

Media release

ASEAN Insurance Pulse: Research study finds AEC integration to benefit insurance markets

Zurich and Kuala Lumpur, 30 October 2017 – The ASEAN Economic Community (AEC) initiative is expected to benefit ASEAN (Association of Southeast Asian Nations) insurance markets and the insurance companies operating in the region. This is the main finding from the ASEAN Insurance Pulse (www.pulse.schanz-alms.com), published today by Dr. Schanz, Alms & Company and Malaysian Reinsurance Berhad (Malaysian Re) in an exclusive partnership. Based on in-depth interviews with 35 senior executives from regional and international insurance companies, intermediaries and trade organisations operating in the region, the survey provides an authoritative overview of the current state and future prospects of the ASEAN region’s US\$ 23 billion non-life insurance markets. In addition, it takes executives’ pulse on the AEC project and its implications for the region’s insurance markets. Formally launched on 31 December 2015, the AEC aims to create a single market by 2025 to facilitate the free movement of goods and services, including insurance, among the ten ASEAN countries.

“AEC is a huge regional growth project, not least for the ASEAN insurance industry,” says Zainudin Ishak, President and Chief Executive Officer of Malaysian Re. “In order to capture its full potential AEC depends on the active participation from the corporate sector together with the relevant regulatory bodies.” “Towards this aim, the ASEAN Insurance Pulse 2017 will serve as a reliable guide to understanding what insurers, reinsurers and intermediaries expect of the integration and to identify impediments facing the ASEAN insurance marketplace. Malaysian Re is committed to improve market transparency and intelligence. This is also reflected in our role as the exclusive partner of the ASEAN Insurance Pulse 2017.”

“The ASEAN Insurance Pulse shows very clearly that the AEC integration is viewed positively by the ASEAN insurance community. The executives polled expect a major boost to their markets through enhanced competition, innovation and governance,” says Dr. Kai-Uwe Schanz, Chairman and Partner of Dr. Schanz, Alms & Company and author of the study. “Almost half of the executives we interviewed believe that AEC will be a positive development for their respective companies in the next five years. Another 40% agree in principle, but caution that a five-year time frame might be too short for such benefits to materialize. Nearly two-thirds of the participating executives anticipate AEC to profit their domestic insurance markets at large as innovation as well as customer awareness and satisfaction are set to improve.”

AEC integration to increase insurance penetration in ASEAN insurance markets

The ASEAN Insurance Pulse found that 51% of executives interviewed believe that non-life insurance penetration (premiums as a share of GDP) will increase as a result of AEC. Currently, non-life insurance premiums of the ASEAN markets amount to just 1% of regional GDP, only about a third of the global average. The lower income ASEAN countries are expected to benefit most from rising penetration levels.

Regulation will play a major role in the process of AEC integration. 94% of executives interviewed consider regulatory differences, in terms of minimum capital requirements, solvency regimes and reinsurance regulations as well as insurance and tax laws a major obstacle to AEC insurance integration.

Against this backdrop, 86% of interviewees would welcome a common regulatory framework across ASEAN.

The executives polled do not fear the ramifications of the AEC integration. 74% do not consider AEC a threat to their respective insurance businesses over the next five years, although 95% expect that the liberalisation measures envisaged will further add to the degree of competition in the region's insurance markets. This sanguine view, however, is predicated on the establishment of an effective framework of regulatory oversight to counterbalance increasing competition.

Strong fundamental premium growth prospects

Regardless of any AEC effects, almost two thirds of executives polled expect ASEAN non-life premiums to grow in line or faster than the Gross Domestic Product (GDP) over the next twelve months. For countries such as Indonesia, the Philippines and Vietnam premium growth is expected to continue outperforming the economy at large.

The ASEAN region's strong premium growth momentum is perceived to be the most relevant non-life insurance market strength, followed by the region's favourable demographics and the quality of the existing insurance regulations in certain markets. The region's low non-life insurance penetration at about one-third of the global average is seen as its largest medium-term opportunity. Its rapidly growing middle class is expected to benefit personal lines of insurance, while cross-border expansion – facilitated by the AEC integration – will create additional opportunities.

Two thirds of the polled executives state that current rates in commercial lines are below the three-year average. This is a reflection of the global soft market cycle and the abundant supply of reinsurance capacity, exacerbated by country-specific factors such as the de-tariffication of large property business or a slowdown in construction activity. The assessment for personal lines is slightly more favourable, with only 54% considering the current level of rates to be below the three-year average.

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

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

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

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. 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 leading and underwriting their reinsurance needs. 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, the Middle East and North Africa.

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