Brighton NEWSLETTER

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Editor's Note

Many would agree that 2020 will be well remembered as an *annus horribilis* (to borrow a phrase from Queen Elizabeth). Others would simply remember 2020 as the lost year.

As I sit down to write my final "Editor's Note" of the year, it is reassuring to know that COVID-19 vaccines will soon be available. Hope seems on the way. Finally, life could return to normal or whatever the "new normal" brings in 2021.

But as we race towards the end of the year, I can't help but be amazed by all we have been through this year. The world as we knew it shifted and we had to find the flexibility and resiliency within ourselves and our institutions to continue moving forward.

We had learned so much over this past year that we cannot go back to a pre COVID-19 world. We must turn the challenges we've faced into opportunities for a brighter 2021.

On behalf of Brighton's management and staff, we wish you a safe and healthy holiday season. Let us commit to making 2021 a year of recovery, rejuvenation and good health.

Merry Christmas and Happy New Year!

Annie Undikai,
Managing Director

2021 Insurance Industry Outlook

The term 'new normal' has become a buzzword in 2020 as the world battles the COVID-19 pandemic. But as the COVID-19 vaccine prospects are on the horizon, the whole world looks hopefully ahead to 2021 as a year of recovery. Global economies are poised for a V-shaped recovery in both developed and emerging markets. In its 2021 economic outlook, the Organization for Economic Co-operation and Development (OECD) projected that the global output will return to pre-pandemic levels by the end of 2021 after witnessing a sharp 4.2% decline this year.[1]

Both IMF and World Bank have released new global economic growth projections, updating their earlier projections from mid-year before that. In September, the World Bank released an updated forecast that projects global economic growth will

[1] https://www.dw.com/en/covid-vaccine-coronavirus-global-economic-recovery-for-2021/a-55775341

decline by 3% to 6% in 2020, with a partial recovery in 2021, assuming the current crisis can be mitigated and there is not a second wave of infections.[2] The IMF too downgraded its forecasts for 2021, and predicted that the world economy will shrink by 4.4% in 2020.[3]

In stark contrast to consensus of 5.4% global economic growth, Morgan Stanley predicts a strong V-shaped post-recovery growth of 6.4% in 2021.[4] In its 2021 Global Economic Outlook, Morgan Stanley reported that the recovery is entering a new self-sustaining phase, with consumers driving the recovery and a strong rebound in investment growth. The report further highlighted three key factors that will characterise the V-shaped recovery, namely synchronized global growth, an emerging-market rebound and the return of inflation.

How does the insurance industry fare in 2021 amidst these projected economic recovery? Following the positive news on COVID-19 vaccines, the risks to economic outlook are more balanced. A Swiss Re Institute sigma report also highlighted a strong V-shaped recovery in insurance premiums in 2021. Globally, insurance premium growth is forecast to recover to 3.4% in real terms in 2021 and 3.3% in 2022, having contracted by an estimated 1.4% this year.[5]

The report further stated that despite the global recession, emerging markets are expected to record a premium growth of 7% in 2021, after remaining positive in 2020 at up 1%. But for the advanced markets, outlook remains more challenging with global premium expected to contract by 4% this year and return to positive growth of above 2% in 2021.[6] The report stressed that the recovery of the global insurance market will be lead by China with premiums up by an estimated 10% in non-life business and by 8.5% in life business, in 2021 respectively.

As the industry emerges from this pandemic, technologies such as cloud computing, the Internet of Things (IoT), advanced analytics, drones, blockchain, smart contracts, and artificial intelligence (AI); will pave the way for the future of insurance. We can expect to see insurance industry trends for 2021 driven by new technologies that will be used to streamline and improve insurance processes.

2 https://fas.org/sgp/crs/row/IN11493.pdf

3 https://edition.cnn.com/2020/10/13/economy/imf-economic-outlook-coronavirus/index.html

4 https://www.morganstanley.com/ideas/global-economic-outlook -2021#: ~: text= Morgan %20 Stanley %20 projects%20 strong%20global,envision%20a%20return%20to%20normal

5 https://www.artemis.bm/news/global-insurance-premiums-to-return-to-growth-in-2021-swiss-re/

6 https://www.reinsurancene.ws/global-insurance-premiums-to-recover-in-2021-after-covid-19-induced-dip-swiss-re/

The Rise Of MGAs

Once regarded as the "new kid on the block", managing general agent or MGA has become an invaluable component of the insurance distribution chain. MGA is now an important access point for carriers who are interested in specialty markets, especially those who are looking to gain access to new markets or to acquire technical insights and capabilities.

What is an MGA? An MGA is a specialised type of insurance agent or broker that has been granted underwriting authority by an insurer, and can administer programmes and negotiate contracts for an insurer.[1] As such, they act as agent of the insurer and not of the insured. MGAs are typically involved with unusual lines of coverage whereby specialised expertise is required to underwrite these policies, including professional liability and surplus lines of insurance. Their deep market expertise in underwriting complex specialty lines has made MGAs an attractive partners for insurers and reinsurers seeking access to niche and specialty business that may otherwise be difficult to reach or in most cases, too expensive to develop in-house.

For instance, in an event that an insurer is presented with an opportunity in coverage for certain policies that it has not written previously, the insurer could seek to partner with an MGA that specialises in that particular coverage and has deep understanding of its exposures and risks. Hence, it is through their professional underwriting services that make MGAs the vital link connecting wholesale insurers with specialist retail distribution.[2]

[1] https://www.irmi.com/term/insurance-definitions/managing-general-agent

[2] https://www.insurancetimes.co.uk/mgas-is-it-the-end-of-the-line/1377446.article

The MGA Advantage

Changes in the insurance environment such as prolong soft market conditions, technological advancement, changing customer preferences, and mounting regulations have contributed to the signifiant growth of the MGA sector. They were viewed as a means of widening distribution and gaining market share, especially in the niche insurance segment.

What makes MGA an attractive venture? Since MGAs are more nimble in nature, they are able to swiftly response to changes in business conditions and market developments. For instance, their lean and efficient model typically makes underwriting-focussed businesses more agile, flexible, and adaptable than insurers or carriers. This has enabled MGAs to take products to market quickly, provide quick turnaround in getting coverage, reach smaller commercial customers cost-effectively, and know local or niche customers thoroughly.

From the technology front, MGAs often deliver better underwriting results as they can offer digital products to speed up the quote process as well as online platforms that integrate with wholesale channels. Together, these translate into more efficient operation and low distribution costs.

Another feature of MGAs is that they provide insurers with instant infrastructure that includes well-managed risk and governance structures, intellectual property in underwriting pricing, as well as access to underwriting talent. These features provide instant savings to insurers, which would otherwise require huge amount of investments if they are to be built from scratch.

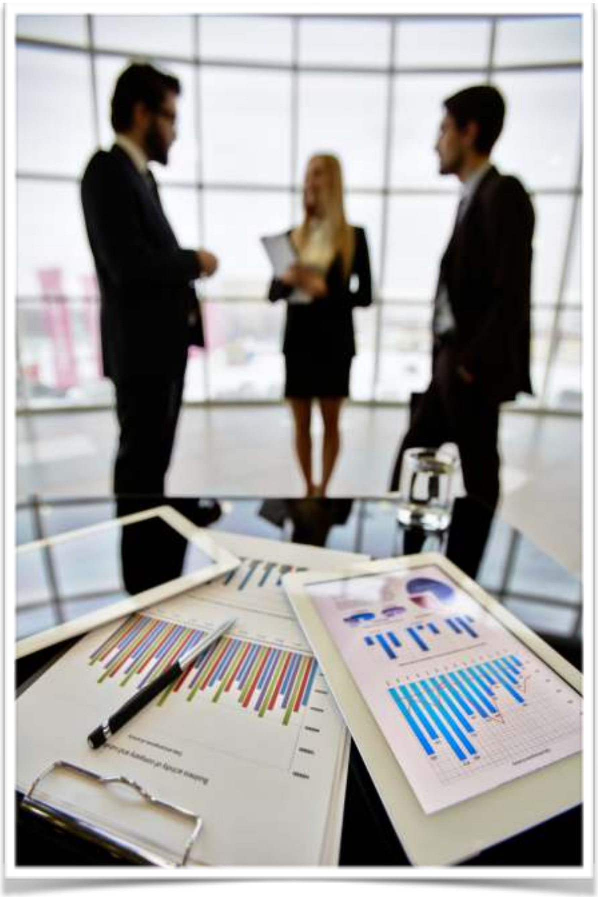
Such features enable MGAs to bring profitable business to insurers for only a fraction of the permanent overhead involved with employing underwriters in regional or specialist offices.[3]

Bridging the Gap

MGAs are recognised for their ability to blend traditional insurance practices with innovative solutions. Within the insurance industry, they are known for adopting new technology and systems-backed processes to drive efficiencies, speed products to market, and reduce frictional costs.

Hence, innovation is one of the biggest areas in which MGAs can add significant value to the industry. Insurers have been rather slow at developing new systems and in using technology as many are encumbered by legacy systems and regulatory constraints. MGAs can bridge this gap by demonstrating what some of the new innovative IOT devices and initiatives can deliver for them.

Post COVID-19, we can expect to see MGAs playing an increasingly leading role in industry innovation. But the challenge remains for MGAs to demonstrate how their technology will enhance the already hardening premium incomes.



Source: www.freepik.com/photos/business'>Business photo created by pressfoto

[3] http://news.ambest.com/articlecontent.aspx?pc=1009&refnum=242955&AltSrc=108

BEPS 2.0: Reshaping The Architecture of International Tax In A Digitalised World

The increasing prominence of the digital economy raises its own challenges regarding tax base erosion and profit shifting (BEPS) by multinationals and digitalised enterprises. The existing tax system does not adequately capture the value creation and profit making of these institutions in the digital economy.

The business models and value creation processes of highly digitalised enterprises share three common characteristics:[1]

(i) cross jurisdictional scale without mass;

(ii) heavy reliance on intangible assets, especially intellectual property; and

(iii) importance given to data and user participation, and their synergies with intellectual property.

In a system where taxes rely on physical presence for brick-and-mortar companies, the conventional tax systems become irrelevant within the digital economy context. Hence, in an interconnected and complex trade patterns of today, there is a need for a modern global tax framework that reflect a more globalised world.

In 2019, the OECD launched the BEPS 2.0 Project with the primary aim of addressing tax challenges arising from the digitalisation of the world's economy. It consists mainly of two pillars: Pillar One is to reach a unified approach on taxation of the digital economy, and Pillar Two is to achieve a global anti-base erosion.

A year later, the OECD released blueprints detailing Pillar One and Pillar Two of BEPS 2.0. Pillar One continues to advocate the taxing rights of market jurisdictions through changes to the profit allocation and nexus rules applicable to business profits. Pillar Two proposes the introduction of a global minimum rate of taxation so as to minimise global tax competition.[2]

Malaysia (including Labuan) is an associate member of the BEPS Project. Throughout 2018 and 2020, in line with BEPS Project requirements, Malaysia, including Labuan, has implemented a number of rules, introduced many tax incentives, increased substance requirements, and reviewed permanent establishments and tax treaties.[3]

Labuan has now duly aligned its tax framework to conform to BEPS minimum standard requirements when amendments to the Labuan tax regulations took effect on 1 January 2019 or the year of assessment 2020.

[1] https://www.adb.org/sites/default/files/publication/504616/adb-brief-108-taxation-digital-economy-peoples-republic-china.pdf

[2] https://home.kpmg/uk/en/home/insights/2020/10/tmd-beps-2-pillar-one-and-pillar-two-blueprints.html

[3] https://www.at-mia.my/2020/11/10/updates-on-international-tax-developments-global-financial-centres/

Labuan IBFC Sees Growth in Digital Family

Since it first embarked on its journey to become a digital friendly jurisdiction in 2017, Labuan IBFC has continue to adopt a progressive approach as the jurisdiction embraces the digital revolution. Today, Labuan IBFC is home to a wide range of digital businesses and players, from digital banking and insurtech to intermediaries such as robo-advisory, digital asset exchanges, crypto trading platforms, tokenisation licences and e-payment systems.

As at June 2020, Labuan IBFC has approved a total of 46 digital financial services operators, including three digital banks, two digital securities exchanges and 19 crypto trading platform providers. In a recent development, Labuan FSA issued the first digital banking licence for investment bank in December this year.

The recently issuance of the digital banking framework by Labuan FSA further cement the jurisdiction's standing on embracing innovation to become a progressive jurisdiction. The Guidelines allows, among other things, qualified corporations to conduct banking business via establishment of a digital bank in Labuan IBFC. As detailed detailed out in the Labuan Digital Banking Framework, the main aim is to help spur the banking industry in Labuan IBFC in light of shifting customer's preference to online or digital channels.

Source: Labuan IBFC Press Release and Labuan Digital Banking Framework, which is available to download at www.labuanfsa.gov.my

Labuan FSA Appoints New Chairman

Labuan FSA has recently announced that the Minister of Finance has appointed Datuk Azizan Abdul Rahman as the Chairman of Labuan FSA effective from 1 November 2020 to 31 October 2023.

With a distinguished career in the financial industry, Datuk Azizan has served in various capacities in Bank Negara Malaysia and was the Director General of Labuan FSA from 2005-2011. He is currently on the Board of several companies and financial institutions.

Other new appointees include Mr. Steven Choy Khai Choon and Ms Adawiyah Ahdan as members of the Authority of Labuan FSA for a two-year term. Mr. Steven Choy sits on the Board of various companies and was the President & Chief Executive Officer of Cagamas Bhd. While Ms. Adawiyah Ahdan is with the Strategic Investment Division, Ministry of Finance.


Wishing you all the joys
of the season and
happiness throughout
the coming year.
Season's Greetings & Best Wishes in the New Year
From All of Us At
Brighton Management Limited