

Marzunisham Omar: Takaful agents - striving for excellence in a disruptive world

Speech by Mr Marzunisham Omar, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the 1st National Takaful Annual Convention 2018 "Takaful Agents: Striving for Excellence in a Disruptive World", Kuala Lumpur, 14 April 2018.

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Saya ingin mengucapkan terima kasih kepada pihak penganjur atas jemputan untuk menyampaikan ucapan di Konvensyen Takaful Tahunan Kebangsaan yang pertama ini. Tahniah diucapkan kepada NAMLIFA atas inisiatif untuk menganjurkan program khusus bagi para ejen takaful buat julung kalinya. Forum seumpama ini penting bagi menyediakan platform untuk pertukaran idea, pengalaman dan pandangan antara pakar-pakar industri dan agen takaful.

The future seems to be a favourite theme at various forums nowadays. Today's is no exception, and rightly so. In a time of rapid, successive change, it is crucial that we seek to understand the underlying currents shaping our future. Just as important is where we see ourselves in that same future.

There is a quote from Soren Kierkegaard, a Danish philosopher, that offers a practical advice on this matter: "Life can only be understood backwards, but it must be lived forwards."

Therefore, while we contemplate the forces of change and challenges of today, this must be coupled by action and determination to change for tomorrow. We need to be prepared for the future. Otherwise, we may become irrelevant.

While agents are a formidable force in the insurance and takaful industry today, there is no certainty that this will be the case going forward. Already the industry has undergone substantial transformation in recent years. Products, distribution channels, customer sophistication, and risk types, all look vastly different from how they used to a decade ago. I have no doubt that this trend will accelerate moving forward.

A key source of change are regulatory initiatives. While these are primarily intended to enable easier and cheaper access to products by a much wider market, it also means a lower degree of reliance on agents. Examples include the liberalisation of fire and motor tariffs, and the requirement under the LIFE Framework for companies to offer pure protection term products through direct and online channels since July 2017, and starting in July 2018, to extend this to pure protection critical illness and pure protection medical and health products.

At the same time, the regulatory expectations on the conduct of agents have also intensified. It is the aim of Bank Negara Malaysia to continuously strengthen the professionalism of insurance and takaful agents.

This is not to speak of the impact of technology. In the case of agents and intermediaries more generally, the information revolution can be a particular source of anxiety. In an age of apps, aggregators and "Ask me anything" chatbots, suppliers and consumers are closer than ever before, potentially bypassing the agents or intermediaries altogether.

With the emergence of fintech and insurtech, insurers in other countries are starting to experiment with chatbots capable of independently maneuvering sales and servicing processes. Product aggregators are also fast growing in prominence. An Accenture survey revealed that aggregators account for 70% of new business premiums in the UK private automobile insurance market. Indeed, two product aggregators platforms are already operating within Bank Negara Malaysia's Regulatory Sandbox. The Bank is reviewing the regulatory framework to enable the aggregators to operate by the end of this year.

These are headwinds that the industry has to tackle head-on, and like it or not, they will further intensify. While we cannot stop these changes, we can certainly choose how we respond to it. With challenges are opportunities. These can only be reaped through a combination of traits – greater proactiveness, a willingness to adapt and clear strategic thinking.

I do not doubt that this is much harder than it sounds, but I believe a good place to start would be focusing on three priorities. Allow me to elaborate on each in turn.

Technology that matters

The vision for the life insurance and family takaful industry is to achieve a penetration rate of 75% of the Malaysian population. Within this, the takaful industry has set a 25% target to be achieved by 2020. For this to happen, it is crucial that the industry gets to grips with the shift in market demographics, especially where interactions with technological platforms are concerned.

It is imperative that agents embrace technology. A 2017 study¹ by Bain & Company indicates that nearly 60% of insurance customers in Malaysia are digitally active. This is not surprising given that 40–50% of our workforce are made up of technology-savvy millennials. Any industry player seriously looking to achieve long-term sustainability will need to master the integration of technology within their operating models beyond just setting up websites or establishing a social media presence.

Instead, consider the interesting reality that customers use multiple channels before deciding to purchase protection. In the United States, half of the insurance customers that responded to a survey² preferred to purchase life insurance in person with agents or advisors, as compared to purchasing online. Similarly, in the same Bain & Company study from earlier, it was found that in-person interactions still generate higher loyalty scores than other channels in most European countries.

The fact is that customers employ a mix of on- and offline channels. Many of us already do this in other parts of our lives. We search for something online, then make the purchase at a bricks-and-mortar outlet. And sometimes the other way round. The key takeaway here is that often, customers use digital channels to complement, not replace, traditional channels³.

This bodes well for agents going forward – but only if the right conditions are in place. Agents and takaful operators need to work hand in hand to develop a comprehensive ecosystem catering to all segments of customers, whether online or off-line – or in marketing speak, an “omnichannel” approach. While it is imperative that takaful operators seek to provide as seamless an experience as possible in terms of online content for consumers, this does not have to lead to the substitution of agents.

On the contrary. Agents can in fact enrich the process by being trained and equipped with useful tools to guide and advise potential customers. Agents should also work with aggregators as a means to develop an online presence, in the same way real estate agents are featured on property websites.

It is important to note, however, that technology is only a platform, a tool. Without strategy or purpose, the adoption of tech alone cannot spur change. What is needed to complement this is a fresh approach to business. This means broadening one’s horizons beyond given market conventions, and being courageous to compete in new, unexplored strategic areas.

Compete better – and more broadly

To truly capture the market of the future, agents will need to sharpen their competitive edge. There are many ways to go about this, but I’d like to talk about two in particular: Doing what you already do better, and doing it for a much broader market.

Akio Morita, the co-founder of Sony, once said about his company's products – “We don't ask consumers what they want... We focus on what they need, what they will want and make sure we're there, ready.”

I find this relevant to the role of agents today. Most people who need insurance and takaful products may not have the time or access to information to even know that it's there for them. Agents create that awareness. For many, their first contact with insurance would have been through an agent-initiated meeting. For this reason, customers tend to rely on agents to a large degree for information to help them make the right decisions, quite often ones involving lifelong commitments.

While competition will only intensifies moving forward, agents who will excel are those that are knowledgeable, diligent and trustworthy. However, findings from the Bank's recent supervisory reviews are rather disappointing – three in four agents were found to have failed to complete a comprehensive fact-finding process for more than 80% of their customers. This may be a symptom of a product-pushing mentality at the expense of customer welfare. The lack of objectivity increases the risk of unsuitable products being sold to customers, and could well permanently taint the industry's reputation in the long-run.

Things can, and must be done better. With the new Balanced Scorecard developed in consultation with the industry – including NAMLIFA, the incentive structure has been improved so that agents work more effectively and objectively in the best interest of their customers. The Scorecard also reinforces our vision for agents to move towards higher value-add activities that involve advice, sales and customer support for more complex products.

Another aspect that takaful agents must recognise is that takaful products embody universal value propositions that would appeal to all market segments, whether Muslim or not.

One of the more distinct features of takaful is the distribution of surplus to takaful participants, reflecting the principles of solidarity, risk-sharing and mutuality among takaful participants. The outcome of this are not just socially meaningful products, but also commercially competitive ones. Take a motor takaful product as an example: In addition to the 'No Claim Bonus' feature that is common in conventional motor insurance, takaful participants could receive additional financial benefits when the takaful fund performs well through the sharing of surplus.

Often, the advantages of the takaful products are not sufficiently highlighted, potentially hampering the competitiveness of takaful products. The key is to continuously espouse the value propositions of takaful products. This is an aspect that agents could certainly help to address.

The market potential for takaful products is so much larger than what is realised today. Let me offer you two key information. As at end-2016, insurance and takaful penetration in the B40 segment of working age stood at 30.3%, compared with the overall penetration rate of 46.8%. Second, the global Halal industry is worth USD2 trillion annually and Malaysia has a large and growing Halal industry. The question is to what extent the takaful industry fulfills the insurance needs of the Halal businesses.

Takaful agents can play a key role in reaching out to this broader market, particularly by understanding the takaful products, and being able to explain them simply without diluting the distinct value propositions of takaful. Part of this will require greater acumen and empathy on the part of agents for the diverse needs and preferences of customers from all walks of life.

But it is also about developing long-term strategic value: By being well-versed in both fields, agents stand to position themselves as an authoritative voice in advising both takaful operators and insurance firms in relation to the changing trends in the demands and needs of consumers and product features that would better cater to these.

Embody what you sell

I've spoken at length about the tools and methods that can help sharpen the niche of takaful agents as they enter a new, potentially disruptive phase in the industry's development. But my final point makes a recourse back to unchanging core of this profession: In particular, the values embodied by takaful. The very existence of this industry rests on the ultimate objective of attaining the well-being of mankind as called for in Islam. Takaful agents, being an essential part of this ecosystem, must embody their role as 'wakeel' of takaful to the highest standards.

Trust, honesty and fairness are values that I am sure everyone in this room seeks to exemplify in all their dealings with customers. In a few months' time, the Bank will be issuing an Exposure Draft on Fair Treatment of Financial Consumers which will set out heightened regulatory expectations for all players. Agents will need to exercise greater care, skill and diligence in their dealing with customers.

But rules and regulations are in themselves not sufficient to create a pool of agents trusted by customers: That would require all-round, holistic professionalism – an agent who is technically qualified, fully committed and uncompromising on ethical standards. To me, it is this integrity and calibre that will ultimately guarantee the continued success of agents into the next decade, more so than any other factor.

Faced with a more demanding and complex business environment, agents must continuously develop and equip themselves with skills and knowledge that are relevant, and that will continue to remain relevant well into the future. There are plenty of formal programmes available to help agents progress in their technical competencies. There is also a whole host of open online courses which can be accessed anytime, anywhere, with the desire to learn is the only prerequisite.

It is encouraging that various professional training courses are already being offered through NAMLIFA's Financial and Life Practitioners Council, and that one of the programmes has been accredited by the Financial Accreditation Agency (FAA).

Going forward, I hope that we will see more industry-driven standards and protocols that will assure customers that they can only expect consistent, top-notch quality service from their agents – putting to rest any public doubts that may have been caused by the few "bad apples" in the sector.

Conclusion

The three areas that I have just described will require, at its core, a strong willingness to learn and adapt. The uncertainties of the future may appear to loom large over the horizon. But if we take the time to consider the lessons of our past and circumstances of our present – which I am sure will be robustly discussed today – we are likely to be surprised by how much we already know of what we need and ought to do.

In this regard, NAMLIFA is well-positioned to play a proactive role in facilitating ongoing, constructive dialogues on important industry issues that will certainly demand a concerted response by all parties. New skills and capabilities must be developed, processes need to be redesigned, and assumptions need to be revisited. Would the industry be better served were it to move away from the existing "tied agent" model? How should entry requirements and training offerings for agents evolve going forward? Should all agents be full-time agents? To what extent can, and should, insurance agents be allowed to sell takaful products, and vice versa? These are just some of the questions that could potentially revolutionise the way agents do business.

I'd like to conclude with another quote on the future, this time from Nelson Mandela, more than 150 years after Kierkegaard: "A bright future beckons. The onus is on us, through hard work,

honesty and integrity, to reach for the stars.” I have every confidence that today’s agents have what it takes to thrive in the future, but the hard work of laying the necessary foundations must begin today.

With that, I thank you for your time, and wish all of you a productive day ahead.

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- ¹ Customer Behavior and Loyalty in Insurance: Global Edition 2017. www.bain.com/publications/articles/customer-behavior-loyalty-in-insurance-global-2017.aspx
 - ² Insurance Barometer Study survey in 2016 by the Life and Health Insurance Foundation for Education (LIFE) and LIMRA
 - ³ Customer Behavior and Loyalty in Insurance: Global Edition 2017. www.bain.com/publications/articles/customer-behavior-loyalty-in-insurance-global-2017.aspx