



Hong Kong Insurance Outlook

Key trends for 2021

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2020 was undoubtedly a year of unprecedented change, and has led to new trends, new thinking and ways of working. 2020 was the year when business leaders realised the importance of purpose and brought it to the forefront, when people concerns took centre stage, and when environmental, social and governance (ESG) matters emerged even stronger than before. The ability of organisations to be financially and operationally resilient, adaptable and agile was also put to the test, and digitisation efforts accelerated at an unprecedented pace. Health concerns were ever present, and so too was geopolitics.

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Insurance has been – and continues to be – front and centre in the public eye as the pandemic spread, and as the world looks towards recovery in 2021. Insurers have added Covid-19 covers to existing products, providing free health covers to front line workers, speeding up claims payments for healthcare treatments, and discussions around what travel expenses and business interruptions were covered and which not were just some of the key issues. On top of this, there were the issues that many other companies had to address also, such as managing through extreme financial market volatility as well as how to best manage the workforce. For many insurers, shifting the entire workforce, including agents, to operate remotely while dealing with significantly increased activity in their claims functions and shared service centres was a challenge. Purpose has never been more important as a compass for quality decision making.

The effects of the pandemic also brought to the surface what many already knew. Many insurers operate on legacy platforms and the way they sell products involves a high degree of personal interaction and manual processing. Covid-19 has been a significant catalyst for digital transformation, especially when it comes to customer interaction and distribution. The recovery in some markets has also shown that those insurers with better digitised functions and processes were better at increasing sales quickly again. It has also led to many discussions on product innovation. What is really important to insurers is how should that lead to product innovation and how to give clients the best possible access to the best products.

Through all of this, the regulatory and accounting change agenda remains. The introduction of Group Wide Supervision, Hong Kong Risk Based Capital and Enterprise Risk Management requirements continues. The new IFRS17 accounting standard also looms large on the horizon, although the extra implementation year has given some breathing room. As a result, insurers continue to run large implementation projects to meet the deadlines set by the regulators.

Insurance has proven its importance and relevance to society in one of the most impactful periods of this century. The challenge for all now is to make that count across all of the new initiatives that are being deployed.

The events of 2020 will determine a large part of what will happen in the coming years, and especially in 2021. We are beginning to operate in a new reality, and insurers are adapting their strategies to become more successful and more relevant. Within KPMG, we see the following five sector trends emerge in 2021 in Hong Kong, mainland China and across the broader Asia Pacific region:



Digitalisation of the organisation

Many insurers will pursue a customer-led digitisation of their business and operating models across the front, middle and back office with a customer-first mindset. Direct-to-consumer sales will increase and require significant and rapid upgrades, particularly in many parts of personal insurance. Brokers/agents will need to be integrated at each step through digital interactions and interfaces, while the data requirements for this transformation are complex.



The 'new reality' workforce

There will be significant opportunities to acquire new talent – for example in the digital, technology and data areas – as well as to upskill the workforce as organisations will be less reliant on location. Claims handling and contact centres will be reimagined as more automation is introduced and customers become more comfortable with digital interactions.



Product and partnership innovation

Innovation leaders will leverage the year ahead to leapfrog ahead of their peers, and new ecosystems of innovative firms can transform to be the next wave of insurers. New products may emerge around pandemics or viruses, existing products (e.g. critical illness) will become more popular, and usage-based products (e.g. auto) may gain in popularity. We expect to see new partnerships with clinics or new ways of distribution with telecom providers or Fintech firms.





Climate change

Growing exposures from increased catastrophic weather events – such as hurricanes and wildfires – to pandemic risks are an integral part of the new reality. Boardroom conversations around ESG will continue to change, particularly on corporate purpose, stakeholder capitalism, and climate risk and resilience. Insurers can move funding into greener investments, and will be increasingly challenged by stakeholders if they do not.



Financial resilience

CFOs are in the midst of a most uncertain time for decision making. Pulling the right levers across liquidity, capital and cost will be critical, as is the balance between short-term and long-term results. Changes to the regulatory capital bases complicate these decisions. At the same time, 2021 will certainly be a defining year that determines whether organisations are adequately prepared for the transition to IFRS 17. As IFRS 17 enters its final implementation year, it is placing increased pressure on project and BAU teams as they finish their systems build and prepare for parallel reporting.

We expect the rapid pace of change in the insurance industry to continue throughout 2021, driven largely by these emerging trends. We believe that insurers that position themselves to best address and capitalise on these trends in the months ahead will be well-placed for growth and success.

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