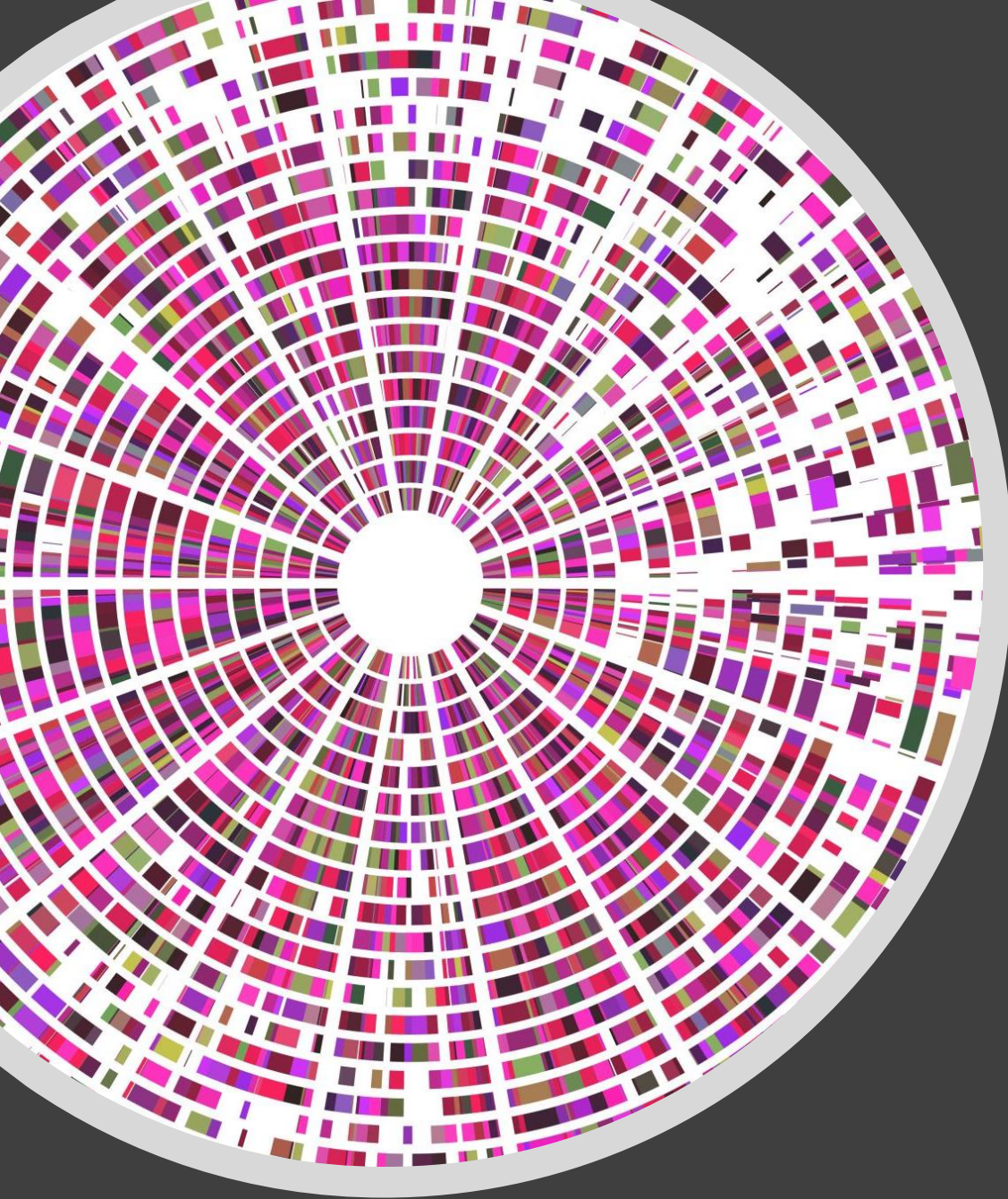




Insurtech : Challenges to Non-Life Insurers

Date: 28 October 2020



- 1) Backgrounds of Insurtech
- 2) Basic concepts about Fintech & Insurtech
- 3) Market development up to Q3/2020
- 4) The stance of the Insurance Authority towards Insurtech
- 5) Why the introductions of Insurtech become so important for insurers?
- 6) Common obstacles in introducing Insurtech



Application of Insurtech to insurers

1. Backgrounds of Insurtech

- New technologies are affecting our daily life.

Examples of “new” technologies in the non-insurance industries:

A) Banking services

B) Investment/wealth management

C) Booking of air tickets/hotels



Application of Insurtech to insurers

1. Backgrounds of Insurtech

- Normal procedures for insurers in dealing with one non-life insurance policy:
 - A) Quotations
 - B) Binding of covers
 - C) Policy documentations
 - D) Premium payments
 - E) Mid-term changes
 - F) Claims
 - G) Renewal

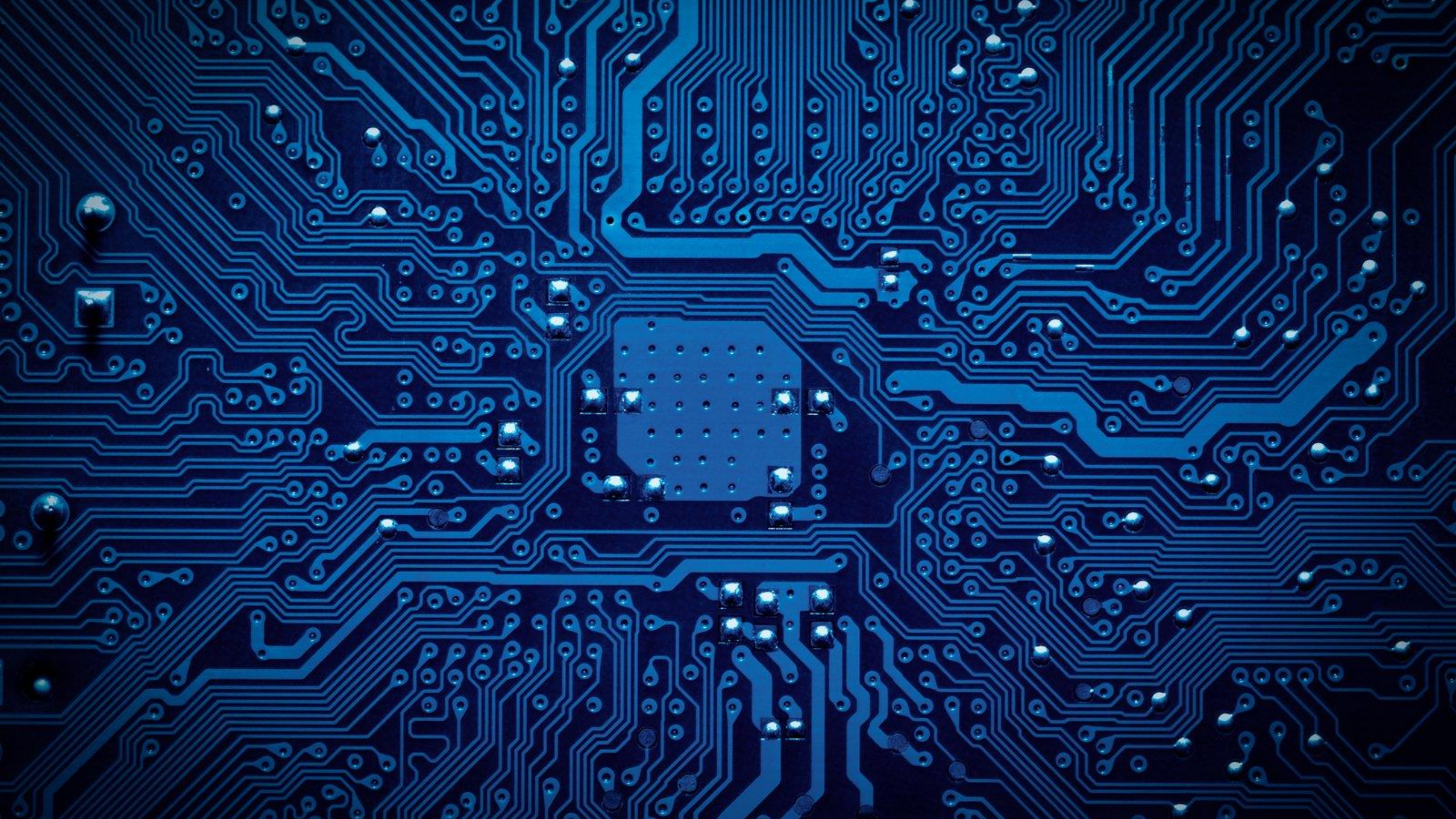
How many “manual touches” were involved in the above processes?



Application of Insurtech to insurers

Do insurers need to keep up with
the pace of technological
developments?





2) Basic concepts about Fintech & Insurtech

Terminologies – Version 1

Fintech

Financial technology (Fintech) is used to describe **new tech** that seeks to improve and automate the delivery and use of financial services. At its core, fintech is utilized to help companies, business owners and consumers better manage their financial operations, processes, and lives by utilizing specialized software and algorithms that are used on computers and, increasingly, smartphones.

2) Basic concepts about Fintech & Insurtech

Terminologies – Version 1 (cont)

Fintech

Fintech is a new financial industry that **applies technology** to improve financial activities. Fintech is the new applications, processes, products, or business models in the financial services industry, composed of one or more complementary financial services and provided as an end-to-end process via the Internet. Fintech can also be considered as any innovative ideas that improve financial service processes by proposing technology solutions according to different business situations, while the ideas could also lead to new business models or even new businesses.

2) Basic concepts about Fintech & Insurtech

Terminologies – Version 1 (cont)

Insurtech

- Insurtech is the **combination of insurance and technology solutions** for enrolment, insurance claims processing, underwriting, policy administration, data insights, fraud detection, and more. Insurtech is disrupting the insurance industry by providing cost-saving solutions and better customer experience for insurance companies.

2) Basic concepts about Fintech & Insurtech

Terminologies – Version 2

Fintech

Fintechs are startup **technology providers** that approach financial business in innovative (sometimes disruptive) ways through emerging technologies. Fintechs can fundamentally change the way in which a financial services institution's products and services are created/distributed.

2) Basic concepts about Fintech & Insurtech

Terminologies – Version 2 (cont.)

Insurtech

- Insurtech startups are **companies operating in the insurance sector**. They rely on new technologies to introduce innovations that are necessarily conducive to the advent of new economic paradigms, new processes and new products. These profound mutations are able to modify the behavior of all players on the market: insured, insurance intermediaries, insurers and reinsurers. Regulators are also required to take part in the debates resulting from their activities.

2) Basic concepts about Fintech & Insurtech

Main concepts

a) Improve efficiency & cost saving

b) Scope

- new applications, processes, products, or business models

- Enrolment, insurance claims processing, underwriting, policy administration, data insights, fraud detection.

c) New business generation & new market segments

d) Stakeholders in the insurance market- Insured, insurance intermediaries, insurers, reinsurers & regulators.

2) Basic concepts about Fintech & Insurtech

Main concepts: b) Scope - departments involve

i) Sales & distribution

ii) Underwriting & product development

iii) Policy administration

iv) Claims

v) Reinsurance department

vi) Finance

vii) IT

viii) Compliance etc

2) Basic concepts about Fintech & Insurtech

Main concepts: b) Scope - segments

a) Personal lines

b) SME

c) Major lines/niche products

Application of Insurtech to insurers

3. Market development

Virtual insurers authorized under the Fast Track of the IA (up to 1 October 2020)*:

- i) Bowtie Life Insurance Company Limited - Dec 2018
- ii) Avo Insurance Company Limited- Oct 2019
- iii) OneDegree Hong Kong Limited - April 2020
- iv) ZA Life Limited- May 2020

* source: web site of the Insurance Authority





3. Market development (Overseas examples)

- Startup technology providers

Insurtech initiatives from individual insurers	Markets	Time of set up
(1) The risk factors associated with each peril can be plugged into the pricing engine and the quote is updated. The duration of the coverage can be configured to be a year, month, week, day.	Australia, UK, US & Asia	2012
(2) Delivers insurance policies and handles claims through desktop and mobile apps ONLY. 90 seconds to get insured & 3 minutes to get the claims paid.	US	2015
(3) Applications of AI in underwriting & assessments of claims (health insurance).	PRC	2016

3. Market development (Overseas examples)

- “Traditional” insurers

Insurtech initiatives from individual insurers	Markets	Timeframes
(4) Use of drone & AI in assessing claims for crop insurance	Mainland China	Before 2020
(5) Application of AI and mobile phone in assessing motor claims	Mainland China	Before 2020
(6) Installation of software in motor fleets to enhance safety	US	Before 2020

3. Market development (Overseas examples)

- “Traditional” insurers

Insurtech initiatives from individual insurers	Markets	Timeframes
(7) Combine know-how in underwriting, data and business analytics to digitally embed insurance under a new and bancassurance platform	Spain	April 2020
(8) Introduction of a risk assessment service which enables the company's risk engineers to perform remote analysis not seen in traditional loss prevention programs and provide risk managers, underwriters and brokers with an up-to-date view of a client's risks.	France	April 2020
(9) Delivery of health coaching tools and solutions to customers digitally	Malaysia	Aug 2020
(10) Plans to launch the first fully digital-driven Lloyd's syndicate, in collaboration with Google Cloud, with an aim to reduce the amount of time and effort taken for brokers to place their follow capacity.	UK	By the end of 2020/ by 2021

Application of Insurtech to insurers

4) The stance of the Insurance Authority towards virtual insurers**

Fast Track

- a) The IA launched a pilot scheme Fast Track on 29 September 2017 to expedite applications for new authorization to carry on insurance business in or from Hong Kong using solely digital distribution channels as a means to promote the development of Insurtech in Hong Kong.

** Source : web site of the Insurance Authority



Application of Insurtech to insurers

4) The stance of the Insurance Authority towards virtual insurers**

b) The Fast Track provides a dedicated queue (i.e. an expedited and streamlined process compared with other insurance licence applications) for new authorization applications from applicants which would own and operate solely digital distribution channels, without the use of any conventional channels involving agents, banks or brokers.

** Source : web site of the Insurance Authority



Application of Insurtech to insurers

4) The stance of the Insurance Authority towards virtual insurers**

c) Insurers under the Fast Track must have an innovative and robust business model using digital distribution to bring benefits to the consumers in Hong Kong in product development, delivery, customer service and cost efficiency.

d) Insurers under the Fast Track would not be allowed to accept business from any channels other than its own proprietary digital distribution system.

** Source : web site of the Insurance Authority



Application of Insurtech to insurers

4) The stance of the Insurance Authority on Insurtech initiatives**

Insurtech sandbox

- a) The IA launched an Insurtech Sandbox on 29 September 2017 to facilitate a pilot run of innovative Insurtech applications by authorized insurers to be applied in their business operations.

** Source : web site of the Insurance Authority



Application of Insurtech to insurers

4) The stance of the Insurance Authority on Insurtech initiatives**

b) The IA observes that authorized insurers may have initiatives in applying innovative technologies in their business operations but may be uncertain if those initiatives can meet the supervisory requirements of the IA. With a view to promoting technology development for the insurance industry in Hong Kong, the IA considers it necessary to adopt some flexibility in the supervisory requirements.

** Source : web site of the Insurance Authority



Application of Insurtech to insurers

4) The stance of the Insurance Authority on Insurtech initiatives**

c) The IA would consider an Insurtech initiative to be a pilot run under the Sandbox to collect sufficient data to demonstrate to the IA that such Insurtech application can broadly meet relevant supervisory requirements arising from its codes and guidelines and other regulatory practices.

** Source : web site of the Insurance Authority



Application of Insurtech to insurers

4) The stance of the Insurance Authority on Insurtech initiatives**

d) The Sandbox would be beneficial to the insurance industry. Insurers testing new Insurtech initiatives under the Sandbox can gain real market data and information of user experience in a controlled environment before launching them into the market. At the same time, the Sandbox would provide inputs to the IA for refining its supervisory requirements, taking into account the latest technological applications by the insurance industry.

** Source : web site of the Insurance Authority





WHY?



Application of Insurtech to insurers

5. Why the introductions of Insurtech become so important for insurers?

- a) Customers' expectations
- b) Cost savings /improve efficiencies
- c) Better internal controls
- d) Expansion of new business channels through technologies
- e) Better pricing models /Loss assessments
- f) Not to be surpassed by the competitors



Application of Insurtech to insurers

5)a) Customers' expectations

- “Normal” levels of services provided by non-insurance industries (e.g. airlines, hotels, Government, catering etc) vs the “normal” levels in the insurance industry
- Use of mobile phones in getting “total solutions” in dealing with financial matters (e.g. banking, financing, investment etc)
- Expectations in getting instant services



Application of Insurtech to insurers

5)b) Cost savings/ improve efficiencies

- Cost components for non-insurers:

i) Commission ratio +

ii) Claims ratio +

iii) **Expenses ratio** (mainly labour cost & rental cost)

Total: Combined ratio



Application of Insurtech to insurers

5) c) Better internal controls

- Data consistencies within the same entity (i.e. within individual insurers)
- Stronger controls for compliance purposes (e.g. KYC)



Application of Insurtech to insurers

5) d) Expansion of new business channels
through technologies

- Cooperation with non-insurance firms/“tech companies” in promoting insurance products through non-insurance platforms



Application of Insurtech to insurers

5) e) Better pricing models / Loss assessments

- Use of technologies to evaluate customers' behaviours with an aim to work out different price models for different segments.

- use of AI to assess claims/detect frauds



Application of Insurtech to insurers

5) f) Not to be surpassed by the competitors





6) Common obstacles in introducing Insurtech

- a) Cost control
- b) Internal mentalities
- c) Different “languages” between IT specialists and insurance partitioners
- d) “Burdens” under legacy systems/ concerns on IT securities
- e) Concerns about compliance issues

6) Common obstacles in introducing Insurtech

a) Cost control

- “We don’t have the budget to carry out a new project”.
- “We need to cut down the cost by xx% in the coming 3 years”.

6) Common obstacles in introducing Insurtech

b) Internal mentalities

- “ There is no way to automate the underwriting & claims procedures”.
- “ Insurance products involve technical aspects and are different from general commodities.”
- “ We have been adopting the current models for more than 10 years; and that will be difficult or impossible to change the agreed workflows”.

6) Common obstacles in introducing Insurtech

c) Different “languages” between IT specialists and insurance partitioners

- IT specialists may not have in-depth understandings about the operating models for insurers such as [underwriting controls](#), [claim assessments](#), [reinsurance](#), [distribution channels](#) etc.
- Experienced insurance partitioners may not have the chances to explore the updated technologies in connection with Insurtech (e.g. [AI](#), [Blockchain](#), [Cloud](#), [Big Data](#), [API](#))

6) Common obstacles in introducing Insurtech

d) “Burdens” under legacy systems/ concerns on IT securities

- Restrictions under the legacy systems
- **Concerns about cybersecurity** (e.g. GL 20 issued by the IA on “Guideline on Cyber Security”) & IT security controls imposed by the parent companies

6) Common obstacles in introducing Insurtech

e) Concerns about compliance issues

- Stance of the regulator : Refer Point 4
- **Personal data privacy/personal data protection**





Developments in the near future

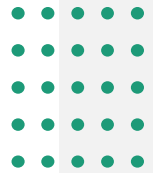
- a) Rapid **changes in respect of the business models**, especially after the outbreak of the Coronavirus.
- b) **Expectations from the shareholders** in getting breakthroughs through the introductions of Insurtech.
- c) **Additional investments from Fintech companies** on insurance markets, as brand-new operations or in collaborations with current insurance players.



Self-evaluation

- Your key competitor introduces “full automations” on the areas below:
 - A) Quotations
 - B) Binding of covers
 - C) Policy documentations
 - D) Premium payments
 - E) Mid-term changes
 - F) Claims
 - G) Renewal

How long will it take you to match such a model?



Application of
Insurtech to
insurers

**DON'T FALL
BEHIND!**

*Thank
you*



Diamond Lo :

Enquiry@itechasia.co