



Malaysian Insurance Highlights 2020

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Malaysian Insurance Highlights

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Foreword Malaysian Re

As I write this foreword, a nationwide state of emergency has just been declared in Malaysia which is scheduled to last until August 1st, an extremely rare measure provided under the Federal Constitution which was last triggered nationally more than 50 years ago. The emergency runs concurrent with the second Movement Control Order (MCO) which has been implemented until early February.

The above measures were adopted as Malaysia presently grapples with the 3rd wave of COVID-19, which started to affect the country in October 2020. The number of daily new cases, which had been milling below 200 infections during the first MCO in March and April 2020, before ostensibly dropping to single digits during the June-September period, rapidly escalated to 1'000 cases in late October and reached a new high of 4'000 cases in the middle of January. The rising cases have placed a heavy strain on the medical infrastructure with government hospitals reaching maximum capacity and test results getting delayed. Ministry of Health (MOH) recently projected that without an active intervention, the number of daily new cases might rise to 5'000 cases in February and to 8'000 daily infections by end of March.

Since the first case was detected in Malaysia in January 2020, COVID-19 has caused tremendous impacts on the country's economy and insurance market. In the first three quarters of 2020, Malaysia's GDP declined by 6.4% as compared to the same period in 2019 with tourism, retail, trade, construction and aviation sectors drastically affected. The deviation of the actual GDP of 2020 from the initially predicted growth – is forecasted to amount to close to RM 200 billion in 2020 and to decline to approximately RM 170 billion in 2021. Malaysia's general insurance saw its gross direct premiums contract by 3.6% for the first six months in 2020, although the decline has since improved to -1.2% after three quarters.

Nevertheless, all is not gloom and doom as there is a silver lining on the horizon. By the time MIH 2020 is published in late February 2021, the first batch of COVID-19 vaccines will have arrived in Malaysia. The impacts to the insurance market have been largely contained to the premium volume with the overall claims showing slight improvements. The pandemic has undeniably accelerated technological adoption with insurers adapting to the new norms. Perhaps even more remarkable is the resilience and togetherness spirit demonstrated by the frontliners and all layers of society in combating the pandemic, and this display of strength and unity continues to inspire and uplift us through these challenging times.

We would like to take the opportunity to express our deepest gratitude to the industry leaders whose contributions to the survey have been invaluable in developing this report. We are also appreciative to Bank Negara Malaysia and Malaysian General Insurance Association (PIAM) for the unwavering support of our initiative.

May you have an enjoyable read of the *Malaysian Insurance Highlights 2020*.

Zainudin Ishak

President & Chief Executive Officer,
Malaysian Reinsurance Berhad

Foreword Faber Consulting

We are proud to present the second edition of the *Malaysian Insurance Highlights*. It will come as no surprise that this year's issue examines the impact of the COVID-19 pandemic on Malaysia's economy and its insurance markets. The global health crisis not only caused the sharpest contraction of Malaysia's economy in modern times, it challenged insurers' revenues, technical and investment results, their risk management and business continuity. However, the pandemic also accelerated the digital transformation and demonstrated the resilience of the industry with large parts of its staff operating remotely from home.

As in our previous edition, the *Malaysian Insurance Highlights* rests on two strong pillars: thorough market research and in-depth interviews with insurance industry executives operating in the country. This combined approach allows us to paint a nuanced picture of the critical challenges and opportunities faced by the industry and to take the pulse to characterise and analyse how executives and their teams steer their companies through this extraordinary crisis.

Our research closed in early December 2020. Since then, the pandemic continued to evolve. Countries around the world saw new waves of infections, previously unknown mutations and entered further lockdowns. On 13 January 2021 Malaysia announced a limited lockdown as cases had been rising dramatically and the country feared that health system might no longer be able to cope with the increase in COVID-19 patients. At the same time, the first countries around the world started to immunise their population with newly approved vaccines. These effects may therefore continue to alter the impact of the pandemic on the economies and the insurance industry analysed in this research.

We would like to express our deepest gratitude to Malaysian Re for facilitating this research project for the second time, thus enabling to record the impact and transformational forces that this unprecedented health crisis exerts on our industry.

Finally, we would like to thank our interviewees, representing different insurers, reinsurers, brokers and association members, who enabled this research by openly sharing their time and expertise with us.

We hope you enjoy reading this edition of *Malaysian Insurance Highlights* and find the insights useful.

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Methodology

The findings of this report are based on structured interviews with more than 30 executives representing 19 Malaysian insurers, reinsurers, intermediaries and trade associations. The interviews were conducted by Faber Consulting, a Zurich-based research, communication and business development consultancy, from September to October 2020.

We would like to thank the following organisations for sharing their insight with us:

AIG Malaysia Insurance Berhad
AmGeneral Insurance Berhad
Axa Affin General Insurance Berhad
Berjaya Sompo Insurance Berhad
Etika General Insurance Berhad
Etika General Takaful Berhad
General Insurance Association of Malaysia (PIAM)
Liberty Insurance Berhad
Lonpac Insurance Berhad
Malaysian Reinsurance Berhad
MNRB Holdings Berhad
MPI Generali Insurans Berhad
MSIG Insurance (Malaysia) Berhad
Progressive Insurance Berhad
RHB Insurance Berhad
Swiss Re Asia Pte. Ltd., Malaysia Branch
The Pacific Insurance Berhad
Tokio Marine Insurans (Malaysia) Berhad
Willis Re Labuan Limited

Executive summary

With a population of 32.5 million people, Malaysia registered about 200'000 COVID-19 cases until late January 2021. Thus far, more than 700 people died of the novel coronavirus.¹ Although recent figures show a dramatic increase in infection, Malaysia managed the impact of the pandemic quite well throughout 2020. Economically, the country's GDP is forecasted to drop by 4.5% in 2020, 8.9 percentage points below the initial forecast from 2019 of 4.4.% growth in 2020. Although Malaysia's economy is expected to rebound by 6.5% - 7.5% in 2021, the country will miss out on close to RM 200 billion in growth in 2020.²

Malaysia's government has taken decisive action to combat the impact of the pandemic on the economy and to cushion the effect on the lower income groups and the industries most exposed to the sudden drop in GDP growth. In 2020 the government launched economic stimulus packages worth roughly RM 305 billion in tax breaks and reliefs, employment measures and economic incentives that will push the fiscal deficit to a record 6% of GDP, which, however, is expected to narrow to 5.4% in 2021 if the economy rebounds and revenues will increase again.

Although in December 2020, the rating agency Fitch downgraded Malaysia's sovereign rating by one notch to 'BBB+', overall confidence in Malaysia's economy remained strong. Following the introduction of the MCO, Malaysia's lockdown measures to fight the outbreak of the virus, in March 2020, the stock market dropped by more than 20%, but by July 2020 had already fully recovered its loss. Similarly, the country's fixed income market shortly experienced that 1-year government bonds were trading higher than their 10-year counterparts, but the inverse yield curve – indicating an upcoming recession – quickly normalized again, seeing rising foreign demand for Malaysian government bonds. The trust in the economy provided Malaysia's central bank, Bank Negara, with sufficient scope to lower the Overnight Policy Rate (OPR) by a cumulative 125 basis points to a record low of 1.75% and thereby create favourable conditions for an economic recovery.

In the first three quarters of 2020, Malaysia's GDP fell by 6.4% as compared to the same period in 2019. Mining and quarrying, which accounts for 9% of Malaysia's GDP declined by 25%, the construction sector fell by almost 21%, while the wholesale, retail, trade and accommodation sector – which also includes the hard-hit tourism industry – contracted by almost 10%. However, Malaysia's most important industry, the manufacturing sector outperformed the GDP and declined a mere 4.3%, benefitting from Malaysia's strong position in the electronics industry.

Malaysia's insurance industry recorded its sharpest decline in the first half-year 2020 due to the impact of the pandemic and the MCO. Premiums written reduced by 3.6% in general insurance for the first six months in 2020. Premiums were RM 310 million lower than in 2019 with motor insurance, representing 47% of the market, recording its worst decline, dropping 7.4% year-on-year. Medical insurance, benefitting from the increase awareness was among the few winners in the first six months 2020 with premiums up by 3%.

¹ Based on World Health Organisation (WHO), 10 January 2021

² Ministry of Finance Malaysia, Media Statement, Commentary on Q3, 2020 GDP Growth, 13 November 2020



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Financial Strength Rating of 'A' Strong (Stable Outlook) by Fitch Ratings
Financial Strength Rating of 'A-' Excellent (Stable Outlook) by A.M. Best

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Insurers' top line most affected by COVID-19

According to our interviews with Malaysia's insurers, brokers, associations and Malaysian Re, the COVID-19 pandemic is primarily considered a threat to insurers' top line. Particularly those lines of business closely linked to GDP growth and exports, such as motor or trade and marine insurance are expected to see the strongest declines. As in other ASEAN markets, investment results are less affected, as equities recovered quickly. Fixed income returns declined and will remain low, which is a concern to insurers used to subsidise low underwriting results with investment returns. In terms of bottom line, Malaysia's insurers expect to see strong underwriting results as most interviewees experienced a strong improvement of their loss ratio during the MCO, in particular in motor, travel and medical insurance as policyholders feared to visit general practitioners during the pandemic.

Despite the effect on top line and investment results, Malaysia's insurers expect to emerge stronger from the COVID-19 crisis. Risk awareness and management improved as in light of the pandemic policy wording and exposures tightened. Insurers were able to stress test their capital models and their business continuity planning as virtually overnight large parts of staff had to work from home while operations and the service to agents and clients had to be maintained. Insurers thus hastened their investments into technology and digitisations – a benefit which is felt to strengthen the industry's long-term resilience.

In terms of consumers' awareness and demand, the majority of Malaysia's insurers expects no lasting effect from COVID-19. In Malaysia, COVID-19 is predominately perceived as a health and economic crisis. While the virus caused heightened awareness, insurers are sceptical that consumers' memory of the benefits of insurance will outlast the pandemic, mostly because the pandemic is not perceived as an event directly associated with insurance.

The COVID-19 pandemic significantly accelerated the digitalisation of the industry. The technology helped the industry stay connected with its customers, agents and employees. Insurers benefited from digital transformation, particularly in the personal line segments, as consumers became more accustomed to purchase and manage their affairs through online channels, platforms, or ecosystems.

Malaysia's insurers welcomed what they characterised as Bank Negara's hands-on approach. Bank Negara focused its attention on protecting and cushioning the impact of the pandemic on policyholders and assuring a smooth functioning of the industry, despite pressure on revenues and capital. While insurers had to stress test their models and assumptions, the bank adjusted its standard operating procedures to guide the industry on how to organise its operations during the MCO. As one of its key measures Bank Negara delayed the implementation of the third phase of the Motor and Fire De-tariffication. With regard to insurers' policyholders, it encouraged insurers to set-up a COVID-19 test fund to support the testing of policyholders.

Although the majority of insurers believe that the industry has done enough to cushion the impact of the COVID-19 crisis on policyholders, respondents agree

that the industry has to find new ways and more capacity to shoulder risks such as pandemics, possibly through public-private partnerships such as pool solutions that involve the government as the risk carrier of last resort.

Malaysia's healthcare system withstood well the first waves of COVID-19 infections

As an industry, Malaysia's insurers do not believe they had been well prepared for the COVID-19 pandemic. However, most interviewees were proud of how quickly their organisation, the industry and the country reacted to the extreme circumstances brought about by the pandemic. The industry's associations as well as Bank Negara cooperated closely to ensure the smooth continuation of services to policyholders. The introduction of a Risk Based Capital regime as well as the industry's early investments in IT paid off as well. Thus, until the close of the interview sessions, Malaysia managed to contain the pandemic which interviewees attributed to the joint effort of government, administration and the population.

During the first waves of the pandemic Malaysia's healthcare system has proven its mettle, according to our interviewees. The government's decision to concentrate patients infected with COVID-19 in selected public hospitals provided stability and was considered a sound measure. In the initial phase of the pandemic, the system benefited from an early preparedness and planning experience based on previous pandemics. Thanks to an intensive COVID-19 testing, the health administration was able to track contacts which enabled the country to contain the number of infections for most of 2020.

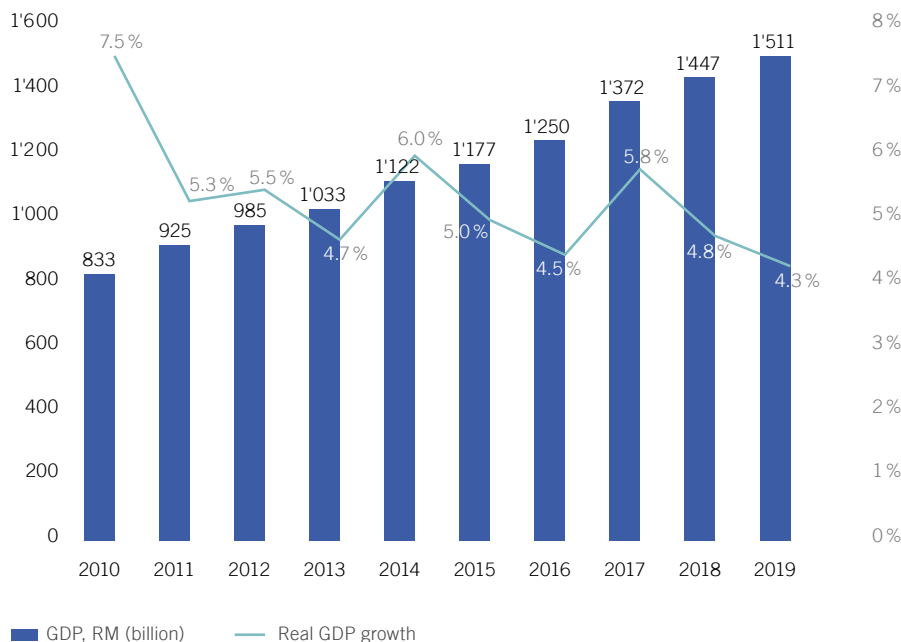
Economic outlook

Malaysia on track to become a high-income economy by 2024

Since gaining independence, Malaysia successfully diversified its economy from a heavy reliance on agriculture and commodities to one based on robust manufacturing and service sectors. Malaysia has become a leading exporter of electrical goods and is recognized as one of the most open economies in the world. Today, about 40% of jobs are linked to export activities. Since the Asian financial crisis in 1997–1998, Malaysia's economy has been on a steady upward trajectory, growing on average by 5.4% annually since 2010. According to the World Bank Atlas the country is earmarked to become a high-income economy by 2024.³

However, the COVID-19 pandemic has had a substantial impact on Malaysia's economy. In the short-term, the economy will rely heavily on the government's ability to sustain private sector activity, as the crisis will slow down the expansion of the export sector and drain public finances. On the path to becoming a high-income economy, Malaysia will need to increase its productivity. Although Malaysia has made significant efficiency gains over the past 25 years, the country still trails some of its global and regional competitors.

Figure 1: Malaysian GDP (current prices, in RM billion) and real GDP growth (in %), 2010–2019



Source: International Monetary Fund (IMF), World Economic Outlook Database, October 2020

³ For the 2021 fiscal year, upper middle-income economies are those with a GNI per capita between US\$ 4'046 and US\$ 12'535; high-income economies are those with a GNI per capita of US\$ 12'536 or more. In 2019, Malaysia's GNI per capita was US\$ 11'200.

Malaysian GDP expected back to pre-crisis level at the end of 2021

Long before Malaysia's government installed the MCO, the country's partial lockdown, the outbreak of the coronavirus in China caused wide-ranging reverberating around the globe. As Chinese demand collapsed and its factories went into lockdown, commodity exporters saw their prices decline, while manufacturers faced production cuts.

Malaysia's economy is highly dependent upon Chinese demand and supply. China is Malaysia's main trading partner, a large source for foreign investments, and the key source of tourists from outside of ASEAN. Over the past decade, Malaysia's export sector deeply integrated into the global production networks and the regional supply chains that became increasingly China-centric.

Figure 2: Comparison between IMF real GDP 2020, 2021, 2022 and 2023 growth forecasts as of October 2019 and October 2020, in %



Source: IMF, World Economic Outlook Database, October 2019 and October 2020

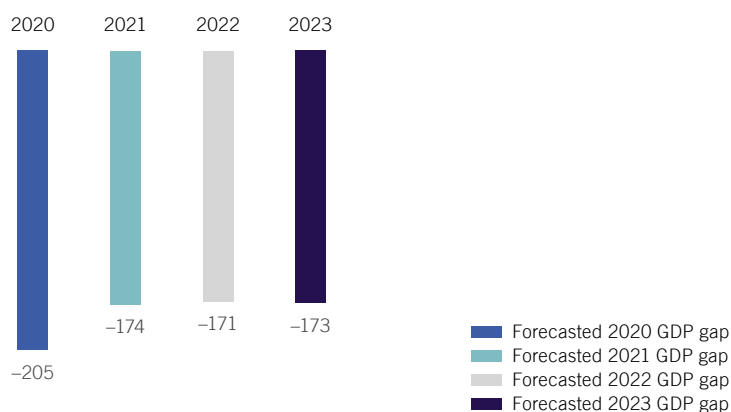
Prior to the COVID-19 pandemic, the International Monetary Fund had projected a growth rate of 4.9% for the ASEAN 5 countries and of 4.4% for Malaysia in 2020. These growth rates have since been revised to a decline by -3.4% for the group of ASEAN 5 countries and by -6.0% for Malaysia. Similar to the global economy, both regions are expected to rebound in 2021 to a growth rate of 6.0% and 6.3%, respectively.

Despite the rapid recovery, the economies will miss out on the growth predicted for 2020. For Malaysia this GDP gap – the deviation of the actual GDP of 2020 from the initially predicted growth – is forecasted to amount to RM 205 billion in 2020. Due to a partial recovery in 2021, this amount will reduce to RM 174 billion. However, the growth rate of the following years will have no substantial impact on the GDP gap any further. Obviously, these estimations are based on current assumptions and will almost certainly change as the impact of the pandemic further unfolds.

To cushion the impact of the GDP contraction on Malaysia's economy, the government has rolled out its largest economic stimulus and recovery packages, amounting to US\$ 75 billion or RM 305 billion. The exceptional public expenditure coupled with declining fiscal revenues puts a strain on public finances. Revenues are expected to decline by 4.5% in 2020. For 2021 the fiscal deficit is expected to narrow to 5.4% as the economy rebounds and revenues will increase again due to higher domestic and global demand as well as due to dividends from Malaysia's state energy firm Petronas.

While government debt is expected to increase to 61% of GDP by 2021, slightly exceeding the government's self-imposed limit of 60%, Bank Negara emphasized its intention to further ease monetary policy if necessary and deploy all instruments at its disposal to support a sustainable economic recovery.

Figure 3 Malaysian GDP loss forecasted to stabilise at around RM 170 billion (current prices, in RM billion)



Source: IMF, World Economic Outlook Database, October 2019 and October 2020

Malaysian government rolls out RM 305 billion stimulus package to stem COVID-19 impact

In 2020 Malaysia's government launched two basic economic stimulus and recovery packages of RM 305 billion, or US\$ 75 billion to cushion the impact of the COVID-19 pandemic on the country's economy.⁴ The measures included jurisdictional tax measures and government reliefs, employment measures as well as economic stimuli such as loans or moratoriums on debt repayments.

Overall, the government's stimulus packages aimed to support hard hit sectors of the industry as well as SME's and individuals particularly exposed to the impact from MCO and the slow-down of the economy.

Tax measures included capital allowances for capital expenditures, tax deductions for refurbishments, personal protective equipment or measures to fight the COVID-19 outbreak and were provided as part of the business income tax. The government granted rebates to financial institutions to assist credit-holders with loan moratoriums or to support newly founded SME's or foreign companies relocating to Malaysia. In addition, automatic tax deferments for tourism businesses and tax relief for individuals for early retirement, purchase of digital equipment and childcare were provided. The measures also included exemptions from stamp and customs duties for certain loans, acquisitions or purchases as well as services rendered.

Employment measures comprised wage subsidies for low-income workers, reductions of foreign-workers levies as well as the possibility to renegotiate payment conditions. Furthermore, there were additional allocations for micro-credit schemes, loan and refinancing moratoriums as well as grants or rental waivers for small scale enterprises.

The recovery plan, which was first launched in June 2020, aimed to incentivise people and enterprises to safeguard jobs, prop-up hiring and to facilitate work-from-home measures. It helps to subsidise wages, encourages hiring and training measures and provides subsidies for travel, child- and healthcare. Large parts of the packages were dedicated to maintaining operations of companies, improve their productivity, revive consumer confidence or help businesses to adjust to the changed economic environment, supporting digitisation and technological upgrades.

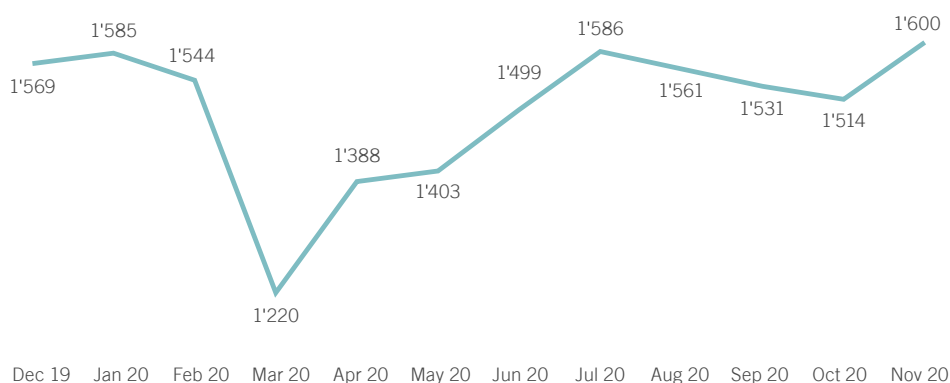
⁴ KPMG, Malaysia, Government and institution measures in response to COVID-19, 2020; <https://home.kpmg/xx/en/home/insights/2020/04/malaysia-government-and-institution-measures-in-response-to-covid.html>

Malaysian stock market recovered within 4 months, yearly high in Q4/2020

With the announcement of the MCO measures in early March 2020 the main index of the Malaysian stock exchange (FBM KLCI) fell by more than 20% within a few days and dropped to its lowest level in more than a decade. However, as the pandemic related government measures for Malaysia and also worldwide were announced stocks started their recovery. By mid-July, shares were trading again at the pre-MCO level and by late November 2020 stocks exceeded their peak level of end of 2019.

Although the index generally recovered, there were sharp differences between those shares that benefited from the crisis and those that suffered substantially. Among those ahead of the curve were healthcare stocks, technology shares as consumers turned online to solve their daily needs and energy shares following the government's announcement to support energy efficient home appliances. Those that were disproportionately affected by the crisis included stock in the tourism and aviation sectors, as well as consumer goods, as consumption is expected to contract along with the decline in GDP.

Figure 4: Malaysian stock market index (FTSE Bursa Malaysia KLCI / FBM KLCI)



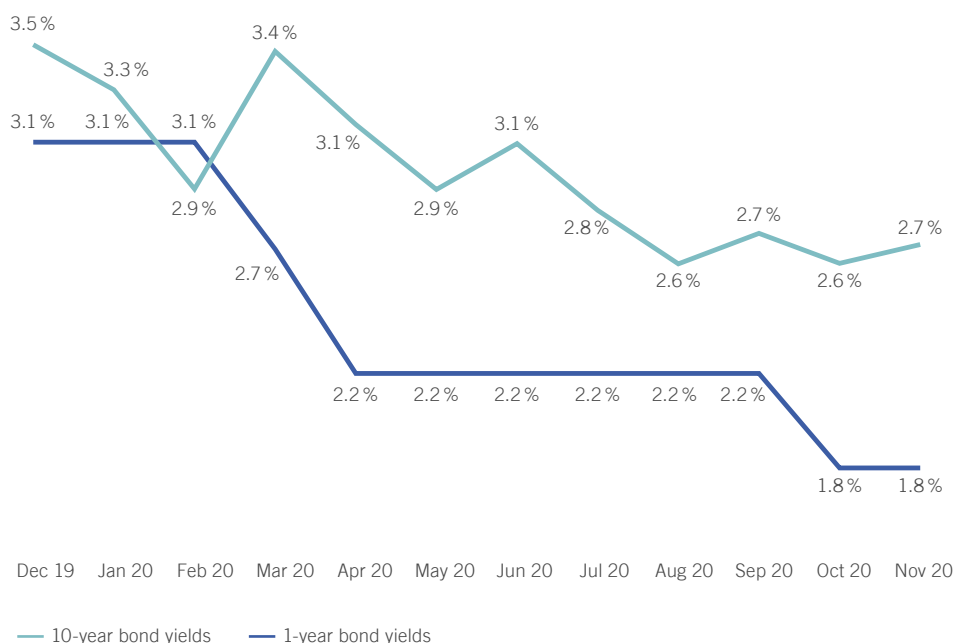
Source: Trading Economics

Malaysian government bond yields indicating high investor confidence

The 10-year Malaysian Government Securities traded at 2.74% in early December 2020 after peaking in late March at almost 3.6%, reflecting the uncertainty in the market caused by the COVID-19 outbreak and the introduction of the MCO measures. Since then, the bond yield fell to this year's low at 2.5% in late summer, before rising to its current level, caused by the renewed surge in COVID-19 infections.

Treasury yields, particularly the 10-year yield are seen as being reflective of investor sentiment about the economy. In comparing Malaysia's 10-year and 1-year government bonds, we have only seen an inverse yield curve once in February 2020 when concerns about the outlook for the Malaysian economy were mounting. If inverse yields continue for a longer period, they are often an early indicator for an upcoming recession. But ever since March, the 1-year bond traded below the 10-year bond. Only in October and November 2020 the 1-year bond dipped further, widening the spread to the 10-year bond. This might be read as an indication of rising investor concerns about the short-term economic outlook due to the steep increase of COVID-19 infections during recent months, whereas the long-term prospects appear to be more stable.

Figure 5: Malaysian 1- and 10-year bond yields, in %



Source: <https://www.investing.com>

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Following the peak of uncertainty in March, Malaysia has seen rising foreign holdings in its government bonds, demonstrating investors' confidence in the Malaysian economy and its government. Furthermore, the continued inflow of foreign investment also provides sufficient flexibility to Malaysia's Central Bank to support the economy through low prime rates. Nevertheless, in December 2020 the rating agency Fitch downgraded Malaysia's sovereign rating by one notch to 'BBB+', citing the substantial impact of the COVID-19 crisis on the country's economy, despite the government's swift and significant relief measures.

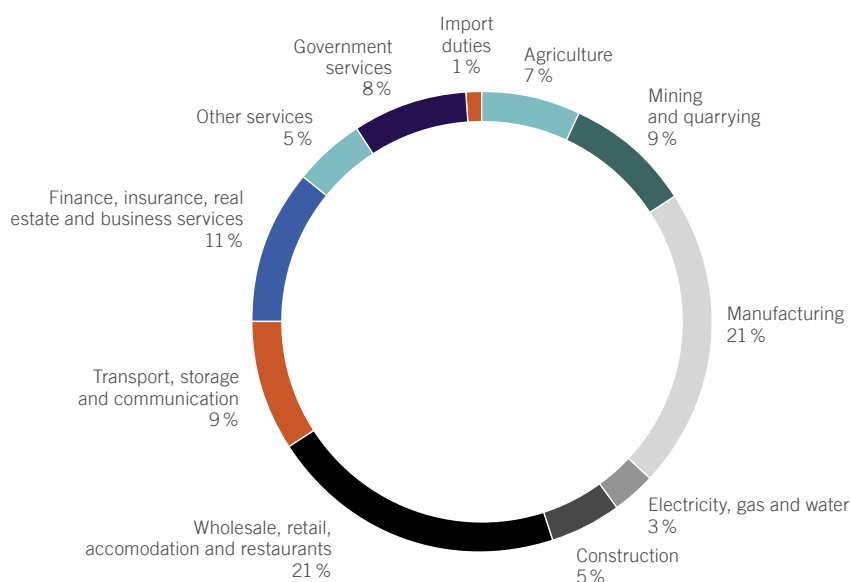
Throughout the year Bank Negara had lowered its Overnight Policy Rate to 1.75%, a decrease by a cumulative 125 basis points. At this level, the Bank considered its monetary policy stance appropriate and accommodative to continue stimulating the economy. The Bank confirmed to assess the economic conditions as well as the further development of the pandemic and to use its policy levers to create favourable conditions for a sustained economic recovery.

Bank Negara expected financial market volatility to remain elevated. The rise in COVID-19 infections in Europe and in Asia as well continued to impact financial markets and heighten market volatility.

Sharp decline in mining, construction and trade

Malaysia's GDP declined by 6.4% in the first three quarters of 2020 compared to the same period in 2019. According to Bank Negara, the mining and quarrying sector, which accounted for 9% of GDP in 2019, declined the most in the first three quarters of 2020, falling by 25% – influenced by a drop in commodity prices and lower demand. The construction sector which accounted for 5% of GDP in 2019, was second with a reduction of its value by almost 21%. This was mainly due to the MCO, which brought construction activities to a halt, some excess capacity, and a lack of access to labour as foreign construction workers returned to their home countries during the MCO. Malaysia's important manufacturing sector with a 21% share of GDP declined by a mere 4.3% in 2020 and therefore slower than the overall GDP. The sector clearly benefited from Malaysia's strong position in the electronics industry. The wholesale, retail, trade and accommodation sector, which also accounts for an equal share of GDP, shrunk by close to 10% obviously affected by the decline in tourism, travel, entertainment and consumption. In 2020 only the sectors agriculture and government services performed positively.

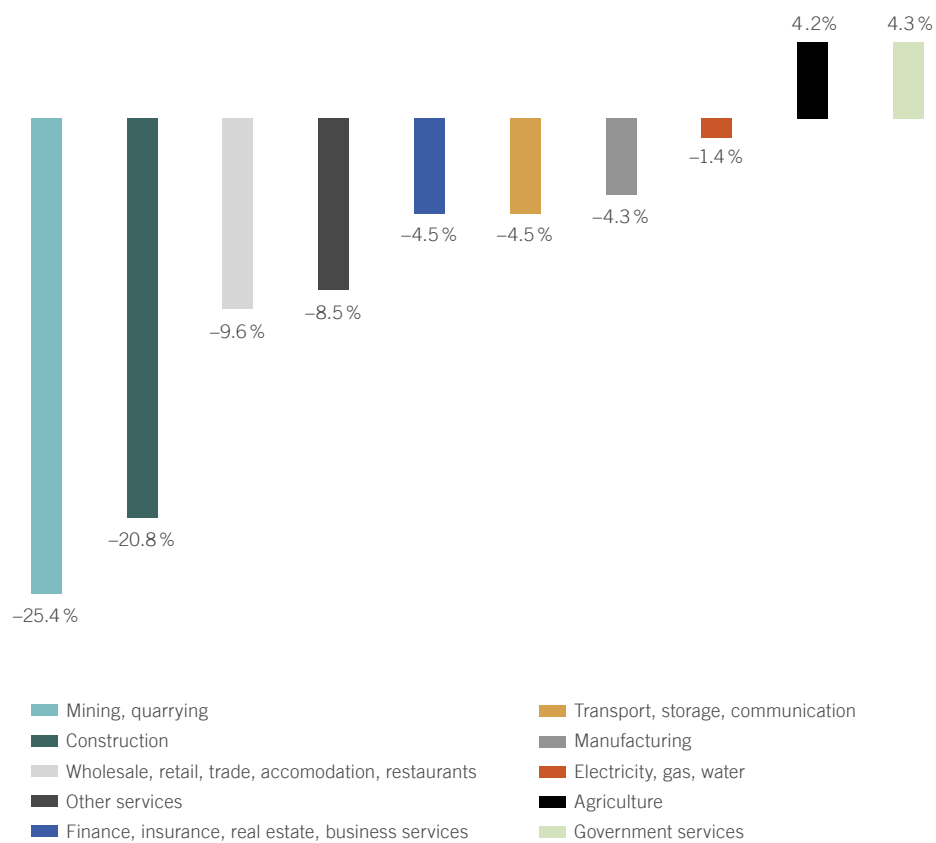
Figure 6: 2019 GDP composition by sector of origin, in %



Source: Bank Negara Malaysia

Malaysian Insurance Highlights 2020

Figure 7: Change of GDP contribution by industry / sector, Q1–Q3/2020 versus Q1–Q3/2019, in %



Source: Bank Negara Malaysia

Malaysia's general insurance market

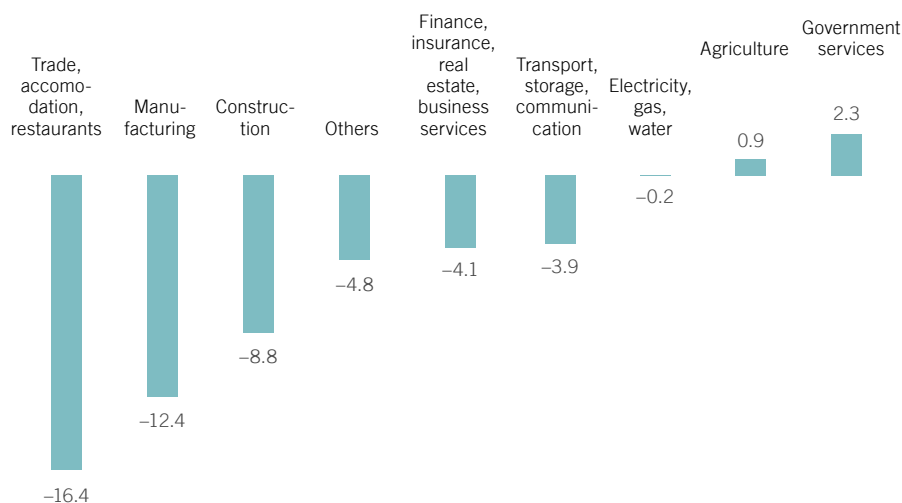
Impact of COVID-19 on insurance in the first half-year of 2020

From 2015 to 2019, the Malaysian non-life or general (including health) insurance market grew at a compound annual growth rate (CAGR) of 0.4%. In 2019 gross direct premiums declined by 0.8% to RM 17.41 billion. Before the outbreak of the pandemic the general insurance association PIAM thus predicted a stagnation of premium growth as the de-tariffication of the country's main lines of business, Motor and Fire, was to continue. However, with COVID-19 affecting the Malaysian market as of February 2020, the first half-year of 2020 saw GDP drop by 8.3% and direct premiums contract by 3.6% or RM 310 million to RM 8.65 billion, as compared to the previous year's period.

According to the latest figures from Bank Negara, the 3rd quarter of 2020 marked a turning point: Compared to the previous quarter, GDP grew at a remarkable rate of 18.2%, leading to a reduction of the GDP gap by 1.9 percentage points to -6.4% after three quarters. As GDP growth in many sectors directly impacts non-life insurance growth, the gross direct premium decline by 3.6% experienced in the first half of 2020 narrowed to a negative growth of 1.2% for the first nine months of 2020. At the time of publishing this report, final GDP and insurance premium figures for the full year 2020 were not yet available. However, based on the developments over the first nine months in 2020, it seems reasonable to predict that the non-life insurance sector will decline less than GDP in 2020, demonstrating a remarkable market resilience.

In November 2020, Bank Negara revised its GDP forecast for 2021 upwards, expecting a 6.5%-7.5% recovery in 2021.⁵

Figure 8: GDP (current prices) by economic sector 1H/2020 vs. 1H/2019, RM billion



Source: Bank Negara Malaysia

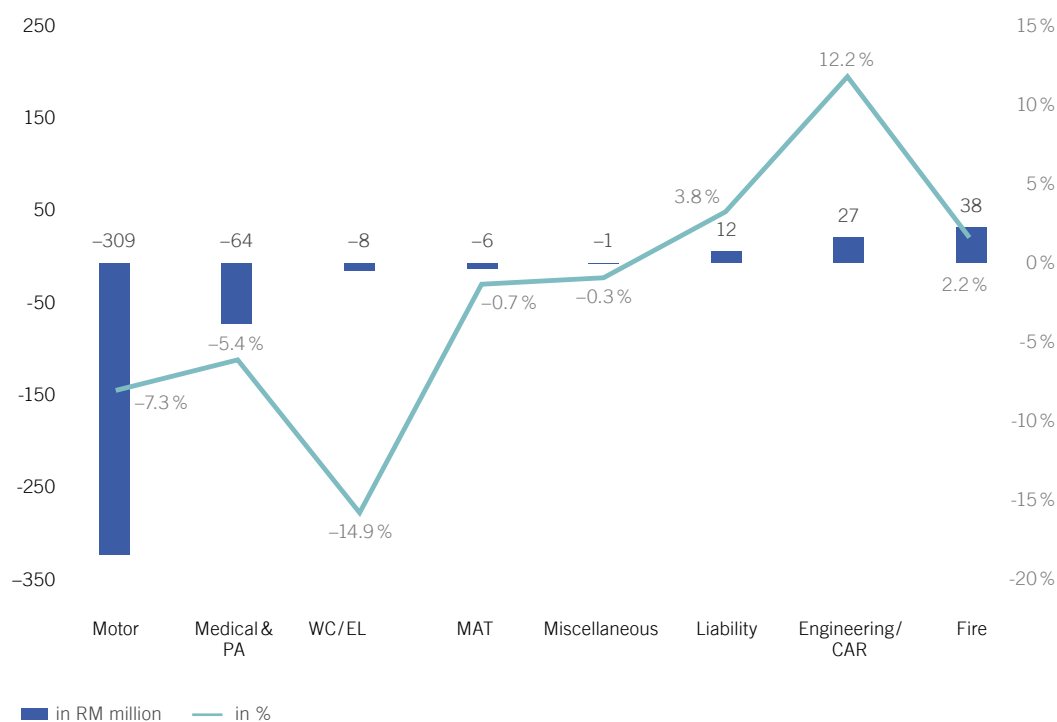
⁵ Ministry of Finance Malaysia, Media Statement, Commentary on Q3, 2020 GDP Growth, 13 November 2020

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As non-life insurance growth lagged behind GDP growth over the past 5 years, we do not expect that premiums will increase in line with GDP in 2021 but will rather grow at a slower rate.

Similarly, Medical and Personal Accident which Bank Negara combines in a joint category in its monthly overview dropped by 5.4%. However, the fall is solely due to Personal Accident, which declined by 13.4%, as policyholders refrained from renewing their policy or insured themselves just as little as possible during lockdown. Medical insurance, by contrast, benefited from rising demand – according to PIAM – and grew in the first six months by 3.0%. The transport lines of business marine, aviation and transit were down by 0.7%, as the pandemic negatively affected exports, shipments and commodities prices. Fire, up by RM 38 million or 2.2% as well as Liability, up by RM 12 million or 3.8% and Engineering, up by RM 26.5 million or 12% as well as Medical were the only lines in general insurance that actually grew in the first half-year of 2020.

Figure 9: General insurance: Gross direct premiums by line of business, 1H/2020 vs. 1H/2019, RM million and %



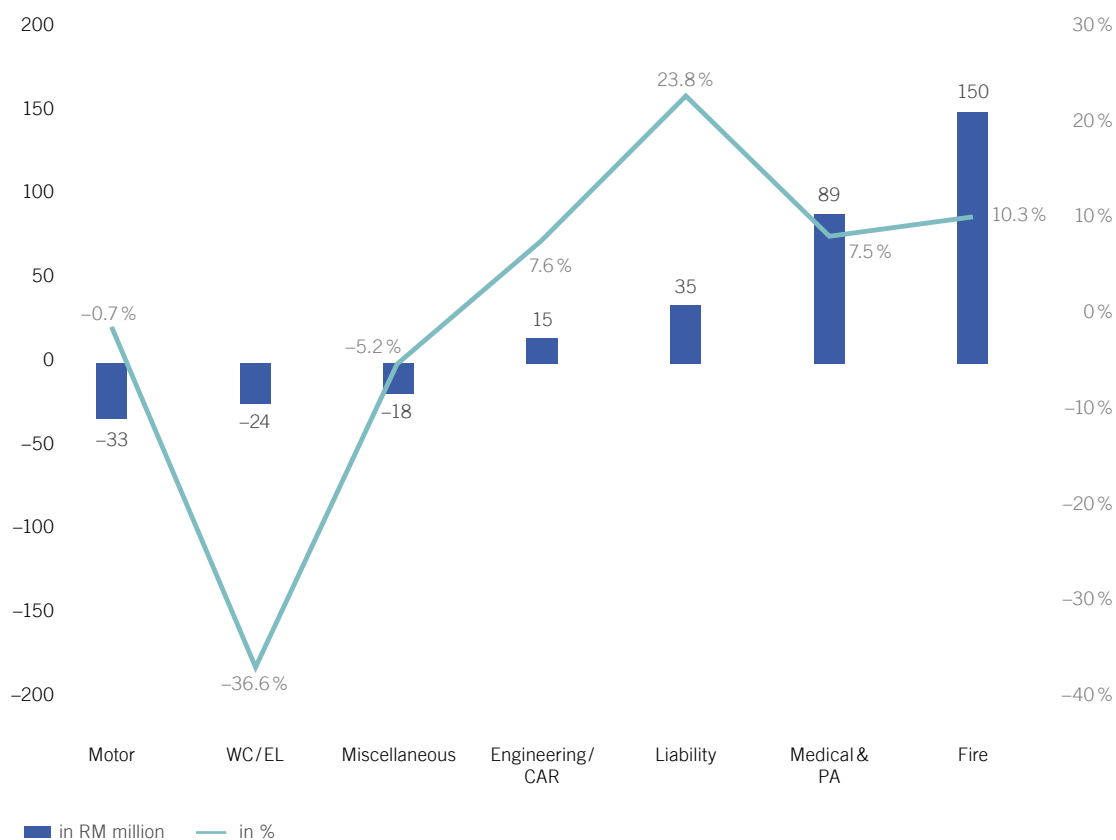
Source: Bank Negara Malaysia

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The effect of the pandemic on insurers' sales will reverberate well into 2021. A view at the premiums earned by Malaysia's insurers shows that 2020 results will still benefit from premiums written in prior years. However, as 2021 draws on, lower premiums written in 2020 will continue to affect earned premiums going forward.

Furthermore, in the first six months of 2020 insurers benefited strongly from a lower loss ratio in motor insurance, as fewer cars were on the road during the MCO. In fact, the claims ratio dropped by 7.4% to 62.4%, representing a substantial improvement of the ratio. Some of Malaysia's motor insurers decided to pass some of this windfall back to their policyholders in the form of a rebate.

Figure 10: General insurance: Earned premium income by line of business, 1H/2020 vs. 1H/2019, RM million and %



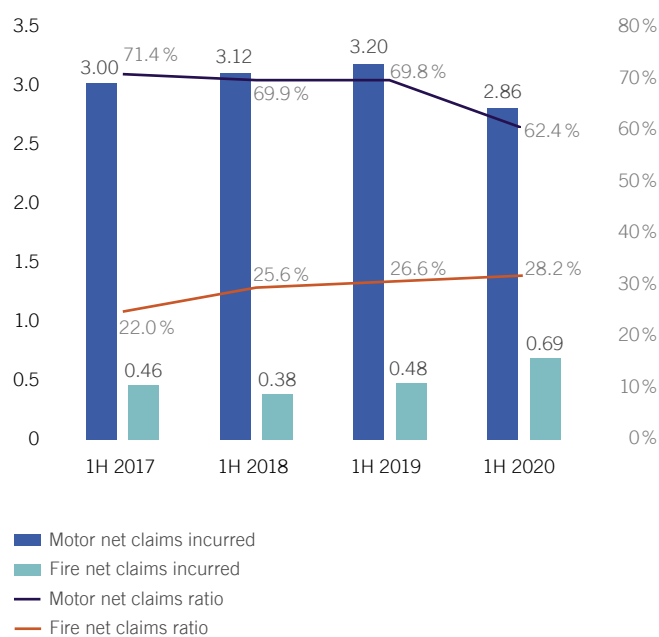
Source: Bank Negara Malaysia

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However, as the MCO was lifted or relaxed, loss ratios are expected to return to the level known for Malaysia, which is at a ratio of close to 70%. Combined with the declining premiums earned, this will have a negative impact in 2021.

The outlook remains unstable. While in the third quarter of 2020 Malaysia's industry recovered substantially from the decline in the first half-year due to rising demand both domestically and internationally, in the fourth quarter the industry will have contracted again. This rollercoaster ride will continue to affect insurance sales.

Figure 11: Motor and fire lines of business, net claims incurred (RM billion) and net claims ratio (in %), 1H/2017 - 1H/2020



Source: Bank Negara Malaysia

Nipah virus: A deadly disease originating in Malaysia

In 1998, Malaysian pig farmers experienced a severe disease, later called Nipah, characterised by fever, confusion, convulsions, causing some people to fall into a coma. The estimated mortality rate for Nipah is between 40% and 75%. The rate can vary from outbreak to outbreak, depending on local disease surveillance and medical management capabilities.

In early 1999, Kaw Bing Chua, then a virologist-in-training at the University of Malaya, and his colleagues discovered the new virus and named it Nipah, after the Malaysian village from which the samples originate.

In 2002, Chua determined that fruit bats were the reservoir that came into contact with human dwellings due to the expansion of agriculture and their shrinking natural habitat. When Chua and his colleagues surveyed the farms where the first cases occurred, they discovered mango, durian and jambu aerial trees adjacent to or hanging over swine enclosures. When bats foraged among the farm trees, saliva-soaked fruit pieces fell into the pig pens, providing the pigs with irresistible morsels and repeated doses of the virus. Farmers who were in close contact with infected pigs then contracted the virus.

COVID-19 and Malaysia's healthcare preparedness

Infectious disease outbreaks are on the rise, as is their economic impact

The frequency and range of infectious disease outbreaks are gradually increasing, as is their ability to send shocks through the global economic system.⁶ Between 1940 and 2004, 335 outbreaks of emerging infectious diseases caused by 183 different pathogens were recorded worldwide. It corresponds to more than 50 outbreaks per decade.⁷

The potential economic cost of infectious diseases is comparable to the annual burden due to climate change, estimated at US\$ 890 billion by the Intergovernmental Panel on Climate Change. Based on data from 20th-century influenza pandemics, the Commission on a Global Health Risk Framework for the Future estimates the annual direct cost of an influenza pandemic at about US\$ 60 billion. If the cost of mortality (corresponding to the value of years of life lost) is factored in, this cost would be at US\$ 570 billion, and thus within the range of the annual economic losses caused by climate change.

The combined cost of the outbreak of SARS, MERS and Ebola is estimated to be in the tens of billions of dollars. This economic loss surpasses one to two percent of the GDP of less developed countries. It exceeds the International Monetary Fund's threshold for major economic disasters (0.5 percent decline in GDP). The total economic damage caused by COVID-19 will be much higher. The World Economic Forum predicts that thus far governments have spent US\$ 11 trillion on their response to COVID-19 in 2020 alone.

Destroying natural habitats has opened a pandora's box for new diseases

Dangerous pathogens are spreading due to a worldwide increase of the interfaces between wildlife, livestock and humans, facilitating a 'spill-over' of microbes. The growth of the world's population, urbanisation, and agriculture expansion threaten and reduce natural habitats. As of 2020, three-quarters of the earth's surface was considered heavily modified by human activities, while in 1700, true wilderness still covered nearly half the continents.⁸

Connectivity – the increase of global travel and trade – accelerates the spread of infectious diseases as well. Today, an infectious outbreak can travel around the world in less than 36 hours, even from a remote location. If it hits a high-density metropolitan area, the spread will multiply manifold. According to 2018 United Nations data, 55% of the world's population already resides in urban areas, a proportion that is expected to increase to 68% by 2050, adding another 2.5 billion people to urban areas by 2050, with nearly 90% of this increase occurring in Asia and Africa.

⁶ Smith, K.F. et al., «Global rise in human infectious disease outbreaks», Journal of the Royal Society Interface, Vol. 11(101), December 2014, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4223919/>

⁷ Walzer, Chris, «Wenn Schnittstellen zu Wunden werden – die Corona-Pandemie zeigt, was passiert, wenn das Gefüge von Mensch, Tier und Umwelt aus dem Gleichgewicht gerät», Neue Zürcher Zeitung, 3.12.2020

⁸ Ellis, Erle C., et al., «Anthropogenic transformation of the biomes, 1700 to 2000», A Journal of Macroecology, 2010, http://ecotope.org/people/ellis/papers/ellis_2010.pdf

Between 60%⁹ to 75%¹⁰ of emerging infectious diseases are zoonoses (an infectious disease caused by microbes of animal origin), such as rabies, Lyme, Anthrax, Bovine Spongiform Encephalopathy, SARS, Ebola, West Nile, Zika, or less known types such as Q fever, Orf virus, Rift Valley fever, Kyasanur Forest disease. These zoonoses have caused some of the deadliest outbreaks in recorded history. The Black Death (or bubonic plague) originated in rats and spread to humans via infected fleas, wiped out an estimated 30%–50% of Europe's population between 1347–1351. The Spanish flu between 1918–1919 caused 40–50 million deaths. More recently, AIDS (1981–present) killed between 25–35 million people. As of mid-December 2020, over 1.6 million people have died from the coronavirus outbreak. A recent United Nations report estimates that 1.7 million undetected viruses currently exist in mammalian and avian hosts, 30%–50% of these have the potential to infect humans.

National health security to be strengthened to fight infectious diseases

Global and national health authorities have to strengthen their infrastructure and strategies to improve their response to emerging infectious diseases. The latest Global Health Security (GHS) Index report, released in 2019, reveals that national health securities still exhibit some fundamental weaknesses. Even the most mature countries are far from prepared to fight epidemics or pandemics. Namely, the report finds fundamental deficiencies in the ability to prevent, detect, and respond to health emergencies. In particular, health systems are vulnerable to political, socioeconomic, and environmental risks that can confound outbreak preparedness and response and often fail to adhere to international standards.

According to its most recent report, the average overall GHS Index score for 195 countries stands at 40.2 out of a possible maximum score of 100. The 60 high-income countries have an average GHS Index score of 51.9. The ten ASEAN countries, in general, perform relatively well. Thailand is the ASEAN country with the highest GHS Index score of 73.2, ranking 6th overall, followed by Malaysia at 62.2 (18th) and Singapore at 58.7 (24th).

⁹ Jones, Kate E., et al., «Global trends in emerging infectious diseases», Nature, 21 February 2008, <https://pubmed.ncbi.nlm.nih.gov/18288193/#affiliation-1>

¹⁰ Taylor, L.H., et al., «Risk factors for human diseases emergence», The Royal Society, 29 July 2001, <https://pubmed.ncbi.nlm.nih.gov/11516376/>

Malaysian Insurance Highlights 2020

Table 1: GHS Index categories and overall score (scores are normalized from 0–100, where 100 = most favorable)

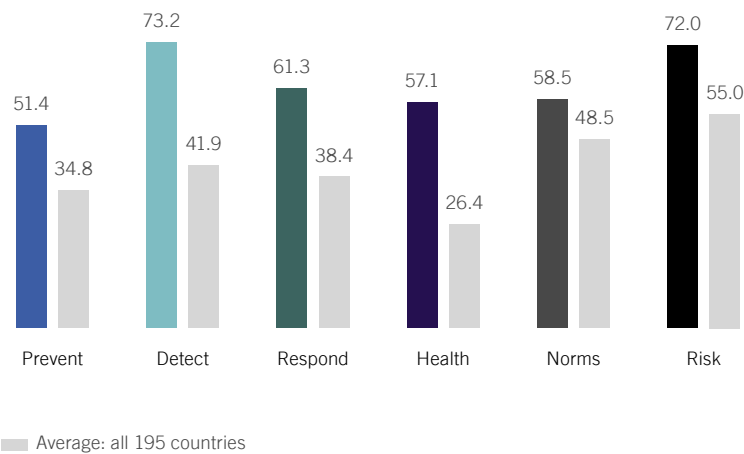
<i>Countries</i>	<i>Prevention</i>	<i>Detection and reporting</i>	<i>Rapid response</i>	<i>Health system</i>	<i>Compliance with international norms</i>	<i>Risk environment</i>	<i>Overall GHS index score</i>
The average score of 195 countries	34.8	41.9	38.4	26.4	48.5	55	40.2
Malaysia	51.4	73.2	61.3	57.1	58.5	72	62.2
Brunei	24.8	30.5	33.4	24.2	23.3	66.7	32.6
Cambodia	28.6	57.7	36.7	12	60	38.5	39.2
Indonesia	50.2	68.1	54.3	39.4	72.5	53.7	56.6
Laos	18.9	70.4	52	19.4	45.9	46.8	43.1
Myanmar	30.3	59.2	50.4	19.5	59.1	38.2	43.4
Philippines	38.5	63.6	43.8	38.2	49.8	50.3	47.6
Singapore	56.2	64.5	64.6	41.4	47.3	80.9	58.7
Thailand	75.7	81	78.6	70.5	70.9	56.4	73.2
Vietnam	49.5	57.4	43	28.3	64.6	53.4	49.1

Source: Faber Consulting based on the Global Health Security Index Report, 2019

Malaysia fared better than average in all six categories due to its advanced health care system and its ability to detect threats early and respond to them adequately thanks to a well-prepared multi-sectoral health emergency response.

In 2018, Malaysia's total health expenditure stood at 3.8% as a share of GDP, still below the average for upper-middle-income countries.¹¹ Since the year 2000, expenditure has steadily increased from a share of 2.6%. Going forward, that rate is expected to grow further as Malaysia's government intends to slowly align the level to the long-term target of 7% of GDP, in line with the World Health Organization's recommendation for health care spending.

Figure 12: Country profile for Malaysia including scores across all six categories of the GHS Index and comparing those scores to the average



Source: Global Health Security (GHS) Index report 2019

¹¹ Total health expenditure is the sum of public and private health expenditure. It covers the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health. Provision of water and sanitation are not included.

Malaysia's COVID-19 response in the first 9 months 2020

For the most part of 2020 the ASEAN countries were able to contain the spread of the novel coronavirus. Thailand managed best, reporting just under 5'000 positive cases and 60 deaths until mid-December for a total population of nearly 70 million people.

Malaysia saw a rapid increase in COVID-19 cases mainly towards the end of the year. Over the past decades, the country's health care system had been faced with a series of infectious diseases such as Encephalitis, SARS, and MERS-CoV. These experiences may have contributed to preparing ahead of COVID-19 for the outbreak of a pandemic.

In late January 2020, Malaysia registered its first COVID-19 cases. In the initial phase, the number of reported infections remained low, largely confined to imported cases, thanks to the Malaysian government's swift response and the population's discipline. However, since October 2020 cases have been rising exponentially. As of 13 January 2021, Malaysia's Government thus placed most of the country under a limited lockdown to quell the surge in coronavirus infections.

Movement Control Order – limit the movement to reduce the exposure to the virus

In March, Malaysia saw a significant increase in the number of COVID-19 cases. In response, the government introduced the nationwide MCO that included six critical measures to be reviewed and adapted periodically:

1. Prohibition of movements and large gatherings
2. Complete restriction of all overseas travels by Malaysian citizens, with returnees undergoing a 14-days-quarantine
3. No tourists and foreigners allowed to enter the country
4. Closure of kindergartens, nurseries and schools
5. Closure of higher education institutions and skills training institutions
6. Closure of all public and private premises except for those providing essential services

To control the pandemic, the government introduced three subcategories to the MCO measures: the CMCO or Conditional MCO, the RMCO or Recovery MCO and the EMCO or Enhanced MCO. The latter comprised stricter and more far-reaching steps to contain a spike within a precisely defined area or location.

Figure 13: Overview of different phases of the Movement Control Order

	18.–31.3. MCO Phase 1	1.–14.4. MCO Phase 2	15.–28.4. MCO Phase 3	29.4.–12.5. MCO Phase 4	13.5.–9.6. CMCO	10.6.–31.12. RMCO	≥ 2 weeks EMCO
Implementation	Nationwide						Specific area
Border Management	Closure of Country Borders						Closure of EMCO area
	Closure of State Borders				Opening of State Borders		
Where	Essential movement only			Non-essential ≤ 10 km	Intrastate allowed	Intrastate allowed	Intra-EMCO movement not allowed
				Intrastate with permission	Intrastate with permission		
Who	1 person /vehicle		2 person /vehicle, same household		Same household/ vehicle	Social distancing precautions	
Special movement				Univ. students allowed to return		Staggered opening of schools	
Curfew	8 pm			10 pm		12 am	24 hours
Business/services	22 identified as essential		Additional 5 essential	Selected non- essential allowed	More non- essential allowed	Almost all sectors allowed	Total closure

* there were no movement restriction for frontliners (healthcare personnel, police, armed forces, civil defence force, paramilitary civil volunteer corps, fire brigade)

MCO = Movement Control Order

CMCO = Conditional MCO

RMCO = Recovery MCO

EMCO = Enhanced MCO

Source: Institute for Health Systems Research

Testing centres – targeted to vulnerable and high-risk groups

The National Crisis Preparedness and Response Center started to prepare for COVID-19 as of 5 January 2020. By early February, 57 hospitals in Malaysia were providing screening services. To make the best use of testing material, Malaysia decided to implement a targeted use of resources focusing on vulnerable and high-risk groups. As of early April, a consortium of associated laboratories launched the country's most extensive COVID-19 collection and testing programme to increase capacity from around 1'000 tests per day in January to over 41'000 tests per day in December.

Consolidation of COVID-19 cases in public hospitals

To help contain the spreading of the virus efficiently, COVID-19 cases were contained by isolating all symptomatic or asymptomatic patients in public hospitals free of charge. Some government hospitals were converted into full or partial COVID-19 hospitals. Quarantine centres were also made available, utilising existing training institutes, nursing dormitories, non-specialist hospitals and hotels. As of November 2020, Malaysia had assigned 46 hospitals and 66 low-risk quarantine and treatment centres dedicated to COVID-19 treatment.

Further innovative measures to fight the COVID-19 virus

The Malaysian government introduced a number of innovations to tackle the pandemic, including the MySejahtera contact tracing application, drive-through screening services, and the Field Hybrid Intensive Care Unit (ICU). The government maintained risk communication through regular media briefings, internet sites, social media, and SMS. The Malaysian government also launched the Cegah dan didik Amal Patuh dan Pantau programme (prevent and educate, practice, comply and monitor) to boost community engagement in fighting the pandemic.

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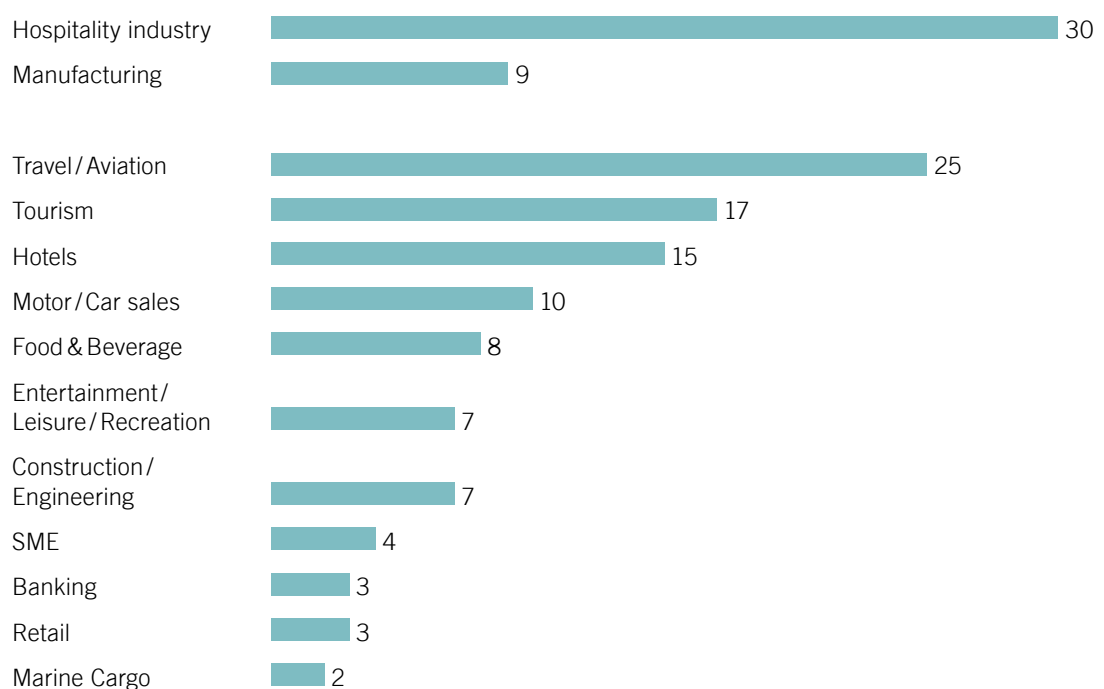
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Survey section

Figure 14: Economic sectors / industries most affected by COVID-19 (by number of mentions)



It was the overarching consensus of the executives participating in the *Malaysian Insurance Highlights* survey that of all economic sectors, Malaysia's hospitality industry has been hit hardest by the COVID-19 pandemic and the subsequent MCO. The sector had high flying ambitions for 2020 – increasing the number of tourists visiting Malaysia from 26 million to 30 million annually and multiplying revenues from RM 86 billion (US\$ 20 billion) to RM 100 billion. In the first six months of 2020 Malaysia saw a 70% decline in tourists visiting the country compared to the previous year. Revenues dropped in line with the reduced number of visitors by 70%. Although Malaysia encouraged inland tourism, domestic visitors could not compensate for this decline.

Along with the tourism industry, the recreation and food & beverage sector suffered severely from the lockdown. The airline industry was among the worst affected sectors. In June Malaysia's Aviation Commission expected a 50% drop in domestic and international passengers from 109 million annually to roughly 55 million in its baseline scenario for the full year 2020.

According to our interviewees, the construction industry was stalled by the MCO measures, but also by a shortage in skilled labor. By mid-2020, the Construction Industry Development Board noted that of 6'750 nationwide construction sites, 5'131 were not operational. However, the sector is expected to benefit from government measures as the MCO was eased to maintain employment.

The industries most closely tied to consumption were expected to suffer heavily from the pandemic as well. That included the motor sector, which saw a decline in vehicle sales by more than 40% in the first half-year and is expected to drop by more than 20% for the full year. It also applies to the retail sector and to fast-moving-consumer-goods, as people reduced their spending in light of the crisis.

Executives further pointed out that the pandemic also impaired global supply chains. Malaysia's manufacturing as well as the shipping sector declined in the first half-year. However, these industries were expected to see a strong recovery in the second half-year. The oil & gas sector was also affected as prices tumbled due to the global contraction in energy consumption. And finally, the banking sector is also expected to have taken a hit as lenders were asked to support borrowers with a loan moratorium – initially limited to the first six months in 2020, but later Bank Negara asked for an extension until the end of the year.

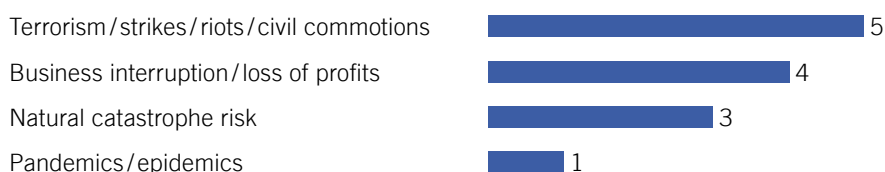
Not all sectors suffered from the impact of the pandemic. Malaysia's rubber industry is expected to have benefited from rising demand for sanitary products. Furthermore, the online and e-commerce industry saw growing demand in Malaysia as elsewhere in the world. In fact, in Malaysia, which has the second highest e-commerce penetration in the ASEAN region, the online sector further expanded at a fast pace in 2020. In addition, Malaysia's export sector was expected to rebound strongly in the third quarter, driven by robust sales of the country's electrical & electronics industry, benefiting from increasing demand for smart manufacturing, automation and technological innovations.

«Overall, when coming out of this crisis, Malaysia's insurance industry will have strengthened. Firstly, as an industry we have become more agile and flexible, responding swiftly to changing customer demand. Secondly, our contingency planning and risk management has been tested, proven its mettle and has been improved, where necessary. Thirdly, the industry demonstrated its capability to operate online which has clear ramifications for our

efficiency going forward. As part of this process, we also strengthened our IT infrastructure, which is now even more robust. And finally, insurers improved their online capabilities. Those with a good online platform grew fastest, which is true even more so for the life as for the general insurance channel.»

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

Figure 15: Insurance coverage of specified risks on a stand-alone basis (by number of mentions)



In Malaysia the above-mentioned risks which may cause an accumulation of losses in different lines of business are according to our interviewees almost exclusively written in conjunction and not on a stand-alone basis. Similarly to the COVID-19 pandemic, which globally triggered claims in classes such as property, health and life insurance, risks such as terrorism or natural catastrophes can lead to a surge in related losses.

In Malaysia Terrorism is only written on a selective basis and with strict sub-limits. Risk awareness is generally regarded as low and is most pronounced among international clients, which have to buy the cover to comply with global corporate standards. Malaysia's insurers provide the cover as part of SRCC policies (strike, riot & civil commotion), which are widely written, but in which terrorism cover is only offered on a limited basis, and in personal accident insurance.

Business Interruption (BI) is written in conjunction with fire insurance and as such is a tariff policy regulated by Bank Negara. While BI has an extension to cover Infectious Contagious Diseases, Malaysia's insurers are convinced that the MCO will not trigger the policy as it explicitly requires a material damage on the premise as a precondition to a loss. Besides its «water-tight» wording, the sum-insured is limited to RM 10 million or 10% of BI Sum Insured although there have been a few clusters in manufacturing, where the cover had been bought, generally speaking, take up rate had been low. Going forward insurers see rising demand to include pandemics in the coverage. However, reinsurers seem to be reluctant to provide capacity for such an inclusion.

«So far COVID-19 has not translated into rising demand for medical insurance products. In fact, sales have been fairly moderate which will be due to two reasons: firstly, reduced buying power due to economic downturn and secondly,

the public's perception that COVID expenses are mostly to be covered by the government.»

Derek Roberts, CEO, AmGeneral Insurance Berhad

Malaysia is regarded as a country with a relatively low natural catastrophe exposure. Flooding is the most likely risk. Accordingly, awareness of natural catastrophe risks is limited, and coverage is not widely sold. It is one of the perils added to a property and fire policy or added as part of an all-risk or an engineering, marine or oil & gas policy.

In general, pandemics are not covered by Malaysia's insurers. Travel policies covering Personal Accident may include a clause covering infectious diseases as well. Similarly, Business Interruption may additionally cover infectious or contagious diseases. That kind of policy would be based on a clause of the revised fire tariff, covering «Infectious or Contagious Diseases, murder, suicide, pest, food or drink poisoning; or defective sanitary arrangements». Since the outbreak of COVID-19, there has been an increased demand for pandemic risk coverage, but again the market provides no capacity to cover the risk.

«In the long-term, we expect that the COVID-19 experience will have an effect in strengthening Malaysia's insurance industry. Firstly, awareness for the importance of insurance has increased. Secondly, insurers have adjusted to the crisis by accelerating their efforts to digitize their organisations. They shifted more of their distribution to the online channel, increased

investments in IT infrastructure to strengthen their operations and are better prepared for the growing competition from digital players such as platform providers.»

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

Figure 16: Part of income statement mostly affected by the COVID-19 pandemic (by number of mentions)



The COVID-19 pandemic is mainly a threat to the top line of Malaysia's insurers, both in terms of 2020 as well as for the coming 12 – 24 months. However, Malaysia's insurers are also very much concerned about the impact of the pandemic on their investment results. Although equities bounced back quickly, the returns from fixed income declined and will remain low for quite some time. With regard to the top line or the underwriting results, insurers agree that COVID-19 will be an earnings event, unlikely to affect insurers' capital position.

Figure 17: Impact on top line/gross written premiums (by number of mentions)



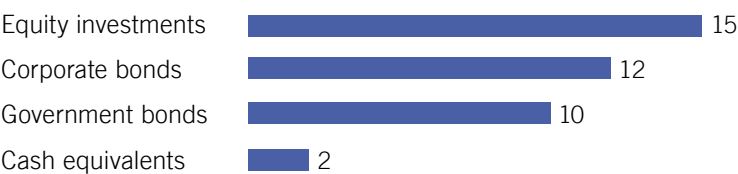
The general insurance sector contracted by 3.6% in the first half-year 2020, as compared to the first half-year 2019, according to Bank Negara. Due to the MCO the industry recorded its lowest growth in motor insurance and personal accident insurance over the past five years. As vehicles sales dropped and drivers were unable to use their cars, less customers purchased a motor policy, and many decided to either not renew or defer the renewal of their motor policy during lockdown. Many of those who had to renew their motor policy often bought just the shortest possible duration (six months) and covered only the compulsory minimum. Since car sales were down by more than 40% for the first six months of 2020, insurers hardly saw any new business. However, once the MCO was loosened, sales rebounded.

Fire also saw a strong decline in the first half-year as SMEs and house owners aimed to reduce their cost. Again, the sale and value of policies dropped as Malaysia saw 25% less housing transactions in the 1st half of 2020.

While personal lines still benefited from their compulsory nature, commercial lines such as Aviation, Marine Cargo and Hull, Engineering or Construction declined in tandem with the underlying industry.

Insurers' top line was also impacted by lower premium collection. Similarly, to the banking sector, which granted a loan moratorium to clients to ease the financial stress caused by COVID-19, insurers allowed for additional installments for premium payments and refrained from cancelling a policy if customers failed to pay the renewal in time. In addition, insurers' loss ratio in motor insurance benefited from the near-to-complete standstill during the MCO. Some insurers returned part of that benefit to policyholders in the form of rebates.

Figure 18: Impact on investment results (by number of mentions)



The first half-year 2020 was a turbulent period for Malaysia's financial markets. On 18 March 2020, with the announcement of the MCO, the Bursa Malaysia crashed – along with equity markets worldwide. Contrary to other stock exchanges in Asia though, by the end of the first half-year Malaysia's stock exchange had recovered most of the loss, driven by strong demand from domestic retail investors and a rally in healthcare and technology stocks.

In tandem with the stock exchange crash, the bond market spiked with 10-year Government Securities rising by 84 basis points in March and April. Since then, volatility subsided as investor confidence improved on the back of the government's initiatives to support the economy.

The majority of Malaysia's general insurers are believed to hold approximately 10% in equities. As the stock market recovered, they will have registered unrealized losses in their investment portfolio for a limited time. However, those with larger equity holdings and a high share of blue chips are expected to see lower returns as some equities had to withhold their dividend payments in 2020.

Altogether, the decline in fixed income is expected to have a stronger impact on the investment return of Malaysia's insurers. Some interviewees pointed out that returns from their fixed income portfolios were down by 50% by the end of the second quarter. On balance the monetary policies of Bank Negara and the government measures to stimulate the economy and curb the looming recession will mean that yields on government bonds will remain at a low level for the foreseeable future. As a result, insurers will be under pressure to generate higher underwriting results in a stiff market environment characterized by fierce competition and rising reinsurance rates.

Figure 19: Impact on top line results (by number of mentions)



The majority of Malaysia's insurers interviewed saw a decrease in their loss ratio, benefiting from lower claims in Motor, Fire and Travel. The improvement was due to the reduced activity during lockdown, when hardly any cars were in use, travel stopped, and manufacturing sites went idle. Some insurers also noticed improved loss ratios in health insurance as policyholders refrained from seeking hospital or medical care for fear of infection. In fact, during the MCO, the patient load for general practitioners was down by 50% or in some cases even by 80 % to 90 %.

When the MCO was loosened, claims started to rise again and present some characteristics that are typical during a recession. As financial stress increases and corporate defaults rise, insurers expect to see more cases of moral hazard for claims caused by fire – some of them potentially fraudulent. Claims are also rising in Motor, not only because traffic returns to its normal level, but also because more less-experienced drivers are on the road who normally would take public transport and now prefer to avoid packed busses and trains.

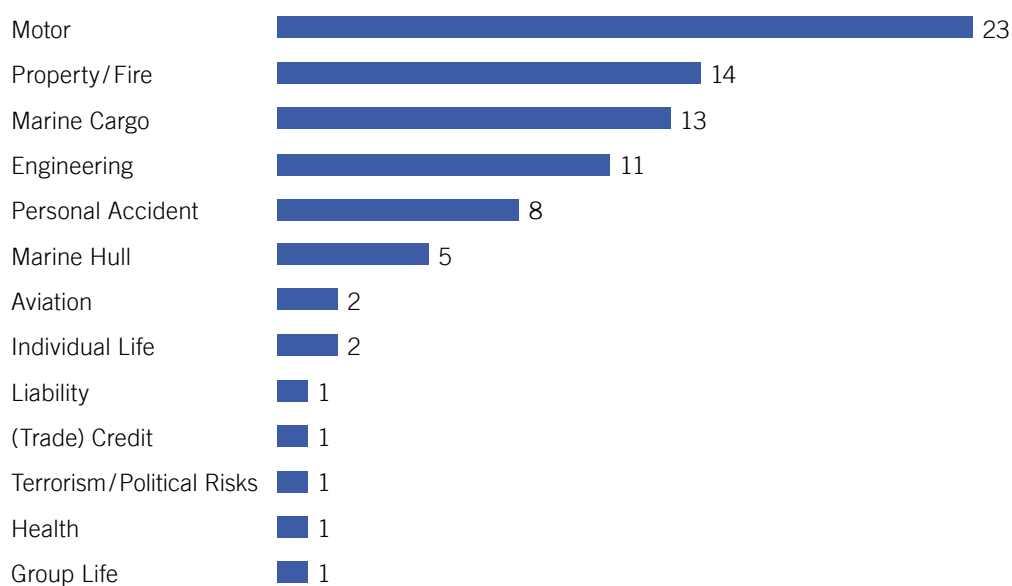
Whilst in the second half-year the loss ratio was expected to normalize, most of our interviewees saw themselves on the road to a better underwriting performance for the first half-year 2020 than for the first 6 months in 2019. If 2020 will be a «bumper-year» in terms of underwriting performance, remains to be seen. However, directly COVID-19 related claims are expected to stay low as the exposure to Business Interruption is low and capped, while medical costs for COVID-19 treatments did not affect insurers since patients were treated in dedicated public hospitals.

«As a result of COVID-19, we have seen a rising interest in the coverage of health and personal accidents. However, affordability remains an issue. When pandemic hit, premiums were already on the rise as a result of increased medical claims from high healthcare inflation. It thus

remains to be seen if an increased awareness for the benefits of insurance will translate into higher sales.»

Antony Lee, Chairman of the board of PIAM

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



Personal lines, closely correlated with GDP, experienced a decline during lockdown and are expected to grow slower in 2020, potentially rebounding in 2021. Therefore Motor, Fire, Personal Accident and Travel are growing slower, but might experience an improved loss ratio due to lower claims. Health insurance is an exception for the reasons cited above: its top line was hardly unaffected by the MCO, while COVID-19 related losses remained few as infections had to be treated in public hospitals.

With the slow-down in international trade and transport, commercial lines such as Marine Cargo, Hull and Trade Credit suffered. Similarly, Engineering was affected by a decline in manufacturing for export as well as by lockdown measures which brought many construction projects to a standstill.

Finally, as the entire hospitality sector suffered, aviation is severely affected as well as all property insurances for hotels, restaurants and other recreational facilities. In both segments, COVID-19 will have a lasting effect on insurers' premium volume as neither the aviation industry nor tourism are expected to rebound within the next 12 months.

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



Strengthening of the insurance market:

Most insurers predict that Malaysia's insurance industry will emerge stronger from the COVID-19 crisis. Firstly, processes are expected to be more robust as insurers stress-tested their business continuity provisions when operating remotely from home. Unless insurers' infrastructure was already advanced, the MCO triggered an acceleration of investments in technology and a digital infrastructure capable of operating paperless.

Vis-à-vis the regulator, insurers had to demonstrate business continuity, assure contract certainty, the ability to underwrite and renew policies as well as paying claims. Although their main sales channel, the agents, were locked in home office and could neither receive nor visit clients, insurers maintained contact with their clients. As a result, virtually overnight online capabilities became mandatory. Those players, which were well advanced in their own digitization, benefited the most from this forced transition. Encouraged by the regulator, who realized that digitization contributed to enhance the market's resilience, insurers rapidly advanced their online capabilities. Overall, executives see the leap in technology as an advantage for the insurance market. They expect opportunities will arise in developing new products designed for the digital channel. In addition, technology is expected to increase efficiency, both in sales by reducing transactional cost – as well as in the general administration.

Furthermore, insurers reviewed their risk management. Most interviewees agreed that despite a series of epidemics that have hit Asia in the past 20 years, COVID-19 caught insurers largely unprepared. With the outbreak of the pandemic, insurers strengthened their ability to better reflect in their models systemic risks which potentially trigger losses across a broad range of business lines. Coming out of a soft market where terms and conditions had been loosened, insurers assessed their exposures and tightened their policy wordings to limit the exposure.

«Overall, COVID-19 experiences has certainly transformed the way we work, socialize, innovate and create new products and methods of communication with business partners and policyholders. Insurers

need to adapt faster and accelerate the industry's digitization in a speed never envisaged before.»

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

Weakening of the insurance market:

Those executives who expect the COVID-19 pandemic to have a dampening effect on the Malaysian insurance market point to the economic downturn the virus will cause and its impact on insurers' revenue and profit situation. Interviewees are concerned that consumers and clients will reduce their spending on insurance protection. Underinsurance as a conscious decision to buy less insurance protection than needed, becomes a rampant concern and will lead to conflicts once claims occur. As insurance typically reacts with a time lag to changes of the GDP, insurers are worried that it might take 12 up to 24 months to recover the decline in top line experienced during 2020. Should the crisis persist, they fear that eventually capital positions will erode as costs remain fixed while revenues drop. Although thus far the pandemic hardly scratched the top line, executives warn this might change once the loan moratorium, Bank Negara agreed with the banks, will come to an end and defaults will start to rise.

Moral hazard and fraudulent claims are another concern. Frequently during financial distress claims in Motor or Fire rise as consumers struggle to make ends meet. Similarly, with the rapid rise of online purchasing and transactions, insurers also witness an increase of cyber-attacks that will translate in higher claims.

In terms of processes, the market is impressed by its ability to work remotely from home. However, the longer that status last, the graver its implications. Executives fear for the productivity of their companies. While some see a surge in distress as employees may need to juggle family and work in cramped apartments, others warn of a loss of control unless KPI's are not phrased tightly.

Finally, COVID-19 diverts the attention from necessary reforms towards the emergency measures of reducing financial pressure on SMEs and small-scale policyholders. Although most interviewees agreed that priorities had to be focused on combatting the impact of COVID-19, they nevertheless bemoaned the postponement of the final phase of the tariff liberalization in motor and fire insurance by 18 months to the end of 2021. Insurers emphasized that current prices in motor insurance are unsustainable and that the liberalization of the market is a necessity to improve its competitiveness.

«We expect Malaysia's insurance industry to continue to strengthen. Almost all general insurers in Malaysia are quite well capitalised, so further consolidation of the industry, if any, is expected to be driven by market forces and synergy between the entities involved. Furthermore, the liberalization of the sector will continue as well. Although

due to COVID-19 the 3rd phase of the de-tariffication has been delayed by 18 months until the end of 2021, there is still room, though limited, for further liberalization in terms of product pricing and innovation within the current framework.»

Kong Shu Yin, MD/ CEO, RHB Insurance Berhad

Figure 22: COVID-19 strengthened the awareness for the importance of insurance (by number of mentions)



Respondents generally agreed that the COVID-19 pandemic has helped raise awareness for insurance, but few expect the heightened awareness to translate into increased demand. So far, COVID-19 has presented itself as a health and economic crisis in Malaysia, but the immediate impact on insurance – from a demand perspective – has been limited. Due to the attention created by COVID-19, consumers realized that health insurance protects against the cost caused by diseases and can help access better treatment. However, since the actual number of COVID-19 cases requiring treatment stayed low and the government decreed to centralize COVID-19 patients in dedicated public hospitals, private health insurance could not yet prove its mettle.

While demand for accident and health insurance that includes pandemic protection may increase, the availability of such a product is even less likely now than before the crisis since insurers will be more reluctant to underwrite the risk. Finally, executives point out that while awareness might have improved, purchasing power declined and clients are expected to rather cut on insurance expenditure than increase it in times of financial hardship.

The mechanism will be similar with regards to Business Interruption. As a tariff policy sold in conjunction with fire insurance, its wording is tightly controlled. Infectious diseases are covered but strictly confined to the physical damage caused on the premise. The exposure is capped at a maximum of RM 10 million. If currently an employee at work tests positive for COVID-19, the entire premise will be closed and disinfected. However, since the first three days of the business interruption are part of the client’s retention, the policy is not triggered. Although insurers observe a rising demand for Business Interruption, that does not alter the policy’s tight terms and conditions. Besides, currently reinsurers provide no capacity for a cover that includes pandemic risk.

Figure 23: Impact of insurers' response to COVID-19 on industry reputation (by number of mentions)



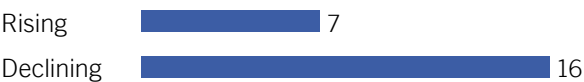
Malaysia's insurers provided a wide range of support measures to cushion the impact of COVID-19 and the subsequent MCO on policyholders. Most prominently Malaysia's insurers – through the country's insurance associations, PIAM, LIAM and the Malaysian Takaful Association – launched a RM 8 million fund for the COVID-19 testing of medical insurance policyholders and medical takaful certificate holders. The fund – managed by Malaysian Re – addressed the need to increase COVID-19 testing and help insureds cope with the immediate health effects of the virus and the subsequent economic consequences.

In terms of softening the economic impact on policyholders, insurers collaborated closely with Bank Negara to provide a variety of measures. Firstly, policyholders were allowed to defer premium payments or pay in more installments than usually available. If during the lockdown a motor insurance was up for renewal and policyholders did not pay the premium immediately, insurers left the policy in force. If during the MCO in fire insurance a premise remained idle and unattended for more than 30 days, insurers did not cancel the cover as otherwise would be the rule. Insurers were also supportive of policyholders in filing claims. For motor insurance, claims filing was accepted if done via WhatsApp or SMS, and insurers even went as far as paying the claim even if the documentation of an accident was incomplete.

Similarly, in life insurance policyholders were also allowed to pay for their policy with additional installments. Furthermore, although insurers did not cover pandemics, they voluntarily provided cash relief for customers who were diagnosed with COVID-19, supported them with an allowance during their hospitalization and helped with special lump-sum death benefits.

Although Malaysia's motor insurers benefited from a lower loss ratio during the MCO, they retributed some of these gains back to their policyholders in form of a rebates. They also cushioned the impact of COVID-19 on their agents, which are insurers' main sales channels in Malaysia. Since agents were unable to write new business during the MCO, insurers helped them with the payment of commissions. They also tied them into their digital distribution, provided them with handheld devices or even training sessions to more efficiently reach out to customers.

Figure 24: Impact of COVID-19 on demand for insurance products (by number of mentions)



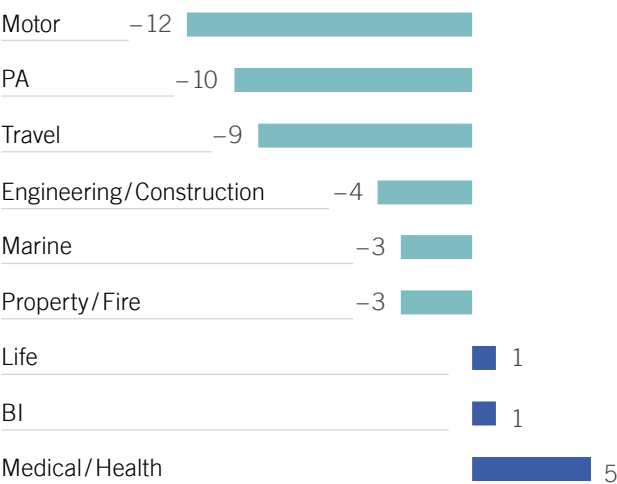
However, those who are more sceptical about the impact of COVID-19 on insurers' reputation point out that most of the programmes of insurers to provide relief to policyholders were not really tested to the maximum as the number of infections and hospitalizations remained relatively low. Furthermore, even if COVID-19 translated into rising demand, insurers are falling short of policyholders' expectations, as covers protecting against the impact of the virus are hardly available due to limited capacity. Some insurers clearly see the industry's inability to provide cover for pandemic risks as a reputational risk and demand that the industry comes up with new solutions for these kinds of systemic risks.

Despite heightened awareness for insurance products, few insurers experienced a positive impact on their top line. Firstly, insurers saw a sharp decline across all personal lines, namely Motor, Property, Travel and Personal Accident. Furthermore, the supply chain disruption triggered lower demand in Marine, Trade Credit and export exposed manufacturing lines. Thirdly, with the contraction of the economy, affordability has become an issue as people tried to cut on insurance spending through either self-insurance, insuring only as much as the mandatory minimum or by reducing the exposure they insured.

Insurers were also affected by the deferred and staggered premium collection. Although eventually premiums will be paid in full, the installments will impact the premium volume in 2020. Insurers also pointed out that the delay of the implementation of the last phase of the de-tariffication will have a negative impact on their revenues as motor insurance is notoriously underpriced, but an adjustment is not possible until the line is liberalized.

Insurers also struggle to capitalize on rising demand which occurs predominately in medical insurance and Business Interruption. In both cases more customers might consider purchasing cover, but capacity is not available as reinsurers are reluctant to insure the risk.

Figure 25: Change of demand for insurance products due to COVID-19 by line of business (by number of mentions)



The majority of Malaysian insurers do not expect the COVID-19 pandemic to have a lasting impact on consumers’ awareness and demand. In Malaysia, COVID-19 is predominately perceived as a health and economic crisis. Where the virus caused heightened awareness, insurers are sceptical that consumers’ memory of the benefits of insurance will outlast the pandemic, simply because the pandemic is not perceived as an event directly associated with insurance.

COVID-19 had its strongest effect on the industry’s top line. A recovery depends largely on the speed of the economic rebound. Consumers and SME’s are expected to spend less during a recession. The longer the recession lasts, the more prolonged the insurance recovery. Furthermore, some insurers bemoan the postponement of the de-tariffication. Although many agree that the delay is the right measure, they still emphasize that current rates in Motor are unsustainable and the longer an adjustment takes the worse its effect on insurers.

The impact of COVID-19 on insurers’ processes, however, is expected to change their mindset. The pandemic happens at a time when the insurance cycle is turning from a soft to a hard cycle. In fact, it might even accelerate and strengthen that effect. Insurers realize that they need to tighten their policy wording, closely manage their exposures and better reflect systemic risks in their risk management.

Figure 26: COVID-19 accelerated the digitization of the Malaysian insurance industry (by number of mentions)



It is generally believed that the COVID-19 pandemic significantly accelerated the digitization of the insurance industry in Malaysia. Technology enhanced its resilience and helped the industry deal with the crisis. This development is commonly seen as one of the positive outcomes that are here to stay.

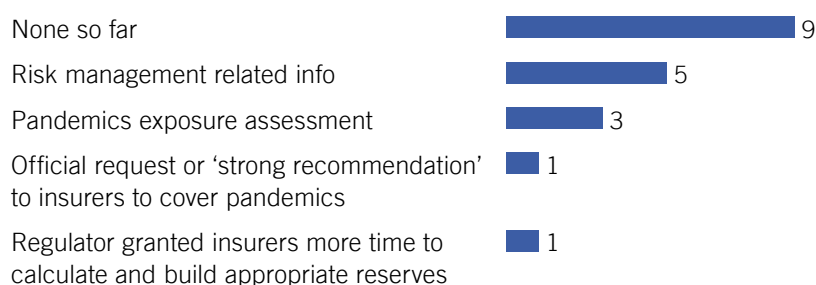
In Malaysia, online technology enabled insurers to remain connected with their clients, agents and with employees. In particular in personal lines, insurers benefited from the digital transformation as consumers became more receptive to purchasing and administering their affairs through online channels, platforms or ecosystems.

Digitization allowed insurers to maintain their client-facing operations even during lockdown. They were able to sell and renew policies online, receive claims notification and submission via social media to process their claims payments – all without policyholders having to fill out lengthy forms or papers. While this transformation improves the customer experience, insurers also see opportunities for additional products to be sold exclusively online. Insurers also emphasized that the swift move to online underwriting has its downsides too as adequate pricing remains an issue. Besides, the rapid shift also led to an increase in cyber-crimes.

Insurers also switched to online in their communication with agents. They offered online training, established e-platforms or mobile apps or even provided tablet devices to continue to collaborate with their agent network. These initiatives were encouraged by the regulator during the MCO, as these small-scale agent businesses were entirely depended in their income on the insurers’ support. Tariff insurance consumers have an incentive to purchase online as the commission that is usually retained by the agent can to be deducted from the price of the online policy.

Notwithstanding these technological advances, insurers also pointed out that the rapid switch to online technology was not without challenges. The bandwidth and access to internet connections is significantly better in urban areas than in rural districts. Similarly, not all customers, agents or employees had access to the most advanced technology. Insurers experienced a number of glitches in the early days of the MCO, and it took time, as well as investment, to tackle these shortcomings.

Figure 27: Additional information request by regulators (by number of mentions)



The Malaysian insurers felt well supported by the hands-on approach of Bank Negara since the start of the COVID-19 crisis. In the initial phase of the pandemic and the beginning of the MCO, Bank Negara asked the country's banks and insurers to stress-test and assess their resilience to the impact of the crisis on solvency and business operations under various scenarios. To better reflect prevailing market conditions, Bank Negara reduced the interest rate risk (IRCC) and profit rate risk (PRCC) stress factor caps from 40% to 30% applied under the Risk-Based Capital Framework for insurers and the Risk-Based Capital Framework for Takaful Operators as of late March 2020. Moreover, Bank Negara promised to consider submission from insurers and takaful operators to adopt alternative methodologies for calculating the IRCC and PRCC.

Repeatedly requesting information on operational performance, Bank Negara also issued its «Standard Operating Procedures,» which guide the industry on how to be organized to ensure employees can work from home, how to guarantee their safety and well-being, and how to maintain continuity of business operations and customer service. The Bank was eager to assure that insurers did neither compromise on their staff's safety nor their services to policyholders. It demonstrated its flexibility when insurers asked for additional time to prepare their quarterly submissions, when they requested to forestall some of their costs or when they had to revise their assumptions on their business performance. It showed some tolerance with regards to insurers' capital adequacy for as long as it did not dip below the Supervisory Target Capital Level of 130%. The regulator also allowed a reasonable supervisory forbearance for minor non-compliance and operational lapses that were due to the MCO. But it was strict to ensure that insurers respected the safety measures and even paid surprise visits to individual companies to check on their adherence.

Obviously, the Central Bank wanted to be kept abreast on information about COVID-19 related losses, the divergence between planning and actual as well as the pandemic's effects on insurers' top line. Those parameters had to be reported recurrently. The Bank was seen to collaborate closely with the General Insurance Association (PIAM), the Life Insurance Association (LIAM) and Malaysia's Takaful Association (MTA). It wanted to be kept informed about insurers' risk management and also the relief measures insurers took to smoothen the impact of the crisis on policyholders. Namely, the Bank encouraged insurers to swiftly pay claims and to be flexible in its premium collection, particularly in life insurance where a moratorium on premium payments was introduced. For SME's, insurers installed premium relief schemes to grant discount to policyholders to pay their premiums or established premium installment schemes to extend the payment of premiums beyond the usual timeframe.

Bank Negara was also keen to assure rates did not rise for policyholders during this time of financial distress. The Central Bank delayed the implementation of the final phase of the de-tariffication of Malaysia's motor and fire insurance until the end of 2021. While insurers applauded this move as a necessary short-term measure to avert execution stress, the delay further postponed the overdue adjustment of unsustainable motor rates. Similarly, in medical insurance the regulator asked health insurers to refrain from increasing their pricing, despite Malaysia's soaring medical inflation.

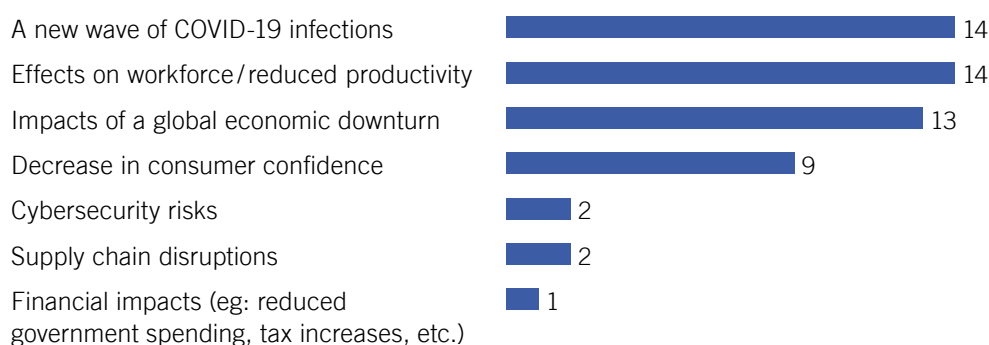
Finally, at the beginning of the pandemic Bank Negara asked the industry to support policyholders by creating the COVID-19 test fund (CTF). The three Malaysian insurance associations, PIAM, LIAM and MTA teamed-up and pledged RM 8 million to set up the fund. It supports the Ministry of Health in conducting more COVID-19 testing by covering the expense of medical insurance policyholders and takaful certificate holders for such a test.

«Bank Negara has been very supportive during the crisis. They engaged proactively with the insurers, provided some flexibility in reporting and focused on assuring that the business continuity planning was well in place. In addition, Bank Negara partnered with the industry to collect data and generate as much knowledge as possible out

of the crisis. Finally, in terms of capital adequacy, COVID-19 has impacted insurers in varying degrees depending on their individual risk portfolios and Bank Negara is constantly monitoring the capital levels of the insurers.»

Puneet Pasricha, CEO, Liberty Insurance Berhad

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



When we concluded the interviews in early October 2020, at that point in time the main concern to Malaysia's insurers was another wave of infections. Meanwhile the situation has changed, as first vaccines are starting to become available to the broader public and Great Britain was the first country to start vaccination. Still, in early autumn 2020 a further exponential growth of the pandemic was seen as the trigger for a continuation or even aggravation of current challenges, exerting further pressure on already stretched resources.

This main concern was closely followed by fear of an extended global downturn tightly linked to the onslaught of a further infectious wave. Insurers worried that the longer the crisis lasts, the more difficult it will become to restore the customer demand. In fact, executives were concerned that the advances the industry has made in recent years in terms of risk and insurance awareness could be rewound. Unemployment will rise, which will affect consumption and decrease purchasing power. Also, defaults will increase and with that further losses and renewed pressure on insurers' balance sheets.

Although Malaysia's insurers are proud of how the industry mastered the COVID-19 crisis thus far, going forward executives are increasingly concerned about the toll that pandemic might have on employees' morale and productivity. In the beginning, the ability to work-from-home was acknowledged with amazement. That attitude is slowly changing. Executives point to the stress many employees face when working from home, having to juggle a job and family in constrained housing settings. Thus, protecting the staff's well-being, assuring job safety and working towards a perspective of what a new normal could look like have become paramount objectives for insurance CEO's.

Productivity of staff is another issue put forward by interviewees. Executives wonder how to keep productivity high with more than 50% of staff working from home. High IT costs occur but also new types of KPI's and control mechanisms have to be put in place.

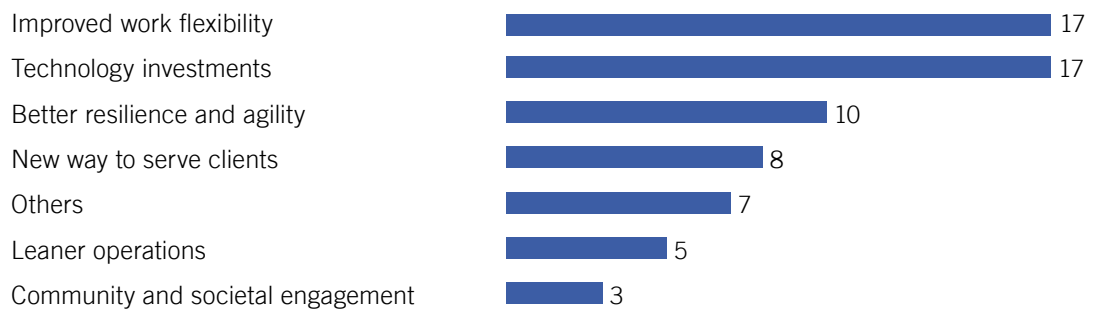
Similarly, along with the hasty transformation to a digital working environment comes an increase in cyber risks. That applies both to the sales side of insurers' distribution as well as to their own systems and to those that have become newly reliant on the online exchange of data and information.

«While we are most concerned about the threat of a second COVID-19 wave and its impact on the economy, there is also a strong demand for a return to some kind of normalcy. The insecurity of what the future holds, and the isolation of people have an indirect impact on their health and thus on consumer spending. Finally, as much as work from home

is a relief to maintain business continuity, we must not forget that we are a transactional industry and that the personal interaction between insurers, intermediaries and customers is important.»

**Gobinath Arvind Athappan, CEO,
The Pacific Insurance Berhad**

Figure 29: What about the current COVID-19 situation: Will it make your company better/stronger in the long run? (by number of mentions)



A majority of Malaysia's insurance executives is convinced to come out strengthened from the crisis. Insurers have provided impressive proof that they can operate under severely constrained conditions of a lockdown. Large parts of staff had to be moved to work-from-home and the experience that seamless services could be provided to clients, filled management with confidence. Going forward, the ability to work-from-home, along with new communication channels that compensate for the lack in physical meetings while travel and conferences had to be stopped, provide opportunities for a more flexible and efficient organization of insurer's operations.

Management expects that they will be able to reduce the office space in the future. If more employees work-from-home at dedicated times, they might have to commute less which could be beneficial for both employees' quality of life as employers. As a relationship-driven industry insurers' expenses are high for travel, conferences and events as the main marketing activities. The experience from the COVID-19 crisis demonstrates that going forward insurers will be able to curb down on some of these costs, although interviewees also fear that the loss in physical contacts will also have its own ramifications.

Insurers are also reassured by the success of their business continuity concepts with regard to maintaining contact with clients and agents. Insurance sales, underwriting and renewals as well as claims payments continued despite the MCO – mainly due to online capabilities but also because insurers set tight targets for their customer service to assure that even in times of reduced physical contact clients felt well served. Simultaneously, the lockdown measure and the sudden decline of their revenues stream forced insurers to trim their operations and improve their flexibility.

Going forward the combination of these measures opens up new opportunities for improved client relationships, a better exchange of documentation as well as new products to generate additional sales. In fact, many insurers confirmed heightened investments in new, online products to compensate for lost sales and to capitalize on the new opportunities generated by advanced technology.

The most important and possibly also lasting improvement due to COVID-19 are the investments of insurers in digital technology which enabled internal operations as well as client communication and continued sales. Insurers accelerated their investments in IT technology, online distribution and client as well as agent platforms that improve their resilience and open up new opportunities for further cost reductions as the digital channels provide additional information and data at reduced cost.

Processes also improved as insurers were forced to review their risk management both with regards to their liabilities, assets and the potential correlation between both. As they tightened the wording of their policies and their exposures, they reduced their risks with regards to pandemics but also concerning large risks which potentially simultaneously affect top line, underwriting results and investment returns. As a result, they also learned to keep an even closer eye on their liquidity and capital adequacy.

«Malaysia's healthcare system was able to handle the COVID-19 in its initial phases. A disciplined population that adhered to the lock-down and social distancing requirements, helped the number of infections to remain low and the designated public hospitals were able to treat patients. If we are to experience a run at the healthcare system, the government might be 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.»

**K. G. Krishnamoorthy Rao, CEO,
MPI Generali Insurans Bhd**

Figure 30: Preparedness of Malaysia's insurance industry for a pandemic like COVID-19 (by number of mentions)



In general, Malaysia's insurers do not think that they have been well prepared for the COVID-19 pandemic as an industry. Although Asia Pacific had seen its share of epidemics in the past 20 years, insurers admitted that they had not imagined economies would come to a halt, as it happened during the MCO in Malaysia and other markets. Most interviewees were often also proud of how quickly they were able to respond not only as an organization, but also as a country, to these extreme circumstances brought on by the pandemic.

Government officials, regulators, insurers, agents and clients seemed to recognize the extreme of the situation and made an effort to collaborate for a larger deed. The industry's associations as well as Bank Negara cooperated closely to ensure the smooth continuation of services to policyholders during the MCO. The introduction of a Risk Based Capital regime as well as the industry's early investments in IT paid off as well. Until the close of the interview sessions, Malaysia had managed to contain the pandemic which can be attributed to the handling of the crisis by the government and its administration as well as to the discipline of the population. Finally, interviewees also took pride in how the country's healthcare system shouldered the crisis as the government dedicated certain hospitals to the treatment of patients infected with the virus.

However, interviewees also pointed out that the resilience of the insurance system has not been tested yet. Claims remained low, which is due to the tight wording of the tariff policies. To a certain degree this is also a reflection of the experience with prior epidemics. Thus, without the know-how gained from Bird flu or SARS the outcome of COVID-19 would be different.

Insurers are also concerned that the main challenge is still ahead as the economic downturn will be the true test for the robustness of the industry. Furthermore, they see a widening gap within the industry. The more advanced players with greater resources seem better equipped to deal with the challenges of the pandemic than the smaller market participants.

Figure 31: Have general insurers done enough to support policyholders in this time of hardship? (by number of mentions)



A slight majority of insurers believes that the industry has done enough to smoothen the impact of the COVID-19 crisis on policyholders. As an essential industry, Malaysia’s insurers continued to provide reliable services to policyholders and the population despite the lockdown. Insurers mention the COVID-19 test fund, launched to encourage more COVID-19 testing. They allowed policyholders to pay their premiums in more instalments than customary. In motor insurance, insurers launched a short period policy option with a six-month duration that could be paid on a pro-rata basis. And they provided rebates, retributing to policyholders some of the gains from an improved loss ratio during the lockdown. In fire insurance they agree to defer the cancellation of the policy if during lockdown a site remained unattended.

In medical insurance, several insurers waived the exclusion for pandemics under their current medical policies and provided cover for COVID-19 tests and treatment. New policies were also launched to cover COVID-19 in response to demand from consumers. In life insurance insurers agreed with Bank Negara to a moratorium of premium payments for 2020 for those policyholders unable to pay their life insurance premiums. In addition, insurers assured that despite the MCO policyholder had online access to many of the services they were used to and provided simplified processes to file claims, waiving the requirement for certain loss documentations.

However, interviewees also remarked that the insurers need to find ways and more capacity to shoulder risks like pandemics, possibly through public-private-partnership such as pool-solutions that tie in the government as the risk carrier of last resort. In addition, they believe the industry should still be more proactive in its online communication with policyholders to improve customer experience.

Figure 32: Was the postponement of Malaysia's de-tariffication well received by insurers?
(by number of mentions)



Most Malaysian insurers agreed to Bank Negara's postponement of the implementation of the third phase of the country's de-tariffication of the motor and fire lines of business to the end of 2021. The regulator had consulted with insurers and then decided to defer the implementation that initially had been planned for the end of June 2020. In the meantime – after our interviews had been conducted – a further evaluation when the liberalization's final phase will go ahead is planned for early 2021.

To the majority of interviewees, the government's decision to postpone the de-tariffication is right. Although today's level of rates is unsustainable, insurers agree that in the current price stability and focus on their service to policyholders is key. After the market had seen slower growth in 2019 and will have to digest a contraction in 2020, Bank Negara's move is seen to be in the best interest of financial stability, consumer protection and financial inclusion.

While the current – second – phase of the de-tariffication is not ideal as it is only a partial liberalization, which only allows limited possibilities to differentiate on service and price, insurers see no need to rush. In fact, some fear that the implementation of the de-tariffication could accelerate the current price competition in Motor and increase loss ratios at a time when insurers should preserve their capital adequacy.

However, a large share of insurers was concerned about the potential downsides of the delay. Firstly, the current process to liberalize rates and tariff is a very phased and controlled. Its deferral further delays strengthening of the market's competitiveness. In fact, insurers worry that subsequent to the COVID-19 pandemic, reinsurance rates will harden, providing less flexibility to insurers, if as a result of the de-tariffication rates for consumers will reduce.

Health insurance in Malaysia

The Malaysian insurers participating in this survey were impressed about the performance of the country's healthcare system during the first phases of the crisis. The government's decision to concentrate patients infected with COVID-19 in selected public hospitals was considered a sound measure. In the initial phase of the pandemic, the system benefited from a preparedness and planning experience based on previous pandemics. Thanks to an increasing COVID-19 testing capacity, the health administration was able to track contacts and thus contain an early outbreak. However, insurers also believe that besides the population's discipline, socio-demographic factors such as an overall younger population have contributed thus far to a lower number of death than those seen in Europe.

According to our interviewees government's provisions assured that Malaysia's healthcare system was able to cope considerably well with the pandemic in the first three quarters of 2020. Although the healthcare system is not yet as advanced of as in some mature markets, due to the separation of patients in dedicated COVID-19 hospitals and an systematic screening of people helped to contain a spread of the pandemic in first and second wave. However, insurers were already concerned that the system might not be able to cope with a stronger surge of infections testing the capacity limits of the healthcare system.

The private healthcare system mainly had the role to support the public system. During the first phase of the pandemic, non-critical and non-COVID-19 patients were transferred from the public to the private hospitals in order to free up capacity. In addition, private hospitals, clinics and labs provided additional capacity to expand the testing. By mid-July Malaysia's testing ratio exceeded the one of South Korea's benchmark testing capability with close to 30 tests per 1'000 inhabitants.

Figure 33: Should Malaysia's healthcare system be strengthened in the future?
(by number of mentions)



Most recommendations for improvements of Malaysia's healthcare system are not directly related to the COVID-19 pandemic. Interviewees point out that one of the success factors in combatting the pandemic by far was the the strong cohesion of the country's society. People remained disciplined and followed the MCO.

Weaknesses were detected in the communication which at times might have provided more clarity. Also, Malaysia's large number of migrant workers posed a challenge as they had not been fully integrated into the screening process and due to their precarious situation sometimes struggled to observe the quarantine orders.

The COVID-19 pandemic nevertheless exacerbated the general challenges that confront Malaysia's healthcare system. Public hospitals are often overburdened – even in normal times – with long waiting lists for patients seeking medical treatment. Although the public system is widely distributed across the country and affordable to the lower income groups, the limited capacity of public hospitals and healthcare facilities will become even more evident when the large backlog in non-critical or elective surgeries that build up during the pandemic has to be resolved.

The private healthcare system has its weaknesses too. Its costs are unaffordable to the lower income segments of Malaysia's population. As a result, private health insurance is out of scope for a large part of the population. One solution that interviewees mentioned would be a compulsory health insurance that would improve accessibility of treatment as well as affordability.

However, the main issue of Malaysia's private healthcare system – unrelated to COVID-19 though – is the galloping medical inflation, rising steadily year-on-year by more than 10%, which places Malaysia well ahead of its neighbors. The increase is mainly driven by the rising costs of treatments for hospitalization, more expensive medical products providing new treatment opportunities to patients as well as rising patient expectations. If the rise is not contained, insurance rates need to be increased, which will reduce even further its affordability. In response, Malaysia's insurers are now seeking solutions, such as improving cost transparency for patients, as well as benchmark prices for drugs, pharmaceutical or standardized costs for interventions.

Figure 34: Should the public healthcare system and the private health insurance complement each other? (by number of mentions)



According to our interviewees, the collaboration between public and private healthcare systems worked well in the first phases of the COVID-19 pandemic. To avoid contagion COVID-19 patients were separated into the designated public hospitals. In return, private hospitals treated those non-critical cases the public hospitals might have taken care of and supported the public sector with its testing facilities as well as with expertise and resources. Once the number of COVID-19 cases exceeds the capacity of the public health system, the private sector might have had to step in and take over excess cases.

Figure 35: Is Malaysia’s healthcare system prepared for a combination of rising unemployment and potentially increased healthcare pressure? (by number of mentions)



Thus far an increase in unemployment is not yet seen as a strain to Malaysia’s healthcare system. As more people lose their job and their private health insurance, they might have to turn to the public health care system, putting more pressure on its already overstretched resources.

However, as a precautionary measure during the MCO, life insurers and family takaful operators allowed such policyholders and takaful participants to defer their regular premium/contribution payments for three months without affecting the policy coverage.

Going forward, Malaysia’s insurers are confident that a spike in the unemployment rate will be short lived. As the economy recovers, employment is expected to quickly rise again. The number of Malaysians seeking treatment in the public healthcare, especially those who lost employment’s medical benefits and income has not yet overburdened the public system.

Figure 36: Should the government strengthen its efforts to increase private health insurance (i.e. for instance for the B40 segment)? (by number of mentions)



Thus far, there has been no imminent need to open up the private healthcare scheme to the B40 (lower 40% of income) segment of the population. Although there have been initiatives of policymakers, the regulator and Malaysia’s insurance industry to provide micro insurance/micro takaful solutions to the B40 segment, the pick-up of such products has been low. In fact, insurers and takaful providers would need to generate sizable volume to compensate for the high set-up costs.

Insurers see a greater likelihood in increasing the private health insurance penetration in targeting the M40 (middle 40% of income) segment, rather than the B40. This part of the population has a higher income and could thus afford a private health insurance, in particular, if more services would be provided in semi-public hospitals. The B40 bracket, by contrast, is seen by many insurers as a population segment that for the near-term future will not be able to afford private health insurance. Although some see the My Salam scheme as a promising initiative of combining public and private efforts to broaden health insurance penetration in the low-income segment, most insurers are still wary if such a scheme will be sustainable in the long run.

Figure 37: Has the strategy of Malaysia’s insurers paid off to support policyholders with voluntarily COVID-19 tests and waiving the exclusion of epidemics in its health insurance? (by number of mentions)



According to our interviewees, the COVID-19 crisis has increased the awareness for the benefits of private health insurance. Consumers now have a better understanding of the risk epidemics and pandemics can have on health and financial well-being.

Specifically, the COVID-19 test fund has been perceived as a positive initiative by insurers. It provided policyholders of medical health insurance with the certainty that should they need testing, the cost would be covered.

However, during the first phases of the COVID-19 pandemic the pick-up rate for the test fund remained at a low 30% of the available capacity. One reason might be that public capacity was sufficiently available. Policyholders also welcomed that during the crisis insurers waived the exclusion of pandemics from their policies and thereby demonstrated their concern for their policyholders’ health and welfare.

However, insurers have not seen any substantial impact of their activities on the purchasing behavior of consumers. Interviewees remarked that they have not experienced rising demand for health products, which according to their assessment is due to the lower purchasing power of consumers as well as the publics’ perception that COVID-19 related expenses will be covered by the government.

Figure 38: Will the COVID-19 crisis contribute to closing the healthcare protection gap in Malaysia? (by number of mentions)



Most executives believe that COVID-19 will have little to no influence on closing the country's healthcare protection gap. To most people in Malaysia, the pandemic is a health and economic crisis. The need to purchase health insurance remains low, as the government was able to contain the crisis. Private health insurance played a minor role as COVID-19 treatments took place in public hospitals.

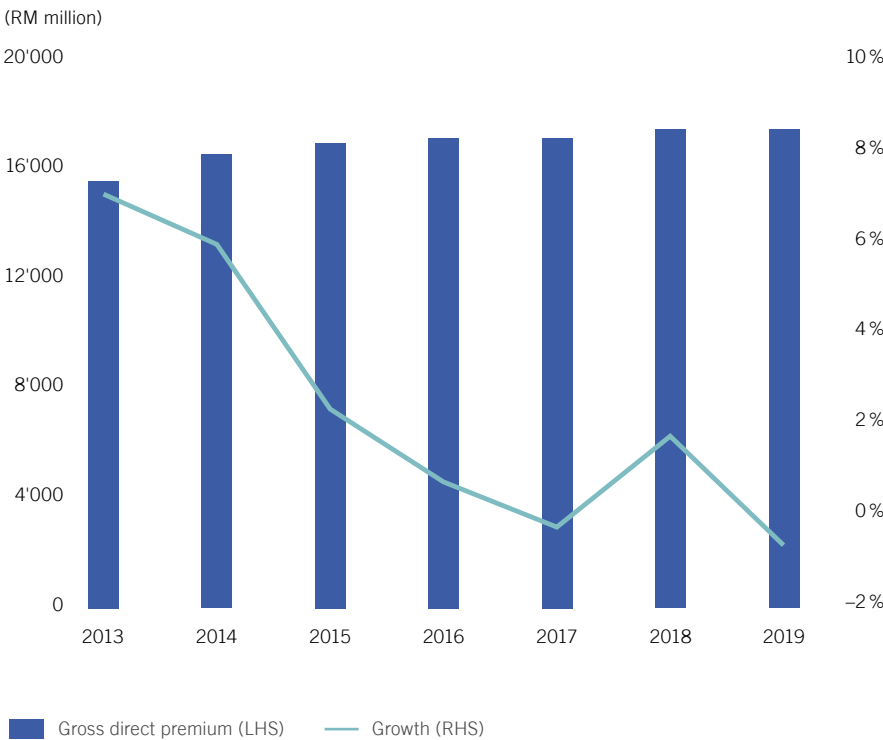
Whilst the crisis may have increased the level of awareness of private health insurance, the affordability of insurance remains the main hurdle for closing the healthcare protection gap in Malaysia. The COVID-19 pandemic might have further sharpened the government's awareness for the gap, but it first needs to find a solution how to fund the healthcare cost of the B40 segment, if the gap is to be narrowed.

Appendix

Review of 2019

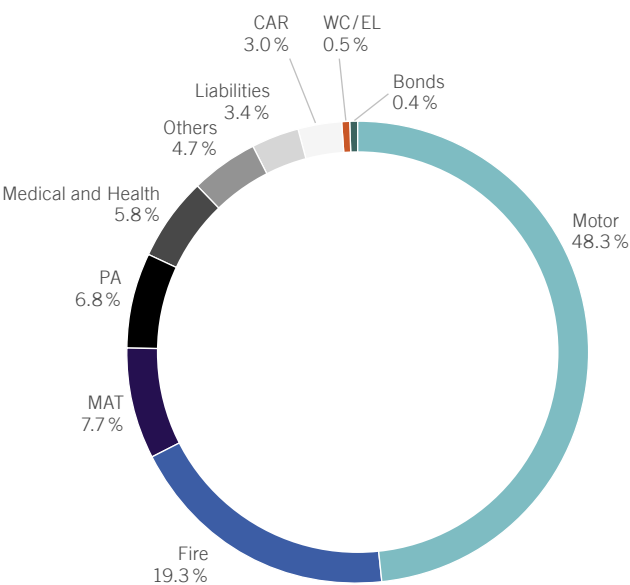
From 2015 to 2019, the Malaysian non-life insurance market grew at a compound annual growth rate (CAGR) of 0.4%. Over this period, the fire line of business recorded the steepest growth with a CAGR of 3.2%, while the specialty lines Marine, Aviation and Transport (MAT) recorded a negative CAGR of -4.7%. With a market share of 47.5%, Motor is by far the most important line of business, followed by Fire (19.9%) and MAT (7.9%).

Figure 39: General insurance: Gross direct premium and growth



Source: Source: ISM, Statistical Yearbook 2019

Figure 40: Malaysian general insurance market 2019;
Total gross written premiums 2019: RM 17'771 billion



CAR = Contractor's All Risks & Engineering
MAT = Marine, Aviation and Transit
WC/EL = Workmen's Compensation & Employers' Liability

Source: ISM, Statistical Yearbook 2019

After a return to a modest growth by 1.8% in 2018 Malaysia's general insurance industry declined again to 0.8% growth in 2019, with total gross written premiums at RM 17.71 billion. Motor remained the largest line of business with a market share of 48% followed by Fire at 19%.

Although new vehicles sales increased in 2019, the motor line of business declined by 0.4% to gross written premiums of RM 8.4 billion, after a growth of 1.9% in 2018. The local automotive industry recorded 604'287 units of total vehicle sales in 2019 compared to 598'598 units in 2018. Ever since 2016 the average premium per policy has declined. At the same time the total costs for vehicles, repairs and spare parts have been on the rise. As a result, Malaysia's motor insurers have registered underwriting losses for the last ten years. The insurers therefore very much welcomed the de-tariffication of the motor line of business as they hoped to be able to charge risk-adequate rates and to incentivize drivers for accident-free records.

In 2019 fire insurance grew by 1.1%, also slightly slower than in 2018, when the line expanded by 3.3%. Nevertheless, Fire maintained its position as the second largest line of business with gross written premiums amounting to RM 3.5 billion. Along with Motor, Fire is currently undergoing the second phase of the de-tariffication. As a result, rates have fallen significantly as insurers have taken full advantage of the option granted by Bank Negara to reduce rates by up to 30%.

In MAT premiums increased by 5.3% with gross written premiums of RM 1.4 billion due to a recovery in the offshore oil sector. The miscellaneous class recorded a drop of 2.9% to gross direct premiums at RM 2.08 billion.

Medical and health insurance experienced the most drastic decline, with premiums falling by 11.4% to RM 1.02 billion. Medical claims have been on the rise due to rising costs of treatments, pharmaceuticals and medical technology, as well as demographic changes and higher demand from patients. Among the ASEAN markets, Malaysia has one of the highest medical inflation rates. For 2019, medical claims are up by 13%. An industry task force has been formed to better understand the causes for the persistent inflation and to develop some responses. The critical issue for insurers and consumers is price transparency so that consumers can make informed choices about the cost of treatment.

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