Swiss Re Institute

November 2020

Going digital

Insights to optimise consumer appetite for online insurance in Indonesia and Malaysia

Foreword

With the world economy entering into the deepest recession in decades on account of the COVID-19 pandemic, we see digital transformation as one of the paradigm shifts of a post-virus era. Southeast Asian countries are riding on the crest of the digitalisation wave thanks to technological advancements, supportive government policy and changes in consumer behaviour. With an increasing number of digital platforms extending their business reach into financial services, insurers need to adapt their business models and engage with digital ecosystems.

We believe collaboration between insurers and digital platforms can be a win-win for both. Insurers can innovate their value chain with online distribution, predictive underwriting and automatic claims management. Digital platforms can benefit from business diversification and stronger customer loyalty by offering financial service online. The key success factor for such partnerships will be to accurately identify consumer needs with respect to online risk protection solutions.

To that end, we conducted a consumer survey study to understand the digital behaviours and insurance needs of customers in Indonesia and Malaysia. This paper summarises some of the key insights from the survey. The findings shed light on how different market players can work together to deliver better digital insurance experiences to residents in these dynamic markets. As a leading global reinsurer, Swiss Re stands ready to offer customised solutions to insurers and digital platforms to help improve their capabilities in the new digital era.

We hope you find the paper illuminating.

Marianne Gilchrist
Head of Globals and L&H South Asia
Managing Director

Executive summary

The COVID-19 pandemic has accelerated digital transformation and raised awareness of the utility of insurance.

One effect of the COVID-19 pandemic has been to generate increased awareness of the utility of insurance, in particular of healthcare covers. It has also accelerated the trend of digital transformation with many more consumers moving online during lockdown to manage their every-day life needs. The digital economy is booming in southeast Asia, driven by underlying conducive factors including young demographics, industry infrastructure upgrades and government policy support. Digital platform start-ups are evolving into comprehensive digital ecosystems by extending their business reach across different industry boundaries. Some of these players have moved into the financial service sector, including insurance.

We have assessed consumer appetite for online insurance in Indonesia and Malaysia.

Given the heightened awareness of insurance and consumer behavioural changes towards online purchase in the wake of the COVID-19 outbreak, in June 2020 Swiss Re surveyed 1 200 consumers in Indonesia and Malaysia to understand their attitudes towards digital platforms and about buying insurance online. In addition, the survey tested consumer acceptance of six Life and Health (L&H) products designed specifically for digital platforms. Our survey findings indicate that L&H ownership is currently much higher in Malaysia than in Indonesia, pointing to large catch-up potential in the latter. The survey results can inform strategy for insurers as they grow their digital presence to reach more consumers, and for those online platforms moving into the insurance space.

Consumers in both countries said they would like to buy medical reimbursement and income replacement covers online.

The survey results show that many consumers in Indonesia and Malaysia are digitally savvy. They are willing to try new apps, increase usage frequency and transaction amounts over time, and also purchase insurance online. Among the different types of online insurance distribution channels, Malaysians put greater trust in traditional online forms from banks or insurer websites, while respondents in Indonesia favour new digital platforms such as e-commerce and online payment apps. In terms of what consumers would like to buy should the insurance products become available online, preferences in both countries were the same: medical reimbursement and income replacement covers.

Insurance programmes tagged to digital use cases are interesting up-and-coming propositions.

Increasing customer familiarity with digital platforms can help insurers gain more traction in selling customised policies. This is evidenced by the six hypothetical insurance products we tested, with the survey responses showing that increasing app usage frequency lifts consumers' purchase intent across the board. A carefully designed experience-based payment mode, such as embedding premiums payment into platform transactions for critical illness (CI) pay-per-use insurance raises consumer interest further, even for non-frequent app users.

Even with growing digital appetite, omni-channel distribution is required.

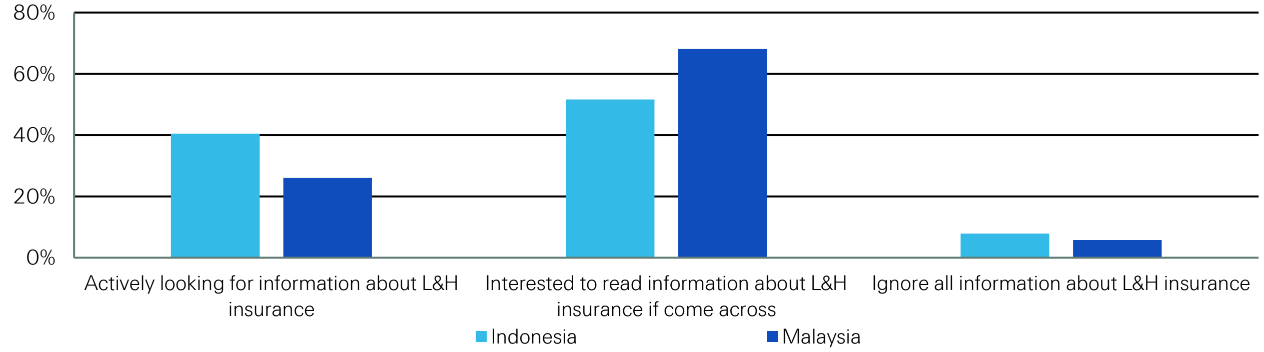
Offering insurance products digitally still has limitations. Consumers perceive offline channels (agents and brokers) as more reliable to understand policy terms. And some respondents, more in Malaysia than Indonesia, are not comfortable with sharing personal data, even in exchange for better policy terms. To this end, we recommend insurers employ an omni-channel approach, with a mix of digital and human touchpoints, to best extend their reach across different customer groups.

Insurer-digital platform partnerships brings opportunities, but challenges abound.

A collaborative relationship between insurers and digital platforms can lead to new business opportunities for both parties. Joining a digital ecosystem can impact insurers' whole value chain by adopting online distribution, predictive underwriting and automatic claims management. Digital platforms, meanwhile, can benefit by diversifying their revenue stream. By offering financial services, including insurance online as part of their overall package, they can grow customer loyalty. Both insurers and digital platforms and ecosystems, however, will need to tackle a few obstacles such as infrastructure upgrades, as well as regulatory requirements, for example on money laundering and data protection considerations.

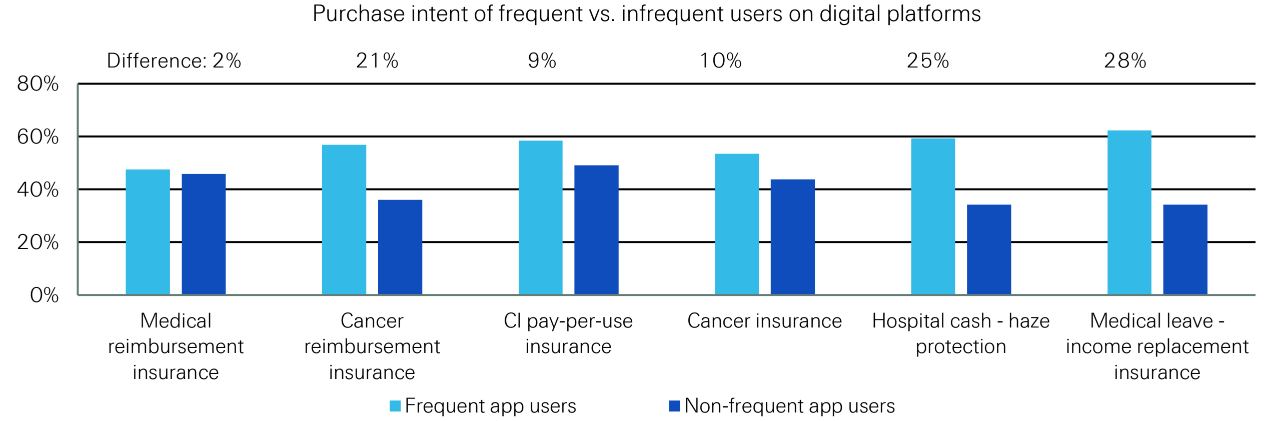
Key takeaways

Despite current low insurance penetration, consumers in our survey expressed marked interest in seeking information about L&H insurance, indicating high market growth potential.



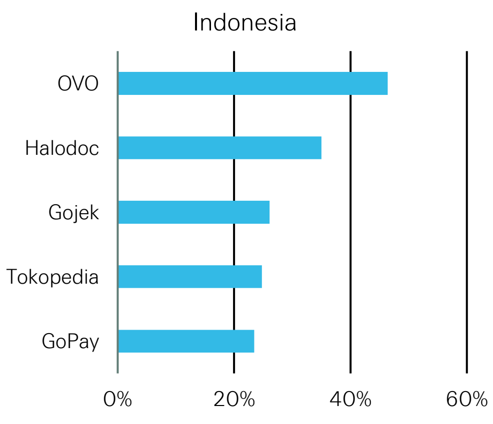
Source: Swiss Re Institute

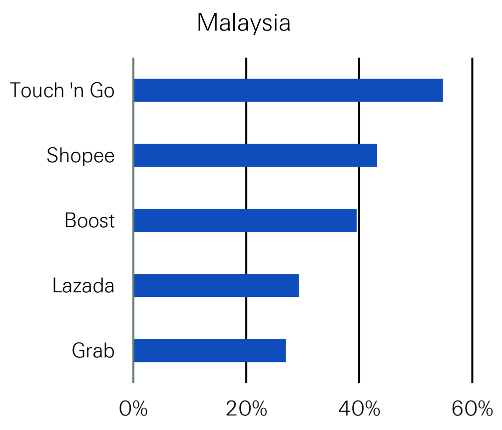
Among the six L&H product concepts tested, CI pay-per-use is the insurance that survey respondents would most likely to buy. Increasing app usage frequency lifts consumers' purchase intent for all products.



Source: Swiss Re Institute

Digital payment and e-commerce apps are the preferred platforms for insurance purchases.





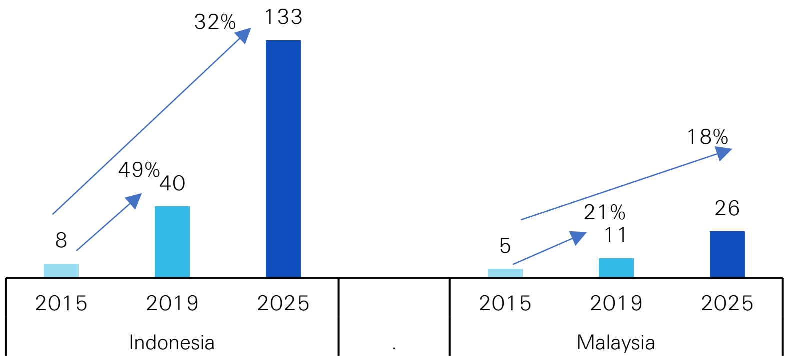
Source: Swiss Re Institute

Indonesia and Malaysia: going digital

The digital economy is growing rapidly in the ASEAN region.

Digital transformation is happening across southeast Asia, a trend accelerated this year by COVID-19 (see *COVID-19 pandemic accelerates digital transformation*). Home to more than 670 million people, the Association of Southeast Asian Nations (ASEAN) is the world's third-most populous region, with reported average annual GDP growth of 5–6% over the past two decades.[2] Within this, the outlook for the digital economy is promising, including in Indonesia and Malaysia. A recent study projects that the value of the internet economies in Indonesia and Malaysia will reach USD 133 billion and USD 26 billion, respectively, in five years,[3] accounting for 8.8% and 5.4% of our 2025 GDP growth forecasts for the two countries.

Figure 1
Market size of digital economy in Indonesia and Malaysia, gross merchandise value[1] (USD bn)



Note: Arrows denote the cumulative average growth rate (CAGR) of the market values.
Source: *e-Conomy SEA 2019*, Google, Bain and Temasek, 2019

Insurers can capitalise on the increased familiarity and appetite for digital consumption to upgrade their digital presence.

COVID-19 pandemic accelerates digital transformation
This year's COVID-19 crisis has accelerated digital transformation in ASEAN. The lockdowns imposed to contain virus spread meant more consumers went online for their daily living, medical and finance needs, turning to e-commerce platforms, online deliveries, health-tech and e-learning/distance learning services. According to the Indonesian Association of Telecommunication Providers (ASTI), digital consumption patterns have changed from user-generated content (social media) and games to tools for productivity and entertainment. The five most popular applications pre-pandemic were WhatsApp, Facebook, Twitter, YouTube and PUBG. Now Zoom, WhatsApp, TikTok, Netflix and Google Classroom top the list.

This year's lockdowns have prompted more people to go online for their daily needs.

We expect the digitalisation trend to continue and, with supportive government policy measures, to extend to previously under-served groups. This will lead to a narrowing of the digital gap between different segments of population – urban and rural, banked and unbanked, young and old. With increased usage, familiarity and positive user-experience, trust in digital will build and further underpin sector development, including in the field of insurance. The pandemic experience has increased consumer awareness of the need for risk protection, in particular for healthcare. In a Swiss Re survey in May this year, 36% and 47% of respondents in Indonesia and Malaysia, respectively, said they would prioritise health insurance post COVID-19, and 59% said they would move their purchase journey online. Insurers can leverage this sentiment to progress their digital presence, using advances in data analytics and artificial intelligence (AI) to design more innovative and customised products and distribution strategies, and also to streamline their underwriting processes and risk assessment models.

[1] Gross merchandise value (GMV) is the total sales monetary value of merchandise sold through a particular marketplace over a given period of time.
[2] Data source: Swiss Re Institute
[3] *e-Conomy SEA 2019*, Google, Bain and Temasek, 3 October 2019.

Digital developments in Indonesia and Malaysia

Indonesia and Malaysia are in the Top 10 globally in terms of consumption of digital media.

Indonesia, Malaysia and the ASEAN region overall have young demographics profiles, and a tech savvy population. A survey found that people in ASEAN spend about 8.5 hours per day consuming digital media, more than the global average of around 6–7 hours. The Philippines ranked first globally by daily usage, followed by Thailand (second). Indonesia ranks fifth and Malaysia ninth, globally.[4] Many countries have been building digital infrastructure to increase internet and mobile penetration. As Table 1 shows, Singapore leads by most criteria. Notably, however, since 2018 Indonesia has had the highest percentage of mobile connections.[5]

Table 1
Digital technology penetration indicators in ASEAN (2018)

	Internet users	Mobile connections	Active social media users	Fixed broadband subscribers (per 100)
Singapore	84% 4.8 million	150% 8.6 million	75% 4.3 million	25.76
Indonesia	50% 132.7 million	157% 416.7 million	45% 120.0 million	2.29
Malaysia	79% 25.1 million	133% 42.3 million	69% 22.0 million	8.50
Thailand	83% 57.0 million	135% 93.6 million	67% 46.0 million	11.89
Philippines	63% 67.0 million	115% 121.4 million	59% 62.0 million	3.24
Vietnam	67% 64.0 million	153% 146.5 million	52% 50.0 million	11.80

Source: Indonesia Ministry of Finance and ADB

Some leading digital platforms in ASEAN have morphed into all-inclusive online ecosystems...

Apart from spending more time on the mobile internet, many more people are also spending money online. The number of active users on e-commerce and ride hailing platforms in ASEAN has grown more than 30% annually since 2015,[6] and some platforms have morphed into all-encompassing digital ecosystems.[7] For example SEA Group, which owns the leading e-commerce platform Shopee in Indonesia and Malaysia, is developing an e-payment tool called AirPay,[8] and is moving into financial services with a view to providing insurance, credit and wealth management products. And Indonesia's Gojek has expanded from its origins as a ride-hailing app to now also offer food delivery, payments and logistics services.[9]

...and are extending to reach from mostly urban to also rural populations.

Ecosystems use data collected and technological advances to enable more tailored and personalised cross-selling of products and services, and are entering previously under-served consumer segments. The major metropolitan cities in ASEAN account for more than half of total GMV of the digital economy. In search of further growth, digital firms are now looking for growth beyond big cities. For instance, Indonesian e-Commerce giant Tokopedia has said it intends to "go rural" and has signed a memorandum of understanding with the West Java administration to develop a "digital villages" initiative.[10]

Supportive government policy

Indonesia's government actively supports the development of the digital economy.

A favourable regulatory framework is key to enabling digital transformation, and governments in the region have been proactive on this front. In Indonesia, there are two main policy frameworks for the development of the digital economy. One is the Industrial 4.0 Road Map launched in 2018, with a focus on: (1) investing in national digital infrastructure (eg, broadband, data centres and cloud services); (2) accelerating the digital transformation of domestic business, such as SMEs; (3) developing the Internet of Things; (4) improving intellectual property protection for innovation; and (5) providing financial incentives for investment.[11]

[4] *Digital vs Traditional Media Consumption*, GlobalWebIndex, 2019.
[5] *Innovate Indonesia – Unlocking Growth through Technological Transformation*, Indonesia Ministry of Finance and Asian Development Bank (ADB), March 2020.
[6] *e-Conomy SEA 2019*, op cit.
[7] Digital platforms connect parties for social or economic exchange in a virtual manner. Digital ecosystems are "an interdependent group of enterprises, people and/or things that share standardised digital platforms for a mutually-beneficial purpose such as commercial gain, innovation or common interest", *Digital Business Ecosystems & The Platform Economy*, Gartner, 2018.
[8] See https://www.seagroup.com/products/seamoney
[9] See https://www.gojek.com/about/
[10] *Non-metro areas in South-east Asia to drive the next phase of Internet economy growth*, The Business Times, 7 October 2019.
[11] *Making Indonesia 4.0*, Indonesia Ministry of Industry, July 2018

Responsibility for implementation lies with multiple government agencies, including the Ministry of Industry and the financial authority (OJK). The second framework is the e-commerce road map issued in 2017, to accelerate the growth of e-commerce through tax incentives, improved consumer protection and a national digital payments system.[12] An associated fintech road map developed by the OJK contains security and risk management related to the digital payment systems, including cybersecurity. And regulations on e-money, as part of the financial access acceleration programme led by the central bank, are intended to improve financial inclusion for those who do not have a bank account.

The Malaysian government is supporting digital start-ups and entrepreneurs.

In Malaysia, the government created the Digital Free Trade Zone (DFTZ) and digital ID to encourage and support start-ups and entrepreneurs.[13] The Malaysia Tech Entrepreneur Program, launched in 2017, aims to attract local and foreign start-ups and provide them with a platform for professional online training and education.[14] There is also a public-private initiative to attract Malaysia's younger generations to the digital market. The National Internet of Things Strategic Road Map and the National Big Data Analytics Innovation Network are two major strands.[15] And for this year, the government has specific installation goals for digital infrastructure, such as 95% broadband coverage with a speed of 100 Mbps for urban populations, and 50% cover with 20 Mbps speed for rural areas.[16]

Regional digital integration will unlock economies of scale and network effects.

In line with the *AEC Blueprint 2025*, last year all ASEAN members enacted the *Digital Integration Framework* to facilitate better exchange of digital trade and digital payments.[17] Such collaboration at regional level will further unlock the potential of the digital economy through scale and external network effects.[18] All these developments should support faster growth of the digital insurance also. For example, digital ID facilitates a single source of customer identification, and with a national digital payments system, the whole insurance purchase experience will be more simplified online than offline.

Collaborations between digital platforms and insurers

Together insurers and digital platforms can generate synergies.

Many digital ecosystems began as simple marketplaces, but some have grown to embrace cross-sector product and services offerings, including insurance.[19] In recent years, traditional insurers have invested in and partnered with digital platforms across the industry value chain. Over the past two decades, about one-third of start-up financing by insurers globally has been in the health sector, followed by finance, commerce, mobility, housing and education.[20] At the same time, ecosystems have moved into insurance, using their data analytics expertise and many touchpoints to engage with broad range of consumers. The following are some examples of collaboration between insurers and digital platforms in Indonesia and Malaysia.

- **Health platforms:** As Indonesia's leading healthcare services app, Halodoc connects patients with more than 22 000 general practitioners and medical specialists, and more than 1 200 pharmacies nationwide.[21] Recently it has partnered with Prudential's digital platform Pulse to offer telemedicine services to the insurers' customers.[22] In Malaysia, Prudential Pulse has partnered with DoctorOnCall (an online consultation) and AIME (a dengue outbreak predictor) to enhance its AI-enabled diagnostic capability.[23]

- **Ride hailing:** Grab, the largest ride-hailing company in southeast Asia, has developed regional partnerships with MasterCard, Chubb, Zhong An and

[12] *Indonesian e-commerce roadmap to guide segment's development*, Oxford Business Group.
[13] See https://mdec.my/digital-economy-initiatives/for-the-industry/entrepreneurs/dftz/
[14] See https://mdec.my/digital-economy-initiatives/for-the-industry/entrepreneurs/mtep/
[15] See *National IoT Strategic Roadmap Book*, MIMOS Berhad Malaysia, and "MDeC launches National Big Data Analytics Innovation Network", *The Star*, 29 January 2015.
[16] *Foreign Direct Investment and the Digital Economy in ASEAN"*, UNCTAD 2018.
[17] *ASEAN Digital Integration Framework*, Association of South East Asian Nations.
[18] When a network effect is present, the value of a product or service increases according to the number of others using it.
[19] *Digital ecosystems: extending the boundaries of value creation in insurance*, Swiss Re Institute, 2019
[20] *Ecosystems and platforms: How insurers can turn vision into reality*, McKinsey, 2020
[21] "Indonesia's Halodoc aims to simplify access to healthcare", *Digital News Asia*, 29 August 2018.
[22] *Prudential Enters into Strategic Partnership with Halodoc to Expand Healthcare Access in Indonesia*, Press release, 1 August 2019.
[23] *Revolutionising the future of healthcare with Pulse by Prudential*, News release, 8 August 2019.

Credit Saison to expand its financial service offering.[24] In Malaysia, it has started selling insurance for individual events like per- trip liability or missed flights, as well as critical illness (CI) coverage via way of premium deductions from every transaction consumers make. Recently, Gojek in Indonesia rolled out its online insurance offering called GoSure, a partnership with local insurtech company PasarPolis. The offerings include travel, motor and mobile device insurance.[25]

- **Lifestyle:** Shopee and Lazada, the leading e-commerce platforms in Indonesia and Malaysia respectively, have become lifestyle platforms. By owning the consumer touchpoints and applying AI, these platforms are selling many on-demand services to mobile users. Recently, they began to embed insurance products like travel, theft and damage covers in their offering, and plan to offer other P&C and L&H covers.[26]

Figure 2
Examples of digital ecosystems taking shape in ASEAN

Note: Many popular digital platforms in Malaysia are operated by companies headquartered in Singapore. *SEA group went public in 2017, **Lazada was acquired by Alibaba in 2016, ***Bigo was acquired by YY in 2019.

Source: CB Insights, Swiss Re Institute

Digital payments systems will be a key facilitator for the digital economy in ASEAN.

All told, digital financial services, including insurance, are still in a nascent stage of development across ASEAN. There is growth momentum and a key factor will be the establishment of digital payment systems, to facilitate execution of many forms of financial transaction. Digital payment systems can also be used to reach persons who previously had no access to traditional financial services. Of the nearly 400 million adults in ASEAN, only 26% are "fully banked", 25% are "underbanked" (own a bank account but insufficient access to credit, investment and insurance) and the remaining 49% are "unbanked" (do not have a bank account).[27] In Malaysia, the unbanked ratio is substantially lower (8% in 2018) and the central bank expects this to fall further to 5% by 2020 on account of innovative solutions helping the unbanked to also directly transact online.[28]

[24] "Grab announces US$850M+ investment from MUFG, TIS to boost fintech expansion", ApExcel Solutions, 25 February 2020.
[25] "Indonesia's Gojek, PasarPolis Launch Online Insurance Service GoSure",*Asia Tech Daily*,5 Feb 2020.
[26] "AIG Malaysia selling insurance on Lazada", *Inside Retail Asia edition*, 25 August 2017.
[27] Source: World Bank.
[28] *Measuring Financial Inclusion in Malaysia: Unlocking Shared Benefits For All Through Inclusive Finance*, Bank Negara Malaysia, 2018.

Digital consumer survey – key findings

Our survey investigates consumer attitudes to online insurance.

Digital transformation is an opportunity for the insurance sector. In the first half of 2020, Swiss Re conducted consumer surveys covering 1200 respondents aged 18–65 years in major cities in both Indonesia and Malaysia, to study attitudes towards digital applications and online insurance. The surveys also investigated consumer receptiveness to six hypothetical online L&H products.[29, 30] The survey findings can inform strategy and product design as insurers in Indonesia, Malaysia and other ASEAN markets seek to expand and broaden their reach by leveraging the rapidly developing digital platforms and ecosystem sector.

E-commerce and digital payment platforms are popular in Indonesia and Malaysia…

Digital penetration

According to the survey findings, e-commerce and digital payment systems have higher penetration in Indonesia and Malaysia than other platforms. More than 90% of respondents in both countries indicate that they have used such platforms at least once during the past three months, higher usage incidence than for health-tracking and connected commute (ride-hailing) apps (see Figure 3, LHS). Among users, 40–50% use these platforms more than once per week, transacting on average USD 79 (in Indonesia) and USD 114 (Malaysia) per month. Average transaction amounts on e-commerce and digital payment platforms are 2 to 3 times that of health-tracking and connected commute apps.

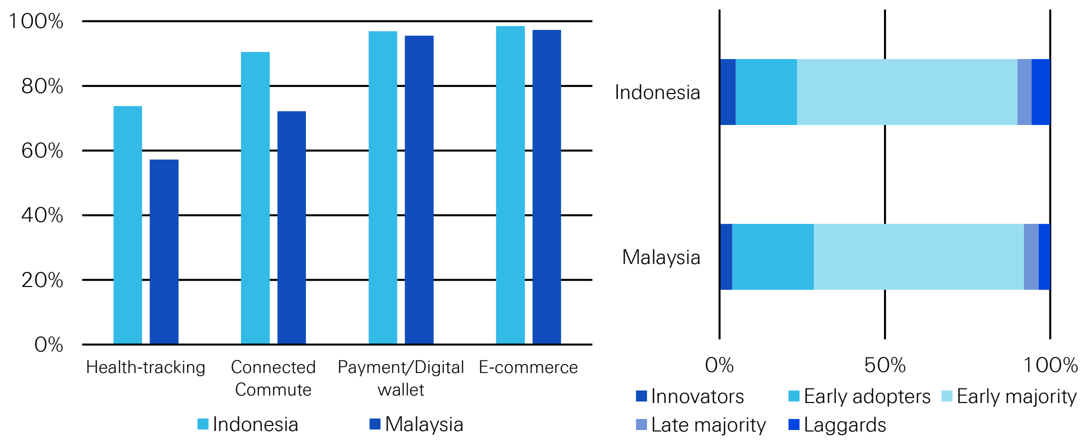
… even among older-age groups.

Through more detailed analysis of the survey sample, we find that there are also signs of increasing digital penetration among older age groups and less developed areas. For instance, the highest spenders in Indonesia come from the older-age group of 51–65, and in Malaysia from 36–50 years. This is likely in part driven by higher incomes among the older age groups.

Consumers are also willing to try new digital applications.

Figure 3 (RHS) provides an indication of the level of digital savviness in Indonesia and Malaysia. Most (64–67%) survey respondents express the intention to adopt a new app, once they understand its usefulness ("early majority"). At one end of the spectrum, more than 20% respondents show strong interest to be innovators or early adopters of new technology, when they either try or like to experiment with a new app. At the other end, less than 10% say they need others' help with new apps (the "late majority") or will adopt a new app only when forced to ("laggards"). These findings point to the still-large potential to reach consumers online.

Figure 3
Digital platform usage incidence (at least once in previous three months, LHS), and new app savviness (RHS)



Source: Swiss Re Institute

[29] For more detailed description of the survey design, please refer to Appendix of this report.
[30] We have also conducted a similar survey in India, See *Going digital: Insights to optimise consumer appetite for online insurance in India*, Swiss Re Institute, November 2020.

Some digital platforms are market leaders.

Based on consumer usage incidence in the previous three months, our survey shows that some high-profile apps such as Grab and Shopee hold dominant positions in both countries. The market structure for health apps is dispersed, and there are many players in the digital payments domain (see Table 2).

Table 2
Popular digital platforms (usage incidence in previous three months)

	Health-tracking apps	Connected commute platforms	Payment/ digital wallet apps	E-commerce apps/ websites
Indonesia	• Halodoc (56%) • Xiaomi (17%) • Apple Health (8%) • Pesanlab (5%)	• Gojek (71%) • Grab (68%)	• OVO (75%) • GoPay (62%) • DANA (43%) • LinkAja (22%)	• Shopee (76%) • Tokopedia (63%) • Lazada (40%) • Bukalapak (32%)
Malaysia	• Xiaomi (22%) • Fitbit (14%) • Apple Health (13%) • DoctorOnCall (12%)	• Grab (69%)	• Touch 'n Go (75%) • Boost (55%) • GrabPay (41%)	• Shopee (89%) • Lazada (72%)

Note: Numbers in brackets denote the share of respondents indicating they have used these platforms at least once during the past 3 months.
Source: Swiss Re Institute

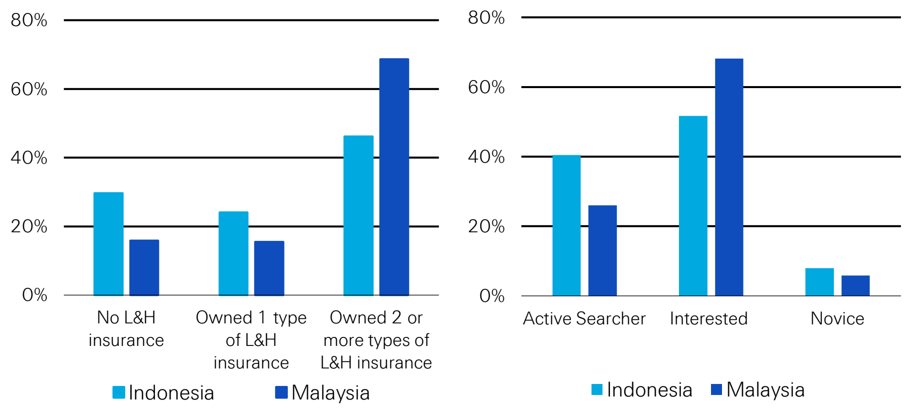
L&H insurance ownership is higher in Malaysia than Indonesia…

Purchasing insurance online
With respect to purchasing L&H insurance online, our survey first investigated existing ownership. Among the Indonesian respondents (see Figure 4, LHS), 30% said they do not own any type of L&H cover. The ownership rate is much higher in Malaysia, with 69% of respondents saying they own more than two types of L&H cover. This is largely in line with observations from other survey-based studies conducted by Swiss Re Institute.[31]

…and market potential in Indonesia is large.

The lower ownership rate in Indonesia means higher catch-up potential, and survey respondents there declare stronger intention to learn about insurance products. Forty percent of respondents say they actively look for information about insurance. In Malaysia, 68% respondents say they are interested to learn more about insurance but do not actively look for additional information. Very few people reject the idea of getting insurance coverage in both countries (see Figure 4, RHS).

Figure 4
L&H Insurance ownership (LHS), and stage of information search (RHS) in Indonesia and Malaysia



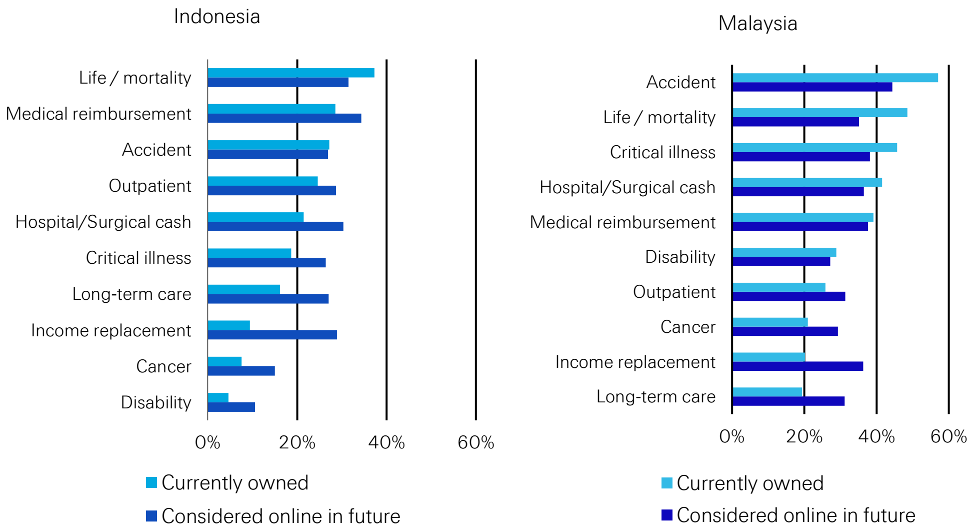
Source: Swiss Re Institute

Medical reimbursement and income replacement covers are most preferred in both markets.

In terms of L&H insurance type owned, the current most-popular products differ in the two countries. In Indonesia life, medical reimbursement and accident insurance are the top three choices. In Malaysia, accident, life and CI top the list (see Figure 5). In terms of what consumers would like to buy online should the insurance products become available digitally in the future, here the responses in both countries reveal similar preferences: medical reimbursement and income replacement covers.[32]

[31] See for example "Closing Asia's mortality protection gap", Swiss Re Institute, July 2020.
[32] In addition, accident insurance is quite popular in Malaysia, but not so preferred in Indonesia.

Figure 5
Insurance ownership: current vs. preferred online in the future

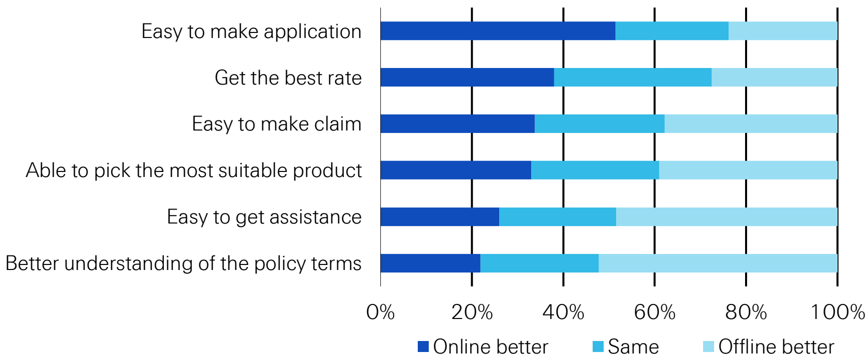


Source: Swiss Re Institute

There are signs more consumers would be willing to move online for their insurance needs.

According to our survey, more than two-thirds of consumers in both Indonesia and Malaysia purchase insurance through traditional offline channels.[33] For example within this, in Malaysia, 64% of consumers buy from agents and brokers. However, 76% of respondents in Indonesia and 67% in Malaysia did express interest in using online channels more. Figure 6 shows responses as to the perceived pros and cons of different distribution channels. Notably, online channels are generally seen as the easiest route to making an application for insurance cover, and also for offering the best rates/prices. Traditional offline channels are still valued for access to assistance and as a means to gain better understanding of policy terms.

Figure 6
Perceived pros and cons of online vs offline channels, averages for Indonesia and Malaysia[34]



Source: Swiss Re Institute

Of six hypothetical online insurance products…

Testing consumer appetite for digital L&H insurance products
To gauge consumer interest in insurance offered through different digital channels, we tested six hypothetical L&H products, some of which are not yet available in the respective markets. We also collected feedback on a number of embedded product features and the six products' overall market success potential. The estimates for premiums and sum assured are tailored according to respondent age and gender. This is to extract comparable results for better understanding of the products' attractiveness. These six hypothetical L&H insurance products were:

- **Medical reimbursement insurance,** providing reimbursement for medical expenses. Policies are available for purchase on apps and online platforms, and are issued after payment.

[33] Traditional offline channels include agents and brokers, banks' or insurers' branch, and banks' or insurer's hotline or telephone sales.
[34] Numbers presented in this figure are sample averages for Indonesia and Malaysia, as the survey statistics are similar for both markets.

- **Cancer reimbursement insurance** to cover cancer-related medical expenses, also available for purchase on apps.
- **Critical illness (CI) pay-per-use insurance,** providing a lump sum benefit in the event of serious illnesses such as cancer, heart attack or stroke. Premiums are auto-deducted with every transaction the customer makes on the app.
- **Cancer insurance** that pays a lump sum upon cancer diagnosis and is available for purchase on apps.
- **Hospital cash-haze protection,** that pays a lump sum if a consumer is hospitalized for a listed respiratory diseases within 30 days of when the local air pollution index (API) reaches "very unhealthy" level. The insurance is sold through apps.
- **Medical leave – income replacement insurance** that pays a daily amount if the customer is on prolonged medical or hospitalisation leave. The cover is available on apps after answering one health-related question.

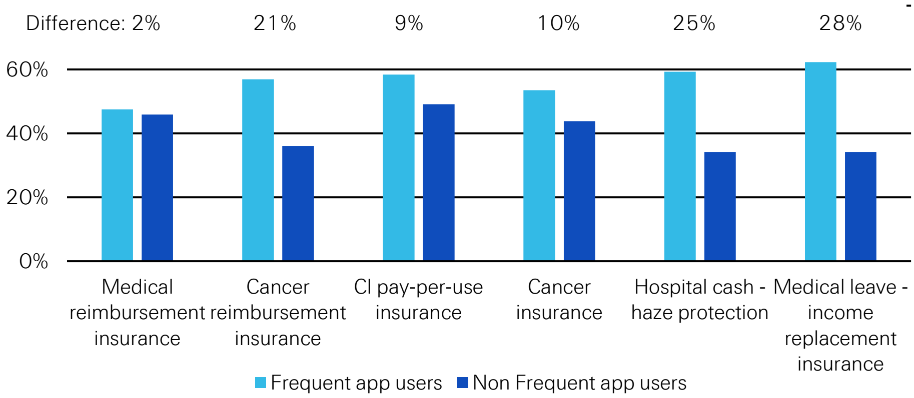
...CI pay-per-use insurance was the most preferred.

Of the sample products, our survey results indicate that CI pay-per-use insurance has the highest chance of success for digital distribution in both Indonesia and Malaysia. This is in part due to its micro-transaction structure, making the product seem cheaper. Cancer reimbursement is preferred over cancer insurance, which is perceived to be difficult to understand, especially in Malaysia. Hospital cash insurance is also popular in Indonesia, likely reflecting the country's haze problems.

Digital savviness increases the possibility of online purchase.

There is no discernible pattern on product preference based on demographic segmentation such as age, gender, income level and location. However, we did note a consistent trend in both markets linking consumers' digital savviness with their online insurance purchase intent. Specifically, frequent usage[35] of digital platforms can increase the possibility of online insurance purchase by 2% to 28%, averaged across the two markets (see Figure 7). Similar results can be found within the digital innovator or early adopter survey groups, and among consumers who used to or plan to buy insurance online. This affirms the importance of identifying the pool of most active users of platforms. Insurers can capitalise from these pools as these are the customers most likely to purchase insurance online.

Figure 7
Insurance purchase intent of frequent vs. infrequent digital users: averages for Indonesia and Malaysia



Source: Swiss Re Institute

[35] Frequent users defined as those who use any type of digital platform more than once per week.

Consumer preferences around product features are mixed…

There are mixed results around the attractiveness of different embedded product features. Specifically, different views were reported on preferences for the following parameters:

- Mode of premiums payment: Consumers in Malaysia prefer paying an annual premium. In Indonesia, there is no strong preference for annual vs. daily. However, for the CI pay-per-use product, Indonesian consumers prefer a fixed premium for every transaction on apps, while Malaysian consumers do not have a distinct preference between fixed and varied premiums.

- Health assessment: While 44% of Indonesian respondents do not mind taking a medical examination for policy vetting, about half of Malaysian respondents prefer to answer one to three simple health questions on apps.[36]

- Coverage limit: There are also mixed responses on coverage (lower, medium or higher coverage) amounts across different product types in Indonesia and Malaysia.

…but there is general preference for longer coverage periods and lower premiums.

There are two conditions that survey respondents from both markets are in agreement on. First, consumers usually prefer an insurance plan with a longer coverage period. Second, they prefer a lower premium plan that comes with deductibles, especially in Malaysia. These findings highlight the need for customised product design rather than a one-size-to-fit-all approach.

Online insurance purchases can increase customer loyalty.

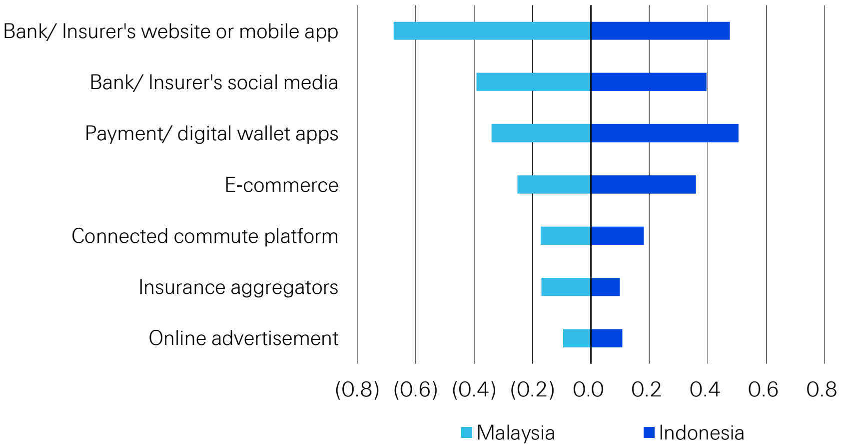
Importantly, offering insurance online can boost consumers' positive perception towards digital platforms. On average, more than 80% of respondents in the two markets think apps or websites are innovative and would be helpful if the above-mentioned hypothetical insurance products were available online. Some 72% said they want to use apps/websites more often. This points to the potential to increase customer stickiness with the development of comprehensive digital ecosystems.

Insurance aggregator sites are not popular.

Credibility of different digital channels

We further explored which type of online digital platforms/channels consumers trust most. As Figure 8 shows, respondents in Indonesia are more open to accept digital payment and e-commerce applications for insurance purchases, while Malaysians prefer traditional bank/insurer's website or mobile apps. In both countries, insurance aggregators are not popular with consumers.

Figure 8
Credibility of different online channels



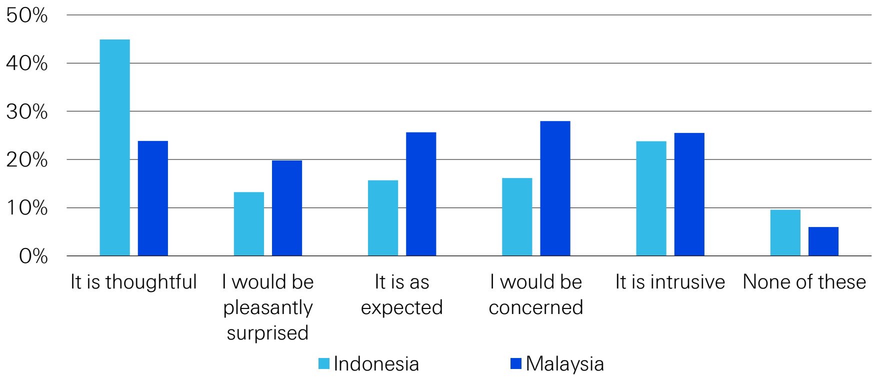
Source: Swiss Re Institute

[36] However, there's no preference between answering one or three health questions, indicating three questions are simplified enough for consumers.

There are mixed views on data sharing across the two markets.

Additionally, many consumers are open to sharing personal data on digital platforms, more so in Indonesia. When asked how they felt about insurers using their personal data to provide customised products (see Figure 9), 45% in the survey respondents in Indonesia think this could be beneficial. Even so, still more than 20% of respondents in both countries see this as intrusive. In terms of types of personal data, consumers are more willing to share details of their age and occupation, followed by information on exercise and location. They are less willing to disclose details of their travel plans/history and on-app purchase history unconditionally. With more incentives, around one-fifth would be willing to share more data, including on travel plans/history and on-app purchase history. Such willingness is more prominent among males and younger-age groups.

Figure 9
Consumer attitudes towards products customised with personal data.

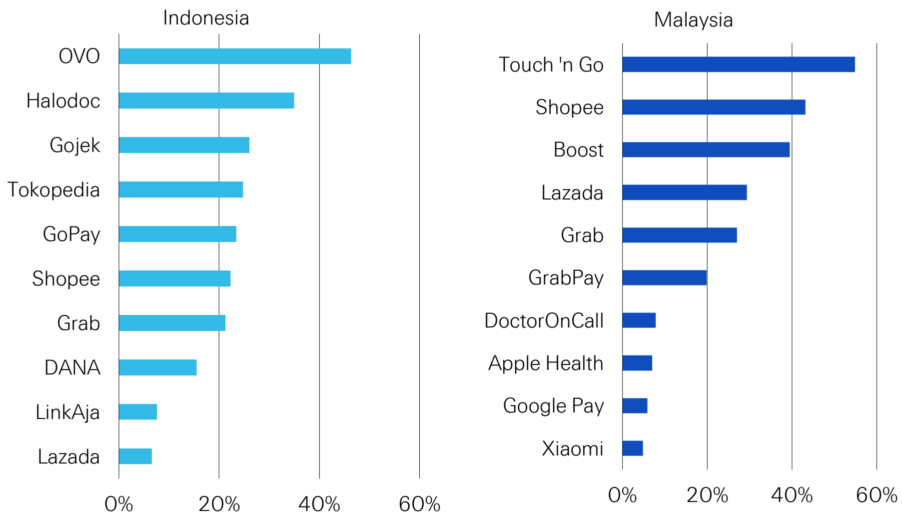


Source: Swiss Re Institute

Certain online apps are preferred for insurance purchases.

Top preferred apps for insurance purchase
We also investigated preferred platforms. Digital payment and e-commerce apps such as OVO and Tokopedia in Indonesia and Touch ’n Go and Shopee in Malaysia, are most preferred by those wanting to buy insurance online (see Figure 10). The respondents mentioned other brands also, like Halodoc and DoctorOnCall in health, and Gojek and Grab in connected commute services, even though some of these do not yet offer the hypothetical insurance products presented in our survey. These are important insights for insurers planning to leverage digital platforms and ecosystems to extend and widen their market reach.

Figure 10
Preference of apps when buying insurance



Source: Swiss Re Institute

Recommendations for insurers

Based on our survey findings, we see three key takeaways that insurers in Indonesia and Malaysia can use to inform and grow their digital outreach:

- **Digital wallet and e-commerce apps are suitable for online distribution.** Currently, agents as well as family and friends remain the primary channels for Malaysian and Indonesians to get information about insurance. But in our survey, we have already seen some attitude shift to e-wallet platforms for obtaining information, especially in Indonesia. Also, while Malaysian consumers still trust the traditional online forms such as bank and insurer's websites and apps as their preferred purchase channel, digital wallet and e-commerce apps are gaining more traction in both markets. This is as a result of their higher penetration, higher usage frequency and higher spending compared with other digital channels such as health app, thus creating more trust and transaction familiarity among users.

- **Critical illness and medical insurance are suitable for digital purchase.** In terms of future purchase, online medical reimbursement insurance is much favoured by respondents in both markets. This likely reflects the rising awareness about health protection as a result of the COVID-19 pandemic. Among the six conceptual products tested, CI pay-per-use insurance is also highly preferred. Its experience-based payment design, by embedding premiums payment into platform transactions, seems to suit consumers' need and contribute to its wide popularity across different customer segments.

- **Offline support lines are needed.** Despite the various advantages of online channels, survey respondents also express preference for access to offline channels when seeking assistance on understanding policy terms and coverage. This holds true for both Indonesia and Malaysia. To this end, an omni-channel proposition with mix of digital and human touchpoints, is needed to maximise the effect to deliver consistent experience and synchronized data across channels.

Digital insurance: progressing the new normal

Digital technology and advances in data analytics can revamp the insurance value chain.

Our survey findings suggest that many consumers in Indonesia and Malaysia are ready to go more digital, including for their insurance needs. This likely reflects the increasing awareness of the utility of risk protection, particularly healthcare covers, in the wake of COVID-19. This is something insurers in both countries and ASEAN can capitalize on. Combining their risk assessment capabilities with the customer segmentation expertise of digital players, insurers can better target and reach consumers with personalised covers through multiple touchpoints. With AI, data analytics and cloud computing, they can reduce their operational costs.

Opportunities for insurers...

Insurers can pass associated cost efficiencies on to customers.

Engaging with the digital economy goes beyond new distribution channels. Riding the wave of heightened consumer expectations, new possibilities through new technologies, and supportive regulatory frameworks, insurers have an opportunity to revamp their entire value chain from product design, underwriting, distribution, and claims and after-sales management by partnering and working with digital platforms and ecosystems. Notably, efficient ecosystems can reduce the frictional cost in transactions, a benefit that insurers can pass on to consumers.[37]

AI-enabled digital platforms can promote product innovation...

With data analytics and machine intelligence, insurers can improve product development capability through better customer segmentation and non-price differentiation. As our survey results show, consumer preferences on different product features are affected by multiple factors, meaning that insurers can consider innovative products beyond traditional offerings, such as incident-specific or usage-based coverage solutions. Increased usage, and thereby familiarity and acceptance of digital platforms leads to more consumer "stickiness", certainly when the user experience is positive. However, consumers remain conscious of value-for-money. The survey findings highlight the cost-sensitive nature of online consumers and help explain why, to date, online sales of insurance have been mostly limited to small-ticket products. In building their digital presence, insurers should consider starting with smaller cover policies to gain more consumer trust before scaling up to products with larger premiums and longer duration.

...enhance risk identification and underwriting efficiency and expedite claims handling.

The technology embedded in digital platforms can help insurers deepen their underwriting knowledge in terms of risk identification, mitigation and transfer (see *Data-driven underwriting*). Traditional underwriting models rely on risk assessment at the point of customer entry. With expanded data sources, insurers can now monitor policy holders' lifestyles and risk profiles continuously, for example through e-commerce purchase history and travel on connected-commute vehicles. Even more directly, they can monitor health status through wearable connected devices. With automated services using AI, policy and claims management should become more efficient, and likewise fraud detection. With the wide application of sensors and machine learning algorithms, insurers can analyse in real time simple claims linked directly to road conditions (motor insurance) or policyholder health status (health insurance), and make accurate onsite payments. Such quick turnaround time of claims will improve customer experience and help further bridge the consumer perception gap about the convenience of online vs. offline channels.

Data-driven underwriting

Data-driven underwriting can help insurers meet specific objectives. Solutions are available on a modular, standalone or stacked basis. An example is Swiss Re's "The Big Six Lifestyle Factors" tool, which incorporates assessment of physical activity, sleep, mental well-being, nutrition, substance use and environment into underwriting.[38] This enables insurers to move beyond clinical factors and incorporate lifestyle factors into L&H risk assessment and management. Swiss Re

[37] *Digital ecosystems: extending the boundaries of value creation in insurance*, Swiss Re Institute, 2019.

[38] See https://www.swissre.com/reinsurance/life-and-health/solutions/the-big-six-lifestyle-factors.html

can process an insurer's data set, using AI-driven predictive models in underwriting and simplify the consumer journey.[39] If still in the data accumulation phase, Swiss Re can support insurers with evidence-based research and data proxies in underwriting. These solutions can all be integrated in Swiss Re's Magnum tool, a suite of underwriting engines that use human and artificial intelligence, and machine learning to analyse existing and new data for expert risk assessment.

...and challenges

Insurers needs to upgrade their IT infrastructure.

Despite digital ecosystems growing rapidly, studies have found insurers falling short relative to other sectors in creating a positive online experience for consumers.[40] There has been some progress in recent years, but insurers still face a few challenges to further advance their digital transformation. First, they face complications in integrating legacy systems into digital platforms. To optimise digital efficiency and deliver easy process to consumers, agents and also employees, insurers need to upgrade their IT infrastructure and operational model. A bottom-up system upgrade can be very costly, however, and an alternative approach can be to enable a quick "plug and play" delivery model.

A mixture of online and offline distribution channels will reap best results.

The traditional agency driven model remains the main revenue stream for insurers, and resources diverted for innovation in other distribution modes can be perceived as a threat by other channel partners. However, specifically-designed digital products address a very different customer segment and can help resolve conflicts. In addition, insurers have also invested in digitising their sales force through either agents or bancassurance, a popular channel in ASEAN. A multi-channel approach is required to deliver consistent experience across channels.

Insurers need to manage data regulations.

Lastly, regulators are putting more emphasis on ethical use of data and have enacted more regulation on scrutiny of data sharing. At the same time, consumers are considering the trade-off between data privacy and better products/services. The initial intention for insurers to embark on big data is to improve their pricing model against adverse selection and moral hazard, but an excessive use of private data may potentially jeopardize their reputation in terms of fair dealing. Our survey results also suggest that while some customers are willing to share more personal data for better contract terms and customised products, others are less so. A carefully designed process needs to balance consumer expectations and technological advances in a system of disclosure, feedback and rewards.

Implications for digital platforms

Digital platforms can benefit by offering financial services online...

The financial services sector is a business diversification opportunity for digital platforms. According to our survey, many consumers perceive platforms to be innovative and would make more use of them if our hypothetical insurance products were available online. A service that offers consumers seamless user experience, lower fees and better rewards (eg, premiums discounts) will be well-appreciated. And for unbanked and under-served groups with limited access to traditional financial service forms, technology can bring down the costs to serve and bridge the gap in data availability.

...but will have to adhere to regulation requirements.

The challenges that digital platforms face in the insurance space include that the financial service industry is highly regulated, with stringent requirements on transparency and anti-money laundering (AML) disclosure, among others. Second, they must have robust cybersecurity measures to safeguard consumer data and the integrity of their platforms. Lastly, to be able to offer insurance, digital platforms need to acquire specialist underwriting and actuarial talent.

[39] Underwriting using data proxy will give insurers information about consumers without the need to ask specific questions. Traditionally, insurers would ask 20 or more questions about lifestyles, habits and diseases. With data, they can use proxy and reduce this to only three to five questions, for example.
[40] *Customer behavior and loyalty in insurance: global edition*, Bain, 2017 & 2018.

Conclusion

Consumer demands call for insurers to go more digital.

Insurance penetration is still low in Indonesia and Malaysia compared to advanced markets. Beyond the traditional bancassurance and agents´ distribution channels, digital transformation has opened a new means for insurers and digital platforms to extend the reach of insurance across different customer groups. Digitalisation has nurtured a group of tech-savvy consumers who value personalisation and good user experience. Our survey results also show that insurance customers value integrated and customised products with a simplified purchase journey.

E-payment and e-commerce are the preferred digital platforms…

Partnership can be beneficial for both insurers and digital platforms. Combining the risk assessment capability of insurers with platforms´ valuable data analytics and customer segmentation expertise, such partnerships can drive more efficient pricing and distribution in insurance. Our survey findings show that insurance combined with e-payment and e-commerce applications stands a higher chance of success in Indonesia and Malaysia, given their higher penetration and usage frequency.

…but a multi-channel distribution approach is still necessary.

That said our survey shows also that the progression of online insurance faces challenges. For instance, many consumers still prefer offline channels as a means to better understand policy terms. Moreover, some respondents have concerns about sharing personal data, even if to do so yields better terms. We believe digital channels will not fully cannibalise traditional distribution channels. Rather, an omni-channel approach with mix of digital and physical touchpoints will best complement each other through cross and up-selling opportunities. Successful partnership between insurers and digital platforms can also reach previously under-served populations. With the proliferation of digital payment ecosystems taking root innovators can offer a range of financial services to this sub-group, thereby making finance more inclusive and narrowing existing protection gaps.

Appendix

Survey objectives

Swiss Re designed six life & health insurance product concepts exclusively for digital channels. The purpose of this survey was to:

- Evaluate consumers' acceptance of each product concept in Indonesia and Malaysia;
- Understand consumption habits of insurance in each market;
- Evaluate the acceptance of purchasing insurance products through digital channels.

Study design

Consumer responses were collected through an online survey during June 2020. The total interview length was approximately 20 minutes and the sample size was 600 for each market. The survey covered online respondents in major cities in Indonesia (eg. 50% in Jakarta) and Malaysia (eg. 27% in Kuala Lumpur), with a representative sample distribution that is consistent with national demographic profile in terms of age, gender, household income level and family structure. Each respondent evaluated two product concepts, and each concept was evaluated by 200 respondents with similar profile (quota on age and gender).

Target respondents

- Individuals aged 18–65
- Household decision-makers
- Used any of the following apps in past 3 months -
  i. Health-tracking apps
  ii. Connected commute platform
  iii. Payment/ digital wallet apps
  iv. E-commerce apps/ websites

Caveat

The survey was conducted online and hence provides information of the online population of each market. Results should be considered as representatives of the target population for digital insurance products. Results may not be representative of the population of each market as a whole. For example, the reported insurance ownership rate in our survey could be higher than national averages due to our sampling approach, where online participants tend to be better educated and more financially literate, and are more likely to seek insurance protection.

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