Unleashing a wealth of new opportunities  
Insurance in China’s digital age

Time for a change

In many respects, China is an insurer’s dreamland with a rise of wealth industry to a $1.3 trillion business as of March 2013.

With the urbanization rate set to reach 51.5% by 2015, China will host 805 million urban residents by 2017. As living standards continue to improve for both rural and urban residents (annual average increase of 7% of the GDP per capita), the country is simultaneously undergoing demographic and generational shifts. 178 million people were aged 60 or above, representing about 13% of the total population of China in 2010. This number is anticipated to double by 2030, which will turn China into the world’s most aging society and put an increasing pressure on individuals to provide for their future, while ensuring the health of the working population.

To support these socio-economic shifts, the Chinese government is also planning to build new-generation information infrastructures, including a state-of-the-art mobile communication network. For a population that already has the highest rate of internet access over mobile devices globally, this will only serve to strengthen China as the most mobile – and digitally – centric populous in the world, with over 420 million mobile internet users by the end of 2012, according to the China Internet Network Information Center.

These changes are fundamentally disrupting “traditional” insurance business models. Investors expect insurers to respond and capture the next 100 millions of insured Chinese, but this requires organisations to take a different approach to the past, and simplicity is the key.

The Chinese market

Meanwhile, China remains a relatively immature private insurance market. In fact, insurance as a matter of social welfare so far remained a public preserve. Despite a compound annual growth exceeding 25% since 1996, Life and Property & Casualty foreign insurance companies only get 4.3% and 1.2% market share respectively, according to a 2012 PwC survey. This unsaturated environment bodes well to agency focused distribution channel that represents over 230 million agents in China.
300 million social networking users in China today are actively sharing their brand preferences, life stage events, and likes and dislikes of the companies they use. Harnessing the power of this information, matching it with other customer data, and leveraging the insight provide the ultimate networking and recruitment tool for agents and insurers.

**The digital age**

The next wave of change brought about by this shift in consumer attitude and empowerment through digital technologies means that insurers need to move from being the “fast-followers” to become leading digital service innovators.

Digital tools, if leveraged properly, offer the possibility to generate higher quality leads, manage the customer relationship on a more personal level to increase loyalty and reduce churn, and deliver better and more efficient claims experience – all at a lower cost per lead / contract / claim than today.

To grow revenue and gain market shares in this competitive environment, digital will play an important role in the creation of new value propositions which acknowledge the evolution of Chinese customers’ expectations. How to connect, what to say and when to say it: digital will modify the entire “traditional” insurance customer journey, making it leaner and more dynamic.

The insurer that embraces this better, smarter, faster way of doing business recognises that digital: is not a source of conflict between agent and direct but instead is an opportunity; delivers on-going financial performance at a lower cost than today; and sets the business as more agile and capable of responding to the shifting economics and consumer attitudes that China presents in its digital age.

**The push for change**

The risk appetite of investors seems to have diminished since the Global Financial Crisis of 2008. The shift towards lower volatility products encourages the development of numerous bank-insurance partnerships across the region, especially in China. The change in investors’ risk appetite, combined with a large and commission-driven agency workforce is leading to miss-selling practices that raise concerns for the regulators.

Although the insurance industry remains fairly self-regulated, the Chinese government is progressively increasing the pressure to align selling practices to customers’ needs and financial capacity. The objective of this regulatory push for change is to ensure that insurers have a thorough understanding of their customers.

This can be achieved by refining customer segmentations, and developing consistent customer value propositions that appreciate the “how”, the “when”, and the “if” to get connected to them. The same approach that delivers the digital insurance approach to capture the next 20% of value of new business, can create a more transparent – and regulatory sensitive – approach for consumers in their insurance choices.

**Opportunities await**

Insurance remains a much intermediated business in China. Whereas digital could be perceived as creating conflicts between go-to-market approaches, it actually aims to deliver a channel agnostic business strategy through better customer engagement. The digital wave not only offers a unique opportunity to generate growth by an innovative and interactive go-to-market strategy, but also sustains profitability by creating differentiation while generating customers and employees’ engagement. It results in improved attraction and retention rate, reduced lapse rate and increased up-and-cross sell opportunities serving both agents and policyholders’ interests.

In PwC’s experience, digital initiatives can increase sales by generating an additional 15-20% volume of leads, improve agent productivity and effectiveness by raising the conversion rate to 35%, reduce the customer facing time of agents to at least 42%, and reduce the number of lapses by 5% on key products.

These numbers, when applied to the size of most insurance operations, lead to an increase of 10 to 20% of the value of new business. Taking the wealth insurance market today, this could have delivered a $260 billion increase in the market last year. The new customer value propositions answer simple needs that has largely remained unsatisfactory so far.

**Toward the customer centric organisation**

In many cases, insurers are not getting the basics right when it comes to digital client engagement. Getting that crucial first step can quickly yield tangible results at minimal cost given focus and timely intervention.

With around 600 million internet users, sites like Sina Weibo and Wechat are critical places of public expression. When using social listening tools combined with managing risks, to understand conversation sentiment, insurers can be both engaging and predictive to consumer needs.
With about 330 million smartphone users, and 21 hours spent per week on the internet by the average Chinese consumer, mobile technologies present a unique opportunity to stay tuned with suspects, prospects and customers to address their needs and answer their concerns.

**What does good look like?**

The digital economy in China is about to see another dramatic shift brought about by greater access to social, mobile, analytics and cloud services. PwC digital diagnostic and change proposition delivers the results to help achieve the 20% improvement outlined, and our capability ranges from helping you align the strategy and the right organisations and KPIs, to developing and delivering the programme of digital change, and even producing the digital artefacts (website, applications, back-end integration etc.) with our technology partners.

**Going the path of digital**

To achieve the full potential of digital, one needs to keep in mind that these changes require involvement and commitment of senior management, organizational adaptation and development of new skillset. Having the right agenda for the C-suite is going to be a challenge for those who run regional operations. Insurers will need to fix the basics to be credible, continue to target the customer value proposition vision and rapidly innovate across digital channels and markets in a scalable way to reach the full potential of the Chinese market.

To measure the success of their initiatives, insurers will need to develop strong analytical capabilities to permanently capture and report consistent and homogeneous data to assess the scalability of an initiative.

To properly implement these digital technologies, organisations will first have to redesign their business processes as misaligned organisational structure is frequently quoted as a key reason for failure. Thus, there is a high demand for skilled professionals in the digital area. This will also represent a challenge for insurers to develop and retain their capabilities in the very volatile Chinese job market.
PwC digital team – Insurance

At PwC, our digital team in China creates value by bridging the gap between business and technology. With a focus across all key industries, our team can provide insights on the latest digital trends, technology developments and innovation. We are committed to working with you to design the best approach for your business – from strategy through to execution – to help you make sense of an ever-changing world, throughout your digital journey.

For full details on how we can help please visit www.pwchk.com/digitalconsulting

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