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MEDIA INFORMATION

ASEAN INSURANCE PULSE 2023: ASEAN INSURERS PROVE RESILIENT TO INFLATION

Kuala Lumpur, 5 December 2023 – This year's ASEAN Insurance Pulse, published by Malaysian Re at the occasion of the 5th ASEAN Insurance Summit in Ha Long, Vietnam, analyses the impact of inflation on the region´s insurers. The surge in inflation coined much of 2022, resulting in a tightening of monetary policy – and in turn – capital market volatility and a depreciation of currencies in some emerging markets. For insurers, inflation caused challenges on the underwriting and on the investment side, in operations and also contributed to a tightening of reinsurance capacity. However, the ASEAN insurers proved their resilience in having prepared for inflation – although the increase in claims ratios, underinsurance and some consumers struggling with a rise in insurance prices remain a concern.

Inflation did not affect all ASEAN insurers equally across the ASEAN markets. It varied broadly with Vietnam and Thailand at the lower end with rates of 3.2% and 6.1% respectively and Laos and Myanmar at the upper end with 23% and 16.2%, all for 2022 according to the IMF. Insurers were also affected differently according to their business model. Those with a high share of personal lines were likely to be more impacted than those focused on commercial lines or in reinsurance. In addition, the years 2022 – 2023 were characterised by a poly-crisis – multiple crises such as inflation, geo-political tensions, supply-chain disruptions, and high energy price fluctuations – all happening at the same time. It is thus not obvious to discern the impact of inflation from other factors which were important to the region´s insurers as well and sometimes overcast the effects from inflation.

Impact of inflation perceived differently

"We had anticipated the impact of inflation on claims on our books in 2022. The large losses from the Eastern Australian floods in 2021 had served as an eye-opener for the impact of inflation on claims payments, as we could see its effects on the cost for replacement materials as well as triggering a shortage in construction workers and thus causing further costs" said Ahmad Noor Azhari Abdul Manaf, President & Chief Executive Officer of Malaysian Re.

Thus, inflation did not catch the region´s insurers off guard. It had already started to rebound before the end of the pandemic and in some ASEAN markets, had been part of their reality for quite some time. In addition, insurers had risk management measures in place to stress-test the impact of inflation on their book and reserves. However, a major concern was with policyholders, namely consumers, who often underestimate the risk of underinsurance.

Personal lines most affected

Motor, property and medical insurance were the lines most affected. According to some ASEAN insurers, prices for motor spare parts rose due to a combination of inflation and higher import costs by as much as 30% to 40% in some markets. Similarly, construction costs were up by 20% to 30%. In faber

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medical insurance, insurers saw a continuation of the double-digit inflation that markets had already witnessed for some time. Reserves, however, were not seen as a major concern. The lines most impacted were mainly short-term liabilities, while long-tail risks were less affected. In addition, insurers had prepared for inflationary pressure, slightly adjusted reserves where needed, and tested its adequacy on a regular basis.

Measures of insurers

Insurers reacted with a mix of measures to combat the impact of inflation on their underwriting portfolio. Price increases were the most frequently mentioned feature, affecting foremost motor and property – unless tariffed. Tight market conditions were reflected in a hardening of terms and conditions – partly due to the developments in reinsurance too. Insurers demanded that clients disclose how they manage their risk and asked for an updated valuation of assets to prevent underinsurance and adjust sums-insured. Furthermore, insurers pruned their portfolio and reallocated capacity, often shifting from severity to frequency risks to reduce the amount of reinsurance cover needed. The quality of the account was a dominant theme with insurers systematically screening their portfolio, increasing deductibles to force clients to better understand their own risks. Ultimately, many shed risks that they felt were not meeting their requirements.

About Malaysian Re

As the national reinsurer of Malaysia, Malaysian Reinsurance Berhad (Malaysian Re) continues to enhance the competitiveness and efficiency of the local insurance companies in an increasingly globalised marketplace through its active involvement in providing effective risk solutions. Leveraging on its breadth and depth of experience and expertise, strong fundamentals and a proven record of accomplishment, Malaysian Re has grown in stature as an international player having established a strong market presence in Asia and the Middle East with a growing footing in Europe.

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