Media release

# ASEAN insurance executives pursue a measured approach to digitisation

**Insurance penetration to increase as premium growth outpaces GDP**

**Zurich and Kuala Lumpur, 1 October 2019 – Insurance executives operating in the ASEAN markets adopt a tempered approach to digitisation. They expect digital technologies to have a modestly positive impact on their premium growth in the next 2 – 3 years. Only longer-term a more sizable contribution to growth is anticipated. Against this background most ASEAN insurers concentrate on digitising their existing value chains, investing about 1 – 2% of their overall revenues into digital initiatives. Executives spot quick wins in digitising their distribution and marketing processes as personal lines products exhibit a higher transactional frequency and standardisation than commercial lines. Fundamentally, the ASEAN insurance markets continue to profit from the region's strong economic growth momentum. Driven by technology savvy populations, with low median ages, insurers are seen to benefit from the region's growing middle classes and their appetite for personal lines products.**

"ASEAN insurers are faced with a dilemma", says Zainudin Ishak, President and Chief Executive Officer of Malaysian Re. "Our consumers' behaviour is increasingly shaped by digital technology. They expect immediate transactions, access to transparent information and instant gratifications. The increasing sophistication of their purchasing behaviour presents opportunities for insurers as product offerings can be efficiently customised and scaled up. While digitisation will boost revenues and reduce costs, the region's insurers need to upgrade their legacy systems and improve their access to data to transition to the sophisticated technologies essential to sustain their long-term competitiveness."

"This year's third edition of the ASEAN Insurance Pulse, which we produce on behalf of Malaysian Re, focuses on the state of digitisation of the region's insurance players," says Henner Alms, Partner of Dr. Schanz, Alms & Company and co-author of the report. "Launched at the occasion of the 12th ASEAN Insurance Congress in Bali, Indonesia, our survey analyses the impact of digitisation on the region's US$ 31 billion non-life insurance markets and their growth and profitability prospects."

## The digitisation of ASEAN non-life insurance markets

For most of the more than 40 ASEAN insurance, reinsurance, broker and trade association executives interviewed for this year's edition of the ASEAN Insurance Pulse the proprietary 'going it alone' digitisation of their existing value chain is the most preferred strategic approach to preparing for the digital future. This option is believed to add immediate value, as it prioritises well-proven business models and allows insurers to defend the customer interface against disruptors while avoiding the prospect of becoming mere risk carriers.

According to more than 80% of interviewees the state of their own organization's level of digitisation is somewhat advanced, including online sales and web-based claims management capabilities. The severe lack of IT and data sciences talent is seen as a key constraint for their digitisation efforts. Short-term, i.e. over the next two years, distribution and marketing are viewed as those parts of the value chain to be most affected by digital. In these areas, many executives spot the quick wins, as acquisition costs can reach up to 20% of premium income in some countries. Longer-term – over the next 5-10 years – the underwriting and claims functions are expected to be reshaped on the back of breakthroughs in risk-based pricing and the detection of fraudulent claims.

Travel, personal accident and the motor lines of business will be most immediately impacted by digitisation. These products are relatively simple and exhibit a higher transactional frequency than others. In commercial lines the effects of digital will not materialize any time soon as these classes are characterised by a significant degree of tailoring and differentiation.

The short-term impact of digitisation on the premium growth trajectory is expected to be modestly positive, with a maximum additional annual premium growth of 5% anticipated by the majority of the executives polled. Online sales are growing rapidly but remain marginal in the overall distribution mix, with shares of less than 5% in most ASEAN countries. Longer-term, however, digital technology is believed to boost premium growth. Almost half of those interviewed expect double-digit additional annual premium growth on the back of digital technologies and advanced analytics.

However, interviewees are less upbeat about the impact of digitisation on technical profitability. While short-term massive investments are needed, longer-term a relative majority of executives believe that the significant scope for technology-enabled efficiency gains (especially in distribution and policy administration) will be "competed away", with all benefits going to customers. Almost 50% of participating insurers spend between 1 and 2% of their gross premiums on digital initiatives (not to be confused with general IT spend). More than 90% expect this share to increase going forward, despite many competing claims on resources such as the preparation for IFRS 17.

**ASEAN non-life insurance market status and outlook**

The ASEAN region's strong economic and premium growth momentum continues to be its most frequently mentioned non-life insurance market strength. The technology savviness of the population, with low median ages, ranks second, while the third most frequently mentioned strength is the region's growing middle classes and their appetite for personal lines products.

Digital technologies and advanced analytics are viewed as the most relevant medium-term opportunity for ASEAN non-life insurance markets, rendering insurance more affordable, appealing and understood. In addition, at about 1%, the ASEAN region's insurance penetration is less than a third of the global average, offering a huge catch-up potential, in particular in personal lines.

An increasing share of executives polled (76%) see current rates in commercial lines as below the three-year average. This is a reflection of the continued global soft market cycle and the abundant supply of reinsurance capacity. The assessment for personal lines is more favourable as rates benefit from a smaller number of players, higher barriers to entry, greater customer loyalty, lower customer bargaining power and more scope for non-price competition, e.g. product innovation.

The pricing outlook for the next 12 months is mixed, especially for commercial lines business. 44% (down from 49%) of executives expect further rate decreases. Competitive pressures continue to build on the back of global excess capacity and de-tariffication. The picture is different for personal lines where only 25% (again very similar to last year's Pulse) of interviewees expect further pressure on rates. Most executives foresee continued rate support from repricing opportunities in response to increasing claims inflation.

77% (as compared with 82%) of executives expect non-life premiums to grow in line or faster than GDP over the next 12 months. 46%, up from 38%, expect premiums to outgrow the economy at large. This ratio continues to be smaller than suggested by academic research and largely reflects relatively sluggish growth in Malaysia, Singapore and Thailand, caused by slowing economic growth, stiff price competition and regulatory changes such as de-tariffication. For countries such as Indonesia, the Philippines and Vietnam, however, premiums are expected to continue growing (significantly) faster than GDP.

In order to establish a regional portfolio of strategic corporate priorities, executives were also asked to name those areas that rank highest on their corporate agenda for the next 3-5 years. Digitisation remains on top, at an even expanding margin, while product innovation ranks second. Technology in combination with more degrees of freedom in pricing and structuring due to deregulation is expected to enable significant progress. Talent development and retention is the third most frequently mentioned strategic priority, not least in light of increasing technical and analytical requirements in digital and deregulated markets.

**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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