

Revolutionising financial inclusion through Digital Insurance and Takaful

Promoting inclusive insurance in Malaysia

April 2023



Gaps within Malaysia's uninsured and underinsured

Significant protection gaps still exist in Malaysia, among the more vulnerable groups

Compounded, unanticipated economic and business disruptions from the COVID-19 pandemic and the emergence of climate-related disasters have significantly increased the need for financial protection for the uninsured and underinsured communities, and smaller businesses which are most susceptible to external shocks. This segment of the market is vast and remains largely untapped, with most not being able to adequately access or afford formal insurance coverage. Fundamentally, this has prompted the need to reassess insurance and its role in promoting financial inclusion in our society and economy.

Malaysia's Life Insurance and Family Takaful penetration rates of 54% in 2022 and 19% in 2021 respectively, is a long way from the 75% target set by Bank Negara Malaysia ("BNM") in 2017. Insurance penetration among small and medium enterprises ("SMEs"), which are integral to the growth of the Malaysian economy, is currently at 15%, exposing them to higher business and financial risks, and potential losses.

54% Malaysia's Life Insurance penetration rate¹

19% Malaysia's Family Takaful Insurance penetration rate²

42% of adults own at least one Life Insurance policy or Family Takaful certificate³

15% of SMEs⁴ have insurance/ takaful cover

Note: ¹Life Insurance Association of Malaysia data as of 2022

²Malaysian Takaful Association data as of 2021

³BNM's Financial Sector Blueprint 2022-2026

⁴Definition of SMEs:

1) Manufacturing sector - firms with sales turnover not exceeding RM50 million or number of full-time employees not exceeding 200

2) Services and other sectors - firms with sales turnover not exceeding RM20 million or number of full-time employees not exceeding 75

Source: PwC Digital Insurance and Takaful Survey 2023, PwC analysis



Understanding the needs of the uninsured

A recent survey by PwC highlighted protection gaps among the uninsured and underinsured¹ in Malaysia and key reasons for this

In February 2023, PwC Malaysia carried out a nationwide survey among individuals and SME businesses with over 1,000 respondents, to assess the current insurance and takaful landscape in Malaysia, and to gauge the likelihood of digital insurance/takaful adoption. Key findings indicate the following:

Who are the uninsured population?

84% of whom are between 18 to 34 years old



Why are they currently uninsured?

- 1 Limited awareness and knowledge of insurance products
- 2 Expensive insurance premium and fixed commitments
- 3 Difficulties accessing insurance products

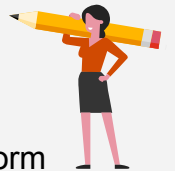
Top 3 insurance products which the uninsured currently need most

- 1 Medical and health insurance
- 2 Life insurance
- 3 Personal accident insurance



What would the presently uninsured look for in digital insurance/takaful?

- 1 Real-time updates
- 2 Claims processing automation
- 3 Easy access to provider's platform



On the whole, whilst open to consider Digital Insurance and Takaful in the future, currently most Malaysian respondents indicated a preference for purchasing insurance or takaful face-to-face

Based on our market scan and research, here are some illustrations of digital insurance value propositions to the underserved in South East Asia.

“We believe nobody should have to choose between protecting themselves and their loved ones or being uninsured due to cost. It is imperative that we make insurance easy and affordable, so it is more accessible to those that need them the most.”

- Founder & CEO of Fi Life, Malaysia
Fintech Malaysia

“At FWD Takaful, we pride ourselves in taking a customer-led approach and aim to provide easy access to innovative family Takaful products to all Malaysians... we want to create fresh customer experiences supported by digital technology.”

- CEO of FWD Takaful, Malaysia, iMoney

“Thailand’s digital insurance channels have significant room for expansion, especially from digital-first players who can effectively implement the digital direct model by leveraging the latest technologies.”

- International Finance Corporation (IFC)
IFC’s press release

Note: ¹Indicated by insurance non-subscription

Source: PwC Digital Insurance and Takaful Survey 2023, PwC analysis

PwC Malaysia | Digital Insurance and Takaful Thought Leadership

Business vulnerability drives the need for insurance and takaful

InsurTechs and incumbent insurers/takaful operators can expand their outreach by catering to the needs of small and medium-sized businesses

53% of the uninsured and underinsured¹ segments surveyed were Micro SMEs (“MSMEs”) (between 5 to 29 employees). Key observations from the survey:

60%

cited **increasing business vulnerability** as the main motivator to purchase insurance and takaful

Top 3 pain points contributing to low insurance penetration among MSMEs

- 1 Expensive insurance premium
- 2 Difficulties accessing insurance products
- 3 Lack of knowledge and trust

Top 3 insurance products sought by MSMEs

- 1 All risks insurance
- 2 Group medical insurance
- 3 Loss of business income due to business interruptions

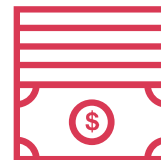
What MSMEs are looking for in Digital Insurance and Takaful



Price transparency and lower insurance premium



Faster and easier purchasing process

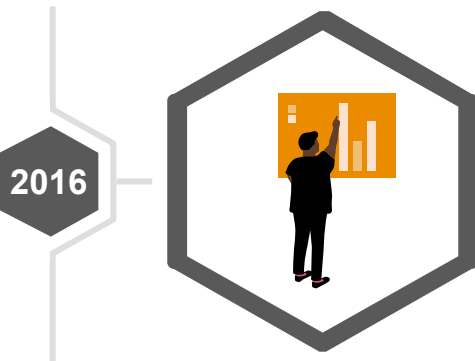


Microinsurance

MSMEs are seeking products that offer holistic coverage, particularly insuring against business interruption risks due to regional trade market or climate events, and liability risks in the medical field due to the pandemic.

Regulations, a key enabler for Digital Insurance and Takaful

BNM is making positive strides to create an inclusive financial system by proactively supporting digitalisation in insurance



Development of Financial Technology (FinTech) Regulatory Sandbox...

An important breakthrough in the digitalisation of the regulated market and for the country overall, which encourages innovation by granting regulatory flexibilities for FinTech solutions with clear value propositions

111

Applications submitted to date

28%

of applicants from insurance sector¹

6

currently in the sandbox

Insurance applicants currently in the sandbox¹

Company	Product	Start Date
Fi Life Sdn Bhd	Life insurance	Feb 2023
Tune Protect Ventures Sdn Bhd	SME EZY	Jan 2023
DearTime Bhd	Life insurance	Jun 2022
Vsure Tech Sdn Bhd	Flexi-Fit	Aug 2021
Qoala Technology Sdn Bhd	Qoala.app	May 2021
Jirnexu Sdn Bhd	RinggitPlus	Oct 2017

Digital Insurers and Takaful Operators (DITO) Framework Exposure Draft (November 2022)

BNM aims to issue up to five DITO licences to applicants who demonstrate their commitment to championing:

1 Inclusion



Serve the uninsured or underinsured

2 Competition



Innovative insurance/ takaful products

3 Efficiency



Convenient and seamless consumer experience; cost savings through digitalisation

2022



Note: ¹Data as of Jan 2023

Source: Bank Negara Malaysia, PwC analysis

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Driving customisation through digitalisation of insurance



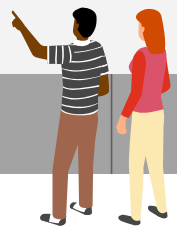
7.5%

Digital insurance forecast growth rate in Asia-Pacific from 2023-2028

Higher adoption of digital insurance expected among the uninsured and underinsured¹, with a growing middle class and an increasingly digital population

Currently, digitalisation of insurance is largely driven by InsurTechs in the market, focusing on customers' increasing needs for **transparent, accessible and affordable insurance**

Moving forward, Asia-Pacific is expected to be the fastest growing digital insurance region with a projected **CAGR of 7.5%** from **2023 to 2028**, as insurance companies brace themselves for higher adoption of digital insurance among the underserved, striving to fulfill a market gap for financial security and resilience



Key themes driving adoption of Digital Insurance and Takaful in Malaysia

Shifting customer expectations for seamless omnichannel experiences

Customers increasingly expect a holistic experience from fully-integrated insurance platforms offering personalised engagements across a range of different channels

Supportive regulatory environment to encourage digitalisation in insurance

BNM has played a significant role in supporting increased insurance penetration through key initiatives and pioneered the development of a DITO licensing framework to promote financial inclusion

Rising demand for digital insurance driven by younger demographic

Digital insurers are accelerating their digital marketing efforts (e.g. bundling of insurance coverage with well-known, trusted brands for goods and services purchased online) to promote greater digital insurance take-up

Growing interest for customised and more affordable insurance

MSMEs and the B40 community have greater preference for bite-sized insurance catering to their financial circumstances (e.g. on-demand), and with more flexibility (e.g. daily/weekly premium)



Note: ¹Uninsured and underinsured include individuals who are retired, unemployed, or have long-term disabilities; and businesses facing business interruption, cyber risks, or climate-related risks

Source: Mordor Intelligence, PwC analysis

Digital insurers serve customers anywhere, anytime

Malaysia's insurance industry is being transformed by digital innovations

InsurTech players are emerging in Malaysia and within the region, targeting the wider unaddressed insurance market. Based on our observations, InsurTech players can be broadly categorised into 3 archetypes:

1

Platform/Marketplace

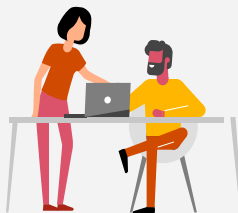


Aggregator distributing insurance products digitally via partnerships with incumbent insurers

Examples: PolicyStreet, Qoala, Bjak

2

Facilitators

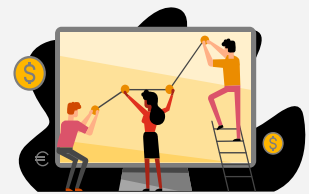


Technology partner providing digital backend solutions (e.g. SaaS) to incumbent insurance players, powering their digital insurance platform

Examples: Bolttech, Zhong An

3

Full-stack InsurTechs



End-to-end digital processes for customer onboarding, product development, underwriting, sales and distribution, and financing of insurance products and solutions

Examples: Tune Protect, VSure, DearTime, Fi Life



The InsurTechs in Malaysia are currently observed to be mostly **platforms** and **facilitators**, primarily focusing on aggregation and digital insurance distribution through partnerships with insurers.

Looking ahead, BNM envisions InsurTechs playing an integral role in driving financial inclusivity through innovative insurance solutions using enhanced technology leveraging customer data and predictive analytics.



Leveraging data and analytics - to focus on the customer

In their race to scale rapidly, global InsurTechs have gained strong traction by addressing critical pain points of targeted customer segments

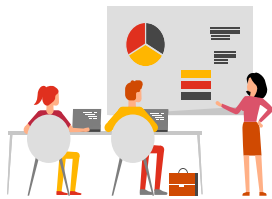
Let's look at how leading InsurTechs have disrupted the industry within a short time:

3

Key value propositions of InsurTech players:
Personalisation, Affordability, & Accessibility



Pure play InsurTech built on trust



Reinventing conventional insurance

Promotes **transparency through pricing, claims, and communications** to redefine current perceptions of millennials toward insurance providers

Cultivates brand loyalty among its targeted customer base of millennials through an **attractive and engaging brand identity**



From platform provider to pure play InsurTech



Making insurance affordable for the uninsured/underinsured

Curates **affordable, customisable and integrated microinsurance policies** targeted at the underinsured segments, offered through a large network of **over 100 strategic partnerships** with insurers and ecosystem providers

Provides support through **simplified customer onboarding and claims processes**



Full-stack InsurTech



Lower insurance premium through cloud-based technology

Leverages big data, real-time risk assessment, and end-to-end automated claims management to develop **customised B2B2C insurance solutions**

Passes on **tech-enabled cost savings** to target customers who are mainly underinsured, low to mid-income population in SEA through lower premium insurance offerings

InsurTech has attracted private capital investments

Robust interest seen in digital insurance in South East Asia (SEA), with InsurTechs attracting growth capital from global and local private investors, insurance and fintech players



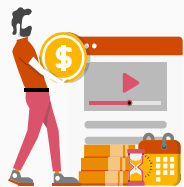
Insurers embracing digital innovation by partnering with fintech players to offer microinsurance solutions



Opportunistic investors seeking next wave of growth by capitalising on potential of digital insurance at scale in SEA



Investments by insurance technology providers to build regional scale and enhance capabilities



Recent funding rounds of InsurTechs and fintech players offering embedded insurance (e.g. e-wallet players offering microinsurance) in SEA - majority with regional expansion plans to serve the large, underinsured regional markets at scale

Company	HQ	Recent Fundraising Round/Type	Date of Fundraising /Acquisition	Deal Size (USD m)	Lead Investors (Non-exhaustive)
● Roojai		Series B Series A	Mar '23 Oct '18	42 7	Talanx Group (DE) World Bank's IFC (US)
● Qoala		Series B+ Series B	Mar '23 May '22	7.5 65	responsAbility (CH) Eurazeo (FR)
● Igloo		Series B	Nov '22	46	InsuResilience Investment Fund II (DE)
● Bolttech		Series B Series A	Oct '22 Sep '21	Total not disclosed 247	Tokio Marine (JP) Activant Capital Group (US)
● FairDee		Series B	July '22	65	Eurazeo (FR), KB Investment (KR)
● PolicyStreet		Series A	Sep '21	6	Altara Ventures (SG)
● Sunday		Series B	Sep '21	45	Tencent (CN)
● Insurepro		Acquisition	Aug '21	0.4	AEON Credit (MY)
● PasarPolis		Series B	Sep '20	54	LeapFrog Investments (ZA), SBI Investment (JP)
● Boost		Fundraising	Jun '20	70	Great Eastern (SG)

● Platform ● Facilitator ● Full-stack InsurTech

Transitioning incumbent insurers to digital

Incumbents challenged as InsurTechs strive to play a more prominent role in the insurance value chain

The rise of InsurTechs is reshaping our traditional insurance industry, targeting the larger pool of the unserved and underserved insurance market and the more digitally inclined customers, by offering financial solutions tailored to specific customer requirements

While many InsurTechs currently still rely on incumbent insurance players to underwrite risks, this is expected to change with the introduction of DITO licences, giving InsurTechs better control over the entire value chain, and an opportunity to develop innovative insurance solutions, and build their underwriting capabilities based on advanced data analytics

Incumbent insurers charting their way to play in this new market

Many of the larger insurance companies have started to embark on digitalisation initiatives and have acquired or partnered with InsurTechs, while others pursue an ecosystem strategy with the intent of ultimately managing or owning the entire insurance value chain (e.g. Ping An)



Strengths of incumbent insurance players versus new entrant disruptors:



Strong **brand equity**, supporting customer acquisition



Access to **large, well-established market distribution channels**



Integrated omnichannel sales and distribution strategy



Deep pockets to invest and support growth and innovation

Building a cohesive digital ecosystem strategy

Why the rise of ecosystems?



Evolving consumer needs and behaviours

- Prevention over protection
- Experience-focused (seamless/no friction)
- Digital savvy



Advances in digital and data

- Open digital platforms (e.g. APIs/microservices)
- AI/Advanced analytics
- InsurTech innovations



New sources of value and growth

- Innovate through tapping into non-traditional sources (e.g. Internet of Things)
- Creating value for stakeholders



Non-traditional competition

- Strong interest from Big Tech, auto manufacturers, PE firms and others to enter the market
- Value chain disintegration and reduction of entry barriers

“The ecosystem model provides services first and then offers products, ... we believe this will be a global trend in the financial industry in the future.”

- Chairman of Ping An
Financial Times

“Ecosystems enable us greater opportunities to differentiate ourselves while at the same forging long-term customer relationships built on loyalty and trust.”

- Head of the New Models Unit of Allianz Partners
Allianz Partners press release

5 Key ecosystems of relevance to insurers

Illustrative examples:



Health

Connected health and wellness; medical plans



Finance

Financial health; integrated insurance; retirement-related services



Mobility

Telematics for auto insurance; travel-related services



Home

Telematics for home insurance; elderly care, pet care-related services



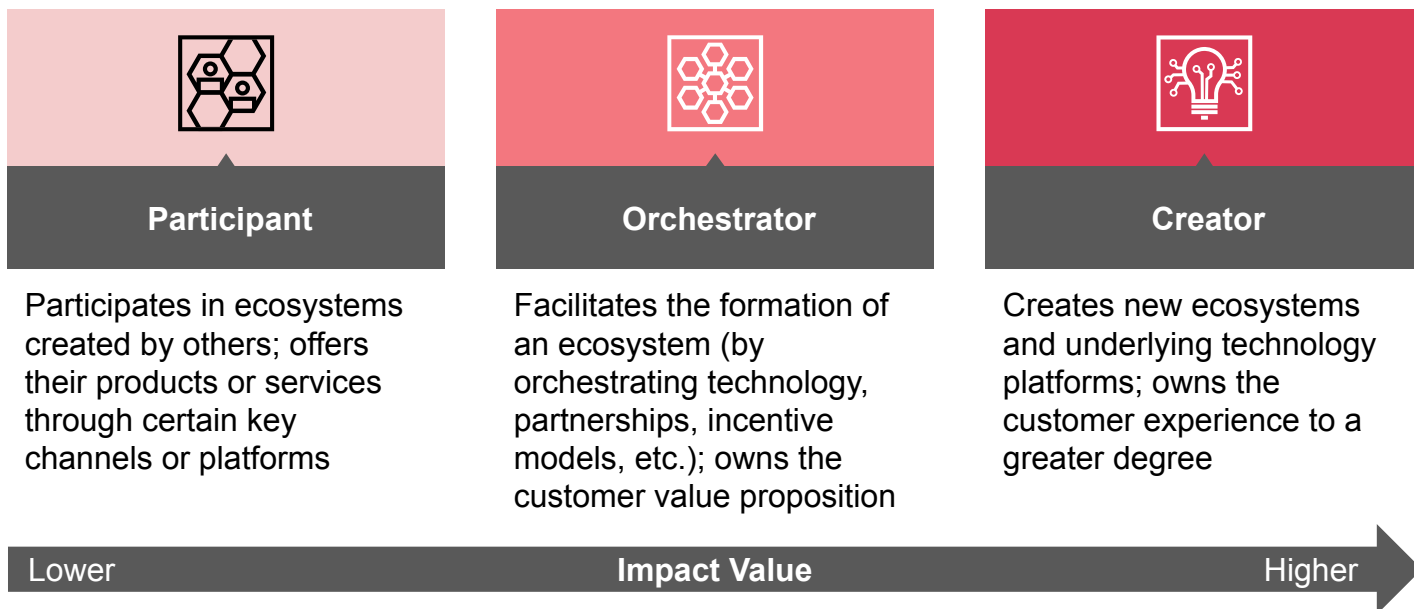
B2B

Small businesses; smart factory; gig economy

← Opportunity to integrate offerings beyond core insurance products →

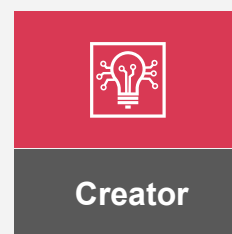
Case study of a successful creator of digital ecosystems

Insurers can play different roles within a digital ecosystem



Case study: Evolving from a traditional insurer to becoming a digital ecosystem creator in China

Creator of five key ecosystems, with each business offering new, lower-cost, personalised insurance and other financial products to its customers, catering to different scenarios in their lifecycle



Healthcare



Financial services



Auto services



Real estate



Smart city

Accessible, Innovative & Convenient
“One-customer, multiple products and one-stop services” model

36% of new customers were converted from its five ecosystems’ services as above

Benefits of digital ecosystem play (Creator):

- Market leadership and first mover advantage
- Cross-selling as the main strategy to monetise offerings from its five free platforms as above
- Higher customer engagement and stickiness with 12% CAGR of users from 2018 to 2022, further driving revenue growth of 3% over the same period

Digital insurance reimaging the customer journey

Insurers and InsurTechs are redefining the customer experience

Digital technology can enhance the customer journey - by offering a seamless and integrated experience through omnichannel touchpoints and personalised products and communications, helping insurers deliver excellent customer experience

From...

Bulky customer experience

Complex policies; lengthy onboarding process

Lack of transparency in processes such as claims approval

Physical submission and tedious paperwork

No transparency in status of claim

Long claims settlement

...to

Seamless customer experience

Simple, tailored, and bite-sized insurance products; seamless onboarding process

Opportunity to offer peripheral value added services

Simple claims settlement with automated assessments and digital approval

Real-time updates and communication

Straight through processing (i.e. automatic & seamless renewal)



Catalysed by digitalisation

The future of Digital Insurance and Takaful in Malaysia

...as we envisioned

1 Increasing access and affordability to insurance

DITOs and InsurTechs have the potential to bridge the financial inclusion gap by providing agile, affordable and customised on-demand solutions to protect the vulnerable and enhance their financial resilience

2 Groundbreaking, tech-enabled innovations in insurance solutions

Insurers will need to embrace and adapt to emerging technologies in insurance to address the needs of customers today and tomorrow

3 Promoting competition and greater efficiency

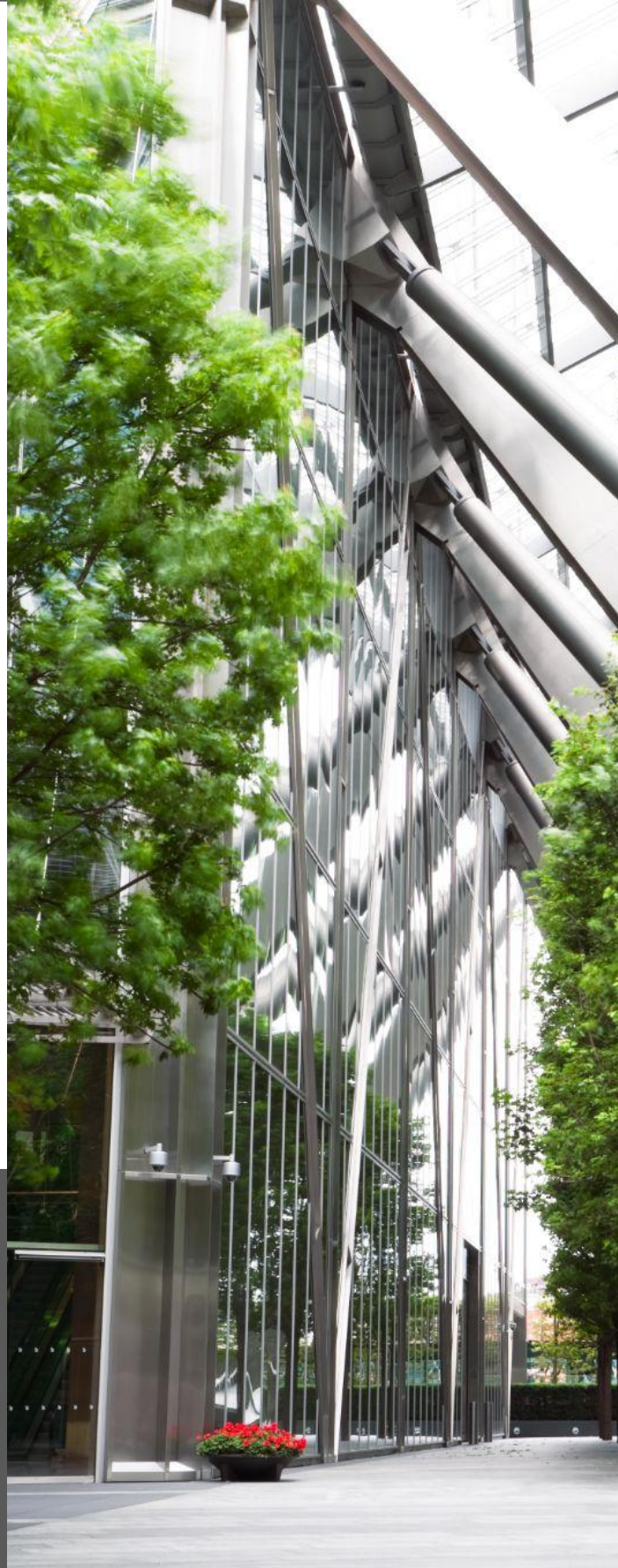
DITOs are anticipated to foster competition in the insurance market by introducing diverse product innovations and providing superior customer experience, through greater efficiency and transparency

“

DITOs are expected to contribute to a more inclusive, competitive, efficient insurance and takaful sector, in line with evolving needs of consumers.

”

- Bank Negara Malaysia
BNM's press release



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