



TRUST RE

THE IMPACT OF REGULATION



**ASIAN INSURANCE AND REINSURANCE
SURVEY RESULTS 2018,
PART 4: THE IMPACT OF REGULATION**

OCTOBER 2019

WWW.TRUSTRE.COM

Introduction

At Trust Re, market research is part of our efforts to foster mutual growth with our clients. To this end, last year we commissioned a market research report on trends and developments in Asia. In this fourth and final sub report, we look at how regulation and any prospective changes in regulation could affect the development of insurance and reinsurance according to the survey participants and the locations where they operate.

The regulatory environment is an important factor in the development of any industry across the globe. Supportive laws and regulations enable continuous growth, while a complex and bureaucratic regulatory environment could be an impediment to progress¹.

In Asia, regarding the impact of regulation specifically for insurance and reinsurance sectors, most of those surveyed belonged to either one of two schools of thought: either the belief (expressed about many geographies) that the longer-term trend was liberalisation, as part of efforts to open and develop new markets. Or, in the shorter term, maintaining and strengthening regulations to 'protect' several local markets and reduce the amount of premium 'leaving' borders were expected.

The impact of "local penetration" regulation and the potentially significant influence of technology on market structure have the potential to exacerbate the challenges of plentiful reinsurance capacity (in many classes),

high price sensitivity and the potential for the commoditisation of some risks. Regulation permitting the sale of insurance online is expected to encourage the digitalisation of insurance carriers and is a positive response to consumer behaviour².

Regulations may give rise to some opportunities for change, for example based on capital and financial stability requirements and compliance needs. Of course, at the same time, it is expected to promote consolidation. The most obvious continuing impact may be the likely continuance and even extension of 'local retention' policies. While it is a generalisation, there is some truth in local reinsurers having stronger more trusting relationships and international reinsurers having greater technical ability to cover more complex risks.

As well as bringing forward specific issues, the survey participants raised some interesting general comments about how volatility and political upheaval affect the regulatory environment. They also signalled that uncertainty created by geo-political events could lead to a greater demand to mitigate and insure risk.

¹ <https://www.jlt.com/en-sg/insights/regulatory-updates/insurance-2019---regulatory-environment>

² Willis Towers Watson Asia Insurance Market Report 2018

Introduction (continued)

A number of areas could be affected by regulations, including:

- ▶ Making bank and insurance regulation equivalent
- ▶ Local retention
- ▶ Capital / financial strength requirements
- ▶ Compliance and transparency
- ▶ Promoting market growth
- ▶ Liberalisation
- ▶ Complexities incl. tax requirements

Naturally, there were differences of opinion about the same location. For example, in China, one participant believed that regulators would be more flexible as they wanted to attract more expertise and capital, and there would be more flexibility to open offices. On the other hand, some foresaw less flexibility. A further example of divergence in opinion came from Singapore with one participant saying that there needs to be incentives to maintain the sustainability of a regional hub because the need to attract foreign investment is continuous. Opposing viewpoints, however, expected the sector to become more tightly controlled or for there to be little change. Insurance companies in Asia Pacific face complex regulatory issues that can affect their ability to operate across multiple jurisdictions³.

Local retention

Regarding local retention, the majority of survey participants foresaw an increase in protectionist measures. Some in South Korea, for example, believed that insurance and reinsurance regulators want to limit the amounts of reinsurance based outside South Korea because it is not beneficial to the country to have an outflow of finance. From the brokers' perspective though it is seen as diversifying risk.

An insurer in Malaysia remarked that the local regulator focuses on optimising local retention.

“Every year we have to declare where our premium is going, whether there has been any outflow, and why did you need to do that. I see that as being the same for the next 3 years.”

(Insurer, Malaysia)

A Pan-Asian broker thought South East Asia would see more protectionism generally. The phenomenon is already evident in Malaysia and Thailand and it is expected to spread to the Philippines. If local insurance and reinsurance companies become more capable of taking on the risk, protectionism from this perspective is not necessarily a bad thing.

A broker with a focus on China thought that overseas reinsurers are still quite keen to develop the China market because of its sizeable growth opportunities each year. In the past, many have had concerns about capital flow and reinsurers have been worried about the ability to draw money from China to overseas. In the long-term, enhanced regulations should alleviate these concerns.

³ <https://www.nortonrosefulbright.com/en-us/knowledge/publications/c78f334b/insurance-regulation-in-asia-pacific>

Capital requirements

Opinions varied with regard to minimum capital requirements. Many believe that further mergers and acquisitions, and the birth of mega reinsurance carriers will follow.

In Malaysia, an extreme view is that minimum capital requirements are causing a significant reduction of local reinsurers yet other opinions show that strong reinsurers are likely to remain present, irrespective of capital requirements. On the insurance side, most Korean companies are trying to catch up with IFRS 17.

Capital management, in the form of risk-based capital, is a major development where regulations are more stringent. A respondent explained that tightening of the regulation with regard to how companies manage their capital could lead to more scrutiny of reinsurance programmes. Ultimately, this is considered a positive move to ensure that ceding companies have sufficient reinsurance.

“Insurance development in Brunei is small and the premiums are small. Regulators are expected to implement Risk Based Capital in 2020 and IFRS 17 in 2021. These changes will create stable and sustainable insurers and insurance market. This will in turn generate greater public confidence on the capability and capacity of the insurers.”

(Brunei)

Compliance and transparency

Compliance and transparency, always important, are likely to grow in importance because for products, the emphasis will shift to protection and risk transfer. Consequently, for reinsurers, there will be more compliance needed around the risk transfer nature of insurance products. It will provide much needed support and control around continued product innovation and the expected growth of the China market. At the same time, know your customer and compliance checks are becoming increasingly stringent. Insurers and reinsurers need to stay abreast of the local market and associated regulatory changes. They should be working with each other to meet compliance needs.

Promoting local market growth

With regulatory support, insurance schemes are implemented faster. This can only be of benefit to both the insurer and customer. One such example mentioned in the survey was the setting up of an agriculture pool. The Chinese government's support for it meant that deals were set up extremely quickly. A similar scheme for Singapore was thought not to have much impact on Singaporean agriculture whilst in Thailand, the government normally supports such programmes but they could push even further to make it compulsory.

Liberalisation

A respondent in Malaysia said that the insurance market is at the liberalisation stage. The role of the regulator is ultimately to ensure that the end customer enjoys the benefits of insurance and at the same time ensures that insurance companies follow guidelines. A participant in South Korea commented that the market reference rate used to be important whereas now, the Financial Supervisory Service (FSS) allows primary insurance companies to set their own rates based on their own pricing tools. Approaches are more diverse and there is more price competition.

Complexities and tax requirements

Complexities and tax requirements shape opinion and perception of regulations as well. A broker in Singapore believed that tax systems are becoming increasingly difficult to understand and navigate. In Malaysia, a broker commented that reinsurers would need to understand the requirements when assessing risks. Some markets are hesitant to provide documents, for example the tax invoice, with some even unable to see the need to provide such documents for compliance purposes.

Conclusion

Regulation is one of the factors shaping insurance and reinsurance markets in Asia, alongside economic conditions, technology and customer behaviour. To have a holistic view of future developments in Asian insurance markets, it is important to see how these factors fit together rather than viewing them in isolation. Technological advancements, for example, can affect customers' demand for insurance and their purchasing behaviour (by making it easier to buy online) while at the same time bringing cyber risk to the fore. In sum, the evolving needs of the market drive regulatory change.

Certainly, continued support from Asian insurance regulators is necessary for the growth of the economy and for societies to close their insurance protection gaps.

References

The Outlook for Insurance and Reinsurance in Asia (Trust Re 2018)

<https://www.jlt.com/en-sg/insights/regulatory-updates/insurance-2019---regulatory-environment>

Willis Towers Watson Asia Insurance Market Report 2018

<https://www.nortonrosefulbright.com/en-us/knowledge/publications/c78f334b/insurance-regulation-in-asia-pacific>

*Copyright © 2019 Trust International Insurance and Reinsurance Company BSC (C) (“Trust Re”)
All rights including the Authors’ rights are reserved to Trust Re*

Title: Asian Insurance and Reinsurance Survey Results 2018, Part 4: The Impact of Regulation

Authors: Labuan Regional Centre, supported by Sally Meikle (Communication Specialist) & Planning and Performance Management Department, Trust Re.

