



18TH EAST ASIAN
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Taipei International Convention Center in Taipei Taiwan

The Protection Gap Study in Malaysia

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Background

Actuarial Partners (“AP”) performed a Protection Gap Study as at 2012 in Malaysia.

What is the Protection Gap

- Working population due to mortality and disability risks.
- Excludes medical, savings and retirement gap

Why the Gap exists

Potential strategies to minimise the Gap

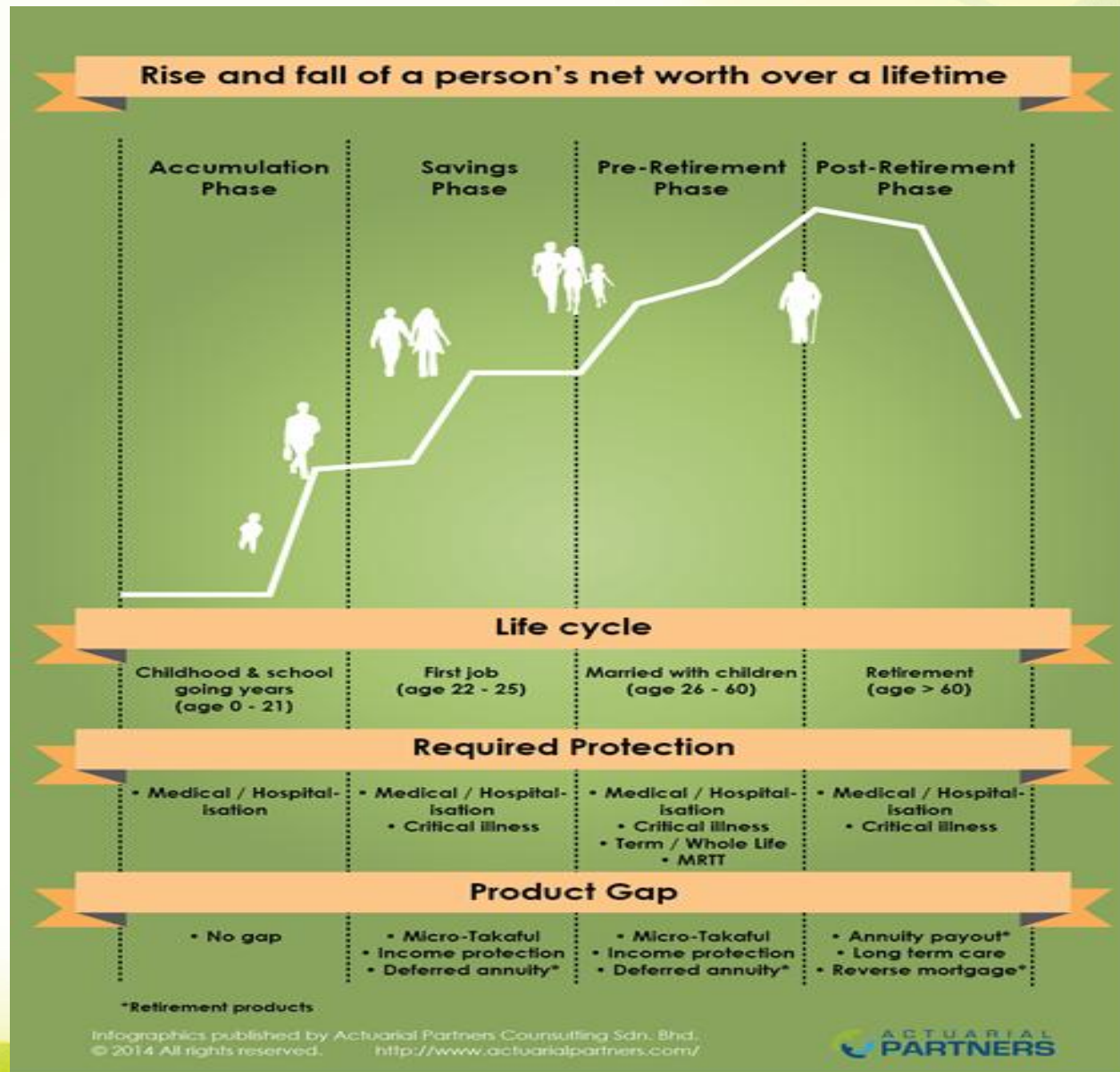
Why a Protection Gap Study is important?

To determine whether Malaysians are sufficiently insured (via life insurance or takaful) to protect and provide for their loved ones in the event of death or on Total and Permanent Disability

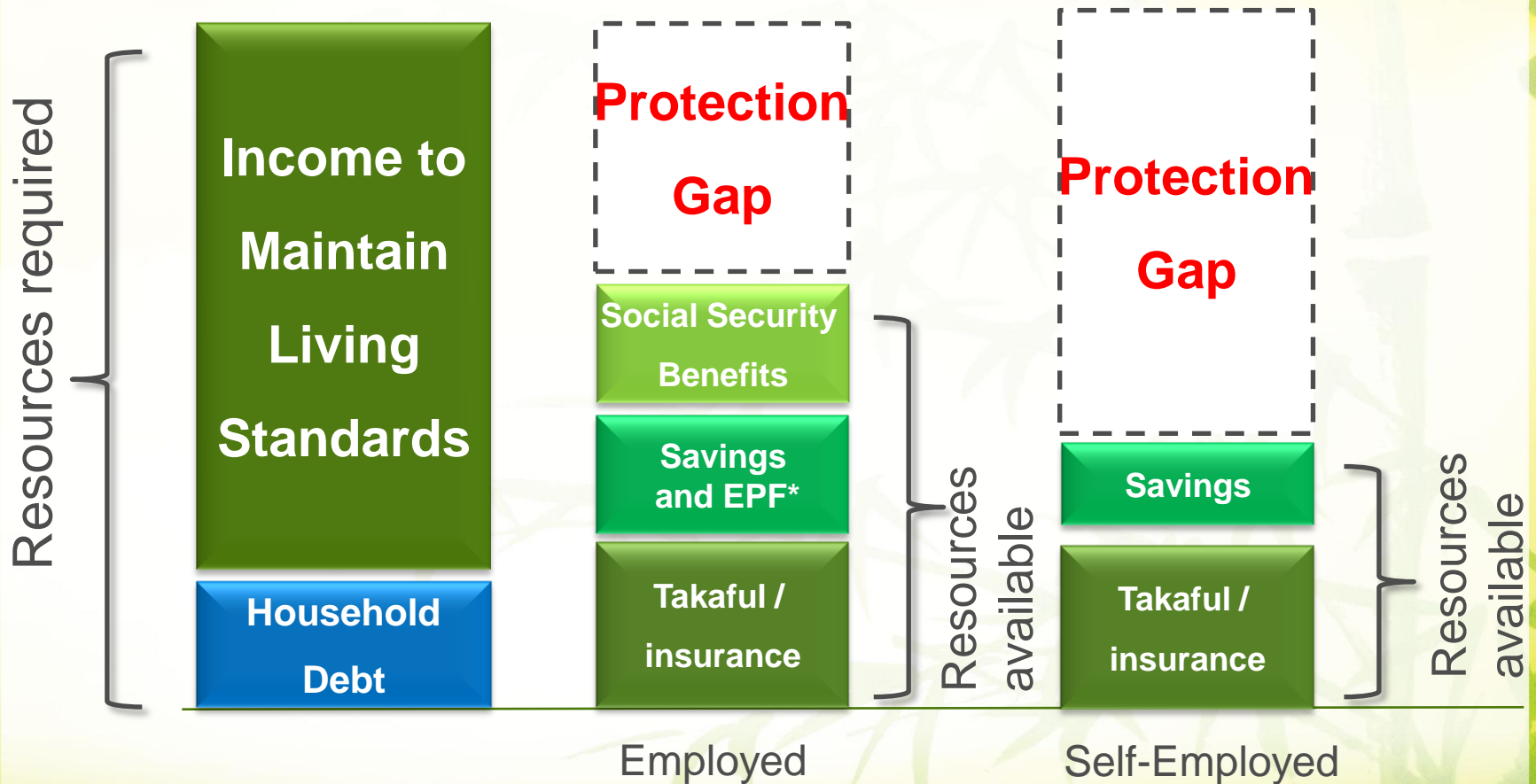
What is Protection Gap?

In life assurance or takaful terms, it is the **difference** between the **financial resources available** to the family of the breadwinner against **the amount required to maintain the current standard of living** for the dependents, in the event of death or disability of the breadwinner

Typical Life Cycle



Protection Gap Study – Methodology



*Note: Employees' Provident Fund (EPF) is a Malaysia government agency under the Ministry of Finance. It manages the compulsory savings plan and retirement planning for private sector workers in Malaysia. Membership of the EPF is mandatory for Malaysian citizens employed in the private sector, and voluntary for non-Malaysian citizens

The Protection Gap in Malaysia in 2012

Resources available

The Gap is 9 times the average annual salary

Insurance / Takaful Cover 384 billion USD	Social Security Cover 437 billion USD	Savings 133 bn USD	Protection Gap 780 billion USD
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**Amount required to maintain living standards
1,495 billion USD**

Household
Debt 239 bn USD

Resources required

- The average gap per working person is 63,000 USD.
- The average sum assured for insurance/takaful policies in Malaysia is 15,000 USD.
- The actual gap per person will vary depending on the individual family's financial needs.



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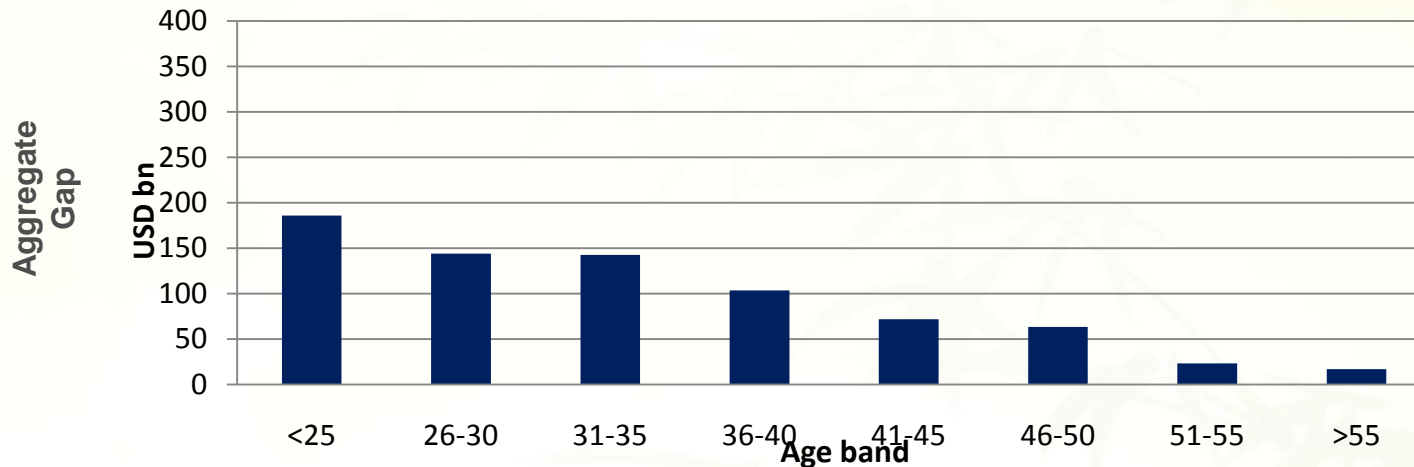
Market segments with the largest protection gap



- The take-up rate for insurance/takaful is highest at the age groups 30-50, and for those with available disposable income.

The Protection Gap - By Age Group

Age group with the largest aggregate protection gap is the younger working population (i.e. 30 years and below) at 330bn USD (average gap of 78,000 USD per person)

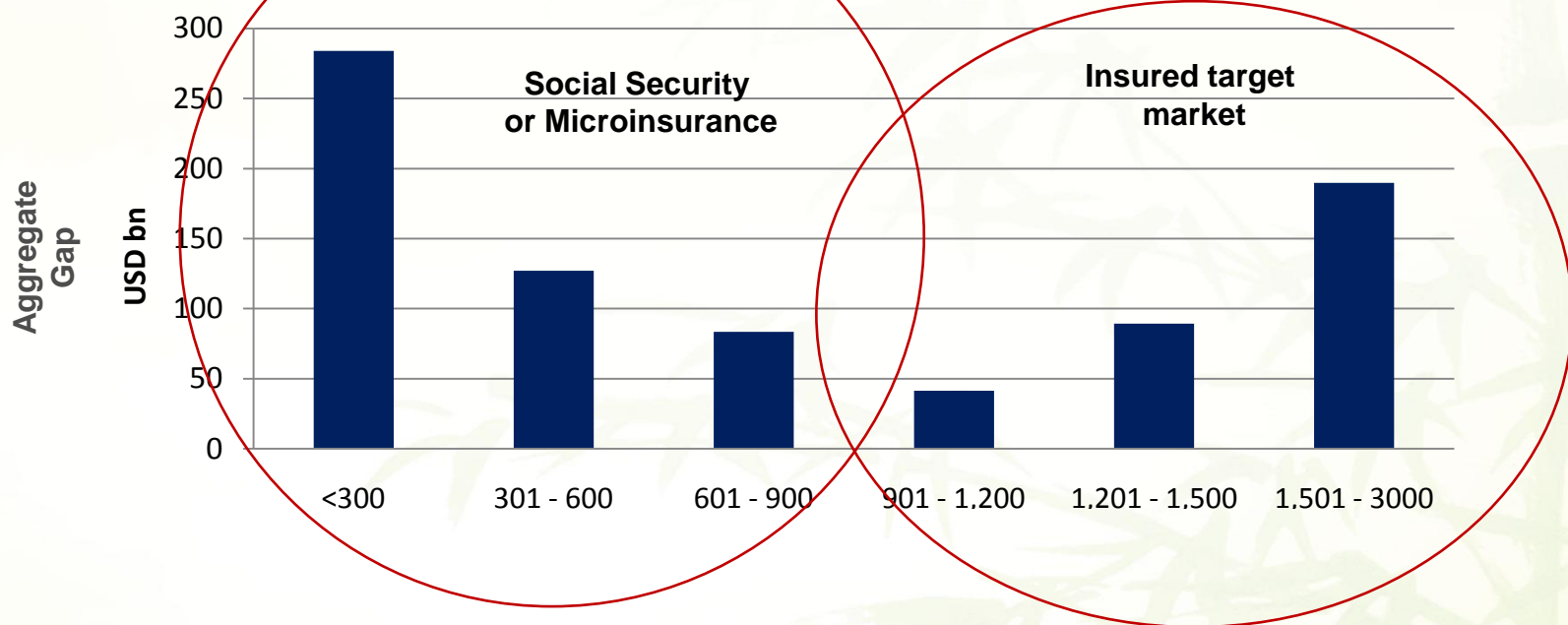


Age	<25	26-30	31-35	36-40	41-45	46-50	51-55	>55
Working Population	17%	18%	15%	13%	11%	10%	8%	8%

Key reason for the gap: Insurance/takaful cover is not viewed as urgent as the younger generation is more willing to spend on other lifestyle accessories (e.g. cars, phones).

The Protection Gap - By Income Group

The largest aggregate gap is for those earning below 300 USD a month (290bn USD), with an average gap of 63,000 USD per person

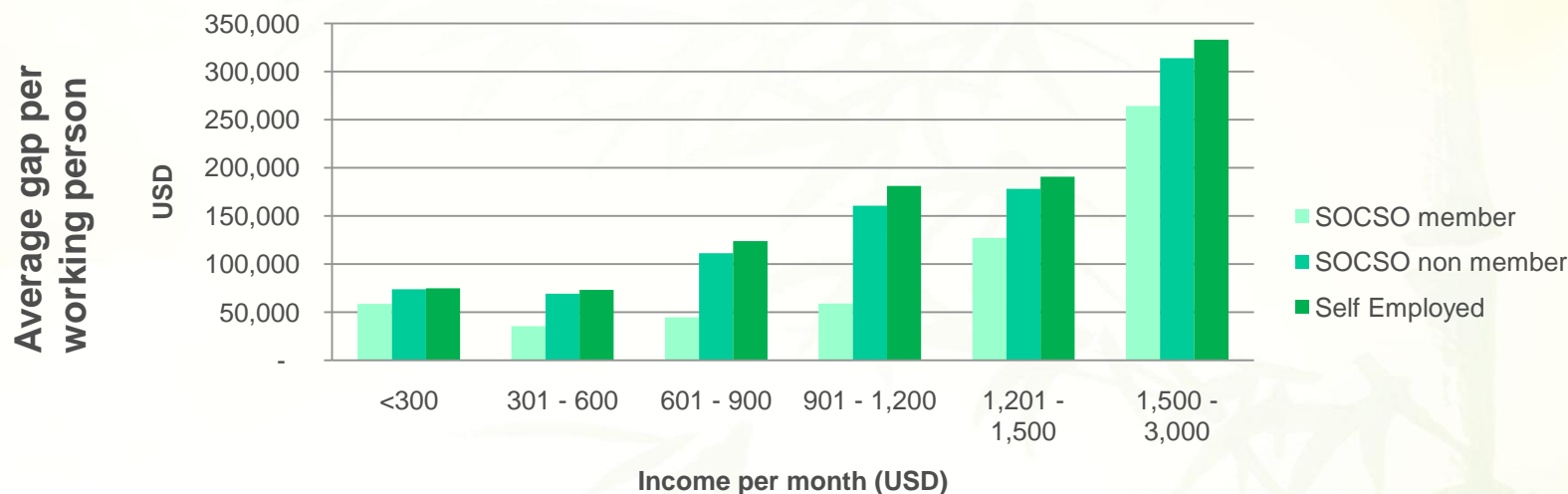


Key reason for the gap: Lack of funds to buy insurance/takaful.

Nearly two-thirds of Malaysians earn less than US600 a month.

The Protection Gap - By Employment Group

The gap is larger for self-employed compared to the employed



- **Key reason for the gap:** The self-employed are not members of SOCSO. SOCSO is effective at reducing the protection gap for the employed.
- Approximately 60% of the working population is covered by SOCSO, largely covering the younger population as these would receive low entry level pay (automatic SOCSO membership for the employed with monthly income of below 1000 USD)

– SOCSO: Social Security Organisation in Malaysia

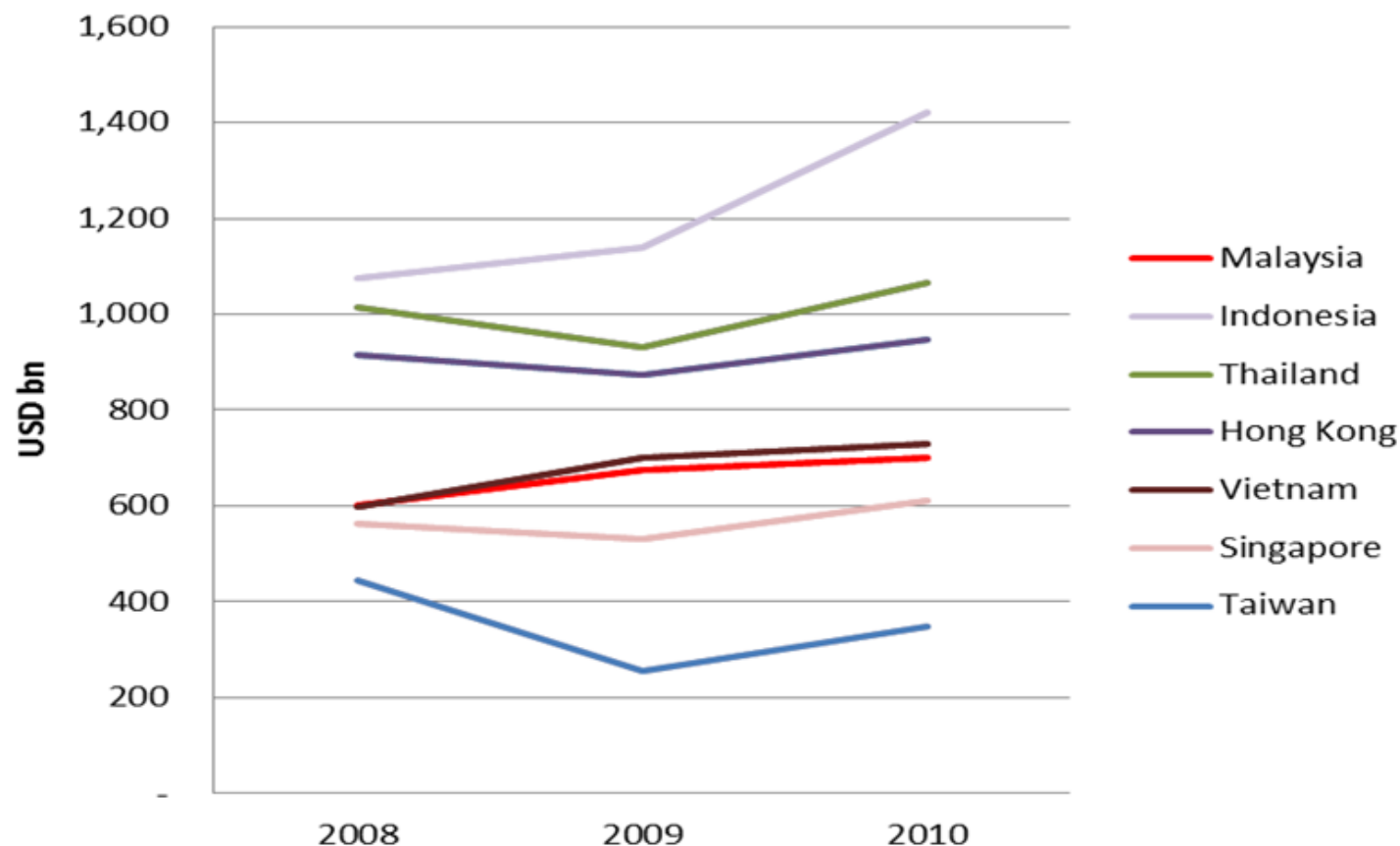
The Protection Gap - By Geographical Area

- The average gap per working person is highest for East Malaysia



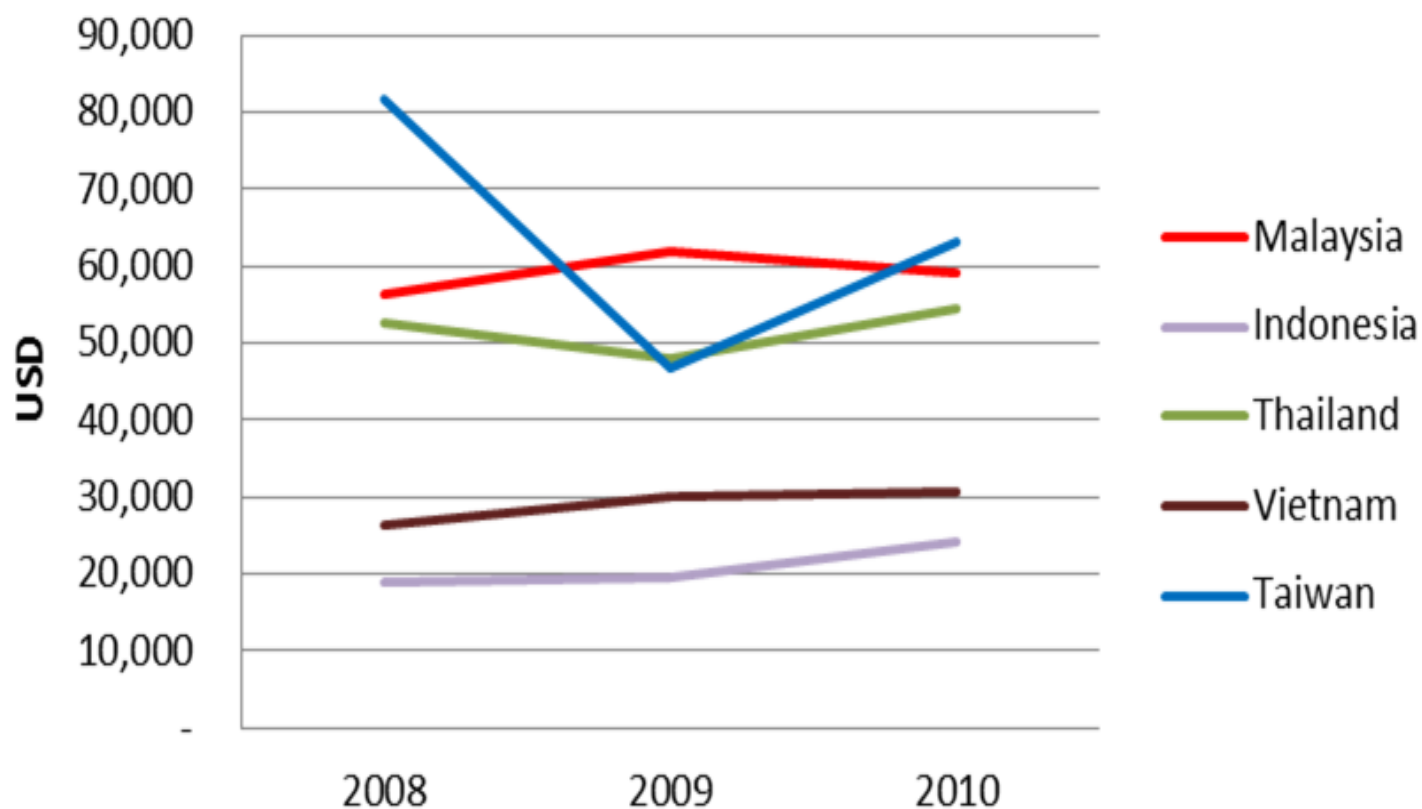
- **Key reason for the gap:** Agents are largely focused in big cities. East Malaysia (Sabah and Sarawak) and rural areas are largely underserved due to challenges in product distribution.

Aggregate Protection Gap Malaysia vs other markets



Source: Actuarial Partners analysis and recalibration of Swiss Re's Mortality Protection Gap analysis
"Mortality Protection Gap: Asia-Pacific 2011" Swiss Re

Average gap per person Malaysia vs other markets



Source: Actuarial Partners analysis and recalibration of Swiss Re's Mortality Protection Gap analysis
"Mortality Protection Gap: Asia-Pacific 2011" Swiss Re

Understanding the market

Consumers generally view an insurance/takaful product as a savings/investment product, rather than a protection product, and would be willing to pay more for a savings-type product (despite the lower protection) so that they are able to enjoy their 'investments'.

Pure protection products, which are cheaper, are seen as poor value for money.

Sellers prefer to sell investment-linked products.

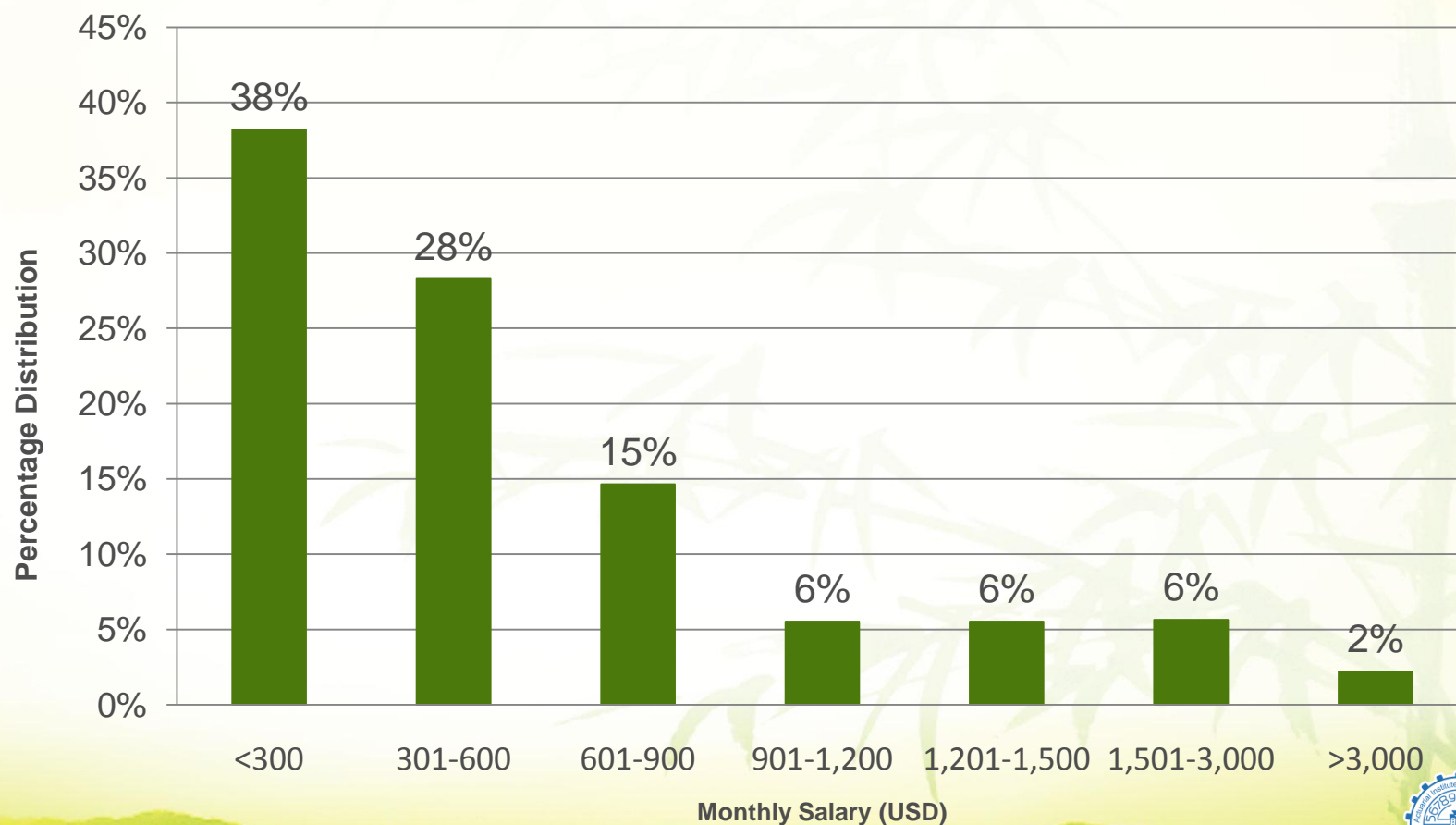
Do customers know what they want?

“How does somebody know what they want if
they haven’t even seen it?”

Steve Jobs

Employed population salary distribution

Nearly two-thirds of employed Malaysians earn less than USD600 a month



Source: EPF

Why the Gap exists?

Key reasons



Lack of awareness and knowledge in financial planning



Perceived lack of funds for most income groups



Limited financial and tax incentives



Limited reach of existing distribution channels and product competition in the banca channel.



Limited understanding on how insurance works by consumers



Preference for savings-type products which are more expensive



Quality of agents and sales process: Limited experienced full-time agents, too many part-time agents, limited sophistication in the sales process.

Potential strategies to minimise the Protection Gap

Recommendations

Education and awareness

- Empowering consumers by providing financial planning education (including takaful) in school/workplace
- Industry awareness drive through road-shows etc.
- Create understanding on the value of pure protection products

Developing fair tax incentives

- Separation of the tax incentive between EPF and insurance as lobbied by the industry
- Dollar-for-dollar subsidy for lower income group, towards pure protection products
- Level playing tax incentives between unit trusts vs takaful/insurance products

Developing a more effective agency force

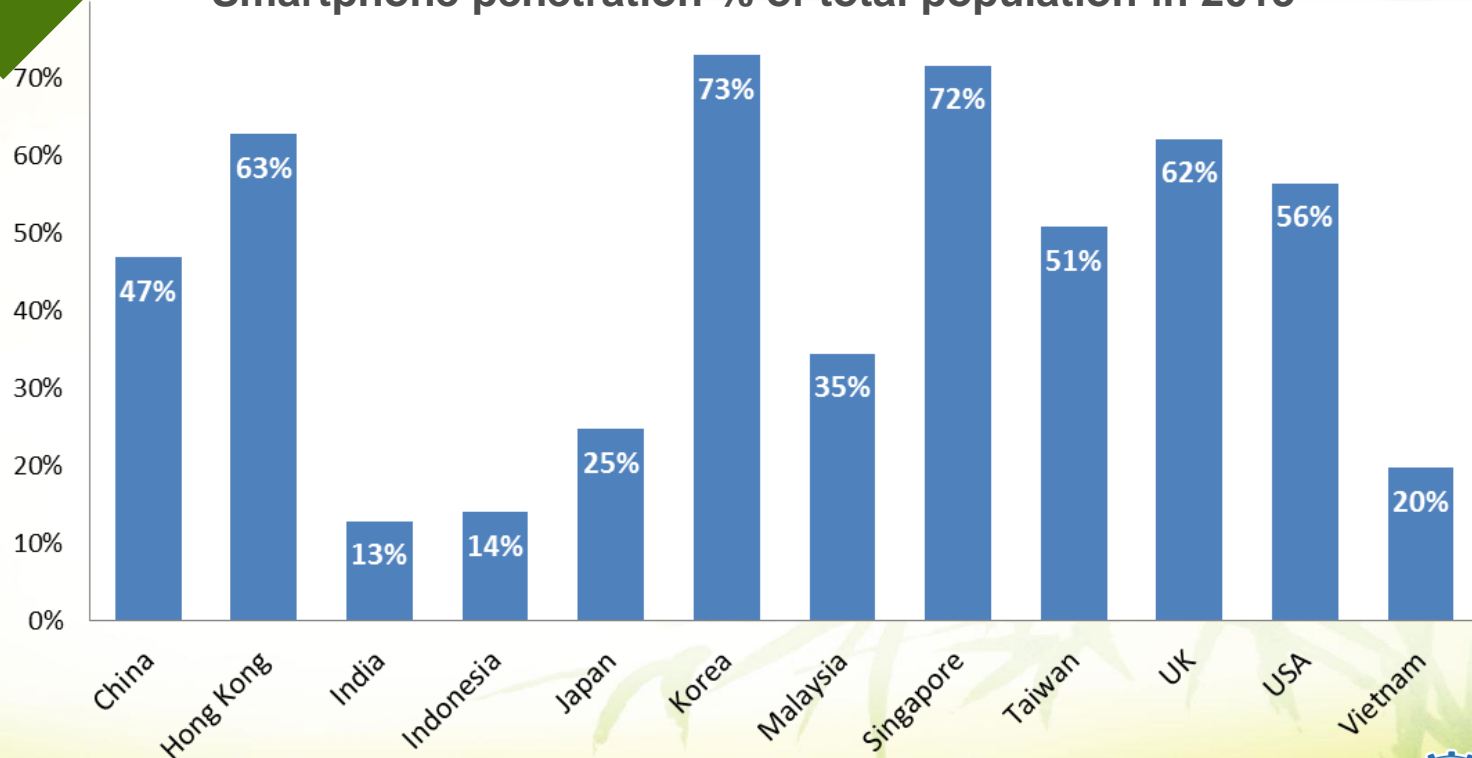
- Using needs-based selling through financial projection tools so that customers understand the importance of insurance and improve on emotion-based selling
- Increase the number of full time agents
- Pro-active agents to engage customers at relevant lifecycle trigger points.

Reaching out to customers

Developing a more extensive distribution channel

- Tying up with existing structures to reach the rural places such as Pos Malaysia, mobile phones, small retailers
- Developing branches developed by industry associations so that costs can be shared by participating members

Smartphone penetration % of total population in 2013

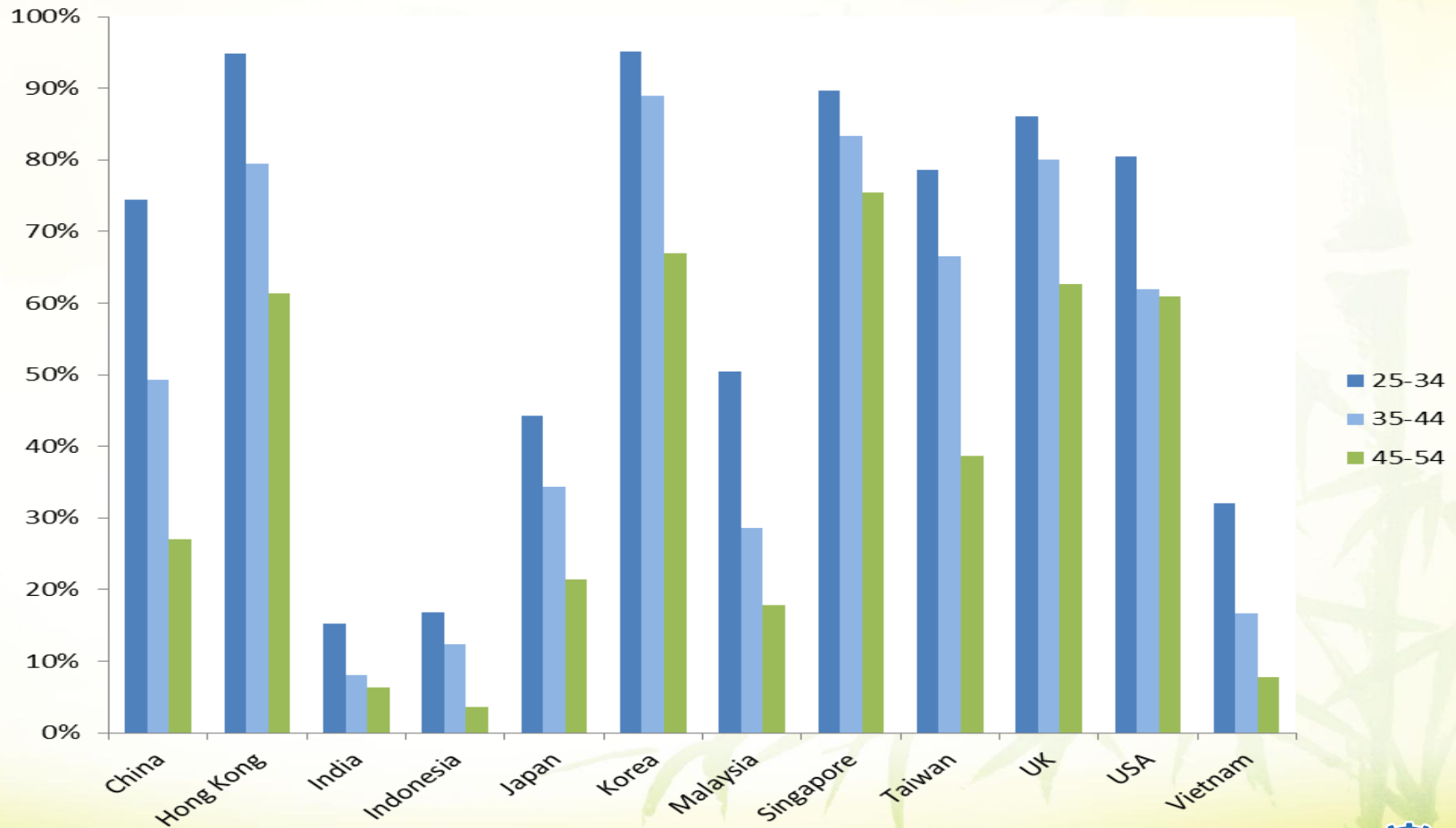


Source: Our Mobile Planet (Google) October 2014

Reaching out to the younger populations

Younger people conduct a significant proportion of their lives online

Smartphone penetration % of total population in 2013 (by age group)



Source: Our Mobile Planet (Google) October 2014

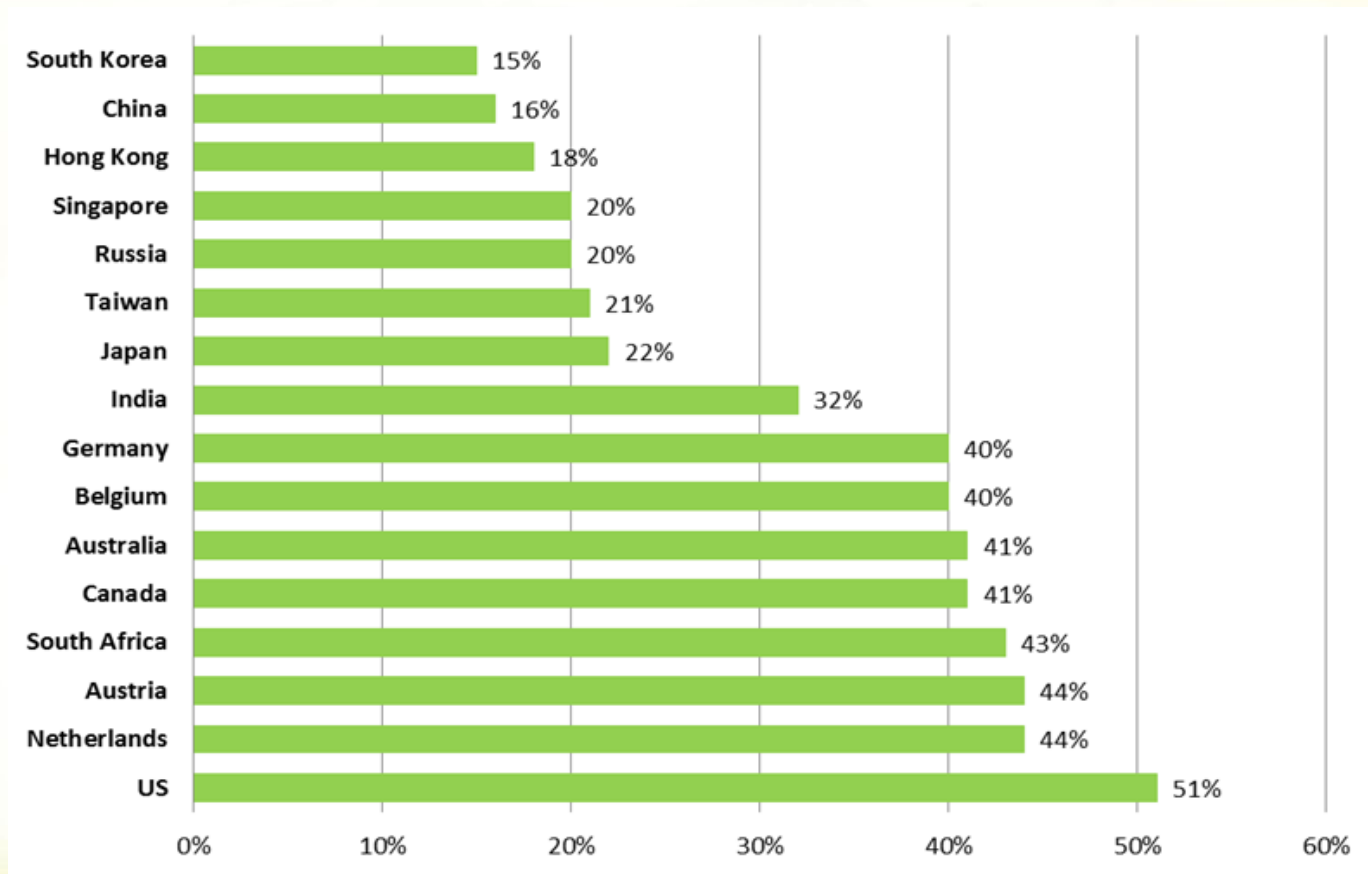
Potential strategies to minimise the Protection Gap

Simplify products and sales process

- Need simple products that a consumer can understand
- A complicated buying process (e.g. underwriting) combined with a poor understanding of products can lead to the perception of insurance having poor value for money

Percentage consumers with positive consumer experience on insurance

A complicated buying process combined with a poor understanding of products can lead to the perception of insurance having poor value.



Source: "Voice of the Customer Survey, World Insurance Report 2014", CapGemini

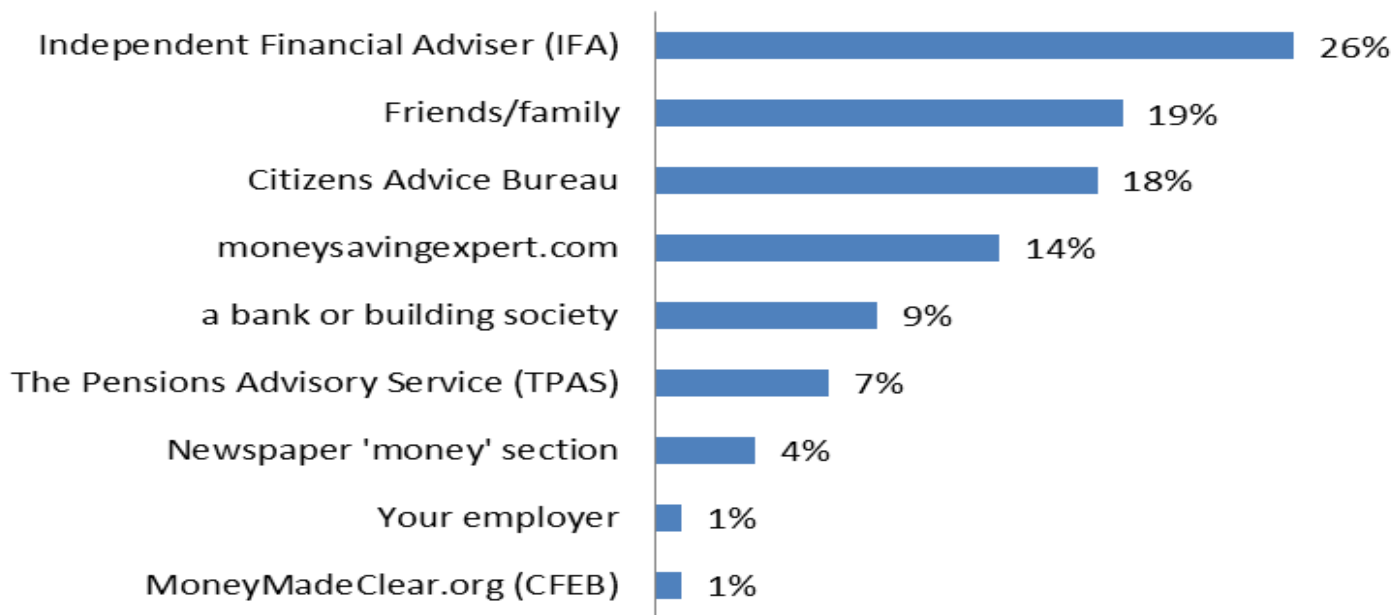
Simplifying the sales process

- The need of medical underwriting only gives opportunities for buyers to procrastinate.
- Remove underwriting burdens from frontline sales using new solutions in processes and technology.

Whose financial advice do you trust the most?

Developing
trust,
reputation and
transparency

- Develop a better relationship between the buyer and seller, to develop trust
- Developing a product aggregator on the web will empower consumers to compare simple insurance products without the need to meet an agent
- Reward consumer loyalty to encourage trust and persistency (e.g. reward points)



Source: ABI Quarterly Consumer Survey 2010 Q4 (2608 responses)

Potential strategies to minimise the Protection Gap

Recommendations

Product customisation

- For those without a regular income, offer a single premium protection product that is simple and cheap
- For the younger generation, products need to be bundled with lifestyle items (e.g. gym membership)

Industry-wide effort

- Developing a national product to meet the gap at the lower income group on shared-services basis to keep costs low
- To increase the market penetration to the younger generation who are internet-savvy, develop a national pure protection takaful product to be sold via the internet
- Industry to highlight to the consumers how much protection coverage is typically required and how much support is available from social security, existing coverage and available assets, similar to those practiced in Denmark and the US

Other markets – food for thought..

“The challenge for insurers is to create motivation to act on insurance, instead of convincing Australians of the need to protect their living standards and income earning”

“....less than a tenth of (Australians) meet the minimum recommended level of cover”

“To overcome the inertia amongst those that do not have life insurance but know it is important, the industry needs to provide structural triggers for people to take out insurance. These include government tax incentives... that make it costly not to have life insurance, and linking consideration of life insurance with structured life events...”

Source: Aparthy to Action – Understanding consumer barriers to adequacy in life insurance in Australia, MetLife Australia and the Financial Services Council (1st April 2014)

Next Steps

The insurance and takaful industry working together to develop practical solutions and strategies on a holistic basis to minimise the protection gap

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