



Ng Lian Lu — President, Life Insurance Association of Malaysia (LIAM)

# SOME ROOM FOR GROWTH

While the financial crisis may throw a spanner in the works, some industries such as life and general insurance remain confident about prospects as economies adjust to the fallout.

**D**espite the overall gloomy economic sentiment in most regions, there are signs of hope in some sectors, with the life insurance industry expected growth to continue, albeit at a slower pace.

It is upbeat on the outlook for life insurance players. Says Ng Lian Lu, President, Life Insurance Association of Malaysia (LIAM): “The outlook for life insurance industry remains positive. We expect new business premiums to register single-digit growth of close to 10%.

“While consumer confidence and spending power may be affected by the recent financial turmoil, we believe that life insurance is recession proof. Insurance protection is even more important during difficult times as if something untoward

happens, people will not have excess funds to deal with the situation if they are without insurance coverage.”

News reports state that the local insurance sector is expected to improve in the next six to 12 months to chart a growth of between 8% and 9% in 2009 despite the weak global economy, according to LIAM. In 2008, industry growth in terms of annual new business premiums is slated at around 7% to 8% compared with 9.4% in 2007.

Based on its previous track record, the life insurance industry growth is likely to surpass Malaysia’s gross domestic product (GDP) by two or three times. Ng observes that the financial crisis and the credit crunch coupled with some large-scale retrenchment and recession in overseas countries had

worsened consumer confidence.

Liam expects protection products such as whole life, term and medical and long-term savings products such as education products and retirement products may be less affected. However, investment-linked products may perform poorly with consumers while traditional products could make a comeback.

During tough times, the winners in the life insurance industry will be those which are reputable, innovative, provide good customer service and are able to deliver good returns to consumers.

Ng reckons that those who use insurance as a long-term savings vehicle would also find it a good time to consider increasing their savings or investment in order to benefit from the next up turn. With an insurance penetration rate of 40% currently, or in other words on average of only 40% of the population covered by insurance, there is still a huge potential for the life insurance industry.

In terms of new markets, retirement and health are two key areas. Malaysia’s retirement market is still in its infancy at the moment. With the ageing population and the emphasis placed by the government on retirement planning, including the recent proposal of a pension scheme for EPF, the life insurance industry is well positioned to take on the challenge and fulfil consumers’ needs, opines Ng.

Indeed, the life insurance industry has well established expertise in long-term fund management and handling life contingencies, which are two key competencies that are needed in delivering retirement solutions.

Another area with significant growth potential is medical insurance. This is particularly evident with rising medical inflation, an ageing population as well as increased awareness of the importance of living a healthy life. Demand for medical insurance is growing in the middle-age to elderly group and there may be further product innovation in this area.

In the second half of last year, the domestic and international investment environment suffered setbacks, as major share markets in the world battled with bearish markets amidst news of large multinationals going bust.

Ng says that it is fortunate that the local industry is well capitalised and with stricter regulations since the 1997 financial crisis, the industry is well poised to take on the challenges going forward.

Nonetheless it will be a challenging environment this year due to several factors. Firstly, the economic environment in 2009 is widely expected to be tough and consumer confidence will be low while the unemployment rate will be high. These are some of the challenges faced by most industries with no exception to the life insurance industry.

LIAM is a self-regulated body and will continue to play its role to uphold the highest

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professionalism and ethical behaviour in the industry. "We will also continue to play our role in stepping up consumer education and creating awareness of the importance of life insurance," he adds.

Member companies also participate actively in various sub-committees within LIAM and issues and challenges that are of common interest to the industry are debated, brainstormed and solutions are discussed in a concerted effort.

With a long-established track record and vast expertise within the industry, Ng is confident that 2009 may be a challenging year but the industry will continue to expand, achieve its goals and overcome challenges.

Meanwhile, General Insurance Association of Malaysia (PIAM) executive director CF Lim anticipates that growth in the general insurance industry would moderate in the second half of next year. News reports state that PIAM is cautiously optimistic that growth prospects going forward would be very much in line with the general economic growth.

The general insurance industry registered gross written premium growth of 3.91%

in 2007 to about RM11.5billion. Between January and June 2008, the growth in gross written premiums increased by almost 8% compared with January-June 2007, to RM5.85billion.

It is also anticipated that the move by Bank Negara to provide bank deposit guarantees, the establishment of an RM200mil Micro Enterprise Fund to support small and medium enterprises and the availability of a liquidity facility to insurance companies would boost public and investor confidence. Another silver lining may be realised once the risk-based capital framework comes into effect, as this is expected to further strengthen the local insurance industry and raise the confidence level among policyholders. In addition, effective and sustainable cost management was vital for the success of insurers in these trying times. Finally, insurers may need to evaluate how price inflation in various sectors of the economy would impact underwriting and claims performance. In property insurance, there is a need to encourage policyholders and intermediaries to carry out detailed reviews of sum insured values of their policies as cost of reconstruction, reinstatement and replacement have been severely impacted by higher materials, labour and transport costs. **SI**