

InsurTech: Opportunities for the Philippine Insurance Industry

Digital Transformation in the Insurance Industry

Digital transformation is reshaping the value chain of the global insurance industry—from underwriting with better accuracy, usage of e-commerce for sales and targeted marketing, to automated claims processing with minimal manual intervention. These improvements are made possible by digital technologies such as machine learning, artificial intelligence and blockchain. InsurTech, which refers to the use of digital technologies in the insurance industry, is driving improvements in the end-to-end customer experience and cost efficiencies to produce more affordable premiums to consumers.

A Quick Survey of InsurTech Applications

In the US, the popular InsurTech app Lemonade uses artificial intelligence that makes it possible for customers with accounts to purchase personalized insurance products online within just 90 seconds. Filing a claim is also as easy as getting a policy: policyholders do not need to fill out any documents. Instead, they can speak to through a camera feature in the Lemonade app to provide the required claim details then get paid online in a matter of minutes.

InShared, the first fully digital insurer in the Netherlands, proves that using technology can lower down the costs. According to the company, it runs a portfolio of non-life at 10 to 20% lower level cost of insurance than traditional players' level cost. And with the digital model the company uses, the level cost will go down to 7-8% as the company scales up.

An Indonesian InsurTech named Qoala provides a digital marketplace where customers can easily compare prices of products from various providers. Using a single platform, customers can purchase insurance products and file claims online. Qoala boasts that its state-of-the-art data storage system allows it to process claims 70% faster than other platforms and channels. To date, Qoala is available in Indonesia, Malaysia, Vietnam, and Thailand.

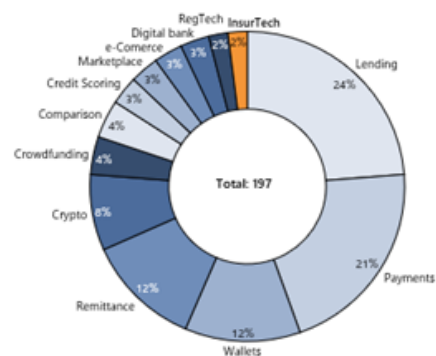
While in Singapore, a joint project of the Monetary Authority of Singapore, the Ministry of Health, and Integrated Health Information

Systems aims to develop a platform that enables data sharing—with patients' consent—among insurance providers and the healthcare sector. Once operational, policyholders will benefit from faster claims processing while insurance and healthcare providers can expect reductions in duplicate claims and processing times.

InsurTech in the Philippines

In the Philippines, digital transformation in the insurance industry is not as deeply drawn as in other sectors of the financial services industry. FinTech in the Philippines has been focused on cashless credit and payment transactions, with almost 60% of companies classified as lending, payments, and wallet technology companies. In stark contrast, only 2% of Philippine FinTech companies are classified as InsurTech.

Figure 1: Breakdown of PH FinTech Companies (2020)



Source: The Philippines Fintech Report 2020, fintechnews.ph

One of these companies is Kwik.insure, an online marketplace where consumers can buy different types of insurance products from its partner insurance companies. The company offers vehicle, health, life and accident insurance products—even COVID-19 cash assistance benefits. Products can be purchased with the use of mobile phones; however, policyholders would still have to go through manual processes to file their claims.

Prospects for InsurTech in the Philippines

The Philippine insurance market still has room to grow. In 2019, the Philippines' total market penetration stands at 1.3% compared to the 3.3% average rate of Emerging Asia. Gross Written Premiums are likewise expected to rise from 2021 to 2025: by 9.62% for life insurance and by 6.65% for non-life insurance.

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Figure 2: Life Insurance - Gross Written Premium, Bio PHP

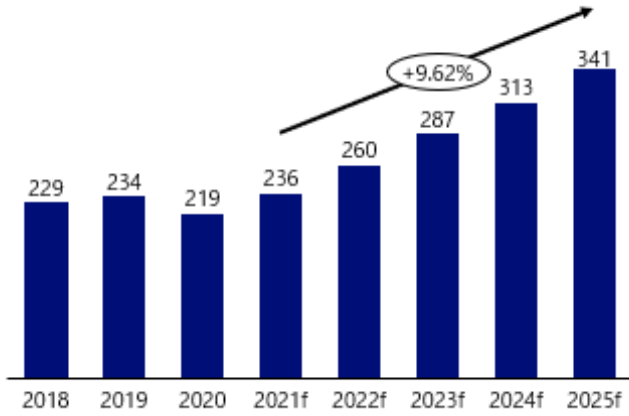
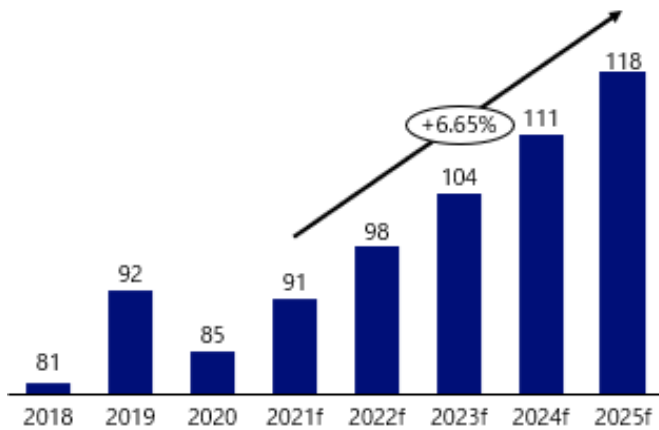


Figure 3: Non- Life Insurance - Gross Written Premium, Bio PHP



Source: Philippines, Insurance Report, Fitch Solutions, Q2 2021

Demand for insurance products is expected to expand as consumers gain a better understanding of the benefits of being insured during the pandemic and become more comfortable in purchasing via e-commerce.

On the supply side, traditional insurance providers are investing more in technology to expand distribution channels (e.g., bancassurance, e-commerce platforms), improve customer experience, and develop new products. InsurTech companies are expected to increase in number (e.g., Saphron, SingLife) and gain traction in the market soon by offering more affordable and personalized products.

The Philippine government—through the Insurance Commission (IC)—has shown its support for the growth of InsurTech as it released the InsurTech Regulatory Sandbox Guidelines (Circular Letter No. 2020-73) in June 2020. The IC recognizes the need of industry players to develop technical innovations so that

the domestic industry can keep up with its regional counterparts and cover more Filipino lives.

Taking Advantage

Unlocking the growth potential in the Philippine insurance industry requires the widening of the consumer base which, as evidenced by the low market penetration rate, is currently limited by (1) low insurance literacy on insurance products and (2) high insurance premiums due to high operational expenses of insurance companies.

The Insurance Commission has provided the necessary support to boost insurance literacy. For one, the IC has launched its Training on Microinsurance Advocacy (TOMA), a literacy program designed for local government units. In releasing the InsurTech Sandbox Guidelines, the IC has included an approval parameter wherein an applicant’s technical innovation will have to foster insurance literacy.

Speaking of regulation, the framework that the IC has put in place now opens the door for more global players and local FinTech startups to enter the wide-open Philippine InsurTech space. These players are poised to disrupt the insurance industry as they bring efficient, agile and scalable technologies that allow the creation of customized yet lower priced products.

Although facing the same opportunities, traditional insurance providers will have to look at digital transformation as a key factor in their vision and long-term strategy, leveraging on technology to change their business model and ways of doing things.

In the end, as Filipinos become increasingly aware of the benefits of getting insured, InsurTech companies become better positioned to offer personalized and more affordable products along with seamless and convenient end-to-end customer experiences.

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