

Governor's Statement



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

The Malaysian insurance industry continued to record positive growth in the face of a challenging economic environment. The industry registered a premium income growth of 12.4%, largely driven by the life sector, particularly the annuity and investment-linked businesses. The combined insurance funds assets continued to expand, representing 4.2% of the total assets of the financial system.

A significant event in 2001 was the launch of the Financial Sector Masterplan (FSMP) which charts a 10-year road map for the development of a competitive and dynamic financial sector that will be resilient to the challenges of the new and more globalised environment. The first year of its implementation saw important and significant progress made in shaping the development of the insurance sector as an integral part of the financial system. An important measure implemented was the higher minimum paid-up capital requirement which was instrumental in accelerating the consolidation process that would enable insurers to attain the size and scale needed to remain competitive and efficient. The consolidation exercise has seen the completion of eight mergers and acquisitions (M&A) involving 16 insurers since 1999 and another seven M&A proposals involving 13 insurers at various stages of implementation. In the face of mounting competitive pressures, the strengthening of the industry to create financially stronger and economically viable insurers will continue to feature prominently on the regulatory agenda as a key strategy to secure a smooth transition to a liberalised market environment.

In a more deregulated market envisaged under the FSMP, it is imperative for insurers to have a good image and preserve public confidence by subscribing to high ethical standards and moral values. Increasing attention needs to be given to strategies which promote consumer awareness and education as it provides an important safeguard against unfair practices that undermine the integrity of the industry. In this respect, the industry undertook some commendable initiatives to disseminate information on insurance-related issues to the public. The FSMP also outlines measures to achieve greater consumer protection. One such measure which is targeted for implementation in 2002 is the adoption of 'best advice' practices, which includes the exercise of due diligence by intermediaries in obtaining sufficient information about a client before rendering advice on the suitability of a particular insurance product to the client. The introduction of 'best advice' practices aims to enhance the professionalism and accountability of intermediaries in the marketing of insurance products, especially life products. Another measure planned for implementation in 2002 is the introduction of independent financial advisers (IFAs) to enable Malaysian consumers to obtain professional independent advice on financial options, including insurance, that would most effectively meet their financial needs. Ultimately, good ethics by insurers and the intermediaries in meeting the needs of well-informed consumers will lead to a more progressive insurance industry.

In the life sector, the development of new innovative products to meet the specific needs of consumers is expected to be the main driver of new business growth for the industry

in the future. This trend is already evident in the growing market share of insurance products for education, health and investment and the development of niche products to fulfill the needs of specific customer segment, including benefit payments for diseases related to women and living benefits for the elderly or retirees. Consumers' preferences are also progressively shifting from the traditional products for protection against contingent risk towards savings and investment products. To maintain their competitive positions in the face of new challenges and the changing financial and economic environment, insurers need to intensify research and development to provide consumers with a broad range of innovative products at competitive prices. Establishment of minimum underwriting standards and controls are also crucial to ensure that businesses, especially new ones are underwritten based on sound and prudent insurance principles. In this respect, the industry formulated underwriting guidelines for medical and health insurance business, which is experiencing progressively increasing demand. With the increasing importance of the savings element of life insurance, insurers must exercise prudent pricing policies as well as proper investment strategy to match the long-term financial commitment to meet policy owners' expectations in the face of unfavourable economic conditions.

The events of September 11 in the United States resulted in the largest insured losses in the history of the insurance industry and impacted insurers worldwide. However, Malaysian insurers were not directly affected as they had minimal exposure to risks outside Malaysia. Nevertheless, the domestic market felt the immediate spillover effects of the reduction or limited scope of cover and in certain cases, complete withdrawal of cover for certain critical risks and higher cost of reinsurance cover following the hardening of the international reinsurance market. Pending the restoration of adequate insurance protection from the international insurance market, concerted efforts were undertaken to shore up domestic insurance capacity, particularly for the airline and shipping industries which were most affected by the withdrawal and reduction of reinsurance covers in the international market. The implementation of the higher capital requirement also increased the capacity of domestic insurers to retain a bigger share of the risks they underwrite. Bank Negara Malaysia (BNM) will continue to take the necessary measures together with the industry to mitigate and manage any repercussions on the industry arising from the unprecedented developments.

As the country makes the transition toward a knowledge-based economy, the insurance industry should also take steps to "stay ahead of the curve" to develop a strategy for human resource enhancement and intensive research and technology development, important prerequisites for enhancing market competitiveness at the international level, in terms of both price and quality. In this regard, encouraging developments were seen in the use of information and communication technology in the insurance industry to facilitate speedy processes, promote more scientific underwriting and competitive pricing, centralisation of information for motor repair estimation and on-line submission of motor cover notes to the Road Transport Department. To facilitate the submission of financial and statistical returns by insurers to BNM, the Insurance On-line Submission System

(IOSS) website was launched in the third quarter of 2001. With the implementation of the IOSS website, which employs smart card technology for verification and authentication purposes, the submission of returns to BNM is no longer restricted to office hours.

On the international front, BNM organised the Second OECD/IAIS Conference on Insurance Regulation and Supervision in Asia which was attended by insurance regulators and industry experts from 41 countries and six international organisations. The Conference provided a platform for the exchange of dialogue on key issues and developments confronting the industry. Further progress was also made in the area of insurance cooperation at the regional level with the signing of Protocol 5 by the ASEAN Finance Ministers to pave the way for the implementation of a scheme of compulsory motor vehicle insurance which would facilitate the free flow of goods-in-transit within ASEAN.

Moving forward, the various recommendations outlined in the FSMP for the insurance sector for the next two to three years will be implemented to further advance the capacity building initiatives that are needed to pave the way for the development of a stronger, more dynamic and competitive insurance industry. It is crucial that these initiatives are complemented with concrete action plans on the part of insurers to position themselves to face the challenges of a more competitive market. The separate focus sessions on the FSMP held by the industry associations to identify priority areas and broad strategies and action plans was a step forward in this direction. Collaborative efforts will also be undertaken to align the pace of liberalisation with the stage of development of the domestic industry to preserve stability in the market. In relation to this, specific performance measures and benchmarks are being developed for the purpose of assessing the progress achieved by the insurance industry. Ultimately, the change that is envisaged is expected to result in a more efficient, effective and stable insurance industry, with benefits in the form of more sophisticated products at competitive prices flowing to Malaysian consumers and thus contributing towards the overall economy.



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Governor

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