Policies and Developments

Policies and Measures to Strengthen the Insurance Industry

Implementation of the Financial Sector Masterplan

In 2003, a number of initiatives under the Financial Sector Masterplan (FSMP) were completed towards achieving a more resilient, competitive and dynamic insurance industry capable of supporting and contributing positively to overall economic growth and stability. The initiatives included the strengthening of consumer protection, supervisory framework and corporate governance. Most of these initiatives have been designed to prepare the insurance industry for a more open market environment. The key initiatives undertaken in 2003 are set out below:-

(i) Consumer Protection

An important component of the FSMP involves specific measures to enhance the consumer protection infrastructure to ensure the orderly development of the insurance industry in meeting the socio-economic objectives of the country. To this end, significant progress was achieved with the implementation of several key measures, as follows:-

- The **guidelines on unfair practices** were introduced with the aim to promote fair treatment of consumers in the conduct of insurance business. An insurer or any person acting on its behalf is prohibited from engaging in any activity that constitutes an unfair practice in the business of insurance. Practices that are deemed unfair include false advertising of insurance policies, coercive tied selling practices, unfair discrimination and contract terms and default selling via automatic enrolment schemes. In addition, several disclosure requirements were imposed on insurers to raise consumers' awareness on their insurance dealings.

- To enhance the **professionalism of the insurance agents**, the minimum entry requirement for the agency force was raised. Additional compulsory examinations will be introduced as part of continuing education programmes for insurance agents. The new requirements are as follows:-

  (a) the minimum entry requirement was raised to Sijil Pelajaran Malaysia or Malaysia Certificate of Education qualification or its equivalent qualification for new general and life insurance agents with effect from 1 April and 1 September 2003 respectively;

  (b) a minimum 20 hours of training under the Continuous Professional Development Programme (CPD) each year for both the general and life agency force with effect from 1 January 2004. The minimum training requirement will be increased to 30 CPD hours with effect from 1 January 2005 for all life agents; and

  (c) mandatory screening of new agents, particularly on criminal records and creditworthiness, to weed out agents found to be involved in fraudulent, unethical and unprofessional practices.

  These measures will be phased in over the period 2003 to 2005 to facilitate gradual and smooth implementation.

- A **10-year consumer education programme** for the insurance and takaful sectors was launched in August 2003 to improve the level of consumer awareness and appreciation of insurance. Known as

InsuranceInfo, the programme is a collaborative effort of Bank Negara Malaysia (the Bank), insurance and takaful industries to assist consumers to make well-informed decisions in selecting insurance and takaful products and services as well as to understand their rights and responsibilities under a policy contract. More details on consumer education initiatives are presented in the white box on page 19.

- The concept of the establishment of **Financial Mediation Bureau (FMB)**, a one-stop centre for handling consumer complaints, was finalised in 2003 and is expected to commence operations in 2004. The FMB, with expanded terms of reference, will integrate the functions of the existing Insurance Mediation Bureau and Banking Mediation Bureau to effectively mediate complaints lodged by consumers against financial institutions under the purview of the Bank. It is envisaged that with the new mediation bureau, the complaints resolution mechanism will be more effective and efficient in serving the insuring public.

- The development of a comprehensive **framework for the introduction of financial advisers (FAs)** to enhance professionalism in the sale of financial products as well as to provide an alternative distribution channel for life insurance products was actively pursued in 2003. The introduction of FAs is expected to increase the level of life insurance market penetration in Malaysia and lower the acquisition costs for new business.

- To avoid public confusion over **Arabic terms or the word 'Shariah'** used by certain conventional insurers for some of their insurance products, effective from December 2003, insurers are prohibited from using any terms or words that may mislead the public, particularly by labelling the product as Islamic or Shariah compliant. Insurers can, however, use certain specific terms that relate to Islamic/ Shariah private debt securities to describe the nature of the product or fund. The requirements apply to all types of basic or rider products, including existing products, for both life and general insurance business.

(ii) Enhanced Corporate Governance Standards

As part of the ongoing efforts to promote sound financial and business practices in the insurance industry, several corporate governance initiatives were introduced in 2003 to further strengthen board effectiveness and accountability. The measures include the requirements for insurers to establish specific board committees and undertake minimum training and education requirements for directors as well as further measures to strengthen the independence function of the board. For greater transparency, insurers are required to make specific disclosures on the remuneration of directors and chief executive officers. Details on corporate governance initiatives implemented in the insurance industry since 1990 are presented in the white box on page 7.

(iii) Strengthening Performance-based Supervision

To strengthen the performance-based supervision function of the Bank, several enhancements to the various IT systems and reporting requirements of insurers were completed during the year. The enhanced Alert and Warning System (AWAS) and Actuarial Valuation Statistical System (AVSS) will facilitate detailed analysis of insurers' financial performance and highlight potential problems for more effective and timely supervisory intervention. The enhancement to the Insurance Companies Statistical System (ICSS) was carried out to reflect the changes and developments in the accounting and reporting environment, as well as to improve the format for data presentation to facilitate analysis of insurers' performance.

Following the implementation of the electronic on-line submission system for general reinsurance arrangements in 2001, the Bank further developed an on-line submission for life reinsurance arrangements. Both the systems were subsequently integrated into one common submission system called Reinsurance System (REINS), which was officially launched on 22 December 2003. The system was implemented for reinsurance treaties commencing on and after 1 January 2004. The implementation of the system will enable comprehensive analysis of the life and general reinsurance arrangements of insurers and thereby assist in the formulation of appropriate policies on reinsurance.

(iv) Building Financial Resilience
The adoption of the risk-based capital (RBC) framework for insurers allows insurers greater flexibility in maintaining sufficient capital funds to support their risk profiles, asset structures and business mix, and will serve as a more effective buffer against business volatility as compared with the existing statutory solvency framework. Initial work on the development of the framework was actively pursued by the Bank and the industry in 2003. A preliminary concept paper outlining the guiding principles for the proposed framework, and the various types of risks to be covered, was issued in early 2004. Further impact studies are being conducted on the proposed framework which is slated for implementation in 2006.

Other Policies and Measures Implemented to Strengthen the Insurance Industry

In addition to the policies implemented under the FSMP, the year 2003 saw various other measures being undertaken to promote the sound development of the insurance industry.

(i) Medical and Health Insurance (MHI)
The following measures were taken to further improve market practices in MHI business:-

- **Minimum Standards on Product Disclosure and Transparency in the Sale of MHI policies**
  In a move to enhance the level of disclosure and transparency in the sale of MHI policies, a circular on the minimum standards was issued to the industry. The minimum standards require insurers and their intermediaries to provide sufficient disclosure on details covering policy terms and conditions, exclusions and limitation of benefits, and other essential features of MHI policies so as to enable prospective policy owners to make informed decisions. The minimum standards also require that the premium rates for all MHI products and their marketing materials should be approved by the appointed actuary in the case of a life insurer and a qualified actuary in the case of a general insurer and lodged with the Bank at least 30 days before the MHI products are marketed.

- **Seminar for Chief Executive and Senior Officers**
  A seminar on MHI was organised by the Bank in October 2003 for the chief executive officers and senior officers of insurers and takaful operators to create awareness on the importance of a sustainable, orderly and developed MHI sector in Malaysia. In addition, the seminar was conducted to provide an understanding of the critical issues confronting the sector and developments in the more mature markets.

- **Non-Guaranteed Premium for Critical Illness Plans**
  Due to the withdrawal of reinsurance premium guarantees by most major global reinsurers, some life insurers introduced non-guaranteed premium features into

their critical illness plans. The trend, which is also experienced by insurers in countries such as Canada, Singapore, Australia and United Kingdom, is mainly attributed to significant medical advances which enable early detection of certain critical illnesses. Such advances in medical technology have increased the risk exposure to the insurers. The trend towards critical illness plans with non-guaranteed premium feature does not, however, imply an immediate premium increase by the insurers. Any such review of the premium rates cannot be done arbitrarily but has to be justified by the claims experience of the portfolio and certified by the actuary. Policy owners may also benefit from the non-guaranteed premium feature since they can avoid paying higher premium upfront.

(ii) Anti-Money Laundering Measures

In line with efforts to preserve the integrity and stability of the insurance sector, with effect from 15 April 2003, the remaining provisions of Part IV of the Anti-Money Laundering Act 2001 (AML Act) relating to obligations to report suspicious transactions were invoked on insurers, reinsurers and insurance brokers. In addition, PIAM, LIAM and IBAM issued the Anti-Money Laundering Compliance Framework respectively to assist their members to put in place appropriate policies, procedures and controls to comply with the provisions under the AML Act. As a further compliance measure, insurers were required to adopt certain customer verification procedures, including maintaining a copy of the national registration identification card of applicants for individual insurance policies where the premiums exceed a specified sum.

(iii) Internet Insurance

The guidelines on provision of Internet insurance by insurers were initially issued in year 2000 with the primary aim to highlight some of the risks faced by insurers in providing insurance products and services via the Internet as an alternative distribution channel, and the minimum risk management procedures and controls that should be instituted to address these risks. In view of the increasing use of the Internet in other business areas such as dealing with agents, brokers and reinsurers, the scope of the guidelines was expanded in 2003 to cover all Internet-based systems deployed by insurers. Accordingly, insurers planning to implement any Internet-based systems are required to seek the prior approval of the Bank and comply with the requirements specified in the guidelines.

Life Insurance

During the year, several specific measures were initiated to improve the overall consumer protection infrastructure as well as the orderly conduct of life insurance business in Malaysia as follows:-

(i) Guidelines on Proper Advice Practices for Life Insurance Business

In a move to enhance professionalism of the insurance intermediaries, the guidelines on proper advice practices for life insurance business were issued. These set the minimum standards for proper advice and a structured process for the sale of life insurance products by intermediaries. Intermediaries are required to obtain sufficient information on the prospective policy owner prior to rendering appropriate advice on the suitability of a particular product.

(ii) Understanding Critical Year Feature in Life Insurance Contracts

The critical year concept was introduced in the early 1990s to allow policy owners to utilise the non-guaranteed dividends of a participating life policy to finance future premium payments. The critical year is, however, not guaranteed and may be extended or reduced based on the level of bonus/dividend declared by the life insurers. In order to avoid possible misinterpretation and mis-selling, LIAM had, with effect from 1 April 2001, disallowed its members from using sales illustrations with critical year feature.

Arising from some confusion among consumers over the critical year issue, in 2003, LIAM engaged in a series of media briefings to clarify the issue and to provide existing policy owners with a clear explanation of the critical year feature in their policies. In addition, LIAM and its members continued to play an active role in preventing agents from engaging in the sales of such disallowed products and in setting up dedicated customer service units to handle enquiries and complaints from the public.

General Insurance

Several measures were taken in 2003 to promote better market practices in general insurance, particularly in the areas of claims processing and business underwriting.

(i) Motor Insurance Initiatives

To improve market practices in the conduct of motor insurance, the following measures were undertaken by PIAM with the support of the Bank: -

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

By end-2003, all insurers were ready for the implementation of JPJ-Insurans link-up whereby physical cover notes will be replaced by electronic cover notes for road tax issuance and renewal. Most insurers have established electronic linkage to their agents to ensure timely transmission of cover note information to JPJ for the convenience of policy owners. It is envisaged that all insurers will be electronically linked to their agents in the future.

(b) Centralised Database for Motor Repairs Estimation

The centralised database for motor repairs estimation was established in October 2001 with the objective of minimising subjectivity in motor repairs estimation. Reference to the centralised database by insurers, adjusters and repairers is a requirement for all own damage claims. The use of the database will be expanded to include third party claims in the future.

(c) Motor Anti-Theft Program

Initiatives taken by PIAM in 2003 to counter the growing vehicle theft problem were as follows:-

- proposed incentives in the form of premium discount to policy owners for new vehicles which are fitted with approved pre-installed anti-theft devices. This initiative is expected to provide the impetus for installation of security features by vehicle manufacturers;
- established a database on stolen vehicles to facilitate tracking and monitoring of trends and characteristics of motor vehicle theft claims; and
- set up a Motor Vehicle Theft Prevention and Recovery Activities fund which will be used to provide financial assistance to the police in their efforts to investigate and prevent motor vehicle theft. The application of the fund is subject to the approval of the Management Committee of PIAM on a case-by-case basis.

(ii) Trade Credit Insurance

In an effort to promote trade and increase the accessibility of trade credit insurance facilities, with effect from 30 October 2003, eligible general insurers are allowed to underwrite trade credit insurance, subject to the prior approval of the Bank. Among the criteria for approval include strong financial standing, favourable supervisory risk assessment by the Bank, good underwriting track record and necessary expertise to underwrite the business.

(iii) Guidelines on Claims Settlement Practices
The Guidelines on Claims Settlement Practices were revised in 2003 to incorporate improvement measures undertaken by both the Bank and the insurance industry in line with market developments, as well as to specify measures to minimise fraud and enhance handling and settlement of claims processes. The new measures introduced in the guidelines include establishment of claims servicing counter to assist policy owners on claims related matters, requirements for itemised claims approval, fraud control measures and compulsory reference to the centralised database for motor repairs estimation.

(iv) Regulation of Third Party Call Centres
Following the approval granted by the Bank for insurers to outsource their marketing functions to Third Party Call Centres (TPCCs), PIAM has drawn up criteria for the registration of TPCCs. This is to ensure that TPCCs provide professional service to potential policy owners. Hence, only TPCCs registered with PIAM can be appointed by insurers to carry out telesales activities.

(v) Minimum Maintenance Contract Requirement for Agents
With effect from 1 July 2003, general insurance agents are required to achieve a minimum maintenance contract of RM20,000 gross premiums per agency during either the first or second year within the two-year validity period of the Certificate of Registration of an agent. Failure to achieve the minimum amount will result in the agent not being able to renew his certificate or apply for registration as an agent for a period of twelve months. This move will ensure that only professional, committed and productive agents remain in the industry to service the insuring public.

(vi) Translation of Policy Documents into Bahasa Melayu
Motor insurance documents, including simplified policy wordings, endorsements and warranties have been made available in Bahasa Melayu and ready for implementation by insurers from 1 January 2004. The Bahasa Melayu documents not only promote the use of the national language, but also complement the industry's initiative to promote a better understanding of policy documents by policy owners.

(vii) Review of the Role and Function of PIAM
In 2003, PIAM reviewed its existing role and function as a mandatory body representing general insurers in Malaysia. The review was undertaken as part of the industry's effort to strategise the general insurers to better face challenges with the impending liberalisation of the industry. The key recommendations from the review will be adopted for implementation to ensure that PIAM remains relevant and effective in a liberalised environment.

Insurance Brokers and Adjusters

Insurance Brokers
In 2003, IBAM continued to organise seminars and talks to enhance the technical capabilities and professional skills of the management and staff of insurance broking companies. Together with the Malaysian Insurance Institute, it finalised the syllabus for the Advance Certificate Course in Insurance Broking.

IBAM has also gained further recognition when it was given the honour to organise the next annual conference of the Council of International Insurance Brokers Associations and the proposed ASEAN Insurance Brokers' Conference tentatively scheduled for July 2004.

Adjusters
The loss adjusting sector in Malaysia was given international recognition when the Chairman of AMLA was elected as the President of the International Federation of Adjusting Associations (IFAA) for the year 2005. IFAA was established to promote the developmental role of loss adjusting associations, formulate best practices and to enhance professionalism of the loss adjusting fraternity.

AMLA continued to be active in the areas of education and professional development of its members to ensure adjusters are adequately trained and equipped with the necessary skills and expertise to provide quality and value-added services to the insurance sector. During the year, AMLA worked closely with the Australian and New Zealand Institute of Insurance and Finance and the Malaysian Insurance Institute to conduct various training programmes to further upgrade and enhance the skills and competencies of adjusters.

Other Related Matters

The Malaysian Insurance Institute (MII)
Established over 25 years ago as a non-profit professional entity, the MII is the leading insurance education provider in Malaysia, conducting training and education programmes tailored to meet the technical and professional demands of the insurance industry. With its extensive linkages and close collaboration with established insurance institutions internationally, such as the Chartered Insurance Institute (U.K.) and Society of Actuaries (U.S.A.), MII is committed to provide insurance education that meets world class standards.

In the year 2003, the MII conducted a total of 164 training programmes for insurers, brokers and adjusters, covering a wide range of subjects from technical aspects such as underwriting and risk management, to soft skill courses on business communication and general management. A total of 3,618 participants attended these courses. In addition, the MII conducted training for life and general insurance agents with the objective to equip them with the necessary technical knowledge and skills to better service their clients. As the accreditation body for the MII Diploma/Certificate (DMII/CIP) and associate (AMII) qualifications, the MII also produced a total of 52 DMII/CIP graduates and 14 AMII graduates in 2003, bringing the total number of insurance personnel with DMII/CIP and AMII qualifications, as at 31 December 2003, to 617 and 410 respectively. During the year, the MII introduced the Registered Financial Planner (RFP) course, which was designed jointly by LIAM, MII and the National Association of Malaysian Life Insurance and Financial Advisors. The course aims to prepare life insurance agents to move towards financial planning with the capability to provide one-stop financial services. A total of 835 candidates registered for the RFP examination in 2003. In 2003, the MII also conducted five programmes under the ASEAN Insurance Training Fund (AITF). The programmes covered a broad range of technical and other insurance related subjects and attracted 92 participants from various ASEAN countries (including Malaysia).

International and Regional Cooperation
The Bank participated in the following regional and international insurance forums during the year:-

- **The Sixth Meeting of the ASEAN Insurance Regulators and Fourth Joint Meeting between the ASEAN Insurance Council and the ASEAN Insurance Regulators**
  The Sixth ASEAN Insurance Regulators Meeting was held in Ha Noi, Vietnam from 19 to 21 August 2003. The meeting had, among others, agreed to expand the existing cooperation in the exchange of information on changes in legislation to include the regular exchange of information on the issuance of new regulatory guidelines/circulars by member countries; to strive towards observing the IAIS Insurance Core Principles; to arrange for technical courses for ASEAN insurance regulators; and to carry out a research project on the development of a cross-border motor insurance scheme in the ASEAN region.

  ASEAN insurance regulators met with insurance practitioners at the Fourth Joint Meeting between ASEAN Insurance Regulators and the ASEAN Insurance Council held on 20 August 2003. The Joint Meeting saw the exchange of information on activities of the ASEAN Insurance Training & Research Institute and the progress of liberalisation of the insurance sector in the ASEAN region.

- **The Tenth Annual Conference and Annual General Meeting of the International Association of Insurance Supervisors (IAIS)**
  The Bank participated in the Tenth Annual Conference and Annual General Meeting of the IAIS which was held in Singapore in October 2003. Five papers were approved for adoption by the IAIS at the Annual General Meeting, namely:-
  - Revised Insurance Core Principles and Methodology;
  - Standard on the Supervision of Reinsurers;
  - Guidance Paper on Solvency Control Levels;
  - Guidance Paper on the Use of Actuaries as Part of a Supervisory Model; and
  - Guidance Paper on Stress Testing by Insurers.