

Policies and Developments

Policies and Measures to Strengthen the Insurance Industry

Implementation of the Financial Sector Masterplan

The Financial Sector Masterplan (FSMP) entered its fifth year of implementation in 2005 with the completion of 16 of the 31 recommendations. With the end game of creating a more resilient, competitive and dynamic insurance industry, the recommendations implemented to date are predominantly directed towards strengthening resilience, building the capacity and capabilities of domestic insurers, raising professionalism and corporate governance standards in the industry, as well as strengthening the consumer protection and supervisory framework. The key FSMP initiatives undertaken in 2005 are set out below:

(i) Introduction of Financial Advisers

The changing financial landscape and increasingly sophisticated requirements of consumers call for higher standards of financial services in the country. In order to meet the increasing demands for complex financial products as well as to enhance the professionalism of life insurance intermediaries, the Insurance Act 1996 (Act) and Insurance Regulations 1996 (Regulations) were amended in August and October 2005 respectively to provide for the introduction of financial advisers. Following the enactment of the Insurance (Amendment) Act 2005 and the Insurance (Amendment) Regulations 2005, the Bank issued the regulatory framework relating to the licensing requirements for financial advisers on 8 November 2005. Financial advisers constitute a new category of insurance intermediary that possess professional financial planning qualifications and expertise to provide advice to individuals on various financial products including insurance to meet their

financial planning needs. Financial advisers are expected to play an important role in providing holistic financial advisory services to consumers ranging from insurance protection, savings for education, retirement planning and investment for the future. The salient features of the licensing requirements are presented in the white box on 'Introduction of Financial Advisers' (pages 19 - 21).

(ii) Strengthening Financial Resilience

To reform the prudential regulation on insurers and better align the solvency regime with risk profiles of individual insurers, the risk-based capital (RBC) framework will be implemented in 2008. Under the framework, an insurer will be required to compute its own capital adequacy level based on a prescribed formula. The capital adequacy level serves as a major indicator of the insurer's financial resilience and will be used by the Bank to determine appropriate supervisory interventions. Significant progress was achieved in the development of the RBC framework with the issuance of a second concept paper in December 2005. Expanding on the initial concept paper issued in 2004, the revised concept paper sets out a revised methodology for determining capital adequacy requirements, a more transparent basis for the valuation of assets and insurance liabilities as well as more flexible investment requirements. The revised concept paper also outlines further details of the framework and its implementation, including supervisory expectations on the supporting institutional risk management and governance framework that insurers will need to have in place. These include the establishment of a board-approved overall strategic investment policy and

control measures which are consistent with the parameters set out in the paper and a board committee to oversee investment policies and strategies. The revised framework takes into account international developments, similar practices in the banking sector and the experience in other countries to promote a more transparent and comparable capital adequacy assessment approach across financial sectors and jurisdictions. A parallel run of the framework with the existing solvency framework will be carried out in 2007 prior to its full implementation.

(iii) Consumer Education Programme

Launched in 2003, the ten-year consumer education programme for the insurance and takaful sectors, known as InsuranceInfo, is now in its third year of implementation. To date, InsuranceInfo has seen the publication of 17 booklets on basic insurance and takaful related information as well as specific insurance and takaful products in both English and Bahasa Melayu. Six of these booklets have also been made available in Tamil and Mandarin. Two additional booklets on child education policies and takaful education plans are expected to be issued in the first half of 2006. As

seminars and exhibitions nationwide. In addition, the Bank has required life insurers to disseminate booklets on life insurance and investment-linked products to prospective policy owners for a period of two years from 1 March 2005, while general insurers have been required to disseminate a pocket-sized card containing information on the prevention of vehicle theft and dealing with traffic accidents together with a fact sheet containing key information on motor insurance policies, to their motor policy owners from 2 February 2006.

Other Policies and Measures Implemented to Strengthen the Insurance Industry

In addition to the initiatives implemented under the FSMP, several other measures were undertaken by the Bank during the year to promote sound development of the industry. These include:

(i) Greater Investment Flexibility

Pending the implementation of the RBC framework which will provide insurers with substantially greater investment flexibility, the admitted assets requirements used to support an insurer's margin of solvency was revised pursuant to section 46(2) of

Insurers were allowed greater investment flexibility to enhance investment performance and improve asset-liability matching.

at end-December 2005, a total of 1.4 million booklets have been distributed to the public. Positive response has also been received from the public on the InsuranceInfo website, www.insuranceinfo.com.my, which has received a total of 5.9 million visitors and 480 enquiries since its launch in 2003. The enquiries received via the website were mainly on issues relating to motor and medical and health insurance (MHI) policies as well as takaful products. As part of efforts to enhance the reach of InsuranceInfo, the Bank continuously organises road shows throughout the country and participates in various

the Act as set out below:

- (a) the investment limit for credit facilities of life funds was increased from 50% to 70% of the margin of solvency to provide greater flexibility for insurers to invest in high quality long-term bonds as a measure to improve asset-liability matching of life insurers' long-term obligations;
- (b) the scope of the admitted assets framework on properties, which was previously confined to direct investments in completed and near completed properties, was extended to include indirect

- property investments, including investments in private real estate funds and unlisted single-purpose property holding companies. The extension of scope is expected to provide insurers with a potential avenue to enhance their investment performance through access to specialised real estate investment expertise and a more diversified portfolio of property investments; and
- (c) investments by insurers in the following instruments were classified as low risk assets:
- Asian Bond Fund (ABF) Malaysian Bond Index Fund, which currently comprises primarily of securities issued or guaranteed by the Federal Government of Malaysia; and
 - Ringgit-denominated bonds issued by Kreditanstalt für Wiederaufbau (KfW) Bankengruppe, an agency owned by the Federal Government of Germany.

Further relaxation was also given to life insurers during the year through the revision of the investment limit for foreign assets of investment-linked funds. The limit was increased from 10% of the total net asset value of each investment-linked fund to 30% of the total net asset value of all investment-linked funds of an insurer as part of the liberalisation of the Bank's foreign exchange administration policies. The relaxation provides for the creation of dedicated investment-linked funds invested solely in foreign assets. With the revision of limits, insurers

(ii) **Improvements to Investment Management**

With the aim of raising the overall standards of professionalism and expertise in investment management, and to promote consistent and professional market conduct in the wholesale market, dealers of all life and composite insurers, as well as general insurers and professional reinsurers which use the services of money brokers, are required to qualify as ordinary members of Persatuan Pasaran Kewangan Malaysia. The requirement, which must be complied with before 1 January 2009, is in line with similar requirements imposed to other participants in the inter-bank bond market (money brokers, universal brokers and dealers in the banking industry).

(iii) **Guidelines on Medical and Health Insurance**

The MHI guidelines were revised during the year to promote more equitable and consistent treatment of medical and health policy owners of both general and life insurance companies. The revised guidelines, which came into effect on 1 January 2006, stipulate the minimum standards that must be observed by insurers in relation to the terms of issuance and setting of premiums of MHI policies, limitations that can be imposed on core benefits provided under a policy and disclosures to policy owners. The revised guidelines also provide added protection for higher-risk individuals by requiring insurers to appropriately moderate, based on overall portfolio experience, any premium increases or surcharges imposed on such individuals. Further details on the

Revised guidelines on medical and health insurance provide for improved terms and conditions for policy owners and added protection for higher-risk individuals.

were also given the flexibility to hedge foreign currency risks of their Malaysian insurance funds, which was previously limited only to the hedging of exposures to equity and interest rates.

revised guidelines are outlined in the white box on 'Developments in the Medical and Health Insurance Sector' (pages 57-62). The revised guidelines are complemented by the revision of the hospital and surgical

insurance (HSI) underwriting guide by the insurance industry in 2005. The HSI underwriting guide, which also came into effect on 1 January 2006, serves as a best practice guide for underwriting of HSI policies and provides standardised definitions, common conditions and exclusion clauses for such policies. The HSI underwriting guide has been translated into Bahasa Melayu to facilitate the translation of policy documents by individual insurers into the language.

(iv) Anti-Money Laundering Measures

As part of efforts to combat money laundering and the financing of terrorism to preserve the integrity of the insurance sector, further initiatives were undertaken in 2005 to strengthen the implementation of anti-money laundering (AML) guidelines in the industry as follows:

- (a) annual meetings were organised with the compliance officers of insurers and insurance brokers to create awareness on and ensure compliance with AML measures, as well as to highlight the pivotal role and responsibilities of compliance officers in implementing AML measures;
- (b) the compliance officers networking

implementing effective AML measures and to align the guidelines with developments in international best practices.

Life Insurance

The initiatives undertaken in the life sector in 2005 were predominantly directed towards promoting the orderly development of the sector and providing insurers with greater flexibility to expand their product range. The specific initiatives undertaken during the year are set out below:

(i) Guidelines on Investment-Linked Business

To facilitate the orderly development of investment-linked business, the Bank issued guidelines which cover a wide spectrum of the operations and administration of investment-linked business in September 2005. The guidelines set out the minimum standards that must be observed by insurers with effect from 1 December 2005. The guidelines outline, among others, the requirements on product design and pricing, fees and charges, management of funds, investment limits, as well as principles for the valuation of assets and liabilities. The guidelines also require

Guidelines on investment-linked business established minimum operational management standards to facilitate orderly development of the business.

- (c) blitz examinations were conducted on insurers to determine the compliance level with existing AML measures.

A review of the existing AML guidelines is currently underway to further enhance the AML risk management framework adopted by licensees, provide more explicit regulatory guidance to assist licensees in

comprehensive disclosures to be made to prospective and current policy owners and provide insurers with the investment flexibility to enter into derivative transactions for yield enhancement purposes.

(ii) Marketing of Foreign Currency-Denominated Policies

Following the liberalisation of the foreign exchange administration rules by the Bank in April 2005, approval was given for life insurers to sell education and single premium investment-linked policies denominated in foreign currencies (FX

policies). The sale of FX policies is subject to prudential requirements, which stipulate among others, requirements on product design, sales and investments, and requires the establishment of a separate insurance sub-fund. Additional disclosure requirements were also introduced to ensure that risks are adequately highlighted to potential consumers. The introduction of FX policies is expected to expand the range of product offerings by Malaysian insurers to meet the increasingly diverse and sophisticated financial demands of consumers.

General Insurance

In addition to initiatives undertaken to promote greater transparency, measures implemented in the general insurance sector during the year continued to focus on improving market practices, particularly in the motor insurance business. The specific initiatives undertaken are set out below:

(i) Guidelines on Minimum Disclosure Requirements in the Sale of General Insurance Products

With the objective of promoting greater transparency in the sale of general insurance products, the Bank issued guidelines on the minimum disclosure requirements to be observed by general insurers and their intermediaries in their interaction with prospective policy owners with effect from 2 January 2006. The guidelines specify the minimum information that must be disclosed to a prospective policy owner at the point of sale to enable them to make informed decisions, such as details of types of

minimum requirements to be observed by insurers and intermediaries in providing sales and services over the Internet.

(ii) Motor Insurance Initiatives

(a) On-line Submission of Motor Cover Notes to Road Transport Department

The Road Transport Department [Jabatan Pengangkutan Jalan (JPJ)] and the insurance industry jointly implemented the JPJ eINSURANS system on 2 January 2005. The system, which facilitates electronic straight-through transmissions of motor insurance details to JPJ for the purpose of road tax renewal, has eliminated the usage of physical cover notes which were prone to abuse and forgery. To complement the system, insurers were required to establish real-time electronic linkage with their agents and were strongly encouraged to assist their agents in the establishment of the linkage. With the usage of the system, no incidences of forged cover notes were reported by insurers to the Bank in 2005. While the JPJ eINSURANS system was primarily intended to address the issue of forged motor cover notes, the system also provided other benefits to insurers in the form of enhanced agency control, increased efficiency and improved compliance with the Cash-Before-Cover (CBC) requirements. With the usage of the JPJ eINSURANS system, insurers are required to issue a

Guidelines on minimum disclosure requirements issued to promote greater transparency in the sale of general insurance products.

cover offered, benefits, restrictions and exclusions of the policy as well as any significant conditions, warranties and obligations which the policy owner must meet. The guidelines also describe the

confirmation slip in lieu of physical cover notes as proof of insurance purchase in addition to the normal receipt acknowledging payments of premiums by policy owners.

(b) Industry Action Framework for Non-Compliance with Cash-Before-Cover Requirements

The Regulations relating to CBC requirements prohibit a licensed general insurer from assuming any risks in respect of motor policies until the premium payable under the policy is received by the insurer. The Bank had introduced a new action framework for CBC non-compliance in 2004, involving compounding of insurers for non-compliance in respect of direct clients and more stringent requirements on treatment of outstanding motor premiums. To complement the Bank's initiative, Persatuan Insurans Am Malaysia (PIAM) formulated a modality for the suspension/deregistration of agents due to non-compliance with the CBC requirements. With effect from 1 July 2005, agents who fail to remit the full motor premiums collected to insurers within seven working days from the date of assumption of risks may be suspended/deregistered by their principals.

(c) Measures to Reduce Motor Vehicle Theft

To arrest the increasing trend of motor vehicle theft, the insurance industry and the Royal Malaysian Police [Polis DiRaja Malaysia (PDRM)] jointly organised the inaugural National Seminar on Vehicle Theft in December 2005. The seminar, funded by the insurance industry's Fund for Theft Prevention and Recovery, was held to establish a multi-agency task force comprising stakeholders in the motor vehicle industry for a concerted and holistic effort to combat vehicle theft. Over 400 participants from various stakeholders in the motor industry attended the seminar which concluded with four resolutions to combat vehicle theft. The resolutions, which will be submitted to the Government, recognise the importance of public-private sector

cooperation for a cohesive and holistic approach to combat vehicle theft at a national level and the sharing of up-to-date information on vehicle theft, as well as a tariff pricing system that rewards vehicles with better security features. Pending the formation of a national level committee, PIAM has established an interim theft task force to deal with matters pertaining to vehicle theft.

To enhance public awareness on motor theft, PIAM organised a campaign with the theme 'Keep Car Thieves Out' in April 2005. The campaign involved the display and distribution of educational posters, flyers and car stickers by insurers and shopping complexes nationwide.

(d) Independent Vehicle Valuation Database

The Independent Vehicle Valuation Database was launched by the insurance industry in October 2005. The database, which is expected to be fully operational in the first quarter of 2006, will serve as the authoritative reference point for the industry on values of passenger cars for the determination of the sum insured at the point of purchase as well as the quantum of compensation at the time of loss. Initially accessible by insurers only, the database will be further refined over time to enable reference by agents in the future. It is envisaged that the database will address the issue of over/under insurance as well as disputes and complaints pertaining to vehicle valuation, particularly for theft and total loss claims.

(e) Utilisation of Traffic Summonses for Underwriting of Motor Risks

As part of the Government's efforts to promote road safety, the Steering Committee on Road Safety under the Ministry of Transport had, in November 2005, put forward a proposal for insurers

to utilise information on traffic summonses issued by JPJ and PDRM in underwriting motor risks. The proposal, once implemented, will penalise reckless drivers and repeat traffic offenders with the imposition of premium loadings. PIAM is currently liaising with JPJ to identify the types of summonses to be considered, the appropriate levels of premium loading as well as the information sharing mechanism required to facilitate the smooth implementation of the proposal.

premises due to human infectious contagious diseases. The increased risk by avian flu has led to limitation of coverage by reinsurers worldwide and insurers in Malaysia will introduce more stringent underwriting terms for the various extension covers available for epidemic diseases with effect from 1 April 2006. To ensure transparency, insurers are required by the Bank to provide adequate disclosures to their policy owners on the changes in underwriting terms to allow them to make alternative arrangements to manage related risks.

(iii) ISM Insurance Services Malaysia Berhad

The ISM Insurance Services Malaysia Berhad (IISM), formerly a department under PIAM, evolved to become a separate and independent entity in tandem with the industry's preparation for pricing deregulation and market liberalisation. Incorporated on 18 February 2005 as a company limited by guarantee, IISM's membership includes all insurers dealing with general insurance business and takaful operators. IISM is responsible for providing the necessary statistical data and quantitative benchmarks to the insurance industry and also offers services in the area of anti-fraud and information technology as well as research and development. IISM maintains databases of major lines of business for the insurance industry, including motor, fire, marine cargo and marine hull. In January 2006, IISM attained Multimedia Supercorridor (MSC) Pioneer Status. The incentives and guarantees enjoyed by IISM as a MSC company are expected to further strengthen its position to improve the provision of information technology services to its members. Moving forward, IISM is working to further refine existing databases as well as to expand data collation to other classes of insurance, such as MHI.

(iv) Mitigating Exposure to Epidemic Diseases

At present, business interruption covers can be purchased as an extension to fire policies to cover operating losses resulting from the restricted use of business

Insurance Brokers and Adjusters

Insurance Brokers

In conjunction with the Insurance Brokers Association of Malaysia (IBAM)'s 30th anniversary, IBAM organised a programme entitled Insurance Broking Week in August 2005 to mark three decades of its contribution towards the development of the insurance broking sector in Malaysia. The week-long activities, which provided opportunities for the broking fraternity to discuss current issues and align ideas for future development, included a conference for insurance brokers, a career guidance talk for students from higher learning institutions and several other community service projects. IBAM also organised talks on various technical areas of the broking business as part of its efforts to continuously increase the level of professionalism and technical expertise of brokers. At the international level, IBAM participated in the 13th and 14th Council of International Insurance Brokers' Associations Meetings held in Taiwan and Indonesia respectively. The meetings provided IBAM with an avenue to keep abreast with international developments in the broking sector, particularly in the areas of education and training as well as a forum for the exchange of views and ideas on issues of common interest.

Adjusters

The Association of Malaysian Loss Adjusters (AMLA) continued to pursue its ongoing efforts to enhance skills and competency levels in the field of loss adjusting. Particular measures were taken, in collaboration with the Malaysian Insurance Institute (MII), towards the development of additional programmes in Malaysia to enable local adjusters to attain

professional qualifications recognised by the International Federation of Loss Adjusting Associations (IFAA), a worldwide association set up to promote the role of loss adjusting associations and their members. The IFAA's membership currently includes prominent adjusting associations such as the Chartered Institute of Loss Adjusters and the Australasian Institute of Chartered Loss Adjusters.

With the highest number of qualified loss adjusters outside the United Kingdom and Australia, the loss adjusting sector in Malaysia continued to demonstrate a strong commitment towards professionalism and specialised skills, which were further developed as a result of having been exposed to loss adjustments arising from the tsunami, hurricanes and earthquake events abroad. The local loss adjusting sector should continue to promote the growth of more home-grown qualified adjusters to capitalise on opportunities for business ventures abroad. On the international front, the Chairman of AMLA was elected as the President of the IFAA for the year 2005 to 2007 after being appointed as the Vice President previously.

Other Related Matters

The Malaysian Insurance Institute

Since its establishment, MII has successfully maintained its position as the premier professional insurance education provider in Malaysia for almost 40 years. Through its close cooperation and collaboration with the insurance industry and internationally recognised insurance institutes and professional bodies such as the Chartered Insurance Institute (U.K.), the Life Underwriters Training Council (U.S.A.) and Society of Actuaries (U.S.A.), MII provides training and education programmes of international standards that are tailored to meet the evolving needs of the industry.

During the year, MII conducted 93 public and in-house training programmes for insurers, brokers and adjusters. The training programmes, which included a programme jointly organised by MII and the Oriental Life Insurance Development Center of Japan, attracted a total of 1,877 participants. In addition, MII conducted 21 technical training programmes for insurance agents in 2005 which attracted a total of 2,292 participants.

As the accreditation body for the MII Diploma/Certificates (DMII/CIP) and Associate (AMII) qualifications, MII produced a total of 143 DMII/CIP graduates and 136 AMII graduates in 2005. As at 31 December 2005, a total of 864 insurance personnel have qualified for the DMII/CIP, while 634 have qualified for the AMII. In addition to the DMII/CIP and AMII qualifications, MII also serves as the sole examining body for the Registered Financial Planner (RFP) programme, an integrated financial planning programme jointly developed by the Life Insurance Association of Malaysia, MII and the National Association of Malaysian Life Insurance and Financial Advisers. As at end-December 2005, a total of 992 graduates were conferred the RFP designation by the Malaysian Financial Planning Council.

On the regional front, the year 2005 saw further expansion of MII's role as a professional education service provider in ASEAN. A significant milestone to this effect was the signing of a Memorandum of Understanding between MII and Forte Insurance of Cambodia in June for MII to provide training and education to insurance personnel in Cambodia towards the AMII qualification. During the year, MII also organised a six-day technical programme on liability insurance for the ASEAN market under the ASEAN Insurance Training Fund (AITF) and hosted a delegation of Vietnamese insurers for a seven-day study tour on the development and practices of motor insurance in Malaysia.

Training was also conducted for the ASEAN region by MII in collaboration with the ASEAN Insurance Training and Research Institute (AITRI) for insurance regulators across the region. A total of three technical programmes which attracted 65 participants from across the region, India, Pakistan, Nepal, Sri Lanka, Australia and Macau, were conducted on the self-assessment of the International Association of Insurance Supervisors (IAIS) Insurance Core Principles, capital adequacy, solvency and reinsurance. These training programmes were made possible with technical support from the IAIS and the Organisation for Economic Cooperation and Development. AITRI, together with the General Insurance Association of Cambodia also organised the Fifth ASEAN Insurance Congress which was held from 26 November to 1 December 2005 in Siem Reap, Cambodia. The event attracted more than 60 delegates from ASEAN countries.

International and Regional Cooperation

During the year, the Bank participated in the following regional and international insurance forums:

(i) The Eighth ASEAN Insurance Regulators Meeting and Related Joint Meetings

The Bank attended the Eighth ASEAN Insurance Regulators Meeting (AIRM) which was held in Siem Reap, Cambodia from 28 to 29 November 2005. The meeting saw the exchange of information on insurance market developments within the region and at the international level, including changes in insurance laws, global-standard setting activities and progress in specific areas of insurance cooperation among member countries. The meeting also reiterated AIRM's commitment to continuously strengthen the insurance regulatory regimes in ASEAN through the adoption of the IAIS Insurance Core Principles, while recognising the different levels of development of the insurance markets in the region. Towards this end, member countries agreed to continue to conduct regular self-assessments on the observance of the core principles and provide specific assistance to less advanced members to address identified gaps through an ASEAN-help-ASEAN programme. As in the previous years, the Bank also attended joint meetings held between ASEAN insurance regulators and ASEAN insurance industry groupings, which were held in conjunction with the AIRM. These meetings provided a platform for dialogue with industry practitioners at the regional level on current developments in the insurance industry and issues affecting the ASEAN insurance market.

(ii) The Twelfth Annual Conference and Annual General Meeting of the IAIS

The Bank participated in the Twelfth Annual Conference and Annual General Meeting of the IAIS which was held in Vienna, Austria in October 2005. The General Meeting approved four new papers setting out the standards and guidance for the effective supervision of the insurance industry, namely:

- (a) Standard on Disclosures Concerning

Investment Risk and Performance for Insurers and Reinsurers;

- (b) Supervisory Standard on Fit and Proper Requirements and Assessment for Insurers;
- (c) Guidance Paper on Risk Transfer, Disclosure and Analysis of Finite Reinsurance; and
- (d) Guidance Paper on Combating the Misuse of Insurers for Illicit Purposes.

The Annual General Meeting also saw the approval of the Framework for Insurance Supervision, which was first released in 2004, and the Cornerstones for the Formulation of Regulatory Financial Requirements. The papers provide the foundation for the development of a common structure for the assessment of insurers' solvency and marks an important first step towards achieving greater convergence of solvency regimes worldwide. A roadmap paper is currently being prepared by the IAIS to provide greater elaboration of the common structure.

During the year, the Bank also organised the first Insurance Regulation and Supervision Course (IRSC) for insurance supervisors that included participation from the Asian region. The IRSC, which was conducted from 4 to 12 July 2005, was held as a skills development and capacity building initiative by the Bank to provide participants with a comprehensive perspective of the fundamental roles and responsibilities of insurance regulation in contributing to overall financial stability. The course also provided insights on the regulatory and supervisory approach and promoted awareness of the important developments in the insurance industry. A total of 27 local and foreign participants attended the programme, which discussed, among others, preconditions for effective insurance regulation and supervision, prudential regulation of insurance activities, its governance and related financial issues, market conduct regulation and risk-based supervision. Moving forward, it is envisaged that the IRSC will be held annually to provide insurance supervisors in the region with important insights on the emerging challenges of insurance regulation and supervision.

As part of regulatory cooperation initiatives, the Bank hosted delegations from the government ministries and agencies charged with insurance supervision from Cambodia, Indonesia and Kenya. These visits while

forging closer ties between insurance supervisory authorities, served as a platform for the exchange of ideas on issues ranging from consumer protection framework, prudential regulation, legal framework to risk-based supervision.