

# Digital Partnerships – Unlocking the \$10 Billion Opportunity in Insurance

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ZA Tech is redefining insurance, enable leading insurers to unlock the value of digital partnerships and accelerate go-to-market for the new generation of online insurance.

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## At A Glance

The rapid growth of Southeast Asia's digital economy is creating new opportunities across industries. In insurance, partnerships between major digital companies and experienced insurers will drive a market transformation, opening up new opportunities worth over USD10 billion in insurance premiums over the coming five to ten years.

Creating the right framework for success will be critical for effective collaboration. Insurance companies must evolve their traditional mindset, technology, and product development cycles to engage with the fast-paced customer-centric strategies of digital companies, and the rising expectations of customers for a personalized and smooth user experience. This needs to be underpinned with effective partnership structures and new commercial agreements suited to an open-architecture world, and alignment on key performance indicators (KPIs) and operational role sharing.

In this article, we take a deeper look at the nature and scale of the opportunity, frameworks for successful partnerships, and operational requirements to drive value, drawing on research and client experience across a broad range of digital players and insurers in Southeast Asia.

### 1. Digital partnership landscape and opportunity

The digital economy has experienced remarkable expansion over the last decade, as increasing connectivity and digital penetration rapidly drive market growth. Alongside the leading economies of the United States and China, the digital economy of Southeast Asia is also booming—driven by a large and growing population, increasing affluence, and high digital penetration.

Regional GDP has already expanded to USD3.3 trillion today, and Southeast Asia's population is growing from a base of 650 million. There are an estimated 400 million internet users across the region, with digital penetration

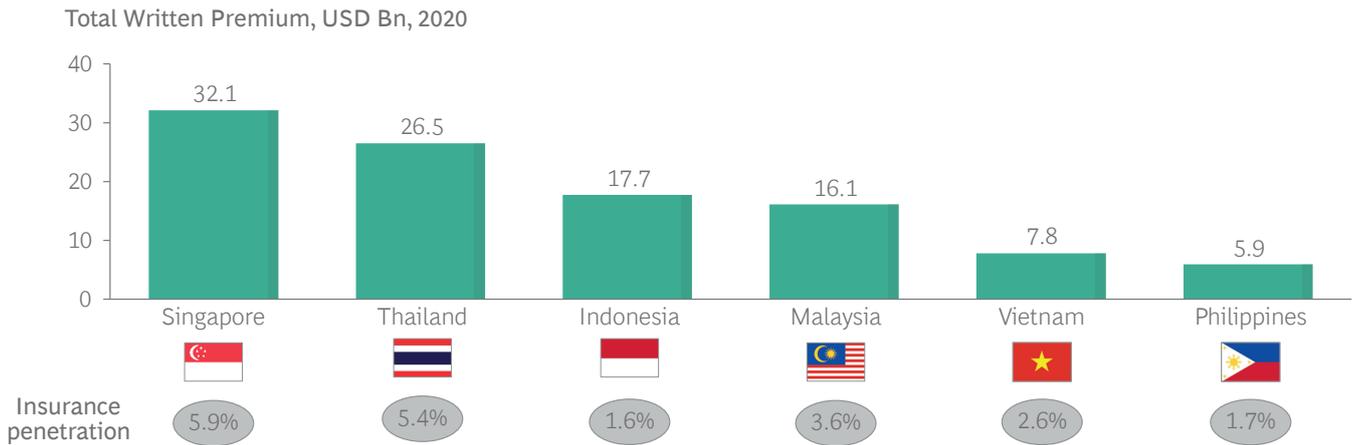
of 63%, expected to grow significantly in coming years. More than 90% of the region's internet users connect via mobile internet through smartphones and other connected devices. The current estimate of the gross merchandise value of Southeast Asia's digital economy is USD370 billion, and this is expected to grow at 16% CAGR over the next 10 years.

In this rapidly transforming landscape, the insurance industry will undergo its own transition. Total insurance premium in the six largest Southeast Asian markets today is estimated at USD106 billion, with varying levels of insurance penetration. (See [Exhibit 1.](#))



The established insurance distribution model is evolving. While the traditional pillars will remain the mainstay for some time, a new force is rising in the form of partnerships between digital players and insurance companies.

# Exhibit 1 - Southeast Asia's Major Insurance Markets



Source: BCG analysis, AXCO, Global Data.

Insurance companies in Southeast Asia have traditionally relied on agents, brokers, and bancassurance channels for distribution, with direct-to-consumer models emerging more recently. The established insurance distribution model is evolving. While the traditional pillars will remain the mainstay for some time, a new force is rising in the form of partnerships between digital players and insurance companies.

Partnerships between digital companies and insurers can lead to a win-win-win situation. For customers, the benefits come from bespoke products embedded in their personalized customer journeys. For digital players, insurance provides additional revenue streams, as well as value-added services for customers. For insurers, the attraction is expanded distribution, access to large (and often cross-market) customer bases, and accumulation of customer and transaction data.

In our engagement with digital companies in Southeast Asia—spanning e-commerce, ride sharing, travel, e-payments, digital finance, delivery, and more—we found growing interest in the insurance opportunity. Several pioneering companies have already established partnerships with insurers, providing an early look at such opportunities in action. This includes Grab and Chubb, Traveloka and FWD Life, Gojek and Allianz, among many others.

Looking ahead, total insurance premiums for general insurance and life insurance in Southeast Asia are expected to grow to USD140 billion and USD60 billion respectively by 2030. With an increasing digital insurance penetration, the opportunity for digital players and insurance companies could be of the order of USD10 billion.

## 2. Shaping the partnership framework

Shaping the right partnership framework is essential for insurers and digital companies to derive the greatest possible value from the emerging market opportunity. The design of an effective digital partnership requires careful consideration of five key components:

- **Architecture.** Is the partnership architecture open or closed?
- **Structure.** What does the partnership cover?
- **Commercial.** How is the commercial arrangement structured?
- **KPIs.** How will the success of the partnership be measured?
- **Operational role sharing.** What are the organizational roles and responsibilities between the two parties?

### ARCHITECTURE

Insurers are used to exclusive and long-term arrangements for distribution. The digital ecosystem, on the other hand, typically operates on a very different “open architecture” basis.

There are three roles in the digital ecosystem: the customer owner, the platform provider, and the product or service providers. In an “open-architecture”, the digital company always plays the first role, often embraces the second role, while leveraging third-parties for products and services. Digital companies select their product and service providers, including insurance by product category. More often than not, the providers will vary across different product categories, rather than an “umbrella” relationship, and there may be competition within a category across multiple providers.

For insurers, this means they need to compete for the partnership on the basis of their product capabilities, technology flexibility, and customer-centricity, which are the areas of differentiation beyond the commercial arrangements. Additionally, digital partners expect insurers to bring to bear their experience with regulators, technical expertise in underwriting pricing, capital and balance sheet, and prior insight into insurance distribution and customers.

### STRUCTURE

The right structure offers a reliable foundation to a digital partnership. Broadly speaking, there are three types of structure which could be considered:

**Standard distribution arrangement.** The standard structure involves a distribution partnership where a digital partner acts as the digital distribution channel or lead generator for an insurance company’s products, in exchange for remuneration. This is the simplest and most common pathway for insurers and digital players to collaborate today. The advantage is speed. The downside is that insurance often becomes just one more stock keeping unit (SKU) stacked on the digital shelf.

**Collaborative partnership structure.** A more innovative approach is to go beyond a simple distribution-based arrangement, with ecosystem partners taking a more active and collaborative role in the customer research, inspiration, design, and development of focused insurance offerings and customer journeys that address specific customer needs and pain points.

**Joint venture or new venture.** In select cases, partners may choose a joint venture structure or establish a new digital venture which aligns incentives and provides the basis for a longer-term relationship. For example, Ping An Insurance, Alibaba and Tencent participated in the initial setup of ZhongAn Online P&C Insurance, now the largest online insurer in the world, with an extensive set of digital partnerships.

### COMMERCIAL MODEL

Designing the right commercial model is another essential element of a successful digital partnership. In our research with digital players, three main models of remuneration emerged.

**Commission model:** The most common model today is a commission-based model, in which an insurance company pays their digital partner a pre-arranged percentage of the insurance premium for the product sold. In some markets, this percentage of commission is shaped by existing regulatory requirements, for example caps on the maximum commission payable for the sale of an insurance product. (See Exhibit 2.)

## Exhibit 2 - Regulatory requirements on maximum commission payable

	Life Insurance					General Insurance		Overall complexity
	Regulatory comm. cap	Cap vary by year	Cap vary by product	Cap vary by SP vs. RP	Cap vary by term	Regulatory comm. cap	Cap vary by product	
Vietnam	✓	✓	✓	✓	✓	✓	✓	High       Low
Malaysia	✓	✓	✓	✓		✓	✓	
Thailand	✓	✓				✓	✓	
Singapore	✓					Unrestricted by regulatory, determined by market		
Indonesia	Unrestricted by regulatory, determined by market					✓	✓	
Philippines	Unrestricted by regulatory, determined by market							

Source: AXCO, BCG analysis.

**As digital ecosystem partnerships become more prevalent and competitive, and scale up across markets, we expect more innovative commercial models to emerge, in line with the evolution and maturing of these digitally-driven companies.**

**Fixed fee model:** The commercial arrangement can alternatively be for a fixed dollar amount per sale accruing to the digital player, instead of a percentage. This model is more prevalent in the case of small-ticket sales, or products embedded in customers' digital journeys.

**Net price model:** A different commercial construct involves the digital company paying a fixed fee per sale to an insurer in order to cover potential claims, expenses, and expected profit. In this model, the digital company not only bundles the insurance with their customer propositions, but directly benefits from any potential profits while at the same time assuming the price risk. A net price model offers the digital player more direct control of the products, and pricing flexibility, which they can leverage alongside their data-driven understanding of customers to unlock further value. The ability to dynamically adjust prices in real-time enables an ecosystem partner to optimize their offering by balancing volume of demand and cost margins based on a customer's unique profile, pricing elasticity, and lifetime customer value.

**Additional investments.** An important element of the commercial model is negotiation of an appropriate investment by each party in the launch costs. Insurers often contribute through an additional allowance paid to the digital partner at the initiation of a partnership. These allowances are designed to cover select operational expenditure in areas such as product marketing, advertising, and IT support that add value to the partnership.

As digital ecosystem partnerships become more prevalent and competitive, and scale up across markets, we expect more innovative commercial models to emerge, in line with the evolution and maturing of these digitally-driven companies.

#### KEY PERFORMANCE INDICATORS (KPIs)

Establishing the correct—and aligned—key performance indicators (KPIs) is an important route to the success of digital ecosystem partnerships. There are a number of key metrics currently used to track performance in this market.

**Insurers.** Among insurers, volume is a leading KPI, echoing its use in more traditional distribution channels. This can include gross premium, number of customers, and number of policies sold, amongst other measures. Separate measures are employed to track profitability, such as combined ratio in general insurance or value of new business margin in life insurance.

**Digital partners.** Digital companies also employ a number of key metrics to measure the performance of a partnership for their own business. They tend to look at revenue, cost of acquisition per customer (CAC), average ticket size of products sold, customer retention, and customer lifetime value (CLV). The ratio of CLV/CAC is often used in earlier stage companies as a lead indicator of progress. Digital partners operate customer-centric models which are founded on the basis of adding value to customers, and metrics such as customer satisfaction, volume of customer complaints, and response times which track and evidence this value are very important to them.

#### OPERATIONAL ROLE SHARING

Operational role sharing is the final piece in the partnership arrangement. Defining and establishing partnership responsibilities at the outset is a critical step to ensure a streamlined and frictionless partnership process.

Typically, the digital partner takes ownership of marketing, customer interface, user experience (UX) and user interface (UI). The insurer is tasked with product provision, operational support (for example claims handling), and capital support. Areas of joint collaboration can include customer-centric product development, pricing, and customer journey design.

As experience and the importance of insurance grows through a partnership, digital players may choose to build out their own knowledge of insurance processes, enabling them to more responsively and directly address customer needs. At this point, they may employ a partnership relationship manager, directly responsible for managing relationships with an array of insurance company partners. Dedicated customer experience designers may lead on design of the UX specific to insurance products. Some may choose to deploy dynamic-pricing experts, in place of traditional insurance actuaries.

### 3. Operationalizing a successful digital partnership

Operationalizing partnerships across digital companies and insurers is not easy. The DNA is different. Both sides have some learning to do, and teething troubles are commonplace. We have highlighted below the most important areas of collaboration and improvement.

**Strategic alignment.** Digital ecosystem companies and insurance companies may have differing strategic views of a potential partnership. Aligning on this strategic vision at the outset is key. Digital companies may be more focused on customer acquisition and active user metrics, whereas insurers traditionally focus more on premium growth and overall profit margins. It is critical that partners work to align on both the timeline and the key metrics agreed to measure success, to ensure mutually-agreed strategic focus. Partners should ensure sustained and clear communication throughout the partnership, and work to collaborate and bridge any potential gap in culture or ways of working.

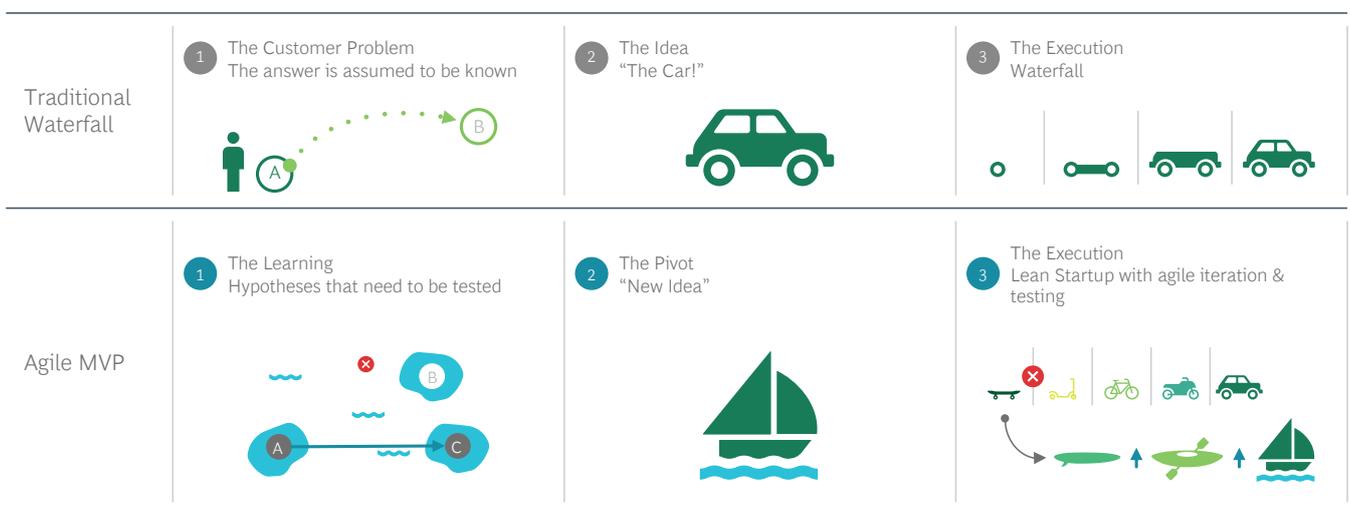
**Product-channel strategies and user experience:** The majority of insurance products available today through digital partnerships are general insurance and health insurance products, and simpler non-advised life insurance products. These fit digital-first customer journeys better than complex or advised products. Examples include travel, personal accident, event cancellation, COVID protection, term life and critical illness protection products. As the digital partnership environment matures, we expect twin changes that will expand the universe of offers. First, product innovation to create more modular, bite-size, short-term products, with more dynamic pricing, designed

with data-driven customer insight to appeal to a wider variety of customer situations and to broaden financial inclusion. Second, greater experimentation with on-line-to-offline (O2O) or omnichannel journeys, where digital origination may be complemented with offline closure of the purchase through more traditional channels. These will require considerable effort to ensure that there is smooth UX for customers and meaningful conversion rates for the providers.

**Product development and pricing:** Insurers have traditionally had long, actuarially-driven product development processes, with multi-level sign off and substantial review requirements. This development process is not compatible with the expectations of digital operators seeking agile and rapid product development, tailored to their customer base, and embedded in customer journeys (e.g. travel insurance while booking flights). Digital companies often launch a higher volume of products, with frequent product iterations, potentially with multiple pricing and coverage adjustments. Our industry experience indicates that it can sometimes take up to 20 product launches to find that one winning ‘hero’ product. Insurers need to embrace new methods such as minimum viable products, fast iteration, and A/B testing, in rapid iterative cycles. (See Exhibit 3.)

**Technology and data:** Technology and data analytics are the backbone of a successful digital partnership. Digital companies rely on flexible, modern IT infrastructure, often with cloud-based services that provide scalable solutions. Open APIs are used to increase connectivity and provide seamlessly integrated partnership opportunities. Data management and applications are increasingly in the cloud, in support of scale, speed, and innovation. In contrast, legacy IT architecture is often a significant challenge

### Exhibit 3 - Traditional Approach vs. Agile MVP



Source: BCG Digital Ventures.

for insurers in embedding a partnership with a digital player. Insurers' IT infrastructure is often on-premise, with siloed product-specific applications, and extensively customized software. In the technology space, there is no alternative. Insurers seeking digital partnerships must adapt and invest in modern architecture, APIs, and automation technologies to provide a responsive digital service. Data is a critical asset in this landscape, and bringing strong data analytics capabilities to high-value use cases such as micro-segmentation, product propensity models, and digital marketing is essential.

**Regulatory and compliance.** Insurance is a heavily regulated industry, with substantial regulatory, reporting and compliance requirements. Each country in Southeast Asia has its own insurance regulations, which can impact timelines and other requirements for licensing, product approvals, pricing, commission payments, and more. In the short term, this creates complexity in operating across markets in the way digital operators are accustomed to. However, as all regulators promote digitization and financial inclusion, we anticipate accommodative policy measures will evolve, and recommend constructive engagement.

#### 4. Capturing the USD10 billion opportunity

In summary, digital partnerships offer significant potential for both ecosystem operators and insurance companies. This remains a nascent area of collaboration, and we hope that our pointers on partnership frameworks and operational delivery will help accelerate progress within the industry.

There is a saying that if you want to go fast, go alone, but if you want to go far, go together. With the right partnership models, and the key enablers in place, digital partnerships offer a new frontier in insurance distribution that promise access to a USD10 billion market opportunity.

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## For Further Contact

If you would like to discuss this report, please contact one of the authors.





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