Seminar on Medical and Health Insurance for Insurers and Takaful Operators 14 October 2003, Kuala Lumpur

Opening Remarks by Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Governor, Bank Negara Malaysia

Private medical and health insurance has an important role in complementing and supplementing the national healthcare system. Indeed, more and more Malaysians are turning to the insurance and takaful industries for insurance protection to finance their healthcare requirements. This has led to the substantial expansion in medical and health insurance business in the last five years, with premiums increasing at an average annual rate of 16% to nearly RM1 billion in 2002. Medical and health insurance currently accounts for more than 5% of total premiums in the insurance industry.

Going forward, we can expect more Malaysians to allocate an increasingly larger proportion of their income for healthcare provisions. Although Malaysia has a relatively young population, demographic changes point to an expanding aging population with the improvement in living standards and advances in medical science and healthcare facilities. At the same time, any changes in the extended family structure would increase pressures on individual responsibility for medical care. These developments pose significant social policy challenges for the national healthcare system to ensure access to fundamental medical facilities for all Malaysians in the most efficient and cost effective manner. In this regard, private healthcare financing will become increasingly important in complementing and supplementing the healthcare facilities in the public sector.

Public sector healthcare financing has already been on an upward trend in recent years. The Government healthcare expenditure is expected to approach RM9 billion by 2004, from about RM2.8 billion in 1995. Healthcare expenditure as a proportion of the overall Government budget is projected to increase from 5% to 8% over the same period. With the ratio of retirees to the active population projected to double by the year 2020, the demand for healthcare is projected to increase further, creating additional pressures on financing for healthcare and in particular, private healthcare financing. Private sources of financing for healthcare currently account for almost 40% of Malaysia's total healthcare expenditure. These are mainly in the form of direct medical expenses incurred by individuals as well as the payments made by employers towards the medical expenses of their staff. Over time, other private sources of financing, including private medical and health insurance schemes, can be expected to feature more prominently in the overall healthcare financing structure. In this evolution, private medical and health insurance will be an integral element in efforts to achieve a seamless and comprehensive national health care system.

The increasing demand for private medical and health insurance has, however, brought to the forefront a number issues, including escalating costs, that require immediate attention. The industry has already taken some important initiatives in the development of coherent industry solutions to address escalating claims costs. These include dialogues with the private medical service providers and the establishment of a panel of accredited hospitals and incentive measures such as the co-sharing of medical costs. Indeed these efforts by insurance industry are important steps in establishing common principles of sound business conduct in private health care financing. Given this line of business, it is important for the development of more comprehensive and sustainable solutions that will also take into account the broader socio-economic considerations.

At the same time, however, ongoing reforms in the conduct of medical and health insurance business also need to address the specific information needs of the business. From the industry's perspective, the establishment of a comprehensive and credible database on various aspects of the Malaysian medical and health insurance sector will facilitate more scientific underwriting and rating systems employed by insurers, as well as more effective management of risks associated with moral hazard, fraud and abuses. The lack of sufficiently detailed data currently constitutes a significant impediment to the ability of insurers to effectively meet the demand of the community for medical and healthcare covers. A comprehensive database is essential not only for more accurate pricing of medical and health products, but also to enable insurers to better understand and monitor developments affecting their business. These include the profile of policyholders and their risk categorisations, consumer preferences, the types of illnesses and medical treatments that contribute substantially to claims expenses and clinical information affecting relationships with medical service providers.

Equally important is the need to address the information needs of consumers in the sale of medical and health insurance products and services. Last year, medical and health insurance accounted for 25% of total complaints received by Bank Negara Malaysia. Besides premium rate increases and delays in claims settlement, the complaints mainly related to the lack of transparency at the point of marketing and sale of the medical and health insurance products. This underscores the importance of meeting the information needs of the potential policy owners.

It is essential that the terms of medical and health insurance policies sold are clearly explained to policyholders, particularly the effects of policy exclusions and conditions imposed by insurers on the extent of coverage afforded to the policyholder. The issue of increased transparency and disclosure in the sale of medical and health products is important. In many cases, policyholders are not aware of or do not fully realise the implications of particular clauses in the policy contract that deal, for example, with 'pre-existing conditions', 'co-insurance' and 'waiting and survival periods'. Insurers cannot assume such knowledge on the part of the average consumer. It is incumbent on insurers and their intermediaries to ensure that the average consumer is given clear information about the product at the point of sale to enable the consumer to understand his rights and responsibilities and to determine if indeed, the product adequately meets his needs. There should also be greater awareness among consumers on the avenues available for them to seek redress in the event of dispute.

To promote greater transparency in the business, Bank Negara has issued guidelines on minimum standards of product disclosure and transparency in the sale of medical and health insurance policies. These standards require insurers and their intermediaries to provide the details of the essential features of medical and health policies so that policyholders will understand the important provisions of the policies, in particular, with respect to the premiums, benefits, exclusions and limitations. Meeting these requirements must also be supported by the adoption of the highest ethical standards and practices by insurers and intermediaries in their dealings with customers. Insurers should therefore strive to continuously enhance the degree of disclosure and transparency demonstrated in their conduct of the business to prevent the erosion of public confidence in the industry as a whole.

The challenges faced in the conduct of medical and health insurance are significant, particularly in the light of the social considerations that must also be brought to bear on business decisions and strategies. They are, however, not insurmountable. While the various approaches to deal with the challenges are encouraged to permit innovation and improvements, the future development of medical and health insurance in the country will require the industry to proceed on a common platform at some level with respect to what constitutes the basic fundamentals of commercially sound, and socially ethical, business conduct in this area. Today's seminar provides a platform on which insurers, individually and collectively, can build on to explore new ground, develop new ideas and options and formulate new strategies to effectively manage the issues confronting the business, and thereby achieve sustained and viable business growth.

Organisation of Islamic Countries Business Forum in conjunction with the 10th Session of the Islamic Summit Conference, 16 October 2003, Putrajaya

"Managing Diversity - Economic Progress, Racial Harmony and Religious Tolerance: The Malaysian Experience"

Address by
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz,
Governor, Bank Negara Malaysia

Diversity, far from being a potential source of conflict, can be a source of strength and opportunities. At the international level, the world we live in is characterized by pronounced diversity. Our ability to manage this diversity to the benefit of the global community can indeed increase our prospects for sustained shared global prosperity. At the national level, the Malaysian experience in managing our own diversity has been to accord priority to economic and financial policies that promote balanced growth. The thrust of our policies has been to achieve a greater balance between high quality growth and a more equitable distribution of the economic progress; a greater balance between domestic and external sources of growth; a greater balance between the role of the public and private sectors; between consumption and investment-led growth; between the different regions across the country; between the different economic sectors; and between the respective communities in our society.

Economic Strategy

In achieving the objective of balanced growth, economic policy in Malaysia has concentrated on the diversification of the economy. For almost five decades our economic structure has undergone waves of transformation. The Malaysian economy has shifted from a commodity based to a more industrialized economy, reinforced by the discovery of petroleum and, more recently to an economy where the services sector is becoming an increasingly important source of growth.

The emphasis has always been to identify new areas of competitive advantage and develop new sources of growth to sustain the long-term development of the Malaysian economy. In the recent decade, the focus has been on the development of the ICT industries. In the development of the respective economic sectors, a balanced approach has been adopted to accord attention to the development of Small and Medium-scale Enterprises (SMEs) to complement the development of large corporations as well as the large MNCs operating in Malaysia. Each component is an integral element in the industrial structure with SMEs as suppliers of components and parts to the larger corporations, or as providers of support services or final products and services. As part of this process, greater attention has been focused on

the development of SMEs as they not only represent important "incubators" of entrepreneurial talents but also have an important role in generating endogenous sources of growth and employment.

Indeed, as a small, open economy where trade accounts for more than 200% of GNP, the Government is committed to promoting the role of the private sector as the main engine of growth. The role of the Government has been to set the broad direction to give clarity to the goals - the vision of our aspirations - and to provide the enabling environment for private enterprise, and smoothen the economic cycle to ensure steady growth and development. The long-term policy direction is set within the context of our 20-year Outline Perspective Plans (including "Vision 2020" on Malaysia's industrialisation strategy). Specific policy measures and strategies to achieve the long-term objectives are outlined in 5-year Development Plans, while shorter-term issues are addressed in the annual budget programme. The Government's role in providing an enabling environment includes the provision of the physical infrastructure, driving institutional development and capacity building, enhancing the Government delivery system to reduce the cost of doing business and providing a stable and sound macroeconomic environment.

While the Government assumes an important role in providing the strategic direction and enabling environment, the development of the domestic economy rests largely with the private sector. Over the last five decades, the private sector accounted for nearly 70% of national output. In addition, more than 90% of the labour force works in the private sector. A significant proportion of the financing that supported Malaysia's economic transformation has emanated from private investment, including foreign direct investment inflows. The role of the private sector can be expected to become increasingly important in sustaining economic growth in the future. Their role will be to continually seek new areas of comparative advantage and new market niches to contribute to income and wealth creation in an increasingly more challenging and competitive environment.

Financial Sector Strategy

A key component of the Government's strategy is to develop a financial system that is effective, efficient and resilient; that will not only support the growth process but will also facilitate the economic transformation towards a diversified economic structure, and thereby achieve sustainable growth and development. The financial sector is seen as an important facilitator of growth. The development of the financial sector has taken into account the need to balance between the objectives of financial stability and efficiency and the social agenda. Specific strategies to facilitate a more balanced growth has been to develop a more diversified financial structure that is able to meet the different requirements of the economy and to ensure that there is increased access to financial services by all economic sectors, regions and communities.

In this regard, efforts have emphasised the development of a comprehensive and diversified financial infrastructure, including mircocredit at one end of the spectrum to provide financial services to micro-enterprises, and at the other end of the spectrum, venture capital to provide financing to ICT and knowledge driven activities. Important components of the financial structure include the banking sector, the insurance companies, the capital market and the specialised and development financial institutions, which provide alternative

avenues for financing. The development of the corporate bond market, in particular, has enabled firms to improve their ability to better manage their funding risks while reducing the risks arising from over-dependence on any single form or source of financing. The development of the corporate bond market has also enhanced the efficiency of capital allocation by enabling firms to tap alternative sources of financing at competitive cost, thereby contributing to increased efficiency, higher investment and consequently contributing to overall growth.

The banking sector will, however, for some time to come, remain the single most important source of financing in Malaysia. Attention has therefore been focused on institutional development and capacity building in the banking sector. This has been identified as an important objective to achieve in the first stage of our 10-year Financial Master Plan to develop the financial sector, that is to develop a core of strong and forward-looking Malaysian banks that are able to face the challenges of liberalisation and globalisation. A major milestone in financial sector development was the banking merger and consolidation programme. This has been reinforced by the promotion of greater operational efficiency, greater leveraging on technology, strengthening risk management and corporate governance practices, enhancing the supervisory and regulatory framework and the development of a framework for consumer education and protection.

While electronic banking is expanding at a rapid pace, in the current environment, an area that has been given priority is to ensure that the banking system conducts its intermediation functions across the country in terms of physical presence in all regions. Over the decades, we have seen the establishment of a strong and extensive banking network in urban and rural areas across the country. In this regard, the number of bank branches throughout the country has increased from 131 in 1960 to 1,660 in 2003. The number of persons served per branch has correspondingly declined dramatically from 62,800 to 15,060 for the same period. The aim of this policy is to increase access to banking services for all the various sectors and regions in the economy. A further issue that has been taken into account is the need to balance the pursuit of greater efficiency in this increasingly more competitive environment against the need to provide basic fundamental financial services to the community at large at minimal costs. While pricing for financial products and services should, for the most part, reflect costs, it is also important to take into account the social agenda which is an integral part of balanced and sustainable growth.

As was discussed in the previous session, an area that Malaysia has focused attention on is the development of an Islamic financial system as a viable component of our financial system. Indeed, the development of a comprehensive Islamic financial infrastructure with the core components, encompassing Islamic banking, takaful and the money and capital markets, will serve to further strengthen the financial system as well as diversify options to meet the varied requirements of Malaysian consumers and businesses.

International Co-operation

Malaysia's approach in managing diversity also applies to our relations in the international arena. Malaysia has actively sought to strengthen trade and investment linkages with other developing countries across the world. Such a policy is based on the premise that by working together, individual

countries can maximise the synergies of each individual country's comparative advantage for the mutual benefit of all parties. Increasing specialization and complementarity drives the law of comparative advantage. As individual countries find niche areas within the globalised network of production based on comparative advantage, this will facilitate optimizing the potential for overall global growth. The stronger cooperation among diverse countries will indeed open such new opportunities. In this endeavour, OIC countries can drive this co-operation and integration. The OIC has 57 member countries with a combined population of 1.25 billion, accounting for 20% of the world's population. There are significant prospects for trade and investment among the OIC countries. The diverse economic structures of OIC members should be seen as an opportunity to expand trade and investment ties.

Conclusion

The Malaysian experience suggests that in managing diversity, there is a need to develop economies that have the agility to adjust to changing economic conditions, to emphasise on capacity enhancement and institutional development and to focus on the role of the Government in providing the enabling environment. It also requires economic and financial policies that balances between growth, efficiency, and equity considerations. A strategy of balanced and broad- based growth that gives due consideration to the social agenda offers the best chances of success. Indeed, diversity can be managed to become a potential source of strengths and opportunities in our pursuit of overall shared prosperity.

The International Centre for Leadership in Finance (ICLIF)

Welcoming Address at the Official Launch
28 October 2003, Kuala Lumpur

by
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

The International Centre for Leadership in Finance (ICLIF) is being established with the objective of providing a focused and co-ordinated approach towards the development of world class leaders in the financial services sector in Malaysia and in the region.

The unprecedented economic and financial transformations in this decade have created new operating environments that demand new leadership skills. This is most evident in the financial services sector which has become increasingly more complex, more competitive, more uncertain and ambiguous and more challenging.

It is therefore essential to have leaders who are able to see the new emerging opportunities, deal with the high level of unpredictability and navigate through turbulent conditions. The pressure on leaders has become increasingly more immense. In emerging market economies where our aspirations are to elevate our level of performance and development, the demands are even greater. Indeed, in this new environment the role of leadership has changed. Our objective in the establishment of the International Centre for Leadership in Finance (ICLIF) is to contribute to this process of developing a generation of leaders in the financial services sector that will achieve our objectives in the development of the financial sector in particular, and our overall economic prospects in general as we advance forward in this new environment.

We are most honoured today by the presence of Yang Amat Berhormat Dato Seri Dr. Mahathir Mohamad to launch our International Centre for Leadership in Finance. This is particularly special in view of the leadership he has demonstrated for a period of more than two decades in bringing Malaysia to our present level of development and prosperity. The most significant being his leadership in overcoming the 1997-1999 financial crisis experienced by our region. It represents a lasting legacy. In the most testing of times during the crisis, critical decisions were made with the firm conviction that it is a country's legitimate right to defend itself during extreme conditions. At that time, we were able to avoid being put under an IMF programme as we were in a position to meet and repay all our foreign obligations. We have since emerged from this turbulence much strengthened and on a solid and steady growth path. Indeed, this is one debt that the country will not be able to repay. Malaysia will always be indebted to you, Yang Amat Berhormat, for your leadership and your vision.

The financial sector in our region has now reached a new stage of development. Over the years, the role of the financial system has evolved, facilitating the various stages of development and growth. Increasingly, the financial services industry is also becoming a source of growth, especially as several countries in the region are moving towards a knowledge-based and services-led economy. In the process, the dynamic changes taking place are also being driven by technological advances and an increasingly competitive environment.

As financial restructuring and reforms progress to a more advanced stage, financial institutions are also moving on to make the necessary adjustments to become more productive, innovative, and strategically more focused. Efforts are now focused not only on the creation of a sound and resilient financial sector but towards institutional development and capacity building of the financial sector to elevate it to a higher level of performance, efficiency and excellence. This represents an important phase in the development of the financial sector as highlighted in our 10-year Financial Sector Master Plan that was released almost three years ago. It represents an important development prior to moving towards a more deregulated and liberalised environment. In this context, we are envisaging forward-looking financial institutions that will be able to face the challenges of financial liberalisation and globalisation as we progress into our next stage of development.

In this context, leaders need to be visionary to see future trends focused on organisational vision, to stay competitive and be able to adapt rapidly to changes. In addition leaders need to take into account the corporate social responsibility so that the profit mindset is balanced against the objective of long-term sustainability. When we talk about enhancing leadership capability we are talking about leaders who are continuous learners, who are on the cutting edge of excellence, leaders who have strong convictions and beliefs, and yet having humility and recognising the need to reinvent themselves and inspire their organization to adapt to the new challenges and changes. This is vital if the financial services sector is to forge ahead and remain at the forefront of new innovations, an element that is critical to securing long-term competitiveness. We need the remarkable force of corporate leaders to fuel the drive towards long-term growth and stability. We need dynamic leaders to push the frontiers of excellence - leaders who are constantly learning and possess the courage to take on new challenges. In this process, avenues for continuous learning must be actively sought.

The establishment of ICLIF is part of our commitment towards providing such an avenue to enhance our leadership capability and develop world-class leaders in the financial services sector. Towards this endeavour, the Centre is currently in the process of developing a unique leadership competency model that will analyse and understand what makes for great corporate leaders in our regional context. At the same time, the Centre is putting together a world-class Global Leadership Development Program (GLDP) with leading consultants and drawing faculty from the best schools in the world. The Global Leadership Development Program represents ground-breaking design in terms of an executive education program. By drawing faculty from not just one or two, but up to five leading institutions, the Centre will be able to combine the best ideas and thoughts in the world on the various key leadership issues and concerns. The Centre's role will not be to replicate the roles of institutions of higher learning, but rather to facilitate

and provide specific, directed and targeted learning based on the requirements of our industry.

In addition to its Board of Directors, the Centre will also be governed by an International Advisory Panel comprising eminent personalities. In the process, participants will benefit from the best of all worlds in terms of the latest thinking on leadership issues. It is envisaged that the Centre will also serve to complement and supplement the existing capacity building facilities in the financial and corporate sector to become a regional centre of excellence for leadership training in finance. The Centre aims to reinforce the notion that investments in human capital, including the pursuit of leadership excellence, is a continuing process in this ever-changing environment so as to enhance the calibre of our human capital in the financial and corporate sector in meeting the challenges ahead as we advance forward in this new millennium.