

## **Mohd Razif bin Abd Kadir: Malaysia's life insurance industry**

Speech by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, at the official launch of Axa Affin Life Insurance Berhad, Kuala Lumpur, 30 January 2007.

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It is indeed an honour to be here this morning to witness the launching of Axa Affin Life Insurance Berhad. The launch of Axa Affin Life Insurance Berhad today marks an important development where two players from different financial industries, i.e. Affin Holding Bhd and Axa Asia Pacific Holding Ltd., forge a strategic alliance to attain synergy for mutual business advantage. I wish to congratulate both companies on this momentous event.

Ladies and gentlemen,

The financial landscape had undergone tremendous transformation in the last decade. The life insurance industry continues to sustain strong performance amidst challenges in a competitive environment. The evolution in the financial landscape saw a shift in customers' preference, emergence of more complex products and increasing diversity in delivery channels. The growing acceptance by the insuring public for financial protection in the form of insurance coverage has gained prominence especially for investment linked products which currently commands a market share of more than 40% of new business. This period also witnessed the growing importance of bancassurance as a channel for marketing life insurance products.

The life business written via the bancassurance channel currently accounts for almost 50% of the new business written in the life insurance sector. This potential is further supported by a survey conducted in 2004 which I believe remains relevant. The survey revealed that customers, despite the availability of banks' virtual network, prefer to visit branches to conduct their dealings; there is a high level of confidence and trust generally placed by the public in banks; and the strong preference among consumers for insurance products with a high savings content that enhances the complementary elements of insurance and banking products.

This development provides significant competitive advantages for financial institutions and insurance companies which have partnered and adopted an integrated approach to market their financial products by leveraging significantly on the banking network. With close to 3200 bank branches located throughout the country, the banks' customer base constitutes a significant market potential. Furthermore, the insurance and takaful penetration ratio is currently only at 44% of the Malaysian population. In this regard, there is huge potential that is left remaining untapped.

Despite the tremendous benefits that can be reaped from bancassurance, this opportunity, however, has not yet been fully harnessed. To date, an estimate of only less than 8% of Malaysian banking customers have relationships that include insurance products and services. Even though growth of bancassurance registered an encouraging trend, it is only driven by a small number of banking groups. In view of the high success penetration rate of bancassurance service providers and the fact that bank backed insurance companies have ready pool of the banking customers within the group to tap, they should seriously explore the bancassurance route to exploit the effectiveness of bancassurance to gain new market share.

Ladies and Gentlemen,

I am confident that the commitment of Axa Affin's foreign partner to introduce its best practices in Malaysia and its strategy to "Think Global Act Local" in terms of product innovation, operational and distribution strategy will go a long way towards ensuring the success of this new business venture, founded on the sound relationship they have nurtured via the general insurance entity, i.e. Axa Affin Assurance Berhad. This would also contribute to the development of the industry through the transfer of expertise, providing leadership in innovation and expanding the range of quality products and services available to Malaysian consumers.

Having such strategic partnerships which allows equity participation from international players of up to 49% under BNM new liberalized operating environment would enable insurers to leverage on the experience and financial capabilities of the foreign partner and this would allow them to grow in size. They would also have the capacity to improve their competitiveness and enter into foreign markets, taking more complex risks and expand their product portfolio more significantly.

Ladies and Gentlemen,

On the regulatory front, allow me to share with you what the future holds for the regulatory developments that would predominantly shape the future direction of the life insurance industry. The Bank's future regulatory orientation will be characterized by a heightened focus on, and alignment, with risk; anticipatory, rather than reactionary interventions; a clear goal to promote efficiency, innovation and competition by ensuring that regulation is proportionate in relation to its costs and benefits; greater use of incentive approaches to achieve desired institutional behaviours and outcomes; an expanded regulatory toolkit that leverages more extensively on the inherent checks and balances built into the system; and an increased focus on market conduct and harnessing active consumerism to reinforce prudential regulation and supervision. In this regard, I wish to emphasise that in the course of designing any regulatory framework, the Bank will continue to involve all stakeholders particularly the industry for better appreciation of new policies introduced.

The insurance industry is expected to continue its positive growth momentum in the near term. Growth in the life sector should continue to receive support from the encouraging demand for savings and investment-driven products such as endowment and investment-linked insurance. The increasing awareness among the consumers of the importance of risk protection, relatively low penetration level and large mortality protection gap also underpin strong future growth opportunities for life insurers in the more traditional risk product lines such as term (including credit-related term) insurance. Also contributing to the growth opportunities for risk products is the growing preference among the more sophisticated consumer segments for unbundled investments and protection solutions which offer greater flexibility with investment choices, without affecting protection levels.

Amidst these prospects and as the financial services industry transitions to a more deregulated and market-driven environment, the regulatory and supervisory approach will continue to evolve into one that is more principle and risk-based, providing greater operating flexibility to insurers. In this regard, the proposed risk-based regulatory regime which includes the new risk based capital framework that is going to be introduced in due course is a move in this direction. This would further strengthen the incentives for improved risk management practices of insurance companies. The new requirement would also facilitate more efficient capital structures that are more reflective of the different risk profiles of individual institutions, whilst providing greater investment flexibility to insurers without compromising on prudential standards. Such insurance companies would be well-positioned to reap the opportunities abound in the insurance market place.

Under this risk-based regulatory regime, the responsibility for the implementation of sound risk management and market conduct governance, as well as assessment of risks and management of the financial condition of an insurer, will increasingly rest with the Board of Directors and Senior Management of the insurer. This will ensure that the financial system is able to continuously adapt whilst maintaining a clear focus on sound risk management that will continue to be a critical pillar to support a resilient insurance industry. It will also enhance public confidence in the efficiency and performance of the financial system to contribute to the overall development of the economy. This approach is also a move towards a differentiated regulatory and supervisory approach whereby companies that demonstrate strong corporate governance standards and risk management practices will be accorded 'lighter regulatory touch', which implies that they will be given greater regulatory flexibility.

This underscores the importance of capacity building by the financial institutions in research and development and re-engineering of business processes in search of operational excellence and enhanced customer service delivery. A strong culture of excellence is therefore vital: one that is embedded in all levels of the organisation; one that fosters and rewards innovation and service quality. A customer-centric focus is, and will continue to be, the winning formula for a successful financial services provider. In particular, insurers must ensure suitability of products sold or advice given; play an active role in enhancing financial capability of consumers; and ensure policyholders are treated fairly.

This regulatory approach will basically benefit those companies that are efficiently-run and well-capitalised. In this regard, Axa Affin will benefit from this new regulatory approach if it puts in place a risk management system that could be used to capitalize incentives accorded by the new framework. The synergies derived from the strengths of the bank and the experience of foreign insurance partner should be harnessed to benefit from this new environment, particularly in the bancassurance line of business.

Ladies and Gentlemen,

I am confident that Axa Affin Life should be able to strategise itself by optimizing and leveraging on each others' strength and expertise, experience and infrastructure so as to offer diversified products and enhanced customer service.

On that note, it is my pleasure to officially launch Axa Affin Life Insurance Berhad and wish Axa Affin Life Insurance Berhad every success in its endeavours and I look forward to its contribution towards further development of the domestic insurance industry.

Terima Kasih.