# MALAYSIAN RE FORESIGHTS

## Editorial

MALAYSIAN RE

**ISSUE 1 | JAN 2020**

- Company's Updates
- Key Trends in Malaysian Market
- Digitalisation in ASEAN
- Cyber Risk – The Dark Side of Digitalisation

www.malaysian-re.com.my

Dear Partners and Friends of Malaysian Re,

We are excited to share with you the first edition of Malaysian Re Foresights. As we are stepping into a new decade, we believe this is the ideal time to put forward another publication for our clients containing insightful thoughts on the opportunities and challenges ahead.

With close to 50 years of experience, we keep *au courant* with the market trends as we strive to continue providing values to our clients and partners. This is in line with our business transformation journey towards 2020, better-known as "T20".

In this Malaysian Re Foresights first edition, we will share the vital findings from two recent research publications; Malaysian Insurance Highlights (MIH) and ASEAN Insurance Pulse. The inaugural MIH offers key industry statistics as well as highlights five major trends observed for the Malaysian insurance & takaful markets; meanwhile, the third ASEAN Insurance Pulse deliberates on the impact of digitalisation on the region. We believe these topics are not only relevant, but also play a vital role in shaping the insurance landscape for the next decade.

We hope you will enjoy reading the first Malaysian Re newsletter, Malaysian Re Foresights and any feedback or suggestion is very welcome.

Happy New Year!

Yours Sincerely,

***Malaysian Re Team***

# Company's Updates

## RATINGS

**A.M. BEST** has affirmed Malaysian Re's Financial Strength Rating ("FSR") of "A-" (Excellent) and Long-Term Issuer Issuer Credit Rating of "a-". A.M. Best also confirmed the outlook for both ratings as Stable. (20 Dec 2019).

## MoU WITH PACIFIC LIFE RE

**"Growing Takaful Together"** marks another milestone for Malaysian Re as this indicates the first strategic partnership between the company and Pacific Life Re, Singapore branch, as well as Malaysian Re expanding its business into family retakaful. The signing was done between the CEO of Malaysian Re, En. Zainuddin Ishak and the Managing Director Asia & Australia of Pacific Life Re, Mr. Andrew Gill.

Through Malaysian Re's retakaful division, Malaysian Re Retakaful Division (MRRD), Malaysian Re will provide sustainable family retakaful solutions to Family Takaful Operators. Pacific Life Re on the other hand will provide assistance to MRRD's Family Takaful business via underwriting, technical pricing, product development, global insights, and experience analysis.

Malaysian Re is particularly excited about the prospect of providing solutions to Malaysian Family Takaful operators as it is forecasted that Family Takaful will overtake Life Insurance in 2030 in terms of number of certificates-in-force.

## THOUGHT LEADERSHIPS


**Malaysian Insurance Highlights (MIH)** was launched on 4 December 2019 by the Assistant Governor of Bank Negara Malaysia, En. Adnan Zaylani Mohamad Zahid at Sasana Kijang, Bank Negara.

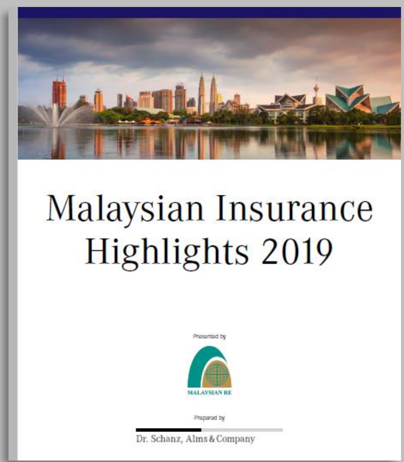
The inaugural edition of Malaysian Re's second Thought Leadership publication surveyed 30 domestic insurance executives and experts. Five major trends in Malaysian market were extensively covered namely detariffication, industry consolidation, InsurTech, servicing B40 and takaful potentials.

***ASEAN Insurance Pulse's*** 3rd edition was launched by the Department Head of Non-Bank Financial Industry Supervision Department, Indonesia Financial Services Authority (OJK), Dr. Ariastiadi Saleh Herutjakra at the 12$^{th}$ ASEAN Insurance Congress held in Bali, Indonesia.

This third publication focuses on the state of digitisation of the region's US$31 billion non-life insurance markets.

## MIH 2019:

## Key Takeaways




## Key Trends in Malaysian Market

General insurance penetration (premiums as a share of GDP) has eroded in Malaysia as the insurance sector as a whole has consistently below the regional average, ultimately since 2015.

Nevertheless, the penetration rate in Malaysia still boasts above the region average by about 50%. The phased liberalisation commenced in July 2017 for Motor business and followed by gradual adjustment in Fire risk. The liberalisation has spurred an increased demand in the motor and fire products with 2018 premium indicating a reversal of the declining growth trend over the past decade.

### Equitable Pricing Regime

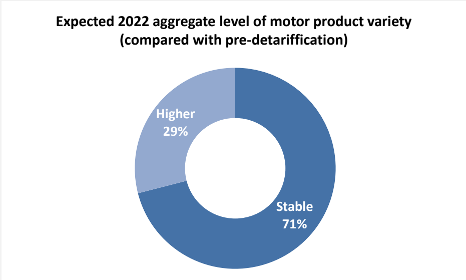
Implementation of detariffication serves as an equitable pricing mechanism based on individual risk. The orderly disbandment of the tariff rates which had been ruled for more than decades gives flexibility for the insurers in charging their customers based on individual's risk and at the same time promoting new product innovations to close the gap in the customers' needs.

Based on the interview conducted by the Dr. Schanz, Alms & Company, 39% of the industry experts expect stable rates in motor rates within the next two years (2022) as compared to the pre-detariffication rates.


Despite 52% majorly expects for lower motor rates in coming years, premium has increased by 1.9% to RM 8.5 billion due to higher car sales, resultant from the tax holiday period.

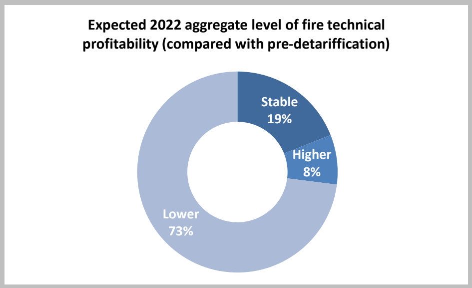
In terms of profitability, majority (60%) expect decrease in technical profitability amid the more prudent risk-based pricing as the underlying claims pressure by rate increases coming from rising costs for labour and spare parts, in combination with surging bodily injury awards. The loss ratio remains unchanged from prior to detariffication, hovering around 70% after 350 basis point increase from the year of 2016.

Most interviewees also believe that insurers' main focal point on the main motor product, hence will see limited innovation or expansion of products.



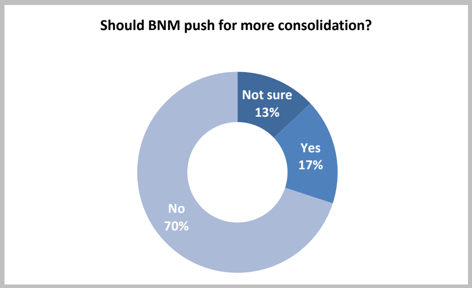

Contradicting to Motor, Fire business is a highly profitable segment with a combined ratio standing at 58.7% and loss ratio of 28.7% in 2018. These figures are strongly conveyed by the majority experts where 83% of them expect lower fire rates in 2022 as compared to pre-detariffication rates.

With greater discounts given to the customers, this directly diminishes the technical profitability margin as expected by most interviewees.




### Market Consolidation

Malaysia's general insurance sector has scaled down over the decade, from 36 in 2000 to only 21 in 2019, resulting in the second highest average premium for non-life insurance companies in the ASEAN markets. In the research, 70% of the interviewees do not see any need for additional consolidation with only 4 general Takaful operators left.



## Bridging the Gap in B40

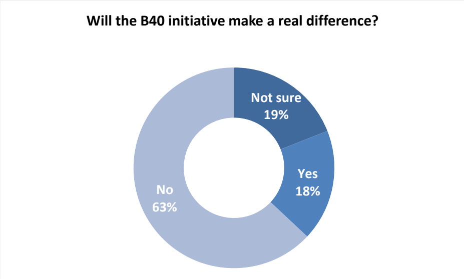
Serving the B40 segments' welfare remains national key challenge. Although this segment is highly vulnerable to financial shock, the insurance penetration in this segment has remained low at 30.3% against the national average penetration rate of 50.4% in 2017. In fact, the gap is widening in states with large urban areas, especially in Kuala Lumpur where the percentage of non-B40 aged 20 to 59 is 88% in comparison to the mere 30 % of B40 from the same age category.

Considering this as an example of market failure to provide protection for the underserved segment, BNM had launched Perlindungan Tenang in November 2017, with the aim to expand the insurance and takaful penetration among the B40. Recently, another program funded by government, Skim Perlindungan Nasional B40 (mySalam) was also launched aiming to provide health insurance coverage to the B40 for 36 critical illnesses, including cancer, heart attack and Alzheimer's.

Nevertheless, most insurance experts are doubtful of the feasibility of these programs in boosting the penetration rate in Malaysia as it lacks of a compelling commercial preposition.

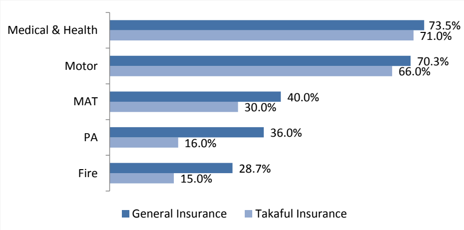
"One may argue that the B40 classification is too broad for designing and implementing effective public and private initiatives to tackle the underlying issue of severe protection gaps, for example in the area of critical illnesses. Narrowing down the focus on those who are the neediest may facilitate targeted measures, jointly driven by the public sector and the private insurance industry in Malaysia."

**Zainudin Ishak, CEO, Malaysian Reinsurance Berhad**



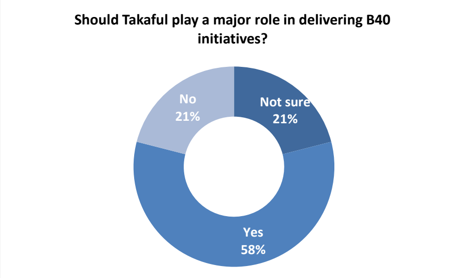

## Future of General Takaful

General Takaful portfolio is highly concentrated in Motor followed by Fire at 62%, and 20% share respectively. These two classes of business have outperformed the conventional sector in 2018 by 4% and 14% respectively.




Nevertheless, the potential for Takaful in Malaysia is not fully exhausted; especially on the General side where the product offerings are limited and do not differ much from the conventional sides.

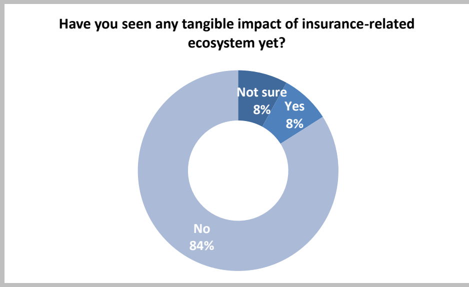
To capture its full potential, the experts suggest that awareness and branding, along with technology capabilities can enable Takaful to propel its intention to dominate the market. Aside, the majority 58% of interviewees believe that Takaful can play a major role in delivering B40 insurance initiatives as this segment composes majority of Muslims.



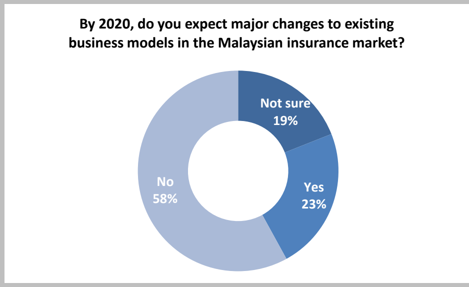

## Embracing InsurTech

As technology transforms insurance and impacts virtually all elements of the value chain, there has been much debate among industry practitioners on how business models may evolve, for example from payer only to a more integrated and comprehensive partner model which draws on platform-based ecosystems.

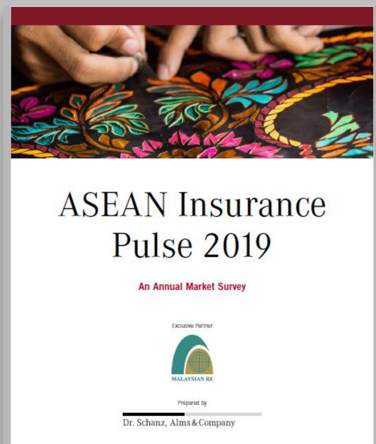
Based on the interview with experts, the vast majority of 84% do not see any tangible impact of Insurtech to the insurance ecosystem where most of them perceive this ecosystem irrelevant as it requires stamina from both parties; insurers and consumers.




The publication also reveals that the majority of the interviewees do not expect major changes to the existing models due to digitalisation.




# ASEAN Insurance Pulse 2019: Key Takeaways




## Digitalisation in ASEAN

ASEAN with 65% internet and 63% social media penetration, together with 132% of mobile connectivity, is a region in a state of flux with consumers' behavior being increasingly shaped by digital technology.

The usage and handling of personal data is becoming more vital for consumer trust. There is no shortage of technologies available for insurers to take advantage of the changes as most insurance executives are aware of Artificial Intelligence, Big Data, Blockchain, Cloud Computing, and Robotics – the benefits they bring to capital and risk analytics, customer intelligence, and process efficiency.

**Almost 50% of insurers participating in this year's ASEAN Insurance Pulse say they only spend between 1 and 2% of their gross premiums on digitalisation initiatives excluding general IT spend.**

Majority of interviewees agree that digitisation of the existing value chain is the most preferred method in preparing for the digital future. Also, it is expected to allow insurers to protect customer interface against challenges from disruptors and avoid being downgraded to mere risk carriers.

Collaboration with external parties such as technology start-ups or established platforms is a popular strategy as well. The main element towards insurance digitalisation in the ASEAN region is the need to diminish the cost of acquisition. Over the next two years, digitalisation will mostly affect distribution and marketing elements of the insurance value chain. Meanwhile, over the next five to ten years, the underwriting and claims functions need to be reformed by advanced analytics which are supposed to allow breakthroughs in risk-based pricing and the detection of fraudulent claims.

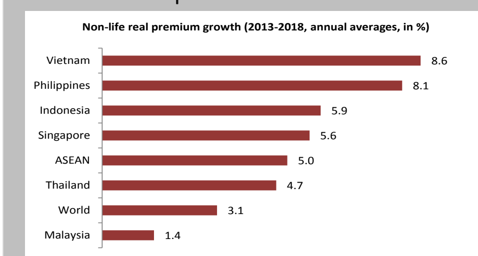
Travel, personal accident (PA) and motor lines of business will be the most immediately impacted by digitalisation. The short-term impact of digitalisation on the premium growth line is expected to be quite positive, with a maximum additional annual premium growth of 5% anticipated by the majority of the executives polled. The long-term impact, digital technology is believed to boost premium growth. Half of the interviewees expect double-digit additional annual premium growth on the back of digitalisation, motivated by improved access to customers, and attractive and affordable products.

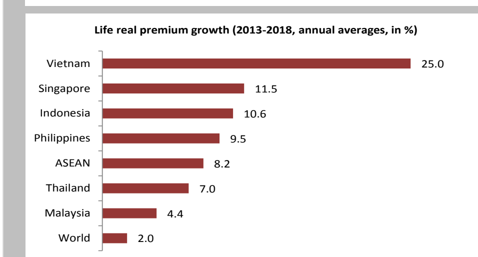
There are some major hurdles players facing such as differentiated pricing, product innovation, cloud computing usage or acceptability of electronic signatures. Hence, regulators are recommended to adopt a more flexible approach to digitalisation in insurance.

## ASEAN non-life insurance penetration stagnates

Life insurance business plays a vital role in the ASEAN region with a share of 71% of total premiums as compared to its global share of 54%. With this, the region's life insurance penetration (premiums as a share of GDP) still falls short of the global average (2.6% vs. 3.3%).

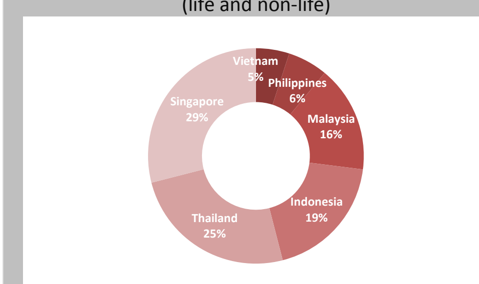
However, studies have shown that the gap is far wider in non-life insurance. A non-life insurance premium represents 1% of GDP which is less than a third of the global average, 2.8% in 2018. From 2013 to 2018, the non-life insurance markets of ASEAN grew in accordance to underlying economies at 5%. Hence, the region's non-life insurance penetration is constant.




**Source: Swiss Re sigma database, all rights reserved**

ASEAN region's three largest insurance markets – Singapore, Thailand, and Indonesia accounts for almost three quarters of total ASEAN premium pot (life and non-life)

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For the non-life insurance markets, motor is the biggest segment in comparison to the other five segments in this market. However, motor segment is not as big in Philippines and Indonesia, as compared to in Thailand and Malaysia.

## ASEAN non-life insurance market status and outlook

Non-life insurance market strength such as the ASEAN region's strong economic and premium growth momentum were mostly mentioned followed by technology savvies of the population with low median ages. Lastly, it is the region's growing middles classes. For instance, when there is an increase in a family wealth, then there is an increase in an insurance awareness.

> "A major benefit of digital technology is the promotion of transparency of premium rates and product offerings. The ease of comparison is a key determinant of customers' interest in and awareness of insurance. On the back of technology, purchasing behaviours are set to become more sophisticated and mature – to the benefit of the insurance market at large."
>
> **Zainudin Ishak, CEO, Malaysian Reinsurance Berhad**

## Main Weakness: Regulatory Shortcomings

Lack of regulatory harmonisation or mutual recognition will result in a major obstacle when establishing a more integrated ASEAN insurance market place. There were several executives that bemoan weaknesses in enforcing existing regulations or over-regulation, as well as procedures rather than principle-based approach in a number of countries. Most executives also agreed that regulators should also put more focus on facilitating market development than customer protection.

Another weakness highlighted was the lack of insurance awareness. All ASEAN countries, excluding Singapore, still have large rural populations where the role and potential value of insurance are being disregarded.

Lack of talent is also considered as a weakness whereby talent scarcity is very severe in technical roles such as in actuarial and areas related to digitalisation where human capital is even more significant as a constraint rather than financial capital.

It can also be seen that talent gaps pose a certain challenge to markets that undergo detariffication and liberalisation. Hence, additional technical capabilities in product development and pricing are much needed.

## Cyber Risk (the dark side of digitisation)

There is, however, a downside when it comes to digitisation and rapid development of interconnectedness, relating to the Internet of Things (IoT), artificial intelligence and robotics - cyber risks are now growing exponentially.

Global cost of cybercrime is at 0.6 % to 0.8 % of global GDP, approximately around USD 450 to 600 billion – per annum. This amount takes into account the cost of securing networks, the direct losses from cyber-crime, reputational damage, and liability risk for a hacked company.

Major risks for instance, large data breaches and catastrophic events are covered by cyber insurance. Examples of these risks are the interruption of a major cloud service provider or a global spread of malware.

With this arising problem of malware, the global demand for cyber insurance is on the rise. The stand-alone cyber market is now worth approximately USD 4.5 billion, whereby the US market dominates 80%-90% of the global total, and the remaining 10% is dominated by the EU. This market segment is geared up for double-digit growth in five to ten years' time, with an estimation of USD 20-25 billion by 2025.

There are still some challenges to cyber insurance, namely, the lack of predicting cyber losses which will result in limitation of risk pooling. Next, the challenge is on the accumulation of losses. Cyber is one of the few genuinely global risk exposures, which presents severe quantification challenges. The other challenge is the asymmetric information. Adverse selection is almost expected as organisations that have experienced cyber incidents before are more likely to buy insurance.

There are three types of approach to enhance cyber insurance, namely awareness building, legislation, as well as product innovation. Firstly, in regards to awareness building, it is done with personal and small commercial lined customers. Based on findings, there is still a very limited understanding of the potential scale and scope of cyber disruptions and associated exposures.

Besides that, legislation is seen as the next most important stimulus for cyber insurance in Malaysia. Some interviewees refer to the EU's General Data Protection Regulation (GDPR) Directive.

As for product innovation, its policies do not only cover business interruption but also contingent business interruption for certain losses incurred resulted from cyber-attacks in the supply chain. Cyber insurers can consider expanding their offerings to include services that can aid in bringing down both the frequency and severity of cyber breaches.


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