

# Cracking the Health Insurance Conundrum in Asia – A BPO Perspective

Health insurance premiums in Asia are rising. Yet, the market continues to remain underserved. Furthermore, Synpulse observes a lack of the ‘platform’ effect on the management cost structure to process health claims. Insurers do not seek economies of scale which in turn limits their capabilities to leverage market demand and capacity to invest in infrastructure projects for future scalability. To crack the conundrum, Synpulse believes the solution lies in a regional shared service approach. The Synpulse framework for Business Process Outsourcing (BPO) illustrates the (r)evolution on which insurers can use to understand how they can raise individual capabilities through a combined scale. Whether insurers can embrace the approach will depend on what, where and how value is intended to be generated to support their unique service propositions.

## Underserved demand for private health insurance in Asia

Strong population growth and rising wealth drive strongly health spending in developing markets, particularly Asia. By 2019, the number of high-income households (those earning over \$25,000 a year) will rise to over 540 million globally; Asia is projected to generate more than half of the global growth.

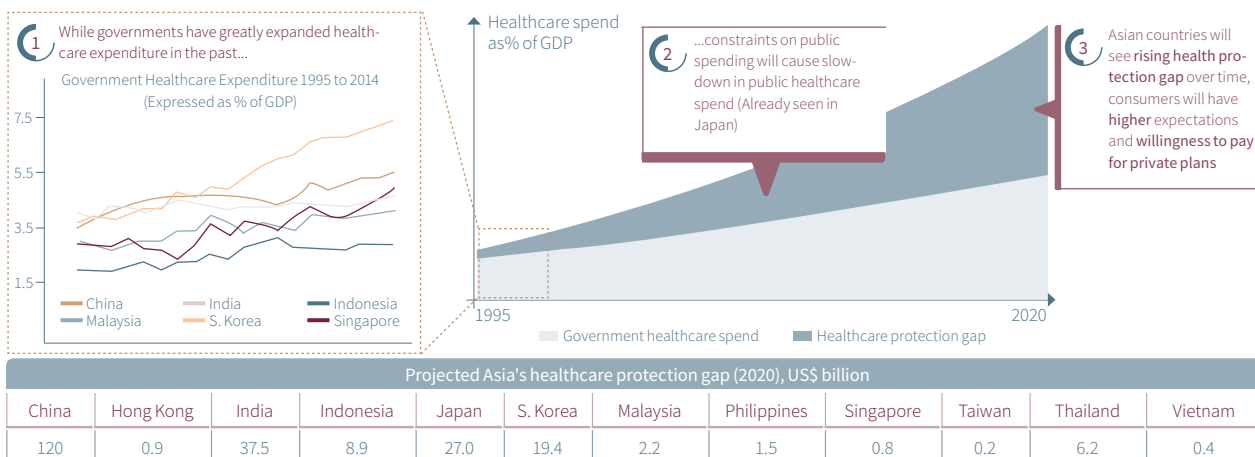
With premium growth rates between 18% and 21% until 2019 in Asia, the private health insurance becomes an attractive market. The market capacity to pay has grown substantially. So has the demand for private health insurance. Demand drivers include:

- 🌀 Increasing customer awareness/coverage concerns for self and dependents; cancer and heart disease are among the top health concerns in Asia
- 🌀 Strong evidence of increased lifestyle diseases/non-communicable diseases in the population across Asia
- 🌀 Rapidly ageing population trend entrenches conspicuously in different degrees in every country across the region
- 🌀 Rising real healthcare cost; medical inflation is ahead of general price inflation, partly due to advancement in disease detection and treatment options

Overloaded and/or very basic state health systems result in long waiting times, inadequate or poor facilities for those who cannot afford private healthcare without insurance.

**A strong tsunami is building up to drive demand for health care insurance**  
Demographics: Aging Population

**Standard of living:** Wealthier societies, uncertain treatment cost, high medical inflation  
**Awareness:** Growing perception of health insurance needs



1 Room for Private Play

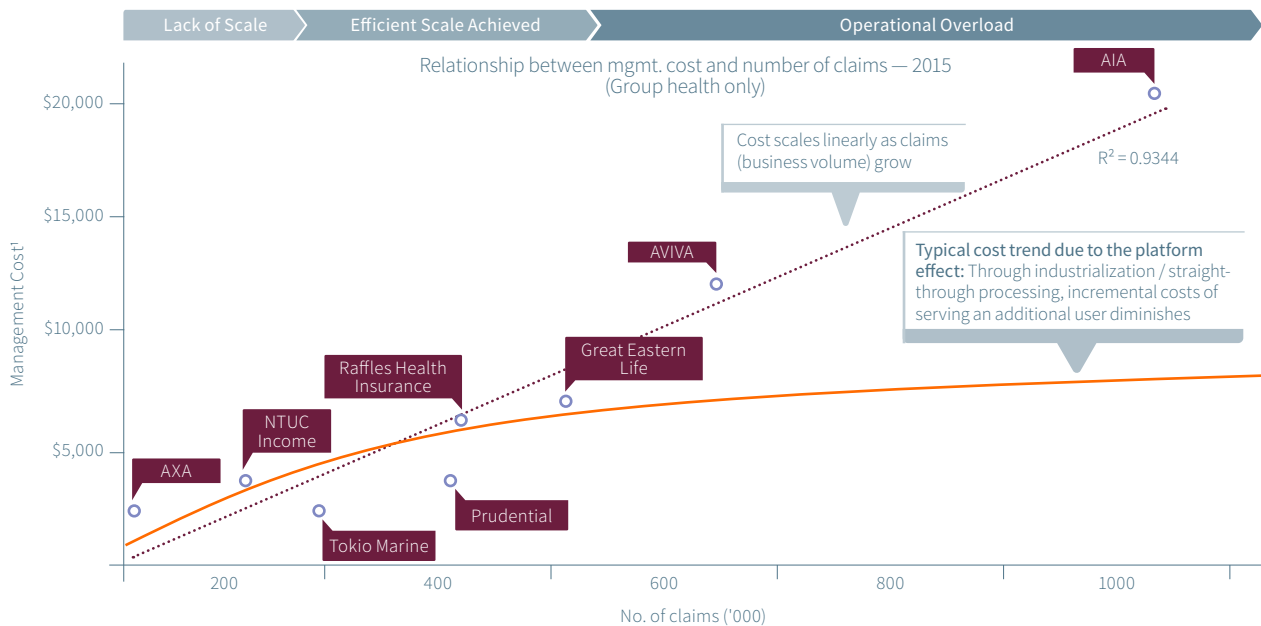
Out-of-pocket expenditure has been reducing in recent times, albeit inconsistently across Asia, suggesting scope for private insurers to reduce such expenses. Hospitalization and critical illness products are in fact top concerns for customers (vs. traditional products), validating huge market opportunity. Rarely is insurance bought and not sold but such is the case for health insurance.

Nonetheless, private supply has yet to catch up with strong demand. Past 'coverage slack' has been picked up by governments but current constraints on public spending creates a huge market opportunity for private insurers.

Ironically, insurers — even including those more aggressive in their health strategy — do not take advantage of scale. Insurers which can claim its core competency in health insurance in Asia are few and far between. The drivers behind the strong demand for private health insurance turned out to a double-edged sword for insurers with the ambition to expand health insurance business but do not have the expertise, operating model and/or infrastructure to contain cost of claims. The threat of profit erosions, among other reasons, discourages the more conservative insurers from pursuing substantial growth in health insurance. They become sub-scale which in turn limits their capability to leverage growth and cost control.

### Operations cannot cope efficiently with growth

Some insurers are more successful than others in penetrating the market to leverage the demand for private health insurance. One would expect a 'platform effect' on the cost structure in this line of business. Synpulse observed however a linear relationship, for group health insurance, between claims volume and management cost.



Source: Synpulse Research, MAS Company Returns (2015)  
 \*Management cost include policy administration, claims processing and related supporting functions

2 Cost structure observed in Singapore for Private Health Insurance (Group)

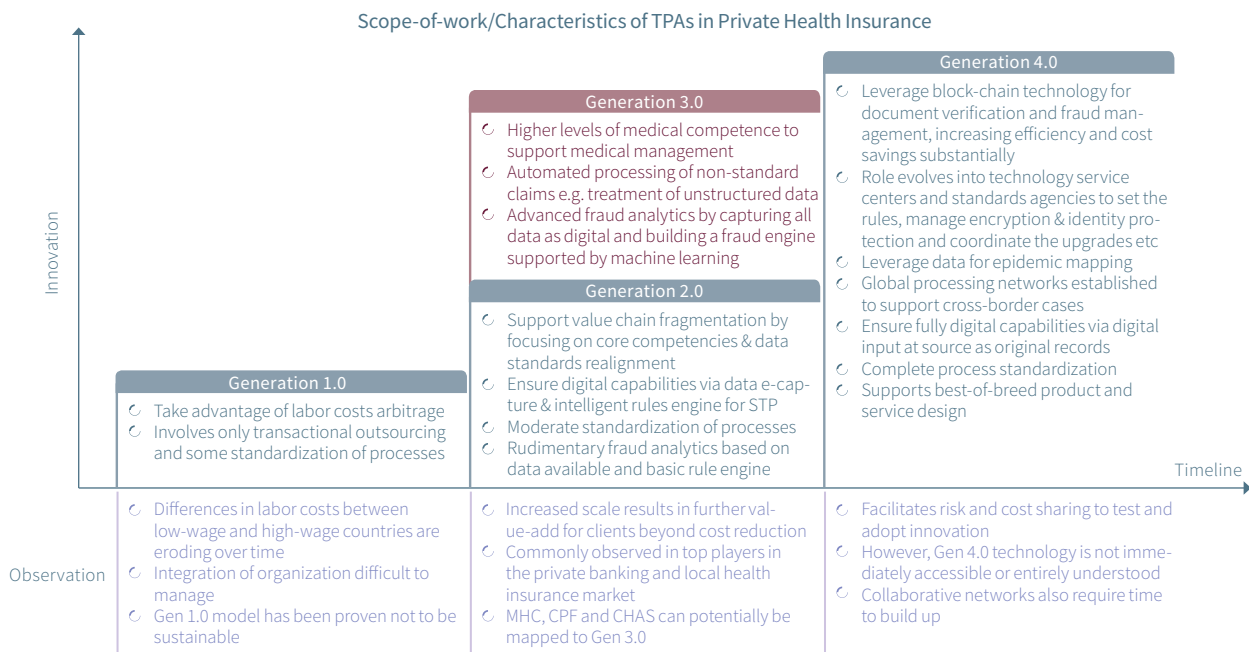
## Cracking the Conundrum through a Business Process Outsourcing (BPO) Framework

However, to raise cost efficiency and eventually to help contain cost of claims in health insurance, insurers cannot discount the importance of a modern infrastructure and leveraging the platform effect. To crack the conundrum, Synpulse believes that the solution lies in a regional shared service approach. The Synpulse framework for Business Process Outsourcing (BPO) illustrates the (r)evolution on which insurers can use to understand how they can raise individual capabilities through a combined scale.

- **Generation 1.0 BPO** leverages labor cost arbitrage. However, differences in labor costs between low-wage and high-wage counties are eroding over time. This model has thus proven to be unsustainable.
- **Generation 2.0 BPO** introduces value add beyond labor cost. By investing in digital capabilities, this generation enables insurers to benefit from rules engine for straight-through-processing of standard claims and even some rudimentary fraud analytics. Insurers' in-sourcing model tends to lie between Generation 1.0 and 2.0.

- **Generation 3.0 BPO** tackles the non-standard claims and provides advanced and customer-centric cost containment through medical management and advanced fraud analytics supported by machine learning.
- **Generation 4.0 BPO** increases efficiency and cost savings very substantially through block-chain technology. It may only materialize in the long distant future but any current efforts to establish the foundation cannot be judged as being too early. From its foundation in the regional shared service approach, Generation 4.0 becomes a regional controller and coordinator of standards and technology.

Synpulse invites insurers to take a leaf from the private banking industry. For example, banks differentiate themselves by on-boarding ease and speed but the essence of an on-boarding process is not unique to any bank. Synpulse generates significant economies of scale for a private bank in a flagship BPO center project which taps on a growing core banking platform client community. The BPO center handles the outsourced non-core functions, automates straight-through-processing and variabilizes operating cost structure.



3 Synpulse BPO Framework for Private Health Insurance

## Conclusion

Can insurers embrace the regional shared service approach? The answer originates in the insurers' perceptions of the value they want to generate and begets more questions. What are the value drivers which support a unique service proposition and would need combined scale or infrastructure investments to materialize? Where in the processes are the value drivers located and can be readily set up to benefit from a value chain fragmentation? How can insurers filter through a culture of change resistance to discern the true value drivers and variabilize cost of the non-core functions? Methodologies like LEAN management provide additional clarity. Cracking the health insurance conundrum is a mean but not impossible feat.

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