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This box article analyses the low uptake of insurance and takaful among underserved segments in Malaysia, focusing in particular on the bottom 40% households by income (B40). New directions for product design and delivery are proposed to improve insurance and takaful penetration within the B40 segment.

Expanding Insurance and Takaful Solutions for the Underserved Segment

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B40 are Under-Protected Relative to National Population

A breakdown of the Malaysian life insurance and family takaful penetration rate¹ (2017: 36.5%) reveals that the uptake of insurance and takaful among the B40 is disproportionately low relative to the national population (Diagram 1). Out of the working population, meaning those aged 20 to 59 years old who are most likely to be in employment and to have dependents, the B40 penetration rate² stood at 30.3% at end-2016, compared with the national working population penetration rate of 50.4% (2017). There is also a clear disparity between the B40 and non-B40 penetration rates across all states, where the gap is particularly wide in states with large urban centres. In urban areas such as Kuala Lumpur, 88% of non-B40 between ages of 20 and 59 have insurance and takaful coverage, compared to 30% among the B40. In the less urban states such as Sabah, a similar pattern is observed, with 30% of non-B40 having insurance and takaful relative to 19% among the B40.

The low penetration rate of insurance and takaful among the working-age B40 segment is a critical

issue. B40 households are highly vulnerable to financial shocks as they often have low levels of savings. When a financial shock occurs, such as the death or illness of the family breadwinner, the household not only loses its source of income, but also lacks the funds to pay for the unexpected expense. In such situations, insurance and takaful can act as a safety net with insurance and takaful payouts providing temporary relief and enabling households to weather financial emergencies.

Reasons Impeding B40 Access to Insurance and Takaful

In last year's FSPSR box article 'Evolution of Life Insurance and Family Takaful Distribution Channels'³, a few factors impeding the affordability and accessibility of insurance and takaful were identified. These include the low productivity and limited geographical reach of the agency network, in addition to the focus of bancassurance channels on products targeted at affluent customers. In this article, we examine two other developments that have further contributed to the low take-up of insurance and takaful products by the B40 segment.

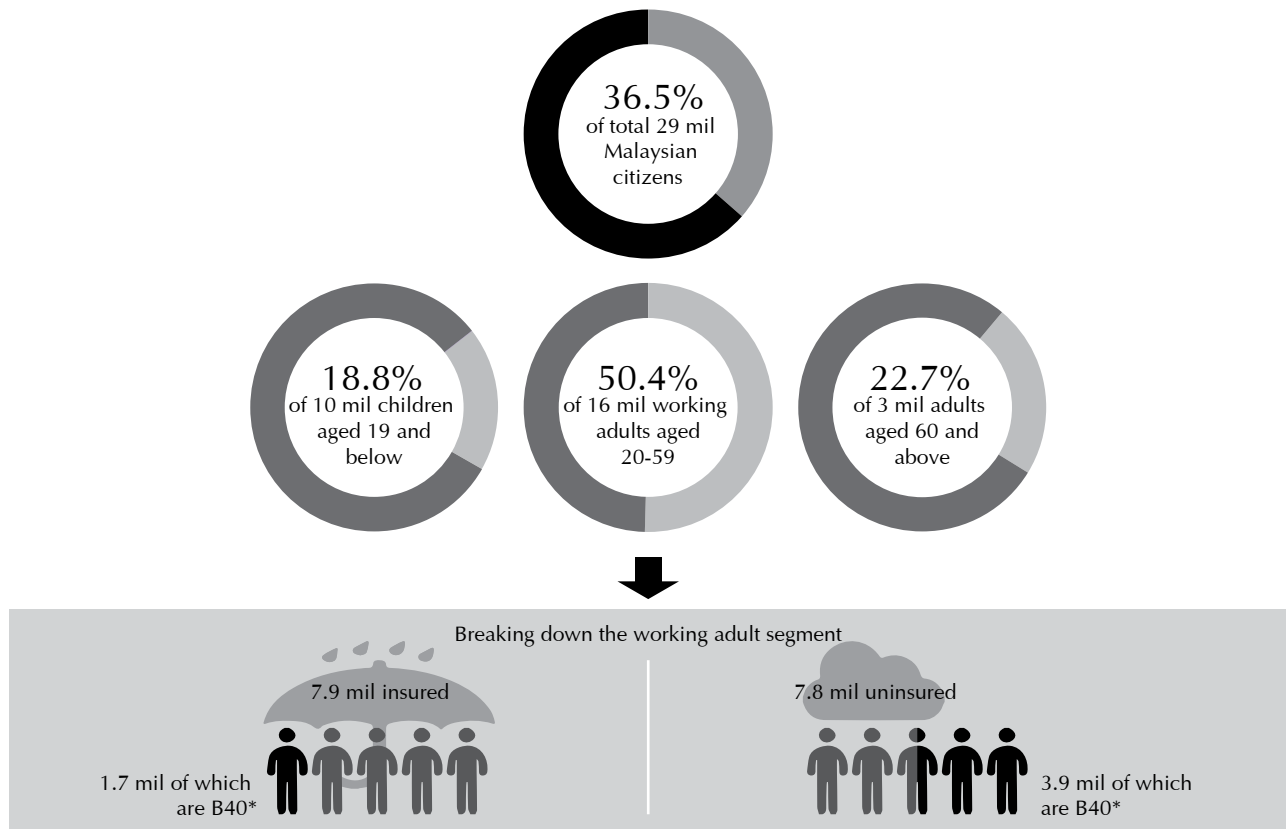
¹ Defined as the percentage of Malaysian citizens who own an individual life insurance policy or family takaful certificate, after eliminating duplicates from multiple policies.

² The Bantuan Rakyat 1Malaysia (BR1M) recipient segment is used as a proxy for the B40 segment.

Diagram 1

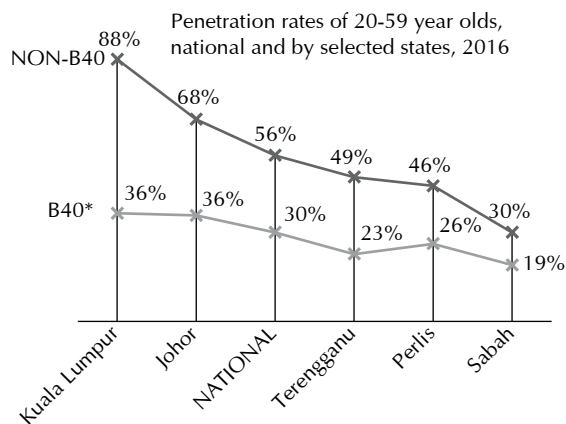
B40 Life Insurance Uptake and Other Characteristics

What percentage of Malaysian citizens own a life insurance or family takaful policy?



What do we know of the Bottom 40% household segment?

Consistently lower penetration rate than non-B40 segment



76% of B40* are working-age



Median income of RM3,000
Mean income of RM2,848



1.5 mil urban and 890,000 rural households earn <RM4,000



49.3% have home internet
95.2% have a mobile phone

*Estimated by using 2016 BR1M recipients as a proxy for the B40 segment

Source: Bank Negara Malaysia, Department of Statistics Malaysia, Implementation Coordination Unit (2017)

1) **Industry focus on products with savings and investment elements that are complex and unaffordable**

The current dominance of insurance and takaful products with savings and investment elements, which are often costly and complex, has crowded out products that are more suited for the B40 segment. In its simplest form, an insurance or takaful product provides protection such that a guaranteed benefit is paid out on a specified event for a given amount of premium paid. However, over the years, products have evolved to increasingly include savings and investment elements. The inclusion of these benefits inevitably increases the base cost of such products. Products also become more complex due to features that introduce greater uncertainty into the product plan. An example of this is investment-linked (IL) products, which form 54% of insurers and takaful operators' new regular premiums or contributions today due to its inherent capital-efficiency. Under an IL product, premiums paid by the policy owner are channelled to a unit fund, from which deductions are made to fund the insurance protection element. The policyholder bears the entire investment risk while insurers have full discretion to review insurance charges, which affects the amount of these deductions. While offering a degree of flexibility to policy owners to manage their protection levels and investment exposures, such products are usually designed for mass affluent segments and are generally not well understood by consumers from the lower-income groups. This ultimately reduces their suitability, affordability and accessibility to the B40 segment.

2) **Proliferation of products packaged with add-on benefits that may not provide meaningful protection**

In the pursuit of product differentiation to remain competitive, insurance and takaful benefits are increasingly offered as add-on benefits purchased with basic policies. For example, some personal accident products come with add-ons such as cover for flood-

related injuries. This is a highly specific event, often involving lengthy claims documentation and verification processes before claims are paid. Products become more expensive and also more complex, without providing significant additional protection. The value of such benefits is questionable for B40 households, who would typically need such payments to be immediate in their hour of need due to the lack of savings. Based on a survey of 23 life insurers and family takaful operators conducted by the Bank in early 2017, only eight offered any life and family takaful products with monthly premiums below approximately RM15 per month, the level considered to be reasonably affordable for the B40 segment.

Perlindungan Tenang Initiative

The lack of insurance and takaful products for B40 households is a good example of market failure to provide protection for the underserved segment. Market failure necessitates an intervention by the regulator. Given these apparent market gaps and growing challenges associated with income distributional effects which further increase the vulnerability of B40 households, the Bank, on 24 November 2017, launched *Perlindungan Tenang* to expand insurance and takaful solutions targeted at the B40 segment. These products, which can be identified by a distinct logo (Diagram 2), are also intended to be suitable for the general public who are not currently covered by any form of insurance or takaful protection.

The initiative aims to galvanise a broader movement among insurers and takaful operators to offer products that meet five parameters: (1) affordable pricing; (2) provides good value; (3) widely accessible; (4) easy to understand; and (5) easy to purchase and claim. Through an iterative feedback process and close monitoring of take-up by the B40, the industry is expected to go beyond incremental enhancements to embrace new business models and processes that will support expanded product offerings for the underserved segments.

³ 'Evolution of Life Insurance and Family Takaful Distribution Channels', Financial Stability and Payment Systems Report 2016, Pages 79-83

Diagram 2

Logo for Perlindungan Tenang



Source: Bank Negara Malaysia

Such products will be evaluated against the following characteristics:

Affordable

Premiums should be set at an affordable level, which is defined as the amount that consumers are willing and able to spend on purchasing insurance or takaful protection. Premium levels must therefore take into account the circumstances of households in the target market, including disposable income, occupation, household size and access to other coping mechanisms such as emergency savings or social safety nets. While such factors will vary substantially between individual households, the Bank is setting a target of monthly premiums not exceeding RM15. This target will be refined further as the industry gains more experience and understanding of the B40 households' expenditure patterns.

Good value

In order for products to offer good value to the B40 segment, they should cover risks that are most important for such households and maximise the proportion of the premium paid that is allocated to the protection benefits. As a measure of value, projected benefit payouts are generally expected to exceed at least half of premiums generated, with greater use of technology and alternative lower-cost access channels to minimise expenses and distribution costs. Agency channels, as currently structured, are unlikely to deliver affordable premiums at the level of value envisioned by the *Perlindungan Tenang* initiative. Innovation in distribution models is therefore imperative to optimise costs and outreach. This will require a longer view of investment decisions, including the

potential for collective investments in supporting market infrastructure, in order to achieve a required critical mass.

Accessible

Coverage under *Perlindungan Tenang* products and distribution channels should be inclusive of the specific circumstances (such as location, occupation or dwelling types) that are typical of the B40 population. Products and services should be made available at access points that are convenient, such as public hospitals, urban and rural transformation centres (UTC/RTC), and smaller retail outlets. The smart use of technology should also be reflected in consideration of the specific needs and lifestyles of the targeted segments, rather than what is more familiar to the current market segments of insurers and takaful operators. For example, while internet distribution could offer cost savings and outreach beyond urban centres, only half of B40 homes are connected to the internet.

Easy to understand

Product benefits, terms and conditions should be designed to be self-explanatory to a consumer with relatively limited understanding of insurance and takaful. Insurers should minimise uncertainty in the product design, including those associated with underwriting disclosures, and the repudiation of or inadequate limits on claims. Marketing materials should present information in an intuitive manner to help consumers make informed choices, focusing on the protection they need and can afford.

Easy to buy and claim

The entire journey of a customer, from the first contact with the distribution channel

to the point of claims payment, needs to be frictionless. Currently, a customer's experience is often riddled with many pain points. The process of making claims, in particular, including the supporting documents required, should be simplified to minimise anxieties at the point of making a claim. For example, while insurance or takaful offerings might be available online, claims need to be submitted at the branches of the insurer or takaful operator, often located at a considerable distance from the policyholder or beneficiary. In some incidences, a claim may require up to nine separate documents (for example, a claim for some death benefits). Hospital income benefits that reimburse the policyholder up to a month after being discharged from hospital do not meet the needs of a daily wage earner with low savings. To reduce these frictions, the Bank has required claims on *Perlindungan Tenang* products to be paid out within five working days from the receipt of complete, simplified documentation. Other improvements that are being prioritised to achieve a frictionless experience include:

- Nominations captured at the point of sale for more efficient claims payment;
- Simplified underwriting process and immediate policy issuance;
- Responsive and well-trained call centre staff for post-sale care; and
- Leveraging on open application interfaces (API) to further simplify the underwriting and claims process.

Early Signs of Innovation Among Providers of *Perlindungan Tenang* Products

As at end-2017, ten *Perlindungan Tenang* products have been rolled out by ten participating companies comprising six life insurers, three family takaful operators and one general insurer. More are expected to participate in 2018. Innovations that address some of the common pain points have included:

- Basic life and family takaful products focusing only on death benefits that come with simple disclosure and claims processes. One product allows electronic submission of claims documents through mobile applications such as WhatsApp.
- A fire product that relies on confirmation from the village head or district officer as substitute proof of residence for policyholders (staying in longhouses) that are unable to provide customary documentation.
- Acceptance of postal submissions of claims documents certified by the village head, school principal or police officer in lieu of in-person submission at the insurer or takaful operator's branch.
- A funeral benefit product with a 24-hour pay out timeline. Key features of this simple product fit on a brochure that is the size of a name card. Burial permits are accepted as an alternative to the death certificate, thereby removing uncertainties in the timing of claims payouts where a death certificate is required.

Conclusion

The Bank expects that further product innovations and improvements in delivery inspired by the *Perlindungan Tenang* initiative will increase overall insurance and takaful penetration, particularly among the B40 segment, as more experience is gained in meeting the needs in this segment. On its part, the Bank will continue to engage the industry

on developing fit-for-purpose regulations, and intensify collaborations with the industry and other stakeholders to raise the financial capability of B40 consumers. More broadly, the efforts under *Perlindungan Tenang* to expand insurance and takaful coverage for those currently without protection, are also expected to generate positive spillovers for the insurance and takaful market as whole — through a renewed focus on improving customer value, access and experience.



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