## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword Dr. Schanz, Alms &amp; Company</td>
<td>4</td>
</tr>
<tr>
<td>Foreword Malaysian Re</td>
<td>5</td>
</tr>
<tr>
<td>Methodology</td>
<td>6</td>
</tr>
<tr>
<td>Summary of key findings</td>
<td>7</td>
</tr>
<tr>
<td>Key Pulse readings</td>
<td>10</td>
</tr>
<tr>
<td>Market overview</td>
<td>11</td>
</tr>
<tr>
<td>Survey results</td>
<td>16</td>
</tr>
<tr>
<td>The digitalisation of ASEAN non-life insurance markets</td>
<td>16</td>
</tr>
<tr>
<td>ASEAN non-life insurance market status and outlook</td>
<td>26</td>
</tr>
<tr>
<td>Lines of business-specific prospects</td>
<td>36</td>
</tr>
<tr>
<td>Key market trends and drivers</td>
<td>39</td>
</tr>
</tbody>
</table>
We are pleased to present the third edition of *ASEAN Insurance Pulse*. It offers an authoritative overview of the current state and future prospects of the region’s US$ 31 billion non-life insurance (conventional and Takaful) markets. This edition offers a particular section on digitalisation and its implications for the region’s insurance markets’ growth and profitability.

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

Our third *ASEAN Insurance Pulse* draws on in-depth interviews with senior executives of 43 national, regional and international insurance and reinsurance companies, intermediaries and trade associations operating across the ASEAN region. 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 once again enabling this research project, which is designed to benefit the ASEAN insurance market as a whole.

We hope that you will enjoy reading the third 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
As the trade war between the United States and China continues to escalate, one force is becoming increasingly evident: There is a concerted pushback against globalisation as defined by the conventional indicators such as trade, capital and workforce.

While the adoption of protectionist measures, with unfortunate global economic consequences, is growing in popularity, there has been no slowing down of information generation and data transmission across boundaries. Technology continues to evolve at breathtaking speed and globalisation is set to be re-defined beyond conventional economic indicators, to also reflect the flow of data, information and knowledge. In most economies the ongoing shift from tangible to intangible corporate assets epitomises this new paradigm.

ASEAN with an internet and social media penetration of 65% and 63% respectively, combined with mobile connectivity of 132%, is a region in a state of flux with consumers’ behaviour being increasingly shaped by digital technology. Consumers expect immediate transactions and access to transparent information while demanding for instant gratifications. In addition, the usage and handling of personal data is developing into an increasingly important determinant of consumer trust. The sophistication of purchasing behaviours presents opportunities for insurers as product offerings can be efficiently customised and scaled up at the same time, which is expected to enable insurers to boost their revenues while reducing their operating costs. There is no shortage of technologies available for insurers to capitalise on the changes; most insurance executives are aware of Artificial Intelligence, Blockchain, Robotics, Cloud Computing and Big Data, and the benefits they bring to capital and risk analytics, customer intelligence and process efficiency. There are also financial rewards that come with the adoption of technology; one McKinsey study postulates that a sizable insurer could more than double profits within 5 years by digitising its existing business.

However, the reality on the ground paints a different picture. Almost 50% of insurers participating in this year’s ASEAN Insurance Pulse say they only spend between 1 and 2% of their gross premiums on digitalisation initiatives excluding general IT spend. It is a fair statement that a large number of insurers in the region are still bogged down by legacy systems, and hence unable to meet the data demands required for a meaningful migration to the sophisticated technologies that are essential to sustain insurers’ long-term competitiveness.

On this note, we would like to express our appreciation to our partners and friends from across ASEAN for their participation in the 3rd edition of Pulse. We also thank Bank Negara Malaysia, the Malaysian General Insurance Association (PIAM), and the ASEAN Insurance Council for the unwavering support of the initiative.

We hope this year’s Pulse will stimulate productive dialogues among the key executives and stakeholders on how to promote digitalisation across the entire ASEAN insurance marketplace.

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

The findings of this report are based on structured interviews with executives representing 43 regional and international (re)insurance companies, intermediaries, policy makers and trade associations. The interviews were conducted by Dr. Schanz, Alms & Company, a Zurich-based research, communication and business development consultancy, from June to August 2019.

Interviewees belong to the regional network of Dr. Schanz, Alms & Company or were recommended by Malaysian 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 insights with us:

AIA General, Malaysia
AIG, Malaysia
Asia Insurance Company, Hong Kong SAR, China
Axa Affin, Malaysia
Axa, Thailand
Ayeyar Myanmar Insurance, Myanmar
Bankers Assurance Corporation, Philippines
Berjaya Sompo Insurance, Malaysia
BIDV Insurance Corporation, Vietnam
Cambodia Re, Cambodia
Campu Lopac Insurance, Cambodia
Etiqa General Takaful, Malaysia
FPG Insurance, Singapore
General Insurance Association of Malaysia (PIAM), Malaysia
Great Eastern General Insurance, Malaysia
Great Eastern Life Assurance Company, Singapore
Insurance Association of Cambodia, Cambodia
Insurance Association of Vietnam, Vietnam
Insurance Commission of the Philippines, Philippines
Lloyd's (Asia), Singapore
Malayan Insurance Co, Philippines
Malaysian Re, Malaysia
Maybank Ageas Holdings, Malaysia
MSIG, Malaysia
Myanmar Insurance Company, Myanmar
Myanmar Insurance Association, Myanmar
National Insurance Company, Brunei
National Reinsurance Corporation of the Philippines, Philippines
Pacific & Orient Insurance Company, Malaysia
Philippine Insurers and Reinsurers Association (PIRA), Philippines
Progressive Insurance, Malaysia
PT Radita Hutama Internusa, Indonesia
PVI Insurance, Vietnam
RHB Insurance, Malaysia
Swiss Re, Malaysia
Takaful Brunei, Brunei
Thai General Insurance Association, Thailand
Thai Reinsurance Public Company, Thailand
Thanachart Insurance, Thailand
Tokio Marine Insurers (Malaysia) Berhad, Malaysia
Vietnam National Reinsurance Corporation (VINARE), Vietnam
Willis Re, Malaysia
Willis Towers Watson, Philippines
The digitalisation of ASEAN non-life insurance markets

1. For a majority of interviewees, the proprietary ‘going it alone’ digitisation of the existing value chain is the most preferred strategic approach to preparing for the digital future. This option is believed to add most immediate value, as it prioritises existing and well-proven business models. In addition, it is expected to allow insurers to defend the customer interface against challenges from disruptors and avoid being ‘relegated’ to mere risk carriers. Almost equally popular are hybrid strategies which combine proprietary efforts with some form of collaboration with external parties, be it technology start-ups or established platforms.

2. A frequently mentioned driver of insurance digitalisation in the ASEAN region is the desire to bring down the cost of acquisition which, in some countries, can reach up to 20% of premium income.

3. More than 80% of interviewees describe the state of their own organisation’s level of digitalisation as somewhat advanced, including online sales and web-based claims management capabilities. A number of executives point to a severe lack of IT and data sciences talent as a key constraint for their digitalisation efforts.

4. Short-term, i.e. over the next two years, distribution and marketing are viewed as those elements of the insurance value chain to be most affected by digitalisation. In these areas, many executives spot the quick wins. Longer-term, i.e. over the next 5–10 years, the underwriting and claims functions are expected to be reshaped by advanced analytics which are believed to enable breakthroughs in risk-based pricing and the detection of fraudulent claims, for example.

5. Most executive interviewees agree that the travel, personal accident (PA) and motor lines of business will be most immediately impacted by digitalisation. These products are relatively simple and exhibit a higher transactional frequency than others. There is also a broad agreement that in commercial lines the effects of digitalisation will not materialize any time soon. These classes are generally very much broker-driven and characterised by a high degree of tailoring and differentiation.

6. The short-term impact of digitalisation 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 even expect double-digit additional annual premium growth on the back of digitalisation, driven by improved access to customers (including the underserved) as well as more appealing and affordable products.

7. Interviewees are less upbeat on the impact of digitalisation on technical profitability. A majority expects no impact whatsoever in the short-run – a few interviewees even hint at a negative effect given massive investment needs. Longer-term, a relative majority of executives do not expect any lasting profitability gains. Even
though there is significant scope for technology-enabled efficiency gains (especially in distribution and policy administration) these are believed to be “competed away”, with all benefits going to customers.

8. Almost 50% of participating insurers spend between 1 and 2% of their gross premiums on digitalisation 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.

9. The most frequently mentioned recommendation for regulators is to adopt a more flexible approach to digitalisation in insurance. Even though regulatory sandboxes for InsurTechs exist in a number of jurisdictions incumbent players face major obstacles in terms of differentiated pricing, product innovation, the use of cloud computing or the admissibility of electronic signatures.

ASEAN non-life insurance market status and outlook

1. The ASEAN region’s strong economic and premium growth momentum continues to be the most frequently mentioned non-life insurance market strength. As a newcomer to the top 3 strengths, the technology savviness of the population, with low median ages, ranks second, auguring well for a rapid adoption of innovative insurance products. As in 2018, this year’s third most frequently mentioned strength is the region’s growing middle classes and their appetite for personal lines products.

2. Digital technologies and advanced analytics continue to be viewed as the most relevant medium-term opportunity for ASEAN non-life insurance markets. Their adoption promises to simultaneously make insurance more affordable, more appealing and better understood. As in 2018, the region’s low insurance penetration ranks second. At 1%, the ASEAN region’s ratio of non-life premiums to GDP is less than a third of the global average, offering a huge catch-up potential. Growth in personal lines ranks third among the top opportunities, also fuelled by technology-enabled innovation.

3. More than three-quarters (up from 61% in 2018) of the polled executives state that current rates in commercial lines are below the three-year average. This is a reflection of the continued global soft market cycle and the abundant supply of reinsurance capacity.

4. The assessment for personal lines is more favourable albeit deteriorating, with 54% (compared with 42% in 2018) considering the current level of rates to be below the three-year average. From a fundamental point of view, personal lines 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.

5. 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.
6. 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.

7. 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.

8. Only 41% (compared with 56%) of interviewees expect moves towards increased market consolidation in the next 12 months. Some executives across the region report instances of ‘indigestion’ following mergers and acquisitions (M&A).

9. The ASEAN Pulse 2019 found 50% (compared with 56%) of respondents expect the market share of foreign non-ASEAN primary insurers to remain stable over the next 12 months. Global insurers’ competitive advantages in terms of brand recognition, economies of scale and scope as well as technical capabilities continue to be offset by structural disadvantages compared to domestic conglomerates with well-functioning bancassurance channels, a generally better access to retail markets and understanding of local market conditions.

10. In order to establish a regional portfolio of strategic corporate priorities, executives were asked to name those areas that rank highest on their corporate agenda for the next 3–5 years. The emerging list of priorities is identical to that we identified in 2018. Digitalisation remains on top, at an even expanding margin. The focus continues to be firmly on enabling existing value chains rather than disrupting business models altogether. Product innovation ranks second. Technology in combination with more degrees of pricing and structuring freedom due to deregulation are expected to enable – and require – significant progress on that front. Talent development and retention is the third most frequently mentioned strategic priority, not least in light of increasing technical requirements in digital and deregulated markets.
The Pulse measures current perceptions of the non-life insurance market in the ASEAN region and tracks them over time to monitor changes in attitudes.

These are the main differences in findings compared with the 2018 edition of *ASEAN Insurance Pulse*:

- Personal lines are seen as being less profitable.
- Profitability outlook for commercial lines is improving.
- A lower share of executives anticipates a move towards market consolidation.

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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance premiums to grow faster than GDP*</td>
<td>46 %</td>
<td>38 %</td>
<td>43 %</td>
</tr>
<tr>
<td>Insurance prices are currently low**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Personal lines</td>
<td>54 %</td>
<td>42 %</td>
<td>54 %</td>
</tr>
<tr>
<td>— Commercial lines</td>
<td>76 %</td>
<td>61 %</td>
<td>66 %</td>
</tr>
<tr>
<td>Insurance prices to further decrease*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Personal lines</td>
<td>25 %</td>
<td>23 %</td>
<td>57 %</td>
</tr>
<tr>
<td>— Commercial lines</td>
<td>44 %</td>
<td>49 %</td>
<td>69 %</td>
</tr>
<tr>
<td>Insurance profitability is currently low**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Personal lines</td>
<td>59 %</td>
<td>36 %</td>
<td>54 %</td>
</tr>
<tr>
<td>— Commercial lines</td>
<td>58 %</td>
<td>58 %</td>
<td>51 %</td>
</tr>
<tr>
<td>Insurance profitability to further decrease*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Personal lines</td>
<td>41 %</td>
<td>36 %</td>
<td>43 %</td>
</tr>
<tr>
<td>— Commercial lines</td>
<td>42 %</td>
<td>55 %</td>
<td>69 %</td>
</tr>
<tr>
<td>Insurance markets to consolidate*</td>
<td>41 %</td>
<td>56 %</td>
<td>31 %</td>
</tr>
<tr>
<td>Foreign (non-ASEAN) market share to increase*</td>
<td>35 %</td>
<td>35 %</td>
<td>34 %</td>
</tr>
</tbody>
</table>

*Over the next 12 months
**Compared with three-year average
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 2018, these 10 countries, with a total population of about 648 million, generated a combined GDP of around US$ 2.9 trillion, which is equivalent to 3.5 % of the world’s total. As an economic block, the region would rank as the world’s fifth-largest economy, placed between Germany and India.

At an inflation-adjusted growth rate of 5.0 % per annum between 2013 and 2018, the economies of the five ASEAN countries (Indonesia, Malaysia, the Philippines, Thailand and Vietnam, as per the International Monetary Fund’s definition) grew 1.5 percentage points faster than the global economy. Going forward, this growth differential is projected to expand slightly (see chart 1).

**Chart 1:** Real GDP growth (2013–2024f; annual averages, in %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average 2013–2018</th>
<th>Average 2019–2024f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>3.1</td>
<td>3.5</td>
</tr>
<tr>
<td>ASEAN 5*</td>
<td>5.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.5</td>
<td>3.6</td>
</tr>
<tr>
<td>World</td>
<td>2.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>6.4</td>
<td>6.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>5.1</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook (April 2019), *ASEAN 5 as per the IMF’s classification*
**ASEAN non-life insurance penetration stagnates**

According to chart 2, at a share of 71% of total premiums, life insurance business plays a particularly important role in the ASEAN region, in comparison with its global share of 54%. Having said this, the region’s life insurance penetration (premiums as a share of GDP) still falls short of the global average (2.6% versus 3.3%).

The gap is far wider though in non-life insurance. In 2018, non-life insurance premiums accounted for just 1.0% of GDP, less than a third of the global average (2.8%). From 2013 to 2018, ASEAN non-life insurance markets grew exactly in line with the underlying economies (at a rate of 5.0%). The region’s non-life insurance penetration, therefore, remained unchanged. In contrast, the ASEAN life insurance markets expanded by 8.2% p.a. over the same period of time, significantly faster than the region’s economy as a whole. The region’s life insurance penetration increased accordingly and continued to narrow the gap compared with the global average.

**Chart 2:** ASEAN insurance premiums by type (2013–2018, non-life versus life, in US$ billion)

![Chart 2: ASEAN insurance premiums by type (2013–2018, non-life versus life, in US$ billion)](chart2.png)

Source: Swiss Re sigma database, all rights reserved
Chart 3: Non-life real premium growth (2013–2018, annual averages, in %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>8.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>8.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.9</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.6</td>
</tr>
<tr>
<td>ASEAN</td>
<td>5.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>4.7</td>
</tr>
<tr>
<td>World</td>
<td>3.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: Swiss Re sigma database, all rights reserved

Chart 4: Life real premium growth (2013–2018, annual averages, in %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>25.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>11.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>9.5</td>
</tr>
<tr>
<td>ASEAN</td>
<td>8.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>7.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.4</td>
</tr>
<tr>
<td>World</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: Swiss Re sigma database, all rights reserved
Chart 5 reveals that the ASEAN region’s three largest insurance markets – Singapore, Thailand and Indonesia – 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 2018, share in %

- **Indonesia** 19%
- **Malaysia** 16%
- **Philippines** 6%
- **Vietnam** 5%
- **Thailand** 25%
- **Singapore** 29%

Source: Swiss Re sigma database, all rights reserved
Chart 6 provides the lines of business split for the six largest ASEAN non-life insurance markets. Motor is the biggest segment in all markets, except for the Philippines and Indonesia. 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, 2017, in %
Survey results

The digitalisation of ASEAN non-life insurance markets

ASEAN insurers tread carefully when embracing digitalisation

For most interviewees, the proprietary ‘going it alone’ digitisation of the existing value chain is the most preferred approach to preparing for the digital future. This option is believed to add most immediate value, as it prioritises existing and well-proven business models. In addition, it is expected to allow insurers to defend the customer interface against challenges from disruptors and avoid being ‘relegated’ to mere risk carriers. Innovative applications range from distribution apps, chat bots for customer service to the deployment of Artificial Intelligence in claims management. The main short-term attraction is cost saving, first and foremost on the acquisition front where commission levels can reach up to 20% in some ASEAN markets.

Almost equally popular are hybrid strategies which combine proprietary efforts with some form of collaboration with external parties, be it technology start-ups or existing platforms. Only a relatively small number of interviewees primarily relies on external partners and is willing to put third parties in the driver’s seat for digitalisation. These insurers are keen to leverage digitalisation for developing entirely new product propositions and customer experiences such as fully individualized forms of insurance. Some executives also want to ‘borrow’ trust from digital outfits, including platforms, offsetting trust deficits bedevilling traditional insurers.

«As an international insurance group, Tokio Marine is able to allocate its investments in digitalization at either the group, regional or local level. We thus benefit from our economies of scale and our global expertise while avoiding duplications. At our country level in Malaysia we currently invest most heavily in our claims functions, where we see the most immediate effects.»

Ng Hang Ming, CEO, Tokio Marine Insurans (Malaysia) Berhad

«In terms of our digitization strategy we first have to digitize our own value chain to enable the switch of our customers to digital. In the long run we expect to collaborate with technology platforms because we believe this is the way how insurance will be distributed tomorrow. On the product side we aim to enhance the speed and agility of the product development to eventually be in a position to sell fully individualized products online.»

Emmanuel Nivet, CEO, Axa Affin General Insurance
Most interviewees are wary of channel conflicts and keen not to alienate those who still produce the lion’s share of their business. As maintaining the status quo is not considered to be an option much effort goes into the digitisation of incumbent channels such as agency forces.

In addition to accessing new client segments, another frequently mentioned driver of insurance digitalisation in ASEAN is the desire to bring down the cost of acquisition which, in some countries, can reach up to 20% of premium income (see chart 7).

**Chart 7: Most promising strategies for insurers to embrace digitalisation (number of total mentions)**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digitise existing value chain</td>
<td>23</td>
</tr>
<tr>
<td>Hybrid approach</td>
<td>19</td>
</tr>
<tr>
<td>Collaborate with InsurTechs</td>
<td>11</td>
</tr>
<tr>
<td>Collaborate with platforms</td>
<td>10</td>
</tr>
</tbody>
</table>

«A major benefit of digital technology is the promotion of transparency of premium rates and product offerings. The ease of comparison is a key determinant of customers’ interest in and awareness of insurance. On the back of technology, purchasing behaviours are set to become more sophisticated and mature – to the benefit of the insurance market at large.»

Zainudin Ishak, CEO, Malaysian Reinsurance Berhad

«The Insurance Commission expects digitalization to make a major contribution to narrowing insurance protection gaps in the Philippines. It is set to enhance customer experience through simpler and more convenient sales and claims processes. In addition, InsurTech will facilitate access to insurance and should make it more affordable on the back of efficiency gains. Therefore, for us as the regulator, paving the way for digitalization while ensuring customer protection and financial stability is a key priority.»

Ferdinand George A. Florendo, Deputy Insurance Commissioner Philippines and Head of Financial Examination of the Insurance Commission
More than 80% of interviewees describe the state of their own organisation’s level of digitalisation as somewhat advanced, including online sales and web-based claims management capabilities. A number of executives point to a severe lack of IT and data sciences talent as a key constraint for their digitalisation efforts. The banks are generally perceived to lead digitalisation in financial services with insurers being mere followers and still far from relevant capabilities such as real-time online quotation (see chart 8).

Chart 8: The state of digitalisation in your organisation (number of total mentions)

«When embracing technology to unlock value, we focus on digitising existing information and processes. This will not only enable cost efficiencies but also translate into a higher degree of customer centricity across the entire value chain, including distribution, products, services and claims.»

Noor Muzir bin Mohamed Kassim, CEO, Pacific & Orient Insurance Co.

«In Vietnam, insurers firstly focus on digitising the existing value chain, for instance by improving the customer service through chatboxes or by using AI in claims services. However, some insurers may also seek to cooperate with insurtech players to design new products targeted for online sales. Currently, there is no insurance platform yet for the distribution of insurance products, but we hope it will appear soon.»

Ngo Trung Dung, Deputy Secretary General, Insurance Association of Vietnam
Immediate impact on simple retail classes only

Short-term, i.e. over the next two years, distribution and marketing are viewed as those elements of the insurance value chain to be most affected by digitalisation. In these areas, many executives spot the ‘quick wins’. Longer-term, i.e. over the next 5–10 years, the underwriting and claims functions are expected to be reshaped by advanced analytics which are believed to enable breakthroughs in risk-based pricing and the detection of fraudulent claims, for example (see chart 9).

Chart 9: The most affected parts of your organisation’s value chain (number of total mentions)

Most executive interviewees agree that the travel, personal accident (PA) and motor lines of business will be most immediately affected by digitalisation. These products are relatively simple and exhibit a higher transactional frequency than others. They usually do not require the same (or any) level of human advice and interaction as longer-term forms of insurance such as savings-type life policies.

There is also a broad agreement that in commercial lines the effects of digitalisation will not materialize any time soon. These classes are generally very much broker-driven and characterised by a high degree of tailoring and differentiation. Therefore, it will take longer for digitalisation (e.g. through the use of blockchain technology) to make an impact (see chart 10).
The short-term impact of digitalisation on the premium growth trajectory is expected to be relatively modest, with a maximum additional annual premium growth of 5% anticipated by most 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 even expect double-digit additional annual premium growth on the back of digitalisation, driven by improved access to customers (including the underserved) as well as more appealing and affordable products.
Significant boost to premium growth but more moderate impact on profitability

Chart 11: Expected impact on annual premium growth (number of total mentions)

«With the advent of digitalization, human capital management will further grow in strategic importance. On the one hand, automation will require to reskill many employees. On the other hand, insurers need to attract new competencies and skills such as social media management or data science, competing with other industries in a talent market with severe shortages.»

Ng Kok Kheng, CEO, Great Eastern General Insurance (Malaysia)
It's a Risky Business, We've Got You Covered.

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

MALAYSIAN REINSURANCE BERHAD (664194-V)
(A wholly owned subsidiary of MNRB Holdings Berhad)

www.malaysian-re.com.my
Interviewees are less upbeat on the impact of digitalisation on technical profitability. A majority expects no impact whatsoever in the short-run – a few interviewees even hint at a negative effect given massive investment needs. Longer-term, too, a relative majority of executives do not expect any lasting profitability gains. Even though there is significant scope for technology-enabled efficiency gains (especially in distribution and policy administration) these are believed to be ‘competed away’, with all benefits going to customers. Those who are more optimistic point to higher margins achievable through simpler, personalised and more intuitive products, lower loss frequencies as a result of telematics and other Internet of Things applications and more granular risk pricing (see chart 12).

**Chart 12: Expected impact on combined ratio (number of total mentions)**

«We don’t expect that digitization will have a lasting impact on the overall profitability of insurers. Although digitization will enhance efficiency and reduce transactional costs, we expect insurers’ profitability only to improve for a short period. In fact, we predict that in the competitive market environment that we operate in, efficiency gains and higher profitability will be passed on to the consumer and not rest with the insurer.»

Oran Vongsuraphichet, CEO, Thai Reinsurance Public Company

«In terms of Malaysia’s market strengths, we should assess it in its context. Compared to most ASEAN markets, Malaysia’s insurance industry is well advanced. While other markets still struggle with fragmentation, in Malaysia the number of non-life insurers has decreased to 21 players, which are well capitalized and have built up enough critical mass to install the digital technology for their operations and to advance their market position.»

Shu Yin Kong, Managing Director/CEO, RHB Insurance
Almost 50% of participating organisations spend between 1 and 2% of their gross premiums on digitalisation 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.

Chart 13: The share of revenues invested in digitalisation initiatives (number of mentions)

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1%</td>
<td>5</td>
</tr>
<tr>
<td>1–2%</td>
<td>14</td>
</tr>
<tr>
<td>2–5%</td>
<td>10</td>
</tr>
<tr>
<td>More than 5%</td>
<td>4</td>
</tr>
</tbody>
</table>

The most frequently mentioned recommendation for regulators is to adopt a more flexible and «light-touch» approach to digitalisation in insurance. Even though regulatory sandboxes for InsurTechs exist in a number of jurisdictions incumbent players face major obstacles in terms of differentiated pricing, product innovation, the use of cloud computing or even the admissibility of electronic signatures. Regulators are still perceived to be slow in approving new products, adversely affecting insurers’ «speed to market».

«In Malaysia, InsurTech is still at an embryonic stage. Customer adoption has been limited so far. Also, some InsurTech players are struggling to build the necessary expertise in the area that will remain the core of insurance – the assessment and settlement of claims. More fundamentally, Malaysia with its relatively small population size offers limited scope for reaping economies of scale, an ability which is driving China’s rapid advances in the field.»

Antony Lee, CEO, AIG Malaysia and Chairman PIAM

«The Monetary Authority in Singapore is very supportive of the digitization of the insurance market. In fact, it is keen to establish the country as an expertise hub for digitization. More specifically, the MAS pursues clearly defined targets for both FinTech and InsurTech, promotes technological adoption and is eager to also strengthen consumer confidence in data security.»

Angela Kelly, Lloyd’s Country Manager, Singapore and CEO of Lloyd’s of London (Asia) Pte ltd.
The second most important recommendation, with almost as many mentions, is to create a level playing field for incumbent and non-incumbent players, not only in order to avoid competitive distortions but also to ensure the highest possible level of customer protection. Many executives mentioned that any loss in customer trust adversely affects all players – whether incumbent or not.

Effective data protection regulations rank third. The insurance industry’s performance in this area is viewed as increasingly crucial to building or maintaining customer trust.

**Chart 14**: How regulators should respond to digitalisation in insurance (number of total mentions)

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>More flexibility</td>
<td>29</td>
</tr>
<tr>
<td>Provide level playing field</td>
<td>27</td>
</tr>
<tr>
<td>Ensure personal data protection</td>
<td>11</td>
</tr>
</tbody>
</table>

«In most Asian markets, digitalization will boost premium growth. Our high-growth environment is much different from the mature markets of Europe, North America and Japan, where telematics, for example, could actually lead to shrinking risk pools in motor and home insurance as a result of lower loss frequencies. In Emerging Asia in particular, technology will go a long way in better meeting the needs of the underserved or even unserved segments of the population. This will not only drive premium growth for the insurance industry but also promote the societal objective of financial inclusion.»

Winnie Wong, CEO, Asia Insurance Co. Ltd.

«Distribution is expected to be the main area of focus for insurers’ digitalization strategies. Technology promises to simultaneously tackle a number of long-standing issues such as high levels of acquisition cost, instances of mis-selling and deficits of trust in traditional insurers. By teaming up with technology outfits, including platforms, insurers could benefit from significant cost savings coupled with higher customer trust.»

Augusto Hidalgo, Head of Capital, Science and Policy Practice, Southeast Asia, Willis Towers Watson
ASEAN non-life insurance market status and outlook

Strong premium growth momentum continues to be the most important market strength

The ASEAN region’s strong economic and premium growth momentum continues to be the most frequently mentioned non-life insurance market strength. As a newcomer to the top 3 strength, the technology savviness of the population, with low median ages, ranks second. This strength augurs well for a rapid adoption of innovative ways of purchasing (innovative) insurance. As in 2018, the third most frequently mentioned strength is the region’s growing middle classes. As family wealth increases, so does insurance awareness (see chart 15).

Chart 15: Top 3 strengths of ASEAN non-life insurance markets (number of mentions)

<table>
<thead>
<tr>
<th>Insurance growth momentum</th>
<th>21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tech savviness</td>
<td>14</td>
</tr>
<tr>
<td>Emerging middle classes</td>
<td>13</td>
</tr>
</tbody>
</table>

«Just six years after the market’s opening up, insurance in Myanmar is still at a nascent stage. The low penetration rate offers an almost limitless potential for growth. In addition, the absence of legacy systems should enable our industry to leapfrog into the future.»

Myo Min Thu, Managing Director, Ayeyar Myanmar Insurance (AMI) and Joint-Secretary, Myanmar Insurance Association

«We expect that as a result of our upfront investments the impact of digitization on our profitability will be neutral to slightly negative. However, mid-term we expect that our digital investments of today will make a positive contribution in the range of 5–10% to our bottom line, resulting from lower cost on the one side and an increase in sales of personal lines products on the other side.»

Jimmy Tong, Managing Director, General & Group Insurance, The Great Eastern Life Assurance Co
For regulators in the ASEAN region, one of the most effective ways of promoting digitalisation would be to serve as role models. Enabling and encouraging insurers to submit reports digitally or to use apps, for example, would significantly add to the digital credentials of regulators and would entice insurers to accelerate their own digital efforts.

Klaus Tomalla, General Manager, National Insurance Company
**New technologies continue to rank as key medium-term opportunity**

Digital technologies and advanced analytics continue to be viewed as the most relevant medium-term opportunity for ASEAN non-life insurance markets. Their adoption promises to simultaneously make insurance more affordable (by bringing down administration and distribution costs), more appealing (by enabling a different customer experience and different products) and better understood (by reducing complexity and harnessing modern forms of communication). New technologies are also expected to promote the cause of financial inclusion and facilitate access to the underserved or unserved segments of the population, especially in rural areas.

As in 2018, the region’s low insurance penetration ranks second. At 1%, the ASEAN region’s ratio of non-life premiums to GDP is less than a third of the global average. For most executives, the resultant catch-up potential is a major attractive medium-term opportunity offered by the regional market place, especially in personal lines which rank third among the top opportunities. The region’s middle class continues to expand. At the same time, de-tarification, in combination with new technologies, creates the potential for breakthroughs in product appeal and customer experience in segments such as motor, travel, PA and residential property insurance (see chart 17).

**Chart 17:** Top 3 opportunities of ASEAN non-life insurance markets (number of mentions)

<table>
<thead>
<tr>
<th>Technology</th>
<th>21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low insurance penetration</td>
<td>18</td>
</tr>
<tr>
<td>Personal lines</td>
<td>11</td>
</tr>
</tbody>
</table>

«The digitalization of the region’s insurance companies is expected to yield two major benefits: On the one hand, it is set to reduce the cost of acquiring, distributing and servicing insurance business. On the other, also on the back of improved affordability, new technologies promise quantum leaps in reaching customers, including those who up to now were underserved or not served altogether.»

Marcel Omar Papp, Head
Reinsurance Malaysia (Conventional & Retakaful), Swiss Re

«Over time, de-tarification will boost premium growth, especially in personal lines which have been neglected by insurers for too long. The market will benefit from more competition, not just through price but also via new products and services. Having said this, the historically strong profitability of the market is set to erode and converge to more ‘normal’ levels seen in other competitive and de-tariffed environments.»

Francis Lai, CEO, Progressive Insurance
Protectionism now considered the most relevant threat

The spectre of a protracted trade war between the US and China, in addition to protectionist trends even within the ASEAN region, ranks highest on executives’ list of future challenges. Most ASEAN countries rely heavily on open markets and globally integrated supply chains for their growing wealth and prosperity. A global protectionist backlash would therefore severely impact economic growth in the region and, as a result, the demand for insurance which continues to be a product most people tend to cut back on first in times of crisis.

Executives view uncontrolled and irresponsible competition as the second biggest threat to the non-life market’s health and sustainability. This long-standing issue has been further exacerbated recently by slowing premium growth in a number of markets and moves towards de-tariffification and liberalisation.

Last but not least, executives remain concerned about an increasing threat posed by natural disasters as a result of rapidly advancing urbanisation, especially in coastal areas. In addition, there were more express references to global climate change, especially the higher frequency and severity of tropical storms as well as rising sea levels, as compared to last year’s ASEAN Pulse (see chart 18).

Chart 18: Top 3 threats of ASEAN non-life insurance markets (number of mentions)

<table>
<thead>
<tr>
<th>Threat</th>
<th>Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protectionism</td>
<td>19</td>
</tr>
<tr>
<td>Irrational competition</td>
<td>13</td>
</tr>
<tr>
<td>Increasing NatCat exposure</td>
<td>8</td>
</tr>
</tbody>
</table>

«The rising costs of doing business are a concern to the insurers in Brunei. Firstly, we have to prepare for higher cost in preparation to the adaptation on the changes to IFRS accounting and RBC requirements. Secondly, given Brunei’s market size we very much depend upon reinsurance capacity which has started to harden, and thirdly, we need to fund the digitization of our industry in an increasingly competitive market environment.»

Barudin Kudil, General Manager, Takaful Brunei

«There is a growing awareness of climate risk across ASEAN. This is particularly true for a natural catastrophe prone country like the Philippines. Insurers will need to incorporate the expected higher frequency and severity of disasters into their pricing. At the same time, the industry should intensify its dialogue with governments in order to forge meaningful private-public partnerships in the area of disaster resilience.»

Allan Santos, President & CEO, National Reinsurance Corporation of the Philippines and Chairman of PIRA
Unabated rate deterioration in commercial lines

More than three-quarters (up from 61% in 2018) of the polled executives state that current rates in commercial lines are below the three-year average. This is a reflection of the continued global soft market cycle and the abundant supply of reinsurance capacity, further exacerbated by country-specific factors such as the de-tariffication in Malaysia which has led to a significant rate erosion in large property business. Furthermore, construction activity has been slowing down in a number of ASEAN countries, putting further pressure on rates (see chart 19).

Chart 19: Current level of rates as compared with the average of the past three years – Commercial lines
The assessment for personal lines is more favourable albeit deteriorating, with 54% (compared with 42% in 2018) 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, lower customer bargaining power and more scope for non-price competition, e.g. product innovation. In addition, banks usually control the pricing of bancassurance products and regulators exercise more oversight than in commercial lines, primarily through actuarial pricing requirements. 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 («more skin in the game»). Special factors mentioned by some executives include the scope for higher rates in health insurance given a very strong underlying claims inflation as well as robust demand. In addition, de-tariffication in Malaysia, so far, had a relatively muted effect on rates, with rate decreases broadly offset by rate increases (see chart 20).

«In Cambodia personal lines business benefits very much from high demand for health, personal accident and motor products. As a result, risks are favorably priced. In commercial lines the competition is more fierce. While investments of the public sector in infrastructure have slowed down (are mostly funded by foreign capital), rates in construction and engineering have come under pressure.»

Soh Jiun Hong, General Manager, Campu Lonpac Insurance Plc

«Even though it is still at an embryonic stage in Vietnam, digitalization is set to greatly benefit our country’s insurance industry. Sales will profit from better access to insurance as well as more affordable and appealing product offerings. Profitability is expected to be positively affected by an improved accuracy of pricing and less scope for fraudulent behavior. And, last but not least, customers will enjoy a better claims experience with faster and more efficient handling procedure.»

Dao Manh Duong, Marketing Manager, Vietnam National Reinsurance Corporation
Pricing outlook for personal lines more sanguine than for commercial business

The pricing outlook for the next 12 months is mixed, especially for commercial lines business. 44% (virtually unchanged) of executives expect further rate decreases. Competitive pressures continue to build on the back of global excess capacity and de-tariffication. Similar to last year, an equal share of 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. The share of those expecting rate increases (12%) has quadrupled year-over-year, most frequently referring to a hardening of global retrocession markets.

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 expect continued rate support from repricing personal lines in response to increasing claims inflation. Others highlight the strong fundamental growth prospects underlying personal lines business in ASEAN. In addition, some interviewees point to the feasibility of innovation-based rate increases in personal lines segments such as PA where products are increasingly being bundled with value-added additional services (see charts 21 and 22).

**Chart 21:** Pricing outlook for the next 12 months – Commercial lines

- **Higher**: 12%
- **Lower**: 11%
- **Stable**: 44%

**Chart 22:** Pricing outlook for the next 12 months – Personal lines

- **Higher**: 11%
- **Lower**: 25%
- **Stable**: 64%
Clouding profitability assessment in personal lines

58% (virtually unchanged) of surveyed executives believe that technical profitability in commercial lines is below the three-year average. While relatively low attritional 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 a number of major recent losses have taken their toll on commercial lines profitability (see chart 23).

Chart 23: Current level of technical profitability as compared with the average of the past three years – Commercial lines

59% (sharply up from 36%) of executives think that technical profitability in personal lines is below the three-year average. This deteriorating assessment reflects a combination of higher attritional losses, rising acquisition expenses in highly competitive markets and continued claims inflation, partially fuelled by higher court awards (see chart 24).

Chart 24: Current level of technical profitability as compared with the average of the past three years – Personal lines
Converging profitability outlook for commercial and personal lines

55% (up from 42%) of executives think that technical profitability in commercial lines will remain unchanged. This improved outlook reflects relatively stable and still favourable claims patterns as well as tighter rates, terms and conditions as global reinsurance markets seem to have passed their through (see chart 25).

Chart 25: Outlook technical profitability for the next 12 months – Commercial lines

«Acquisition cost ratios in Thailand are among the ASEAN region’s highest. They do not only impair insurers’ profitability but also the affordability of products. Therefore, the potential to bring down acquisition and other transaction costs is a key driver behind the Thai general insurance industry’s digitalization initiatives. If successful, these efforts will go a long way in promoting financial inclusion and insurance penetration among the lower income segments of the population.»

Kheedhej Anansiriprapha, Executive Director, Thai General Insurance Association

«The guiding principle for our investments into our company’s digitization is that we want to strengthen our engagement with our clients. We benefit from a strong agent network. And we want to empower this distribution force through digital tools to be even more effective and increase their sales.»

Eric Chang, CEO, AIA General Berhad
Based on our country’s exceptionally young population and a mobile phone penetration of more than 100%, Myanmar offers a great potential for leapfrogging other insurance markets in terms of products and distribution. We could see a dynamic which is similar to Myanmar’s direct transition from 2G to 4G broadband cellular network technology, omitting 3G.

Dr. Sandar Oo, Managing Director, Myanmar Insurance and Chairperson, Myanmar Insurance Association

The profitability outlook for personal lines is similar to commercial business, reversing the historical Pulse pattern of significantly more favourable prospects for the former. As contributing factors, those 41% who expect lower profitability cite surging bodily injury awards and rising repair costs as well as a continued commoditisation of motor insurance due to the growing importance of online aggregators. Offsetting factors include the potential for technology-enabled efficiency gains and benefits from profitability-driven risk-based pricing enabled by de-tariffication (see chart 26).

Chart 26: Outlook technical profitability for the next 12 months – Personal lines
Lines of business-specific prospects

Personal lines drive premium and profit growth

Identically to last year’s Pulse, medical, motor and (mainly residential) property insurance were identified as the fastest growing segments of the ASEAN non-life insurance market, against the backdrop of stable economic growth and rising levels of per-capita income. Car ownership continues to increase whereas the growing middle class is becoming more aware of medical insurance, alongside the improving ability to afford cover. In addition, existing public schemes increasingly struggle to keep pace with rising medical cost inflation and the increasing expectations of wealthier citizens (see chart 27).

Chart 27: The three fastest-growing lines of business (number of mentions)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical</td>
<td>22</td>
</tr>
<tr>
<td>Motor</td>
<td>18</td>
</tr>
<tr>
<td>Property</td>
<td>14</td>
</tr>
</tbody>
</table>

As far as the laggards are concerned, engineering, commercial property and marine were mentioned most frequently, given their particular sensitivity to the economic cycle, including both domestic GDP growth and international and intra-regional trade. Engineering business is adversely affected by a slowdown in infrastructure investment growth in a number of ASEAN countries. A specific factor that dampens growth in commercial property is the continued erosion of rates in this highly commoditised space with very low barriers to entry. The marine business suffers from slowing growth in international trade as well as from pressure on rates due to cross-border buying as enabled by the ASEAN Economic Community (see chart 28).
Engineering Commercial property Marine cargo

Unchanged year-over-year, personal accident (PA), marine cargo and residential property 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 which ranks third. Marine cargo, the second most profitable line of business continues to benefit from relatively low loss ratios even though pressure is seen to be building as the fundamentals of the business such as the outlook for global trading volumes are deteriorating (see chart 29).

Chart 28: The three slowest-growing lines of business (number of mentions)

<table>
<thead>
<tr>
<th>Business</th>
<th>Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>20</td>
</tr>
<tr>
<td>Commercial property</td>
<td>13</td>
</tr>
<tr>
<td>Marine cargo</td>
<td>12</td>
</tr>
</tbody>
</table>

Chart 29: The three most profitable lines of business (number of mentions)

<table>
<thead>
<tr>
<th>Business</th>
<th>Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal accident</td>
<td>24</td>
</tr>
<tr>
<td>Marine cargo</td>
<td>18</td>
</tr>
<tr>
<td>Residential property</td>
<td>13</td>
</tr>
</tbody>
</table>
Medical, motor and commercial property business continue to be viewed as the least profitable lines of business in the ASEAN market as accelerating claims inflation, pressure from de-tariffication as well as continued global excess capacity are taking their toll (see chart 30).

**Chart 30:** The three least profitable lines of business (number of mentions)

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Number of Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical</td>
<td>22</td>
</tr>
<tr>
<td>Motor</td>
<td>17</td>
</tr>
<tr>
<td>Property</td>
<td>12</td>
</tr>
</tbody>
</table>

«Given the pace of digitalization among insurers and their intermediaries, the lion’s share of efficiency gains from technology will rapidly go to customers. In highly competitive markets there is little room for lasting excess profits, only temporarily for the first movers. Having said this, as customers will enjoy both more affordable and appealing products, we should see ultimately a positive effect on the overall insurance demand.»

**Claude Seigne, CEO, Axa Thailand**

«With the advent of digital technology, regulators in the region may want to revisit their traditional trade-offs between customer protection, financial stability and market development. Technology is a major opportunity for boosting insurance penetration through improved financial inclusion. On the other hand, it entails new risks for customers in terms of online providers’ ability to honour their obligations or their handling of sensitive customer data. For regulators, this constitutes a delicate balancing act, associated with both elevated opportunities and challenges.»

**Zainudin Ishak, CEO, Malaysian Reinsurance Berhad**
Key market trends and drivers

*Insurance penetration expected to stagnate*

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 literature and largely reflects relatively sluggish growth in Malaysia, Singapore and Thailand, caused by slowing economic momentum, 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. Insurance penetration (premiums as a share of GDP) in these countries will remain on the rise (see chart 31). See also charts 1 and 3 for the stagnant pattern of ASEAN non-life penetration from 2013 to 2018.

*Chart 31: Expected premium growth versus GDP growth (next 12 months)*

«The outlook for insurers in the ASEAN region is bright. GDP growth is projected to remain at levels significantly in excess of the global average. Low insurance penetration also suggests that premiums will continue to grow faster than the economy at large. And last but not least, the rapid adoption of 5G technology offers huge opportunities for insurers to serve the sharing economy and exploit the full potential of the Internet of Things.»

Chua Seck Guan, CEO,
MSIG Insurance (Malaysia) Berhad
Takaful expected to grow faster than the total non-life market

89% (virtually unchanged) of executives expect Takaful insurance to outperform the market as a whole in terms of growth. Expansion from a relatively low base, regulatory support (especially in Malaysia) and the integration of Takaful in Islamic lending products (property and vehicles, in particular) continue to augur well for its prospects. Having said this, many interviewees believe that Takaful is a zero-sum game as, in the absence of genuine product differentiation, it 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 32).

Chart 32: Growth prospects for Takaful insurance (next 12 months)

«Insurers are not selling cars. They are in the business of selling promises. This simple fact needs to be kept in mind when embracing digitalisation strategies. Our performance in terms of settling claims will remain the most important factor for the customer. At the same time, technology offers a unique opportunity for enhancing our customers’ experience and bring it to a level more commensurate with what they are used to from other industries.»

Dato Majid Mohamad, Board Member Maybank Ageas Holdings and Chairman Etiqa General Takaful
In the Philippines, changing the customer experience is a prerequisite to increasing insurance penetration. Technology is the key lever in this respect. As legacy IT systems loom large insurers need to adopt a flexible and hybrid approach which combines external technology partnerships with internal proprietary initiatives.

Michael F. Rellosa, Executive Director, The Philippine Insurers and Reinsurers Association (PIRA)

In Thailand, even though it is the fastest growing distribution channel, direct online sales (B2C) still account for less than 5% of the market’s non-life premiums. How far it will progress remains to be seen as the incumbent channels such as agency forces, brokers and bancassurance all embrace digitalization in order to remain relevant in what we expect to be a multi-channel future of distribution.

Perapart Meksingvee, Managing Director, Thanachart Insurance
Slowing urge to merge

Only 41% (down from 56%) of interviewees expect moves towards increased market consolidation in the next 12 months. In countries like Malaysia the number of remaining players is viewed as broadly appropriate with no pressing economic case for further consolidation. In addition, some executives report instances of ‘indigestion’ following mergers and acquisitions across the ASEAN region (M&A).

On the other hand, some key forces supporting M&A will remain at work: For some domestic insurers, it will prove impossible to raise the additional capital potentially needed to meet new risk-based and higher minimum capital requirements. An effective freeze on the issuance of new insurance licenses in a number of countries is another factor that plays out in favour of a higher market concentration through mergers and acquisitions. Newcomers, both domestic and foreign, therefore, prefer M&A over the increasingly difficult ‘green field’ option. Another increasingly relevant driver behind consolidation is technology: The required investments as well as the exploitation of the expected benefits will favour those (bigger) insurers who are able to reap economies of scale (see chart 33).

Chart 33: Market structure outlook (next 12 months)

«The digitization of Malaysia’s insurance distribution is faced with a conflict of interest. With a share of 58%, agents are by far Malaysia’s most important sales channel. By setting up an online distribution, insurers may be seen to reduce the relevance of the agent channel. Thus, to avoid this conflict while continuing to pursue an online strategy, some insurers seek to establish digital distribution platforms that tie-in agents, franchise and affinity partners.»

Faris Davidson, Managing Director, Willis Re Labuan
Market share of non-ASEAN insurers expected to remain stable

The ASEAN Insurance Pulse 2019 found 50% (compared with 56%) of respondents expect the market share of foreign non-ASEAN primary insurers to remain stable over the next 12 months. Global insurers’ competitive advantages in terms of brand recognition, economies of scale and scope as well as technical capabilities continue to be offset by structural disadvantages compared to domestic conglomerates with well-functioning bancassurance channels and a generally better access to retail markets and understanding of local market conditions and needs (see chart 34).

Chart 34: Outlook for foreign non-ASEAN insurers’ market share (next 12 months)

«The agency channel will remain dominant in Southeast Asia. Empowered by technology, it is expected to best possibly serve the growing and more complex needs of customers, initially for motor and home insurance and eventually for SME Business lines. There is more scope for online only models in simpler product lines such as travel insurance but the willingness of customers to buy and transact online does differ across the region.»

Stephen Blasina, Regional Managing Director, FPG Insurance
Online direct distribution outgrows other channels

Online/direct ranks first among the most rapidly growing distribution channels even though its share of total sales continues to be estimated at below 5% in all ASEAN markets. Online is seen as a catalyst to direct sales, e.g. in motor insurance as well as in need-based niches such as travel and PA. It is believed to have significant potential in retail business given the region's young and internet-savvy population. Digital insurance is also set to benefit from tariff deregulation which provides insurers with more degrees of freedom in risk-based and behavioural pricing. On the other hand, most executives consider its potential limited by the fact that the majority of customers are believed to favour an omni-channel distribution proposition.

Banks are the second most frequently mentioned distribution channel. They increasingly understand the potential of insurance sales as another contributor to overall profitability and 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. Having said this, the banking channel is expected to face challenges going forward as its cost competitiveness is eroding due a relatively slow adoption of technology.

Compared with the previous year, brokers have replaced agents as the third most rapidly expanding distribution channel. Many executives point towards intermediaries' rapid embracing of digitalisation which allows them to preserve their margins (see chart 35).

**Chart 35: Fastest-growing distribution channels (number of mentions)**

<table>
<thead>
<tr>
<th>Distribution Channel</th>
<th>Number of Mentions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online/Direct</td>
<td>28</td>
</tr>
<tr>
<td>Banks</td>
<td>20</td>
</tr>
<tr>
<td>Brokers</td>
<td>18</td>
</tr>
</tbody>
</table>

“Traditional distribution channels such as bancassurance continue to grow fastest in Vietnam. Despite our country’s young population online sales develop relatively slowly due to conservative buying habits and generally low levels of insurance and innovation awareness.”

Tran Trung Tinh, Chief Underwriting Officer, Bidv Insurance Corporation (BIC)
In order to establish a regional portfolio of strategic corporate priorities, executives were asked to name those areas that rank highest on their corporate development agenda for the next 3-5 years. The emerging list of priorities is identical to that we identified in 2018. Digitalisation remains on top, at an even expanding margin. The focus continues to be firmly on enabling existing value chains rather than disrupting business models altogether.

Product innovation ranks second. Existing solutions are seen as being driven by insurers’ current capabilities rather than customers’ real needs. Technology in combination with more degrees of pricing and structuring freedom due to deregulation are expected to enable – and require - significant progress on that front.

Talent development and retention remains the third most frequently mentioned strategic priority. A lack of talent could become a serious obstacle to the markets’ further development and growth, especially as technical requirements in digital and deregulated markets tend to increase (chart 36).

Chart 36: Digitalisation tops medium-term strategic agenda of ASEAN insurers

<table>
<thead>
<tr>
<th>Priority</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digitalisation</td>
<td>27</td>
</tr>
<tr>
<td>Product innovation</td>
<td>15</td>
</tr>
<tr>
<td>Talent development and retention</td>
<td>14</td>
</tr>
</tbody>
</table>

«Longer-term, digital innovations will boost insurance market growth and will be the way forward. It will enable unprecedented breakthroughs in areas such as access to customers and information gathering. Once insurance products have completely moved over to technology-driven platforms, demand from the mobile-first millennial generation will take off.»

Eden Tesoro, President, Bankers Assurance Corporation and Second Vice President, Malayan Insurance Co

«Although there is a lot of excitement about digitization in our industry, it is often overlooked that we are actually faced with a shortage in qualified personnel to develop and install these new digital applications. A company like Zhong An in China might be able to dedicate 70% of its staff to IT and digitization. In Malaysia that percentage will be below 10%, if not even closer to 5%.»

Tan Sek Kee, CEO, Berjaya Sompo Insurance
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Financial Strength Rating of ‘A-’ Excellent (Stable Outlook) by A.M. Best
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Since its foundation in 2008, Dr. Schanz, Alms & Company has built a track record as an expert research, communication and business development consultancy for international financial services institutions. The firm supports its clients in researching and analysing their business environment, developing and implementing a distinct strategic profile and effectively communicating with their key stakeholders.