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The Outlook on Malaysia

by Hassan B. Kamil

To the adolescent foreigner, Malaysians can appear very reticent. Few if any, speak of the vibrant headlong rush of Kuala Lumpur or the hedonistic solitude of Langkawi or even the spectacular wildlife that inhabits the awe-inspiring Mt Kinabalu; rather Malaysians prefer to engage in heated debate over piston cylinders and premium rates. Ask any Malaysian about cars or insurance and it's difficult not to be impressed—the population seems to have a fascination with both. You could be sitting in the back of a taxi and casually mention to the driver you work for an insurance company, to which his practiced reply will most definitely include the policies he (and his mom) owns, the insurance rates he pays and any claim grievances he might have experienced in the last 10 years.

It comes as little surprise then that the amount of insurance purchased in Malaysia has grown at a staggering rate over the past decade. For example, 2002 life insurance annual premiums received from in-force business were almost six times the 1990 level, representing a compound growth rate of more than 16 percent p.a. In addition, almost 1.5 million new policies are sold each year with the greatest sales growth coming from the recently launched investment linked products.

Despite the exceptional growth in life insurance coverage to date, Malaysia's penetration rate of 35 percent in 2002 (number of in-force policies divided by total population) is low in comparison to its neighboring Asian tigers, Singapore, Taiwan and Japan, all of whom experience penetration rates between 100 percent and 140 percent. This contrast can be attributed to two interconnected factors, both of which favor future growth and development in the Malaysian insurance industry.

First, Malaysia has a markedly youthful demographic outlook—out of a population of approximately 24.5 million, over 50 percent are younger than 24 years of age. As such, we expect the demand for whole-life, endowment, term and annuity products to increase as the aging population looks to purchase insurance instruments in increasing quantities for their saving and risk management properties.

Second, only 42 percent of Malaysia's population is currently counted as part of the country's available labor force. This small percentage of actual household earners contributes to the low current per capita insurance spending, which is about one-sixth of that which is spent in Singapore or Taiwan. However, given Malaysia's impressive historical record of economic growth and political stability as well as its youthful working demographic, we can expect a rapid increase in per capita insurance spending in the future. This is because the disposable income available to households will increase both as the number of working household members increase (population aging) and as the country's economic skills converge to that of more economically developed nations.

These positive trends underscore the tremendous opportunity for future growth and investment in the insurance industry. No doubt, part of the growth is a direct result of the country's unique demographic constitution, but part is also due to the relentless and assiduous effort of all Malaysians to improve their economic skills and expertise at the continual urging of the country's leadership. Whether for future business or current personal travels, Malaysia is definitely a country to keep your eye on. ☐

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