A reinsurer with 20/20 vision

Malaysian Re operates in a slow-growing and still-developing market, but manages to maintain its profitability and financial strength. We talk to president and CEO **Zainudin Ishak** about the sights it has set for its future, the continued development of the market and the regulator's role.

By Ahmad Zaki

Malaysian Re had a tough 2017, with the motor liberalisation process slowing the growth of the general insurance industry. However, it has managed to maintain a stable outlook, with strong capitalisation and good financial performance for FY18.

Fitch recently reaffirmed its A- rating, given its strong business profile, as Malaysian Re's established domestic franchise is balanced by its smaller absolute market size and limited geographical diversification compared to global peers.

The company's combined ratio and return on equity improved to 98% and 7.8% respectively in the first half of the financial year ending March 2018 (FY18), from 103% and 6.9%, respectively, in FY17.

Fitch also said that Malaysian Re's underwriting results were expected to benefit from the company's continued rationalisation of its business portfolio to discontinue unprofitable businesses and arrangements. However, its international portfolio remained volatile.

The company maintains its role as leading reinsurer in Malaysia, with a market share of more than 50% by reinsurance accepted premiums in 2017. It is also ASEAN's largest reinsurer by asset size and second largest by gross premiums.

Transforming the business

"As part of Malaysian Re's Business Transformation 2020 (T20), we have identified a number of strategic priorities," said Malaysian Re president and CEO Zainudin Ishak. "The first one is to defend our position as the domestic market leader by delivering superior customer experience, as well as leading in product innovations and technical knowledge. Equally important would be for Malaysian Re to continue growing in selected overseas markets, hence our proactive branding of Malaysian Re's regional leadership. We are also actively looking to expand our product development capability and offerings to our clients."

Malaysian Re embarked on T20 last year and has rationalised its overseas portfolio by terminating non-profitable businesses and increasing its participation in high-growth and profitable segments. The company has further refined its risk selection process and strengthened its internal control for the businesses it underwrites.

Its T20 efforts will be reinforced by a MYR100m ($24.4m) injection from parent company MNRB Holdings, through a renounceable rights issue exercise. This is intended to allow Malaysian Re to explore and develop new products for the local market to solidify its market leadership in the local insurance industry further. It would also allow for the company prudently and selectively to underwrite a more sizeable share of its business portfolio in the overseas market.

Barring any unforeseen circumstances, the proposed rights issue is expected to be completed in the fourth quarter of 2018.

Earlier in the year, the reinsurer licensed AIR Worldwide's catastrophe risk modelling platform for portfolio management and managing new risks.

The deployment of the catastrophe modelling solution was intended to support its reinsurance operations for a broad range of risk management solutions, including risk pricing and portfolio management and as a tool to help expand into new markets and lines of business.

Trusting the regulator

Malaysia also underwent some political excitement earlier in the year, with a change in government and the return of Dr Mahathir Mohamad to power. However, Mr Zainudin is confident that regulator Bank Negara Malaysia (BNM) will continue its efforts to develop the insurance market and strengthen the local industry further. "The regulator has introduced effective policies over the years and advocates greater customers' choice and protection, encouragement of competition and levelled playing field, stronger financial and capital position," he said. "We are optimistic that most of these policies will probably continue while we can expect some new policies to be introduced to reflect the aspiration of the new government."

Not all of these policies have been successful, however. The reinforcement of the foreign ownership rules hit a stumbling block earlier in the year, as many insurers were unable to find buyers for their equity stakes, with some insurers having deals worth more than $2bn thrust upon them. BNM declared the ownership limits last year, enforcing a mostly ignored 2009 rule.

"Foreign ownership facilitates knowledge, technology transfer and best practices while local ownership encourages retention of the premium within the country which brings economic benefits and promotes local talent development," said Mr Zainudin. "We expect the industry will be flexible and robust enough to adapt to the regulations which the regulator sees fit for the industry."

"The regulator has done a commendable job at shaping the industry into the robust shape that it is. For the takaful sector, we would like to see more flexibility in risk mechanism to allow the takaful and retakaful players catch up with the conventional players," he said.

In the meantime, he believes that in order to drive competitiveness, domestic players should be encouraged to venture abroad, and certain provisions could be relaxed as incentives.

"We are also fully supportive of the regulator's FinTech agenda and we believe a fully digitalised insurance company with product customisation could be the next innovation for the industry," he said. "Continued development also hinges on the industry's ability to attract, train and retain talent, hence effective engagement with the stakeholders such as education ministry, colleges and universities as well as the industry employers is required for the insurance industry to become the preferred industry for new talent."