

## Life insurance: Clear skies ahead

On the heels of the previous year's economic growth, life insurance in 2010 continued on the same trajectory, reporting a healthy growth. With insurance penetration still relatively low, we look at some of the initiatives that will be undertaken to help life insurance continue to make headway in Malaysia.

By **Seow Kai Lun**



The sky is still bright for Malaysia life insurers as the industry grew by 11.9% in 2010, raking in RM8.42 billion (US\$2.77 billion). This shows the “confidence of the domestic and the increase in disposable income” of Malaysians, said Mr Mohd Din Merican, President of the Life Insurance Association of Malaysia (LIAM).

### Strong growth in Malaysia

The reason for the growth is the industry expanding “in tandem with the economic growth of the nation” where Malaysia's GDP saw a growth of 7.2%, bouncing back from the 2009 economic uncertainty, he said. The consumer confidence in the fourth quarter in 2010 was also the highest ever since 2006, reaching 107 points, according to Nielsen Global Consumer Confidence Index.

Another contributing factor to growth was the 26.6% growth in investment-linked products, in particular the individual annual premium business, which grew by 37.8%. This interest in investment-linked products has been a reversal of the downward trend in popularity that the product has seen since 2007. However the size of traditional business with RM2.1 billion of annualised premium is still larger than investment-linked business though its share of the market has fallen with the traditional to

investment-linked business mix falling to 55.6%:44.4% from 62.5%:37.5% a year earlier.

Group business also enjoyed a growth rate of 14.1%, after a relatively flat year in 2009, recording RM2.36 billion compared to RM2.07 billion the year before.

Companies such as AXA Affin Life insurance saw new business amounting to RM77.5 million, a 95% growth from the previous year whilst Prudential Assurance Malaysia's new business premium equivalent sales, including takaful, climbed 24% to RM1.02 billion. Great Eastern Life Insurance announced that its assets grew by 12.6% and first quarter new business sales, for both life insurance and takaful, grew 13% to RM218 million.

### Still an untapped market

There is therefore a “huge upside potential” for the insurance industry in Malaysia, said Mr Din, given the low penetration rates of life insurance at 41%. Currently the average sum assured is less than RM50,000.

Great Eastern Life Assurance Director and CEO, Mr Koh Yaw Hui said to the media: “The life insurance industry in Malaysia is a blue ocean industry as people are not competing on pricing. There is room for everyone to do well.”

The life insurance sector is expected to grow by 12% to 15% in 2011 because of the forecasted growth of Malaysia's GDP from 5.5% to 6% by economists, said Mr Din, amongst other reasons. The current GDP for life insurance is at 2.8% which is relatively low compared to other countries, such as Japan (7.5%) and Singapore (6.1%).

“Coupled with the increasing concern for escalating medical cost and retirement planning, this would present a long term growth for the industry,” said Mr Loke Kah Meng, CEO of AXA Affin Insurance.

### Meeting customers' evolving needs

Mr Charlie Oropeza, CEO of Prudential Assurance Malaysia, said: “Insurers will have to clearly understand the dynamic evolving needs of the consumers to be able to develop innovative yet affordable products to meet their needs.”

He also believes that the key to growth is for the industry to work in tandem with the government in the continually changing Malaysia landscape.



### Stimulus from the government

The Malaysian government has identified the insurance industry as one of the key areas that would contribute to the nation's economic growth. It aims to increase the GDP for life insurance to 4% and for insurance penetration rates to hit 75% by 2020, with various initiatives through their nationwide Economic Transformation Programme (ETP).

The announcement of the Employee Insurance Scheme, announced in the ETP, is expected to spur growth. It will provide basic low premium term life insurance with optional critical illness and hospitalisation benefit coverage. The move is supported by Allianz Malaysia CFO, Mr Charles Ong. "This can act as a safety net for the low income group. It will also help Malaysia to become a more adequately insured nation," he said to the media.

The 1Malaysia Micro Protection Plan, a microinsurance scheme, was developed this year and will also contribute to enhancing the life insurance penetration rate. It will offer basic protection against death and disability as well as hospital income, with premiums as low as RM20 per month.

Another growth factor is the Private Pension Funds, which will supplement the current public pension schemes and offer non-EPF and self-employed people. This group now numbers more than two million, and the Private Pension Fund will offer them a way to save for retirement. There are hopes that this will push the development of retirement schemes developed by insurance companies, as by 2020, close to 10% of Malaysia's population will be above the age of 60.

### Bancassurance continues to make headway

The bancassurance channel continued to be a major source of single premium business, capturing 38% of the market in 2010, said Mr Din.

This is as banks are pushing for more sales through incentives offered to the bank staff. He also credits the convenience, where customers are already at point of purchase, such as bank counters. Customer confidence in the banks, resulting in easier cross-selling is another attribute

which has led to the continued increase of market share that banks are seeing.

This is also because the younger generation is connected with more means of finding out about the available products, not requiring the personal service of agents. Thus due to the pricing structure of bancassurance, it is more affordable. This also caters to the lower-middle income customers who prefer to have all their financial needs catered to under one roof

However as the consolidation of banks continues in Malaysia, this would limit the number of banks available for insurance companies to partner with for the distribution of life insurance products, said Mr Loke.

### Increasing service to the customer

In a bid to increase customer confidence in the industry, a transparency framework was set up by the regulator to provide clear guidance on the information they should expect to see before making any purchasing decisions. This also gives insurers a common platform to adopt, resulting in a standard product disclosure sheet, creating a positive impact on the industry.

To enhance transparency further, insurers introduced Plain Simple Language for all its policies issued starting from 1st January 2011. "Eliminating the usually complicated contract jargon, consumers are able to read and understand the policies they have, clarifying further about the insurance product and what can be expected from the insurers," said Mr Din.

A Client Charter was also announced in January this year and has been adopted by all LIAM members. The charter promises to provide customers with the service standards both on their websites as well as service counters. Insurers who adopt the charter will also state the approaches and measures that it has taken to control and combat insurance fraud, reflecting the industry's stance of zero tolerance when dealing with insurance fraud, in a bid to serve their customers better.

As the agency force still makes majority of the sales that are made, changes are also needed to service customers better. No longer just selling insurance protection, they should also provide proper financial knowledge at a more professional level. Said Mr Oropeza: "Agents are now expected to impart sound financial knowledge on investment, education for children, wealth accumulation and retirement plans."

### More knowledge, greater growth

Increasing standards in the industry alone is insufficient. Public education, where the value of life insurance and financial planning is emphasised, would be crucial to increase insurance penetration rates.

To achieve this, LIAM, in partnership with the press, will be running a campaign which will see 45 articles published over the course of three-and-a-half months to reposition and address various misconceptions of the life insurance industry.

With this as well as the room for growth in the sector, Mr Din believes that life insurance sector growth in 2010 is a positive sign and that it definitely augurs well for Malaysia life insurance in 2011.▲

(RM1 = US\$0.33)