"Life Insurance Industry: Riding the Technology Wave" - Address by Mr Ong Chong Tee, Deputy Managing Director, Monetary Authority of Singapore, at LIA Annual Luncheon on 7 March 2018

Mr Patrick Teow, President of LIA Singapore

Distinguished Guests

Ladies and gentlemen

Thank you for inviting me to join the 2018 LIA Annual Luncheon. Allow me to first congratulate the new LIA Management Committee.

I last spoke at this event in 2015 on a theme of confidence and resilience of the industry. Last year, my Assistant Managing Director Lee Boon Ngiap spoke on the importance of strong culture and ethics as key drivers of good conduct.

Today, I like to build on these themes with the backdrop of the technological wave sweeping our shores.

For those of you who have visited London and taken its underground trains, you will be familiar with the rather famous broadcast in the Tube stations repeatedly telling commuters to “mind the gap”.

In an analogous way, as technology innovation and business model disruptions impact various economic areas including the insurance sector, it is worthwhile to remind ourselves to “mind the gap” as we ride the technology wave.

Let me elaborate.

My remarks will cover three aspects:

(a) Bridging the protection gap;

(b) Leveraging FinTech (or more specifically, InsurTech); and

(c) Doing more to eliminate ‘conduct gaps’.

Protection Gap

Many studies have found sizeable insurance protection gaps across countries. This can be described as the difference between what a family will need to maintain its level of consumption should a breadwinner, or one of the breadwinners, passes away, versus the amount of financial resources including life insurance coverage.

A Geneva Association report[1] in 2014 estimated that for the US alone, the life protection gap was a staggering US$20 trillion. In 2012, the LIA estimated the gap in Singapore to be about S$460 billion[2]. Patrick mentioned this as one of the priorities for LIA and highlighted that a follow-up "attitudinal study" will be conducted. I understand that LIA's 2017 Protection Gap Study will be released later this month. The case for adequate life insurance protection is a strong one. So why is there such a large protection gap?

Let me highlight a few possible reasons.

(1) One factor is that life insurance involves the rather unpleasant topic of death, a morbid subject that many avoid.

(2) Another common feedback is that many people find it difficult to properly ascertain their insurance coverage, given the difficulties in projecting long-term financial needs.

(3) Yet another perception is that life insurance policies are both expensive and complex. There is also a belief that agents would rather sell more lucrative investment-linked policies compared to term life policies.

Swiss Re reported that in Asia[3]:

(a) more than half of non-buyers dropped out of insurance purchase after conducting initial research or after making their first enquiry; and

(b) another one-third dropped out after receiving specific pricing and product details.

(4) There is also the view that insurance processes and services, say medical underwriting and claims processing, are non-transparent, onerous and time-consuming.

FinTech and InsurTech

This brings me to the potential for FinTech, or more specifically InsurTech, to help reduce the protection gap. Technology solutions offer exciting possibilities to alleviate many pain-points associated with the understanding, buying and servicing of life insurance products.

To be sure, the insurance sector has always employed technology tools and is a large user of data. This is also part of the problem. A recent McKinsey report[4] stated that 90% of insurers identified complex legacy systems as the key barrier to digitisation. It is only in the more recent one to two years that InsurTech has been recognised as a change driver.

Let me cite a few examples of transformations.

The move to automation can potentially replace a number of repetitive human processes in the insurance sector. Robotic process automation (or RPA) will enable quick, automatic and 24/7 gathering and processing of data.

There will be other technologies that both collude and collide with how things are currently done.

Consider the pricing of life insurance premiums. With the increasing insights enabled by telematics and wearables through the internet-of-things and our smart devices, insurers are not just getting Big Data but more importantly, Rich Data. In addition, an insurer need not just rely on fixed data fields in policy application forms. Some have used social media inputs with the customer's consent. A Morgan Stanley and BCG study[5] showed that customers are willing to share personal data to get cheaper or better coverage. These developments have allowed highly personalised assessment of risk profiles and hence, customised insurance products and premiums.

These can also lead to better outcomes for consumers. Take for example, an ex-cancer patient who has beaten the illness into remission. Normally, this person will find it very difficult to renew or take on new insurance. Through better health data insights and more sophisticated underwriting capabilities, new products could be developed to bridge the insurability gap for this group of consumers. Hence data science will have an even more important place for risk underwriters and actuaries. Another potential innovation is in the use of blockchain or distributed ledgers to collect information or health records by linking the insurance provider with the customer and other intermediaries. These can also be used to minimise fraud risks and the need for back-and-forth information verifications.

Apps in our smart devices can also change the ongoing relationship between an insurer and the insured. Purchasing an insurance policy has traditionally resulted in a transactional relationship. After client on-boarding, the ongoing contact between the insurer and the insured is limited to premium payment and processing of claims. Many people do not see a need to meet their insurance agents regularly to review their coverage. Some, I am told, even shun calls from their agents. New insurance apps can transform the insurer-policyholder relationship into a broader partnership. The insured person can benefit from various lifestyle information, healthy living tips and other information, emerging trends, advisories on new products and various service options. These can include transactional services such as the option to buy additional insurance based on new needs – all done digitally. Claims can also be an automated self-service process, with expedited settlement based on digital submissions of proofs. The use of Chatbots can also support a customer by providing on-demand standard reports or for other procedural or contract information.

I read that in some countries, new InsurTech players now offer universal all-in-one “plug and use” insurance cover. They use AI-enabled insurance platforms that allow a person to key in his details – like his health statistics, occupation, business and personal travels, his car, family, home and home possessions, pets and so on – and get all the insurance that he needs under one policy that can be flexibly adjusted across the difference risk coverage over his life cycle. What this does is to make the customer experience more pleasant and fuss-free.

It should be evident that insurers can and must leverage data and digitisation to strengthen your value proposition to the customer. As one FinTech firm tells me, the battle is won by whoever can provide a more delightful customer experience.

At the same time, we should not forget to ‘mind the gap’, or gaps.

As insurers delve deeper into the realm of smart tools powered by complex algorithms, artificial intelligence and machine learning, there is also a need to identify and address potential pitfalls of such capabilities. For instance, one particular concern in deep learning models is that the “learning” by the machine is a black box, which could lead to biased “data truths”. This in turn may produce decisions or outcomes that are unexplainable, non- transparent or even unfair.

Also, while Big Data enables finer segregation of risk, the concept of insurance is always premised on risk pooling. A careful balance has to be struck between segmentation versus the sharing of risk among policyholders, for insurance to retain its long term societal relevance. We should guard against automatic or blanket financial exclusion or embedded selection bias.

There is also a need to safeguard individuals' right to privacy in the use of personal data.

Therefore, an emerging area of focus for MAS will concern the ethical use of data by financial institutions. We will look to provide more guidance on the issues of fairness, ethics, accountability and transparency amidst this technology revolution.

Insurers are custodians of very large data sets, including personal information. We expect all insurers to have cybersecurity practices and controls that are aligned with our Technology Risk guidance and requirements. It is equally important for firms to have in place good cyber hygiene standards, and ensure that such good practices not just feature prominently in your IT systems and policies, but are also embedded in day-to-day work processes.

More broadly, how will MAS, as a regulator, partner the industry in this transformation journey?

Let me first set out a few principles that guide our approach:

Firstly, MAS is technology-neutral and will not seek to favour one technology over another.

Secondly, we take on a more principles-based approach where the focus is on outcomes – whether a new business model or adopted technology will threaten financial institutions' safety and soundness, or the fairness in their dealings with the public.

Thirdly, we believe that regulations should support and not stifle innovation.

- Innovations by their inherent nature will move ahead of rules. What we want to guard against is regulatory arbitrage camouflaged by a supposed innovative business model.

- Another consideration is whether a new business model or adopted technology will create inconsistency and incoherence with our existing rules.

- It follows that as a regulator, MAS will need to:

  - First, keep abreast with technological developments by engaging closely with the industry to exchange views and garner fresh insights.

  - Second, assess and adopt our regulatory response based on careful review. For instance, MAS has set up our regulatory sandbox regime to facilitate testing and experimentation of cutting edge technology or innovative business models within defined parameters and duration. Certain sandbox participants benefit from case-by-case regulatory exemptions following our review. We are exploring the feasibility and scope for a more nimble and flexible regulatory approach; one that is modular and risk-appropriate or even an activities-based regulatory approach towards certain innovative business models, as opposed to a strictly entity-based regulatory framework.

We are also devoting resources in our work on “SupTech” or Supervisory Technology.

MAS has been beefing up our surveillance and analytical capabilities, including the setting up of a dedicated unit for SupTech within our Data Analytics Group. The aim is to transform our supervisory and market surveillance work to be more digital and effective, This will also allow MAS to be more effective in our supervisory engagement with each of your firms. In addition, we will be employing more advanced techniques such as network analysis, or text and voice analytics to support our investigation and enforcement actions.

Conduct Gaps

Let me now cover my final remarks around conduct gaps.

In an increasingly digital environment and as more Singaporeans become technology savvy, financial advisers should evolve to provide more holistic wealth and risk management advice.

A successful transition will require maintaining a deep level of consumer trust that representatives will act in the best interest of their clients.

On the issue of trust, recent episodes of large-scale movement of representatives have cast the industry in an unfavourable light. Such mass recruitment of representatives by one firm gives rise to heightened market conduct risks, with respect to aggressive sales tactics and improper switching.

MAS has worked closely with LIA on measures to address these risks and we will be issuing a public consultation soon to promote responsible recruitment practices in the financial advisory industry. Meanwhile, LIA members have agreed that they, as well as their Financial Advisory (FA) subsidiaries will go ahead to adopt a number of these measures. This is a positive step.

Briefly, these measures include:

(a) Capping a representative’s sales targets and sign-on incentives in the first year after the representative joins the new FA firm. This reduces the pressure on representatives to engage in aggressive sales tactics to meet inflated sales targets;

(b) Spreading sign-on incentives over a minimum period of 6 years, to create longer- term alignment between the representative and his new FA firm. This will foster better quality after-sales services to customers;

(c) Reducing the entitlement to sign-on incentives if the persistency of the policies serviced by the representative at his previous firm falls below industry norms, to deter improper switching; and

(d) Requiring the FA firm to undertake enhanced monitoring of its representative's sales transactions to verify that the sales and advisory process has been properly conducted, which will include customer call-backs conducted by an independent external party.

Within the industry, revenues and growth must be driven by strong value propositions to your customers and not by sheer aggressive recruitment and sales tactics.

More fundamentally, an insurance company's long-term success must be built upon a strong risk culture and good corporate governance. An emphasis on ethical behaviour must permeate day-to-day practices. Boards and Management should set the appropriate tone from the top, and demonstrate a collective determination to walk that talk. Recognition and reward systems should match the espoused values of the firm.

Conclusion

Let me conclude. The insurance sector will not be immune to the innovations and disruptions around us. At the World Economic Forum, present times have been described as the Fourth Industrial Revolution. This will bring both opportunities and challenges. I have described some of these in my remarks.

I know that all your firms are putting in place IT and business strategies to ride the technology wave including those aimed at up-skilling your people. In progressing, we must be reminded that insurance is a social good and not a mere financial or economic activity. Apart from the imperative for doing well, it is important for the industry to be guided by a moral compass pointing firmly to doing right and doing good.

May I wish one and all a belated Happy New Year of the Dog.

[1] The Global Insurance Protection Gap, The Geneva Association, 2014

[2] 2012 Protection Gap Study – Singapore, Life Insurance Association of Singapore, 2012

[3] Spotlight on Distribution in Asia, Swiss Re - LIMRA, 2015

[4] Digital Disruption in Insurance: Cutting through the Noise, McKinsey, 2017

[5] Insurance and Technology: Evolution and Revolution in a Digital World, Morgan Stanley and BCG, 2014

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