Inclusive Insurance Ecosystem: Long-term Investment, Digital Innovation and Sustainable Healthcare

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Executive Summary

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

In line with ASEAN's theme under the 2020 Chairmanship of Vietnam, "Cohesive and Responsive", we focus on the establishment of an inclusive insurance ecosystem built with the interlocking constituents of sustainable investment, digital innovation and health and wellness.

To realise the ASEAN Community Vision 2025, the ASEAN Community has been striving for cohesion and consolidating its regional processes for peace, security, stability and development. European insurers have been dedicated to providing citizens and corporations in ASEAN with protection against major financial setbacks along with long-term savings products for retirement income and other life needs. The industry has been actively working with governments and financial regulators on areas such as long-term investment and digital innovation.

In this paper, we describe a top-level plan for the insurance industry to support ASEAN's development through establishing an inclusive insurance ecosystem.

- First, we consider how the regulatory framework can facilitate the **long-term investment** of insurance funds. This will enable the industry to play its traditional role as a supplier of patient capital that drives the cycle of growth and provides stability during periods of volatility. Growth of insurance funds is a key part of this process.
- Second, we show how European insurers are committed to introducing **digital solutions** to serve customers better and improve consumers' access to insurance, while protecting data privacy and security. In doing this, the industry also fosters the development of the digital economy in the markets we serve.
- Third, European insurers are upgrading their business focus from being protection providers to becoming **integrated wellness managers** for customers. By wellness, we mean preventative care and chronic illness management. Both are equally important to meet the rising demand of the ASEAN population for better wellness, particularly as societies become older and non-communicable diseases (NCDs) become more prevalent, against a backdrop of rising healthcare costs.

The three constituents are key to developing an **inclusive insurance ecosystem** in ASEAN. They are inherently linked to each other. Long-term investment from insurance companies will facilitate the financing of infrastructure build and corporations. The former stimulates economic growth and provides social benefits, including in health and education. The latter supports technology innovation, including technology start-ups. Advances in fintech and digital health will enable insurance companies to provide additional quality services for customers such as wellness management. With more consumers taking up insurance, the insurance industry will have more funds available for long-term investment, creating a virtuous cycle of protection and growth.

Successful establishment of an inclusive insurance ecosystem involves participation by a variety of stakeholders across industries and countries and will ultimately benefit the whole economy.

To achieve the objectives set above, the EU-ABC would like to make the following recommendations to ASEAN policymakers.

Table of Recommendations

Focused Areas	Recommendations
Long-term investment	▪ Insurance regulators to introduce **solvency regimes**, particularly capital requirements for infrastructure investments, and **investment rules** that are both risk appropriate and serve the wider investment needs of the country. ▪ Governments to implement initiatives such as **provision of guarantees** and **credit enhancement facilities** to increase the supply of investment-ready projects, and to launch pilot products, such as **infrastructure project backed securities** and **Social Impact Bonds (SIBs),** to facilitate the flow of insurance funds into infrastructure projects. ▪ Financial policymakers and Central Banks to prioritise **the development of capital markets** as an alternative to bank financing, through issuance of Government-back securities and tax incentives for long-term saving vehicles. ▪ Fiscal policymakers to introduce/enhance **personal income and corporate tax deductions** to encourage the uptake of private life and health insurance policies. This will grow the funds available for long-term investment in the economy.
Digital innovation	▪ Legislators to introduce national privacy laws that address **data privacy and governance** concerns and harmonise the laws at the regional level, to maximise the **free flow of data** securely across borders. ▪ Regulators to develop guidelines regarding **ethical issues and the use of Big Data and AI** in the insurance sector. It would be beneficial to have a common approach for the region which regulators could reference for domestic rules. ▪ Regulators to apply **equal regulation** to both existing players and new entrants throughout the insurance value chain. In markets where safe spaces are created, incumbents are given equal access to participate in “regulatory **sandboxes**”.
Health and wellness	▪ Fiscal policymakers to introduce/enhance **personal income and corporate tax deductions** to encourage the uptake of private life and health insurance policies. It will help close the significant health protection gap faced by the region. ▪ ASEAN to develop a **regional digital health strategy** by referring to WHO’s National eHealth Strategy Toolkit. The strategy would outline regional goals and strategic priorities as well as implementation rules and policies. ▪ Governments to introduce PPP financial instruments such as **SIBs** to supplement the funding of healthcare reforms. It will mobilize private resources to support public projects and address insurance companies’ demand for sustainable investment. ▪ Governments to establish a more regular routine of driving healthcare across Ministries e.g. a common healthcare-related KPI that all Ministries are working toward together.

European Insurers and the ASEAN Insurance Market

European insurance companies have a long history in ASEAN markets. Today, around 25 European insurance companies operate across the region, serving the population's insurance, savings, retirement and investment needs.

In 2018, 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 454 billion in 2018.

Table 1: European insurers' contributions to selected ASEAN countries in 2018

Unit: in millions of USD

Country	Europe's Premiums	Gross Premiums	Europe's Share	Europe's Assets	Total Assets	Europe's Share
Indonesia	3,994	18,727	21%	11,196	47,884	23%
Malaysia	5,791	15,540	37%	21,093	80,198	26%
Philippines	1,181	6,116	19%	4,617	27,892	17%
Singapore	8,358	29,876	28%	44,666	160,145	28%
Thailand	4,597	25,667	18%	19,662	120,321	16%
Vietnam	1,230	5,799	21%	5,145	17,222	30%
Total	25,152	101,725	25%	106,379	453,663	23%

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

In 2018, insurance penetration rate, i.e. the ratio of gross premium income to local GDP, across ASEAN stood at just over 3.5%, compared with the global average of 6.1%. While the rate remains low, many ASEAN markets are expanding quickly in real terms and have progressed to the steeper area of the insurance "S-curve" (see 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 2018

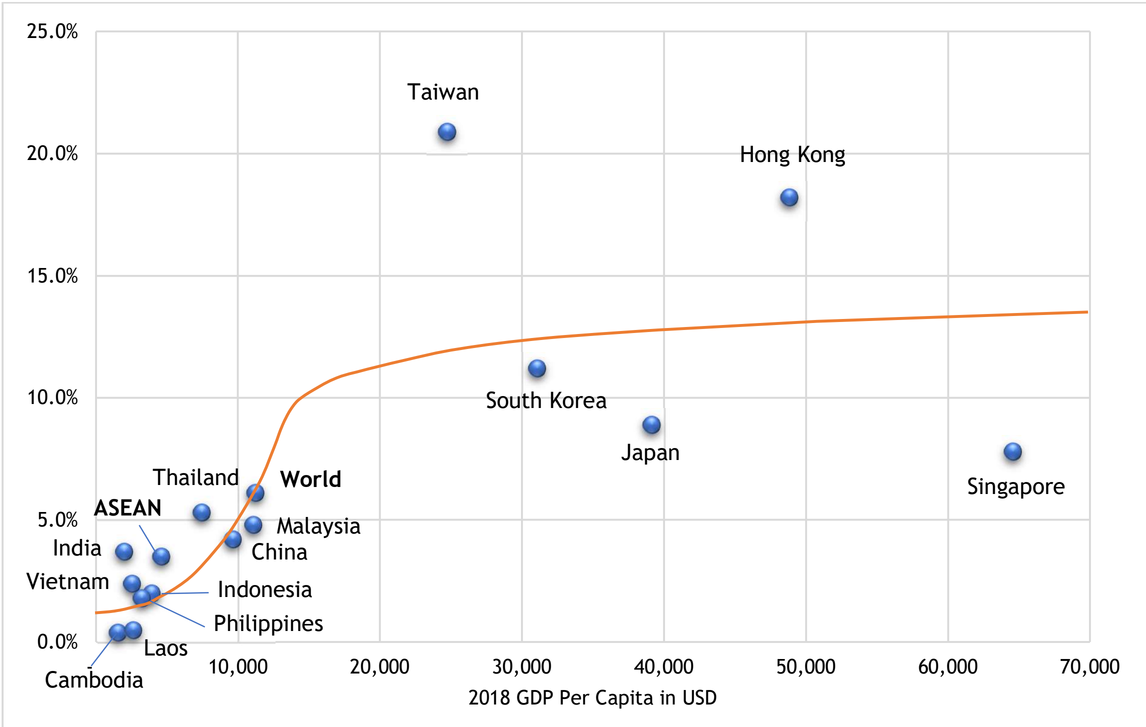
Unit: percentage points

Market	Insurance Penetration Rate	Annual Real Premium Growth in USD	Share of Global Market by Premium in USD
World	6.1	1.5	100.0
EU	7.3	0.0	28.8
United States	7.1	2.5	28.3
China	4.2	1.8	11.1
Japan	8.9	2.6	8.5
ASEAN*	3.5	4.8	2.1

* Myanmar is not included.

Source: Swiss Re, sigma explorer and sigma 3/2019: World insurance: the great pivot east continues.

Figure 1: Insurance penetration of ASEAN and major Asian economies and "S" curve (2018)



Sources: 1) Swiss Re, sigma explorer and sigma 3/2019: World insurance: the great pivot east continues; 2) ASEANstatsDataPortal by the ASEAN Statistics Division; 3) The World Bank DataBank.

The ASEAN Economic Community is developing and contributing to more wealth in the region and there is scope to accelerate the rate of progress. Over the medium to long term, ASEAN is expected to continue to be one of the fastest growing regions around the world, averaging a growth rate of 4.9% in the forecast period of 2020 - 2024[1], though the recent COVID-19 outbreak has weakened near-term global economic prospects. Emerging Asian markets, particularly ASEAN and China, will be the major growth driver for the global insurance market in the coming decades.

Long-term Investment

Planning for and putting in place the right range of tools for long-term investment is essential for sustainable economic growth. Sustainable investment expands the productive capacity of the economy. This capacity encompasses tangible assets such as transport, healthcare and energy infrastructure, and intangible assets such as technology, education and research and development. Together, they improve prospects for innovation, productivity and competitiveness.

The Asia Development Bank (ADB) estimates that ASEAN needs a total of USD 3.15 trillion (in 2015 prices) in **infrastructure investment** between 2016 and 2030 to continue its recent history of generally high economic growth. It is equivalent to USD 210 billion a year or 5.7% of local GDP.[2] Infrastructure needs for the region will only continue to grow as ASEAN adds 40 million to its working population (aged 15 – 64)[3] and 77 million people move into cities across ASEAN between 2019 to 2030.[4]

[1] OECD, Economic Outlook for Southeast Asia, China and India 2020.

[2] Asia Development Bank report, Meeting Asia's Infrastructure Needs, Feb 2017.

[3] United Nations, World Population Prospects 2019. https://population.un.org/wpp/

[4] United Nations, World Urbanization Prospects 2018. https://population.un.org/wup/

Faced with high levels of national debt and constrained public finances, governments around the world are increasingly looking to private investment to meet infrastructure needs. According to ADB's report, public finance reforms can generally provide 50% of the required infrastructure investment. So, **long-term investors, such as insurance companies and pension funds**, have a key role to play in the region's financial architecture – to fund infrastructure projects, to provide long-term predictable funding to companies, and to develop investment vehicles for savers.

Long-term investment from insurance companies comes from the mobilisation of national savings, so is more sustainable than funding through tax increases or overseas borrowing. However, some regulatory and institutional barriers are in place that prevent the flow of finance from insurance funds into needed investment. And the capacity of the industry to support growth depends on the size of the insurance funds. Encouraging citizens to purchase protection and long-term savings products, rather than keeping savings in cash, property or short-term bank deposits, results in more funds available for economic development.

Regulatory barriers to long-term investment

Different aspects of regulatory treatment – solvency regimes, accounting standards and investment rules - can constrain insurance companies' ability to make long-term investments.

When regulators review and reform insurance **solvency regimes**, capital weighting rules should consider the characteristics of long-term assets matching long-term liabilities, and not unnecessarily penalise long-term investments with high risk charges. As a positive case, when considering a new Risk Based Capital (RBC) regime, the Monetary Authority of Singapore (MAS) has looked at the specific types and characteristics of infrastructure financing appropriate for insurance companies, in order to formulate specific capital requirements for this asset class. In Europe, the Solvency II regime has been amended to reduce capital charges for investment in qualifying infrastructure projects[5]. The European Chamber of Commerce in Singapore recommends in its position paper[6] that the MAS recognise quality infrastructure investment with lower capital charges to encourage insurers to become a key source of funding for infrastructure build. Rules for economic valuation that produce significant volatility should be avoided as they are inappropriate for companies which typically hold assets to maturity (in the case of bonds) or for the long-term (in the case of stocks).

Accounting standards and **investment rules** may also seriously constrain insurance companies' ability to contribute to the long-term investment needs of a country. Ownership restrictions, such as requiring approval on holding a large or whole ownership stake in a company, are not uncommon. Such restrictions however create practical difficulties for insurance companies' investment in special purpose vehicles (SPVs) which have been established to take forward infrastructure projects. They also create barriers for insurance companies taking over such SPVs, even when they are mature assets with a track record of good management and regular income.

Short supply of approved investment-ready projects

The pipeline of approved investment-ready projects is in short supply to bridge the infrastructure gap.

Institutional investors, such as insurance companies and pension funds, are looking to diversify portfolios through investment in low-risk assets. However, most infrastructure bonds in developing countries have ratings below those required. Initial efforts such as **credit enhancement mechanisms** have been made to help boost ratings to make more products available for insurance companies to invest. For instance, the Asia Development Bank (ADB) Credit Guarantee and Investment Facility (CGIF) and the IFC's Managed Co-Lending Portfolio Project (MCPP) use capital contributed by the ASEAN+3

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[5] Articles 169 & 170 of COMMISSION DELEGATED REGULATION (EU) 2015/35 and its amendments create dedicated asset classes for qualifying infrastructure equities and qualifying infrastructure corporate equities, which benefit from a reduced calibration of 30% and 36%, respectively. Where some additional conditions are met, the capital charge for such investments may be further decreased to 22%.

[6] https://eurocham.org.sg/publication/position-paper-on-risk-based-capital-framework-2-rbc2/

countries and multilateral organisations to insulate the risk of credit default for private institutional investors.

Product innovations (e.g. infrastructure debt takeout facility with a guaranteed takeout arrangement, guarantees for construction risks, government guaranteed infrastructure bonds and pooling and securitisation of multiple projects) can also help "crowd in" private finance. Several ASEAN countries have come up with PPP rules and established offices to facilitate PPPs which we hope will lead to an increase in investable projects.

The **Global Infrastructure Fund** partners with a wide range of institutional investors and commercial investment banks to accelerate the pipeline of investable projects. Most success has been seen in the area of micro-infrastructure projects, such as small-scale renewable energy plants. These tend to have low financial and technical barriers to entry, and relatively simple governance, such as a simple private contract. Such projects should be open to investment by insurance companies, both at the green field stage and after reaching the operating stage. In the latter case, insurance funds play a role in recycling the investment funds of other financial institutions for whom shorter term, higher risk assets are suitable.

Lack of deep, liquid and efficient capital markets to support the sustainable development of the economy

The best way to funnel insurance funds into infrastructure is probably not through further project finance, but through greater use of the capital markets.

Deep, liquid and efficient capital markets promote non-bank sources of credit for infrastructure projects, while simultaneously providing more liquidity for insurance funds. They also create a channel for some funds which are currently blocked from participating in infrastructure investment such as insurance investment-linked product (ILP) reserves. These reserves are required to be invested in liquid securities with market valuations assessed on a daily basis. Deeper capital markets in emerging Asia could free USD 800 billion in funding annually, mostly for mid- to large-sized corporations and infrastructure projects[7].

At present, nine out of ten markets in ASEAN (Singapore is the exception) are either classified as an emerging or frontier market or not classified by MSCI due to stock market constraints. Various obstacles (e.g. shortage of information and lack of credit rating agency and of data on bonds) limit institutional investors' confidence to invest via capital markets. As a result, most of the current plans for infrastructure finance in ASEAN involve loans or private debt / equity. A positive development can be seen in **Indonesia** with the creation of **DINFRA[8]** for infrastructure project financing. **Social Impact Bonds** (SIB) which will be discussed in later sections, are also worth Governments' further exploration.

Since our last paper, the industry has been actively working with governments to explore options to advance infrastructure finance through capital markets. On 3 December 2019, The **Sustainable Development Investment Partnership (SDIP)**[9]**,** World Economic Forum (WEF) and OECD jointly hosted a conference in Jakarta bringing together a group of leaders from Asia Pacific, including leading insurance companies, the ADB and government officials, to discuss measures to facilitate private investment in infrastructure products.

[7] Deepening Capital Markets in Emerging Economies: McKinsey April 2017.

[8] DINFRA (Infrastructure Investment Fund) is an investment product in the form of Collective Investment Contracts (Kontrak Investasi Kolektif, "KIK"). It is used to gather funds from the investing public for investment in infrastructure assets by the investment manager. These investment products are intended to provide a funding alternative for construction of infrastructure as well as providing an alternative investment product for investors.

[9] The Sustainable Development Investment Partnership (SDIP) is a neutral platform of public, private and philanthropic entities, co-hosted by the WEF and the OECD. Its goal is to mobilize finance at scale in developing countries in support of the Sustainable Development Goals.

An increasing number of insurance companies take **environmental, social and governance (ESG)** factors into account when allocating investment. The importance of being able to conduct effective ESG screening has thus increased significantly[10].

Also, given the insurance industry's exposure to the destructive power of climate change, insurance companies have clear incentives to be proactive in managing environmental and social risks. Deep, liquid and efficient capital markets again have a role to play in promoting ESG best practice and creating vehicles, such as catastrophe bonds or CAT bonds[11], to help mitigate the effects of climate change. Capital market development will help insurance companies to fulfil their role in realising the global green finance and sustainable financing agenda, as well as encouraging best practice in corporate governance.

Growing insurance funds and tax incentives

The size of funds available for investment decides insurance companies' capacity to make long-term investment. Cultivating a robust domestic insurance market generating a sustainable level of premium volume is key to realising the benefits of long-term investment as discussed above. Recognising this, Singapore, Thailand, Malaysia, Hong Kong and China grant **tax incentives** to individual and corporate taxpayers to encourage their uptake of life and health insurance, as reported in the 2019 EUABC Insurance paper[12],

Following up on that paper's analysis, the EU-ABC conducted a study of tax incentives for life and health insurance purchase in **Thailand** and **Malaysia**, the second and fourth largest insurance markets in ASEAN by premium volume. The findings showed that the introduction of tax incentives for individual taxpayers leads to growth in premium volume and brings long-term significant tangible benefits to both countries worth USD 10 billion for Thailand and USD 4.7 billion for Malaysia over next 20 years.

Building on these findings, a further study was conducted to explore the potential impact of similar tax incentives in **Indonesia**, ASEAN's third largest insurance market by premium volume. The report proposed a set of income tax incentives for individual and corporate taxpayers to purchase individual, group and keyman insurance policies. The analysis shows that introducing IDR 3 million annual tax deduction for qualified individual policies could lead to a 13.6% growth in premium volume. Increased protection and savings are expected to provide significant savings in government health and welfare expenditure, and the total net budget impact was calculated to be positive and equivalent to 1.4% of government revenue in 2018.

Recommendations

The EU-ABC recommends –

- Insurance regulators, in consultation with various stakeholders, to introduce **solvency regimes**, particularly capital requirements for infrastructure investments, and **investment rules** (e.g. ownership restrictions) that are both risk appropriate and serve the wider investment needs of the country.
- Governments to implement initiatives such as **provision of guarantees** and **credit enhancement facilities** to increase the supply of investment-ready projects, and launch pilot

[10] Sustainability Wins as Investors in Southeast Asia Shift Focus, Bain & Company, November 2019.

[11] A catastrophe bond (CAT) is a high-yield debt instrument issued by insurance companies to receive funding from investors in the event of a natural disaster under specific conditions. First marketed in the 1990s, CAT bonds offer companies another way of offsetting the risk associated with underwriting policies. Investors can receive a higher interest rate from CAT bonds than from most other fixed-income securities.

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

products, such as i**nfrastructure project backed securities** and **SIBs**, to facilitate the flow of insurance funds (both traditional products and ILPs) into infrastructure projects.

- Governments and Central Banks to prioritise **the development of capital markets** to make better use of domestic savings, to create more market liquidity, to allow better risk management including ESG risks, and to make sustainable investments more accessible and attractive to institutional investors.
- Fiscal policymakers introduce or enhance **personal income and corporate tax deductions** to encourage the uptake of private life and health insurance policies. This will grow the funds available for insurance companies' long-term investment in the economy. A similar recommendation is also made in EU-ABC's white paper on sustainable healthcare financing.

Digital Innovation

The digital economy in ASEAN has been growing fast, backed by the regional expansion of digital networks and unprecedent growth of e-commerce. The region has the third largest number of Internet users in the world after China and India[13]. Investment in Information and Communication Technology (ICT) infrastructure and promotion of digital development are major contributors to the growth.

Digital technology has reshaped the insurance landscape by changing customer behaviours and expectations, transforming the value chain and introducing new productivity tools. Rapid development of digital technology brings opportunities as well as potential regulatory issues in the use of Big Data and Artificial Intelligence and data security and governance.

Big Data and Artificial Intelligence (AI)

Positively, the use of Big Data and AI improves consumers' experience, for instance with less form-filling needed and a streamlined underwriting process. The claim process can also be simplified, for example using digital cameras and smart software to provide an instant assessment of the cost of repair after a car accident. Big data leads to advances in the offering of microinsurance products and gives insurance companies a more accurate view of risk, allowing them to personalise prices for different customers.

However, such use of technology may undermine the pooled nature of insurance risk calculations and could potentially have a negative impact on **insurance's availability and 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.

[13] ASEAN Investment Report 2018 – Foreign Direct Investment and the Digital Economy in ASEAN, ASEAN and UNCTAD, 2018.

Companies increasingly adopt technology tools and solutions to support business strategies and improve risk management. Appropriate regulation will maintain and boost consumers' confidence and trust in the insurance industry.

Data security and governance

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. Other member states such as Singapore promote **freer sharing of data**.

Studies show that free sharing of data boosts the local digital economy and creates a sustainable digital ecosystem where data-reliant industries grow quickly. Conversely, 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%[14]. Data localisation does not only affect companies that are part of the digital economy, but also negatively impacts businesses using web technologies or worldwide transferred data. On the contrary, free data flows are not only advantageous for modern technology but more than 75% of the benefits go to traditional industries[15].

ASEAN member states have been making progress in legislation. For instance, **Malaysia** passed data privacy laws in 2010 and **the Philippines** and **Singapore** passed similar laws in 2012. **Thailand** is currently developing laws on cybersecurity and personal data protection and **Brunei** has taken heed to discussions about privacy legislation. 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.

Recommendations

The EU-ABC recommends –

- Legislators to introduce national privacy laws that address **data privacy and governance** concerns and collectively harmonise the laws at the regional level, in order to maximise the **free flow of data** securely across borders.
- Regulators to develop guidelines regarding **ethical issues** and **the use of Big Data and AI** in the insurance sector. It would be beneficial to have a common approach for the region within which regulators could reference.
- Regulators to apply **equal regulation** to both existing players and new entrants throughout the insurance value to ensure a level playing field. In markets where safe spaces are created to test innovative ideas and business models, incumbents should be given equal access to participate in such "**regulatory sandboxes**".

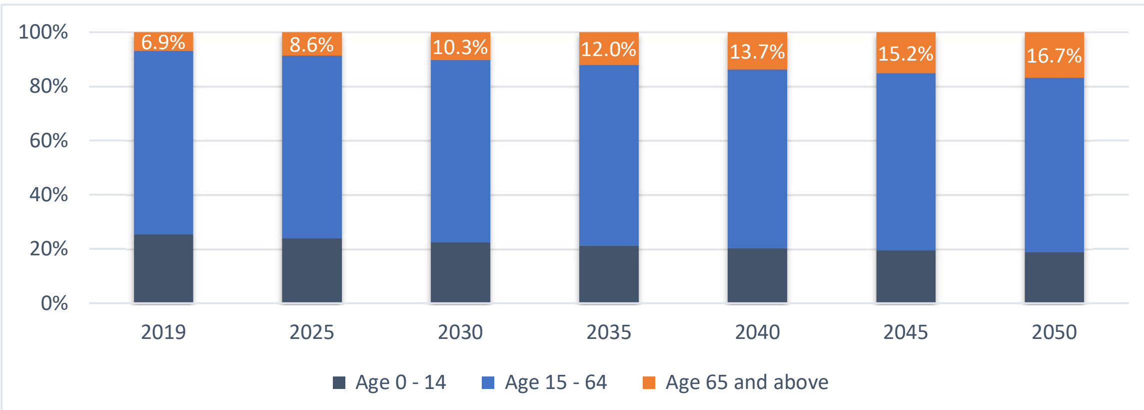
[14] Southeast Asia's data localisation, The ASEAN Post, December 2019.

[15] "Internet matters: The Net's sweeping impact on growth, jobs, and prosperity." McKinsey Global Institute; press release, May 2011.

Health and Wellness

In 2019, the proportion of those aged 65 and above in ASEAN was 6.9% and the UN estimates this will more than double to 16.7% in 2050, adding another 87 million old people[16]. The greying population is a major driver of the growing health protection gap in ASEAN. As demand for healthcare rises, and cost increases outstrip general inflation, a more efficient health financing system is required to keep health spending sustainable over the long run. In particular, the health challenges of the 21st Century are chronic and incurable, rather than acute and curable. The focus of resources needs to be shifted from treating and ending illness, toward preventing or managing it to improve quality of life. This will mean a greater focus on behavioural change alongside medical intervention.

Figure 2: The aging population in ASEAN, 2019 – 2050



Source: United Nations, World Population Prospects 2019. https://population.un.org/wpp/

A huge middle class is emerging throughout developing Southeast Asia. Rising incomes will enable 50 million new consumers to join the ranks of the middle class in Indonesia, Malaysia, the Philippines, Thailand and Vietnam by 2022, contributing to the region's USD 300 billion middle-class disposable income[17]. The rise of the middle class brings growing demand for effective wellness management services as people pursue better quality of life.

While governments lead the establishment and maintenance of nationwide safety nets, private insurance companies are transforming their roles from traditional bill payers to integrated care providers and wellness promoters. The industry's long-term investment is also a key source of funding for the ongoing healthcare reforms across the region.

Health protection gap and health funding

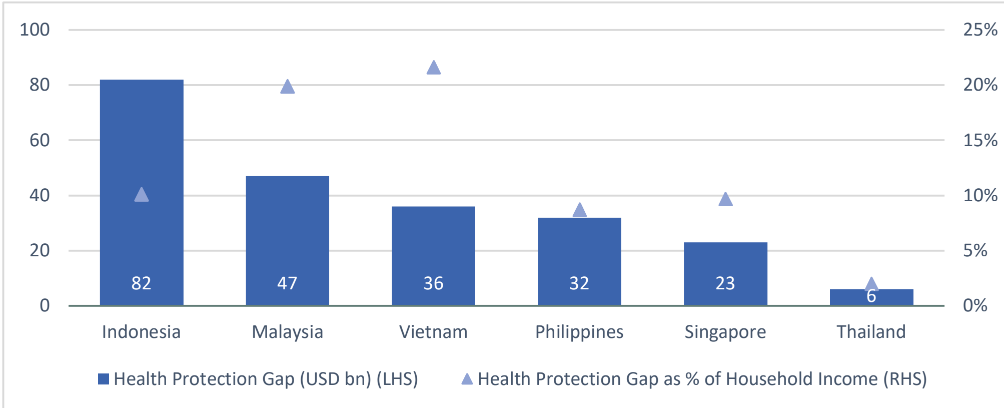
The **health protection gap** in Asia is significant, estimated to be USD 1.8 trillion in 2017[18]. The gap, driven by demographic changes such as ageing, urbanisation and medical inflation is equivalent to 7.4% of GDP. This is how much would be needed to avoid financial stress scenarios arising from unpredictable medical expenses, and to provide treatment to those who cannot afford medical bills.

[16] United Nations, World Population Prospects 2019. https://population.un.org/wpp/

[17] Understanding Southeast Asia's Emerging Middle Class, Bain & Company.

[18] Asia's Health Protection Gap: insights for building greater resilience: Swiss Re Institute, October 2018

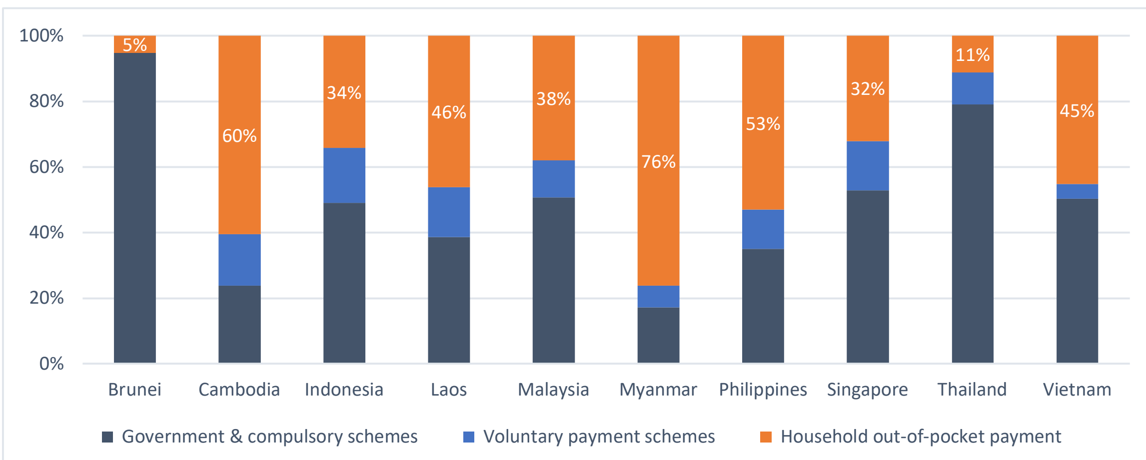
Figure 3: Health protection gap in selected ASEAN countries, 2017



Source: Asia's Health Protection Gap: insights for building greater resilience, Swiss Re Institute

Compared to developed markets, the ratio of **out-of-pocket expenditure (OOPE)** to total health expenditure is generally high among ASEAN markets[19]. 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 significant health protection gap.

Figure 4: Health financing schemes as a percentage of current healthcare expenditure in 2017



Source: World Health Organization, Global Health Expenditure Database

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;

[19] OECD (2019), Health at a Glance 2019: OECD Indicators, OECD Publishing, Paris, https://doi.org/10.1787/4dd50c09-en.

- 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.

Moreover, as captioned in earlier sections, with a larger size of funds available for investment, insurance companies will have greater capacity to provide support to the sustainable development of the local economy via long-term investment.

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 e.g. 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.

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 –

- **Prudential** is launching Pulse in nine ASEAN markets, an all-in-one digital app offer holistic health management to consumers. 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 personal 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[20]. 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**[21], 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[22] and encourages its member states to develop and implement a digital health strategy that integrates financial, organisational, human and technological resources.

Public-Private Partnership and Social Impact Bonds

On the path to universal healthcare (UHC), continuous and large investments in infrastructure are necessary. These are beyond the means of the public budget in most ASEAN economies. Insufficient funding will not only delay the introduction of UHC but also compromise the quality of care delivered, as reflected in performance indicators such as long waiting times, extended length of hospital stay and high readmission rates. **Public-private partnership** (PPP) offers a solution to the funding issue.

One form of PPP for health funding is the **Social Impact Bond (SIB)**. A SIB is an innovative financing mechanism in which private organisations invest in identified not-for-profit organisations seeking to deliver desirable and measurable social outcomes. Once the outcomes are achieved, the government will repay the private sector with the principal and a guaranteed return. Such pay-for-performance contracts lead to the transfer of government risk to the investors and ensure effectiveness of investment. SIBs face challenges of political will as the debt horizon might be longer than the political cycles. This topic is discussed in EU-ABC's white paper on sustainable healthcare financing.

Recommendations

The EU-ABC recommends –

- Fiscal policymakers to introduce or enhance **personal income and corporate tax deductions** to encourage the uptake of private life and health insurance policies. This will help to close the significant health protection gap faced by the region. A similar recommendation is made in EU-ABC's paper "Driving Comprehensive Healthcare Policy in ASEAN"[23] and paper "Sustainable Healthcare Investment as an Economic Driver"[24].
- ASEAN to develop a regional **digital health strategy** by referring to WHO's National eHealth Strategy Toolkit. The strategy shall outline regional goals and strategic priorities as well as implementation rules and policies on digital health.
- Governments to introduce **PPP financial instruments** such as SIBs to supplement the funding of healthcare reforms. It will mobilize private resources to support public projects and address insurance companies' demand for sustainable investment.
- Governments to establish a more regular routine of **driving healthcare across Ministries** e.g. be a common healthcare-related KPI that all Ministries are working toward together.

Building an Inclusive Insurance Ecosystem

Long-term investment, digital innovation and health management are not independent activities, but inherently linked to each other in various ways. A virtuous circle driven by insurance can establish a broader inclusive ecosystem where each part boosts growth of the whole economy.

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[20] https://apps.who.int/iris/handle/10665/160760

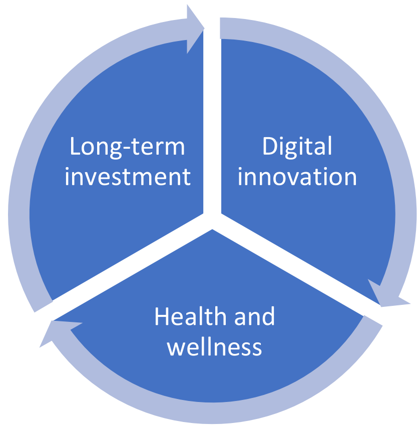
[21] https://apps.who.int/iris/handle/10665/75211

[22] https://www.who.int/health-topics/digital-health#tab=tab_1

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

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

Figure 5: Three constituents of an inclusive insurance ecosystem



Investment in Insurtech

The landscape of the insurance industry is being redesigned by advances in technology. Developing and adopting insurtech usually requires significant initial capital investment and long-term commitment.

In 2019, USD 6.35 billion was deployed to insurtech companies across 314 deals, equivalent to 33.9% of all investment since 2012. It marked a 52% increase from 2018, indicating a continuing trend of increasing global focus on insurtech.[25] As the strategic status of insurtech rises, an increasing number of insurance companies start to move beyond incremental operational improvements to achieve fundamental transformation in their business models, requiring sufficient, stable long-term funding sources.

Digitalised Wellness Management

Partnering between traditional providers of life and health insurance and new tech-enabled service providers is becoming common. For instance, **AXA** announced the expansion of its Payer-to-Partner strategy in emerging markets in July 2019 to create a digital and physical health care ecosystem; **Prudential plc** established a strategic partnership with Tictrac in May 2019 to provide personalised wellness services to consumers in Asia; **Allianz** agreed to a USD 59.2 million investment and strategic partnership with American Well in January 2018 to develop digital solutions that will widen access, lower cost and improve quality of healthcare for millions of patients worldwide.

A dynamic **direct-to-consumer (D2C)** insurance market driven by advancements in digital health promotes the personalisation of health management services for different customers. Insurance companies' shift in business model from pure protection to integrated care will encourage more consumers to take up life and health policies. As Southeast Asia's middle class grows along with digital capabilities, companies have a unique opportunity to reach a vast new community of consumers.

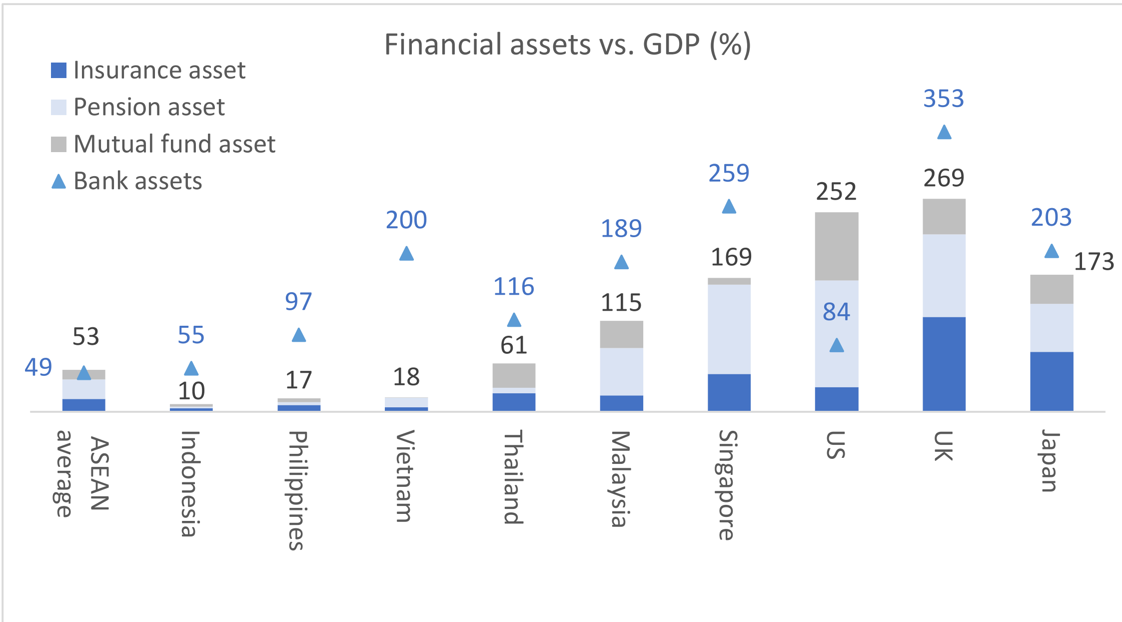
Insurance Funds for Long-term Investment

The shift in the industry's business proposition from exclusion to inclusion also improves consumers' accessibility to insurance, making some previously uninsurable consumers now insurable. Cost reductions from automation and improved risk management also expand the pool of the insured. Growth in business, particularly in long-term policies, allows insurance companies to have more funds available to make long-term investment in the real economy.

[25] Quarterly InsurTech Briefing, Q4 2019, Willis Towers Watson.

As previously discussed, current bank and capital market finance is insufficient to sustain the current pace of growth. The figure below shows the size and distribution of financial assets in the ASEAN 6, measured as a percentage of GDP. Financial assets include bank deposits and loans, insurance fund assets, pension fund assets, and mutual fund assets. ASEAN financial assets are already bank-centric and new sources of funding are needed.

Figure 6: Financial assets in ASEAN and major economies



1. Average only includes Vietnam, Thailand, Malaysia, Singapore, Philippines and Indonesia

Source: World Bank Global Financial Development Database (October 2019 version); World Bank World Development Indicators; OECD Pension Markets in Focus (2019); Towers Watson Global Pensions Study (2019); Cerulli (2019)

Compared to highly developed markets such as the United States and UK, ASEAN member states have lower total financial assets, and have a much higher proportion of the assets in banks. To ensure that assets are distributed in the way best suited to sustainable growth, there is a need to increase the size of insurance funds and other long-term savings vehicles through policy measures such as tax incentives and promoting financial literacy. It is also important to ensure that all kinds of long-term financing, such as infrastructure finance, are open to investment by insurance funds, including investment-linked product funds.

Concluding Remarks

The recommendations made by the EU-ABC in this paper are intended to help ASEAN develop an inclusive insurance ecosystem that mobilises domestic savings into long-term domestic investment, while reducing the burden on public health and welfare budgets. Such a system will help ASEAN countries improve the population's wellbeing by upgrading care delivery and health management, will foster the transition to a digital economy, and will finance the infrastructure needed to meet Sustainable Development Goals.

About the EU-ASEAN Business Council and Insurance Working Group

The EU-ASEAN Business Council (EU-ABC) is the primary voice for European business within the ASEAN region.

It is recognised by both the European Commission and ASEAN Secretariat as an accredited 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, IPR & Illicit Trade, Customs & Trade Facilitation, Healthcare and FMCG.

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. The Executive Board is led by its Chairman Mr Donald Kanak.

Membership

The EU-ABC's membership consists of large European Multi-National Corporations and the nine 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 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 and Swiss Re as well as the European Chambers of Commerce in ASEAN countries.

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