

INSURANCE INSIGHTS

POWERFUL SWELL OR CAUGHT IN A RIP? CHINA'S INSURANCE
INDUSTRY PLOTS ITS COURSE TO EMBRACE INSURTECH

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The race to cash in on China's insurance sector is gathering momentum. In the last six years, China's insurance market has doubled in size. There is not only a keen appetite for large scale build of the insurance business, but also for real innovation. Chinese entrepreneurial networks are now looking to capitalize on transformation patterns experienced in more mature markets, such as the USA and Germany. This global foresight can offer some valuable lessons in navigating a course of survival and success in the Chinese market.

As experienced globally, the expectations of Chinese consumers are developing swiftly. Propelled by the strong tailwinds of economic growth, reform of the broader financial services sector and a stable government, an array of new products and services is gathering pace. Players within the sector are scrambling to adjust to rapid social and cultural change. Discerning Chinese customers have become used to the ease and convenience of the "Alibaba and Tencent effect" within the retail sector. When evaluating insurance products, they are now demanding a similarly seamless and intuitive experience.

Innovation will naturally play a critical role, as providers strive to harness technology for addressing customers' evolving needs. Globally a first wave of new InsurTechs has been leading the charge, with many employing e-commerce mechanisms seen in other sectors. Aside from the InsurTech disruptors, incumbents are equally adopting new technologies to drive change. Often Chinese boardrooms have embraced digital transformation with more enthusiasm than their western counterparts. One to watch is Zhong An, which has recently made its IPO with a market cap of just over 10 billions dollars shortly after it went public. This leaves Zhong An as one of the most highly valued InsurTechs worldwide. This tech unicorn is applying fresh thinking to create new business models that capitalize on embedding risk cover into ecosystems like Taobao.com, Tmall.com, Ctrip or China Telecom.

In the race to win market share, Chinese players should also look internationally and make informed decisions based on trends experienced in other markets. There is already talk of a much needed shakeout of first wave InsurTech players in these markets, followed by a second wave of more creative and enterprising InsurTech contenders. Behind these bright and shiny challengers, ambitious incumbents will also be keen to increase their share of the insurance market pie. Their common goal will be to look beyond traditional pull-based activities copying E-Commerce activities and recognize windows of opportunity.

In a rapidly evolving insurance market, what are the key lessons that China can learn? Although InsurTech has been a popular topic in the media for several years, up to recently there had been very little guidance based on tangible analysis. Attempting to cut through the hype, insurance strategy experts Oliver Wyman has partnered with InsurTech investor Policen Direkt to assess the global InsurTech landscape and identify a number of emerging industry patterns. In their 2017 report *InsurTech Caught on the Radar: Hype or the Next Frontier?*, they examined data from more than a thousand InsurTechs and other relevant players, such as FinTechs active in the insurance space. Some of the key findings could offer Chinese players a valuable glimpse into the future:

PROPOSITION

This is how players develop innovative offerings of insurance-based products and services. Up until now China has been very active in the low cost, situational, community based and from “insured to protected” areas of the market. China could follow the example of US health insurer Oscar, which has been extending its boundaries away from traditional insurance models by way of positive promises. In an era where American healthcare is under intense media scrutiny, they are forming a value proposition around value adds, such as improving customers’ wider wellbeing. In China, some incumbents have already been exploring new ideas. Ping An has introduced a “doctor service”, and following the acquisition of Autohome, they have the real estate sector firmly on their radar. Seasoned players, such as Allianz, could also provide inspiration. In Italy Allianz is offering customers a single configurable insurance contract, which can be adapted to suit their evolving needs in life. In short: all you need is “one” contract with Allianz and that adapts to all your needs. In an industry where reputation and trust are everything, incumbents would do well to trade on the strength of their brand when introducing new products.

DISTRIBUTION

Reinventing how insurance-based products and services are sold in the future will no doubt impact the bottom line. In China insurance sales are currently dominated by the business-to-consumer model. Zhong An, however, has successfully built up an affiliate integration model, shaping its go-to-market strategy around a partner ecosystem. There could be further growth potential for China in areas such as corporate platforms, exploiting insurance products provided by employers into broader offerings. This would allow employees to access to a much broader set of solutions to cover their personal risks using their own personal money. New innovative InsurTech models in this space are often based on the delivery of HR & Benefit solutions. This idea is being keenly pursued by players such as Limelight Health in the USA and Hibob in the UK. Business-to-business offerings targeting SMEs, such as the UK’s Simply Business, or the USA’s Zensurance, could also offer some interesting insights for the Chinese market.

OPERATIONS

From digital sales enablement, to underwriting, claims, and managing finance and risk, Chinese players can now cherry-pick the best ideas for driving operational efficiencies. Hong Kong's Seasonalife has been using digital to enhance the sales process. Even closer to home, Zhong An Technology has been offering their solution to third parties – a trend that has gathered traction with FinTech providers such as AntFinance, Tencent's mobile payment technology, or Dianring's blockchain. The digitization of the claims supply chain could have sizeable potential in China. With the number of car owners skyrocketing in China, motor insurance is a hotly contended area. German InsurTech Control Expert is optimizing the digital claims supply chain, with the ultimate vision to embed itself into the wider ecosystem of the large automotive manufacturers. Denmark's Scalepoint is reinvigorating the claims customer experience, to benefit both consumers and the insurance companies themselves. Likewise within underwriting InsurTechs are attempting to rewrite the rule book – Cape Analytics (USA) with risk assessment, and Earnix (Israel) with pricing.

InsurTech is a phenomenon that has challenged traditional models and created the most radical change in the insurance industry's history. China now has the unique opportunity to not only lead in certain innovation areas like ecosystem embedding, but also to take the best ideas being championed by global players, and move away from product sales towards new forms of providing risk cover to consumers and corporations. From San Francisco to Shanghai, one thing is consistent in boardrooms globally – digital innovation will remain a top priority in shaping the long-term success of a business. With InsurTech stimulating more creative and customer-centric thinking, the race to the next frontier is on.

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