



September 29, 2022

Minority Shareholders Watch Group
Level 23-2, Menara AIA Sentral
No.30 Jalan Sultan Ismail
50250 Kuala Lumpur

By Email & Hand

**Attention: Encik Devanesan Evanson
Chief Executive Officer**

Dear Sirs,

THE 49TH ANNUAL GENERAL MEETING ("AGM") OF MNRB HOLDINGS BERHAD ("MNRB" or "the Company") ON THURSDAY, SEPTEMBER 22, 2022

Thank you for your letter dated September 8, 2022 on the above.

We are pleased to inform you that your queries were read out and addressed at our AGM held on September 22, 2022. Below are our responses to the queries:-

Operational & Financial Matters

- 1. Notwithstanding a 15.4% growth in gross written premiums ("GWP") and gross takaful contributions ("GTC") to RM3 billion in FY2022, MNRB recorded a sharp decline of 39.6% in net profit to RM114.4 million compared to RM189.5 million in FY2021.**

This was mainly due to the tepid performance of the reinsurance business ("Malaysian Re") which registered a 52.8% decrease in net profit to RM62.8 from RM133.1 million in the previous year. Its performance was affected by lower investment income and lower underwriting performance.

- a) What is the management guidance on the growth of GWP and GTC for FY2023?**
- b) For the first quarter ended 30 June 2022, MNRB turned loss-making with a net loss of RM13.28 million (Q1FY2022: net profit of RM46.58 million) due to fair value losses amounting to RM144.87 million.**

With the financial market expected to be volatile with potentially higher claims from natural disasters, how would MNRB fare in FY2023? Would the company be able to maintain similar financial performance as in FY2022?

Response:

- a) The Management acknowledge the declining performance which was mainly driven by the investment and underwriting result of Malaysian Re. The impact of this underperformance of our reinsurance segment has been cushioned by the positive contribution from Takaful IKHLAS. Both our General and Family Takaful subsidiaries recorded significant improvement of 35.6% in net profit and 6.4% GTC against last year.

We constantly review our business strategies, and we are confident that there are ample opportunities in the market based on our growth plans for reinsurance/retakaful and takaful segments.

- b) With the Business Remodeling exercise for our reinsurance arm as well as the strategic initiatives for our takaful business that are being put in place as mentioned in detail on page 18 of our Annual Report, we foresee that we will achieve a reasonable performance in financial year 2023.

- 2. In its Q1FY2023 quarterly result announcement, MNRB expects to see higher revenue from the takaful and reinsurance business, buoyed by the higher reinsurance prices in a hardening market. The reinsurance business accounted for half of MNRB's net profit in FY2022.**

However, we have seen the recent performance of Malaysian Re hit by major losses from natural catastrophe (“Nat Cat”) events especially the Great Malaysia Flood which occurred in December 2021. Besides, climate change and urbanization are also expected to further aggravate frequency and severity of floods and inundations.

As such, Malaysian Re would likely be facing higher claims in the future arising from heightened environmental risks due to climate change.

- a) **What was the size of claim amount incurred for Nat Cat events including the Great Malaysian Flood in FY2022? Overall, had the Nat Cat portfolio incurred underwriting loss in FY2022?**
- b) **The weakening underwriting performance of Malaysian Re suggests that it faces increasing payout over the years due to the occurrence of natural disasters. Does this suggest that major repricing is required for the Nat Cat portfolio to better compensate the higher underwriting risk? How have the pricing and coverage changed over the years?**

- c) **To what extent will the repricing of policies sufficiently compensate Malaysian Re's rising underwriting risk stemming from climate events?**
- d) **How robust is the current risk modelling framework to assess the likelihood of Nat Cat events to enable insurers to better manage their risk and price policies more effectively?**

Response:

- a) The total gross incurred claims amount for Nat Cat events including the Great Malaysian Flood in FY2022 was RM450.2 million. Overall, incurred claims for Nat Cat events has impacted the underwriting performance of our Voluntary Cessions, Domestic and International Treaties and Facultative portfolios.
- b) As a result of the Great Malaysian Flood, reinsurance rates have been increased for new business written in Malaysia, and this will assist in mitigating the underwriting risk.

In addition, since January 2022, Malaysian Re has pushed for and succeeded in tightening the terms of coverage for the local business. This will reduce Malaysian Re's exposure to risk, particularly from Nat Cat events.

- c) Premiums for Motor and Property insurance in Malaysia is largely governed by tariffs which sets the maximum premium insurance companies can charge policyholders.

The ongoing Phased Liberalization for Motor and Fire Tariffs, still has limited scope for primary insurers to adjust premiums. Malaysian Re's pricing is dependent on the premiums charged by the primary insurers. Hence, alternative methods had been utilized to address the risk, including tightening of coverage terms to reduce risk exposure to Nat Cat events.

Malaysian Re has also been working to diversify our business into areas that are less susceptible to Nat Cat. Malaysian Re is also an active member of several working groups spearheaded by Bank Negara Malaysia to address flood risk in Malaysia.

- d) Modeling Nat Cat events is a complicated task that requires high levels of scientific expertise. Insurance companies do not have the expertise to do this.

Therefore, Malaysian Re utilizes models developed by the two international companies who are the leading Nat Cat experts worldwide: Applied Insurance Research (AIR) and Risk Management Solutions (RMS).

The models allow Malaysian Re to quantify the Nat Cat risk on the business written, which in turn allows for informed decision-making on how to mitigate those risks. Hence, we could focus on writing business in a low-flood risk zone and limit exposure to high-flood risk zones.

3. Malaysian Re targets to rebalance the treaty and non-treaty portfolios and pursue growth of non-conventional segments such as Managing General Agents (“MGA”) for more sustainable business value.

- a) **What is the current ratio of treaty and non-treaty business for Malaysian Re? What is the comfortable ratio for the treaty and non-treaty businesses?**
- b) **How is the MGA different from the conventional segment? What is the upside of MGA in terms of GWP/GTC? What is the targeted contribution from MGA?**
- c) **Malaysian Re had conducted a major review of its domestic treaties business to overcome the underperformance seen in recent years (page 21 of Annual Report 2022).**

What is the outcome of the review? What was the reason for the underperformance of domestic treaties business?

- d) **The Company has taken some measures to address the underperformance of domestic treaties business such as revisiting the current overriding commission structure and scaling down the number of lines to be ceded for more hazardous risk categories (page 21 of AR2022).**

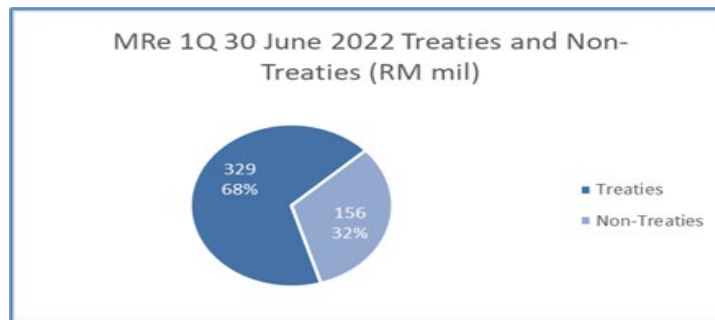
What are the results of these measures?

- e) **MNRB’s reinsurance and retakaful arm plans to expand and diversify its overseas portfolio into high-potential markets. Currently, the reinsurance and retakaful business have presence in Dubai via Malaysian Re (Dubai) Ltd.**

What are the other high potential markets that have been identified by the Board and management?

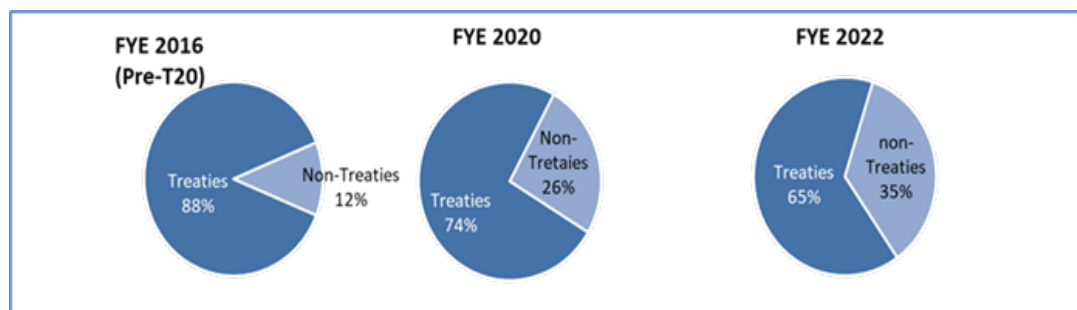
Response:

- a) As of 1Q FYE 2023 (30 June 2022), breakdown of Treaty and non-Treaty portfolios were as follows:



Under the Business Remodeling, Malaysian Re aims for a 60:40 ratio of Treaty and non-Treaty business by FYE 2025.

The following charts provide a perspective of the progress made by Malaysian Re in diversifying its Treaty and non-Treaty portfolios over the period.



- b) MGA value propositions:

- Access to specialist underwriting know-how and distribution channels, otherwise not available to Malaysian Re;
- Business selected is profitable and does not accumulate with Malaysian Re's existing portfolio, thus reducing long-term volatility;
- Capital efficient as Malaysian Re provides capacity to the MGA (as opposed to an LOC or a cash deposit); and
- Malaysian Re retains underwriting control over the risks written.

MGA Targeted Contribution:

- As of 1Q FY2023, gross premium of MGA was RM27.2 million, or about 5.6% of the total GWP (1Q FY2022: RM20.0 million; 1Q FY2021: RM4.2 million).
- For the next 3 years, Malaysian Re plans to increase MGA to 15.5% of the total GWP in FY2025.

c) Based on the review, Malaysian Re has imposed several major improvements in all the domestic treaties that the Company is leading. The following changes were implemented to renewals effective on 1 April 2022, and onwards:

- Review and change current overriding commission structure;
- Impose Loss Participation Clause;
- Reduce number of lines in hazardous risk categories;
- Impose Quota Share to improve sharing proportion between Reinsured & Reinsurer; and
- Reduce Flood event limit (maximum up to one time the cedant's treaty limit (previously 3-4 times of treaty limit).

Reasons for the underperformance of domestic treaties business:-

- The domestic market has been a tariffed market whereby and pricing is set in accordance with the tariff set by the authority, rather than to reflect the risk profile.
- In recent years, as the domestic market undergoes phased liberalization, direct insurers have been observed to reduce prices to compete for market share and topline growth. This is an unintended short-term consequence of phased liberalization.
- Increase in large fire losses, which coincided with the recent economic slowdown, as well as increased frequency and severity of natural disaster losses, culminating in the Great Malaysian Flood in December 2021.
- Malaysian Re, as the national reinsurer, has had to balance its commercial needs with its national role in stabilizing the domestic insurance market, as any changes to its domestic treaties must account for the potential effects of increased costs passed on to direct consumers.
- Nevertheless, as the domestic market leader, Malaysian Re has effected the necessary changes to ameliorate the domestic treaties profitability as elaborated earlier.

- d) The results of these measures are as follows:
- Commissions for domestic cedants have been reduced by 12% to 15% points percentage; and
 - Number of lines of hazardous risk categories have been limited to 3 to 11 as compared to previous years where cedants were able to cede up to 14 lines for all hazardous and construction classes.
- e) High potential markets include:
- MGA (as explained in Question 3 b) above);
 - Family Retakaful;
 - Specialty Treaties in developed markets in Europe; and
 - Lloyd's of London.

4. The new Malaysian Financial Reporting Standards (MFRS) 17 Insurance Contracts accounting standard would come into effect on 1 January 2023.

The objective of MFRS 17 is to provide a comparable and consistent accounting model for insurance/takaful contracts that is applicable across the insurance/takaful industry.

- a) **With about four months to go, how well is the Group prepared for the introduction of this new standard?**
- b) **What is the expected financial impact arising from the implementation of MFRS 17?**

Response:

- a) The MFRS 17 implementation date for the Group is on 1 April 2023. The Group is currently in the midst of implementing the relevant systems solution, architecture, and processes to ensure compliance with the said standard.

There have been some challenges given the complexities of the standard and the fact that it reflects a comprehensive change to the accounting treatment of insurance contracts. However, the Group has taken efforts to address these challenges and expects to go live in stages starting next month.

To ensure the completeness and accuracy of the implementation and the accompanying financial impact assessment, we have engaged with our external auditors to perform a MFRS 17 audit validation exercise.

The Group is confident that it will be able to meet the deadline on the implementation of the standard.

- b) The key difference between MFRS 17 and the current accounting standard is mainly due to the profit recognition mechanism.

The profit recognition under MFRS 17 follows the "earning concept" which is consistent with the current MFRS 4 for the general reinsurance, retakaful, and takaful business. Hence, the impact on general business is expected to be minimal. However, the impact cannot be fully quantified until it goes live.

For the family takaful business, during the transition, profit will be negatively impacted given the underlying mix of business, which skews heavily towards single contribution product offerings.

A range of actions are being undertaken, including but not limited to:-

- Repricing, to optimize the fee structures for single contribution credit-related portfolio.
- Optimizing the business portfolio through active pursuit of strategies to expand regular contribution business, both in terms of new business and inforce management.
- Optimizing the MFRS 17 interpretations to minimize the impact of transitioning from MFRS 4 to the new accounting standard.

We are currently focused on optimizing the financial impact by diversifying our business mix (i.e., shifting to regular contribution products).

Additionally, we have engaged with our external auditors to perform an audit validation exercise and expect to finalize the financial impact in mid-October 2022.

Sustainability Matters

- 1. Insurers are taking different approaches to incorporating ESG measures into their strategies. One of the most common focuses is to develop an underwriting approach by gradually reducing their exposure and involvement in sectors with a negative environmental, social and governance (“ESG”) impact while bolstering those with a positive profile, like renewable energy risks. Is this a focus of MNRB in its sustainability roadmap? If yes, to what extent has the Group improvised its underwriting approach to reduce the exposure to ESG sensitive industries?**

- 2. In the Sustainability Statement (page 26 to page 75 of AR2022), the Company did not disclose the size of carbon footprint and emissions incurred from its business and operation.**

Does the Company plan to disclose such information in the future? If so, what is the target date?

Response:

1. Some of the initiatives to reduce the exposure to ESG sensitive activities, and/or to support a positive development of ESG conscious effort are as follows:
 - a) Green Energy Incentive
 - In fostering initiatives towards addressing the issue of climate-related risks, Takaful IKHLAS has updated the Underwriting Guidelines to support the development of alternative or renewable energy.
 - Takaful IKHLAS provides a 2.5% Green Energy Incentive on eligible general takaful risks. This action is anticipated to contribute to mitigating the effects of climate change from an underwriting perspective.

 - b) Green Pool for ASEAN
 - Malaysian Re is actively growing its support (capacity) for green initiatives. This includes a potential set-up to lead a Green Pool for ASEAN.
 - The ASEAN Green Pool initiative will provide insurance/takaful capacity and support for renewable energy products in ASEAN, with a particular focus on solar and wind energy.



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2. It is part of our plan to assess and measure our carbon footprint (scope 1 and 2) by 2023 (FY2024) and aspire to be able to disclose the information by 2024 (FY2025).

Should you need any further clarification, please do not hesitate to contact the undersigned at 03-2096 7190 or [lena@mnr.com.my](mailto:lana@mnr.com.my).

Thank you.

Yours faithfully,
for **MNRB HOLDINGS BERHAD**

Lena Abd Latif
Company Secretary

c.c :

- YBhg. Datuk Johar Che Mat (Chairman)
- Encik Zaharudin Daud (President & Group Chief Executive Officer)