Encik Adnan Zaylani Mohamad Zahid: The ASEAN insurance industry - current state

Keynote address by Mr Encik Adnan Zaylani Mohamad Zahid, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the 21st ASEAN Insurance Regulators' Meeting, 44th ASEAN Insurance Council and 3rd ASEAN Insurance Summit, Kuala Lumpur, 28 November 2018.

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Bank Negara Malaysia is honoured to host the 21st ASEAN Insurance Regulators' Meeting and the 44th ASEAN Insurance Council Meeting again after eleven years. It is also our privilege to be part of the 3rd ASEAN Insurance Summit. I trust that the exchange of ideas and knowledge during these events will further strengthen the long tradition of close cooperation among ASEAN insurance regulators and industry players, interventions, and initiatives to build resiliency and liquidity for our market.

Introduction

Since its formation in 1967, ASEAN has achieved significant strides in advancing regional economic and financial cooperation and integration. This has contributed to sustained social development and stability that we see in the region over the last five decades. Economic improvement has seen member states grow at an average rate of over 5.3% and expanded over 100-fold, supported by significant intra-regional trade. In 2017, the ten-member states recorded a combined gross domestic product of close to USD3 trillion. Together, the regional bloc is currently the sixth-largest economy in the world and by 2020 is forecasted to become the fifth-largest economy after the United States of America, China, Japan and Germany.

With a population of just under 650 million, ASEAN is characterised by its rising and expanding middle class. This segment will represent two-thirds of its overall population by 2030. Increasing urbanisation, rising consumption levels and a young workforce are expected to drive future growth. This forms the backdrop that will boost intra-ASEAN trade and investment. Consequently, this will further propel the region's journey to become a highly integrated and cohesive economy as envisaged in the ASEAN Economic Community Blueprint.

Current state of the ASEAN insurance industry

Now, how has the ASEAN insurance industry fared during this period and how will it perform going forward and how do we want it to perform? Ten years ago, the ASEAN insurance sector recorded a total premium income of USD41 billion, with total assets of USD185 billion. In 2017, the region recorded a total premium income of USD103 billion, with total assets of USD480 billion.

Nevertheless, the ASEAN insurance industry remains small. According to Swiss Re, the combined premium volume of the ASEAN insurance market accounted for only 2.1% of the world's market share in 2017. In comparison, the insurance industries in China and Japan each accounted for 11.1% and 8.6% of the world's market share, respectively. Insurance penetration in the ASEAN region remains low, averaging 3.6% in 2017. This is considerably well below the global average of 6.1% and the greater Asian region's average of 5.6%. While this represents a large gap in insurance protection in the region, this also points to significant opportunities for rapid growth and developments in the near future.

The ASEAN insurance market hosts a diverse group of foreign players. Many have strong presence in the region and even pioneered the development of the insurance market in some member states. Similar to most ASEAN countries, Malaysia welcomes their participation. In

2017, foreign players represent almost half of the ASEAN insurance market participants, including via participation in domestic companies. These players have brought in sound business models. Their strengths and expertise have contributed to the development of the regional insurance industry. They have been given greater market access through liberalisation measures undertaken by ASEAN countries over the years, such as that in the marine, aviation and transit insurance segment.

Nevertheless, comparing against the speed of expansion of foreign insurers in the region, one can argue that the pace at which the full translation of the corresponding benefits to the development of the local insurance markets remains uneven. I would like to share three observations of their presence that could be relevant:

- First, we can acknowledge that foreign insurers have contributed positively and extensively towards the more pragmatic and contemporary regulatory enhancements. However, this also means that regulatory design is heavily influenced by them. In other words, there could be risks of regulatory capture where policies and decisions could favour the foreign players at the expense of the local industry and public. As regulators, we have to be cognisant of these risks. It remains an ongoing challenge to balance policy trade-offs and to preserve the best interest of the general public at large.
- Second, foreign insurers also tend to mainly target the more profitable market segments. Using their international brand recognition, they are able to capture these markets easily. Such segments include the higher net worth individuals, and large and multinational corporates. The insurance needs of the lower income segment and small and medium enterprises are then left underserved.
- Third, many of the global players operating in ASEAN today continues to operate as foreign players and act as conduits to their head offices. Invested capital could be hedged back to their home countries. Annual profits and fees received are repatriated. This in turn has resulted in, among others, persistent outflow of funds to the home countries. This practice has continued to put pressure on the host country's balance of payments. Foreign players should do more to invest in the host country and truly make the host country their home country as well. On another front, efforts should concurrently be directed towards strengthening the underwriting and retention capacity of the regional insurance and reinsurance markets.

What about the domestic players? Having benefitted from the partnership with their foreign counterparts, domestic and home-grown insurers in ASEAN also need to do more to serve the protection and financial needs in their countries and the region. Having domestic players as part of the insurance landscape is a goal that is shared by most countries, if not preferred by all. The progressive approach towards integrating the regional insurance market already recognises the unique circumstances and different stages of development in each ASEAN member state. This is intended to provide lead time to domestic players to prepare themselves for regional insurance integration.

Unfortunately, many of the domestic players have yet to develop their own competitive advantage. They have yet to reach a sizeable scale of operations in order to compete effectively against their foreign counterparts. As the region moves into the next phase of growth and progresses towards becoming a more integrated market, domestic players will need to strengthen their capacity and capability, or risk being driven out of the market.

Reshaping the landscape of the ASEAN insurance industry

ASEAN's economic and financial sector growth will see the insurance industry grow correspondingly. Given the potential, it could grow faster but it will require the insurance industry players to step up and seize the opportunities. Amid the advent of Industry 4.0 and digitalisation, much needs to be done to transform into the players for this new phase. Besides technology, this is also a phase where consumer interests and protecting the well-being of the underserved have become more important goals for societies. The industry needs to take notice that with the democratisation of information and knowledge through technology, the balance has shifted to favour the consumers and public at large.

This implies that consumer-centric propositions have become increasingly important to meet the needs and circumstances of ASEAN consumers. Studies show that ASEAN is currently the world's fastest growing population of Internet users, with more than 125,000 new users coming online every year.

Another survey conducted in 2017 revealed that the majority of the middle-class consumers in five ASEAN countries are not only willing to pay extra for better quality products, they are also willing to try and frequently search for new products across various media channels. This affirms the growing power of the consumer. It also means that digitalising insurance solutions can drive greater demand for insurance services via improved consumer experience.

Here in Malaysia, these trends have resulted in among others, a number of key policy changes and interventions that are intended to better protect the consumers of insurance. This includes the implementation of the Balanced Scorecard framework for agents, which aims to increase the level of professionalism of intermediaries. In addition, the upcoming introduction of the Minimum Allocation Rate for investment-linked insurance and takaful products is aimed at safeguarding the account value of consumers.

Another shift is in the growing demands by society to look into the needs of the underserved. As it is, these needs remains vast across many of our countries. Working towards promoting equitable and inclusive growth is necessary for the long-term sustainability of ASEAN. The industry should explore these less penetrated markets through new strategies and strengthened capabilities. Nonetheless, expecting markets to effectively provide for the needs of the underserved may be challenging.

Markets, driven by financial motives have a tendency to end up instead widening the disparities in income, equality and socio-economic protection. Intervention or even redistribution becomes a necessary tool to correct this, rebalance societal fortunes to enable the economically worst off to benefit and be co-opted back into the mainstream, as part of an overall social agenda that promotes inclusion and cohesiveness. This goal, of inclusion and cohesiveness, may well be a prerequisite to truly maximising society's economic potential.

Consistent with this is another key initiative in Malaysia that targets the underserved. This is the new insurance scheme for the Bottom 40% households. Supported by pioneering contributions from foreign insurers, a fund will be set up to provide insurance cover for those eligible. They will receive income support if they are diagnosed with critical illnesses or hospitalised. This policy intervention attempts to resolve the market's inability to provide such protection. Perception out there has been that this segment of the population is uninsurable, or from the perspective of insurers, too risky and likely unprofitable. We are taking a view that this is misplaced, and it will take proof to change this. Currently, we are still finalising the details and targeting the scheme to be fully operational in early 2019.

As insurance regulators, these emerging trends place new demands on our skill sets, expertise and competencies. We have seen the need to become more agile, pragmatic and experimental. We also need to be more open to new ways of formulating developmental policies and regulation. In this respect, we can learn from each other the evolving practices, environment and developments that we face in our respective markets.

As a group, I believe ASEAN regulators will continue to work closely towards achieving a consistent approach in driving the development of a holistic insurance ecosystem and infrastructure in the region. Regular dialogues and exchange of information among and between regulators and the industry will continue with new areas for collaboration, particularly in the management of risks and developments brought about by innovation. These include consumer data protection issues, rise of cybercrime, potential job loss or disruption, and rapid and unexpected climate change and natural disasters.

Closing

This week's ASEAN events continues our commitment towards promoting continued development in the insurance sector. The challenge herein lies with ensuring that the ASEAN insurance market has the capacity to reinforce the economic growth momentum and stand well-prepared against the evolving trends and risks. In doing so, we should never forget to uphold the highest standards of integrity, professionalism and ethics.