

Muhammad bin Ibrahim: Today's risks, tomorrow's claims

Keynote address by Mr Muhammad bin Ibrahim, Assistant Governor of the Central Bank of Malaysia, at the International Claims Convention 2010 "Today's risks, tomorrow's claims", Kuala Lumpur, 19 April 2010.

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First of all, I congratulate the Malaysian Insurance Institute, the Australasian Institute of Chartered Loss Adjusters and the Association of Malaysian Loss Adjusters for their excellent efforts in jointly organizing this convention, themed "Today's Risks, Tomorrow's Claims". I understand that this is the leading insurance claims event with an exciting programme for insurers, loss adjusters, risk managers, claims industry specialists, suppliers and industry associations. The Convention provides a platform for the relevant parties involved in insurance claims to examine and deliberate on the growing challenges in insurance claims with a view to formulate anti-fraud best practices in the insurance industry.

The global insurance industry as a whole remained resilient despite the deepening of the global financial crisis in 2009 that is expected to potentially lead to more insurance fraud cases. Whilst the decline in the financial markets has put significant pressure on insurers' investment portfolios, the aggregate financial position of insurers remained strong to weather the crisis. The financial sector in Malaysia, following a decade of financial reforms that include strengthening the regulatory and supervisory framework, and building the domestic financial infrastructure, is now bolstered by high capitalization levels, sound asset quality and sustained profitability. As a result, it was well-positioned to weather the deterioration of the external environment.

The structured development of the insurance industry over the years in particular, spurred on by various capacity building initiatives, had yielded positive outcomes contributing to continued growth. The performance of the insurance industry is expected to improve in 2010 on the back of the economic recovery and increasing awareness on the role of insurance as a protection and financial planning tool. Improvements in the employment market, rising disposable income and revival in economic activities will generate spins-off to the insurance sector and create greater demand for insurance products. Nevertheless, the operating environment for the insurance industry in 2010 is expected to remain challenging. Despite the optimism on the economic and financial conditions as the financial markets continue to stabilize in early 2010, the low-yield investment environment will continue to pose near-term challenges for insurers. In the past, investment earnings had predominantly been relied upon to offset any setback in insurers' underwriting performance but such expectations may be altered in the near-term. The financial crisis is a clear reminder for insurers to return to basics and focus on its core function of sound business underwriting.

The increasing intensity of climate change has heightened the vulnerability of the world at large to natural disasters and extreme weather conditions. Tsunamis, volcanic ash and earthquakes, not previously known to strike in generally thought "safe" zones have actually occurred. Similarly, earthquakes and hurricanes have become more intense causing multi-billion dollar losses to the affected economies. Disaster risk reduction and disaster management has thus become a focus of Governments to effectively reduce financial and economic losses. In an industry that is exposed to risks both natural and man-made, this Convention's theme of "Today's Risks, Tomorrow's Claims" is highly relevant especially with regards to the challenges of insurance claims. There are three pertinent challenges that I can think of this morning. Let me briefly share my thoughts on these challenges with you.

Firstly, the critical role of insurers in the various aspects of the claims management value chain, that is, claims intimidation, fraud detection and prevention, claim assessment and settlement, and complaint resolution are areas requiring close monitoring by insurers and,

where necessary, timely intervention to detect and prevent leakages. Insurers have to assess their vulnerability and address the risk of fraud efficiently to reinforce a positive image of the industry to the public. Customers must be kept informed of the progress of their claims and be given clear explanation when a claim is rejected or not settled in full. Any delay or perceived delay in claims processing, particularly for claimants in urgent need of compensation, may be misconstrued as a deliberate attempt to delay claims settlement resulting in bad publicity and ill repute for the insurance industry. Each insurer's claims management philosophy should therefore set out the broad principles for providing high quality service standards. This corporate claims philosophy should be documented and communicated to all staff for adoption as a common corporate value that is perceptible to the public.

Secondly, the challenge of detecting and preventing insurance fraud, which is a crime against all segments of society and not a victimless crime as perceived by many. Due to the long supply chain and participation of numerous stakeholders, especially in the general sector, insurance fraud is easily committed and is a major source of leakage for the industry, thereby hiking up claims costs. Insurance fraudsters are also adept at hiding behind the protective shield of jurisdictional boundaries. In this regard, the insurance industry can leverage on the work of the US based International Association of Insurance Fraud Agencies Inc., which plays an important role in tracking down the insurance fraudsters.

In order to mitigate insurance fraud in the industry, an effective claims information system is critical to enable early detection of fraud. The infrastructure of such a system must support the free exchange of information in a timely manner with access provided on an enterprise-wide scale for business intelligence function to facilitate the management and analysis of raw data and the reporting of trends according to specific parameters. The reports would assist insurers and loss adjusters in detecting and preventing insurance fraud and effectively minimize leakages.

Thirdly, the challenge is in ensuring the health of the entire claims management value chain. The complex nature of claims requires multiple parties with different skill sets and expertise as well as efficiency in service delivery in order for the claimant to receive fair compensation expediently. Misconceptions, suspicions and unnecessary disputes must be minimized for the benefit of all parties. This can be achieved by greater collaboration between parties in the claims management chain, beginning with the loss adjuster in the field to the insurer processing the claims. An online electronic platform that supports the integration and alignment of all the different claim processes should include mobile work units that allow loss adjusters to capture and transmit information directly in the field. This platform can be an avenue for the free exchange of information in a timely manner, thereby increasing transparency to an otherwise convoluted process. Such sharing of information is to the mutual benefit of all who are involved in ensuring a high level of integrity throughout the insurance industry.

In addition, insurers and loss adjusters should also focus on attracting and retaining experienced talent that can be the first line of protection against fraudulent behavior. Loss adjusters play a significant role as independent intermediaries in facilitating a fair and reasonable compensation for the insured. Due to their investigative capacity, loss adjusters are also in the best position to assist insurers in detecting and preventing fraud, thus contributing significantly to the efficacy of the claims process as a whole.

In conclusion, allow me to reiterate the importance of the effective participation of all stakeholders involved in each stage of claims management to ensure high claims service standards and fair treatment of customers. Both insurers and loss adjusters must play their respective roles in value-adding to the claims management process for the effective functioning and positive image of the insurance industry in the long term.