PROVIDENCE STRATEGIC PARTNERS

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DYNAFRONT HOLDINGS BERHAD
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Dear Sirs,

Industry Overview on the Life Insurance Software Solutions Industry in Malaysia as well as Life Insurance Markets in Malaysia and Indonesia respectively in conjunction with Proposed Listing of DYNAFRONT HOLDINGS BERHAD on the LEAP Market of Bursa Malaysia Securities Berhad

PROVIDENCE STRATEGIC PARTNERS SDN BHD ("PROVIDENCE") has prepared an Industry Overview on the Life Insurance Software Solutions Industry in Malaysia as well as Life Insurance Markets in Malaysia and Indonesia respectively for inclusion in the Information Memorandum of DYNAFRONT HOLDINGS BERHAD.

PROVIDENCE has taken prudent measures to ensure reporting accuracy and completeness by adopting an independent and objective view of these industries within the confines of secondary statistics, primary research and evolving industry dynamics.

For and on behalf of PROVIDENCE:

ELIZABETH DHOSS
EXECUTIVE DIRECTOR

1 LIFE INSURANCE SOFTWARE SOLUTIONS INDUSTRY IN MALAYSIA

DEFINITIONS AND SEGMENTATION

Life insurance software solutions are software designed to help life insurance companies, agencies or brokerages manage their day-to-day operations. Collectively, these life insurance firms are increasingly reliant on information technology ("**IT**") to maintain and enhance operating efficiency as well as to pursue new strategies such as direct delivery, customer segmentation, and product innovation.

Insurance firms have been users of technology since the very early days of data processing. The industry is a user of big data, as it developed risk models based on data of historical loss events. In recent years, insurance firms have increased their investments to modernise and advance their technology. This engagement is partly driven by the new applications enabled by these technologies and at least to some extent by external necessity, as insurtech players make progress.

Other industries, such as automotive, rely heavily on supply networks thereby reducing the degree to which automotive marquees add value internally. But insurers still produce a very large portion of their products themselves. Since a large portion of insurance firms' value chains are covered internally, the application of technology could significantly improve their business and operating models. In many cases this has limited impact on the customer, or does not require the customer's involvement. Thus, life insurance policy holders may not necessarily notice that technology is being used to improve the insurance business.

Innovation through new technologies is a key driver of change in the financial sector and this leads to efficiency gains. The insurance sector is no exception to such developments, with possibilities of new methods of service provision as well as greater opportunities for data collection and fraud detection that can lead to better risk identification and mitigation measures.

Life insurance software solutions comprise multiple software modules to support life insurance firms in managing their operations. These modules aim to enhance work proficiency by providing a systematic program to manage each task. These functions involve, among others, claim processing and management; document management; customer relationship management; policy administration; data security; and policy administration. Life insurance software solutions aim to aid life insurance firms in conducting the following processes in a more efficient manner, and assist in the following ways:

- Claims management process

  Helps insurers to streamline claim management workflow, fraud detection and allows automatic generation of claim documents, payments management, and integrates policy administration.

- Insurance agency management process

  Assists the entire work process of the organisation and integrates all agency-related functions.

- Policy management process

  Simplifies the policy issuance and management process, whereby insurers use this software for automated quoting, rating, policy generation, customisation and configuration.

- Document management process

Used as a centralise documents store and management system for important documents such as policy applications, customer proofs, contracts, policyholder agreements. This allows for easy accessibility and security.

- Insurance lead management process

  Enables the conversion of leads to valued customers. This module automates the lead generation process, captures lead from multiple sources and assigns to the sales team based on the location and predefined workflow rules.

- Investment management process

  Aims to channelise investment management and thereby, increase work efficiency. This module also mitigates risk by organising assets.

- Workflow management process

  Helps improve internal processes, communication and reducing touchpoints. This module supports insurance providers in achieving improved operational efficiency through digitised workflows.

- Data analytics process

  Analytics is an integral part of the insurance industry. Hence, this module helps firms leverage analytics software to gain real-time industry insights, grab new opportunities and deliver outcomes.

- Enterprise risk management process

  A risk assessment tool with an easy to navigate platform that serves to modernise and enhance the risk assessment process.

While the abovementioned modules may be provided individually by various life insurance software solutions industry players, there is a growing demand for holistic packages wherein all the processes can be performed in one platform. Such integrated customised software, as provided by insurtech companies, makes the process more efficient and economical for insurance firms to adopt.

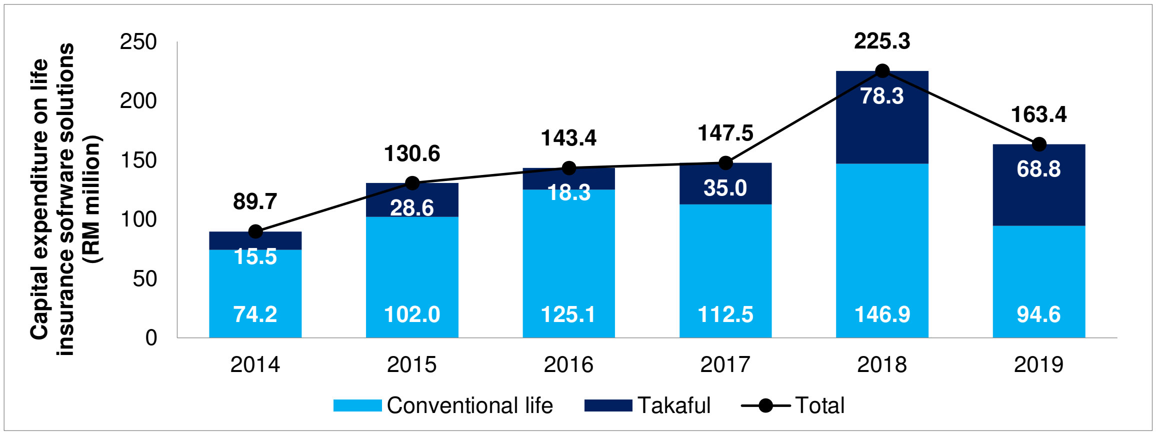
Insurtech, short for "insurance technology", is a broad category of constantly changing technologies used in the insurance industry. Any technology that is used by an insurance firm to increase the efficiency of its operations could be considered as insurtech. Since insurtech is new by definition, its applications are constantly evolving. Among the examples of insurtech for the insurance industry include artificial intelligence ("**AI**"), machine learning, Internet of Things ("**IoT**") and smartphone applications.

INDUSTRY PERFORMANCE AND GROWTH PROSPECTS

The life insurance software solutions industry in Malaysia is measured based on the capital expenditure incurred by conventional life insurers and Takaful operators on software development and software licensing. This capital expenditure includes expenditure on life insurance software development, customisation, installation, maintenance and support services, along with the corresponding hardware and software required for the operations of such life insurance software solutions. Such corresponding hardware and software include computer and hardware infrastructure, servers for data centres, middleware as well as software.

The life insurance software solutions industry in Malaysia increased from RM89.7 million in 2014 to RM163.4 million in 2019 at a compound annual growth rate ("**CAGR**") of 12.8%. During this period, the capital expenditure of conventional life insurers rose from RM74.2 million to RM94.6 million at a CAGR of 5.0%, while the capital expenditure of Takaful operators rose from RM15.5 million to RM68.8 million at a CAGR of 34.7%. The life insurance software solutions industry is dependent on the capital expenditure incurred by conventional life insurers and Takaful operators on life insurance software solutions as well as corresponding hardware and services which fluctuate on a year-to-year basis. PROVIDENCE projects the life insurance software solutions industry to grow from RM163.4 million in 2019 to RM204.3 million in 2023 at a CAGR of 5.7%.

Life insurance software solutions industry size in Malaysia [a]



Note:
[a] Latest available as at 28 May 2021

Source: Various annual reports, PROVIDENCE analysis

In late 2019, there was an outbreak of COVID-19 which has since been categorised as a global pandemic as it spread widely worldwide. Following a high number of COVID-19 infections amongst the population in Malaysia, the Government of Malaysia announced the imposition of the Movement Control Order ("MCO1.0") effective 18 March 2020 to 3 May 2020 to curb the spread of the COVID-19, followed by the conditional MCO ("CMCO") (4 May 2020 to 9 June 2020) and subsequently recovery MCO ("RMCO") (10 June 2020 to 31 December 2020). Under the MCO period, companies involved in the production of non-essential products and services were required to suspend operations, before gradual relaxations were introduced under the CMCO and RMCO period to allow the resumption of non-essential business activities and for citizens to conduct their daily activities. Under the CMCO, various economic sectors were reopened with strict standard operating procedures to be observed. Nonetheless, employees were also encouraged to work from home and provided with the necessary tools to remain connected and productive during this period. Subsequently under the RMCO period, more restrictions were relaxed to allow the public to carry out their daily activities while complying with the standard operating procedures.

The Government of Malaysia declared the re-imposition of the CMCO in Selangor, Kuala Lumpur, Putrajaya, Sabah and Sarawak effective from 14 October 2020 to 27 October 2020 upon receiving the advice from Malaysia's Ministry of Health and taking into consideration the increasing cases of COVID-19. The CMCO was then further extended to 9 November 2020. Due to the sustained high number of positive COVID-19 cases, the Government of Malaysia announced that the CMCO would be enforced in all states in Peninsular Malaysia, except for Kelantan, Perlis and Pahang from 9 November 2020 to 6 December 2020. The Government of Malaysia lifted the CMCO on all states in Malaysia commencing 6 December 2020, save for the states of Sabah, Selangor (except the districts of Sabak Bernam, Hulu Selangor, Kuala Selangor), Kuala Lumpur, as well as selected districts in Johor, Kedah, Penang, Perak, Kelantan and Negeri Sembilan, which will be under CMCO until 20 December 2020. The states that are no longer under CMCO will be under RMCO until 31 December 2020.

On 11 January 2021, the Government of Malaysia once again announced the implementation of MCO2.0 with certain restrictions in selected states beginning 13 January 2021 until 26 January 2021 to curb the rising COVID-19 cases. This MCO 2.0 was subsequently extended until 4 March 2021 in Selangor, Johor, Penang and Kuala Lumpur. Commencing 5 March 2021, Selangor, Kuala Lumpur, Johor, Penang and Kelantan were placed under CMCO while the rest of the states in Malaysia were placed under RMCO until 31 March 2021. The CMCO in Selangor, Kuala Lumpur, Johor and Penang and the RMCO in others states have since been extended until 17 May 2021, while Kelantan was placed under MCO during this period. The Government imposed a nationwide MCO from 12 May 2021 to 7 June 2021 due to rising COVID-19 cases. Under this MCO, all educational institutions will be closed, with exemptions given only to those with students who are sitting for international exams, all inter-district and interstate travels are prohibited with certain exceptions, while it was mandatory for employers to implement the work-from-home policy with attendance of no more than 30% of its management staff at all times.

The announcement expands on the reimposition of the MCO, seen as the third iteration or MCO3.0 since the first nationwide MCO that began on 18 March till May 2020, and the second one that was implemented in selected states in January to February in 2021 on most parts of Selangor and key cities like Kuala Lumpur and Johor Bahru. Based on the increasing trend of daily COVID-19 cases, the government has decided to take more drastic and stringent measures to curb the spread of COVID-19 infections in the community and prevent a sharp increase in cases. Some of the reasons cited for the expansion of MCO3.0 include the presence of new coronavirus variants with higher infection rates, increasing constraints on the capacity of the public health system and weak compliance of the standard operating procedures among some members of society.

On 28 May 2021, Prime Minister Tan Sri Muhyiddin Yassin announced the first phase of a full closure of Malaysia's social and economic sectors for 14 days beginning 1 June 2021 till 14 June 2021. During this period, all sectors are not allowed to operate except the essential services and economic sectors identified by the National Security Council. This announcement came after Malaysia reported more than 8,000 new daily COVID-19 cases on 28 May 2021, with active cases surpassing the 70,000 level. If this phase one of the lockdown is successful, the Government will then implement a second phase lockdown by allowing the reopening of some sectors in the economy that does not involve large gatherings as well as adhering to physical distancing. If the second phase succeeds, the country will then embark into phase three which is similar to the current MCO3.0 whereby social activities are not allowed but almost all economic sectors are allowed to operate with strict standard operating procedures together with limited physical presence in the workplace. However, the decision to move from one phase to another will be subjected to risk assessment by Malaysia's Ministry of Health. Evaluation will be made based on the current daily COVID-19 cases and hospital capacity across the country in treating COVID-19 patients. The Government also intends to expedite the vaccination programme over the coming weeks as part of its efforts to produce herd immunity. Following the announcement, the Government of Malaysia said the Ministry of Finance will detail assistance packages to the people and affected economic sectors in the near future.

Despite the economic stimulus that is being rolled out by the Government of Malaysia, PROVIDENCE anticipates that spending on insurance software solutions may be affected in the short term as small and medium life insurers and independent corporate life insurance agencies may opt to minimise or defer selected expenses as they focus on sustaining cash flows. While spending on enterprise insurance software solutions may be subdued in 2020 and 2021 as companies focus on cost-cutting measures, PROVIDENCE anticipates that the demand for insurance software solutions will improve over the long term as organisations acknowledge the inherent benefits of insurance software solutions, and transition out of legacy platforms to solutions that offer intelligent automation.

Further, the potential growth prospects of the life insurance market in Malaysia are also anticipated to spur demand for life insurance software solutions. Malaysia's insurance and Takaful sector continued to show positive growth in 2019. Total premiums and contributions increased by 15.1% to RM12.6 billion (2015: +2.3% to RM11.0 billion), while combined insurance and Takaful assets expanded by 9.2% to RM287.4 billion (2015: +3.2% to RM263.1 billion). However, insurance penetration rate, measured by the ratio of total number of life insurance and family Takaful policies in force to the total population, has remained fairly static within the range of 54% to 56% over the last five years. This is still believed to be inadequate even for the insured population, with industry studies estimating an average protection gap in Malaysia of between RM553,000 for families whose primary wage earner has some form of life insurance, to RM723,000 for families without any form of life insurance taken by the primary wage earner. With measures being taken to improve the penetration rate of life insurance policies in Malaysia, insurers will require more robust life insurance software solutions that can support new product development, provide stability for daily operations, support regulatory reporting requirements, and are equipped with new technologies that enable data analytics. Thus, growth in life insurance penetration rates will also support the adoption of life insurance software solutions.

KEY DEMAND DRIVERS

The benefits arising from the adoption of life insurance software solutions spur its demand

The rapid development and integration of technologies has influenced multiple links in the underwriting process, thereby better equipping insurance firms to become more efficient, compatible, balanced, and humanised. Insurance firms leverage on technology to gain greater operational capabilities and more efficient operational support. These advances will enable insurance firms to cope with challenging business needs, be more competitive, and operate in a more technology-driven and intelligent manner.

As the insurance industry continues to adapt to different Internet scenarios, insurance products for the Internet ecosystem continue to innovate iteratively, from simpler products to more diverse and complex products. Among these products, those that involve greater scenario fragmentation, higher customer interaction, stricter time limits, and greater sales fluctuations place high demands on the operational capabilities of insurance firms. With the support of life insurance software solutions, insurance firms' capabilities have been upgraded in the following areas:

- greater operational capabilities in terms of more flexible resource allocation, faster response, enhanced business capacity, more comprehensive product range and smoother workflow; and
- more efficient operational support in terms of increased operational efficiency, optimised operational quality, and reduced operating cost

The adoption of life insurance software solutions supports new product development

The application of innovative life insurance software solutions provides insurance firms with new ways of thinking and new solutions as they explore market demand. Technology-driven product development and innovation has mainly enabled by data collection, data application and development tools.

The development and pricing of traditional insurance products mainly depends on the law of large numbers. Due to data processing limitations, data selection and measurement are often carried out through sampling. However, in an environment where data types are complex and multi-dimensional, sampling is often unable to meet the needs posed by precision pricing and product development. With technologies such as cloud computing and big data, product developers can analyse a larger and more complete data set. They will have access to data that will enable them to conduct a more comprehensive risk assessment based on complete performance data, and develop insurance products that better meet market needs.

With the help of new technologies, technical tools have been continuously optimised, enabling insurers to have a better understanding of customers and risks. With this understanding, insurers are better able to update and improve existing products, improve the overall product process, better meet consumer needs, increase the value of insurance products, and improve market acceptance of products. Additionally, using this technology insurers have the ability to explore insurance needs in more scenarios and in different ecosystems, and in this way, develop more diversified products and service systems for new risks and demands, and expand the market for insurance. With the help of new and more holistic life insurance software solutions, insurers can more effectively leverage multi-dimensional data and address diverse risks, and ultimately provide more diversified and inclusive insurance solutions.

The adoption of life insurance software solutions supports stability of life insurance operations

Insurance technology is supporting the stable operations of the insurance industry while also providing for innovation. Life insurance software solutions have improved the overall capabilities of insurance companies by helping them obtain risk information, understand risks, and improve on the traditional management model, which relied only on risk probability. Similarly, new technology has ensured the security of transaction processes, which has reduced information asymmetry and results in better protection of customer information. In this way insurance firms, consumers and regulators can interact efficiently in a safe and stable system.

Insurtech provides the technical support needed for insurance firms to conduct more comprehensive risk management practices. By using various technologies, insurance firms can analyse and sift through large amounts of data and conduct risk control more effectively than ever before, helping to ensure the safe operation of insurance firms and the healthy development of the industry as a whole.

Life insurance software solutions support regulatory reporting requirements

Malaysia's insurance industry is regulated by the Central Bank of Malaysia, under the Ministry of Finance. The life and non-life insurance businesses in Malaysia are regulated by the provisions of the Financial Services Act 2013 which came into force on 30 June 2013.

Driven by the technological revolution, the structure of the insurance market is evolving, insurance products and business lines are becoming more diverse, and services are becoming more extensive. Along with these developments, operational processes in the insurance industry are becoming more complicated, and the types and quantities of business data have increased, making supervision more complicated. These changes have introduced numerous challenges to regulatory efforts as well as to risk management and control within the insurance firms themselves. In this new era, regulatory technology aims to satisfy relevant regulatory needs, improve regulatory efficiency, reduce regulatory costs, maintain financial stability, and promote cross-border cooperation.

In order to promote a sound IT environment and to mitigate the risks associated with IT operations, guidelines on the management of the IT environment were issued in May 2004. These guidelines outline the minimum responsibilities and requirements for planning and managing, as well as establishing preventive measures which are aimed at preserving the integrity of insurers' critical IT systems and processes. The guidelines outline responsibilities of the management and board of directors of insurers to ensure that appropriate and sound risk management processes are in place to provide a platform for the conduct of safe and sound financial activities, given the rapid changes in new technologies, product innovations and security of financial transactions. Thus, the adoption of a holistic life insurance software solutions serves to support information management and reporting based on the requirements of the regulating authorities.

New technologies that enhance life insurance software solutions further support its adoption among life insurance companies

The insurance industry has gradually applied various new technologies in life insurance software solutions as it works to transform its existing operations. At present, new technologies that impact the insurance industry, and subsequently, life insurance software solutions, include:

- **Cloud computing**

  Cloud computing provides access to computing resources (servers, storage, applications, services, etc.) over a network in a convenient, pay-as-you-go model. Cloud computing uses shared pools of configurable resources that can be rapidly provisioned with minimal management effort and with little interaction with the service provider.

  Cloud computing service providers mainly provide the three following service models: infrastructure-as-a-service (IaaS), platform-as-a-service (PaaS), and software-as-a-service (SaaS). In terms of deployment, cloud computing can generally be divided into four types: private clouds, community clouds, public clouds and hybrid clouds. Among these, hybrid cloud is popular because it can balance the data security of private clouds with the computing resources of public clouds.

  Cloud computing is being applied in many industries including communications, medical care, education, government affairs, transportation, finance and electronic commerce (e-commerce). This technology has solved many shortcomings of traditional IT technology such as high input costs, large workloads, inflexible resource allocation, and insecure data security.

  In addition to solving IT issues, cloud computing has brought many other changes to the insurance industry. With the help of cloud computing technology, insurance companies have moved many of their business processes online. Online business development and mobile claims have also been widely promoted in the industry. With cloud computing's ability to integrate various data resources, insurance companies have been able to implement more precise and intelligent operations in customer marketing, product development, risk pricing, and underwriting and claims. Especially during this stage in which the insurance industry is moving towards new insurance, cloud computing provides important support for the technological transformation of insurance companies. Cloud computing is an important component of insurtech's infrastructure.

- **Big data**

Big data refers to data sets that are so large they cannot be captured, managed, and processed by conventional software tools within an acceptable timeframe. The new technologies that are used to process these data sets can significantly enhance decision-making and greatly optimise business processes and management insight. Big data technology focuses on how to retrieve key information in order to support the decision-making process. Unlike traditional sampling analysis, big data analysis makes use of the full data set. Big data is generally divided into three types: structured data, semi-structured data and unstructured data. Among these, unstructured data is increasingly becoming the most important area. Therefore, in recent years, the mining and application of unstructured data has become an important development trend in the field of big data.

The development and application of big data is inextricably linked to cloud computing. The need for the collection, management, processing and application of massive amounts of data is driving the continuous development and improvement of big data technology.

Big data is an important part of the infrastructure underlying the ongoing development of the insurance industry. Through the analysis of full data sets as opposed to sampled data, big data technology provides more accurate analysis results for insurance companies to optimise product design, actuarial pricing, customer service, marketing and promotion, and other processes; and just as importantly, it provides new perspectives and ideas. For example, with the multidimensional analysis features provided by big data, a clearer and more comprehensive customer portrait can be created. Using big data, many insurance forms can achieve better outcomes in cross-marketing and customer service. Additionally, through the mining and analysis of data in more enhanced scenarios, insurance firms can develop more specialised insurance products, such as health management-oriented medical insurance based on sports data recorded by wearable devices.

Presently, the insurance industry has formed a big data ecosystem that covers insurance companies, third-party insurance platforms, brokers, agents, business partners, related data and technical support parties.

- **AI**

AI is a branch of computer science that studies and develops theories, methods, techniques, and application systems for simulating, extending, and expanding human intelligence. AI research is being conducted in a wide range of fields, including knowledge acquisition, perception problems, pattern recognition, neural networks, complex systems and genetic algorithms. Key AI research involves four major technologies, namely computer vision, machine learning, natural language processing and human-computer interaction. AI has been made possible through the integration of multiple types of technology. Current developments in the field of AI are based on cloud computing and big data. At present, the widely-used areas of AI are machine learning, image recognition and intelligent robotics.

In the insurance industry, AI has been applied in many types of scenarios and has brought about many positive changes. For example, AI applications that interact with customers have helped insurance firms in the areas of online customer acquisition, marketing and promotion, customer service, and claims automation. In underwriting and claims, AI applications can determine and record the authenticity of information provided by customers (e.g. documents, recordings and images), thereby speeding up operations while mitigating the risk of insurance fraud.

- **IoT**

  The IoT is a network of physical objects that can collect and exchange data. These objects transmit data through various information sensing devices such as QR code scanners, radio frequency identification (RFID), infrared sensors, global positioning systems, and laser scanners in order to enable intelligent identification, location, tracking, monitoring, and management. The IoT has fundamentally changed the relationship between the Internet and physical objects. Traditionally, physical infrastructure is separated from IT infrastructure. In the IoT era, concrete and cable will be integrated with chips and broadband, and this combination will function as a unified infrastructure on which the entire world will run. It will underlie economic management, production operations, social management and even people's personal lives.

  The emergence of the IoT has provided a tipping point for industrial developments like smart cities, smart homes, wearable technology, and telematics. It has strengthened people's ability to collect, integrate, process and analyse data, which has brought tremendous changes to many industries.

  In the insurance industry, the main issue that hinders the accurate pricing of insurance products is the inability to accurately obtain comprehensive risk data, especially risk data for certain segments and customer groups. The IoT aims to mitigate this situation. For example, wearable technology can track customers' lifestyle traits, allowing health insurance products to be tailored to suit groups at different risk levels. Through telematics, we can track user's driving behaviour and more accurately price auto insurance. Currently, insurance companies have developed some IoT-related products, such as usage-based insurance (UBI).

COMPETITIVE LANDSCAPE

The life insurance software solutions industry in Malaysia is dynamic owing to the pool of industry players that compete to develop, customise, install, maintain and support insurance software solutions for conventional life insurers as well as Takaful operators. The life insurance software solutions industry comprises multinational and local industry players that are:

- software development companies solely providing life insurance software development, customisation, installation, maintenance and support services;
- software development companies providing life insurance software development, customisation, installation, maintenance and support services, along with the corresponding hardware and software required for the operations of such life insurance software solutions; and
- technology consulting companies providing life insurance software deployment, along with the corresponding hardware and software required for the operations of such life insurance software solutions.

DynaFront Holdings Berhad is a life insurance technology applications provider that is principally involved in the provision of proprietary software, managed services as well as other services and solutions for life insurance companies, Takaful operators, as well as independent corporate life insurance agencies. DynaFront Holdings Berhad is categorised as a local software development company that provides software development, customisation, installation, maintenance and support services for life insurance software solutions. In FYE 2019, DynaFront Holdings Berhad's subsidiary, DynaFront Systems Berhad, secured a revenue of RM9.3 million comprising RM1.6 million from conventional life insurance software solutions and RM7.7 million from Takaful solutions.

In 2019, the capital expenditure of conventional life insurers was RM94.6 million while the capital expenditure of Takaful operators was RM68.8 million. Based on DynaFront Systems Berhad's revenue of RM1.6 million relative to the capital expenditure of conventional life insurers in 2019, DynaFront Systems Berhad garnered a market share of 1.7%. Within the Takaful segment, DynaFront Systems Berhad garnered a market share of 11.2% based on its revenue of RM7.7 million from Takaful solutions relative to the capital expenditure of Takaful operators in 2019.

The following are profiles of selected life insurance software solutions industry players in Malaysia:

Industry player	Business activities
3i Infotech Sdn Bhd	Provision of internet protocol (IP) based software solutions, including banking, insurance and asset management, as well as enterprise resource planning (ERP) software solutions
AETINS Sdn Bhd	Provision of insurance and Takaful solutions for multiple lines of business, comprising individual life, group life, investment-linked and general insurance
C2L Biz Solutions Sdn Bhd	Provision of integrated software insurance solutions and services
DXC Technology Malaysia Sdn Bhd	Provision of IT outsourcing, licensing of software packages and related professional and consulting services
DynaFront Systems Berhad	Provision of proprietary software, managed services as well as other services and solutions for life insurance companies, Takaful operators, as well as independent corporate life insurance agencies
Ebaotech Malaysia Sdn Bhd	Provision of digital solutions for the insurance industry
iMocha Sdn Bhd	Provision of IT consulting and software specialising in frontline banking and insurance delivery software for the web
Majesco Sdn Bhd	Sales and installation of computer software products, software development and technical services (more export revenue now, not specific to insurance)
One Two One Advisor Sdn Bhd	Provision of enterprise digital framework for financial, insurance and Takaful customers
Tigerlab Sdn Bhd	Provision of insurance software for underwriting agencies, managing general agents, brokers and banks

Source: PROVIDENCE analysis

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2 LIFE INSURANCE MARKET IN MALAYSIA

DEFINITIONS AND SEGMENTATION

Life insurance is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policy holder typically pays a premium, either regularly or as one lump sum. Other expenses, such as funeral expenses, can also be included in the benefits. The various forms of life-based contracts are as follows:

- protection policies that are designed to provide a benefit, typically a lump sum payment, in the event of a specified occurrence. A common form of a protection policy design is term insurance;
- investment policies with the main objective to facilitate the growth of capital by regular or single premiums. Investment policies are also known as whole life, universal life, and variable life policies; and
- Takaful policies based on Shariah principles.

A term life policy provides the simplest form of insurance at the lowest cost for a fixed period of time. There is no cash value to the policy, however the full sum assured is payable upon a valid death, disability or critical illness claim. The premiums payable also generally increase with age. This form of policy is suitable for basic coverage at a low cost.

Whole life policies cover the insured for their whole of life. Whole life policies differ from term policies because it includes a cash value earned from what is known as a “participating fund”. This means that the cash value increases over time, and either increases the sum assured, or in cases, grants the insured benefits in the form of maturity bonuses. The premiums are generally fixed at the age of entry. Hence the earlier the policy is bought by the insured, he/she will incur a lower premium.

Takaful is a type of Islamic insurance wherein members contribute money into a pool system to guarantee each other. Takaful-branded insurance is based on sharia or Islamic religious law and covers health, life, and general insurance needs. Any claims made by participants are paid out of the Takaful fund. A Takaful plan protects the insured based on *Shariah* principles. A person who enters into a contract (*aqad*) to channel a certain amount of money partially into a Takaful fund, makes them a participant in the Takaful plan to help others, if any one of the other participants suffer a loss. The concept of Takaful is based on helping each other when any participant needs it.

MARKET PERFORMANCE

Malaysia’s insurance and Takaful sector continued to show positive growth in 2019. Total premiums and contributions increased by 15.1% to RM12.6 billion (2015: +2.3% to RM11.0 billion), while combined insurance and Takaful assets expanded by 9.2% to RM287.4 billion (2015: +3.2% to RM263.1 billion).

Drivers of growth continue to be different for the life insurance and family Takaful sectors. In the life insurance sector, new business growth has been mainly supported by higher growth in investment-linked policies that combine protection with savings and investments. In contrast, new business in the family Takaful sector remains largely driven by group term policies, including credit-related term policies, which provide relatively higher protection benefits but do not include any savings or investment component. The share of medical and health insurance/Takaful business has increased, mainly reflecting higher group employee benefits. New business growth has largely been attributed to investment-linked insurance and Takaful policies. Greater flexibility, provided under such policies for policyholders to adjust their premiums in response to changes in investment appetite or financial circumstances, has made such policies particularly attractive for those with higher variability in income or seeking to take advantage of investment opportunities.

Key life insurance market indicators [a]

	2015	2016	2017	2018	2019
Market structure					
Number of licensees					
Direct life insurers	10	10	10	14	14
Professional life reinsurers	1	1	1	1	1
Insurance brokers	29	29	29	28	28
Adjusters	41	43	45	47	50
Financial advisors	21	25	26	31	33
No. of registered life agents	85,376	85,494	78,716	75,707	75,999
Premium income					
Life (% of gross national income ("**GNI**"))	2.7	2.6	2.5	2.5	2.6
Per capita insurance premium expenditure on life insurance (RM)	963	1,000	1,035	1,082	1,164
Life benefit payments (RM million)	20,541.3	21,372.9	22,610.5	23,680.3	26,073.1
Insurance fund assets (RM million)	200,778.6	210,623.3	229,200.4	235,489.7	255,073.4
New business					
Number of life policies	16,831,100	9,672,682	11,675,633	12,217,409	14,834,878
Sums insured (RM million)	730,114.2	684,680.9	738,088.2	913,081	1,073,082.1
Total premiums (RM million)	9,604.9	10,277.1	10,709.9	10,955.6	12,610.9
Business in force					
Number of life policies	21,287,312	18,332,750	18,517,954	19,524,530	19,095,734
Sums insured					
RM million	1,468,047.4	1,512,909.3	1,617,777.4	1,851,851.6	2,036,253.5
% of GNI	130.4	126.6	115.0	132.7	138.5
Annual premiums (RM million)	28,681.1	30,771.5	32,866.6	34,923.3	36,969.6

Note:
[a] Latest available as at 28 May 2021

Source: Central Bank of Malaysia, PROVIDENCE analysis

Key Takaful market indicators [a]

	2015	2016	2017	2018	2019
Market structure					
Number of registered Takaful operators	11	11	11	15	15
No. of Family Takaful agents	50,334	49,836	47,348	47,754	48,520
Net contributions income					
Family (% of GNI)	0.5	0.5	0.5	0.6	0.6
Per capita contributions on Family Takaful (RM)	163.6	181.8	197.9	226.0	264.8
Net benefits and claims payment (RM million)	2,449.9	2,666.3	2,911.1	3,270.8	3,633.8
Family Takaful fund assets (RM million)	21,389.1	23,189.1	25,638.7	27,616.9	32,283.8

Note:
[a] Latest available as at 28 May 2021

Source: Central Bank of Malaysia, PROVIDENCE analysis

The potential for life insurance in Malaysia is present, with penetration rates for conventional life insurance policies hovering between 55% to 70% between 2015 and 2019. In comparison, Singapore and Hong Kong witnessed higher penetration rates for conventional life insurance policies over the same period owing to the higher gross domestic product ("**GDP**") of the respective nations and higher GDP per capita of their respective populations, thereby allowing them more disposable income for life insurance expenditure. The conventional life insurance policies penetration rates for Singapore ranged between 243.3% and 267.9%, ahead of Hong Kong which ranged between 155.4% and 175.9% during the same period.

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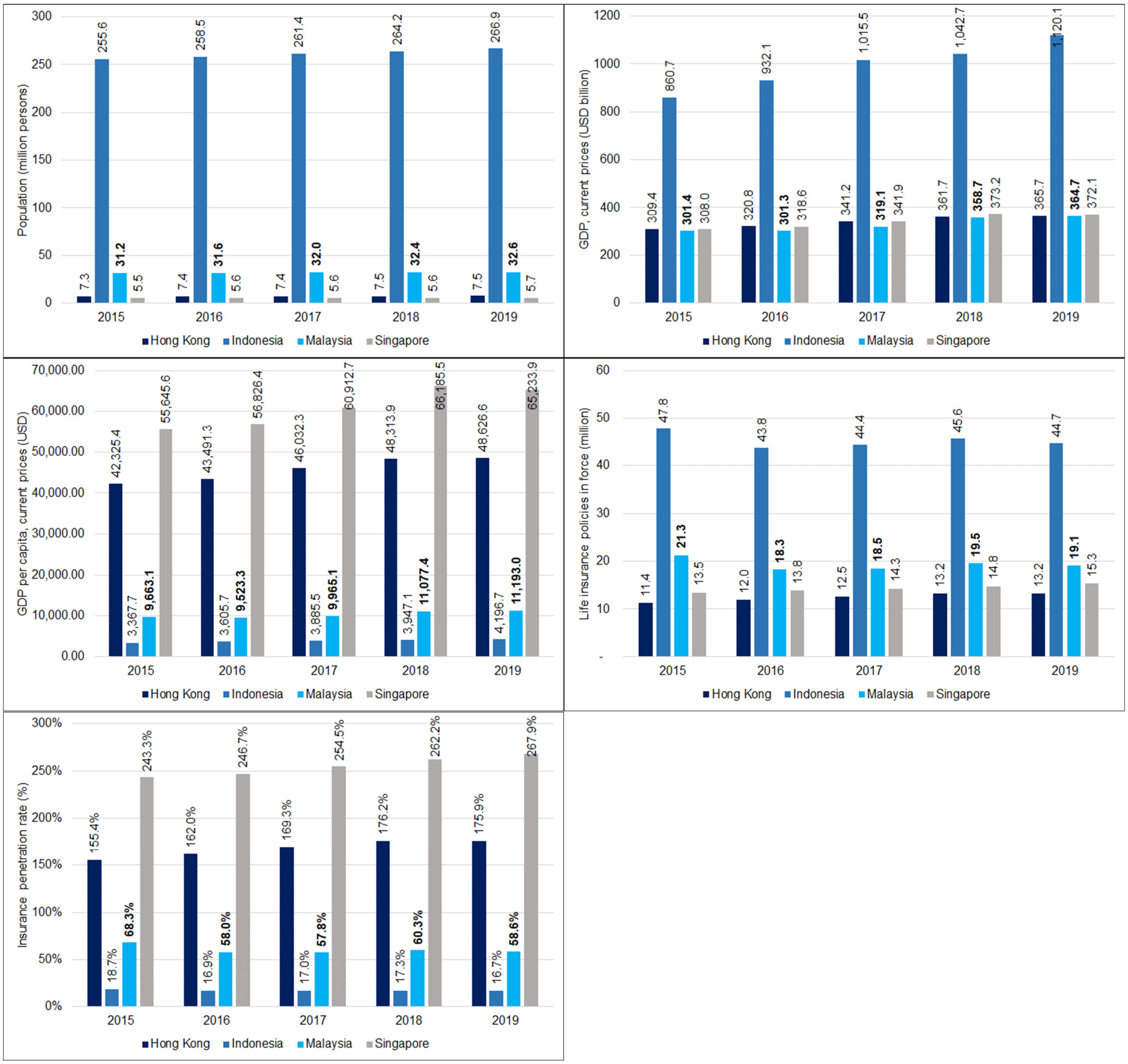
Regional comparison of insurance penetration rates [a]



Note:
[a] Latest available as at 28 May 2021

Source: Central Bank of Malaysia, International Monetary Fund, Financial Services Authority Indonesia, Insurance Authority Hong Kong, Monetary Authority of Singapore, PROVIDENCE analysis

Insurance take-up expanded but the penetration rate has been stagnant over the last five years and a protection gap remains. Insurance penetration rate, measured by the ratio of total number of life insurance and family Takaful policies in force to the total population, has remained fairly static within the range of 54% to 56% over the last five years. This is still believed to be inadequate even for the insured population, with industry studies estimating an average protection gap in Malaysia of between RM553,000 for families whose primary wage earner has some form of life insurance, to RM723,000 for families without any form of life insurance taken by the primary wage earner. Affordability and access required to service policies in underserved market segments remain key barriers to higher levels of penetration. Several important initiatives taken in recent years to improve transparency, encourage product innovations and expand channels for delivering insurance and Takaful products and services (further elaborated in this Chapter) are expected to reduce these barriers and improve prospects for achieving the 75% penetration target set under the Economic Transformation Programme.

A breakdown of the Malaysian life insurance and family Takaful penetration rate reveals that the uptake of insurance and Takaful among the bottom 40% ("**B40**") is disproportionately low relative to the national population. From the working population, meaning those aged 20 to 59 years old who are most likely to be in employment and to have dependents, the B40 penetration rate stood at 30.3% at end-2016, compared with the national working population penetration rate of 50.4% in 2017. There is also a disparity between the B40 and non-B40 penetration rates across all states, where the gap is particularly wide in states with large urban centres. In urban areas such as Kuala Lumpur, 88% of non-B40 between ages of 20 and 59 have insurance and Takaful coverage, compared to 30% among the B40. In the less urban states such as Sabah, a similar pattern is observed, with 30% of non-B40 having insurance and Takaful relative to 19% among the B40.[1]

The low penetration rate of insurance and Takaful among the working-age B40 segment is a critical issue. B40 households are vulnerable to financial shocks as they often have low levels of savings. When a financial shock occurs, such as the death or illness of the family breadwinner, the household not only loses its source of income, but also lacks the funds to pay for the unexpected expense. In such situations, insurance and Takaful can act as a safety net with insurance and Takaful payouts providing temporary relief and enabling households to weather financial emergencies.

The Central Bank of Malaysia launched *Perlindungan Tenang* on 24 November 2017 to expand insurance and Takaful solutions targeted at the B40 segment. *Perlindungan Tenang* products are also intended to be suitable for the general public who are not currently covered by any form of insurance or Takaful protection. This initiative aims to galvanise a broader movement among insurers and Takaful operators to offer products that meet the following five parameters, namely affordable pricing; provides good value; is widely accessible; is easy to understand; and is easy to purchase and claim.

Policies and initiatives implemented continued to build on and further strengthen foundations for the development of a more resilient, competitive and inclusive insurance and takaful industry. In line with the Central Bank of Malaysia's mandate to promote the fair treatment of financial consumers, regulatory and supervisory activities were also directed at managing key conduct risks assessed by the Central Bank of Malaysia and to reinforce high standards of professional conduct and fair dealings in the industry.

[1] Expanding Insurance and Takaful solutions for the underserved segment, Insurance Development Department, Central Bank of Malaysia, March 2018

In September 2020, the Life Insurance Association of Malaysia launched #BUKANEXTRA, an online consumer campaign to convey the importance of having insurance as a form of protection. The #BUKANEXTRA campaign's objective is to educate consumers on the importance of life insurance protection, encourage financial planning among youngsters, besides demystifying the concept of life insurance among youngsters through social media engagements. The campaign, which ran until 6 October 2020, targeted to raise the life insurance penetration rate in Malaysia to between 70% and 75%.

After several years in development, the International Accounting Standards Board announced that the revised International Financial Reporting Standards for insurance contracts ("**IFRS 17**") will be published in 2017 with the full implementation of the standards coming into effect on 1 January 2023. The standards, which aim to improve the comparability and transparency of financial reporting for insurance contracts, will be adopted under the Malaysian Financial Reporting Standards, thus making them applicable to all licensed insurers and takaful operators. On 25 June 2020, the International Accounting Standards Board issued amendments to IFRS 17, Insurance Contracts after a year of deliberations. Among the key amendments was a change of the effective date to 1 January 2023. Insurers now have an extra year to implement IFRS 17, or the Malaysia equivalent of MFRS 17, which was originally meant to go in effect from 1 January 2021. Most insurers have already started on their IFRS 17 implementation journey, but the COVID-19 pandemic has changed the dynamics of the business landscape. As a result, many are forced to decide whether to prolong the implementation project timeline to align with the new effective date, or pause and focus instead on building up their business during this pandemic recovery period.

IFRS 17, or MFRS 17, represents a significant change to insurance accounting requirements. IFRS 17 requires fundamental changes to insurers' financial statements. It affects mainly life insurers because life insurance are long-term contracts. For general insurers, the financial impact is much less although their disclosure requirements are also increased. IFRS 17 requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cashflows and any uncertainty relating to insurance contracts. This requirement will provide transparent reporting about a company's financial position and risk. The IFRS 17 also requires a company to recognise profits as it delivers insurance services (rather than when it receives premiums) and to provide information about insurance contract profits the company expects to recognise in the future. This information will provide metrics that can be used to evaluate the performance of insurers and how that performance changes over time.

MFRS 17, being the Malaysian equivalent of IFRS 17, will be effective for reporting periods beginning on or after 1 January 2023. MFRS 17 is word-for-word of IFRS 17 Insurance Contracts issued by the International Accounting Standards Board, replacing the existing Standard on Insurance Contracts. MFRS 17 is designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. The new MFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. The implementation of MFRS 17 in Malaysia has been deferred to 1 January 2023 in line with the implementation of IFRS 17.

MARKET TRENDS

Among the global drivers and opportunities that will influence Malaysia's life insurance market moving forward are as follows:

- Life insurers are bridging customer disconnects through initiatives such as health and wellness programs to improve persistency and thereby policyholder stickiness
  - While some products have natural customer engagement, traditional life insurance products provided minimal engagement opportunities. However, life insurers are beginning to offer customers experience-led engagement with rewards for healthy lifestyle choices enabled by wearable devices and mobile applications;
  - Experience-led engagement helps insurers partner in customers' life journeys, which often results in fewer policy lapses and increased persistence;
  - Health and wellness initiatives help shift mortality tables to the right, invigorate premiums, and create up-sell and cross-sell life insurance opportunities;
  - Customers are willing to share real-time data with insurers in exchange for health benefits, and for financial benefits such as premium discounts, rewards, and cashback;
  - Insurers can continuously monitor a user's health status, assess the risk, and ensure timely intervention by offering risk-control consultation;
  - Life insurers that use mobile apps and wearables can incentivize customers to lead healthier lifestyles through rewards and engagement program; and
  - Life insurers that leverage data captured from connected devices can refine their existing risk assessment models.
- Omnichannel sales and novel ways to interact with customers
  - An omnichannel experience gives customers the flexibility to seamlessly switch between modes of interaction, and innovative digital solutions help insurers enhance communication methods;
  - While traditional offline channels remain essential for human touch and emotional connection, customers are shifting to digital channels to explore, compare, and purchase life insurance;
  - As information availability drives shopping conversion, life insurers can raise their profile using multiple traditional and digital channels to provide consistent and complementary product information;
  - Lockdowns that restricted face-to-face interaction pushed traditional brick-and-mortar channels to the background;
  - Insurers are offering products via direct-to-customer channels to provide a seamless buying experience;
  - Life insurers are empowering sales agents with digital solutions and virtual platforms that speed up the application process;
  - Life insurers are leveraging innovative digital solutions for experience-led engagement;
  - By offering customers multiple engagement channels, life insurers can generate insights on their distribution channel efficacies, which can feed into their channel strategy; and

  - Omnichannel interaction drives experience-led engagement and improved customer service.

- Simple, innovative, and differentiated products for better customer experience
  - Changing demographics and evolving customer preferences are driving life insurers to revisit their product portfolios and create innovative products that stand out;
  - Life insurers are developing new, experience-centric products to cater to policyholders evolving needs. Firms are creating products that are simple to understand and transparent in their coverage details;
  - Insurers are revisiting eligibility criteria, creating pre-underwritten products to enable instant purchase without a medical examination;
  - Insurers are adding benefit riders and creating hybrid products to make their value proposition innovative and appealing;
  - Life insurance growth segments, the millennials and Generation Z, have different demands for simple, innovative, and entirely digital products. Meanwhile, aging baby boomers want supportive concierge and long-term care products. Complexities in the life insurance purchase process are leading to lower conversion rates.
  - Thus, life insurers are offering simple and easy access to life coverage products with clear eligibility criteria to increase purchase adoption;
  - Simple insurance policies with clear eligibility criteria make underwriting decisions easier with quick turnaround times;
  - Policies purchased through digital channels provide economies-of-scale, helping life insurers mitigate customer acquisition costs; and
  - Insurers help customers plan for their future needs by offering customized products that match their aspirations and financial need.
- Life insurers are adopting intelligent automation
  - Intelligent automation can be a critical success factor in achieving cost efficiency and faster operational processes;
  - Back-office processes for life insurance firms have always been complicated, cumbersome, and time-consuming;
  - The life insurance industry is replete with back-office processes that are transactional, high-volume, and repetitive. These labour-intensive processes are prone to human errors;
  - Life insurers are exploring options to automate repetitive processes to reduce operational costs and speed up operations;
  - The rising volume of unstructured data from multiple customer touchpoints enables life insurers to explore advanced data mining techniques and leverage AI and machine learning models for intelligent automation;
  - Life insurers are using AI to extract unstructured data from various sources and touchpoints and structure them to streamline and accelerate back-end processes;
  - Life insurers are turning to AI-based models to improve their end-to-end processes, leading to enhanced customer experience;

- A fast and accurate intelligent automation solution reduces the need for manual interventions, increases process efficiency, and reduces costs;
- Staff can redirect their saved time to more high-impact activities such as customer service; and
- Fewer manual errors will boost regulatory compliance as well as customer experience.

- Life insurers are transitioning out of legacy platforms
  - Life insurers are adopting modern platforms or migrating existing legacy modules to the cloud to modernise core systems;
  - Aging and outdated platforms are inflexible when it comes to supporting new business changes;
  - A modern platform can reduce the complexity of existing business processes, quickly deploy new functional capabilities, automate routine tasks, and centralise highly transactional activities;
  - Instead of completely shifting to a modern platform, some firms are electing to migrate their core functionalities to the cloud, keeping the system of records intact. This hollowing of the core approach minimizes business dependency on legacy platforms;
  - Modernising core systems offers the agility to effectively enable the organisation's digital strategy and the flexibility to respond to industry changes and emerging market opportunities;
  - Life insurers are looking at a cloud-first approach that helps them move away from expensive-to-maintain data centers and mainframe applications;
  - Modernising core systems helps insurers rapidly launch new products, integrate widespread multiple channels for consistency, and enable effective policy service and timely problem resolution, all of which contribute to enhanced customer experience;
  - Modern platforms empower life insurers with advanced business analytics capabilities, helping them understand customers better and generate up-sell and cross-sell opportunities;
  - Life insurers are migrating applications to the cloud to gain operational efficiency and scalability;
  - Modernising core systems and platforms enables insurers to leverage open application programming interfaces (APIs), web services, and microservices, which reduce integration costs with other platforms.

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3 LIFE INSURANCE MARKET IN INDONESIA

Indonesia's life insurance market is at an earlier stage of development compared to other Association of Southeast Asian Nations (ASEAN) member countries. Indonesia exhibits resilient economic growth and is becoming one of the world's most attractive markets for life insurance propositions due to a low insurance penetration rate, a large population, and expanding consumer class.

The underdeveloped market in Indonesia and growth of its young demographic make it one of the fastest growing life insurance markets in the world and it presents multinational insurance companies with opportunities to tap the expanding middle class of Indonesia. As life expectancy, income and financial literacy improves in the country, the need for life insurance is increasing.

The market is dominated by individual, regular premium, life insurance savings products, sold predominantly through agency forces and the bancassurance channel. While most domestic insurers market traditional participating endowments, they are also increasingly entering the Investment-Linked Products ("**ILPs**") to compete with joint venture companies with multinational life insurance partners.

ILPs which offer twin attractions of an investment savings with valued protection benefits are structured as unit-linked products. ILPs have been growing in popularity since being introduced to the Indonesian market. ILPs have overtaken traditional endowment sales since 2008 and accounted for an estimated 53% of life insurance market written premium in 2016, a 31% increase in written premium from 2015.

There is a growing corporate benefits market that offers insured group life cover with riders which may include total permanent disability (TPD), personal accident (PA) and emergency medical expenses. This may be impacted by the social security reform that is rolled out by the Government of Indonesia over a multi-year time horizon. Shariah life insurance or takaful is another market niche with potential in this majority Muslim country and it benefits from government support.

Key life insurance market indicators [a]

	2015	2016	2017	2018	2019
Market structure					
Number of licensees					
Direct life insurers	55	55	61	60	60
General insurers	80	80	79	79	79
Reinsurers	6	5	7	7	7
Social insurance	2	2	2	2	2
Mandatory insurance	3	3	3	3	3
Insurance brokers	166	169	169	166	160
Reinsurance brokers	37	40	43	43	42
Adjusters	28	28	27	27	27
Financial advisors	-	-	-	-	-
No. of registered life agents	408,892	475,249	407,055	139,513	139,908

	2015	2016	2017	2018	2019
Premium income					
Life (% of GNI)	2.6	2.9	3.0	2.9	3.0
Per capita insurance premium expenditure (Rupiah)	1,159,070	1,398,473	1,556,732	1,635,266	1,635,266
Life claims and benefit payments (Rupiah million)	80,884,648.0	145,424,207.0	140,126,121.4	147,003,184.1	145,088,520.3
Insurance fund assets (Rupiah trillion)	853.4	1,003	1,177	1,249	1,357
New business					
Number of life policies	21,398,781	19,230,907	15,581,644	15,539,272	27,334,508
Sums insured (Rupiah trillion)	1,141.8	1,300.8	1,055.3	1,134.7	1,128.5
Annual premiums (Rupiah trillion)	65.4	79.5	91.4	90.8	94.5
Business in force					
Number of life policies	47,824,728	43,756,566	44,393,016	45,599,010	44,698,795
Sums insured (Rupiah trillion)	3,192.6	3,550.1	3,776.7	3,896.2	4,227,7
Number of life policies as % of population	18.8	16.9	17.0	17.2	16.7
Annual premiums (Rupiah trillion)	135.4	164.5	175.3	189.3	196.1

Note:
[a] Latest available as at 28 May 2021

Source: Financial Services Authority Indonesia, PROVIDENCE analysis

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Key Takaful market indicators [a]

	2015	2016	2017	2018	2019
Market structure					
Number of registered Takaful operators	54	58	63	62	62
No. of Family Takaful agents	1,421	3,913	6,528	3,095	4,766
Net contributions income					
Family (% of GNI)	0.09	0.10	0.10	0.10	0.11
Per capita contributions on Family Takaful (Rupiah)	40,118	47,584	52,463	58,147	62,734
Gross claim (Rupiah trillion)	3.5	4.3	5.0	8.7	10.7
Family Takaful fund assets (Rupiah trillion)	26.7	33.1	40.5	41.6	45.8

Note:
[a] Latest available as at 28 May 2021

Source: Financial Services Authority Indonesia, PROVIDENCE analysis

Indonesia is the most populous country in the Southeast Asia region, with a large population of approximately 273 million people. Despite being less mature and having lower insurance penetration rate than Malaysia, the life insurance market in Indonesia is approximately eight times larger than the Malaysian market with over 60 insurance companies of varying sizes.

The potential for life insurance in Indonesia is significant, with penetration rates for conventional life insurance policies hovering between 15% to 20% between 2015 and 2019. In comparison, Singapore and Hong Kong witnessed higher penetration rates for conventional life insurance policies over the same period owing to the higher GDP of the respective nations and higher GDP per capita of their respective populations, thereby allowing them more disposable income for life insurance expenditure. The conventional life insurance policies penetration rates for Singapore ranged between 243.3% and 267.9%, ahead of Hong Kong which ranged between 155.4% and 175.9% during the same period.

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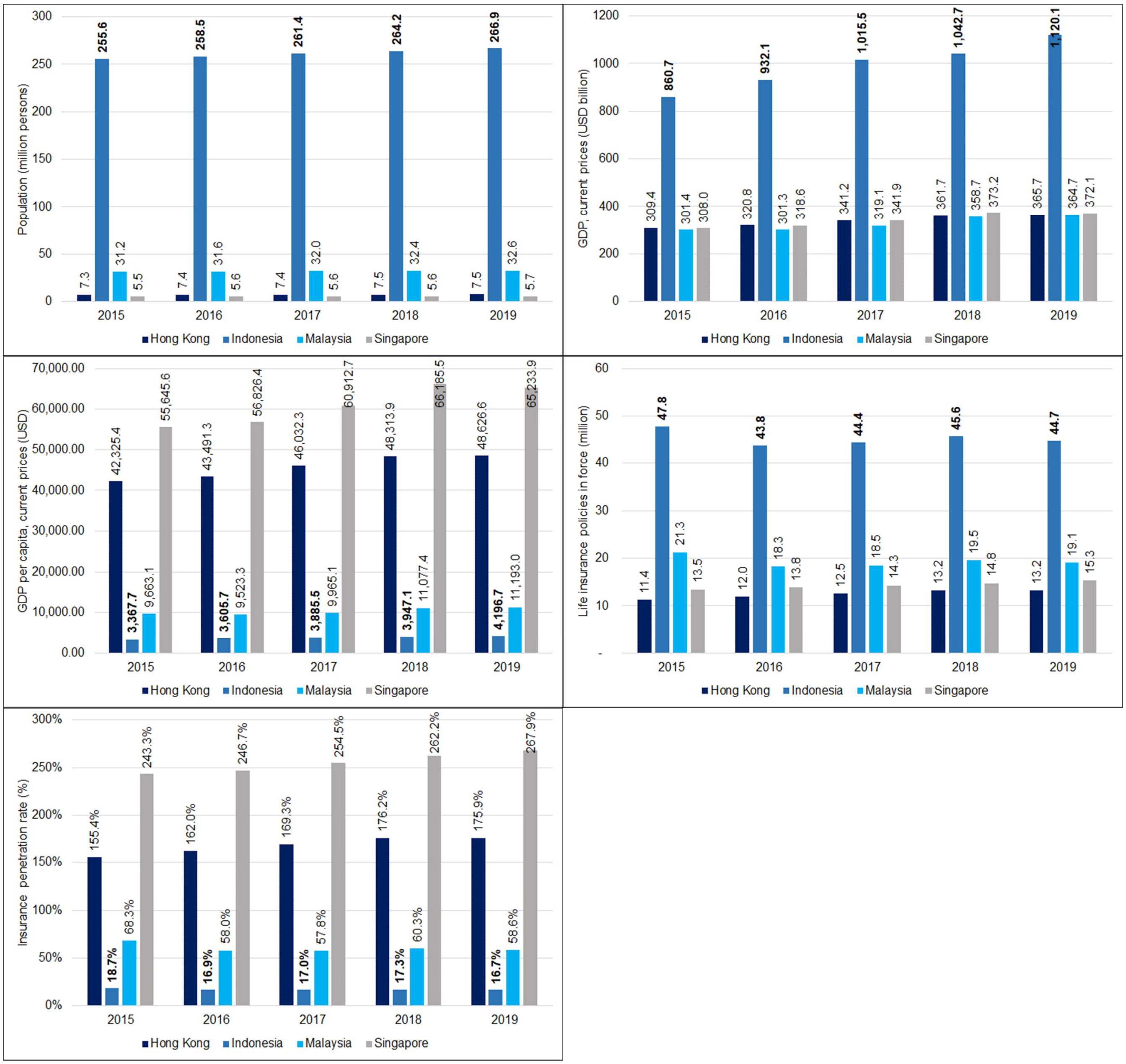
Regional comparison of insurance penetration rates [a]



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Source: Central Bank of Malaysia, International Monetary Fund, Financial Services Authority Indonesia, Insurance Authority Hong Kong, Monetary Authority of Singapore, PROVIDENCE analysis

PROVIDENCE
STRATEGIC PARTNERS

4 PROSPECTS AND OUTLOOK

The life insurance software solutions industry in Malaysia increased from RM89.7 million in 2014 to RM163.4 million in 2019 at a CAGR of 12.8%. During this period, the capital expenditure of conventional life insurers rose from RM74.2 million to RM94.6 million at a CAGR of 5.0%, while the capital expenditure of Takaful operators rose from RM15.5 million to RM68.8 million at a CAGR of 34.7%. The life insurance software solutions industry is dependent on the capital expenditure incurred by conventional life insurers and Takaful operators on life insurance software solutions as well as corresponding hardware and services which fluctuate on a year-to-year basis. PROVIDENCE projects the life insurance software solutions industry to grow from RM163.4 million in 2019 to RM204.3 million in 2023 at a CAGR of 5.7%.

As the insurance industry continues to adapt to different Internet scenarios, insurance products for the Internet ecosystem continue to innovate iteratively, from simpler products to more diverse and complex products. Among these products, those that involve greater scenario fragmentation, higher customer interaction, stricter time limits, and greater sales fluctuations place high demands on the operational capabilities of insurance firms. With the support of life insurance software solutions, insurance firms' capabilities have been upgraded in the following areas:

- greater operational capabilities in terms of more flexible resource allocation, faster response, enhanced business capacity, more comprehensive product range and smoother workflow; and
- more efficient operational support in terms of increased operational efficiency, optimised operational quality, and reduced operating costs.

Malaysia's insurance and Takaful sector continued to show positive growth in 2019. Total premiums and contributions increased by 15.1% to RM12.6 billion (2015: +2.3% to RM11.0 billion), while combined insurance and Takaful assets expanded by 9.2% to RM287.4 billion (2015: +3.2% to RM263.1 billion). In the life insurance sector, new business growth has been mainly supported by higher growth in investment-linked policies that combine protection with savings and investments. In contrast, new business in the family Takaful sector remains largely driven by group term policies, including credit-related term policies, which provide relatively higher protection benefits but do not include any savings or investment component.

The potential for life insurance in Malaysia is present, with penetration rates for conventional life insurance policies hovering between 55% to 70% between 2015 and 2019. In comparison, Singapore and Hong Kong witnessed higher penetration rates for conventional life insurance policies over the same period owing to the higher GDP of the respective nations and higher GDP per capita of their respective populations, thereby allowing them more disposable income for life insurance expenditure.

Indonesia exhibits resilient economic growth and is becoming one of the world's most attractive markets for life insurance propositions due to a low insurance penetration rate, a large population, and expanding consumer class. The underdeveloped market in Indonesia and growth of its young demographic make it one of the fastest growing life insurance markets in the world and it presents multinational insurance companies with opportunities to tap the expanding middle class of Indonesia. As life expectancy, income and financial literacy improves in the country, the need for life insurance is increasing. The potential for life insurance in Indonesia is significant, with penetration rates for conventional life insurance policies hovering between 15% to 20% between 2015 and 2019.

PROVIDENCE believes that the prospects of DynaFront Holdings Berhad will be supported by the rising demand for life insurance software solutions by conventional life insurers as well as Takaful operators, as well as growth potential of the life insurance markets in Malaysia and Indonesia respectively.