INSURANCE DEVELOPMENTS IN MALAYSIA

Mark Lim*
The General Insurance Association of Malaysia

Abstract

The biennial East Asian Insurance Congress, held in November 2014 in Taiwan, was an opportunity to take stock of the insurance industry set within its economic context. Held towards before the end of the year, it is only possible to present the full year's statistics of 2013. However, apart from statistics, much is happening in the Malaysian market. Many issues and changes are explored, such as the Personal Data Protection Act, the Competition Act, Financial Services Act, and Goods & Services Tax. The Takaful form of insurance is important in Malaysia, and a Family Takaful Framework development concept is described for life insurance.

New developments include a new Motor Cover Framework and Accident Assist Call Centre, a Motor Insurance Pool, Vehicle Theft reduction action, a Task Force on Liberalization, and an Insurance Flood Model. People-oriented action includes Talent Development Initiatives for younger insurance managers, a Human Resources dialogue between insurers, Underinsurance and Engagement with Consumers, and Corporate Social Responsibility. The swift compassionate response of life insurers to the families bereaved by two tragic aircraft losses is described. There is also preparation for the ASEAN Economic Community which begins in 2015. All this reveals the dynamic and caring nature of insurance in Malaysia.

บทคัดย่อ

ในการประชุมประกันภัยในเอเชียตะวันออกที่จัดขึ้นทุก ๆ 2 ปี โดยปีนี้ได้จัดขึ้นในเดือนพฤศจิกายน ค.ศ. 2014 ประเทศไต้หวัน ซึ่งเป็นโอกาสในการรับรู้ความเคลื่อนไหวทางด้านประกันภัย ภายในบริบทของเศรษฐกิจที่เป็นปัจจุบัน ซึ่งการประชุมจะจัดขึ้นในช่วงปลายปีเพื่อรายงานสถิติที่เป็นไปได้ทั้งหมดของปี ค.ศ. 2013 อย่างไรก็ตาม ประเด็นต่าง ๆ รวมถึงการเปลี่ยนแปลง ยังได้ถูกหยิบยกขึ้นสำรวจ นอกเหนือไปจากรายงานสถิติตัวเลขที่เกิดในตลาดมาเลเซีย อาทิ กฎหมายที่ว่าด้วยการป้องกัน ข้อมูลส่วนตัว กฎหมายว่าด้วยการแข่งขัน กฎหมายการบริการด้านการเงิน และ ภาษีที่เกี่ยวกับสินค้าและบริการ การอธิบาย กรอบแนวคิดสำหรับการประประกันชีวิต ที่เกี่ยวกับรูปแบบการประกันภัยทักกาฟูล ที่มีความสำคัญต่อมาเลเซีย และ การพัฒนาแนวทางครอบครัวทักกาฟูล

แนวทางการพัฒนา ได้รวมถึงขอบข่ายงานของความคุ้มครองรถยนต์แบบใหม่ และ ศูนย์บริการช่วยเหลืออุบัติเหตุทางโทรศัพท์ แนวร่วมการประกันภัยรถยนต์ ปฏิบัติการลดการขโมยยานพาหนะ การเปิดเสรีหน่วยปฏิบัติการเฉพาะกิจ และรูปแบบการประกันภัยน้ำท่วม ระบบปฏิบัติการแบบเน้นคนเป็นหลัก ซึ่งรวมถึงการริเริ่มพัฒนาอัจฉริยภาพสำหรับผู้จัดการ

*Mark Lim Kiam Wei, is CEO of the Association, PIAM = General Insurance Association of Malaysia, LIAM = Life Insurance Association of Malaysia, MTA = Malaysia Takaful Association, Takaful is the Islamic alternative to insurance.

ประกันภัยรุ่นเยาว์ การสนทนาของฝ่ายบุคคลในแวดวงบริษัทประกันภัย การรับประกันภัย และพันธะสัญญาต่อลูกค้า และความรับผิดต่อสังคมขององค์กร การแสดงความรับผิดชอบและรู้สึกเศร้าใจต่อครอบครัว สำหรับการสูญเสียอย่างเฉียบพลันจากเหตุการณ์เครื่องบิน 2 ลำ ที่สูญหายไป นอกจากนี้ ที่ประชุมยังได้มีการพูดถึงการเตรียมความพร้อมต่อการเปิดเศรษฐกิจอาเซียนที่จะเริ่มขึ้นในปี ค.ศ. 2015 ซึ่งทั้งหมดได้แสดงถึงความเคลื่อนไหว และการรับมือต่อลักษณะการประกันภัย ในประเทศมาเลเซีย

THE MALAYSIAN ECONOMY, 2013

Malaysia's economic conditions continued to improve and are expected to remain on a steady growth path in 2014. The same momentum is forecasted for 2015. While the economy benefited from the gradual global recovery, the private sector domestic demand remained the key driver of growth.

The Malaysian economy expanded by 4.7% in 2013 (2012: 5.6%), driven by the continued strong growth in domestic demand. Despite the weaker external environment in the first half of the year, domestic demand remained resilient throughout the year, led by robust private sector activity. Private consumption was supported mainly by favourable employment conditions and wage growth. Private investment was underpinned by capital spending in the mining, services, and manufacturing sectors.

The more moderate growth performance in 2013 was, to a large extent, attributable to development in the external sector. Slower demand from the advanced and regional economies in the first half of the year contributed to the overall decline in real exports during the year. This was compounded by the continued expansion in real imports throughout 2013 arising from the sustained growth in domestic investment and consumption which contributed to the contraction in net exports.

The domestic financial system remained resilient in 2013 with major reforms to strengthen its stability. The insurance industry in Malaysia has evolved over the years to become a significant contributor of economic growth, with total net premiums (and contributions from the takaful sector) collected by the industry in 2013 amounting to 4.9% of the gross domestic product (GDP) of Malaysia. Results of updated and multiyear stress tests by Bank Negara Malaysia (Central Bank) continue to indicate sufficient earnings and capital buffers of financial institutions, including insurance companies, to withstand severe scenarios of adverse portfolio flows and contraction in the domestic economy. Insurance companies maintained strong capital adequacy to achieve an aggregate capital adequacy ratio (CAR) of 245.9% (2012: 219.1%). The capital buffers of insurance companies were also above the minimum regulatory requirement, totaling US$7.4 billion.

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI) remained modest at 2.1% in 2013 (2012: 1.6%). The average inflation was as low as 1.7% in the first eight months of the year before increasing to 2.9% in the

remaining four months of 2013. The higher inflation in the latter part of the year was driven by domestic cost and supply factors, arising from upward adjustments to administered prices and weather-related domestic supply shortages.

Table 1: Key Economic Indicators

		Unit	2009	2010	2011	2012	2013
1.	Gross Domestic Product	USD billion	198.7	213.4	224.4	234.0	248.4
		%	-1.5	7.4	5.6	5.6	4.7
2.	Consumer Price Index	%	0.6	1.7	3.2	1.6	2.1
3.	Unemployment	%	3.7	3.3	3.1	3.0	3.0
4.	Population						
	Total	***000**	**28,082**	**28,589**	**28,964**	**29,337**	**29,715**
	Malaysian Citizens	*000	25,848	26,264	26,618	26,974	27,336
	Non-Malaysian Citizens	*000	2,233	2,325	2,346	2,363	2,379

Insurers in Malaysia

As of 31st December 2013, there was a total of 44 direct insurance companies and takaful operators. There were also 11 professional direct reinsurers and retakaful operators licensed under the Financial Services Act, 2013. The breakdown is as follows:

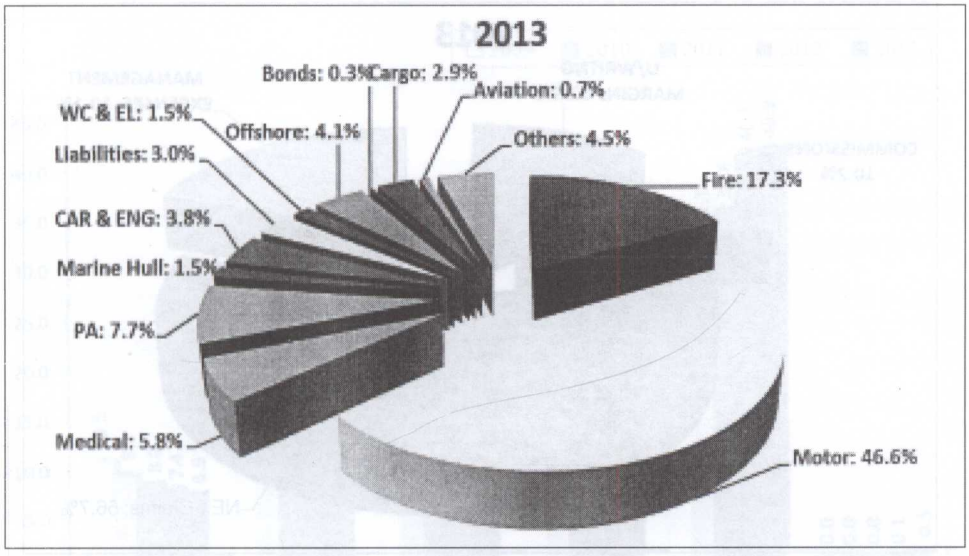
Table 2: Insurers and their Proportions

Type of Business	Number of Licences	
Direct Insurers		**44**
- Direct General Insurers	19	
- Direct Life Insurers	9	
- Direct General and Life Insurers	5	
- Direct General Takaful Operators	8	
- Direct Family Takaful Operators	3	
Professional Reinsurers		**11**
- General Reinsurance Business	5	
- Life Reinsurance Business	1	
- General amd Life Reinsurance Business	1	
- Retakaful Businessq	4	
Total		**55**

PERFORMANCE OF GENERAL (NON-LIFE) INSURANCE IN 2013

In 2013 the general insurance industry registered a growth of 6.4% Gross Written Premiums (GWP) to reach US$5.094 billion compared to an increase of 8.2% in 2012 of US$4.911 billion (2012: 8.3% at US$3.320 billion). In terms of market share, Motor insurance business remained the dominant class with share of 46.6% of total business (2012: 46.0%). This was followed by Fire insurance which improved to 17.3% (2012: 16.9%). The Motor and Fire classes achieved an increase in GWP of 7.8% to reach US$2.3763 billion (2012: 9.3%, US$2.201 billion) (Figure 1)

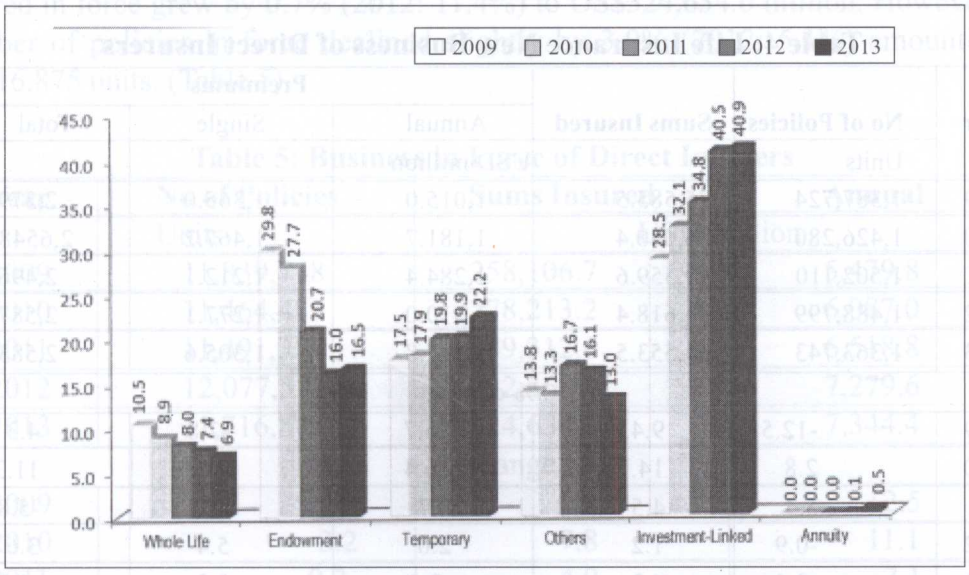
Figure 1: General Insurance Market Share



Net Claims Incurred Ratio (NCIR)

The overall Net Claims Incurred Ratio dropped slightly to 56.7% from 58.8% in 2012. The overall Motor NCIR increased to 72.7% (2012: 72.3%) whilst Medical and personal Accident dropped to 50.6% (2012: 56.6%) and 27.0% (2012: 28.9%) rspectively. The NCIR for 'Motor Act' (compulsory cover for third party injury and death liabilities) dropped to 50.6% (2012: 56.6%) and 27.0% (2012: 28.9%) respectively. (Table 3)

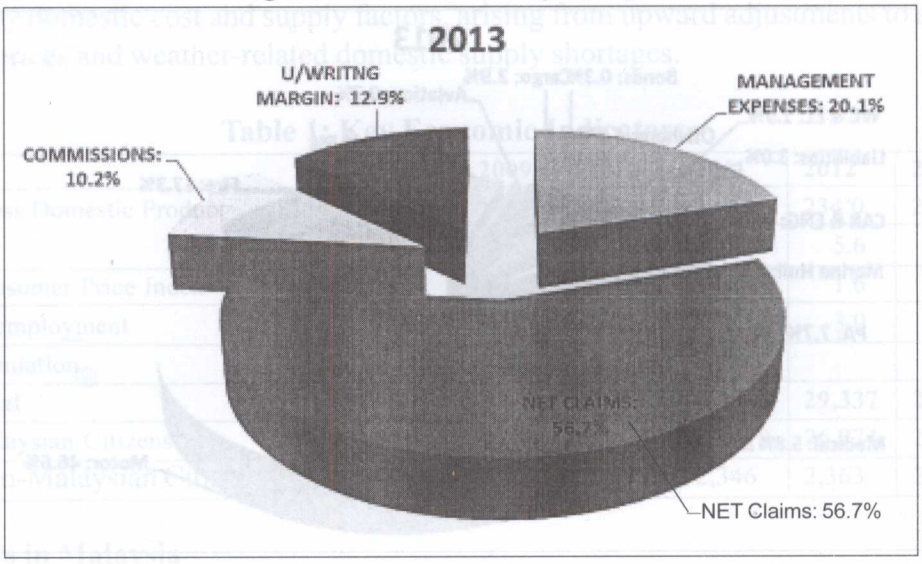
Table 3: Claims Ratio by Sectors



Underwriting Margin

The general insurance industry recorded an underwriting margin of 12.9% amounting to US$0.456 billion compared to 12.8% amounting to US$0.409 billion in 2012. The combined management expenses and commissions ratio of insurance companies remained stable with a slight decrease to 30.3% in 2013 from 30.4% in 2012. (Figure 2)

Figure 2: Underwriting Margins



PERFORMANCE OF LIFE INSURANCE IN 2013

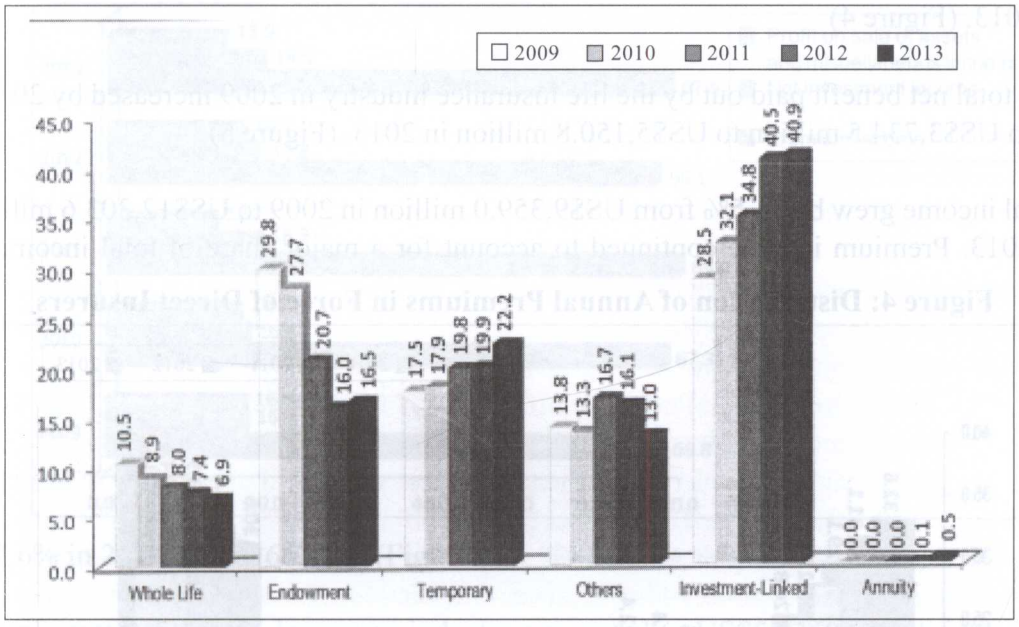
In terms of new business, new sums insured grew by 4.3% in 2013 (2012: 1.2%) to US$95,553.5 million, whereas new premiums recorded a decline of 0.1% (2912: 3.6%) to US$2,583.4 million in 2013.

Table 4: Life Insurance New Business of Direct Insurers

Year	No of Policies	Sums Insured	Premiums		
			Annual	Single	Total
	Units		USD million		
2009	1,387,724	75,585.5	1,015.0	1,365.0	2,379.9
2010	1,426,280	86,680.4	1,181.7	1,467.2	2,6548.9
2011	1,502,110	90,559.6	1,284.4	1,212.1	2,496.4
2012	1,488,799	91,618.4	1,310.0	1,277.1	2,587.1
2013	1,363,743	95,553.5	1,277.8	1,305.6	2,583.4
% change					
2009	-12.5	9.4	26.7	-7.8	4.3
2010	2.8	14.7	16.4	7.5	11.3
2011	5.3	4.5	8.7	-17.4	-5.8
2012	-0.9	1.2	2.0	5.4	3.6
2013	-8.4	4.3	-2.5	2.2	-0.1

As for types of polices, investment-linked policies recorded consistent growth from 28.5% in 2009 to 40.9% in 2013, accounting for the largest share of new business premiums in 2013. Temporary policies also showed steady growth, to account for 22.2% of new premiums in 2013. However, the share of whole life and endowment declined from 10.5%

Figure 3: Distribution of New Business Premiums of Direct Insurers



in 2009 to 6.9% in 2013, and 29.8% in 2009 to 16.5% in 2013, respectively. (Figure 3)

The statistics on total business in force recorded slower growth in 2013. The annual premiums in force increased by 0.9% (2012: 11.7%) to US$7,344.4 million while sums insured in force grew by 0.7% (2012: 11.4%) to US$324,634.6 million, However, the number of policies in force declined slightly by 3.0% (2012: 5.1%) amounting to 11,716,875 units. (Table 5)

Table 5: Business in Force of Direct Insurers

Year	No of Policies	Sums Insured	Annual
	Units	USD million	
2009	11,839,748	258,106.7	5,479.8
2010	11,464,489	278,213.2	6,087.0
2011	11,491,359	289,312.6	6,518.8
2012	12,077,513	322,368.1	7,279.6
2013	11,716,875	324,634.6	7,344.4
	% change		
2009	2.8	6.1	12.5
2010	-3.2	7.8	11.1
2011	0.2	4.0	7.1
2012	5.1	11.4	11.7
2013	-3.0	0.7	0.9

The share of investment-linked policies increased from 30.6% in 2009 to 36.7% in 2013, whereas the share of whole life policies has fallen from 32.6% in 2009 to 24.8% in 2013.

The share of endowment policies recorded a steady increase of 19.1% in 2009 to 22.4% in 2013. (Figure 4)

The total net benefit paid out by the life insurance industry in 2009 increased by 20.9% from US$3,734.5 million to US$5,150.8 million in 2013. (Figure 5)

Total income grew by 31.5% from US$9,359.0 million in 2009 to US$12,303.6 million in 2013. Premium income continued to account for a major share of total income at

Figure 4: Distribution of Annual Premiums in Force of Direct Insurers

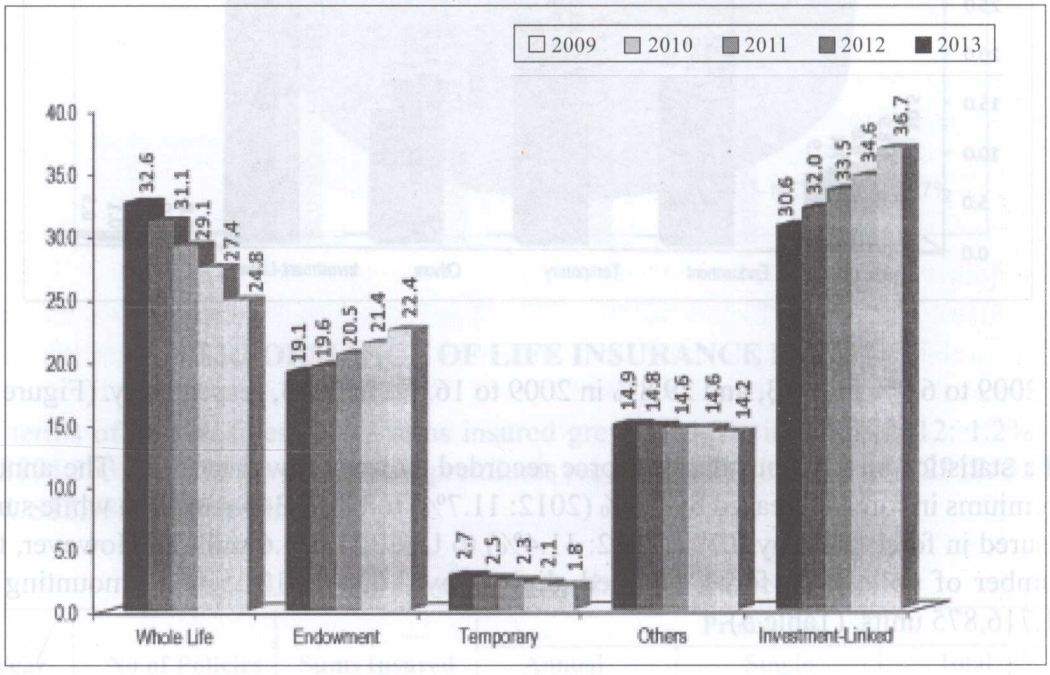


Figure 5: Life Insurance Benefit Payments

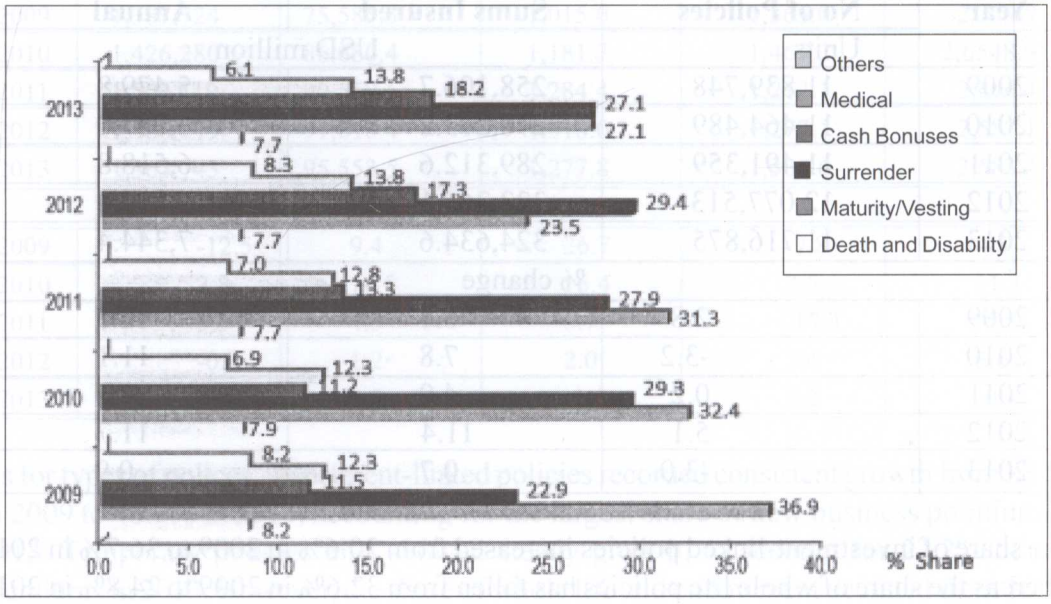
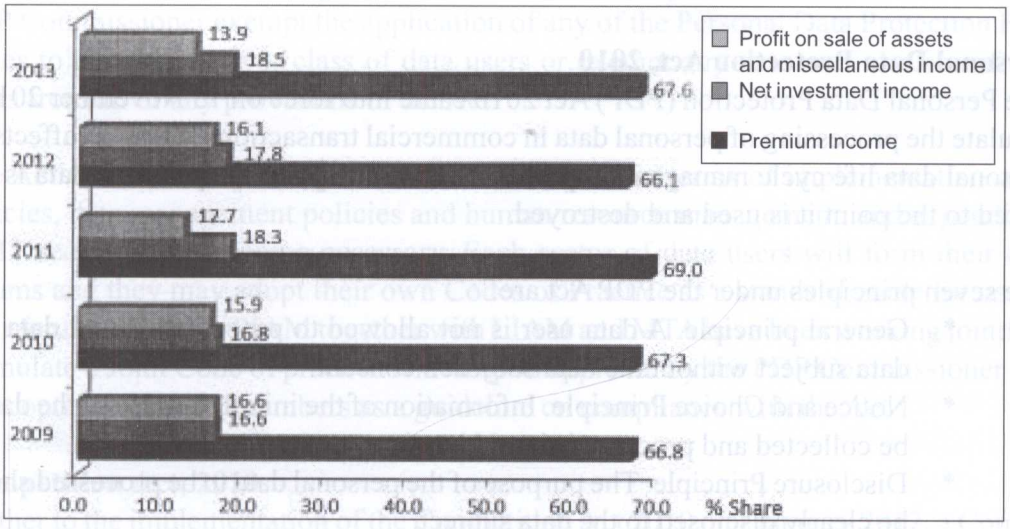


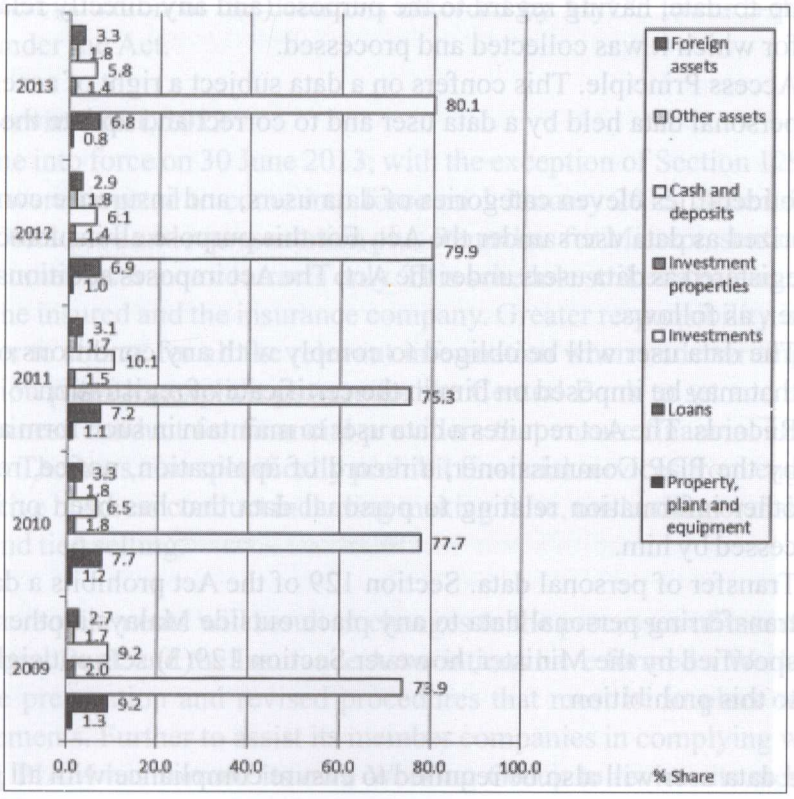
Figure 6: Life Insurance Income



67.6% in 2013 (2012: 66.1%). (Figure 6)

Total assets of the life insurance industry amounted to US$56,369.9 million in 2013, registering an increase of 42.0% from US$39,692.4 million in 2009. As seen over the years, investments continued to form a bulk of the assets at 80% in 2013 (2012: 79.9%). (Figure 7)

Figure 7: Assets of Life Insurance Funds



Source: Central Bank: Annual Statistics 2013; Monthly Statistical Bulletin May 2014

REGULATORY DEVELOPMENTS

Personal Data Protection Act, 2010

The Personal Data Protection (PDP) Act 2010 came into force on 15 November 2013 to regulate the processing of personal data in commercial transactions. This Act affects the personal data life cycle management processes from the point the personal data is collected to the point it is used and destroyed.

The seven principles under the PDP Act are:

* General principle. A data user is not allowed to process personal data of a data subject without the data subject's consent.
* Notice and Choice Principle. Information of the initial purpose of the date to be collected and processed should be given to the data subject.
* Disclosure Principle. The purpose of the personal data to be processed should be clearly disclosed to the data subject.
* Security Principle. A data user shall take practical steps to protect the personal data from any loss, misuse, modification, unauthorized or accidental access or disclosure, alteration or destruction.
* Retention Principle. Personal data shall not be retained longer than is necessary for the fulfillment of the purpose for which it is processed.
* Data Integrity Principle. This requires a data user to take reasonable steps to ensure that the personal data is accurate, complete, not misleading and kept up-to-date, having regard to the purpose (and any directly related purpose) for which it was collected and processed.
* Access Principle. This confers on a data subject a right of access to his own personal data held by a data user and to correct and update the same.

The Act also identifies eleven categories of data users, and insurance companies have been categorized as data users under the Act. For this purpose all insurance companies have been registered as data users under the Act. The Act imposes additional obligations on a data user, as follows:

a) The data user will be obliged to comply with any conditions or restrictions that may be imposed on him in the certificate of registration.
b) Records. The Act requires a data user to maintain in such form as determined by the PDP Commissioner, a record of application, notice, request or any other information relating to personal data that has been or is being processed by him.
c) Transfer of personal data. Section 129 of the Act prohibits a data user from transferring personal data to any place outside Malaysia other than a place specified by the Minister, however Section 129(3) sets out eight exceptions to this prohibition.

A registered data user will also be required to ensure compliance with all provisions of the Act, failing which registration may be revoked and the data user will then be pre-

cluded from processing such data. The Minister may upon recommendation from the PDP Commissioner exempt the application of any of the Personal Data Protection Principles to any data user or class of data users or exempt any data user or class of data users from all or any provisions of the Act.

The Act will have major implications for data users in terms of implementation of IT policies, data management policies and human resource management, and expenditure on IT security will become necessary. Each sector of data users will form their own forums and they may adopt their own Codes of Practice as a standard guide for use by their forum members. PIAM together with LIAM and MTA have been working jointly to formulate a Joint Code of practice which upon approval by the PDP Commissioner will be adopted for use by members as a guideline on compliance with the Act.

Competition Act, 2010

Further to the implementation of the Competition Act 2010 on I January 2012, a Competition Tribunal was formed on 15 January 2012 to ensure that the enforcement of this Act is more systematic and effective. The Tribunal has the power to analyze any decisions made by the Malaysia Competition Commission (MyCC) under Sections 35, 39 and 40.

The Tribunal will assist in considering the following:

a) Appeals on decisions made under the Act;
b) Damages and other financial claims under the Act;
c) Re-evaluation of the decisions enforced by MyCC towards the regulation under the Act.

Financial Services Act, 2013

This Act came into force on 30 June 2013, with the exception of Section 129 and Schedule 9 which were targeted to come into force on 1 January 2015. Schedule 9 (on Pre-contractual Disclosure and representation plus Remedies for Misrepresentation) is applicable to consumer insurance contracts only. This schedule strikes a balance between the interests of the insured and the insurance company. Greater responsibility is now placed on the insurer to source for all the relevant information when underwriting a risk. The new legislation provides explicit powers for the Central Bank to set and enforce standards on business conduct for financial providers that ensure financial consumers are treated fairly. The laws also specifically prohibit financial services from engaging in unfair or deceptive business conduct including making false, misleading or dishonest representations, and tied selling.

As these new requirements will result in changes to the processes of insurance companies, the Central Bank and the Insurance Associations have formed a Working group to look into the preparation and revised procedures that must be in place to implement these requirements. Further to assist its member companies in complying with this new requirement, PIAM has formed its own Working Group to review its members' work processes and documentation to be in compliance with Schedule 9 of the Act.

Concept Paper on Life Insurance and Family Takaful Framework
In November 2013, the Central Bank released a concept paper on Life Insurance and Family Takaful Framework for public consultation. The framework sets out various proposed liberalized measures aimed at spurring the penetration rate of insurance and takaful, from the current 54% to 75%.

The concept paper covers a wide range of areas including operating flexibility, product disclosures, development of new delivery channels, and increased professional market practices. These proposed measures are intended to support the long-term sustainable growth and development of the life insurance and family takaful industry, and is aimed at increasing its value proposition to consumers.

With the market becoming more competitive, there will be a larger segment of more discerning consumers demanding more products and services to meet their needs. This affluent market expects services to be delivered through new distribution channels that are most convenient to them.

LIAM formed a Steering Committee and three separate working groups to study the impact of the proposed measures in the Concept Paper in great detail. Besides taking into account the necessity to balance the need for an increased level of professionalism, the committee also looked into providing greater transparency in the provision of products and services. Consultations with the Central Bank are on-going to develop the long-term roadmap.

Goods and Services Tax
The government announced a Goods and Services Tax (GST) for introduction on 1 April 2015 at the rate of 6%. The current sales tax and services tax would be abolished to be replaced by this new tax based on the value-added concept. For the Life insurance business, it will be in the exempt category, not subject to tax, but all general (non-life) insurance products it will taxed at the standard rate. There are continuous discussions with the Customs of Malaysia and the Central Bank to clarify and address all areas regarding GST which affect the operations of insurance companies.

DEVELOPMENTS IN THE INSURANCE INDUSTRY

New Motor Cover Framework and The Accident Assist Call Centre
The new Motor Cover Framework (NMCF) which was introduced in 2012 has a two-prong strategy: to enhance efficiency in the provision of motor cover, with a graded price adjustment that will ensure that the public is able to purchase motor insurance at affordable premiums. There have been numerous enhancement measures under the framework, implemented by the various stakeholders which include government agencies, insurers and takaful operators, consumer and transport groups, and the Malaysian Bar Council.

As part of the Framework, three revisions in the Motor Tariff premium raters were implemented and a revision came into effect on 15 February 2014. The gradual revisions are necessary steps to ensure that the premium raters progressively become reflective of the claims experience. These premium adjustments, although small in quantum are the initial steps forwards the de-tariffing of the motor insurance business.

A significant development in 2013 was the setting up of the Accident Assist Call Centre (AACC) under a hotline telephone number. It had a pilot run in the Klang Valley in September 2013 and has since gone nationwide. AACC is a 24-hour, one single hotline number for the whole country, to assist the general public who are involved in road accidents. The service provides access to towing services and advice on claims processes. The service prevents the intervention of many unscrupulous parties at the point of accident and empowers the public to deal directly with their insurer. The call centre is also able to pass calls to the 999 Emergency Response Centre if other emergency services such as the police or ambulance are required.

There are many benefits for insurers which include:

* early notification of claims especially from third party claimants, which will assist the industry to make more accurate reserve estimation;
* quicker direct access to third party potential claimants and which may allow insurers to settle uncomplicated cases earlier;
* the ability to use AACC to serve Private Car third party policyholders for towing of accident vehicles or claims enquiries;
* to match and merge own data with data available at AACC for better fraud control;
* to enhance the industry's image and branding as a caring corporate citizen.

On 26 January 2014, the Association together with the Malaysian Takaful Association (MTA) undertook an exercise to promote AACC to motorists by handing information leaflets about AACC and goodie bags, to about 5,000 motorists passing through a toll booth. In addition to promoting AACC, the industry also aimed to drive home the important message about road safety and offer useful tips in the event of accidents. A similar exercise was repeated in August 2014.

Task Force on Liberalization

PIAM and the Malaysian Takaful Association (MTA) set up a Joint Task Force (JTF) on Liberalization to craft a robust roadmap to prepare the Malaysian general insurance and takaful industry for liberalization. The JTF reviewed current practices, conducted a study on the de-tariffication approaches adopted by other markets and analyzed their subsequent market developments and trends. This review and analysis was to synthesize the information collated to articulate a liberalization roadmap for Malaysia.

The JTF had been set up in response to a request from the Central Bank to PIAM and MTA to submit a proposal on liberalization as well as identify areas requiring special

consideration (including any wish-list) and prudent measures which should be introduced post-liberalization.

An external consultant was appointed to assist the JTF in the development of a strategic roadmap for liberalization. The preparation areas covered under this project include:

* Tariff classes of business – Motor and Fire
* Non-tariff classes: currently monitored by several guidelines issued by PIAM and the Central Bank
* Agency – which is currently regulated through market agreements.

The benchmarking and assessment of the proposed roadmap undertaken by the consultant covered:

* Liberalization processes and approaches
* Impact on the industry and its practices
* Impact on distributors, and key success factors, risks, and challenges.
* Development of diversified distribution channels
* Strengthened disclosure requirements.

A presentation of the first draft was made to the Regulator, and the input received was considered by the Joint Task Force for further refinement of the roadmap.

Malaysia Motor Insurance Pool

The Malaysian Motor Insurance Pool (MMIP) was formed by insurance companies to provide motor insurance cover to vehicle owners who are unable to obtain insurance protection for their vehicles from local insurers. The MMIP which was previously known as the High Risk Insurance Pool, is a pooling system through a collective agreement among members of the Pool.

At its inception, the MMIP's entire motor business was placed through two direct insurance companies acting as Servicing Insurers. In July 2009 the Pool appointed POS Malaysia as its additional servicing agent, to make the Pool's service more accessible to the public. The Pool's services had been further expanded in May 2011 when the Central Bank issued a directive to all insurers and takaful operators to act as servicing agents for MMIP. With the involvement of all the insurance companies and takaful operators and POS Malaysia, the Pool is now underwriting a greater volume of business.

The overall performance of MMIP for 2013 (unaudited) showed a higher gross written premium of RM310.8 million as compared to RM273.9 million in 2012. The growth of 13.5% was largely attributed to the increasing demand for MMUIP cover as a result of stringent underwriting selection of motor insurance by insurers. However, the premium increase in 2013 was reported lower by 16.7% against 2012 performance where the increase was 30.2% (over 2011).

An Integrated System for Online Purchase of Foreign Workers Insurance

The Ministry of Home Affairs and Immigration Department of Malaysia embarked on the Foreign Workers Centralized Management System (FWCMS) which is an integrated system for online purchase of foreign workers insurance (i.e. the Foreign Workers Compensation Scheme (FWCS), Health Insurance Scheme for Foreign Workers (SPIKPA) and Insurance Guarantee (IG).

A seminar was organized by the service provider on 4 July 2013 to brief insurers on the implementation of the online transaction for the purchase of foreign workers insurance, and subsequently on 5 December 2013 a technical briefing was conducted for insurers (i.e. IT details of the integration between FWCMS via the two gateway providers linking all insurance companies). Prior to insurers' link-up with FWCMS, discussions were held between PIAM and MTA with the service providers to resolve some implementation issues and concerns over the link-up with the FWCMS.

Vehicle Theft Reduction Council of Malaysia Berhad

Throughout 2013 the Vehicle Theft Reduction Council of Malaysia Berhad (VTREC) continued to pursue the recovery of stolen vehicles from Thailand together with the assistance of the Royal Malaysian Police (PDRM) and the office of the Consulate General of Malaysia in Songkhla, Thailand. The authorities in Thailand requested further discussions with the Malaysian counterpart on the various legal issues involving the recovery processes.

A platform for risk based premium assessment was launched by ISM Insurance Services Malaysia Berhad (ISM) in early 2013 under its Knowledge Management System (KMS). KMS allows members companies to access data on the frequency of theft of vehicles, by model, for underwriting purposes. Another initiative completed is the Motor Anti-Fraud Register (MAFR) which was launched in July 2013. The MAFR was a joint effort of VTREC and ISM for developing a system for detection of fraud in the 'rebirthing' of stolen or Total Loss vehicles into the market. By the end of 2013 MAFR had detected 116 cases of insurance renewals with prior records of theft and total loss vehicles. Although some errors or discrepancies were discovered, 33 renewals were cancelled to avoid further attempts to defraud member companies.

VTREC in coordination with the Performance Management & Delivery Unit of the Prime Minister's Department has embarked on its laboratory with all its stakeholders in private and government sectors to enhance its effort in deterring fraud and vehicle theft.

Flood Model for the Insurance Industry

PIAM in a joint venture with Malaysian Reinsurance Berhad (Malaysian Re) is developing a flood model for the insurance industry. The project has three phases:

a) Phase 1 - Klang Valley
b) Phase 2 - Peninsular Malaysia
c) Phase 3 - East Malaysia

The flood model will allow insurers to:

a) Understand the effects of flooding on property portfolios in Malaysia.
b) Derive the PML for their portfolios for different return periods and quantify the financial implications.
c) Appreciate the flood risk at different locations and therefore be able to manage them accordingly.
d) Make an informed decision in their reinsurance programming.

Phase 1 of the flood model (called Re.Banjir) was launched on 3 September 2013 by Malaysia Re. The users of the model include general insurers and takaful operators. To further complement the existing Malaysia R Project Team, PIAM and ISM representatives were invited onto the project team. The Association has been working with ISM to refine additional information/data that is required for the model's accuracy and success,

HUMAN RESOURCE INITIATIVES

Talent Development: 4th Young Managers Forum

This Forum, called 'Stepping into the Future', was held on 21 February 2014 with participation of 60 young managers from member companies. In his welcoming speech, the Convenor of the Education/HRD sub-committee of PIAK emphasized the importance of support and encouragement from top management towards the industry's efforts and initiatives in retaining and promoting talent management in the insurance industry. He acknowledged that the theme 'Stepping into the Future' was aptly chosen and aimed at motivating young managers to raise their confidence and passion towards realizing their career aspiration.

The two speakers selected to share their input were Dr. Rumesh Kumar and Mr. Michael Teoh Su Lim. Der. Rumesh a certified professional trainer and performance improvement consultant specializing in the areas of leadership development, continual productivity improvement and enhancement of interpersonal skills. Mr. Michael Teoh, a global award-winning speaker and trainer, is passionate about talent development. During his session Dr. Rumesh shared his views on the importance of leadership with the managers, whilst Mr. Michael Teoh's presentation focused on how to maximize one's potential in winning the mind and heart of people as well as to maximizing one's efforts and leave a positive impact in people.

Talent Development: 3rd Breakfast Talk

PIAM, in taking the cue of the need for a more skilled workforce to support the demand in the insurance industry toward liberalization and de-tariffication is undertaking several measures in understanding the needs of its members companies. It is apparent that there should be a focus on attracting and retaining talent in the insurance industry to be able to meet the global challenges.

The Association has formed a Young Members Think Tank (YMTT) which aims to promote the sharing of ideas and networking amongst young managers in the industry. This gives an avenue for the young managers to share their experiences, voice their concerns, and allows the YMTT to address areas highlighted by these young managers.

To motivate these young managers, the YMTT recently organized a breakfast talk with the theme 'Passion for Success' which was attended by 60 young managers from general insurance. This is an annual event and the Think Tank invited Teach-for-Malaysia co-founder and Managing Director, En Dzameer Dzulkifli, to speak at the breakfast talk on 14 November 2013. In Kuala Lumpur. established in 2010, Teach-for-Malaysia is an independent non-profit organization which aims to end education inequality in Malaysia. During the session, Dzameer engaged the young managers by sharing his personal experiences which contributed to his success as a young leader at Teach-for-Malaysia.

PIAM Human Resource Dialogue with Member Companies

PIAM organized a dialogue with Human resource heads of its member companies on 22 October 2013 in Kuala Lumpur. The dialogue session was to update the HR managers on some of the key activities and initiatives that PIAM Education/HRD sub-committee is embarking on, and to gather relevant feedback and initiatives that its members would like to share.

The session included a presentation from the YMTT on their activities. The Malaysian Insurance Institute (MII) was also invited to this dialogue and shared an overview and highlighted the key project milestones of the Integrated Learning Management System Project which is one of the capacity building initiatives of MII. The other important topic discussed was the Centralized Induction Programme initiated by PIAM. The objective of this is to harmonize, improve, and elevate the quality as well as to implement a sustainable long term internship programme in the general insurance industry for young entrants. This will orientate fresh talent with some comprehensive knowledge of the industry and its operations.

The session was well received by the participants and it promoted networking and sharing of information between the HR personnel from PIAM member companies and representatives from the Education sub-committee and YMTT. Close collaboration between the Association and its members is important to secure a joint effort in meeting the requirements of insurers and the industry as a whole.

OTHER ISSUES AND DEVELOPMENTS

A Study of Underinsurance in Malaysia

LIAM engaged the Universiti Kebangsaan Malaysia in June 2013 as its research partner to embark on a study of underinsurance. The findings of the survey wee presented at a press conference on 27 February 2014. The objective of the study was to gain an insight into the extent of underinsurance among Malaysia policyholders and the general popula-

tion. This would assist the industry to formulate new strategies to reduce the protection gap and to increase the penetration rate. The study focused on protection, medical and critical illness policies and covered samples from the 25 to 65 age groups.

The mortality protection gap is often a true reflection of the potential demand for life insurance coverage. It refers to the difference between the resources needed and the resources which would be available to maintain the living standards of dependants following the death of the primary wage earner.

The findings suggested that many Malaysian households are substantially underinsured. The average protection gap for families whose primary wage earner does not have life insurance is RM723,000 per family. This means that when there is the death of the wage earner, in order for the family to sustain their current lifestyle and continue their daily consumption, they would need about RM723,000 to last them for at least five years.

The study also shows that per capita spending on life insurance was RM850 (US$330) in 2012. This is lower than the world average of US$373 and much lower than other Asian developed countries such as Singapore (US$2,472), Hong Kong US$4,025, South Korea (US$1,578), and Japan (US$4,143). These indicators reflect that the life insurance market in Malaysia is substantially under-penetrated.

It has been identified that some of the core reasons for the slow take-up of life insurance is the lack of understanding of its benefits. This, combined with a lack of awareness of life insurance especially in suburban and rural areas, has contributed to the low penetration rate.

ASEAN Economic Community Blueprint

At the Summit in Kuala Lumpur in December 1997, the ASEAN leaders decided to transform ASEAN into a stable and highly competitive region with equitable economic development, with reduced poverty and socio-economic disparities. The ASEAN Economic Community (AEC) us one of the three pillars to establish a cohesive ASEAN Community by 2020. The other two are the ASEAN Security Community and the ASEAN Socio-Cultural Community.

The AEC Blueprint is a comprehensive roadmap which specifies the characteristics and elements of the AEC with implementation targets and timelines for the various economic integration measures within ASEAN. One of the objectives of the AEC is to create a single market and production base by having free flows of five core elements, namely goods, services, investment, capital, and skilled labour. The other objectives are to create a region with a highly competitive economy, equitable economic development, fully integrate into the global economy. These will include tariff reductions and the streamlining of certain administrative procedures among ASEAN members.

Engagement with Consumers

LIAM continues to partner with the print media to ensure publication of its educational

articles to enhance the consumers' literacy level on life insurance. Since January 2013, LIAM has collaborated with i-SIHAT, a health magazine in the national language, with a circulation of 40,000, by including a monthly column. By July 2014 i-SIHAT had published 17 articles with a wide range of topics, such as a basic introduction to life insurance, the importance of having such insurance, a guide to purchasing it, and a special focus on medical and health insurance.

LIAM also worked with the Malay Mail, an English daily, to publish various articles focusing on consumer queries on life insurance. The Malay Mail ran an exclusive Medical & Health insurance series for ten weeks, with Q & A style articles based on cases from the Financial Mediation Bureau. Among the topics were 'Unraveling Dilemmas in Medical Insurance', 'Getting the Most out of Your Hospitalization Insurance Card', 'Investment-Linked Insurance Plans Demystified', and 'How Much Insurance is Enough?' These articles are available on the LIAM website at www.liam.org.my.

LIAM partnered with the Credit Counselling and Debt Management Agency (AKPK) to raise the level of financial literacy among schoolchildren and youth. Together with several financial institution, LIAM provided advertising support for two books published by AKPK, namely 'POWER!' and 'Money Sense' which target this segment. AKPK was set up by BNM in 2006 to help individuals take control of their financial situation and gain peace of mind through wise use of credit facilities.

The Central Bank continues to extend their invitation to LIAM members to participate in the Central Bank MobileLINK Roadshow across Peninsular Malaysia. Member companies are allowed to promote and market their financial producers directly to consumers at the roadshow. The extensive roadshow is part of Central Bank's inclusive policy in extending financial services to under-served areas. In 213 the roadshow reached out to communities in Pahang, Negeri Sembilan, Perak, Penang, Kelantan, and Terengganu. LIAM also participated by setting up its information and marketing booths including engagement with booth visitors.

LIAM was one of the supporting organizations of the Malaysian Financial Planning Council (MFPC) inaugural National Financial Planning Quiz which was held from 1 to 2 July 2013 at Universiti Utara Malaysia (UUM). The tournament which attracted the participation of fifteen universities aimed to promote the importance of financial planning among undergraduates and was endorsed by the Ministry of Finance, the Ministry of Education, and the Securities Commission of Malaysia.

The Response of LIAM to Air Tragedies

LIAM played a proactive role in responding to the incidents involving two Malaysia Airlines aircraft MH370 and MH17. Following the unprecedented nature of the MH370 tragedy on 8 March 2014, LIAM set up a hotline to handle all queries regarding claims procedures for family members and next of kin, as an immediate response to smooth the claims process.

All LIAM member companies adopted a consolidated approach by giving special priority in facilitating and expediting life insurance claims made by family members and next of kin of policyholders on board MH370. All claims were processed in the light of the statement made by the Prime Minister of Malaysia on 24 March 2014. Insurers waived the requirement for death certificates, and made every effort to pay claims within a week of receiving full documentation from the proper claimants.

By 1 July 2014, a total of RM15.9 million (out of a total exposure of RM18.7 million) had been paid to family members and next of kin of those passengers with life insurance. A total of 184 policies had been issued to 47 Malaysians and 6 non-Malaysians by the 14 life insurers in Malaysia.

Later, on 17 July, another tragedy shocked the nation involving MH17 which had been shot down in eastern Ukraine killing all 298 people on board, including 43 Malaysians. LIAM member companies acted proactively and agreed a consensus to waive the requirement for death certificates and to speed up claims payment to within one week once the beneficiaries had been confirmed.

Additionally, even though some of the policies had exclusion clauses, LIAM member companies made special consideration in waiving this because of the extraordinary circumstances of the tragedy which had involved so many innocent lives. 95 life insurance policies had been taken up by Malaysian passengers and crew on board MH17. By October 2014 RM11.2 million had been paid out of a total exposure of RM15.6 million.

Corporate Social Responsibility – Insurans Hayat Cares

The insurance and takaful fraternity of Malaysia, through the 26th East Asian Insurance Congress (EAIC) joined forces to mark the 2013 Insurance & Takaful Day on 8 September 2013. The various associations commemorated the celebrations with a contribution of RM100,000 to four charitable organizations. LIAM also held a blood donation drive as a yearly community programme aimed at saving lives. Two campaigns were held, at Maju Junction and Kuala Lumpur.

In August 2014 LIAM conducted another charitable programme with 100 underprivileged children from two Homes, namely Asram Darui Falah and SHELTER. At the gathering LIAM donated grocery items to both Homes, organized fun activities for the children, as well as treating them with sumptuous food and festive delicacies.

The gathering was part of LIAM's contribution to society through Insurans Hayat Cares, a community platform set up by LIAM to meet the objectives of the Association to engage more in serving the community. 2014 was a special year, LIAM's 40th birthday. In line with the spirit of sharing, caring, and giving, LIAM is happy to play its part in organizing these gatherings which it is hoped will bring happiness, cheer, and laughter to the children.