Muhammad bin Ibrahim: Building trust in the insurance industry

Speech by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Malaysian Insurance & Takaful Industry Distinguished Partner Awards Dinner 2015 "Building Trust in the Insurance Industry", Kuala Lumpur, 23 October 2015.

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It brings me great pleasure to be here tonight at the inaugural Malaysian Insurance and Takaful Industry Distinguished Partner Awards Dinner.

Since the Central Bank assumed regulatory role of the industry 27 years ago, the insurance and takaful landscape has transformed significantly. The insurance and takaful penetration rate, measured by the number of policies per population, has increased four-fold from 11% in 1988 to 56% today, and the total paid-up capital of direct insurers has grown twelve-fold from RM635 million to RM8 billion over the same period. Today, the industry has emerged much stronger than when we first started the journey together in 1988.

We should take pride in our historical track record the various changes that we had made, the difficult but satisfying journey that we embarked on to realise the full potential of the industry. It is indeed a transformational change that enable the industry to be in the strong position they are now.

But at the same time we should not believe that the same thinking and strategy that drove yesterday's solutions will be as effective tomorrow. We have witnessed many brand names that had disappeared because they have not changed and have not been sensitive to the ever changing operating environment surrounding their businesses. The message is simple, if we do not change, do not transform ourselves and we remain static, we will be left behind and eventually perished. And the rapidly changing economic and operating environment shall ensure this eventuality if we remain static.

Despite the many structural changes over the last 3 decades, one principle will always remain, TRUST. The Malaysian insurance and takaful industry can make a difference by building a strong brand in trust and a firm conviction that the industry's existence is to serve for the betterment of society. A policyholder buys a policy predicated on one sole reason, the trust he places on the industry's ability to protect his financial interest. Building trust is not an option, it is a cardinal rule. Tonight, I would like to share with you seven points which I believe would increase the level of trust in the industry.

Continue to strengthen capacity to fulfil objectives

The industry today has achieved many milestones as a result of capacity building measures undertaken ever since the Bank took over as the regulator for the industry. The capacity of the industry has improved significantly. However, many issues still plague the industry today. Issues such as fraud, theft, lingering claims in court and delay in settlement of claims are some issues we need to tackled. If these issues are left unresolved, the image of the industry will be severely dented.

In charting the way forward, two imperatives in capacity building are worth thinking. One, we need a pool of high-calibre leaders who are equipped with the right skills to resolve challenges and sustain the momentum of the industry's progress. Also critical is the creation of an efficient system of succession planning to groom future leaders that will take the corporation and the industry to the next level of progress.

Two, is for leaders to be supported by a team of dedicated and diverse talents. The leaders of tomorrow would most likely face challenges that are much more challenging than what we had faced before. They need to be flexible and adaptable to the new operating environment, new business regulation and able to communicate well. The issue confronting the industry however is in attracting the right talents who are committed to make insurance and takaful a career of choice. Talent is a scarce commodity. The industry needs to be competitive in its remuneration package. The salary package at the entry level must be attractive enough to get the right talent. The financial services sector is not the only competitor for the insurance and takaful industry but other sectors within the economy as well.

While the financial aspects are important, we should inspire our young recruits on the underlying values of the industry and capitalise on the noble objective of providing protection and managing risk for our people. Takaful for example, is built upon the spirit of brotherhood, solidarity and mutual assistance which provides for mutual financial aid and assistance to the participants. Drawing talent that shares the same values will ensure commitment and support talent retention in the industry. When the general public interact with the industry, with highly motivated staff, it will sow confidence and consequently trust.

Refrain from making false promises, make clear the terms and conditions up front

In building trust, a huge responsibility lies now on intermediaries playing their role, as intermediaries' behaviour mirrors the image of the insurance and takaful industry. Many consumers are not well versed with insurance and takaful terminology and will rely on the advice rendered and the full disclosure of the policy terms and conditions. This low degree of familiarity with insurance and takaful terms makes it even more crucial for the full disclosure of the terms and conditions governing a policy.

An important consideration is the role of intermediaries being the 'first point of contact' with the public. Intermediaries create an impression, powerful enough to influence a customer's decision whether or not to engage in an insurance contract. It is of utmost importance, that the company and its intermediaries must be honest in providing full and sufficient disclosure on the terms and conditions to their customers, especially at the initial stage. Intermediaries especially, must refrain from disclosing only favourable terms that would inappropriately influence a customer's decision to purchase insurance. Providing untruthful information to influence purchase is totally unacceptable and trust would immediately dissipate when claims are not honoured and the customer felt victimised. More damaging is when the impact to the customer is permanent.

The level of trust on the insurance and takaful industry is demonstrated by the Accenture Global Consumer Behaviour Study which found that only 40% of respondents surveyed trust the insurance industry. This places insurance in the lowest rank amongst 13 other business sectors. The implication and imperative is clear. The growth of this industry is very much depends on its ability to successfully honour the commitment made to its customers.

In this regards, the Bank acknowledges the importance of effective disclosure to facilitate informed decision by financial consumers. Consumers require essential information on the main features and risks of financial products offered prior to entering into financial contracts.

In 2014, a study was undertaken to assess product disclosure by financial service providers against the Bank's policy standards on product disclosure. The survey found that while financial consumers are given key information for consumers to make informed decisions, the method of presentation was observed in lengthy narratives, excessive information or technical or legal jargon that is difficult to comprehend. The study also revealed bias towards highlighting the benefits of a product in explanation given by sales agents, while risks and costs were not adequately explained.

The Bank is concerned with these findings as they undermined informed decision and judgements by consumers. We shall act on this findings. Insights drawn from the study will serve as input to the Bank's comprehensive planned review of the mandatory disclosure regime, next year.

The Bank will also work with key stakeholders including industry's representatives to undertake targeted financial education strategies to elevate public awareness on the importance of reading and understanding product disclosure materials and financial agreements.

Offer customised solutions that meet the needs of consumers

It is no great secret that truly great businesses have one thing in common; they cultivate customer trust, every step of the way. Cultivating trust requires a systematic process, first, traditional distribution models of products and services must adapt with targeted solutions that meet individual needs and risk appetites.

Second, marketing strategies must adopt a paradigm shift from product-push to an advisory model and provide better service orientation. Third, the industry must reflect to ask if it has done enough for its customers to meet their needs and demands.

On many occasions, the industry has been reminded that in transitioning into the new landscape, it can no longer afford to rely solely on traditional business models and delivery channels. Instead, the industry must continuously evolve to meet the needs and preferences of its consumers which are rapidly changing.

It must proactively and strategically position itself to offer products via diverse and innovative delivery channels to reach out to different segments of the population with varying levels of financial knowledge.

In this regard, under the LIFE Framework, the Bank envisions the market share of regular premiums/ contribution products sold/ marketed via non-agency channels to exceed 30%. Currently the ratio is 14%, and this statistic provides compelling evidence that the industry must double its effort to reach the target of 30%. Similarly, for us to expand the penetration rate to reach 75% by 2020, the industry must add and expand the reach of its non-agency channels.

Throughout the world today, financial inclusion has been identified as an important area of focus to achieve a more balanced and sustainable economic growth. Societies that are adequately empowered and supported by suitable financial tools can assist in helping them cope during temporary period of emergencies. Empirical evidence showed that microinsurance customers can be as valuable as a company's any other customers. This is where the industry can play a major role to develop suitable microinsurance/ takaful products that would enhance the social safety net of this underserved segment enabling them to get back on their feet and become financially independent even after experiencing an adverse event.

Yet many in the industry appears uninterested in microinsurance/ takaful for reason that it is a loss making venture and uneconomical to pursue. This perception is not true. In this competitive landscape, it would be detrimental for players to be short-sighted and to dismiss this class of business as unworthy. With the right business model, microinsurance/ takaful could become commercially viable, profitable and sustainable. Based on Microfinance Information Exchange Market Data (2009) by CGAP, the data for microfinance providers; profit margin 8.43%, return on assets 1.5% and return on equity 7.27%.

Microfinance or microbusiness will be profitable if the pricing is right, the portfolio size appropriate and strong risk management practices are put in place.

On its part, the Bank will issue a microinsurance/ takaful regulatory framework to facilitate the provision of commercially sustainable micro products whilst offering protection to consumers. We have held dialogues on this, which I hope would lead to a positive outcome in furthering microinsurance/ takaful as a significant business venture going forward. It is timely for industry players to review relevant methods as well as approaches in repositioning their value propositions to attract this segment of the population. A first major step forward that could be taken is to collaboratively launch nationwide awareness campaigns to promote the benefits of microinsurance/ takaful to the public. The Bank stands ready to provide appropriate avenues of support in rolling out this agenda.

Evolve in tandem with customer's preferences and assist customers in the decision-making process

Industry players that can offer guidance to their customers will set the building blocks for developing long-term relationships. This is especially true in life insurance, where policies bought represent a long-term commitment. The industry needs to quickly comprehend changing customers' preferences and shoulder the responsibility of inculcating responsible consumer behaviour by expanding and deepening the scope of customers' education and awareness. Through greater understanding of the respective responsibilities, disputes and potential conflicts could be minimised.

Balancing profitability with serving the needs of customers for long-term sustainability

Industry players that focus on short-term gains will not achieve long-term sustainability. The traditional view that the sole purpose of business is to make money the more the better is no longer a tenable view today.

Institutional logic now dictates that companies are more than instruments for generating money; the value that a company creates should be measured not just in terms of short-term profits but also in terms of how it sustains the conditions that allow it to flourish over time.

What this means is that industry players today should not be fixated solely on generating profits but rather investing in relationships with their customers. If the industry can meet the needs of its customers, then that relationship will sustain the insurance company or takaful operator even during distressing periods.

Regularly benchmark against the best to measure your performance

Benchmarking exercises have proven to drive performance improvement by facilitating comparison and performance measurement amongst industry players. It is a yard stick that measures how your company faired in delivering its mandates to its shareholders and customers. The Bank has been conducting an industry-wide benchmarking exercise since 2001, in line with recommendations of the Financial Sector Master Plan to drive performance improvement. I believe the industry has benefitted from this initiative to improve the standard of services provided to its customers.

Going forward however, it is timely and economically sensible for the industry to collaborate and assume this role to develop its own range of indicators. If we were to strive for quality, the benchmarking should be against the world's best, and not confined to our domestic market alone.

The benchmarking could cover a wider range of indicators including financial and operating statistics, distribution channels as well as customer service indices that will benefit every member company. In many countries, it is the industry associations that undertake this role. In this regard, I call upon the associations present here tonight to give this matter a serious thought.

Collaborate and cooperate with others as synergy drives efficiency for the ultimate benefit of customers

Synergy creates new value and has a multiplier effect on outcomes that would not be possible, individually. Studies have shown that even the best individual efforts cannot stack up against today's complex and interconnected problems. The challenges of market liberalisation will require players to achieve more despite limitations in individual resources. But having to do more with less, simply means having to do it together. The industry through pooling of capacity, expertise and resources can addressed, perennial issues faced by individual companies, collectively. Heightening collaboration is no longer a choice but a necessity to achieve the industry's common goal in a more competitive market environment.

One way in which the industry can collaborate, is in the area of digitalization. Digitalization is a costly exercise and global survey findings forecasted an average growth in annualized spending on Big Data Analytics of approximately 25%. Therefore, it makes sense for the industry to collaborate and share resources in this endeavour. Drawing from the industry's effort to develop the Fraud Intelligence System is a very good step. I envisage seeing more collaborative digital propositions from the industry in the near future.

The industry must be committed to the expectation set by the Government for the nation to achieve a penetration rate of 75% by 2020. The current penetration rate of 56% indicates concerted and urgent actions are required. We have less than 5 years and every member of the industry must do its part. In meeting up to this challenge, there must be collaboration with synergistic partners, even with the non-traditional partners. But the overwhelming requirement for all of us in the industry today is TRUST.

On behalf of the Bank, it gives me great pleasure to congratulate the distinguished partners and individuals of today's awards.

Thank you and have a pleasant evening.