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Industry Experts Are Optimistic That The Insurance Industry Will Perform Well In 2010, With Annuity, Takaful Products And Micro Insurance In The Cards

By Shirene Shan and Kamal Bayramov

While there were some repercussions from the global financial crisis, the insurance industry is back on track and expected to roll out new products soon. This includes annuity products by insurance companies for policyholders to take advantage of the recently announced RM1,000 tax relief. The industry is also working on micro-insurance as announced in the 2010 Budget.

Meanwhile, the life insurance industry is projected to grow at 15% to 20% in 2010 according to the Life Insurance Association of Malaysia (LIAM). LIAM's President Md Adnan Md Zain notes that as of the third quarter 2009, the industry grew at 15.6% on a weighted premium basis. For regular premium business, it grew at 18% compared to the same period in 2008.

"As the economy recovers from the global financial crisis, the industry will benefit from improved consumer confidence. In particular, investment-linked business will benefit with the recovery of the share market. The introduction of micro-insurance and RM1,000 tax relief on annuity premiums announced by the Government in the 2010 Budget will help boost the industry's growth," says Md Adnan.

He adds that LIAM welcomes positive regulatory changes and principle-based rather than rule-based regulations and guidelines. There has been significant progress in this area in recent years in line with the Financial Sector Masterplan.

Going forward, the market is expected to be further liberalised and the industry is well poised to meet the challenges and capitalise on the opportunities.

On taxation, the industry will continue to lobby for the life fund to be exempted from the 8% income tax. The exemption of income tax will put life insurance funds at equal footing with other long-term investment vehicles in the market.


Peter Miller

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Says Peter Miller, Head Group Insurance at CIMB Group: "The insurance industry has performed well in 2009, particularly the companies with strong capital backing and shareholders, helped in part by a flight to quality.

"As mentioned, in many respects, the industry went back to basics with a greater focus on regular premium and protection as well as prudent financial management compared to single premium and structured product wraps."

Furthermore, banks now have a greater preference to sell homegrown products that they have 100% control over as opposed to wrapping third party products. This is in line with CIMB Group's practice pre-crisis; and key reason why the Group's balance sheet remains solid and resilient.

Miller describes the year 2008 into two phases, pre-crisis and post-crisis.

During the pre-crisis, there were still many 'exotic' products being sold in the market whereas post crisis, it was back to basics. The crisis helped the insurance industry vis-à-vis other wealth management product providers, as our customers became more aware of the need to protect and were receptive to discussing and receiving advice related to their future financial needs such as their retirement planning, their children's education as well as life and health protection for themselves and their families.

They also preferred traditional savings and protection products as opposed to previously fashionable products they did not fully understand.

2009 was a positive year for CIMB Group's insurance business from a manufacturing perspective and a distribution perspective. He points out that in July CIMB Group formed a new joint venture life insurance company in Indonesia CIMB Sun Life. This transaction was negotiated during the financial crisis demonstrating the confidence and commitment of both parties for the Indonesian market place. From a 'handshake' gesture with no infrastructure, the company managed to launch in just four months.


Md Adnan Md Zain

CIMB Aviva Assurance and CIMB Aviva Takaful through close co-operation with CIMB Bank has shown a strong performance in its major business lines of in-branch sales, direct marketing and credit related business. On the distribution side, it has worked closely with Allianz for non-life insurance and this has proven to be a good partnership benefiting customers with first class protection.

Insurance companies are now more prudent with their investments both due the implementation of risk-based capital in Malaysia as well as greater emphasis on asset liability matching.

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On how the products and services that CIMB launched this year were received by the consumers, he adds that it was received very well.

In Malaysia, CIMB launched a comprehensive range of evergreen products known as Easylife. The Easylife range satisfies the savings, protection and investments needs of men, ladies and their dependants and includes Easylife Men's Plan, Easylife Women's Plan, Easylife Kids' Plan, Easylife Retirement Plan, Easylife Health and Easylife Protection - Money back Plan.

"In Indonesia, despite only having launched CIMB Sun Life in July 2009, by the end of the year, we will have a comprehensive suite of credit protection, accident, health and investment linked products

"In Thailand, we have recently launched a traditional endowment policy which is selling very well through our CIMB Thai branches and in Singapore, we have introduced a suite of insurance products to ensure our insurance business can grow in parallel with our retail banking business," says Miller.

Miller, who has worked in many countries, believes Malaysia's insurance regulators stack up very favorably compared with their peers. Bank Negara Malaysia (BNM) has long been progressive as well as responsive in looking at both the customers and distributors' needs.

This was exemplified by the formal introduction of bancassurance into the market place in 1995. Additionally, BNM has consistently shown leadership especially given that agencies and companies tend to protect and maintain the status quo of their agents irrespective of whether this is in the customers' best interest.
However, he adds that there are some areas where he would like to see

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further development including personal retirement planning. Monies in the EPF should be able to be invested in insurance products such as deferred annuity plans and long term health or critical illness plans, at least to the same extent as unit trust investments with EPF monies.

The charging structure of such products should be controlled to ensure such insurance investments represent good value for consumers.

Says Miller: "We welcome the tax relief on annuity premiums introduced in the recent budget and see this as a good start. To encourage the development of a private pension industry to complement the EPF, we would like to see much greater tax relief on contributions into approved retirement plans so that individuals could, for example, contribute up to RM 5,000 per month.

"Insurance is the one wealth management vehicle that supports all aspects of retirement planning - accumulation, protection, life time income and survivor benefits."

Other significant events in 2009 was BNM's announcement that from July 1, 2009, consumers can enjoy premium rebates for purchasing general insurance covers directly from insurers which include walk-in, through the internet, direct mailing and telemarketing channel.

For motor insurance, 5% rebate will be given for first year and 10% for subsequent renewals. Meanwhile the amount of rebates for other types of insurance is at the insurers' discretion.

According to reports, the implementation came in despite numerous urges from various parties to put it on hold or defer the above-mentioned rebates as this will affect agents' source of income.

It is understood that in general, commission for an agent is 10% for every new and renewal of a motor policy. Hence, insurers are likely to only benefit from the 5% difference between rebate and commission on new policies, but for renewals, it remains the same except that the recipient of 10% from premium is the customers, not agents.

Despite the rebate, it is unlikely that all consumers are willing to opt for direct purchase given that one needs to be insurance savvy in order to understand the terms and conditions in an insurance policy.

Many analysts reckon that consumers will still prefer agency service which

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provides additional value including before and after sales service.

RHB Research believes that the plea by general insurers for risk-based motor insurance to replace the 31-years of unrevised tariff may soon be answered as BNM has been studying the possibility, in order to ensure more conducive environment for general insurers on the back of the increasingly liberalised insurance sector.

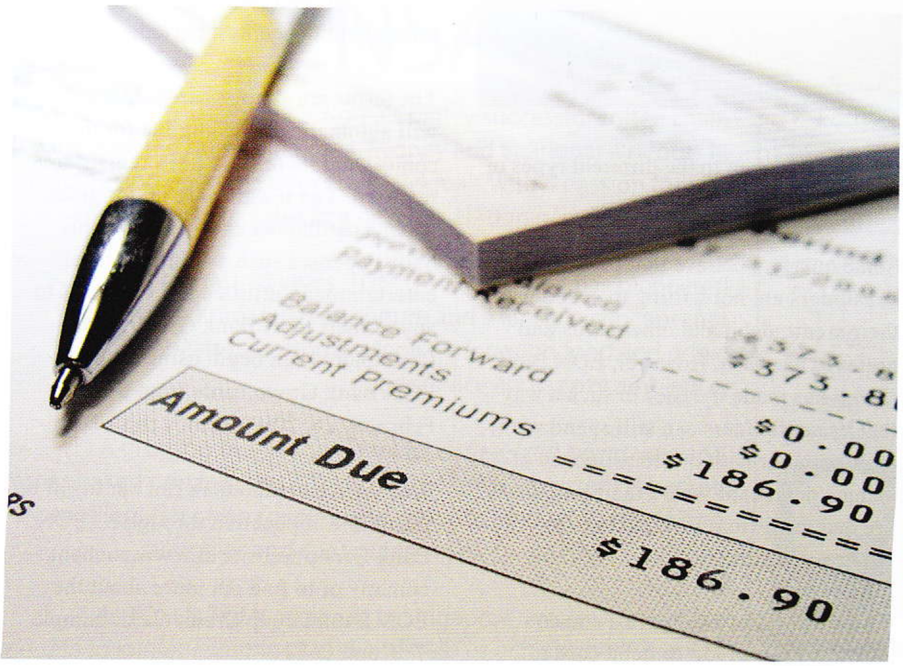
The research house anticipates that the current rebate provided may be an incentive for consumers before motor insurance uses risk-based system, which may lead to a potential increase in motor premium. Insurers, on the other hand, may be able to price premium more adequately to reflect the risk it undertakes, thus leading to potential upside to their earnings.

Among the risks cited by RHB Research are lower-than-expected premium growth, a sharp increase in claims ratios and more intense competition from insurance sector liberalisation.

"We opine that the take-up rate for direct purchase of insurance would be low at this juncture. Moreover, in most cases, the rebate will replace agents' commissions. Thus, we do not see significant impact on insurers' earnings. Hence, no changes to our insurers' earnings forecasts at this juncture," says RHB Research.

Meanwhile, Miller believes progress has been made with respect to disclosure and such efforts should continue to ensure appropriate disclosure and advice are applied consistently across distribution channels both bank and/or agency based.

The Business Introducer Agreements are authorised in Malaysia but frequently abused as there is generally insufficient transparency on the middleman's role. "If Introducer Agreements were to remain, we would recommend compulsory disclosure to the Insured's Board of Directors to assist transparency," says Miller.



Another key issue is on the segregation of responsibilities of insurance brokers on direct and reinsurance placements for the same original risk. This is currently misused by some brokers with accounts needlessly churned out without disclosure and hidden reinsurance commissions.

Ultimately, those who are insured need to have full understanding of where their premiums are going, including how much is going to the end underwriter and what other payments have been made along the way. Miller also suggests that brokers need to fulfil their purpose by ensuring optimal security at a competitive price.

CIMB will launch several new products in the fourth quarter 2009 and early 2010. In particular, through CIMB Aviva it will launch the Easylife Takaful range which is essentially to provide customers, who prefer Takaful solutions, with the same broad range of products as the successful Easylife range offered by our conventional business.

It may be the first institution to offer a full suite of family takaful products covering savings, investment and life and health protection. Through CIMB Sun Life Indonesia it will continue to expand product and distribution including further telemarketing, credit, in-branch, worksite and bundled offerings. **SI**