



John Leong - President, Life Division, MAA Berhad

GOING ON THE DEFENSE

The current financial crisis has hit global markets with a significant impact. Several insurance companies discuss how they are navigating through the storm and protecting their investment-linked products.

Understandably, it is a difficult task to survive the crisis that brought down many giants in the global financial scene. The global insurance industry has also been affected especially the companies involved in investment-linked insurance.

Insurance-linked products are financial and protection tools that cover several areas including planning for a policyholder's children's education, or his long-term investment and retirement plans.

Most companies have opted to take a defensive stance and move into capital preservation. Says Koh Yaw Hui, Chief Executive Officer of Great Eastern Life Assurance (Malaysia) Berhad: "In times of

crisis, the fund managers will adopt capital preservation and defensive strategies. Due to our funds' liquid positions, there are ample opportunities to acquire high dividend yielding stocks now.

"At the same time, the funds will also position gradually in lowly-valued stocks to capture opportunities when the market recovers. In doing so, we strive to achieve investment objectives over a medium- to long-term period, in line with the long-term nature of insurance policies."

John Leong, president, Life Division of Malaysian Assurance Alliance Berhad concurs, adding that insurance has a long-term investment horizon, and the company

will focus on generating long-term returns to meet their insurance obligations.

"The fall in stock prices presents an opportunity in times of crisis to buy shares at low prices. Most companies are building on distribution efficiency, lower cost structure and better servicing standards to attract new money in capitalising on the low price environment," he adds.

Moving ahead, the outlook for investment-linked insurance funds this year will continue to be challenging due to weak financial and economic fundamentals globally. Koh elaborates: "The current weakness is expected to last the whole of this year. The effect of both expansionary fiscal policy and loose monetary policy globally is expected to bring about improvements in 2010."

Says Soon Teck Onn, Vice President, Investment Linked Fund Management, Malaysian Assurance Alliance Berhad: "In 2008, the asset allocation went into cash and bonds from equities, due to the global economic downturn. We think that, in the course of this year, more funds will go back into equities from cash and bonds, as the global economy bottoms out."

Meanwhile, Koh notes that last year, its equity funds faced a challenging year. Nevertheless, over three and five years, Lion Progressive Fund is still up 19.9%

and 36.1%, respectively versus the KLCI decline of 2.6% and a gain of 10.4% respectively. Similarly, Dana Restu added 8.9% and 12.7% respectively versus the FTSE Syariah Index gains of 4.0% gain and 3.7% respectively. On the fixed income side, Lion Fixed Income Fund and Dana Sejati continued to provide steady income, chalking a gain of 5.3% and 4.4% respectively for the year 2008.

Soon explains that all MAA investment-linked bond funds showed a positive return of up to 5.2% in 2008. In contrast, many industry bond funds showed a decline. With the 39.3% year-on-year drop in the KLCI stock index, 2008 was a bad year for equities. Over the last three years, most of MAA investment-linked equity funds gave positive returns of up to 21.2%, whereas the KLCI showed a drop of 2.6%.

Great Eastern adopted several strategies including reducing equity weightings when the market was high to reduce equity risk, paced out the buying on market dips in order to reduce price risk, locking in capital gains whenever possible and focusing on defensive sectors and high dividend yielding stocks.

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Soon adds: “We ensure proper asset class and security allocation within the funds, based on the funds’ objective and risk-and-return investment outlook.”

On January 15th, Great Eastern launched the AddVantage Plus investment-linked insurance plan that is a regular premium whole life investment-linked plan that gives policyholders an extra bonus allocation totaling 50% guaranteed for 10 years running. The extra bonus allocation which is given from the sixth policy year onwards will encourage policyholders to save regularly over a longer period to minimise



Koh Yaw Hui, CEO, Great Eastern Life Assurance

investment risk. In addition, the plan helps policyholders to secure their future for their loved ones by providing a 100% increase in the sum assured over 20 years.

On that same day, it launched the Smart Medic, a comprehensive medical rider for investment-linked plans with one of the highest annual and lifetime limits in the market. Depending on the policyholder’s selected plan, medical expenses can be reimbursed in one lump sum up to an annual limit of RM200,000 and a lifetime limit of up to RM1,600,000.

Meanwhile, MAA Assurance plans to continuously introduce new products to fulfil the insurance and investment requirements of its customers. Last year, it focused on capital-guaranteed products, due to market uncertainties and for principal-protection. As the financial markets improve, the company may consider more equity-related funds.

Asked how important investment-linked products are to investors, and how they should fit in into their portfolio, Koh feels that wealth protection which is an essential part of wealth management and should be the first priority for individuals’ financial planning.

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relation to this, investment-linked products are a strong alternative protection plan particularly with affordable premium and reasonably good and comprehensive basic protection and medical coverage. It is suitable particularly for the younger age group of individual example graduates who have just started employment and need fair insurance coverage with lower premium,” he adds.

Investment-linked products also offers the flexibility of the balance premium after deducting the insurance charges and the additional premium can be invested in different type of investment-linked funds of investors’ choice according to his risk profile for long-term savings purposes. An investment-linked insurance plan allows policyholders to reap the benefits of both having comprehensive protection coverage as well as investing for long term all in one plan.

Finally Leong notes that it is important to understand that investment-linked plans need to be promoted primarily as an insurance plan protecting the family against unforeseen incidents should something untoward happen to the breadwinner.

Some of the features such as allowing top-ups on investment and switching among funds available have left the investment decision in the hand of the investors. In addition, the regular advice and feedback from professional agents will assist the investor in making sound decisions to improve the mid- to long-term performance of the portfolio. In this case, investment-linked plans will serve its dual purpose of protection and investment in one account. **SI**