Asian Actuarial Conference 2025 Bangkok

Building Sustainable Value in General Insurance: A Strategic Approach

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Building Sustainable Value in General Insurance: A Strategic Approach

Asian Actuarial Conference 2025 Bangkok (AAC)

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Milliman
Solutions for a world at risk™

Today's Presenters

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Why is ROE important?

- **Shareholders and BOD are increasingly looking at ROE**
- **ROE is especially important when capital requirements are high**
- **The reinsurance industry:**
  - Rule of thumb: $1 capital for every $1 retained premium
  - Capital is chasing for returns
  - Dynamic global capital flows, i.e. “hot money”

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What is the level of capitalization in Thailand (%NWP)?

A. Below 35%
B. 35%–50%
C. 50%–70%
D. 70%-100%
E. Above 100%

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Ans is D

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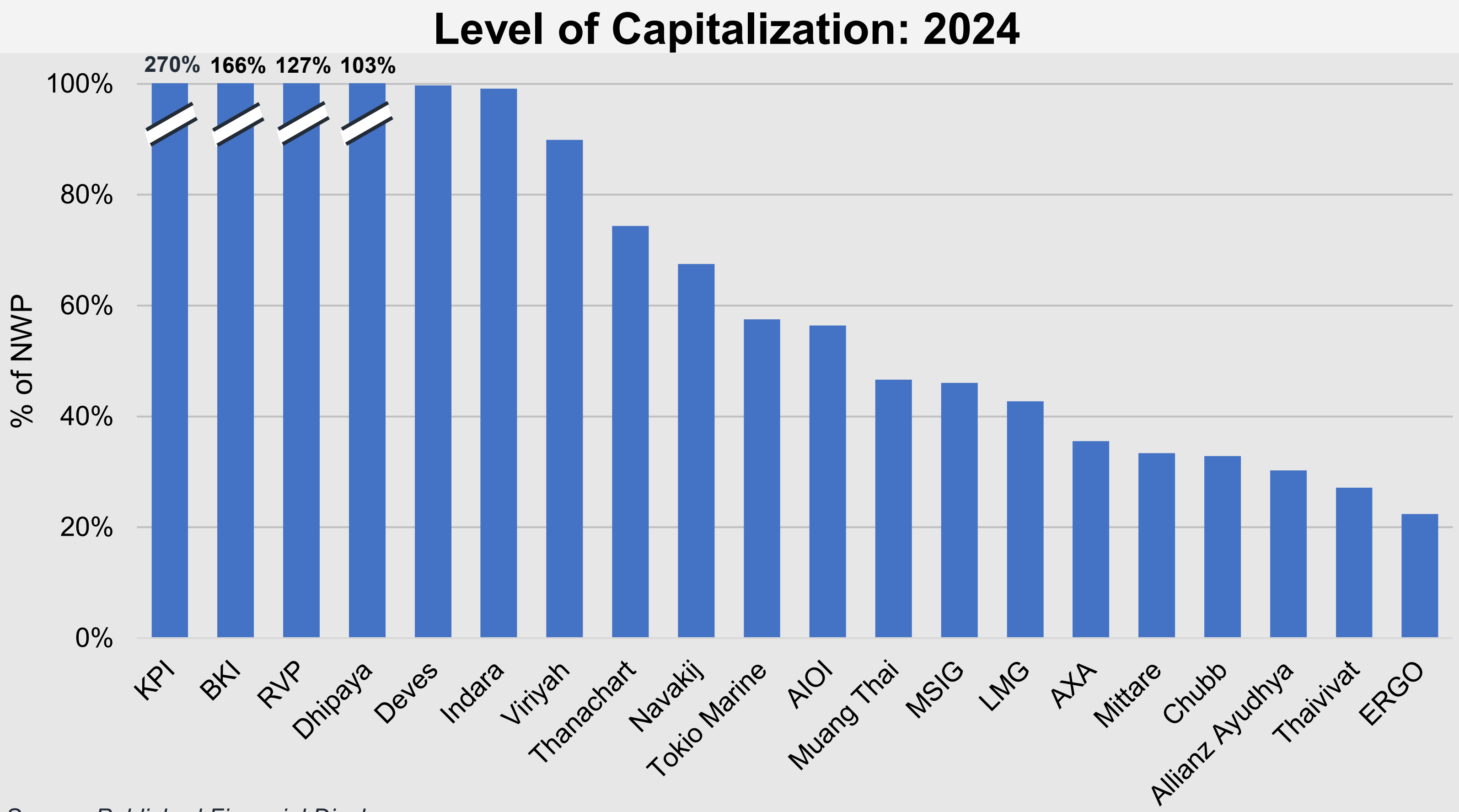
Level of Capitalization - Thailand

For Top 20 General Insurers

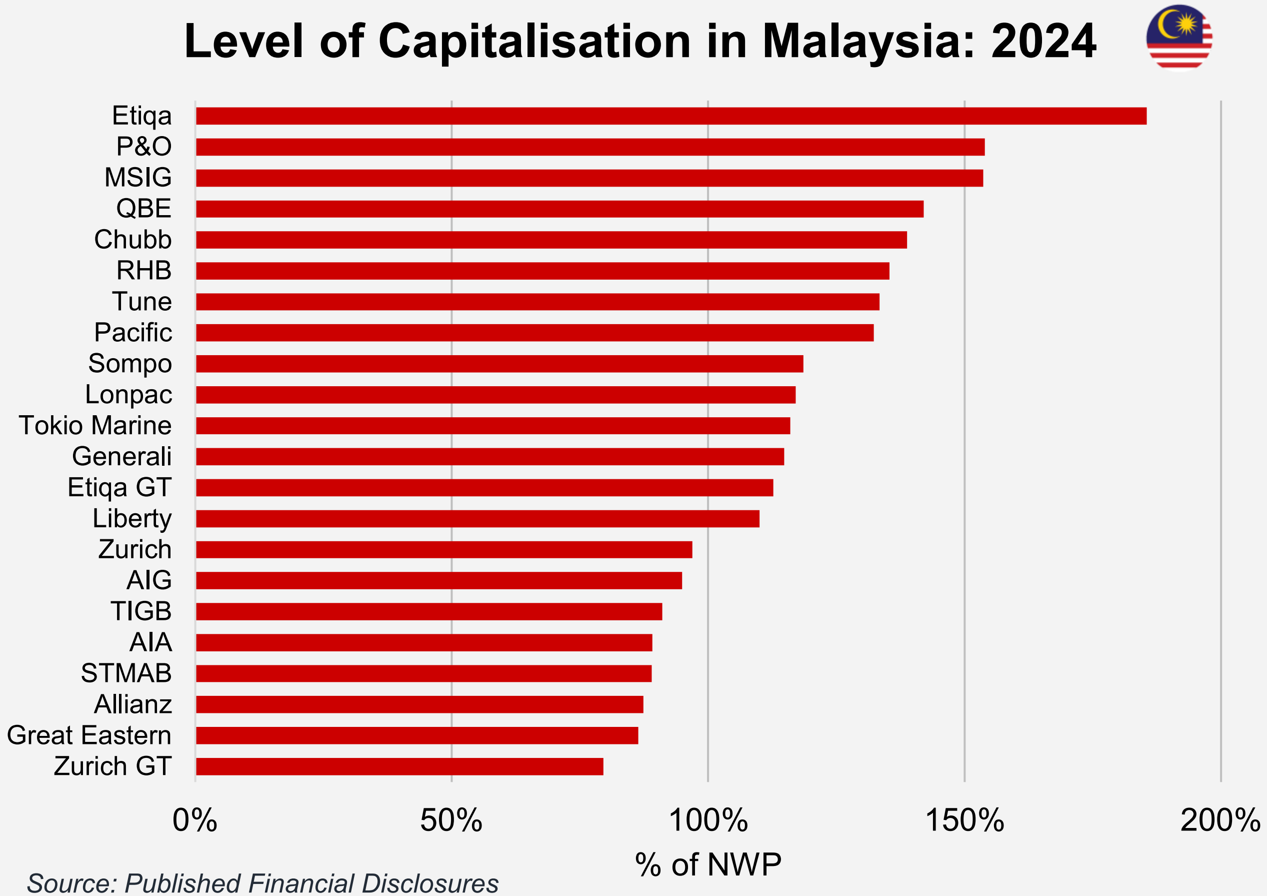


- Level of capitalization — around 75% of NWP on average
- Wide variation — MNCs run leaner capital structure
- TCR —Typically 10% to 20% of NWP, but some could go up to 80% NWP

Source: Published Financial Disclosures

For the purpose of this presentation, we have used TCA as the measure of capital.

Level of Capitalization – Malaysia vs USA



Source: Published Financial Disclosures

- Malaysia general insurers typically operate with higher capital levels
- Legal environment:
  - 6-year time bar for case reserves and IBNR
  - Long-tail liabilities are common
  - No limit on TPBI claims

- In the US, capitalization levels for Progressive and Allstate, are at 34% vs 38% NWP.

To what extent are we over-capitalized or under-capitalized?

What **ROE** would you want as a potential investor in a general insurance company in Thailand?

Investment Type	Expected Returns
Money Market	0.5% - 1.5%
Fixed Deposits	0.5% - 1.5%
Thailand OPR	1.5%
Government Bond	1.5% - 2.5%
Corporate Bond	1.5% - 3.5%
Equity	7.0% - 9.0%

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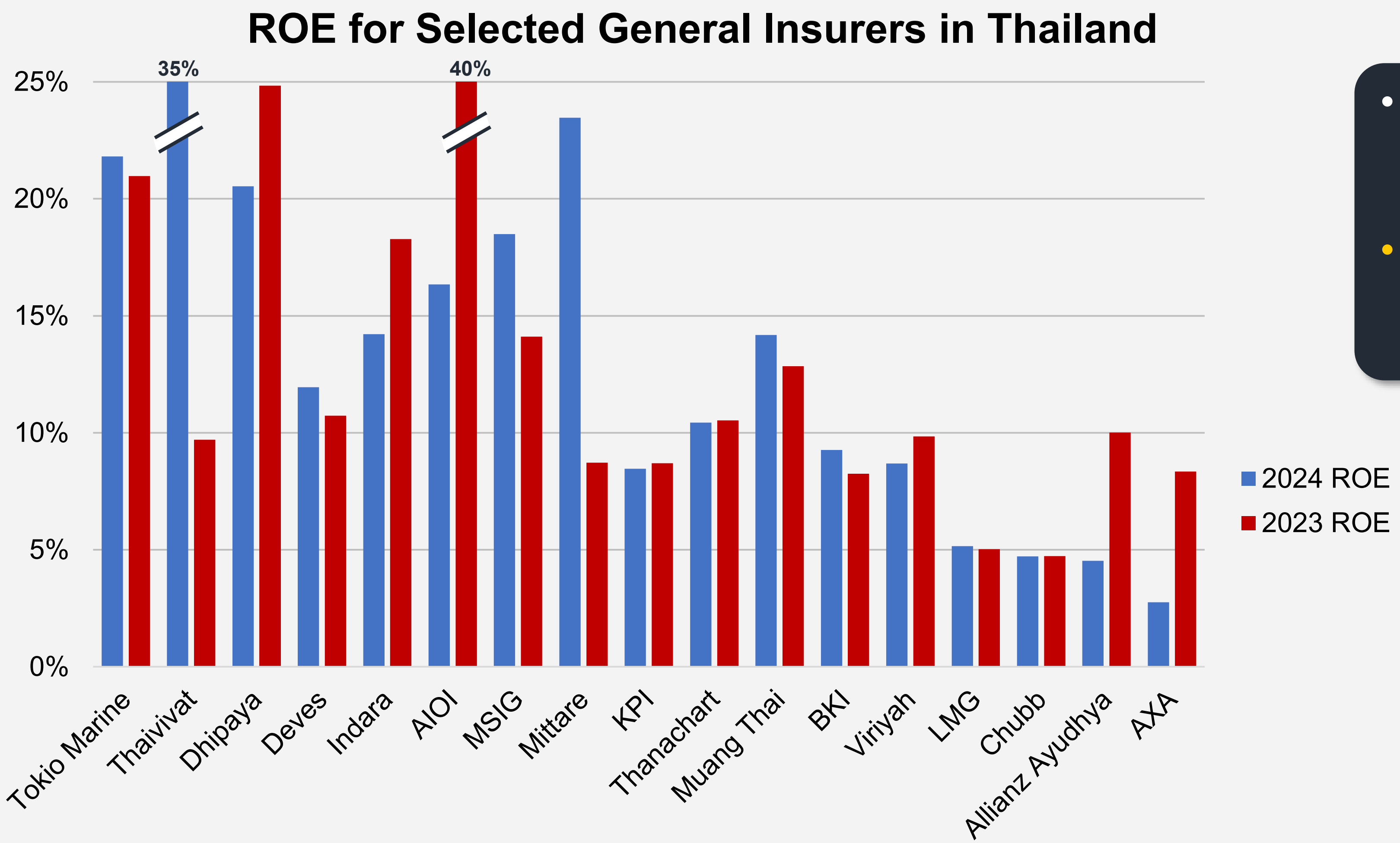
How much ROE would you expect?

A. Below 5%
B. 5% – 10%
C. 10% – 15%
D. 15% – 20%
E. Above 20%

ROE for Selected General Insurers in Thailand



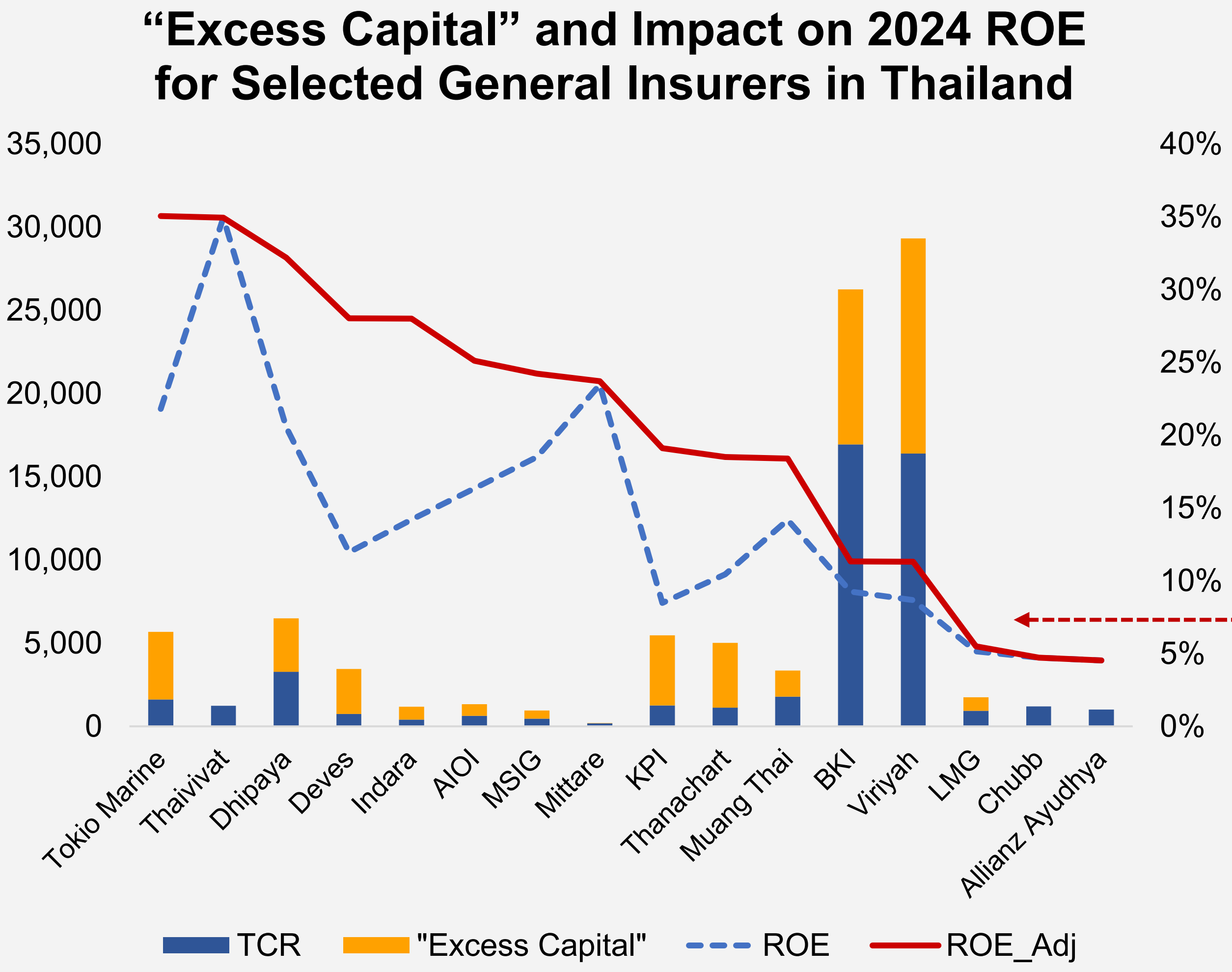
Source: Published Financial Statements

- ROE varies among players – some closer to 20%, some have negative ROE
- On average around 10% for the top 20 players (by direct premiums).

Comparing the two companies

		
NWP	100	100
UW Profit	5	5
Investment Income	2.5	5
PAT	6	8
Capital	**50**	**100**
ROE	**12%**	**8%**

Impact of “Excess Capital” in the Thailand Context



Excess capital is the capital in excess of the company’s target capital or statutory requirement, whichever higher.

Target capital is set to be 33% of NWP. Excess capital is assumed to earn an 5% investment return before tax.

After rebasing the capital and returns, ROE without excess capital is generally higher.

ROE by Lines of Business: Malaysian Illustration

	Motor	Fire
NWP	100	100
NEP	100	100
UW Profit	2	10
Investment Income	5	4
PBT	7	14
PAT	5	11
Key ratios		
LR	65%	40%
COR	98%	90%
Target Capital	60	40
ROE	8.7%	27%

Note: Some numbers may not tally due to rounding.

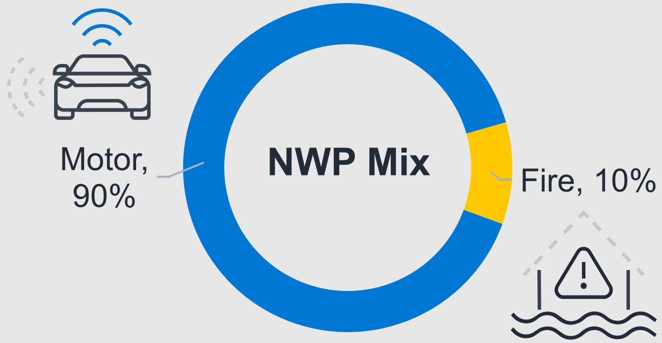
- ROE can vary significantly by line of business.
- For example:
  - **Motor** – low margin, high capital requirement
  - **Fire** – high margin, low capital requirement

Company A: “Motor Company”

	Motor	Fire	Total
NWP	90	10	100
NEP	90	10	100
UW Profit	6	1	7
Investment Income	4	0	4
PBT	10	1	12
PAT	8	1	9
Key ratios			
LR	60%	40%	58%
COR	93%	90%	93%
Target Capital	54	4	58
ROE	15.3%	27%	16.1%

Motor industry LR = 65%

Note: Some numbers may not tally due to rounding.



- ✓ Motor specialist
- ✓ Focus on technical excellence – pricing, analytics, segmentation and AI.

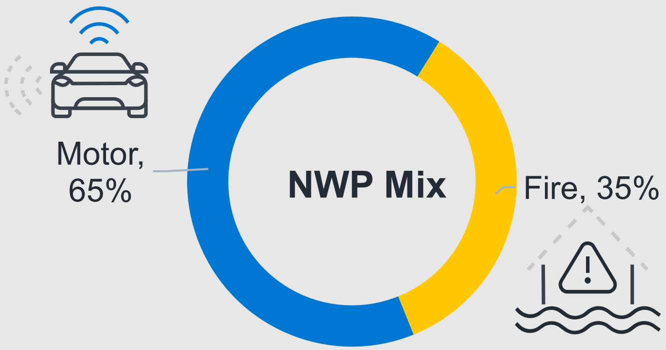
- Managed to outperform market by few points in terms of loss ratio.
- Achieved overall ROE of 16%.

Done

Company B: "Typical Company"

	Motor	Fire	Total
NWP	65	35	100
NEP	65	35	100
UW Profit	-1	4	3
Investment Income	3	1	4
PBT	2	5	7
PAT	2	4	6
Key ratios			
LR	68%	40%	58%
COR	101%	90%	97%
Target Capital	39	14	53
ROE	4.7%	27%	10.6%

Motor industry LR = 65%



- ✓ More of a multi-line insurer.
- ✓ Motor underperforms the market in terms of loss ratio.

- Motor underwriting loss covered by investment income.
- Achieve ROE by portfolio balancing between Motor vs Fire

Note: Some numbers may not tally due to rounding.

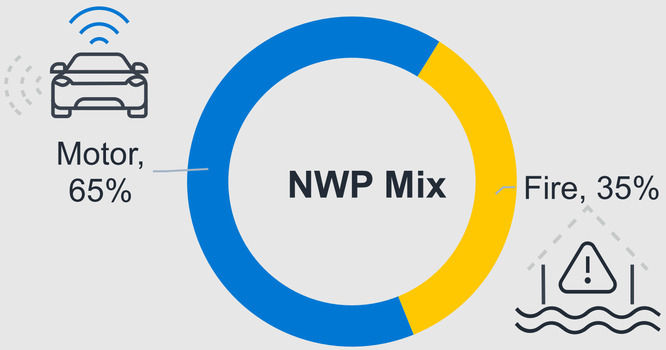
Done

Company B: "Typical Company" – Every % Point Matters

	Motor	Fire	Total
NWP	65	35	100
NEP	65	35	100
UW Profit	1	4	5
Investment Income	3	1	4
PBT	4	5	9
PAT	3	4	7
Key ratios			
LR	65%	40%	56%
COR	98%	90%	95%
Target Capital	39	14	53
ROE	8.7%	27%	13.5%

Target COR = 98%

Note: Some numbers may not tally due to rounding.



✓ Targeting Motor COR of 98% will bump the company ROE up to 13%.

- For Motor, a 3%pt improvement in LR will lead to 5%pt and 4%pt increase in ROE (before and after tax)
- The increase in ROE for every 1%pt decrease in COR would be even higher for lines with lower capital requirements.

Value Destroying: An Illustrative Example

	Required ROE 10%
NAV at Year 0	100
PAT for Year 1	2
NAV at Year 1	102
Appraisal Value at Year 0	93
Price to Book Ratio	*0.93*

	Required ROE 10%
NAV at Year 0	100
Value of future profit after CoC at Year 0	-7
Appraisal Value at Year 0	93

- Capital comes with a cost: “CoC”
- Running this business is expected to destroy value by 7.

Case Study 1: When it makes sense to cut a line of business

	Scenario	
	Base	Exit Motor
Value future profits after CoC	**-250**	**275**
• Motor	-650	0
• Non-Motor	400	275
Net Asset Value (Year 0)	**400**	**400**
Total Appraisal Value	**150**	**675**
Price-to-Book Ratio	**0.4**	**1.7**

- Motor made up a sizable portion of the book, but margin is bad predominantly due to high banca fees.
- Motor is destroying value of the company.
- We suggested the company to exit motor and to get a better valuation.
- Non-Motor will need to absorb some of the OPEX which was previously spread out.

Case Study 2: When a line of business covers overheads and has strategic value

Base Scenario	
Value future profits after CoC	
• Motor	-400
• Fire	320
• PA	150
Net Asset Value (Year 0)	**250**
Total Appraisal Value	**320**
Price-to-Book Ratio	**1.28**

- Motor lowers the overall value due to high costs incurred at the branches. Branches are essential in supporting the Motor business.
- Motor took up a lot of the allocated costs, and Motor ends up value destroying.
- Branches are important to support some of the Non-Motor products.

Branch optimization? Are some branches destroying value?

In conclusion…

ROE is becoming increasingly important to shareholders

Excess capital is being questioned as it impacts ROE

Understand the impact of the target COR on ROE

Understand what is destroying shareholder value

Q&A

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