

Bridging the protection gap

A call for Digital Insurers and Takaful Operators

KPMG in Malaysia

Insurance stands as a cornerstone of financial protection and inclusion, delivering crucial safeguards against unexpected circumstances and during economic upheaval. The impacts of the pandemic have unequivocally underscored this imperative – now that both individuals and businesses alike have had first-hand experience with its ramifications.



A review of the insurance landscape shows substantial gaps persist, especially among the “at-risk” segments. Only 25% of working adults within the lower-income group possess any form of life insurance or family takaful coverage, a stark contrast to the 59% rate among their employed counterparts of the general population.¹

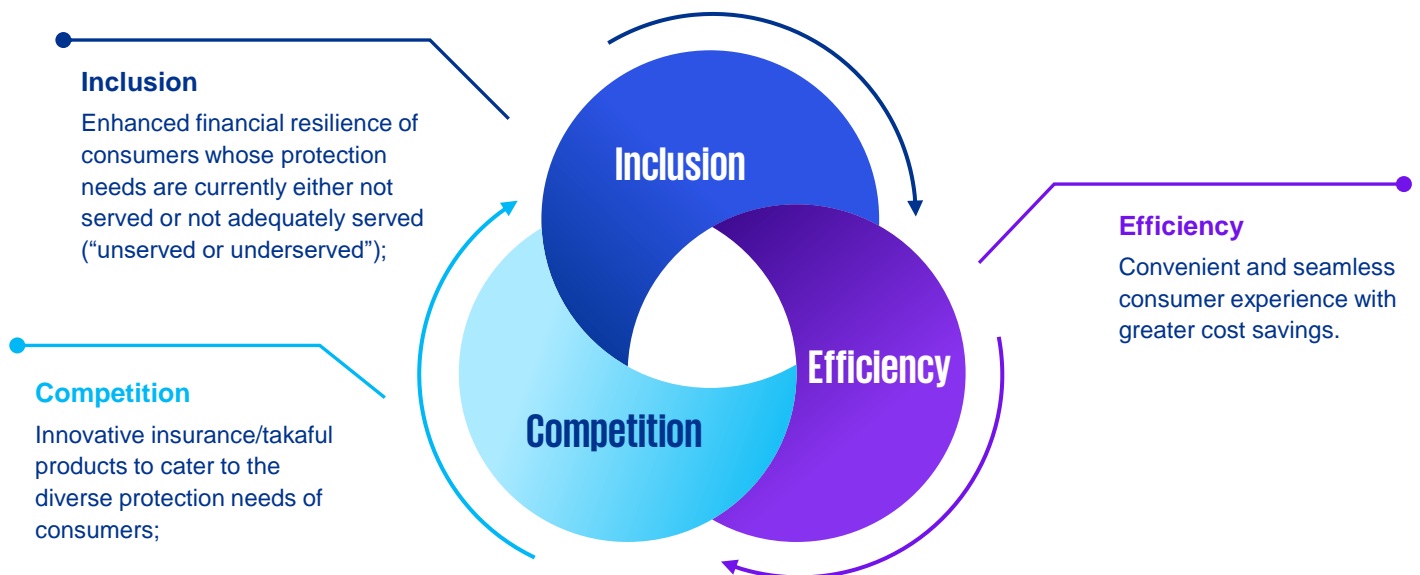
The same context extends to micro, small, and medium enterprises (MSMEs) in Malaysia. Often recognized as the backbone of the economy, MSMEs constitute 97.4% of the overall establishment in Malaysia, contributing to 38.4% of the country’s GDP and generating 7.59 million employment opportunities.² Yet, these companies are a hugely underserved market when it comes to financial protection – as a significant portion of MSMEs (85%) in Malaysia have inadequate insurance coverage.³

So as to address this critical protection gap in the market, Bank Negara Malaysia (BNM) released an Exposure Draft (ED) on the licensing and regulatory framework for Digital Insurers and Takaful Operations (DITO).⁴ With an aim to issue up to five DITO licenses in the near future, the move also seeks to usher in a transformative era within the financial services sector – anchoring on advancing digitalization and elevating dynamism in line with the Financial Sector Blueprint 2022 – 2026.⁵

Drawing from the ED, the acquisitions of DITO licenses requires the ability to demonstrate three value propositions in a sustainable manner, with each poised to generate enduring social and economic advantages for Malaysia in the long run.

1. [Licensing and Regulatory Framework for Digital Insurers and Takaful Operators Exposure Draft](#), Bank Negara Malaysia, 25 November 2022
2. [Micro, Small & Medium Enterprises \(MSMEs\) Performance 2022](#), Department of Statistics Malaysia, 27 July 2023
3. [Asia Insurance Review \(2019\) Malaysia: SMEs face underinsurance risk](#), Asia Insurance Review, January 2019
4. [Licensing and Regulatory Framework for Digital Insurers and Takaful Operators Exposure Draft](#), Bank Negara Malaysia, 25 November 2022
5. [Financial Sector Blueprint 2022 – 2026](#), Bank Negara Malaysia, 24 January 2022

Breaking down the value propositions



Inclusion

The dynamic landscape of the underserved and unserved markets such as gig economy, MSMEs, as well as lower-income households, presents distinctive insurance and takaful requirements. Consequently, they encounter obstacles due to the intricate nature of their needs and limited access to suitable solutions.

DITO applicants must be able to demonstrate the capabilities to fill this void by offering cost-effective and easy-to-access products tailored to cater to the diverse protection needs of this market. Essentially, this entails addressing the currently unmet demands of these groups, which remain unaddressed by the established licensed insurers and takaful operators operating in the market.

Delivering insurance to the unserved and underserved market is an essential step toward creating financial inclusion. Extending the protective benefits of insurance to all segments of the population can foster resilience, empower individuals and drive sustainable development for the greater good.

Competition

The insurance industry is not immune to change. The accelerated adoption of digital technology over the recent years has given rise to changing consumer preferences, lifestyles and demographics, including insurance buyers.

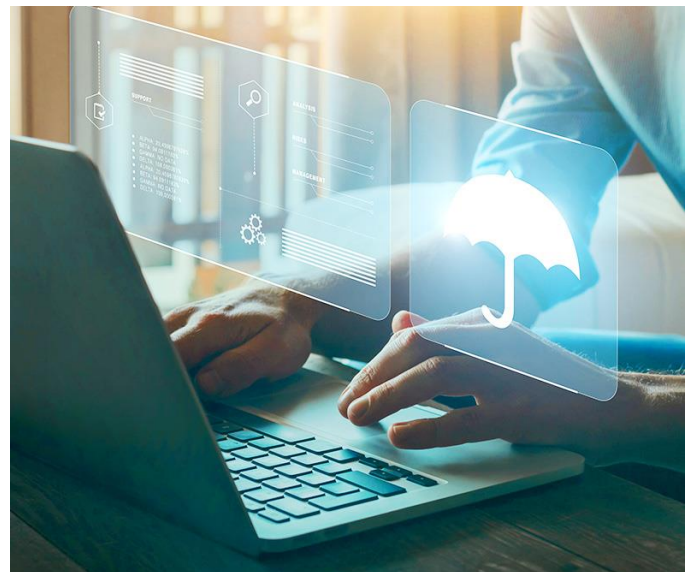
Exemplifying the competition value proposition necessitates DITO applicants to provide innovative protection solutions that better reflect the behaviors and risk profiles of today’s consumers. This, in turn, will create a dynamic and responsive insurance market – paving the way for healthier competition across the value chain in the ecosystem with the consumers as the ultimate beneficiaries.

Efficiency

The third value proposition emphasizes efficiency to meet the growing consumers’ demand for convenience and streamlined processes.

Customers now expect the same level of digital sophistication not only throughout the insurance purchase journey but also across the policy lifecycle. Large legacy systems are continuing to impede progress in this space, with significant investment often required for something as simple as changing an address online.⁶

Transitioning legacy systems into a digitally scalable platform can enable greater transparency with improved customer support and turnaround times – while also yielding greater cost savings. The adoption of scalable digital platforms can lay the foundation for sustainable practices, both from a financial and ecological standpoint.



6. [KPMG Global Customer Experience Excellence 2022 – Insurance](#), KPMG International



Generational opportunities

The government has outlined its commitment to advance the digitalization agenda to its highest level as encapsulated in the MADANI Economy Framework.⁷ Alongside the continuous government support, the growing internet penetration rate – which currently stands at 97.4%⁸ – presents generational opportunities for both incumbent and new players to deliver inclusive insurance that can enable long-term economic stability, social welfare and wealth creation.

On a macro level, the emphasis on digital financial inclusion serves as a catalyst in achieving 13 of the 17 Sustainable Development Goals (SDGs), to which Malaysia pledged commitment alongside 192 countries in 2015.⁹ By leveraging technology and embracing financial inclusivity, insurers and takaful operators keen to step up to the challenge can help play a transformative role in attaining these sustainable development targets and fostering a more equitable and prosperous future – for all.

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7. [MADANI Economy: Empowering the people](#), Prime Minister's Office of Malaysia, 27 July 2023
 8. [ICT Use and Access by Individuals and Households Survey Report](#), Department of Statistics Malaysia, 31 May 2023
 9. [Igniting SDG Progress Through Digital Financial Inclusion – 2023 Edition](#), United Nations Secretary-General's Special Advocate (UNSGSA)

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