Advancing Insurance: Digital Growth and Sustainable Investment

EU-ASEAN BUSINESS COUNCIL
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Table of Contents

Executive Summary

This is the fifth annual position paper from the EU-ASEAN Business Council Insurance Group. In line with ASEAN's theme 'Advancing Partnership for Sustainability', this year we focus on the contribution that the insurance sector makes to **long-term sustainable growth in ASEAN through innovation and investment.** We also reconfirm our positive outlook for growth in the region.

In previous papers we have focused on the core role of insurance companies – to provide citizens and corporations with protection against major financial setbacks. By offering security, we allow our customers to take the risks necessary for growing their wealth.

In this paper, we first focus on **the role of insurance companies as investors**. Insurers pool savings and make investments which help to drive the cycle of growth. As long-term institutional investors in the bond and stock markets we provide stability through periods of volatility. Through direct funding we provide patient capital to companies and projects which need time to realise their potential and profits. Total assets of European insurers in the ASEAN region reached nearly US$100 billion in 2017. But the need for long-term investment, in infrastructure and other assets, is much greater than this. The Asia Development Bank estimates that ASEAN needs around US$3 trillion in infrastructure investment between 2016 and 2030. The good news is that insurers have the capacity to invest more if allowed to do so, and if insurance funds are encouraged to grow.

Our second focus is the **increasing digitisation of the economies** in ASEAN member states, and the role that the insurance sector has to play. European insurers are introducing new technology to serve our customers better: to make buying policies easier and more secure, to simplify making a claim, to combat fraud and money laundering, to develop new kinds of products, and to reach out to communities that previously might not have been able to afford protection. In doing this, we work with local start-ups and technology companies to **foster the development of the digital economy** in the markets we serve.

Insurance companies have a distinct role, different to banks, in the **financial architecture needed to drive sustainable growth**, and to move from lower to middle to upper income status. European insurers have the capital strength and technological know-how to lead this growth.

Developing viable and efficient insurance markets must go hand-in-hand with the tasks of promoting long-term investments by insurance companies, expanding regulatory initiatives that support innovation with value-add to customers, and establishing a well-functioning insurance market in disaster risk finance.

Table of Recommendations

Issue	EU-ABC Views and Recommendations
Promote long-term investments by insurance companies	➢ **Improve investment conditions and the offering of inclusive regulatory regimes.** Ensure that solvency regimes and investment rules are both risk appropriate - matching assets to liabilities - and serve the wider investment needs of the country.
	➢ **Grow the capacity of insurance companies to invest.** Use tax and other incentives to encourage the purchase of insurance and pension products to create the large pools of domestic saving that drive sustainable growth.
	➢ **Promote use of the capital markets.** Develop and pilot the use of bonds and listed vehicles that can facilitate the flow of insurance funds into infrastructure projects.
	➢ **Expand public-private sector blended finance initiatives.** Create the right risk-return profile by encouraging other financial actors to pick up some of the risks typically associated with large scale infrastructure projects that the private sector finds difficult to take on its own.
	➢ **Expand the pipeline of investible projects.** Prioritise projects with the scale and governance characteristics that allow investment under current insurance fund rules.
Promoting digital innovation in insurance	➢ **Remove restrictions on cross-border data flows and data localisation requirements.** Free flow of data is critical for the re/insurance industry, encouraging innovation and supporting capacity.
	➢ **Access to data and information sharing.** For cyber insurance to function properly, government and insurers should work together to share information on cyber incidents.
	➢ **Enhancing supervisory skills and tools.** Regulators should be technologically literate and understand the risks associated with the use of data.
	➢ **Increasing engagement with new entities.** Different approach is required for regulators to engage with fintech firms, which may not have the experience or knowledge of financial services regulation.
	➢ **Strengthening regulatory cooperation.** ASEAN regulators should strengthen regional cooperation to harmonise data regulation in the region. We recommend the introduction of an ASEAN Sandbox, or mutual recognition of existing sandbox regimes within ASEAN.

European Insurers and the ASEAN Insurance Market

European insurance companies have a long history in ASEAN markets. Today, more than 25 European insurance companies operate across ASEAN. They make a significant contribution to the population's savings, investment, and insurance needs. In 2017, European insurers contributed a quarter of annual gross premiums in six major ASEAN states, premiums which are invested in local economies. Total assets owned by European insurers in these markets were more than US$427 billion in 2017.

Table 1: European insurers' contributions to selected ASEAN countries[1] in 2017

Unit: in millions of USD

Country	EU's Premiums	Gross Premiums	EU's Share	EU's Assets	Total Assets	EU's Share
Indonesia	3,870	16,995	23%	11,744	45,266	26%
Malaysia	3,537	12,105	29%	15,718	66,442	24%
Philippines	1,022	5,516	19%	4,682	28,440	16%
Singapore	7,947	27,504	29%	44,499	157,432	28%
Thailand	4,074	25,156	16%	17,801	116,051	15%
Vietnam	971	4,653	21%	4,033	13,650	30%
Total	**21,420**	**91,930**	**23%**	**98,477**	**427,281**	**23%**

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

In 2017, the penetration rate across ASEAN stood at just over 3%, compared with the global average of over 6%. While insurance penetration rates remain low, most ASEAN markets have progressed to the steeper area of the insurance ˝S-curve˝, where economic and income growth will have a greater impact on insurance demand.

The ASEAN Economic Community is developing and contributing to more wealth in the region. The ASEAN growth story is still good. Over the medium to long term, ASEAN is expected to continue to be one of the fastest growing regions in the world, averaging a growth rate of 5.2% in the forecast period of 2018-2022[2]. Consequently, the emerging Asian markets, particularly ASEAN and China, will be the major growth driver for the global insurance market in the coming decades.

[1] Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

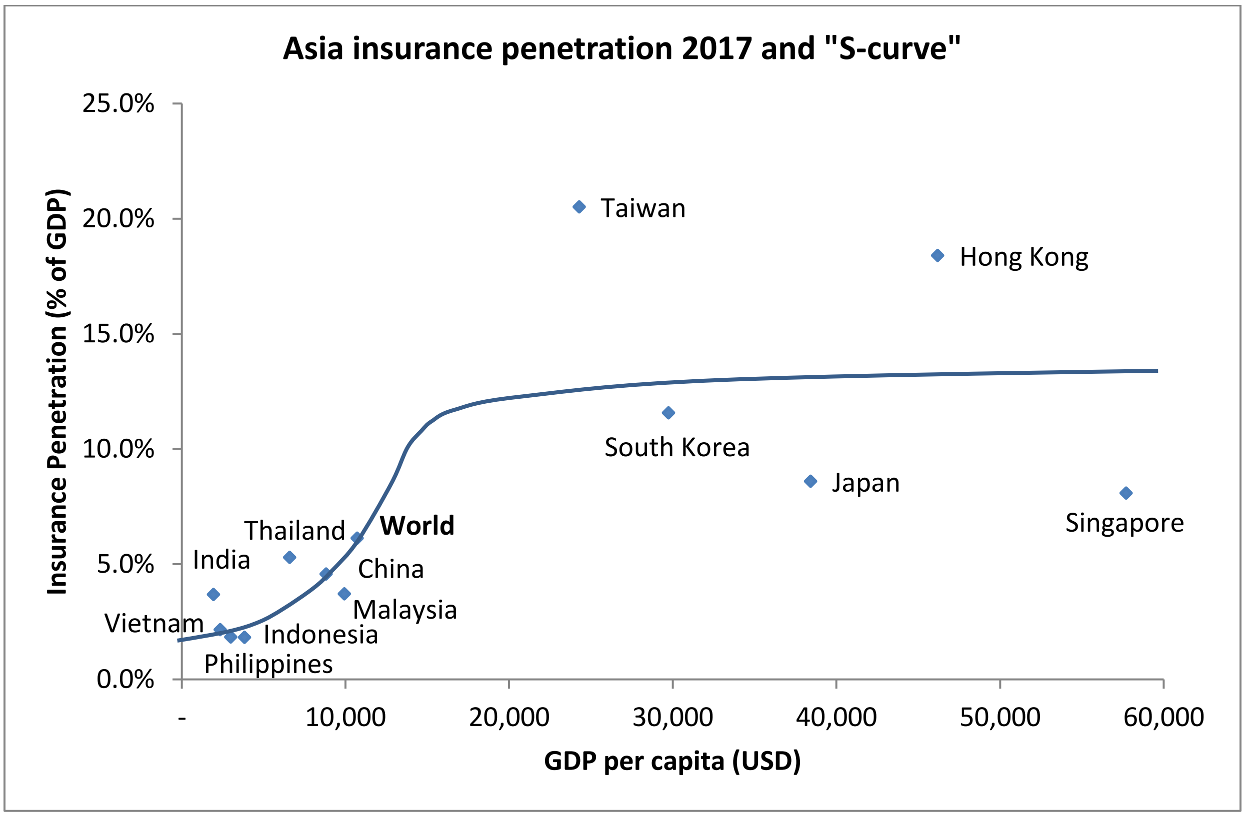
[2] OECD, Economic Outlook for South East Asia, China and India 2018, p. 14.

Table 2: Insurance penetration (premiums/GDP) across regions in 2017

Market	Penetration rate
World	6.1%
Europe	7.5%
United States	7.1%
Selected ASEAN[3]	3.5%

Source: Swiss Re World insurance in 2017; Prudential's analysis of government official statistics

Figure 1: Insurance penetration in countries across Asia



Source: World Bank; Swiss Re World insurance in 2017; Prudential's analysis of government official statistics

[3] Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Focus Issues

Investment of insurance funds

The Importance of Long-term Investment

Long-term investment is essential for economic growth. It expands the productive capacity of the economy. This capacity encompasses tangible assets such as transport and energy infrastructure, and intangible assets such as healthcare, education and research and development that improve prospects for innovation and competitiveness. The Asia Development Bank (ADB) estimates that ASEAN needs US$3 trillion in infrastructure investment between 2016 and 2030 to close the infrastructure gap[4]. Infrastructure needs for the region will only continue to grow as ASEAN adds 60 million to its working population[5] and 100 million people move into cities across ASEAN between 2015 to 2030.[6]

Faced with high levels of national debt and constrained public finances, Governments are increasingly looking to private investment to meet their infrastructure needs. However, current bank and capital market finance in ASEAN will not be sufficient to close the infrastructure funding gap. Infrastructure funding needs are equivalent to 90% of total bank assets and 130% of stock market capitalisation in the region. Public finance reforms, according to the Asian Development Bank (ADB), can also only provide 50% of the required investment. So new sources of funding are needed. 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.

Unblocking the flow of insurance funds

Funding on a Project Basis I - regulation

Varied regulatory treatment – solvency regimes, accounting standards and investment rules - have constrained the ability of insurance companies to make long-term investments in many projects.

As regulators in ASEAN Member States review and reform their solvency regimes, we hope that they will continue to consult closely with the industry. Capital weighting rules should consider the characteristics of long-term assets supporting long-term liabilities and not unnecessarily penalise long-term investments with high risk charges. For example, in Singapore, as the Monetary Authority of Singapore (MAS) consults on a new Risk Based Capital regime, it is engaging insurers on their interest in an infrastructure asset class. MAS and insurers are looking at the specific types and characteristics of infrastructure financing appropriate for insurers, in order to formulate specific

[4] ADB report, Meeting Asia's Infrastructure Needs, Feb 2017

[5] United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, DVD Edition

[6] United Nations, Department of Economic and Social Affairs, Population Division (2014). World Urbanisation Prospects: The 2014 Revision, CD-ROM Edition. 2014 is the latest edition UN has

capital requirements for this asset class. In Europe, the Solvency II regime has been amended to include infrastructure criteria that will reduce capital charges for qualifying projects.

In addition to capital weighting, rules on economic valuation may produce significant volatility, which is inappropriate for companies which typically hold assets to maturity (in the case of bonds) or for the long-term (in the case of stocks).

Aside from solvency regimes, investment rules and accounting procedures may also seriously constrain the ability of insurance companies to contribute to the long-term investment needs of a country. Some markets do not permit direct loans to infrastructure projects, despite allowing loans through bonds. Restrictions, such as requiring regulatory approval on holding a large ownership stake in a company, or 100% ownership, may be appropriate in general, but also provide practical difficulties for investing in, or wholly owning, special purpose vehicles which have been established to take forward infrastructure projects. Such restrictions also make it more difficult for insurers to take over such companies, even when they are mature assets with a track record of good management and regular income.

EU-ABC urges regulators, in consultation with finance ministries and central banks, to ensure that solvency regimes and investment rules are both risk appropriate – supportive of matching assets to liabilities – and serve the wider investment needs of the country.

Funding on a Project Basis II – investable deals

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

Projects can be prioritised, with the projects that can be designed to be investible with only private funding accelerated. The OECD and the World Economic Forum had jointly established a Sustainable Development Investment Partnership (SDIP), doing just that to review governments' lists of priority infrastructure 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 insurers, 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.

Many projects, however, involve risks that would necessitate public-private collaboration to attract private investors. Meaningful public/private agreements share project risks and increase investors' confidence in the projects. Efforts such as the ADB's Credit Guarantee and Investment Facility (CGIF) and the IFC's Managed Co-Lending Portfolio Project (MCPP) use capital contributed by the ASEAN+3 countries and multilateral organisations to insulate the risk of credit default for private institutional investors in projects that they may have otherwise deemed too risky. Product innovations, e.g. infrastructure debt takeout facility which provides a guaranteed takeout arrangement; guarantees for construction risks; government or agencies issuing guaranteed infrastructure bonds and allowing for pooling and securitisation of multiple projects etc. help “crowd in” private finance. Several ASEAN countries have come up with PPP rules and established offices to facilitate PPPs. More now needs to be done to implement these projects. Project Preparation Facilities can help developers use expertise to move a project from concept to investment readiness.

The EU-ABC would like to see more of such initiatives to expand blended finance. Most insurance funds are limited to opportunities of investment grade, as defined by credit rating agencies. Unless the risk return profile of the investment can be altered to crowd-in that finance, it will continue to sit on the side-lines. Examples of risk that are likely to benefit from the provision of guarantees or credit enhancement facilities include political risk (political stability; dependability of the legal framework and policy settings; administrative capacity; and transparency of contractual processes); construction and completion risk; and post-construction payment risk.

In addition, standardisation in terms of reporting, documentation and benchmarking will help to categorise projects and make rating easier. This in turn will help to develop the market for all types of investment, debt and equity, listed and unlisted.

Funding through Capital Markets

Most of the current plans for infrastructure finance in ASEAN involve loans or private debt / equity, and do not rely on the capital markets. Deep, liquid and efficient capital markets promote non-bank sources of credit for infrastructure projects. This provides greater liquidity than private debt/equity for those insurance funds that have a liquidity need. It also creates a channel for some funds which are currently blocked from participating in infrastructure investment. For example, life insurance investment-linked product (ILP) reserves must be invested in liquid securities with market valuations that are assessed on a daily basis.

Nine out of ten markets in ASEAN are either classified as an emerging or frontier market or not classified by MSCI due to stock market constraints. There are a number of obstacles that limit investors’ confidence to invest in companies via capital markets: shortage of information regarding company operations and corporate governance to investors and public; lack of credit rating agency and of data on bonds, which reduces the ability of the companies to access funds from a wider group of investors who rely on credit ratings given by credit rating agencies in their investment decisions; and current regulations which restrict bond issuances.

EU-ABC recommends expanding the financing plan for infrastructure projects to include greater use of bonds (including green bonds), and listed vehicles, that will allow both traditional and ILP insurance assets to be eligible for investment. Using securities and the capital markets will also, over time, create more liquidity and allow better risk management for traditional products and for other institutions such as pension funds, which also need to grow in the coming years.

An example of innovation in the area can be seen in Indonesia, where DINFRA (Dana Investasi Infrastruktur) is a fund registered at Indonesia's Financial Services Authority (OJK) designed to provide a new flexible instrument for infrastructure financing. Investors have unit ownership in DINFRA, and receive a coupon or dividend. The DINFRA fund can provide debt or equity finance to infrastructure projects. There are issues regarding tax treatment and capital charges that will need to be clarified and resolved before insurance companies can fully take advantage of DINFRA. And at present DINFRA are not listed and so are not suitable for investment-linked funds. **EU-ABC recommends that Finance Ministries and Insurance Regulators work with the insurance sector to design and pilot flexible investment vehicles that can facilitate the flow of insurance funds into infrastructure projects.**

Public sector finance alone cannot be sufficient to finance infrastructure development. Nor are banks, or capital markets as they currently stand, capable of providing sufficient funds. With the above successful examples as a guide, multilateral bodies and governments need to create more capacity and facilities, along with specialist capabilities, supported by clear rules for public/private collaboration, including common dispute resolution, to reward "crowding in" of private finance from the insurance sector and promote the best use of resources.

Growing insurance funds

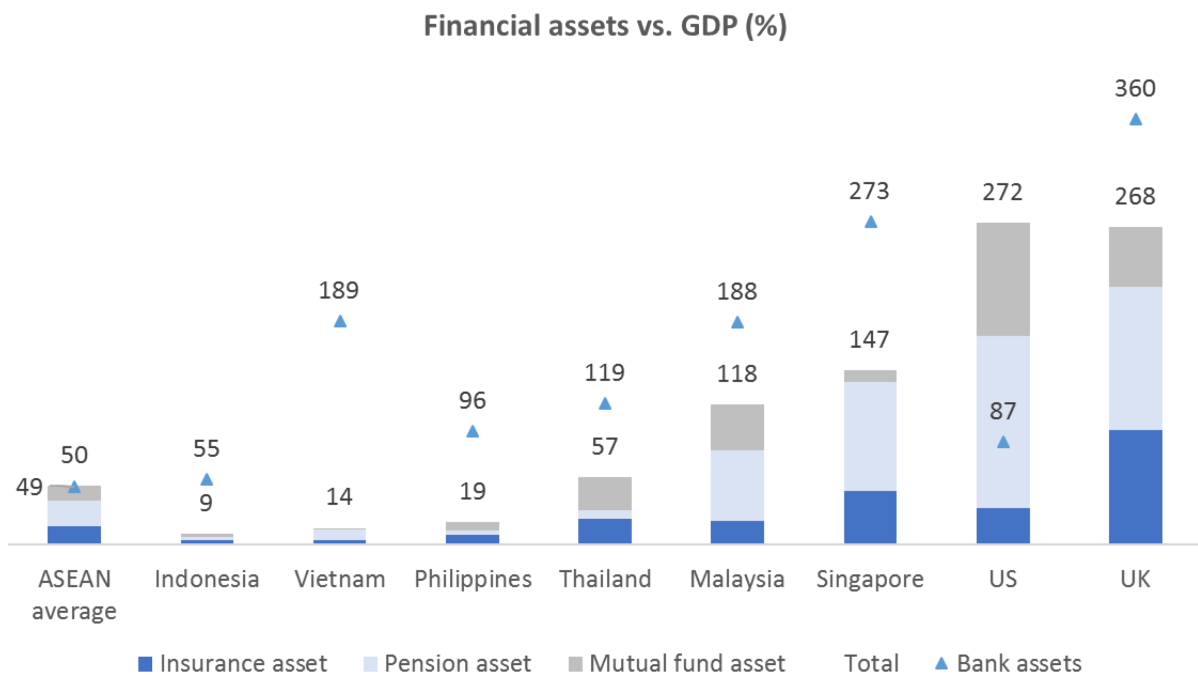
Whether investment is made directly to companies and projects or made to aggregated projects through appropriate vehicles in the capital markets, it will be critical to grow the funds available for this kind of long-term, patient, investment. Figure 2 shows the size and distribution of financial assets in the ASEAN 6, measured as a percentage of Gross Domestic Product (GDP).

Financial assets include bank deposits and loans, insurance fund assets, pension fund assets, and mutual fund assets. Compared to the highly developed markets of the US and the UK, ASEAN member states have lower total financial assets, and compared to the US have a much higher proportion of the assets in banks. To fund sustainable, long-term growth in ASEAN member states, it will be necessary to grow the amount of financial assets in each market, and in the region as a whole, so long as ASEAN member states are able and incentivised to invest in each other.

All asset classes are important. As noted above, current bank and capital market finance is insufficient, and ASEAN financial assets are already bank-centric. So new sources of funding are needed, and this means a greater role for all kinds of insurance funds, including investment-linked product funds, which can be invested in the capital markets. Deeper capital markets in emerging Asia could free USD 800 billion in funding annually[7], mostly for mid- to large-sized corporations and infrastructure. In addition, the funds of life insurance and pension industries in particular are appropriate to long-term fixed income investments as companies seek long-term assets to match the duration of their liabilities, i.e. the promises made to their customers. **Governments should encourage the purchase of insurance and pension products to create the large pools of domestic saving that drive sustainable growth.**

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

Figure 2: Do we have enough financial assets to fund the future?



ASEAN average only includes Vietnam, Thailand, Malaysia, Singapore, Philippines and Indonesia
Source: World Bank Global Financial Development Database (July 2018 version); OECD Pensions at a Glance (2018); Cerulli

There are several policy instruments available to Governments to encourage greater penetration of insurance. China, for example, has established a target of reaching a penetration rate of five per cent by 2020, leading to total industry assets of RMB25 trillion (US$3.7 trillion), a tremendous mobilisation of domestic savings for reinvestment in economic growth. The target is accompanied by a plan to improve financial literacy, develop industry capacity, and encourage innovation in product development and distribution.

Another policy area for consideration is **tax incentives for purchase of insurance policies**. Many ASEAN markets have some incentive for the purchase of life or medical insurance, either by individuals or by companies. Malaysia's government, for example, provides MYR$6,000 relief for life insurance policies and MYR$3,000 relief for medical and education policies. However, the picture is mixed, as can be seen in Table 4, which looks at whether or not premium expenses are tax deductible for life and medical policies purchased by individuals and corporations.

Table 4: Tax incentives for purchase of life and medical insurance[8]

	Personal income deductible	Corporate tax deductible		Penetration rate (life)
	Life	Life	Medical	
China	Varies by product	Varies by product	Varies by product	2.68
Indonesia	No	No	No	1.9
Japan	Yes	Yes	Yes	6.26
Korea	Yes	Yes	Yes	6.56
Malaysia	Yes	Yes	Yes	3.32
Philippines	No	Yes	Yes	1.24
Singapore	Yes	Yes	Yes	6.64
Thailand	Yes	Yes	Yes	3.59
Vietnam	No	Yes	Yes	1.29

It can be seen that there is generally tax relief for companies which provide life and/or medical cover as an employee benefit. Personal income tax relief is available to individuals in some countries, including Malaysia, Singapore and Thailand in ASEAN, but is not universally widespread.

As well as insurance premiums being a deductible tax expense from personal income, some jurisdictions also permit:

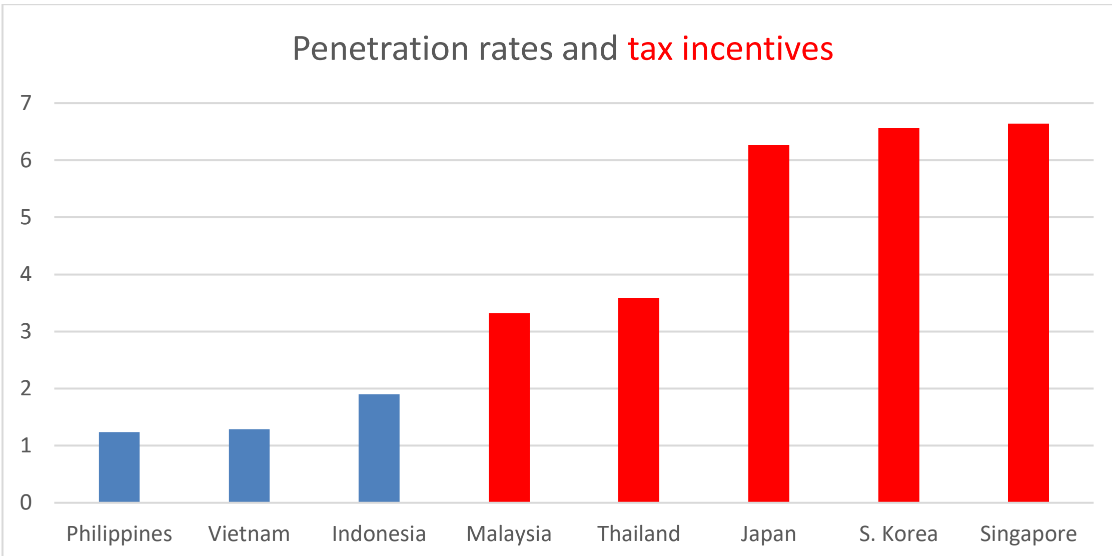
- A tax-free build up - i.e. no tax on the increase in the cash value of a policy before maturity;
- Income tax free or tax reduced benefits on surrender of a policy;
- Inheritance tax free or tax reduced death benefits.

In many cases there will be a differentiation between qualifying and non-qualifying products so that regulators can maintain control over the incentives and their impact on areas such as risk management and the level of protection in the products. Some jurisdictions also have absolute caps on tax benefits, or maximum amounts related to the amount of gain.

[8] Joint study by Deloitte and several trade associations January 2019.

Given that corporate tax incentives are widely used, we have looked at the possible impact of personal income relief on the purchase of life insurance only. Data is not readily available for medical/health insurance. The data is set out in figure 3 below, although China is omitted from this graph given the variable nature of incentives in the market.

Figure 3: Individual tax incentives and life insurance penetration



Key: No tax incentive; Premiums deductible from personal income

As can be seen, those countries which provide individual income tax relief for the purchase of life insurance policies have a higher penetration rate than those which do not. Unsurprisingly, this maps closely onto the data on financial assets in figure 2, where Malaysia, Thailand and Singapore can be seen to have larger insurance assets than other ASEAN Member States. **We therefore suggest that ASEAN Finance Ministries look at a range of possible tax incentives to foster the growth of the insurance sector, which in turn will increase funds available for domestic investment.**

Digital innovation in the insurance sector

The impact of digital technology on the insurance value chain

- Digital technology is reshaping the business model of the insurance industry. It is changing what insurers cover and the ways in which they design and distribute products, underwrite risks, and manage claims:

    - **Digitalisation** is changing the nature of **insurance products**, for example the emergence of on-demand insurance, where innovation makes insurance coverage literally a simple swipe on a smartphone; usage-based or pay-as-you-go-insurance and sharing economy, usually marketed by insurance start-ups.

    - **Underwriting** is becoming easier and more effective. New data sources, new platforms to store and analyse data, and fast, innovative technologies to mine the data or simply to automate existing processes will reduce the length and invasiveness of risk assessment, improve risk selection and allow for personalised pricing.

    - **Distribution** channels are also evolving. While traditional intermediaries, such as agents and brokers, still dominate distribution for most insurance sectors around the world, an increasing amount of insurance is gradually moving over to mobile and Internet channels, especially in lines such as motor insurance, where the nature of cover has been increasingly standardised. E-commerce sales, including online sales, telemarketing, or targeted advertising activities are on the rise. In all likelihood, digital technology will eventually enable customers to arrange almost their entire insurance needs through remote digital channels.

    - **Claims** handling processes can be simplified and streamlined by technology. Automated loss notification, real-time processing of claims, predictive damage estimates, self-service capabilities and electronic payments are increasingly used to make claims management more efficient.

- The biggest source of value creation through digitalisation of insurance lies in the ability to develop new and more customer-centric products and solutions and at the same time reduce costs. By lowering the cost of information gathering and processing, digital technology and automation will enable insurers to administer, underwrite and price risk as well as settle claims more efficiently. In a competitive market, this will ultimately lead to lower premiums, boosting affordability and coverage.

- Digital innovation can also support behavioral change which could drive a healthier lifestyle. Established wellness insurance models have already focused on policyholder engagement, using wearables to encourage general fitness. Future wearables are expected to feature medical-grade technology and personalised health advice with targeted interventions and treatment. Insurers will increasingly seek to build more detailed feedback loops of health and wellbeing which go beyond general fitness. Over time, those insurers that truly differentiate and add value will be those who use apps and wearables in intelligent ways to better risk select and offer game changing health insights and improvements.

The EU-ABC insurance members have strong a commitment to digital innovation and we are keen to bring our expertise in this area to ASEAN markets. Some latest examples are included in the annex.

Risks arising from the increasing use of technology

- The sharing of information with the insurer can be beneficial for both the insurer and the insured. The use of real-time monitoring and visualisation are fundamentally changing the insurers' relationship with customers. Policyholders who agree to let an insurer track their habits, for example by using wearable technology, can learn more about themselves, and can use the information to adapt behaviour and reduce risks.

- On the flipside of the insurer-customer relationship, life insurers are susceptible to rising risks of **anti-selection** as customers gain better understanding of their own health status. These innovations are forcing a shift towards prevention, early diagnosis and more efficient treatment outcomes, which could also have significant influence on health risks. With the spread of genetic testing, for example, individuals who discover they are at higher risk of disability or death may disproportionately seek to purchase insurance, complicating actuarial risk assessments. Anti-selection thus leads to inefficient market outcomes and impedes the application of the principle of equality between policyholders that everyone should pay a premium proportionate to the risk that they bring to the insurance fund, and that equal risks should be treated equally.

- A core principle of insurance is that the insurer may ask any relevant question and insureds are obliged to disclose all they know about their risk. The insurer thus obtains a large amount of risk-specific private information. In a digitalised world, in order to preserve customers' trust and to ensure compliance with **data security and data protection** requirements, it is essential for insurers to ensure transparency in their use of (big) data, and to process personal data responsibly, in ways strictly compatible with the specific purpose(s) for which it was collected.

- The increased scope for personalised, fully individual risk-based insurance might mean that some high-risk individuals will be **denied cover or face prohibitively high insurance costs**. That is not new in the insurance industry, but it is likely to become more accentuated in an increasingly digitalised economy. Concerns may arise for risks which individuals cannot avoid, where the costs of reduction would be unacceptably high, where the premium represents a large fraction of disposable income, or where insurance cover is mandatory. Societal choices are at the core of this particular issue, and governments should drive the debate, although the insurance sector should continue to act responsibly to provide adequate cover.

Regulation can play an active role in promoting innovation in insurance

- Regulators are responding quickly to the rapidly evolving financial technology (FinTech) landscape. New or emerging financial products, services or delivery channels may not meet all regulatory requirements. As a solution to this, a number of financial regulators in ASEAN have implemented their respective fintech regulatory sandbox[9] regimes.

    - **Indonesia**: The Financial Services Authority (OJK) issued a new regulation on financial digital innovation in financial services (POJK 13/POJK.02/2018) in August 2018. To participate in the OJK Sandbox, the qualifying fintech must commit to full transparency with the OJK (and any other involved authority), collaborate with financial services authorities, and participate in programmes aimed at developing the financial services sector. Under the regulation, the OJK regulatory sandbox period is one year, extendable for a further six months.

    - **Malaysia**: The Bank Negara Malaysia (BNM) Regulatory Sandbox was introduced in 2016. It allows certain exemptions from regulatory requirements for up to 12 months. The product, service or solution in question must be genuinely innovative with the clear potential to 1) improve the accessibility, efficiency, security and quality of financial services; 2) enhance the efficiency and effectiveness of Malaysian financial institutions' management of risks; or 3) address gaps or open up new opportunities for financing or investments in the Malaysian economy.

    - **Singapore**: MAS launched a FinTech Regulatory Sandbox in 2016, with the aim to enable financial institutions as well as non-financial players to experiment with innovative FinTech solutions in an environment where actual products or services are provided to the customers but within a well-defined space and duration. In November 2018, the MAS proposed to create a "Sandbox Express", to complement the existing Sandbox. The aim is to enable firms which intend to conduct regulated activities to embark on experiments more quickly, without needing to go through the existing bespoke sandbox application and approval process.

    - **Thailand**: Bank of Thailand (BOT) introduced the FinTech Regulatory Sandbox in early 2017. It is an experimental framework for innovative financial services which leverage new technologies with accommodative regulations under limited environment. The three main objectives are 1) Promoting financial innovation, 2) Protecting consumer rights and 3) Containing acceptable risks.

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[9] A sandbox is a testing environment that isolates untested code changes and outright experimentation from the production environment or repository, in the context of software development including Web development and revision control. In the context of regulatory regimes, a sandbox allows to develop and test products and services in the market conflicting with the existing regulations. Based on the sandbox experience, the regulator might adjust the regulations.

However, regulation could also create obstacles to innovation

- **Restrictions on international data flows** – International data flows are particularly relevant to the re/insurance industry. Restrictions on data movement and data localisation will present a challenge for many types of re/insurance, thus limiting the available capacity and innovation in different markets. We recommend ASEAN countries to follow existing international agreements, such as the WTO GATS when designing or amending restrictions on data movements and data localisation.

  In this respect, the EU-ABC welcomes the development of an **ASEAN Framework on Digital Data Governance** as an initiative that is intended to enhance data management, facilitate harmonisation of data regulations among ASEAN Member States and promote intra-ASEAN flows of data. The EU-ABC hopes that ASEAN member states will follow these guidelines and only use sparingly the opt-out provisions contained within it.

  Development of data regulations amongst ASEAN members vary considerably, hence the Framework will be adopted with different speed and complexity across the region, according to the domestic laws and regulations. As an example, the Monetary Authority of Singapore recently released a set of principles to promote **fairness, ethics, accountability and transparency (FEAT)** in the use of artificial intelligence (AI) and data analytics in finance. The FEAT Principles provides guidance to firms offering financial products and services on the responsible use of AI and data analytics, to strengthen internal governance around data management and use.

  The EU-ABC recommends ASEAN members to work closely with the insurance sector to adopt international best practice with respect to their policy and regulatory approaches towards digital data governance, with the objectives to maximise the free flow of data and harmonise regulation. ASEAN's potential for growth is tremendous. With the right elements in place, such as good infrastructure, sound policies and governance framework, the ASEAN insurance industry can develop innovative products which are fair, safe and stable for the benefit and protection of policyholders.

- **Access to data and information sharing** – The cyber-attack on Singapore's health database in 2018 demonstrated that cyber threats are evolving with ever increasing complexity. As a result, more businesses and individuals are turning to cyber insurance for protection and recoveries. However, cyber insurance is a difficult market to underwrite. Sharing of information about attempted or actual cyber-incidents is therefore vital. There is currently a lack of loss data, little correlation between risk classes and limited value of historical loss data because cyber risks are constantly evolving. Insurers and policymakers need to work together to create more data to better understand and manage cyber risks.

Regulation should support digital innovation while protecting consumer interests

- Whilst digital innovation has the potential to benefit consumers, it does give rise to risks that could impact fair consumer outcomes, which should be considered by regulators in light of the requirements of Insurance Core Principle (ICP) 19 on Conduct of Business. These include potential impacts from reduced face-to-face contact, insufficient consumer understanding of the product or service and its provider, risks in the security and potential misuse of increasing amounts of consumer data, and potential exclusion for some consumers. The collection of data on policyholders may enable a more granular risk categorisation that could potentially affect risk pooling principles and may lead to issues around affordability of certain insurance products, possibly even leading to exclusion.

- For regulators, the key challenge is to facilitate innovations by insurers while maintaining the level of consumer protection as stipulated in its laws and regulations. To overcome this, there are a number of areas policymakers and regulators must act on:

    - **Enhancing supervisory skills and tools** - Regulators should be technologically and numerically literate and understand the risks associated with the use of data. Regulators will need new skills to identify, monitor and assess new applications of technologies, for understanding market structures and the activities of new participants, and for understanding consumer outcomes.

    - **Increasing engagement with new entities** – Regulators need to understand the structures of non-incumbent or FinTech firms, which may not have the experience or knowledge of financial services regulation. Unlike traditional insurance entities, these new entrants may approach consumer-related risks differently, with different compliance awareness and risk culture. Regulators may need to engage with them proactively, "educate" them on relevant matters and the proper compliance attitude.

    - **Strengthening regulatory cooperation** – Cooperation between financial regulators is crucial in a digitalised world. As digital innovations and risks do not stop at the border, jurisdictional regulators should coordinate with authorities in other jurisdictions. To meet these challenges, they should proactively work together across jurisdictional and subject-matter boundaries to identify emerging trends and to develop and implement solutions.

Annex: European Insurance Companies' Digital Innovation in ASEAN

Prudential – AI-Powered Digital Health Services

Prudential entered into a partnership agreement with Babylon Health, a healthcare technology and services company, to provide digital health services for customers across Asia. Through the deployment of cutting-edge artificial intelligence technology, the proposition will offer customers 24/7 access to a comprehensive set of digital health tools.

Prudential has started to implement the initiative in selected ASEAN markets. The new digital health services will be available in the near future, empowering consumers with self-help tools to manage health needs and helping governments find efficient solutions to expand access to quality healthcare.

Swiss Re – Dynamic Diabetes Solutions

Swiss Re has been supporting Muang Thai Life Assurance to develop an innovative product, Baowan BetterCare, which provides diabetic customers with critical illness and diabetic complications coverage as well as medical reimbursement. Using dynamic pricing, the product is designed to continually support and incentivise diabetic customers to make healthy behaviour and lifestyle changes with the aid of complementary diabetes management and healthcare technology and services.

This one-of-a-kind diabetic solution was made possible by the OIC regulatory sandbox which fosters a streamlined approval environment for insurers to test and run innovative insurance solutions.

About the EU-ASEAN Business Council and Insurance Working Group

The EU-ASEAN Business Council (EU-ABC) is the sole 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 vested 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, Prudential, Swiss Re and Zurich as well as the European Chambers of Commerce in ASEAN countries.

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