

Insurance as an Enabler for Digital Economy and Disaster Recovery in ASEAN

US-ABC Financial Services Committee Whitepaper



OVERVIEW

Greater technological adoption has enabled the insurance industry to offer intuitive insurance products, via a variety of digital platforms to millions of new customers in e-commerce sectors such as online shopping, ridesharing and the gig economy, as well as in more traditional sectors such as logistics, retail, travel and banking. The digital age has also allowed the insurance industry to narrow insurance protection gaps using simplified solutions in an ecosystem that serves their financial and digital needs – with an umbrella of insurance covers to protect their overall well-being and resiliency. By harnessing data and technology, the industry is also able to streamline the end-to-end insurance process and cut costs through fraud indicators, creating a win-win situation for consumers and insurers. The role insurance plays to relieve some of governments' financial burdens could not be more pronounced than in the current period of expanded financial expenditures.



Benefits of digitizing the insurance industry

In an increasingly digital world, distribution platforms and accompanying regulations are evolving and being modified to permit electronic communications. The COVID-19 pandemic has made digital solutions a necessity, not just a preference. Today, insurers use digital technologies for claims processing, payments, producer licensing and market conduct exams, among others. However, regulators have only provided these temporary measures as a response to COVID-19, which are limited and inadequate to address consumer needs, and they should be made permanent.

Regulatory frameworks that seek to promote digital engagement as a safe, consumer-centric norm, should be commonplace and not an exception. Policymakers should support the shift to a more digital environment post COVID-19 because it creates the opportunity to:

- *Form part of broader efforts on financial inclusion by giving access to insurance for vulnerable and excluded parts of our communities; and*
- *Assist in more rapid economic recovery*

In addition, many countries are also discussing digital transformation as a “move to paperless”, to tap on to associated benefits of sustainability, cost-savings and productivity.

The importance of the digital distribution of insurance

In order to provide access to insurance coverage via digital channels, the customer interface, journey and experience are paramount; overregulating industry digitalization may have the unintended consequences of making the process of purchasing insurance online less user-friendly, thereby limiting the ability to increase insurance protection rates. Moreover, overregulation on digital distribution and partnerships limits the ability of insurers to work with e-commerce participants in other industries to distribute insurance (such as airlines, online travel agents, digital marketplace providers, digital banks). These distribution partners increase the accessibility and prominence of insurance to consumers, including SMEs. Furthermore, there is no evidence to show that prohibiting digital methods or partnerships with e-commerce participants to distribute or provide access to insurance will serve to protect consumers. To the contrary, investing in consumer education and awareness has proven effective in the fight for consumer protection for the country.



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The importance of cross border financial data to the digital economy¹

High-standard digital trade rules and disciplines that allow responsible data flows without data localization requirements are crucial to enabling financial services institutions, including insurance providers to promptly undertake effective measures to strengthen cyber resiliency. Furthermore, restrictive requirements on data flows will inhibit the insurance providers' ability to effectively analyze and share data including pandemic responses. Ultimately, flexible and forward looking regulations on data flows could help insurance providers to design products that are relevant and affordable, which would in turn result in greater financial inclusion for the country. The responsible movement and storage of data, coupled with domestic privacy regulations, are vital to building and sustaining trust in the digital economy and of the insurance sector. It will also enable private sector led innovations to make insurance services accessible to a broader range of citizens and small businesses. The ability to move data securely across borders has proven benefits such as allowing for effective fraud screening and anti-money laundering prevention, enhanced cybersecurity, and financial inclusion via new technologies.



1. *Financial Data and the ASEAN Digital Economy*, US-ABC Financial Services Committee Whitepaper

Disaster recovery acceleration

The insurance industry is a key contributor to accelerating disaster recovery (e.g., natural disaster, pandemic). Research shows that a 1% increase in insurance penetration can reduce the disaster recovery burden on taxpayers by up to 22%.² Within the UN Sustainable Development Goals, insurance is explicitly recognized as a key vehicle to enable risk sharing and risk transfer solutions required for greater global resilience. While the role of governments is crucial to support the introduction of insurance products, a public-private partnership can accelerate the mitigation plan to address climate risk and other challenges.

Disaster risk financing has been a feature of ASEAN's risk preparedness for several years and can play a role in mitigating future events. Insurance-linked securities such as catastrophe bonds have gained traction in the region after the decision by the Philippines to sponsor a catastrophe bond in 2019. The benefits of catastrophe bonds are well understood by governments, which see the advantages of transferring risk to the capital markets rather than remaining on the government's balance sheet. Investors too see diversification in these

products, as they have low correlation with financial markets and offer attractive returns in a low interest rate environment.

In a similar manner, pandemic bonds – linked to large disease epidemics/ pandemics such as COVID-19 – can build capacity for early intervention in the event of a future occurrence. These instruments require different design to traditional catastrophe bonds, including whether to make the instrument multi-risk or specific risk, as well as careful calibration of payout triggers, such as outbreak size, growth and spread. There has been some recent criticism around these triggers and the initial payout terms for the World Bank Pandemic Emergency Financing Facility (established after the 2014/15 Ebola crisis), which may have been related to challenges associated with healthcare system reporting figures in developing countries. Future structuring should be carefully calibrated and take these sorts of factors into account.



2. <https://www.centerforfinancialinclusion.org/the-role-of-public-private-partnerships-in-reducing-disaster-risk>



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RECOMMENDATIONS

1. Continue to implement public policies and implement coherent regulations that seek to maximize digital technologies to support the insurance industry in promoting financial inclusion and closing the protection gap.
2. Allow data transfers, subject to reasonable privacy protections, and remove requirements for localization of data and IT infrastructure, recognizing that regulators have access to data of the insurance provider, by law. Regional coherence for data regulations is crucial to the insurance sector to help ASEAN reach its goals of digitalization and financial inclusion.
3. Permit electronic signatures regardless of the platform – insurer or partner – on which the insurance products are sold. Currently, efforts to increase insurance penetration rates in a country is often impeded by outdated regulations that limit sales of insurance products via end-to-end digital transactions whether on distribution partner websites or apps, and/or bundled coverage with non-insurance products.
4. Eliminate restrictions on foreign investment in the insurance sector to support increased investment in digital capabilities and to avail affordable insurance products.
5. Establish a cadence of regular dialogues between the regulators and industry players is critical in order to meet the shared goal of addressing insurance protection gaps that could lead to paralyzing financial implications to the country and its people and fulfilling consumer expectations on purchase of insurance.
6. Explore the potential for individual or collective pandemic bond issuance as part of ASEAN member states' disaster risk financing strategies.



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