“Leverage Technology, Build Trust” – Remarks by Ms Ho Hern Shin, Assistant Managing Director (Banking and Insurance), Monetary Authority of Singapore at LIA Annual Luncheon on 6 March 2019

Mr Khor Hock Seng, President of LIA Singapore

Distinguished guests

Ladies and gentlemen

1. Thank you for inviting me to speak at today’s luncheon.

2. Let me first congratulate Hock Seng on his appointment as the new LIA president, and his team – the new LIA Management Committee – on their appointments. Thank you all for taking up the challenge of leading the industry. The LIA has played an instrumental role in developing Singapore’s life insurance sector. It is an active voice for the industry, and has partnered the Monetary Authority of Singapore over the years in leading the industry through various seasons of renewal and change, emerging stronger each time.

Technology is transforming the industry

3. We are now at another important inflection point for the life insurance industry. The 4th industrial revolution is fast changing the business. The growing availability of big data, ubiquitous computing powers in the hands of every consumer, and technological advancements in areas such as artificial intelligence, biotechnology and internet of things, have opened up new possibilities for insurers – in the way you identify and manage risks, and in the way you engage and serve your customers. Insurers are making significant investments to tap these new possibilities.

4. Let me highlight four encouraging trends that we are observing.

5. **First, there is a discernible shift in business model, from being reactive to being proactive, from protection to prevention.** The ubiquity of connected devices, coupled with sophisticated data analytics today, means insurers have new touchpoints to interact more frequently with your customers. Insurers are taking advantage of this interaction to collect and analyse more varied and larger volumes of consumer data, and in a more real-time

basis. This has not only allowed you to better understand customer risk profiles but also allows you to assist in lowering customer risk profiles, by nudging appropriate consumer behavioural choices.

6. We see many examples of this in the health insurance sector. Some health insurers today venture beyond just paying for medical claims to encouraging policyholders to adopt healthier lifestyles, and to take greater ownership of their health. Some have gone a step further to facilitate preventive healthcare or chronic disease management. For example, AIA's Vitality programme incentivises policyholders to stay healthy by offering vouchers or premium discounts on their life policies when they achieve exercise targets. Its digital managed care platform partner, known as "MyDoc", facilitates health screening and early management of chronic diseases by providing policyholders access to round-the-clock telemedicine services.

7. **Second, the insurability gap for the under-served community is narrowing. This has been made possible by the same technologies – more real time health data insights and enhanced analytics capabilities**. South African insurer AllLife has partnered with Royal London, UK's largest mutual insurer, to offer life and disability coverage to diabetics. This group of consumers were previously considered "uninsurable". AllLife's algorithmic pricing platform not only provides a cost-effective product, but it also adjusts premiums based on users behaviour in response to prompts, on the platform, ranging from taking their medication to going for a run.

8. **Third, insurers are delivering a more seamless and hassle free experience to customers.** US health insurer Oscar's one stop platform, available on its mobile app and website, is a good example. Policyholders can use that single platform to purchase coverage, submit claims, seek telemedicine advice, connect and book appointments with Oscar's panel of doctors, and also access health records and request prescription refills.

9. **Fourth, insurers are enjoying significant operational efficiency improvements and associated cost savings through digitalisation.** Many insurers now use chatbots to handle high volumes of commonly-asked queries. This has allowed financial consultants and call agents to focus on more complex enquires, thereby improving efficiency. Digitalisation of underwriting and claims processes is also delivering better consumer experience together with significant cost savings. Zurich Insurance Group has reported substantial operational cost savings of US$1 billion in the first three years of digitalising its claims and underwriting processes.

Building trust in the use of data

10. The increasing use of technology and consumer data to help improve the lives of consumers is not without challenges. One significant challenge concerns the usage of data. Consumers are increasingly aware and concerned about the amount of personal data firms are collecting about them, how they are being used, and whether such use will somehow disadvantage them unfairly, without their knowledge and worse, without room for recourse. This is not a problem unique to the insurance industry. The Facebook-Cambridge Analytica data scandal is one amongst many examples that has prompted increasing concern. Globally, companies struggle with defining acceptable boundaries in utilising data.

11. Such concerns, if allowed to develop into doubt and mistrust, can present a serious risk to insurers. The 2018 Edelman Trust Barometer[1] data reveals that "70% of consumers choose to buy products and services of companies they trust." The financial services industry particularly relies on trust to maintain customer loyalty, to acquire new customers and to grow their businesses. The negative impact of trust erosion in the sector cannot be understated.

12. It is therefore critical that consumers are assured that insurers will continue to prioritise their interests throughout your digitalisation journey. In the EU, the General Data Protection Regulation came into force to accord far reaching rights and protection to individuals and their data. In Singapore, MAS has likewise collaborated with the industry to develop principle-based guidance on the responsible use of artificial intelligence and data analytics (AIDA) in financial services. Issued in November last year, these principles promote Fairness, Ethics, Accountability & Transparency, or FEAT, in the use of AIDA. Let me elaborate on each of these limbs and why they are important.

a. First, fairness. This requires AIDA-driven decisions used by insurers to be explainable, accurate and justifiable. It prevents spurious or biased relationships picked up by clever analytics from being used to inadvertently and unfairly discriminate some customers. Sound policies and practices in this area will help you to address consumer questions such as "Will I be fairly treated?" and "Are your models accurate or are they just a black box?"

b. Second, ethical. This requires AIDA-driven decisions to be aligned with the firm's existing ethical standards and minimally be held to the same standards as human driven decisions. This seeks to address consumer questions such as "will insurers continue to uphold their current ethical standards, or will robots begin to take such decisions without human oversight?"

c. Third, accountability. Consumers will want to be assured that insurers maintain clear responsibility for and ownership of their AIDA-driven decisions. For this to work, insurers will need appropriate internal approving authorities for the use of AIDA. Data subjects should be provided channels to provide accurate information about themselves as well as enquire or seek recourse for AIDA-driven decisions.

d. Finally, transparency. To increase public confidence, insurers must be transparent about the use of AIDA – this means proactively disclosing to customers as part of general communication, providing explanations of what the data is used for and its consequences to policyholders.

13. The principles of FEAT are intended to operate alongside the requirements of the Personal Data Protection Act (PDPA). The PDPA requires insurers to consider consent, purpose and reasonableness in the handling of personal data in their possession. Specifically, when collecting, using and disclosing customer data, firms need to ensure that policyholders' consent is obtained and that they are aware of the purpose of use.

14. As insurers leverage on technology and data to serve customers better, Boards and Senior Management teams should also put in place thoughtful and robust internal governance, policies and processes to meet the FEAT principles and comply with the PDPA. It will go a long way towards maintaining the trust and confidence that your customers have in you.

Strengthening trust in financial advisers

15. Building trust with customers goes beyond having sound policies on data governance and usage. Since 2014, we have worked with the industry to implement the FAIR initiatives. These initiatives aim to instil confidence in customers that insurers and their representatives will deal with them fairly. Today, we are seeing improvements in the sales advisory process, and some insurers have moved from providing product-centred transactional advice to

needs-based advice to deliver more holistic and comprehensive financial advice to consumers. These are steps in the right direction in raising standards of conduct and building trust in the insurance industry.

16. Last year, LIA members worked closely with MAS to develop a set of proposals to promote responsible recruitment in the financial advisory industry. The measures seek to address potential market conduct risks arising from lucrative sign-on bonuses with high sales quotas that drive aggressive sales behaviour and subsequently, improper switching of policies. We welcome LIA's initiative to adopt and apply these measures early on its members.

17. MAS is in the meantime working towards effecting regulations to implement the proposals. We are also working with individual firms to ensure consistent implementation of these measures across the industry. I would like to stress the importance for the industry to do this well to maintain trust with your policyholders and the general public. MAS will not hesitate to take regulatory actions against individuals who run afoul of our rules to the detriment of consumer interests. We will also take action against firms which fail to properly supervise their representatives to fully uphold these recruitment measures.

18. As a representative's conduct directly affects the reputation of the firm and the industry, it is essential that insurers maintain high standards in its recruitment and management of representatives. How do we do this well? Let me highlight 3 important areas to work on.

19. First, insurers should only recruit competent representatives who will not prioritize their personal financial interests over those of their customers.

20. Second, firms should implement policies and measures that send a clear signal to representatives about the acceptable corporate culture. For example, implementing good remuneration practices that do not solely focus on meeting sales quotas or promoting specific products, but adequately consider behavioural and conduct factors. It is also important to have a robust consequence management framework where appropriate disciplinary actions are meted out when representatives commit misconduct, and where supervisors are held accountable for their actions or inactions.

21. Third, firms should monitor culture and conduct outcomes and feedback from customers. You would want to check to ensure that the mood-in-the-middle and the echo-from-the-ground resonate with the tone from the top set by your board and senior management. Ultimately, good culture drives good conduct, and good conduct strengthens consumers' trust and confidence.

Conclusion

22. In conclusion, we look forward to the industry's new initiatives and innovations to serve customers better in this fast evolving digital economy. The opportunities are immense, and growing. Serving customers well also includes winning their continued trust by handling their data responsibly, and by prioritising their interests. Let's continue to do right, win trust, so that the business of life insurance will continue to thrive in the digital economy.

[1] Source: 2018 Edelman Trust Barometer – Singapore

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