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Annuity scheme suspension catches insurers by surprise (HL)

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INSURERS working with Employees Provident Fund (EPF) to offer an annuity scheme to contributors have been caught offguard by the Government's decision to suspend the programme pending a study.

The scheme was introduced last July, and despite a less than enthusiastic response initially, insurers were able to rake in premiums worth RM760 million in six months from EPF members who opted for the arrangement.

The amount made up close to 8 per cent of the RM10.39 billion in total withdrawals for approved alternative investments by EPF contributors last year.

The annuity scheme basically involves a bulk upfront investment in exchange for a guaranteed lifetime monthly income upon retirement.

"Insurers are waiting for more details. They are concerned as to how far the Government is prepared to accommodate union demands," said one industry source.

The Malaysian Trades Union Congress (MTUC) had on Wednesday announced that it had received an undertaking from the Government to review the scheme.

MTUC had planned to picket at EPF offices nationwide tomorrow over a number of issues related to the fund's operations.

The picket was called off following an assurance by Prime Minister Datuk Seri Dr Mahathir Mohamad that the Government would look into MTUC's concerns, including the possibility of restoring the death and incapacitation benefit to RM30,000, as well as enhancing the public's confidence in the pension fund.

Yesterday, EPF said in a statement that the fund's consultants are studying whether the annuity scheme should continue to be operated through approved insurance companies, or implemented internally.

This puts in limbo a potentially lucrative business for the insurers, but what could prove trickier is the question of refunds and contractual obligations to the annuity scheme's existing membership in the event that the programme is scrapped.

Malaysian Assurance Alliance Bhd led five other insurance companies in the sale of the EPF annuity product as of end-2000, with RM370 million in approved premiums.

This is close to the total business garnered by Hong Leong Assurance Bhd, Malaysia National Insurance Bhd, MCIS Insurance Bhd, Maybank Life Assurance Bhd and John Hancock Life Assurance Bhd.

The Takaful version of the scheme is marketed by Syarikat Takaful Malaysia Bhd and Takaful Nasional Sdn Bhd. All eight companies are members of the Annuity Malaysia Consortium.

"The matter requires careful deliberation... it can have grave implications, including on the confidence of the EPF contributors," said another industry source.

National Insurance Association of Malaysia, representing the six participating insurers, yesterday registered its disappointment over the scheme's suspension.

"The companies involved are disappointed that the individual EPF members' right to choose a guaranteed retirement income for life has been suspended," said its chairman Tunku Yaacob Tunku Abdullah.

The association also assured existing policyholders that their policies

were still valid, and the benefits remained intact and would continue to be honoured.

The Consumer Association of Penang (CAP) however welcomed the decision to review the scheme, alleging that it benefits the insurers more than the contributing EPF members.

CAP stressed that it supports the concept of the annuity scheme as many workers are not disciplined in handling money and would fritter away their retirement savings within a few years; and that it believes it is not too late to amend the scheme.

"Unfortunately, according to our study on the conventional annuity scheme offered by the panel of insurance companies, workers would be much better off leaving their money in EPF," said its president SM Mohamed Idris.

"The present arrangement is also disadvantageous to members as they take greater risk by putting their trust in the insurance companies as compared to the EPF," he said.

CAP suggested that EPF manage the annuity scheme on its own to ensure that as much as possible of the investment income derived is returned to the members.