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## **Keynote Speech 1**

### **Bank Negara Malaysia Presentation**

Yew Khuen Yoon, FIA, FASM



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Beyond Traditions – A World of Opportunities

*Keynote Address*

Yoon Yew Khuen  
Bank Negara Malaysia



The insurance industry is ripe for disruption...

Japanese company replaces office workers with artificial intelligence<sup>1</sup>

Insurance firm Fukoku Mutual Life Insurance is making 34 employees redundant and replacing them with IBM's Watson Explorer AI

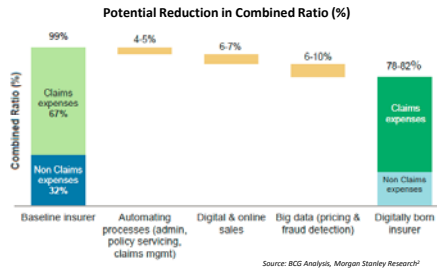


<sup>1</sup> Fukoku Mutual Life Insurance believes it will increase productivity by 30% Photograph: Toru Hanai/REUTERS

blockchain  
 phones contracts  
 analytics  
 drones GPS smart IoT  
 digital platforms  
 data AI telematics  
 mobile computing  
 Cloud

Underlying Drivers of Innovation

1. Digital adoption along the insurance value chain will drive significant efficiency gains



Confluence of data science and technology will upend the traditional insurance business

- “Digital insurer” combined ratios lower by 17-21% vs traditional insurer
- Efficiency and effectiveness enhanced through:
  - Process automation - STP
  - Improved pricing with big data; and
  - Lower cost / higher productivity distribution channels – direct / hybrid



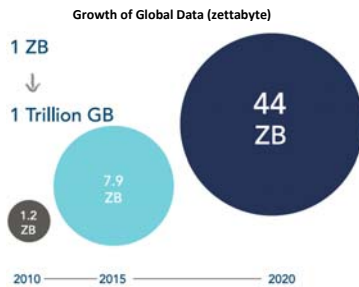
Source: McKinsey<sup>1</sup>

Unlocking the full potential of digitalisation requires an enterprise-wide approach

- Digital strategy that is integrated into overall business strategy
- Focus on whole customer journey
- Culture, talent and structure aligned to innovation

## Underlying Drivers of Innovation

### 2. Proliferation of advanced sensors and data analytics to transform traditional business models



Source: Institute of International Finance

#### Internet of Things (IoT) present new ways of assessing and managing risks

- Cheap, connected smart sensors enable real-time monitoring of risk, such as driving behavior, heat/fire, water, leakage, biometric information
- Risk pools to shrink through adoption of smart devices by
  - 40-60% in household insurance; and
  - 15-25% in motor insurance?

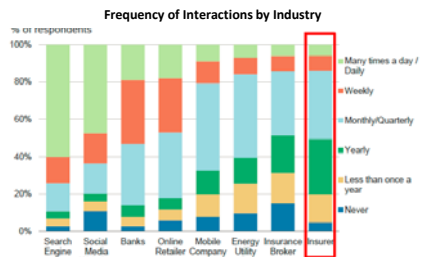
#### Traditional insurers could be sidelined by connected homes/cars ecosystem

- Substantial involvement and investments in consumer tech by big companies such as Google and Samsung reduce the economics and need for future insurance partner



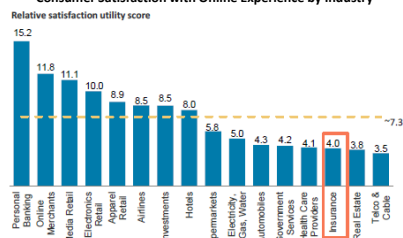
## Underlying Drivers of Innovation

### 3. Changes in consumer expectations and behavior to drive towards more consumer-centric models



Source: BCG Global Consumer Survey 2014, Morgan Stanley Research

**Consumer Satisfaction with Online Experience by Industry**



Source: BCG Digital Satisfaction and Value Survey 2013, Morgan Stanley Research

#### Insurance industry are laggards in digital space

- Consumers have interacted less with insurers (1-3 interactions per year), resulting in poor consumer experience, especially during claims
- Consumers' satisfaction with online insurance lags behind other industries
- Lack of customer touchpoints means less insight into consumers' needs

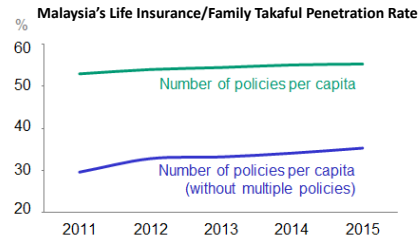
#### Digitalisation is part of consumers' expectations

- Millenials and 'digital natives' have expectations for technology-based services, convenience, transparency, speed, regular engagement and personalized experience
- Mobile technology presents opportunities to lower operational costs, improve scalability and enable more affordable and accessible products



## Pressing need for innovation to address protection gap in Malaysia

### Increasing accessibility and affordability of insurance



### Insurance penetration plateaued, with significant protection gap

- Only 35% of the population have at least 1 life insurance/family takaful policy
- Only 4% of B40 households have insurance cover

### Heat Map on Insurance Branch Network



### Lack of outreach outside urban centres

- 60% of agents serve Klang Valley, Johor and Penang
- Insurance spending concentrated on affluent segment of society

Source: Bank Negara Malaysia\*

## Policy measures to spur innovation

- Mandated offering of pure protection products on direct channels to diversify distribution landscape**
  - offers commission-free standalone pure protection products
- Balanced Scorecard to elevate the professionalism of intermediaries**
  - sets a proportion of commissions to be based on non-sales KPIs
- Starter Pack initiative to increase take-up among first time buyers**
  - provides a basic term life cover at minimal premium/contribution rates
- Regulatory Sandbox to encourage innovation in new technologies / business models**
  - allows FinTech entities to test in a live environment within specified parameters

## Direct Distribution Channels for Pure Protection Products

### Key Principles

### Policy Requirements

Accessibility	<ul style="list-style-type: none"> <li>Distribute either through head office and branch premises or online platform</li> </ul>
Consumer-centric	<ul style="list-style-type: none"> <li>Provide reasonable level of coverage with maximum sum assured no less than RM200k (by 1 July 2017) and RM500k (by 1 Jan 2018)</li> <li>Provide suitability assessment tools to perform self-assessments (i.e. needs analysis calculator and financial budget calculator)</li> <li>Provide customer support services and electronic payment options</li> </ul>
Comparability	<ul style="list-style-type: none"> <li>Make available, at a minimum, a term product with no surrender benefits</li> <li>Quote premiums in denominations of RM1,000</li> </ul>
Affordability	<ul style="list-style-type: none"> <li>Pure protection products should be priced affordably</li> </ul>

## Phased liberalisation to drive innovation in motor and fire sectors

### The Liberalisation Roadmap

	Motor Class	Fire Class
Prior to 2016	All available products are defined in the Motor & Fire Tariffs & are subject to tariff rates Gradual adjustments to tariff rates for identified risk groups	
1 July 2016 onwards	New products & new optional add-on covers* can be offered at market rates with continued access to existing products	
1 July 2017 onwards	Disapplication of tariff rates for Motor Comprehensive & Motor Third Party Fire & Theft Gradual adjustments to tariff rates for Motor Third Party for identified vehicle classes	Gradual adjustments to tariff rates for identified risk groups
2019 onwards	Assessment of the state of readiness of the industry & consumers for further liberalisation	

\* Refers to a new type of product/cover not defined under the Tariffs or any variation to or extension of product/cover defined under the Tariffs.

## Objectives of Liberalisation of Motor Tariffs

### 1. More equitable pricing

- ✓ Pricing will take into account a broader set of risk factors and reduce cross subsidization across business classes and risk groups
- ✓ Incentivise good risk management and safe driving behaviour among consumers
- ✓ Over time, premium rates for risk groups would adjust to changes in underlying risks, enabling more consumers to benefit from lower premiums in line with improving risk profiles

### 2. Ensure long-term sustainability of protection

- ✓ Continued access to motor insurance protection for consumers
- ✓ Improvements in overall risk profile from lower incidents of accidents and thefts is important to contain increases in claims costs and premiums

### 3. Spur innovation and expand consumer choice

- ✓ New and differentiated products that are more tailored to circumstances of individuals and businesses
- ✓ Healthy competition will drive improvements in service quality and customer experience (e.g new distribution channels)

## New innovations in motor insurance are expected to meet the needs of different segments of drivers



The illustration shows a presenter at a podium pointing to a screen. The screen displays a circular diagram with four segments labeled: E-reporting, Blockchain, Usage based insurance, and P2P insurance. Below the screen, four audience members have speech bubbles with the following questions:

- Comprehensive cover for taxis is too expensive, I have no choice but to buy third party
- Do I need to purchase additional insurance as an e-hailing driver?
- Not sure if I should inform my insurer about my recent incident, I might lose my NCD
- The claims process is so complex, where do I start?

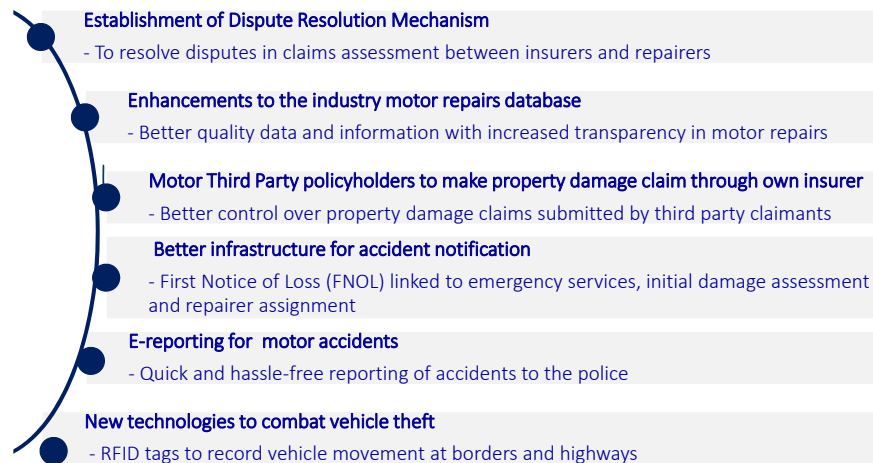
## Product innovation in tandem with enhanced consumer experience

For an orderly implementation of the phased liberalisation, innovations must take place alongside ongoing efforts to improve the customer experience and public understanding



## Envisioned future enhancements to the motor claims infrastructure

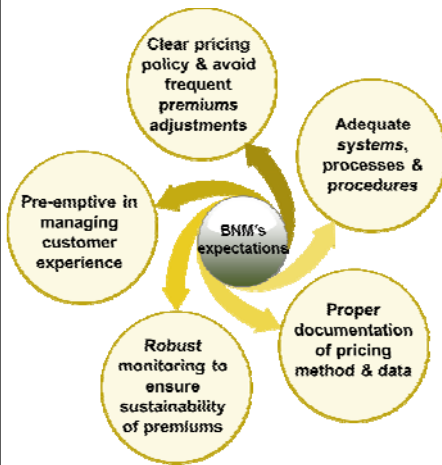
To increase efficiency and effectiveness motor claims settlement process





## Actuaries expected to play a key role in de-tariffing

### BNM's broad expectations on actuaries



### How do actuaries add value?

- Technology** ✓ Adoption of innovative processes and analytics, e.g. big data, telematics
- Talent** ✓ Leverage on technical knowledge to advise board & senior management (*temporary flexibility for AA to be involved in pricing up to 1 Jan 2019*)
- Trust** ✓ Increase public confidence in the insurance sector by building in principles of affordability & value in product development & pricing

## Will actuaries be replaced by robots?

### I am a...

Actuary, economist or statistician

#### At work, do you need to:

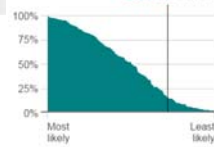
- Negotiate?
- Help and assist others?
- Come up with original ideas?

✓ Your job is safer from automation



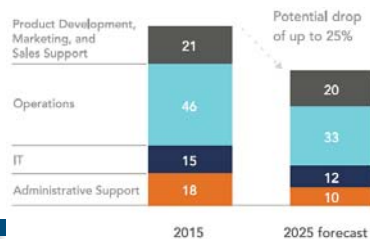
Likelihood of automation?  
**It's quite unlikely (15%)**

How this compares with other jobs:  
**263rd of 366**



Source: BBC News\*

### Potential Reduction in Full-Time Workforce



### Automation in the insurance industry will have impact on traditional job roles and occupations

- Up to 25% of full-time positions will be consolidated or replaced, especially administrative support
- To rethink talent priorities
  - retraining/redeploying existing talents; and
  - identifying critical new skills to insource

### Shifting landscape will give rise to a changing actuarial role

- How will professional judgement change with automation?
- Are actuaries ready to handle 'big data', in real time?
- How can actuaries collaborate with other professions to create synergy and add value to businesses?
- Are actuaries ready to turn emerging risks into opportunities?

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