

Encik Adnan Zaylani Mohamad Zahid: Distribution in a digital economy - Customer @ Core

Keynote address by Mr Adnan Zaylani Mohamad Zahid, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the General Insurance Agents Convention - "Distribution in a Digital Economy - Customer @ Core", Bangsar South City, 18 October 2018.

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Let me first begin by thanking Persatuan Insurans Am Malaysia (PIAM) for hosting this convention and inviting me to deliver the keynote address. This is my first ever engagement with the general insurance agency force but also the insurance industry as a whole and I am very pleased to be here at this fittingly themed convention, “Distribution in a Digital Economy – Customer @ Core”.

There is no question that we are now in an era of the Digital Economy. According to the World Bank there has been an accelerated growth of internet access of more than 170% in global accessibility in the past ten years. In 2006, only 17% of the world’s population was estimated to have an Internet connection – but now that number is 46% in 2016. During the same period, Malaysians with Internet access has increased from 52% to 79%, which is a very high number amongst many countries.

With such widespread accessibility, a market presence on the Internet has never been more important. E-commerce activity has boomed in recent years, especially in the Asian region because according to the Asian Development Bank, Asia’s e-commerce transactions now makes up one quarter of global business in consumer markets. Not surprisingly, the largest proportion and number of these transactions originate from the People’s Republic of China; where the size of the retail e-commerce market has seen a fourfold increase from USD200 billion to USD800 billion in a period of three years between 2013 to 2017 . Here in Malaysia, the trend in e-commerce transactions has been encouraging as well, with an increase of more than 69%, from USD1,856 million in 2016 to over USD3 billion in 2018.

All this affirms the shift in the mode of our economy: The future is not so much in brick and mortar – but in bits and bytes. In Malaysia, an estimated 62% of businesses are connected to the Internet. More will migrate to the virtual marketplace, and there is little doubt that digital entrepreneurship will be a key component of economic growth and job creation.

Of particular importance in this shift is the role of intermediaries: In a market which is increasingly defined by customisation and speed of service, the role of matching customers to providers has become absolutely critical; the reliance on both parties being on the know-how and expertise of the go-between. And this certainly applies to your role as the main intermediators of insurance.

Another important feature to note is the decentralisation of knowledge: With a touch of their screen, consumers are now able to access an almost infinite repository of information about the products that they want; including comparisons and peer reviews. The days of the insurer or agent knowing best have passed, and it is important to recognise how this tilts the bargaining power in favour of the consumer. From this, there are fundamental questions that need to be asked of the agency force: Are the current incentives of the industry aligned with the best interests of consumers? Should insurance companies still be thought of as the main principals that agents serve, or should consumers be seen as an equal principal in that relationship? How can the remuneration and more generally, culture, change from one focused on volume of sales to one where agents are recognised for more customer-centric, and a consultative role? These are some of the questions that I hope this convention will touch on, and perhaps for me to share some thoughts.

There are many concerns over the potential upheaval of the status quo arising from the digitalisation of services. But I can share with you that we firmly believe that the agency force will continue to have a role to play in the general insurance sector even as it evolves into the Digital Economy. The reason for this is simple: insurance products can be complex and coupled with the sophisticated needs of clients such as individuals and SMEs, the human and personal touch of an agent can come in handy. It is these functions that will remain relevant in the Digital Economy; those that require intuition, discretion and sometimes, empathy; traits that are not easily programmable.

Having said that, the Digital Economy will revamp the distribution landscape for general insurance and these changes are currently in progress as we speak. General insurance agents must accept and embrace the shifting business dynamics towards digitalisation. The agency force must not only reinvent themselves to reflect the latest digital trends, but also upgrade their capabilities in line with the latest technological developments. Thus, I would like to suggest three strategies that general insurance agents can take in not just surviving, but also thriving in the Malaysian Digital Economy, namely:

First, improving the customer experience by enhancing your service capability.

Compared to other financial products, such as banking products and investment products, insurance products are inherently more complex to understand. It is perhaps not a surprise that customer satisfaction of the local insurance industry is lower than other financial services industries. According to BrandIndex, in its study of the health of brand names in Malaysia, the top 5 insurance brands in Malaysia scored relatively lower than that of their top 5 counterparts in other financial service sectors (especially banking). This is a challenge to the industry to raise this till we meet again in two years.

Given that the agency force are the insurers' first contact point with customers, agents wield significant influence over how customers perceive and experience insurance. It is thus critical for agents to provide the highest levels of service via continued and consistent displays of attentiveness and value adding, to build trust with their clients.

There are many possibilities to improve the current insurance value chain. One area that Bank Negara Malaysia strongly supports is the use of electronic payments. We have been undertaking a major initiative since 2013 to promote e-payments and reduce use of cash and cheques now. In increasing e-payments among financial institutions, government agencies, retail transactions, we have made some inroads. The insurance industry's uptake however, still remains low.

Perhaps agents can do more to help us in this. Promoting and using e-payments could remove the many pain points associated with the manual handling of cash and cheques that are experienced by the consumer, agent and even the insurer. Some of the data still indicate a high number of cheques. From January to July 2018, about 35,000 cheques were issued by the general insurance companies to their customers for the payment of claims and refunds. Likewise for collection purposes, about 1.1 million premium payment transactions were still being made using cash and cheque in the first 7 months of 2018. This figure could be a lot higher if we take into account the mode of payment used by customers to pay agents, which based on anecdotal evidence, are primarily in cash and cheque. On this front, agents should work hand-in-hand with insurance companies to encourage and incentivise their customers to adopt e-payments. Besides enhancing the customer experience, higher adoption of e-payments could also boost the agents' efficiency and productivity. In this regard, time and effort saved from less handling of cash and cheques can be directed to more productive tasks such as to increase sales, even by usage of WhatsApp.

Second, increasing your digital accessibility to prospective clients.

For as long as I am aware, the agency force has always dominated the insurance distribution

channel. In 2017, there was a total of over 56,000 agents constituting a market share of approximately 63%. Irrespective of whether in general or life insurance, the agency force has traditionally been the physical point of contact and engagements with clients. But, with the Internet and improved access amongst a growing number of the Malaysian population, online insurance solutions will not only become more viable, but also easier to adopt.

In this, the agency force cannot afford to stagnate. Other industries with heavily digitalised services, like the air travel, hospitality and retail sectors, have elevated the digital literacy of the Malaysian population and improved their appetite for efficient delivery and transparent pricing of services. In this sector, there remains significant untapped demand for general insurance products as a whole. The low penetration rate of 1.4% for general insurance, which is measured in terms of premiums as a share of the nation's Gross Domestic Product, is actually symptomatic of this. Thus, agents who move quickly to improve their digital outreach will have a first mover's advantage and are likely to gain a growing group of digitally literate Malaysians.

Thirdly, conducting robust suitability assessment for customers.

One thing worth emphasising repeatedly is this; financial services offered must be suitable to the needs of the customers. While the Bank's Guidelines on Product Transparency and Disclosure attempts this by stipulating the 'rules of the game', we look to insurers and the agency force to 'play' according to these rules and seek out ways to achieve the outcome of ensuring consumers obtain financial services that are suitable to their needs.

Agents should develop their individual capacity to analyse customer requirements to identify their needs and develop risk profiles to match them with suitable products or combinations of products. For example in the case of motor insurance policies, agents should create awareness on optional add-on covers that are available and underwriting factors that will affect motor insurance premiums. Appropriate profiling of a customer can be crucial in helping agents identify customised product recommendations efficiently.

Finally, perhaps I should bring your attention to two upcoming developments. Firstly, we understand that the industry is in the midst of finalising a recent independently-conducted Customer Satisfaction Index (CSI) that will be a means to gauge the insurers' performance against the enhanced insurance industry's Customer Service Charter which was introduced in January 2018. This survey includes minimum service standards that reflect the guiding principles for good customer service. The results of the CSI survey is expected to be finalised by end-2018. I would urge you to familiarize yourself with the Customer Service Charter of your principal insurers and use it to guide you in your dealings with customers so as to ensure good customer experience.

Secondly, the Bank is at a fairly advanced stage of finalising the policy document on fair treatment of financial consumers. This will address the Bank's increased expectations on financial institutions, including insurers, to cultivate a culture of fair dealing and responsible behaviour. The onus will be on insurers to ensure agents observe new standards to exercise due care, skill and diligence in dealing with financial consumers. We should expect principal insurers to accord greater emphasis on the importance of (1) providing clear and concise product information to customers to enable them to make informed choices, (2) offering products that are appropriate to the customers' needs and financial circumstances, and (3) providing individualised advice that is in the best interest of the consumer.

Let me conclude.

Agents have always been and will continue to be important agents, including agents of change in the insurance sector as they are uniquely positioned to read the pulse of customers. This change could involve the insurer-agent relationship and the balancing of customers' interests. The time could be appropriate for general insurance agents to reorganise themselves into an industry

association that can effectively mobilise the power of collective action and enable the agents as a cohesive force to better serve customers' interests. This will also put in place a foundation for the possibility of setting standards on conduct, education and self-regulation of individual agents. Cultivating a solid industry association is neither an easy nor a short-term task but the benefits are immense.

The Bank remains optimistic that agents will continue to play a key role in Malaysia's insurance industry, and will be crucial to take us to the next level. In all this, agents must not deviate from their *raison d'être*, i.e. intermediating between the insurer and the customer. Ultimately, we all should recognize that it is the interests of the customers, which is at the heart of it. Jack Ma of Alibaba, aptly said it, "Customers should be number one." The challenge presented upon you today, is to embrace the Digital Economy and not lose sight of this.

On that note, let me once again thank PIAM for the opportunity to share some thoughts with you today and I wish you a productive convention ahead.