



**LIEW CHI MIN**  
Financial Services  
Partner, PwC Malaysia

# Game changer in insurance industry

THE creation of digital insurer and takaful operator (DITO) licences, with no cap on the number of licences, is a bold move that will revolutionise the industry. In addition to driving innovation and promoting inclusivity, it will address long-standing inefficiencies in traditional insurance models.

The insurance industry is often seen as lagging in innovation compared to other financial services. Traditional insurers rely on legacy systems and complex administrative processes, resulting in a lack of agility and responsiveness to consumer needs.

This reliance, while requiring certain modernisation, is not without valid reasons seeing many insurers have been operating for decades, having initially invested heavily in IT systems that were once cutting-edge. These systems have been continually patched and upgraded rather than replaced.

Insurance products can also be highly complex, with numerous variables and regulations to consider. Legacy systems are often deeply embedded in the operational workflows, making them difficult to replace without risking significant disruptions.

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■ InsurTech is already driving positive changes globally

■ With DITO licensing, consumers expect seamless, intuitive and easily accessible digital solutions

InsurTech, a blend of “insurance” and “technology,” refers to the use of technology innovations designed to improve efficiency, customer experience and overall effectiveness of insurance services. This includes everything from AI-driven risk assessment and chatbots for customer service to on demand convenient, personalised and transparent insurance solutions.

Globally, InsurTech is already driving positive changes such as Lemonade in the US which uses AI and machine-learning to offer quick, affordable insurance policies directly through a mobile app. It eliminates the need for intermediaries, offering transparency with a flat-fee structure and instant claims processing.

Many Chinese digital insurers also use big data analytics to offer highly personalised insurance products.

DITO licensing is expected to attract a diverse range of market participants including corporates, investors, tech-savvy startups and the InsurTech players who are currently operating in the Bank Negara Malaysia regulatory sandbox.

The transition to licensed operations offers several advantages, including regulatory alignment, market validation and enhanced scalability. However, DITO applicants must be prepared to meet the stringent requirements and navigate the competitive landscape effectively. Given the various regulatory flexibility granted to the successful DITO applicants during the foundational period of up to seven years, DITO applicants are expected to not only introduce innovation, enhance customer experience via the use of advanced technology, but also able to eventually scale up and comply with the capital and regulatory requirements like conventional insurers.

As challenging as it may sound, these are not impossible given the extended DITO application deadline to Dec 31, 2026, giving applicants more time to carefully evaluate the business propositions.

In today's fast-paced digital world, customer experience is paramount. With DITO licensing, consumers expect seamless, intuitive and easily accessible digital solutions. PwC's 2023 survey indicates that the underinsured population in Malaysia is particularly seeking the following

top three features with DITO:

1. Real-time updates on the policy underwriting and claims processes;
2. Automation of claims process; and
3. Easy access to the DITO platform.

Customers also highly anticipate insurance product customisation as they seek policies tailored to their specific needs and risk profiles. With advancement in data analytics and AI, DITOs are expected to offer personalised coverage and affordable pricing, ensuring that customers feel valued and understood.

The same survey revealed that medical and health insurance is the most essential coverage for the underinsured population. According to our findings, the top three reasons for not having medical insurance are:

1. Limited knowledge and understanding of insurance products;
2. Complicated claims process; and
3. High costs and lack of readiness for long-term financial commitments.

Moreover, there is a growing demand for medical health products that cater to the ageing population and to address mental health, areas often overlooked by traditional insurers.

DITOs are expected to leverage technology to create comprehensive health coverage plans that include preventive care, chronic disease management and mental health support. These innovative products will not only improve the quality of life for many but also demonstrate the potential of digital insurance to adapt to the evolving needs of society.

Locally, the growth trajectory of DITOs is likely to mirror that of digital banks, as both sectors share the same goal — to align with broader national objectives of financial inclusion, innovation and economic growth. Therefore, as digital banks gain traction, they will likely create a synergistic ecosystem with digital insurers, offering comprehensive financial solutions to meet the evolving needs of Malaysian consumers.

BNM's decision to open the doors for DITO licences marks a pivotal moment for the industry. The industry must rise to the occasion, delivering on the promise of more accessible, transparent and customer-centric insurance solutions. If successful, this could mark the beginning of a more inclusive and resilient financial ecosystem in Malaysia.

