



# Inside Malaysia's five-year insurance regulation framework

Earlier this year, Malaysia published its Financial Sector Blueprint 2022-2026, outlining the country's strategy for financial sector development over the next few years. We spoke to **Bank Negara Malaysia's Mr Suhaimi Ali** to get more details.

By Amir Sadiq



In January, Malaysia's five-year Financial Sector Blueprint was unveiled at the launch of MyFintech Week 2022. The blueprint outlines the vision and strategies for the development of the country's financial sector.

Speaking to *Asia Insurance Review*, Bank Negara Malaysia (BNM) assistant governor for financial development and innovation department Suhaimi Ali highlighted some of the main areas of development of the insurance and takaful sector.

## Financial wellbeing and resilience

The first area is elevating the financial well-being and resilience of households and businesses. The recent experience of disruptions to livelihood arising from the pandemic and adverse weather events such as floods have put into focus the vulnerabilities of Malaysian households and businesses.

"In particular, at-risk segments, who may not have sufficient financial buffers against unexpected risk events, are most affected given the

low level of protection," said Mr Suhaimi. "In this regard, insurers and takaful operators (ITOs) have an important role to elevate the financial wellbeing and resilience of households and businesses by expanding the range and accessibility of quality insurance and takaful solutions to the underserved segments, including small-and-medium enterprises."

He detailed some of the bank's focus over the next couple of years as it works towards this objective:

Supporting the growth of a diverse microinsurance and microtakaful ecosystem through the Perlindungan Tenang framework. BNM will continue to enhance the framework to ensure it remains relevant and fit-for-purpose. Through its role in the financial education network, the bank will also advance financial literacy initiatives to improve consumer awareness and understanding of protection needs.

Learning from the pandemic and floods exposure, BNM will also

explore public-private partnerships to develop business risk transfer protection schemes against high-risk, large-scale perils, including those arising from climate change.

Building on the steady progress to advance value-based finance in recent years, BNM will strengthen policy enablers of value-based intermediation (VBI) for greater impact. It will continue to lend support to takaful industry players that are uniquely positioned in leading efforts to widen the adoption of VBI across the insurance industry.

BNM will also work to promote further integration and alignment with the Value-based Intermediation Assessment Framework (VBI AF) and its sectoral guides as toolkits for ITOs to incorporate ESG risk considerations in their investment decisions and to nurture customers to adopting more sustainable business practices.

In addition, efforts are underway in developing more use cases as guidance for the industry

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particularly relating to risk underwriting for the insurance and takaful sector through Climate Change and Principle-based Taxonomy Implementation Group.

In takaful, the bank will explore the potential recalibration of existing regulatory requirements to cater to broader application of ta'awun (mutual assistance). The objective is to harness the full potential of ta'awun in enhancing the broader socioeconomic resilience and in meeting the needs of unserved/underserved segments.

### Efficient and seamless consumer experience

The second area is leveraging digitalisation to bring greater efficiency and more seamless consumer experience.

“While we do see efforts made by existing players to transform existing manual processes with technology, the pace and scale of digital adoption can be further improved,” said Mr Suhaimi.

“For instance, the process of buying and claiming insurance/ takaful benefits remains cumbersome for many and there is a clear business case to address prevailing issues arising from manual processes and lengthy investigation timelines. As such, we will continue to support and facilitate Malaysia’s

financial sector to make the most of digitalisation, while safeguarding financial soundness and interests of consumers.”

To this end, the bank’s regulatory focus over the next two years include:

Enabling greater competition and innovation in the insurance and takaful market through new business model which leverages digital technology. BNM is currently finalising the licensing and regulatory framework for digital insurers and takaful operators (DITOs).

The bank will also refresh its regulatory sandbox with the aim to accelerate time-to-live testing by simplifying the gatekeeping process for institutions with strong risk management capabilities. This is to further support industry players in bringing financial innovations safely to the market.

BNM will intensify efforts to pave the way for ITOs to advance digital transformation efforts for motor claims to achieve the desired outcomes of timeliness, transparency and transformative customer experience. It will also lend support to the industry’s collective efforts to improve existing infrastructures, which includes rolling out digital roadside assistance solution to catalyse modernisation of the claims process.

As part of futureproofing critical digital infrastructure, BNM will advance open data strategy for specific use cases for the insurance and takaful industry. The bank is working with the relevant stakeholders on the development of common data standards and suitable data sharing arrangements.

### Ensuring continued growth and sustainability

The third area involves tackling long-standing structural challenges in the insurance and takaful ecosystem to ensure the continued growth and sustainability of the sector, said Mr Suhaimi.

On this front, the bank’s focus over the next two years will mainly be on enhancing the motor and medical and health insurance/takaful ecosystems:

For motor, BNM will continue to pursue further liberalisation of the motor and fire tariffs, while ensuring basic motor protection cover remains accessible to all consumer segments. Apart from driving digitalisation of claims, the bank will also focus on other areas, such as enhancing claims settlement process, elevating professional standards of adjusters and increasing transparency across different stakeholders.

For medical and health insurance/ takaful, given the growth of medical claims which has outpaced that of medical premiums/contributions, coupled with rising costs of private medical care, there is likely to be more pressure on the pricing and sustainability of medical and health covers moving forward.

“We see an urgency for the necessary structural reforms to address the issue of medical costs inflation to ensure long-term sustainability and accessibility to healthcare,” he said.

“At the bank level, we are also reviewing the medical and health insurance/takaful policy document to institute a higher standard in business conduct through enhanced product disclosure requirements and sales practices, promote measures that can steer positive change in more responsible consumer behaviour in product design and greater data sharing to support better cost control management.”

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### Addressing inflation, improving sustainability and affordability

Mr Suhaimi also shared some of the ways BNM is looking to address long-standing issues on medical costs inflation while at the same time ensuring alignment of incentives among stakeholders in the ecosystem: To inculcate positive and responsible behaviours among consumers, the bank is currently working with the insurance and takaful industry to introduce cost-share features more widely in medical and health insurance/takaful (MHIT) products, as well as explore measures to encourage savings mechanisms for future medical-related expenditures.

“Cost-sharing features like co-payment or deductibles can potentially nudge positive consumption behaviour by reducing ‘buffet syndrome’, as observed in other markets,” he said.

“We also aim to support better cost control management and transparency of MHIT products through digital solutions. One of the ongoing digital initiatives by the industry is the piloting of an MHIT claims data exchange platform. This would enable more efficient and transparent exchange of claims information among hospitals and ITOs.”

Leveraging the data exchange platform, the bank will further facilitate the collection and standardisation of MHIT claims data across the industry, which would pave the way towards the future publication of healthcare costs. This will enable patients to make well-informed decisions on their desired level of healthcare service and its associated costs moving forward.

As part of its efforts in instituting higher standards on business conduct and sales practices for MHIT products, BNM is also enhancing product disclosure requirements to improve understanding and encourage informed actions by consumers.

“As mentioned above, the bank is committed to collaborating with all stakeholders, including the Ministry of Health for wider ecosystem reforms,” he said.

“We are also currently reviewing the policy document on medical and health insurance/takaful business and aim to issue the exposure draft later this year, which would also

set out higher standards for ITOs to promote sound underwriting and pricing practices for MHIT cover.”

### Update on in-development digital framework

With regard to the aforementioned regulatory framework for DITOs mentioned above, BNM released a discussion paper earlier this year to get feedback from industry players.

“We received a good mix of feedback on the discussion paper from a range of respondents, notably incumbents, advisers and consulting firms and, naturally, those who are looking to apply for a DITO licence when the framework is finalised,” said Mr Suhaimi.

The discussion paper articulated the three value propositions that we want the DITOs to fulfil. The bank calls these the ‘ICE’ value propositions:

‘I’ stands for inclusion that will provide stronger safety nets for consumers whose protection needs are not adequately served, such that they can be more financially resilient in the face of adversities.

‘C’ stands for competition that will facilitate the introduction of innovative players and products that better serve consumers and in turn, transform the insurance/takaful landscape in Malaysia.

‘E’ stands for efficiency that will drive the cost of insurance/takaful protection down with better consumer experiences and world class delivery of services to financial consumers.

“The bank expects DITOs to carry on insurance and takaful business wholly (or almost wholly) through digital or electronic means, to bring about innovative business and operating models and to better meet the consumer needs in the ICE aspects. At the same time, DITOs should continue to have strong focus on sound risk management and consumer protection as innovations thrive,” he said.

“The upcoming exposure draft will build on the discussion paper to provide clarity on regulatory requirements for DITOs to achieve the above. We hope to open the exposure draft for comments until early next year to give sufficient time for all relevant parties to reflect on the proposals in the exposure draft against their respective circumstances.”

### Governing bancassurance

The bancassurance/bancatakaful (banca) channel in Malaysia has grown significantly over the last 20 or so years and by the end of 2021, had evolved into the largest distribution channel in the life insurance and family takaful business, accounting for 40% of gross new premiums/contributions centred on investment-linked products.

In recent years, however, persistency rates for the banca channel have been declining, indicating room for improvement in sales advice and better needs-based analysis, said Mr Suhaimi.

“As such, we revised and issued the policy document on bancassurance/bancatakaful (PD) in June 2022, which outlines enhanced governance expectations in banca arrangement and additional safeguards for insurance/takaful products sold to high-risk segments,” he said.

“In particular, to mitigate the risks of mis-selling and reduce complexity for consumers to appropriately weigh and consider their options, we have set out enhanced transparency and disclosure requirements in the PD to ensure consumers can make more informed financial decisions.”

Recognising that the customer segment that the banca channel serves is focused on those seeking investment-linked or endowment products, the Bank and the industry have been working together to promote the offering of microinsurance and microtakaful products in order to broaden penetration rate among the masses.

“Under the Perlindungan Tenang branding, ITOs offer covers that are affordable, provide good protection value and are simple to purchase and make claims against. For example, several family takaful operators have distributed Perlindungan Tenang products via development financial institutions aimed at improving access to takaful products for low-income customers,” said Mr Suhaimi.

“Against the backdrop of the fast-growing embedded insurance market observed globally, ITOs are going to need to find a way to modernise their approach for distribution via banca channel given the pandemic has intensified demand for innovative, digital, and consumer-centric solutions.”