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Insurers fear mass pullout from annuity scheme

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INSURERS fear they may face a mass pullout by Employees Provident Fund (EPF) contributors who have signed up for the now discontinued annuity scheme marketed by them.

The companies said there could be a liquidity problem if the 286,000 or so participants decide to withdraw because most of the premiums collected have been invested. The six conventional and two Takaful insurers involved in marketing the scheme have collected a total of RM2.7 billion in premiums.

They are already thinking of seeking some flexibility from Bank Negara Malaysia for the return of policyholders' money in the event of a withdrawal rush, industry sources said.

"But this is only a worst case scenario. The need for time to refund the money was already discussed when the scheme was initially suspended," said one insurance executive.

While there has been an increase in withdrawals, the situation is manageable for now, he added.

The EPF-initiated annuity scheme was introduced in July 2000, but ran into strong opposition from workers' unions months later which led to its suspension on May 8 this year.

Last week, Prime Minister Datuk Seri Dr Mahathir Mohamad said the EPF would come out with its own annuity plan; on Monday, the fund announced that the suspended scheme would no longer accept new participants.

However, the existing policyholders will continue to be serviced as per agreed terms and conditions.

As a result, some participating insurers, especially the smaller ones, are worried that they may not be able to meet investment targets working only with their present premium base.

But an official from the annuity insurer consortium said members' individual investment strategies are not likely to be affected.

"It is possible to operate a static fund and invest it well. Under certain circumstances, it is probably easier to handle a static portfolio," said Gregory John Murray from Malaysian Assurance Alliance Bhd.

They can take the long-term view and invest in financial instruments like bonds that promise good returns over the long haul.

"A survey of the annuity policyholders shows that their average age is 35-37 years. This means that the bulk of insurers' liability does not begin to come due for at least another 20 years," he said.

Another insurer likewise said the halt in new premium inflows would not hinder the companies from earning a decent return on investments.

"There is no issue with the continuation of investments on our part. The annuity scheme is a single premium product. As we receive contributions, they are invested according to the appropriate guidelines," he said.

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