The Edge
2 July 2024

Wealth

Insurance: Will medical insurance be a luxury for Malaysians?

By Chelsea Lee and Kuek Ser Kwang Zhe / The Edge Malaysia 02 Jul 2024, 11:30 am

"So now, with guidance from Bank Negara, the industry is looking at and pushing co-payment (or coinsurance). That will potentially bring down the premium and benefit the consumer." - Lew (Photo by Zahid Izzani/TheEdge)

This article first appeared in Wealth, The Edge Malaysia Weekly on June 24, 2024 - June 30, 2024

Medical insurance premiums have increased by 50%, or even doubled in some cases, over the past three to four years. If the trend persists, it will render medical insurance unaffordable for many Malaysians, says Sun Life Malaysia CEO and president Raymond Lew.

Several factors have contributed to the higher premiums, including a weaker ringgit and an increase in the number of claims made in a given period. There have also been "abuse" cases where patients ask to be admitted to hospital even when it is unnecessary, purportedly for insurance claims, he says.

Lew, who is also president of the Life Insurance Association of Malaysia (LIAM), explains that a weaker ringgit would have contributed to the higher premiums as most medical equipment is imported and purchased in US dollars. When the ringgit weakens, imported equipment becomes more expensive, which translates into higher cost for hospitals and higher insurance premiums.

Looking ahead, the ringgit could strengthen against the US dollar. But will medical insurance premiums be adjusted accordingly?

When asked during an interview with Wealth, Lew says this is unlikely as insurance premiums are regulated by Bank Negara Malaysia. It is not up to insurers to randomly decide how much medical insurance premiums can be increased.

"Some factors [that contributed to the higher medical insurance premiums] are not within the control of the insurance company, such as how much the hospital charges for certain treatments, the cost of treatments or the cost of drugs used. But they have an impact on the premium. And we have to price these in," he points out.

Coupled with the fact that salaries are not catching up with inflation, more people, including those on the lower rung of the M40 (middle 40% income group), are finding medical insurance increasingly unaffordable.

"Particularly after the pandemic, people were saying that the income categories look more like T20, M20 and B60. Such a claim isn't validated. But there is such sentiment," Lew remarks.

Coinsurance plans, where policyholders share the cost of a covered expense with the insurers, could be a solution to the unaffordability challenge posed by fast-rising medical insurance premiums, he says.

Say a medical emergency costs RM100,000. The coinsurance policyholder pays the initial RM10,000 and the rest is covered by the insurer. It could also deter "abuse" cases as policyholders are still required to pay a sum for their medical treatment even when they are eligible for coinsurance claims.

"So now, with guidance from Bank Negara, the industry is looking at and pushing for co-payment (or coinsurance). That will potentially bring down the premium and benefit the consumer," says Lew.

In fact, fast-rising medical insurance premiums have been an issue since at least 2020. LIAM CEO Mark O'Dell noted at the time that medical insurance premiums were rising at an unsustainable rate, rendering medical insurance plans unaffordable for many people, including those in the middle-income group.

He also pointed out that the Medical Cost Containment Task Force was established in 2019 by LIAM, the General Insurance Association of Malaysia (PIAM), the Malaysian Takaful Association and Bank Negara to carry out an independent study on the key drivers of rising medical insurance premiums.

O'Dell suggested coinsurance plans as a potential solution to such a challenge. "We are not talking about a large amount of cost-sharing by policyholders. It could be RM500 or 5% to 10% of the bill with a maximum cap. It does not need to be burdensome to policyholders," he added.

On May 31 this year, it was reported that Bank Negara and insurance companies were working on new insurance policies with a cost-sharing provision.

Malaysians need more long-term care products

Besides coinsurance plans, Lew also sees increasing demand for long-term care insurance policies. Long-term care involves a variety of services designed to meet people's health or personal care needs when they can no longer perform everyday activities on their own.

He says the social structure of the country is changing. More people are getting older without children to take care of them.

"Quite a number of people are talking about living in senior care homes where they would have all the necessary facilities. Ideally, they would like to [live comfortably] like at a resort. They would have to pay, perhaps, RM9,000 to RM15,000 a month, depending on the type of facilities they want," he adds.

"We see this as a big trend. So, insurance products have to be innovative to take this into account to protect their future. We need to take this into consideration."

While there are long-term care insurance policies in the market, Lew says there need to be more products and more innovative ones too.

Insurance industry not at inflection point on Digitalisation

As much as technology and digitalisation are taking the world by storm, life and insurance policies largely continue to be sold through agents, says Lew.

He observes that the old industry mantra of "insurance is sold, not bought" continues to ring true.

"Based on my observation, it is still true that people don't wake up one day looking to buy an insurance policy. We need to really sell it. It needs to be sold. And insurance agents still play a very important role," he stresses.

Yet, that doesn't mean technology and digitalisation don't have a bearing on the insurance industry. Consumers today are better educated as information is a lot more accessible online, which means insurance agents have to constantly improve themselves to provide better advice.

"Consumers today are more demanding. And with more regulations coming in to encourage transparency and promote higher standards of professionalism, the old way of how agents operate is no longer applicable," he acknowledges.

The life and medical insurance business is still "agent-driven", not just in Malaysia, but in other Asean countries as well. For instance, Sun Life has been in the Philippines for 121 years and one of its top insurers for 13 years, says Lew. Its business there still largely depends on agents.

The insurance industry is not at an inflection point when it comes to digitalisation. Lew doesn't anticipate a lot more people buying insurance policies online, but that doesn't mean Sun Life and the industry are not preparing for the future.

For one, Sun Life has launched its mobile application for policyholders to submit and track insurance claims, among other things. At the group level, the insurer is an investor of Bowtie, a Hong Kong-based digital insurer and the first company to receive a virtual insurance licence in the city.

FinTech Global, a financial technology information provider, quoted Sun Life Hong Kong Ltd CEO Clement Lam as saying, "Bowtie has challenged the myth of 'insurance is sold, not bought', which was previously unimaginable."

"We look at that [Sun Life's investment in Bowtie] as an opportunity to expand our horizons. Hopefully, when the time is right, and with all the learning from Bowtie in the Hong Kong market, we can import this to Malaysia and start doing something different on the local scene," says Lew.

Sun Life Malaysia is an investee company of Khazanah Nasional Bhd, which also invested in home-grown insurance technology company PolicyStreet last year. Are the two parties exploring a collaboration to introduce new products and services? Or is Sun Life Malaysia applying for a virtual insurance licence?

Lew says the firm is always ready to explore growth opportunities, including inorganic growth opportunities through collaboration and partnership. However, it is currently not looking to apply for the digital insurer licence as it can expand its digital channels under its current licence.

According to him, Sun Life Malaysia ranked No 7 in size among its peers when combining its life insurance and takaful businesses. It ranked No 3 in terms of bancassurance. "But as far as takaful is concerned, we are No 1 in terms of the bancatakaful business," he points out, adding that CIMB Bank is a partner of Sun Life Malaysia.

Link: https://theedgemalaysia.com/node/716702