

Muhammad bin Ibrahim: Brief overview of Malaysia's insurance industry

Welcoming speech by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Life Insurance Association of Malaysia's 40th Anniversary Dinner, Kuala Lumpur, 21 November 2014.

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I am pleased to be here to celebrate the Life Insurance Association of Malaysia's 40th anniversary dinner. I notice the presence of a number of senior and veterans who have previously served in the industry, as well as the next generation of leaders who shall bring the Malaysia's insurance industry to the next level of excellence. Over the course of 40 years, the insurance industry has seen significant development and progress. Many of you present here join me in bearing witness to the important strides that have been made to bring the industry to where it is today. These achievements go well beyond the individual successes of any one company, any one individual. The most significant milestones were accomplished through the collective vision of the industry coming together to lay the strong foundations for future growth. The Association has been instrumental in this process, working closely with the Bank since we assumed the regulatory function of the insurance industry from the Ministry of Finance back in 1988.

Industry's achievements

Today, the life insurance industry contributes 2.8% of Malaysia's Gross National Income (GNI), with premiums totalling RM26 billion in 2013. More than 18,000 are employed in the industry. The life agency force has grown to about 80,000, with more of them earning higher average incomes as they pursue professional careers as full time insurance agents. The industry is on a strong financial footing with excess capital of RM23.5 billion, above the regulatory minimum capital requirement. Expense rates have declined from 41%, prior to the introduction of the Guidelines to Control Operating Cost of Life Insurance Business, to 26.3% in 2013, representing significant efficiency gains that have created a more competitive industry and improved value for policyholders. Most importantly, the life insurance industry has continued to innovate through new products and distribution channels, providing individuals protection against financial risks and help them meet their financial goals, whether for education, retirement, or to pay for medical expenses. In 2013, the industry paid out over RM16 billion in benefit claims to policyholders under various life insurance policies. The life insurance has contributed to the betterment of the health and Malaysian in general.

The life insurance industry has also had a key role in the development of Malaysia's capital market. At 104.5% of GDP, our bond market is the largest in South East Asia, and fourth in Asia after Japan, China and Korea. More than RM150 billion is invested by the life insurance industry in the bond market which provides an important source of long term funding that is critical for the development needs of the economy, in particular in financing long term infrastructure project. During recent episodes of market volatility which saw substantial capital outflows by foreign portfolio investors, insurance companies were among the large domestic institutional investors that provided stability to the market. Indeed, the insurance has become an important component in the Malaysian market in contributing towards the growth of bond and sukuk markets.

Low penetration signals opportunities for insurers

There is no doubt that the industry has come a long way. This journey has been made possible with the commitment of many in this room today who have led their various institutions to greater heights, and who understood and supported the reforms introduced in the industry over the last two and half decades were critical to take the industry to a new

level of maturity. It was painful but necessary. The fruits of the various reforms we made are for all to see. The industry is now more resilient and robust.

Over the last 4 decades together, we had laid a strong foundation for the insurance industry to grow even larger. Therefore, our aspirations for the industry ought to be more ambitious. Under the Government's Economic Transformation Programme (ETP), a penetration level of 75% by 2020 has been set as a goal for the industry. After two decades of steady growth, the current level of insurance and takaful penetration, at 54%, still remains below targeted level. While this ratio is in no way flattering, it also reflects the enormous untapped potential in the Malaysian insurance sector. But realising this potential would require an inspired leadership by the industry, to rise to challenge the status quo and raise the game in delivering value to stakeholders. After 40 years, I believe the industry is at another crossroad. A new and exciting wave of growth and development for the industries lies ahead of us, but it can only happen if we are prepared once again to embrace the change as we did before, and collectively rise to overcome the barriers that threaten to hold the industry back from achieving its full potential.

Reform via introduction of LIFE Framework

The next phase of transformation is at our doorstep. As you are well aware, the blueprint for the next phase of change is encapsulated in the proposed LIFE Framework. The Framework lays the ground for greater operational flexibility, competition and diversity in the life insurance industry. More importantly, it will encourage innovation including expanding new delivery channels to reach new target groups, provide the right incentives to raise the professional standards of insurance intermediaries and deliver better value to policyholders. The reforms envisaged also seek to leverage on the digital age which presents immense opportunities to revolutionize the delivery of insurance products in a more effective and cost efficient ways that benefit consumers at large. With Malaysia's household internet penetration rate of 67.3% and more than 43 million cellular phone subscribers in Malaysia, this mode of delivery certainly demands serious consideration. Let us tap this opportunity in delivering new insurance products and services.

Keeping consumers at the centre of change

In embarking the journey of transformation, we must always keep the interests of consumers at the centre of change. This is absolutely essential. Life insurance services is a long term commitment and any loss of consumer confidence will set the industry back many years that would take many years to recover. With the coming into force of the Financial Services Act 2013 and the Islamic Financial Services Act 2013, a number of important initiatives have been advanced in Malaysia to further strengthen the consumer protection framework. This includes clarifying of the duty of disclosure of policyholders and providing more equitable remedies for innocent non-disclosures.

Plans to establish a Financial Ombudsman Scheme (FOS) are also well advanced with the Scheme expected to commence operations in the second half of 2015. The most important changes however, are going to be the ones that occur within individual institutions, to build a strong culture of ethical conduct that forms the value foundation on every aspect of an insurer's business – from product design, to sales practices, claims management, consumer education and complaints handling. The Bank will play an important and more significant role in these various aspects.

LIAM's role to ensure the industry is focused on the right issues

This evening, the industry celebrates 40 years of service by LIAM in support of the development of the life insurance industry. LIAM has been an advocate of important issues that concerned the industry and has served as the primary interface between the industry and the Government, the Bank, and other key stakeholders. In this capacity, one of its key

roles is shaping public opinion by providing accurate information on the industry. It is also an important agent of change for the better of the entire industry – not just in the short term or with a bias towards any particular stakeholder group.

Not too long ago, a media publication reported that life insurance agents are being marginalized and the majority of them earn very low commissions due to restrictive remuneration structures. What the report failed to highlight however, was that such agents were mostly part-timers generating only one policy per month. The report also does not discuss many structural issues confronting the industry; the fact that demand for life insurance in Malaysia remains much lower than in our more developed Asian neighbours. Or that Malaysia's per capita spending on life insurance of USD330 is lower than the world average of USD373, or seven to 12 times lower than the amount spent in Singapore, Japan and Hong Kong. Also lost was the fact that, the world is experiencing demographic, lifestyle and environmental changes that have profound implications for mortality and morbidity rates. Life threatening diseases that were benign 40 years ago are common causes of early death today due to less healthy lifestyles and greater mobility of labour. Medical inflation has been on a rising trend with millions of ringgit spent in Malaysia on healthcare expenditure each year. Old age and urban poverty are also on the rise with many exhausting their lifetime savings within the first five years of retirement. These are structural issues that have deep implications on the industry. It should be discussed and debated intelligently.

To my mind, the focus of debate therefore should be on how to improve the productivity of agents, and ensure that they are well supported through training and continuing professional development and given all the assistance to provide quality advice and services to the public. More should be done to educate consumers on the benefits of insurance and the advantages of purchasing insurance while one is young and healthy. In this regard, the industry should come together and address the reasons for the low take up of annuity products despite the tax relief and incentives provided by the Government in 2012. Initiatives should be pursued to expand affordable product offerings for lower income groups that are most vulnerable to income shocks or unanticipated expenditures. Another area that is becoming significant because of medical inflation is ensuring that medical and health insurance provides adequate protection and remains affordable through well designed products, proper underwriting and effective control of claims costs should be a priority.

The issues I had outlined are formidable and these cannot be accomplished without concerted effort by all of us here. I am confident that LIAM is uniquely positioned to ensure that the industry remains focused on the right issues that will move the industry forward and expand the opportunities for growth. It should take an assertive and expanded role in aligning the interests of different stakeholders towards a common purpose, and it should deal firmly with any party that attempts to distract the industry from this purpose. This of course would call for a strong leadership, a strong conviction and desire to act in the long term interests of the common good.

It was said that insurance business is about promises and trust. But its more than that. It is about delivering to the customer in their times of need. It also about delivering value to the promises we made. Its about fulfilling and exceeding the trust the policyholders placed on us. These principles are enduring and with infinite timespan. I hope that these principles would guide LIAM as the industry chart its a new path into the future.

On behalf of the Bank, it gives me great pleasure to congratulate LIAM on this occasion of its 40th anniversary. Much has been achieved, much more still remains to be done. I have every confidence that the industry will rise to the occasion and throw its full support behind LIAM in navigating the road ahead. On its part, the Bank will continue to work with the industry in achieving the smooth implementation of reforms proposed for the industry. As expectations of LIAM increase with the evolution of the industry, I trust LIAM shall continue to reinvent itself to remain relevant and effective. With the world changing in profound ways and sometimes in a manner that confound us, this is the time for the insurance industry to assert its relevance and provide solutions to the challenges that confront our society.