

Asia Life Insurance Whitepaper

February 9, 2022



The rate of improvement in digital infrastructure has advanced exponentially over the last 5 years and is expected to continue, in part due to the shifts in channel preferences due to COVID 19. Despite this, there has been limited change in the way life insurance is sold and serviced (largely utilising face-to-face through banks and agencies) although there have arguably been some initial steps taken to digitise some components of the journey largely at the point of customer initiation. However, customer expectations have and are continuing to shift, and this requires a commensurate shift in capability from insurers to match.

Consumers - ‘Digital-first’ Insurance

Traditionally, agency distribution, via face-to-face sales, dominated new business while the digital channel was developed for sale of simple products requiring limited underwriting. As such, digital was considered a separate channel for distribution.

Our recent consumer study across Asia found that more than 40% of consumers surveyed demonstrated a clear preference to purchase via digital channels. Whilst there were clear disparities between countries, emerging countries such as Indonesia, Vietnam and Thailand displayed a stronger propensity to purchase compared to more developed countries such as HK and Japan.

Exhibit 1: Consumer Preference to Purchase by Digital Channels

*% Net Trust refers to % of respondents who trust minus % of respondents who distrust

Source: NMG Asia Life Consumer Study 2021

Across age segments, the preference towards digital channels is unsurprisingly far more evident amongst the Millennials. Overwhelmingly, they place a high degree of trust in digital channels relative to Gen X and Boomers, which is even more prominent in emerging countries such as Vietnam, Philippines and Thailand. The continued growth in the digital economy is expected to further drive an increase towards digital and likely support higher levels of trust across markets.

Despite such strong consumer intentions, digital sales only comprise c.10% of new business in 2020 and has struggled to achieve the level of penetration initially envisaged.

Offering a Digital-First Experience

Consumer preferences and expectations around digital capabilities and improvements in digital technology is one of the key opportunities for life insurers in the region to capitalise on to drive superior financial and operational outcomes. Whilst there is noticeable investment towards improving this, utilising digital as a mainstream sales channel has yet to achieve its full potential as it lacks a wholistic customer experience (between channels), integration between platforms and other ecosystems and utilisation of intelligent technology.

- **Customer Experience:** Improving consumer experience and embracing 'Digital First' and 'Mobile First' engagement as a method for delivery. This creates a truly omni-channel customer journey leveraging data for value added services and premium adjustments
- **Platform & Ecosystem:** Development of Ecosystems as an interconnected web of services creating the opportunity to gain scale and data advantage; and

- **Intelligent Technology:** Taking advantage of intelligent technology through AI driven data and analytics enabling intelligent and efficient end-to-end business processes

In our recent study, we found that most insurers are in their early stages of their digital journey which is not surprising given the historical lack of investment in this area. As a result, intermediated channels (e.g. agency, bank based) are expected to continue to thrive and remain important going forward. In addition, strong digital capabilities and digital propositions are expected to remain critical for future competition.

An insurer's digital maturity is an incremental three-stage journey towards reinvention comprised of commencing the digitisation process, transformation and reinvention. To that end, most insurers have started investing in their digital capabilities with a focus on:

- Digitisation of core processes (e.g. both customer facing and core infrastructure & applications)
- Driving increased consumer access (e.g. e-commerce platforms and expanding channels); and
- Improving consumer driven initiation (e.g. lead generation through targeted consumer prompts and utilising health/wellness programmes as a basis for continued engagement)

Exhibit 2: Asia Life Insurers Three-Stage Journey Towards Digital Maturity

Source: NMG Asia Life Executive Study 2021

The Race to Become a 'Digital-First' Insurer

The race to become a truly digital-first insurer has already begun.

Fastest growing insurers have prioritised accelerating their digital capabilities. Already, we are beginning to observe disproportionate growth amongst digital-first insurers at the expense of Top 3 insurers (AIA, ManuLife and Prudential) and the rest of the field. The core points of differentiation include attractive customer experience and relevant digital propositions underpinned by stable platform and ecosystems and application of intelligent technology.

Exhibit 3: Asia Life Insurance Digital/Innovation Index vs Growth

Source: NMG Life Re Study Asia 202, NMG Asia Life Executive Study 2021 and NMG Asia Life Insurance Market Model

Expectedly, digital maturity is a strength of the digital-first insurer. Though from our recent study, incumbent insurers have clearly started to make inroads in improving the maturity of their digital capabilities given the strong orientation towards accelerating digitalisation and remote distribution or digital sales capabilities as the dominant paradigm. As a result, there is the potential for erosion of the first-mover advantage of the typical digital-first insurer.

Exhibit 4: Asia Life Insurer's Digital Focus and Priorities

Source: NMG Life Re Study Asia 2020 and NMG Market Pulse 2020

The Pathway to 'Digital-First'

The emergence of digitally savvy consumers, growing demand for interconnectivity and increasing application for automation require life insurance providers in Asia to become 'Digital First' which most providers in Asia are far from becoming. In our recent NMG Asia Life Executive Study, there was widespread acknowledgement (>62%) that the current digital capabilities were far from ideal with no

executive rating their capabilities as an 'ideal' state.

Figure 5: Executives' Stance on Asia Life Insurer's Digital Capability

Source: NMG Asia HNW Broker Study 2020

This race to become a digital first insurer will be complicated by a range of issues which will differ depending on scale, portfolio and starting point. The issues faced by incumbents include managing legacy and ageing core technology that may be difficult to replace and integration challenges when building life insurance ecosystems (e.g. integrating into health and wellness platforms). Larger insurers may also face speed and execution challenges due to the geographical spread of their operations.

Smaller localised insurers may be disadvantaged and may find limited incentive to invest in the longer term with limited ability to access new customers (due to limited new partnerships to pursue), legacy heavy technology and smaller scale/footprint.

However, as insurers build out their digital capabilities, they should also take the opportunity to utilise digital capabilities from strategic partners. These partners will likely augment their digital first capabilities including health and ecosystem providers which should form a core part of an insurer's customer engagement proposition going forward. This alongside other parts of the value chain such as reinsurance where providers have developed strong capabilities in underwriting and claims management will inevitably accelerate an insurer's quest to be truly 'Digital First'.



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