

Expanding Insurance and Takaful Protection for the B40 Population

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This box article describes the features, operationalisation and the intended outcomes of the *Skim Perlindungan Nasional B40, mySalam* (the Scheme) that was recently introduced by the Government effective 1 January 2019. The Scheme aims to reduce the vulnerability of households in the bottom 40% income group (B40) to income shocks from unexpected hospitalisation or critical illnesses. It is applicable to eligible *Bantuan Sara Hidup Rakyat* household recipients aged between 18 and 55 years old.

The Scheme complements the Bank's ongoing initiatives to increase insurance and takaful coverage, particularly among the underserved segment, thus strengthening business and household resilience to financial shocks. To this end, the Bank launched the *Perlindungan Tenang* initiative in December 2017, which attracted participation from 10 insurance and takaful players to provide simple and affordable insurance and takaful products. Through innovations to product design and the customer journey, such as digitalising distribution channels and claims submissions, insurers and takaful operators have become more responsive to the needs of this segment.

Understanding the Needs of the B40 Income Group

A key risk faced by the B40 is the immediate financial ramifications of a temporary loss of income owing to the inability to work as a result of hospitalisation or illness. The Financial Capability and Inclusion Demand Side (FCI 2018) Survey¹ found that 62% of those who struggled to make ends meet over the period of 12 months surveyed are from the most vulnerable segment earning less than RM1,000 a month. Low-income households earning less than RM2,000 did not fare much better, with them spending 95% of their earnings on living costs, leaving them with little savings against economic shocks or emergencies. 86% of respondents that cited difficulties raising emergency cash of RM1,000, an amount roughly equivalent to one month's minimum wage, are from the low-income households earning less than RM1,500 a month. For the B40, a diagnosis of a critical illness or a protracted period of hospitalisation could plunge the household into poverty or debt in a matter of weeks, particularly if the spouse has to also take on the role as caregiver. These observations on the B40 are consistent with national reports² and feedback from insurers and takaful operators.

Barriers to obtain affordable and suitable insurance and takaful protection still exist, as products that are currently available on the market are better suited to the needs of the more affluent market segments. Product and process complexities have also made understanding insurance inherently difficult for many. This in turn discourages demand for insurance and takaful, particularly among the B40. Based on consumers surveyed in FCI 2018, among those who have never purchased any insurance and takaful products, three in five indicated that it was due to a lack of general understanding on insurance and takaful, or because they did not know how to assess or choose such products. Financial and information constraints typically faced by the B40 further compounds the difficulty that they face in making decisions on insurance and takaful purchases.

Based on data published by the Employees Provident Fund, Malaysia's existing social protection system provides benefits for only 38% of working age Malaysians³, with the rest (approximately 13.7 million people) excluded from such protection. This remaining group includes the self-employed, informally employed (such as day earners) and housewives. Notwithstanding recent public policies⁴ to expand coverage to these subgroups, many of these individuals are low-income workers, and interruptions to their income stream owing to an inability to work can have a significant impact on their well-being as well as that of their dependants. This need remains underserved by both private insurance and takaful and public social protection.

¹ Bank Negara Malaysia, 2018.

² The State of Households – Different Realities, Khazanah Research Institute, 2018.

³ Defined to be those aged 16 to 60 years old.

⁴ Self-employed Employment Injury Scheme under Social Security Organisation (SOCSO) and *Caruman Sukarela Insentif Suri* (i-Suri) under Employees Provident Fund (EPF).

Scheme to Bridge the Protection Gap and Transition the B40 to a Sustainable Private Market

Given the observed gaps above, the Scheme will provide immediate protection for the eligible B40. The Scheme has also been designed to meet the following longer-term objectives:

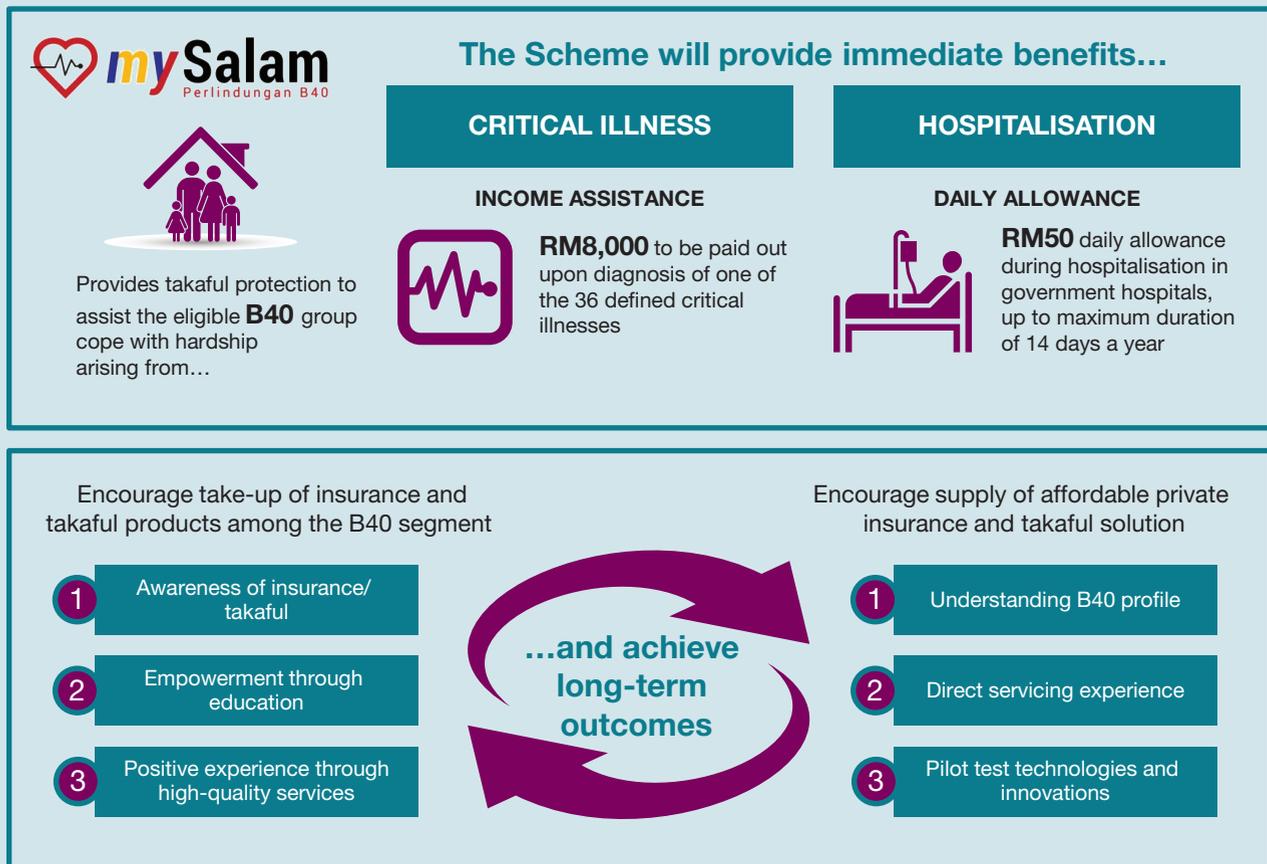
A) Encourage take-up of insurance and takaful among the B40 by building greater awareness, a positive experience and trust

A key barrier to the take-up of insurance and takaful coverage lies in its particular nature where the benefits of being covered are not immediately apparent, while the costs are. With limited resources, this trade-off is even more pronounced among the B40 segment. The Scheme therefore seeks to provide opportunities for the B40 to experience first-hand the financial benefits of insurance and takaful, and to build positive familiarity and confidence in related procedures. Various studies⁵ have shown that having personal experience with insurance products can create a sustainable demand for insurance. By providing protection against temporary income displacement, the Scheme deals with a key risk facing the B40.

Under the Scheme, participating insurers and takaful operators must meet defined servicing standards in line with *Perlindungan Tenang* principles. The standards include product features and services that provide convenient access and are easy to understand and to claim for benefits covered. This is critical to allow the

Diagram 1

Objectives and Intended Outcomes of the *Skim Perlindungan Nasional B40, mySalam*



Source: Bank Negara Malaysia

⁵ Using Subsidies for Inclusive Insurance: Lessons from Agriculture and Health, International Labour Organization, 2014.

B40 to have positive user experiences and develop greater confidence in insurance and takaful. To this end, the Scheme has introduced a dedicated online portal and hotline to service all enquiries and claims. In addition, the Scheme will continue to explore more effective outreach and distribution channels, such as via hospitals.

B) Promote the supply of commercially viable and affordable insurance and takaful products and services that meet the needs of the underserved segment

The Scheme is designed based on core insurance and takaful principles and is not intended to serve as a form of long-term social welfare. It will be provided for a limited period with the intention of eventually migrating the B40 to fully subscribe to private insurance and takaful products.

At present, the lack of data on the B40 is often cited by the industry as a challenge in facilitating product design and pricing. With this Scheme, comprehensive B40 data such as claims and customer profiles collected over the duration of the Scheme will support more accurate and sustainable product design and pricing. This will encourage broader and more competitive private market solutions that cater to the underserved segments. In addition, the Scheme will also serve as a testbed for the development of innovative delivery channels, including digital solutions and public-private partnerships to effectively reach and serve the target segments.

In the longer term, it is envisaged that affordable private insurance and takaful will be more widely available to and accessed by various segments of society and the economy to manage a wide range of financial risks and life events.

Operational Sustainability to Support Longer-Term Objectives

The Scheme is funded by the insurance and takaful industry. Initial funding will be provided by foreign insurance shareholders that elect to contribute to the Scheme in lieu of their commitment to reduce their shareholdings to not more than 70%. Contributions to the Scheme will similarly promote the objectives of divestment to achieve greater long-term economic benefits for Malaysia through wealth sharing and higher insurance penetration.

A trust fund has been set up to manage the contributions from insurers and takaful operators to the Scheme. In this initial stage, the Scheme will pay premiums or contributions from the fund on behalf of the B40 to participating insurers and takaful operators for standardised coverage. The product will be underwritten and serviced by participating insurers and takaful operators at cost with profits ploughed back into the Scheme.

The Scheme leverages on the existing infrastructure of insurers and takaful operators to deliver effective and efficient servicing. Additional supporting infrastructure to accommodate the high volume of servicing, such as the aforementioned online portal, will be developed by the Scheme for use by all participating insurers and takaful operators. This model will allow the Scheme to manage its costs and ensure its sustainability over the duration of the Scheme.

The Scheme is expected to play a key catalytic role in the development of suitable insurance and takaful products and services for the underserved segments in Malaysia. It also presents unique opportunities for industry players to gain an in-depth understanding of customer needs and encourage more Malaysians to protect themselves against financial shocks through insurance and takaful protection.