CLEARWATER ANALYTICS®

HONG KONG & SINGAPORE

Insurance Outlook Report 2024

Contents

Foreword

In 2024, insurers in Hong Kong and Singapore are facing fast-moving, transformative trends: increasingly diversified investing strategies, industry-wide shifts towards consolidation, the advent of new and exciting technologies, and emerging regulatory directives. Despite these accelerating changes impacting insurance industry investors, our study reveals a prevailing sense of optimism among insurers and insurance asset managers that tips the scales in their favour.

From navigating the operational complexities of investing in alternative asset classes, to managing the knock-on effects of regulatory developments, insurers are assessing their readiness to make considerable gains in the new year. The path forward depends on where insurers find themselves in terms of operational capabilities, investing strategies, technology adoption and more. Based on our findings, one priority is clear: the industry will require modern, trusted technology delivering high quality data to drive greater returns, customisation, and ultimately add to their bottom line.

Executive Summary

With a new year fast approaching, Clearwater Analytics canvassed decision makers at a range of insurers and insurance asset managers in Hong Kong and Singapore on a variety of talking points that threaten to dominate the industry in the new year.

- There are overwhelming expectations that insurance M&A activity will rise in 2024 across both jurisdictions.
- A spate of regulatory changes will undoubtedly create fresh challenges for firms to address if they are to efficiently meet their obligations.
- Alternative asset classes continue to grow in popularity as part of increasingly diversified insurance portfolios.
- Technology spend is predicted to rise.

Throughout, there are signs of optimism, positivity, and confidence as we lead up to the new year, with a recognition from industry leaders and decision-makers that there is work yet to be done to ensure continued success.

SURVEY FRAMEWORK

For the Clearwater Analytics Insurance Outlook Report 2024, decision makers (Director, Vice President, C-suite) across 59 insurers and 23 insurance asset managers in Hong Kong and Singapore provided their views on a range of topics, including: M&A activity, regulatory developments, solvency rules, investing strategies and associated operational complexities, technology expenditure, and technology priorities. The survey was carried out from 27th October 2023 – 9th November 2023 by Obsurvant.

Industry Outlook

Looking ahead to 2024, insurers share their views on two themes that are sure to help to define the year – mergers & acquisitions, and regulatory developments in region.

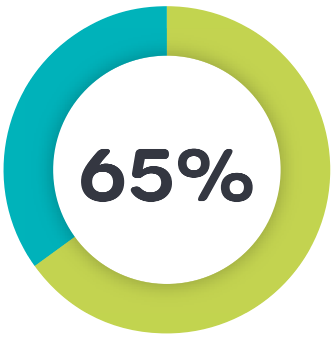
M&A Activity

Insurers and insurance asset managers are expecting a wave of M&A activity to hit Singapore and Hong Kong in 2024, as the region echoes the wider global industry trend towards consolidation.

With 65% of respondents reporting an expectation that M&A activity in their domestic market would rise in 2024, there is clearly reason for dealmakers operating in the region to be optimistic ahead of the new year. Perhaps even more insightfully, the positive sentiment was felt more strongly by larger organisations, with those reporting an AUM of over 100 billion USD averaging 68%, whereas the smallest organisations surveyed, with under 1 billion USD, at a more modest 58%. If it is the bigger fish that generally drive acquisition activity, this would suggest strong prospects for activity in the new year.

What expectations do you have for the rate of M&A activity in your domestic insurance market?

It will rise | It will remain the same



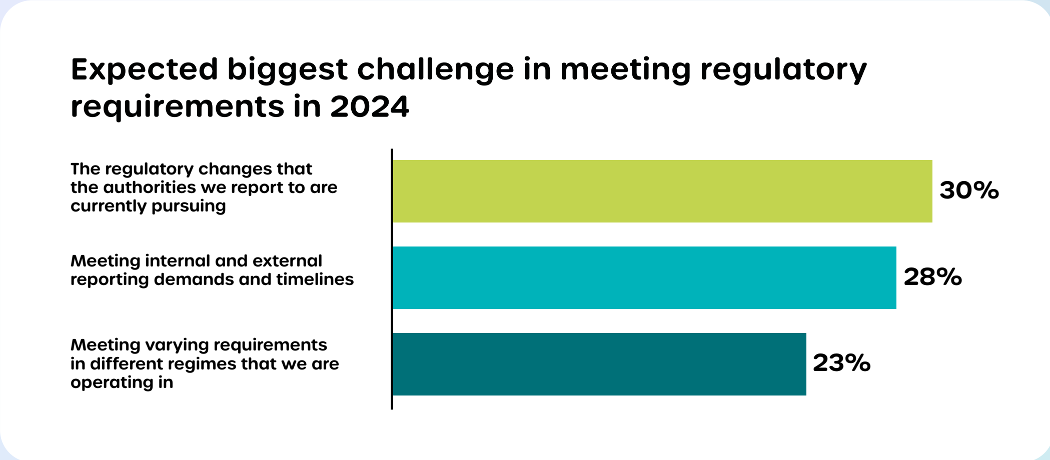
Graphic 1

It is well noted Singapore's insurance broker M&A market has been flatter than other areas of Asia in 2023. However, 63% of those insurers and insurance asset managers based in the city-state expect the rate of domestic activity to rise next year, suggesting a bottleneck of deals could be pushed through.

Private equity firms have taken an increasingly positive view on the acquisition potential of insurers in Hong Kong and Singapore. Insurer's investment strategies are long-term, which makes their portfolios attractive to private equity firms, who often feel they can generate stronger returns through diversification into alternatives. However, having an operational 'clean bill of health' is essential when it comes to desirability to potential acquirers – onboarding a firm's assets can be incredibly laborious if their systems are stuck in the dark ages.

Regulatory Expectations

We then turned our attention to expectations around regulatory developments in 2024. With the Monetary Authority of Singapore (MAS) recently deeming four major insurers 'too big to fail' and imposing a higher level of regulatory scrutiny on them as a result, we asked decision makers their view on how to ensure insurers in Singapore and Hong Kong do not pose wider market risk through insolvencies.



Graphic 2

There was no overwhelming preferred method here, although everyone polled contributed a view. While increased regulatory requirements (27%) was the most commonly cited answer, those firms on the smaller end of the scale (<1 billion AUM) were strongly in favour of increased regulatory requirements (50%). This could perhaps be an expression of agreement with the MAS's assessment in September, that larger insurers should be subject to greater scrutiny.

When it came to the C-suite, who are generally less involved in the day-to-day operations of their business, there was a strong feeling the demonstration of lower investment risk appetites in portfolio allocations was the best way for firms to minimise risk (54%). This is a theme that will be explored later in the report, where we asked respondents to discuss their firm's investing strategies and associated operational complexities.

One fifth of respondents identified heightened levels of automation within insurers to improve efficiency and accuracy of operational processes as the key risk reduction method, while over a third of the largest insurers (>100 billion AUM) look to stricter capital control measures (36%).

While increased regulatory requirements was identified as the key method to reduce risk, respondents identified a range of challenges they expect to face in meeting these requirements next year.

Adapting to the regulatory changes that are currently being pursued was the most commonly cited answer, with almost a third (30%) answering this as their key challenge. The ability to meet internal and external reporting demands and timelines came a close second (28%).

Tracking, preparing for, and adapting to incoming regulatory changes can be a significant task. This was identified by the larger organisations surveyed at a much higher rate, with those in the 50 – 100billion AUM range citing it as their top challenge for 2024 (43%). This is perhaps reflective of the wider range of regulations they need to comply with, the difficulty in keeping track of all the regulatory changes and making the necessary amendments to internal processes.

Other responses included meeting varying requirements across different regimes (23%) and access to timely and accurate data (14%).

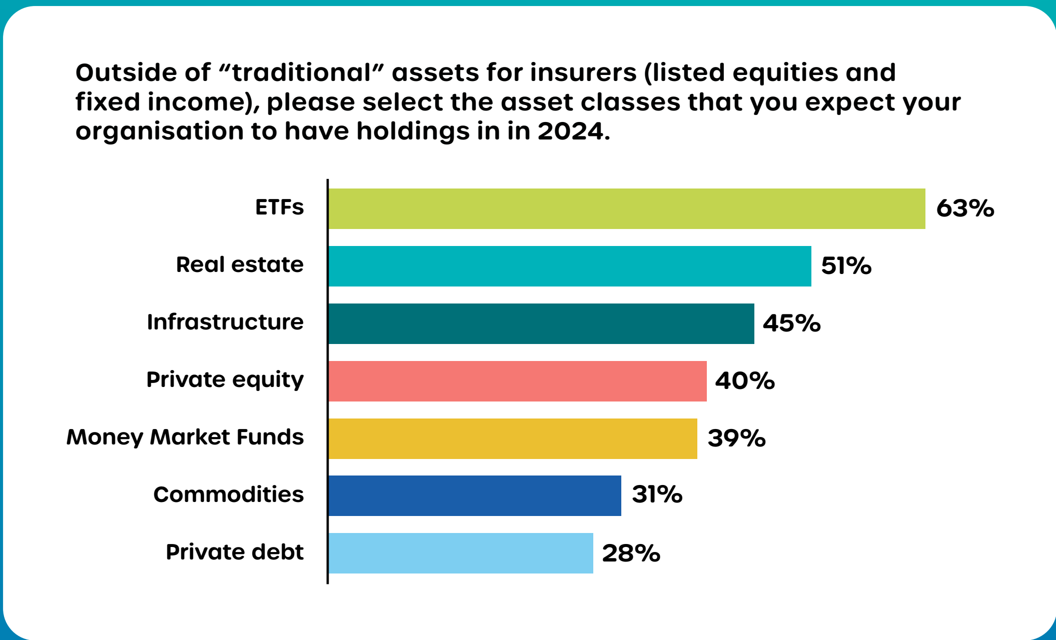
Finally, with the impending changes to Hong Kong's risk-based capital regime (RBC) planned for next summer, we asked for views on local solvency rules, with 72% of respondents feeling that they stack up well when compared to standards in other regions. There was a recognition from 30% of respondents that the rules could be improved, with the main issues cited that they are currently too limiting from an investment strategy perspective (10%), not helping to attract clients in region (10%), and not putting enough guardrails in place to prevent potential insolvencies (10%).

Investing Strategies & Operational Headaches

Insurer's investing strategies in 2024 bear little resemblance to the traditional model, which mainly focused on listed equities and high-grade fixed income. Nevertheless, the introduction of new asset types presents fresh hurdles to overcome.

Portfolio Allocations

We provided decision makers at insurers and insurance asset managers a list of alternative asset types and asked them to select those that they expected their organisation to have allocations to in 2024.



Graphic 3

These asset classes can be seen in Graphic 3, with ETFs expected to be increasingly integrated into insurance portfolios next year (63%). This could be a way of insurers gaining a less risky exposure to public equity markets through the use of a passive tracker fund, which outperform actively managed funds on average. Real estate followed, with 51% expecting their organisation to have holdings, while infrastructure was third with 45%.

These asset types have seen an influx of insurance interest over the last half-decade, as insurers looked to secure strong yields in the face of low interest rates. Interestingly, many see allocations persisting into next year, despite the change in the interest rate environment making fixed income a more popular asset class again. Though when the average holding durations of real assets are considered, this does make sense. The high proportion of insurers holding assets that are extremely illiquid perhaps demonstrates an industry view that they can provide compelling risk adjusted returns, and an alternate inflation hedge to fixed income instruments.

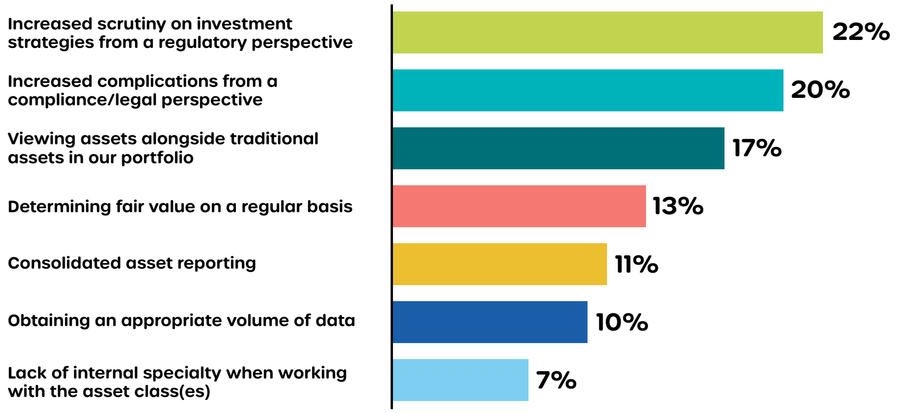
Private equity (40%) and private debt (28%) were also identified by many that we surveyed as being an expected makeup of insurance portfolios in 2024, with money market funds (MMFs) (39%) and commodities (31%) also selected by a significant number of respondents.

What all of this demonstrates is that insurers are increasingly diversifying their portfolios and pursuing more vibrant investing strategies – still with effective risk management in mind - but being more flexible in their approach and constructing a portfolio that is broader in its array of asset types.

Operational Challenges

However, with a new look portfolio comes a different set of operational requirements to effectively manage the plethora of asset types. When we asked for the biggest challenges that insurers run into when investing in non-traditional/alternative asset classes, there was a huge range (see Graphic 4).

What is the biggest challenge from an operational perspective when investing in non-traditional/alternative asset classes (including real estate, infrastructure, private equity, private debt, etc,)?



Graphic 4

While there was no clear winner, the top three answers, accounting for nearly 60% of responses, were increased regulatory scrutiny on investing strategies, increased compliance/legal complications, and viewing assets alongside traditional assets in the portfolio.

These are issues that affect a variety of different areas of an insurer, with regulatory scrutiny affecting risk, reporting, and investment teams, and the legal burdens mainly falling on the legal, compliance, and risk teams. However, viewing assets alongside traditional assets in the portfolio affects every team involved with the investment book of an insurer – with benefits felt by all if the data for these investment types is normalised and accessible.

Insurers are identifying a range of operational issues that they now have to contend with, as a result of the diversification of their investment strategies. This is perhaps felt by insurers more than other institution types, as they have been less historically inclined to invest in these asset types. This is often reflected in outdated technology systems, not suited to process such investments. We will explore this theme in more detail in the following chapter.

When we took a deeper dive into private market holdings, only 1% of respondents noted that they do not hold any illiquid or private market assets. This is a remarkable insight into the construction of modern Singaporean and Hong Kong insurance investment portfolios.

However, concerningly, 37% of those surveyed feel that they struggle to determine fair value for these assets, something that is bound to worry regulators around the world who are increasingly turning their attentions to private market assets, liquidity risk, and the methodologies that investors are using to produce valuations.

As alternative assets become a normal part of the portfolio construction process for insurers in Hong Kong and Singapore, the associated operational challenges are mounting. Insurers need to be able to rely on back, middle, and front-office solutions that can process these asset types alongside more vanilla investments, and they need to be able to produce effective risk assessments across their portfolios. All of this rests on having the ability to access and extract insights from high quality data to run the business.

New Year, New Technology?

Expenditure is expected to rise, with established technology the priority for insurers despite the spectre of AI looming large across the world.

Budget Season

When it comes to setting budgets ahead of the new year, a whopping 86% expect their technology spending to rise in 2024. This was most strongly felt by the goliaths, with every firm boasting an AUM of over 50 billion believing it would rise.

We also saw marginally stronger sentiment from those firms with multiple international offices, with 90% expecting expenditure to go up next year. This perhaps makes sense as when dealing with offices across multiple jurisdictions, operational complexity can increase. This would certainly have a greater impact if technology solutions supporting core processes aren't up to scratch.

Only 14% of firms do not anticipate their tech spending to rise, and not a single respondent reported that they expect it to fall in the new year.

New Year's Resolutions

When it comes to the priorities that insurers plan to focus on in this area, there was a clear bias towards existing, tried and tested technology. Almost a quarter of respondents (24%) selected the expansion or implementation of cloud technology as their main tech priority, which was the top answer. By contrast, integration of AI/ML technology was only selected by 11%, coming out bottom.

This is a fascinating insight into how Hong Kong and Singapore insurers broadly see these technologies fitting into their business in the short-term, with their heads in the cloud, rather than the emerging world of AI. However, in the boardrooms, there was a very different view. C-suite respondents reported a strong preference to prioritise the integration of AI/ML solutions in the new year at 38%, with implementation/expansion of cloud tech coming a solid second (23%). Perhaps this is reflective of the role of the C-suite to look to the future from a strategic perspective, with mindfulness of the potential benefits that generative AI will be able to deliver to firms.

The rest of the top three (Graphic 5) is rounded out by improving customer experiences (23%), and increased usage of data analytics (16%). Many firms are increasingly pouring money into areas that directly impact customer experience, such as client reporting, in a bid to differentiate themselves – this is particularly felt in the insurance asset management space, where fee pressures are forcing firms to find alternate ways to win mandates.

What technology priority does your organisation plan to focus on in 2024?

Graphic 5

While the smallest firms are primarily looking to increase their usage of data analytics (33%), those with an AUM of 50 – 100 billion USD are planning to put most of their eggs in the cloud basket (43%). Those with offices abroad echoed the positive sentiment on cloud technology (26%). This can perhaps be linked to the difficulty that firms can experience in tracking and effectively utilising data across teams and jurisdictions when it is locally held, rather than accessible throughout the business via the cloud.

Other priorities that are currently trumping the integration of AI technology in the short-term include improving portfolio management systems (14%), and automation of reporting (12%), demonstrating that insurers and insurance asset managers are identifying a range of areas they want to prioritise from a technology perspective in 2024 and are looking to those that are tried and tested, rather than in development.

When it comes to technology spend, the priority for decision makers is directing resources towards solutions that are going to make a difference to them now, not in 5 years' time. Technology solutions based on cloud, the capability to more effectively utilise advanced data analytics, and improving client experiences or regulatory relationships through accurate, efficient reporting are available now and being lined up for the new year. There are AI solutions in development that promise incredible potential, and it will be interesting to see when these begin to be rolled out to clients.

Bullish on Comparison

To round out the survey, we asked respondents to assess how they felt their organisations compared to their competitors on the digital transformation journey.

Only 38% of C-suite executives believe that they are ahead of the competition, which may explain the strong expectations that technology spend will increase in 2024.

Overall, many areas for improvement were identified, with various priorities listed for next year. Clearly, with technology budgets set to rise, 2024 is expected to be a big year.

Conclusion

Expectations are high for 2024 in the insurance industry in Hong Kong and Singapore. A bottleneck of M&A activity in both markets could be set to explode, and upcoming regulatory changes are already being fretted over, with a range of challenges identified.

The construction of modern insurance portfolios now includes a range of alternative and private market assets, which has brought with it a host of operational complexities that decision makers are seeking to address.

Through all this change, technology spend is strongly expected to rise, with insurers and insurance asset managers turning to their technology partners for support. Given a broad set of hurdles to overcome, and the absence of a single issue dominating the minds of decision-makers, firms require solutions that can address multiple concerns.

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