Media release

Orderly de-tariffication of Malaysia's motor and fire insurance

Malaysian Re launches research publication on key trends in Malaysia's insurance market

Kuala Lumpur, 4 December 2019 – Malaysia's general insurance market is undergoing a phase of transformation: In light of the recent de-tariffication of the dominant property classes, motor and fire, the country's insurers need to embrace new competitive parameters such as risk-based pricing, tailored services and product innovation. However, despite the market's liberalisation, insurance penetration stagnates. In particular the underinsurance of the B40 segment – the lower-income part of Malaysia's population – remains a challenge to policymakers and insurers. Due to its mutuality, Takaful insurance might be well suited for promoting insurance in this segment. Technology and digitisation will reshape Malaysia's insurance market as well, making products more affordable, accessible and appealing.

In light of these fundamental changes, today Malaysian Re has published the Malaysian Insurance Highlights, a research publication which aims to identify and analyse the key trends in the market-place and to provide some guidance as to their direction. The study was launched at an industry event at Bank Negara Malaysia – Malaysia's central bank – by Adnan Zaylani Mohamad Zahid, Assistant Governor of Bank Negara Malaysia (BNM) as well as by YBhg. Datuk Johar Che Mat, Chairman of MNRB Holdings Berhad (MNRB) and Zainudin Ishak, President and Chief Executive Officer of Malaysian Re. The launch event was attended by more than 120 industry leaders from Malaysia's insurance and takaful industry.

In its first edition, the Malaysian Insurance Highlights, which includes the input from over 30 senior insurance executives and experts operating in the market, focuses on five major trends, namely de-tariffication, market consolidation, B40 strategies, Takaful prospects and InsurTech.

"Malaysia's insurance industry is facing the convergence of transformative challenges and opportunities, such as digitalisation, regulatory reform and changing consumer expectations", says Zainudin Ishak, President and Chief Executive Officer of Malaysian Re. "Our inaugural edition of the *Malaysian Insurance Highlights*, analyses these trends while putting forward an authoritative view on our market-place, combining rigorous data analyses with in-depth executive interviews."

De-tariffication to benefit consumers, insurers and, ultimately, society at large

"The de-tariffication of Malaysia's motor and fire insurance strongly impacts the market-place," says Henner Alms, Partner at Dr. Schanz, Alms & Company and co-author of the report. "However, the liberalisation has slowed, but not disrupted the growth in both lines of business. Over time, it is expected to result into improved risk management practices among insurers and a more risk-conscious behaviour of consumers."

With the de-tariffication of the motor and fire insurance Malaysia's regulatory authority, Bank Negara Malaysia, aligns the country's regulatory regime with those of the most advanced economies in the world. Right from the start of the de-tariffication in July 2016 Bank Negara Malaysia adopted a phased approach to the liberalisation to prevent unsustainable pricing, bearing in mind lessons learned from other countries which have previously embarked on the similar journey on liberalisation.

As a result, a majority of the Malaysian executives interviewed expect average motor rates to be below the pre-detariffication level by 2022. Premium discounts to low-risk customers are believed to outweigh premium increases for high-risk customers. In addition, technical profitability will decline below the level recorded prior to the liberalisation as rising costs for labour and spare parts, in combination with surging bodily injury awards are fuelling claims inflation. Product innovations such as telematics-based motor insurance remain an exemption and are only expected to pick up once de-tariffication has been concluded.

The outlook for fire insurance, the other property line currently de-tariffed is gloomier. More than 80% of the interviewees expect rates to be lower post-de-tariffication. ‹Good› fire risks enjoy significant premium reductions, often fully exhausting the leeway offered by the 30% band. A majority of interviewees therefore anticipates that the technical profitability in the fire line of business will decline. As a consequence, the customary cross-subsidisation from the highly profitable fire class to the more competitive motor line will no longer be sustainable.

Virtually all interviewees hold a very positive view of the long-term effects of de-tariffication. Shorter-term, customers are believed to be the main beneficiaries through lower prices and more competitive products and services. Medium-term, following the completion of liberalisation, insurers are expected to benefit from improved risk segmentation and risk-based pricing. Longer-term, society is expected to benefit as the industry becomes better capitalised and more competitive, while risk-based pricing will incentivise less risky behaviours in both the retail and commercial space.

Insurers encourage the Government to broaden its current B40 approach

In most developing and emerging markets, providing the lower-income segments of the population with insurance protection poses significant political and commercial challenges. Uninsured households are highly vulnerable to financial shocks such as the premature death or critical illness of a family member. With this in mind, in November 2017, Bank Negara Malaysia launched Perlindungan Tenang, aimed at expanding the insurance and takaful penetration among the B40.

However, thus far most respondents still need further convincing if, despite the various government measures taken, the B40 insurance will provide a viable commercial proposition. Some experts point out that the government should consider measures such as capital relief for those insurers that engage in B40 insurance, ideally as part of a comprehensive B40 insurance strategy that goes beyond healthcare.

A majority of interviewees emphasised that Takaful has a natural role to play in providing cover to the B40 segment. Over the past few years, General Takaful outperformed the overall market in terms of growth and technical profitability. While it already accounts for 13.7 % of overall gross direct premiums and contributions, most interviewees believe that there is far more potential for Takaful in Malaysia. Awareness building and more effective branding are expected to endorse a wider Takaful penetration. Technology has also been mentioned frequently as a lever to pull as Takaful operators rely less on the agent network than their conventional counterparts.

Digitisation to reshape Malaysia's insurance industry over time

As technology transforms insurance and impacts the entire value chain, there has been much debate on how business models may evolve, from payer-only to a more integrated partner model which draws on platform-based ecosystems. The long-term potential of digital distribution and aggregator technology are vividly discussed. The majority of Malaysia's insurance executives interviewed consider the relevance of such ecosystems will only rise over time. In addition, they believe that even the longer-term potential of digital insurance ecosystems will be limited to the segment of low premium and affordable products. Furthermore, the dominance of the agency distribution makes insurers wary of channel conflicts and inclined to play it safe by maintaining, or at most, digitising the status quo.

To most of the executives polled InsurTech is foremost an operating expense. Capturing cost synergies and efficiencies is seen as the lowest hanging fruit. Distribution benefits in terms of increased effectiveness and efficiency of existing and new channels are frequently mentioned benefits as well.

New business generation, primarily on the back of improved access to existing and prospective customers as well as product innovation, based on personalized added-value services are perceived as further opportunities that InsurTech may bring about.

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 with an established market presence in Asia and the Middle East.

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.

Contact

Dr. Schanz, Alms & Company
Henner Alms
Partner
T: +41 44 256 1082
E: henner.alms@schanz-alms.com