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JUNE 2015 | ISSUE 302

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ISSN 1511-7308

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PP 11112/03/2013(032049)

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The State of Malaysia's Life Insurance Industry

Life Insurance Association of Malaysia (LIAM) shares insights and updates on the country's life insurance industry. *By Life Insurance Association of Malaysia (LIAM)*



Over the past four decades, the life insurance industry underwent a transformation process along the way and adapted to regulatory changes. Today, we emerge as a stable and progressive industry, standing tall as a key financial pillar of the nation. With the strong support from 16 member companies, we work very closely with regulatory authorities and stakeholders to build a high standard of professionalism among our practitioners, instilling good business practices, upgrading the image of the industry through self-regulation.

Life insurance and family takaful provide insurance protection to 55.5% of the Malaysian population to date. Compared to the 30 million population,

this figure is below the Government's targeted level, which is at least 75% of all Malaysians by year 2020 (Chart 1). On a promising note, this reflects the enormous untapped potential in the Malaysian insurance sector, hence, more prospect for the industry.

According to the 2014 Financial Stability and Payment Systems report published by Bank Negara Malaysia, life insurers and family takaful operators provide coverage amounting to RM1.7 trillion in sum insured for all policies, representing 161.8% of gross domestic product. The average sum insured is RM56,995. It is obvious that there is a huge protection gap among Malaysians. Based on a study conducted by Universiti Kebangsaan Malaysia in 2013,

a wage earner supporting a family of four persons would need an average of RM553,000 to RM723,000 in the event of death or disability.

It is important that Malaysians consider purchasing life insurance or takaful as a form of financial planning for security. Based on BNM's data, the total payments made by the life and takaful sector for death, disability and medical claims increased by 16.6% to RM5 billion in 2014. Today, the insurance and takaful sector has combined assets of RM209 billion, which is about 3% of Malaysia's Gross National Income.

Measures to improve the market penetration rate

The market is growing at a steady pace despite the slow economic conditions affected by changes in the oil price, the weakening Malaysian Ringgit, and such. We believe these issues will not impact the industry as much because the need for insurance is always there. For Malaysians, insurance is viewed as a long-term plan.

One growth area that insurers should look at is the financial inclusion for the population. This is particularly important in the case of Malaysia whereby we have urban, suburban and rural populations. There is a need to develop suitable

insurance products and introduce new delivery channels to reach out to the remainder 50% of the population, of which a high percentage could be concentrated in rural areas.

There is also a need to look into suitable retirement products to complement the current Employee Provident Fund (EPF), the one and only retirement solution for most Malaysians. The life insurance industry has continued to innovate through new products and distribution channels. Other than through agencies, banks, telemarketers and financial advisers, insurance products are also easily available where the public could purchase insurance products at the post offices and bank branches throughout the country. Simple life insurance products can also be purchased online.

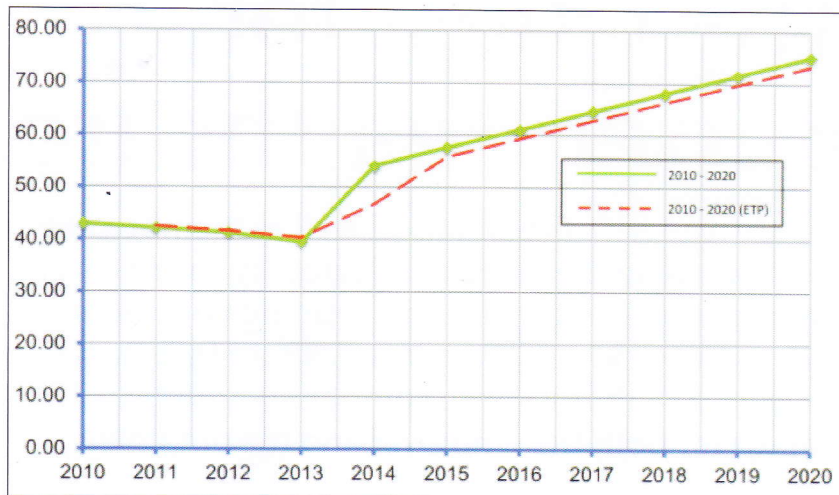
LIAM and the industry also need to continue the efforts to raise the financial literacy of Malaysians. Initiatives such as educational programmes, advertorials or advertisements, radio and TV interviews are regularly carried out by LIAM. We are also embarking on several youth engagement programmes with local universities and private colleges to target the young community.

Key Success Factors

We believe the key factors below will contribute to the success of life insurers in the near future:

- Product innovation - The insurers need to come out with products that meet the changing financial needs of its customers e.g. offering more affordable coverage for retirement needs.
- The deployment of technology - For the ease and convenience of servicing the customers from assessing their needs to offering financial solutions and payment of claims.
- Expansion of distribution channels to reach the different segment of consumers - The agency force is still the main distribution channel in

Chart 1 – Percentage of penetration rate of life insurance 2010-2020



Source: LIAM

Malaysia, followed by bancassurance. The life insurance industry has about 85,000 agents and 20,000 bank executives registered with LIAM. Over the next few years, the revolution in mobile devices, Internet usage and social networking may change the way consumers (especially Gen Ys) connect, interact and transact with businesses. With the rising affluence and usage of mobile phones and the Internet, there is a need to explore possibilities of adding these to a company's multi-channel distribution for insurance.

- Customer Focused - It is important to ensure that our products are sold based on the needs of the customers. In addition, we need to train our intermediaries to provide appropriate advice to our customers so that they can make an informed decision of the insurance plan that they intend to purchase.
- Independent Financial Advisors - Independent Financial Advisors provide independent advice on financial matters to their clients and recommend suitable financial products from what's available in the market for customers. This direct channel would give them more options and a variety of choices to

choose from that would fulfil their various needs.

Moving into the next decade, the role of the LIAM would be more important in the face of liberalisation of the financial services sector. The Asean Economic Community (AEC) blueprint that will be finalised by December 2015 will present a host of challenges and opportunities for the insurance market in the ASEAN region. Trade associations such as LIAM will have to play an important role to voice its opinion and recommendations to influence the policy decision-making process. LIAM is a member of the Asean Insurance Council (AIC) since its inception in 1978 and to date, the AIC has gained significant recognition by ASEAN regulators as a professional body representing the interests of insurance players in this region.

At the domestic level, LIAM will continue to play an integral role to engage the regulators and various stakeholders such as the agency bodies and consumer groups. We believe it is important to strike a balance in any effort to promote the development of the life insurance business. Different stakeholders would naturally have their own interests and these should be aligned and strategised to create a win-win formula. 