

Muhammad bin Ibrahim: Raising performance standards and improving consumer protection in the Malaysian insurance industry

Speech by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia, at the Insurance and Takaful Industry Annual Dinner 2013, Kuala Lumpur, 15 November 2013.

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It is my great pleasure to join all of you this evening at the Insurance and Takaful Industry Annual Dinner 2013. This is indeed a significant and unique gathering as we have the whole of the insurance and takaful industry represented here tonight. The collective wisdoms of those present in this hall tonight, if harnessed well, could significantly alter the insurance landscape towards a more diversified, efficient, and competitive industry.

We are facing an increasingly complex business environment characterised by rapid advancements in technology, more discerning consumers and mounting competition, that necessitate the industry to adapt and continually innovate to remain competitive and relevant. Of importance is for the industry to remember that the fundamental of insurance is premised on safeguarding consumers' interest against financial loss when things go wrong. Consumers' interest is always at the heart of the matter.

My remarks this evening will touch on some regulatory changes that have taken place, in response to the changing operating environment. My remarks will have strong focus on consumer protection.

The Financial Services Act and the Islamic Financial Services Act 2013 which came into force in June this year has provided the Bank with statutory duty to foster fair, responsible and professional business conduct amongst financial service providers. Such regulatory developments mark an important milestone in modernising Malaysia's financial sector which goes beyond the mandate of preserving financial stability. These laws ensure a robust financial consumer protection regime. The new legislations provide explicit powers for the Bank to set and enforce standards on business conduct for financial service providers that ensure financial consumers are treated fairly. The laws also specifically prohibit financial service providers from engaging in unfair or deceptive business conduct including making false, misleading or dishonest representations, and tied selling.

It is important to highlight that the new legislation also provides enhanced protection in respect to consumers' pre-contractual disclosure obligations in consumer insurance contracts. Among others, an insurer or takaful operator must pose specific questions to consumers for its underwriting purpose. The legislation also sets out various remedies that an insurer may rely on depending on the type of pre-contractual misrepresentation made by the consumers. Changes were also introduced under the new laws to deliver a more efficient regulatory regime for insurance and takaful intermediaries including introduction of an approval and registration regime. The changes made were more reflective of the risks presented by such entities, with the regulatory oversight focusing primarily on promoting professional conduct in activities that relate to businesses that are approved or registered.

We had recently issued a concept paper on Life Insurance and Family Takaful Framework. This Framework is set to transition the life insurance and family takaful industry into a new operating environment, characterised by changing market dynamics including demand for greater transparency, and driven by advancement in technology and changing consumer behaviour. The Framework's main aim is to increase insurance and takaful penetration, and ensuring a fair deal to consumers. The framework is supported by three main pillars; the liberalisation of operating limits, diversification of delivery channels and strengthening of market conduct practices.

The Framework will be implemented in two phases to allow the industry and the public sufficient time to adjust to the new operating environment before further liberalisation is

considered. Under the first phase, greater operational flexibility is given to life insurers and family takaful operators to operate in a more competitive environment and allow greater product innovation to be delivered through a wider range of delivery channels. The Framework proposes for the current commission and other operating cost limits for investment-linked products to be removed. In addition, the commission limit for pure protection products, namely pure term, critical illness and medical and health is also proposed to be removed subject to certain preconditions.

While allowing greater operational flexibility, the Bank will ensure consumers' interest remains protected. Among the safeguards to be introduced include requiring a certain percentage of premiums paid by policyholders in respect of investment-linked policies to be placed in the policyholders' unit fund in order to preserve policy values. Consumers will also be given a wider choice of delivery channels to obtain insurance and takaful products. This includes the availability of additional channels so that consumers have more choices and options. In addition, the enhanced disclosure standards will increase transparency, enabling consumers to make more informed decision and become more empowered to make investment decisions over the longer term.

We shall raise the level of professionalism in the industry with new requirements and expectations placed on intermediaries in their conduct of business. Needless to say, that the reputation of the industry will be positive when industry players discharge their respective roles in an appropriate manner that enhance the image, integrity and professionalism of all of us here today. A good reputation is beneficial to the industry. An industry that has a good reputation will be good for its players, and that good reputation would be translated into good value propositions for all those who are involved.

There had been representations made to the Bank as well as at the highest level, that the current commission rates are too low for agents to sustain a decent living and to attract new talents into the profession. Let me share with you some relevant statistics; a full time agent (which we understand makes up less than 40% of the total number of agency force) brings home an income of more than three times the national average income. What is clear is that part time work doesn't cut it if we want to earn a decent income. Full commitment and dedication is required of an insurance or takaful agent if it is to become a viable career. Therefore, there is a strong case for part-time agents to significantly enhance their productivity in taking the profession more seriously by becoming full time agents. The Bank, through the LIFE framework, has set clear expectations, that going forward, we envisage that at least half of the insurance agents ought to comprise full time agents. Under the proposed framework, the Bank will take stern actions and heavier penalties against unfair business practices including mis-selling of insurance and takaful products through its market conduct supervision.

We hope that the industry would study the concept paper thoroughly, before the Framework is finalised.

As part of the reform in the general insurance industry, in particular the motor insurance industry, various measures have been introduced to improve the efficiency in motor claims assessments. The insurance and takaful industry has established a 24-hour nationwide toll-free call centre known as Accident Assist Call Centre which provides immediate roadside assistance to road accident victims as well as answers basic enquiries on motor insurance claims. Presently, the call centre is only available for consumers in the Klang Valley and Selangor and is expected to cover nationwide very soon.

In addition, enhancements to the Motordata Research Consortium system have been made to facilitate online submission of third party claims assessments directly to insurers to improve the turnaround time for processing claims as well as minimise disputes on offer of settlement. We also need a database akin to the CCRIS to the banking industry, that would significantly improve the risk management aspects and operational efficiency of the industry.

This need is dire as cases of fraudulent claims and excessive third party damages are on an increasing trend.

Priorities towards a more competitive insurance and takaful industry

There are a number of areas that the industry must strengthen to maintain their competitive positions.

- Firstly, the insurance and takaful industry must make significant changes to raise performance standards in tandem with the global advances and keeping pace with the established international best practices. In particular, there is a need to manage and improve the underwriting performance, by improving claims ratio, enhance productivity and reduce distribution costs. The industry need to adopt a more disciplined approach to underwriting, increase efficiency and precision of internal processes, leverage on the benefits of technology to improve claims processing and policy administration, hence reducing operational costs. At the same time, insurers and takaful operators should take advantage of the emergence of new and low-cost distribution channels such as the internet and mobile technology, and adopt multi-distribution strategies as a competitive tool to expand the pool of potential customers and cater to a wider range of needs of society.
- Secondly, the industry must deliver more positive customer experience. As the industry is operating in a challenging operating conditions with intense pressure to control costs, one should not compromise on the level of customer service standards. Bad perception of the insurance industry can only happen if services rendered are poor. ***Industry players must always put the customer experience at the center of their business strategy. Once customers are satisfied with the service level, the upside is to improve customer retention and satisfaction.*** A recent research has shown that there are various factors that influence customers' decisions to choose or leave an insurer. Although price and rates and product features are the most often cited reason to select and to leave a provider, about 40% of customers say they would consider choosing an insurer because of brand trust and after-sales services. Therefore, insurers and takaful operators need to assess how customers perceive the quality of their interactions, taking into account the views, perceptions, expectations and values of customers.
- Thirdly, with more complex products and more sophisticated customer demands, the industry needs more skilled professionals to support the financial sector. The insurance industry need to change their approach in attracting talent. Only by attracting the right talent, can the industry prosper. In attracting talent, you have to compete with other sectors. That means paying a package that is as good as others. Skill sets including technical, analytical and creative thinking doesn't come cheap. You have to pay for quality. The industry need to devise a scheme that commensurate with the talent they expected. Anything less, would not position the industry well or competitive. For existing talents, continuous professional and skills enhancement programmes organised by professional bodies like MII, would help the insurance and takaful industry in meeting the industrys' needs.

Conclusion

Let me conclude my remarks. As we advance forward into the future, the economic and financial landscape would evolve and it would evolve very rapidly. Our duty as industry leaders is to build on the existing foundation that got us here. But moving the industry to next level would require strategic change. It would require fundamental rethinking to stay ahead of the curve and to meet the difficult challenges. The highest of priority needs to be given to raising performance standards, improving customer experience and retention, as well as

attract new and fresh talent. But all this can only be achieved if we embark on a collective effort. Only effective effort would ensure an industry that is vibrant and resilient.

Thank you, and enjoy the rest of the evening.