps (defined as uninsured losses as a share of total economic (disaster) losses) a serious threat to their respective countries' economic growth and societal progress. Large uninsured natural disaster losses can adversely affect the fiscal position of a country and threaten its recovery. Exposure levels are seen as growing faster than GDP as a result of urbanisation and associated asset concentration. Further, in some low-income countries, small holders are virtually uninsured, potentially posing a threat to food security.

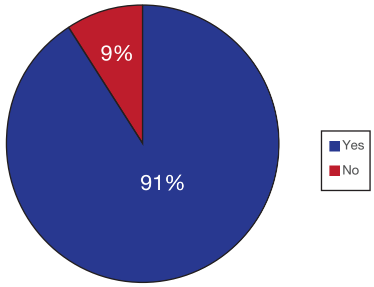
INSURERS ARE LOOKING TO GOVERNMENTS FOR SUPPORT

The overwhelming majority (91% of interviewees) are in favour of a more active role of the public sector in tackling protection gaps. The spectrum of concrete recommendations ranges from subsidised schemes (e.g. in agriculture), tax incentives, compulsory insurance requirements, awareness and education campaigns,

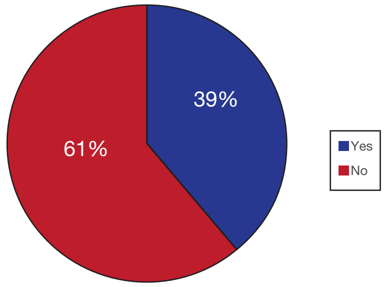
Do you think that risk protection gaps can seriously threaten economic growth and societal progress in your country?



Do you think governments need to play a bigger role in addressing the risk protection gaps?



Do you think that insurers have done enough to narrow risk protection gaps?



a more appropriate policy mix between customer protection and market development, the insurance of public assets to pool solutions for natural perils.

INSURERS ACKNOWLEDGE THEIR OWN SHORTCOMINGS

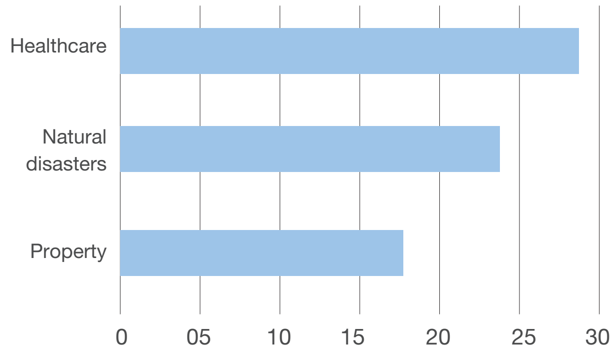
61% of the executive interviewees believe that the insurance industry could do more to narrow protection gaps. The most frequently mentioned shortcomings refer to a neglect of awareness building (both in terms of exposures and risk solutions), a lack of sufficiently innovative and flexible products and unsatisfactory levels of customer service (including claims settlement). A few interviewees even suggest that previously protected and tariff-regulated markets may have caused some complacency among insurers.

HEALTHCARE VIEWED AS BIGGEST REGIONAL PROTECTION GAP

When questioned about the most acute and relevant protection gap healthcare was mentioned most frequently by the executives interviewed. With rising incomes, existing public schemes reach their limits and often no longer meet the needs of the population. Also, many new members of the middle class are no longer eligible for government schemes and face coverage gaps. In addition, rampant medical inflation coupled with an accelerated ageing of the population in a number of ASEAN countries erode the benefits available from public schemes and, for households and individuals, heighten the risk of financial stress or even ruin arising from out-of-pocket expenses which can reach up to 74% of total healthcare expenses in ASEAN (in the case of Myanmar). Cambodia, Indonesia and the Philippines also display out-of-pocket expenditure shares of more than 50%, according to the World Health Organisation.

Natural disasters rank second as 80% and more of economic losses generally remain uninsured, with disastrous consequences for public budgets, private savings and business continuity. Property, especially residential cover, features third, as risk awareness of home owners remains generally low.

The ASEAN region's biggest risk protection gaps



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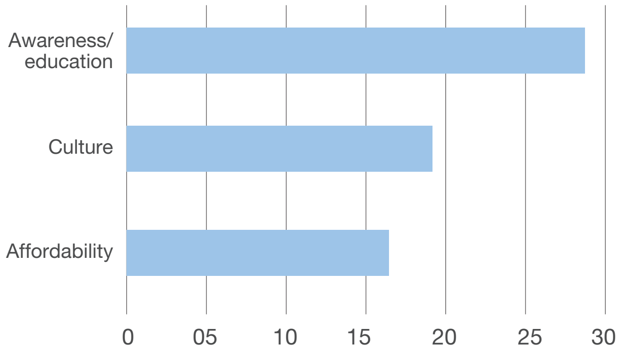
Root causes of ASEAN non-life protection gaps



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LACK OF AWARENESS AS THE MOST IMPORTANT REASON FOR PROTECTION GAPS

When asked about the root causes of the region's non-life protection gaps, most executives mentioned a lack of awareness, education and financial literacy. Many if not most people are neither aware of their real exposures nor of the potential role of insurance for risk mitigation. In addition, they don't recognise the benefits of risk transfer against the cost of premium. Addressing this situation is seen as requiring a major public-private partnership.

Culture and mind-set rank second. In many countries, a fatalistic attitude prevails and people tend to rely on governments as a lender of last resort. They also consider insurance a 'poor deal' if they cannot make a claim to get 'value' for the premium.

The lack of affordability takes the third spot. Even though poverty remains a wide-spread phenomenon in most ASEAN countries and insurance prices can be inflated due to high distribution costs, many executives argue that people would be willing to buy insurance as soon as they properly understand the products and their benefits.

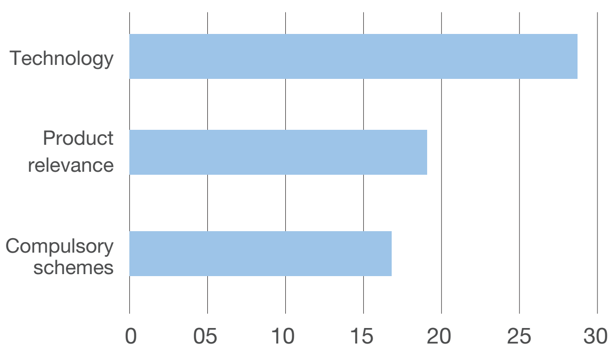
TECHNOLOGY AS THE MOST PROMISING REMEDY

New (digital) technologies are viewed as the most promising approach to narrowing non-life protection gaps in the ASEAN region. Generally young populations are highly IT savvy and open to exploring new ways of buying and using insurance products. Technology could potentially encourage insurance sales through (1) lower prices (benefiting from reduced distribution and administration costs), (2) an enhanced appeal (on the back of more tailored products offering an improved customer experience) and (3) higher awareness coming from social networks and other digital platforms.

More relevant insurance products were the second most frequently mentioned remedy. In many countries, insurers do not offer appropriate need-based solutions (in terms of both price and cover) to the low-income segments of the population. In addition, for middle class customers, there is a frequent lack of customised solutions that cater to individual preferences and demands.

Finally, a significant number of executives see governments in the driver's seat to improve the availability and affordability of retail and wholesale insurance by introducing compulsory schemes that create sufficiently large risk communities and risk pools.

Remedies to ASEAN non-life protection gaps



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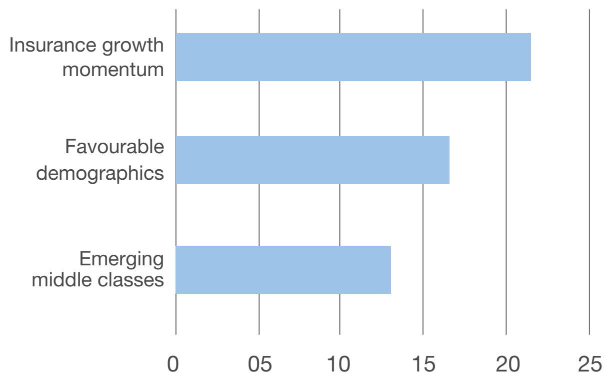
STRONG PREMIUM GROWTH MOMENTUM IS THE MOST IMPORTANT MARKET STRENGTH

The ASEAN region's strong premium growth momentum is perceived to be the most relevant non-life insurance market strength. The second most frequently mentioned strength is the region's favourable demographics, i.e. a very young population compared with mature markets in Europe, East Asia and Northern America. Growing middle classes rank third. As family wealth increases, so does insurance awareness. For these segments of the population, price is no longer the dominant or sole criterion when deciding insurance purchases. Middle classes in the ASEAN region increasingly expect innovative and bespoke solutions that meet the highest standards.

Top 3 strengths of ASEAN non-life insurance markets (number of mentions)

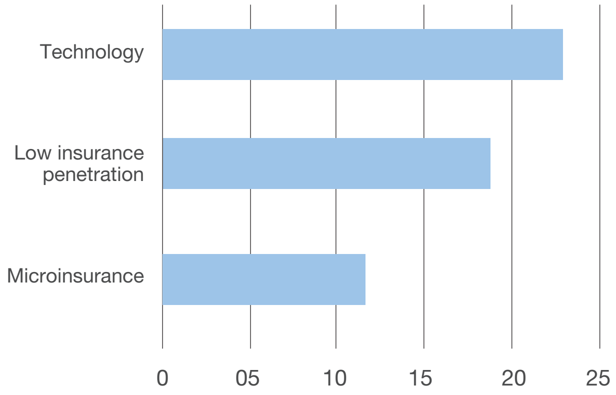


NEW TECHNOLOGIES IDENTIFIED AS KEY MEDIUM-TERM OPPORTUNITY

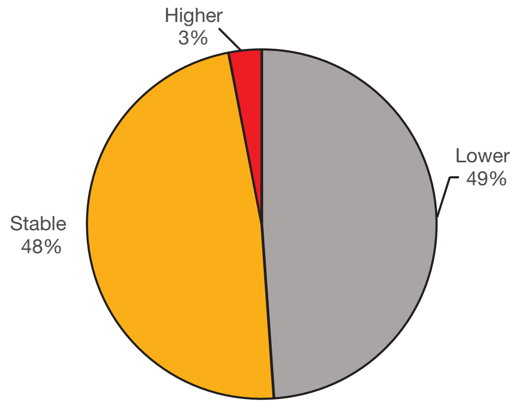
Digital technologies and advanced analytics are viewed as the most relevant medium-term opportunity for ASEAN non-life insurance markets. Their adoption promises to simultaneously make insurance more affordable (by bringing down administration and distribution costs), more appealing (by enabling a different customer experience and different products) and better understood (by reducing complexity and harnessing modern forms of communication).

The region's low insurance penetration ranks second. The ratio of non-life premiums to GDP is less than a third of the global average. For most executives, the resultant catch-up potential is a major attractive medium-term opportunity offered by the regional market place, followed by microinsurance which is set to unlock the potential of rural areas at improved levels of access as technology makes it less costly to penetrate remote regions and settle claims.

Top three opportunities of ASEAN non-life insurance markets (number of mentions)



Pricing outlook for the next 12 months – Commercial lines

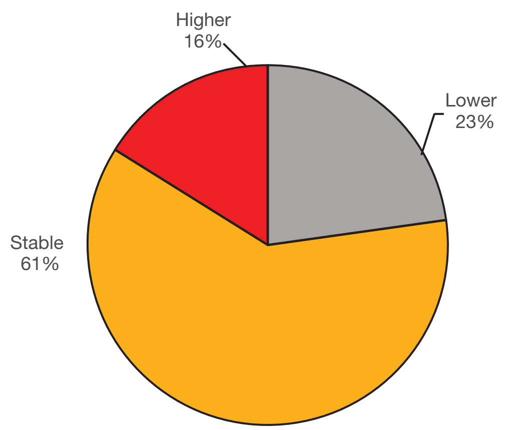


IMPROVED PRICING OUTLOOK FOR PERSONAL LINES

The pricing outlook for the next 12 months is mixed, especially for commercial lines business. 49% (against 69% in 2017) of executives expect further rate decreases. Competitive pressures continue unabated while the supporting role of tariffs will further reduce, especially in Malaysia. Some executives, however, see light at the end of the tunnel and believe that the current squeeze on margins will put a floor under further rate reductions. This is particularly true for reinsurers who exercise more discipline in light of rising global and regional losses.

The picture is different for personal lines where only 23% of interviewees expect further pressure on rates (a sharp reduction from last year's 57%). The more positive outlook reflects an expected rebound from last year's de-tariffication in Malaysia and generally the need and scope for repricing in order to respond to increasing claims inflation. In addition, some interviewees point to the feasibility of innovation-based rate increases in personal lines segments such as Personal Accident.

Pricing outlook for the next 12 months – Personal lines

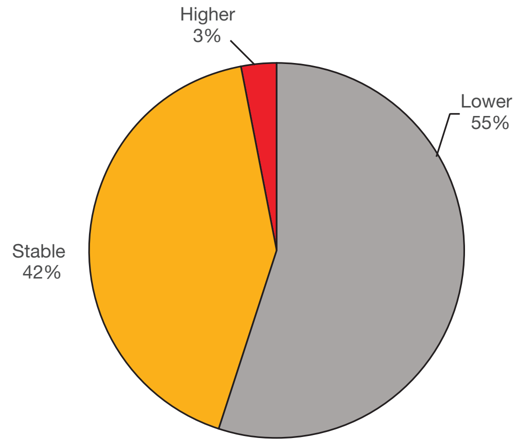


BRIGHTER PROFITABILITY OUTLOOK

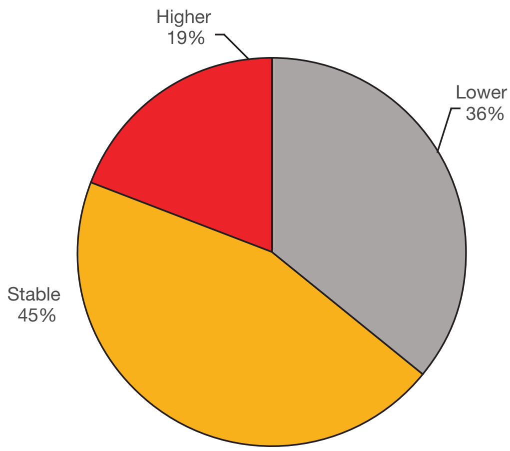
55% (compared with 69%) of executives think that technical profitability in commercial lines will remain on a downward trajectory over the next 12 months as the effects from further eroding prices are expected to prevail over offsetting factors such as relatively stable and still favourable claims patterns.

The profitability outlook for personal lines, however, is more optimistic, with 64% (against 57%) expecting stable or improving conditions over the next 12 months. As contributing factors, executives cite tightened underwriting discipline, further scope for technology-based efficiency gains, a strong inherent premium growth momentum and benefits from profitability-driven risk-based pricing enabled

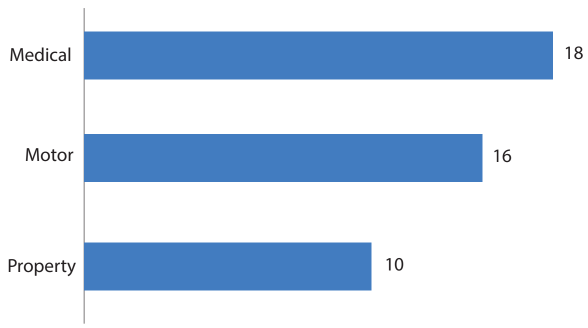
Outlook technical profitability for the next 12 months – Commercial lines



Outlook technical profitability for the next 12 months – Personal lines



The three fastest-growing lines of business (number of mentions)



by de-tariffication. However, some executives point to rising repair costs as a result of an increasing number of semi-autonomous vehicles on the road as well as to an increasing commoditisation of motor insurance due to the growing importance of online aggregators.

PERSONAL LINES DRIVE PREMIUM AND PROFIT GROWTH

Medical, motor and (mainly residential) property insurance were identified as the fastest growing segments of the ASEAN non-life insurance market, against the backdrop of stable economic growth and rising levels of per-capita income. Car ownership continues to increase whereas the growing middle class is becoming more aware of medical insurance, alongside the improving ability to afford cover. In addition, existing public schemes increasingly struggle to keep pace with rising medical cost inflation and the increasing expectations of wealthier citizens.

Personal accident, marine cargo and residential property are considered to be the most profitable non-life classes in the ASEAN region. Driven by strong demand, a high degree of customisation, innovation and, therefore, leeway for differential pricing Personal Accident (PA) ranks first among the most profitable lines. To a lesser extent, these factors also apply to property retail business which ranks third. Marine cargo, the second most profitable line of business, continues to benefit from relatively low loss ratios.

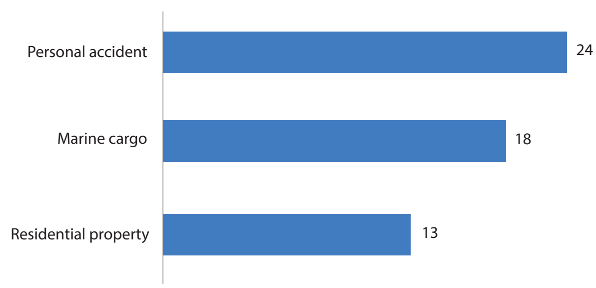
INSURANCE PENETRATION EXPECTED TO STAGNATE

82% (as compared with 69%) of executives expect non-life premiums to grow in line or faster than GDP over the next 12 months. But only 38%, down from 43%, expect premiums to outgrow the economy at large. This ratio is smaller than suggested by other analyses and largely reflects relatively sluggish growth in Malaysia, Singapore and Thailand, caused by slowing economic growth and regulatory changes such as de-tariffication. For countries such as Indonesia, the Philippines and Vietnam, however, premiums are expected to continue growing faster than GDP. In other words: Insurance penetration (premiums as a share of GDP) in these countries will remain on the rise.

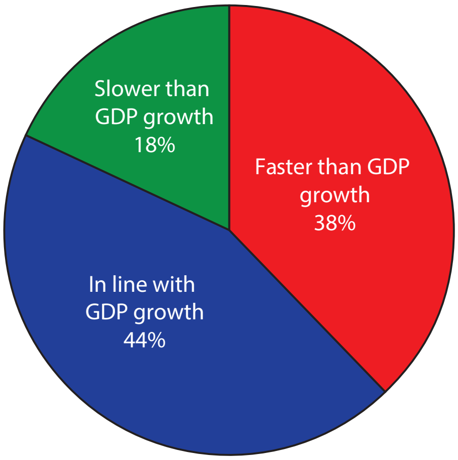
ONLINE DIRECT DISTRIBUTION OUTGROWS OTHER CHANNELS

Online direct ranks first among the most rapidly growing distribution channels even though its share of total sales is still below 5% in all ASEAN markets. Online is seen as a catalyst to direct sales, e.g. in motor insurance as well as in need-based niches such as travel insurance. It is believed to have significant potential in retail business given the region's young and internet-savvy population. Digital insurance is also set to benefit from tariff deregulation which provides insurers with the required degrees of freedom in risk-based and behavioural pricing. The shift to online direct is expected to enable major cost savings across the value chain, especially in the areas of distribution and policy administration.

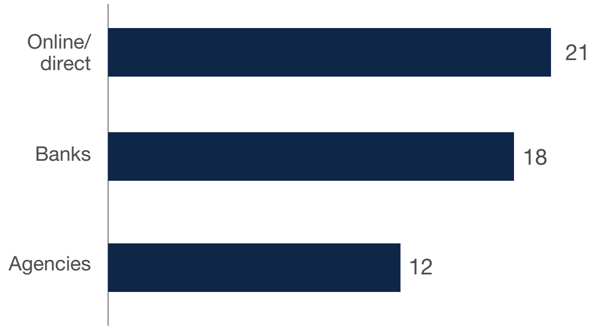
The three most profitable lines of business (number of mentions)



Expected premium growth versus GDP growth (next 12 months)



Fastest-growing distribution channels (number of mentions)



Banks are the second most frequently mentioned distribution channel. They increasingly understand the potential of insurance sales as another contributor to overall profitability and take advantage of the fact that their client relationships tend to be stronger than those of insurers.
The latter are more interested in tying up with banks in order to bring down the cost of distribution and improve their operating efficiency.

Some executives pointed out that the agency channel could prove more resilient than expected given the many efforts towards its digitalisation. The 'digital agent' is widely expected to have a promising future, also in light of deregulation and liberalisation that result in higher product complexity and diversity, adding to the value of advice.

DIGITALISATION TOPS MEDIUM-TERM STRATEGIC AGENDA OF ASEAN INSURERS

In order to establish a regional portfolio of strategic corporate priorities, executives were asked to name those areas that rank highest on their corporate development agenda for the next 3-5 years. Not surprisingly, digitalisation emerged on top. However, the focus is clearly on enabling existing value chains rather than disrupting business models altogether. Efforts concentrate on online distribution, policy administration and claims settlement (with the latter even seeing experiments with Artificial Intelligence-based innovations). Investments in modern technologies and analytics are not limited to proprietary direct channels but also extend to agency forces.

Product innovation ranks second. Existing solutions are seen as being driven by insurers' current capabilities rather than customers' real needs. Technology in combination with more degrees of pricing and structuring freedom due to deregulation are expected to enable significant progress on that front and make an effective contribution to narrowing protection gaps.

Talent development and retention is the third most frequently mentioned strategic priority. As shown earlier, a lack of talent is one of the region's key weaknesses from an insurance perspective and could become a serious obstacle to the markets' further development and growth, especially as technical requirements in digital and deregulated markets tend to increase.

Medium-term corporate strategic priorities