

**ADDRESS BY MR LOW KWOK MUN  
EXECUTIVE DIRECTOR (INSURANCE SUPERVISION),  
MONETARY AUTHORITY OF SINGAPORE  
AT THE LIFE INSURANCE ASSOCIATION OF SINGAPORE ANNUAL GENERAL  
MEETING LUNCHEON  
3 MARCH 2010, RAFFLES HOTEL, SINGAPORE**

LIA President, Mr Tan Hak Leh  
Distinguished Guests,  
Ladies and Gentlemen,

Good afternoon. It is a pleasure to join all of you at your Annual General Meeting Luncheon.

2. I would like to congratulate Mr Tan Hak Leh on his election as the President of LIA and Mr Neal Armstrong and Mr Philip Seah as Deputy Presidents. I would also like to record my thanks to Mr Darren Thomson for his leadership of LIA, especially over the last two difficult years. I've been told that more significant challenges await Mr Thomson and I wish him all the best.

3. Last year was a challenging year for the life insurance industry as total new business premiums decreased by 20 per cent to S\$7.7 billion. In particular, single premium business, which has traditionally been the main driver of growth, dropped by 29 per cent to S\$6.5 billion.

**Insurers weathered the crisis well, but need to remain vigilant**

4. The sharp falls in asset prices during the later part of 2008 led to concerns about the exposures of international insurers to 'toxic' assets and the potential impact on their capital levels. In Singapore, you would recall being asked to closely monitor your company's capital adequacy ratios and conduct additional stress-testing using more stringent stress parameters. Our insurers have weathered the financial crisis well. I am pleased to note that throughout the crisis, their capital positions remained sufficiently above the minimum regulatory levels despite the sharp fall in the values of financial assets

5. Compared with a year ago, the outlook for the Singapore insurance industry is now very different. The volume of new business has since rebounded to levels before the financial crisis and asset values have largely recovered. While global financial markets continue to recover, we should remain vigilant against the risks that remain in both the global financial system and wider economic environment. Life insurers should continue to fine-tune their risk management systems and take pre-emptive measures against potential stresses in the markets. On MAS' end, we are working on guidelines for the industry on asset-liability management. With better management of assets and liabilities, life insurers would be less vulnerable to asset-liability mismatches arising from adverse market movements.

6. Drawing from the lessons learnt from the financial crisis, MAS has been reviewing a number of its prudential requirements and policies. Prior to 2008, not many would consider that a run on an insurance company was a likely scenario. However, as we have witnessed, it is clearly possible even though some may argue that the scale may be less severe than a run on a bank. Nevertheless, as a result of this experience, life insurers should pay heed to managing their liquidity positions. MAS will also be reviewing this matter closely to consider introducing a liquidity risk management framework for life insurers.

7. Another key lesson from the financial crisis is the need to enhance corporate governance in financial institutions. We are close to finalising a consultation paper on enhancements to the corporate governance regulations and guidelines for locally-incorporated banks and life insurers. We have also recently consulted the public on the Policy Owners' Protection Fund and Insurance Resolution framework, as well as the regulatory regime for listed and unlisted investment products. These constitute major improvements to the regulatory framework for the financial sector and will help in strengthening public confidence in the financial industry, including the insurance sector. MAS will continue to work closely with LIA to ensure effective implementation of these policies.

### **Focus on consumer needs, address protection gap**

8. With growth returning to the economy, insurance business is going to grow again. Indeed, during the fourth quarter of 2009, total weighted new business premiums for the life insurance industry amounted to S\$499 million, a strong contrast to S\$295 million for the same period in 2008. Consumers' risk appetites are likely to return as market sentiments improve. In such an environment, it would be very tempting for life insurers to step up the marketing of investment type products to capture investors' demand. I would, however, like to urge life insurers to place priority on meeting the actual needs of individual consumers.

9. In 2009, when the investment markets were underperforming, life insurers had adapted their business strategies to focus on selling term life and health insurance products. Such protection plans are needed to address the significant protection gap amongst Singaporeans as I have noted previously. Compared with 2008, health insurance sales in 2009 grew by 31 per cent to S\$146 million while regular premium non-participating new business, which consists mainly of Accident and Health and Term Policies, grew by 13 per cent. While this is encouraging, I would like to urge all life insurers to keep this momentum on sales of protection plans going instead of being driven only by business considerations. In fact, I note that with improving market sentiments, quarter-on-quarter growth for regular premium non-participating new business in the third and fourth quarters of 2009 had slowed down to -8.2 per cent and 5.4 per cent, respectively, compared with 42.3 per cent in the second quarter. On the other hand, quarter-on-quarter growth for single premium investment linked new business jumped to 74.5 per cent in the fourth quarter of 2009, from 11.5 per cent in the third quarter. I would therefore like to remind the industry not to neglect the important social role which only insurers can play, which is to ensure that the protection needs of Singaporeans are met. I am glad to note that this was reflected in the vision and initiatives of LIA presented by Hak Leh earlier.

### **Step up on consumer education, focus on what consumers do not understand**

10. While it is important for the industry to sell products that address the needs of consumers, it is equally important that consumers also understand the type of products that will meet their individual needs. In this regard, the life insurance industry's efforts in consumer education are commendable. Together with MoneySENSE, LIA has organised insurance seminars, published consumer guides and provided speakers for insurance talks. Several insurers have also incorporated consumer education in their corporate websites.

11. However, consumer education is a long-term effort. There are already LIA-MoneySENSE consumer guides on life insurance policies, participating policies, investment-linked policies and health insurance policies. But we continue to note many instances where

consumers fail to understand the insurance products they have purchased. Allow me to share with you some of the common consumer complaints received by MAS.

12. For participating products, the complaints were generally about maturity values and bonuses declared being less than expected. With the introduction of the enhanced governance and disclosure requirements about two years ago, consumers can now find more useful and relevant information in the point-of-sale and post-sales disclosure documents. Nevertheless, the understanding of how bonuses are determined remains poor, especially when bonuses or payouts are cut. At the latest LIA-MAS industry dialogue, we have asked LIA for views on ways to improve policyholders' understanding of how bonuses are determined. I look forward to receiving your ideas.

13. In the case of investment-linked products (ILPs), some policyholders have complained about the way charges are deducted from their accounts. Some have even questioned the rationale for such deductions as these resulted in an erosion of the value of their investments. These seem to suggest a lack of understanding of how an ILP works. For health insurance policies, complaints were often related to claims being invalidated due to pre-existing conditions and confusion over whether certain medical procedures are admissible for claims. There were also complaints on the lack of transparency on life insurers' claims and underwriting processes, in particular their considerations on exclusions.

#### **Clearer delineation between insurance and savings products**

14. Some of the complaints I mentioned earlier may be addressed by enhancing transparency in the product features. The way in which many insurance products are currently designed and marketed does not necessarily provide the consumer with sufficient information on how much of the premiums paid goes towards providing protection coverage. As a result, policyholders are not able to make a cost-benefit assessment of the protection they have purchased. Indeed, some may even think that their protection needs are adequately covered just because they have purchased an insurance product, when in fact the protection element is very small. Likewise, some policyholders fail to comprehend why it takes so many years for their policies to "break even" in terms of cash value, when in fact, a significant portion of their premiums has gone towards purchasing valuable protection coverage. MAS is exploring how to provide greater transparency of the protection and investments or savings components of insurance products, so that consumers would be more aware of the amount of coverage being purchased and the costs associated with each component.

15. As a first step, we are looking at enhancing the disclosure of charges. For instance, for many insurance products, the cost of insurance coverage, expenses and distribution costs are reflected as a single deduction under "Effects of Deductions" in benefit illustrations. Though there is a separate illustration of distribution costs, the cost of insurance coverage and expenses are lumped together. We recognise that for certain insurance products, such as participating policies, it is not straightforward for such costs to be teased apart given the nature of the product. However, we believe that the additional transparency in disclosure of charges can go a long way to providing greater clarity on the protection component of the product. Of course, we will consult LIA once our ideas are more developed.

16. The need for such enhanced disclosure is especially pertinent with the introduction of insurance products with little protection coverage. These products are usually sold as single premium non-participating policies with short tenures. Compared with 2008, single premium non-participating new business grew by about 120 per cent to S\$1.3 billion in 2009. This comes as no surprise since such products tend to be extremely attractive when interest

rates are low, or when consumers become more risk averse. MAS will be looking at how to achieve clearer delineation between insurance products and pure savings investment products offered by banks and other financial institutions to avoid confusion amongst consumers on the type of products available in the market.

17. Last but not least, I would like to draw your attention to the Guidelines on Fair Dealing issued by MAS in April last year. The guidelines apply to the selection, marketing and distribution of investment products and the provision of advice for these products. Five fair dealing outcomes are set out in the guidelines. I would urge all life insurers to go through the guidelines and the five fair dealing outcomes, think of how you have fared in terms of looking after the interests of policyholders and the areas you can improve on.

### **Conclusion**

18. To conclude, while the insurance industry has weathered the financial crisis well, insurers must not let down their guard and should continue to strengthen your risk management capabilities and corporate governance. I also urge the industry to review how you can address the protection gap to better meet the needs of consumers and improve the transparency of the sale of life insurance products. We look forward to continuing to work closely with LIA and individual insurers on these challenging areas.

19. Thank you for your attention and I wish you a successful year ahead.

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