

InsurTech Rising Asia

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Speech on “Fostering Insurtech Innovation” by

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Good morning, ladies and gentlemen,

I am most delighted to join you here this morning at the Insurtech Rising Asia. It is exciting to see the active participation of you from the insurance industry to exchange views on the latest trends and development in Insurtech.

Today my topic is “Fostering Insurtech Innovation”. It’s always been a priority in business agenda on how to provide a conducive environment for Fintech while maintaining financial stability and customer protection. It is encouraging that, in the last couple of years, the insurance industry has caught up with the wave of technology development. We can all see and experience the latest innovations in Insurtech. Notable examples are the use of telematics in motor insurance and wearable devices for health monitoring. There are immediate benefits for policy holders, e.g. lower premium or premium discount for good driving behavior and maintaining regular fitness activities. Following these developments, we may ask: how can we provide further impetus to the momentum of Fintech?

Latest trend and market development

First, to foster Fintech, we need money. Fintech generally holds a promising future for all parties. Therefore, investors worldwide have been attracted to this frontier. International investors as well as multinational insurers have started to put technological innovation as their top priority in redefining their business and operating models. Let me give you some statistics. According to an international consulting firm, up to the 3rd quarter of 2017, venture capital investment and mergers and acquisitions in Fintech amounted to US\$1.53 billion whereas the full year figure for 2016 was US\$1.79 billion. In Q3 2017, Fintech investment in Asia grew to over US\$1 billion for the first time. Regarding the insurance sector, Insurtech is still considered a relatively new phenomenon when compared with banking and other areas of financial services, but it is rapidly catching up. China's first online insurer ZhongAn held the first major Initial Public Offerings in Hong Kong this year, raising US\$1.5 billion on a market valuation of US\$10 billion. There is strong investor confidence in the growth potential of Insurtech.

At the same time, we are excited to see more Insurtech start-ups emerging in Hong Kong. An increasing number of Insurtech start-ups have approached the Insurance Authority (IA) to explore possible applications of their Insurtech initiatives. From the discussions with these start-ups, we find that the potential applications of Insurtech could be wide-ranging, covering almost the full spectrum of the insurance value chain, from

product development, underwriting, sales and advisory, policy administration to claims management. While Insurtech holds promise for investors, one of its key attractions is “customer-centric”, i.e. focus on customers.

Just to give a few examples on “customer centric”: Some insurers have introduced e-onboarding and e-Financial Needs Analysis (e-FNA) to speed up the underwriting process; some are employing chatbots with artificial intelligence to handle customers’ enquiries on insurance policies, and claims management system to accelerate and streamline the claims process.

“Customer centric” may also mean tailored insurance products for customers. With the help of advanced technology, customers are more able to choose insurance products tailored to their needs. Just to give an example, patients who have pre-existing diseases in the past would always face challenges in purchasing medical insurance, either being rejected by insurance companies or being charged with premium loading. Now, thanks to the innovative online health management tools that could track and analyse the users’ health indicators, insurers may now use the data to adjust premiums based on the risk level. Policy holders have been regarded by insurance companies as companions in their whole journey to proactively manage their health conditions. This would potentially improve the general health of the public, bring in social benefits and improve the well-being of mankind. These benefits, promised or realised, would in turn attract more investment into the Fintech ecosystem.

I notice that, nowadays, policy holders demand high quality services. They demand the provision of accurate policy details, adequate protection of personal data, prompt response of customer service staff and efficient claims process. For Insurtech to flourish, the solutions should address these customers' expectations. How to develop Insurtech applications to meet these growing demand should be one of your key challenges ahead. This would in turn affect how Insurtech would prove to be successful.

New Insurtech initiatives

The IA has taken over the regulatory functions of the then Office of the Commissioner of Insurance on 26 June 2017. While our principal missions are to regulate and supervise the insurance industry for the promotion of the general stability of the insurance industry and for the protection of existing and potential policy holders, we are also tasked to facilitate the sustainable market development of the insurance industry. "Fostering Insurtech Innovation" is therefore one of our priorities.

To that end, the IA introduced two new initiatives in late September to promote the development of Insurtech in Hong Kong. They are, namely, the Insurtech Sandbox and the Fast Track applications for authorisation of new insurers owning and operating solely digital distribution channels (the "Fast Track").

Let me elaborate on "Sandbox". Some authorised insurers may have initiatives in applying innovative technologies in their business operations,

but may be uncertain if those initiatives could meet the supervisory requirements of the IA. The Insurtech Sandbox will create a “safe space” for authorised insurers and their technology partners to try out new Insurtech applications.

The Insurtech Sandbox not only allows insurers to obtain real market data and information of user experience in a controlled environment before the full launch of the new technology, but it also provides insights to the IA to refine supervisory requirements, in the light of the trial run.

Fintech applications can have cross-sector implications. The IA, the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) are co-operating closely in this regard. In order to streamline the application process of cross-sectoral Fintech application, a company can approach the most relevant regulator, and the regulator concerned would become the primary point of contact to liaise with the other regulators for collaboration and access to other relevant sandboxes.

The Fast Track offers a separate and somewhat faster queue for applicants planning to launch a 100% online insurer without any conventional marketing channels such as agents, banks or brokers. There are advantages in having more new insurance companies selling products through digital channels, such as online or mobile applications, in terms of product development, delivery, customer service and cost efficiency.

These two initiatives have been just launched for slightly over two months,

but we have already received positive responses from interested market players. Enquiries came from multinational and local insurers, as well as start-ups trying a variety of Insurtech applications.

In addition, to better position ourselves as a market enabler, we have strengthened our dedicated Insurtech Facilitation Team to facilitate the Insurtech community's understanding of the current regulatory regime, serving as a platform for exchanging ideas of innovative Insurtech initiatives among key stakeholders, and also providing advice on Insurtech-related topics.

The IA has also established the Fintech working group under the Future Task Force of the Insurance Industry. The working group provides excellent opportunities for insurers, academia and start-ups to meet up to explore potential collaboration and discuss future developments of Fintech. The IA plans to organise focus group discussions under the working group on topics such as cyber security and blockchain applications. You are welcome to join the working group to mingle with people with different backgrounds to contribute to the success of the industry.

To promote Fintech on the international front and attract overseas Insurtech start-ups to consider Hong Kong as their place for establishment, we are engaging with a number of overseas authorities for collaboration on Fintech. Fintech co-operation agreements were signed with the UK Financial Conduct Authority in September, and the Dubai Financial Services Authority just last week. Under the agreements, the authorities

will co-operate on information sharing on innovation and referrals of innovative firms seeking to enter the counterpart's market.

It's been reported in many instances that Fintech would disrupt the financial industry, including the insurance industry. So far, are those Insurtech applications we have seen disruptive or just facilitating the sale and development of new insurance products in Hong Kong? What areas of Insurtech would be most promising in the near future? Blockchain, AI, chatbots? I do not have the crystal ball, but these may be promising areas for further advancement of the Insurtech ecosystem in Hong Kong.

Conclusion

According to EY Fintech Adoption Index 2017, the average adoption of Fintech globally is 33%. For Hong Kong, the adoption rate is 32%, which is around average, while China grabs the top spot reaching 69%, compared to 52% for India and 42% for the UK. So, for Hong Kong with a base of average adoption rate, the good news is that there are opportunities for more innovative Insurtech applications.

Just like the name of the event, the rising of Insurtech is happening in Asia. We are witnessing the wave of Insurtech that is going to revolutionise the insurance industry. The IA's Insurtech initiatives that I just mentioned would, hopefully, stage another chapter of a challenging journey for the Insurtech community. Indeed "Embracing Innovation" is one of the core values of the IA, and, therefore, promoting Insurtech would be one of our

top agenda. I hope through the discussions today, we can all get some insights as to the way forward for fostering Fintech development and realising the benefits that Fintech may bring to all parties.

Thank you.