

What makes a winner?

A PwC overview of the Digital Insurance
and Takaful landscape in Malaysia

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Change is imperative to winning

As we break away from business-as-usual, insurers around the world will need to consider more complex challenges including the impact of climate change on risk profiles, the implications of exploring new and multiple digital platforms, and the increasing expectations from customers who want more custom-made products.

All the while, technology has continued its relentless advance and an emerging player ecosystem is threatening to shake up customer acquisition. As a result, industry executives now have to make an array of deliberate and aggressive strategic choices to succeed. Incremental change or hoping to avoid change altogether are no longer viable options.

Despite all the disruption and the new entrants trying to take advantage of it, many incumbents are maintaining their competitive advantage that others cannot easily replicate. The stagnant levels of product penetration in Malaysia means that there are still growth opportunities in most market segments for multiple players. Insurers should focus on one or more of the following areas for strategic transformation and new business acquisition:



Digitisation, data and integration



Brand and distribution



Superior, innovative products



Strategic partnerships



Effective structuring



Commitment is an act, not just a word

While most insurers and takaful operators do try to focus on their strengths, they also typically could invest more in these areas and act with more urgency; doing otherwise would likely result in a race to the middle. We often advise clients that they need to **fully fund and support** their way to play and hold themselves accountable for the results. In other words, desired outcomes will not be achieved without proper actions.

While industry players may have been able to get away with an approach that merely looks at financial goals, they will need to consider what it takes to continue challenging the status quo, including the strategic direction of the business, their purpose and what innovation really means to them. Private equity, asset managers and other new entrants are moving quickly, with great focus and discipline, to capitalise on industry disruption. Companies that lack strategic focus are likely to lose out compared to companies who are clear with their short and long-term strategies.

Real-life examples:

Ways to play

Leading industry players aren't relying on past success. They're defining new ways to remain relevant and grow.

Data and integration: Digital Simplification Operator



Leverages advanced tech and data capabilities to create a seamless, digital-first experience from quote and sale all the way to claims. Features ease-of-use, simplicity, and competitive prices.

Distribution: Ecosystem orchestrator



Creates an integrated ecosystem (typically via partnerships) that offers customers "more than just insurance," focusing on distribution and product offerings to win at the point-of-sale.

Products: Unmet needs customiser



Develops innovative, differentiated, and customised products to address unserved/underserved segments or new, emerging risks via advanced analytics and pay-as-you-go pricing.

Partnerships: Platform services innovator



Extends core capabilities by offering products and services to other carriers, distributors or other adjacent businesses. Creates scale by funding differentiating competencies and experiences.

Structuring: Economic value creator



Employs a lean operations focus to compete competitively on price and enable investments in key strategic areas.

An overview of what makes a winner

Based on our global experience working with all segments of the industry, we have observed that the most successful insurers and takaful operators in today's environment have a few key traits in common:

- **Define a strategic direction and say “no” to what doesn’t fit.** Simply setting financial goals is not enough. Committing to a way to play, then continuing to do everything you did before while funding whatever else that comes along, is not a strategic direction. Leaders know how to prioritise.
- **Fully fund their strategy.** They do not shortchange big bets or dilute key investments with allocations to less vital areas. They are typically able to make these investments because they have implemented structural, financial and tax approaches that minimise their cost ratios.
- **Get creative with products.** They are able to identify new product categories (as opposed to just adding new features) and have the brand strength to deliver them. For example, early movers are designing products that take into account two increasingly important issues: stakeholders’ environmental, social and governance (ESG) concerns.

- **Get involved in partnerships and make deals to meet strategic goals.** Inorganic strategies have a long history in the industry but have picked up steam recently as industry players focus on core competencies and enhancing technology. In fact, partnerships and deals have become a necessity for most insurers and takaful operators to enable their chosen ways to play. They take part in ecosystems and invest in InsurTech. Although most of these kinds of investments aren’t game-changers on their own, when they get the acquiring company closer to a strategic goal, they are worth it.

That said, the best ecosystems and InsurTech innovations in the world may not make much of a difference if these do not align with the strategy of insurers or if they are not executing their strategy correctly. As insurers and takaful operators find new partners, technologies and business models that align to their core principles or strategic growth plan, they can test their value and determine whether or not to adopt the innovation or maintain the partnership.

Are you able to give customers what they want?

Product selection factors in flux

2018

- 1 Competitive price
- 2 Discount offers
- 3 Prior interactions
- 4 Brand name

2021

- 1 Competitive price
- 2 **New**—Product variety
- 3 **New**—Product expertise
- 4 **New**—Digital offering

(Source: PwC 2021 survey of 6,000 insurance customers)



Technology platforms that drive strategy

Having a clear and consistent strategy will not be sufficient if your technology can't enable it. Every business leader we have spoken to recognises that investments in new technologies are the best way to facilitate market access, risk selection and management, quality financial information and customer service capabilities.

However, we have seen many industry players grapple with sticking to a coherent strategy beyond “digitisation.” There is often a lack of clarity and correspondingly vague goals about how these substantial investments relate to the business. The above discussion of funding a competitive advantage also applies here. Industry players should fully invest in ways that build on their strengths and hold the organisation accountable for the results.

Customers (and employees) increasingly expect insurers and takaful operators to be as easy to work with as an online retailer—and new entrants are responding to their needs. Incumbents risk losing customers and employees if they don't catch up.

A truly strategic technology platform features:

- A **core processing system** that efficiently issues policies and contracts, enables payments and keeps track of finances. You don't need additional features for their own sake, but you do need something that does the essential job of helping you achieve scale faster.
- **Digital data and integration capabilities** that enable access to and understanding of your own data and from third parties to inform management decisions and enable new capabilities.
- Vital **customer/distributor/employee-facing systems** that support your call centres, customer chat and walk-in-locations. They enable insurers to immediately determine client identities and service histories to quickly solve customers' problems. Moreover, an effective integration layer facilitates quick incorporation of new partners and solutions into your digital capabilities.
- **Reporting and compliance platforms** that provide high quality data, facilitate accurate financial reporting and accounting, and enable effective compliance.
- **Cloud**, because it won't be efficient for insurers to support their own infrastructure anymore. Those that do risk it being an impediment to operational flexibility. Practically everything in insurance and takaful eventually becomes a margin game with the advantage going to insurers and takaful operators that can scale effectively, drive out cost, and achieve broad price competitiveness. Those with adaptable cores that can be quickly configured for new innovations—a key advantage of cloud technology—can achieve this scale faster.








Malaysia: The growing trend in insurance and takaful digitalisation

Consistent with our observations on the global insurance market, the Malaysian insurance and takaful market has experienced accelerated digitalisation due to increasing demand for digital insurance and takaful products as firms pivoted online to maintain their operational resilience in the face of extended nationwide lockdowns and strict social distancing measures.

This trend will continue and be an important driver for growth in the Malaysian insurance and takaful market. Enhancing individuals' protection has always been one of the aspirations of Bank Negara Malaysia ("BNM"), as highlighted in the Financial Sector Blueprint 2022-2026, where a target to increase the insurance/takaful penetration rate of 4.8-5.0% (as % of GDP) has been set. Digital technology plays an important role in achieving this as it enables distribution of insurance and takaful coverage to the wider population and innovative solutions to penetrate new customer segments. As a result, the topic of digitalisation is also high on the agenda of BNM.

Digitalisation is extensively discussed in the Financial Sector Blueprint 2022-2026, and has also been identified as one of the strategic thrusts critical to achieving the following outcomes; finance for all, finance for transformation and finance for sustainability.

Insurance/Takaful landscape in Malaysia Year 2022

		No. of industry players
	Life Insurance	14
	Family Takaful	11
	General Insurance	22
	General Takaful	4
	Sandbox (Insurance)	4

Source: BNM List of Licensed Insurance Companies & Takaful Operators, BNM Regulatory Sandbox applications

The Financial Sector Blueprint 2022-2026 outlines four key strategies for the advancement of digitalisation of the financial sector, taking into consideration the associated risks to stability that accelerated digitalisation can bring:



1. Futureproof key digital infrastructure



2. Support a more vibrant digital financial services landscape



3. Strengthen cyber security readiness and responsiveness



4. Support greater use of technology for regulation and supervision

As part of the initiatives to enhance pathways for digital innovations to test, scale and exit, BNM's Regulatory Sandbox requirements will be refreshed to allow incumbent financial institutions to test their innovations more quickly and flexibly, supplemented by principles-based testing parameters.

BNM also aims to license new Digital Insurers and Takaful Operators in 2023 upon finalising a **regulatory framework for Digital Insurers and Takaful Operators (DITOs)**.

In preparation of the finalisation of the regulatory framework, a Discussion Paper on the licensing framework was issued earlier this year by BNM.

Key Highlights from BNM's Discussion Paper on Licensing Framework for DITOs

1

Expanding protection to include segments such as ageing population, SMEs and new risks (e.g. cyber threats)

2

The Framework challenges applicants to provide meaningful solutions not currently offered by traditional operators

3

Notable interest towards risk-sharing protection models and schemes

4

Proposed lower paid-up capital requirement of RM40 million. Length of Foundational Phase to be determined.

5

Licensed DITOs to operate wholly online with limited physical footprint

The DITOs are expected to deliver value propositions on 3 fronts outlined below:

Inclusion

Enhanced financial resilience for the underinsured

Competition

Innovation to cater for diverse protection needs

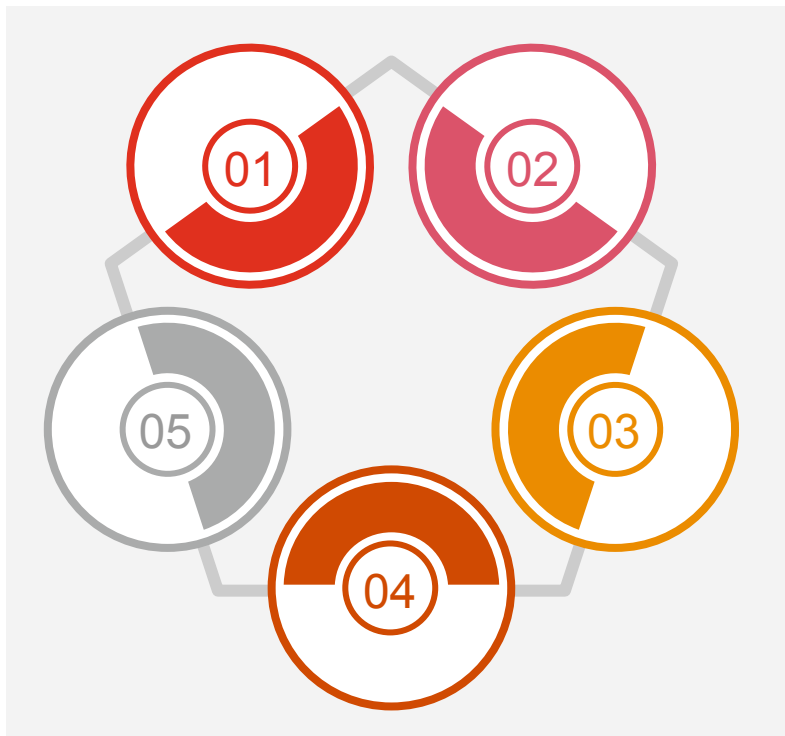
Efficiency

Frictionless customer experience with improved cost savings

Source: BNM Discussion Paper on Licensing Framework for Digital Insurers and Takaful Operators ("DITO") and BNM Financial Sector Blueprint 2022-2026

What makes a winning DITO?




To succeed, DITO players need to have a unique value proposition to develop a sustainable business model, apply the right technology solutions and human capital resources.



- 01 Unique value proposition**
Create unique and differentiating value propositions by understanding customer needs to differentiate yourself from other traditional/established digital players as well as to enhance customer user experience.
- 02 Sustainable business model**
Identify potential strategic options and prioritise the overall way forward based on strategic objectives (e.g. breakeven period, commercial vs reputational prioritisation).
- 03 Adoption of transformative technology**
Reimagine and simplify the insurance/takaful sales, services and operations model by leveraging next-gen technology across digital, data and automation (e.g. AI/tech-assisted underwriting, claims and servicing).
- 04 Deploying talented people**
Identify the right talent to drive the business from the strategic and technology angle.
- 05 Compliance with regulations**
Comply with various regulatory requirements (e.g. capital and risk management requirements, cybersecurity, Risk Management in Technology or RMiT requirements).

Using technology to achieve competitive advantage

Investing in the right transformative technologies is imperative to building differentiated and sustainable DITO propositions. Here are three potential use cases based on the guiding value propositions proposed by BNM.

Value Proposition	Inclusion	Competition	Efficiency
Possible Approach	<p>Deliver affordable and tailored products based on customer profile to penetrate the underserved and unserved market</p>	<p>Deliver innovative protection solutions with new upsell and cross-sell capabilities embedded in partnership ecosystems</p>	<p>Transition legacy systems into lean, secure, and digitally scalable platforms with greater agility and automated processes</p>
	<p>Analyse complex and large data sets from alternative sources to achieve a new degree of market intelligence. Create specialised products based on a comprehensive understanding of preferences and behaviours of new and old customers.</p> <ol style="list-style-type: none"> 1 Micro or subscription-based insurance 2 Pay-As-You-Use models 3 Risk distribution models 	<p>Open new revenue streams through an Insurance-as-a-Service model with discrete touchpoints and a diverse product suite personalised to customer needs. Reach customers where they are looking to transact with seamless sales journeys.</p> <ol style="list-style-type: none"> 1 Value-added or bundled protection 2 Emerging and specific online risks 3 Consumer wearables 	<p>Enable a future-ready technology backbone (e.g. applications, API gateways, microservices and cloud infrastructure) that allows for reliable, rapid and responsive delivery of technology and business initiatives</p> <ol style="list-style-type: none"> 1 Automated underwriting, claims and fraud detection and eKYC processes 2 Flexible and adaptive product engine 3 Game-changing 360° sales dashboards
Tech Examples	 <p>Big Data & Analytics</p> <p>Leverage insights from alternative data sets (e.g. lifestyle, platform, payments, behaviour - sources more relevant to insurable events) that can drive product strategy, pricing innovation, and underwriting capabilities</p>	 <p>Open APIs & IaaS Platforms</p> <p>Enable real-time integration across multiple internal and external platforms to enable rapid go-to-market capabilities in environments native to the customer with increased sales potential</p>	 <p>Core Transformation</p> <p>Unlock the organisation's servicing potential with back-end operations that aligns with business aspirations. Set the right base for adoption of transformative technologies such as Machine Learning and Artificial Intelligence.</p>

To formulate the best plans, start by asking the right questions

Considering the multitude of technologies available in the market, how can insurers and takaful operators, both new and old, decide on the best approach for their business? Does implementing a technology strategy always have to correlate with high investment costs or massive operational overhaul?

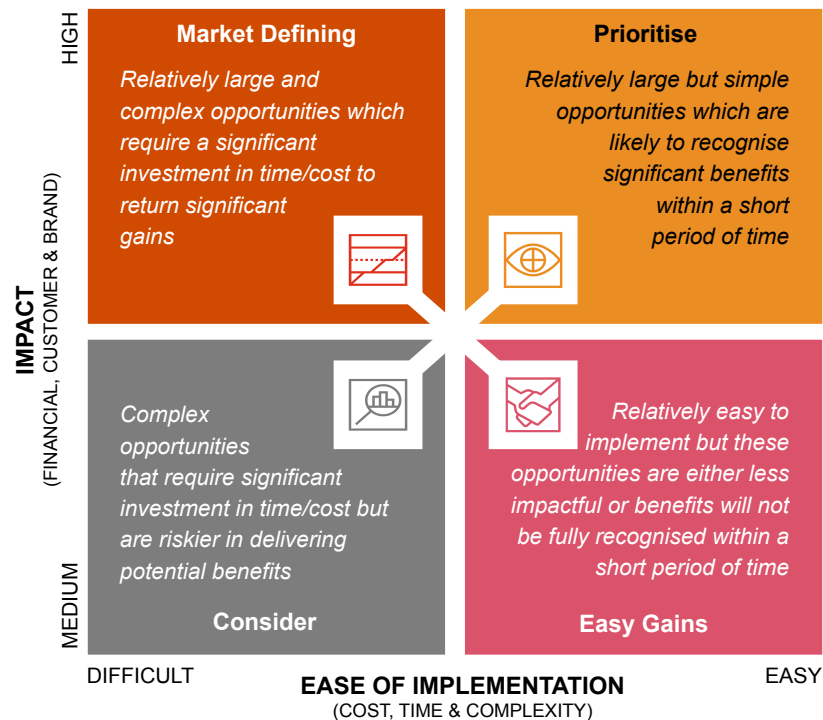
The answer lies in assessing each technology initiative through an **impact-led approach**, complemented by an assessment of the initiatives' ease of implementation. By doing it regularly, insurers and takaful operators will be able to identify clusters of opportunities within the supposed complexities and organise them into a right-fit action plan to scale their business.

Not all technology initiatives are equal. An insurer and takaful operator will have to decide which of those capabilities are **Easy Gains** and **Priorities**, and which are **Market Defining** or still require further **Consideration**. By keeping a constant view of these strategic levers, an insurer and takaful operator will know which initiatives to leverage as a response to the ever-changing market environment and customer preferences.

For example, a technology investment such as migrating core applications to a cloud infrastructure (e.g. claims processing, billing, and underwriting systems) – may fall under the prioritisation quadrant for many insurers seeking operational efficiency and expense reduction. But given the time needed to facilitate such transformation, what are the other easily applied technologies insurers can adopt to seize opportunities immediately while building out capabilities for the future?

At PwC, we tackle these questions daily. Leveraging our Digital Insurance and Takaful frameworks with an in-depth understanding of operational processes and functional design, we can provide insights and benchmarks of emerging DITO platforms globally.

We enable our clients to understand the good practices in the industry, and implement the best way forward.



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