ASEAN Insurance Pulse 2018

An Annual Market Survey

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Prepared by

Dr. Schanz, Alms & Company

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ASEAN Insurance Pulse 2018

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Disclaimer: The published views expressed by the executives participating in this research are not necessarily those of their respective organisations.

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Foreword Dr. Schanz, Alms & Company

We are pleased to present the second edition of *ASEAN Insurance Pulse*. It offers an authoritative overview of the current state and future prospects of the region's US$ 28 billion non-life insurance markets. This edition also takes the pulse of key insurance executives on protection gaps and their implications for the region's insurance markets and economies.

Our regular readers and interviewees will notice that we have expanded the footprint of Pulse (see www.pulse.schanz-alms.com) in Southeast Asia, building on our well-established editions in Africa and the Middle East.

For the second year in a row, through the *ASEAN Insurance Pulse*, our exclusive partner Malaysian Re demonstrates its commitment to improving the transparency of the regional market place, providing the regional insurance community with an important benchmark for strategic and operational decision-making.

Our second *ASEAN Insurance Pulse* draws on in-depth interviews with senior executives of 41 national, regional and international insurance and reinsurance companies, intermediaries and trade associations operating across the ASEAN region. The key methodological strengths of the publication lie in its comprehensiveness, diversity and diligence. Our qualitative interview approach enables us to probe deeper, obtaining clarifying responses from the participating executives. In addition, by including both global and regional players, as well as generalists and specialists, we have been able to collate a broad yet nuanced picture of the market place.

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.

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

Dr. Kai-Uwe Schanz
Chairman and Partner,
Dr. Schanz, Alms & Company

Henner Alms
Partner,
Dr. Schanz, Alms & Company

Foreword Malaysian Re

A few weeks ago, Super Typhoon Mangkhut, a Category 5 tropical cyclone, made a fierce landfall in the northern Philippines before sweeping across Hong Kong and Southern China. This was followed by a devastating 7.5 magnitude earthquake on September, 28th which triggered tsunami waves as high as 20 feet which slammed into central Sulawesi at 800 km/h. The catastrophic events caused a massive loss of lives and left economic and infrastructure destructions in their wake, with the number of casualties expected to rise when the true extent of destructions and fatalities becomes clear.

As we mourn those who perished and the survivors make a brave recovery, preliminary reports from the impacted areas have somberly highlighted the relevance of non-life protection gaps in the region as uninsured economic losses from the natural disaster have come with adverse consequences to human lives, business continuity, properties and public facilities. It is increasingly evident, as per the findings of our second edition of *ASEAN Insurance Pulse*, for the risk exposure levels to be growing faster than the region's economies as a result of urbanisation and associated concentration of assets.

Nevertheless, such protection gaps are not exclusive to the ASEAN region. As parts of the Carolinas in the United States were still under water weeks after being battered by Hurricane Florence, it was reported that most of the losses from the flood in the Carolinas are uninsured. Cyber is another area in which available protection solutions lag severely behind the rising exposure. The current global cyber insurance market of about US$ 4 billion compares with estimated annual worldwide economic cyber losses of more than US$ 500 billion.

Uninsured disaster losses may cripple the countries' public and private sectors' ability to respond adequately to calamitous events. In addition, the underlying tension between governments' strained fiscal position on the one hand and the lofty expectations of constituents under-insured through a combination of lacking awareness, affordability and product suitability on the other, often erupts to the fore during perilous events with irreversible long-term damages.

It is for this reason that 80 % of senior executives interviewed for the *ASEAN Insurance Pulse 2018* consider non-life protection gaps a severe threat to their respective countries' economic growth and societal progress. Building on last year's first edition of *ASEAN Insurance Pulse* and its recommendations for closer collaboration within the AEC community, the survey attempts to pool together the region's wisdom and experience to identify the root causes for protection gaps, and solicit the participants for pragmatic solutions that can be effected.

Most of the executives interviewed agreed that more public-private partnerships (PPP) are required to close the gap between economic and uninsured losses. The spectrum of concrete recommendations ranges from subsidised schemes (for example, in agriculture) to tax incentives, compulsory insurance requirements, awareness and education campaigns, and the insurance of public assets to pool solutions for natural perils.

We are indebted to our partners and friends from across the ASEAN insurance marketplace who graciously invested their time to participate in the second edition of *ASEAN Insurance Pulse*. We would also like to record our appreciation to Bank Negara Malaysia, the Malaysian General Insurance Association (PIAM), and the ASEAN Insurance Council for the steadfast support and guidance.

We hope *ASEAN Insurance Pulse 2018* will provoke some deep, thoughtful and productive discussions.

Zainudin Ishak
President & Chief Executive Officer,
Malaysian Reinsurance Berhad

Methodology

The findings of this report are based on structured interviews with executives representing 41 regional and international (re)insurance companies, intermediaries, policy makers and trade associations. The interviews were conducted by Dr. Schanz, Alms & Company, a Zurich-based research, communication and business development consultancy, from June to September 2018.

Interviewees were recommended by Malaysian Re and Willis Re. In addition, the General Insurance Association of Malaysia (PIAM) and the ASEAN Insurance Council (AIC) encouraged their respective members to support this research. We would like to thank the following organisations for sharing their insight with us:

AIG, Malaysia
Allianz, Malaysia
Asia Insurance Company, Hong Kong
Axa, Malaysia
Berjaya Sompo Insurance, Malaysia
BIDV Insurance Corporation, Vietnam
Campu Lonpac Insurance, Cambodia
Department of Finance, Government of the Philippines, Philippines
ECICS Limited, Singapore
Forte Insurance, Cambodia
FPG Insurance, Indonesia
FPG Insurance, Philippines
FPG Insurance, Singapore
General Insurance Association of Indonesia, Indonesia
General Insurance Association of Malaysia (PIAM), Malaysia
Great Eastern General Insurance, Malaysia
Insurance Association of Vietnam, Vietnam
Insurance Commission of the Philippines, Philippines
Lao Insurance Association, Laos
Liberty Insurance Berhad, Malaysia
Lloyd's (Asia-Pacific), Singapore
Malaysian Re, Malaysia
Military Insurance Company (MIC), Vietnam
MSIG, Malaysia
Muang Thai Insurance Public Company, Thailand
Myanma Insurance Co., Myanmar
Myanmar Insurance Association, Myanmar
National Insurance Company, Brunei
National Reinsurance Corporation of the Philippines, Philippines
Philippine Insurers and Reinsurers Association (PIRA), Philippines
Progressive Insurance, Malaysia
PT. Radita Hutama Internusa, Indonesia
Takaful Brunei, Brunei
Thai General Insurance Association, Thailand
Thai Paiboon Insurance, Thailand
Thai Reinsurance Public Company, Thailand
Troo, Philippines
Vientiane Insurance, Laos
Vietnam National Reinsurance Corporation (VINARE), Vietnam
Willis Re, Malaysia
Zurich General Insurance Company, Malaysia

Summary of key findings

Non-life protection gaps in the ASEAN region

1. 80 % of executive interviewees consider non-life protection gaps a serious threat to their respective countries' economic growth and societal progress. Large uninsured disaster losses in particular can adversely affect the fiscal position of a number of countries and their ability to recover swiftly following a disastrous event. Exposure levels are seen as growing faster than GDP as a result of urbanisation and rising asset concentration.

2. 91 % of interviewees are in favour of the public sector taking a more active role to tackle protection gaps. Recommendations include subsidised schemes (e.g. in agriculture), tax incentives, compulsory insurance requirements, awareness and education campaigns, a more appropriate regulatory policy mix between customer protection and market development or the insurance of public assets as well as pool solutions for natural perils.

3. 61 % of the executive interviewees believe that the insurance industry has not done enough to narrow protection gaps. The most frequently mentioned shortcomings were a failure to build awareness (both in terms of exposures and available risk solutions) as well as a lack of sufficiently innovative and suitable products.

4. When asked about the most acute and relevant protection gap, healthcare was mentioned most frequently by the executives interviewed. With rising per capita incomes and higher customer expectations, medical inflation and, in some countries, an ageing population, existing public schemes reach their limits and often no longer meet the needs of the population. Ranked second, natural disasters account for the lion's share of economic losses, yet are generally uninsured in the ASEAN region, with disastrous consequences for public budgets, private savings and business continuity. Property, especially residential cover, features third, as risk awareness among homeowners remains low.

5. In terms of countries vulnerable to protection gaps, Indonesia was mentioned most frequently, given the country's exposure to natural perils. The Philippines, with a large typhoon and flood exposure, ranked second. Among the smaller economies, Cambodia, Laos and Myanmar (CLM) are considered most vulnerable, not only to flood risk but also due to the absence of pre-funded (public or private) healthcare schemes.

6. Most executives identified a lack of awareness, education and financial literacy as the root causes of the region's non-life protection gaps. Many, if not most, people are neither aware of their real exposures nor the role of insurance in risk mitigation. Culture and mind-set rank second. In many countries, a fatalistic attitude prevails and people tend to rely on governments as a lender of last resort. The lack of affordability was the third most frequently mentioned reason. Even though poverty remains a widespread phenomenon in most ASEAN countries and insurance prices can be inflated due to high distribution costs, many executives argue that people would be willing to buy insurance if they understand the products and their benefits.

7. New (digital) technologies are viewed as the most promising approach to narrowing non-life protection gaps in the ASEAN region. Generally, the younger population is

IT savvy and open to exploring new ways of buying and using insurance products. More relevant insurance products were the second most frequently mentioned remedy. In many countries, insurers do not yet offer appropriate need-based solutions (in terms of both price and cover) to the low-income segments of the population. Finally, a significant number of executives ask for the government to improve the availability and affordability of retail and wholesale insurance by introducing compulsory schemes that create sufficiently large risk communities and risk pools.

ASEAN non-life insurance market status and outlook

1. Strong premium growth is named as the ASEAN region's top market strength in the non-life insurance market. The second most frequently mentioned strength is the region's favourable demographics with a young population compared with mature markets in Europe, East Asia and Northern America. Growing middle classes rank third. As family wealth increases, so does insurance awareness.
2. Digital technologies and advanced analytics are viewed as the most relevant medium-term opportunity for ASEAN non-life insurance markets, promising to make insurance more affordable, more appealing and better understood. The region's low insurance penetration ranks second. The ratio of non-life premiums to GDP is less than a third of the global average. Microinsurance holds the third spot as technology reduces the cost of distribution and claims settlement.
3. Two-thirds of the polled executives (in line with last year's edition) state that current rates in commercial lines are below the three-year average. The global soft market cycle and the abundant supply of reinsurance capacity has been exacerbated by country-specific factors, such as the de-tariffication of large property business or a slowdown in construction activity. The assessment for personal lines is more favourable, with only 42 % (compared with 54 % in 2017) considering the current level of rates to be below the three-year average. From a fundamental point of view, personal lines business is generally characterised by a smaller number of players, higher barriers to entry, greater customer loyalty and more scope for differentiation through non-price competition, e.g. product innovation.
4. The pricing outlook for the next 12 months is mixed, especially for commercial lines business. 49 % (down from 69 % in 2017) of executives expect further rate decreases. Competitive pressures continue unabated while the supporting role of tariffs will further reduce. The picture is different for personal lines where only 23 % of interviewees expect further pressure on rates (a sharp reduction from last year's 57 %). The more positive outlook reflects an expected rebound from last year's de-tariffication in Malaysia and generally the need and scope for repricing in order to respond to increasing claims inflation.

5. 58 % (against 51 %) of surveyed executives believe that technical profitability in commercial lines is below the three-year average. Whereas relatively low attritional loss ratios, supported by advances in risk management and low levels of litigiousness, continue to mitigate some of the pressure from eroding rates and rising acquisition expenses, a number of major recent losses have taken their toll on commercial lines profitability. Only 36 % (compared with 54 %) of executives think that technical profitability in personal lines is below the three-year average. This improved assessment reflects the strong performance of personal accident, travel and household insurance as well as a robust profitability of bancassurance business.

6. 55 % (compared with 69 %) of executives think that technical profitability in commercial lines will remain on a downward trajectory over the next 12 months as the effects from further eroding prices are expected to prevail over offsetting factors such as relatively stable and still favourable claims patterns. The profitability outlook for personal lines, however, is more sanguine, with 64 % (against 57 %) expecting stable or improving conditions over the next 12 months. As contributing factors, executives cite tightened underwriting discipline, further scope for technology-based efficiency gains, a strong inherent premium growth momentum and benefits from profitability-driven risk-based pricing enabled by de-tariffication.

7. 56 % (compared with 31 %) of interviewees expect moves towards increased market consolidation in the next 12 months. For some domestic insurers, it will prove impossible to raise the additional capital needed to meet new risk-based and higher minimum capital requirements. The effective freeze on new insurance licenses in a number of countries is another factor that plays out in favour of a higher market concentration as a result of mergers and acquisitions.

8. In order to establish a regional portfolio of strategic corporate priorities, executives were asked to name areas that rank highest on their respective corporate development agenda for the next 3-5 years. Not surprisingly, digitalisation emerged as the top priority, followed by product innovation and talent management/retention.

Key Pulse readings

The Pulse measures current perceptions of the non-life insurance market in the ASEAN region and tracks them over time to monitor changes in attitudes.

These are the main differences in findings compared with the 2017 edition of *ASEAN Insurance Pulse*:

- The assessment of current pricing levels has improved in both commercial and personal lines.
- Fewer executives expect continued further pressure on rates and technical profitability.
- A higher share of executives anticipates a move towards market consolidation.

Table: Key readings on the state and prospects of the ASEAN non-life insurance markets (share of respondents agreeing)

	2018	2017
Insurance premiums to grow faster than GDP*	38 %	43 %
Insurance prices are currently low**		
— Personal lines	42 %	54 %
— Commercial lines	61 %	66 %
Insurance prices to further decrease*		
— Personal lines	23 %	57 %
— Commercial lines	49 %	69 %
Insurance profitability is currently low**		
— Personal lines	36 %	54 %
— Commercial lines	58 %	51 %
Insurance profitability to further decrease*		
— Personal lines	36 %	43 %
— Commercial lines	55 %	69 %
Insurance markets to consolidate*	56 %	31 %
Foreign (non-ASEAN) market share to increase*	35 %	34 %

*Over the next 12 months
**Compared with three-year average

Market overview

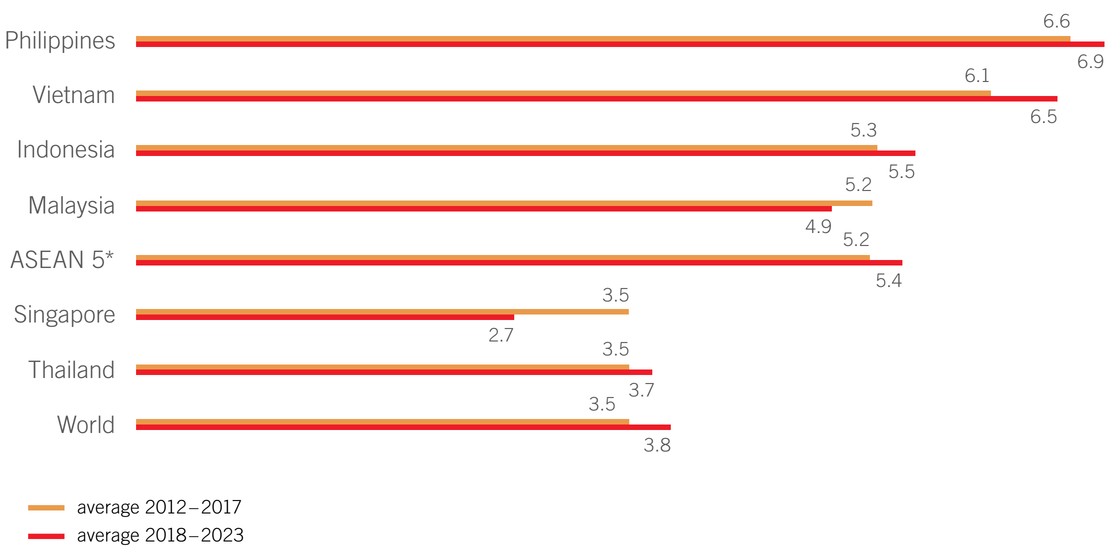
ASEAN GDP growth well in excess of global average

This overview covers the 10 countries of the Association of Southeast Asian Nations (ASEAN), i.e. the five founding members Indonesia, Malaysia, the Philippines, Singapore and Thailand as well as Brunei, Cambodia, Laos, Myanmar and Vietnam.

In 2017, these 10 countries, with a total population of about 643 million, generated a combined GDP of around US$ 2.8 trillion, which is equivalent to 3.5 % of the world's total. As an economic block, the region would rank as the world's fifth-largest economy, placed between Germany and India.

At an inflation-adjusted growth rate of 5.2 % per annum between 2012 and 2017, the economies of the five ASEAN countries (Indonesia, Malaysia, the Philippines, Thailand and Vietnam, as per the International Monetary Fund's definition) grew 1.7 percentage points faster than the global economy. Going forward, this growth differential is projected to continue (see chart 1).

Chart 1: Real GDP growth (2012–2023f; annual averages, in %)



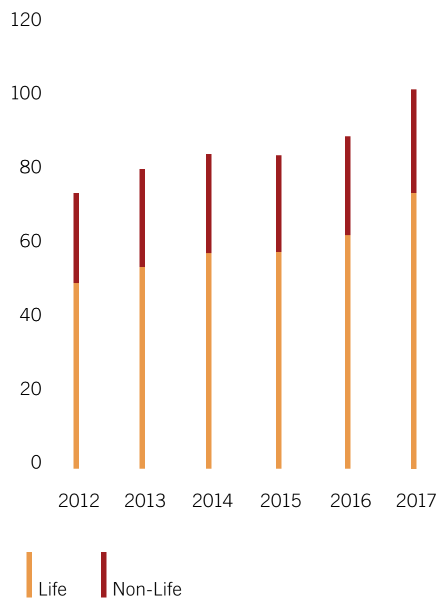
Source: IMF, World Economic Outlook (April 2018), *ASEAN 5 as per the IMF's classification

ASEAN non-life insurance penetration stagnates

According to chart 2, at a share of 73 % of total premiums, life insurance business plays a particularly important role in the ASEAN region, in comparison with its global share of 54 %. Having said this, the region's life insurance penetration (premiums as a share of GDP) still falls short of the global average (2.7 % versus 3.3 %).

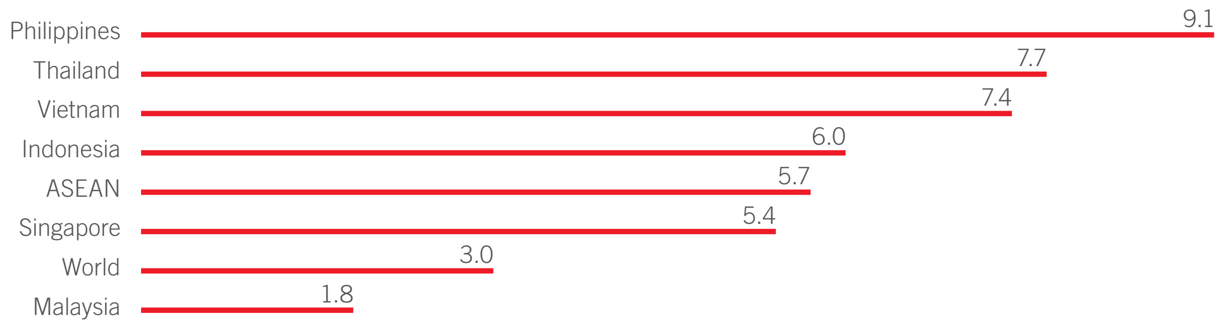
The gap is far wider though in non-life insurance. In 2017, non-life insurance premiums accounted for just 0.9 % of GDP, about a third of the global average (2.8 %). From 2012 to 2017, ASEAN non-life insurance markets marginally outgrew the underlying economies (at a rate of 5.7 %). The region's non-life insurance penetration, therefore, remained largely stable. In contrast, the ASEAN life insurance markets expanded by 9.6 % p.a. over the same period of time, significantly faster than the region's economy as a whole. The region's life insurance penetration increased accordingly and continued to narrow the gap compared with the global average.

Chart 2: ASEAN insurance premiums by type (2012–2017, non-life versus life, in US$ billion)



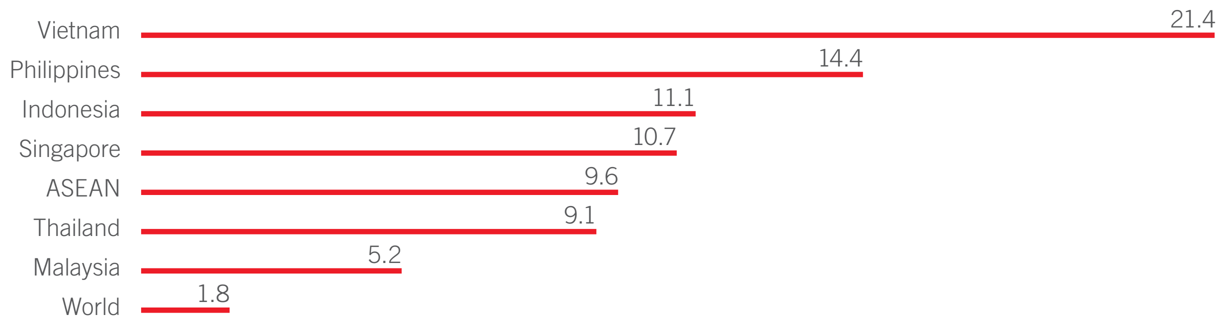
Source: Swiss Re sigma database, all rights reserved

Chart 3: Non-life real premium growth (2012–2017, annual averages, in %)



Source: Swiss Re sigma database, all rights reserved

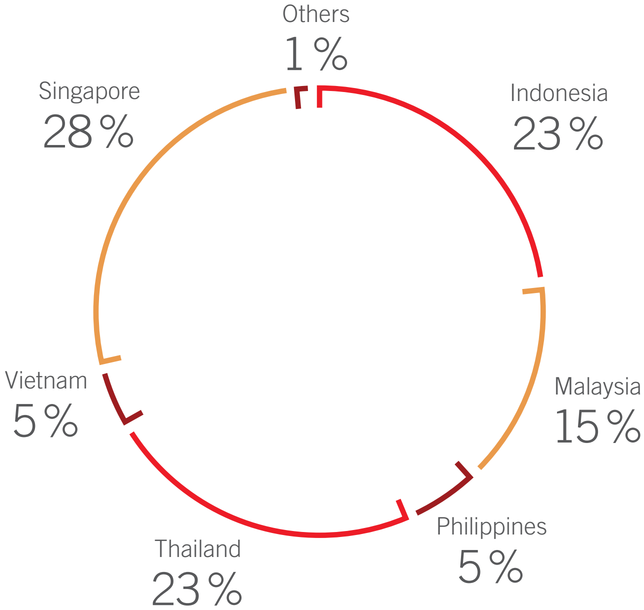
Chart 4: Life real premium growth (2012–2017, annual averages, in %)



Source: Swiss Re sigma database, all rights reserved

Chart 5 reveals that the ASEAN region's three largest insurance markets – Singapore, Thailand and Indonesia – are relatively similar in terms of premium volume and account for almost three quarters of the total ASEAN premium pot (life and non-life).

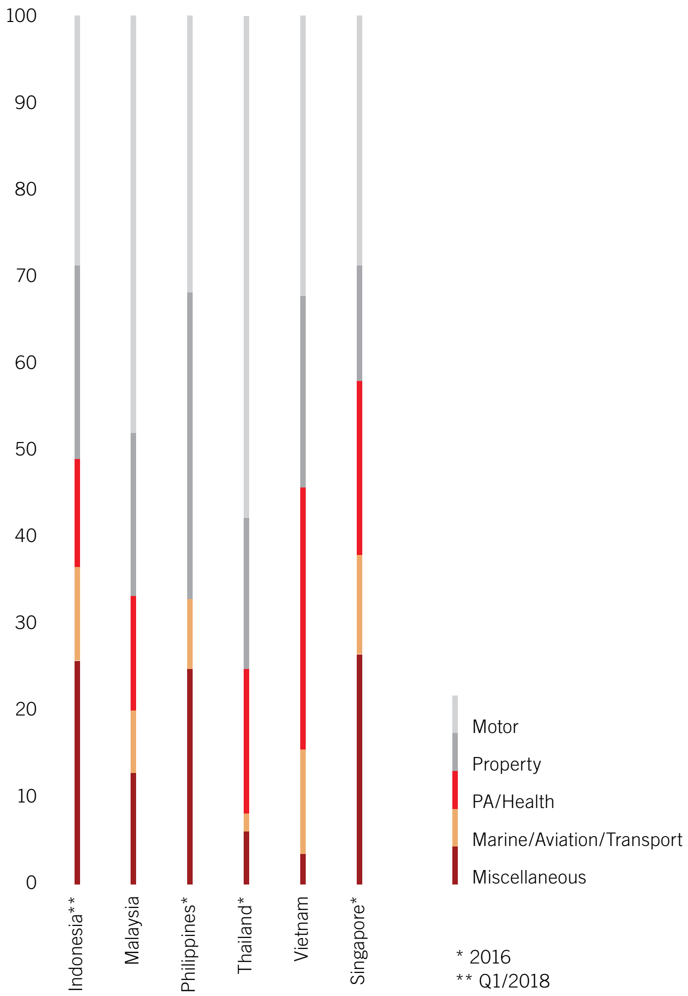
Chart 5: Geographical split of total insurance premiums of ASEAN countries in 2017, share in %



Source: Swiss Re sigma database, all rights reserved

Chart 6 provides the lines of business split for the six largest ASEAN non-life insurance markets. Motor is the biggest segment in all markets, except for the Philippines. The motor line's dominance is particularly pronounced in Thailand and Malaysia. In the Philippines and Indonesia, the property line of business is disproportionately important.

Chart 6: Non-life lines of business split, 2016, 2017, in %



Source: Compiled by Dr. Schanz, Alms & Company from national supervisory authorities and insurance associations

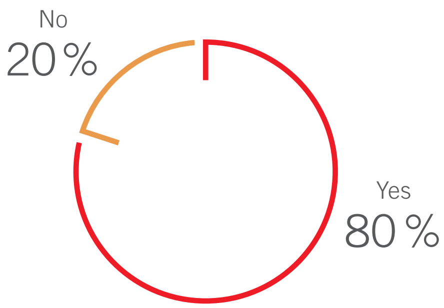
Survey results

Non-life protection gaps in the ASEAN region

Protection gaps matter to economic growth

The vast majority (80 %) of executive interviewees consider non-life protection gaps a serious threat to their respective countries' economic growth and societal progress. Large uninsured natural disaster losses can adversely affect the fiscal position of a country and threaten its recovery. Exposure levels are seen as growing faster than GDP as a result of urbanisation and associated asset concentration. In addition, negative effects on consumer spending (especially with the growing middle classes) can slow economic growth. Further, in some low-income countries, small holders are virtually uninsured, potentially posing a threat to food security. Those 20 % of executives who adopt a more sanguine position are usually based in wealthier countries where healthcare is funded by the government and the exposure to natural disasters is less pronounced, with a limited impact on national GDP. Malaysia is a case in point (see chart 7).

Chart 7: Do you think that risk protection gaps can seriously threaten economic growth and societal progress in your country?



«Even though insurers have to raise their game in order to narrow protection gaps, isolated efforts without government support are unlikely to succeed. Governments have plenty of scope for nurturing insurance markets, for example by offering tax incentives and public-private partnerships in the area of financial awareness and literacy (as, for instance, in Malaysia).»

Zainudin Ishak, CEO, Malaysian Reinsurance Berhad

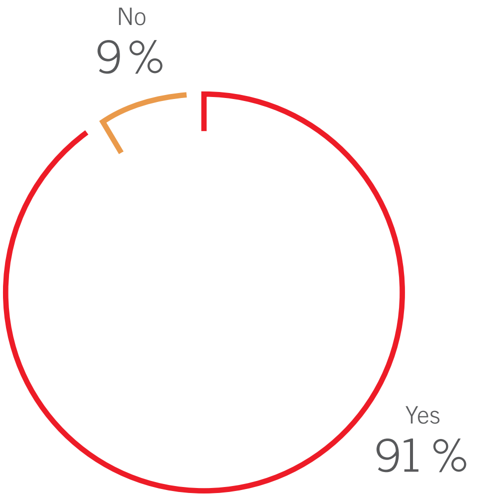
«At the end of the day, the insurance industry needs to tackle existing and emerging protection gaps. Of course, governments can and should contribute, for example by creating enabling regulatory environments which enhance the commercial feasibility of microinsurance and other risk transfer solutions. But insurers need to fulfil their core mission which is to provide reliable protection and live up to their contractual claims paying obligations.»

Ferdinand George A. Florendo, Deputy Insurance Commissioner Philippines and Head of Financial Examination of the Insurance Commission

Insurers are looking to governments for support

The overwhelming majority (91 % of interviewees) are in favour of a more active role of the public sector in tackling protection gaps. The spectrum of concrete recommendations ranges from subsidised schemes (e.g. in agriculture), tax incentives, compulsory insurance requirements, awareness and education campaigns, a more appropriate policy mix between customer protection and market development, the insurance of public assets to pool solutions for natural perils. Having said this, some executives are concerned about increased government involvement, such as setting wrong or distortive incentives (see charts 8 and 14 for more specific preferred remedies).

Chart 8: Do you think governments need to play a bigger role in addressing risk protection gaps?



«For most of the protection gaps in Indonesia's insurance market, the government holds the biggest lever. Compulsory insurance schemes are an effective means to build a minimum of coverage and to address basic risks, such as motor third party liability. Furthermore, with regard to Indonesia's earthquake risk, we developed a pool solution. That could be extended to further perils in natural catastrophes.»

Sancoyo Setiabudi, CEO, FPG Insurance (Indonesia)

«In Vietnam, the liability lines of business continue to be held back by a lack of awareness among potential buyers. Against this backdrop, additional compulsory insurance requirements (as already in place for medical malpractice and professional indemnity for A&E) could help ‹kick-start› the liability segment.»

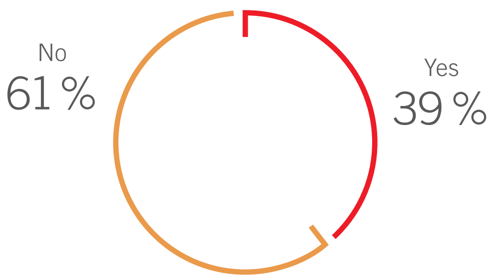
Dao Manh Duong, Marketing Manager, Vietnam National Reinsurance Corporation

Insurers acknowledge own shortcomings

61 % of the executive interviewees believe that the insurance industry could do more to narrow protection gaps. The most frequently mentioned shortcomings refer to a neglect of awareness building (both in terms of exposures and risk solutions), a lack of sufficiently innovative and flexible products and unsatisfactory levels of customer service (including claims settlement). A few interviewees even suggest that previously protected and tariff-regulated markets may have caused some complacency among insurers.

A significant minority of 39 % disagree and point to the fact that in most ASEAN markets non-life premium growth outperformed GDP. In addition, they contend that micro-insurance solutions are frequently offered at zero or very marginal profitability, driven by long-term market development and corporate social responsibility considerations. Some executives also argue that excessive regulatory requirements (e.g. product approval processes) prevent the industry from making a bigger contribution to remedying protection gaps (see chart 9).

Chart 9: Do you think that insurers have done enough to narrow risk protection gaps?



«One of the reasons behind protection gaps is the fact that many insurance products are not flexible enough, representing insurers' current product suite rather than the actual needs of the underserved or unserved segments of the population. In order to achieve fuller financial inclusion, the industry needs to offer more flexible solutions which concentrate on the most essential parts of the coverage, stripping unnecessary add-ons and being provided through low-cost distribution channels such as mobile phones.»

Zainudin Ishak, CEO, Malaysian Reinsurance Berhad

«Generally speaking, insurers should take a greater role in addressing the protection gap in Vietnam's insurance market. However, there is insufficient capacity available to cover the risks in the country's natural catastrophe prone regions. In addition, demand is limited too, as awareness for insurance products and affordable income still remains low.»

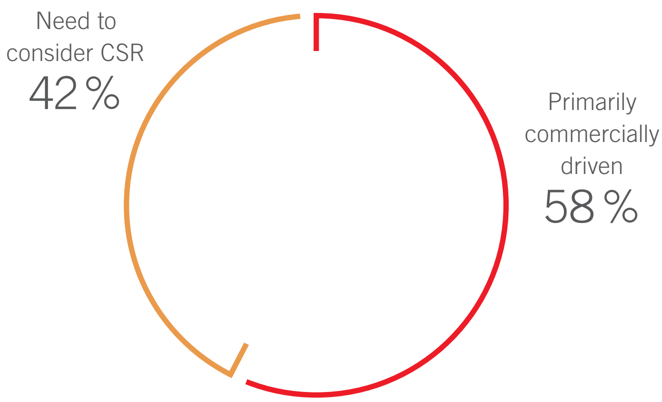
Ngô Trung Dũng, Deputy Secretary General, Insurance Association of Vietnam

Protection gaps considered a commercial challenge

A majority of 58 % sees a clear need for commercially-driven thinking when addressing protection gaps. They believe that it is up to governments to enable insurers to adopt a long-term view and to make certain products viable. The public sector needs to establish a conducive framework within which insurers can maximise their economic and societal utility. The main pillars of this framework include fiscal incentives/subsidies, balanced and effective regulations as well as compulsory insurance schemes.

Only 42 % of executive interviews argue that insurers need to bear in mind their corporate social responsibility in the context of protection gaps. They believe that society expects the industry to meet the real needs of the population, also in remote and underserved rural areas, primarily through microinsurance. Profit-driven cherry-picking could cost insurers valuable goodwill among key stakeholders, including policymakers. However, there is a general agreement that, longer-term, all socially-oriented insurer activities must be commercially viable (see chart 10).

Chart 10: Should efforts to narrow protection gaps be primarily commercially driven or also reflect corporate social responsibility (CSR) considerations?



«Of course, there is more to protection gaps than a purely commercial dimension. Societies expect insurers to live up to their bigger mission and to demonstrate their relevance to economic growth and societal progress. On the other hand, insurers cannot operate sustainably without commercial viability. Addressing this challenge requires a joint approach by governments, regulators and insurers.»

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

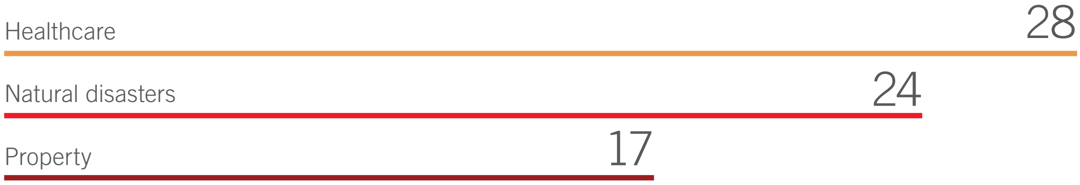
Healthcare viewed as the biggest regional protection gap

When questioned about the most acute and relevant protection gap healthcare was mentioned most frequently by the executives interviewed. With rising incomes, existing public schemes reach their limits and often no longer meet the needs of the population. Also, many new members of the middle class are no longer eligible for government schemes and face coverage gaps. In addition, rampant medical inflation coupled with an acceleration ageing of the population in a number of ASEAN countries erode the benefits available from public schemes and, for households and individuals, heightens the risk of financial stress or even ruin arising from out of pocket expenses which can reach up to 74 % of total healthcare expenses in ASEAN (in the case of Myanmar). Cambodia, Indonesia and the Philippines also display out of pocket expenditure shares of more than 50 %, according to the World Health Organisation.

Natural disasters rank second as 80 % and more of economic losses generally remain uninsured, with disastrous consequences for public budgets, private savings and business continuity.

Property, especially residential cover, features third, as risk awareness of homeowners remains low. Even in a relatively wealthy country such as Malaysia home owners insurance penetration is less than 5 %. But also for those covered, protection gaps emerge as sums insured generally do not keep pace with rising property valuations (see chart 11).

Chart 11: The ASEAN region's biggest risk protection gaps



Note: Includes multiple references

«In Malaysia a significant protection gap exists in fire insurance. Typically the policy is purchased by the homeowner as part of a newly acquired property and never adjusted to the rising property value. Such a policy runs for 20 to 25 years in Malaysia. In the past 10 years, the housing price index for residential property in Malaysia has increased by 87 %. Since the policies do not reflect those increases in valuation, the homeowners are exposed to – and mostly unaware of – a significant underinsurance of risks.»

David Fike, CEO, Zurich General Insurance Malaysia Berhad

In terms of countries most vulnerable to protection gaps, Indonesia was most frequently mentioned, given the country's exposure to perils (earthquake, floods, volcano eruptions) and its status as the region's most populous country. The Philippines, with a large typhoon and flood exposure, ranks second. Among the smaller economies, Cambodia, Laos and Myanmar (CLM) are considered most vulnerable, not only to flood risk but also due to the absence of pre-funded (public or private) healthcare schemes (chart 12).

Chart 12: The ASEAN region's most vulnerable countries

Note: Includes multiple references

«In the Philippines the protection gap we face is primarily a consequence of the country's dense population. Firstly, people are highly exposed to the high natural catastrophe risks of the country. Furthermore, health protection is a major challenge, as the government's health provisions are insufficient to cover more than the basic needs of the population. And finally, agricultural insurance is an essential requirement, because it contributes to assuring food security.»

Ramon Yap Dimacali, President & CEO, FPG Insurance (Philippines)

«Protection gaps in the Philippines reflect demand side, rather than supply side issues. Poverty is still a widespread phenomenon and people with no excess income will simply not buy insurance. High acquisition expense ratios further exacerbate the overall lack of affordability which holds back insurance demand. On the positive side, the Government has identified a few areas of national interest such as disaster prevention and relief as well as food security which may translate into compulsory insurance requirements or the Government itself increasingly acting as a buyer or sponsor of insurance to better protect public and non-public assets.»

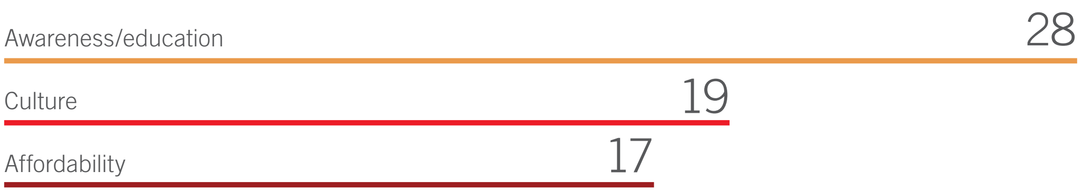
Augusto Hidalgo, CEO, National Reinsurance Corporation of the Philippines

When asked about the root causes of the region's non-life protection gaps, most executives mentioned a lack of awareness, education and financial literacy. Many if not most people are neither aware of their real exposures nor of the potential role of insurance for risk mitigation. In addition, they don't recognise the benefits of risk transfer against the cost of premium. Addressing this situation is seen as requiring a major public-private partnership.

Culture and mind-set rank second. In many countries, a fatalistic attitude prevails and people tend to rely on governments as a lender of last resort. They also consider insurance a ‹poor deal› if they cannot make a claim to get ‹value› for the premium.

The lack of affordability takes the third spot. Even though poverty remains a wide-spread phenomenon in most ASEAN countries and insurance prices can be inflated due to high distribution costs, many executives argue that people would be willing to buy insurance as soon as they properly understand the products and their benefits (chart 13).

Chart 13: Root causes of ASEAN non-life protection gaps



Note: Includes multiple references

«Many if not most smallholders in Malaysia are virtually unprotected. Their key challenge remains the affordability of the cover. Microinsurance is a potential remedy but the prevailing rates and high cost of distribution and claims settlement make it an unprofitable proposition for most commercial insurers. A joint effort by insurers and the government is required to effectively address this situation.»

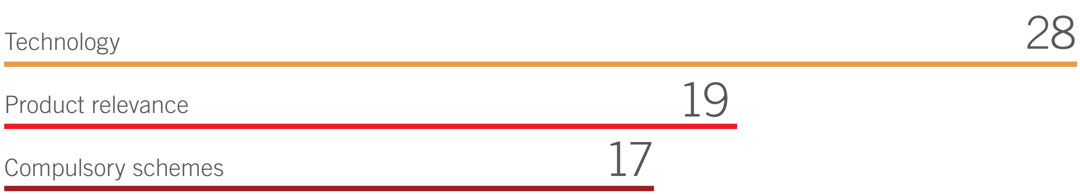
Datuk Francis Lai, CEO/Executive Director, Progressive Insurance Berhad

New (digital) technologies are viewed as the most promising approach to narrowing non-life protection gaps in the ASEAN region. Generally young populations are highly IT savvy and open to exploring new ways of buying and using insurance products. Technology could potentially encourage insurance sales through (1) lower prices (benefiting from reduced distribution and administration costs), (2) an enhanced appeal (on the back of more tailored products offering an improved customer experience) and (3) higher awareness coming from social networks and other digital platforms.

More relevant insurance products were the second most frequently mentioned remedy. In many countries, insurers do not offer appropriate need-based solutions (in terms of both price and cover) to the low-income segments of the population. In addition, for middle class customers, there is a frequent lack of customised solutions that cater to individual preferences and demands.

Finally, a significant number of executives see governments in the driver's seat to improve the availability and affordability of retail and wholesale insurance by introducing compulsory schemes that create sufficiently large risk communities and risk pools. Compulsory insurance could also rein in adverse selection by standardising premium rates across risk types, so that higher-risk policyholders can be cross-subsidised with the premiums from lower-risk policyholders. Some executives also believe that such schemes should be accompanied by premium subsidies for low-income households (chart 14).

Chart 14: Remedies to ASEAN non-life protection gaps



Note: Includes multiple references

«The fact that insurance premiums have consistently outgrown GDP in Vietnam over the past few years demonstrates that domestic insurers are tackling the challenge of protection gaps. Having said this, insurers could do even more to address coverage shortfalls, especially in agriculture, natural catastrophes and health.»

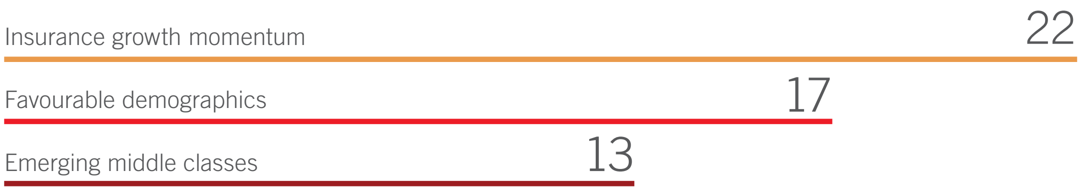
Yves Daniel Cochand, Deputy CEO, Vietnam National Reinsurance Corporation

ASEAN non-life insurance market status and outlook

Strong premium growth momentum is the most important market strength

The ASEAN region's strong premium growth momentum is perceived to be the most relevant non-life insurance market strength. The second most frequently mentioned strength is the region's favourable demographics, i.e. a very young population compared with mature markets in Europe, East Asia and Northern America. Growing middle classes rank third. As family wealth increases, so does insurance awareness. For these segments of the population, price is no longer the dominant or sole criterion when deciding insurance purchases. Middle classes in the ASEAN region increasingly expect innovative and bespoke solutions that meet the highest standards (see chart 15).

Chart 15: Top 3 strengths of ASEAN non-life insurance markets (number of mentions)



«The growth potential of the Philippines' insurance markets is enormous. About 65 % of the population are 35 years of age and younger. The middle class is expanding as well. But in particular when it comes to health or life protection, many consumers are not aware that they are either underinsured or even uninsured. Apart from building awareness and education, the government should also stimulate the purchase of insurance products by providing tax breaks or tax incentives to consumers.»

Hans Loozekoot, President and CEO, Troo

«In order to effectively tackle protection gaps, a joint effort among all relevant stakeholders is needed. Governments have to provide a conducive legal environment and regulators should strike an appropriate balance between customer protection and market development. At the same time, insurers have to do their part by offering more innovative and appealing products as well as raising public awareness of the important role of insurance as a safety net to society.»

Winnie Wong, CEO, Asia Insurance Co. Ltd.

Low insurance awareness considered the main weakness

Most executives consider low levels of insurance awareness as the key weakness of their insurance markets. Except for Singapore, all ASEAN countries have large rural populations where the role and potential value of insurance are still widely ignored. In addition, individuals, families and SMEs are frequently unaware of their most serious risk exposures. A lack of talent (especially technically qualified staff such as actuaries) ranks second. This weakness is of particular relevance to lower-income countries that suffer from a significant ‹brain drain› to places such as Singapore or Hong Kong.

Talent shortages are an increasingly relevant obstacle to the further development of the region's fastest growing insurance markets. In addition, talent gaps pose a particular challenge to those markets which undergo de-tariffication and liberalisation. These moves require additional technical capabilities in areas such as pricing and product development. The third most frequently mentioned weakness relates to regulatory regimes. Executives bemoan the lack of regulatory harmonisation or at least mutual recognition as a serious impediment to building a more integrated ASEAN insurance market place. Other executives point to weaknesses in enforcing existing regulations. At the other end of the spectrum, some executives feel that, in a number of countries, there is a tendency towards over-regulation and a rules- rather than principles-based approach (see chart 16).

Chart 16: Top 3 weaknesses of ASEAN non-life insurance markets (number of mentions)

«In some regional markets, the current cost of distribution, at levels of up to 50 % of premiums, is simply not sustainable. Technology offers a major opportunity to tackle this situation by digitalising both direct and agency distribution channels. Progress on that front is also set to mitigate one of the most important reasons behind protection gaps: A lack of affordability.»

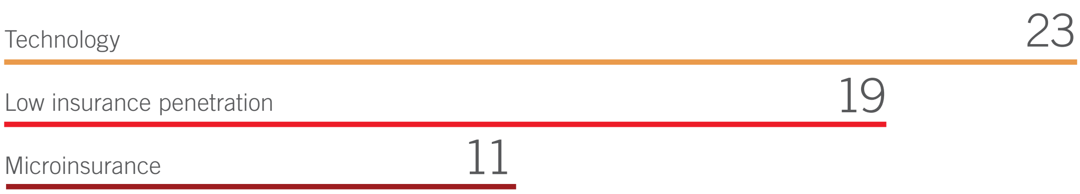
Stephen Blasina, Regional Managing Director, FPG Insurance

New technologies identified as key medium-term opportunity

Digital technologies and advanced analytics are viewed as the most relevant medium-term opportunity for ASEAN non-life insurance markets. Their adoption promises to simultaneously make insurance more affordable (by bringing down administration and distribution costs), more appealing (by enabling a different customer experience and different products) and better understood (by reducing complexity and harnessing modern forms of communication).

The region's low insurance penetration ranks second. The ratio of non-life premiums to GDP is less than a third of the global average. For most executives, the resultant catch-up potential is a major attractive medium-term opportunity offered by the regional market place, followed by microinsurance which is set to unlock the potential of rural areas at improved levels of access as technology makes it less costly to penetrate remote regions and settle claims (see chart 17).

Chart 17: Top 3 opportunities of ASEAN non-life insurance markets (number of mentions)



«In Laos the insurance industry is still in an early stage of its development. Proper insurance legislation has only been introduced in 2015 and the regulatory framework is still evolving. We are faced with a low awareness of consumers for the concept of insurance and a lack in professionals to drive forward the market. However, the need for insurance protection is enormous and partially exceeds the market's capacity.»

Phouthasack Souvannasao, CEO of Vientiane Insurance Company and Secretary of Lao Insurance Association

«Irrational» competition considered the most relevant threat

Medium-term, most executives view uncontrolled and irresponsible competition as the biggest threat to the non-life market's health and sustainability. This long-standing issue has been further exacerbated recently by slowing premium growth in a number of markets and moves towards de-tariffication and liberalisation. Many believe that regulators should pay more attention to overall market stability, in addition to their core mission of protecting the customer. Protectionism ranks second, with both a regional dimension (as some ASEAN countries put up new barriers to trade in insurance and reinsurance services) and an international one (as tensions between major trading blocks are rising with potentially adverse implications for the ‹open› ASEAN economies). Last but not least, executives are concerned about an increasing threat posed by natural disasters as a result of rapidly advancing urbanisation, especially in coastal areas (chart 18).

Chart 18: Top 3 threats of ASEAN non-life insurance markets (number of mentions)

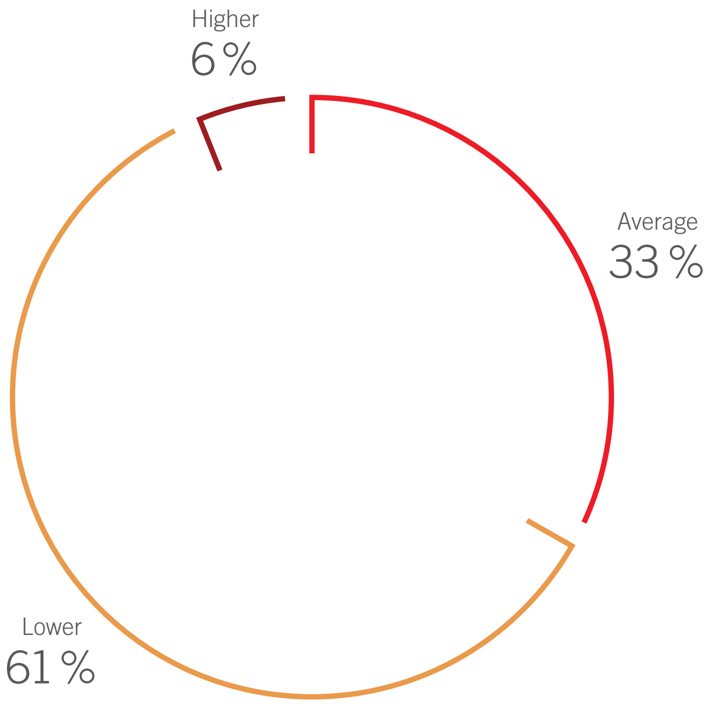
«Governments should play a bigger role in addressing protection gaps many of which have the potential to adversely affect economic growth and social stability. One area where action is needed is the creation of a higher level of risk and insurance awareness among the public. Insurers, of course, can and must also do more to promote awareness but for such efforts to be effective government support is essential. In Thailand, significant parts of the population are still largely unaware of natural disaster and liability risk, for example.»

Kheedhej Anansiriprapha, Executive Director, Thai General Insurance Association

Current pricing levels in commercial lines below the three-year average

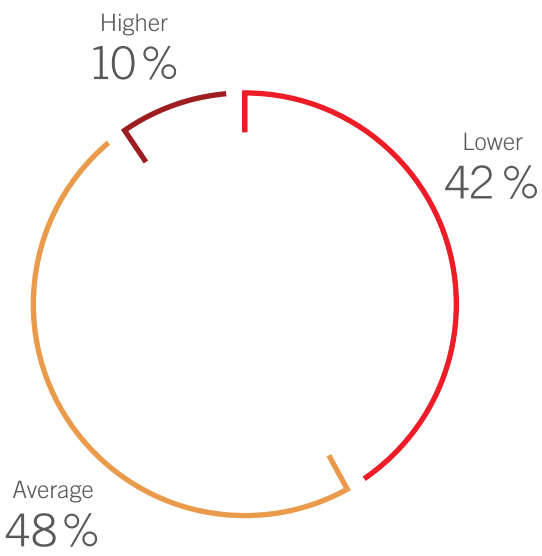
Almost two-thirds (similar to last year's edition of *ASEAN Insurance Pulse*) of the polled executives state that current rates in commercial lines are below the three-year average. This is a reflection of the global soft market cycle and the abundant supply of reinsurance capacity, exacerbated by country-specific factors such as the de-tariffication of large property business or a slowdown in construction activity (chart 19).

Chart 19: Current level of rates as compared with the average of the past three years – Commercial lines



The assessment for personal lines is more favourable, with only 42 % (compared with 54 % in 2017) considering the current level of rates to be below the three-year average. From a fundamental point of view, personal lines business is generally characterised by a smaller number of players, higher barriers to entry, greater customer loyalty and more scope for non-price competition, e.g. product innovation. In addition, banks usually control the pricing of bancassurance products and regulators exercise more oversight than in commercial lines, primarily through actuarial pricing requirements. Personal lines business also tends to be structurally more adequately priced as it is retained by insurance companies to a bigger extent than commercial lines business. A special factor is pricing in the health insurance line of business which is up in a number of countries such as Singapore and Thailand as a result of accelerating medical inflation (chart 20).

Chart 20: Current level of rates as compared with the average of the past three years – Personal lines



«In Singapore, retirement, protection and health risks are still under-insured. In particular in light of a rapidly ageing population, the Government and insurers can undertake a more coordinated effort to inform and educate the public to mitigate the potentially disruptive effects of these risks on the economy and society at large. By the same token, consumers must take personal accountability for their personal welfare and wellbeing. The principles and values of delayed (material) gratification to plan for long term financial security needs to be inculcated, especially amongst the millennial segment.»

Mack Eng, CEO, ECICS Limited

Improved pricing outlook for personal lines

The pricing outlook for the next 12 months is mixed, especially for commercial lines business. 49 % (against 69 % in 2017) of executives expect further rate decreases. Competitive pressures continue unabated while the supporting role of tariffs will further reduce, especially in Malaysia. Some executives, however, see light at the end of the tunnel and believe that the current squeeze on margins will put a floor under further rate reductions. This is particularly true for reinsurers who exercise more discipline in light of rising global and regional losses.

The picture is different for personal lines where only 23 % of interviewees expect further pressure on rates (a sharp reduction from last year's 57 %). The more positive outlook reflects an expected rebound from last year's de-tariffication in Malaysia and generally the need and scope for repricing in order to respond to increasing claims inflation. In addition, some interviewees point to the feasibility of innovation-based rate increases in personal lines segments such as Personal Accident (see charts 21 and 22).

Chart 21: Pricing outlook for the next 12 months – Commercial lines

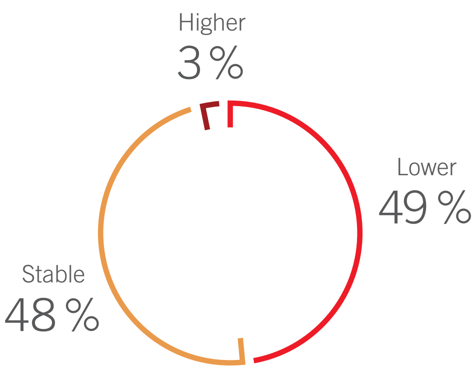
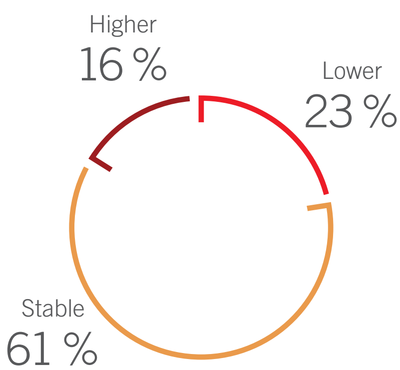


Chart 22: Pricing outlook for the next 12 months – Personal lines



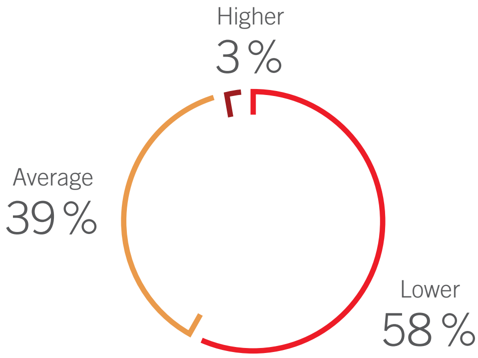
«Malaysia is one of the best performing markets in the region. It continues to develop rapidly, not least because it provides top financial security – a clear asset for foreign investors. In addition, Malaysia has become a great hub-location, based on its diversity and access to all kinds of Asian languages and cultures.»

Emmanuel Nivet, CEO, AXA Affin General Insurance Berhad

Lower technical profitability in commercial lines but improved performance in personal lines

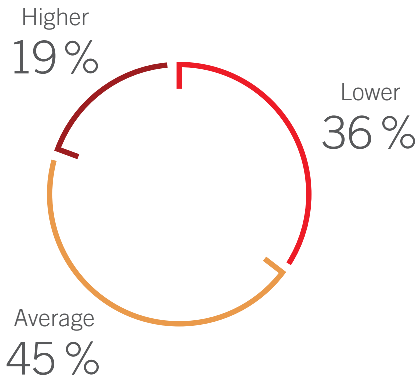
58 % (against 51 %) of surveyed executives believe that technical profitability in commercial lines is below the three-year average. Whereas relatively low attritional loss ratios, supported by advances in risk management and low levels of litigiousness, continue to mitigate some of the pressure from eroding rates and rising acquisition expenses a number of major recent losses have taken their toll on commercial lines profitability. Also, some executives report that the increasing complexity of commercial risks requires significant investments in data and analytics which can more than offset the benefits reaped from effciency gains in operations and claims management (see chart 23).

Chart 23: Current level of technical profitability as compared with the average of the past three years – Commercial lines



Only 36 % (compared with 54 %) of executives think that technical profitability in personal lines is below the three-year average. This improved assessment reflects the strong performance of personal accident, travel and household insurance business, robust profitability of bancassurance business and improving cost efficiency on the back of modern technologies. On the other hand, claims inflation remains rampant in motor and medical business. Court awards are on a rising trajectory, as are car repair costs (also driven by currency depreciation and the growing clout of dealers) and healthcare expenses (see chart 24).

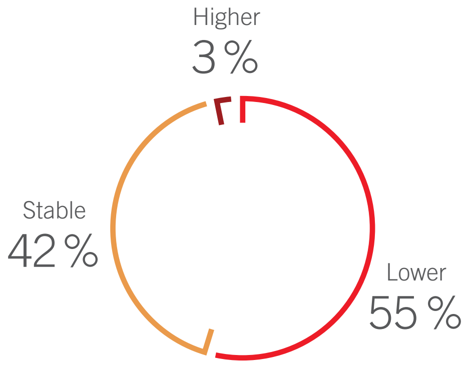
Chart 24: Current level of technical profitability as compared with the average of the past three years – Personal lines



Brighter profitability outlook for commercial and personal lines

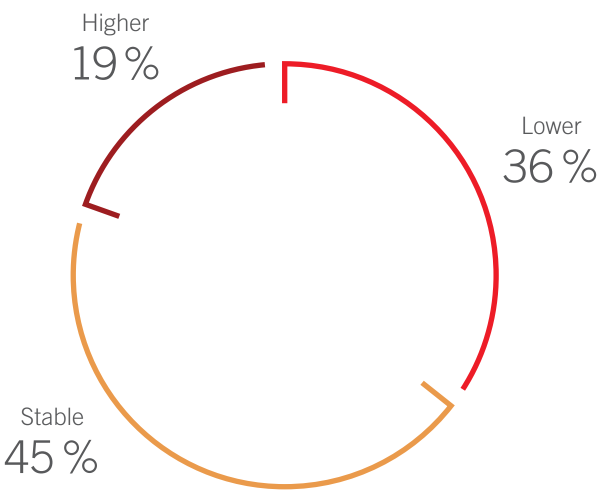
55 % (compared with 69 %) of executives think that technical profitability in commercial lines will remain on a downward trajectory over the next 12 months as the effects from further eroding prices are expected to prevail over offsetting factors such as relatively stable and still favourable claims patterns (see chart 25).

Chart 25: Outlook technical profitability for the next 12 months – Commercial lines



The profitability outlook for personal lines, however, is more optimistic, with 64 % (against 57 %) expecting stable or improving conditions over the next 12 months. As contributing factors, executives cite tightened underwriting discipline, further scope for technology-based efficiency gains, a strong inherent premium growth momentum and benefits from profitability-driven risk-based pricing enabled by de-tariffication. However, some executives point to rising repair costs as a result of an increasing number of semi-autonomous vehicles on the road as well as to an increasing commoditisation of motor insurance due to the growing importance of online aggregators (see chart 26).

Chart 26: Outlook technical profitability for the next 12 months – Personal lines

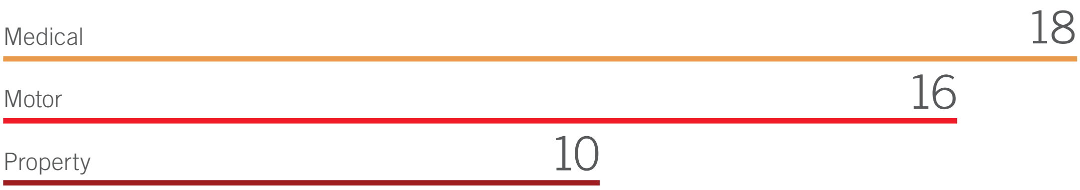


Lines of business-specific prospects

Personal lines drive premium and profit growth

Medical, motor and (mainly residential) property insurance were identified as the fastest growing segments of the ASEAN non-life insurance market, against the backdrop of stable economic growth and rising levels of per-capita income. Car ownership continues to increase whereas the growing middle class is becoming more aware of medical insurance, alongside the improving ability to afford cover. In addition, existing public schemes increasingly struggle to keep pace with rising medical cost inflation and the increasing expectations of wealthier citizens (see chart 27).

Chart 27: The three fastest-growing lines of business (number of mentions)



«Cambodia's insurance market greatly benefits from the economic growth which has been at around 7 % from 2010 to 2017 and which is expected to remain stable at about 7 % in 2018 as well. As a result of the greater political stability that the country enjoys, growth might even accelerate further. The insurance industry is set to benefit from the low insurance penetration, rising foreign direct investments and the unabated need for public spending in construction and infrastructure.»

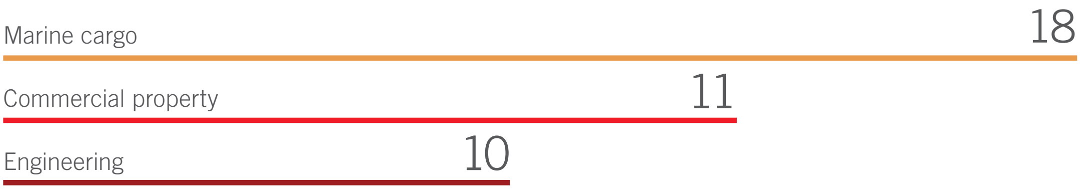
Soh Jiun Hong, General Manager, Campu Lonpac Insurance Plc.

«Even in an advanced ASEAN market like Malaysia, the protection gap remains substantial. Flooding, the country's largest natural catastrophe risk, is hardly insured. Only 2 % of motor policies include flood cover. We believe the public sector is in the strongest position to address this gap through law enforcement, regulation, education and awareness building as well as by contributing to the affordability of insurance protection.»

Faris Davidson, Managing Director, Willis Re

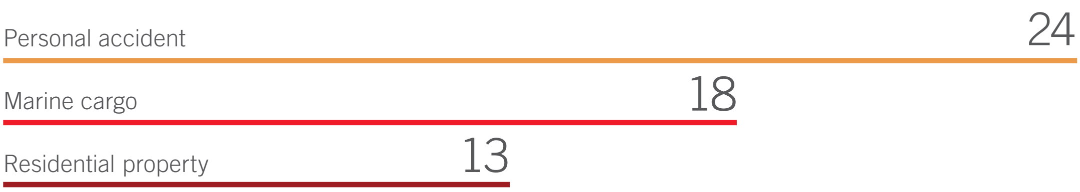
As far as the slowest-growing lines are concerned, marine cargo, commercial property and engineering were mentioned most frequently, given their particular sensitivity to the economic cycle, including both domestic GDP growth and international and intra-regional trade. Engineering business is adversely affected by a slowdown in infrastructure investment growth in a number of ASEAN countries. A specific factor that dampens growth in commercial property is the continued erosion of rates in this highly commoditised space with very low barriers to entry (see chart 28).

Chart 28: The three slowest-growing lines of business (number of mentions)



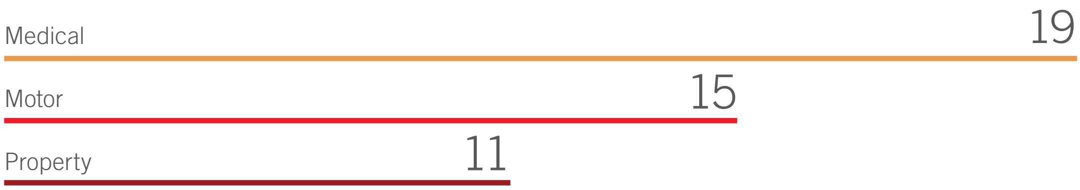
Personal accident, marine cargo and residential property are considered to be the most profitable non-life classes in the ASEAN region. Driven by strong demand, a high degree of customisation, innovation and, therefore, leeway for differential pricing personal accident (PA) ranks first among the most profitable lines. To a lesser extent, these factors also apply to property retail business which ranks third. Marine cargo, the second most profitable line of business continues to benefit from relatively low loss ratios (see chart 29).

Chart 29: The three most profitable lines of business (number of mentions)



Medical, motor and property business were identified as the least profitable lines of business in the ASEAN market, reflecting claims inflation, pressure from de-tariffication and unabated pressure on rates, respectively (see chart 30).

Chart 30: The three least profitable lines of business (number of mentions)



«Although the industry's main focus is on property risks, we actually believe that a far larger protection gap is in liability. These risks – be they in product liability, D&O or in environmental liability, to name just three – can impact everybody and as of today they are largely uncovered, which both from an economic and a societal perspective is a major challenge.»

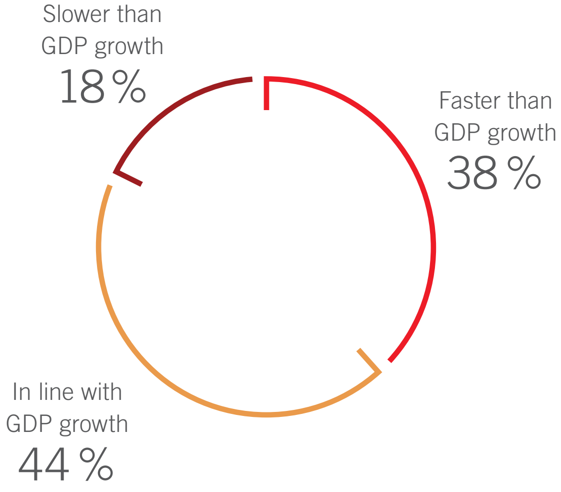
Oran Vongsuraphichet, CEO, Thai Reinsurance Public Company Limited

Key market trends and drivers

Insurance penetration expected to stagnate

82 % (as compared with 69 %) of executives expect non-life premiums to grow in line or faster than GDP over the next 12 months. But only 38 %, down from 43 %, expect premiums to outgrow the economy at large. This ratio is smaller than suggested by other analyses and largely reflects relatively sluggish growth in Malaysia, Singapore and Thailand, caused by slowing economic growth and regulatory changes such as de-tariffication. For countries such as Indonesia, the Philippines and Vietnam, however, premiums are expected to continue growing faster than GDP. In other words: Insurance penetration (premiums as a share of GDP) in these countries will remain on the rise (see chart 31). See also charts 1 and 3 for the stagnant pattern of ASEAN non-life penetration from 2012 to 2017.

Chart 31: Expected premium growth versus GDP growth (next 12 months)



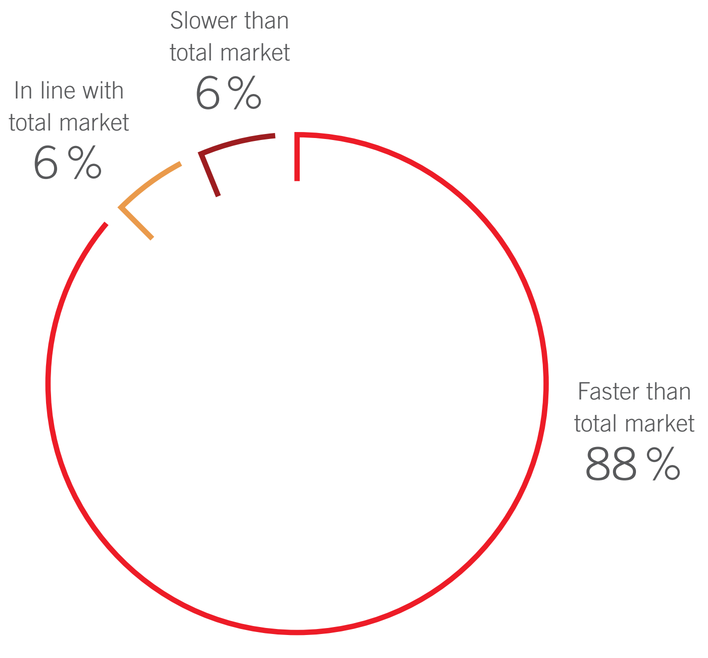
«In Brunei the risks from natural catastrophes are rather benign. Also in health the population is fairly well protected through the government's scheme. However, the protection gap in workmen's compensation is quite sizeable. The insurers' exposure is capped at a certain threshold. The losses exceeding that cap are borne by the policyholder, i.e. the employer. As a result, a high claim can cost a company dearly and possibly threaten its economic viability.»

Klaus Tomalla, General Manager, National Insurance Company Berhad, Brunei

Takaful expected to grow faster than the total non-life market

88 % (against 82 %) of executives expect Takaful insurance to outperform the market as a whole in terms of growth. Many point to effective government support that has made Takaful a success story, especially in Malaysia. Other drivers include bancassurance partnerships and the integration of Takaful in Islamic lending products (property and vehicles, in particular). In addition, Takaful also gains in popularity among non-Muslims who prefer mutuality-based forms of insurance. More sceptical interviewees believe that Takaful is a zero-sum game as it tends to cannibalise conventional business rather than growing the pie for all market participants. The biggest potential is seen in Family Takaful, i.e. life insurance and savings products (see chart 32).

Chart 32: Growth prospects for Takaful insurance (next 12 months)



Regulatory regimes drop in ratings

Interviewees were asked to rate the quality of their respective regulatory bodies on a scale from –2 (absolutely inadequate) to +2 (perfectly adequate). The average rating came in at minus 0.2, compared with plus 0.2 in 2017.

On the positive side, the sophistication and professionalism of the Monetary Authority of Singapore and Bank Negara Malaysia stand out; two institutions that also enjoy a high reputation globally. In general, regulatory authorities are believed to have understood the necessity to step up their game in the run up to the ASEAN Economic Community (AEC) integration. The most frequently mentioned example is the regional drive towards modern risk-based solvency regimes and the removal of restrictions on rates, terms and conditions.

More critical executives highlight some regulators' tendency to set ever more specific rules and onerous and intrusive compliance requirements rather than focusing on a principles-based approach founded upon a risk-based supervisory regime. Other frequently voiced concerns relate to a lack of enforcement on the one hand and signs of over-regulation on the other.

More generally, some executives feel that regulators should adjust their priorities and attach greater importance to the market's overall stability and viability, including curbing excessive competitive behaviour. A sole focus on customer protection is not considered appropriate in today's dynamic market environment.

Further, some executives urge regulators to accelerate their preparations for the digital future, not only by establishing regulatory sandboxes but also by modernising existing procedures such as the filing of new products.

Finally, a number of executives highlight the need to include brokers and intermediaries in regulatory and supervisory frameworks in order to maximise the overall effectiveness of such regimes.

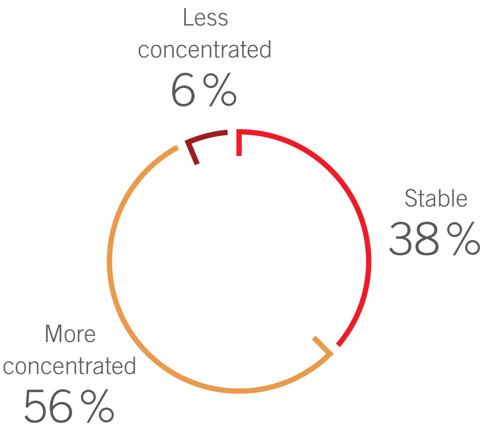
«To increase the insurance penetration in Myanmar, insurers need to tailor their products closer to market needs. However, currently Myanmar's insurance products and rates are still determined by the regulator as an insurance company must seek approval from the insurance supervisory authority before making a new product or making revisions to an existing product. As a result, it takes time in product innovation, creativity or marketing, as insurers only position themselves through the service they provide.»

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

Market consolidation expected to gather pace

56 % (compared with 31 %) of interviewees expect moves towards increased market consolidation in the next 12 months. For some domestic insurers, it will prove impossible to raise the additional capital potentially needed to meet new risk-based and higher minimum capital requirements. An effective freeze on the issuance of new insurance licenses in a number of countries is another factor that plays out in favour of a higher market concentration through mergers and acquisitions. Newcomers, both domestic and foreign, therefore, prefer M&A over the increasingly difficult ‹green field› option. In addition, in markets where regulators oblige composite insurers to capitalise their non-life and life operations separately, the pressure for consolidation will grow. Malaysia is a case in point, with further potential consolidation momentum expected from de-tariffication and the associated competitive pressures (see chart 33).

Chart 33: Market structure outlook (next 12 months)



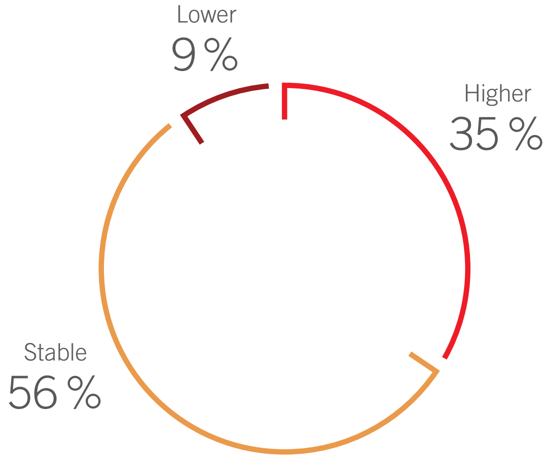
«The insurance sector in Thailand is exposed to a variety of catastrophic risks, which could derail the country's economic and societal progress. Currently there is not sufficient capital, awareness or experience available in the market for the industry to shoulder these risks (protection gaps) on its own. Therefore, there is a need for the government to collaborate closely with the industry practitioners to drive forward the protection of these risks either via an adequate price or incentivised pool solutions or compulsory schemes.»

Eugene Foong, CEO, Thai Paiboon Insurance Public Co., Ltd.

Market share of non-ASEAN insurers expected to remain stable

The *ASEAN Insurance Pulse 2018* found 56 % (virtually unchanged from the previous edition) of respondents expect the market share of foreign non-ASEAN primary insurers to remain stable over the next 12 months. Global insurers' competitive advantages in terms of brand recognition, economies of scale and scope as well as technical capabilities continue to be offset by structural disadvantages compared to domestic conglomerates with well-functioning bancassurance channels and a generally better access to retail markets (see chart 34).

Chart 34: Outlook for foreign non-ASEAN insurers' market share (next 12 months)



«In Brunei, to address the protection gap, insurers have to focus on two priorities: Product appeal and distribution. Firstly, in a market striving to increase financial literacy and inclusion, products have to be instantly understandable and solve the immediate needs of the policyholders. Secondly, in a market with a population of just 400,000 people, building volume and scale is essential. Insurers have to make use of as many distribution channels as possible and build partnerships to expand their reach.»

Shahrildin Jaya, Acting Managing Director, Takaful Brunei Darussalam Sdn Bhd and General Manager, Takaful Brunei Keluarga Sdn Bhd

Online direct distribution outgrows other channels

Online direct ranks first among the most rapidly growing distribution channels even though its share of total sales is still below 5 % in all ASEAN markets. Online is seen as a catalyst to direct sales, e.g. in motor insurance as well as in need-based niches such as travel insurance. It is believed to have significant potential in retail business given the region's young and internet-savvy population. Digital insurance is also set to benefit from tariff deregulation which provides insurers with the required degrees of freedom in risk-based and behavioural pricing. The shift to online direct is expected to enable major cost savings across the value chain, especially in the areas of distribution and policy administration.

Banks are the second most frequently mentioned distribution channel. They increasingly understand the potential of insurance sales as another contributor to overall profitability and take advantage of the fact that their client relationships tend to be stronger than those of insurers. The latter are more interested in tying up with banks in order to bring down the cost of distribution and improve their operating efficiency.

Some executives pointed out that the agency channel could prove more resilient than expected given the many efforts towards its digitalisation. The ‹digital agent› is widely expected to have a promising future, also in light of deregulation and liberalisation that result in higher product complexity and diversity, adding to the value of advice (see chart 35).

Chart 35: Fastest-growing distribution channels (number of mentions)

«To a significant extent, protection gaps can be explained through psychological factors. Especially in countries with strong family ties and government-sponsored safety nets there is no real sense of vulnerability among ordinary people, compounded by a lack of financial literacy and education. And even in the presence of insurance and risk awareness obstacles remain high. For most people, buying insurance is not a natural and genuinely desirable thing to do. For insurers, one way of addressing this challenge is to partner with non-insurers (e.g. telecommunication companies) and to integrate risk protection products in ‹bigger› propositions which customers consider really vital and possibly more attractive than insurance.»

Zakri Bin Mohd Khir, CEO, Allianz General Insurance Company (Malaysia) Berhad

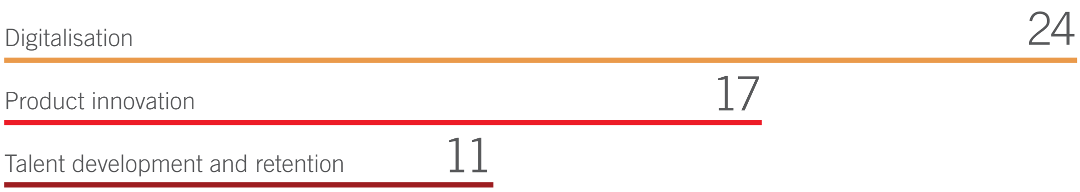
Digitalisation tops medium-term strategic agenda of ASEAN insurers

In order to establish a regional portfolio of strategic corporate priorities, executives were asked to name those areas that rank highest on their corporate development agenda for the next 3–5 years. Not surprisingly, digitalisation emerged on top. However, the focus is clearly on enabling existing value chains rather than disrupting business models altogether. Efforts concentrate on online distribution, policy administration and claims settlement (with the latter even seeing experiments with Artificial Intelligence-based innovations). Investments in modern technologies and analytics are not limited to proprietary direct channels but also extend to agency forces.

Product innovation ranks second. Existing solutions are seen as being driven by insurers' current capabilities rather than customers' real needs. Technology in combination with more degrees of pricing and structuring freedom due to deregulation are expected to enable significant progress on that front and make an effective contribution to narrowing protection gaps.

Talent development and retention is the third most frequently mentioned strategic priority. As shown earlier, a lack of talent is one of the region's key weaknesses from an insurance perspective and could become a serious obstacle to the markets' further development and growth, especially as technical requirements in digital and deregulated markets tend to increase (chart 36).

Chart 36: Medium-term corporate strategic priorities



«To address Indonesia's protection gap we need further resources in capital, expertise and human talent. Today, all three are scarce. Capital is a particular challenge, because current outflows in premiums are sizable. As a result, this capital is not available to underwrite further risks to narrow the protection gap.»

Guntur Tampubolon, Managing Director, PT. Radita Hutama Internusa

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Dr. Schanz, Alms & Company

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Since its foundation in 2008, Dr. Schanz, Alms & Company has built a track record as an expert research, communication and business development consultancy for international financial services institutions. The firm supports its clients in researching and analysing their business environment, developing and implementing a distinct strategic profile and effectively communicating with their key stakeholders.

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