Legacy-free markets in Asia are becoming InsurTech incubators

Will they transform traditional insurance delivery?

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Asia, free of many unwieldly legacy constraints, is the prime example of how emerging markets may more immediately offer favorable conditions for InsurTech breakthroughs.

Despite the great enthusiasm over InsurTech's potential, barriers to entry in developed insurance markets remain difficult for the vast majority of start-up and early stage businesses. Although regular reports suggest that the global insurance industry is under attack from many disruptive forces, there is scant proof this is the case. When we remove the extraordinarily high, self-evaluated price tags from most InsurTech start-ups, their true value is usually quite limited.

In North America and Europe, in particular, there have been a relatively small number of new players that were genuinely successful in squeezing themselves into the value chain. That's not to say others cannot or will not, but for now, at least, their long-term contribution to the insurance industry is still far from known.

The continued excitement in the space is because select new entrants will undoubtedly be successful in introducing new technologies or applications that improve or streamline the insurance process, whether as businesses with stand-alone value or by being absorbed into existing organizations. Yet, no one can say which ones with much certainty. Currently, we believe InsurTechs that complement incumbent legacy processes – and specifically those that are able to lower expenses through automation and better use of data – will add value.

The advantage of a legacy-free marketplace

It's worth emphasizing the word "complement." InsurTechs in developed insurance markets are typically forced to contend with decades' worth of incumbent experience. The resulting legacy market infrastructure has fostered established protocols, which newcomers to the industry invariably have to master or circumnavigate in order to become part of the value chain.

This hurdle proves too difficult for the vast majority, as the relatively high infant mortality rate for start–ups suggests. Disruption in these markets is frequently limited by a combination of domestic regulation, consumer acquisition costs, market penetration, capacity and legacy infrastructure constraints.

The Asian, South American and African markets, however, are less encumbered by legacy processes, providing InsurTechs with a relatively greater opportunity to compete with fewer barriers to entry.

It is becoming increasingly clear that legacy-free markets are more forgiving operating environments for innovative start-ups. These markets allow certain InsurTechs to fill gaps that might otherwise be filled by traditional incumbents. Nowhere is this more the case than in Asia.

Digital distribution and aggregator platforms in Asia

Digital propositions and InsurTechs focusing on life and health, and microinsurance (specifically for agricultural products) appear to be the most influential drivers of innovation in Asia to date. Within these business lines, digital distribution and aggregator technology have been particularly successful in bridging the gap between supply and demand. The distinct lack of legacy incumbents in many of these markets, coupled with increasing demand for more responsive and tailored insurance products, are creating strong opportunity for new entrants.

The largest single InsurTech in the market today is digital insurer Zhong An, which was launched and financed by Ping An, Tencent and Alibaba in 2013. Zhong An was the first, and is now one of only four companies nationwide in China, to receive a license from the China Insurance Regulatory Commission to sell insurance products online. The company boasts more than 240 niche products, all of which are

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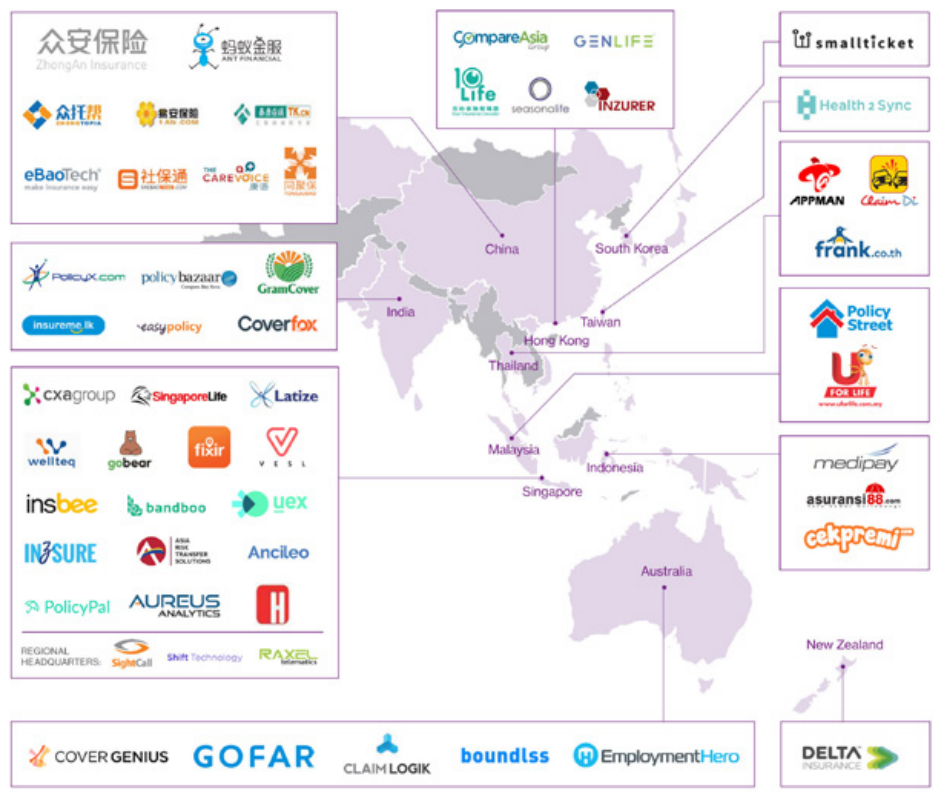
Figure 1. **Geographic breakdown of recent InsurTech investments in the Asia Pacific region**



Source: InsurTech Asia Association, October 2017

distributed digitally, mostly through the online platforms of the company's many ecosystem partners. Zhong An has raised over US$2.4 billion of capital to date, including its US$1.5 billion initial public offering on the Hong Kong Stock Exchange (at a valuation in excess of US$10 billion) in September 2017 and its US$931 million Series A round funded by several private equity investors in 2015.

Another notable entrant is Singapore Life, a digital insurer specializing in life and health products for high net worth individuals. Singapore Life is the first Singaporean insurance company to be domestically licensed since 1970, and closed a $50 million Series A round in April 2017 with funding provided by China Credit and IPGL. The company has been particularly efficient at penetrating the local marketplace and identifying demand through the use of its state-of-the-art technology.

Despite the size of the Zhong An and Singapore Life deals, the Asian InsurTech ecosystem remains relatively small. We estimate that globally there are approximately 1,500 InsurTech start-ups. In Asia, there are just over 100 recognized InsurTech start-ups, approximately 7% of the global total. Furthermore, Asia makes up less than 15% of total global investment funding into InsurTechs, and the majority of volume to date is accounted for by the Zhong An transaction.

InsurTechs by geography

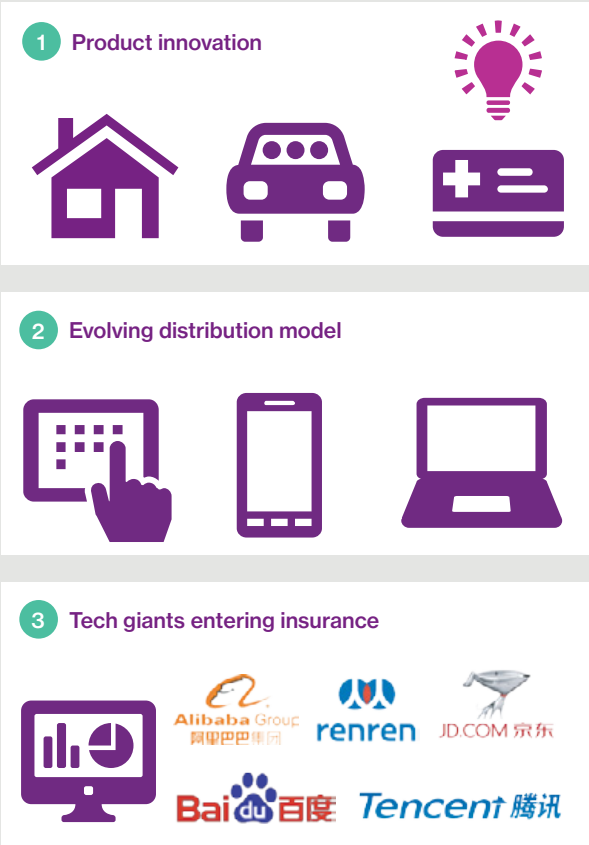
While activity in Asia is predominantly concentrated around Singapore, Hong Kong and China, other countries such as Malaysia, Indonesia, Thailand and Vietnam have also recently made regulatory provisions to allow for the development and growth of local InsurTechs.

In Singapore's case, the Monetary Authority of Singapore created a regulatory sandbox for InsurTechs (along with FinTechs), allowing new companies the opportunity to test their value propositions in the sanctuary of a low regulation environment. Following this move, Malaysia has elected to establish a similar mechanism.

These and related provisions are expected to drive a wave of change to meet the needs of the large and growing, increasingly sophisticated online consumer base in Asia. With few digitally visible incumbents to challenge this phenomenon, increased opportunity is anticipated for InsurTechs.

Figure 1 shows the Asia Pacific countries where InsurTechs have already successfully launched. The vast majority are distribution platforms and aggregators. Most offer personal lines coverage and microinsurance, with life- and health-focused (HealthTech) companies making up the largest proportion.

Figure 2. **Technology is helping to reshape the insurance market in emerging Asia**



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Interestingly, Japan is notably absent from the list of Asian nations currently producing a steady stream of InsurTechs. This is not to suggest, however, that it is not actively investing globally in InsurTechs – quite the contrary, in fact. Japanese commerce giant Rakuten, for example, has invested in German InsurTech, Simplesurance.

Equally, Asia has provided a huge opportunity for inward investment, enabling incumbent insurers to leverage InsurTechs to distribute their products and penetrate markets that have historically been difficult to access, or have been underserved. Aviva, for example, at the beginning of this year sold approximately 60% of its Hong Kong business to Tencent and Hillhouse, with the goal of leveraging Tencent's Internet prowess to sell its life insurance and investment products via digital channels throughout Asia. Historically, life and health products have been sold primarily through agents in this region, but increasing use of digital channels is enabling Aviva to increase sales and penetrate new markets.

It's also important to note that distribution in Asian markets and a relatively low demand for cover have prevented the penetration of innovative products in many markets in the past. The proliferation of handheld smart technology and digital awareness among consumers, coupled with increased demand, however, have begun to change the landscape.

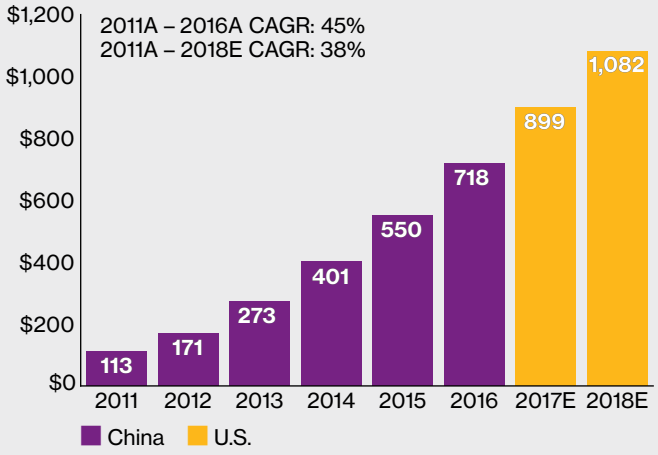
In fact, the boom in handheld technology has created new market opportunities and coverages. Companies such as BIMA and StoneStep have made insurance available where access was previously limited – products such as microinsurance, life, personal accident and hospitalization. New agricultural products have also emerged – many of which are supported by parametric technology, which determines claim eligibility based on a third-party notification of a natural disaster. Where legacy infrastructure has not existed previously, modern technology is increasingly supporting the provision and growth of these insurance products that should help facilitate economic growth and improve standards of living *(Figure 2)*.

Emerging Asia: An e-commerce hotbed

E-commerce is perhaps the best lens through which to view the potential time frame for InsurTech to narrow the gap between emerging Asia and more developed insurance markets. The charts below illustrate emerging Asia's leading position in e-commerce globally. E-commerce in China has grown at a 45% compound annual growth rate since 2011 and is projected to exceed US$1 trillion by 2018. Notably, China's 19% e-commerce penetration rate, which represents e-commerce sales as a percentage of total retail sales, significantly exceeds the U.S. rate of 8%.

Figure 3. **E-commerce sales in China**

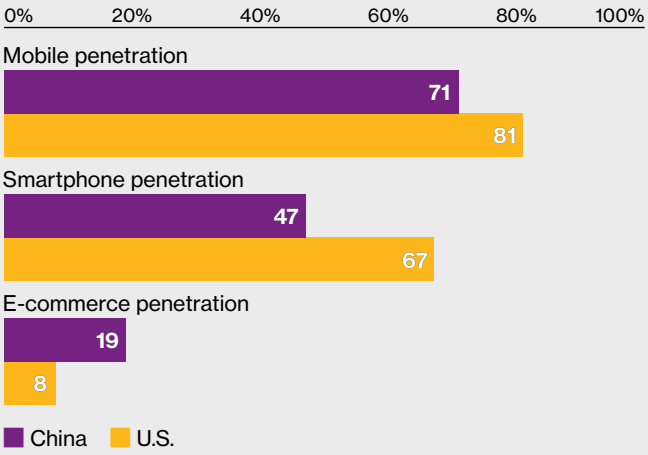
(US$ billion)



Source: China National Bureau of Statistics Euromonitor and eMarketer

Figure 4. **Mobile and e-commerce penetration**

China vs. U.S.



Source: China National Bureau of Statistics Euromonitor and eMarketer

Portability potential

Such developments are indicative of an InsurTech future where some consumers may never need an agent or to fill out a claim form. And where the legacy market infrastructure is less entrenched, it's easier for technology to disrupt. In Asia there is a real opportunity for innovative technology to shape the future of emerging insurance markets.

This coincides with individual capabilities or functions in the value chain – that are characteristic of increasingly modular global economies – becoming more portable between markets. Successful technologies and distribution methods, such as Zhong An's ecosystem, partner-integrated digital distribution model, could well be transferred to new markets after demonstrating success locally. Any InsurTech predicated upon a genuine solution-driven business model supported by product, geographic and financial agnosticism is likely to be replicable in other markets.

Emerging Asia, in the early stages of growth and development, may effectively serve as an incubator for InsurTechs that ultimately transform more developed markets currently controlled by traditional incumbents.

Digital and InsurTechs focusing on life and health, and microinsurance (specifically for agricultural products) are driving innovation in Asia.

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