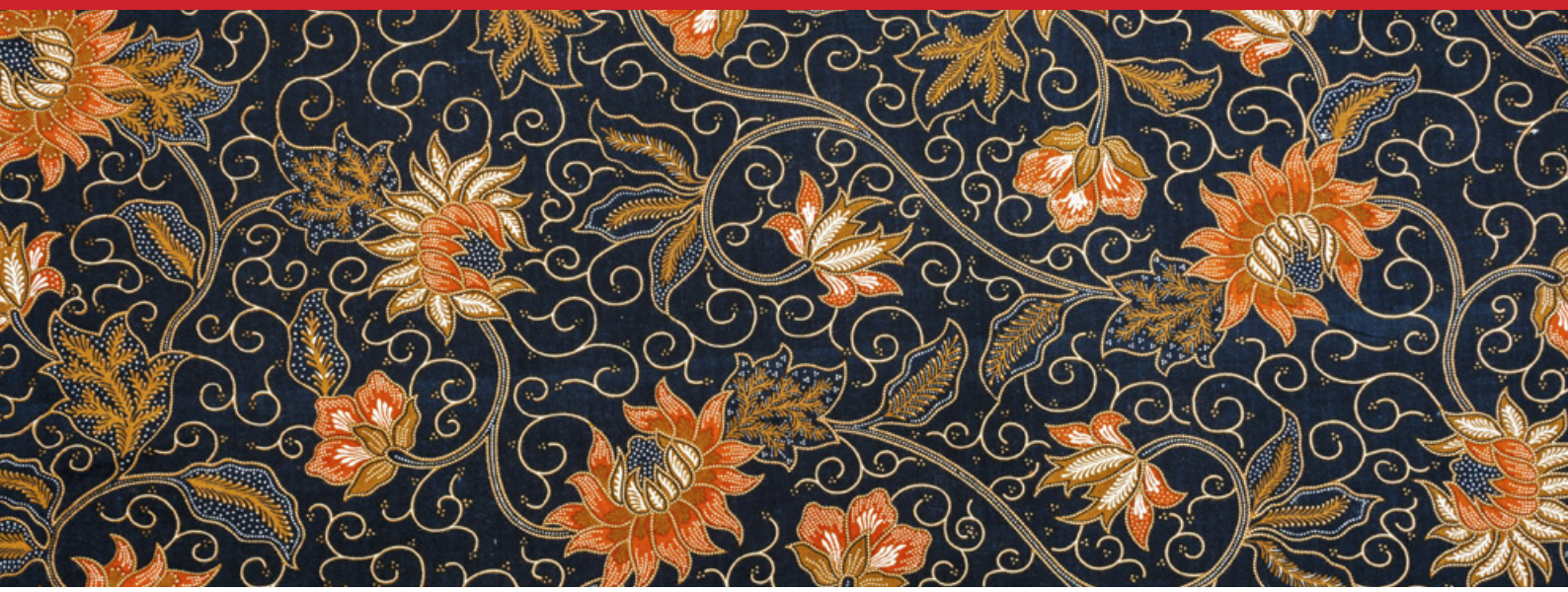

ASEAN Insurance Pulse 2017

An Annual Market Survey

Exclusive Partner

MALAYSIAN RE

Prepared by

Dr. Schanz, Alms & Company

Exclusive Partner

Supporting organisations

ASEAN Insurance Pulse 2017

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Foreword Dr. Schanz, Alms & Company

We are pleased to present the 1st edition of *ASEAN Insurance Pulse*. This initiative pursues a dual objective: First, it is aimed at offering an authoritative overview of the current state and future prospects of the region's 23 US$ billion non-life insurance markets. And second, this publication takes the pulse of some key insurance executives on the proposed ASEAN Economic Community (AEC) initiative and its implications for the region's insurance markets.

Our regular readers and interviewees will notice that with this publication we are expanding the footprint of Pulse (see www.pulse.schanz-alms.com) to Southeast Asia, building on its broad and well-established recognition in Africa and the Middle East.

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

Our first *ASEAN Insurance Pulse* draws on in-depth interviews with senior executives of 35 national, regional and international insurance and reinsurance companies, intermediaries and trade associations operating across the ASEAN region. We believe that the key methodological strengths of the publication lie in its comprehensiveness, diversity and diligence. Our qualitative interview approach enables us to probe deeper, obtaining clarifying responses from the participating executives. In addition, by including both global and regional players, as well as generalists and specialists, we have been able to collate a broad yet nuanced picture of the market place.

We would like to extend our deepest thanks to Malaysian Re for enabling this research project, which is designed to benefit the ASEAN insurance market as a whole.

We hope that you will enjoy reading the 1st edition of *ASEAN Insurance Pulse* and consider its findings useful.

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

Henner Alms
Partner,
Dr. Schanz, Alms & Company

Foreword Malaysian Re

The past decade saw a paradigm shift in the state of the global economy with huge amounts of liquidity flooding the surface. The effect on insurance is directly felt via a glut of capital entering the industry, adding pressure on market participants to consider geographical expansion in search for business opportunities. With an aggregate Gross Domestic Product of about US$ 2.5 trillion and a relatively low insurance penetration rate, the Association of Southeast Asian Nations (ASEAN) offers a significant potential both to the global and regional business community.

The kick-off of the ASEAN Economic Community (AEC) comes at the perfect time and is seen as a boost to the region's economies including its insurance sector. AEC is indeed a huge regional growth project which has to build on the active participation from the corporate sector together with the relevant regulatory bodies in order to capture its full potential. Inspired by this, Malaysian Re has embarked on the 1st *ASEAN Insurance Pulse*. We strongly believe that this interesting publication will serve as a reliable guide to understanding what insurers, reinsurers and intermediaries expect of this integration as well as to identifying impediments facing the ASEAN insurance marketplace.

Malaysian Re's commitment to improving market transparency and intelligence is well reflected by our role as the exclusive partner of the *ASEAN Insurance Pulse 2017.* We are very excited about this maiden publication given the active participation of senior ASEAN-based executives and believe that the Pulse is a unique platform for coalescing executive thoughts in a way that will be impactful in charting the future of the ASEAN insurance market.

Our sincere appreciation goes to Bank Negara Malaysia, the Malaysian General Insurance Association, the ASEAN Insurance Council and all other participating parties for their unwavering support in making the *ASEAN Insurance Pulse* publication a success.

May the Pulse offer you a good reading and we look forward to your feedback.

Zainudin Ishak
President & Chief Executive Officer,
Malaysian Reinsurance Berhad

Methodology

The findings of this report are based on structured interviews with executives representing 35 regional and international (re)insurance companies, intermediaries and trade associations. The interviews were conducted by Dr. Schanz, Alms & Company, a Zurich-based research, communication and business development consultancy, from May to July 2017.

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

ACR, Malaysia
AIG, Malaysia
Berjaya Sompo Insurance, Malaysia
BIDV Insurance Corporation, Vietnam
Cambodia Re, Cambodia
FPG Insurance, Singapore
Hannover Re, Malaysia
Lloyd's (Asia-Pacific), Singapore
Malaysian Re, Malaysia
Military Insurance Company (MIC), Vietnam
MPI Generali, Malaysia
MSIG, Malaysia
Muang Thai Insurance Public Company, Thailand
National Reinsurance Corporation of the Philippines, Philippines
Philippine Insurers and Reinsurers Association (PIRA), Philippines
PNB General Insurers Co, Philippines
Progressive Insurance, Malaysia
PT Asuransi Multi Artha Guna Tbk, Indonesia
PT Asuransi Sinar Mas, Indonesia
PT Radita Hutama Internusa, Indonesia
PT Tugu Pratama, Indonesia
PVI Holdings, Vietnam
QBE, Malaysia
Singapore Re, Singapore
Sompo Insurance, Thailand
South East Insurance, Thailand
Swiss Re, Malaysia
Takaful Brunei, Brunei
Thai General Insurance Association, Thailand
Thai Reinsurance Public Company, Thailand
Tokio Marine, Malaysia
UCPB General Insurance Co., Philippines
Vietnam National Reinsurance Corporation (VINARE), Vietnam
Viriyah Insurance Company, Thailand
Willis Re, Malaysia

Summary of key findings

AEC and insurance

1. 49 % of executives polled believe that AEC will be a positive development for their respective companies in the next five years. Most executives expect AEC to grow the available insurance pie in their markets by promoting competition, innovation and governance. The most immediate benefit is expected to arise from the cross-border provision of motor, health, marine, aviation and transport (MAT) and engineering insurance.
2. 63 % of participating executives anticipate AEC to benefit their domestic insurance markets at large. Innovation, improved customer awareness and satisfaction are set to present opportunities to all market participants. However, the impact is expected to be evolutionary, not revolutionary.
3. 51 % of executive interviewees believe that non-life insurance penetration (premiums as a share of GDP) will increase as a result of AEC. This effect is particularly likely in lower-income countries.
4. 57 % believe that AEC is a major opportunity for global multinational insurers in particular, based on their superior experience with cross-border expansion, in-depth expertise, strong balance sheets and well-known brands.
5. Almost all (94 %) executive interviewees consider regulatory differences a major obstacle to AEC insurance integration. The most frequently mentioned specific items include varying minimum capital and solvency regimes, significant differences in reinsurance regulation, divergent insurance and tax laws as well as inconsistent approaches to product filings and policy wordings.
6. 86 % of interviewees consider a common regulatory framework across ASEAN as very useful. Improved governance was most frequently mentioned as a key attraction, followed by the prospect of greater consistency of regulatory, legal and taxation frameworks as well as the opportunity to conduct business abroad in a cost-efficient (cross-border) way.
7. 69 % of executives believe that, medium-term, AEC will result in higher solvency capital requirements in their respective home markets. One key driver is the expected convergence of solvency regimes towards Risk-Based Capital (RBC) models.
8. 74 % of polled executives do not consider AEC a threat to their respective insurance business over the next five years, even though 95 % expect that the liberalisation measures envisaged will increase the degree of competition in the region's insurance markets. This is generally viewed as positive as long as effective regulatory oversight counterbalances increasing competition.
9. 83 % of survey participants miss a clear direction for the AEC insurance integration initiative, in particular a reasonably meaningful timetable or industry-specific blueprint which would support strategic decision-making at company level.

Summary of key findings

ASEAN non-life insurance market status and outlook

1. 69 % of executives expect ASEAN non-life premiums to grow in line or faster than the Gross Domestic Product (GDP) over the next 12 months. Only 43 % think that premiums will outgrow the economy at large, reflecting relatively sluggish growth in Malaysia and Thailand. For countries such as Indonesia, the Philippines and Vietnam premium growth is expected to continue outperforming.

2. The ASEAN region's strong premium growth momentum is perceived to be the most relevant non-life insurance market strength. The second most frequently mentioned strength are the region's favourable demographics, followed by the quality of existing insurance regulations in certain markets.

3. The ratio of non-life premiums to GDP remains low in the ASEAN region, at about one third of the global average. For most executives, the resultant catch-up potential is the most attractive medium-term opportunity offered by the regional market place, followed by a rapidly growing middle class with beneficial effects on personal lines business as well as AEC-facilitated cross-border expansion opportunities.

4. Two thirds of the polled executives state that current rates in commercial lines are below the three-year average. This is a reflection of the global soft market cycle and the abundant supply of reinsurance capacity, exacerbated by country-specific factors such as the de-tariffication of large property business or a slowdown in construction activity. The assessment for personal lines is more favourable, with only 54 % considering the current level of rates to be below the three-year average. Personal lines business is generally characterised by a smaller number of players, higher barriers to entry, greater customer loyalty and more scope for non-price competition.

5. The pricing outlook for the next 12 months is negative, especially for commercial lines business (with 69 % expecting lower rates). Competitive pressures continue unabated while the supporting role of tariffs will further reduce. In respect of personal lines business some interviewees point to the feasibility of innovation-based rate increases in personal lines. Yet, 57 % expect a continued deterioration of rates over the next 12 months.

6. 51 % of surveyed executives believe that technical profitability in commercial lines is below the three-year average. Relatively low loss ratios, supported by advances in risk management and low levels of litigiousness, continue to mitigate some of the pressure from eroding rates and rising acquisition expenses. 54 % of executives think that technical profitability in personal lines is below the three-year average. Even though pricing pressure is less acute than in commercial lines business, claims inflation is taking a heavy toll on lines such as motor and medical business.

7. 69 % and 43 %, respectively, of executives think that technical profitability in commercial and personal lines will remain on a downward trajectory over the next 12 months as the effects from further eroding prices are expected to prevail despite stable and still favourable claims patterns. The outlook for personal lines, however, is more sanguine, as a result of tightening underwriting and cost discipline, a strong inherent premium growth momentum and more scope for profitability-driven risk-based pricing.

8. 69 % of interviewees do not expect the market to consolidate in the next 12 months. However, in the medium-term, it should become more difficult for domestic insurers to raise the additional capital potentially needed to meet new risk-based capital requirements.

Key Pulse readings

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

Table 1: Key readings on ASEAN Economic Community (AEC) implications for insurance (share of respondents agreeing, summer 2017)

Regulatory differences are an obstacle to AEC integration	**94 %**
A common AEC regulatory framework would be beneficial	**86 %**
Capital requirements will increase as a result of AEC	**69 %**
A clear direction of AEC insurance integration is missing	**83 %**
AEC is positive for my business in the next five years	**49 %**
AEC is positive for the (domestic) insurance market as a whole	**63 %**
Global insurers will benefit most from AEC	**57 %**
Domestic insurance penetration will increase as a result of AEC	**51 %**
AEC is no threat to my business in the next five years	**74 %**
AEC will increase the level of competition in the (domestic) insurance market	**95 %**

Key Pulse readings

Table 2: Key readings on the state and prospects of the ASEAN non-life insurance markets (share of respondents agreeing, summer 2017)

Insurance premiums to grow faster than GDP*	**43 %**
Insurance prices are currently low**	
— Personal lines	**54 %**
— Commercial lines	**66 %**
Insurance prices to further decrease*	
— Personal lines	**57 %**
— Commercial lines	**69 %**
Insurance profitability is currently low**	
— Personal lines	**54 %**
— Commercial lines	**51 %**
Insurance profitability to further decrease*	
— Personal lines	**43 %**
— Commercial lines	**69 %**
Insurance markets to consolidate*	**31 %**
Foreign (non-ASEAN) market share to increase*	**34 %**

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

Market overview

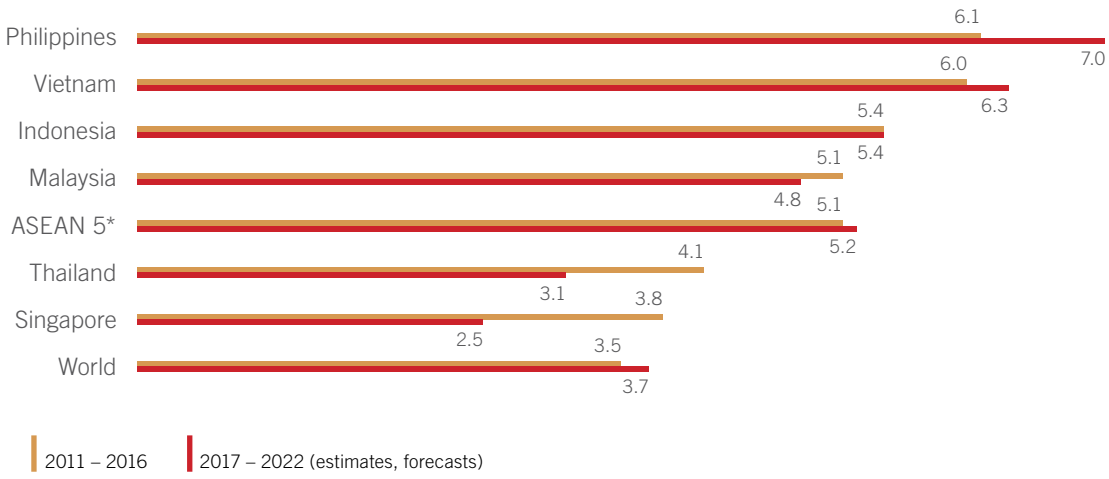
ASEAN GDP growth well in excess of global average

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

In 2016, these 10 countries, with a total population of about 640 million, generated a combined GDP of around US$ 2.5 trillion, which is equivalent to 3.4 % of the world's total. As an economic block, the region would rank as the world's sixth-largest economy, slightly smaller than the UK.

At an inflation-adjusted growth rate of 5.1 % per annum between 2011 and 2016, the ASEAN 5 countries' (Indonesia, Malaysia, the Philippines, Thailand and Vietnam, as per the International Monetary Fund's definition) economies grew 1.6 percentage points faster than the global economy. Going forward, this growth differential is projected to persist (see chart 1).

Chart 1: Real GDP growth (2011 – 2022f; annual averages, in %)



Source: IMF, World Economic Outlook (April 2017), *ASEAN 5 as per the IMF's classification

Resilience of ASEAN GDP growth amid increasing global policy uncertainty

The fundamental economic prospects of the ASEAN region are adversely affected by significant global policy uncertainty. The rising threat of protectionist trade policies in the US weighs on the region's export outlook in particular as some ASEAN countries run large bilateral trade surpluses with the US. In addition, tightening global financial conditions, initiated by the US Federal Reserve Board have curtailed the room for accommodating monetary policies, with fiscal measures likely to be insufficient to fill any gap. Furthermore, monetary tightening conjures up the risk of capital outflows and heightened financial market volatility.

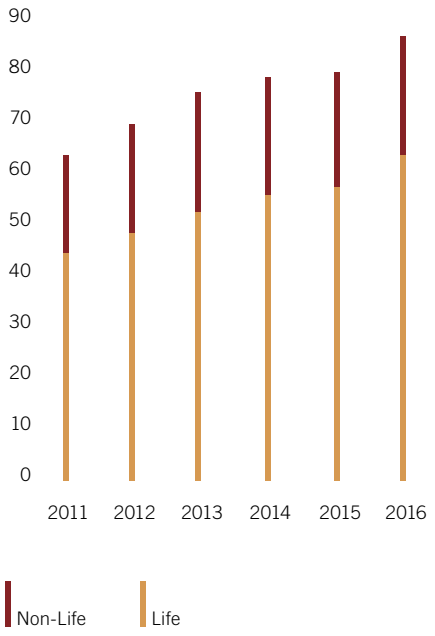
On the positive side, despite the Damocles sword of protectionism, there are signs of a recovery in global trade (after some years of anaemic growth) and commodity prices. In addition, growth in China and Japan is expected to remain stable, contributing to the ASEAN region's expected GDP growth. Last but not least, the resilience of growth is underpinned by stronger domestic demand and, in the Philippines in particular, by higher public spending.

ASEAN insurance penetration on the rise

According to chart 2, at a share of 73 % of total premiums, life insurance business plays a particularly important role in the ASEAN region, in comparison with its global share of 55 %. Having said this, the region's life insurance penetration (premiums as a share of GDP) still falls short of the global average (2.4 % versus 3.5 %).

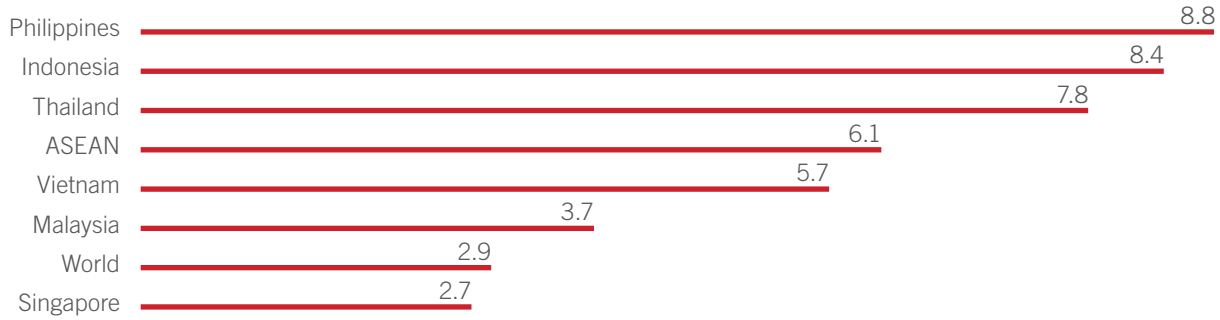
The gap is far wider though in non-life insurance which is the focus of this publication. In 2016, non-life insurance premiums accounted for just 1.0 % of GDP, about a third of the global average (2.8 %). This gap is narrowing, however, as, from 2011 to 2016, ASEAN non-life insurance markets outpaced regional GDP growth (6.1 % versus 5.1 % p.a.). ASEAN life insurance markets expanded by 9.2 % p.a. over the same period of time, significantly faster than the region's economy as a whole.

Chart 2: ASEAN insurance premiums by type (2011 – 2016, non-life versus life, in US$ billion)



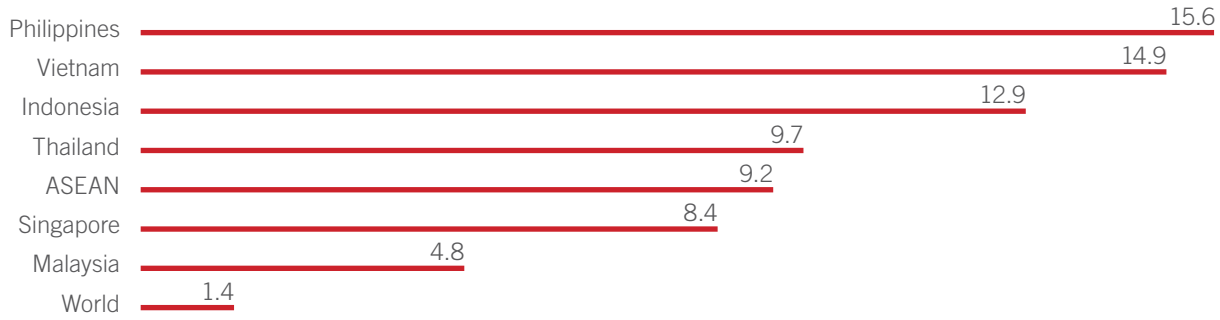
Source: Swiss Re Institute, various sigma editions

Chart 3: Non-life real premium growth (2011 – 2016, annual averages, in %)



Source: Swiss Re Institute, various sigma editions

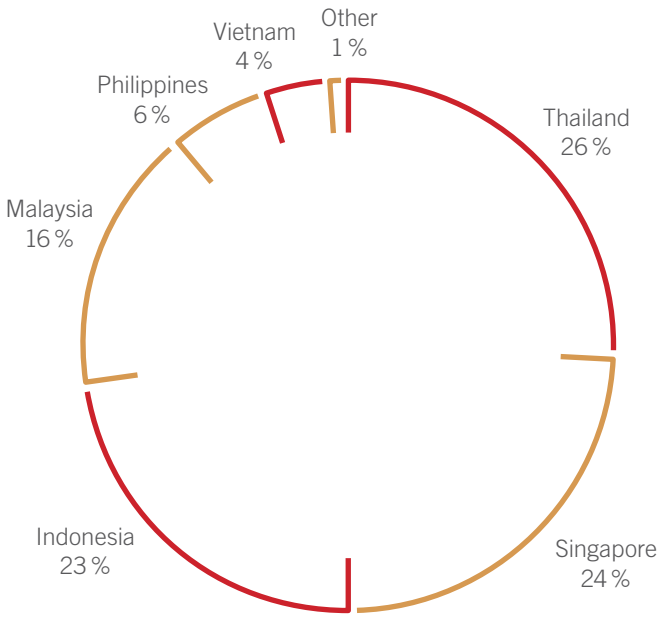
Chart 4: Life real premium growth (2011 – 2016, annual averages in %)



Source: Swiss Re Institute, various sigma editions

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

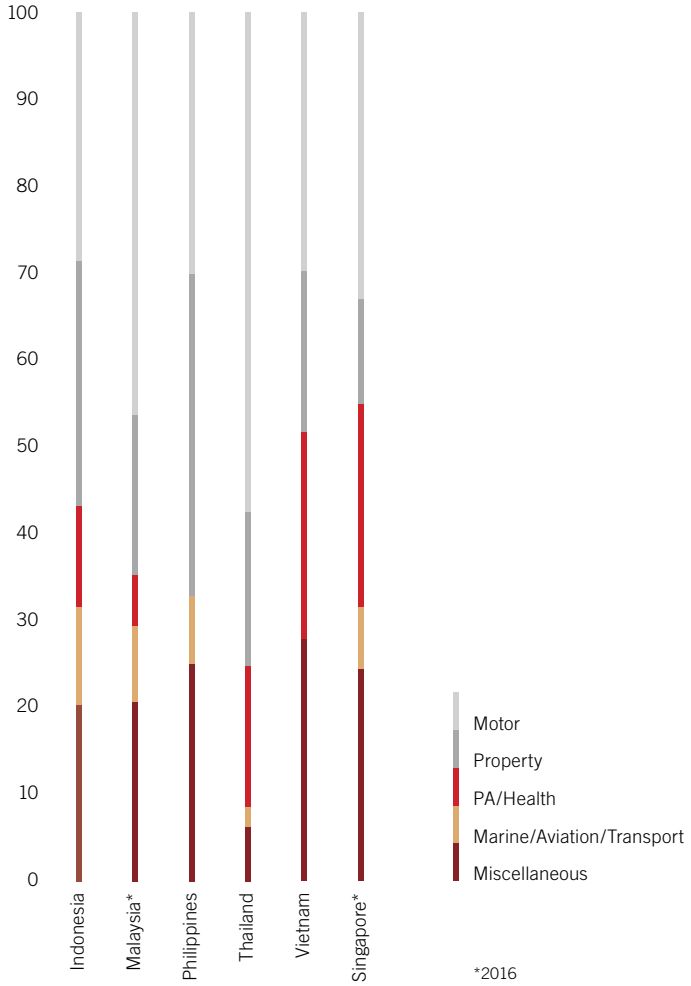
Chart 5: Geographical split of total insurance premiums of ASEAN countries in 2016, share in %



Source: Swiss Re Institute, sigma no. 3/2017

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

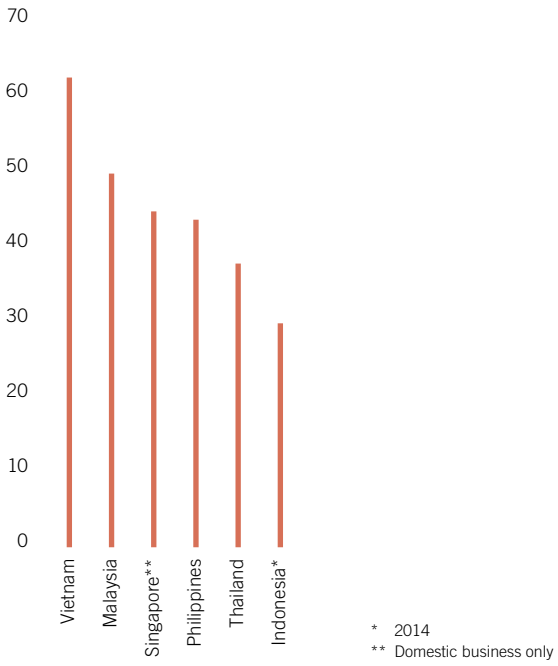
Chart 6: Non-life lines of business split, 2015, 2016, in %



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

Chart 7 illustrates the supply side structure of the region's insurance markets, demonstrating the significant intra-regional differences in market structure, ranging from highly concentrated markets such as Vietnam to relatively fragmented environments such as Indonesia. Reasons for the former include powerful national champions with a strong record of market leadership, whereas the latter are characterised by relatively low barriers to entry and, to some extent, family ownership structures that inhibit consolidation.

Chart 7: Non-life insurance market share of Top 5 insurers, 2014, 2015, in %



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

Overview of the ASEAN Economic Community (AEC) project

The ASEAN Economic Community (AEC) was formally launched on 31 December 2015 as a major milestone in regional economic integration with the aim to ultimately create a single market with minimal economic barriers in order to facilitate the movement of goods, services (including insurance), investment, capital and skilled labour.

The five key elements of Blueprint 2025

At the 27th ASEAN Summit in Kuala Lumpur, the ASEAN Leaders adopted the AEC Blueprint 2025 which provides a broad strategic direction for the AEC from 2016 to 2025. It succeeded the AEC Blueprint 2015, which was agreed upon in 2007. More than 80 % of more than 600 specific AEC liberalisation measures have been implemented by now – a huge achievement for all countries involved and a promising basis from which to embark on the AEC Blueprint 2025.

AEC Blueprint 2025 consists of five interrelated elements: First, a highly integrated and cohesive economy which is set to facilitate the seamless movement of goods, services, investment, capital, and skilled labour within ASEAN. Second, a competitive, innovative, and dynamic ASEAN with a focus on elements that enhance the region's competitiveness and productivity by creating a level playing field for all firms through effective competition policy, fostering the creation and protection of knowledge, deepening the region's participation in global value chains and strengthening relevant regulatory frameworks and overall regulatory practice and coherence at the regional level. Third, enhanced connectivity and sectoral cooperation through the involvement of various sectors, namely, transport, telecommunication and energy. Fourth, a resilient, inclusive, people-oriented ASEAN based on an enhanced «Equitable Economic Development» strategy. Fifth, a global ASEAN based on a more coherent and strategic approach towards external economic relations with a view to adopt a common position in regional and global economic fora.

To operationalise the Blueprint's implementation, strategic measures under each of the five elements will be developed and implemented through various sectoral bodies in ASEAN.

Overview of the AEC project

Chart 8: The AEC Blueprint 2025 at a glance

A highly integrated and cohesive economy	A competitive, innovative, and dynamic ASEAN	Enhanced connectivity and sectoral cooperation	A resilient, inclusive and people-oriented, people-centered ASEAN	A global ASEAN
— Trade in Goods	— Effective Competition Policy	— Transport	— Strengthening the Role of MSMEs	— More strategic and coherent approach towards external economic relations
— Trade in Services	— Consumer Protection	— Information and Communications Technology	— Strengthening the Role of the Private Sector	— Review and improve ASEAN FTAs and CEPs
— Investment Environment	— Strengthening Intellectual Property Rights Cooperation	— E-commerce	— Public-Private-Partnership	— Enhance economic partnerships with non- FTA Dialogue Partners by upgrading and strengthening trade and investment work programs/plans
— Financial Integration, Financial Inclusion, and Financial Stability	— Productivity-Driven Growth, Innovation, Research and Development, and Technology Commercialisation	— Energy	— Narrowing the Development Gap	— Continue strongly supporting the multilateral trading system and actively participating in regional fora
— Facilitating Movement of Skilled Labor and Business Visitors	— Taxation Cooperation	— Food, Agriculture, and Forestry	— Contribution of Stakeholders on Regional Integration Efforts	— Continue to promote engagement with global and regional institutions
— Enhancing Participation in Global Value Chains	— Good Governance	— Tourism		
	— Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practice	— Healthcare		
	— Sustainable Economic Development	— Minerals		
	— Global Megatrends and Emerging Trade-related Issues	— Science and Technology		

Source: http://www.asean.org/asean-economic-community/

Four modes of insurance services provision to be liberalised at different paces

The insurance industry will face many opportunities and challenges as AEC progresses. The Blueprint 2015 (adopted in 2007 as an initial milestone of the AEC project) defined the «free flow of services» as one of the five agreed core focus areas in the implementation of the single market (alongside goods, investment, capital and skilled labour). According to the Blueprint 2015, there would be virtually no restrictions to ASEAN suppliers in providing services cross-border and establishing companies across national borders, however, subject to domestic regulations. As a result, the pace of liberalisation varies by sector: Following the Blueprint, the immediate focus was on the five priority sectors air transport, e-commerce and infrastructure, healthcare, logistics and tourism. In these sectors, the restrictions on all four modes of services delivery were supposed to be abolished and foreign equity participation limits raised to 70 % by 2015.

The liberalisation of insurance services covers four «modes» of supply: (1) the delivery of services in cross-border trade, e.g. an insurer based in Singapore writing policies for policyholders based in Indonesia; (2) «consumption abroad», e.g. a Malaysian policyholder travelling to Singapore to buy a local policy; (3) «commercial presence», e.g. an insurer based in Thailand writing policies in Vietnam through a local branch or subsidiary; and (4) «presence of natural persons», e.g. a Singapore-based insurer managing a claim through an employee working in the Philippines.

The member states have agreed that there should be no restrictions to delivery modes 1 and 2, except for bona fide regulatory reasons only, e.g. public safety. Especially liberalisation in cross-border trade of insurance services is still incomplete. One of the biggest remaining obstacles is the absence of a uniform regulatory framework so that insurers engaging in cross-border supplies will be subject to market conduct, consumer protection, data privacy, cyber security, and tax laws applicable to the local jurisdiction. On the other hand, «consumption abroad» is already generally allowed. For mode no. 3, i.e. «commercial presence», foreign (ASEAN) equity participation of not less than 70 % should be allowed for the services sectors. Except for Myanmar and Thailand, all ASEAN insurance markets are already in compliance. In practice, local regulators' unwillingness to issue new licenses is the more relevant obstacle to establishing «green-field» operations. Finally, the implementation of the last mode, «presence of natural persons», still has to commence in earnest and faces significant obstacles such as major differences in insurance qualification standards, not to mention local languages.

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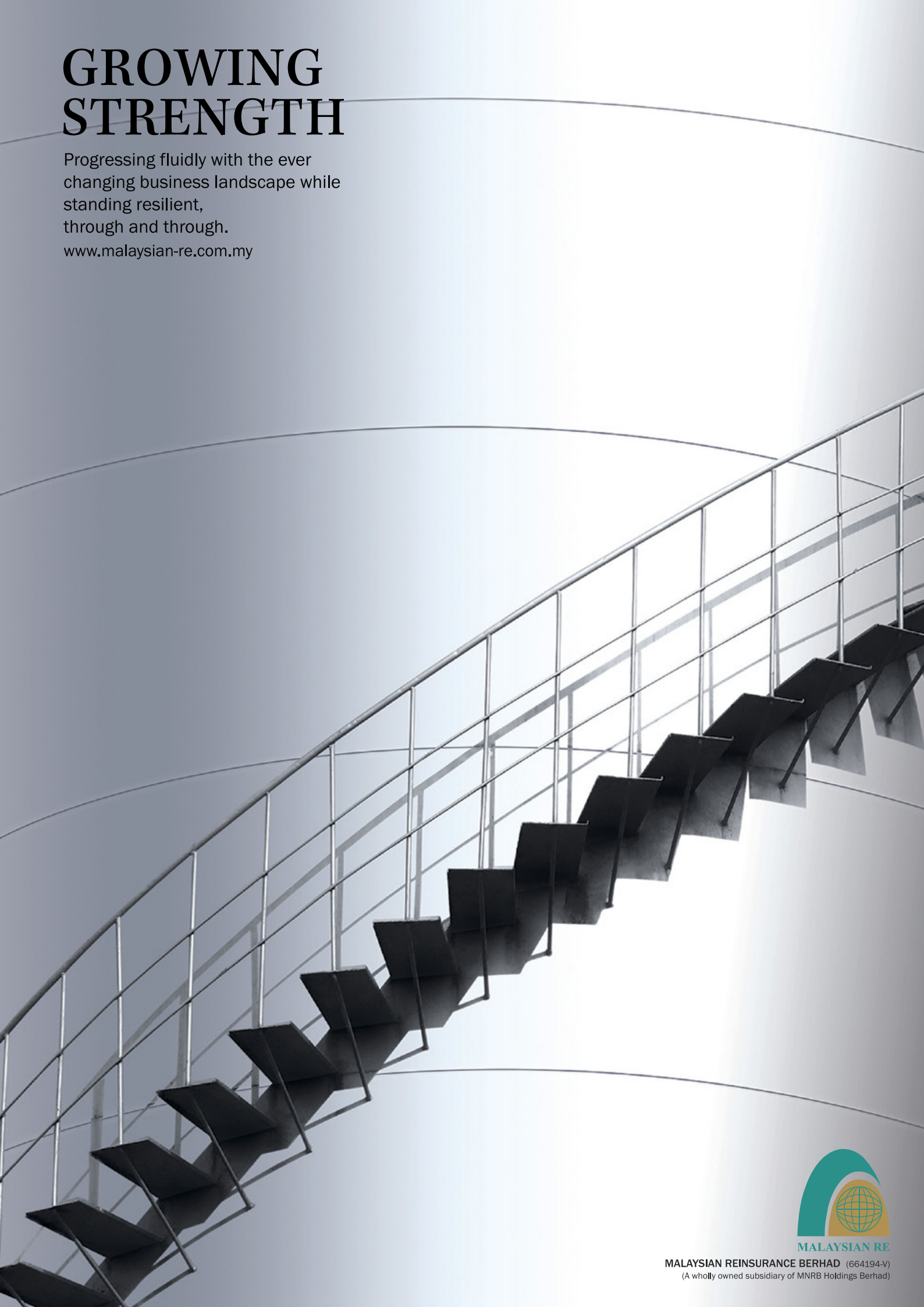

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Insurance liberalisation: Towards the 2020 deadline

It is uncertain when these agreed changes will be implemented, but 2020 has been set as a milestone for the ASEAN insurance industry. There is no specific timetable yet. In addition, ASEAN leaders have agreed that any liberalisation in financial services will be subject to national policy considerations in light of the different stages of economic and financial sector development across the region. As far as insurance is concerned, ensuring customer protection is one of the key priorities of national policymakers and regulators.

Of the four different modes of services delivery, cross-border trade is set to be liberalised first. It usually covers relatively simple and commoditised insurance products such as motor or term life insurance. The member states have repeatedly reaffirmed their commitment to open marine, aviation and transit (MAT) insurance, reinsurance and retrocession, as well as catastrophe insurance markets first.

A more fundamental challenge to AEC integration is the lack of a supranational body with the power to enforce agreed liberalisation measures. Reconciling divergent national interests and dealing with protectionist sentiments will be difficult and is set to make the AEC integration process a slow one. This is particularly likely in the field of insurance with many sensitive items, from customer protection to capital flows.

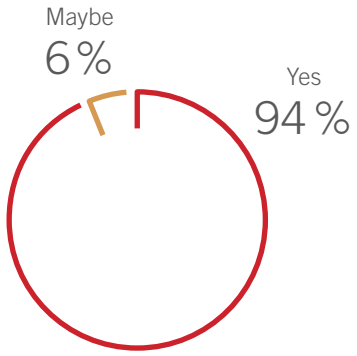
Survey results

AEC and insurance

Regulatory differences as a key obstacle to integration

Almost all (94 %) executive interviewees consider regulatory differences a major obstacle to AEC insurance integration. The most frequently mentioned specific items include, first, varying minimum capital and solvency regimes (from static solvency margins to most sophisticated risk-based and economic solvency regimes) and, second, significant differences in reinsurance regulation (from a perfectly liberal cross-border trading approach to mandatory cessions to domestic reinsurers). Some executives also mention divergent insurance and tax laws as well as inconsistent approaches to product filings and policy wordings as relevant impediments to the integration of ASEAN insurance markets (see chart 9).

Chart 9: Are regulatory differences a major obstacle to AEC insurance integration?



«Given the economic and social disparity of the ASEAN region, the AEC integration and liberalisation initiative is naturally a highly ambitious and complex one. Having said this, relevant authorities should increase the speed of implementation, embarking on ‹low hanging fruit› first. It is important to demonstrate that the AEC process has commenced in earnest. Once the benefits of liberalisation become more visible, it will give impetus to further steps – similar to how full European integration was achieved over a period of about five decades.»

Zainudin Ishak, President & Chief Executive Officer, Malaysian Reinsurance Berhad

«AEC is an exciting initiative which holds the promise of capturing the full insurance potential offered by the dynamic Southeast Asian region. Liberalising cross-border insurance as well as the establishment of branches and subsidiaries in a phased and controlled way will go a long way in growing the region's insurance pie to the benefit of all carriers, with policyholders set to be the biggest winners. However, it is important that policymakers keep the momentum created by the AEC Blueprints and, as a first step, diligently implement the previously agreed initial liberalisation measures for the region's insurance markets.»

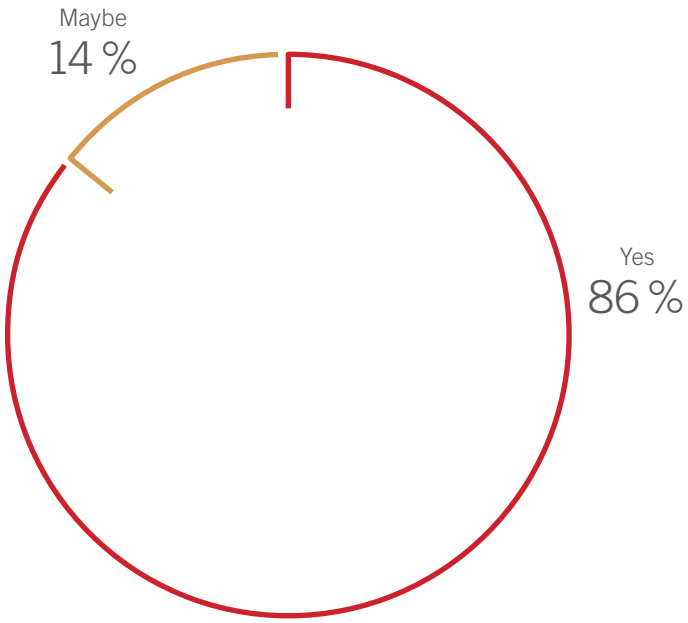
Faris Davidson, Managing Director, Willis Re

A common regulatory framework viewed as hugely beneficial

86 % of interviewees consider a common regulatory framework across ASEAN as very useful, with most preferring a regime of mutual recognition over a fully harmonised approach which seems to be unrealistic given the heterogeneity of the region's economies and insurance markets. In this context, a number of executives advocate a dedicated ASEAN insurance regulator, similar to Europe's EIOPA (European Insurance and Occupational Pensions Authority).

In addition, various interviewees suggest that Singapore, Malaysia and, possibly, Thailand should take the lead in mutual recognition or harmonisation of their relatively comparable regulatory frameworks. In terms of Risk-Based Capital (RBC), for example, these countries' approaches are quite similar, with many executives expecting other countries to follow suit, not least because of the increasing clout of (foreign) rating agencies (see chart 10).

Chart 10: Is there any benefit in common insurance regulation across ASEAN?



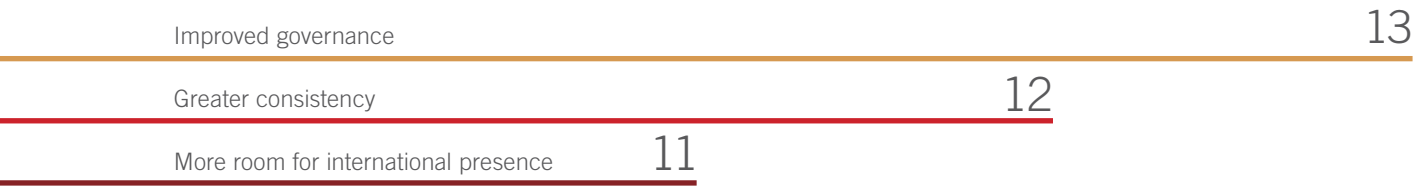
Improved governance seen as the main benefit of a common framework

Improved governance was most frequently mentioned as the key attraction of a common regulatory framework. This reflects the expectation that less advanced countries will adopt regulatory best practices from the more advanced jurisdictions while the latter resist any pressure to harmonise at lower levels of regulatory excellence.

Of almost similar importance is the prospect of greater consistency of regulatory, legal and taxation frameworks which should translate into lower cost of regulatory compliance associated with cross-border business expansion. In addition, improved consistency would enable a level playing field across the region and do away with unfair barriers to competition, to the ultimate benefit of the customer.

Last but not least, regulatory harmonisation / mutual recognition would be a boon to doing business abroad in a cost-efficient way, e.g. through the cross-border provision of motor insurance without the need to set up local branches or subsidiaries (see chart 11).

Chart 11: What is the main benefit from a common regulatory framework (number of mentions)?



Note: Includes multiple references

«AEC is a major opportunity for Vietnamese insurers. It will facilitate the cross-border expansion of business into markets such as Myanmar and Cambodia, for example in engineering and motor insurance. More generally speaking, AEC will contribute to a further strengthening of our domestic regulatory regime.»

Nguyen Thu Hang, Deputy Chief Executive Officer, Military Insurance Corporation

«In the ASEAN region, the potential for innovation in product development and distribution is largely untapped. A more consistent regulatory approach across the region, driven by AEC, could go a long way in helping insurers and policyholders capture this potential. Specific examples of supporting regulatory initiatives include accelerated product filing procedures, the mutual recognition of policy wordings and regulatory think tanks which enable digital innovation.»

Stephen Blasina, Regional Managing Director, FPG Management Services Pte Ltd

Disparity in market maturity seen as the most relevant obstacle to common insurance regulation

The huge differences in economic and insurance market maturity and development are believed to be the most relevant obstacle to a common AEC insurance regulation. Many interviewees point to the fact that the ASEAN region is a cross-section of the global economy, with advanced (Singapore and Malaysia), emerging (Brunei, Indonesia, Philippines, Thailand, Vietnam) and frontier markets (Cambodia, Laos and Myanmar).

The second most frequently mentioned obstacle are regulatory discrepancies which, of course, also reflect different stages of economic and insurance market development. For example, the spectrum of existing regulatory (solvency) regimes ranges from simple minimum capital requirements to sophisticated Solvency II style frameworks. Against this backdrop, mutual recognition, let alone harmonisation, will be a difficult endeavour.

Political differences and resistance rank last among the top 3 obstacles. Some executives bemoan a lack of political will to wholeheartedly support the AEC liberalisation agenda or even growing tendencies towards (renewed) protectionism, for example in reinsurance market access regimes and foreign equity participation caps (see chart 12).

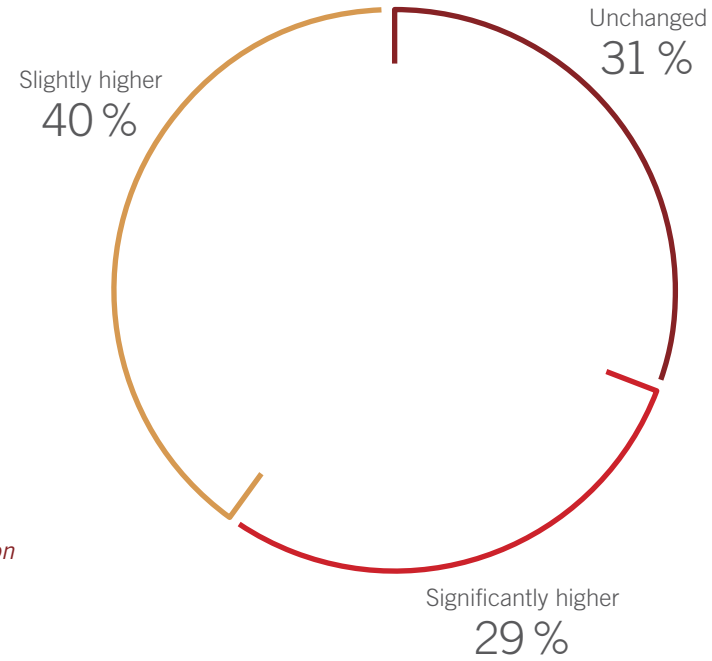
Chart 12: What is the most significant obstacle to common insurance regulation (number of mentions)?

Note: Includes multiple references

AEC expected to translate into higher capital requirements

69 % of interviewees believe that, medium-term, AEC will result in higher capital requirements in their respective home markets. One key driver is the expected convergence of solvency regimes towards RBC models. As Singapore and Malaysia are already very advanced in this respect, most respondents from these jurisdictions do not expect any impact on their companies' solvency requirements. Besides regulatory pressure, business considerations could also necessitate additional capital, e.g. the cross-border supply of natural catastrophe cover into Indonesia. As far as minimum capital requirements are concerned, some executives point to comparatively high current thresholds in the Philippines, Thailand and Vietnam, for example, and express their hope that these might come down as part of the AEC initiative (see chart 13).

Chart 13: How will AEC affect capital requirements in your market?



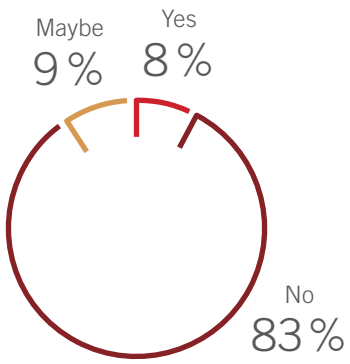
«We don't expect that an AEC integration will have an additional effect on the capital requirements for the Philippine insurers. Our regulator is already in the process to significantly enhance the net worth requirements for our industry over the course of the next five years. This will have a strong effect on some of our players which might struggle to meet the heightened requirements.»

Francisco P. Ramos, President, PNB General Insurers Co., Inc.

Executives miss a clear direction of AEC integration

83 % of survey participants do not see a clear direction of the AEC insurance integration initiative. What is particularly missed is a reasonably meaningful timetable or industry-specific blueprint which would support strategic decision-making at a company level. Even though most executives acknowledge that there is a laudable aspiration to make AEC happen in insurance, they do not see much of a political direction and execution, suggesting that the insurance sector is not on top of governments' AEC agenda (see chart 14).

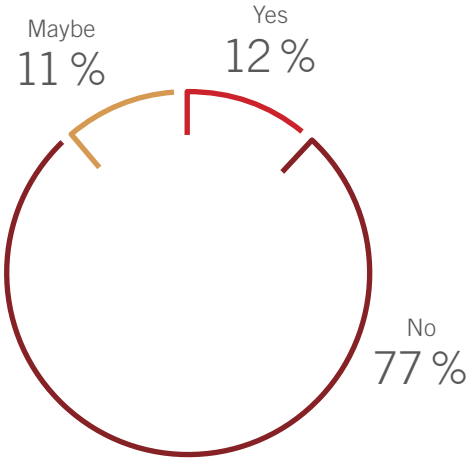
Chart 14: Do you see a clear AEC insurance integration direction?



Executives see huge room for improvement in AEC communication

At least 77 % of polled executives would like to see an improved communication on the impact of AEC on their domestic insurance markets. However, they acknowledge that this is extremely difficult given the vagueness of the insurance-specific liberalisation agenda (see chart 15).

Chart 15: Is there an adequate communication on the impact of AEC on your domestic insurance market?

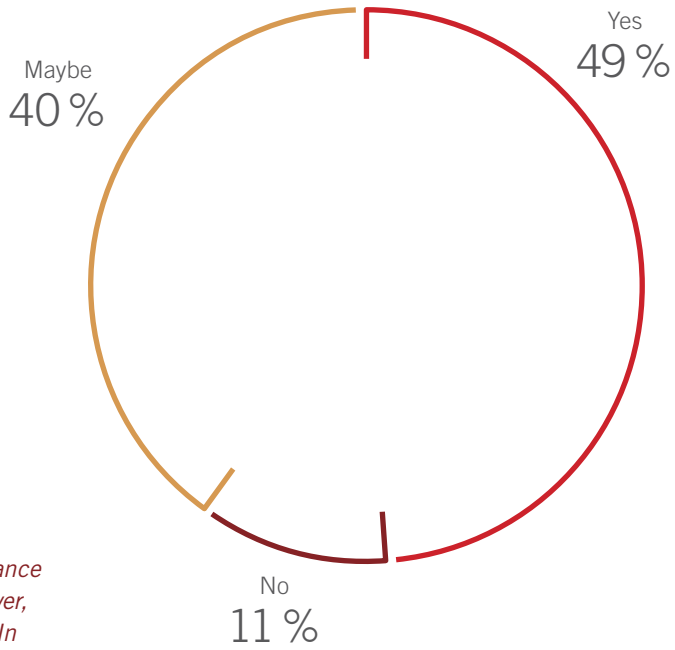


AEC viewed as an opportunity at company level

49 % of executives believe that AEC will be a positive development for their respective companies in the next five years. Another 39 % do not rule this possibility out but caution that five years is a short time frame given the uncertainties about the specific implementation timetable.

Most executives expect AEC to grow the available insurance pie in their markets by promoting competition, innovation and governance. The most immediate benefit is believed to arise from the cross-border provision of motor, health, MAT and engineering insurance, facilitated by modern technology such as online sales. Some executives say that, medium-term, they will follow their clients from sectors which rank higher on the AEC liberalisation agenda (air transport, e-commerce and infrastructure, healthcare, logistics and tourism) and seamlessly insure their interests abroad (see chart 16).

Chart 16: Is AEC a positive development for your business in the next five years?



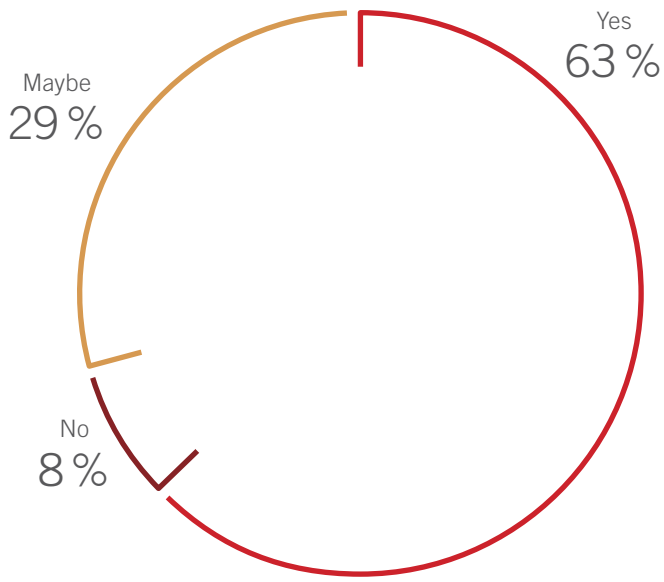
«AEC is an exciting opportunity for the region's insurance industry. It has the potential to significantly improve the availability and cost-efficiency of insurance cover across the ASEAN markets. However, much will depend on implementation. In order to maximise the benefits for policy-holders insurers need a consistent and practicable framework that is adequately enforced by local governments.»

A K Wong, Senior Executive Vice President, ACR Capital Holdings Pte. Ltd.

AEC expected to be beneficial to the insurance industry as a whole

63 % of the polled ASEAN executives expect AEC to benefit their domestic insurance markets at large. Innovation, improved customer awareness and satisfaction are set to present opportunities to all market participants, also in neglected niche areas (see chart 17).

Chart 17: Is AEC beneficial to your domestic insurance market as a whole?



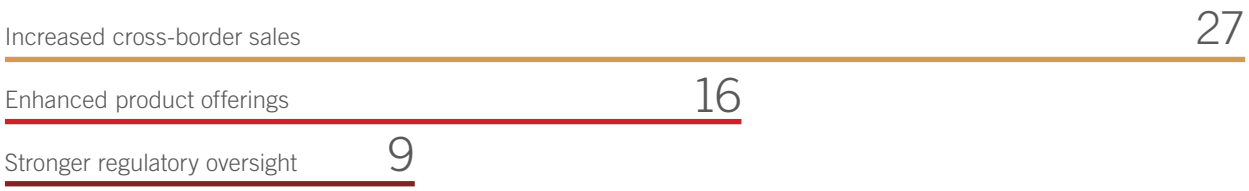
«AEC is an excellent opportunity for the ASEAN insurance community to join forces and lay the foundation for its future collective growth, benefiting all players in all countries. In the past, the region's market development was held back by a lack of coordinated efforts and collaboration. This weakness can now be addressed through AEC which, therefore, is a golden opportunity.»

Guntur Tampubolon, Managing Director, PT. Radita Hutama Internusa

Increased cross-border sales as the single most important benefit

The majority of the interviewees consider the potential of increased cross-border sales as the biggest opportunity for their respective insurance markets, especially in motor, health and transportation business. Other expected benefits include enhanced product offerings (also as a result of a bigger potential for economies of scale in developing and distributing insurance products and, potentially, faster product filing procedures and the mutual recognition of policy wordings) and improved regulatory regimes which are set to promote insurance in the less advanced markets in particular (see chart 18).

Chart 18: What is the single biggest benefit for your insurance market (number of mentions)?



Note: Includes multiple references

Singapore anticipated to reap most benefits from AEC

Singapore as the ASEAN region's most advanced (insurance) market is expected to benefit most from AEC. In particular, most executives believe that the Lion State will further consolidate its position as a regional (re)insurance hub, especially on the back of the liberalisation of the cross-border provision of insurance which means that a physical presence in a new market would no longer be a pre-requisite. Insurers will likely choose a regional hub location, and in most cases that will be Singapore given its stature as an international financial centre with free flow of capital, financial expertise and infrastructure.

Malaysia is generally considered the ASEAN region's second most sophisticated and open place for doing (insurance) business and, therefore, expected to reap benefits, too.

Indonesia is believed to profit as a result of its sheer size and potential which are bound to attract insurance services and capital once market access has been liberalised. In addition, the country is set to benefit from a «de-risking» of its national balance sheet as natural catastrophe risk can be spread more widely across the ASEAN region.

Some executives stated that, longer-term, all countries are set to benefit from an easier access to innovation and expertise (see chart 19).

Chart 19: Which country is expected to benefit most from AEC (number of mentions)?

Note: Includes multiple references

«All markets will benefit from the AEC initiative, however in the short-term, the more mature ASEAN insurance markets are likely set to profit most, given many of their carriers' experience with cross-border business and forms of establishment abroad. In the medium- to longer-term, however, all ASEAN insurance markets are expected to reap the benefits of easier access to expertise, innovation and competitive quality insurance products. These benefits could ultimately translate into higher insurance penetration levels across the region.»

Kent Chaplin, Chief Executive Officer, Lloyd's Asia-Pacific

«Given the economic and cultural diversities of the ASEAN region, the AEC project seems a highly ambitious one. It took many decades to build today's European Union, starting from a much more homogenous base. One may therefore contend that ASEAN is not yet ready for the proposed deep and broad liberalisation and integration measures. Moving too fast may only result in the more advanced markets reaping all the benefits, whilst the less advanced jurisdictions simply lose out.»

Arun Nanwani, Head of Commercial, PT Asuransi Multi Artha Guna Tbk.

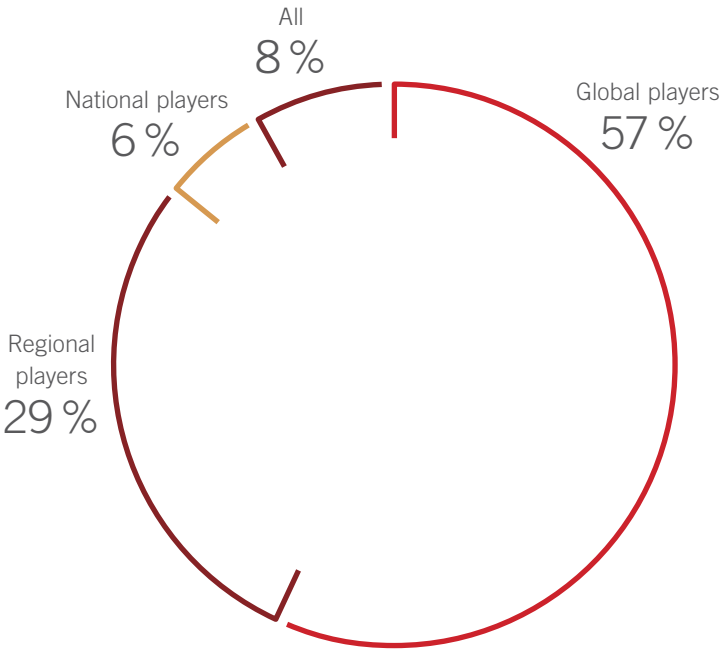
Global multinational insurers considered the main beneficiaries

57 % of participating executives believe that AEC is a major opportunity for global multinational insurers in particular. These companies can bring to bear their superior experience with cross-border expansion, in-depth expertise, strong balance sheets and well-known brands in a bigger, more integrated market place and are best positioned to capture economies of scale and scope, especially in commercial lines of insurance.

Those who mention regional ASEAN-domiciled carriers as the biggest expected beneficiaries point to the potential for deeper and broader risk sharing partnerships across ASEAN as well as greater proximity and affinity to clients, with the most promising prospects in personal lines of business.

Purely national players are expected to have to fight hardest in order to generate opportunities from cross-border business in the AEC. However, attractive opportunities are believed to be found in niche areas that require a superior cultural proximity to clients (see chart 20).

Chart 20: Which non-life insurance market segment will benefit most?



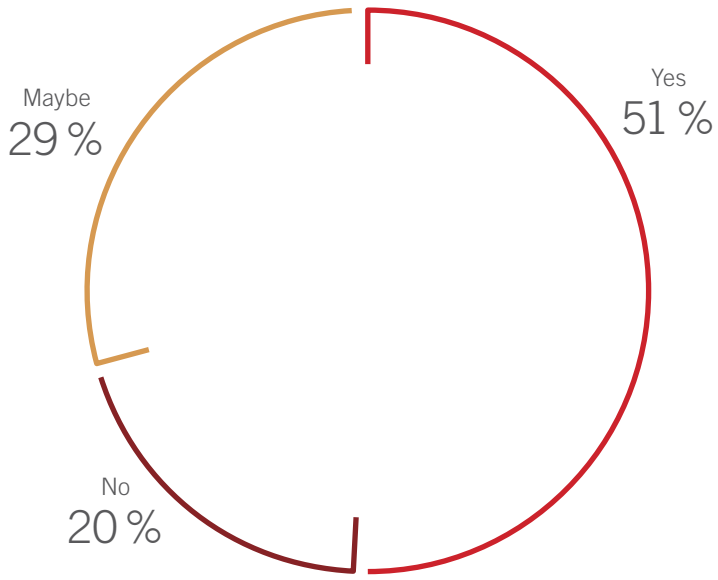
«AEC is a unique opportunity for Vietnam's insurance markets. I believe that companies from other ASEAN markets are welcomed to our market, they can contribute greatly to raising our professionalism and profitability. Ultimately, both domestic and non-domestic insurers will benefit from the higher premium growth trajectory enabled by AEC.»

Vu Van Thang, Deputy Chief Executive Officer, PVI Holdings

Non-life insurance penetration to be positively affected by AEC

51 % of executive interviewees believe that non-life insurance penetration (premiums as a share of GDP) will increase as a result of AEC. This effect is particularly likely in lower income countries which are expected to benefit disproportionately from more (product and distribution) innovation, higher awareness of insurance and the AEC's positive impact on economic growth and regional trade (see chart 21).

Chart 21: Will non-life insurance penetration in your market increase as a result of AEC?



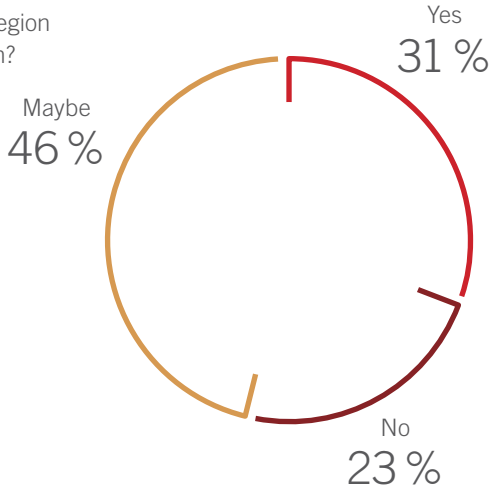
«Local governments should capture the AEC insurance liberalisation opportunity to review their approach to insurance as a potential contributor to mitigating the impact of natural disasters on public budgets. Insurers have the expertise and the capital strength to assume a much bigger share of catastrophe risk currently retained by the public sector (and ultimately tax payers). Innovative public-private partnerships with regional characteristics could lead the way here.»

Augusto Hidalgo, Chief Executive Officer, National Reinsurance Corporation of the Philippines

AEC could boost regional risk and premium retention

77 % of interviewees believe that the AEC project could result in a higher degree of regional risk and premium retention. As regional carriers bolster their capital strength and risk diversification they are set to improve their net retention capability. In addition, a closer collaboration between regional insurers and reinsurers should promote intra-Asian risk sharing and spreading capabilities. Having said this, most executives emphasise that AEC will not materially affect the strong reliance of domestic insurers on global reinsurance capacity (see chart 22).

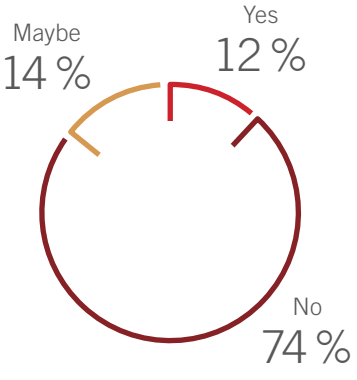
Chart 22: Can AEC help the ASEAN region to increase risk and premium retention?



AEC not perceived as a threat

74 % of polled executives do not consider AEC a threat to their respective insurance business over the next five years. Even though competition is widely expected to further intensify (see chart 24) it is already believed to be at very high levels. The general sentiment is that the upside outweighs the downside by far (see chart 23).

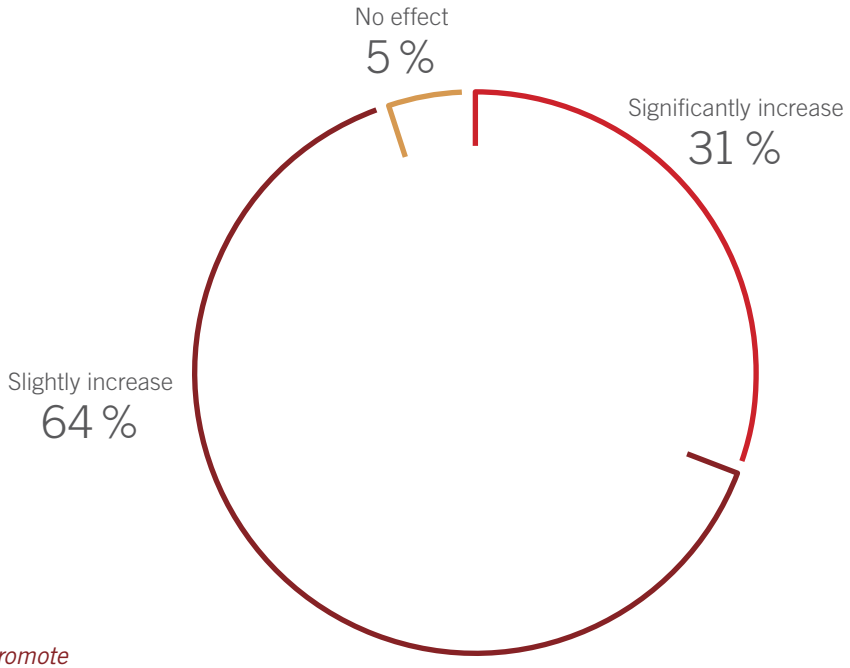
Chart 23: Is AEC a threat to your business in the next five years?



AEC anticipated to add to competitive pressure

The majority of regional executives interviewed expect that the liberalisation measures envisaged under AEC will slightly increase the degree of competition in the region's insurance markets. This is generally viewed as a good thing as long as effective regulatory oversight counterbalances potential competitive excesses.

Chart 24: How will AEC affect competition in your market?



«The AEC project is set to promote innovation and service levels in the region's insurance markets, benefiting customers through a wider choice of more attractive and tailored products. Even though the proposed liberalisation measures will put additional competitive pressure on insurance companies, overall market growth should ensure sustainability and that there are more winners.»

Tran Trung Tinh, Chief Underwriting Officer, BIDV Insurance Corporation

Cost of AEC implementation as the biggest concern

The cost of implementing AEC is the interviewees' biggest concern. It relates to both the cost incurred by governments and by corporate players which have to prepare for AEC integration and the associated legal, regulatory and operational changes.

The prospect of weaker market participants being left behind is the second most frequently mentioned concern. Some interviewees feel that AEC gives a potentially unfair advantage to bigger insurers who are in a better position to reap economies of scale.

The prospect of lower profits as a result of fiercer competition features as equally likely.

Chart 25: What is your biggest concern over the implementation of AEC in your market (number of mentions)?

Note: Includes multiple references

Vietnam, Indonesia and Thailand believed to be the top insurance FDI beneficiaries

Vietnam was mentioned most frequently as the likeliest destination of foreign direct investment (FDI) from insurance companies in other ASEAN countries. The country's insurance market is viewed as the one in ASEAN with the biggest growth potential, followed by Indonesia, the most populous ASEAN country and an equally underpenetrated insurance market. Thailand is believed to benefit from its potential hub function for the CMLV countries (Cambodia, Myanmar, Laos, and Vietnam) [see chart 26].

Chart 26: Top future insurance FDI beneficiaries in the AEC (number of mentions)

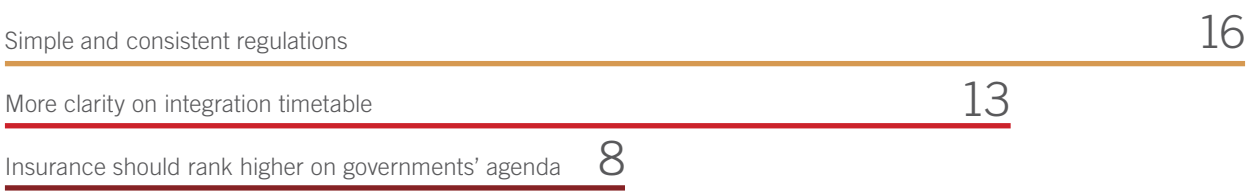
Note: Includes multiple references

A consistent and simple regulatory framework ranks highest on AEC «wish list»

Most executives mentioned simple, fair, consistent and yet strong regulations as their single biggest «wish» for the proposed AEC insurance liberalisation process. They feel that both a level playing field and regulatory measures against competitive excesses are needed to make AEC a success in insurance.

The second most frequently expressed wish was for more clarity on the proposed liberalisation steps and the respective timetable (see also chart 14), followed by the wish that insurance should rank higher on ASEAN governments' agenda (as mentioned before, the sector was not among the priority areas earmarked for early liberalisation) [see chart 27].

Chart 27: What would be on your personal AEC «wish list» (number of mentions)

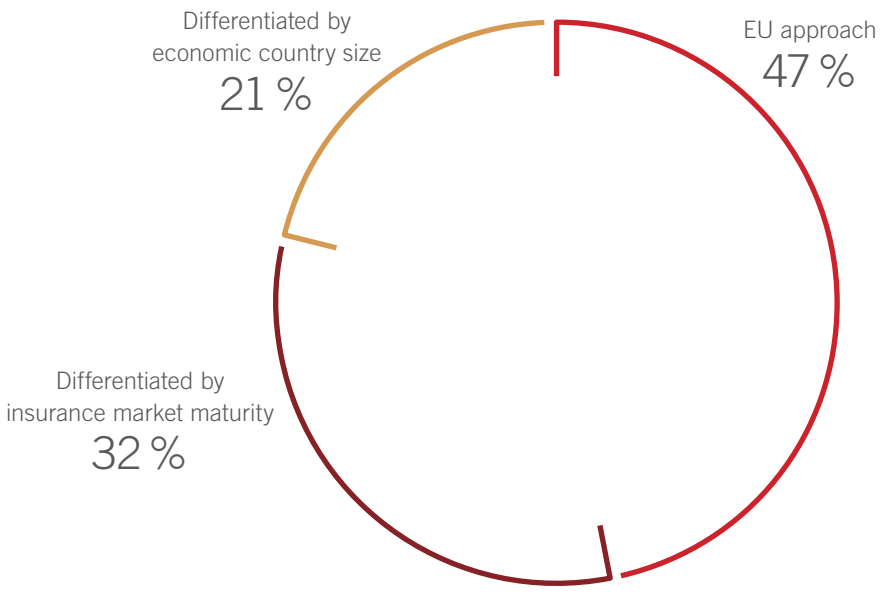


Note: Includes multiple references

European Union-style approach to AEC implementation favoured

Almost 50 % of executives favour an AEC implementation approach modelled on the European Union example, i.e. a simultaneous approach encompassing all ASEAN member countries. Even though they acknowledge the ambitious nature of this endeavour, many executives feel that any alternative would be too costly and complex, in addition to delaying the entire process of integration (see chart 28).

Chart 28: What is the best approach to AEC implementation?



«Given the complexity of the AEC project and the different levels of maturity across the ASEAN countries a staggered approach to implementation seems to be most promising. The more developed and homogeneous countries would be in a position to move faster whereas the less mature economies would enjoy longer periods of transition in order to ensure an orderly implementation of the liberalisation measures agreed under the AEC umbrella.»

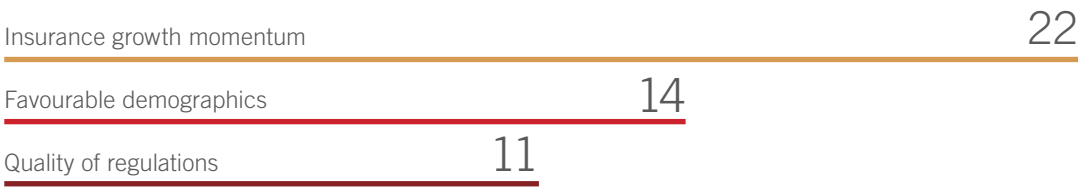
Chua Seck Guan, Chief Executive Officer, MSIG Insurance (Malaysia) Bhd

ASEAN non-life insurance market status and outlook

Strong premium growth momentum as the most important market strength

The ASEAN region's strong premium growth momentum is perceived to be the most relevant non-life insurance market strength. The second most frequently mentioned strength are the region's favourable demographics, i.e. a very young population compared with mature markets in Europe, East Asia and Northern America. Despite massive differences among the ASEAN countries even regulators overseeing less mature markets are credited with their desire to adopt improved standards and to close the gap with the region's leading insurance jurisdictions Singapore and Malaysia. Overall, the quality of existing regulations ranks third among the key market strengths (see chart 29).

Chart 29: Top 3 strengths of ASEAN non-life insurance markets (number of mentions)



Low insurance awareness considered the main weakness

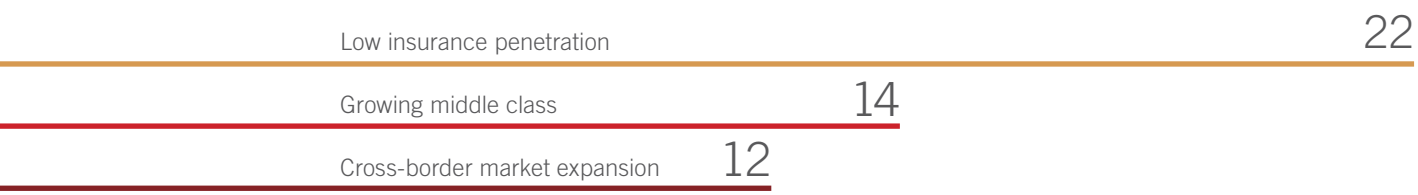
Most executives consider low levels of insurance awareness as the key weakness of their insurance markets. Except for Singapore all ASEAN countries have large rural populations where the role and potential value of insurance are still widely ignored. Non-technical or even irrational competition ranks second. Most regional insurance markets are overcrowded and additional players keep entering the market, primarily through mergers and acquisitions in order to benefit from its massive growth potential and the promise of regional market integration and liberalisation. The third most frequently mentioned weakness is the lack of talent and the difficulty in recruiting technically qualified staff such as actuaries. This weakness is of particular relevance to lower-income countries which suffer from a significant «brain drain» to places such as Singapore or Hong Kong (see chart 30).

Chart 30: Top 3 weaknesses of ASEAN non-life insurance markets (number of mentions)

Low penetration identified as key medium-term opportunity

The ratio of non-life premiums to GDP remains low in the ASEAN region, at about one third of the global average. For most executives, the resultant catch-up potential is the most attractive medium-term opportunity offered by the regional market place, followed by a rapidly growing middle class with beneficial effects on personal accident, motor, household, health and travel insurance, for example. The potential of cross-border business expansion, facilitated by AEC, ranks third, for the same reasons as given in the previous section of this report (see chart 31).

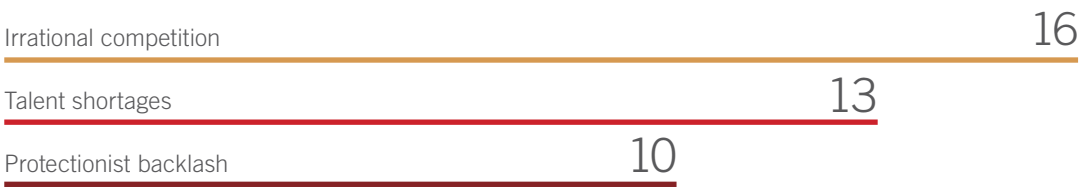
Chart 31: Top 3 opportunities of ASEAN non-life insurance markets (number of mentions)



«Irrational» competition considered the most relevant threat

Most executives view uncontrolled and irresponsible competition as the biggest threat to the non-life market's medium-term health and sustainability. Many believe that regulators should pay more attention to overall market stability, in addition to their core mission of protecting the customer. Talent shortages rank second and could develop into a severe constraint on the market's future development and expansion. Again, government action is considered essential to address this challenge. Finally, some executives are concerned that the ASEAN region might face the prospect of a protectionist backlash and the revival of nationalistic sentiment should the AEC initiative not progress according to plan (see chart 32).

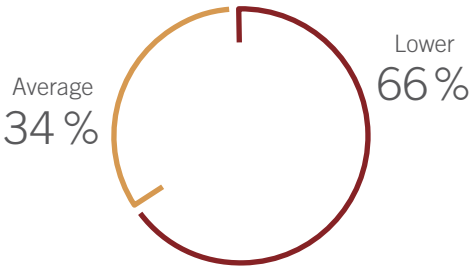
Chart 32: Top 3 threats of ASEAN non-life insurance markets (number of mentions)



Current price levels in both commercial and personal lines below the three-year average

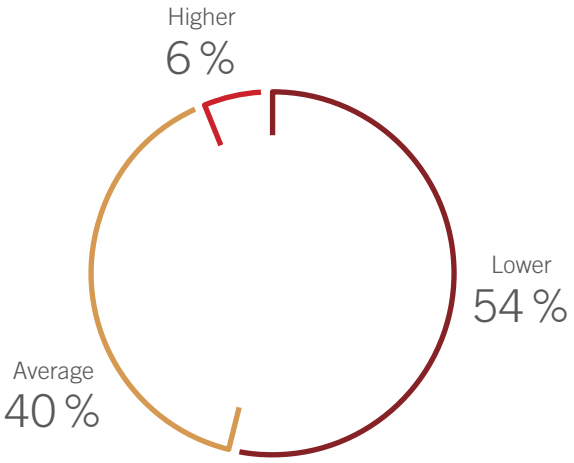
Two thirds of the polled executives state that current rates in commercial lines are below the three-year average. This is a reflection of the global soft market cycle and the abundant supply of reinsurance capacity, exacerbated by country-specific factors such as the de-tariffication of large property business or a slowdown in construction activity (chart 33).

Chart 33: Current level of rates as compared with the average of the past three years – Commercial lines



The assessment for personal lines is more favourable, with only 54 % considering the current level of rates to be below the three-year average. From a fundamental point of view, personal lines business is generally characterised by a smaller number of players, higher barriers to entry, greater customer loyalty and more scope for non-price competition, e.g. product innovation. Personal lines business also tends to be structurally more adequately priced as it is retained by insurance companies to a bigger extent than commercial lines business (chart 34).

Chart 34: Current level of rates as compared with the average of the past three years – Personal lines



Bearish pricing outlook in both commercial and personal lines

The pricing outlook for the next 12 months is negative, especially for commercial lines business. Most executives expect further rate decreases in virtually all business segments. Competitive pressures continue unabated while the supporting role of tariffs will further reduce, especially in Malaysia. Some executives, however, see light at the end of the tunnel and believe that the current squeeze on margins will put a floor under further rate reductions. In addition, some interviewees point to the feasibility of innovation-based rate increases in personal lines segments such as Personal Accident (see charts 35 and 36).

Chart 35: Pricing outlook for the next 12 months – Commercial lines

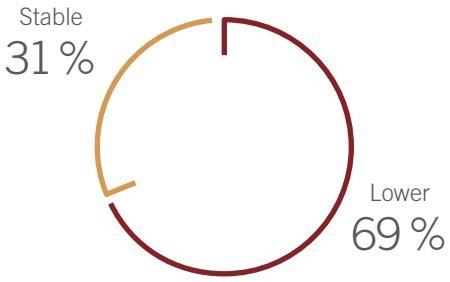
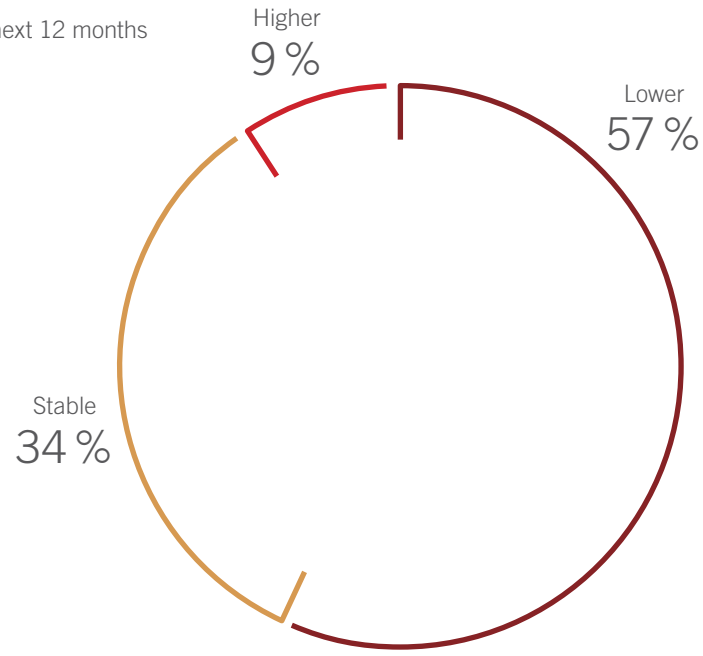


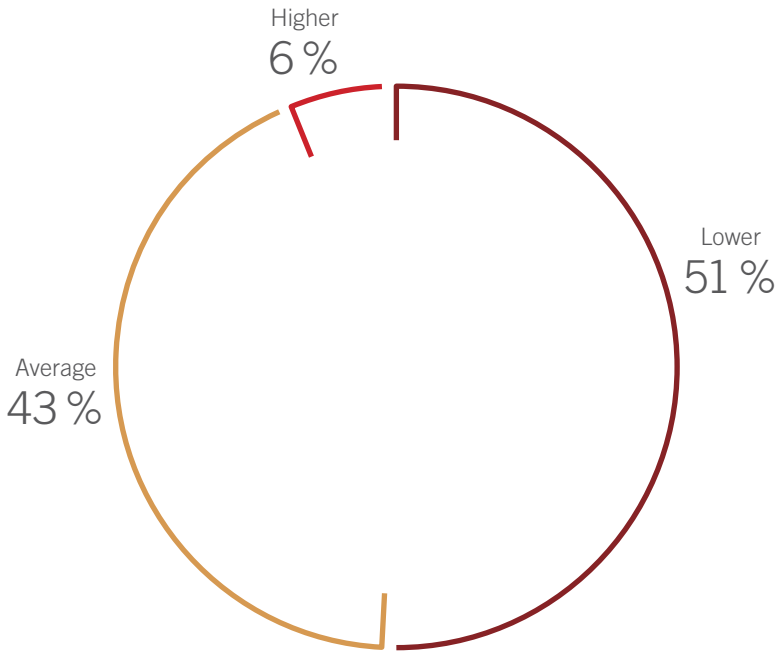
Chart 36: Pricing outlook for the next 12 months – Personal lines



Lower technical profitability in both personal and commercial lines

51 % of surveyed executives believe that technical profitability in commercial lines is below the three-year average, compared with 66 % who gave an affirmative answer on the same question relating to rates (see chart 33). Relatively low loss ratios, supported by advances in risk management and low levels of litigiousness, continue to mitigate some of the pressure from eroding rates and rising acquisition expenses (see chart 37).

Chart 37: Current level of technical profitability as compared with the average of the past three years – Commercial lines

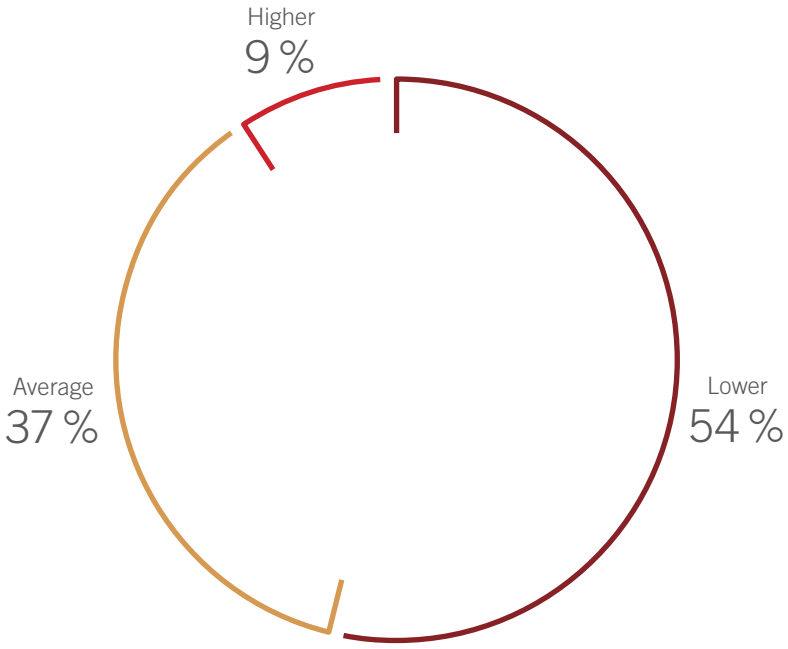


«Court awards grow at a double-digit annual rate in some ASEAN countries. This trend is eroding the technical profitability of many insurers, in particular in the medical and motor lines of business. Lawmakers and regulators should monitor this situation closely and consider potential threats to the future availability and affordability of certain insurance products.»

Datuk Francis Lai, Chief Executive Officer/Executive Director, Progressive Insurance Berhad

54 % of executives think that technical profitability in personal lines is below the three-year average, exactly the same percentage as for personal lines rates (see chart 34). Even though pricing pressure is believed to be less acute than in commercial lines business, claims inflation is taking a heavy toll on lines such as motor and medical business. Court awards are on a rising trajectory, as are car repair costs (also driven by currency depreciation and the growing clout of dealers) and healthcare expenses (see chart 38).

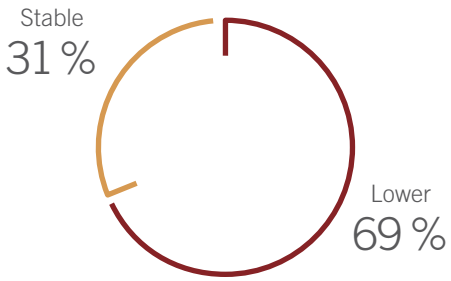
Chart 38: Current level of technical profitability as compared with the average of the past three years – Personal lines



Bleak profitability outlook for commercial lines, more stable prospects in personal lines

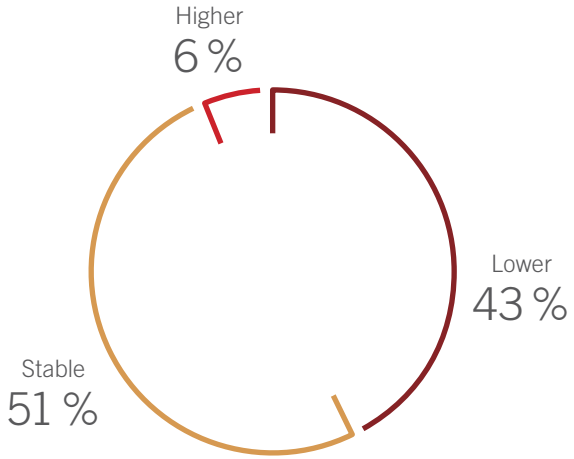
69 % of executives think that technical profitability in commercial lines will remain on a downward trajectory over the next 12 months as the effects from further eroding prices are expected to prevail over offsetting factors such as relatively stable and still favourable claims patterns (see chart 39).

Chart 39: Outlook technical profitability for the next 12 months – Commercial lines



The profitability outlook for personal lines, however, is more sanguine, with 57 % expecting stable or improving conditions over the next 12 months. As contributing factors, executives cite tightening underwriting and cost discipline, a strong inherent premium growth momentum and more scope for profitability-driven risk-based pricing as a result of de-tariffication (see chart 40).

Chart 40: Outlook technical profitability for the next 12 months – Personal lines

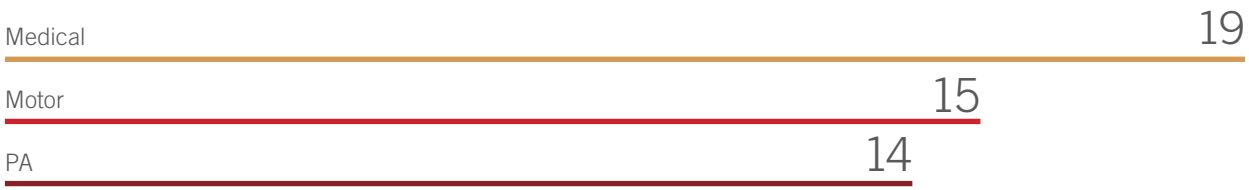


Lines of business-specific prospects

Personal lines drive premium and profit growth

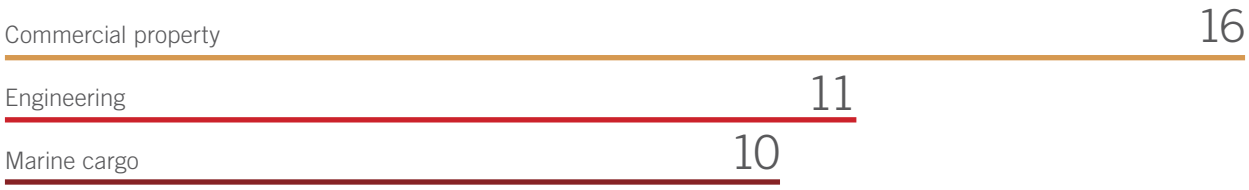
Against the backdrop of stable economic growth and rising levels of per-capita income medical, motor and personal accident (PA) insurance were identified as the fastest growing segments of the ASEAN insurance market. Car ownership continues to increase whereas the growing middle class is becoming more aware of PA and medical insurance, alongside the improving ability to afford such covers (see chart 41).

Chart 41: The three fastest-growing lines of business (number of mentions)



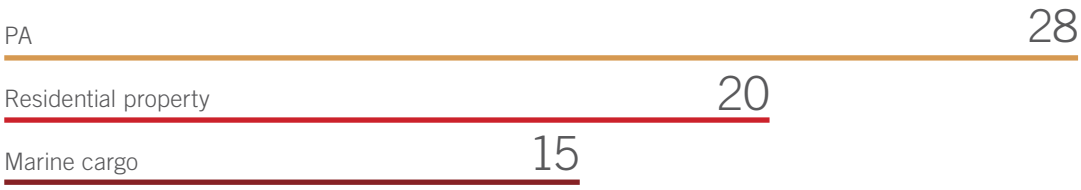
As far as the slowest-growing lines are concerned, commercial property, engineering and marine cargo were mentioned most frequently, given their particular sensitivity to the economic cycle, including both domestic GDP growth and international and intra-regional trade. Another specific factor that dampens growth in commercial property is the relentless erosion of rates (see chart 42).

Chart 42: The three slowest-growing lines of business (number of mentions)



Personal accident, residential property and marine cargo are considered to be the most profitable non-life classes in the ASEAN region. Driven by strong demand, a high degree of customisation, innovation and, therefore, leeway for differential pricing PA ranks first among the most profitable lines. To a lesser extent, these factors also apply to property retail business. Marine cargo ranks third, supported by relatively low loss ratios (see chart 43).

Chart 43: The three most profitable lines of business (number of mentions)



Medical, motor and marine hull business were identified as the least profitable lines of business in the ASEAN market, reflecting fierce competition, pressure from de-tariffication and slowing demand, respectively (see chart 44).

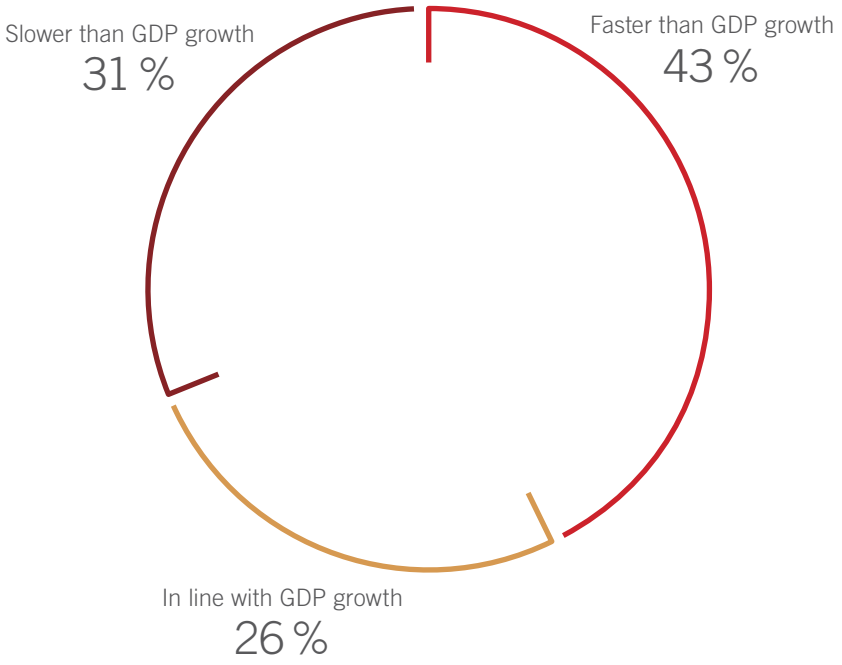
Chart 44: The three least profitable lines of business (number of mentions)

Key market trends and drivers

Insurance penetration expected to increase

69 % of executives expect non-life premiums to grow in line or faster than GDP over the next 12 months. Only 43 % expect premiums to outgrow the economy at large. This ratio is smaller than suggested by economic theory and empirical analyses and largely reflects relatively sluggish growth in Malaysia and Thailand, caused by slowing economic growth and regulatory changes such as de-tariffication. For countries such as Indonesia, the Philippines and Vietnam, however, premiums are expected to continue growing faster than GDP. In other words: Insurance penetration (premiums as a share of GDP) in these countries will remain on the rise (see chart 45).

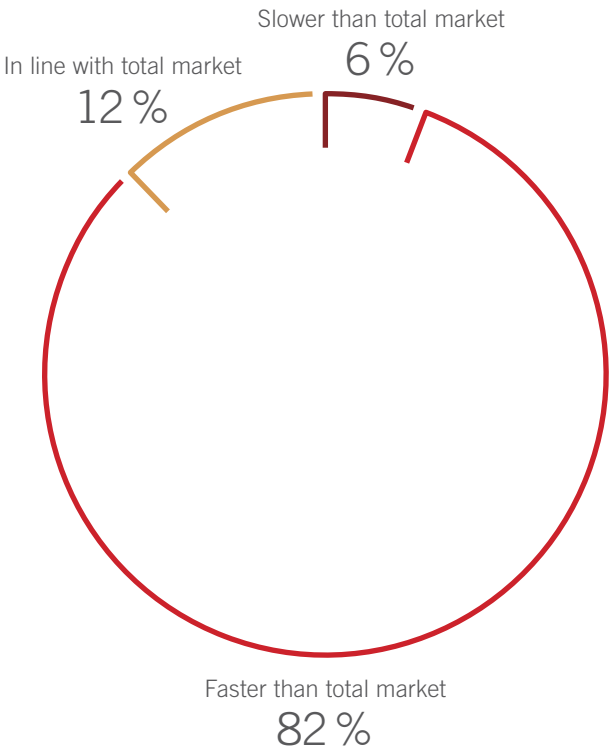
Chart 45: Expected premium growth versus GDP growth (next 12 months)



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

82 % of executives expect Takaful insurance to outperform the market as a whole in terms of growth. Many point to effective government support which has made Takaful a success story, especially in Malaysia. Other drivers include bancassurance partnerships and the integration of Takaful in Islamic lending products. In addition, Takaful also gains in popularity among non-Muslims who prefer mutuality-based forms of insurance. More sceptical interviewees caution that Takaful tends to cannibalise conventional business rather than growing the pie for all market participants. The biggest potential is seen in Family Takaful, i.e. life insurance and savings products (see chart 46).

Chart 46: Growth prospects for Takaful insurance (next 12 months)



«Although Takaful has nearly 40 years of development and a fairly young approach to providing insurance protection in our markets, it has developed into a standard of spreading the Islamic virtues in Brunei, Indonesia and Malaysia – an accomplishment well acknowledged beyond our region throughout the Muslim world. With the integration of the AEC, we hope that the new regulation will make sure that these qualities are retained.»

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

Neutral to slightly positive assessment of current regulatory regimes

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

On the positive side, the sophistication and professionalism of the Monetary Authority of Singapore and Bank Negara Malaysia stand out, two institutions that also rank highly on a global scale. In general, regulatory authorities are believed to have understood the necessity to step up their game in the run up to the AEC integration. The most frequently mentioned example is the regional drive towards modern risk-based solvency regimes.

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

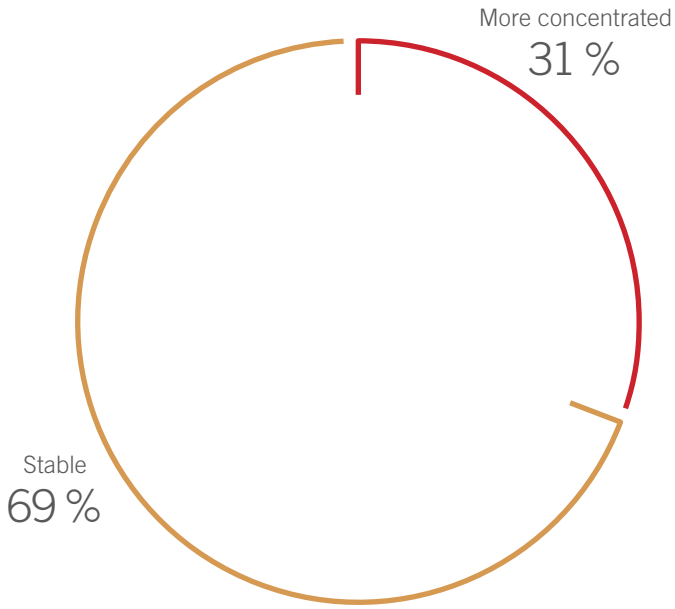
More generally, some executives feel that regulators should slightly rethink their priorities and attach greater importance to the market's overall stability and viability, also by curbing excessive and perceived irrational forms of competitive behaviour. A sole focus on customer protection is not considered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

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

Market consolidation still elusive but likely to happen medium-term

69 % of interviewees do not expect any moves towards market consolidation in the next 12 months. However, in the medium-term, it should become more difficult for domestic insurers to raise the additional capital potentially needed to meet new risk-based and higher minimum capital requirements. Another factor that may play out in favour of medium-term market consolidation through mergers and acquisitions is an effective freeze on the issuance of new insurance licenses in a number of countries. Newcomers, both domestic and foreign, therefore, prefer M&A over the increasingly difficult «green field» option. In addition, in markets where regulators oblige composite insurers to split and capitalise their non-life and life operations separately, the pressure for consolidation will grow. Malaysia is a case in point with further potential consolidation momentum expected from de-tariffication (see chart 47).

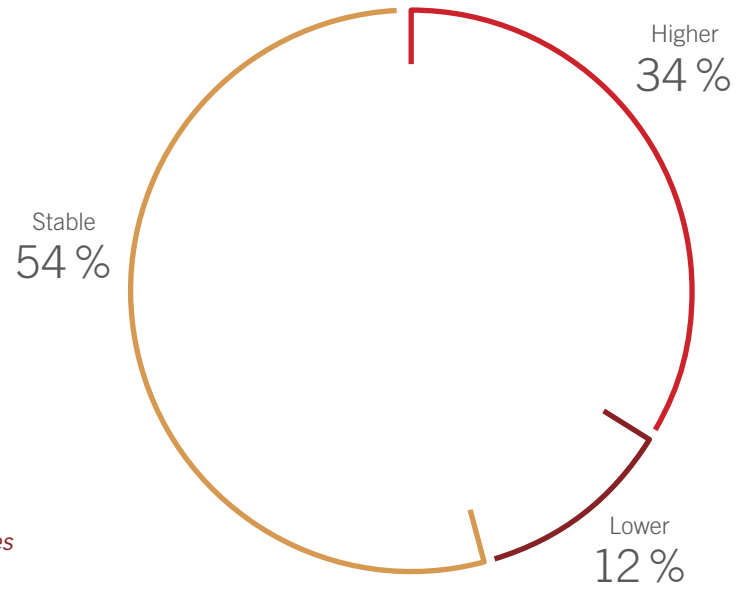
Chart 47: Market structure outlook (next 12 months)



Market share of non-ASEAN insurers expected to remain stable

The *ASEAN Insurance Pulse 2017* found 54 % of respondents expect the market share of foreign non-Asean primary insurers to remain stable over the next 12 months. The arrival of new entrants is offset by some global insurers reducing their footprint in the ASEAN region. Having said this, as mentioned before, most executives expect global multinational insurers to be the biggest beneficiaries of the AEC liberalisation agenda (see chart 48).

Chart 48: Outlook for foreign non-ASEAN insurers' market share (next 12 months)



«Regulators and lawmakers across ASEAN should remove the obstacles that domestic insurers face in internationalising their operations. The local players must have a fair chance of benefiting from the future growth and integration of the ASEAN insurance market place. This regulatory and legal support is important in order to counterbalance the ‹natural› advantages of the global players in terms of expertise, experience and capital strength.»

Orawan Vorapanya, Senior Executive Vice President – Insurance Policy & Regulatory Division, South East Insurance

Bancassurance and online distribution expected to grow fastest

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

Online is the second most frequently mentioned distribution channel. It is believed to have significant potential in retail business given the region's young and internet-savvy population. In addition, its cost benefits are increasingly recognised by insurers. Digital insurance is also set to benefit from tariff deregulation which provides insurers with the required degrees of freedom in risk-based and behavioural pricing. However, the loyalty to traditional channels of distribution is deemed high in the region which could slow the advance of digital insurance. Some executives pointed out that the agency channel could prove more resilient than expected given the many efforts towards its digitisation (see chart 49).

Chart 49: Fastest-growing distribution channels (number of mentions)

«Longer-term, de-tariffication presents major opportunities. Risk-based pricing, in combination with modern digital techniques and advanced analytics, is set to prompt behavioural changes among insureds. The resultant advances in risk prevention will benefit society at large.»

Antony Lee, Chief Executive Officer, AIG Malaysia

«Online is the fastest growing distribution channel in Thailand and other ASEAN countries. Incumbent insurers need to make significant investments in their digital capabilities in order to maintain their market position, also in response to new competitors from the technology space.»

Duanden Choenchitsiri, Director & Executive Vice President, Sompo Insurance (Thailand)

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

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