Media release

Protection gaps threaten economic growth and societal progress in the ASEAN markets

Zurich and Kuala Lumpur, 28 November 2018 – Non-life protection gaps, defined as uninsured losses as a share of total economic losses caused by natural disasters and cyber incidents, for example, may seriously hamper a country's economic growth and societal progress as large uninsured losses adversely affect its fiscal position and ability to recover swiftly. This is one of the key findings of this year's ASEAN Insurance Pulse, a survey published today by Dr. Schanz, Alms & Company and Malaysian Reinsurance Berhad (Malaysian Re) at the 3rd ASEAN Insurance Summit in Kuala Lumpur. Based on in-depth interviews with senior insurance executives operating in the region, the study finds that healthcare poses the largest gap, followed by natural disasters and residential property. Awareness about the benefits of insurance, but also consumers' mindset and the affordability of cover are among the main hurdles to closing the gap. The ASEAN Pulse also found that in particular the region's personal lines business is on a route to recovery. While pricing pressure is expected to abate, profitability may stabilise or even improve on the back of tighter underwriting discipline and strong premium growth.

"The ASEAN Insurance Pulse 2018 pools together the region's insurance wisdom and experience to identify the root causes of protection gaps and solicits the participants for pragmatic solutions," says Zainudin Ishak, President and Chief Executive Officer of Malaysian Re. "To most of the senior executives interviewed non-life protection gaps are a severe threat to their respective countries' economic growth and societal progress. To close the gap between economic and insured losses, recommendations range from enhanced public-private partnerships (PPP), the introduction of subsidised schemes, the provision of tax incentives and compulsory insurance requirements to awareness and education campaigns. We hope that with these suggestions and the underlying findings our second edition of the ASEAN Insurance Pulse will again provoke some deep, thoughtful and productive discussions."

"We are pleased to present the second edition of ASEAN Insurance Pulse, which again offers an authoritative overview of the current state and future prospects of the region's US$28 billion non-life insurance markets," says Dr. Kai-Uwe Schanz, Chairman and Partner at Dr. Schanz, Alms & Company. "Taking the pulse of some of the region's key insurance executives on protection gaps and their implications for the region's insurance markets and economies, this year's survey highlights the relevance of insurance as an effective means of risk mitigation and resilience building across ASEAN."

Governments urged to contribute to narrowing protection gaps

Protection gaps can adversely affect economic growth and societal progress in ASEAN. The executives polled are concerned that large uninsured non-life disaster losses can undermine the fiscal position of countries and impair their ability to recover swiftly following a catastrophic event. This risk is heightened as a result of urbanisation and rising asset concentration.

The ASEAN insurers interviewed hope for a more active role of the public sector. Subsidised schemes as in agricultural insurance, tax incentives as well as compulsory insurance requirements are among the suggested remedies to narrow protection gaps. On the other hand, insurers acknowledge their shortcomings, too, such as the failure to build awareness, both in terms of exposures and available risk solutions, as well as a lack of sufficiently innovative and suitable products.

Overall, healthcare was mentioned most frequently as the largest protection gap in ASEAN. Due to rising per capita incomes and customer expectations, in combination with medical inflation and – in some countries – an ageing population, public health schemes reach their limits. Ranked second, natural disasters are virtually uninsured in some ASEAN countries, with disastrous consequences for public budgets, private savings and business continuity. Property, especially residential cover, features third, as risk awareness among homeowners remains low.

Most executives identified a lack of awareness, education and financial literacy as the main root causes of the region's non-life protection gaps. Many people are neither aware of their real exposures nor the role of insurance in risk mitigation. Culture and mind-set as well as a lack of affordability of insurance products are further reasons.

New (digital) technologies which enable innovative ways of buying and using insurance products are viewed as the most promising approach to narrowing non-life protection gaps. Also, more relevant insurance products are needed such as those which are need-based (both in terms of price and cover). In addition, compulsory insurance schemes would create large risk communities and risk pools and, therefore, improve the availability and affordability of retail and wholesale insurance.

Personal lines business rebounds

According to the interviewees, strong premium growth, the region's favourable demographics with a comparatively young population and its growing middle classes are the main strengths of the ASEAN insurance markets. Market opportunities arise as digital technologies and advanced analytics improve the affordability and appeal of insurance products. While the region's non-life insurance penetration is still less than a third of the global average, microinsurance is expected to expand as technology reduces the cost of distribution and claims settlement.

Across the ASEAN markets, current rates in commercial lines are perceived below their three-year average, while personal lines are assessed more favourably. From a fundamental point of view, personal lines are characterised by a smaller number of players, higher barriers to entry, greater customer loyalty and more scope for differentiation through non-price competition, e.g. product innovation.

The pricing outlook for the next 12 months is mixed, as half of the executives interviewed expect further rate decreases in commercial lines, while only 23% (versus 57% last year) of interviewees expect continued pressure on rates in personal lines. This more positive outlook reflects the expectation that rates will rebound from last year's de-tariffication in Malaysia and generally the need and scope for repricing in order to respond to increasing claims inflation.

In commercial lines, for more than half of the interviewees, profitability is below the three-year average as a number of major recent losses have taken their toll. In personal lines only a third of executives think that technical profitability is below the three-year average as personal accident, travel, household insurance as well as the bancassurance business performed strongly. About half of the executives interviewed expect the technical profitability in commercial lines to erode further, while in personal lines the profitability outlook is more sanguine as executives cite tightened underwriting discipline, further scope for technology-based efficiency gains, a strong inherent premium growth momentum and benefits from profitability-driven risk-based pricing.

A growing number of interviewees expect a market consolidation in the next 12 months as some domestic insurers might struggle to raise the additional capital needed to meet new risk-based and higher minimum capital requirements. In addition, the effective freeze on new insurance licenses in a number of countries plays out in favour of a higher market concentration.

About Dr. Schanz, Alms & Company
Founded in 2008 and domiciled in Zurich, Dr. Schanz, Alms & Company Ltd supports its clients in researching and analysing their business environment, developing and implementing a distinct strategic profile and effectively communicating with their key stakeholders. We focus on organisations from the financial services industry. Our global services proposition is based on the firm's partners' in-depth sector expertise and senior management experience gained in Asia, the Middle East and Europe. For further information please visit www.schanz-alms.com.

About Malaysian Re
Malaysian Reinsurance Berhad (Malaysian Re) is a wholly owned subsidiary of MNRB Holdings Berhad (MNRB). As the national reinsurer, 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 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.

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