2 Policies and Developments

Policies and Measures to Strengthen the Industry

During the year, BNM continued to implement policies and measures to prepare the industry for the challenges posed by the new requirements of the new economy and the increasingly more liberalised market environment. The rapid pace of advancements in technology has made it imperative for insurers to be part of the new economy. This entails greater capital allocation in the area of information technology and investment in human resource development. Changes must be made to raise the standards in the insurance industry in tandem with advances occurring globally. It is also imperative that these changes be made with urgency to narrow the gap between the practice of Malaysian insurers and international best practices. In this regard, a major development was accomplished during the year with the completion of the 10-year Masterplan by BNM for the financial sector, including the insurance sector. Scheduled for release in early 2001, the Masterplan is intended to create a more resilient, competitive and dynamic financial system that supports and contributes positively to the growth of the economy. It is designed to implement a programme of change that will enhance the capabilities of domestic insurers to compete more effectively for a share of the growing insurance market, while supporting the needs of the real economy and the socio-economic objectives of the country. The boxed article on Masterplan for Malaysia's Insurance Sector in this Report highlights the main recommendations under the Masterplan.

The commitment shown by insurers to consolidate the industry via mergers and acquisitions (M&A) in line with BNM's objective of creating stronger and well capitalised insurers continued to be encouraging. To-date, six M&A exercises have been completed, while another ten more proposals involving 19 insurers are at various stages of implementation. It is important that insurers are well capitalised to enable them to better withstand the challenges and increased competition brought about by globalisation and liberalisation. As well capitalised entities, insurers will not only have the capacity to underwrite larger volume of business, but the capability to embark on efficiency driven programmes such as research and development and information technology. In relation to this, BNM in November 2000, required all direct insurers to maintain a paid-up capital of at least RM100 million, effective 30 June 2001.

The effort of insurers to strengthen themselves through consolidation is complemented by various measures undertaken by BNM to instil prudence and promote a healthy development of the insurance industry. These measures, which are aimed at improving the regulatory framework and corporate governance, as well as enhancing the operational efficiency of insurers, for the ultimate benefit of the policy owners, include:-

- **Prudential Framework of Corporate Governance for Insurers**

  As part of the effort to improve the general conduct of insurance business in Malaysia and strengthen public confidence in the insurance industry, BNM released a framework on corporate governance. This framework establishes basic principles of good corporate governance in the areas of board responsibility and oversight, management accountability, corporate independence, internal controls and operational risks management, public accountability and financial reporting. The framework also sets out prescriptive requirements and best practice standards that support the application of the principles. With effect from 31 December 2000, insurers were required to make a general disclosure in the Directors' Report accompanying their annual accounts, of the manner in which they have applied the framework principles and circumstances justifying any departure from the principles.

- **Guidelines on Provision of Internet Insurance**

  The current policy on Internet insurance allows eligible insurers to establish Internet websites for online purchase or renewal of life and general insurance products. As part of the measures to promote the orderly development of insurance business on the Internet, BNM issued the Guidelines on Provision of Internet Insurance by Insurers to the industry. The primary aim of these Guidelines is to highlight some of the risks faced by insurers in providing insurance products and services on the Internet and the minimal risk management measures that should be instituted. The Guidelines also indicate the documents to be submitted by insurers in their application for BNM's approval to conduct Internet insurance, including the Chairman's attestation that the insurer is ready to provide Internet insurance.

- **Development of Web-based Fraud Information Database System (FIDS)**

  As part of the measures to increase the awareness of the industry on frauds and defalcations, cases of staff misconduct and robberies and to assist in effective management control, all financial institutions are required to report all cases of such nature to BNM. This requirement is further enhanced with the implementation of FIDS which allows submission of data on such incidences electronically via BNM secured Internet infrastructure. This would allow a more expeditious and immediate action on the part of BNM to curb such activities.

- **Insurance Accounting Standards**

  During the year, a review of the accounting standards for life and general businesses was finalised by the Malaysian Accounting Standards Board (MASB), in consultation with BNM, insurance practitioners and external auditors. Established under the Financial Reporting Act 1997 as an independent authority to develop and issue accounting and financial reporting standards in Malaysia, the accounting standards issued by the Board have been specified as the approved accounting standards under section 90 of the Act. The accounting standards prescribe the methods of accounting for premiums, reinsurance, claims, acquisition costs, investments and the information to be disclosed in the financial statements of insurers. The revised insurance accounting standards were issued in January 2001 for adoption effective 1 July 2001.

Insurers

Life Insurance

During the year, several measures were initiated directed at improving market penetration through the promotion of new life insurance products. Efforts were also made to enhance the discipline and standards of conduct amongst LIAM members. Major developments in the local life insurance industry in 2000 are outlined below:-

- **Development of Investment-linked Business**

  During the year, five insurers were granted approval to undertake investment-linked business under section 7 of the Act, bringing the total to 12 as at end 2000. The increased number of players saw the establishment of 22 new investment-linked funds during the year, giving a total of 42 funds being offered to the public as at end 2000. Investment-linked products provide an alternative investment channel to policy owners while maintaining the core protection element. These range of funds, established to meet the investment objectives of the policy owners, have drawn encouraging response from the public, given the shift in consumers' preference from protection based policies to investment type products.

- **Annuity Scheme for Employees Provident Fund (EPF) Contributors**

  The EPF Annuity Scheme which was introduced effective 1 July 2000 enables EPF contributors to utilise their accumulated savings with the EPF to purchase annuities that will provide a steady stream of income for their post-retirement years. Under the scheme, EPF contributors can utilise part of their EPF savings to purchase annuity products from a panel of insurers and takaful operators. The scheme received good response from EPF contributors, mainly due to greater public awareness of the need to provide for their post-retirement income.

- **Licensing of Professional Life Reinsurers**

  Following the decision to issue new licences to professional life reinsurers, Hannover Ruckversicherungs Aktiengesellschaft (Hannover Re), which was licensed as a general reinsurer under the Act in 1995, was issued with a licence to conduct life reinsurance business effective January 2000. Hannover Re is the second reinsurer in the market to carry on life reinsurance business following the establishment of Malaysian Life Reinsurance Group Berhad in July 1997. With this development, five life reinsurance licences remain to be issued to eligible applicants.

- **Financial Condition Reports**

  To fortify corporate governance principles in the management of life insurers, the Guidelines on Financial Condition Report were issued by BNM in May 2000. The Guidelines require the Appointed Actuary to provide a comprehensive review of the life insurer's financial condition in the form of annual reporting to the Board of Directors (Board). This will enable the Board to fully appreciate the financial standing and the risks faced by the insurer. Among others, the report requires the Appointed Actuary to provide comments on the insurer's business profile, experience analysis, investment of insurance funds, solvency, reinsurance and other issues which, in the Appointed Actuary's opinion, can adversely impact the financial condition of the insurer. For participating life business, the Appointed Actuary is expected to comment on the Bonus Reserve Valuation and the actual surplus distribution with the view to ensure that the policy owners' reasonable expectations are met. This is necessary in view of the indulgence of life insurers in increasingly more complex life products, new investment instruments and more sophisticated risk transfer mechanisms in the financial sector.The Guidelines were implemented with effect from the financial year ending after 30 June 2000.

- **Submission of Actuarial Certificate under Section 142 of the Act**

  Section 142 of the Act requires the lodgement of an actuarial certificate in respect of a life product (including sales literature and specimen policy) by the Appointed Actuary with BNM at least 30 days before offering the life policy to the public. Pursuant to this, BNM in April 2000, reviewed the Guidelines on Submission of Actuarial Certificate to enhance the actuarial certificate submission format by incorporating new features reflective of the product development in the life insurance market. The revised actuarial submission format was implemented with effect from 1 July 2000.

General Insurance

To promote greater market stability in the general insurance sector, various remedial measures were instituted both in the area of market practices as well as skills development. Among the initiatives undertaken in 2000 were:-

- **Motor Insurance Initiatives**

  From complaints received, motor insurance is the most problematic class of business, accounting for more than 80% of total complaints received. In view of this, many of the measures undertaken by PIAM and BNM were aimed at improving the market conduct in motor insurance. In 2000, the following initiatives were undertaken:-

(i) PIAM Theft Task Force (TTF)

This task force was set up to address the issue of deteriorating claims experience of insurers due to theft and property losses. Among the functions to be undertaken by the TTF are monitoring of trend of motor statistics, carrying out public awareness programmes on measures to minimise motor theft and to assist in recovery, and liaising with the relevant authorities such as Jabatan Pengangkutan Jalan to develop measures to counter theft. The task force will also study and recommend a standard on anti-theft systems that are eligible for certain discounts. For this purpose, PIAM has submitted to SIRIM the anti-theft standards used overseas for SIRIM's confirmation that such mechanism conforms to the acceptable standard. PIAM at its own initiative, has also formulated the Best Practices Guidelines for Motor Insurance Anti-Fraud Measures to guide insurers in tackling fraud related matters.

(ii) Revised Knock-for-Knock (KfK) Agreement

The industry has agreed that the KfK procedures be amended to allow a vehicle owner the option to direct his third party claim to his own insurer. This measure would enhance insurers' control in managing claims as such claims are handled by the insured's own insurer rather than as a third party claim. In order to encourage policy owners to take advantage of the new rule, the NCD entitlement of the insureds would be preserved if they were not at fault.

(iii) Chain Collision Claims

In January 2000, insurers adopted a standard procedure for dealing with chain collision claims. Under this procedure, insurer of the vehicle immediately behind will be responsible for the loss of the vehicle directly in front in a chain collision. This procedure will not cover cases involving bodily injuries and death.

(iv) Motor Tariff Review

After more than two decades, a review of the motor tariff was considered timely to take into account the changing profile of the motor insurance sector. The review, which has reached the final stage, aims to ensure more appropriate pricing of motor covers. The new tariff is expected to be implemented in mid-2001.

- **Fire Tariff Review**

  The Fire Tariff which was revised in line with claims development became effective from 1 July 2000. Major revisions resulting from the review were:-

(i) overall premium reduction of 14.8%;

(ii) members of PIAM are allowed to rate risks with sums insured of up to RM30 million (previously RM20 million) with the frequency of review revised from two years to three years; and

(iii) the minimum premium for fire insurance policy for dwelling risks increased from RM50 to RM60, while premium for non-dwelling risks increased from RM50 to RM75.

- **Revised Bond Underwriting Guidelines**

  In June 2000, PIAM in consultation with BNM revised the guidelines on bond underwriting for insurers. The revision saw a tightening of underwriting considerations which were to further enhance prudence. Among the significant changes to the Guidelines were the capping of exposure to bond business at 5% of the total gross premiums of the insurer and an increase in collateral for bonds issued.

- **Establishment of Malaysian Insurance Rating Organisation (MIRO)**

  MIRO which was established as a rate-making unit within PIAM, has entered into its first phase of development with the recruitment of an actuarial manager and the appointment of an actuarial firm to oversee its operations as well as act as adviser for systems installation in MIRO. The main objectives of this unit are:-

(i) to collate, analyse and publish industry statistics and experience;

(ii) to provide a mechanism for determining the burning costs of general insurance products;

(iii) to provide sound technical, qualitative and actuarial services to member companies; and

(iv) to provide insurance research and development services.

- **Development of Agriculture Insurance**

  A task force comprising representatives from the Ministry of Agriculture, Bank Pertanian Malaysia, BNM and PIAM was set up to ensure the availability of insurance coverage in the agricultural sector, which will be transformed into a modern, more commercialised and technology-driven sector under the Third National Agriculture Policy. The task force will study in greater detail the insurance needs of the agricultural sector, including the appropriate types and methods of insurance protection and the costs involved.

- **Guidelines on General Reinsurance Arrangements**

  The Guidelines on General Reinsurance Arrangements (GRA) were issued to ensure that the reinsurance programmes of general insurers are arranged in accordance with sound and prudential principles. The GRA not only highlights significant areas that must be considered by insurers when placing their reinsurance, but also specify the quantum of spread among reinsurers to avoid over-exposure to any particular reinsurer. In line with the efforts being undertaken to inculcate better corporate governance in the management of insurers, the GRA require the Board of the insurers to confirm the adequacy of the company's reinsurance programme as well as to approve any deviations from the GRA.

- **General Reinsurance System**

  The General Reinsurance System (GRES) was developed by BNM to facilitate electronic submission of information on the general reinsurance arrangements of insurers. Using the Internet infrastructure as a mode of submission, the system replaced the existing manual submission. The system was implemented for reinsurance treaties commencing on and after 1 January 2001. GRES will enable a more meaningful analysis of the general reinsurance arrangement of insurers and assist in the formulation of appropriate policies on reinsurance.

Insurance Brokers and Adjusters

The associations of brokers and adjusters continued to put emphasis on education and training in an effort to enhance the level of professionalism of brokers and adjusters and place them as one of the highly regarded professions in Malaysia. These developments are summarised below:-

Insurance Brokers

The Certificate in Insurance Broking Course advanced another step forward with the successful implementation of the intermediate level following the completion of the basic level which commenced in 1997. As a step further, the Insurance Brokers Association of Malaysia (IBAM), in consultation with BNM and the Malaysian Insurance Institute (MII), is finalising the syllabus for the advance level. While addressing the training needs of its members, IBAM also made conscious efforts to instil good practice among its members. Towards this end, IBAM is refining the draft Terms of Business Agreement (TOBA) for discussions with PIAM. TOBA aims to establish a standard of professional conduct and good insurance practice between insurers and brokers. Upon approval by BNM, TOBA will be adopted as a basis for the business relationship between IBAM and PIAM. Two main issues confronting the broking fraternity, namely, rebating and outstanding brokerage owed by insurers, are expected to be resolved with the implementation of TOBA.

To enhance the role of insurance brokers in the marketing of life insurance policies to individuals, BNM together with IBAM and LIAM undertook initiatives to draw up standard guidelines on the sale of individual life products for adoption by the members of IBAM. The effort is to encourage insurance brokers to diversify into individual life policies. In addition, IBAM is also in the process of formulating strategies to enhance the marketing channel for life insurance business. Given these positive developments, brokers are expected to play a more significant role in the marketing of individual life policies, as consumers become more discerning in their choice of investment and financing alternatives available in the financial market.

Adjusters

Taking the cue from the changes in the insurance industry, the Association of Malaysian Loss Adjusters (AMLA) has formulated a five-year masterplan for the loss adjusting sector. The masterplan, among others, identifies the critical areas for growth and the strategies to upgrade the level of professionalism in the industry. Management competency, minimum qualifications, IT knowledge, education and training are among the critical areas identified for enhancement. AMLA, in collaboration with the Chartered Institute of Loss Adjusters (U.K.), has also introduced an intermediate claim technical course for claim handlers and adjusters. The move will create more competent adjusting technicians who will be particularly useful in the growing personal line insurance where a large number of adjusters is needed.

Other Related Matters

The Malaysian Insurance Institute

The MII is a non-profit professional body dedicated to meet the training and education requirements of the insurance fraternity. As the sole educational and training institution for the Malaysian insurance industry, MII interacts extensively with the industry to ensure that the training programmes conducted are well suited to the ever changing technical and professional requirements of the industry. In addition, MII has established cooperation with internationally recognised insurance institutions, including the Chartered

Insurance Institute (U.K.), the Life Underwriters Training Council (U.S.A.) and the American Society of Actuaries.

MII is also the manager of the ASEAN Insurance Training Fund (AITF) set up in 1998. Funded jointly by the Malaysian insurance industry and the Malaysian Government, MII conducted eight programmes in the year 2000 which were attended by 134 participants. These programmes attracted participants from ASEAN countries as well as non-ASEAN countries such as Egypt, Seychelles Islands and Taiwan.

In line with the commitment of ASEAN insurance regulators to collaborate actively in the area of human resources development, MII is now undertaking the drafting of the memorandum and articles of association for the ASEAN Insurance Training and Research Institute (AITRI), which is to be established as the ASEAN network centre for insurance education and research. AITRI, in collaboration with other relevant institutions, would undertake the following tasks:-

- implement the proposed Work Programme for Human Resource Development and Capacity Building for Insurance Regulators and Supervisory Staff developed by the ASEAN Secretariat with input from member countries;

- conduct training for member countries on the methodology for achieving compliance with the core insurance supervisory principles promulgated by the International Associations of Insurance Supervisors;

- carry out a comparative study on current insurance laws of member countries to be used as a basis for the harmonisation of insurance laws in ASEAN; and

- carry out a study on the impact of the Asian financial crisis on the insurance sector in ASEAN and lessons that can be learned from it, to assist member countries in formulating policies to strengthen the insurance sector.

In the year 2000, MII conducted a total of 259 training programmes, covering a wide range of subjects from technical aspects of insurance such as underwriting, risk management, claims handling and loss assessment, to soft skill courses on general management, communication, marketing and human resources. MII also continued to conduct professional examinations such as MII Diploma and Associate examinations. To-date, a total of 233 insurance personnel have qualified for MII Diploma, while another 355 have qualified as an Associate. In addition to training programmes, MII introduced a post graduate programme in Master of Business Administration (Insurance/Financial Services), which is designed to produce more highly qualified and capable human resources in the insurance sector.

International and Regional Cooperation

During the year, BNM participated in the following regional and international forums on insurance:-

- **Third Meeting of the ASEAN Insurance Regulators**

  BNM hosted the Third Meeting of the ASEAN Insurance Regulators, which was held in Kuala Lumpur on 14-15 September 2000. Among others, the meeting agreed on the operational and funding structure of the AITRI. The AITRI will carry out structured training and education programmes for insurance regulators and practitioners, as well as conduct insurance-related research in areas of common interest to member countries. The meeting also agreed on:-

  (i) the adoption of the core insurance supervisory principles promulgated by the International Association of Insurance Supervisors as the set of minimum best supervisory practices for ASEAN members;

(ii) a final draft Protocol to establish an 'ASEAN Scheme of Compulsory Motor Vehicle Insurance' as a first step towards achieving the objective of facilitating the movement of goods in transit within ASEAN; and

(iii) the adoption of unified forms of ASEAN insurance statistics in order to monitor and assess the performance of the insurance sectors in ASEAN.

BNM also chaired the First Joint Meeting between the ASEAN insurance regulators and the ASEAN Insurance Council (an association of private insurance practitioners in ASEAN) on 15 September 2000. The meeting aims to foster closer cooperation between insurance regulators and practitioners towards promoting the development of insurance sectors in the region. It was agreed that such meetings would now be held annually in conjunction with the ASEAN insurance regulators and council meetings.

- **Seventh Annual Conference of the International Association of Insurance Supervisors (IAIS)**

  The Seventh Annual Conference of the International Association of Insurance Supervisors (IAIS) was held in Cape Town, South Africa in October 2000. The general meeting of members, held in conjunction with the annual conference, approved five new papers, namely, the Insurance Core Principles; Insurance Core Principles Methodology; Supervisory Standard on Group Coordination; Principles for the Supervision of Insurance Activities on the Internet; and Guidance Paper for Fit and Proper Principles and Their Application.