The future of insurance in Asia-Pacific

Navigating InsurTech issues in the Digital Era

March 2020

About Osborne Clarke

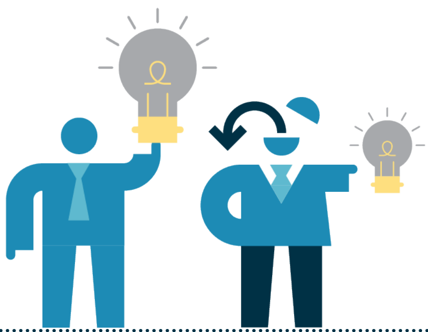
> Osborne Clarke is a full-service law firm capable of handling complex, international mandates at the intersection of technology and financial markets. The firm has outstanding teams in its German, Dutch and Hong Kong offices, while its headquarters in London is renowned for its command of payments regulation.

Chambers Global FinTech 2020

Our focus on the Financial Services and Technology sectors enables us to explore in more depth the impact of disruptive technologies on financial and insurance services. Our efforts in doing so has received recognition in the market and we were awarded the 'FinTech Firm of the year 2019' award by Who's Who Legal.

Our FinTech practice (which includes InsurTech) handles the full spectrum of work for major financial and insurance institutions as well as established and emerging FinTech and InsurTech companies. Our lawyers understand the technical, regulatory and commercial issues that surround FinTech and InsurTech and our clients trust us to provide commercially sensitive and ‘hands-on’ advice.

Many of our lawyers have worked in the industry, so we understand the terminology, business models, technologies and risks, including the challenges and opportunities ahead. With representatives across Europe, Asia and the US, we are experienced in project managing complex cross-border FinTech and InsurTech transactions.



InsurTech in the digital era: the growing investment and opportunities in Asia

Like many sectors of the economy, the insurance industry is affected by increasing technological innovation and disruption in the digital era. Technology in insurance, or InsurTech, is experiencing rapid growth, increasing investment and enabling technology to greater influence, and in some cases transform, the insurance industry.

Venture capitalists and insurance companies alike are recognising and investing in the staggering potential of InsurTechs with exponential increases in investments in the InsurTech industry in recent years. According to an industry standard, while global investment into InsurTech had stabilised at approximately US$1.4 billion from Q4 2018 to Q3 2019, Q4 2019 bucked the trend to reach an all-time investment high of almost US$2 billion. The growing wealth and middle class in huge markets like China, India and parts of South East Asia, like Indonesia, represent untapped potential for incumbents, disruptors and investors alike. And the numbers are big. While the US remains largest insurance market, this is now followed by China and Japan and the shift of insurance business to Asia will continue. According to at least one report, in Hong Kong, between 2012 to 2016, the insurance penetration changed from 12.4% to a 17.6% of the population. While the increase may not seem significant, it is definitely well below ideal insured rates, but strikingly, more than 80 percent of customers are willing to use digital methods including email, mobile apps, video or phone instead of interacting with insurers via agents or brokers. A study by Swiss Re estimates that by 2029, Asia-Pacific will account for 42% of global insurance premiums, with the share of China forecasted to be 20% and that country is on course to become largest insurance market by mid-2030s. A report by Bain & Company indicates that consumers in Asia-Pacific's developing markets are significantly underinsured, with one measure of insurance penetration, gross written premiums as a percentage of per-capita GDP, signalling a significant amount of unmet demand in Asia Pacific's developing markets where penetration is less than 5% in India, Indonesia, mainland China and Malaysia.

While no doubt the global coronavirus (commonly referred to as COVID-19) crisis is creating major headwinds both economically and operationally for many businesses, early reports indicate the insurance sector faces limited coronavirus claims exposure or a limited industry dampening effect. Some predict the situation represents a growth opportunity for insurers (especially those that embrace digital transformation and technology) and InsurTechs, given the heightened concerns around workers health, insurance and using technology to help people get back to work quickly and to maintain health and wellbeing.

We explore how InsurTech is influencing the insurance landscape, including how data is being used, as well as highlight the rise of digital platforms and super apps. Lastly we explore the commercial and legal challenges facing InsurTech and insuring for the future.

InsurTech influences

With insurance businesses built around assessing uncertainties and calculating and managing risk, the sector stands to benefit hugely from harnessing new technologies, including the Internet of Things (**IoT**), Artificial Intelligence (**AI**) and blockchain.

Where are we seeing the opportunities of InsurTech in the insurance industry?

- **Underwriting & Risk** – InsurTech solutions are developing new approaches to underwriting risk and predicting losses. There is a shift to sophisticated prevention models. The data collected from different IoT sensors and devices (including wearables) as well as cross-matching across different data sources to create more holistic 'lifestyle' modelling of a user's risk profile, often in near real time, is already fundamentally shifting the risk calculation of insurance companies and creating more pro-active prevention models, driving greater predictability, and moving the industry toward personalised insurance products and more accurate risk assessment.

- **Claims Management** – the wealth of data that insurers and InsurTechs possess, combined with AI and data analytics, are transforming the insurance claims processes. This is not only in terms of automating once manual processes across the board (both back-end and front-end customer experiences) but also through greater self-service customer use portals (backed by AI-based back-end technologies) to make claims management far quicker and more efficient. For example, ZhongAn continues to integrate technology into every process in the insurance sector in order to reshape the entire insurance value chain, with claims its automation rate of claim underwriting and settlement exceeded 99% and 95% respectively and the proportion of AI applied in online customer service reached 70%, achieving 61% of saving in manpower.

- **Data Management** – with insurer's digital-first strategies, IoT, telematics technologies and other sources of personal and sensitive data, data management becomes an increasingly important issue. Distributed ledger and blockchain technologies are increasingly being adopted to securely store and manage data so that clients can be quoted, onboarded faster, and claims processed quicker, as well as reducing the risks of fraud.

- **New Insurance Service Offerings** – the uptake of use of technologies and digitalisation across multiple industry sectors has spawned new insurance products and service offerings for insuring and mitigating risk in the digital world. An example is new insurance offerings for cryptocurrency / digital assets and coverage for theft of private keys.

- **Customer Experience** – innovative InsurTechs and new disrupter insurers (sometimes with newly minted virtual insurance licences) are developing innovative insurance products which are delivered in a seamless, digital-lead manner, often personalised and targeting specific (often younger) customer segments. With customer experience increasingly becoming a competitive advantage, often the differentiators are simplicity, speed, and a personalised, mobile and social platform-connected digital offering, which is transforming the customer experience for insurance services. AI is already improving efficiencies in customer interaction and conversion ratios, reducing quote-to-bind and first-notice-of-loss or FNOL-to-claim resolution times, and increasing new product speed-to market.

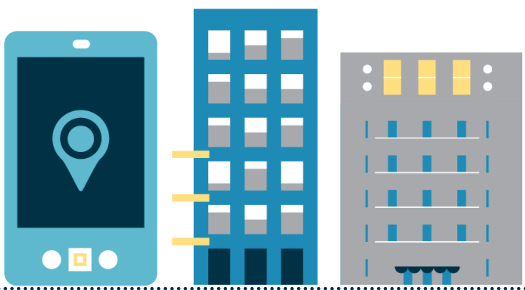
- **Marketing & Distribution, Platforms and Partnerships** – InsurTechs are evolving from disruptors to collaborators with incumbent insurers, seeking to develop value-added solutions that can be plugged into insurance value chains and offerings. Collaborations and partnerships between insurers, specialised InsurTechs and digital platform players are leading to multi-faceted insurance, financial, health and lifestyle digital ecosystems.

Data-driven strategies in the digital insurance world

The common thread throughout the digital transformation of the insurance sector and influence of InsurTech is data. There are valuable insights to be gained from collecting, analysing such data, forming data-lead strategies to win, maintain and leverage and drive new business models as well as new products, services and thereby driving insurance sector growth. The future of insurance will critically depend on data.

In today's health and insurance world, connected health and "P4 Medicine" (Predictive, Preventive, Personalised and Participatory) is a reality. The upshot of this is that the health, lifestyle and insurance world has converged, with IoT/sensors/wearables monitoring and feeding vast amounts of data to insurers, InsurTechs and platforms. The data is harnessed and cross-matched through AI and big data across various other data sets (such as financial, shopping, transaction, and activity data sets), with different players in the insurance and health ecosystem work on developing end-to-end value propositions that will help insurers to generate deeper risk insights.

And with richer insights come opportunities to explore new value and service propositions to clients and potential clients. These propositions are often now deeply personalised and targeted, to meet expectations, from sophisticated lifestyle-based insurance to specific and affordable solutions for under or unmet segments of the community, such as those with chronic diseases. The new sources of data can also be used to assess underwriting risk in ways without the need for physical testing, which adds to the ease of offering new insurance offerings and can greatly aid simplicity and efficiencies in the insurance customer experience journey.



Rise of digital ecosystems and platforms

The insurance distribution landscape is evolving. In developing markets in the Asia Pacific such as China, India, Malaysia and Indonesia, digital channels are becoming more prominent. In many Asia-Pacific jurisdictions, consumers are open to having insurers provide ecosystem services. These insurance digital ecosystems are interconnected players forming sets of products and services that allow users to fulfil a variety of needs in one integrated experience. The result is new partnerships, as incumbent insurers seek to leverage capabilities by InsurTechs, distributors, health providers and platform players.

Backed by a growing use of technology and data-lead strategies and insights, health insurers are not only paying for care and payouts in traditional hospital settings but are also developing or participating increasingly in the health care ecosystem via digital channels, including funding other methods of care such as virtual, home-based care such as AI "doctors" and symptom checkers, as well as preventative care such as digital health and wellbeing programs.

The giant platforms, such as Alibaba and Tencent, are at the forefront of the dynamic paradigm shift from product-centric to customer-centric distribution models. Some of these platforms are already influencing the insurance and InsurTech world in Asia. Examples include Tencent's InsurTech subsidiary WeSure in China, which makes it possible for users to buy insurance products without ever leaving the WeChat ecosystem. WeSure partners with over 20 insurers and claims to have reached 20 million active monthly users on its first anniversary. Another example is Alibaba's provision of a Xiang Hu Bao "mutual-aid platform" operated via the Ant Financial-owned payments and lifestyle platform, through the Alipay mobile app. This claims to have already signed up over 50 million members in less than a year (and is aiming to reach 300 million members in two years). Meanwhile, China's largest health insurer, Ping An (which roughly translates to "safe and well"), has morphed into a technology company, building a connected platform and ecosystem across insurance, health, finance, property, automotive and services for "smart cities", with approximately 700 million users (50% of China's population) and its core insurance business Ping Ann HealthKonnect covering 500 million people in 170+ cities.

The new platform distribution dynamic is also seen in Southeast Asia. In mid-2018, Indonesian e-commerce giant Tokopedia closed a funding round led by SoftBank Vision Fund and Alibaba Group Holding worth US$1.1 billion to venture into new areas, such as air tickets and insurance. In mid-January 2019, ride-hailing app Grab and the Chinese insurance giant Zhong An announced a joint venture to create an insurance marketplace for Southeast Asia, while in Vietnam, Allianz announced a joint venture with FPT Group, the country's largest IT company, to create an end-to-end integrated digital-first insurance company.

There is little doubt that the vast resources and deep pockets and innovative drive of these digital platform companies will likely lead to greater disruption in the business models and distribution models for insurance in the Asia-Pacific. We are seeing the trend of these large digital platforms gearing up to become fully fledged super-apps, covering all aspects of personal finance and insurance and to become Asia-Pacific's predominant insurance ecosystem.

While many legacy insurers remain focused on enhancing legacy systems, products and business models while just tinkering with disruptions, there is no doubt that InsurTechs and new 'super apps' and large platforms are forcing insurers to assess their rate of digital transformation and rethink their business models and delivery of products and services. Some insurers who have invested early into the digital transformation journey are now better positioned to adopt new technologies to drive their business in the new age of insurance. Competition is intensifying as insurers are jostling for position with big tech and super apps on board.

“… From an international perspective I would say they're one of the best.”

Client comment: Chambers Global – FinTech

Insuring for the future

Careful planning and consideration of legal/regulatory and commercial issues are required when dealing with InsurTech transactions and adopting greater use of new technologies, data analytics and digital platforms in the insurance sector. Some key considerations include:

- **Risk and Regulation** – While the insurance sector is a heavily regulated area and differs from each Asia jurisdiction, there are obviously regulatory considerations to be made if an entity wishes to seek licensing as an insurer in a market. However, with jurisdictions like Hong Kong recently issuing virtual insurer licences (i.e. that have no physical retail branches) and companies that have now successfully completed the Insurance Authority's Fast Track process, there is a willingness by regulators to accept and implement technology and innovation in the insurance sector if the appropriate distribution channel and robust business model is workable. More generally, with the increasing adoption of big data, AI and predictive analytics looking to play a huge role in assessing risk, appropriate premiums, and managing the claims process, your company will have to become comfortable with the inherent risk of the 'black box' of AI. Careful consideration is needed as to how local insurance regulation affects what InsurTech, financial providers and other ecosystem partners do and offer in the realm of insurance brokerage activities (such as InsurTech products offering robo-advisory or "virtual agent services) as well as regulations around advertising and marketing. Additionally, the intersection of emerging technologies used in the insurance sector (such as smart contracts) may present a number of regulatory and compliance hurdles under existing laws requiring careful regulatory consideration. For example, are smart contracts with insurance-like features subject to regulation as insurance contracts, or as derivative contracts, which are subject to other regulatory regimes. Or might they have to comply with both regimes? Or might the regulatory landscape change in the future to expressly regulate under a new regime? These aren't necessarily new challenges as partners, insurers and InsurTech players merge and blend technologies into their product and service offerings, but the rise of InsurTech in the insurance distribution channel and operations has resurfaced some complex legal and regulatory issues with a 'digital spin' which will require careful consideration.

- **Complex Supply Chains** – the supply chains and general ecosystems for InsurTech technologies and solutions are multi-layered, with a number of commercial partnerships, joint ventures and other interests. Relevant suppliers and stakeholders include various manufacturers of technology products, platforms and applications, resellers, agents and intermediaries, retailers, wholesale distributors as well as various third party service providers to provide cloud services, software services, data analytics services and the like. This may require consideration of complex contracting structures and detailed understanding of legal and commercial issues such as risk, liability, IP protection, data ownership, licence and usage, performance and exit/transition out rights.

- **Data and Privacy, including Quality, Protection and Ownership Issues** – Managing data quality and protection in your company will be a significant legal and corporate issue. Data and privacy issues go beyond just scope of consent issues, although a key issue to consider, but will need consideration also in terms of the nature, use and performance of suppliers interfacing with a company's digital solution. Data privacy issues are become increasingly complex both in terms of data ownership issues as well as minimising risk for a company in the context of data analytics services where data may not necessarily need to contain personal data or personally identifiable information in order to be used (and hence, potentially shielding a company from some of the provisions and prohibitions under a jurisdictions data privacy laws).

Insuring for the future

Further, complex data ownership issues may arise in terms of transformed data sets and cross-matched data sources for data analytics. Data and privacy issues also arise in terms of health and wellness solutions, including customer's IoT devices such as wearables or smart home sensors, data from a third-party provided app from their health specialists. Failures or other errors in any of these data sets may compromise the information base and quality of analysed data output. Privacy and data protection issues will also need to be considered in the context of development of digital insurance platforms and collection and use of data of individuals, as well as governance and ethical use of AI in creation and delivery of products and services to consumers. As illustrative examples form one Asian jurisdiction, the Privacy Commissioner for Personal Data, Hong Kong has highlighted privacy and data concerns for the insurance sector and the Hong Kong Monetary Authority has issued guidance on use of big data and analytics and artificial intelligence recently.

- **Commercial contracting for new technologies** – developing technology as an InsurTech or digitalising legacy platforms often involves complex technology development, procurement and implementation, often under commercial contracts. Some of these models utilise cloud service models. However, traditional 'waterfall' technology outsource contracting models or commercial contracts are totally inappropriate to contract in today's technology development world of multi-sourced, best of breed solutions requiring speed to market and iterative development. Commercial contracting for 'as-a-service' technology procurements, with outcomes-based approach, no lock-in, balanced scorecards and new governance regimes are far more appropriate in the new age of digital contracting. Often, software development is done on an agile basis, and adopting the proper agile-based contract that properly matches both operational development and governance, as well as appropriate risk of both parties, is critical to expediting the project.

- **Cybersecurity** - Cybersecurity issues in Asia is no longer just a compliance responsibility or a technology responsibility. Data awareness and cybersecurity best practice needs to be embedded across the business and operational processes of every company. They also need to be embedded in the commercial arrangements, whether as an insurer or an InsurTech. As computing power grows exponentially with big data and quantum computing, the insurance actuarial modelling world increasingly uses new and sophisticated forms of data collection and analysis, including data mining, statistical modelling and machine learning. Cybersecurity risk mitigation and compliance is important as part of the technology development and implementation of digital projects for insurers and InsurTechs. Regulators in Asia have increasingly focused on cybersecurity issues in terms of technology development and governance, such as Singapore's Monetary Authority of Singapore's 'Cyber Hygiene' notices for the insurance sector issued in 2019. The reasonableness of an organisation's cybersecurity program in the eyes of regulators will continue to evolve over time in response to the changing cyber threat landscape. As InsurTech, insurers and platform companies increasingly hold large amounts of personal data, it will become more critical to monitor regulatory and industry requirements, standards and developments closely to ensure compliance is met.

Like every other industry, the insurance industry is undergoing digital transformation (and disruption) with technology and InsurTechs being an enabler for insuring for the future.

Key Global Contacts

Albert Yuen
Head of Tech, Media & Telecoms – HK & Foreign Legal Consultant
Hong Kong

T +852 2535 0114
albert.yuen@osborneclarke.com

Chia Ling Koh
Director
Singapore

T +65 6350 4382
ChiaLing.Koh@osborneclarke.com

Vikram Singh
Partner
BTG Legal, India

T +91 22 2482 0820
vikram@btg-legal.com

Tanja Aschenbeck
Partner
Germany

T +49 221 5108 4196
tanja.ashenbeck@osborneclarke.com

Umberto Piattelli
Partner
Italy

T +39 02 5413 1752
umberto.piattelli@osborneclarke.com

Kate Johnson
Partner
United Kingdom

T +44 20 7105 7230
kate.johnson@osborneclarke.com

Paul Anning
Partner
United Kingdom

T +44 20 7105 7446
paul.anning@osborneclarke.com

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