CIMB AVIVA

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# Battle for Asean market

## Major insurance companies angling for market share amid fast expanding economies

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A FLOURISHING middle class and a burgeoning economy driven by domestic and intra-regional trade, Asean looks set to become a battlefield for insurance giants clamouring for a piece of the pie.

With the foundation of 150 years in business, Sun Life Financial Inc is the new kid on the block in Malaysia, and it has set its eyes to grow its business in wider Asia exponentially.

"We have been in Asia since we started our Hong Kong operations in 1892. However, Asia is still a relatively small portion of our company overall earnings at only 8% in contribution," says Dean Connor, the head honcho of Canadian insurance giant Sun Life Financial Inc.

He tells *StarBizWeek* that the group intends to bring that percentage up to 15% by 2015, doubling its current position.

"By making Asia one of our four pillars of growth, we really want to commit to Asia and make it a larger percentage. As we look at the markets we are operating in like China, Hong Kong, Indonesia, Philippines, Vietnam and India, we like prospects in Asean," he says.

With a population of 600 million in the region, the company who, with Khazanah Nasional Bhd, bought CIMB Aviva for RM1.8bil. It is looking at leveraging its new Malaysia presence to build its business in the region.

However, all of its plans are on hold pending the approval by Bank Negara and its Canadian counterpart for the sale, and these approvals are expected to be issued only by end-April.

"Malaysia is an interesting opportunity, as one of the really positive things here is the efforts made to invest in technology and systems platform. We can possibly leverage on these technologies and incorporate it to other Asian countries in the future. We are now in three other Asean markets, namely Vietnam, Indonesia and Philippines," he says.

According to Connor, the deal to buy CIMB Aviva was hatched after having a rewarding Indonesian joint venture with CIMB Bank, set up in 2009 via PT CIMB Sun Life, which expanded its total assets by 85% to 1.76 trillion rupiah in 2012.

"Similar to what we have created in Indonesia, a holistic approach will be taken to create a multi channel distribution platform, from sales through branches, telemarketing and other mediums," says Connor, who jetted in from Vietnam after launching PVI Sun Life Insurance, a joint venture between Vietnamese Investment-Insurance group PVI Holdings and Sun Life on Tuesday.

Delving deeper into the future, he says the company will be looking at providing private pension solutions for the markets.

"Beyond life insurance, the big part of the future is pensions, where governments of the day in China, India and Vietnam are all looking for solutions to help people provide for their own pensions as governments only have limited resources to take care of their people," he says.

For Malaysia, the aging population is expected to rise to 22.2% of the country's population by 2050, a staggering three fold increase compared with 7.5% of the population that is aged 60 and above in 2010.

"Sun Life has a rich history in the pension and retirement business in the world, and we have a large pension business in Canada, the largest of its kind with assets totalling CA$55bil. While in Hong Kong, we have a fairly successful mandatory provident fund and third party administration services with assets around CA$8bil," he says.

Armed with the group's expertise, he says Sun Life have a lot to offer for Malaysia and to cater for the market.

"Malaysia as a country has accomplished a lot with more growth ahead of it. With a workforce that is increasingly well educated, and financially literate, the people need the right kind of products to suit their needs.

"We want to be part of this growth, and are prepared with a complete line up for this," he says, adding that Asia is an integral part of its ambitious growth target of taking its net income to CA$2bil by 2015. In 2012, the group reported net income CA$1.55bil, erasing a net loss of CA$370mil recorded in 2011.

"We are eyeing tremendous growth via organic growth, and in Asia, we are in seven countries now, representing 70% of Asia's population, and 90% of the growth would be coming from these markets. We are in the right markets with right partners and it is all about execution now," he says.

Meanwhile, American International Assurance Bhd (AIA), which just bought ING Group's Malaysian business is already kicking off its plans to merge both entities, and ultimately become the market leader in terms of life insurance total premiums.

### Competition from within

AIA CEO Bill Lisle also sees opportunities in the pension space, and it is the only insurer approved as a private retirement scheme provider.

According to him, Malaysians in general have low Employees Provident Fund (EPF) savings as 85% of its members have less than RM100,000 in current balance.

"On average, savings per member who reaches 55 years old are less than RM131,000. About 50% of this group exhaust their EPF savings within five years of retirement," he says.

With a growing aging population, he says there is a need for the people to plan their own welfare, while a rising gross national income also translates to higher affordability for consumers and AIA is poised to offer more products under the combined entity.

He adds the insurance industry still has a relatively low penetration rate and Malaysia's protection gap stood at US$380bil in 2010.

"The total protection gap doubled from US$171bil to US$380bil over the past 10 years, which translates to US$48,000 protection gap per working person. As a rule of thumb, a person should be insured 10 times his annual income," he says.

Another foreign player that might emerge in the local market is AmG Insurance Bhd, which is looking for a partner to develop Kurnia Insurans (M) Bhd, the insurance arm it acquired last year for RM1.627bil or at an implied price-to-book multiple of 1.95 times.

CIMB Aviva at a purchase price of RM1.8bil values the insurance arm at 2.4 times the book value of its first-half financial year 2012.On the local front the highest price transacted is by Berjaya Corp Bhd, which disposed of a 40% stake in insurance unit Berjaya Sompo Insurance Bhd, to Sompo Japan Asia Holdings Ltd at three times price to book value in 2011.

While Khazanah is in a partnership with Sun Life to grow the business in Malaysia, it was also reportedly seen making a move for a minority stake in Thai Life Insurance Co Ltd, with a potential deal totalling about RM1.65bil.

Thailand is touted to be Asia's most underdeveloped insurance markets. The potential sale comes on the heels of Prudential plc's US$590mil acquisition of Thanachart Life Assurance Co Ltd in November and ING's Hong Kong and Thailand units by Hong Kong tycoon Richard Li's for US$2.1bil in October.

Besides Sun Life's plans for Malaysia, another key focus is its asset management division under its unit, MFS Investment Management, a Boston-based global asset manager.

Money has to find a home, and Connor is already planning for the next stage of investment for the funds the group would handle.

"If you look at cases of private-public partnerships (PPP), we are a big PPP investor.

"We invest in these assets, namely infrastructure projects like bridges, toll roads, hydroelectric power plants.

"Most of these investments are in North America today, but I see a future in Asia for this pattern. In fact, this is already a big topic in the Philippines," he says.

He says the company would like to come back to Malaysia and look at ways to become a PPP investor, playing a role in funding the country's development.

"Asset management would be a big part in Malaysia eventually.

"If you look at all the countries we have been building the asset management business, we are ranked two in Philippines and four in India, while China's operations have been growing rapidly since its inception a year ago," he says.

If there's any consolation, both Connor and Lisle lauded the strong regulatory oversight and stable regulatory system.

Spurred by Bank Negara's move to introduce the risk-based capital framework, consolidation in the insurance industry picked up pace a few years ago after a minimum 130% supervisory capital-adequacy ratio was imposed on insurance companies.

Compounded with that factor, the authorities had also liberalised foreign ownership in 2009 by raising the foreign shareholding cap to 70% from 49%, giving more headroom for local players to explore partnerships with international insurance players.