

# Introduction of life insurance



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Life insurance is a contract between the policyholder and the insurer, where the insurer agrees to pay the beneficiaries sum of money upon the occurrence of the insured individual's or individuals' death or other circumstances such as terminal illness or critical illness. The basic types of life insurance policies can be categories as follows:

#### Term policies

It is the policies offer insurance protection on the limited period. In this term, insurer will pay the money only when the policy owner pass away or suffer permanent disability during the term of the policy.

#### Whole Life Insurance

This policies offer whole life protection and the premium is paid throughout policyholder whole life. The policyholder or beneficiaries will receive sum of money when the policyholder pass away or suffer permanent disability.

#### Endowment insurance

It is the policy consists of protection and savings. The money will be paid when the policy is mature or policyholder suffered permanent disability.

#### Investment-linked

It consists of combination of life insurance protection and units of fund managed by insurance company. The benefits of the policy will paid to policyholder or nominees depending of the price of the unit at the time policy is surrender or policyholder pass away.

#### Life annuity plan

It is the policies where the insurance company makes the series of payments to the policyholder until he/she pass away. Life insurance plan can be fall under two categories which are immediate annuity and deferred annuity. Immediate annuity provides policyholder immediate income as the annuity policy is purchased. While deferred annuity is the contract that allow periodic contribution to the plan but do not allow any withdrawal until it mature or specific event take place.

#### Supplementary Rider/Cover

A supplement attached to the basic insurance plan such as endowment or whole life.

#### Mortgage reducing term assurance (MRTA)

The plan covered the repayment of an outstanding property loan in the situation of untimely death, disability or critical illness of the borrower to the financial institution.

## **BACKGROUND OF LIAM**

Life Insurance Association of Malaysia (LIAM) which is known as Persatuan Insurans Hayat Malaysia is a trade association. This association was registered as Life Insurance Association (LIA) on 26 March 1968 under the Societies Act 1966. This association changed the name from LIA to Life Insurance Association of Malaysia in the year 1977. The office of LIAM was located at No. 4, Lorong Medan Tuanku Satu Medan Tuanku, 50300 Kuala Lumpur. LIAM is the association which specifically focused on the life insurance.

LIAM consists of 17 members where 15 of them are life insurance companies and another two members are life reinsurance companies. All these life insurance and life reinsurance companies must be the member of LIAM as it required by the statutory requirement under section 22 (1) of the Insurance Act 1996, or section 3(2)(e) of the repealed Insurance Act 1963.

In the year 1997, LIAM also had formed Malaysian Life Reinsurance Group Berhad (MLRe). MLRe was formed as a result of joint venture between the members of LIAM and Reinsurance Group of American Incorporated. MLRe give an image of unique association as life insurance companies play the both role as clients and shareholders with the reinsurer. Reinsurance is insurance brought by an insurance company (insurer) from another insurance company (reinsurer). The purpose of reinsurance is to transfer portion of risk portfolio like reducing the risk of paying large amount of insurance claim to another parties. This alternative can help them reduce the risk portfolio by spreading risk to another institution or parties.

Below are the lists of the LIAM's members:

- 1) AmLife Insurance Bhd
- 2) Allianz Life Insurance Malaysia Berhad
- 3) American International Assurance Bhd (AIA)
- 4) AXA AFFIN Life Insurance Bhd
- 5) CIMB Aviva Assurance Bhd
- 6) Etiqa Insurance Bhd
- 7) Great Eastern Life Insurance (Malaysia) Bhd
- 8) Hong Leong Assurance Bhd
- 9) ING Insurance Bhd
- 10) Malaysian Assurance Alliance Bhd (MAA)
- 11) Uni. Asia Life Assurance Bhd
- 12) Manulife Insurance Bhd
- 13) MCIS Zurich Insurance Bhd
- 14) Prudential Assurance Malaysia Bhd
- 15) Tokio Marine Life Insurance Malaysia Bhd
- 16) Hannover Life Re, Malaysian Branch

## 17) Malaysian Life Reinsurance Group

Since LIAM is the associations that specifically focus on life insurance, therefore the agent of life insurance have to be registered with LIAM. All the rules and regulation draw up under LIAM have to be complied by agent of life insurance. Therefore, LIAM play important role to enhance the performance of this industry.

### **ROLE OF LIAM**

Every association has their own objective to launch it as well as LIAM. There are several roles that held by LIAM. First and foremost, LIAM is accountable to promote public to understand and appreciate on life insurance. The method that use by LIAM to increase the awareness of the life insurance to the community are via educations programs, career opportunity and awareness talks, seminar and conferences. Besides, LIAM also organizes community service projects and public relation activities such as held campaign or exhibition in a small town to promote the life insurance industry in Malaysia. Other than that, LIAM can improve the public on realizing the benefits of life insurance by encourage a nearer working relationship with regulators and consumer bodies. In addition, distribute information through issue the research material, quarterly bulletins and annual reports.

Secondly, LIAM improves the image of the life insurance industry through self-regulation too. LIAM formulates rules and guidelines and reviews its internal structure and processes would make the self-regulatory functions stronger. In 1991, LIAM set up the Code of Ethics and Conduct for its member about the sale and practice of the life insurance. The purposes of

this self-regulatory are instill the discipline and promoting healthy competition among companies in the industry and provide protection to policy holders. However, there are some unfavorable points of view on self-regulatory. If there any event of the life insurance companies breach the self-regulatory, the policy holders cannot take any legal action on it since the self regulatory measures are voluntary draft by the themselves and thus do not have the power of the law. This is contradicting with the purpose to have the self-regulatory.

LIAM has carry out a review of disciplinary procedures sketched in the Constitution. Disciplinary Committee had been formed especially for the self-regulatory purpose and they are given authority to inspect and investigate and to settle on the disciplinary action in the case which breaches the guideline. The Chairman would be appointed in rotation basis to ensure justice and fairness of the Disciplinary Committee. Before goes to this review, any complaint would have to undergo many processes through the Committee of Inquiry and Management Committee before make the final decision.

The next role that holds by LIAM is to give support to the regulatory authorities in developing a strong and healthy industry. The regulatory authorities mostly are referring to Bank Negara Malaysia (BNM) because of BNM is the governing authority in the insurance industry. In 2003, BNM had issued a guideline on unfair practices in Insurance Business. This guideline illustrate a broad framework on ethical practice when deals with customer to increase the public faith and confidence. Therefore, insurance companies are not allowed engaging any unfair deal under this guideline. By encourage

insurance companies to follow the guideline would improve the insurance industry to a strong and health condition.

LIAM is responsible to enhance the professionalism of staff and agents continuously as well via training and education. Bumiputera Agents Training Fund had created in March 1996 which conducts and manages by the Malaysian Insurance Institute. This fund would allocate RM 1 million every year for training and development in bumiputera life agency force.

Furthermore, LIAM is one of the contributors of Staff Training Fund which will use in Financial Sector Talent Enrichment Program (FSTEP). The program will provide one year training for the financial services by trainers from British Council. This program is aims to train the graduates to meet the needs for local financial services industry. In addition, LIAM collaborates with Persatuan Insuran Am Malaysia (PIAM) and Malaysia Insurance Institute (MII) set up an insurance training and development program in 2004 for graduates which on unemployment. This program is taking about 4 to 6 months and mainly is improve their analytical skill and provide relevant exposure in the insurance field. Thus, these skilled graduates have a better performance when enter to the insurance industry.

Last but not least, the role that plays by LIAM is to communicate and work with local and foreign life insurance organizations to accomplish common objectives. LIAM enquires all its local life insurance company member provide the scheme which related for foreign workers employee since every employer have to insure him foreign workers under section 26(2) in Amended Workman's Compensation Act 1952. If any employer fails to do so, it could consider as guilty of an offence and would be fine not exceeding RM



20, 000 or imprison 2 year s or both. Liaise with the local and foreign life insurance company would reduce the probability of conflict occur and brings benefits to the insurance industry in Malaysia.

### **Persatuan Insurane AM Malaysia (PIAM)**

Persatuan Insurans AM Malaysia (PIAM) or General Insurance Association of Malaysia was established in May 1979 in compliance with Section 3(2) of the Insurance Act, 1963. PIAM forms the statutory association acknowledged by the Government of Malaysia for all registered insurers who carry out general insurance business in our country. There are three categories of members under PIAM.

General Insurance Business

Example: Berjaya Sompo Insurance Berhad (62605-U)

General and Life Insurance Business

Example: American International Assurance Bhd (790895-D)

Reinsurance Business

Example: Swiss Reinsurance Company (993718-U)

### **Role of PIAM**

The existence of PIAM is to promote the establishment of sound insurance structure in Malaysia in collaboration and consultation with Bank Negara Malaysia. Accordance with Section 22 of the Insurance Act 1996, all the general insurers are required to be members of an association which approved by the Central Bank of Malaysia (Bank Negara Malaysia). All

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general insurers are compulsory to register as the member of PIAM as it is the association that specifically focused on general insurance. Where necessary, the insurance policies introduced by the members have to be review by PIAM to ensure the policy generate value to the policyholders and make certain interest of policyholder. For instance, the introduction of a Long Term Fire Insurance (LTFI) product under the Fire Tariff to allow conventional insurers to underwrite this type of insurance under specific conditions for residential properties is the proposal of the Fire Sub-committee under PIAM after reviewed. The Fire Sub-committee will review and examine the Tariff rates, and taken the appropriate measures to prepare market players for the eventual de-tariff environment. In this case, they had identify some key successful for the implementation of the de-tariff exercise such as the insurers' preparedness, flexibility in underwriting fire business and public education. In the year 2009, a Working Group also has been formed for the purpose of drafting plain language policy wordings for the more common non-tariff classes for reference by the industry.

Besides, PIAM also do analyse the written premium, claim ratio and underwriting amount charged by insurance companies. These matters are reported in their annual report. Analysing the trend of revenue and income can be useful in strategic policy-making in the future in order to tailor and suit the economic development. For issuing policy process, all PIAM members must comply with the imposed rules and regulations including the standardized Policy and Endorsement wordings, standardized minimum premium rate as well as standard scale of discounts. For instance, the house owners or householders insurance is regulated under the Malaysian fire

tariff, which means that covers available and the minimum premium rates are same for all companies in this country. Therefore, the policyholders are free to select the insurer based on insurer's quality of service.

The responsibility of PIAM is to promote, protect and represent the interest of the members in or connected with Malaysia by all means and methods which consistent with the laws and Constitution of Malaysia. PIAM will give advice and assist its members in complying with the Act and perform their responsibilities as well. These actions comply with the requirement of submission of Information to Lembaga Hasil Dalam Negeri Malaysia (LHDNM) for “ Declaration of Earnings for motor insurance, latest system or standard incorporated for valuation of motor vehicle and claim processing expedition. In addition, PIAM also will give out the latest information that its members have to be complied in order to increase the quality of their performance. For example, recently the Non-Tariff Sub-committee is enhancing specifications for information and data submissions to ISM in respect of the Medical and Health, Marine, General Accident, Personal Accident classes of business to ensure the available information are comprehensive and reliable when it was use by member companies especially in a de-tariff environment.

In the year 2009, the Association has come out with a networking platform refers to “ Enterprise Risk Management Knowledge Sharing Forum” mainly for risk managers who get involved in general, life and Takaful sector in insurance industry. This forum provides as a supreme platform for members to further improve their knowledge, skills and keep themselves update to the latest issues in enterprise risk management of insurance and the Takaful industries. Besides, it also designed to create awareness for the future

improvement in the industry and regulatory directions that will lead it members manage their risks in more effective ways.

PIAM's Complaints Action Bureau or Financial Mediation Bureau has responsibility to assist and resolve the consumer complaints on its members. Policyholders can further refer their problem to the Financial Mediation Bureau if the complaint remains unresolved. When complaints rose, it is strongly recommended the compliant party and insurance company reach an agreement before starting up the legal proceedings. PIAM will analyse and investigate the case whenever is necessary in order to resolve the problem. Besides, PIAM also concern with the events organized by its member, statements and expressions of opinions that do affect its members. Advice and defense representing the interests of members are deemed to be necessary to resolve the arguments, complaints or conflicts.

Furthermore, PIAM will also co-operate with the other similar associations in the world to circulate information that will give interest to its member. In thereby, PIAM will collect, collate and publish statistics as well as any other relevant information relating to general insurance. It will work with any legal body or any chamber or committee or commission appointed or to be appointed for consideration, framing, amendment or alteration of any laws relating to insurance. They will make rules, regulations, tariffs and by-laws in accordance with these Articles in consultation with Bank Negara Malaysia for implementation by the members. The main objective is to assist ways or methods within its capacity which help reduce total of losses or number of accidents and crime prevention.

In addition, PIAM will also organise and make arrangements for the matters of common interest, concern or benefit to its members or any group of members and also to collect and manage funds for the same. Example of the successful arrangement organized by PIAM is the introduction of PIAM Approved Repairers Scheme (PARS) in 1983. The main purpose of this scheme is to improve the standard of service, quality and professionalism of workshops that involved in repairing accident vehicles in worldwide. It believes the scheme has successfully ensured all the motor repairers under PARS maintain a good quality of service. Periodic surprise check is carried out in approved workshops, in addition to the annual routine inspection. One of the requirements in applying for PARS status is it must be a private-limited company with a minimum paid-up capital of RM 50, 000. This is to make sure the workshops sustainable enough to run its business. In the human capital development especially in the development of technical skills, PIAM incorporate with the Malaysian Insurance Institute (MII), the premier insurance educational and training institution of the industry continuously push forward measures to complement both members' and MII's efforts to enhance human capital development. Active interaction with members and MII to identify challenges facing in the insurance industry on human capital development was done through a gaps analysis exercise where the key areas identified for attention were the general insurance industry's training requirements, marketing and branding of the general insurance industry as an employer of choice and human resource challenges faced by insurance companies.

For the implementation of plan and task to create the best interest of its members, the Management Committee of PIAM has cooperate with the member companies such as members of the various Sub-committees, Working Groups and Task Forces whereby they receive their contributions and services in the work they carrying out. Support and cooperation from Bank Negara Malaysia, Royal Malaysia Police, Road Safety Department, JPJ also marked the success of the PIAM in achieving their objectives.