EU-ASEAN
BUSINESS COUNCIL

Care, Prepare and Prosper: Digital Tools for Affordable Protection

March 2021

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Executive Summary

This is the seventh annual position paper from the EU-ASEAN Business Council Insurance Group.

In line with ASEAN's theme under the 2021 Chairmanship of Brunei, "We Care, We Prepare, We Prosper", the paper focuses on the delivery of an inclusive, resilient, sustainable insurance system in a COVID-19 world. We put the well-being of ASEAN people at the centre of our endeavours to prepare the community for future opportunities and challenges.

The Environmental, Social and Governance (ESG) strategies of insurance companies have been brought to the fore as a result of the pandemic, highlighting our dedication to providing citizens and businesses in ASEAN with affordable protection against major financial setbacks. The pandemic has heightened people's awareness of the need for protection. At the same time, it has changed the type of insurance products that people want, and the way in which they want to buy insurance. The shift in demand has accelerated product innovation by EU-ABC members, particularly for the underserved segment of societies. There have been vast efforts by companies to improve access to insurance when restrictions are widely imposed on people's movement due to the spread of COVID-19. These efforts include significant investment in new distribution channels, new underwriting technologies, and further automation of claims processes. Regulators have accelerated the processes for product and channel approval and provided more flexibility in the delivery of policies and handling of claims.

The demand for insurance products and services will not diminish even when the pandemic is brought under control. As ESG drivers become ever more central to companies' business plans, the market will need regulators to continue to act in a way that fosters innovation, improves affordability and accessibility, and permits the kind of investments that safely match the new products to customers' risk appetites.

In this paper, we discuss key issues that need to be addressed for the insurance industry to continue effectively to support ASEAN's development –

- First, we explain how tax policies, intelligent automation and investments can improve the **affordability** of insurance protection on people's health, lives and property, as well as the long-term savings needed by increasingly aged societies. Government policies can make a difference in these areas and deliver real benefits for consumers as well as the national economy.
- Second, we show how European insurers are quickly adapting to changes brought about by the COVID-19 pandemic. We are committed to utilising digital solutions to serve customers better and improve the **accessibility** of relevant insurance products. A comprehensive regulatory framework for digital insurance is needed to meet customers' demands.
- Third, European insurers are upgrading business models to provide **integrated digital health solutions** for customers. COVID-19 reminds us of the fact that health is not only critical for individuals' wellness, but also crucial for economic growth and long-term prosperity. The economies which have been most resilient during the pandemic have been those with the most effective health systems. Technology can accelerate the process of delivering health results combining both public and private sector resources.

To achieve the objectives set above, the EU-ABC respectfully makes the following recommendations to ASEAN policymakers and regulators –

Focus Areas	Recommendations
Affordable Protection	▪ Fiscal policymakers to introduce/enhance **personal income and corporate tax deductions** to make private insurance policies more affordable to individuals and businesses. ▪ Policymakers to introduce strategies and provide subsidies to promote the development and adoption of **RPA and R&CA** in the insurance industry. ▪ Regulators to develop consistent guidelines and harmonise laws at the regional level regarding ethical issues and the use of **Big Data and AI** in the insurance sector. ▪ Legislators to introduce laws that address **data privacy and governance** concerns and promote and protect **data flows across borders**. ▪ Regulators to revisit restrictions on insurers' use of **derivatives** and investment in **alternative assets** in light of the low interest rate environment.
Digital Access to Insurance	▪ Regulators to draft **regional** principles and guidelines on the supervision of **distribution of insurance products and insurers' business transactions via digital channels**. ▪ Regulators to introduce well-defined **local** rules to encourage and support **insurers' innovation** and to **facilitate consumers' access to insurance**; policymakers to launch consumer education campaigns.
Health, Wellness and Productivity	▪ ASEAN to develop a regional **digital health strategy** by referring to WHO's National eHealth Strategy Toolkit. The strategy can outline regional goals and strategic priorities as well as implementation rules and policies on digital health. ▪ Governments to consider **driving health outcomes across Ministries** e.g. be a common healthcare related KPI that all Ministries are working toward together.

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Insurers and the ASEAN Insurance Market

European insurance companies have a long history in ASEAN markets. Today, nearly 30 European insurance companies operate across the region, serving the population's protection, savings, retirement and investment needs. In 2019, European insurers contributed a quarter of gross premiums in six major ASEAN states. Total assets owned by European insurers in these markets amounted to more than USD 537 billion in 2019 (Table 1).

Table 1: European insurers' contributions to selected ASEAN countries in 2019

Unit: in millions of USD

Country	Europe's Premiums	Gross Premiums	Europe's Share	Europe's Assets	Total Assets	Europe's Share
Indonesia	3,910	20,011	20%	11,902	51,059	23%
Malaysia	4,948	19,130	26%	19,575	85,367	23%
Philippines	1,277	6,196	21%	5,411	31,661	17%
Singapore	9,310	30,901	30%	53,079	198,473	27%
Thailand	4,814	27,458	18%	25,667	150,899	17%
Vietnam	1,425	6,867	21%	5,891	19,856	30%
Total	**25,684**	**110,564**	**23%**	**121,524**	**537,315**	**23%**

Source: Prudential's analysis of government official statistics and corporate financial reports.

In 2019, the insurance penetration rate, i.e. the ratio of gross premium income to local GDP, across ASEAN stood at 3.5%, compared with the global average of 7.2% (Table 2). While the rate remains low, many ASEAN markets are expanding in real terms and have progressed to the steeper area of the insurance "S-curve" (Figure 1), where economic and income growth will have a greater impact on insurance demand.

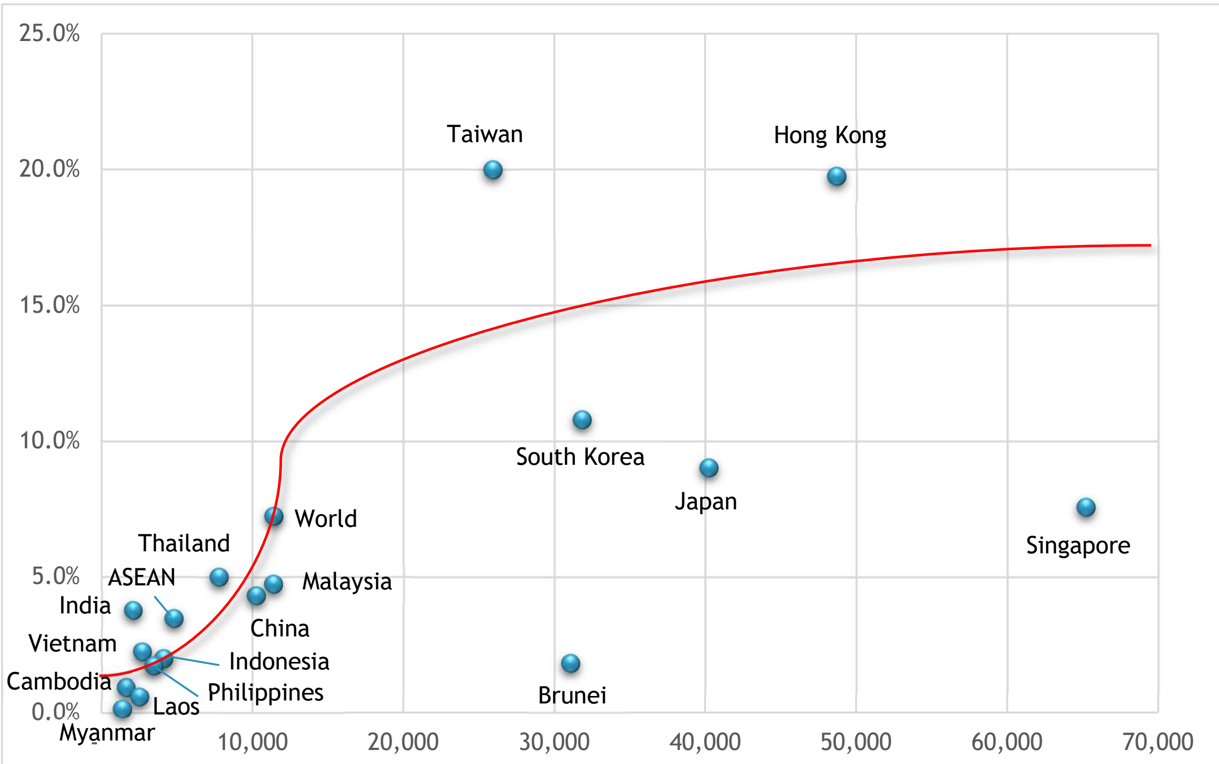
Table 2: Insurance markets of major regions and markets in 2019

Unit: percentage points

Market	Insurance Penetration Rate	Annual Real Premium Growth in USD	Share of Global Market by Premium in USD
World	7.2	2.9	100.0
United States	11.4	2.0	39.1
EU	6.8	3.7	18.6
China	4.3	9.0	9.8
Japan	9.0	2.1	7.3
ASEAN	3.5	5.0	1.8

Source: Swiss Re, sigma explorer.

Figure 1: Insurance penetration of ASEAN and major Asian economies and "S" curve (2019)



Sources: 1) Swiss Re, sigma explorer; 2) ASEANstatsDataPortal by the ASEAN Statistics Division; 3) The World Bank DataBank.

Responses to COVID-19

The spread of COVID-19 and the measures implemented to reduce its transmission are having, and will continue to have, significant impacts on the insurance industry in ASEAN. Insurance companies have adopted various approaches to service delivery in three main areas: ensuring continuity of operations, managing solvency and liquidity risks and providing direct support to policyholders that have been adversely affected by the COVID-19 public health emergency.

First, insurance companies' **business continuity plans have focused on digital service delivery** to maintain essential insurance functions. Services such as policy issuance, premium collection, claims adjustment and payment are provided on digital platforms. Insurers use their website channels to publish latest information about business arrangements. In some jurisdictions, the adoption of innovative digital solutions, particularly online distribution of products, requires regulatory adjustments. Recruitment and training of insurance agents has shifted online in some jurisdictions.

Second, insurance companies are closely monitoring **market, underwriting and liquidity risks** based on existing financial and supervisory information. Based on the data related to risks that have come to light as a result of COVID-19, insurers provide guidance to policyholders on the applicability of various coverages to COVID-19 related losses.

Third, insurance companies are providing **financial support to policyholders** in terms of flexible premium payment arrangements and premium refunds in lines of business where there has been a material decline in claims (e.g. personal motor vehicle). Some insurers extend policy terms in response to difficulties that policyholders may face in securing policy renewals. Some life insurance policyholders extend policyholder loans and lower interest rates on new policy loans.

Additionally, insurance companies are voluntarily providing **additional coverage benefits or compensation** to existing policyholders or specific types of workers (e.g. health care workers) or businesses (e.g. hospitality sector, SMEs). Policy coverage terms and conditions are also interpreted flexibly in order to account for changes in behaviour (e.g. work-from-home) and to address various types of administrative challenges resulting from confinement measures.

For example –

- **Allianz** businesses around Asia took steps locally to support customers and ensure the fight against the pandemic continues effectively. In Indonesia, free doctor consultations ensured access to vital medical advice. In Malaysia, additional free-of-charge protection was rolled out for doctors called to the front line of the health emergency. In other markets, relief programs designed to support eligible customers included extended grace periods, delayed premiums, complimentary cash-relief and death benefits.
- **AXA** has been a partner for its customers and society throughout Asia. Across Asia, AXA has given 10 million free teleconsultations to both customers and non-customers, including under-served patients in remote, rural areas where there is limited healthcare access. For instance, in Indonesia, AXA is providing life protection to 35,000 health workers who are involved in providing medical assistance during the COVID-19 pandemic.
- **Generali Asia** has allocated EUR 1 million (~USD 1.2 million) Covid-19 Crisis Support Fund. Its ASEAN business units offer free COVID-19 benefit to existing customers and agents and provide extension of supplemental COVID-19 benefit for new customers. Generali Thailand launched a CSR campaign to support specific COVID-19 for Health Workers. Generali completed digitalisation of its sales process that enables agents to distribute insurance products online.
- **Prudential** provided a variety of measures to support the communities in ASEAN markets. In Singapore, complimentary insurance was given to Singapore residents against the side effects of the COVID-19 vaccination. In Malaysia, Prudential allocated MYR 1 million (~USD 250,000) fund for the Special COVID-19 Coverage for customers each year in 2020 and 2021. Flexible arrangements on premium payments were also put in place in 2020 and continue in 2021.

Focus Issues

Affordable Protection

Establishing an inclusive, resilient and sustainable insurance system will prepare ASEAN to address new changes and challenges arising from the COVID-19 pandemic and the economic recovery that is expected from it. **Affordability** and **accessibility** are two key elements of the system. Affordability stands out because one key consequence of the global economic downturn caused by COVID-19 has been its negative impact on household incomes, business profits and government revenue.

Insurance companies have been working with regulators, business partners and other stakeholders to provide customers with affordable coverage options during such difficult times. Among various approaches, tax policies such as a deduction on insurance policy premiums are considered effective in bringing quick benefits to policyholders. Insurance companies are also exploring options along the value chain to improve operational efficiency and investment performance.

Tax Policies

Tax incentives on insurance products encourage people to buy protection for their health, lives and properties. Being able to afford sufficient protection is even more important during the turbulent period. Many OECD member countries grant some form of tax relief for premiums paid on qualifying life insurance policies. Some countries grant general tax relief for a specified broader category of policies. In Asia, Singapore, Malaysia, Thailand, Hong Kong and China allow **tax deductions on certain life and health policies for individuals**. In Canada and the US, though there is no general tax relief, payments by certain classes of individuals can be qualified as tax deductible.

Table 3 below summarises tax treatment on insurance policies in key Asian markets. For personal income and corporate income taxes, **Indonesia, Philippines and Vietnam** have not introduced any tax deduction on people's purchase of health and life insurance policies.

Table 3: Tax deductibility on health and life insurance under personal income tax

Market	Premiums paid	Increase in cash value	Gain on surrender	Death benefit
China	Yes	Yes	Yes	Yes
Hong Kong	Yes	Yes	Yes	Yes
Indonesia	No	No	No	Yes
Malaysia	Yes	Yes	Yes	Yes
Philippines	No	No	No	Yes
Singapore	Yes	Yes	Yes	Yes
Thailand	Yes	Yes	Yes	Yes
Vietnam	No	No	No	Yes

Sources: Deloitte, November 2018. EU-ABC analysis.

In 2020, **Indonesia passed the Omnibus Job Creation Law** to boost Indonesian economic growth by creating a more investment-friendly environment. However, in practice, Article 4 of the Law excludes endowment insurance (asuransi dwiguna) from non-taxable objects. As a result, benefit payments pertaining to endowment insurance products are now subject to personal income tax of up to 30% for policyholders. The provision may potentially subject policyholders to double taxation coming from premium and benefit payments, reducing consumers' interest in buying endowment and unit link products[1]. This could disrupt insurance companies' ability to support long-term investments and job creation, hitting the local economy further on top of the COVID-19 pandemic.

In collaboration with AAJI ("Asosiasi Asuransi Jiwa Indonesia", Indonesia Life Insurance Association), the EU-ABC conducted a study in 2020 to explore the potential impact of tax incentives in **Indonesia**, ASEAN's third largest insurance market by premium volume. The research proposed a set of income tax incentives for individual and corporate taxpayers to purchase individual, group and keyman insurance policies. Preliminary analysis shows that an effective tax policy on insurance products will encourage consumers and businesses' uptake of health and life protection as it becomes more affordable. Their improved wellbeing and productivity and insurance industry's increased investment in the real economy will stimulate the growth of the economy. It will ultimately generate a significant positive impact on government budget on both revenue and expenditure sides. The final report to be released in 2021 will present a comprehensive picture of the proposals' impact on the local economy.

Apart from deductions under personal and corporate income taxes, policymakers may consider other tax policies to encourage insurers to offer affordable products in a sustainable manner. For instance, the Hong Kong government **reduces the profits tax rate** from 16.5% to 8.25% for all general reinsurance business of direct insurers, selected general insurance business of direct insurers and selected insurance brokerage business. The policy is regarded as an effective tool to foster a favourable environment for the sustainable development of the insurance industry in Hong Kong with more affordable, competitive products available for consumers.

Intelligent Automation

The use of insurtech enables insurance companies to significantly improve operational efficiency, reduce costs, and makes the system more resilient to market changes. In fact, the IT-enabled **robotic process automation** (RPA) market is projected to reach USD 1.89 billion in 2021, an increase of 19.5% from 2020[2]. The pandemic and ensuing recession have increased interest in RPA for many enterprises as they look to digitally empower critical business processes to provide resilience and scalability. The RPA market is still expected to grow at double-digit rates through 2024.

Adoption of RPA in the insurance industry has transformed the value chain and introduced new productivity tools. Best use cases provide tangible results quickly and offer room to scale in the future.

[1] In Indonesia, unit-linked products – a dominant product in the insurance market – are classified as endowment insurance.

[2] https://www.gartner.com/en/newsroom/press-releases/2020-09-21-gartner-says-worldwide-robotic-process-automation-software-revenue-to-reach-nearly-2-billion-in-2021

- **Underwriting and pricing** – RPA automates the process of data collection from various external and internal sites, considerably reducing the time taken for underwriting. It can also be used to update multiple fields in the internal systems and make recommendations while assessing loss runs, which forms the basis for underwriting and pricing of products. More efficient underwriting leads to more of the 'bite-size' products that people want.
- **Claims processing** – The use of RPA to streamline claims-related operations eliminates friction and saves cost. Significant reduction in manually intensive processes like extraction of data, complex error tracking, claim verification and integration of data sources improves accuracy and creates a better customer experience.
- **Policy administration** – Policy administration links all the functions of an insurer from quoting, rating, underwriting to delivering customer services. RPA allows policy administration systems to scale quickly to meet the growing demands of customers or support business growth. It frees up back-office staff who can be redeployed into front-office roles.
- **Regulatory compliance** – RPA ensures the accuracy of data and maintains a complete log of activities, allowing insurers to monitor regulatory compliance in real time. The audit trail provided by RPA provides full transparency into processes and eliminates manual work on customer data validation and regulatory report generation. Customer protection, and confidence in the industry, is enhanced.

While insurers have started to experience positive results brought by RPA, **cognitive capabilities** that enable machines to perform tasks normally reserved for human intelligence are expected to lead the next stage of transformation not far in future. Cognitive technologies include such capabilities as machine learning, natural language processing, machine vision, emotion recognition and optical character recognition, among others. Each of these technologies builds on the existing competencies of RPA and advanced analytics. The resulting combination – termed **robotics and cognitive automation (R&CA)** – brings benefits far beyond cost savings. The potential for R&CA across the insurance value chain is significant. For instance, through mining social media information, speech analytics and sentiment analysis, insurers will be able to design more customised products. Robot agents can support human ones to provide better services for customers using natural language processing capabilities. Machine vision can be used to assess severity of property damage using real-time video footage, largely reducing cost and improving efficiency in processing claims for customers.

Ethical Use of Data and Data Governance

RPA and R&CA enables insurers to provide customers with more personalised products and better services, but such use of technology may undermine the pooled nature of insurance risk calculations and could potentially have a negative impact on **insurance affordability** for some classes of consumers. Companies and regulators around the world are alive to these challenges and new regulations and guidance have emerged to ensure fair treatment of customers –

- In **Singapore**, MAS released Fairness-Ethics-Accountability-Transparency (FEAT) principles in 2018. The document provides guidance to firms offering financial products and services on the responsible use of AI and data analytics.
- In **the United States**, the New York State Department of Financial Services issued a circular in January 2019 on the use of external consumer data in underwriting for life insurance.
- In **Europe**, the EU regulator, EIOPA, established an expert group in July 2019 to look at digital ethics in motor and health insurance.
- The **OECD** published "The Impact of Big Data and Artificial Intelligence (AI) in the Insurance Sector" in January 2020, a report examining the benefits and risks big data and AI can bring to the insurance industry. It lists areas in which policy makers may consider action.

Having recognised the importance of data governance, ASEAN member states signed the **ASEAN Framework on Digital Data Governance** in 2018. The Framework includes principles, strategic priorities and initiatives to guide regulators' policy development on digital data governance.

ASEAN member states are at different levels of data governance maturity. Some ASEAN member states, such as Malaysia, Brunei, Indonesia and Vietnam, follow **data localisation laws**, to ensure that data obtained within a country is stored, processed and used locally, and not transferred to another country. Thailand and the Philippines have separate data privacy legislations that also lead to data localisation. Singapore promotes **cross-border data flows** while protecting personal data privacy. Apart from domestic legislations, Singapore has concluded two **Digital Economy Agreements (DEAs)** with trade partners[3]. DEA develops international frameworks to foster interoperability of standards and systems, which will largely support businesses, especially SMEs, engaging in digital trade and e-commerce.

Studies show that **cross-border data flows boost the local digital economy** and create a sustainable digital ecosystem where data-reliant industries grow quickly. Conversely, erecting barriers to exchange of data has a negative economic impact. Data localisation laws in Indonesia will reduce the GDP growth rate by 0.7% and reduce Foreign Direct Investment (FDI) by 2.3%; data localisation laws in Vietnam will reduce FDI by 3.1%[4]. Data localisation limits countries' opportunity to leapfrog legacy systems and catch up with the digital world. Insurers increasingly rely on economies of scale in data storage and analysis to accommodate customers' needs and expectations for more affordable, personalized products, but data localization will inevitably restrain insurers' such ability.

A recent example is seen in **Vietnam's** draft Insurance Business Law, published in 2020. Article 122 of the draft law requires all servers and systems for storing and restoring data, customer information and insurance contracts to be located in Vietnam. Such data localisation requirements will make Vietnam miss potential benefits of free data flows as well as creating barriers to insurers' digital

[3] https://www.mti.gov.sg/Improving-Trade/Digital-Economy-Agreements

[4] Southeast Asia's data localisation, The ASEAN Post, December 2019. https://theaseanpost.com/article/southeast-asias-data-localisation

innovation as they increasingly use cloud technology to optimise operations for better customer experience.

To develop consistency across the region, ASEAN could look at the **Asia Pacific Economic Cooperation (APEC) Cross Border Privacy Rules (CBPR)**, a voluntary system that requires participating businesses to develop and implement data privacy policies in line with the APEC Privacy Framework. A similar recommendation is made in EU-ABC's 2020 position paper on data governance[5]. Failure to develop secure data flow across ASEAN risks the creation of a two-tier system where member states which insist on national borders for data are left behind as the other members rapidly develop their digital economies.

Investment Return for Long Term Savings

As central banks cut interest rates to record low levels to counter the negative impact of COVID-19 on the global economy, there is a growing pressure on insurers to maintain investment performance on insurance products which can provide a significant part of a country's retirement savings.

In face of increased market volatility, insurance companies are employing **derivative instruments** to hedge risks as well as boost investment income. Such investments are recognised by some insurance regulators. In July 2020, China's banking and insurance regulator issued rules allowing insurers to participate in bond futures to help the sector hedge interest-rate risks. Another way that insurers could increase risk-adjusted returns is investing more into **alternative assets**. The trend of insurers investing into areas like private equity, private debt, real estate and infrastructure has gained traction in recent years.

Enhanced investment performance and improved risk management will eventually benefit customers in terms of more affordable premiums and increased variety of insurance products. It also has the potential to unlock insurance funds so that they can support Government plans in areas such as infrastructure investment.

Recommendations

- Fiscal policymakers to introduce/enhance **personal income and corporate tax deductions** to make private insurance policies more affordable to individuals and businesses.
- Policymakers to introduce strategies and provide subsidies to promote the development and adoption of **RPA and R&CA** in the insurance industry.
- Regulators to develop consistent guidelines and harmonise laws at the regional level regarding ethical issues and the use of **Big Data and AI** in the insurance sector.
- Legislators to introduce laws that address **data privacy and governance** concerns and promote and protect **data flows across borders**.
- Regulators to revisit restrictions on insurers' use of **derivatives** and investment in **alternative assets** in light of the low interest rate environment.

[5] https://www.eu-asean.eu/publications

Digital Access to Insurance

Apart from affordability, **accessibility** is another key element in establishing an inclusive, resilient and sustainable insurance system in ASEAN. Widely imposed social distancing rules and travel restrictions after the outbreak of COVID-19 makes it difficult to distribute insurance products through agencies, banks and other traditional face-to-face channels. Disruption to product distribution has significantly impeded consumers' ability to access necessary insurance products.

Digital Distribution of Products

Insurance companies have been actively exploring innovative approaches to distribution of products through digital channels and more people choose to search and purchase insurance online. A recent survey conducted in **Malaysia, Indonesia and India** found that consumers are increasingly turning to familiar digital platforms for information about insurance. Consumers trust a range of digital channels and a growing number of consumers indicate that they would prefer to use online channels to buy risk protection covers.[6]

In some jurisdictions, regulatory adjustments are required to allow digital service delivery particularly related to policy issuance and claims adjustment. In March 2020, the **Filipino Insurance Commission** issued a Circular Letter, allowing the sale of existing life insurance products by utilising information and communication technology. The **Indonesian Financial Services Authority (Otoritas Jasa Keuangan – OJK)** issued a Circular Letter in October 2020 on the Distribution Channel of Insurance Products, which provides detailed guidelines for insurance companies, and counterparties, with respect to the marketing and distribution of insurance products. In **South Korea**, regulatory requirements on the need for face-to-face distribution are being relaxed to accommodate physical distancing requirements. A similar exemption (temporary facilitative measures) has been provided to insurers in **Hong Kong** for the distribution of various life insurance products that normally require face-to-face distribution.

Despite these temporary measures to facilitate online distribution of insurance products, various regulatory hurdles and some confusion persist. A comprehensive regulatory framework is required to address the special features of digital channels, which may include the following aspects –

- **Business activities** – Numerous insurance-related activities can be conducted by service providers through the Internet, such as displaying corporate information, advertising insurance product, quoting premiums, issuing or renewing premiums, handling complaints and paying claims. A clear definition on business activities that can be conducted online will set a clear boundary for service providers' operation of digital insurance business.
- **Service providers** – Setting market entry rules and only allowing eligible players to enter the digital insurance market is key to providing a basic guarantee on products and services offered online. It also addresses concerns over conduct risk of online insurance. Eligible players may include licensed insurers, licensed agents, licensed brokers and other individuals and institutions authorised by local insurance regulators. Additional requirements (e.g. on insurers' solvency position and players' business performance records) could be considered if deemed

[6] https://www.swissre.com/dam/jcr:f36f25e2-bdb1-431c-ba98-ef3d11c8c5d5/swissre-institute-digital-platform%20solutions-insurance-indonesia-malaysia.pdf

necessary. The objective is to ensure that service providers are able to provide reliable products and services to consumers in the designated geographical areas in a consistent manner, rather than creating barriers to market access.

- **Product sales, marketing and advertising** – Regulators may take discretion to define the scope of products that can be sold online. Usually, general insurance and life protection products (e.g. health, illness, life, endowment and annuity products) are included. A streamlined process for product registration/approval should be in place. For promotional activities, policyholders should be provided with sufficient information for them to make informed decisions and the sales materials or illustrations displayed on the Internet shall contain accurate and up-to-date information.
- **Infrastructure and security** – As digital insurance business heavily depends on IT infrastructure, a comprehensive set of security policies and measures are needed to keep up with the advancement in internet security technologies. Appropriate backup procedures for the database and application software shall be implemented as part of business continuity plan. Allowing cross-border data flows will largely facilitate the process while data localization actually increases the security risks with insurers having to operate more data centers.
- **Privacy and data protection** – Service providers should protect the privacy of clients' information in collecting, processing and storing such information over the Internet. Personal data privacy laws could be relevant, and they should be harmonised at the regional level on the basis of adequate and comparable protection. This will allow cross-border data flows while safeguarding privacy concerns. Data privacy and protection laws should not be used to create barriers to market entry.
- **Business operations** – The underwriting and issuance of online products are a different experience for insurers, so they are usually required to put in place a prudent internal procedure to process applications. The electronic copies of insurance policies and documents provided to policyholders shall be consistent with requirements on offline products. For instance, electronic signatures shall be accepted for digital sales in the same manner as wet signatures for offline transactions.
- **Third-party Partnership** – It is not uncommon that insurers make sales through third-party website under a partnership agreement. In this case, insurers need to ensure full disclosure of such arrangement and product information to customers and adopt necessary security measures on monetary transactions.
- **Complaint handling** – Without face-to-face contact, service providers are usually required to set up channels that are designated to handle complaints from digital insurance policyholders. They should also have recourse to the same complaint handling channels provided by regulators or industry associations as for other policyholders.

Additional requirements prescribed by some regulators include regular **reporting and disclosure** of each insurer's digital insurance business as well as specific measures to encourage **market competition**. The former will improve transparency and boost consumers' confidence to buy insurance online. The latter is targeted to prevent monopoly or oligopoly in digital product distribution.

Online insurance aggregators are commonplace in developed markets, where customers view offerings and compare features and pricing with ease. In ASEAN, though aggregator presence is low in general, given the relatively small size of digital insurance business, one or several players can easily dominate the distribution platform. It would effectively prevent **market competition** and lead to price distortion, compromising consumers' ability to access desired products at reasonable costs.

To avoid monopolies forming, regulators across sectors are looking to **make data become more portable and mobile**. Data are allowed to move between different consumer domains in fair, transparent and controllable ways that stimulate competition. In addition, combining AI with alternative data sources and more advanced predictive models enables better insurance pricing. It also releases human underwriters to collaborate more closely with distribution partners on product innovation.

In short, with a comprehensive regulatory framework in place, it will effectively remove regulatory barriers to insurers' online distribution of insurance products and enable more people to purchase products and services that were not accessible before.

Parametric risk transfer

Advances in data analytics and access to technology are instrumental in driving innovations in insurance to close protection gaps. One such risk transfer arrangements which benefit from access to good data and technology is parametric insurance, which complements traditional insurance product by enabling uninsurable risks to be insurable. A parametric risk transfer arrangement is unlike traditional insurance which is indemnity-based, requiring the exact losses to be determined before a claim can be paid.

Examples of parametric insurance include covers for delayed flights based on duration of delay, severe flooding based on excess rainfall events[7], and drought in the agriculture space. Parametric insurance provides timely support to policyholders through quick disbursement of claims, as the payout of a pre-defined amount is triggered when a pre-agreed parameter threshold is breached. Due to its quick disbursement, parametric insurance acts as an emergency cash relief to improve resilience of communities during catastrophe events.

For parametric insurance to work effectively to increase access to insurance, insurers' access to good data and their ability to perform data analytics are important to structure covers according to the risk profile of the insureds and to better correlate the trigger mechanism with the actual financial loss sustained[8].

Recommendations

- Regulators to draft **regional** principles and guidelines on the supervision over the **distribution of insurance products and insurers' business transactions via digital channels**.

[7] https://www.swissre.com/our-business/public-sector-solutions/historic-first-india-insurance-protection-against-natural-catastrophes.html
[8] SRA white paper on parametric risk transfer

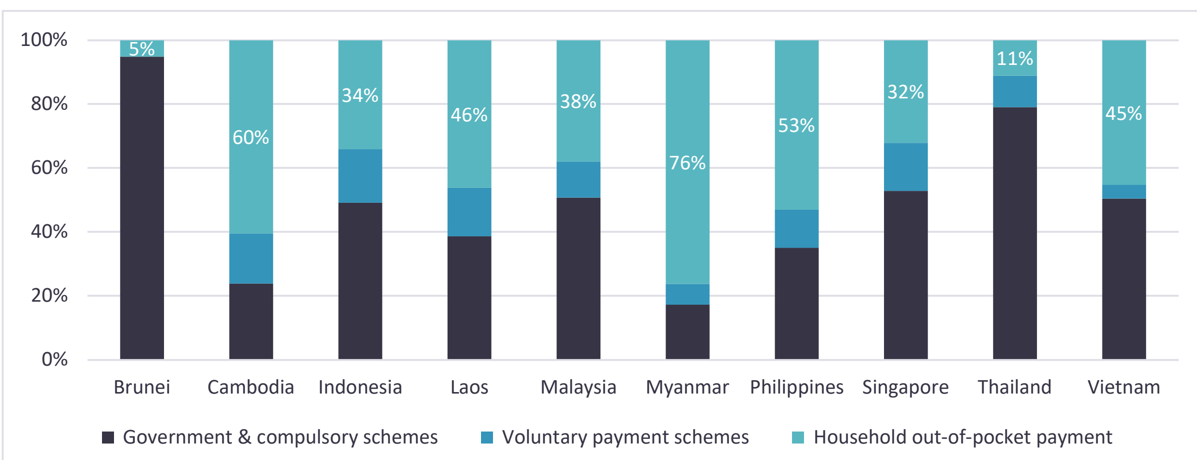
- Regulators to introduce well-defined **local** rules to encourage and support **insurers' innovation** and to **facilitate consumers' access to insurance**; policymakers to launch consumer education campaigns.

Health, Wellness and Productivity

Before the COVID-19 pandemic, **health** typically was not part of economic growth discussions and policy debate often focused on controlling healthcare costs. The pandemic has shown that the economies which fared best in terms of resilience and recovery have been those with the strongest health care systems. Each year, poor health costs around 15 percent of global real GDP from premature deaths and lost productive potential among the working-age population. The COVID-19 pandemic reminds us how much health matters not only to individuals and society but also to the global economy. In reality, improved health accounted for about one-third of the overall GDP-per-capita growth of developed economies in the 20th century. Better health could add USD 12 trillion to global GDP in 2040 – an 8 percent boost, or 0.4 percent a year faster growth.[9] These gains could not only help the economic recovery from the COVID-19 pandemic but also, over the longer term, counter demographic headwinds from an aging population.

Among major challenges faced by ASEAN to improve people's health and wellness, heavy reliance on households' health spending is a common one. The ratio of household **out-of-pocket expenditure (OOPE)** to total health expenditure generally exceeds 30% in ASEAN with exceptions of Brunei and Thailand. It is significantly higher than the average ratio of 20% for OECD countries[10]. Health financing systems with a high level of OOPE are usually associated with heightened vulnerability to catastrophic healthcare expenditure. This results in slow improvement in health outcomes for citizens and makes it difficult to close the health protection gap.

Figure 4: Health financing schemes as a percentage of current healthcare expenditure in 2018



Source: World Health Organization, Global Health Expenditure Database

[9] https://www.mckinsey.com/industries/healthcare-systems-and-services/our-insights/prioritizing-health-a-prescription-for-prosperity
[10] OECD Health Statistics 2020, https://www.oecd.org/els/health-systems/health-data.htm

Insurance companies can play a more active role in providing health funds in ASEAN markets. Consumers' increased uptake of **health insurance** will bring a variety of positive outcomes – OOPE will be driven down as insurance companies cover more cost, leaving consumers with more disposable income; workers will have better health outcomes, increasing the country's economic productivity; governments will save on social security expenditure with additional health protection provided by the private sector; with more premium income earned, insurance companies will pay more income taxes and have more funds to invest in the real economy which further creates more jobs and tax payments.

Integrated care provider and digital health

Effective delivery of **integrated care** is a fundamental solution to improve the wellbeing of the ASEAN population. The upgrade in care delivery model requires cost-effective, customer-centric and technology-enabled healthcare solutions. Insurers, as the traditional life and health protector of customers, are well positioned to take up the role of wellness manager, particularly in preventive care and chronic condition management.

Digital health solutions have a role, alongside personal intervention, in promoting the behavioural changes that help people to stay healthy or live well with chronic illness. People are increasingly familiar with devices which encourage healthy behaviours, such as counting the number of steps taken each day, monitoring calories consumed or warning for being sedentary too long. Such devices are also improving capabilities in early detection of illness, allowing intervention before a symptom becomes a significant health problem.

Wellness management is an increasingly important part of the healthcare system in developed and developing countries. Conditions such as obesity, diabetes and hypertension, as well as various forms of musculoskeletal pain, are generally not curable, but can be managed. The key to **successful self-management** is enhancing an individual's ability to control symptoms and manage pain. This requires people to make behavioural changes in their day-to-day lives and to sustain those changes, often over decades. Provision of information alone, for example on diet and exercise is usually not enough to change behaviour. Outside intervention is needed to lead patients toward self-management. This is likely to be best provided by a combination of personal intervention and technology to set goals, provide feedback, and monitor progress. Peer interaction is also an important part of the process as a major help to self-management. Research findings show that a range of illnesses – from back pain to obesity – spread through social networks in ways that are hard to explain. Technology which supports individual self-management programmes can be linked to social networks to spread wellness in the same way.

Digital Health Initiatives

Technology's role in improving health is widely recognised by consumers. In a recent Asia-wide research, over four fifths (81%) of respondents say technology has already improved their access to health services and nearly two thirds (60%) believe it has improved the affordability[11].

[11] https://pulseofasia.economist.com/

European insurers have been actively developing **digital health initiatives** to partner with customers in supporting, advising and protecting them throughout various stages of healthcare journeys. For instance –

- **Allianz** has launched various digital health initiatives across the region, partnering with key local players to provide services from wellness to health management. These digital health services enhance our product offerings and allows us to provide targeted care to our customers and their families along their lifelong health journey.
- **Generali Asia** launched a e-health service to support its customers through digital wellness engagement and professional health assistance. It allows customers to manage their lifestyle activities in an engaging and personalised way. Generali also launched telemedicine in the Philippines, Indonesia, Thailand and Vietnam.
- **Prudential** launched Pulse[12], an all-in-one digital app offering holistic health management to all consumers. It has been downloaded over 20 million times in 15 markets across Asia and Africa. Using AI-powered self-help tools and real-time information, Pulse serves as a 24/7 partner to users, empowering them to take control of their own health and wellbeing anytime, anywhere.
- **Swiss Re** partnered with an insurer in Thailand to develop an insurance solution integrated with dynamic pricing and personalized disease management program for customers with Type 2 diabetes. The project experience and consumer insights derived from this innovative diabetes solution health insurers further transform the role of insurers.

The World Health Organisation (WHO) has recognised digital health's instrumental role in delivering the Sustainable Development Goals (SDGs) and achieving universal health coverage. **WHO's South-East Asia Regional Office** released a regional digital health strategy outlining the vision, mission, goal and strategic objectives for the region[13]. Having long recognised the importance of collaboration for digital solutions in their global resolutions, WHO and the International Telecommunication Union (ITU) have introduced **the National eHealth Strategy Toolkit**[14], a practical, comprehensive, step-by-step guide that helps governments develop their own digital health strategy. WHO is currently developing a global strategy on digital health[15] and encourages its member states to develop and implement a digital health strategy that integrates financial, organisational, human and technological resources.

Recommendations

The EU-ABC recommends –

- ASEAN to develop a regional **digital health strategy** by referring to WHO's National eHealth Strategy Toolkit. The strategy can outline regional goals and strategic priorities as well as implementation rules and policies on digital health.

[12] https://www.wedopulse.com/
[13] https://apps.who.int/iris/handle/10665/160760
[14] https://apps.who.int/iris/handle/10665/75211
[15] https://www.who.int/health-topics/digital-health#tab=tab_1

- Governments to consider **driving health outcomes across Ministries** e.g. be a common healthcare related KPI that all Ministries are working toward together.

Conclusion

The COVID-19 pandemic has increased consumer awareness of the utility of insurance, while uncovering latent demand for more affordable products and more digitally enabled services. This has accelerated the trend of digital transformation, with more insurers moving online in order to build a more inclusive, resilient, sustainable system in ASEAN.

Tax policies and **technology** are two key enablers for more people to access affordable protection for their health, lives and property. Protection is particularly important in a COVID-19 world where restrictions are imposed on people's movement and the economic downturn increases financial pressure on households and businesses. Government policies can generate quick wins as well as encouraging industry's continued exploration of digital solutions to serve customers.

COVID-19 reminds us of the fact that health is a critical factor in resilient economic development. Insurers' investment in **digital health initiatives** is expected to improve people's wellness and society's productivity, which will have a sizable impact on economic growth. A well-developed digital health strategy will effectively coordinate private and public resources to provide resilience against future pandemics as well as recovery from this one.

ASEAN policymakers and regulators are recommended to consider proposals presented in this paper. EU insurers are keen to provide affordable and accessible products for ASEAN people and contribute to the prosperity of the ASEAN community.

About the EU-ASEAN Business Council & Insurance Working Group

The EU-ASEAN Business Council (EU-ABC) is the primary voice for European business within the ASEAN region. It is formally recognised by the European Commission and accredited under Annex 2 of the ASEAN Charter as an entity associated with ASEAN.

Independent of both bodies, the Council has been established to help promote the interests of European businesses operating within ASEAN and to advocate for changes in policies and regulations which would help promote trade and investment between Europe and the ASEAN region. As such, the Council works on a sectorial and cross-industry basis to help improve the investment and trading conditions for European businesses in the ASEAN region through influencing policy and decision makers throughout the region and in the EU, as well as acting as a platform for the exchange of information and ideas amongst its members and regional players within the ASEAN region.

The EU-ABC conducts its activities through a series of advocacy groups focused on particular industry sectors and cross-industry issues. These groups, usually chaired by a multi-national corporation, draw on the views of the entire membership of the EU-ABC as well as the relevant committees from our European Chamber of Commerce membership, allowing the EU-ABC to reflect the views and concerns of European business in general. Groups cover, amongst other areas, Insurance, Automotive, Agri-Food & FMCG, IPR & Illicit Trade, Market Access & Non-Tariff Barriers to Trade, Customs & Trade Facilitation and Pharmaceuticals.

Executive Board

The EU-ABC is overseen by an elected Executive Board consisting of corporate leaders representing a range of important industry sectors and representatives of the European Chambers of Commerce in South East Asia.

Membership

The EU-ABC's membership consists of large European Multi-National Corporations and the eight European Chambers of Commerce from around South East Asia. As such, the EU-ABC represents a diverse range of European industries cutting across almost every commercial sphere from car manufacturing through to financial services and including Fast Moving Consumer Goods and high-end electronics and communications. Our members all have a common interest in enhancing trade, commerce and investment between Europe and ASEAN.

To find out more about the benefits of Membership and how to join the EU-ASEAN Business Council please either visit www.eu-asean.eu or write to info@eu-asean.eu

The Insurance Working Group

Consisting of our membership in the insurance industry and representatives of the various financial services committees from some of our European Chamber members, this group looks at a range of issues faced by the broad insurance industry in the region. Prior to this paper, the Insurance Working Group has issued three advocacy papers, and engaged ASEAN governments including Finance Ministers and regulators on the issues. Our members are committed to ASEAN and seek to work together with governments to improve conditions that encourage investments in the wider economic development of the country as well as promote protection and resilience of communities. The Working Group is currently represented by the following insurers: Allianz, Aon, AXA, Generali, HSBC, ING, Prudential, Swiss Re and Zurich as well as the European Chambers of Commerce in ASEAN countries.

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