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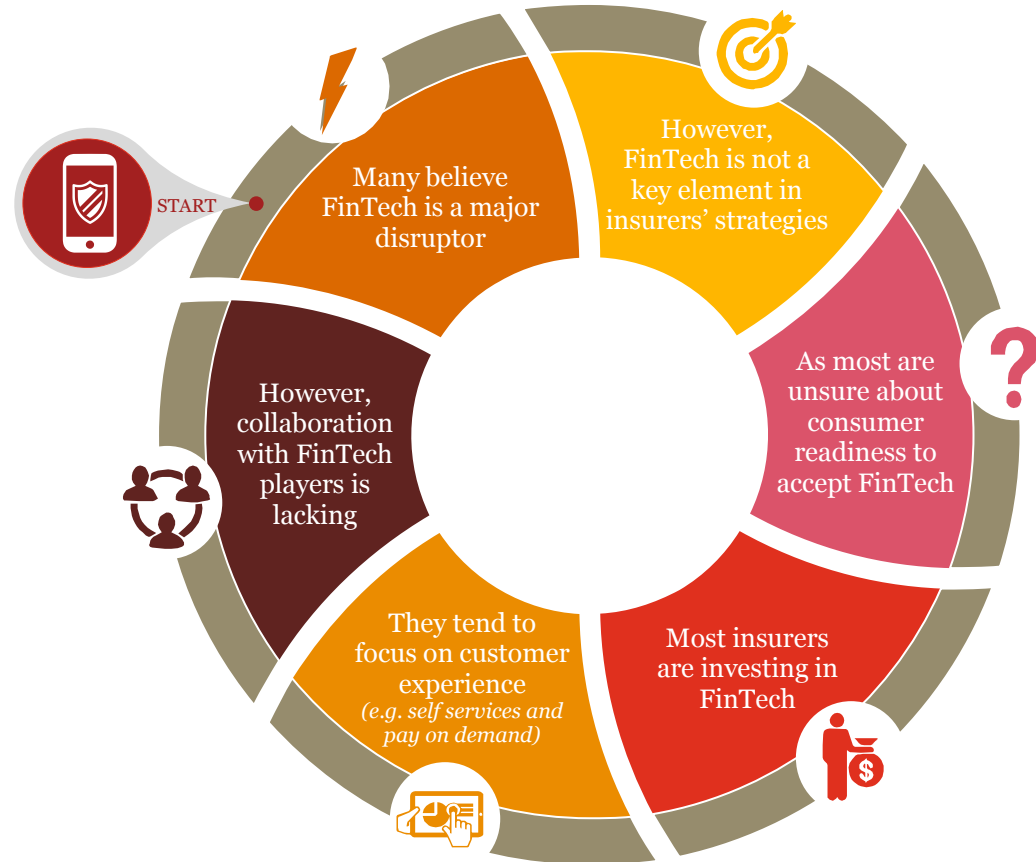
InsurTech: The road ahead

AICB-PwC Malaysia FinTech Survey: Insurance Cut

December 2016

Key messages

Disconnect
between perceived
FinTech
disruption and
insurers'
willingness to act



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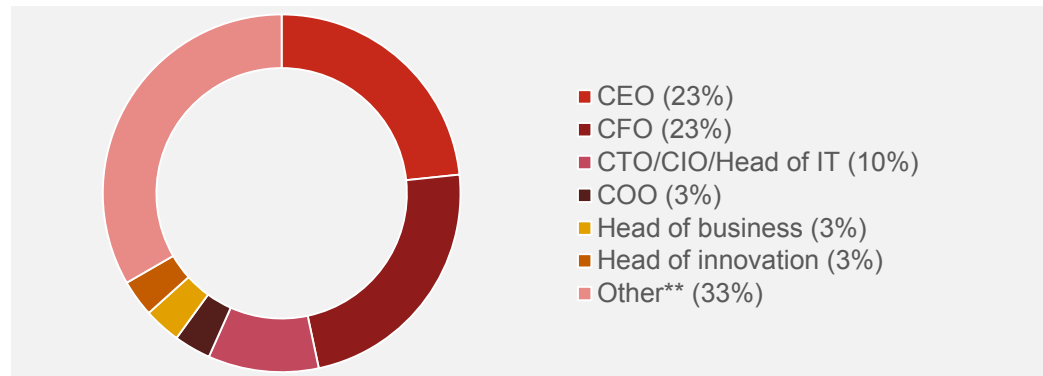
About the report

Survey Period: 19 July – 29 August 2016

Total online insurance survey respondents: 30

Figure 1: Breakdown of insurance survey respondents

Type of respondents



** Other includes Chief Marketing Officers; Chief Risk Officers; Chief Digital Officers; heads of corporate banking, corporate accounting, compliance and analytics; general managers; directors and consultants.

Source: AICB and PwC Malaysia FinTech Survey 2016

This report is the insurance-focused cut of the Asian Institute of Chartered Bankers (AICB) and PwC Malaysia report on FinTech, “Catching the FinTech Wave”.

The 2016 AICB and PwC Malaysia FinTech Survey, which provided the primary data for the main report, gathered the views of 84 senior professionals from banks, insurers, asset managers and FinTech companies in Malaysia.

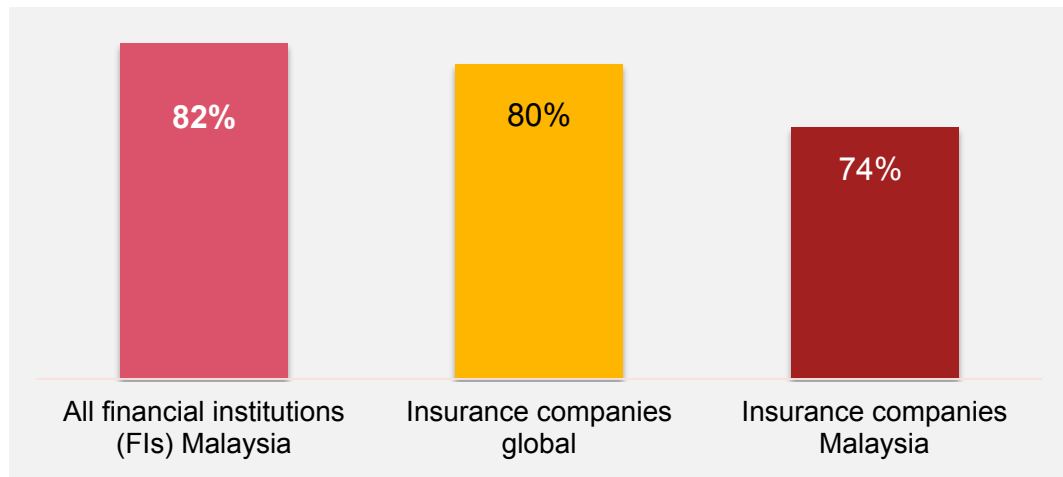
This insurance-focused cut is based on the responses of insurers from that survey.

Insurers facing disruption

Malaysian insurers are slightly less concerned about FinTech compared to global counterparts

Figure 2: FinTech disruption

Survey participants who believe that part of their business is at risk of being lost to FinTech companies.



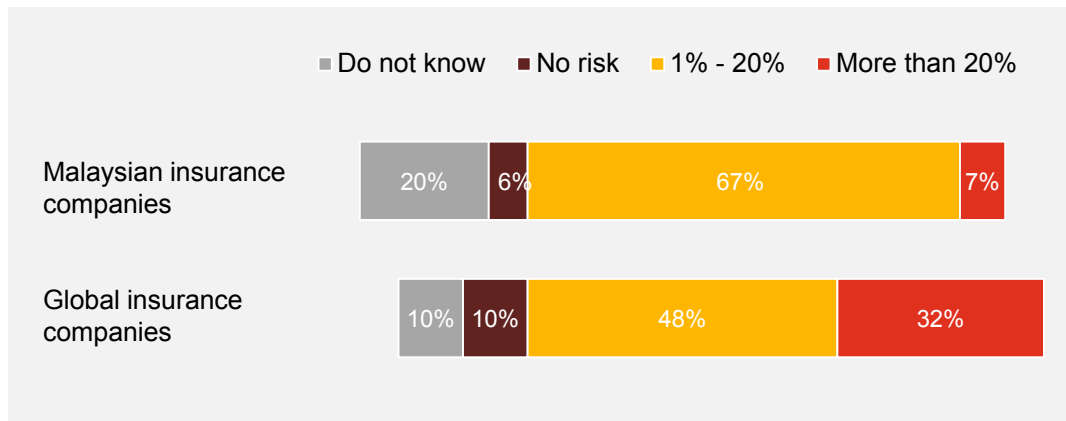
Base: All FIs Malaysia – 66, Insurance companies global – 79, Insurance companies Malaysia – 30

Source: PwC Global FinTech Survey 2016, AICB and PwC Malaysia FinTech Survey 2016

Most insurers believe FinTech could impact 1% to 20% of their revenues in 5 years

Figure 3: Percentage of business at risk

What percentage of your business (i.e. revenue) is at risk of being lost to standalone FinTech companies within the next five years?



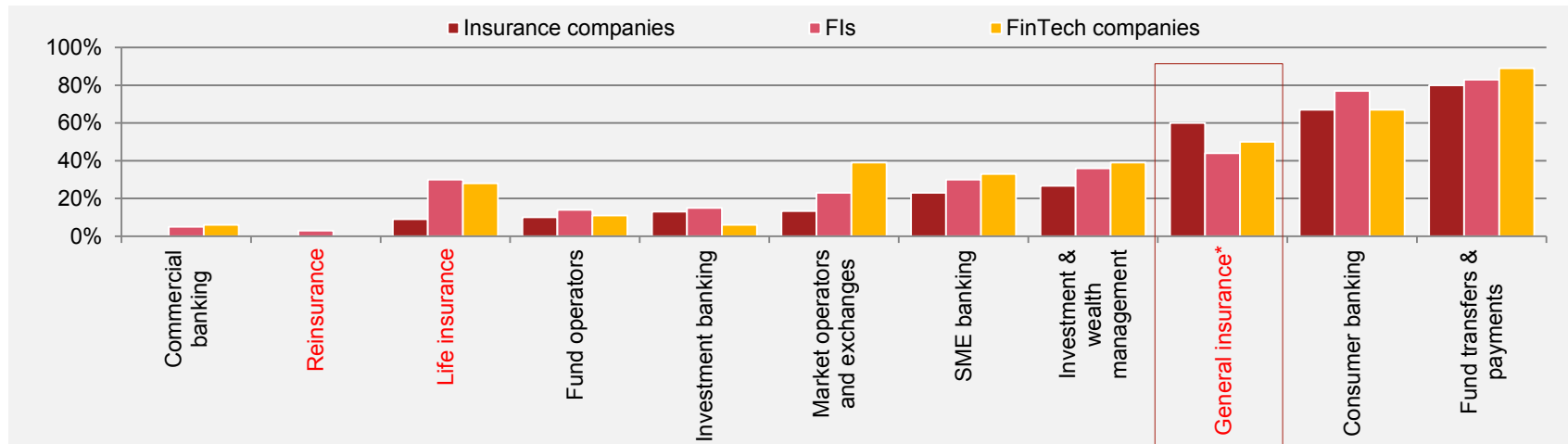
Base: Malaysian insurance companies – 30, Global insurance companies - 79

Source: AICB and PwC Malaysia FinTech Survey 2016, PwC Global FinTech Survey 2016

The general insurance sector is the third most at risk due to the FinTech disruption

Figure 4: Areas most likely to be disrupted

In your opinion, which part of the financial sector is likely to be most disrupted by FinTech over the next five years?



*Includes both property and casualty insurance

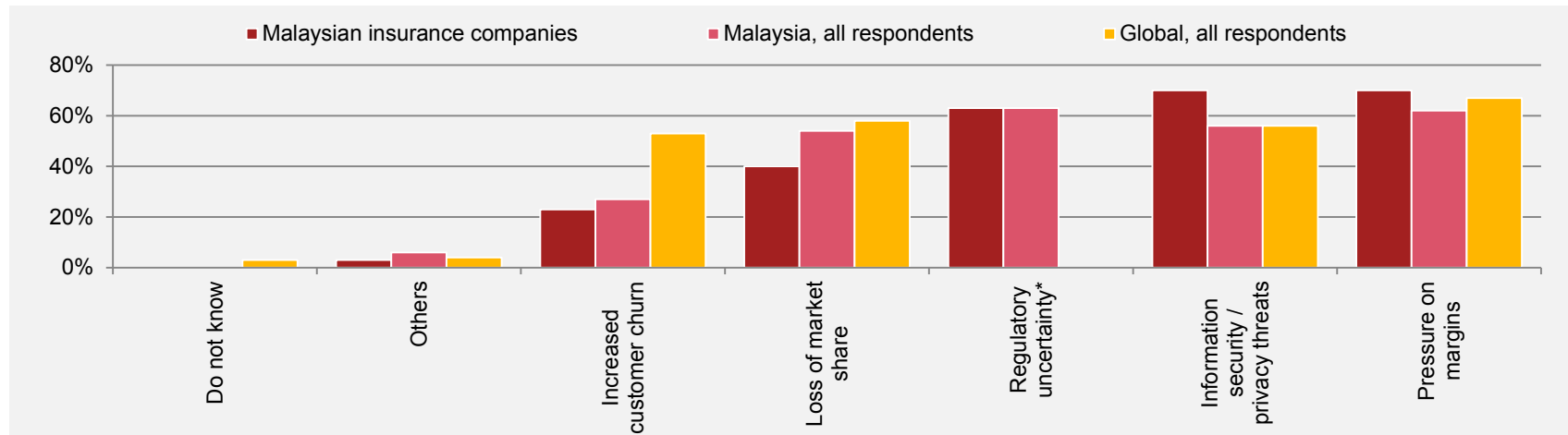
Base: Insurance companies – 30, FIs – 66, FinTech companies – 18

Source: AICB and PwC Malaysia FinTech Survey 2016

Pressure on margins and information security top the list of threats from FinTech

Figure 5: Threats posed by FinTech

In your opinion, what are the main threats related to the rise of FinTech within your industry?



*Regulatory uncertainty was not covered in the PwC Global FinTech Survey 2016

Base: Malaysian insurance companies – 30, Malaysia, all – 84, Global – 544

Source: PwC Global FinTech Survey 2016, AICB and PwC Malaysia FinTech Survey

A lot of catching up

Are insurers prepared for FinTech?

Flexible and customer-centric innovations are already commonplace in industries such as retail, entertainment and hospitality. And insurance, being an industry with products that at times can seem incomprehensible, is prime for some disruptive innovation.

Large global insurers—most with presence in Malaysia—including AXA, Allianz, AIG and MetLife, are taking note. Many have established their own in-house venture capital funds. Total funding for insurance technology (InsurTech) start-ups exceeded USD 1 billion in the first half of 2016 alone, according to CB Insights¹. The deal volume experienced during that period makes it likely that the year's investment will top 2015's record of USD 2.7 billion.

However in Malaysia, insurers appear unconvinced. 40% are still on the fence about customer readiness to accept FinTech.

This uncertainty about customer readiness creates inertia amongst insurers when it comes to embracing digital innovation to bring about change at every point along the industry's value chain.

¹ CB Insights is a technology market intelligence provider

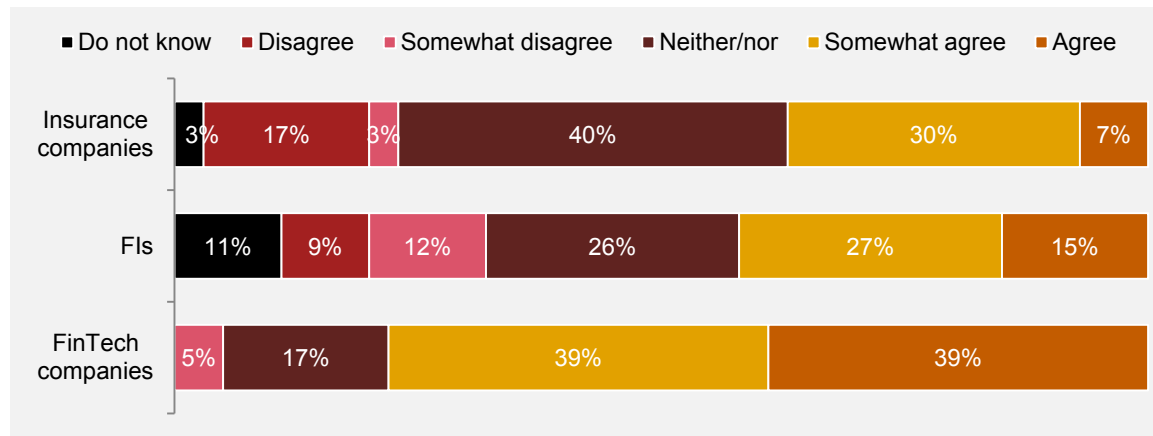


Insurers are unsure about consumer readiness to accept FinTech

Figure 6: Customer readiness

“Malaysian consumers are ready to embrace FinTech products and innovations.”

To what extent do you agree with the statement?



Base: Insurance companies – 30, FIs – 66, FinTech companies – 18

Source: AICB and PwC Malaysia FinTech Survey 2016

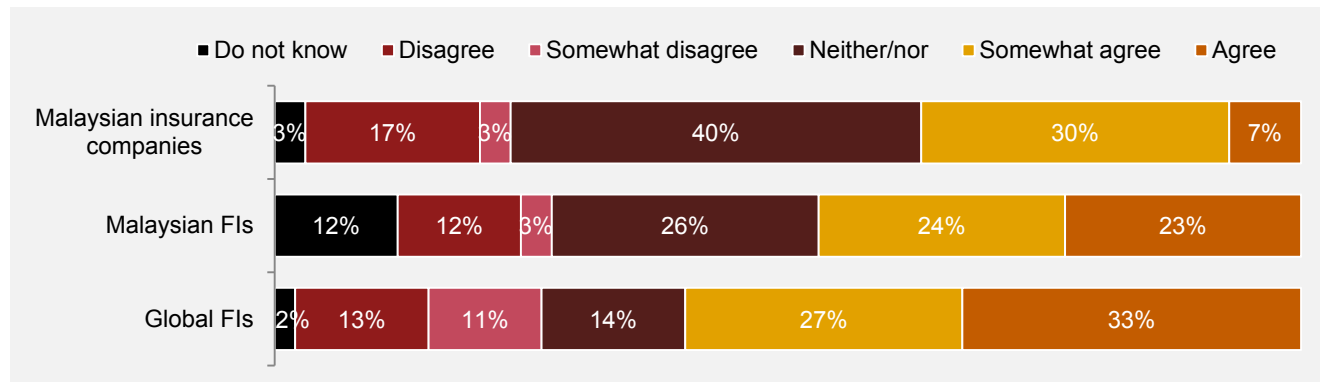
FinTech isn't top of mind for insurers strategically

A large proportion of insurance respondents (40%) is unsure how FinTech fits into their overall strategy.

Figure 7: Focus on FinTech

“My organisation has put FinTech at the heart of its strategy”

To what extent do you agree with the above statement?



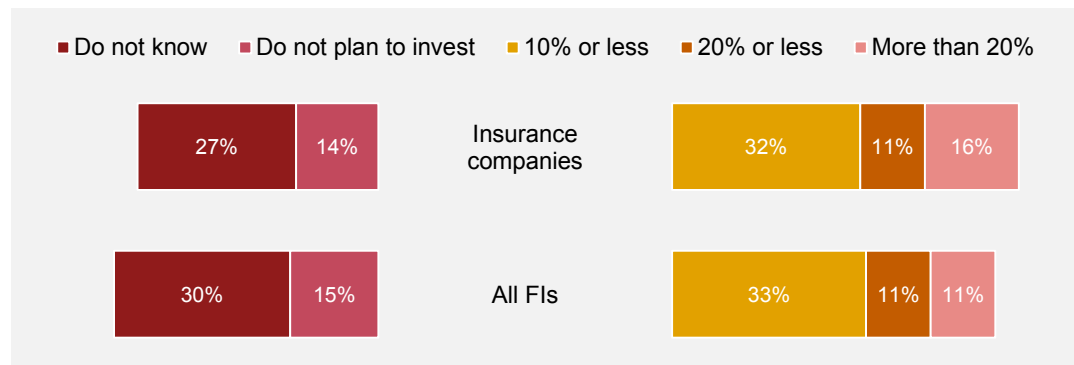
Base: Malaysian insurance companies – 30, Malaysian FIs – 66, Global – 544

Source: AICB and PwC Malaysia FinTech Survey 2016

A higher majority of insurers is investing in FinTech compared to FIs in general

Figure 8: Planned investment

If you are planning to invest or allocate resources in response to FinTech, how much, as a percentage of your information technology expenditure, are you planning to invest in the next one year?



Base: Insurance companies – 30, All FIs – 66

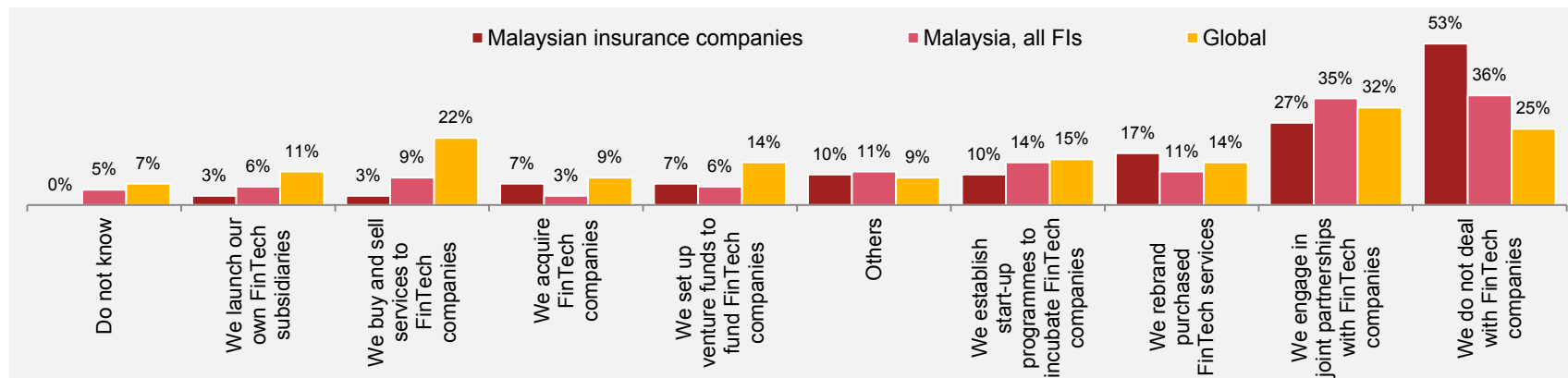
Source: AICB and PwC Malaysia FinTech Survey 2016

However, they are way behind in engaging FinTech companies

53% of insurers don't deal with FinTech companies. Perhaps this indicates that insurers have limited engagement or confidence in collaborating with FinTech counterparts.

Figure 9: Dealing with FinTech

How are you currently dealing with FinTech companies?



Base: Malaysian insurance companies – 30, Malaysia, all FIs – 66, Global – 544

Source: AICB and PwC Malaysia FinTech Survey 2016; PwC Global FinTech Survey 2016

Regulation, IT security and IT compatibility are the key challenges in dealing with FinTech companies

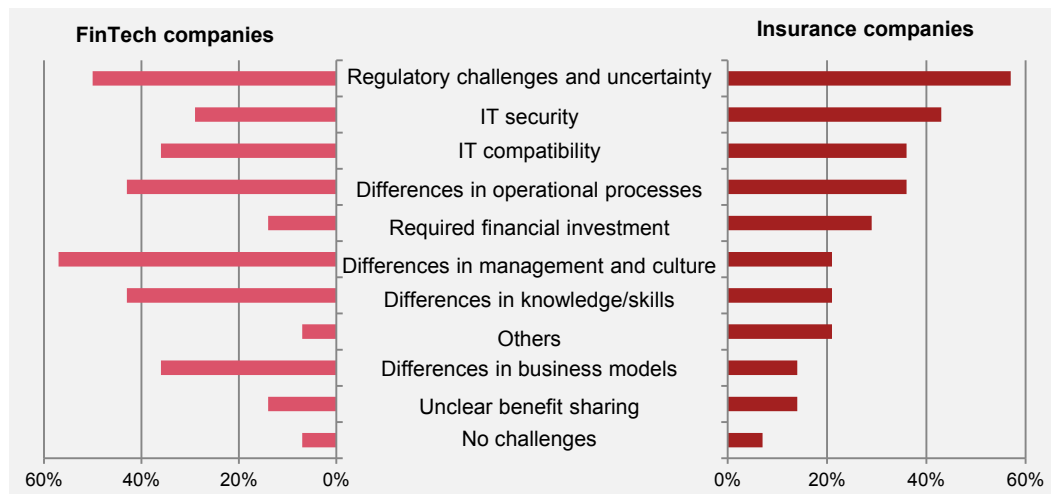
Figure 10: Challenges

What challenges did/do you face in dealing with:

- Traditional FIs (for FinTech respondents); and
- FinTech companies (for FIs)?

Caveat

The survey results may be skewed as 53% of insurance respondents do not deal with FinTech companies



Base: FinTech companies – 14, Insurance companies – 14

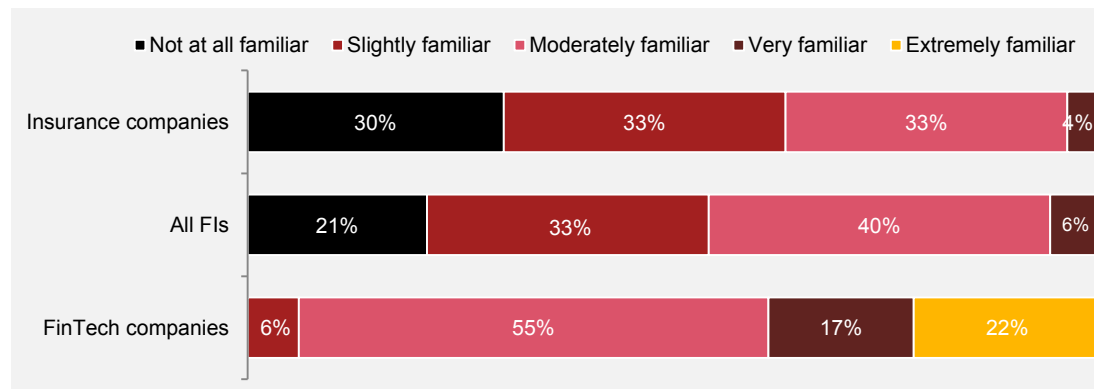
Source: AICB and PwC Malaysia FinTech Survey 2016

Insurers' knowledge of blockchain is lower than FIs in general

The majority of insurers are at best slightly familiar with blockchain.

Figure 11: Familiarity with blockchain

Please describe the extent to which you are familiar with blockchain.



Base: Insurance companies – 30, All FIs – 66, FinTech companies – 18

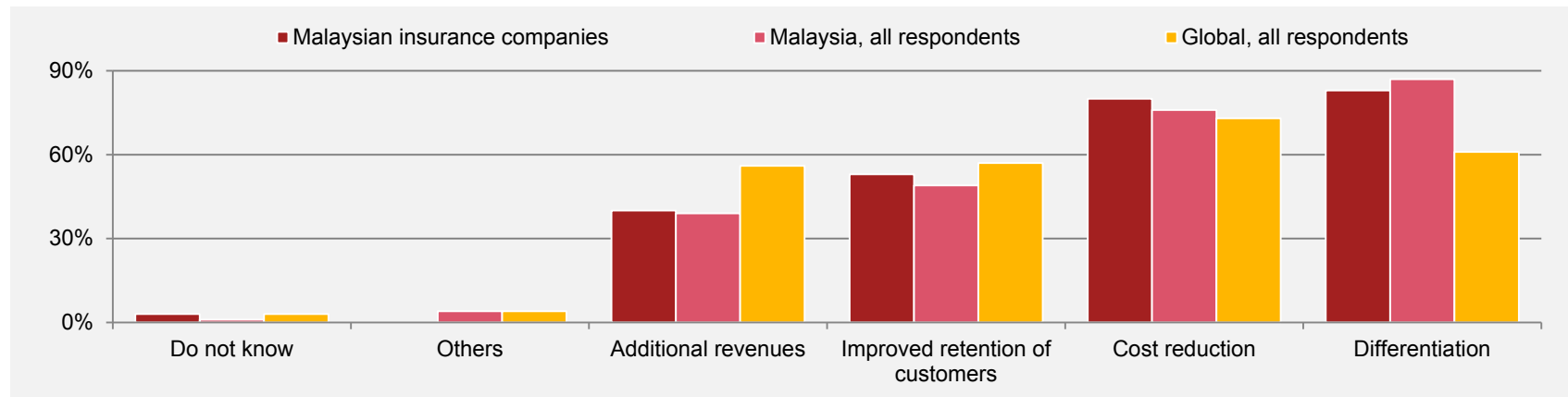
Source: AICB and PwC Malaysia FinTech Survey 2016

Closing in on FinTech

Insurers see opportunities for differentiation and cost reduction from FinTech

Figure 12: Opportunities arising from FinTech

In your opinion, what are the main opportunities related to the rise of FinTech within your industry?



Base: Malaysian insurance companies – 30, Malaysia, all – 84, Global – 544

Source: AICB and PwC Malaysia FinTech Survey, PwC Global FinTech Survey 2016

Potential areas of development

Areas of development in FinTech that will have a huge impact on the insurance sector:

- **Customer experience: upending of traditional customer care structures**
For example, mobile apps that allow people to purchase insurance policies directly from insurers, doing away with inefficient paper-based claims systems and facilitating real time open communication between insurers and their customers, leading to greater customer satisfaction.
- **Internal operations: leading cost savings and better customer experience and risk profile**
FinTech innovations can range from robotic automation of processes, to data analytics for predicting risk outcomes, to artificial intelligence for smarter customer engagement and to provide better risk profiles.
- **New business model: the end of one-size fits all model**
For example, liberalised insurance tariffs pave the way for user-based insurance, where insurers can have more dynamic pricing of their premiums.

Insurers plan to embark on a mix of FinTech innovations, in particular those related to customer experience

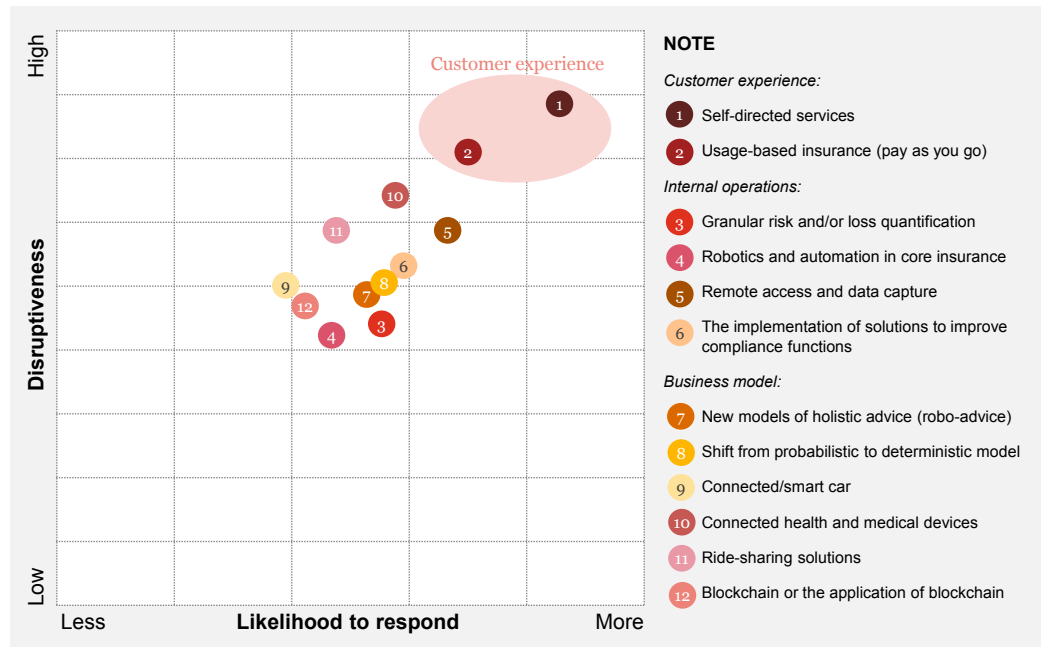
Figure 13: Trends in the insurance industry, ranked by disruptiveness and likelihood to respond

In your opinion, what is the degree of disruption of the following emerging trends on the insurance industry over the next five years, and how likely are you to respond (e.g. allocate resources, invest) to them?

Notable observations

Insurers are facing cost pressures and see “self-directed services” as means to reduce front-office operational cost.

However, it is surprising that “robotics and automation in core operations” emerged as one of the least likely areas for them to invest in.



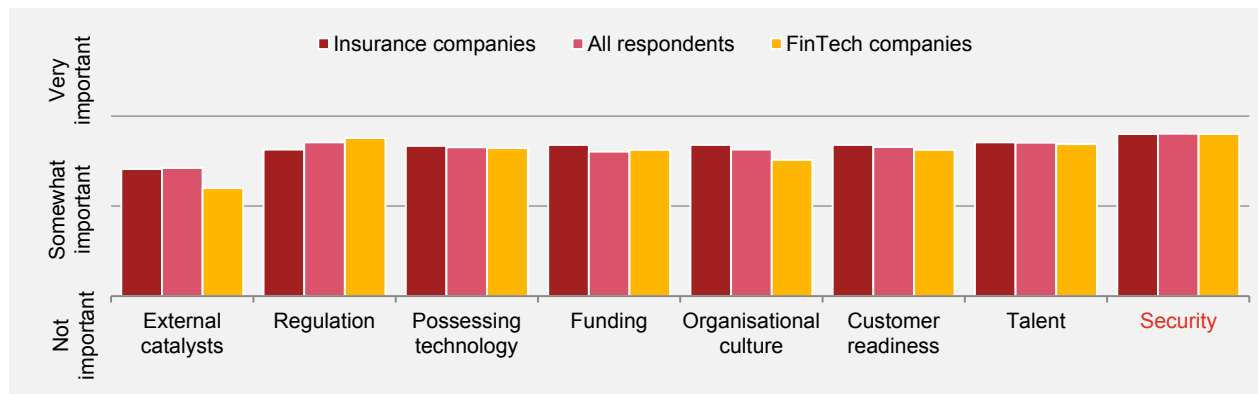
Source: AICB and PwC Malaysia FinTech Survey 2016

Security is the key enabler for FinTech development

Talent, customer readiness, technology, culture, funding and regulation are equally as relevant.

Figure 14: Enablers for FinTech

*In your opinion, what would be important to enable the development of FinTech?
Please rate the importance of the following enablers for the development of FinTech capabilities
in your company.*



*External catalysts:
for example, FinTech incubation
centres and hubs*

*Organisational culture:
for example, tone from the top and
employee openness to change*

*Talent:
people and skills*

Base: Insurance companies – 30, All respondents – 84, FinTech companies – 18

Source: AICB and PwC Malaysia FinTech Survey 2016

Putting FinTech into action: Consider before you leap

FinTech may be complicated and unfamiliar, however, if approach strategically, it could help insurers reinforce or move forward their market position. Setting key expectations before making the foray into implementing FinTech helps smooth out the entire process. Key areas senior leadership will need to think about include **objective, strategy, technology, processes, channel management, branding and product**.

Issue: Bank Negara Malaysia's life framework requires all life insurance operators to offer a commission free standalone pure protection product through at least one direct-to-customer (D2C) channel by January 2017. An insurer wanted to launch a simple online D2C proposition in the initial stage, with the expectation that it needs to be profitable.

Action: Senior leadership decided the following upfront:



Impact

With clear expectations and strategic direction in mind, it was possible to create an effective strategic roadmap for the online offering that:

- Has the **right focus on the customer needs this solution addresses**
- Creates a **compelling value proposition** that is translated into a matching online user experience
- **Plans for agent** and lead channel management, with agents focusing on high value/complex products
- **Integrated with other business functions** (product design, marketing, technology) and organisational structure and processes.

The way forward



Insurance companies must think forward and start to seriously address the changing landscape. Here are additional concrete steps insurers should take as they embrace FinTech:

- **Exploration** – Actively monitor new trends and innovations. Learn about the latest developments directly and in real time by immersing yourself in innovation, e.g. by establishing a presence in innovation hotspots like Silicon Valley.
- **Strategic partnerships** – Partner with start-ups to build pilot solutions for testing in the market. Creating a fluid design environment (a “sandbox”) will help boost creativity, while at the same time provide both parties with the tools and resources needed to prototype solutions.
- **Involvement with InsurTech** – Be proactive and get involved in start-up programs such as incubators, funding, and strategic acquisitions. This helps improve your readiness to address specific problems, especially those that otherwise might not be tackled in the short term.
- **New product development** – Take inspiration from your involvement FinTechs to discover emerging coverage needs and risks which would require new insurance products and services. Refine and redefine your product portfolio strategy accordingly.

Currently, most of the innovation is happening at the business unit level, and mainly focuses on small, incremental innovation. However, in order to effectively interact with the FinTech ecosystem, incumbents have to define new corporate structures and create an organisational culture that actively seeks out and embraces innovation.

Appendix

Summary of InsurTech-related trends

The InsurTech trends used in the survey and this report are based on the trends identified by DeNovo.

DeNovo is a platform powered by Strategy& and PwC focused on FinTech, designed for top management and key decision makers to explain which start-ups, technologies, trends and new market entrants to look out for, and why.

The following trends are a snapshot in time of the most relevant ones for the insurance sector. For an updated view, please visit the DeNovo webpage and subscribe to the platform at <http://www.strategyand.pwc.com/denovo>

DeNovo InsurTech trends

Self-directed services	Use of self-service tools to reduce cost of serving customers and improve simplicity, transparency, and speed of fulfilment.
Usage-based insurance (pay as you go)	Personalisation of insurance through usage- and behaviour-based models in auto coverage leverages new ways to capture driving data.
Granular risk and/or loss quantification	Advancement in technology helping to quantify risk and/or loss at granular level.
Robotics and automation in core insurance	Increased use of capabilities such as robotics and artificial intelligence to automate core insurance functions.

DeNovo InsurTech trends (continued)

Remote access and data capture	Use of non-traditional data capturing solutions including remote devices, to improve risk and loss assessments.
New models of holistic advice (robo-advice)	New models of holistic advice on insurance/investment needs assisted by automated advisors that leverage advanced analytics and AI.
Shift from probabilistic to deterministic model	Real-time data capture and monitoring technology enabling insurers to shift from a probabilistic to a deterministic claims model.
Connected/smart car	Solutions for connected cars and increasingly assisted/autonomous driving that impact auto claims frequency and severity.
Connected health and medical devices	From wearables to genomics which enable P4 Medicine: Predictive, Preventive, Personalised and Participatory.
Ride-sharing solutions	Rise of new ride and car-sharing business models, or similar sharing economies, that demand new insurance solutions regarding liability and personal injury.
Blockchain or the application of blockchain	Use of distributed and decentralised ledger technology in which transactions are recorded in order to improve payments, clearing and settlement, audit or data management of assets. There is also the possibility to create a so-called “smart contract” using blockchain technology. This is essentially a contract that is translated into a computer program and, as such, has the ability to be self-executing and self-maintaining.

In addition to the trends identified by DeNovo listed in the previous pages, we have also included the following trend, which was suggested based on our discussion with a national supervisory institution prior to carrying out the survey.

Additional trend for insurance sector

The implementation of solutions to improve compliance functions	For example, regulation technology (“RegTech”) applications that help automate compliance tasks to make compliance faster, simpler and more flexible.
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