

MALAYSIA LIFE INSURANCE AND FAMILY TAKAFUL NEWSLETTER

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We are pleased to present the second edition of Milliman's Malaysia Life Insurance and Family Takaful Newsletter. This edition summarises recent developments, including market performance, news, regulatory activities and other industry developments in Malaysia during the period of 1 January 2017 to 31 March 2017.

We hope you find this newsletter informative. Please do not hesitate to reach out to Farzana Ismail, Richard Holloway or your usual Milliman consultant if you have any questions.



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Market performance

LIFE INSURANCE AND FAMILY TAKAFUL INDUSTRY PERFORMANCE

According to the Life Insurance Association of Malaysia (LIAM), the life insurance industry recorded healthy growth in 2016. In terms of new business annual premium equivalent (APE), the life insurance industry grew by 16.2% in 2016, partly driven by the sale of products with shorter premium payment terms. Both traditional and investment-linked products achieved double-digit growth in APE in 2016, i.e., 20.0% and 16.4%, respectively. However, there is a negative growth of (4.8)% in 2016 APE group business.

Total insurance coverage grew by 5%, achieving RM1.30 trillion in total sum assured in 2016. This is mainly contributed by a strong 17% growth in the sum assured for investment-linked products, while the total coverage for traditional product fell by 1.3%.

Claim payouts registered an increase of 5.1%, amounting to RM9.7 billion in 2016, mainly contributed by higher medical claims. The increase in healthcare costs remains a major concern. The industry is working closely with various stakeholders to maintain healthcare premiums at an affordable level.

According to the president of LIAM, Mr. Toi See Jong, along with the key initiatives under the Life Insurance and Family Takaful (LIFE) Framework, the industry will continue to embark on educational and promotional programmes to increase public awareness of the merits of insurance, with the aim of reducing the protection gap. On the outlook for 2017, according to LIAM, the industry is expected to achieve high single-digit growth. This prediction comes despite uncertainties in the economy, counter-balanced by strong resilience of the life insurance industry and a low insurance penetration rate in Malaysia.

For Takaful, according to RAM Rating Services Bhd, family Takaful contributions are reported to have climbed 11.8% to RM7.8 billion in 2016. The rating house maintained its stable outlook for the Malaysian insurance and Takaful sector in 2017, supported by the strong capital levels and regulatory reforms which augur well for the sector's development. Meanwhile, the growth trajectory in the Takaful sector is expected to remain higher than the conventional counterpart, underpinned by growth in the family Takaful segment. The rating house expects total Takaful contributions (including both family and general) to grow by 4% to 5% in 2017. In contrast, RAM Rating Services suggests that life insurance premiums are expected to expand by 5%, whereas general insurance premiums are expected to expand by 2% to 3% in 2017.

The significant developments that are taking place in the insurance and Takaful sectors include:

- The introduction of a balanced score card (BSC) for agents and bank staff to improve productivity and professionalism as outlined in the LIFE Framework

- The introduction of a public enquiry facility via online and SMS to enable customers to ascertain whether life insurance agents are registered with LIAM as an authorised agent
- A service guide to highlight the value-added services for policyholders when purchasing insurance via agents
- The development of an online portal by companies to provide customers with easy access to real-time information on policy details, forms and documents, and to encourage customers to use e-payment options for their transactions
- The development of diversified distribution channels via the introduction of online products and/or direct marketing channels (e.g., internet)
- The development of an integrated financial website to guide consumers in choosing suitable life insurance products that are available in the market

BANK NEGARA MALAYSIA FINANCIAL STABILITY AND PAYMENTS REPORT 2016

This report was released on 23 March 2017 and summarises the overall economic position for Malaysia in 2016 and future outlook. Key highlights for the insurance and Takaful sector include:

- The capital adequacy ratio for insurance and Takaful companies (for both life and general insurance businesses) in 2016 stood at 248.5% and 205.3%, respectively (251.6% and 191.6% in 2015).
- Profit increased from RM14.7 billion to RM16.6 billion from 2015 to 2016.
- The claims ratio fell from 60.2% to 56% from 2015 to 2016.
- Financial institutions are expected to remain resilient in 2017, supported by strong financial buffers.
- The insurance and Takaful sectors continue to grow, with new life insurance and family Takaful premiums being driven by growth in the endowment and group term policies.
- Insurance and Takaful assets expanded in 2016, with a shift to higher-yielding corporate bonds and equity.
- Surrender payments over the past four years have increased above the long-term historical average level, raising concerns over sales practices.
- Escalating healthcare costs have also contributed to more frequent repricing activity for medical and health insurance/Takaful products.
- Insurance penetration has plateaued within the range of 54 percent to 56 percent over the last five years, but a significant protection gap remains. Only 35% of the population have at least one life insurance/family Takaful policy, with an average sum assured of RM61,000 per capita. Affordability and access remain as the key barriers to higher levels of penetration.

Several initiatives were addressed with the aim of obtaining higher levels of insurance penetration and better market practices, including:

- The development of the insurance starter pack to be rolled out at a national level for low-income earners
- Requirements for life insurers and family Takaful operators to make basic protection products available through direct distribution channels starting in 2017, in view of lowering distribution costs and simplifying product design while providing meaningful protection benefits
- Further development of alternative distribution channels
- Simplifying the language to help consumers better understand the benefits, exclusions and obligations under insurance and Takaful policies
- Increased governance on the way firms manage policyholders' reasonable expectations

Market news

A. MERGERS AND ACQUISITIONS

- Fitch Ratings has commented that several initiatives set by regulators in Malaysia will have a profound impact on the industry's landscape. In particular, the requirement for composite insurers to split the life and non-life business by 2018 may lead to companies facing challenges to maintain their capitalisation. As a result, companies may seek external capital or engage in mergers and acquisitions to meet regulatory requirements, especially if their operations lack scale.
- The Edge Malaysia Weekly reported that according to industry sources, China's largest insurer, China Life Insurance Co Ltd, is keen on acquiring a controlling stake in Hong Leong Assurance Bhd. However, the report said that this is unconfirmed, with the Hong Leong Group declining to comment.

B. KEY COMPANY NEWS

Life insurance

- According to AIA Chief Marketing Officer Thomas Wong in an interview in December 2016, through the investment-linked product A-Life Signature, which was launched in December 2015, AIA is consciously pursuing the mass affluent segment in Malaysia (i.e., individuals earning between RM10,000 and RM40,000 per month, estimated to be 6% to 10% of the working population). The product is designed to provide high coverage protection.
- OCBC Bank and Great Eastern teamed up in December 2016 to introduce Malaysia's first life insurance protection reward scheme for credit cardholders. It offers complimentary RM100,000 insurance coverage on death or total and permanent disability for principal cardholders for the first year, and a minimum spend of RM10,000 in each year for coverage renewal in the following year.

- In January 2017, Hong Leong Assurance announced its Million Dollar Round Table (MDRT) 2017, where recognition benchmark achievers increased by 60% to 235 agents, compared with 147 agents last year.
- Sun Life Malaysia aims to expand the group's market presence in the life insurance and Takaful space in 2017 by strengthening its distribution channels. The main driver of the group's growth since incorporation in 2013 has been the distribution partnership with multiple partners, including banks and telecommunication companies. As the only life insurance company in Malaysia without an agency force, the group hopes to recruit 500 to 1,000 agents by the end of 2017, with plans to promote medical products via agency force in its first phase, followed by investment-linked products.
- In February 2017, Affin Holdings Bhd announced plans to undertake a corporate reorganization exercise to simplify the group's shareholding structure. Its wholly-owned subsidiary Affin Bank Bhd will take over its listing status on the Main Market of Bursa Malaysia. This exercise will involve transferring the 51%-owned joint venture AXA Affin Life Insurance Bhd and the 37.07%-owned associate AXA Affin General Insurance Bhd to Affin Bank.
- Zurich achieved RM1.45 billion in gross written premium in 2016, of which life insurance business contributed around RM800 million. Looking into 2017, Zurich Insurance Malaysia will focus on tweaking products based on consumers' concerns, which includes protection against escalating medical concerns. The chief executive officer also pointed out that Zurich Malaysia is currently in discussions with a lifestyle consumer portal website that deals with clothing, among other products. In addition, in January 2017 Zurich introduced a new rider insurance, Zurich MegaMed, with the aim of boosting investment-linked product sales. The rider helps customers cope with escalating medical costs by offering a bonus feature of a no lifetime limit up to age 100 and cashless convenience at local hospitals.
- In February 2017, U for Life announced a partnership with Jinerxu, the company behind financial comparison website RinggitPlus, to offer a seamless online application experience for insurance products. In March 2017, U for Life has raised the bar for the insurance industry by allowing Malaysians to apply for an insurance policy at local pharmacies through a partnership with Berjaya Pharmacy Sdn Bhd.
- Swiss Re Corporate Solutions has opened an office in Kuala Lumpur and started its operations on 1 March 2017. The new office will function under a Labuan Financial Services Authority's reinsurance licence. Mr Juerg Stoll, formerly Swiss Re country head for Japan, is appointed to lead the Kuala Lumpur office.

- Maybank Ageas Holdings Bhd, the parent company of Etiqa Insurance Bhd, Etiqa Takaful Bhd and Etiqa Insurance Pte Ltd (Singapore), announced strong performance in 2016, recording a profit before tax of RM810.3 million, representing a 34% growth in 2016. In a statement by Maybank Ageas in March 2017, Etiqa is the market leader in the General Insurance and General Takaful sectors in Malaysia. The group said Etiqa's bancassurance channel has a market share of 18% in regular premium sales, while its online business dominates its field with 89.7% in general insurance and general Takaful online sales. In addition, the group commented that Etiqa Takaful commands a market share of 49% in general Takaful and 16.3% in family Takaful new business in Malaysia.
- In March 2017, Ramzi Toubassy, CEO of AmMetLife Insurance Bhd, said that the company is targeting new business premium growth of 35% to 40% in 2017, with the goal of becoming one of the top five preferred insurers in Malaysia by 2020.

Family Takaful

- The first Takaful product for persons with disabilities, introduced jointly by Agrobank and Takaful Ikhlas as Agro Nurani, was launched in January 2017. The product provides comprehensive Takaful coverage due to accidental and natural causes, hospital treatment benefit and hospital allowance benefit due to accident, with one standard contribution rate for all ages.
- According to Syarikat Takaful Malaysia Bhd's (STMB) managing director in January 2017, the company is working on finalising the corporate structure post separation of family and general Takaful businesses, in line with requirements under the Islamic Financial Services Act (IFSA) 2013. The management is confident that the company is able to manage the short-term pressure from rising operating costs expected as a result of the separation of licenses through active and disciplined expense and risk management, in order to optimise the capital and maximise shareholders' value. The managing director clarified that the company has yet to venture into any mergers and acquisitions, while acknowledging the benefit of such initiative.
- STMB recorded a 13% increase in net profit of RM176.28 million in 2016. Revenue grew by 12.6% to RM2.01 billion, attributable to the higher sales generated by both family and general Takaful business. The company aims to maintain its position as market leader and plans to undertake an enhanced approach to its distribution channel by accelerating digital initiatives to optimise its operations and marketing activities, which includes an online sales portal and integrated online marketing initiatives.
- In February 2017, Zurich Takaful Malaysia Berhad launched Takaful SeniorGold, a family Takaful plan designed to offer valuable protection to those in the age group 50 to 80 with

contributions from as low as RM50 per month, with no medical underwriting requirement.

- For financial year ended 30 November 2016, AIA Berhad's CEO, Anusha Thavarajah, said AIA's family Takaful business delivered a 47% increase in annualized new contributions while its partnership distribution and corporate solutions channels recorded a growth in the value of new business (VONB) of 18% and 12%, respectively. The company expects family Takaful business to continue to drive its earnings in 2017. She stressed that AIA would continue to launch new products that would cater to the needs of customers, focusing on children, females and high-net-worth individuals.
- Takaful Ikhlas Bhd aims to introduce its online platform for basic term products by the end of 2017. Senior Vice-President Wan Rosli Shaharuddin Wan Yaacob said that he is optimistic that the online platform will be able to penetrate the market for youths by allowing them to compare product features and pricing.
- On 27 March 2017, Takaful Ikhlas and Agrobank announced plans to enter into a five-year exclusive collaboration in the Takaful areas of personal accident, mortgage, group credit term, group family Takaful, family Takaful plans for education, retirement and medical, motor, fire and other non-motor products.

Other market news

- There is a proposal for a single-payer, multi-provider national health insurance system that would allow all Malaysians to visit any hospital, private or public, and eventually remove the distinction between the two. However, the Malaysian Employers Federation (MEF) rejected the proposal for several reasons:
 - The workforce and employers will be burdened with heavy contributions and tax.
 - The business models of public and private hospitals are different—in particular, private hospitals are profit-oriented.
 - The administrator of the single-payer, multi-provider system is viewed to be benefitting from large expected profits under the new system.
 - The single-payer, multi-provider system that was introduced for foreign worker's medical examinations did not prove to work better, as the medical examination fees increased by more than 200% after its implementation.
 - A community-rated scheme can be viewed as unfair, particularly to those from the lower-risk group.
- Led by the Ministry of Health, doctors are looking to implement the bundle system in clinics to cut medical costs. The bundle system refers to the cost and care provided for a medical condition across the entire care cycle, with charges varying according to severity of cases and time spent with the patient.

- The Malaysia Deposit Insurance Corporation (PIDM) has outlined its direction for the next three years in its Corporate Plan 2017-2019. PIDM will establish comprehensive frameworks to guide and facilitate the development of the resolution plans and assessment of the resolvability of member institutions.
- Effective from 1 June 2017, all self-employed taxi drivers, as well as Grab and Uber drivers, will be covered under the Employment Injury Scheme, just like other workers under the Contract of Service scheme. They will make a contribution rate of 1.25% of their insured monthly income.
- On 24 February 2017, the LIAM, MTA, and Persatuan Insurans Am Malaysia (PIAM), together with the Personal Data Protection Department Malaysia, launched the Code of Practice on Personal Data Protection for the insurance and Takaful industry. The code is to establish strict procedures to safeguard the use of personal data in the life insurance, general insurance and Takaful businesses. LIAM, PIAM and MTA hope the implementation of the code will further elevate the service standard and professionalism of the insurance and Takaful industry.
- In March 2017, LIAM made an organized goodwill visit to the National Heart Institute (IJN) and launched the Heart Awareness Booklet to educate readers, among others, on the general guidelines for healthy eating plans, proper cooking methods and weight management. This is to create awareness about preventing chronic diseases, particularly among the younger generation.
- The Employment Insurance Scheme (EIS) had been approved by the National Economic Council and the cabinet earlier in 2017 and is expected to be tabled in the Parliament in mid-2017. The scheme would be managed by the Social Security Organisation (SOCSO) and is targeted for implementation by 2018. The EIS is to assist retrenched workers by giving temporary financial assistance and providing opportunities for reskilling and up-skilling. There is some opposition to the scheme, as the EIS is viewed as burdensome to employers.
- The government is contributing RM5 million to the Takaful CuepacsCare Program in 2017 to cover the increase in health costs. The program provides an affordable alternative for civil servants to obtain medical treatment at private specialist hospitals. The program, which is operated by Cuepacs and Sun Life Malaysia Takaful Berhad, offers a protection plan for as low as RM85 a month per family.

C. KEY APPOINTMENTS

- Encik Jazimin Izzat Bin Wan Zoolkifli was appointed as chief financial officer of Syarikat Takaful Malaysia, according to an announcement in January 2017.
- (PIDM) appointed Johan Mahmood Merican and Gloria Goh to its board in February 2017.
- In March 2017, AIA Group Ltd named Ng Keng Hooi as the group chief executive and president, effective from 1 September 2017. He became the first Malaysian to helm an international financial services group. He is replacing Mark Tucker, who is poised to become non-executive group chairman of HSBC Holdings Plc.

Regulatory developments

EXPOSURE DRAFT ON CREDIT RISK

- An exposure draft was issued on 20 January 2017 which sets out the proposed regulatory requirements on credit risk management for licensed persons, financial institutions and financial holding companies. Bank Negara Malaysia (BNM) invited feedback on the proposed regulatory regulations by 31 March 2017.
- It will become effective on 1 July 2017 for banks and 1 July 2018 for insurers, Takaful operators and other financial institutions.
- This exposure draft:
 - Clarifies requirements on board-level governance arrangements and the risk management function, particularly for credit decision-making
 - Introduces requirements on the management of exceptional credits
 - Prescribes a minimum standard for credit loss estimation
 - Enhances expectation on the management of concentration risk, country and transfer risk, and group-wide credit risk oversight

WA'D

- This policy document was issued on 2 February 2017 in relation to the application of wa'd (i.e., unilateral promise), to promote end-to-end compliance with Shariah compliance. It is applicable to Islamic financial institutions in Malaysia, including Takaful operators and Retakaful operators.
- Islamic financial institutions that offer a product or service structured based on wa'd must identify the potential gaps relative to the policy document and develop plans to address these gaps, with full compliance by January 2019.

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