Mohd Razif bin Abd Kadir: The life insurance industry in Malaysia

Speech by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, at the Launch of Tokio Marine-Asia Life Group, Kuala Lumpur, 9 March 2007.

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Mr. Kunio Ishihara, President of Tokio Marine,
Mr. Morio Ishii, Vice-President of Tokio Marine,
Members of the Senior Management of Tokio Marine Asia Pte. Ltd and Asia General Holdings,
Mr. Ng Chek Khiang, Chief Executive Officer of Asia Life (M) Berhad,
Distinguished Guests,
Ladies and gentlemen,

It is a pleasure to be here with you this evening to celebrate the official launch of TM Asia Life Malaysia Bhd.. An alliance of this nature is certainly a happy event, especially when it reflects the positive transformation that is shaping the insurance industry in Malaysia. TM Asia Life combines the strengths of the one of the world's largest Japanese insurance groups and an established life insurer in the Malaysian market that has provided over 50 years of trusted service to Malaysians. It also marks the establishment of the first Japanese-owned life insurance company in Malaysia, adding further diversity to the profile of foreign insurers in our market.

When developments like this take place in the industry, we look forward to new innovations, fresh management perspectives and a renewed energy that will take the industry to the next level of development. In this particular case, there are tremendous competitive advantages to be reaped from the global experience and expertise of the Tokio-Marine Group, combined with an intimate knowledge of the Malaysian market derived from Asia Life's long-standing presence in the domestic market. With Tokio Marine's presence in all three life, general and takaful sectors, the Tokio Marine-Asia Group alliance in Malaysia is also well-positioned to take full advantage of cross-sector synergies to effectively implement strategies that are responsive to the changing market conditions and consumer demands. Let me, therefore, congratulate all of you who are part of this exciting transformation.

Ladies and gentlemen,

The life insurance industry in Malaysia continues to face exciting opportunities as well as challenges. As some of you may be aware, an important long-term economic issue which we are now grappling with concerns pension reforms which are aimed at ensuring adequate financial provisions for the ageing population during their retirement years. Malaysians today live longer and have fewer children. By the year 2020, the percentage of the population above the age of 60 years is estimated to more than double to 16% of the population, from only 7% in 2000.

The demographic changes also have significant implications for healthcare financing. With the ageing population and medical inflation, total expenditure on healthcare has continued on an increasing trend. A large proportion of that is borne directly "out-of-pocket" by individuals, or by employers as part of employment benefits for staff.

Going forward, private pensions and health insurance will have an increasingly important role in supporting sustainable financing in the long term for retirement and healthcare. More Malaysians are already turning to the private insurance industry to finance their healthcare expenditure. As a result, the medical and health insurance business has grown significantly in the last five years, averaging at an annual growth rate of close to 30%. About 80% of this business is written by life and composite insurers, mainly as riders to life insurance policies. Similarly, a larger role for private pensions may be envisaged under the pension reform initiative.

At the same time, there is also a growing awareness among Malaysians of individual responsibility in financial planning. Planning for retirement and healthcare needs are clearly among the most important of financial decisions, but sound financial planning also includes individuals protecting themselves and their dependents from financial vulnerabilities arising from death, disability or unemployment, providing for children's education and as well as making sound investment choices.

These developments present enormous opportunities for the life insurance industry, particularly given the large untapped market that still exists with less than 45% of the population having a life insurance or family takaful policy. By the same token, however, they place equally important responsibilities on insurers to make sure that the products sold are suitable, that insurers have assets which match their liabilities; and that customers are given enough information to enable them to make responsible decisions.

To its credit, the insurance industry has taken important strides in rising to the challenges faced. Generally, Bank Negara has been encouraged by the positive response of the industry to new regulations that further strengthen corporate governance and risk management standards and promote the fair treatment of consumers. Of course, some companies have been more progressive than others in absorbing the regulatory principles within their companies. But overall, our supervisory interactions with the industry have shown that the industry as a whole has made good progress in lifting standards of financial and business practices.

This is encouraging as ultimately, both the industry and Bank Negara have a common interest in promoting an efficient and stable insurance market in Malaysia.

At Bank Negara, we are continuing to strengthen our regulatory and supervisory capabilities as well as sharpen our focus. As those from Malaysia would be familiar, we are now into the fourth month of the Bank's new regulatory and supervisory structure. The new organisational structure for the regulatory and supervisory functions within the Bank were realigned back in November last year to move from the previous sectoral approach to regulation, to one that will integrate the Bank's regulation of the different financial sectors under its purview along functional lines. As a result, the functions previously under the former Insurance Regulation Department have now been assumed by the newly established Financial Sector Development Department, the Prudential Policy Department, the Consumer and Market Conduct Department and the Financial Surveillance Department. On the supervision side – or better known to you as the examiners that come and pay you a visit every now and then – a new department known as the Financial Conglomerates Supervision Department has also been established to facilitate the integrated supervision of financial service groups that include both banks and insurance companies under their umbrella.

The new cross-sector regulatory structure allows us to modernise the regulatory framework for both the insurance and banking sectors at a more equal pace. The increased synergies created will enable the Bank to apply the best regulatory practices in the banking sector to the insurance sector, and vice versa. Regulations in the area of market conduct, for example, are more advanced in the insurance sector than they are on the banking sector. On the other hand, the regulatory framework for risk management and capital adequacy is generally more developed on the banking side. Under the new structure, the Bank is able to leverage on the more advanced developments in either sector to enhance the regulatory framework for both sectors simultaneously if possible. This, in turn will promote a more consistent and comparable regulatory regime for the banking and insurance sectors.

Substantial resources have already been allocated to this effort, particularly in the areas of corporate governance, product regulation and financial reporting which have an important bearing on banks and insurers that are within the same group. The rationalisation of current regulations will also take into account international developments which will help to reduce the compliance costs for internationally active insurers operating in Malaysia.

The transition to the new structure has, so far, been smooth. As expected, the industry is still familiarising itself with new personalities and the new functional responsibilities of the various Departments. For this purpose we have designated the Insurance Supervision Department as the main contact point for insurers in their communications with Bank Negara. Internally, we will ensure that the issues raised are channeled to, and speedily resolved by, the right Departments.

Under a more principle-based approach to regulation, Bank Negara will continue to introduce more flexible prudential standards for insurance companies. This will reflect an increased emphasis on the strength of an insurer's corporate governance and risk management capabilities. It is also in line with the Bank's implementation of the risk-based approach to supervision. Insurers that demonstrate sound risk management and strong governance can expect to enjoy greater capital efficiency and a lighter supervisory touch. In this connection, the Bank is putting in the final touches to risk-based capital framework which will issued before the end of March for implementation on a parallel run basis for a period of two years.

Ladies and gentlemen,

As life insurers gear up to take advantage of expanding opportunities in the changing environment, it is essential that commensurate efforts be directed at raising standards in the fair treatment of consumers. In the long run, the industry as a whole has a clear interest in informed, responsible and capable consumers. As past experience, whether in Malaysia or abroad, has invariably shown, the irresponsible and unfair treatment of consumers is damaging to the consumer, damaging to the firm, and damaging to the reputation of the industry.

The Bank is encouraged by the high level of commitment shown by some insurers towards significantly improving their market conduct practices. Nevertheless, much more can be achieved across the industry to address overly aggressive sales practices that result in unsuitable products being sold to consumers.

Bank Negara is investing significantly in raising the level of financial capability among consumers through initiatives under the Consumer Education Programme. Additional focus has been given to this task with the setting up of the Consumer and Market Conduct Department. But this is an extensive task, for which a significant improvement in the level of financial literacy among across a wide-reaching spectrum of consumers may only be seen in the next generation of consumers.

It is, therefore, important now that insurers take their responsibility for the fair treatment of consumers seriously. In particular, we would like to see a far greater interest by the Board and senior management in improving selling practices, as well as the quality of disclosures and advice provided to consumers. These issues need to be addressed on the ground, with proper enforcement by management to prevent misselling practices, unclear documentation or explanations by agents and marketing staff, and contract terms and exclusions that are unreasonable. Wide gaps have also been observed between companies in the level of competence of staff selling the products, and in the quality of training provided to staff and agents. There is a need to achieve greater, as well as more consistent, progress in this area.

Bank Negara is determined to improve standards in the area of market conduct, and we will continue to actively engage the industry in this effort. I hope that all insurers will throw their support, at the highest level, behind the various initiatives that are being implemented by both the Bank and industry associations to achieve this. As a newly-formed alliance, the Tokio-Marine-Asia Group has a valuable opportunity to set the correct tone at the outset in this area for your Group’s priorities in the Malaysian market. I trust that you will use the opportunity wisely to set a new benchmark in responsible market conduct for the industry.

On that note, let me once again congratulate Tokio Marine and Asia on the official launch of TM Asia Life Malaysia Bhd. I look forward with great anticipation to your positive contribution to the further development and growth of the Malaysian insurance industry.