



MARKETFOCUS

THAILAND

Thailand's insurance industry runs the risk of being damaged by ongoing political instability in the country

By Ronan McCaughey

GRIDLOCK

Anti-government protests and political instability in Thailand threaten to damage its commercial insurance sector as large projects are stalled because of a delay in decision-making.

Ten people have been reportedly killed and hundreds were injured in Thailand since the demonstrations began last November. It is said the political turmoil in Thailand will cost the economy about \$604.6m

Anti-government protesters have been blocking parts of Bangkok to try to force Prime Minister Yingluck Shinawatra to resign. The anti-government protestors accuse the government of being run by exiled former leader Thaksin Shinawatra, the brother of the current prime minister.

Yingluck has refused to resign and elections were held in early February to pacify the protesters.

The Thai government has already declared a 60-day state of emergency starting from 22 January to cope with the unrest.

Duncan Buchanan, CEO of Marsh Thailand, believes it is difficult at this stage to say how the protests will affect the Thai insurance market in the long-term.

In Buchanan's view, Thailand's infrastructure sector, which involves large projects and substantial government investment could be impacted by the political instability because of the delay in decision-making.

"I think there is a general view that this segment of the market might not see as much potential growth as it anticipated towards the end of 2013. There are a lot of big decisions on hold until the political situation stabilises," he says.

Monson Marukatat, head of risk management at the Siam Commercial Samaggi Insurance, says the continued political instability has a negative impact on overall business sentiment. Virtually all sectors are feeling the pinch. "Consumers are not spending.

FAST FACTS

- Foreign direct investment of up to 49% is permitted in the Thai insurance industry
- Motor third-party liability coverage is a compulsory insurance class
- The Thai insurance industry is regulated by the Office of Insurance Commission (OIC)

Source: *The Insurance Intelligence Center*

“ There are a lot of big decisions on hold until the political situation stabilises”

DUNCAN BUCHANAN, MARSH THAILAND

Businesses are putting their investments on hold,” says Marukatat.

Andrew Minnitt, managing director of JLT’s Thailand office, says 2014 is going to be a tough year if the country’s political instability continues.

Minnitt says: “We do not foresee major changes to the products, distribution lines and regulations, so if things stabilise soon we can expect flat to slight growth patterns.”

Market overview

The Thai non-life insurance segment is moderately concentrated, with the ten leading companies’ together accounting for 59.9% of the segment’s written premiums in 2011, according to a report published by the Insurance Intelligence Center.

In the non-life segment, the report says Viviyah Insurance Company was the leading insurance company in Thailand, representing 17.8% of the market’s gross written premium in 2011.

It adds that other leading companies include Dhipaya Insurance with 7.9% of gross written premium, Bangkok insurance with 7.1%, Syn Mun Kong Insurance PCL with 5.4%, and the Safety Insurance Public Company with 4.1% in 2011.

Meanwhile, the Thai life insurance segment is highly concentrated, with the ten leading insurers accounting for 93% of the total written premiums generated in 2011, says the Insurance Intelligence Center.

The report noted that American International Assurance Company was the leading insurance company in Thailand, representing 25.3% of the gross written premium in 2011. For a more recent assessment, a report released by Baker & McKenzie in June 2013 cited the OIC as reporting the total direct premium received as of January 2013 at THB 48.86bn (\$1.48bn), an increase of 24.13% from the previous year.

Out of the THB 48.86bn collected, the report said THB 31.6bn was collected from

the life insurance market, which saw an increase of 21.53% in its own sector. Moreover, the OIC also reported that the non-life insurance market also saw substantial growth as reflected from the 29.20% increase in premiums collected when compared to the previous year.

The report said: “Importantly, for the first time in decades, the non-life insurance market saw an increased growth which surpassed that of the life insurance market.”

Assessing the state of the market, Minnitt says the corporate and commercial lines sectors in Thailand are quite well-developed and the SME sector is growing “nicely”.

“The insurance products available are effective in most cases, but capacity is still quite limited in the local Thai market and so there is still a large dependency on foreign reinsurers. This applies to both the reinsurance treaty and facultative businesses.”

In Minnitt’s view, the Thai insurance sector is very competitive. “There are 65 non-life insurers and 25 life insurers, so competition is fierce.”

He says the major players vary by line of business, but for JLT the major players would be AIG, Ace, Safety (IAG), Allianz CP, AXA, QBE, Muang Thai (life and non-life), AIA, Dhipaya, Deves, Generali.

Monson describes the Thai insurance market as “developing” with most insurance products as simple and straightforward.

However, the industry is now competing in designing specialised products to appeal to consumer needs, especially in motor and either personal accident/health, says Marukatat. Due to an ageing population and rising medical costs, he says personal accident and health insurance is gaining more popularity. Marukatat explains that motor still dominates the non-life sector with a 60% share. In terms of commercial line insurance, Marukatat says the 2011 Thai Floods created additional awareness around insurance as a risk-mitigation tool.

Regulation

The Thai insurance industry is regulated by the Office of Insurance Commission (OIC).

A report from Deloitte notes that in September 2010, a five-year insurance development plan was launched by Thailand’s Office of Insurance Commission (OIC), with the goal of bolstering the country’s insurance penetration rate to 6% of GDP by 2014.

As part of this initiative, in March 2012 the OIC nearly doubled the limit on the

THAILAND MARKET OVERVIEW

SOURCE: Swiss Re Sigma No 3 / 2013
(all figures for 2012. Figures have been rounded up)

POPULATION
68.9 million

PREMIUM VOLUME
Total \$18.36bn
Life \$10.79bn
Non-life \$7.57bn

INSURANCE DENSITY (PREMIUMS PER CAPITA)
Total \$266.2
Life \$156.5
Non-life \$109.7

INSURANCE PENETRATION (PREMIUMS AS A % OF GDP IN 2012)
Total 5.02%
Life 2.95%
Non-life 2.07%



percentage of a Thai insurer that a foreign company could own, from 25% to 49%.

In addition, the OIC can authorise beyond 49 percent foreign ownership if the joint venture encounters financial difficulties, while some firms are already exempt from any cap through treaties or other special arrangements.

Given that the Thai insurance market is very heavily reliant on the international reinsurance market and is not perceived to be adequately capitalised, Aaron Le Marquer, consultant at law firm Tilleke & Gibbins in Bangkok, says a particular focus of the regulator over the last two-to-three years has been to try and ensure better capital adequacy.

“In 2013, that meant the introduction of risk-based capital requirements whereas previously there had been flat capital requirements.”

Over the next two years, Le Marquer says there will be new stress test requirements requiring insurance companies to demonstrate how they would perform financially under certain specified conditions and scenarios.

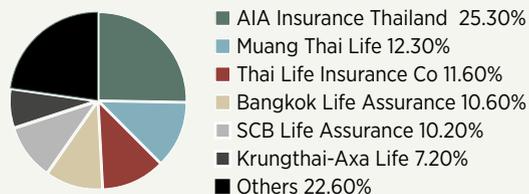
“So, the regulator is really requiring local market players to become much more sophisticated in terms of their financial management.

“The effect of that is that there will be more market consolidation and a lot more opportunity for foreign investment as the local players are not necessarily properly capitalised or equipped.” ■

THAI INSURANCE MARKET SHARE (% - 2011)

SOURCE: THE INSURANCE INTELLIGENCE CENTER

Life Insurance



Non-life Insurance



“ There are 65 non-life insurers and 25 life insurers [in Thailand] so competition is fierce”

ANDREW MINNITT, JLT