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Equity Research

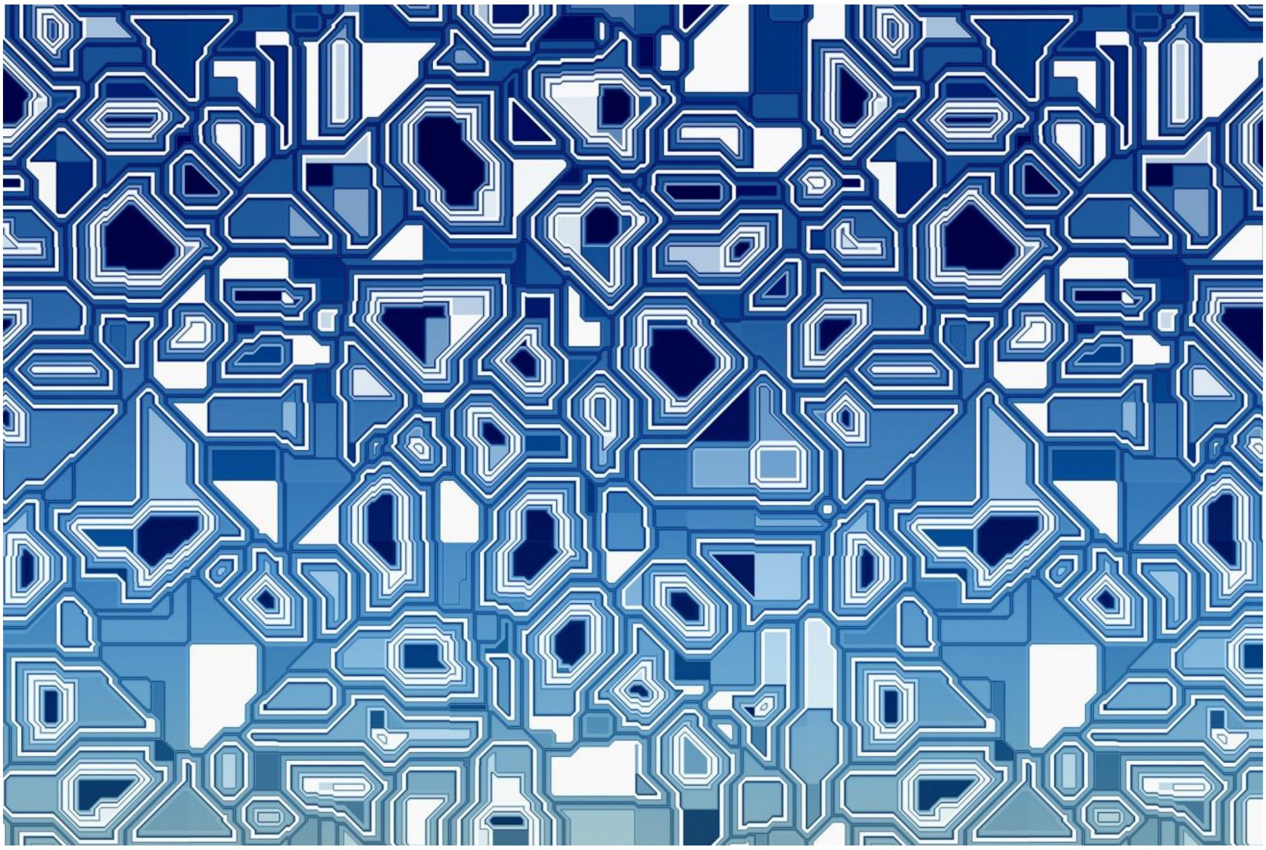
Corporate Insurance Brokerage in Asia

Niche and beautiful

with potential to achieve leapfrog growth enabled by InsurTech

Asia's corporate insurance brokerage sector has tremendous growth potential, driven by the growth prospects of the underlying economy and further deepening of insurance penetration rate, in our view.

Today's insurance technology (InsurTech) provides an unprecedented opportunity for brokers in the region to extend its corporate insurance coverage to segments such as small and mid-sized enterprises (SME), to provide solutions to new types of risks, and significantly enhance operating efficiency.



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Executive summary

Corporate insurance brokerage in Asia: tremendous growth potential
Asia's corporate insurance brokerage industry has tremendous growth potential, driven by the growth prospects of the underlying economy and further deepening of insurance penetration rate, in our view. The general insurance penetration rate in the developing Asian countries is currently low, ranging from 0.3% to 1.7%, compared to the 2.4%/4.1%/1.9%/3.8% in the four developed countries/cities in the region Australia, Korea, Hong Kong and Macau.

A sector with high ROE; profitability diverged in recent years
Insurance brokerage is an asset-light business with high ROE. In 2016, the major listed international insurance broking companies recorded average ROE of 19.2%. In the 2013-2016 period, the two biggest global brokers Marsh&Mclennan and Aon saw their margin and ROE/ROA expanding, whilst No. 3-5 players Willis Towers Watson, Arthur J. Gallagher and Jardine Lloyd Thompson all experienced decline in net margin and returns. We expect Marsh&Mclennan and Aon to continue outperforming in profitability in the long-term, due to higher operating efficiency achieved with a truly global reach.

Market consolidation trend and globalization ambitions
Currently competitive and fragmented, we believe consolidation is inevitable for the corporate insurance brokerage industry in Asia. Some locally based large brokers will emerge, and it is vital for those players with global ambitions to expand their international network in order to provide global risk solutions, and achieve geographical diversification and economies of scale. We illustrate this potential internationalization development path for Hong Kong-based broker AMTD on Page 10 of this report. On the other hand, smaller brokers focused on local niche markets should continue to thrive, enabled by third party technology providers.

InsurTech enables the sector for leapfrog growth
The advance of technology opens up new business opportunities in client segments that were deemed costly or impossible in the past; risks that were extremely difficult to price or even uninsurable could potentially be better analyzed and become insurable. In addition, new risks emerge along with new forms of business activities. Technology also allows significant efficiency enhancement to take place. The key for an insurance broker to outperform its peers, is to embrace the benefits of technology, recognize areas of opportunities and establish expertise, with differentiated services.

Insurance brokers should embrace technology and stay client focused
To benefit from InsurTech development, insurance brokers' management need to commit to a top-down and bottom-up change to create an innovative culture, and balancing short-term profit and long-term viability. However, no matter how InsurTech evolves, the one indispensable element in insurance brokerage is the human touch in trust building and relationship management. Also, for big and complex insurance deals with corporate clients, especially in highly specialized industries, insurance brokerage experts will continue to play a vital role in negotiation, coordination and procurement. This has always been the core focus of large corporate insurance brokers, and should remain so in the future.

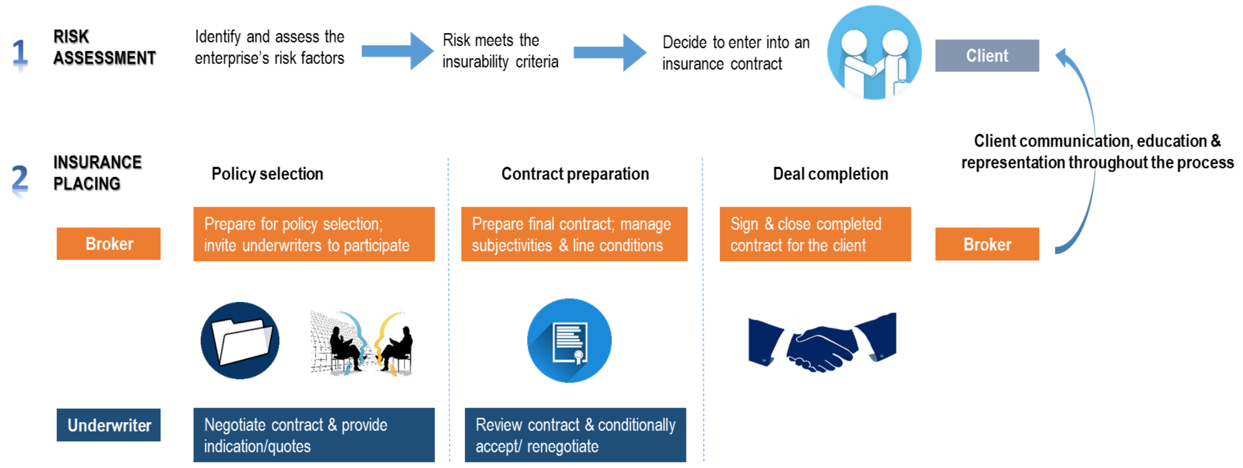
Insurance brokerage industry in Asia

Corporate insurance brokerage explained

Unlike the life insurance agent we encounter often, corporate insurance brokerage is a niche and specialized service hardly seen in one's everyday life. A corporate insurance broker carries on the business of negotiating or arranging contracts of insurance as the agent for corporates, or advising corporates on matters related to insurance.

Corporate insurance brokers offer risk management services to enterprises in various industries, marketing and selling general (or non-life) insurance on accident & health, motor vehicle, aircraft, ships, goods in transit, property damage, general liability, pecuniary loss, etc. Brokers also help their clients with group life insurance needs, although usually only as a very small part of their business.

Figure 1: The corporate insurance brokerage process explained



Source: Deloitte Research; AMTD Equity Research

Why is insurance brokerage necessary?

According to McKinsey, broker-mediated insurance premiums accounted for 50% of total global general insurance market in 2014.

Insurance brokering is partly the sales and client facing function in insurance underwriting. Insurance brokers are at the forefront in terms of client education and services. The demand for insurance broking services is highest in the technically complicated insurance deals, which is typical for large corporates with complex business operations and often the need to introduce multiple insurers for risk sharing.

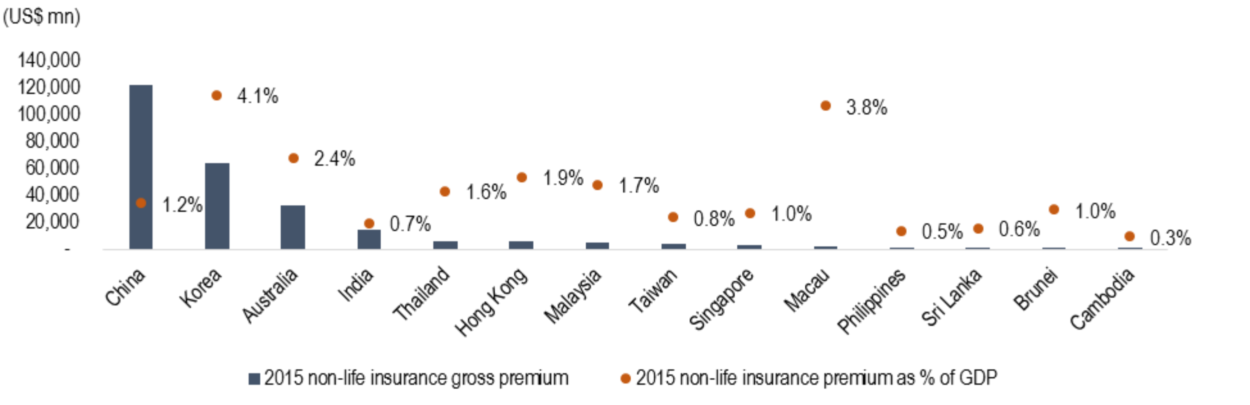
Insurance brokers have access to a range of different insurance companies, and are considered the "buyer's agent". Successful brokers develop long-term relationship with their clients, have a good understanding of the technicality in their respective industries, and are able to differentiate themselves with good client services.

Low insurance penetration rate in Asia indicates growth potential

The development of insurance brokerage goes hand in hand with the progression of insurance penetration in Asia. Therefore, in order to understand the drivers for the insurance brokerage industry, we should first take a look at the general insurance sector in Asia.

Figure 2 illustrates the general insurance premium written in 2015 in APAC (ex-Japan). China is the largest market, followed by Korea, Australia, and India. The size of the local general insurance market is first determined by the scale of the economy, then the insurance penetration rate, which is the general insurance premium written as percentage of GDP in the same year. The region as a whole has relatively low general insurance penetration rate, with its developing members ranging from 0.3% to 1.7%, compared to the 2.4%/4.1%/1.9%/3.8% in the four developed countries/cities Australia, Korea, Hong Kong and Macau.

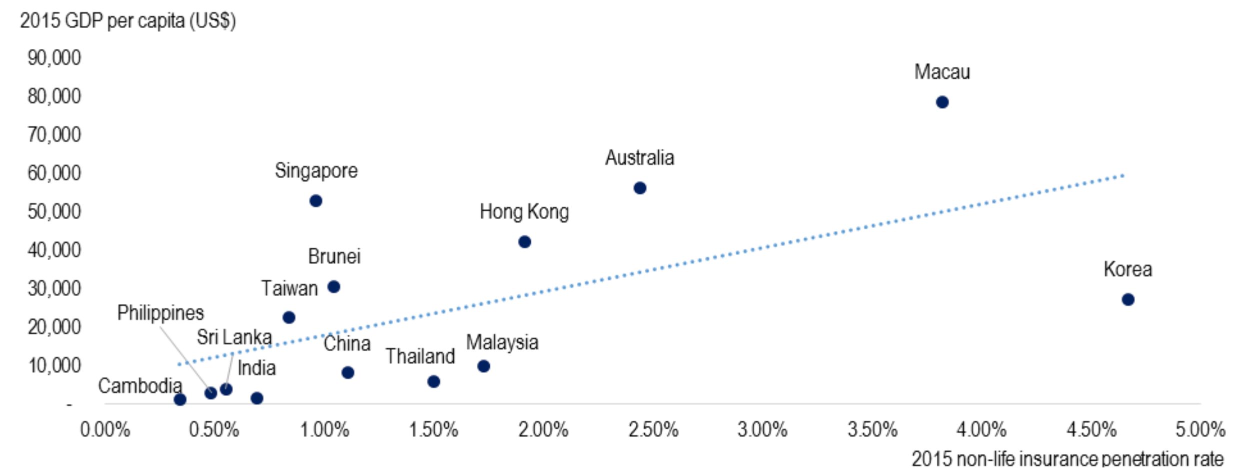
Figure 2: General insurance premium and penetration rate in major APAC economies (ex-Japan) in 2015



Source: Insurance regulators/associations of the respective countries/cities; AMTD Equity Research

According to a study by The World Bank, economic development is the main driver for general insurance premium growth. This pattern is evident in Asia as well – we find clear positive correlation between levels of general insurance penetration and local economic development, measured by GDP per capita, as illustrated in Figure 3.

Figure 3: Non-life insurance premium penetration is positively correlated with level of local economic development, measured by GDP per capita



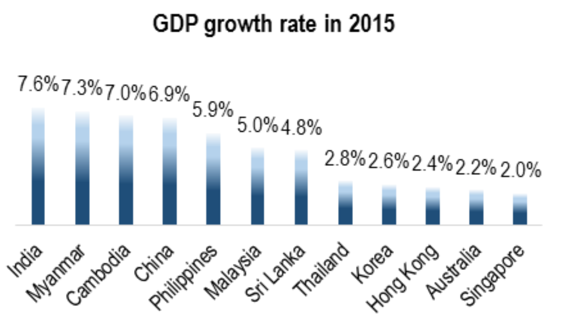
Source: Insurance regulators/associations of the respective countries/cities; The World Bank; AMTD Equity Research

Asia general insurance premium growing as the region gets wealthier

Home to the fastest growing economies, Asia should see a continuous boom in general insurance sector as well. One of Asia's most advanced economies, Korea, has seen corporate general insurance premium increasing at a rate commensurate to GDP growth till the 2010s, when the penetration rate reached a high level of over 4%. We believe the same pattern should happen for the developing countries in the region.

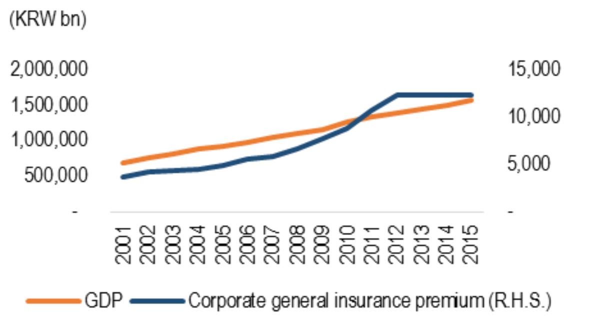
The demand for corporate insurance products should also rise as countries like China transform their economies from a state-owned model to a more market-based model. This is because, state-owned enterprises do not usually have property and casualty insurance concerns as they have the implicit government bailout guarantee; whereas insurance is the private sectors' primary way of obtaining risk protection.

Figure 4: Asia is home to the fastest growing economies in the world



Source: The World Bank

Figure 5: Korea's corporate general insurance premium has grown with GDP, till penetration rate peaked in 2012



Source: Bank of Korea, General Insurance Association of Korea; Note: We derive corporate general insurance premium data by excluding automobile and long-term insurance premiums from total general insurance premium

Competitive landscape

Asia's corporate insurance brokerage sector is dominated by the largest global brokers

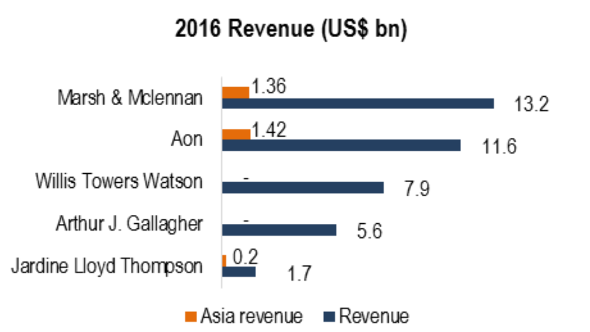
By 2016 revenue, the largest international corporate insurance brokerage firms are Marsh&Mclennan, Aon, Willis Towers Watson, Arthur J. Gallagher, and Jardine Lloyd Thompson. All of them are headquartered in the US or the UK.

The two largest players Marsh&Mclennan and Aon have already established their global footprint, with business in Asia contributing a stable 10%-12% of their total revenues in the past 3 years (2014-2016). In terms of 2016 revenue generated from the region, Aon is the biggest broker in Asia, slightly ahead of Marsh&Mclennan. Things vary within the smaller players. Arthur J. Gallagher is very much focused on a few developed countries, with 92% of its 2016 revenue from North America and the UK, and another 6% in Australia and New Zealand; whereas Jardine Lloyd Thompson has 14% of 2016 revenue coming from Asia.

Subdued organic growth

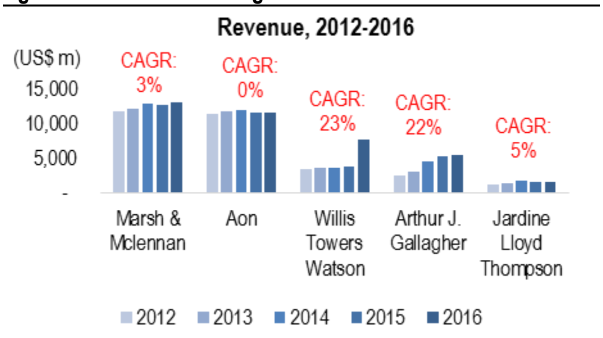
In terms of revenue growth, it is evident that the mid-sized international brokers Willis Towers Watson, Arthur J. Gallagher and Jardine Lloyd Thompson have achieved higher overall growth than Marsh&Mclennan and Aon in the past 5 years (2012-2016). However, if we exclude M&A, even the faster-growing players have only achieved 2-3% organic growth in 2016.

Figure 6: The global insurance brokerage ranking, by 2016 revenue



Source: Company data; Bloomberg; Note: We have not found the exact Asia revenue figure for Willis Towers Watson, but they should have a meaningful presence in Asia; Arthur J. Gallagher, on the other hand, has minimal operations in Asia.

Figure 7: Revenue organic growth challenged for major listed global insurance brokerages



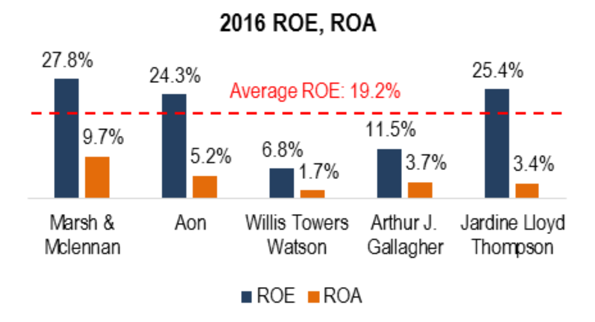
Source: Company data; Bloomberg

Profitability analysis

Insurance brokerage is an asset-light business with high ROE. In 2016, the major listed international insurance broking companies recorded average ROE of 19.2%. In the 2013-2016 period, the sector normally saw net profit margin to be around 10%. The two largest firms, Marsh&Mclennan and Aon, enjoyed higher net profit margin of 12%-13% as of 2016.

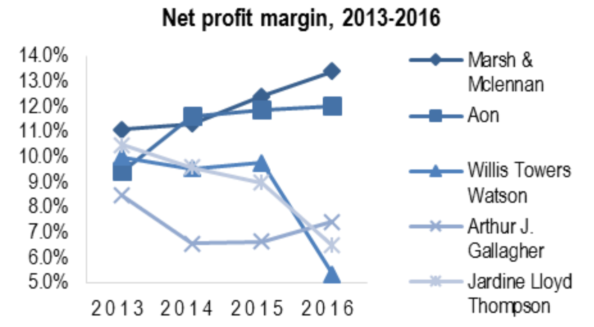
In the 2013-2016 period, the two leaders Marsh&Mclennan and Aon saw their margin and ROE/ROA trending slightly upwards, whilst Willis Towers Watson, Arthur J. Gallagher and Jardine Lloyd Thompson all experienced decline in net margin and return. The divergence is even clearer since 2015 for Willis towers Watson and Jardine Lloyd Thompson.

Figure 8: Major listed global insurance brokerages recorded average ROE of 19.2% in 2016



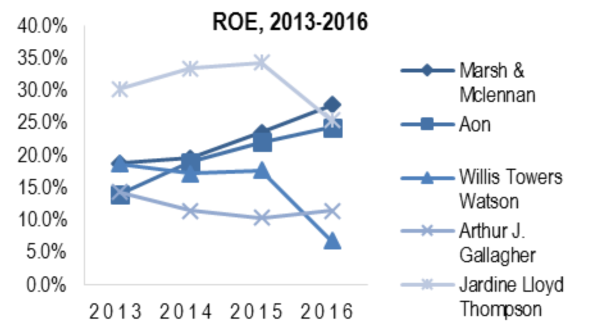
Source: Company data; Bloomberg

Figure 9: The two largest insurance brokerages enjoy the highest net profit margin



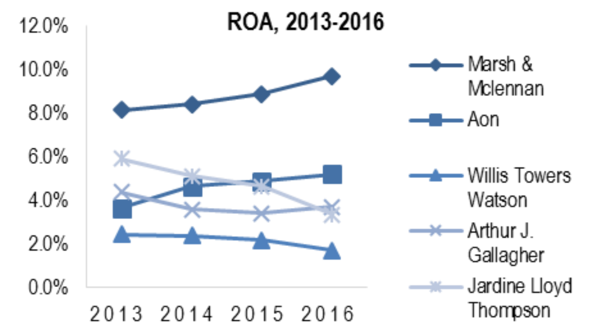
Source: Company data; Bloomberg

Figure 10: ROE trend of major listed global insurance brokers



Source: Company data; Bloomberg

Figure 11: ROA trend of major listed global insurance brokers



Source: Company data; Bloomberg

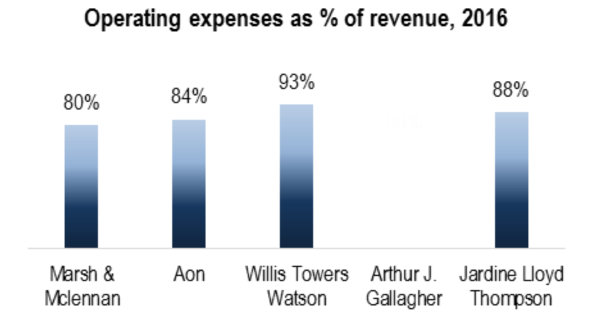
The difference in net margin trends in recent years among the global Top 5 players is due to a number of reasons. First, Willis Towers Watson/ Jardine Lloyd Thompson spent 5%/1.2% respectively of their 2016 revenue on restructuring, transaction and integration expenses. Second, Jardine Lloyd Thompson also incurred litigation costs equaling 2% of revenue in 2016, related to a previous acquisition. Third, Arthur J. Gallagher operates a different business mix thus lower overall profitability - it had c24% of its 2016 revenue from clean energy investment, which recorded negative gross profit margin.

Effective global footprint is important to superior profitability

Apart from the above reasons, global sector leaders Marsh&Mclennan and Aon appear to have better operating profitability. This is demonstrated by their lower cost-to-income ratio, and higher operating profit per employee. We believe the higher operating efficiency is attributable to the two companies' larger economy of scale, and effective global footprint.

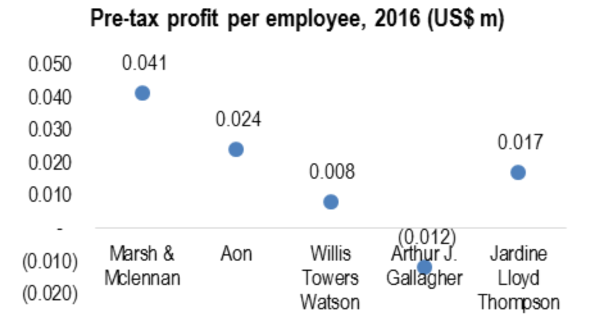
An international network allows the broker to access global insurers, and provide globally arranged risk solutions for a corporate. This is vital to multi-national companies. The broker is also able to then enjoy a premium for their global service.

Figure 12: Marsh&Mclennan and Aon have the lowest cost-to-income ratio



Source: Company data; Bloomberg; Note: Arthur J. Gallagher recorded operating expenses as 66% of total 2016 revenue, but one quarter of its revenue was from the clean energy investment business segment with negative gross profit. Therefore we do not include Arthur J. Gallagher in this comparison.

Figure 13: Marsh&Mclennan and Aon also have the highest pre-tax profit per employee



Source: Company data; Bloomberg; Note: Arthur J. Gallagher had negative pre-tax profit but recorded a tax benefit resulting in positive 2016 net profit.

Global M&A trend

The insurance brokerage sector has been active in M&A, such as the Towers Watson Re deal by Jardine Lloyd Thompson in 2013, the merger of Willis and Towers Watson in 2015, and various bolt-on acquisitions by all the major players in the past few years. All of the Top 5 global players have identified M&A as an important source of growth in the future. We believe that the lack of organic growth is a key reason for increased M&A in the industry, as some smaller brokers struggle to make a profit.

Apart from the competition in the industry, a significant catalyst for intensified M&A activity is the drive from private equity funds, according to M&A advisor Houlihan Lokey. Insurance brokers are considered as a good investment choice because of their predictable cash flows, high margins, and downside protection.

Another wave of M&A could potentially come from the local players here in Asia. Commensurate with its general insurance industry, the Asian insurance brokerage sector is still under development. There has not been a truly global insurance brokerage headquartered in Asia, and the majority of the local brokerage firms are not listed on the stock exchange at the moment. But there eventually will be a need for the local insurance brokerage industry to consolidate and go global.

Let's take China as an example - as the Chinese corporates go abroad, their increasing insurance and insurance broking needs provide opportunities for Chinese insurance brokers to expand their global footprint too. In Box 1 on the next page, we look at a leading Hong Kong corporate insurance broker AMTD as a potential beneficiary of this trend.

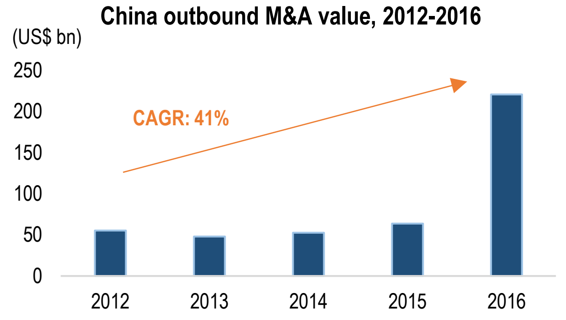
Box 1: AMTD – a Chinese insurance broker case study

AMTD is one of the largest local corporate insurance brokers by revenue in Hong Kong. It was founded in 2003 mainly by CK Hutchison Holdings (CKHH) and Commonwealth Bank of Australia. Since its establishment, AMTD has gained extensive insurance brokerage experience for the CKHH corporates, which have a big presence in Hong Kong and overseas.

In 2015, CM International Capital Limited (subsidiary of China Minsheng Investment Group (CMIG), China's leading privately owned investment company) and a global family office LR Capital acquired a controlling stake in AMTD. CMIG was established in 2014 with the support of 61 well-known PRC private enterprises acting as shareholders, led by All-China Federation of Industry & Commerce (ACFIC). The 61 founding enterprises include Suning Commerce Group, Hongdou Group Co., Ltd., Yida China Holdings Limited, Sinogiant Steel Holdings Group Limited, Hengtong Group, Giant Interactive Group, China Oceanwide Holdings Group, Dongyue Group Ltd and Yango Holdings Company Limited. As of Feb 2017, CMIG had total assets of RMB 260bn (US$ 38bn).

As China expands its sphere of influence and Chinese corporates go abroad, we believe AMTD will also develop its business internationally, serving Chinese corporates, providing global risk solutions for the Chinese corporates' increased M&A activities. China outbound M&A value grew at CAGR of 41% in the 2012-2016 period; in 2016 China outbound M&A recorded all time high of US$ 221bn, nearly 3.5x the 2015 level. Backed by its strong shareholders, global expansion by M&A is one possibility for AMTD, in our view.

Figure 14: China outbound M&A achieved 41% CAGR during 2012-2016



(Source: PwC)

We believe that the inevitable trend is for the corporate insurance brokerage industry to keep consolidating, and players with global ambitions will look to expand their international network, in order to provide global risk solutions, achieve geographical diversification and economies of scale. In addition, well-managed acquisition target selection and subsequent execution is vital for a deal to be margin-accretive.

Independent small brokers and associations

At the same time, we also consider that the small and local independent brokers will always exist. These smaller players could potentially serve small and medium-sized enterprises well, and tap into new market segments and related client education. Currently in Asia, most SMEs don't get insurance at all or only have very primitive coverage.

Some of these smaller local insurance brokers form alliances and associations for better coordination and business development. The Worldwide Broker Network (WBN, Box 2), illustrates an interesting opportunity for independent and specialized brokers. Locally focused brokers benefit from the WBN organization by getting client referrals and in-network communication with counterparts across different countries. One possibility of insurance broking's future dynamics is, as technology enablement deepens and insurance process further streamlined, the insurance broking specialists become truly able to focus on niche market development, and small brokers with distinct personalities and specialties serve their customers in their own best ways.

Box 2: Worldwide Broker Network (WBN) – network of independent brokers

The Worldwide Broker Network (WBN) is the largest fully integrated network of independent property & casualty brokers and employee benefits consultants in the world. WBN brokers are located in over 100 countries and have offices in over 500 cities around the globe.

In terms of 2015 revenues, WBN is ranked No. 4, higher than large international brokers Arthur J. Gallagher and Jardine Lloyd Thompson. WBN members recorded US$ 5bn revenue in 2016, compared to just US$ 2bn in 2005.

Figure 15: The global insurance brokerage ranking, by 2015 revenue

Rank	Company	2015 revenue (US$ bn)
1	Marsh & Mclennan	12.9
2	Aon	11.7
3	Willis Towers Watson	7.5
4	Worldwide Broker Network (WBN)	5.0
5	Arthur J. Gallagher	4.1
6	Jardine Lloyd Thompson	1.8
7	BB&T Insurance Holdings	1.7
8	Brown & Brown	1.7
9	Hub International	1.5
10	Lockton Cos. LLC	1.3

Note: Willis Towers Watson revenue is the total of Willis and Towers Watson in 2015; we have excluded Jardine Lloyd Thompson's clean energy and other investment income as it is not related to the main insurance brokerage business; similarly, we have only included the insurance brokerage-related revenue for BB&T.

(Source: The WBN website; company data)

Challenges and technology the enabler

Like any other free-entry market, competition creates challenges for insurance brokers in terms of high talent turnover and potentially further margin compression. As the region gets wealthier and clients get more tech-savvy, brokers in Asia need to continuously improve service quality and efficiency.

- Intensifying competition between brokers, agency, and bancassurance channels
- High employee turnover

- Soft insurance pricing challenging margin across the insurance value chain
- Sluggish revenue growth

- Increasingly higher requirement of customer service quality
- The challenge to manage increased client demand with higher efficiency

The insurance brokerage sector has been working on a number of solutions to all these challenges. For example, brokers try to price their service as a fee-based income, not a commission rate tied to the changes in property and casualty insurance policy prices. The industry leader, Marsh&Mclennan, has approximately 40% of its brokerage revenues as fee based and thus is relatively insulated to changes in insurance policy pricing.

In our view, the greatest enabler for any insurance broker to overcome these challenges and achieve long-term growth is technology. The advance of technology opens up new business opportunities in client segments that were deemed costly or impossible in the past; risks that were extremely difficult to price or even uninsurable could potentially be better analyzed and become insurable. Technology also allows significant efficiency enhancement to take place. The key for an insurance broker to outperform its peers is to embrace the benefits of technology, recognize areas of opportunities and establish expertise, with differentiated services.

However, this requires management's commitment for a top-down and bottom-up change to create an innovative culture, and balancing short-term profit and long-term viability.

InsurTech – the enabler for leapfrog growth

While fintech has brought a storm reshaping the financial industry, the insurance sector worldwide has yet to see large-scale adoption of technological innovations. We believe insurance technology (InsurTech) will be a disruptor in the insurance industry and also a catalyst to efficiency enhancement of the insurance brokerage sector.

According to CB Insights, the number of InsurTech funding deals took up an 11.5% share of all fintech funding deals in 2016, up from merely 7.2% in 2013. InsurTech was one of the hottest segments in VC deals in 2016. As an asset-light industry with human resources as the key productivity factor, insurance brokerage should be a key beneficiary of the technological boom and thus able to free its talents for more value-added services and products, with improved operating efficiency and processes.

The reach to SME – new market opportunity

One of the key areas of value add by insurance brokers is market exploration and customer education.

Traditionally it has been difficult for brokers to cover small and mid-sized enterprises' (SME) insurance needs in the same way as they cover large corporates, as it would usually require a certain scale to make economic sense for a broker to enter a deal. Currently in Asia, most SMEs don't get insurance at all or only have very primitive coverage. With the advancement of technology, sales and broking productivity can potentially be improved so that the SME market can be tapped into in a smarter way.

One of the main opportunities lies in mobile – 90% of mobile device users in Asia access the internet via their mobile device every day, according to a survey conducted in 2015. High internet access frequency with mobile device together with low traditional insurance penetration rate gives Asia the opportunity to leapfrog into higher digitalized insurance coverage. SME Insurance Services (SMEi), a broker providing specialist commercial insurance to SMEs in the UK (acquired by Marsh&Mclennan in 2015), is an industry leader in innovatively serving SME clients.

Box 3: SME Insurance Services (SMEi) – effective online and telephone-based business model

SME Insurance Services Ltd, established in 2002, is a broker providing specialist commercial insurance to small and midsize businesses. With many years of experience in catering for the needs of the business community, and over 40,000 business policies currently in place, SME provides an insurance product range for varied business needs. SME Insurance Services was ranked Yorkshire's second-fastest growing small company in a local survey.

SMEi has developed a highly effective online and telephone-based business model which enables it to provide clients with flexible and comprehensive insurance solutions, tailored to their individual requirements, regardless of size or risk profile. SMEi also operates Broker2Broker, an online trading platform that offers independent insurance brokers access to a wide range of products through a panel of commercial insurers.

(Source: Company announcement)

A possible approach for SME broking is: to make use of mobile applications for first round screening, and streamline the selling of standardized insurance products; then for any specialized and customized services, an insurance broker can reach out to potential customers to discuss case by case.

Product innovation enabled by advanced data analytics

The advancement of technology has pushed our society forward with the emergence of new forms of businesses. The new economic activities need to be insured as well, thus creating Blue Ocean markets for new insurance product lines. In China, where ecommerce made a record 12.6% share of total consumer goods retail sales in 2016, internet-based insurer company Zhong An offers merchandise returning insurance that covers return shipping cost for merchandise pursed through ecommerce website Taobao. Zhong An, founded by internet giants Alibaba and Tencent, boasts its innovative product design and pricing based on big data analysis. On November 11, 2016 (China's online shopping festival), Zhong An sold over 210 million policies and generated over RMB 133 million premium. Similarly, emerging new businesses such as peer-to-peer lending, Uber and Airbnb all create new insurance demand.

Insurance at its core is calculating and hedging risks. With today's big data technology and advanced analytic tools, risks can be monitored and insured in a better way. Although the related development we have known so far is more concentrated in retail and individual insurance, the possibility for big data analytics to enhance large-scale corporate insurance product offering cannot be ruled out. We would imagine that some of the previously considered uninsurable risks could become insurable in the future, including but not limited to reputational risk, regulatory risk, political risk, pandemic risk, etc.

How InsurTech can revamp the entire value chain

InsurTech enablement is happening in every part of the insurance value chain.

1. **Risk assessment:** in the initial stage when a broker helps a potential client assess their risk profile and identify insurable risk, a "risk profiling" platform powered by big data analysis comes handy. Some large brokers and insurers have developed their own in-house risk profiling process; there are also independent third-party service providers serving many small brokers.

    - The insurer Zurich's predictive analytics system is based on a wide range of proprietary and external aggregated data to identify future risks, including catastrophic damage and hard-to-predict events — those of low frequency but high severity.

    - An example of third-party service provider is RiskAdvisor, an Australian company providing an interactive platform for developing client specific risk profiles and detailed industry benchmarking. Here is how it works: After a potential client inputs their details, the system benchmarks the client's risks against their own industry; identify, rank and prioritize risks along with their treatments; generate risk control activity and status reports. The RiskAdvisor system then becomes a tool for brokers to gauge clients' insurance needs efficiently and effectively.

2. **Process streamlining:** for an insurance policy to be written, a great deal of paperwork and lengthy manual process have to take place. A digitalized process would greatly free up insurance broking professionals to take up more client facing and value adding work. Box 4 looks at a leading insurance software provider Ebix for a detailed illustration.

Box 4: Ebix – aiming to be the platform for the entire insurance process

A leading international supplier of on-demand software and d-commerce services to the insurance, financial and healthcare industries, Ebix, Inc., (NASDAQ: EBIX) provides end-to-end solutions ranging from infrastructure exchanges, carrier systems, agency systems and risk compliance solutions to custom software development for all entities involved in the insurance industry.

With over 40 offices across Brazil, Singapore, Australia, the US, UK, New Zealand, India and Canada, Ebix powers multiple exchanges across the world in the field of life, annuity, health and property & casualty insurance while conducting in excess of $100 billion in insurance premiums on its platforms. Through its various SaaS-based software platforms, Ebix employs hundreds of insurance and technology professionals to provide products, support and consultancy to thousands of customers across six continents.

Ebix's goal is to be the world's leading back-end powerhouse of insurance transactions by designing pioneering products and services that are at least a few years ahead of the competition. Its vision is to support the convergence of all insurance channels, processes and entities such that data can be entered just once and then seamlessly flow throughout the insurance ecosystem – saving time, saving money and driving improved financial performance for its customers.

With a recurring revenue base of approximately 80%, Ebix works collaboratively with clients to develop innovative technology strategies and solutions that address their specific business challenges. It combines the newest technologies with its capabilities in consulting, systems design and integration, risk compliance solutions, applications software development and web and application hosting to provide customer specific solutions.

Ebix's customer base includes hundreds of carriers, a few hundred corporate clients and hundreds of thousands of brokers. Ebix customers include many of the world's largest and most respected insurance companies as well as a large community of insurance professionals. Ebix estimates that its potential market in the US is nearly US$ 60 billion, providing ample growth opportunities.

(Source: Company data)

3. **Claim rate management:** a clever way to improve profit margin for the insurance industry is to lower the claim rate. Insurers, brokers and tech companies have come up with various incentives for people to act in a way so that the actual risk event happens with a lower chance.

   - In medical insurance, AIA promotes its signature health and wellness program AIA Vitality, in which a client could enjoy up to 15% discount off the annual insurance premium for the relevant medical insurance plans if they are able to achieve a higher AIA Vitality Status, i.e. better health (thus lower claim rate). Similarly, tech company dacadoo operates a digital health score platform and cooperates with medical insurers, pharmaceutical companies, etc.

   - Drive Spotter, a car driving technology provider, uses real-time video analytics to keep fleet managers in the loop and warn drivers when there is risk of danger, effectively driving down loss rate for the divers' auto and life insurance policies; another tech startup Smart Drivinc has developed an app called SXI, which essentially blocks the usage of certain functions of the car driver's mobile phone such as text messaging, typing, etc while the car is in motion.

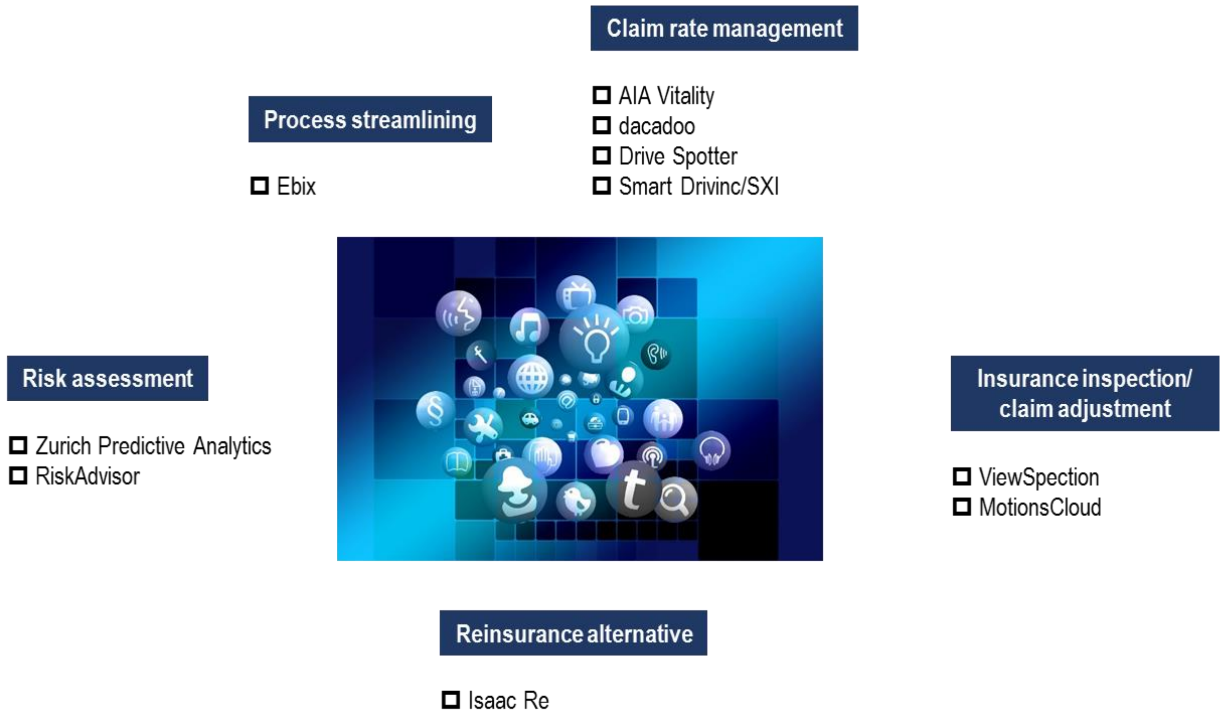
4. **Insurance inspection and claim adjustment:** another costly part of the business for insurers is the actual claim process. Technology innovations also target to digitalize this process so as to save costs and potentially improve margin for all the players (insurers, insurance brokers, etc) along entire value chain.

   - ViewSpection is a DIY insurance inspection app for residential and commercial properties. It simplifies the inspection process to just the policyholder taking a picture of the scene, ideally without having to arrange a visit by an insurance inspector.

   - Another app MotionsCloud does a similar job. It also offers real-time estimations on the value of the damage, and remote claims settlement through voice and video communication.

5. **Reinsurance alternative:** Isaac Re is a company that markets retail portions of reinsurance as an alternative asset class that is uncorrelated with othere financial markets. This innovation helps insurers lower their reinsurance risk.

Figure 16: InsurTech enabling the insurance value chain – some examples



Source: AMTD Equity Research

Disintermediation risk? Only standardized products

A survey by PwC in 2016 showed that 74% of insurance company senior management believe that some part of their business is at risk of disruption from InsurTech. The biggest fear for brokers is that digitalization of the insurance selling process could wipe out the need for a human intermediary. Is this really the case? And to what extent can robots replace human in insurance brokerage? Let's look at the example of Zhong An Insurance, China's first pure online insurance company.

Box 5: Zhong An Insurance – China's first pure online insurance company

Zhong An Insurnace was founded in 2013 by Ping An Insurance, Tencent and Alibaba as China's first digital general insurer.

As of Feb 2017, Zhong An has underwritten over 7.8 billion insurance policies and serviced 560 million clients. Headquartered in Shanghai, Zhong An has no branch or insurance agents/brokers. The sales is purely done online – either on its website, mobile app, or directly in social networking applications like Wechat. Zhong An also processes most of its claims without human work. This digitalized value chain model lowers distribution and operating costs, giving the company significant advantage in offering insurance policies at pricing levels that were unthinkable before.

At the moment Zhong An's product offerings mainly include standardized personal insurance policies. It also has a few group accident and health insurance product offerings, and cooperates with insurance brokers in the corporate business.

(Source: Company data)

Similarly, in Jan 2017, Aviva, Hillhouse and Tencent agreed to develop a digital insurance company in Hong Kong. We believe that standardized and small-amount insurance products will be quickly digitalized and commoditized, with the help of InsurTech.

However, for big and complex insurance deals from corporate clients, especially in highly specialized industries, insurance brokerage experts will continue to play a vital role in negotiation, coordination and procurement. This has always been the core focus of large corporate insurance brokers, and should remain so in the future.

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