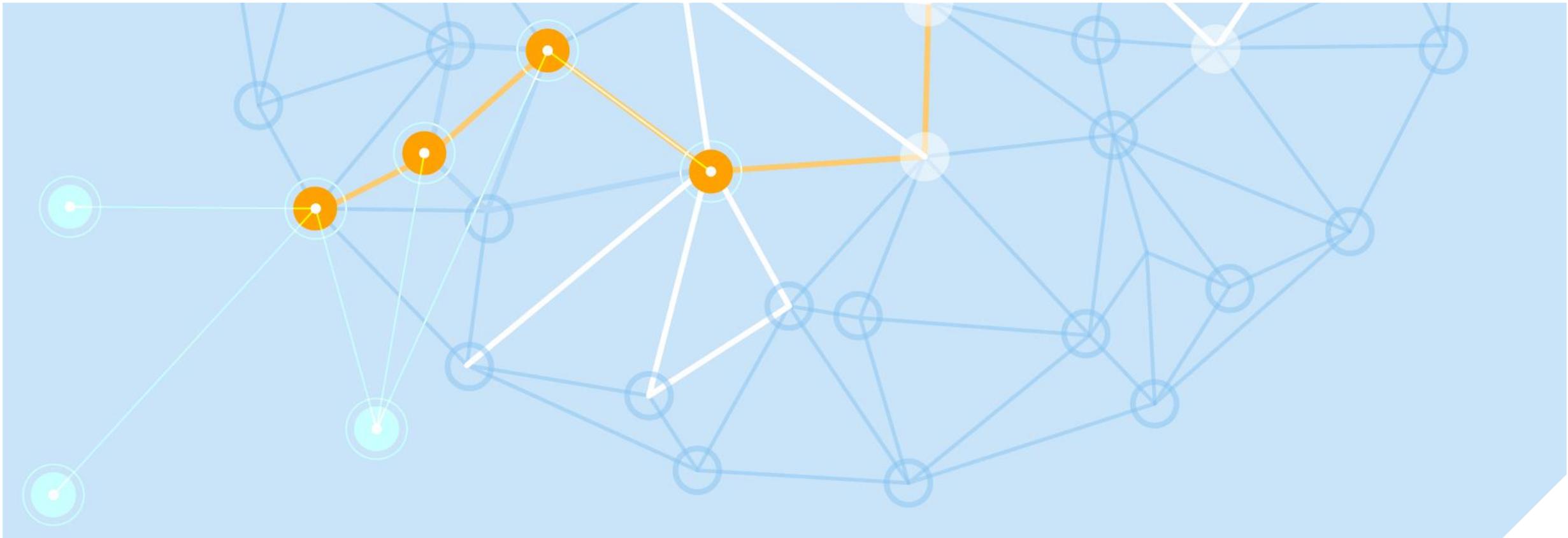


Measures to stimulate growth in the insurance sector

Key observations from other neighboring markets

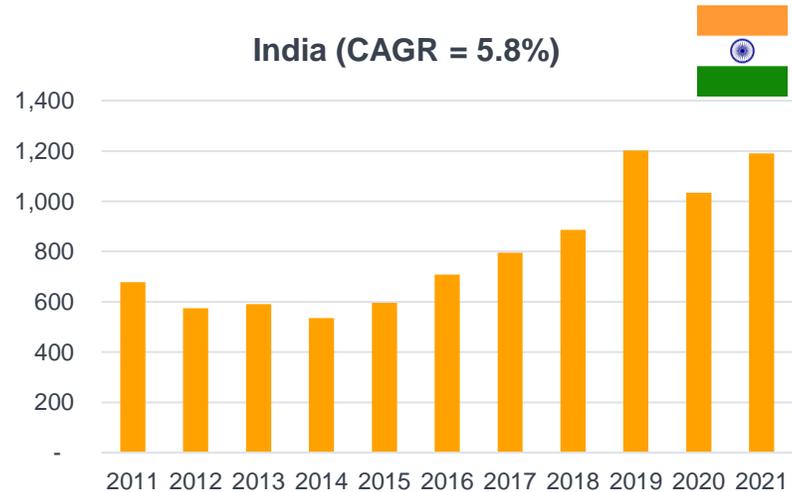
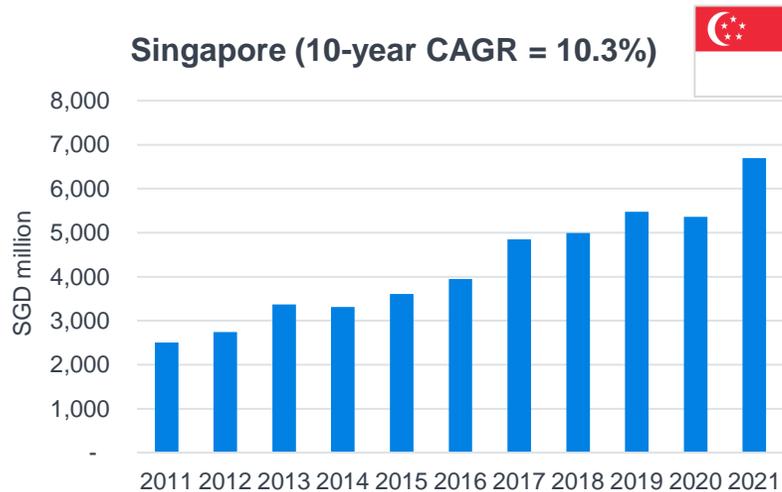
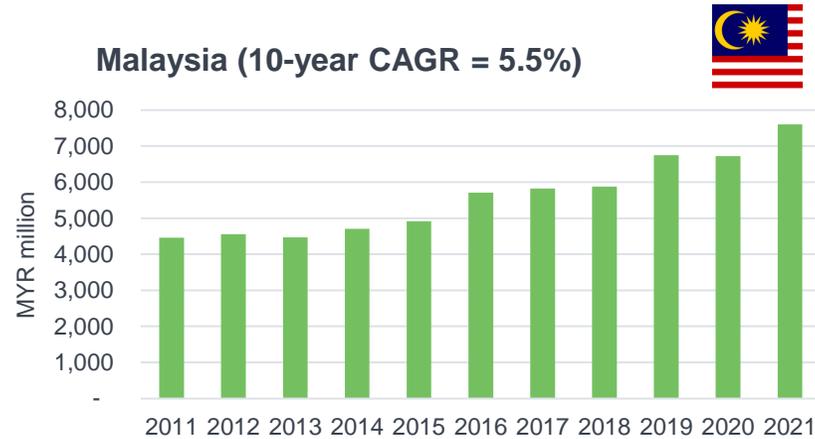
Richard HOLLOWAY
Managing Director South East Asia & India, Life

31 MAY 2022



Develop and articulate the ambition

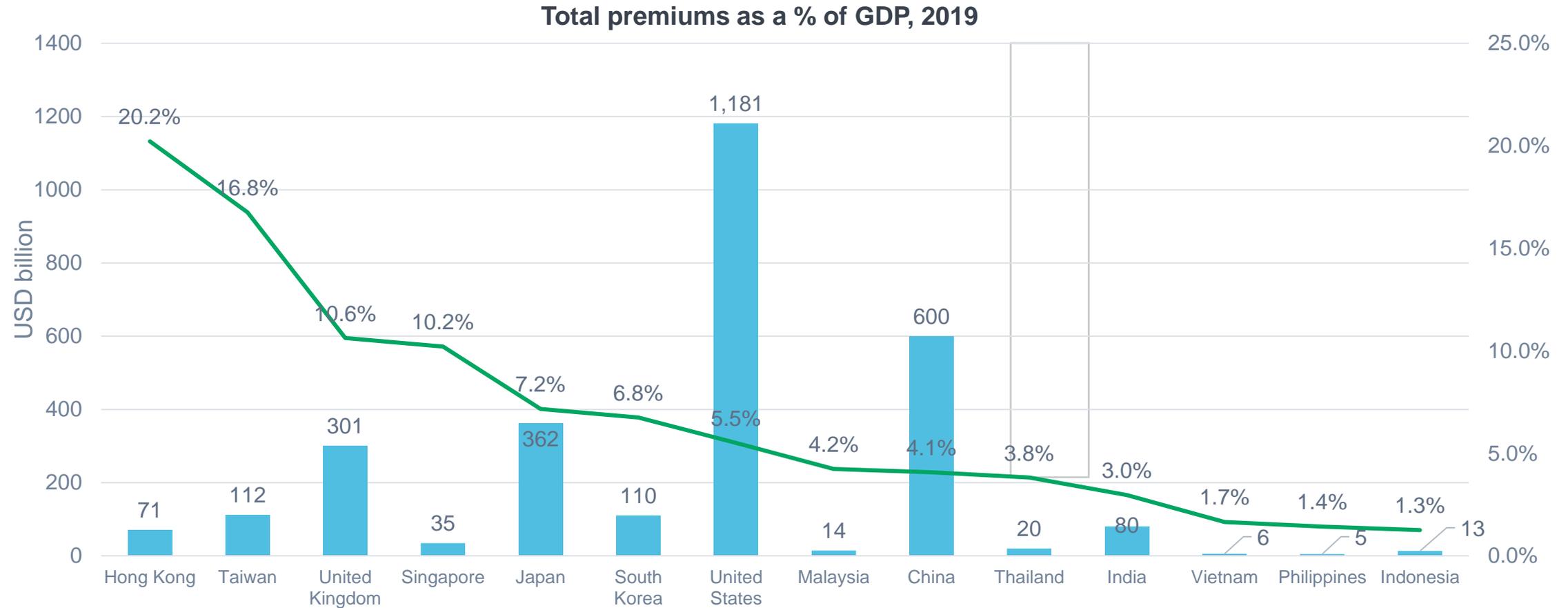
New business APE growth in Indonesia, Malaysia, Singapore and India



- New business growth across many markets has fallen short of expectations.
- Going back to 2013 we forecast growth of 7.0%, 8.8% and 16.3% for Singapore, Malaysia and Indonesia respectively (for a 5 year period).
- Actual recent growth (over 10 years) of 10.3%, 5.5% and 5.5% for Singapore, Malaysia and Indonesia respectively indicates how sluggish actual growth has been, especially in Malaysia and Indonesia.
- Understanding reasons for this performance will help to identify steps to achieve growth in the future.

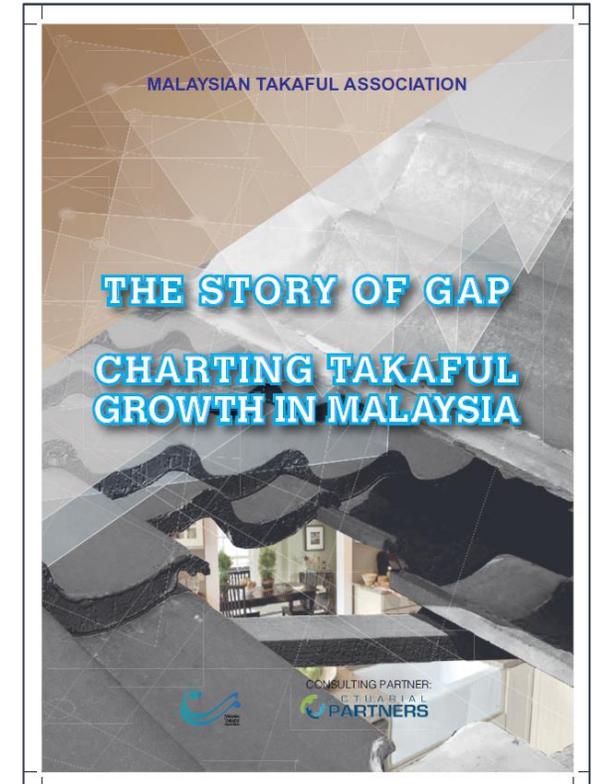
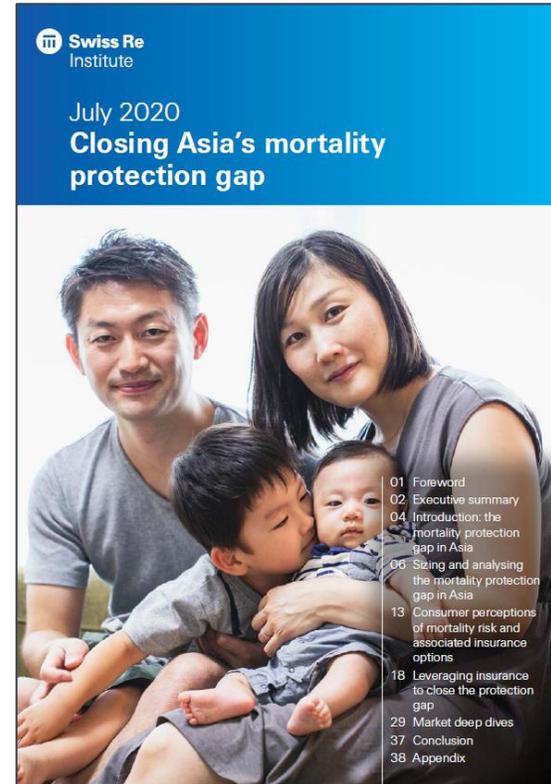
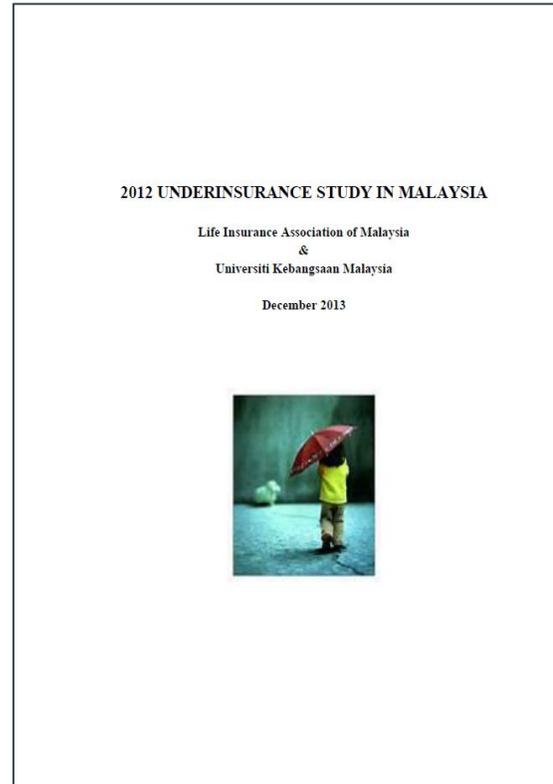
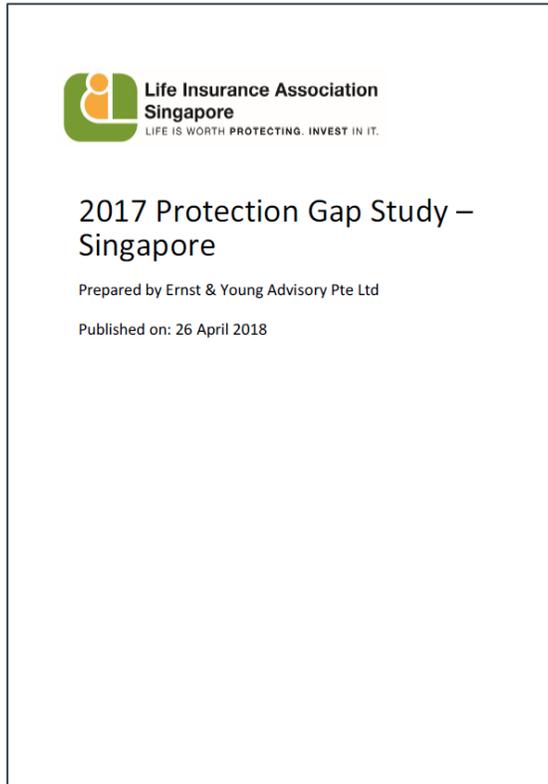
Develop and articulate the ambition

Life insurance penetration – a crude metric



Source:-Swiss Re Institute, Asia Mortality Protection Gap, 2020

Develop and articulate the ambition

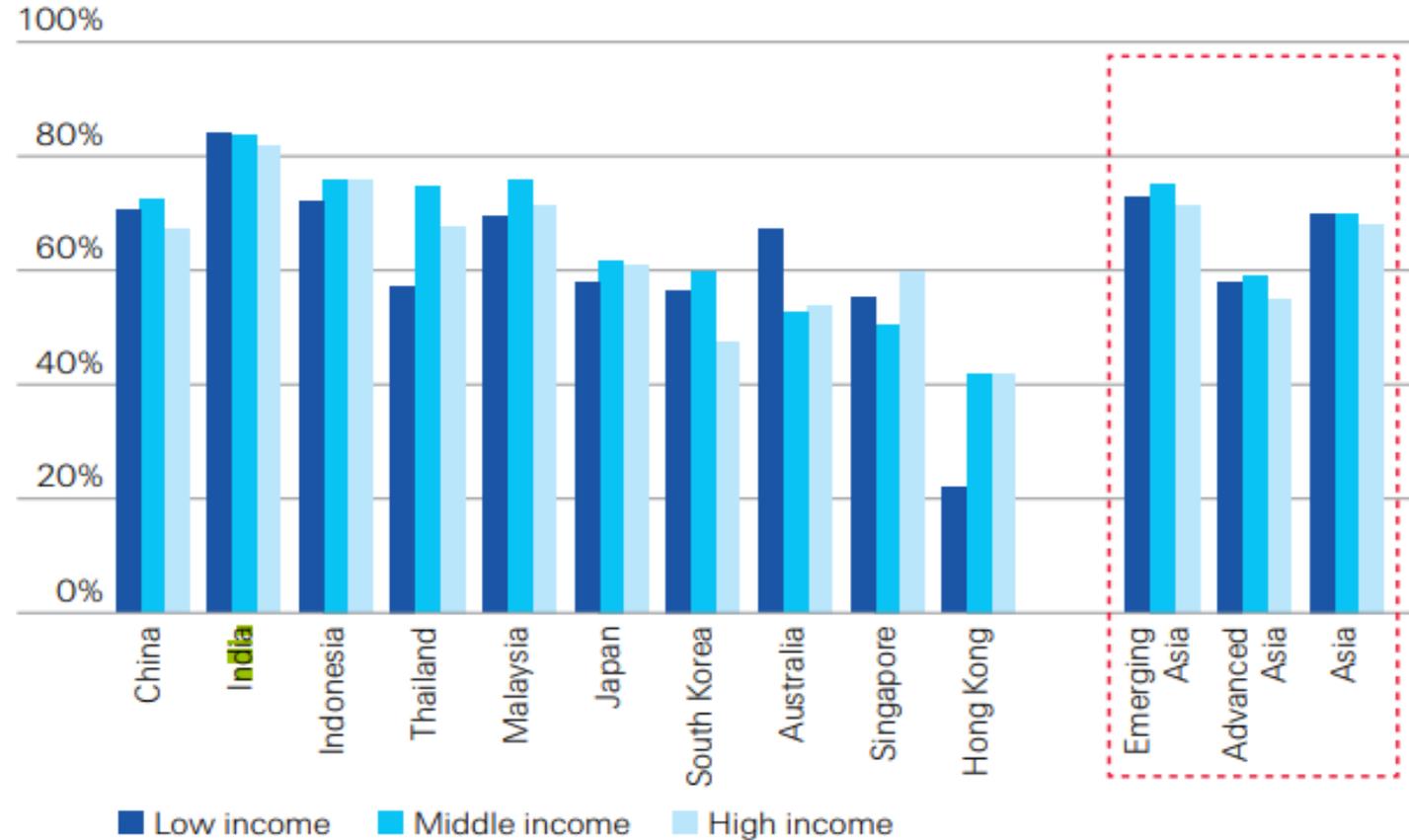


Regulators and industry bodies (and reinsurers) have commissioned various reports to assess the potential gaps across protection, retirement and other sectors. This helps to identify the potential growth for the industry.

Protection gap – Asia Pacific

Figure 5

Mortality protection gap as a percentage of protection need by income level



Source: Swiss Re Asia mortality protection gap survey 2019, Swiss Re Institute

Closing Asia's mortality protection gap | Swiss Re

Protection gap – Asia Pacific

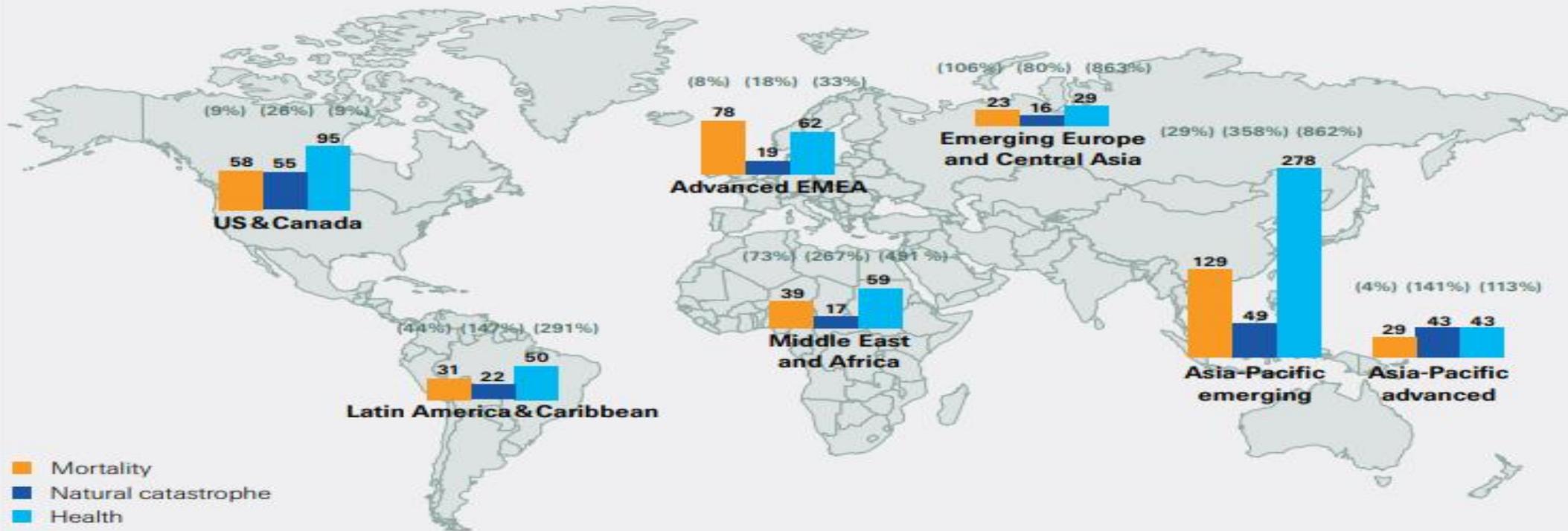
	Total mortality protection gap, 2019 (USD trillion)	Gap as share of total protection need	Call to action for life insurers and other stakeholders	Closing the gap: additional annual life premium opportunity, 2020-30 (USD bn)
China	40.6	70%	Target young professionals in Tier 1 and 2 cities; use digital channels to increase insurance penetration across age groups, and microinsurance for lower tier cities, rural areas; further develop digital underwriting and pricing capabilities	160.4
India	16.5	83%	Provide comprehensive rather than pure life products; bundle life cover with other small premium riders, such as accident, medical reimbursement and long-term care; simplify product design for better consumer understanding; sell/distribute simple bundled products through digital channels, and use agents for more complex and expensive policies with savings elements.	78.2
Japan	8.4	61%	Design more easy-to-understand products for all age groups, particularly younger generations; design customised solutions for under-served female earners, and use agents and brokers (not digital) as main touchpoints for this population; provide online calculations tools to help households understand (ie, not underestimate) their mortality protection needs.	17.2
South Korea	3.9	55%	Bundle life insurance with savings products to capitalise on consumers' desire for financial gain; given cultural importance of the family, design insurance solutions in the context of planning for family needs, retirement and bundling services in life insurance to help family cope with broader resource burden arising after death of main breadwinner.	9.7
Australia	2.8	54%	Educate households about mortality risk beyond the protection provided by superannuation funds and employers; simplify products for greater understanding, particularly among the younger generations; promote bundled products with riders on critical illness, accident or disability; link insurance promotions with life events such as having a child or a purchase of a first property; use omni-channel (digital, telephone, financial advisors) approach for outreach.	9.1
Indonesia	2.0	76%	Simplify products and improve explanation of value proposition to overcome perception of insurance as too expensive; promote pure mortality products and, in the current environment of low interest rates, move away from savings-type products to meet middle class expectations of investment returns; develop digital distribution channels and improve claims services.	8.5
Thailand	0.9	71%	Simplify products and improve explanation of value proposition to overcome perception of insurance as too expensive; tax incentives to promote uptake of life insurance; develop digital distribution capabilities and improve claims services.	2.9

Closing Asia's mortality protection gap | Swiss Re

Protection gap

Figure 9

Protection gaps in USD billion premium equivalent terms and as % of direct premiums, by region, 2018



Note: The numbers in parenthesis refer to protection gaps as % of total direct premium written for the respective line of business. For mortality it refers to the whole life market, including savings premiums; for property catastrophe it is all property premiums. The global protection gap in 2018 for mortality risk was 14% of total direct premiums written. For natural catastrophe risk it was 56%, and for healthcare 46%.

Source: Swiss Re Institute

sigma No 5/2019 - Indexing resilience: a primer for insurance markets and economies (swissre.com)

Develop confidence in the industry

The importance of Risk Based Capital (RBC)

Solvency 1 frameworks	RBC frameworks
India (contemplating RBC)	Singapore (RBC1/RBC2)
Hong Kong (about to move to RBC)	Malaysia
Japan (about to move to RBC)	Sri Lanka
	Thailand
	Indonesia (from circa 1998)

Indonesia framework was introduced following Asian Financial crisis in 1998. Very few changes since this time.

Developing confidence in the industry

Risk-Based Capital (RBC)



Indonesia

Indonesia's current RBC framework was largely designed in 1998 following the Asian Financial Crisis.

There have been few substantial changes since this time.



Singapore

Singapore introduced its first RBC in 2005 and recently modified this in 2020 just as the pandemic hit South East Asia. Features include:

- Modified risk charges for each asset classes
- Recognition of and treatment of guarantees
- Linking RBC with valuation of liabilities
- Requirement for an ORSA report (Own Risk and Solvency Assessment)
- Requirement for Stress Testing for the more significant insurers (to include liquidity and (recently) climate stresses)
- Tier1/Tier 2 capital
- Establishment of Risk Committees
- ALM frameworks

Singapore now operates in an environment where company management has a much greater understanding of risks within the business. Companies can take more risk but then have to demonstrate enough capital to cover these risks.



Malaysia



Thailand



Sri Lanka

All 3 countries (Malaysia, Thailand and Sri Lanka) have frameworks that are substantially similar in design to the Singapore framework.

Developing confidence in the industry

Enhance RBC in Indonesia



Scope to enhance Indonesia's RBC framework and to also improve internal governance practices



Increase minimum level of capital
(a higher barrier to entry)

To review the asset risk charges to reflect risks of underlying assets

To review the risk treatment for guarantees

To review trigger points for internal and regulatory actions and ensure compliance

To introduce ORSA and to strengthen the application of stress testing, with consideration of mitigating actions

Enterprise Risk Management requirements



To strengthen internal governance via Risk Committees

To develop a 'risk' culture within each company

To introduce ALM policies

To introduce stress testing as a routine internal management process.

Developing confidence in the industry

Swift action necessary to address deteriorating financial condition

Various solvency considerations:



Solvency has to be met 'at all times'.

Corrective actions (fund level and company level)

Financial projections/business plans and mitigating actions

Closure to new business

Inability to meet contractual obligations



Japan was the pioneer for addressing insolvent situations (in 1990s):

- Identifying the scale of the problem.
- Who pays?
- Options?/Treatment of guarantees/ Haircuts?
- Legal issues
- Practical considerations
- PR considerations

First one inevitably sets a precedent that can be applied to other situations

Developing confidence in the industry

Policyholders Protection Fund – Singapore / Malaysia



Policy Owners' Protection (PPF) Scheme (Deposit Insurance and Policy Owners' Protection Schemes)



Designed to protect policyowners in the event of a failure of a life or general insurer which is a PPF Scheme member

Levies are charges to life/general insurers in Singapore

The Fund provides some benefits in the event that a company is wound up or considered insolvent.

Encourages better governance (when companies have to contribute to the fund)

Deepen penetration

Focus products on specific sectors

Identification and target initiatives to lower income groups/underserved segments to protect against financial shocks.



Malaysia

- **B40 initiative**, mySalam scheme from 1 January 2019.
- Focus on hospitalization and critical illness protection.
- The *Perlindungan Tenang* initiative was also launched in December 2017, with participation from 10 insurance and takaful players to provide simple and affordable insurance and takaful products.
- Work performed to understand the needs and barriers, and to encourage solutions at affordable prices.
- Current microinsurance initiatives



India

- Focus has been on **social and rural** sectors
- Social sector includes the unorganized/ informal sector and economically vulnerable or backward classes both in rural and urban areas. At least 5% of business has to come from this sector (after 10 years of operation)
- For the rural sector (as per Census definition) life insurers have to write >7% (increasing to >20%) of total number of policies from these areas
- **Sponsored government schemes** e.g. Pradhan Mantri Suraksha Bima Yojana (PMSBY) sold by most banks/public sector companies.
-



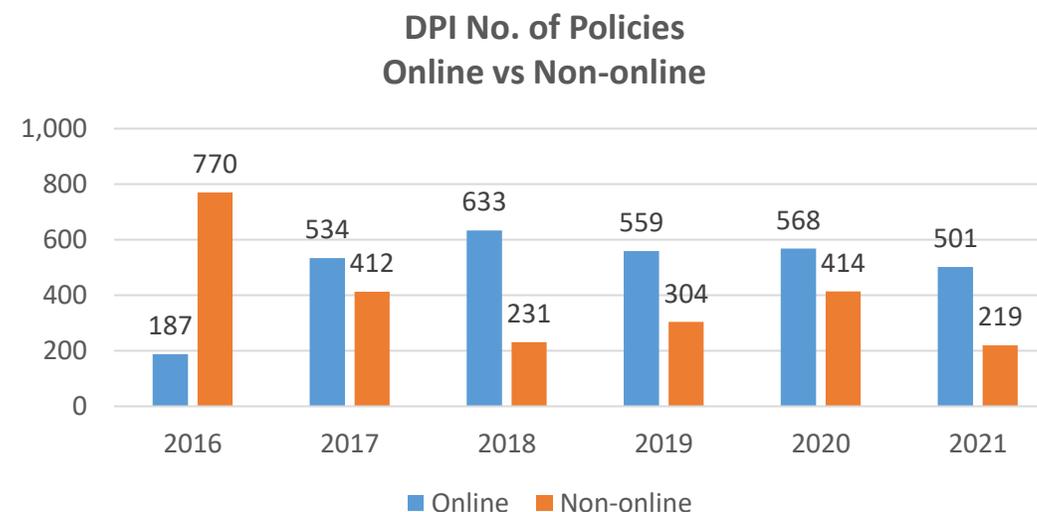
Singapore

- Although a more mature economy there has been recent focus on **'gig' workers** and insurance needs (eg hospitalization benefits, loss of income etc)
- A government committee set up to look at welfare needs of gig workers. (>200,000 pax)

Deepen distribution

A desire to make insurance more accessible and cheaper

- A real challenge to move the industry away from the traditional channels of agency and bancassurance.
 - But important to note their importance to the industry and their potential.
 - Challenges around:
 - Recruitment
 - Productivity
 - Geographical reach
 - Costs
 - Productivity levels in South East Asia are way behind levels in North Asian markets.
 - The dilemma facing CEO's and CDOs when remuneration is linked to performance (proven channels vs investment in new channels).
- Initiatives have been taken in both Singapore and Malaysia regulators to 'require' insurers to set up 'Direct to Consumer' products.
 - Singapore 'Direct Purchase Insurance'
 - Malaysia 'Direct Distribution Channels for pure protection products'.
 - Products have to satisfy certain rules: no advice, no commission, standard features (and so easy to compare).
 - Has however been slow to take off.



Deepen distribution

Open Architecture has had mixed success

Open Architecture across the bancassurance channel exists in some markets, examples being India (and Korea), as well as existing in Indonesia for credit life (where three providers are required).



- In India it is permitted across the whole range of products, but is not compulsory. Examples include HDFC Bank's 3 way tie-up with HDFC Life/ Aditya Birla Sun Life and Tata AIA Life (AIA).
- Has been developed to enable consumer choice and align with distribution practices relating to other financial products (e.g. mutual funds – HSBC, ICICI Bank distribute a wide array of mutual funds on their platforms)

Positive Impacts

- Greater consumer choice for bank customers
- Cheaper products for consumers (an improvement in policyholder IRRs under non-par guaranteed savings products)

Negative Impacts

- Insurers are less focussed on innovation and customization of products for bank customers
- Less investment in integrating insurer and bank systems and processes
- Bank staff have to learn about more products which can hamper insurance sales
- Can erode insurer's margins but boost bank payouts

Overall Indian government/regulator keen on Open Architecture as a way of promoting consumer choice and competition within the sector and hence it is likely to stay

Capacity building

To address the shortage of talent – example: Actuaries

As an actuary, it is worth highlighting some data relating to the development and growth of actuaries.

Country	 Singapore	 Malaysia	 India	 Indonesia
Fellow actuaries	470	270	473	225
Life Insurers	~ 20	~ 20 (incl takaful)	~ 20	~ 55 (excl Syariah)
Population (million)	6	34	1,300	273

- Data has to be carefully interpreted (e.g. Singapore is a regional base and India has a considerable number of ‘back office functions’).
- Indonesia lagging far behind in terms of numbers of Fellow actuaries.
- Pressure will only expand (regulatory changes, IFRS17, spin-offs etc)
- Roles for Guidance/Mentoring/Training.
- A need to consider and regulate for outsourcing?
- Too many companies?
- Regulation vs Self Regulation will follow as capacity is developed

Conclusions

**REBUILD CONFIDENCE
IN THE SECTOR**

**REVIEW CAPITAL
FRAMEWORK**

**DEVELOP A CULTURE OF
RISK MANAGEMENT**

**CAPACITY BUILDING
IN KEY AREAS**

**STRATEGIES TO PROMOTE
GROWTH AND PENETRATION**

**FOCUS;
BUILD STORIES OF SUCCESS**



Thank you

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