

## Reforms in the Life Insurance and Family Takaful Industry

In November 2013, the Bank published proposals to implement a package of reforms in the life insurance and family takaful industry aimed at raising the efficiency and effectiveness of delivery channels and promoting greater product innovation. The proposals, which were outlined in a concept paper on the Life Insurance and Family Takaful Framework (the Framework), are expected to improve consumer experience and drive higher productivity in the insurance sector, in turn contributing to a higher level of penetration of life insurance and family takaful products in Malaysia (refer to Table 1). The proposals support three key thrusts as follows:

**Table 1**

### Summary of Proposals Under the Life Insurance and Family Takaful Framework

Accord greater operational flexibility	Improve effectiveness of delivery channels	Empower consumers and elevate intermediaries' professionalism
<ul style="list-style-type: none"> <li>• Remove operating cost limits applicable to investment-linked products in the form of commission and agency related expenses               <ul style="list-style-type: none"> <li>↳ To preserve policyholders' value, a certain percentage of the premium/contribution payable must be allocated to the policyholder's/participant's unit fund before any deduction of charges</li> </ul> </li> <li>• Remove commission limits for pure protection products (pure term, medical and health and critical illness) subject to insurers and takaful operators offering those products via direct distribution channels</li> </ul>	<ul style="list-style-type: none"> <li>• Align commission limits for bancassurance and corporate agents</li> <li>• Incentivise growth of financial advisers (FA) by:               <ol style="list-style-type: none"> <li>i. Lowering the paid-up capital requirement from RM100,000 to RM50,000</li> <li>ii. Expanding the list of recognised qualifications</li> <li>iii. Ensuring broad access for FAs to a wide range of products that can be recommended to suit consumer needs and preferences</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• Implement balanced scorecard for the remuneration of intermediaries</li> <li>• Enhance disclosure standards to aid decision-making by consumers</li> <li>• Introduce product aggregator to facilitate product comparison</li> <li>• Introduce online insurance/takaful account to provide information on policy status</li> <li>• Remove limits on agency financing scheme</li> </ul>

#### (i) Accord greater operational flexibility

The removal of prescribed operating limits on agency remuneration and management expenses aims to encourage investments by life insurers and family takaful operators in the development of new and innovative product offerings. This is expected to be achieved as insurers and family takaful operators gain more flexibility in managing their operating expenses. To facilitate an orderly transition towards a more liberalised environment, these flexibilities will be implemented in stages with appropriate safeguards for consumer protection. Operating limits will initially be removed for investment-linked and pure protection products. To ensure that policy premiums/contributions are preserved to create value for policyholders and are not eroded by excessive agency and management expenses, a minimum proportion of premiums/contributions (before charges) will be required to be allocated to policyholders' funds that are set aside for investments. These flexibilities will be progressively extended to a wider range of products, subject to effective competition and an adequate focus demonstrated by insurers and family takaful operators on promoting the interests of policyholders.

#### (ii) Improve effectiveness of delivery channels

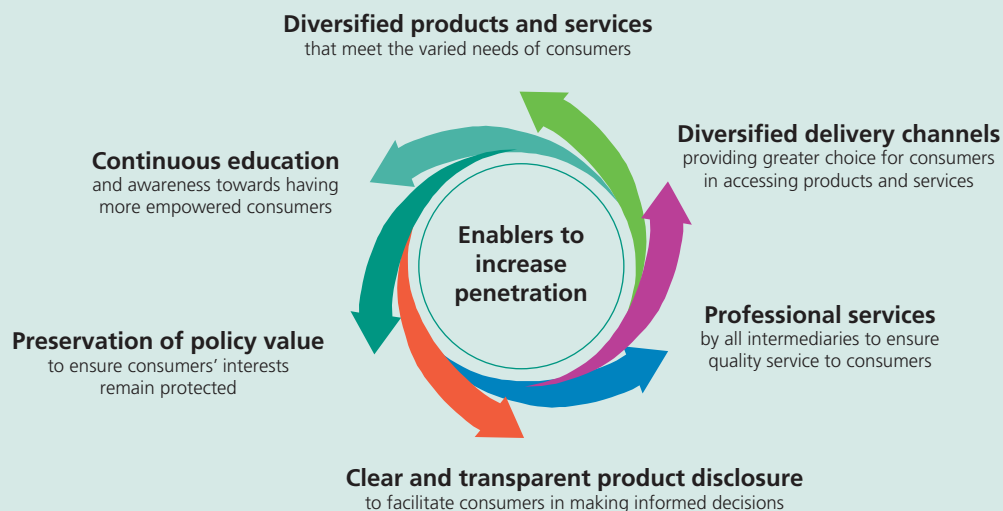
The use of bancassurance will be further promoted through a review of the commission structure, and the financial advisory channel will be further developed to complement the agency force in serving consumers in the more complex life insurance and family takaful product segments. These measures would promote a diversity of delivery channels for consumers to access products through the channel that is most convenient, cost-efficient and appropriate for their needs, thus ensuring that different segments of the society are well served.

**(iii) Empower consumers and elevate intermediaries' professionalism**

To elevate the quality of advice and service provided by intermediaries to policyholders, insurers and takaful operators will be accorded more flexibility to reward intermediaries through a differentiated remuneration system based on productivity, professionalism, quality of service and qualifications attained. This is expected to lift the professional standards of intermediaries by providing strong incentives to upgrade their skills and enhance the value added to consumers. The up-skilling of intermediaries will also enhance opportunities for business expansion. In addition to improving the quality of advice, support for consumers to make informed decisions will be strengthened through higher standards of disclosure, the establishment of an online product aggregator and introduction of online accounts to provide relevant and timely information to consumers in a form that promotes comparability between products and service providers. These measures will be supported by continuous financial education and awareness initiatives to strengthen consumers' financial capability.

**Future landscape**

The Framework is envisioned to raise operational standards across the industry, meeting the needs across all consumer segments through innovative products and services, diversity of delivery channels and proper product disclosure that is supported by quality advice. This will be underpinned by ongoing initiatives in empowering consumers to be able to discern their own life insurance and family takaful needs (refer to Diagram 1).

**Diagram 1****Desired Attributes of the Life Insurance and Family Takaful Industry Under the Future Landscape****Consultation on the Framework**

During the two-month consultation period which ended on 9 January 2014, the Bank had received 254 submissions in response to the request for feedback. The Bank is reviewing all comments and will further engage key stakeholders prior to finalising the Framework.