

Adnan Zaylani Mohamad Zahid: Launch of Life Insurance Association of Malaysia's Starter Pack Insurance Fund

Keynote address by Mr Adnan Zaylani Mohamad Zahid, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Launch of Life Insurance Association of Malaysia's (LIAM) Starter Pack Insurance Fund, Kuala Lumpur, 28 August 2024.

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Assalamu'alaikum warahmatullahi wabarakatuh and a very good morning.

First of all, let me congratulate the Life Insurance Association of Malaysia (LIAM) on the occasion of its 50th anniversary and thank you for inviting me to be a part of this event. It is a pleasure to be here today for the launch of LIAM's Starter Pack Insurance Fund, as part of the golden anniversary celebrations.

LIAM's achievements and contributions

Throughout 50 years of establishment, LIAM has played an integral role in the development and growth of the life insurance industry in Malaysia. As a trade association, LIAM has bridged the collective interest of its members and also played an important role in addressing the protection needs of Malaysians. LIAM's role has been central in driving the awareness and financial education initiatives on life insurance to promote greater financial resilience for individuals and households, through many initiatives, such as the establishment of the myCoverage website, LIAM's #BukanExtra and #NoFOMO awareness campaigns, and collaborative efforts with AKPK on the Jelajah Bijak Wang. During the pandemic, let's not forget LIAM together with other industry associations, supported the needs of policyholders – establishing the MyCovid-19 Testing Fund during the early days of the health crisis. Such efforts by LIAM and other stakeholders in the industry have certainly contributed to the awareness and take-up of insurance protection products.

Life insurance industry's achievements and challenges

I am pleased to note that the life insurance industry continues to show commendable growth performance. In 2023, the industry recorded a double-digit growth of 11.6% in its new business premium amounting to RM13.4 billion as compared to RM12 billion in 2022. This is driven largely by the strong performance in the take-up of group and investment-linked products. This also shows acceptance of life insurance products not just as protection but also for medical coverage and investment purposes. Malaysia's life insurance penetration rate¹ measured against the gross domestic product (GDP) is also relatively high at 3.7%, compared to 2.1% for emerging Asian countries and 2.8% for the global average². Amidst current global uncertainties, Malaysia's economy remains resilient, with GDP projected to expand at the upper end of the 4%-5% range in 2024. The ringgit's significant appreciation against the US dollar, making it one of the region's best-performing currencies, further underscores our economic strength. As we anticipate this positive trajectory to continue, it is crucial to build on this momentum by advancing structural reforms that will enhance our resilience, competitiveness, and long-

term growth prospects. This development puts the industry in a position to maintain its growth momentum given the good growth prospects of the economy, relatively stable inflation environment and continuous efforts to raise the income levels of Malaysians.

Nevertheless, significant protection gaps still exist in Malaysia, particularly among the vulnerable segments. While Malaysia has a relatively high insurance penetration rate measured against the GDP but it had hovered between 40%-50% when measured against total population. This means approximately only 2 out of 5 Malaysians have life protection. In addition, many Malaysians are still deemed to have inadequate level of protection against life shocks, serious illnesses and death³. The impacts from the unanticipated disruptions arising from the pandemic and climate-related disasters have also greatly amplified the need for financial protection, especially for the lower income earners who are more susceptible to external shocks. These developments, coupled with the increased life expectancy of Malaysians now at 74.8 years in 2023 and the trajectory that Malaysia will be an aged nation by 2044, further underscores the untapped potential within the Malaysian insurance industry to close the protection gaps.

We recognise that encouraging insurance uptake is not easy. Various factors come into play from both the demand and supply side which are often interlinked. On the demand side, these challenges include consumers' low awareness and understanding of insurance products, the perception of insurance as a costly and unnecessary expense, lack of access for those in geographically remote or underpopulated areas, mistrust in insurance intermediaries and claims processes, as well as innate cognitive mindset of optimism bias. From supply side, as insurance companies rely on the law of large numbers, developing suitable and sustainable products for the target segments can be a challenge, given the low take-up rate. Structural factors such as income levels as well as market risks also weigh onto the industry's ability to effectively offer suitable protection solutions to the different segments.

To address these intertwining challenges, a multi-faceted approach is critical. Focus should be accorded towards enhancing financial education, simplifying product offerings, and cultivating continuous trust-building actions. Insurers and takaful operators (ITOs) should also adopt better cost-management practices and leverage on technology for more innovative solutioning. The concerted efforts by every stakeholder in the system is key to enhance consumers' accessibility and understanding of insurance, as well as promote industry's long-term sustainability.

Industry holds an essential role in improving the insurance take-up

Within this context, we call upon the insurance industry to take greater ownership in overcoming these challenges. As a start, we see opportunity in the provision of affordable, entry-level products to build long-term product understanding and loyalty. We also encourage ITOs to build upon the foundational efforts that have been put in place. For instance, the Perlindungan Tenang Voucher (PTV) programme which ended in 2022, has managed to increase awareness of Perlindungan Tenang products with more than 780,000 Perlindungan Tenang products purchased voluntarily as at end-2023. This is actually an eight-fold increase compared to the collective take-up between 2017 and 2020.

While we have seen innovations in Perlindungan Tenang's product offerings and distribution channels as well as efforts to explore public-private partnerships in recent years, there are still areas to improve. We would encourage ITOs to explore innovations in new areas such as preventative health solutions, and income-replacement products, amongst others. Additionally, ITOs can also venture into emerging target segments for instance gig workers, which comprise 17% of the current workforce, as there are opportunities to offer affordable protection to this group.

In doing so, ITOs can leverage on the flexibilities granted under the Perlindungan Tenang microinsurance and microtakaful framework which allows ITOs to better serve the target segments. Innovations such as the ability to combine or bundle Perlindungan Tenang products with other financial products, partnering with non-traditional agents such as e-wallet providers to distribute products and provision of value-added services are among the regulatory flexibilities under the framework. Insights from the 2022 joint BNM-industry demand-side study should also be fully utilised to better identify protection needs and understand the behaviours of the target segments to improve product development and distribution strategy. The demand-side study provides insights on the top worries across emerging segments in Malaysia, namely accidents, health concerns and income loss as well as their preferred distribution channel. For instance, young millennial families prefer digital channels while gig workers are more open to non-bank channels. Such insights would be useful to better design microinsurance and microtakaful products that meet the needs and fit the realities of the target segments, particularly the low-income market in Malaysia.

In economic policy, there is an aphorism that a rising tide lifts all boats. Similar applies to increasing financial literacy. As the financial education journey takes time and can be resource intensive, ITOs should explore more cost-effective ways through strategic partnerships and collaborative efforts. We appreciate the industry's participation in the multi-stakeholder Financial Education Network (FEN) and Bank Negara Malaysia's (BNM) annual Karnival Celik Kewangan, and we look forward to the continuous support from the industry to enhance financial literacy of Malaysians. The industry should also capitalise on the appeal of social media to reach a broader set of consumers. In this day and age when information is just a click away, developing a credible, interesting and engaging one-stop education portal for consumers to obtain information on protection products is a necessity. We look to the three industry associations to enhance the appeal and functionality of the existing myCoverage portal to help consumers navigate and identify the most suitable protection products for their needs.

Promoting innovation and safeguarding consumer interests

On BNM's part, we remain committed to provide a conducive environment for innovation, in support of new business model and solutions towards achieving an inclusive financial sector. In 2023, BNM conducted a holistic review of the regulatory approach to explore areas in which we can provide further guidance and clarity to facilitate responsible innovation. Over 60 policies that may have created potential frictions were identified and reviews of a majority of these regulations are underway, with some already implemented.

To better balance the benefits and risks, our approach is guided by three overarching principles. First, parity – implementing the same type of regulations to the same type of risk, regardless of incumbents or new players, second, proportionality – implementing regulations that are proportionate to the benefits and risk, and third, neutrality – prioritising desirable outcomes whilst remaining agnostic to different technologies, systems and approaches. Earlier this year, BNM enhanced the Financial Technology Regulatory Sandbox Framework guided by these principles, which introduced, among others, a simplified eligibility assessment for Sandbox applications, as well as a Green Lane track to enable financial institutions with solid risk management capabilities to test out innovative financial solutions in a simpler and quicker way. These developments are intended to accelerate the time-to-live testing drawing from the feedback received from the market, while creating a conducive environment where responsible innovation is nurtured, new business models are given opportunities to flourish, and associated risks are managed effectively.

Additionally, the issuance of the Licensing and Regulatory Framework for Digital Insurers and Takaful Operators (DITOs) is expected to further support these efforts by paving the way for new DITOs to enter the market, that are expected to offer strong and meaningful value propositions that align with the outcomes of enhancing inclusion, competition and efficiency. In particular, we envision that the DITOs will challenge the status quo in the market by bringing about greater efficiency while significantly also help address protection gaps.

Amidst these developments, preserving trust remains the bedrock of the insurance industry. In this respect, BNM has also raised standards on the Professionalism of Insurance Agents and introduced further enhancements to the Product Transparency and Disclosure requirements to make it easier for consumers to access key product information for decision making. It is imperative for insurers to uphold sound business conduct, ensure professionalism of its intermediaries and most importantly, prioritise consumers' interest. Unhealthy sales practices and imposition of unnecessary costs can easily erode consumer confidence. As such, fostering a strong ethical culture should be the cornerstone of every insurers' operation.

LIAM to continue to reinvent itself to remain relevant and effective

As we look ahead, life insurance companies and by association, family takaful operators, carry immense responsibility in promoting long-term financial resilience of households in Malaysia. The launch of the Starter Pack Insurance Fund by LIAM is very commendable and a step in the right direction. The financial assistance extended to consumers is not only a befitting way to commemorate its five decades as a responsible corporate citizen, but also in line with the agenda of mainstreaming value-based intermediation. For the consumers, I hope that the financial assistance will not be seen as another handout, but instead, as a leg-up for them to start on their journey to improve their financial resilience.

As a final message, I would like to encourage the continued advancement of local insurance solutions that are specifically tailored to the needs of Malaysian consumers. It is crucial for insurance companies to underwrite policies that not only support local demands but also address risks unique to our domestic environment, which can

minimise the need to source insurance products abroad. This will help provide support to the ringgit by reducing demand for foreign currency. Moreover, the industry should prioritize investing in local assets within their portfolios to also support domestic investments. Together, through these focused efforts, we can further strengthen the resilience of ringgit and foster resilient economic growth.

As expectations of LIAM will continue to grow with the evolution of the industry, I am confident that LIAM will continually adapt and innovate to stay relevant. At the same time, I urge the industry to continue its pursuit of narrowing the country's protection gaps. On behalf of BNM, I would also like to thank LIAM for the leadership roles it has played, and for its support, as we strive to build a more inclusive, competitive and efficient insurance sector.

Conclusion

As we are days away from the nation's 67th Independence Day, I would like to end with a reminder from the words of our nation's Bapa Kemerdekaan, Yang Teramat Mulia Tunku Abdul Rahman Putra Al-Haj:

"If we pull together and work together with the maximum of goodwill and harmony, there is no limit to what our people can achieve in the years to come."

It is with this spirit and with the words Bismillahirrahmanirrahim, I hereby launch the LIAM's Starter Pack Insurance Fund.

Thank you.

¹ Insurance premiums divided by the country's Gross Domestic Product

² Source: Malaysian Reinsurance Berhad's Malaysian Insurance Highlights 2024

³ According to data from Ernst & Young, as the resources required to continue at the current (pre-disaster) lifestyle exceed those available in case of disaster. Source: Malaysian Reinsurance Berhad's Malaysian Insurance Highlights 2024