ASEAN Insurance Pulse 2020

An Annual Market Survey

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Prepared by
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ASEAN Insurance Pulse 2020

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Cover Rationale: Yi Peng (or Yee Peng), is a lantern festival celebrated in Northern Thailand. Numerous sky lanterns made of rice paper are propelled into the sky by the heat from a candle at their base. The lanterns, called khom loi, or floating lanterns, are released each year on the full moon night of the 12th month of the Thai lunar calendar, typically in mid-November and symbolise the perfect time to let go of the past and making a wish for good fortune in the coming year.

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Foreword Malaysian Re

When we first published the *ASEAN Insurance Pulse* over 3 years ago, few pundits could imagine that our dynamic region would be hit by a once-in-century pandemic in the near future. Yet, since the first case of COVID-19 outside of China was detected in Thailand in early January 2020, the ASEAN countries have had a mixed success in containing the spread of the virus. Success stories in some markets were interspersed with relentless transmissions in others.

The different state of COVID-19 highlights the curious fact that the ASEAN countries, despite having a combined GDP of about US$ 3 trillion, which ranks them as the world's fifth-largest economy, are far from being a homogenous bloc. Case in point, it is commonly understood that the tourism and hospitality sector has been severely impacted by the pandemic. No other country exemplifies this more than Thailand where tourism makes up 20% of GDP. Over in Cambodia, where tourism is vital with a contribution of 30% to the country's GDP, the largest employment sector is the garment industry with more than half a million employees, accounting for 16% of its GDP and 80% of its export earnings.

Through our Pulse publications, Malaysian Re continuously seeks to investigate and explain the unique features of our region as part of our efforts to improve our understanding of the ASEAN community and its regional insurance market. The timing has never been more fitting as our industry grapples with the unprecedented challenges from COVID-19 and questions abounding to the impact, solutions and opportunities.

In this regard, we would like to express our deepest appreciation to the industry leaders who generously participated in the surveys. Their invaluable input enabled our researchers from Faber Consulting to perform an independent and comprehensive assessment which you will find in this publication to be refreshingly distinct.

We are also grateful to Bank Negara Malaysia, Malaysian General Insurance Association (PIAM), ASEAN Insurance Council and Insurance Associations of ASEAN countries for the steadfast support of our initiative.

We hope that you will enjoy reading the *ASEAN Insurance Pulse* and look forward to your feedback.

Zainudin Ishak
President & Chief Executive Officer,
Malaysian Reinsurance Berhad

Foreword Faber Consulting

We are pleased to present the fourth edition of *ASEAN Insurance Pulse*. This year COVID-19, an unprecedented global health crisis, dominated societies, economies and insurance markets worldwide. The ASEAN markets make no exception here. The *ASEAN Insurance Pulse* investigates the impact of the crisis on the region's economies and its insurance markets. It takes the pulse of the region's insurance executives on how the pandemic shaped their markets, which actions regulators took to supervise during the crisis and how the virus will change the regions' insurance industry. This research has been closed on 6 October 2020, before second or third infection waves affected global or regional insurance markets and before first news appeared that finally vaccines which an efficacy of more than 90% have been found.

Now for the fourth time, Malaysian Re has been our indispensable partner. Through the continued support of the *ASEAN Insurance Pulse* Malaysian Re demonstrates its commitment to the ASEAN insurance community and to advancing regional markets also in a time when the industry has to manoeuvre in uncharted territory.

The *ASEAN Insurance Pulse* draws on diligent market research as well as in-depth interviews with senior executives from national, regional and international insurance and reinsurance companies, intermediaries and trade associations operating across the ASEAN region. As in the past the methodological strengths of this study lie in its comprehensiveness. Our qualitative interviews, the familiarity with the industry and its drivers allow us to paint a differentiated picture of the key challenges, and also the opportunities that the industry's leaders and their teams encountered in this exceptional business year.

We would like to extend our deepest thanks to Malaysian Re for once again enabling this research project, which is designed to benefit the ASEAN insurance market as a whole. In addition, we would like to thank AM Best for supporting this study with an exclusive, in-depth interview on their assessment of the regions' insurers in the COVID-19 pandemic. Finally, our gratitude goes to our interviewees, the many insurers, brokers and members of associations that have shared once again their expertise so openly with us.

We hope that you will enjoy reading the fourth edition of *ASEAN Insurance Pulse* and consider its findings useful.

Henner Alms
Chairman and Partner
Faber Consulting

Andreas Bollmann
Partner
Faber Consulting

Methodology

The findings of this report are based on structured interviews with executives representing 30 regional and international (re)insurance companies, intermediaries, policymakers and trade associations. The interviews were conducted by Faber Consulting, a Zurich-based research, communication and business development consultancy, from September to October 2020. Interviewees belong to the regional network of Faber Consulting or were recommended by Malaysian Re. In addition, the General Insurance Association of Malaysia (PIAM) encouraged their members to support this research. We would like to thank the following organisations for sharing their insights with us:

— AIG, Malaysia
— AM Best, Singapore
— AmGeneral Insurance Berhad, Malaysia
— Axa XL, Singapore
— Berjaya Sompo Insurance, Malaysia
— BIDV Insurance Corporation, Vietnam
— Campu Lonpac Insurance, Cambodia
— General Insurance Association of Malaysia (PIAM), Malaysia
— Great Eastern General Insurance Indonesia, Indonesia
— Great Eastern Life Assurance Company, Singapore
— Insurance Association of Vietnam, Vietnam
— Liberty Insurance Berhad, Malaysia
— Lloyd's (Asia-Pacific), Singapore
— Malaysian Re, Malaysia
— MPI Generali Insurans, Berhad, Malaysia
— MSIG, Malaysia
— Myanma Insurance Company, Myanmar
— Myanmar Insurance Association, Myanmar
— National Insurance Company, Brunei
— National Reinsurance Corporation of the Philippines, Philippines
— Philippine Insurers and Reinsurers Association (PIRA), Philippines
— RHB Insurance, Malaysia
— Swiss Re, Malaysia
— Takaful Brunei, Brunei
— Thai General Insurance Association, Thailand
— Thai Reinsurance Public Company, Thailand
— The Pacific Insurance Berhad, Malaysia
— Tugu Insurance, Indonesia
— Vietnam National Reinsurance Corporation (VINARE), Vietnam
— Willis Re, Malaysia

Key Pulse readings

As of October 2020, when we closed the editing of this research paper, the ASEAN countries had fared considerably better in containing the spread of COVID-19 than the mature markets in Europe or the Americas. Emerging Asia is projected to be the only region with a positive GDP growth rate in 2020, albeit more than 5 percentage points below its average of the previous decade. Countries like Indonesia (0.5 %) or Vietnam (1.6 %) are expected to still register positive growth rates, while Malaysia (-6.0 %) or Thailand (-6.7 %) may experience negative growth.

To stimulate the economy and buffer the most severe impact of lockdown and movement control measures, the ASEAN countries launched a wealth of fiscal measures adding up to a package of more than US$ 427 billion or about 13.5 % of GDP with countries like Singapore investing as much as 26 % or Myanmar about 0.1 %.

The crisis severely affects the ASEAN insurance industry. While stock markets sharply descended in March/April and bond yields further declined, the most onerous effect came from the impact of the pandemic on insurers' top line. The global life insurance market is projected to contract by 1.5 % in 2020 and 2021, as compared to a 2.2 % growth in 2019. In non-life, insurance premium volume is expected to still continue to grow by 1.6 % for the years 2020 and 2021, following a 3.5 % growth in 2019.

ASEAN non-life insurance markets to decline by 6.6 percentage points in 2020

Assuming a close correlation of GDP and premium growth for the ASEAN non-life insurance markets this study predicts that in 2020 non-life insurance premiums will be US$ 2.275 billion lower (still US$ 2.023 billion in 2021) than without the impact of the COVID-19 crisis. The overall non-life insurance premium growth rate in ASEAN may decline by an average of approximately 6.6 percentage points as compared to 2019 predictions. However, non-life insurance in Cambodia and Vietnam could still register volume growth in non-life of 7 % to 10 % in 2020, while the Philippines, Singapore, Indonesia and Thailand will be more or less flat and Malaysia's non-life insurance market volume could be lower in 2020 than in 2019.

These calculations resonate well with the findings from our survey among insurers operating in the ASEAN markets. Overall, interviewees predict that industries based on consumption, tourism, manufacturing, trade as well as the oil & gas sector will be hit hardest by the impact from COVID-19. The decline in these industries will obviously exert the gravest impact on insurers' top-line.

Although the ASEAN insurers cover systemic risks such as natural catastrophes, terrorism, epidemics and business interruption, these risks are usually only written on a limited basis and based on a tight policy wording. In light of experiences with previous epidemics, the exposure to COVID-19 is almost excluded on the health side. The risk of sizable business interruption losses is quite slim too, given that there had been little demand for the coverage and that exposures had been capped.

Main impact expected on insurers' top-line

The ASEAN insurers expect the most dramatic impact from the pandemic on their top-line, reflecting both the immediate effect of the lockdown measures as well as the longer-term effect due to slower GDP growth. The impact to the bottom line is limited – in fact it could be positive as loss ratios in lines such as motor improved during the standstill. With regards to investment returns, the ASEAN insurers are predominately concerned about lower returns in their bond portfolio, while stock markets mostly rebounded from their initial crash in March/April 2020.

The lines of business which mirror most closely the ASEAN countries' GDP have been hit hardest. Motor insurance was strongly affected by the lockdown and the decline in consumption. The effect on travel insurance and aviation was even more dramatic. The disruption of supply chains and the decline in trade volume affected insurance classes such as property for manufacturing as well as credit and marine cargo. Health and life insurance fared better as with the exception of the Philippines and Indonesia the number of infections remained relatively low and governments decreed that COVID-19 patients had to be treated in designated public hospitals.

Most of the ASEAN insurers believe that the COVID-19 crisis will have a strengthening effect on the industry. The pandemic significantly contributed to an acceleration of the digitization of the industry. Insurers advanced their investments in online business continuity and work-from-home capabilities. In maintaining the contact with both agents and customers digitization played a key role. However, about a third of interviewees also predict that the loss in sales volume will damage the markets. In response, regulators may postpone necessary reforms and instill protectionist measures to shelter weakened markets against competition.

Heightened awareness will not necessarily translate into lasting demand

The COVID-19 pandemic is expected to have increased the awareness for insurance products. However, most insurers doubt that this will have a lasting effect. In markets where the number of infections remained low, insurers do not expect an increase in demand – particularly as the current offering for private health insurance products excludes pandemics. In business interruption awareness and demand may be rising but capacity tightened and is not available for pandemic risks.

The ASEAN insurers took significant efforts to support their policyholders during the crisis. Although infectious diseases had mostly been excluded, insurers voluntarily extended health coverage to provide additional protection to policyholders. In Malaysia insurers created a voluntary COVID-19 test fund to enable COVID-19 testing for policyholders. Insurers supported policyholders with the introduction of further instalments, staggered premium payments or allowed their deferral.

Long-term the majority of insurers expect no durable effect of COVID-19 on their portfolio. Provided the ASEAN markets will experience a fast recovery, a rebound in premium volume would make up for premiums lost. However, during the soft market period market discipline eroded and the wording on terms and conditions became loose.

Following the COVID-19 shock, insurers expect to clarify policy wordings and to manage their exposures and limits more closely. The effects of the pandemic on the working conditions and processes are seen to be lasting. As in the mature markets, insurers may reduce office space and allow employees to partially work from home.

COVID-19 will have a strong impact on the digitization of the ASEAN insurance industry. Digital communication systems enabled the region's insurers to remain fully operational as a «systemic sector» of the economy. Insurers were able to reach out to their clients, continue their sales, renew policies and handle claims. Regulators acknowledge this trend and encourage its development as the link between insurer and policyholder becomes more robust.

ASEAN insurers applaud regulators for their proactive approach

The authorities provided instruction as to the way how insurers had to protect their employees, operate under lockdown conditions and how to maintain business continuity. Liquidity and capital adequacy, underwriting results and the impact of COVID-19 on investment results had to be simulated and stress tested. In turn, the authorities allowed more time for the reporting, relaxed solvency requirements or postponed the implementation of regulatory changes.

Regulators were keen to ease the impact of the crisis on consumers and SMEs. Insurers were urged to allow for instalments or deferred premium payments and not to cancel cover, if customers struggled to renew their policy. Regulators also encouraged insurers to turn the experience of the COVID-19 crisis into new products. In Malaysia, the regulator and insurers collected data to learn more about the crisis. Supervisory authorities encouraged insurers to think about products that will better protect against the disruption of supply chains and to come up with proposals how to improve the insurability of epidemics, both on the non-life and on the life and health insurance side.

Going forward, a prolonged economic downturn or slow recovery are the main concerns of the ASEAN insurers. The longer it takes to return to the level at the end of January 2020, the more irreversible the damages to the economy. A further wave of infections could aggravate the downturn. Although cases had been few in many ASEAN countries, interviewees are concerned what might happen, if numbers were to soar and further erode already stretched resources. Furthermore, insurers fear the long-term effects on workforce and productivity. The longer the current restrictions last on meeting with clients, attending conferences or hosting events, the more likely are a loss of trust and confidence and a lasting impact on productivity, sales and volume.

Most insurers are convinced to emerge stronger out of the crisis. The investments in technology to communicate with clients, agents and the ability to have the workforce operate from home improves the efficiency of the industry and strengthens customer relationships. Insurers also improved their risk management to better anticipate and prepare for global risks and to screen their policies for «silent risks». Finally, insurers were able to stress test their business continuity models. Despite the rigorous movement controls they were able to continue their operations and prove their systemic relevance, which will strengthen the industry's standing with policymakers and authorities.

Market overview

Low COVID-19 transmission and fatality rates in many ASEAN countries

Although the COVID-19 pandemic hit Asia first, its countries – including the ASEAN 10 countries Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam – have to date recorded significantly lower transmission and fatality rates per capita than Europe or the Americas. As of October 6, 2020, the ASEAN 10 registered close to 1'100 COVID-19 infections per million people as compared to more than 22'000 in the USA or close to 7'400 in Europe. The ASEAN countries also experienced lower death rates – 27 per million inhabitants versus 636 in the USA and 304 in Europe.

COVID-19 has hit the ASEAN 10 economies in at least three ways. First, ASEAN's exports decrease because of a lower global demand. Second, dry global capital markets reduce foreign direct investment into ASEAN. Third, a declining number of tourists hits the services sector and many small and medium enterprises. On September 19, on the occasion of the Third ASEAN Inclusive Business Summit, government officials and business leaders advocated for inclusive business strategies that specifically support micro, small and medium-sized enterprises (MSMEs), which are the backbone of many national economies in emerging ASEAN countries, to recover from economic setbacks during the COVID-19 pandemic in the region.

Table 1: COVID-19 transmission and fatalities in ASEAN 10 countries as of October 6, 2020

	Total population	Total infections	Infection rate per million	Total deaths	Death rate per million
Brunei	437'479	146	334	3	6.9
Cambodia	16'718'965	280	17	0	0.0
Indonesia	273'523'615	307'120	1'123	11'253	41.1
Laos	7'275'560	23	3	0	0.0
Malaysia	32'365'999	12'813	396	137	4.2
Myanmar	54'409'800	18'781	345	444	8.2
Philippines	109'581'078	324'762	2'964	5'840	53.3
Singapore	5'850'342	57'819	9'883	27	4.6
Thailand	69'799'978	3'600	452	59	0.8
Vietnam	97'338'579	1'097	11	35	0.4
Total	667'301'395	726'441	1'090	17'798	26.7

Source: Johns Hopkins Coronavirus Resource Center

ASEAN governments launching stimulus packages of over US$ 400 billion

As of October 2020, ASEAN countries have authorized a total of US$ 427 billion, equivalent to 13.5 % of regional GDP, in stimulus packages in response to the COVID-19 pandemic. Cambodia, Indonesia, Laos, Myanmar, and the Philippines have borrowed a total of US$ 6.7 billion from the World Bank, the Asian Development Bank (ADB), and the Asian Infrastructure Investment Bank (AIIB) to support their stimulus packages. A majority of the stimulus packages target immediate needs such as: (1) strengthening emergency healthcare facilities, testing capacity, and treatment of COVID-19 patients; (2) disbursing cash assistance to retrenched workers; (3) supporting micro, small, and medium enterprises (MSMEs) operations; and (4) providing fiscal assistance and incentives to the heavily-hit critical economic sectors, namely aviation and tourism.

ASEAN countries' fiscal interventions fall into three categories: Firstly, household subsidies (including cash allowance, electricity subsidies, and subsidies for social security contributions / pensions) which are crucial for the daily needs of workers and their households, especially those in low-income and vulnerable categories. Complementing the subsidies and cash allowances, food packages are also provided and to an extent possible delivered straight to homes, or in a way that maintains quarantine and social distancing measures. While government subsidies and other measures help to cushion the impact on households, the support tends to be lower than their normal levels of income. There are also other factors to consider in terms of their implementation, such as time constraints, limited manpower, misuse of funds, among others. Identifying the beneficiaries, as well as ensuring that the subsidies are received by the target population, are long and tedious processes.

Secondly, governments also provided tax/fees/charges (including rents) exemptions/ moratoriums to affected individuals, households and businesses. Similar to the subsidies to households, the moratoriums on taxes, deferment of rents, and exemptions from fees and charges such as for bank transactions, aim to reduce the financial burden on businesses (and also households) that lost their incomes and to help them survive the pandemic by enabling them to swiftly resume operations once strict social measures were lifted.

The final set of fiscal measures was intended to provide financing and moratorium/ restructuring of loans for affected businesses and individuals. MSMEs and their employees have been hit disproportionately harder by the pandemic. MSMEs are more vulnerable to the crisis because of limited capital and resources, which amplify supply and demand shocks and liquidity constraints. Hence, they are more likely to lay off workers or close down earlier.

Table 2: Estimated COVID-19 stimulus packages among ASEAN Member States (as of October 2020)

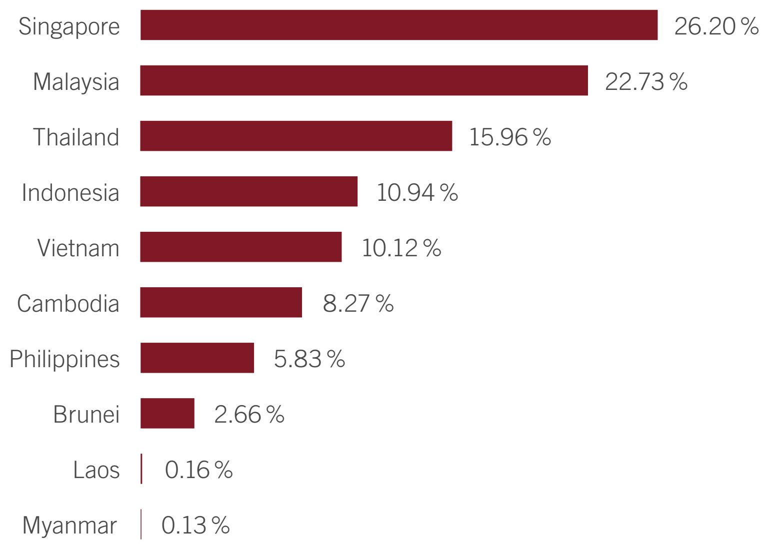
Country	Value of total package (in US$)	in % of 2019 GDP	Package highlights / focus areas
Brunei Darussalam	0.38 billion	2.66 %	Tax deferment, duties exemptions, loan deferment, banking waivers, and MSME support.
Cambodia	2.21 billion	8.27 %	Comprising capital expenditure, fiscal resources for the health sector, exemptions of contributions to the National Social Security Fund, low interest loans to MSMEs, support to the «cash for work program», extension of social protection to poor and vulnerable groups, income support for garment and tourism workers.
Indonesia	125.8 billion	10.94 %	Virus testing and treatment capacity, MSME support, increased social safety net programs including food aid, conditional cash transfers, and utilities subsidy, tax incentives for businesses, ministry and regional administrations capacity enhancement, State-Owned Enterprises (SOEs) support.
Laos	0.03 billion	0.16 %	Healthcare support, social protection, utilities subsidy, tax exemption and deferment.
Malaysia	80.8 billion	22.73 %	Tax deferment for tourism business, cash handouts for tourism workers, medical staff, and immigration workers, minimum pension fund reduction, infrastructure upgrade and repair, cash handouts for low income workers, electricity tariff discount, student cash support, rental waiver for public housing residents, strategic economic program promotion including the «National Fiberisation and Connectivity Plan», SME support, wage subsidies and discount on foreign workers' fee, hiring and training subsidies, support for business digitalization, 6-month moratorium imposed by Bank Negara on all banks for loan/financing repayments from April 1, 2020, COVID-19 Fund of MYR 65 million to finance aid packages, address the needs of frontliners and procure vaccines.

Country	Value of total package (in US$)	in % of 2019 GDP	Package highlights / focus areas
Myanmar	0.1 billion	0.13 %	Soft loans for MSMEs in tourism and garment sectors, business tax deferments, advance income tax reduction, waivers on tax and customs duties for medical supplies, renewable energy and strategic investment promotion, cash lending to smallholder farmers, e-commerce platform development, bank deposit and lending interest rate control, cash support to 5.4 million households.
Philippines	21.45 billon	5.83 %	Cash assistance, tax repayment extension, rice farmer subsidies, SME credit guarantees, social protection measures for migrant workers, test kit procurement, risk allowance for medical workers, medical coverage extension, purchase of government bonds, infra-structure projects fund allocation for job creation.
Singapore	90.14 billion	26.2 %	COVID-19 frontline agencies' support, jobs support scheme enhancement, «SkillsFuture» programme, cash support for households, extended waiver of foreign worker levy, rental grants for SMEs, property tax rebate for the tourism sector, food security enhancements including efforts to produce food locally, domestic tourism boosts.
Thailand	80.09 billion	15.96 %	Soft loans, MSME support, tax reduction, moratorium on principal debt payment, debt restructuring, unemployment compensation support, cash handouts, exemptions on debt duties, healthcare premium deduction, support for farmers, informal workers, and tourism industry, market stabilisation efforts.
Vietnam	26.5 billion	10.12 %	VAT deferment, corporate income tax deferment, personal income tax deferment, land rental fee reduction, social protection enhancement, support for terminated workers, zero interest loan for worker's retainment, support to MSMEs.

Source: Asian Development Bank: https://covid19policy.adb.org/policy-measures; ISEAS Yusof Ishak Institute, Perspective, Issue: 2020, No. 107

Despite the pandemic and social distancing measures, there is an impetus to continue infrastructure projects in ASEAN. Typically, governments rely on infrastructure projects to support the economy in times of crises because these provide a strong boost to economic activities and have long-term impact. For example, Malaysia allocated funding for small projects to preserve jobs, and plans to continue the large infrastructure projects for 2020 for economic growth. Thailand earmarked investments in community infrastructures as part of the stimulus measures. In Singapore, construction projects continued amidst the pandemic. They only stopped when the «circuit breaker» was imposed in April, when COVID-19 cases accelerated; although prior to this there were already delays due to restrictions on supply chains and travel. Likewise, Indonesia is expediting labor-intensive projects across the country to provide jobs particularly for low-income groups. Similar to other industries, the large-scale social restrictions have affected construction. While infrastructure projects are crucial to counter the pandemic's severe contractionary impact on the economy, due consideration must be given to safe distancing and other precautionary measures. Moreover, budgets for infrastructure might be realigned for stimulus measures, such as in Indonesia where part of the funding for relocation of the capital to East Kalimantan has been allocated to the pandemic response.

Chart 1: Size of economic stimulus programmes as a share of GDP (2019)



Source: Based on ADB database, October 2020

Economic outlook

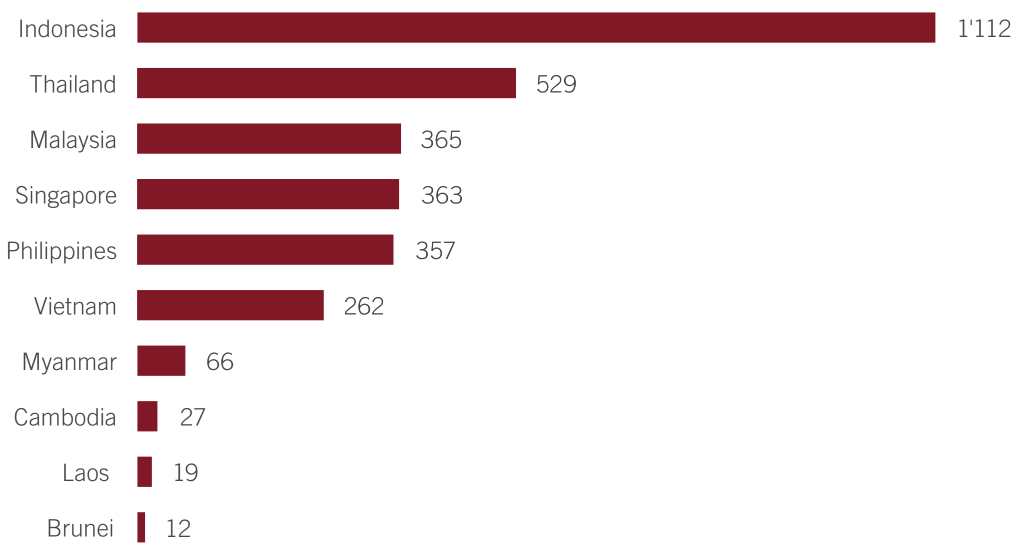
Top 5 ASEAN economies account for 88 % of GDP

Since its formation in 1967, ASEAN has grown from an underdeveloped region into one of the globe's most diverse and dynamic economic regions. In 2019, ASEAN was the fifth-largest economy in the world with a gross domestic product (GDP) of more than US$ 3 trillion, a significant increase from the seventh place it had five years ago. The region attracted US$ 154.7 billion worth of foreign direct investment (FDI) in 2018 – the highest in history and a 30.4 % increase from FDI inflows of US$ 118.7 billion in 2015. ASEAN economic integration continued to contribute to the region's emerging position as a global growth driver, with intra-ASEAN activity accounting for the largest share of ASEAN's total trade and FDI in 2018 at 23 % and 15.9 %, respectively.

China (17.2 %), EU-28 (10.2 %), and USA (9.3 %) were ASEAN's top three trading partners in 2018. At 24 %, intra-ASEAN trade accounted for the largest share of the total trade in the region.

Indonesia is the region's most populous country and the largest economy, accounting for approximately 36 % of ASEAN's GDP. The country is also the region's only G20 member. With an estimated GDP of US$ 529 billion in 2019, Thailand is the second largest economy, followed by Malaysia, Singapore and the Philippines, which all have a very similar size.

Chart 2: Estimated 2019 GDP, ASEAN 10 economies, current prices, US$ billion

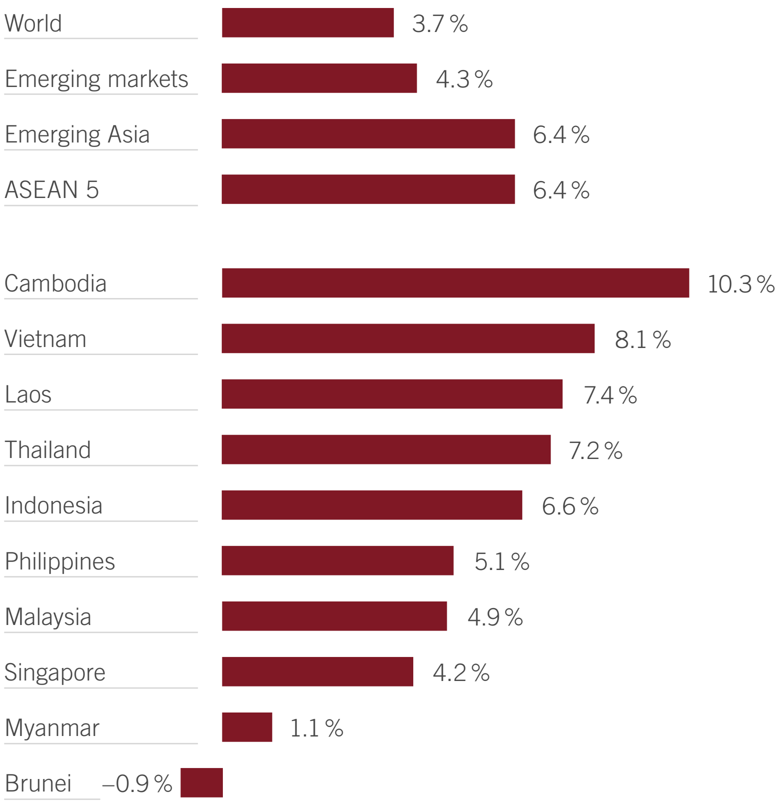


Source: IMF, World Economic Outlook October 2019

Seven ASEAN economies exceed global average emerging market growth rate

According to the International Monetary Fund (IMF), Asia remains the fastest-growing region in the world, accounting for more than two-thirds of global growth in 2019. From 2015 to 2019, three of ASEAN's latest member countries, Cambodia, Vietnam, and Laos, experienced the highest growth rates, whereas growth in the two other countries that joined ASEAN later, Myanmar and Brunei, was lackluster. In the first half of 2019, amid weak exports, growth in ASEAN 5 countries – Indonesia, Malaysia, Philippines, Singapore and Thailand – lost some momentum. At that time, a further escalation of US-China trade tensions and ensuing policy uncertainty was seen as one of the main risks for exports, investment, and growth prospects in Asia.

Chart 3: GDP growth (2015 – 2019, current prices in US$, compound annual growth rates, in %)



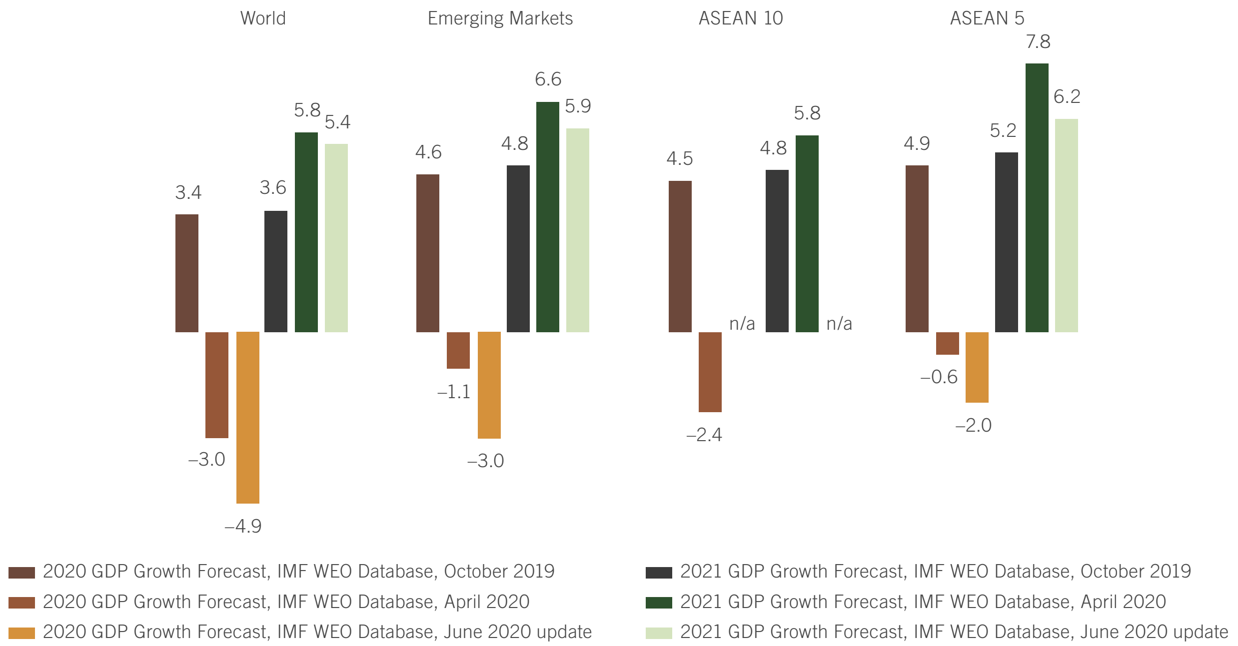
Source: IMF, World Economic Outlook October 2019. Estimates start after 2018

2020 ASEAN GDP worse than initially expected, partial recovery in 2021

In April 2020, all emerging market and developing economies faced a health crisis, severe external demand shocks, a dramatic tightening in global financial conditions, and a plunge in commodity prices, which had a severe impact on economic activity for commodity exporters, such as Brunei and Indonesia. However, Emerging Asia is projected to be the only region with a positive growth rate in 2020, albeit more than 5 percentage points below its average in the previous decade. Several economies in the region are forecast to grow at modest rates, including Indonesia (0.5 %), while others are forecast to experience a large contraction (Thailand, –6.7 %).

Compared to the initial October 2019 GDP growth projections of 3.4 %, following the COVID-19 outbreak the 2020 combined ASEAN 10 GDP is now expected to decline by 2.4 %. As of April 2020, the 2021 GDP growth projection stood at 5.8 % (4.8 % in October 2019), indicating that it will take probably more than 2 years for all ASEAN countries to recover from the negative economic impact of the COVID-19 crisis. For the smaller group of ASEAN 5 countries, the situation looks marginally better. Although the relative magnitude of changes is similar: With minus 2.0%, the 2020 GDP decline will not be as pronounced as in the larger group of ASEAN 10 countries (–2.4% forecasted in April) and the growth rate of 6.2% projected for 2021 in June will be steeper (ASEAN 10 April forecast: +5.8%).

Chart 4: Comparison between IMF real GDP 2020 and 2021 growth forecasts as of October 2019, April 2020 and June 2020 (in %)

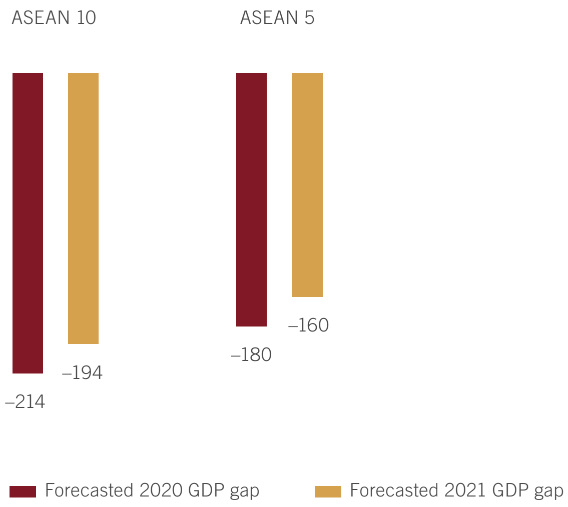


Source: IMF, World Economic Outlook October 2019, April 2020 and June 2020. No WEO June 2020 update numbers for Brunei, Cambodia, Laos, Myanmar and Singapore available. ASEAN 5 countries as defined by the IMF for the World Economic Outlook database: Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

ASEAN 2020 GDP gap forecasted to exceed US$ 200 billion

Based on these revised growth rate projections by the IMF, the nominal 2020 GDP for all 10 ASEAN countries will be by US$ 214 billion lower than projected in October 2019. The projected nominal GDP gap for 2021 is very similar (minus US$ 194 billion). Approximately 84 % (2020) and 82 % (2021) of the total GDP gap will be assumed for the ASEAN 5 countries.

Chart 5: 2020 and 2021 forecasted GDP gaps, US$ billion



Source: IMF, World Economic Outlook October 2019, April 2020 and June 2020 update. ASEAN 5 countries as defined by the IMF for the World Economic Outlook database: Indonesia, Malaysia, the Philippines, Thailand, and Vietnam

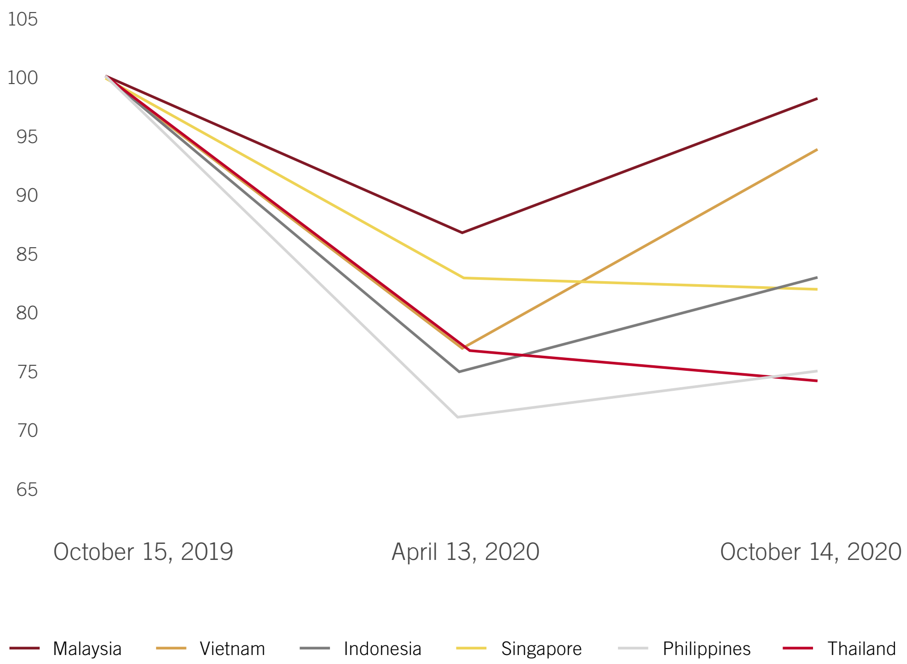
Stock markets in Malaysia and Vietnam recovered quickly, others still down

All ASEAN's stock markets declined after the pandemic hit the region in early 2020. Thailand's Bangkok SET Index (STI) was affected hardest, down 26 % since October 2019. Meanwhile, its neighbor, the Bursa Malaysia (KLSE), is making the strongest recovery. In October 2020 it had reached 98 % of the value it had one year earlier. Malaysia, the Philippines, Singapore and Thailand were officially in recession after they reported negative growth across the first two quarters of the year. Rising cases of COVID-19, uncertainty about whether countries would have to reimpose lockdown conditions and the slow progress towards a vaccine put investors off.

As of October 2020, the Philippines are in a seven month lockdown, one of the longest and strictest in the world. The rigorous measures were introduced in March, which partly explains the very slow recovery of the stock market index. On the other hand, the Vietnamese stock market experienced its steepest upward trajectory over the last six months, also due to the swift actions taken by the government to control the spread of the virus.

With the potential for lockdown conditions to return if COVID-19 cases increase at any point – as they did in Indonesia – investors are holding off in the most affected markets.

Chart 6: Indexed stock market indices, in % (October 15, 2019 = 100)



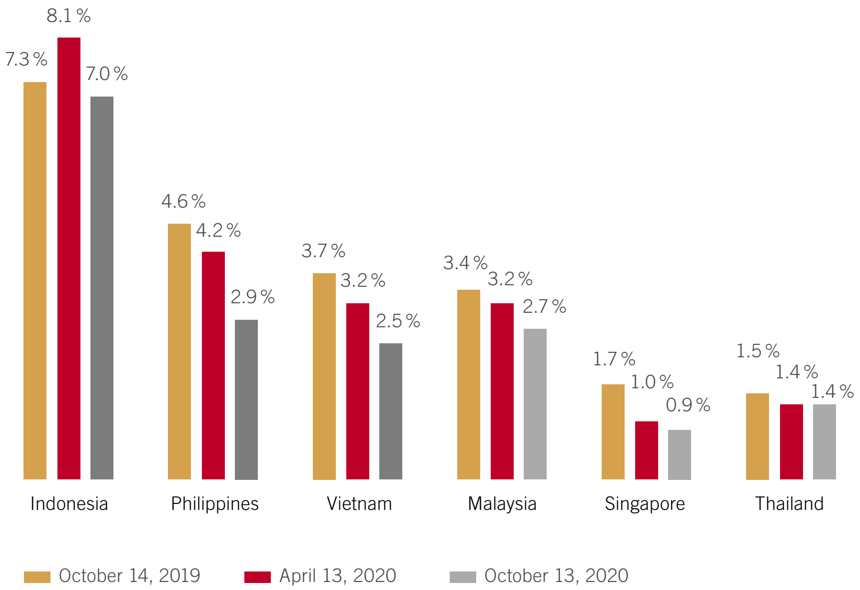
Source: Trading Economics

ASEAN government bond yields declined during the COVID-19 crisis

ASEAN governments swiftly dealt with the impact of the COVID-19 pandemic through a wide range of policy responses, including monetary easing and fiscal stimulus packages. To support financial stability and economic recovery, governments and central banks maintained accommodative monetary policy stances and ensured sufficient liquidity. On the back of these policies and weakened growth across the region, government bond yields in five of the six largest ASEAN markets declined from mid-April to mid-October (stable in Thailand).

At the end of June 2020, the region's government bonds outstanding reached US$ 10.5 trillion and accounted for 60.8 % of the region's aggregate bond stock. Some ASEAN countries are struggling to finance the battle of the COVID-19 crisis. These include Indonesia, which decided to issue government bonds to finance a stimulus package to counter the impacts of the pandemic. Conceptually, there are two major options for countries to fund stimulus packages: taxation or loans. As taxation can not provide a huge amount of cash in a short time, the Indonesian government decided to issue the first 50-year US$ bond sale by any Asian country. Worth US$ 1 billion, this 50-year bond issue is part of a US$ 4.3 billion multi-part debt offering.

Chart 7: 10-year government bond yields, %



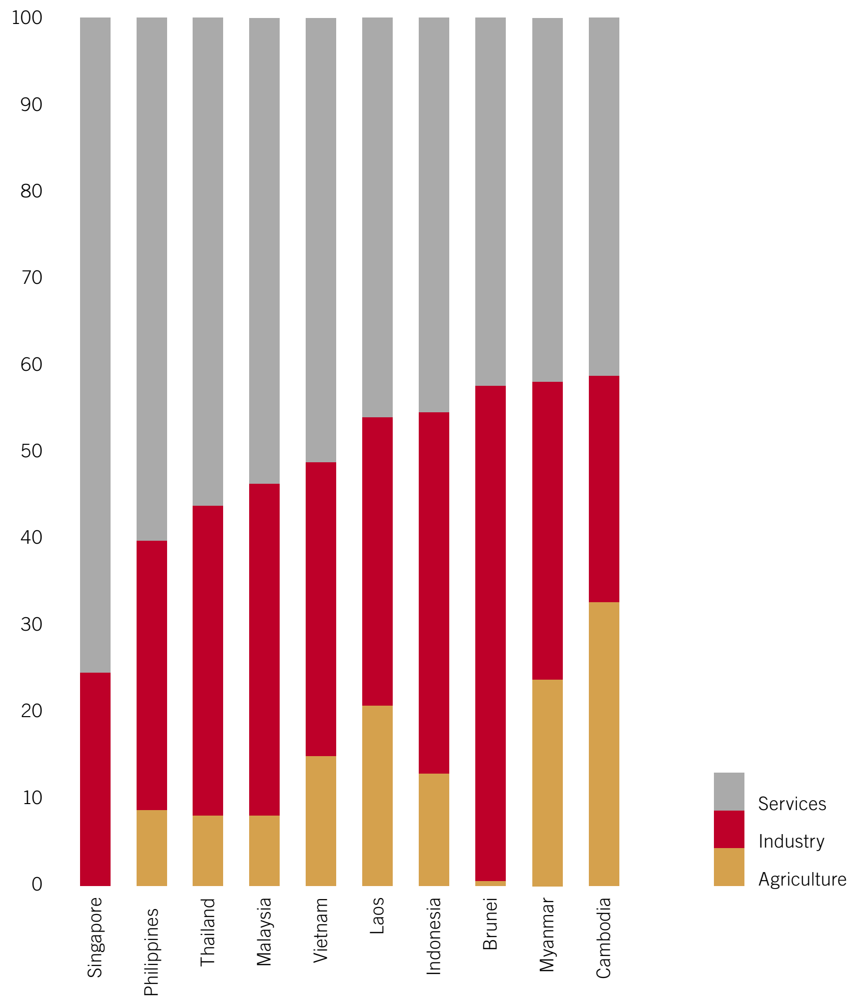
Source: World Government Bonds

GDP composition leading to specific vulnerabilities

The leisure and hospitality sector, which includes everything from restaurants, bars and hotels to arts and entertainment (theaters, casinos, sporting events) and is part of the services sector, tops the list of the most vulnerable industries to COVID-19. In Singapore, the Philippines, Thailand, Malaysia and Vietnam, the service sector accounts for more than 50 % of GDP. According to Tourism Malaysia, the country received more than 26 million international visitors in 2019 and had been expecting some 30 million tourists in 2020, projecting tourism-related revenues to hit US$ 21.5 billion. Unfortunately, the COVID-19 pandemic has severely affected the sector. Paired with the country's partial lockdown, known as the Movement Control Order (MCO) – travel-related services struggle to survive. In Thailand, the sector has been hit even worse: After a record 39.8 million foreign visitors in 2019, whose spending accounted to 11.4 % of gross domestic product, Thailand had looked to welcome more than 40 million tourists in 2020. But with flight bans and quarantines, the central bank estimates only eight million visitors this year.

Within the industrial sector, the garment business in Southeast Asia has been hit hard by the coronavirus. In Vietnam and Cambodia, the textile and garment industries developed strongly in recent years and meanwhile play a vital role in the economic growth of both countries. Over in Cambodia, more than half a million people are employed in the garment industry making it the biggest sector in the country. It is estimated that the sector accounts for 16 % percent of Cambodia's GDP and 80 % of its export earnings. In Myanmar, the situation is similar: The unique and extreme challenges, caused by pandemics have provoked factory closures, downsizing and therefore short-term mass unemployment in Myanmar's garment and textile industry.

Chart 8: 2017 GDP composition by sector of origin, in %

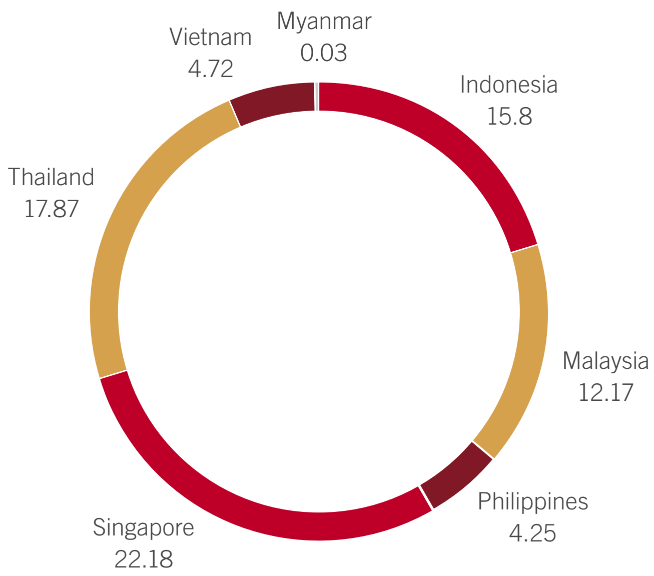


Source: Central Intelligence Agency (CIA), The World Factbook

ASEAN insurance markets

In 2019, the life insurance premiums of eight ASEAN insurance markets stood at US$ 77 billion. With premiums of US$ 22 billion, Singapore is ASEAN's largest life insurance market, followed by Thailand and Indonesia. Together, these three markets accounted for more than 70 % of the region's total life insurance premiums.

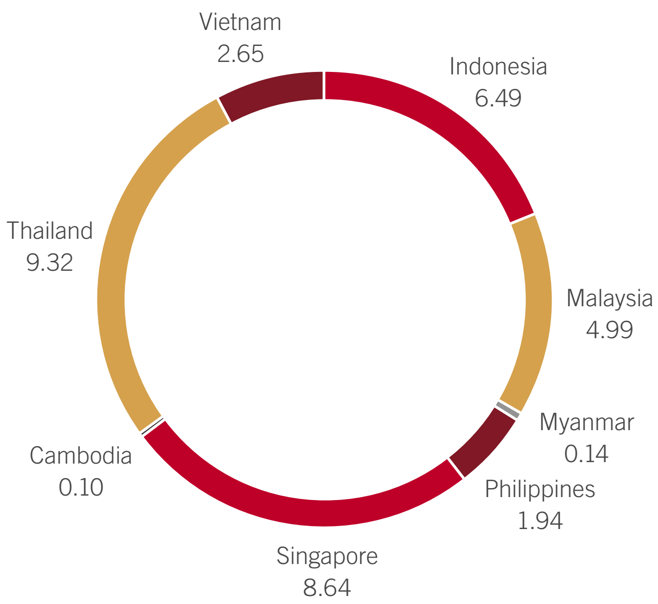
Chart 9: Life insurance market 2019; 8 ASEAN countries, US$ billion (total size: US$ 77 billion)



Source: Faber Consulting, based on Swiss Re Institute, sigma No. 4/2020, sigma-explorer.com

Compared to ASEAN's life insurance market, the region's non-life market is relatively small, accounting for approximately 30 % of total premiums. Thailand is the region's largest non-life market, followed by Singapore and Indonesia.

Chart 10: Non-life insurance market 2019; 8 ASEAN countries, US$ billion (total size: US$ 34 billion)

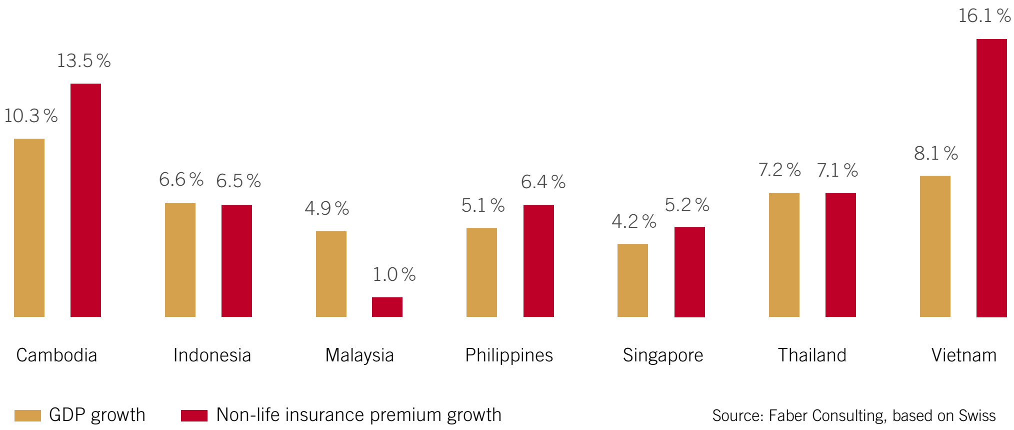


Source: Faber Consulting, based on Swiss Re Institute, sigma No. 4/2020, sigma-explorer.com

Non-life insurance growing much faster than GDP in Cambodia and Vietnam

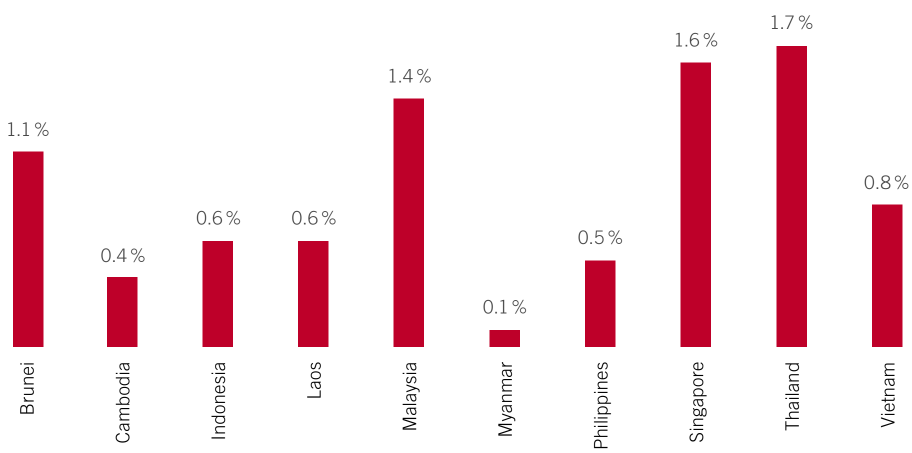
From 2015 to 2019, non-life insurance markets in Vietnam, Cambodia, the Philippines and Singapore grew faster than their country's GDP. In Malaysia, insurance growth lagged behind economic growth, whereas both figures grew in tandem in ASEAN's two largest economies, Indonesia and Thailand. On a consolidated basis, compound annual non-life insurance growth (6.0 %) and GDP growth (6.2 %) were very closely aligned in the seven markets Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Chart 11: GDP and non-life insurance premium growth, CAGR 2015-2019, in %



Source: Faber Consulting, based on Swiss Re Institute, sigma-explorer.com

Graph 12: ASEAN non-life insurance penetration, 2019, %



Source: Faber Consulting, based on Swiss Re Institute, Sigma No. 4/2020, sigma-explorer.com

Interview with AM Best: Robust capital position of ASEAN insurers

Greg Carter, Managing Director, Analytics – EMEA & Asia Pacific
Myles Gould, Head of Analytics for South East Asia

From your perspective, how do you perceive the response of the ASEAN insurers to COVID-19?

Although the measures that governments took to contain the spread of COVID-19 and the degree to which they controlled the movement of people varied from country to country, the ASEAN insurers adapted fast and well to the sudden lockdowns. For most, business continuity worked well as the critical functions of insurers – particularly those facing clients and customers – were up and running throughout periods of lockdown.

In many markets across the region, non-life premiums declined in the first half of 2020. The ASEAN insurance markets comprise a significant portion of motor business. Although policy renewals and car sales were down, the impact on premiums was not as severe as one might expect.

The region's insurers are reliant upon agents as their main distribution channel, with face-to-face/telephone sales commonplace. In light of this, agents and insurers reliant on this business model have had to adapt rapidly to social distancing and movement restrictions. Insurers and distributors which have been able to best adapt to this environment were those that have invested in IT infrastructure and technology that have supported remote and online sales.

The COVID-19 pandemic is regarded as an earnings event. Is that also the case for insurers in the ASEAN insurance markets?

Thus far, COVID-19 has not significantly impacted the capital position of the ASEAN insurers. As in most other markets, COVID-19 has been an earnings event thus far. Whilst globally there have been instances of (re) insurers raising fresh capital to bolster their balance sheets, particularly in the early stages of the pandemic, this has not generally been the case in ASEAN.

Recent rulings on test cases for COVID-19 policy wordings in the UK, as well as regulatory attention on coverages in the US and other European markets are not expected to materially change the position for this region. We expect some knock-on effects, but the overall exposure of the ASEAN insurers to additional claims that might come through as a result of other market determinations on policy wording disputes is not expected to significantly alter the picture.

How do you assess the current capitalization of the ASEAN insurers?

The capital positions of the ASEAN insurers held up during the COVID-19 crisis and have remained typically robust. A threat to that position is arising from the asset rather than the liability side. Investment results have been exposed to substantial volatility driven by fluctuations in both the valuation and yield arising from invested assets. Although capital markets rebounded after their steep decline in March/April 2020, that instability continues also now in the second half of the year.

Which part of the income statement of ASEAN insurers will be most affected?

The strongest impact of COVID-19 has been on insurers' top-line. Although premiums are down, expense ratios continue to rise due to the high share of fixed costs that insurers cannot reduce. In highly competitive ASEAN markets, this is an issue because insurers struggle to increase premium rates to sudden performance changes. It is however worth noting that costs have already been an issue in the region prior to COVID-19. As markets continue to grow quite rapidly, insurers have traditionally paid less attention to their expenses as they were able to compensate for them through their volume growth. However, as that dynamic has slowed down, an enhanced focus on the expense ratio, pricing and underwriting discipline becomes of greater importance.

Which lines of business will be affected most?

COVID-19 affects the volume of almost all lines that are closely correlated with economic activity, such as motor, travel, retail, construction and engineering or trade. With regard to the bottom line, the lockdown translated into a lower loss-ratio in motor. However, we now see the contrary effect. Although lockdowns have widely been lifted, consumers remain cautious, using less public transport to avoid crowds of people. Instead, they rather take their own car to commute. As a result, in many large cities, we have more drivers on the road that are less experienced or who used public transport in the past. This has led to an increase in the loss ratio in some markets in recent periods.

Has AM Best taken any rating actions or outlook revisions due to COVID-19?

COVID-19 has had a fairly modest effect on the financial strength ratings of ASEAN insurers. We have not yet seen significant downgrades due to the pandemic in this region. However, the outlook for some insurers has been revised to negative due to difficult trading conditions that they encountered as a result of COVID-19. This concerns predominately niche insurers with a business model that is particularly exposed to COVID-19, such as travel insurers.

In some ASEAN markets regulators have mandated insurers to defer the collection of premiums. Has that had any effect on insurers' liquidity?

In view of social distancing restrictions imposed by governments, many ASEAN insurers granted more flexibility to their policyholders with regard to premium payments for instance. Previously, one-time payments had been customary in the ASEAN markets. As a result of the crisis and the strain it put on the finances of some SMEs or consumers, insurers introduced instalments which have become more commonplace in the meantime. However, that has had no significant effect on insurers' liquidity. In fact, most ASEAN insurers have sufficient liquidity buffers to cope with this change. Furthermore, in the current market environment, insurers have in some cases adjusted their investment strategy, holding more cash and short-term investments. This strategy is aimed at bolstering liquidity and cash flows, but also intended to prevent company's locking themselves into lower yielding investments amid the current low interest rate environment.

Our outlook depends very much on the development of the pandemic. Should we enter further waves of infection, we expect additional impact to insurers' top line, which will put a further strain on the sector. Thus far, ASEAN insurers have demonstrated their resilience, but we need to keep in mind that paid losses globally have only amounted to approximately US$ 25 billion to date.

The interview was conducted on 18 September 2020

Selected insurance regulatory and industry responses to the COVID-19 crisis

Indonesia

In Indonesia, one of the most important regulations issued in response to the COVID-19 pandemic is the Government Regulation on State Finances and Financial System Stability. This regulation essentially provides various government bodies and regulators, including Bank Indonesia (the central bank) and the Financial Services Authority (Otoritas Jasa Keuangan/OJK) with additional power to take action and issue regulation to mitigate the impact of COVID-19 on Indonesia's economy and safeguard the stability of the country's financial system. The OJK was handed the power to order Indonesian financial institutions to carry out mergers, consolidation, acquisition, integration and/or enter into a conversion process (M&A). The significant enhancement of OJK's power could have a substantial impact on Indonesia's M&A landscape, provided that this power is actually used. If the OJK were to order an insurance company to participate in a merger or an acquisition and that insurance company would not comply with that order, the OJK is authorized to: (a) revoke that insurance company's insurance business license, and (b) ban that insurance company's controlling shareholder, directors, and commissioners from being primary parties in the insurance sector for maximum 10 years.

Malaysia

The Central Bank of Malaysia (BNM) has provided guidance on the obligations for Malaysian insurers to cushion the impact of disruptions caused by COVID-19 on individuals and businesses. The obligations include:

1. Creating a COVID-19 test fund of MYR 8 million (US$ 1.8 million) to cover costs incurred for testing medical insurance policyholders for COVID-19.
2. Extending the period during which a policyholder can reinstate a policy that has lapsed.
3. Providing options to enable policyholders to continue to meet their premium payments and maintaining their policies such as waiving fees or paying in instalments.

Relief measures for insurance companies include a reduction of the interest rate and profit rate stress factor caps as applied under the risk-based capital framework for insurers to 30 %, the provision of flexibility for insurers to meet timelines for regulatory submissions; and an extension of the timeline for ongoing consultations on published discussion papers and exposure drafts.

Philippines

On March 26, the Philippines Insurance Commissioner encouraged all insurance companies, mutual benefit associations and health maintenance organizations (HMO) to extend the coverage of their insurance policies and HMO agreements to customers infected with COVID-19. This letter followed an earlier circular letter that allowed life insurance companies to launch initiatives that are aimed to provide additional benefits or free insurance coverage to customers affected by COVID-19 without the need of prior approval from the Insurance Commission. On May 21, the Commission advised all regulated companies to disapprove any request to declare or distribute dividends out of the unrestricted retained earnings to protect the interest of the public and the company due to the economic impact of the COVID-19 pandemic.

Singapore

In Singapore, insurance firms have taken various measures to support their customers during the COVID-19 crisis. These measures were closely coordinated between the Monetary Authority of Singapore (MAS), the Life Insurance Association (LIA) and the General Insurance Association (GIA). Over 25'000 life and health insurance policies were granted a six-month premium deferral, while still maintaining coverage. Almost 600 individual general insurance policies, such as for vehicles, are under flexible instalment payment plans to help ease the burden on policyholders' cash flow, while more than 240 small and medium businesses' applications for flexible instalment plans for their insurance cover have also been approved.

Thailand

In March 2020, the Office of Insurance commission (OIC) in Thailand published two Registrar Orders, which have legal force (and are not merely guidelines), clarifying that accidental, health, life, travel and unemployment insurance policies sold before March 17, 2020 cover risks relating to COVID-19 unless the policyholder: (a) has become infected with the virus before purchasing the policy; or (b) has contracted the virus during the wait period.

In late August 2020, as one of the first regulators in Asia, the OIC has approved COVID-19 travel insurance for foreigners coming to the country. The insurance will also cover tourists from high-risk countries. Tourists who have a certificate of entry, a 'fit-to-fly-health' or 'fit-to-travel-health' certificate, a medical certificate proving they tested negative for COVID-19 through the PT-PCR method 72 hours before departure are eligible for the insurance plan. The policies will be sold online and become valid as soon as the traveler passes through immigration in Thailand.

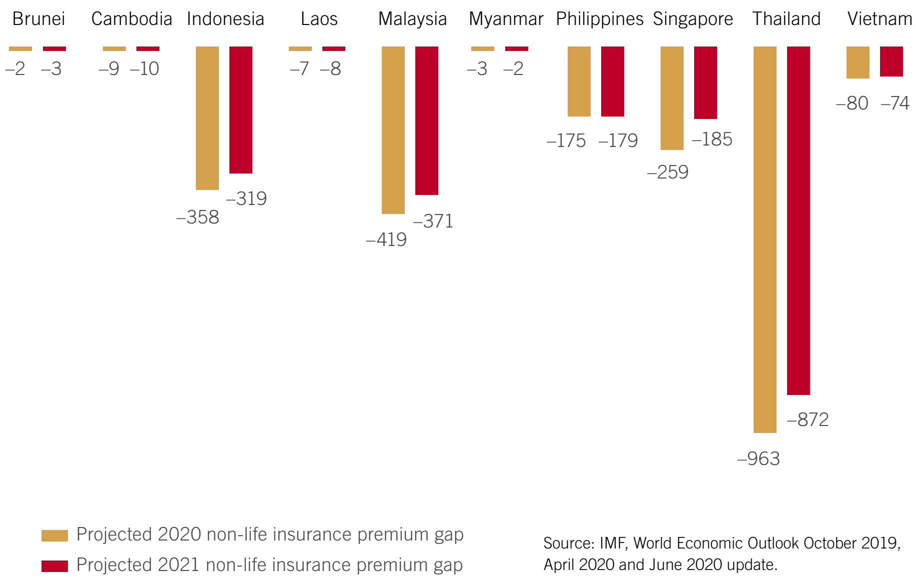
High impact of COVID-19 on global life insurance growth expected

According to Swiss Re estimates, the COVID-19 crisis will reduce global insurance premiums from a growth of 2.9 % in 2019 to an estimated –3.0 % in 2020, followed by a recovery of 3 % in 2021. Over the course of 2021, a recovery of non-life and life business to above pre-pandemic premium volumes is expected. Overall, the impact of the COVID-19 crisis on insurance premium growth is expected to be similar to the impact of the global financial crisis in 2008/2009. In 2019, global life insurance premiums grew at 2.2 %. Due to the COVID-19 crisis, Swiss Re expects global life markets to contract by –6.0 % in 2020 and to recover again by 3 % in 2021, largely due to rising unemployment and falling incomes, which will lead to a declining demand for group and individual savings business. Global non-life insurance grew by 3.5 %, in 2020 volume growth will stagnate and return to a growth path in 2021, increasing by 3 %. Globally, motor, trade, travel and commercial rather than personal lines will most likely be hardest hit. However, emerging markets are expected to outperform mature markets in both life and non-life insurance.

6.6 percentage points pandemics impact on ASEAN non-life market growth projected

To forecast the impact of the COVID-19 crisis on the ASEAN 10 insurance markets we have taken the assumption that non-life insurance growth is perfectly correlated with GDP growth. As shown, as shown in chart 11 on page 25, we could see that from 2015 to 2019 non-life insurance and GDP growth was very closely aligned on a consolidated basis in seven ASEAN markets (Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam).

Chart 13: 2020 and 2021 projected non-life insurance premium gaps, US$ million



Source: IMF, World Economic Outlook October 2019, April 2020 and June 2020 update.

As shown in chart 5 on page 18, the GDP gap forecasted by the IMF for 10 ASEAN countries is US$ 214 billion and US$ 194 billion in 2020 and 2021, respectively. Average non-life insurance penetration (premiums over GDP) in all ASEAN countries stood at 1.13 % in 2019, ranging from 0.1 % in Myanmar to 1.7 % in Thailand. Applying the average penetration rate to the forecasted GDP gaps, non-life insurance premiums in 2020 would be US$ 2.275 billion lower (still US$ 2.023 billion in 2021) than without the impact of the COVID-19 crisis. This means that the overall non-life insurance premium growth rate in ASEAN would decline by an average of approximately 6.6 percentage points. This compares to a Swiss Re forecast that estimates an average non-life insurance growth rate decline of approximately 6 percentage points in 2020 for emerging markets in Asia (excl. China) and an average decline of 4.7 percentage points for all global emerging markets.

Looking more closely at the likely impact of the pandemic on specific lines of business, a very heterogeneous picture emerges. While the impact on growth is expected to be negative for nearly all lines of business (except for personal property), loss ratios in personal and commercial motor are expected to improve (decrease), to remain more or less stable in personal property, engineering, marine and aviation, and to increase in all other lines of business. The most severe loss ratio increases are expected for event cancellation and accident & health business.

Table 3: The impact of COVID-19 on premiums and claims across non-life business

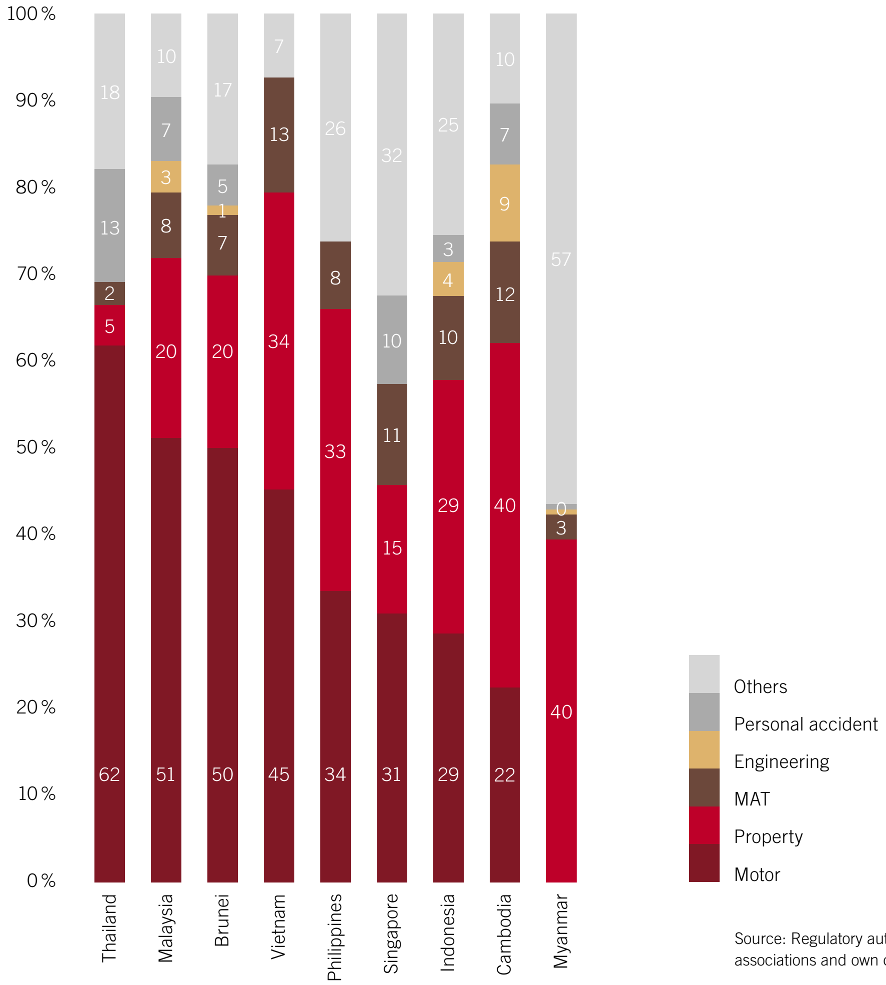
	Line of business	Premiums	Claims
Personal lines	Personal motor	–	+
	Personal property	0	0
Commercial lines	Commercial motor	–	+
	Commercial property	–	– –
	Liability	–	–
	Workers compensation	– –	–
	Engineering	–	0
	Credit	–	–
	Marine	– –	0
	Aviation	– –	0
	Event cancellation	–	– –
Mixed	Medical insurance	–	–
	Other accident & health	–	– –

+ Positive 0 Neutral – Negative – – Very negative

Source: Swiss Re sigma No. 4/2020

Applying the average projected impact of 6.6 percentage points to the historical growth rates of individual markets from 2015 to 2019, non-life insurance in Cambodia and Vietnam would still grow by around 7 % to 10 % in 2020. Growth in the Philippines, Singapore, Indonesia and Thailand would be more or less flat, while the Malaysian non-life insurance market volume in 2020 would be lower than in 2019. However, a closer look at the relative contribution of certain lines of business to the overall non-life insurance market premium allows for a more nuanced view.

Chart 14: Non-life premium split per line of business, 2019 / 2018[1]



Source: Regulatory authorities, insurance associations and own calculations

[1] Indonesia, Philippines, Singapore

Motor is the dominant line of business in Thailand, Malaysia, Brunei and Vietnam. Since these countries installed particial or total lockdowns, it is reasonable to assume that lower loss ratios in motor will have the potential to significantly influence the overall non-life insurance market result. However, higher profits in motor insurance might be accompanied by a reduced top-line.

MAT (Marine, Aviation and Transport) business is a relatively important line of business in Vietnam, Cambodia, Singapore and Indonesia. Hence, a significantly reduced top-line with stable loss ratios should be expected for MAT business in these markets.

The impact on the growth and profitability in medical insurance is difficult to predict, but most likely to be less pronounced than in other markets, as either pandemics coverage was often strictly excluded in insurance policies or governments have stepped in to foot the bill for all COVID-19 related claims. As many ASEAN governments rely on infrastructure projects to support the economy in times of recovery from the COVID-19 crisis, the outlook on engineering insurance growth is bright for the next couple of years.

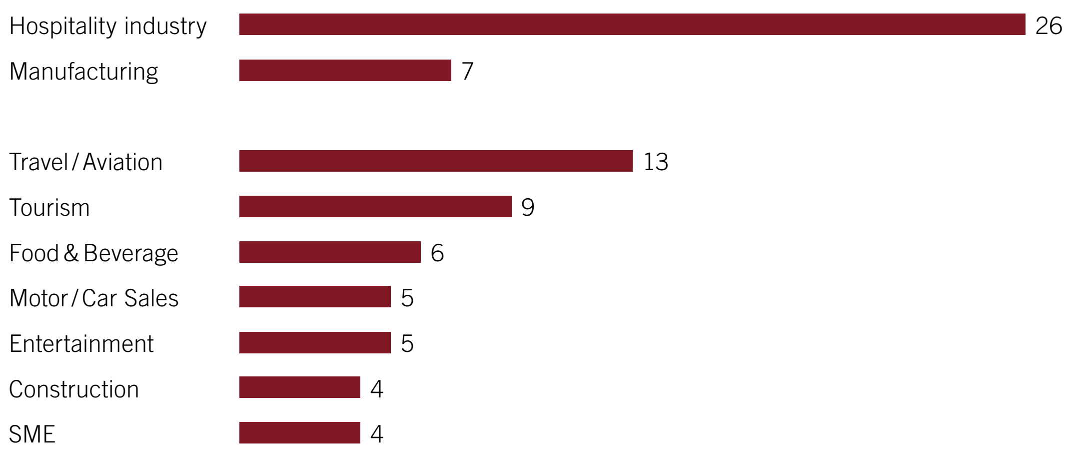
Survey results

Across all ASEAN markets, the hospitality industry has been hit hardest by the COVID-19 pandemic and the various lockdown measures implemented in the region. This affected the domestic entertainment, catering and gastronomical sector as well as the tourism industry which in the ASEAN markets is heavily geared towards foreign travellers both from Asia and abroad. The contribution of tourism to the ASEAN economy is exceptionally high with roughly 12.5 % of GDP, while the global average accounts for slightly more than 10 %. In particular countries like Thailand with a share of roughly 13 % of tourism to GDP and even higher and Cambodia with a share of more than 30 % have been affected severely by the impact of COVID-19 on the industry.

Our interviewees reported a drop of tourism by almost 90 % for several markets. Although governments and the sector itself attract domestic demand, inland tourism could not compensate for the decline in international travellers. As part of the hospitality, tourism and travel industry the aviation sector is also seen to have experienced its worst decline in the ASEAN markets, similar to the global developments.

During the last decades the ASEAN markets established themselves as the rising export nations in Southeast-Asia. With the sudden decline in global demand and the subsequent disruption of supply chains, it comes as no surprise that the export and manufacturing sector suffered severely from the COVID-19 shock. In particular the textile industry as part of the manufacturing sector was frequently mentioned. Furthermore, the cargo industry was affected not only by reduced international shipments but also – as in the case of Indonesia and the Philippines – by a drop of inter-island cargo.

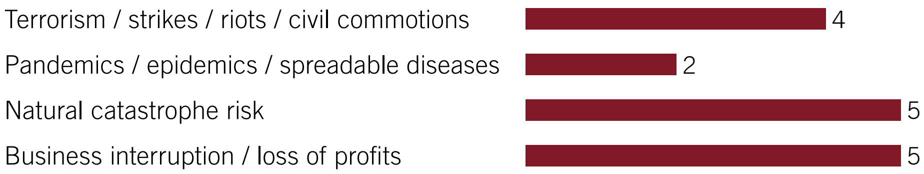
Chart 15: Economic sectors / industries most affected by the COVID-19 (number of mentions)



Due to the lockdown, the decline in economic activity and the fear for loss of income and employment, consumers reduced their spending. Consumption is also affected by a decline of remittances from workers of ASEAN countries working abroad. As a result, the retail and the fast-moving consumer goods industry – specifically the food & beverage sector – were mentioned frequently to experience a sharp contraction. Similarly, car and motorbike sales dropped as well.

Finally, the commodity industry, in particular the oil & gas sector was affected by reduced demand both from domestic as well as international markets. Indonesia, Brunei Darussalam and Malaysia were hit when oil prices contracted sharply at the beginning of the crisis, potentially affecting the ability of governments to invest and repay for higher spending incurred in response to restart the economy following the lockdown. The construction industry might benefit from such initiatives in the second half-year. However, in markets such as Singapore or Malaysia the industry suffered from the enforced stop of building activities, but also from a drop in labour and foreign contract workers that had to leave the countries with the beginning of the lockdown.

Chart 16: Coverage of specified risks on a stand-alone basis (number of mentions)



«On the surface it seems as if equities at Malaysia's stock exchange recovered nicely after their decline in March/April. However, the rebound was driven by other equities than those that suffered from the drop. Malaysia's rubber producing sector is up – benefiting from the increased demand for sanitary products, while the banking and financial services sector has not yet fully recovered to its former level.»

Zainudin Ishak,President & CEO, Malaysian Reinsurance Berhad

The ASEAN insurers and reinsurers write systemic risks that have the potential to trigger a sizable accumulation of losses from different insurance classes on a very selective basis and mainly in conjunction with other products. Coverage for terrorism, strikes, riots of civil commotions is provided mainly as part of fire or motor insurance. Although there have been terrorist attacks in the recent past in Southeast-Asia, terrorism is mostly excluded and, if written at all, only provided on a very selective basis.

Natural catastrophe risk is predominately written as part of property insurance. Reinsurers also provide that cover on a stand-alone basis through Catastrophe Excess of Loss treaties. However, demand very much depends on the exposure. In Malaysia, where flooding is the most likely natural catastrophe event, the cover is less frequently requested than in countries such as the Philippines, Indonesia or Vietnam, which frequently suffer from tropical cyclones and earthquakes.

For pandemics and infectious diseases the picture is less clear cut. Due to the experience with SARS in 2002 and 2003, insurers in some ASEAN markets deployed a strict wording that specifically addressed the risk and excluded it from health and medical insurance. Where they provided coverage, as for instance in Vietnam, losses have been minimal. However, insurers also pursued a different route. While for instance in Singapore, Malaysia or Brunei pandemics had been excluded, insurers offered voluntary inclusion to protect their policyholders in the crisis. However, also in these cases losses remained low as the government enacted that the pandemic had to be treated in dedicated public hospitals.

In the ASEAN markets business interruption is mostly written as part of property insurance. Demand had been limited and came mostly from international clients. Again, after the COVID-19 outbreak reinsurers withdrew coverage and although demand is rising now, capacity is hardly available. While globally this is the most loss affected line of business, in ASEAN insurers hardly experienced any claims. Besides the low demand, insurers benefited from the tight wording. In Malaysia, business interruption is part of fire insurance and as such comes under the tariff regulated by Bank Negara. The policy clearly stipulates that losses are limited to physical damages experienced on the premise. A lockdown enacted by the government to control the movement of people does not trigger the policy. Furthermore, policy limits are quite low. As a result, with the exception of Singapore, where the largest amount of business interruption cover will have been provided, the verdict by the UK High Court from September 2020 on contractual uncertainty in non-damage business interruption policies is perceived to have hardly any impact on the ASEAN markets.

«Due to the lock-down insurance sales declined across the board. Life, travel and motor insurance were particularly affected, as the industry missed out on a quarter of a year in renewals and new sales. In addition, COVID-19 had a strong impact on the SME sector. These small businesses typically don't have the resources to build up reserves. While during the lock-down their revenues dropped, they generally struggled to limit their cost, as they were also unable to ask for rental relief. As a consequence, many of the players in this sector reduced their cover which obviously had a dampening effect on the premiums volume of those lines as well.»

Antony Lee, Chairman of the board of PIAM

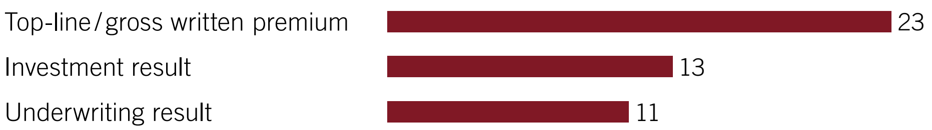
Impact on the ASEAN insurance markets

There was a strong consensus among interviewees that the COVID-19 pandemic will impact the top-line of the ASEAN insurers most dramatically. This assessment reflects both the immediate bearing of the lockdown on premium volume as well as its longer-term impact due to slower GDP growth and a decline in consumption.

The effect on the bottom line is seen to be limited. Even on a global scale COVID-19 continues to be regarded as an earnings event. Firstly, business interruption, the main line of business affected by the pandemic, was not written widely outside of Singapore. Besides, the policy wording usually excludes contingent business interruption.

With regards to the impact of the pandemic on the ASEAN insurers' investment portfolio, executives are predominately concerned about the decline in returns of their bond portfolio. The drop in global and ASEAN stock markets, as experienced in March/April, caused substantial volatility to investment portfolios, but since in most countries stock markets rebounded quickly, the impact was limited. In the Philippines the stock exchanges still trades about 20 % below the January 2020 level. The impact is significant, because Philippine insurers hold a relatively high share of equities in their investment portfolios, following a recommendation from the current government.

Chart 17: Part of income statement mostly affected by the COVID-19 pandemic (number of mentions)



«Even though COVID-19 did not have a significant impact on the performance of the insurance industry in Vietnam yet, we are concerned that the hardening of global reinsurance markets as one of the consequences of the pandemics will hamper the profitability of our domestic market.»

Tran Trung Tinh, Chief Underwriting Officer, BIC – BIDV Insurance Corporation

«The impact of COVID-19 will lead to a drop in top line for some lines of business, such as motor or marine. To some extent, this decline in volumes will be compensated for by a higher demand for health insurance products and a hardening of rates.»

Oran Vongsuraphichet, CEO, Thai Reinsurance Public Company

Chart 18: Impact of COVID-19 on top-line / gross written premium (number of mentions)

The impact of the crisis on premium volume was largely determined by the effect of the pandemic on each market and the different measures chosen to contain the virus from spreading. Top line dropped most significantly in those markets, where motor insurance is the dominant line of business as during lockdown auto sales stalled and individual traffic came to a standstill. As a result, policies were less renewed nor newly purchased.

In Vietnam previous year's insurance growth almost halved from 14 % in 2019 to an expected 8 % to 10 % in 2020. In Malaysia, Thailand and the Philippines motor business reduced substantially. However, once the lockdown was eased, sales started to recover in the 2nd half-year.

In Cambodia insurers' reported volume was only marginally impacted because, firstly, sales in life were able to offset the decline in non-life lines of business. Furthermore – and that is true for several ASEAN markets – insurers benefited from the fact that most policies incept at the 1st of January.

The payment of premiums was one of the concerns of regulators. Insurers were asked to increase the number of instalments in personal lines as a means to ease the financial burden on consumers during lockdown. In fact, during lockdown consumers were even allowed to defer the payment of premiums while insurers were asked to maintain cover. All these measures had an impact on premium volume. However, the effect of the pandemic on premium collection and cash flow had no sizable bearing on insurers' liquidity.

Going forward there is a concern that particularly consumers and SMEs may underinsure their exposures to reduce their premium payments. However, they underestimate the effect such an underinsurance will have on claims payments, should they incur a loss.

Going forward, slower GDP growth will translate into lower sales. In markets accustomed to strong premium growth, the contraction in volume is expected to cause an enhanced focus on underwriting discipline as insurers will no longer be able to compensate a low underwriting performance with top-line growth. Following the pandemic, the ability to pass higher rates on to customers is seen to be limited as in a strained economy, consumers are expected to tighten their expenses.

Finally, to avoid or limit future losses, insurers will have to clarify their coverage and once again review their policy wording if they are to manage their exposures better. Otherwise – according to the concern of interviewees – a renewed surge of the pandemic will trigger another round of losses.

Chart 19: Impact of COVID-19 on insurers' bottom-line / underwriting result (number of mentions)

In many ASEAN markets the impact of COVID-19 on the bottom line stands in a stark contrast to the top line. While the impact of the pandemic on the loss ratios of business interruption, medical and life was minimal, the standstill led to a substantial improvement of the loss ratio in motor and travel insurance. The larger the share of motor in the overall portfolio mix, the more pronounced this effect. Furthermore, insurers' bottom line also benefited from some premium loading as the industry was eager to prepare for a sudden increase in future losses. All in all – from a bottom-line perspective COVID-19 might actually have had a positive impact, or – as one interviewee stated: «In terms of underwriting profitability, 2020 is a bumper year!»

«COVID-19 obviously affects the top-line of insurers most severely. Besides the immediate impact from the lock-down, consumers cut back on buying insurance which they perceive as a cost. Secondly, investment volatility affects insurers' balance sheet as well. While in the 1st quarter we saw a decline in capital market, in the 2nd quarter markets picked up again to take a dive in the 3rd quarter again as concerns about a second COVID-wave are rising. Finally, insurers are reducing variable cost as much as possible to preserve the bottom line.»

Gobinath Arvind Athappan, CEO, The Pacific Insurance Berhad

«The top-line of the Malaysian insurers suffered the most during the lock-down. In Motor, which is by far the largest line of business in Malaysia, many motorists did not renew their policies for those two months in Q2/20. However, since the lock-down has been lifted, business has been coming back and we expect the full year to be in the range of the past years.»

Kong Shu Yin, MD/ CEO, RHB Insurance Berhad

The impact of the decrease in top line was not strong enough to lead to a deterioration of the underwriting results. Although large parts of insurers' cost are fixed, the improved loss ratio due to lower claims as well as savings due to the stop in business travel had a stronger impact.

The improved profitability might be short felt though. Firstly, many executives were concerned that the loss ratio will deteriorate again. Insurers in several markets are alarmed by a rise of potentially fraudulent fire claims, which typically increase in times of economic hardship and rising defaults. Furthermore, insurers also recorded an exceptional spike in motor claims in the weeks following the lockdown as people continue to try and avoid public transport. As a result, commuters which had not been accustomed to everyday driving, took to the streets. Finally, as insurers in Thailand and in Malaysia mentioned, the motor market is very competitive. Due to the low claims, insurers shared improvements of the loss ratio by returning a part of the gains to policyholders.

The concern is predominately forward going. As the decade-long soft market in reinsurance comes to an end and rates for retrocession and reinsurance increase, ASEAN's primary insurers will struggle to pass on the increased cost to policyholders as markets remain highly competitive and consumers will be even more price sensitive.

«The economic impact of the COVID-19 crisis on insurance in Indonesia is significant. We observe that some customers are either not renewing their policies at all or are buying smaller limits. We are worried that underinsurance will become a significant problem in the market, leading to economic losses for the policyholder.»

Aziz Adam Sattar, President Director, PT Great Eastern General Insurance Indonesia

«In response to the current COVID-19 crisis, the Ministry of Economy and Finance and Ministry of Health in Cambodia have requested the industry to form a consortium to provide medical insurance including pandemic cover foreign visitors to Cambodia in order to meet one of the immigration requirements.»

Soh Jiun Hong, General Manager, Campu Lonpac Insurance

Impact on investment returns

As one interviewee put it: «The less mature ASEAN markets will notice a stronger impact on their top line, as these markets are strongly geared towards those lines of business that are closely correlated with GDP. For the more mature markets – such as Singapore and to some degree also Malaysia – the impact on investments will be more painful.»

ASEAN's equity markets tumbled in March/April and recovered once global and national central bank and government measures were announced to revive the economy. However, that is only partially true for the ASEAN markets where for instance the Philippine and the Thailand stock exchange still trade well below their January level. But the stocks that declined were not necessarily those that recovered. While the financial services sector continued to trade below its peak ahead of the crisis, the shares of sanitary stocks and particularly rubber producer trade higher as demand for their products surged.

Exposure of the ASEAN insurers to equity varies – in Brunei the share of stocks as part of the investment portfolio is almost negligible while for the Philippine insurers that share can be up to 20 %. The sudden swing in stock market caused some unwanted volatility in insurers' investment portfolios. As a further anecdote, the Duarte government in the Philippines had encouraged the country's institutional investors including insurers to invest into domestic equities. As a result, they now suffer disproportionately from the low valuation of the Philippine stock exchange.

The main impact on insurers' investment portfolios, however, will come from the lower valuation of fixed income and government bonds. Since for many ASEAN insurers they form the largest part of their assets, lower yields will translate into a long-term decline in investment returns, which is seen – again – to enhance pressure on insurers to improve their underwriting results.

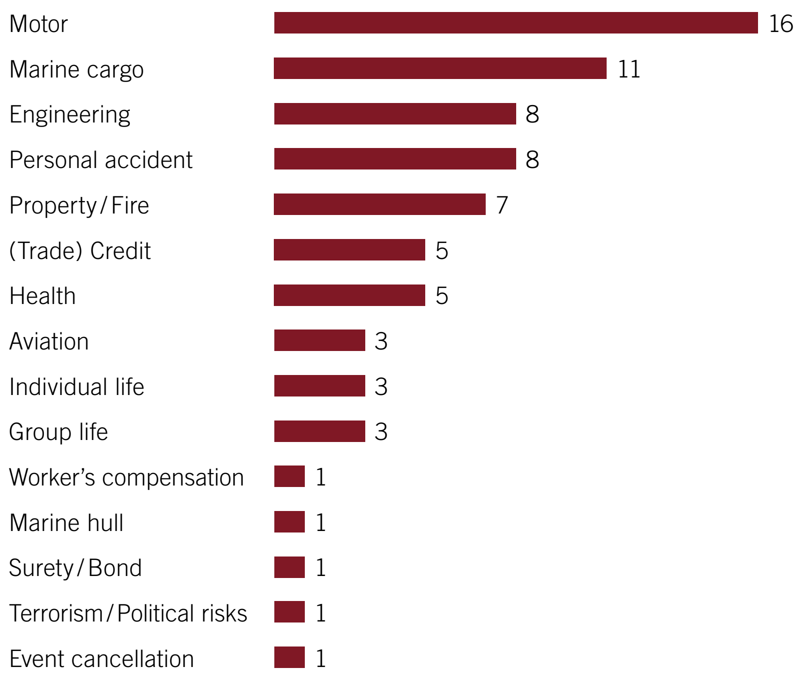
Impact by line of business

The lines of business which mirror most closely the country's GDP have been hit hardest in the pandemic crisis. As a result, motor insurance was strongly affected by the lockdown and the impact of the crisis on consumption. The effect on travel insurance and aviation was even more dramatic. Property sales declined as less real estate was purchased and SMEs had to reduce their business activities.

In the manufacturing driven ASEAN markets, the disruption of supply chains directly affected insurance classes such as trade credit and marine cargo, although in Thailand insurers reported that the decline was compensated by a hardening of rates.

Health and life insurance were hardly affected by an increase of claims as the government decreed that COVID-19 patients had to be treated in dedicated public hospitals and, fortunately, the total number of infections and death remained low in most markets of the region.

Chart 20: Line of business most affected by COVID-19 (number of mentions)



«The return on investments of insurers here in Malaysia is impacted by the declining yields on fixed income bonds. Yields have been low, and we expect that they will remain low for quite some time. This is particularly challenging for the coverage of long-tail risks as the lower yield affects the long-term profitability of these lines.»

Marcel Omar Papp, Head RI Malaysia Conventional & Retakaful, Swiss Re Asia Pte. Ltd., Malaysia Branch

«The small and medium enterprise business segment has been hit very hard by the COVID-19 crisis, which consequently also led to an erosion of insurance premiums. The construction sector in the Philippines is also expected to experience a 10 % contraction this year, which will result in a significant decline in engineering premiums.»

Allan Santos, CEO, The National Reinsurance Corporation of the Philippines

Changes in demand and recognition

Strengthening of the industry

The majority of the ASEAN insurers are convinced that ultimately the COVID-19 crisis will have a strengthening effect on the industry. In particular the industry's processes are expected to benefit. COVID-19 significantly contributed to an acceleration of the digitization of the industry. When insurers sent their employees home to operate online, they often had to improve their technical capabilities. Many insurers accelerated their investments into IT to assure their business continuity. In some markets like Malaysia, where the regulator pursued quite a hands-on approach, insurers had to report on how they maintained their business continuity while their workforce operated from home.

The strengthening of digitization and online sales also played a key role in maintaining the contact with agents and customers. Insurers are encouraged by the success they have been seen with online sales, services and the positive response they have experienced from customers. They were able to instruct their agents online and communicate directly with customers, sharing information and underwriting policies online, collecting premiums digitally or receiving and handling claims online. Going forward many executives are convinced to benefit from efficiency gains and new products as part of their customer relationship will be managed online.

Chart 21: Expected long-term impact from COVID-19 crisis on the ASEAN re-/insurance industry (number of mentions)

«It is still early days but I believe ultimately the insurance industry will strengthen as a result of the pandemic. While obviously demand and market volume have declined, the risk management and awareness improved both among insurers as well as customers. Furthermore, the digitization of our industry accelerated. We increased online sales and distribution as well as client services.»

Jimmy Tong, MD, Great Eastern Life Assurance Company Ltd

Furthermore, the crisis demonstrated the threat of systemic risks. Many insurers stated that they drastically improved their risk management practices to be better equipped for a continuation of the crisis as well as for other events with similar characteristics. Depending on the structure of the market, insurers also expect a market consolidation. In Thailand, where close to 60 insurers operate, the smaller players are seen to have a cost structure which will not survive in an environment where substantial investments in the digital infrastructure are needed.

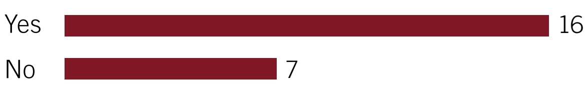
Finally, some insurers believe the crisis will have a positive effect on the awareness for insurance and its products. Particularly medical, health and business interruption are expected to benefit. However, the number of sceptics in this regard is high, as the number of infections remained mostly low and memory is predicted to be short lived. Ultimately, many thus doubt that a rise in awareness will translate into increased sales.

Weakening of the industry

About a third of interviewees predict that the crisis will have a weakening effect on the industry. Firstly, the loss in sales volume is expected to damage the markets. A decline in foreign direct investment will weaken insurance sales too. As a result, insurers fear a further rise of protectionism to shelter weakened markets against foreign competition while necessary market reforms might be postponed.

Those who nurture these concerns point to Malaysia where Bank Negara decided to delay the final phase of the de-tariffication of the motor and fire line of business to the end of 2021. While many insurers applauded the decision as a necessary measure to enable the industry to concentrate on the most imminent issues in the crisis, there is no doubt that current tariff rates in motor insurance are unsustainable and the postponement upholds an untenable situation.

Chart 22: COVID-19 strengthened awareness for importance and necessity of insurance industry recognition and demand (number of mentions)



«In Malaysia infectious diseases can be covered as an extension of a business interruption policy. The wording is based on tariff wordings requiring the disease to manifest by any person whilst in the premises which directly and solely results in the restriction of use of the premises (whether total or partial) by the order of the competent public authority. In the past, the take-up rate for infectious diseases had been low, but due to COVID-19 demand is rising. The primary insurers are still providing the coverage for infectious diseases which includes COVID-19 to a certain degree, however, the industry is cautious as the international reinsurers have started restricting or withdrawing their cover.»

Chua Seck Guan, CEO, MSIG Insurance (Malaysia) Bhd

In smaller markets, like Myanmar, the decline of premium volume threatens to cause an erosion of capital. Similarly in the Philippines, COVID-19 might turn into a capital event that erodes available capacity. However, at least in the larger markets, insurers confirmed that the capital base of the industry is well equipped to deal with the current effects of the pandemic.

Although insurers agree that the COVID-19 pandemic may have increased the awareness for some insurance products – namely medical and health insurance – they doubt that this will have a lasting effect. Firstly, in the ASEAN markets the number of infections remained relatively low. In particular in countries where there was a strong consensus that the crisis was handled well, such as in Malaysia, insurers do not expect an increase in demand – particularly as all COVID-19 cases had to be treated in dedicated public hospitals. Furthermore, most private health insurance products exclude pandemics from the coverage and provide it only on a voluntary basis in some countries.

For business interruption the effect is also expected to be minimal. Although risk and product awareness among clients has increased as a result of COVID-19, those who buy the cover are mostly multinational companies and their demand is not driven by the COVID-19 pandemic. Demand for a policy that might cover the risk of a business interruption may be rising, but capacity from reinsurers has tightened and is not available for coverages that include pandemic risks.

«In terms of demand for insurance products there has been a sharp contraction in discretionary purchases such as travel insurance and a delay in renewing motor insurance. Furthermore we expect that the sluggish economy will lead to a decline in the number of policies sold and also to a reduction in coverage in an effort to save. However, since lockdown has been lifted we also observed some recoveries but some lines such as travel will remain weak.»

Derek Roberts, CEO, AmGeneral Insurance Berhad

Has the way how insurers have responded to COVID-19 strengthened or weakened the industry's reputation among policyholders and/or policymakers?

Insurers responded differently to the pandemic crisis. In several markets such as Indonesia, Malaysia, Thailand, the Philippines or Singapore insurers took proactively the initiative to provide additional support to policyholders. They extended their health or life coverage to provide additional protection to policyholders although infectious diseases had been excluded from the cover. In addition, in Malaysia the life, non-life insurance and takaful association created a voluntary COVID-19 test fund that enables policyholders to access free COVID-19 testing.

In health insurance, some ASEAN insurers also supported policyholders in the crisis with the introduction of further instalments for premium payments that previously had not been customary. In addition, they allowed policyholders to defer premium payments and even returned premiums to policyholders due to a positive claims experience in motor.

Insurers are thus of the opinion that they have taken quite some efforts to support their policyholders during the crisis. However, some interviewees also pointed out that the debate about the inclusion of COVID-19 in business interruption took its toll of the industry's perception. Furthermore, insurers also remarked that the industry has to take measures to insure pandemics going forward. The current discussion about pool solutions in combination with public private partnerships as a way to cover pandemics already demonstrates that the industry is making efforts into this direction.

«Following the SARS experience, the primary policy wordings in the ASEAN markets have been tightened. The impact of any potential COVID-19 losses on the ASEAN markets will vary according to the types of major industries in the respective markets e.g. more commercial in a financial hub like Singapore as opposed to manufacturing in markets like Indonesia, Vietnam and Thailand. Latter markets would be more exposed to supply chain disruption.»

Ann Chua, Head of Asia, Reinsurance, AXA XL, a division of AXA

Lasting effects on insurer's operations

Although the COVID-19 pandemic had a positive impact on risk awareness, this improvement has not yet generated additional demand for the ASEAN insurers. Firstly, premium volumes declined or, at best, stagnated due to COVID-19. As interviewees pointed out, declines were substantial across all lines that are correlated with GDP growth.

For (potentially) loss infected lines such as business interruption, medical or health as well as life opposing factors are at play. As one insurer explained, «Demand for the coverage of systemic risks increased». That demand applies to commercial lines such as credit insurance, but will also include the protection against natural disasters and cyber risks. However, as for pandemic related coverage, there might be demand but, as interviewees across the ASEAN markets pointed out, capacity dried up as reinsurers reduced their cover. To respond to these demands, executives broadly encourage industrywide solutions to pandemics risk which includes some kind of public-private-partnerships.

Chart 23: Impact of COVID-19 on demand for insurance products (number of mentions)

«Due to the lock-down and the resulting reduction in economic activity, overall demand for insurance protection has declined, particularly in retail lines. However, in the commercial insurance space we are seeing an increase in demand for specialist coverages as awareness of the threat of systemic risks has developed. The insurance industry and governments need to work together to develop public-private partnership solutions that can enable pandemic and other black swan risks to be insured in the future.»

Pavlos Spyropoulos, Country manager of Singapore and CEO of Lloyd's Asia

«Malaysia's healthcare system has proven its mettle and has been able to handle the COVID-19 crisis quite well. From the extensive testing to contain the cases to daily communications by Ministry of Health to keep everyone updated. This was also further supported by a disciplined population that adhered to the lock-down and social distancing requirements, helping the number of infections to remain low and the designated public hospitals were able to treat patients well. If we would have experienced far more cases and a run at the healthcare system, the government might have been forced to make use of the private hospitals. Here, cost is still an issue as the price for treatments varies greatly. Since Malaysia sees one of the highest medical inflations in the region, that could have become an issue.»

Krishnamoorthy Rao, CEO, MPI Generali

Insurers also point out that they have seen some increase in demand for medical and health insurance, although not as strong as one might expect. Thus far the public healthcare sector has dealt with the impact of the pandemic. In countries such as Singapore or Malaysia there was a general consensus that the existing systems handled the pandemic efficiently. In addition, consumers are confronted with pressure on their own budgets. Thus, although awareness is up, affordability and the willingness to pay are seen to be down. The motivation to buy more private healthcare protection is thus limited and coincides with rising cost due to medical inflation.

Chart 24: Long-term the majority of insurers expect no lasting effect on their portfolio (number of mentions)

Long-term the majority of insurers expect no lasting effect on their portfolio from COVID-19. The main impact is seen to be with the economy, where uncertainty, lower income and possibly rising unemployment could take its toll. Provided the ASEAN markets will experience an economic recovery by 2021, premium volume would catch up fairly soon as well. While construction business was seen to bounce back quite rapidly, benefiting from investments in infrastructure from the public sector, expectations on classes such as aviation or travel were more restrained.

For the commercial lines, executives are focused on the effect of COVID-19 on the market cycle. During the long soft market period market discipline had been declining and the wording on terms and conditions became quite loose. Following the COVID-19 shock, interviewees expect that insurers will clarify their policy wordings, tighten conditions and manage exposures and limits more closely.

The effects of the pandemic on the working conditions and processes are seen to be more lasting. Work from home will become the new normalcy in the ASEAN markets too. As in the mature markets, the region's insurers also consider to reduce office space and allow more employees to work from home – although some executives also pointed out that in a relationship driven industry personal contacts can not be compensated.

Chart 25: COVID-19 accelerated the digitization of the ASEAN insurance industry (number of mentions)

All insurers agree that COVID-19 accelerated the digitization of the ASEAN insurance industry. On the one side the digital communication systems enabled the region's insurers to remain fully operational as a «systemic sector» of the economy. With the announcement of the various types of lockdowns the industry's players moved to «work from home» – upholding that mode even after the lockdown had been eased. For instance, in Vietnam insurers stated that initially they divided their team to work in two to three alternating shifts. By October still only about 50% of the workforce has returned to the office while the other half still worked from home.

In terms of client relationships, digitization has been a boon to the industry. Insurers were able to reach out to their clients, continue their sales and policy renewals and handle their claims. Even in frontier markets' like Cambodia, insurers asked policyholders not to come to their offices to hand in a claim but to file it digitally. Similarly, in Indonesia insurers stated that moving to digital as the only open sales channel during the lockdown was not a question of choice but a must.

Covid-19 catapulted ASEAN's insurance industry into the digital age, leapfrogging several stages at once, as an insurer in Thailand put it. However, as insurers in Indonesia point out, the digital channel did not substitute agents as the main sales channel in the region but complements it, as insurers tried to integrate their agent network into their digital approach. They thus offered training sessions during the lockdown or provided apps to improve an online sales process.

However, COVID-19 contributed to speed up the transition of insurance sales from the agent to the online channel. Regulators acknowledge this trend and encourage its development as the link between insurer and policyholder becomes more robust – even in times of crisis. In Malaysia for instance, the online customer retains the sales fee that in a conventional transaction the agent would have received. As a result, the online purchase is cheaper for the customer.

«The COVID-19 crisis has led to a substantial increase in digitalisation related investments. Many companies had to create mobile working options for their staff and implement digital processes to stay in touch. This is also true for a lot of interactions between clients and insurers: the crisis has enforced more digital touchpoints.»

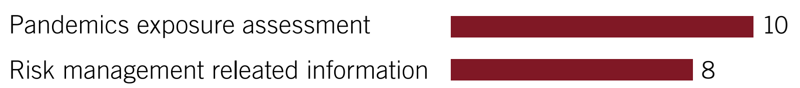
Klaus Tomalla, General Manager, National Insurance Company

«We expect that the long-term impacts of the COVID-19 pandemics on the insurance sector in Vietnam, such as an improved operational efficiency and higher investments in technology, will outweigh the short-term effects on bottom line, investment results, etc. Although the digitalization of the industry was already a hot topic before the outbreak of the pandemics, we now witness an accelerated development.»

Dao Manh Duong, Manager, Marketing Department, Vietnam National Reinsurance Corporation

Proactive regulation

Chart 26: Additional information request by regulators (number of mentions)



The regulators in the ASEAN markets acted proactively during the COVID-19 crisis. Generally, they were applauded for their approach by the interviewees. Regulators were keen to assure business continuity and to avoid any defaults. As such they issued instructions as to the way how insurers had to protect their employees, operate under lockdown conditions and launch business continuity measures. In turn, insurers had to report back on the impact of the pandemic on balance sheet and how they were able to cope with the requirements.

In some markets, insurers' liquidity and performance were an ongoing concern. In Thailand insurers had to execute a COVID-19 stress test; in Vietnam, they had to report their estimations of underwriting results and had to simulate the impact of COVID-19 on their investment portfolio. Insurers' exposure to the pandemic and to communicable diseases was a concern that had to be reported. In other markets the regulator closely monitored the level of risk-based capital and capital adequacy. In Myanmar the supervisors asked insurer to not pay out the dividends of 2019.

As for most ASEAN insurers, COVID-19 had a limited impact on insurers' capitalization as claims remained low, while staggered or deferred premium payments did not affect liquidity. In addition, insurers had to deal with the volatility in their asset portfolios. The combination of these factors – including continuing business with a large part of the workforce operating from home – was challenging, in particular for small insurers.

However, as insurers emphasized, during the crisis regulators demonstrated flexibility. They allowed more time for the reporting and in some cases also relaxed solvency requirements. For instance, in Indonesia insurers could increase the value of real estate within their fixed income portfolio from 20 % to 50 % for their solvency calculations – which in fact represented an artificial solvency strengthening.

In addition, the regulators also postponed the implementation of regulatory changes. In Malaysia Bank Negara delayed the implementation of the final phase of the detariffication of the motor and fire lines of business to the end of 2021. In the Philippines the introduction of a capital build-up programme was delayed and in Brunei the implementation of RBC and IFRS 17 were deferred.

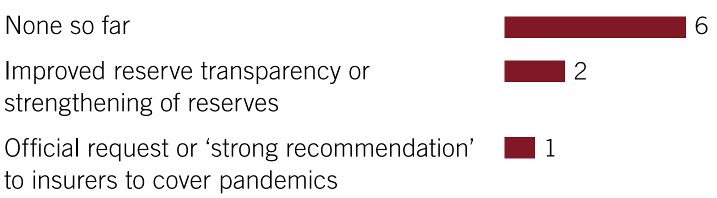
Regulators were keen to ease the impact of the crisis on consumers' budgets and on small to mid-sized enterprises. Similar to the banking sector, where the regulator asked the banks to enable moratoriums on loan payments, they also urged insurers to allow for a higher number of instalments, staggered or deferred premium payments.

Similarly, insurers were also asked not to cancel cover, if during lockdown customers struggled to renew their policy – or, as in the case of property insurance, to not cancel a policy if during lockdown premises remained unoccupied and unattended for more than 30 days. They also wanted to assure that insurers provided some relief to their large network of agents.

The regulator also asked insurers to help policyholders with the testing for COVID-19 infections. In Malaysia the Non-Life, Life and Takaful association jointly established a COVID-19 Test Fund which was furnished with MYR 8 million. The fund compensates medical insurance policyholders and takaful certificate holders if they needed a COVID-19 test, in an effort to maximize the number of tests conducted.

Across the ASEAN markets there are numerous examples where regulators encouraged and also collaborated with insurers to turn the experience of the COVID-19 crisis into new products. In Malaysia the regulator collected data with the insurers to learn more about the crisis. Supervisory authorities encouraged insurers to think about products that will better protect supply chains in crisis like these, as the ASEAN countries are highly dependent upon their exports. And ultimately, there is a call upon insurers to come up with proposals how to improve the insurability of epidemics, if not pandemics, both on the non-life and the life and health insurance side.

Chart 27: Additional actions taken by regulators due to COVID-19 crisis (number of mentions)



«In response to the COVID-19 crisis, the Insurance Commission of the Philippines provided some relief to insurance companies that were already compliant with the net worth requirement of PHP 900 million as of December 31, 2019 by easing up on the quarterly compliance requirement with this guideline.»

Michael Rellosa, Executive Director, PIRA Philippines Insurance and Reinsurance Association

«In order to maintain an insurer's liquidity, the Myanmar Insurance Regulatory Board (IBRB) has not permitted the withdrawal of an insurance company's equity shares. In addition, dividend payments from insurers to their shareholders are not allowed until further notice.»

Dr. Sandar Oo, Managing Director, Myanma Insurance and Chairperson, Myanmar Insurance Association

Outlook beyond COVID-19

According to their experience with COVID-19 thus far, insurers are most concerned about the impact of the pandemic on their top-line. A prolonged economic downturn or slow recovery is the main concerns of insurers in the ASEAN markets. The longer it takes for the GDP to return to the level at the end of January 2020, the more irreversible some of the damages to the economy will be as defaults increase or jobs, companies and eventually even infrastructure or supply chains could disappear, if left idle for too long.

A further wave of infections might have similar implications. Firstly, it will delay a recovery or even aggravate the downturn. Secondly, in many ASEAN markets, systems have not necessarily been tested to their ultimate capability. Cases had been few and the existing healthcare infrastructure has been able to cope with the number of patients. However, some interviewees voiced their concern, if numbers were to soar. Furthermore, the first wave of COVID-19 has already eroded resources – both in terms of the public abilities to support the economy and to substitute those sectors most affected. The same is true for companies, households and individuals, where savings or provisions are already stretched to the limit.

Furthermore, and that relates to the effects of COVID-19 on workforce and productivity: insurers were mostly amazed to which degree they were able to operate under work-from-home conditions. However, the longer this status lasts – and in some ASEAN markets like Thailand where initially 90 % of insurers' workforce was operating from home, 25 % had still not returned to the offices in September – the graver the consequences, feared some executives. The industry lives of personal contacts, confidence and trust. The current restrictions on meeting with clients, attending conferences or hosting events are a concern that eventually the industry will have to pay a hefty toll in terms of productivity and sales volume.

Chart 28: Main concerns with respect to COVID-19 (number of mentions)

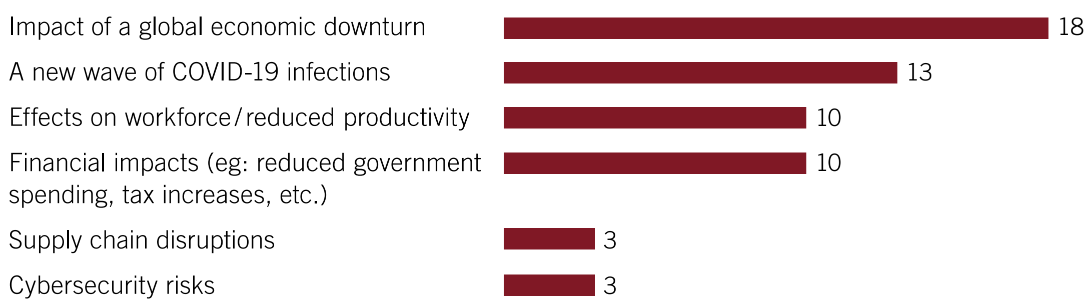
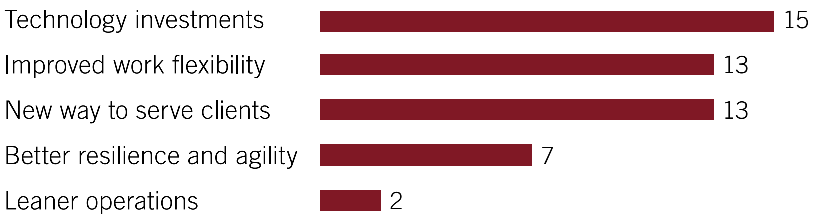


Chart 29: Long-term effects of the COVID-19 pandemic on insurance companies (number of mentions)



Most insurers are convinced to emerge stronger out of the crisis. Firstly, the lockdown afforded immediate investments into technology to communicate with clients, agents and to be able to have the workforce operate from home. These changes are expected to be irreversible and improve the efficiency of the industry as more online sales as well as products are expected to emerge. Furthermore, operational costs are expected to come down as the ability to work from home will reduce the need for office space. Insurers also realized that they can curb down on their cost for travel and events as online video conferencing established itself as a viable communication channel.

The digitization also allows for a more immediate connection between insurers and customers. The agent channel, which is the main avenue of distribution in the ASEAN market is inefficient and prone to flaws as considerable miss-selling happens.

«As one of the first markets in the world, Thailand has introduced a specific COVID-19 insurance policy for domestic consumers covering a lump sum payment when he/she gets infected. For foreigners traveling to Thailand, the policy provides compensation for medical treatment as well as funeral and repatriation related costs. In order to buy the policy, foreigners are required to have a certificate of entry, a Fit-to-Travel health certificate, and a medical certificate, proving that they tested free of COVID-19 72 hours prior to departure.»

Kheedhej Anansiriprapha, Executive Director, Thai General Insurance Association

«From the industry's perspective and even for most people, I don't think anyone was prepared for such a pandemic. No one expected an event like this. However, when it happened, we reacted very well and swiftly – we all had to immediately adjust our plans and roles. The entire insurance ecosystem – Bank Negara, Insurers, Agents, Brokers, and Customers – came together on how to effectively and efficiently operate in this crisis.»

Puneet Pasricha, CEO, Liberty Insurance Berhad

During the crisis, the online channel proved to be more robust – which also the regulators acknowledged – therefore encouraging its further use. Going forward digital sales platforms and eco-systems pose plenty of opportunities to provide an improved customer experience to clients.

Insurers also emphasized that they improved their risk management. Although Asia is experienced with epidemics, COVID-19 hit the ASEAN insurers widely unprepared. They reacted quite swiftly which gives most company confidence in their ability to rapidly adjust to changing and challenging conditions. Nevertheless, the systemic risk that COVID-19 posed reminded insurers to rework their risk management, better anticipate and prepare for global risks and – quite pragmatically – review and screen their policy wordings to detect or avoid «silent risks».

Finally, insurers were able to stress test and improve their business continuity models. Most executives were quite pleased to see that despite rigorous movement controls during the lockdown they were able to continue their operations. In addition, the industry also benefited from its recognition as systemic, which will also strengthen its standing with policymakers and authorities.

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