

Malaysia Industry Focus

Malaysian Insurance Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Sep 2017

Sparking new life

- Regulatory-led amendments possibly leading to change in ownership structure of insurance companies
- Viable options to foreign insurers would be an IPO, local partner joint-ventures or divestment
- Growth prospects prevail; penetration rate still below target
- Few investible options currently; IPO by foreign insurers may potentially unlock up to RM3.4bn into the market

Enforcing 70% cap on foreign ownership. We gather from press reports that Bank Negara Malaysia (BNM) is said to be considering to strictly enforce the 70% foreign ownership cap on insurers, which was issued back in 2009. This aims to boost local participation in the industry. We understand that the timeline could be fluid, and negotiations could be managed on a case-by-case basis.

Six foreign insurers affected; some options available, including an IPO route. Our analysis of annual reports shows that foreign insurers caught in this current conundrum are AIA, AIG, Chubb, Great Eastern, Tokio Marine, and Zurich. At the moment, these entities are wholly owned by their respective parent companies. We believe that there are three viable options for these companies to pare down their stakes: 1) List (IPO) 30% of their shares to the public; 2) JV with a local partner; or 3) divest to local institutional investors (it was reported that Kumpulan Wang Persaraan is actively seeking a stake). Investment banks such as Maybank and CIMB could benefit from such exercises. These insurance companies carry a cumulative book value of c.RM11bn based on FY16 financials, and a divestment of a 30% stake is worth at least RM3.4bn (1x BV) in terms of new market capitalisation to Bursa. OCBC, which owns 87.75% of Great Eastern Holdings (both listed on SGX) would be indirect proxies to position for this theme.

Dominated by foreign players; few listed players on Bursa currently. As of end-2016, there are 47 insurers and takaful operators, of which close to 70% of the units have varying degrees of foreign ownership. The top two market leaders in life insurers are fully foreign owned (AIA and Great Eastern); meanwhile, market share for general insurers is more segmented due to larger number of operators, but led by Allianz. The notable insurers listed on Bursa are Allianz, Manulife, Syarikat Takaful Malaysia, Lonpac Insurance (LPI) and Tune Protect. They are trading at P/BV multiples ranging between 0.8x (Allianz and Manulife) and 4.1x (Syarikat Takaful Malaysia).

Growth prospects prevail. Insurance penetration rate (life segment) has plateaued at c.55% since 2010, well below Bank Negara's target of 75%. There is still upside to organic growth for insurance demand. The Malaysian Department of Statistics expects citizens between the age of 15 and 64 to make up c.66% of the total population until 2040. Therefore, a young insurable population and rising consumer awareness provides an attractive proposition for insurers.

KLCI : 1,773.16

Analyst

Sue Lin LIM +65 8332 6843 suelinlim@dbs.com

Malaysian Research Team +603 2604 3333 general@alliancedbs.com

Malaysian listed insurers – selected statistics

	Market Cap (RM m)	P/E (x)	P/B (x)	EPS Growth (YoY)	Dividend Yield	ROAE
		CY2016	CY2016	CY2016	CY2016	CY2016
Allianz Malaysia	2,530	8.0x	0.9x	-0.4%	0.6%	11.4%
LPI Capital	5,923	13.5x	3.2x	36.2%	4.5%	24.5%
Manulife Holdings	637	13.7x	0.8x	30.7%	3.3%	5.9%
MNRB Holdings	825	30.8x	0.6x	-54.0%	0.0%	3.2%
Pacific & Orient	297	22.9x	0.8x	-45.0%	5.8%	5.5%
Syarikat Takaful Malaysia	3,218	18.2x	4.4x	12.6%	3.1%	24.9%
Tune Ins	819	10.3x	1.6x	15.2%	4.6%	16.9%
Weighted average		14.6x	2.7x	2.9%	3.2%	3.2%

Source: Companies, Bloomberg Finance L.P., DBS Bank, AllianceDBS Research

Malaysian Insurance Companies: Market share of wholly-owned foreign insurers

Operators	General		Life	Family takaful	General takaful
	by net premiums		by net contributions		
AIA	2.1%	24.3%	-	8.3% ^	-
AIG	4.0%	-	-	-	-
Chubb	5.6%	-	-	-	-
Great Eastern	2.3%	22.9%	-	4.4% ^^	-
Tokio Marine	7.0%	3.3%	-	-	-
Zurich	4.1%	2.3%	-	4.6%	6.2%

^contribution from AIA Public Takaful, 70% owned subsidiary of AIA Bhd

^^contribution from GE Takaful, 70% owned subsidiary of GE Holdings (Singapore)

Source: ISM Insurance Services statistical yearbook, DBS Bank, AllianceDBS Research

Malaysian Insurance Companies: Top 3 operators' market share by business segment

Operators	Life	Operators	General
	net premiums		net premiums
AIA	24.3%	Allianz	13.6%
Great Eastern	22.9%	AmGeneral	11.2%
Prudential	19.8%	MSIG	9.5%

Operators	Family takaful	Operators	General takaful
	net contributions		net contributions
PRU BSN Takaful	22.8%	Etika Takaful	60.1%
Etika Takaful	19.9%	Syarikat Takaful	16.6%
Syarikat Takaful	18.4%	Takaful Ikhlas	10.1%

Source: ISM Insurance Services statistical yearbook, DBS Bank, AllianceDBS Research

Foreign insurers affected; what are their options

Stricter enforcement underway. We gather from press reports that Bank Negara Malaysia (BNM) is said to be considering stricter enforcement of the 70% cap on foreign ownership of insurers as it seeks to boost local participation in the industry. Foreign companies that wholly own local insurers will need to pare down their stakes to <70% according to the existing policy which was announced back in 2009. Existing foreign insurers that participate in the process will be accorded flexibility in meeting the ownership requirement. We understand that there is no exact timeline fixed for this transition and that these arrangements could be managed on a case-by-case basis.

Press buzzing on 70:30 rule. Reuters had reported on 4 July that Malaysia's central bank said that foreign shareholders of local insurers must honour their commitment in maintaining specified levels of domestic shareholding. BNM however said there is no new policy on foreign ownership in insurance companies, and that the requirement is part of commitments made by foreign shareholders when they applied for entry into the Malaysian insurance market. Reuters also reported that BNM had sent letters to wholly owned insurers in June requesting their foreign parents to reduce their stakes in line with the regulation for domestically incorporated insurers. (<http://www.reuters.com/article/malaysia-insurance/malaysia-c-bank-says-no-new-policy-on-foreign-ownership-of-insurers-local-units-idUSL3N1JV19X>). In the past, extensions were granted to firms that did not comply with the foreign ownership limit but with the latest reminder, it appears that the central bank is taking a tougher stance on foreign insurer holdings.

Six foreign insurers on our watchlist. We note that there are six foreign insurers that could be affected by the 70:30 rule (see chart on pg 3), if enforced strictly by regulators. They are:

- AIA
- Great Eastern
- AIG
- Tokio Marine
- Chubb
- Zurich

Options available. There are three options available for foreign insurers to pare down their stakes: **1) List (IPO) 30% of their shares to the public;** **2) JV with a local partner;** or **3) divest to local institutional investors.**

IPO route. On 20 Jul, Bloomberg reported that Prudential, Great Eastern and Tokio Marine were exploring IPO routes to pare down their stakes in their respective Malaysian operations. ([https://www.bloomberg.com/news/articles/2017-07-20/foreign-insurers-are-said-to-plan-2-billion-of-malaysia-](https://www.bloomberg.com/news/articles/2017-07-20/foreign-insurers-are-said-to-plan-2-billion-of-malaysia-deals)

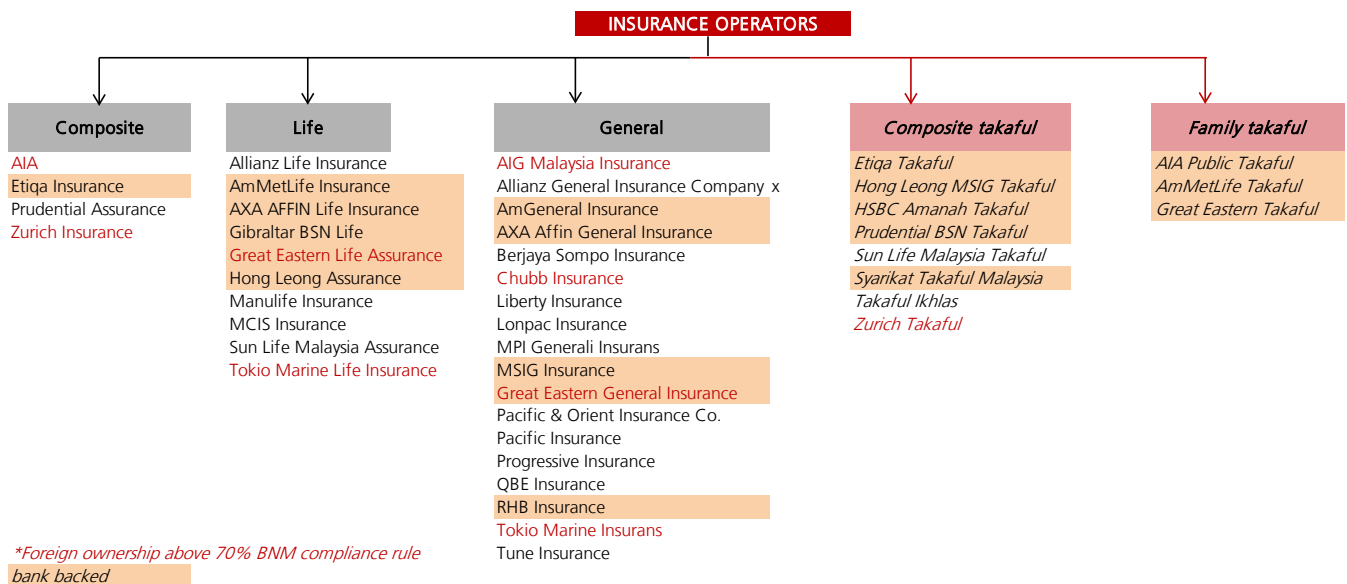
[deals](https://www.bloomberg.com/news/articles/2017-07-20/foreign-insurers-are-said-to-plan-2-billion-of-malaysia-deals)). Our check on Prudential PLC (UK) annual report 2016 indicated that Prudential PLC only holds 51% ordinary shares of Prudential Assurance Malaysia; an IPO route is technically not necessary to meet BNM's requirements unless the structure is such that Prudential PLC (UK) has 100% deemed economic interest. Based on annual reports of Great Eastern and Tokio Marine, they each own 100% of the Malaysian operations.

Only two listed foreign insurers on Bursa currently. Allianz Malaysia (general and life segments) and Manulife Holdings (life) are among the foreign insurance companies currently listed on Bursa Malaysia. Allianz General is the market leader in domestic general segment with 14% share; Manulife has 3% market share in the life segment. Allianz Malaysia's major shareholder is Allianz SE of Germany with a 66.4% stake, while Manulife Holdings is controlled by Manulife Century Holdings (Netherlands) BV with a 59.5% stake. Other insurance players listed on Bursa include Allianz, Manulife Holdings, Syarikat Takaful Malaysia, LPI, Tune Protect and Pacific & Orient.

JV with local partners. We believe that a JV with a local partner is a plausible choice, given that it is currently the model structured for AIA Public Takaful, Prudential BSN Takaful, Gibraltar BSN Life, Great Eastern Takaful, AmMet Life Insurance, AmMet Life Takaful, AXA Affin General, AXA Affin Life, Hong Leong MSIG Takaful, among others. The synergy for having a bank-backed partner in a JV would be to tap into the banking franchise's sales channels. For now, our view on any M&A's in Malaysia's banking sector is more inclined towards divestment of non-core assets (which include insurance units) and consolidation within the players. Besides, most of the domestic banks in Malaysia currently have respective insurance units covering both life and general or have bancassurance agreements in place. Therefore, it could be less likely for a domestic bank to enter into such agreements at this point, in our view.

Divestment to local institutional investors. More interestingly, in August, Kumpulan Wang Persaraan (KWAP)'s CEO indicated that the fund is asking for pitches following inquiries from banks about possibly holding stakes in foreign insurers. News reports also quoted that KWAP could be eyeing a stake in Great Eastern, Prudential and AIA: <http://www.thestar.com.my/business/business-news/2017/08/28/kwap-may-invest-in-three-foreignowned-insurance-firms/>. Among the domestic government linked funds, Permodalan Nasional Berhad (PNB) currently has exposure to the sector through Maybank's ETIQA, while Employee Provident Fund (EPF) holds 20% stake in HSBC Amanah Takaful.

Malaysian Insurance Companies: Current structure of insurance operators by business segments



Source: Companies, DBS Bank, AllianceDBS Research

Long history in Malaysia. The foreign players have a long history in Malaysia since setting up operations in the late 1940s and 1950s. In 1955, 95% of the Malaysian insurance sector was in foreign hands, with over 90 players. In the 1970s, the scenario was virtually unchanged, before ownership began slowly to move into the hands of local companies in the 1980s. The decade also saw the establishment of many smaller local insurers. In 1988, the number of insurers had whittled down to 60, comprising mostly local players who had taken over from foreign ownership or had set up on their own. The newest entrant is Zurich through the acquisition of MAA Assurance (2011) and MAA Takaful (2016).

47 licenced insurance operators in Malaysia. There are currently 47 licensed insurance companies operating in Malaysia – general, life, composite and takaful licence holders, out of which close to 70% of the units contain stakes held by foreign shareholdings. Domestic banks either have their own insurance operators, JV with a foreign partner or bancassurance agreement to offer complete range of general and life products.

Foreign insurers remain dominant players today. AIA and Great Eastern are dominant players in the domestic life segment landscape, cumulatively commanding close to 50% of market share by net premium contribution. On takaful business, only AIA, Great Eastern and Zurich have Islamic

product offerings. While AIA and Great Eastern each has a local partner for the takaful JV (Public Bank and Koperasi Angkatan Tentera respectively), Zurich’s operations are wholly owned. Chubb was previously Jerneh Insurans. For most foreign owned operators, distribution channels are dependent on agencies. AIA has a bancassurance partnership with Public Bank and Citibank for life products; Great Eastern partners with its sister company OCBC and Tokio Marine to sell life products.

M&A wave since 2010. Since the relaxation of regulations to encourage more foreign equity participation in 2009, foreign insurance companies have commanded substantial market share in the local insurance industry, especially in the life segment. Foreign insurance companies have been active acquiring stakes in local insurers through mergers and acquisitions (M&A). The average valuation paid is about 2.4x BV, although insurers with exclusive bancassurance arrangements or sizeable market shares have transacted at higher premiums, i.e. closer to 3x BV, in recent years. Between 2010 and 2016, the Malaysian insurance industry saw the conclusion of around 20 M&A deals valued at about RM16bn, notably in the more fragmented general insurance segment. The industry’s consolidation and the entry of global players resulted in larger and stronger insurers, as well as greater sophistication for the domestic industry through product innovation, pricing and risk-management expertise as well as multi-channel, including digital, distribution.

Malaysian Insurance Companies: Market share of wholly-owned foreign insurers

Operators	General Life		Family takaful	General takaful
	by net premiums		by net contributions	
AIA	2.1%	24.3%	8.3% ^	-
AIG	4.0%	-	-	-
Chubb	5.6%	-	-	-
Great Eastern	2.3%	22.9%	4.4% ^^	-
Tokio Marine	7.0%	3.3%	-	-
Zurich	4.1%	2.3%	4.6%	6.2%

^contribution from AIA Public Takaful, 70% owned subsidiary of AIA Bhd
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Source: ISM Insurance Services statistical yearbook, DBS Bank, AllianceDBS Research

Malaysian Insurance Companies: Top 3 operators' market share by business segment

Operators	Life	Operators	General
	net premiums		net premiums
AIA	24.3%	Allianz	13.6%
Great Eastern	22.9%	AmGeneral	11.2%
Prudential	19.8%	MSIG	9.5%

Operators	Family takaful	Operators	General takaful
	net contributions		net contributions
PRU BSN Takaful	22.8%	Etiqa Takaful	60.1%
Etiqa Takaful	19.9%	Syarikat Takaful	16.6%
Syarikat Takaful	18.4%	Takaful Ikhlas	10.1%

Source: ISM Insurance Services statistical yearbook, DBS Bank, AllianceDBS Research

Malaysian Insurance Companies: Historical M&As

Year	Sector	Acquiring Company	Acquired Company	%Acquired	P/BV x	Purchase Consideration RM m	Book Value RM m
2010	General	AXA Affin General Insurance Berhad	BH Insurance (M) Berhad	80	1.8	363	201
2010	General	ACE INA International Holdings, Ltd	Jerneh Insurance Berhad	80	2.3	523	291
2010	Life	Mitsui Sumitomo Insurance Group	Hong Leong Assurance Berhad	30	6.5	1,627	485
	General	MSIG Malaysia (Mitsui Sumitomo)		100			
2011	General	Fairfax Asia Limited	Pacific Insurance Berhad	100	1.6	217	135
2011	Composite	Zurich Insurance Company Ltd	Malaysian Assurance Alliance Berhad	100	1.4	344	265
2011	General	Sompo Japan Asia Holdings Ltd	Berjaya Sompo Insurance Berhad	40	3.3	496	376
2012	General	AmG Insurance Berhad	Kumia Insurance (Malaysia) Berhad	100	2.0	1,630	779
2012	General	Tokio Marine Insurans (Malaysia) Berhad	MUI Continental Insurance Berhad	100	1.1	180	164
2012	Composite	AIA Group Ltd	ING Group NV (Malaysian Operation)	100	2.2	5,300	2,409
2012	General	Tune Ins Holdings Bhd	Oriental Capital Assurance Berhad	83	1.2	164	137
2013	General	Sanlam Emerging Markets Proprietary	Pacific & Orient Insurance Co Berhad	49	2.5	270	213
2013	Composite	Sun Life Financial Inc	CIMB Group Holdings Bhd & Aviva Plc	50	3.2	1,800	458
2013	Life	MetLife International Holdings Inc	Amlife Insurance Berhad (AMMB Holdings Berhad)	50% + 1 share	3.0	812	469
	Family		AmFamily Takaful Berhad (AMMB Holdings Berhad)	50% - 1 share			81
2014	Life	Prudential Insurance Co (70%) & Bank Simpanan Nasional	UniAsia Capital Sdn Bhd (DRB Hicom Bhd 51%, United Overseas Bank Bhd 49%)	100	1.4	518	366
	General			Liberty Seguros	68.09	1.5	375
2014	Composite	Sanlam Emerging Markets Proprietary	MCIS Insurance	51	1.7	388	228
2014	General	Generali Asia Nv	Multi-Purpose Insurans Berhad (Multi-Purpose Capital Holdings Bhd)	49 (with call option exercisable in two years for additional 21% stake)	1.8	356	403
2014	Life	Prudential Financial Inc (US) & Bank Simpanan Nasional	Uni.Asia Life Assurance Bhd (DRB Hicom Bhd 51%, United Overseas Bank Bhd 49%)	100	1.4	518	366
2016	Composite takaful	Zurich Insurance Group	MAA Takaful Bhd (MAA Group Bhd 75%, Solidarity Group Holding BSC 25%)	100	4.8	525	110

Source: Companies, DBS Bank

Valuations

Allianz and Manulife – the only two foreign listed insurers.

The Allianz SE brand was listed in Malaysia following the acquisition via Voluntary General Offer of then listed Malaysia British Assurance Bhd in 2001. For Manulife Holdings, it was formerly listed in Malaysia as John Hancock Life Insurance, before the name change in 2004 following the merger of Manulife Financial Corporation of Canada and John Hancock of US at the international parent company level.

Other insurance players listed on Bursa include LPI, Syarikat Takaful Malaysia, Tune Protect and Pacific & Orient. While Syarikat Takaful Malaysia was listed back in 1996, this leaves Tune Protect as the most recent insurance listing in 2013. Its IPO was priced at 7.5x FY12 BV (subsequently traded at an average of 3.9x in FY13 following BV expansion)

Undemanding valuations. Currently, the valuations appear undemanding for Allianz (0.8x BV) and Manulife (0.8x BV);

while LPI and Syarikat Takaful Malaysia are trading at 3.4x and 4.1x BV respectively because of their stronger financials; Tune Protect is trading at 1.8x BV.

Scarcity premium valuation should an IPO route be taken.

Based on insurance M&A transacted prices in the past, the median BV multiple was c.1.8x. Therefore, a strong insurance franchise with clear market leadership could fetch a premium on an IPO route. Among the wholly owned foreign insurers, the cumulative book value is c.RM11.4bn as of FY16. Effectively, the 30% stake to be divested is estimated to be worth c.RM3.4bn.

Financials are relatively attractive. The median ROE for these foreign insurers in FY16 was 11%, led by Great Eastern which recorded 41% ROE in its life segment. At the other end of the spectrum, Zurich Takaful (previously MAA Takaful) has remained in the red since FY2014.

Details of foreign wholly-owned insurance operators affected by the 70:30 rule

Operator	Business	Foreign shareholder	Foreign stake (%)	Shareholder equity (RM m)	ROAE (%)	Bancassurance partner
AIA Berhad^	Composite	AIA Group (Hong Kong)	100	4,734	19%	Public Bank, Citi (life products)
AlG Malaysia Insurance Berhad	General	American International Group (US)	100	404	9%	-
Chubb Insurance Malaysia Berhad	General	Chubb (Switzerland)	100	724	14%	-
Great Eastern General Insurance*	General	Great Eastern Holdings (Singapore)	100	403	14%	OCBC
Great Eastern Life Assurance (M) Berhad	Life	Great Eastern Holdings (Singapore)	100	1,802	43%	OCBC
Tokio Marine Insurans (M) Berhad	General	Tokio Marine Holdings (Japan)	100	1,068	10%	-
Tokio Marine Life Insurance Malaysia Berhad	Life	Tokio Marine Holdings (Japan)	100	722	11%	RHB
Zurich Insurance Malaysia Berhad	Composite	Zurich Insurance Group (Switzerland)	100	1,418	11%	-
Zurich Takaful Malaysia Berhad	Composite Takaful	Zurich Insurance Group (Switzerland)	100	157	-10%	-

Source: Companies, DBS Bank, AllianceDBS Research

Malaysian (listed) Insurance Companies: Peer table

Market Cap (RM m)	P/E (x)			P/B (x)			EPS Growth (YoY)			Dividend Yield			ROAE			
	CY2016	CY2017	CY2018	CY2016	CY2017	CY2018	CY2016	CY2017	CY2018	CY2016	CY2017	CY2018	CY2016	CY2017	CY2018	
Allianz Malaysia	2,530	8.0x	22.4x	20.1x	0.9x	1.6x	1.4x	-0.4%	-64.6%	11.5%	0.6%	0.6%	0.8%	11.4%	10.5%	10.5%
LPI Capital	5,923	13.5x	19.3x	18.4x	3.2x	2.9x	3.2x	36.2%	-29.7%	4.8%	4.5%	4.2%	4.1%	24.5%	18.5%	18.6%
Manulife Holdings	637	13.7x	NA	NA	0.8x	NA	NA	30.7%	NA	NA	3.3%	NA	NA	5.9%	NA	NA
MNRB Holdings	825	30.8x	10.4x	NA	0.6x	0.6x	NA	-54.0%	196.7%	NA	0.0%	NA	NA	3.2%	5.5%	NA
Pacific & Orient	297	22.9x	NA	NA	0.8x	NA	NA	-45.0%	NA	NA	5.8%	NA	NA	5.5%	NA	NA
Syarikat Takaful Malaysia	3,218	18.2x	14.5x	13.2x	4.4x	4.0x	3.7x	12.6%	25.6%	9.6%	3.1%	4.5%	4.9%	24.9%	25.7%	25.9%
Tune Ins	819	10.3x	12.2x	11.0x	1.6x	1.5x	1.3x	15.2%	-16.0%	11.2%	4.6%	3.9%	4.4%	16.9%	12.3%	13.0%
Weighted average		14.6x	NA	NA	2.7x	2.7x	2.9x	2.9%	NA	NA	3.2%	NA	NA	3.2%	NA	NA

Source: Companies, Bloomberg Financial L.P., DBS Bank, AllianceDBS Research

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HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

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Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank, AllianceDBS unless otherwise specified.

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DBS Regional Research Offices

HONG KONG

DBS Vickers (Hong Kong) Ltd

Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 657 7831
Fax: 66 2 658 1269
e-mail: research@th.dbsvickers.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand