THE EDGE MALAYSIA JULY 15, 2024

Buzz over likely applicants for digital insurance licences

BY **ADELINE PAUL RAJ**

Fintech (financial technology) and insurtech (insurance technology) firms, as well as a few established digital insurers in the region, are seen as the likely applicants for a digital insurance or takaful operator licence in Malaysia, experts say.

Applicants may include PolicyStreet (an insurtech backed by Khazanah Nasional Bhd that sells insurance online to businesses and consumers), Bjak (a Malaysian insurance platform that offers car and motorbike insurance), Fi Life and DearTime (online life insurer players), according to industry sources.

Many of the start-ups in Bank Negara Malaysia's Regulatory Sandbox, launched in 2016 to provide a regulatory environment conducive for fintech and innovation, are also likely to be interested as they look to move up the insurance value chain, the sources say. As at June 19, there were 34 cumulative applicants in the sandbox within the insurance sector.

Speculation over possible applicants surfaced after Bank Negara issued a policy document last Tuesday (July 9) outlining its licensing and regulatory requirements for digital insurers and takaful operators (DITOs). This followed an extensive consultation with the industry that started from the time it issued a discussion paper on the licensing framework in January 2022.

Boost, the fintech arm of Axiata Group Bhd, has shut down talk of its pursuing a DITO licence.

"Boost has no plans to apply for a DITO licence at this time. We will continue to offer digital micro-insurance solutions for our users and remain committed to working closely with regulators to improve access to affordable insurance," its group CEO Sheyantha Abeykoon said in response to an email from *The Edge*. Boost has a digital bank — Boost Bank — in partnership with RHB Bank Bhd.

Bank Negara is giving potential applicants a two-year window from Jan 2, 2025 to Dec 31, 2026 to submit applications. Before doing so, they will have to consult the central bank, starting from this October.

Interestingly, Bank Negara is not limiting the number of DITO licences to just five like it did for digital banks. It said it would issue licences to any DITO that meets its requirements.

"We are likely to see an influx of applicants from insurtechs, including those offering Insurance-as-a-Service (IaaS), foreign insurers eager to establish a presence in Malaysia and large conglomerates with diversified interests and existing infrastructure for digital insurance," Deloitte Malaysia financial services leader Justin Ong tells *The Edge*.

Experts say applicants are likely to form consortiums, the way digital bank applicants did.

"I think most applicants will be consortiums. A successful DITO applicant would be a combination of [companies] that have wide customer access, strong product and underwriting experience, and good tech/data capabilities. I believe that to achieve this, it is best served with some kind of partnership formation, but whether it's on an equity or non-equity basis, it is too soon to say," says Ravi Kittane, a financial services partner at EY Malaysia.

Industry sources say Bank Negara is understood to be open to having "big digital insurance players from Asia" participate in the industry. These could include China's Ping An and Hong Kong's ZA Insure. "The intention is to have the big names introduce innovation and excite the market a bit," one source says.

It remains to be seen if incumbent insurance/takaful companies would have much interest in a DITO licence, considering that they can already carry out such business on their existing licence.

"They can already do digital [business] without a DITO licence, and, on top of that, they can use their agency platform. So, the only ones for whom it may make sense to [get a DITOs licence] are those that do not have takaful businesses and that may want to have a takaful option," says Liew Chi Min, a PwC Malaysia partner who oversees the DITOs business.

It is understood Allianz Malaysia Bhd and Manulife Holdings Bhd are among incumbents that do not currently have takaful businesses.

Responding to queries from *The Edge*, Allianz Malaysia says: "While the management regularly reviews and considers any business opportunities that aligns to the business model and core values to drive the business forward, including DITO, it is essential for us to review the framework first before making any decisions."

Meanwhile, Deloitte's Ong opines that incumbents are unlikely to be incentivised to apply for a DITO licence. "It is highly likely no, in view of the opportunity of the traditional ITOs (insurance and takaful operators) to distribute their products via the existing online channel without requiring a separate licence, a significant investment in technology and infrastructure, as well as the market uncertainty where most existing players might adopt a wait-and-see approach before committing to a new licence."

According to Kittane, incumbents fall into three broad categories. "In the first category are those that are clearly not interested because they want to digitalise on their own and may not believe in the [DITO] business model. The second are those who are definitely interested and looking for either partnerships or solutions. And the third are those who think, 'Hey, let us see how things pan out and if there is a viable value proposition or partnership that comes my way'."

Meanwhile, when it comes to the newly licensed digital banks in Malaysia, industry sources point out that they are likely to pursue insurance partnerships that can prove lucrative and, hence, may not want a separate DITO licence.

Companies said to be keen on applying for a DITO licence

PolicyStreet | Fi Life | BJAK | DearTime

For example, GXBank — the digital bank owned by Grab, Singapore Telecommunications and a consortium of Malaysian investors, including the Kuok Group — had in May announced a 10-year exclusive bancassurance partnership with Zurich General Insurance Malaysia Bhd and Zurich Life Insurance Bhd to co-create micro protection products for underserved Malaysians.

As for Grab, it has been working with Chubb to offer insurance products to its drivers and delivery partners for several years now.

Meanwhile, PwC's Liew says the extended application period and the availability of more than five licences means we likely won't see the same rush to apply for the DITO licences as we did with the digital bank licence applications.

"Companies have more time to formulate a compelling and sustainable value proposition, as the extended application period and the increased number of available licences reduce the competitive pressure seen previously when only five licences were available within a shorter six-month application timeframe," he notes.

Bank Negara requires DITOs to maintain a minimum paid-up capital of RM30 million during the foundational phase. This is lower than the initially proposed RM40 million and also much lower than the RM100 million that licenced digital banks are subjected to.

"The relatively lower entry requirements, combined with a longer foundational period of up to seven years, are positive steps that will facilitate the entry of more parties with innovative ideas into the insurance and takaful market," Liew says.

While the foundational phase for a licensed DITO — basically, the period for it to demonstrate its viability and operational soundness — is up to seven years, it can apply to exit this phase after three years.

DITO applicants are required to submit a seven-year business plan to Bank Negara, as well as a sound and feasible exit plan should they one day be required to exit the business.

'DITOs must find niche'

Bank Negara said its policy document aims to facilitate the entry of licensed DITOs "with strong value propositions to serve the unserved and underserved market, provide competitive offerings and enhance consumer experience via the adoption of advanced digital technology and innovative business models".

DITOs will use web-based or mobile-based applications to distribute their products. They are not allowed to use insurance or takaful agents.

Applicants must demonstrate their capability to close critical protection gaps in Malaysia. These gaps include financial protection for "retirement, gig workers, unemployment, liability, long-term care, business interruption, cyber risks and climate-related risks".

EY's Kittane says DITOs have many opportunities in Malaysia. "If you think about segments, the mid-to-low income earners with families are definitely under-protected. The SMEs, especially micro SMEs, are quite underserved. There is definitely opportunity in asset management and wealth protection for the mid-market segment (as opposed to the high net worth segment). Health [insurance] is also definitely another opportunity. So, really, there are various opportunities."

He adds: "I think the DITO applicants need to be creative [in terms of] finding the right spaces where they can play. I don't think a DITO player can be all things to all people. It needs to identify a market segment in which it can be successful, and be very focused and build meaningful value propositions around that niche."

Experts agree that the upcoming DITOs will certainly disrupt the industry and that incumbent insurers would do well to step up their game.

"I think DITOs will certainly lead to disruption [in the industry]. First and foremost, there will be a level of dynamism that will come into the market. This was seen even with the digital bank experience, they brought excitement and dynamism into the market," says Kittane.

"Customers should expect to see more personalised insurance products as well as efficiency in areas such as claims management and underwriting. There will be some interesting value propositions and innovative business models, especially around embedded insurance. We have seen the growth of embedded insurance here in Malaysia and across the world.

"Initially, [DITOs] will focus on simplified and bite-size products and then, over a period of time, they will expand their capabilities."

Kittane expects that there will be more interesting things to come from the incumbents in response to DITOs. "They will definitely start adopting newer strategies [to compete], whether it is through new products, capabilities and business models. So overall, I think this is really good for the market and customers."

He adds: "I think if you can really embed insurance into the customer journey, for example, in the home buying or medical journeys, then the insurance penetration rate will improve. This is exactly what Bank Negara is trying to achieve as well."

Ong says incumbents must innovate to remain competitive. "As DITOs are mandated to meet the ICE (inclusion, competitiveness and efficiency) value propositions, we will likely see more choices for the consumers on top of traditional insurance solutions, leading to better pricing tailored to their needs, coupled with an enhanced customer digital experience. However, the critical question is whether the consumer market is ready for such innovation — that is, the paradigm shift of buying insurance online without the involvement of an agent," he notes.

Surge in DITO players worldwide

Experts observe that while there has been a surge in DITO players globally in recent years, not many have reached critical scale. They cite several examples that DITO players here can emulate.

"I think Pasar Polis in Indonesia is one. There are some really interesting models in India such as Digit Insurance, which focuses on simplifying insurance. Obviously, Ping An in China is a role model as well. In Hong Kong, Bowtie, which is primarily a health and life insurer, has done quite well. I think they have 8% market share in the digital space and 3% overall. Across the world, you can think of the likes of Bubbles and Lemonade," says Kittane.

Closer to home, Singapore-based SNACK by Income is redefining micro-insurance in an innovative way, shares Deloitte's Ong. "It allows users to accumulate protection coverage through daily activities while offering flexibility to adjust their coverage up or down based on their lifestyle. This approach exemplifies how DITOs can tailor their products to meet the dynamic needs of the modern consumers, making insurance more accessible and relevant to everyday life."

Interestingly, in Singapore and Hong Kong, those interested to become DITOs can apply at any time for a licence.

Singapore does not currently differentiate between digital and non-digital insurers when it comes to licensing. Any interested party can apply for a licence, subject to the central bank's approval.

It is a similar environment in Hong Kong, where applicants can apply for authorisation from the Insurance Authority of Hong Kong through a fast track regime.