

Chapter Six

Summary and Conclusion

6.1 Introduction

This chapter attempts to present a summary of the study. A brief discussion on some recommendations for Great Eastern Life Assurance (Malaysia) Berhad and the life insurance industry in Malaysia will also be documented in this chapter.

6.2 Summary

Having put in place measures to inculcate financial discipline, it may now be timely to address issues about the quality of service, fair pricing and the ready availability of insurance protection to the public. It is therefore imperative that each of the players involved, from insurers and brokers to adjusters and insurance agents, play a proactive role to realize the strategies outlined in the industry's master plan.¹⁸ The minor industrial revolution in Malaysia poses challenges and provides new experiences. The growing sophistication of the market will require trained and better caliber personnel to service it. Training will need to be provided not just by individual companies but also by the industry on a wider and higher plane.

The effort of Great Eastern to maintain a high level of demand of their insurance, depends not only on the growth gross national product, and total savings in the country,

¹⁸ Designed by BNM to implement a programme of change that will build the capabilities of domestic insurers to compete more effectively for a share of the growing insurance market.

but the company must also continue to combat external replacement through attractive products mix and be as competitive as possible. If a good product is sold initially, there is less chance of its being subject to attack by another company.

The gross profit is quite dependent on high income from annual premium and investment income and low expenses like commission and management expenses. To maintain high profit level company must also improve its public image and the quality of service it provides by maintaining a high standard of recruitment and training of its agents. In the longer term, demand of insurance and total gross profit in the Great Eastern will be critical to its future growth.

6.3 Suggestions for Improvements for Great Eastern Life Assurance

Insurance services differ with respect to the degree of direct interaction required between the provider and purchaser, for several reasons. Some types of insurance, particularly life insurance, are more susceptible to marketing efforts than other types, either because of consumer lethargy or because of the need to tailor policies carefully to suit purchasers' requirements.

Great Eastern should be careful to protect the integrity of their underwriting and the quality of their services by exercising close control over the appraisal of individual risks before acceptance, the underwriting policy pursued, and the settlement of any subsequent claims. These decisions are very difficult to delegate because they often require a discretionary balancing of conflicting considerations.

Sometimes, unattractive risks must be accepted in the interests of satisfying an important intermediary or policyholder who provides otherwise profitable business. At other times, claims must be settled with generosity in order to build goodwill. The correct claims settlement can often only be ascertained by direct negotiation. Close between insurer and insured has, therefore, usually been seen as important in ensuring security and competitiveness.

Great Eastern being foreign is unable to compete with local insurers in the area of EPF annuity business, and Takaful businesses because Bank Negara Malaysia prevents foreign owned insurers to participate in these areas. Moreover, foreign owned insurers are being restricted to participate in branch expansion and bancassurance businesses. Therefore, Great Eastern has to work within these constraints and be creative in reaching its dominant position in market share.

Much of the insurance activity requiring proximity has had at its heart a requirement for rapid access to company information on underwriting experience, the terms and conditions of risk acceptance and its interpretation by company staff experienced in handling such data. "Intelligent" software systems also offer scope for assisting in the detailed interpretation of formal systems, reducing the level of experience or responsibility required at the market interface. Indeed, it offers opportunities for a considerable improvement in technical and competitive efficiency in the way which central management can instantaneously adjust underwriting and competitive policy.

Changes can be made in the underwriting terms and conditions through a modification in database software, in a way that is impossible through conventional

management hierarchies. In consequence, information technology may reduce the need for proximity and increase the scope for cross-border transactions in final or intermediate insurance service, and also improve the efficiency of companies committed to distance management. Therefore, Great Eastern should upgrade its computer systems to enable it to offer state of the art services to its customers and make itself even more cost efficient. With this in mind, the company has set aside RM 100 million budget to upgrade its computer system to enable it to compete effectively.¹⁹

6.4 Suggestions for Improvement of the Insurance Industry

As a developing country, Malaysia needs a well functioning and developed relevant infrastructure, both information technology and non-information technology related, to effectively support the services sector especially the life insurance industry.²⁰

To be ready for globalization, which is inevitable, it is recommended that insurers should start exploiting the supporting technological tools necessary to build up the infrastructure to gain that competitive advantage. These are future core technologies that can provide the needed boost in operation efficiency and productivity of any organization.

Insurance company management on the whole has been satisfactory except in some cases where inadequacy of insurance knowledge and skills and poor management have come to light. Some insurance companies do not have a management information

¹⁹ Quoted from Bruce Lee, Assistant General Manager of Great Eastern (Finance & Customer Service).

system to assist them in decision-making. Unsound market activity at excessive rebating has also been the root cause of losses suffered by some insurance companies. There have also been cases of basic inequilibrium in investments as certain companies over bought stocks and shares and even properties at high prices and found their liquidity position overstretched when hit by the economic crisis in 1997 and 1998.

The business of insurance necessarily involves not only the assessment but also the taking of risk and, therefore, the possibility of misjudgment is always present. Loose management, inadequate liquidity and unsound insurance practices have been common factors causing strain in a few insurance companies. The government, therefore, as the regulatory authority will have to contend these problems and consider the formulation of new policies and laws to the Insurance Act to remove causes which may threaten the soundness and stability of the insurance industry.

Towards this end a new section for this purpose of carrying out comprehensive inspections of insurance companies is now being planned and should soon begin to operate soon. Substantive new advances in Insurance Policy under consideration are mainly in the direction of company management, solvency, investments and the role played by life insurance agents; all to further protect policyholders' interest.

²⁰ Bank Negara Malaysia, Seventh Malaysia Plan on the Information Technology Development Strategies for the nation from 1996-2000.

6.5 Conclusion

Insurance Policies in the past few years has developed in a valuable and desirable direction and it has contributed immensely to the development of the insurance market. The combined assets of all life insurance companies are more than RM31 billion in 1999. With effect from 31 December 2000, insurers were required to maintain a minimum paid-up capital/surplus of assets over liabilities of RM50 million from RM40 million previously. To further enhance the financial resilience of insurers, the minimum capitalization was increased further to RM100 million they are to be complied with by the end of June 2001. The government is doing all it can under its powers to keep insurance companies healthy. However, the comprehensive yet flexible system of supervision cannot be entirely secure.