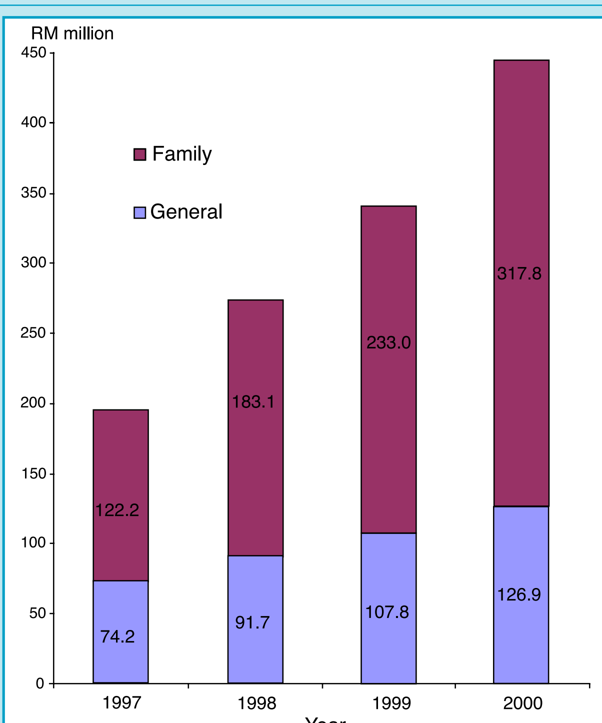
3 The Takaful Industry Performance

Overview of Industry Performance

The growth of the takaful industry gained momentum in the year 2000 with the main business indicators recording higher double-digit growth rates. The combined contribution income of the family and general takaful business sectors grew by 30.5% (1999: 24%) to RM444.7 million, of which 71.5% of the income was generated from the family takaful business sector. The higher growth of the combined contribution income was attributable to the improved economic conditions in the country as well as in the region and the aggressive marketing campaign undertaken by the takaful operators to educate the public on the benefits of takaful products. Contribution income as a percentage of total premium income of the insurance industry increased to 3.8% in year 2000, compared with 3.1% in 1999. Total benefits and claims paid (including profits) increased by 30.5% (1999: 36.6%) to RM115.2 million, constituting 25.9% of total contribution income in year 2000. The increase in total benefits and claims paid (including profits) was mainly attributable to the higher increase in claims paid under the general takaful business sector. Total assets of takaful funds grew at a rate of 40.1% (1999: 50.4%) to reach RM1,168.2 million, accounting for 2.6% (1999: 2.2%) of the total assets of the insurance funds in year 2000.

Chart 3.1 Takaful Contributions



Performance of Family Takaful Business

New Business

In line with improved economic conditions, the family takaful business sector recorded a strong growth in year 2000. Total new takaful contributions recorded a growth of 80.8% (1999: 29.6%) to RM279.5 million. Similarly, new sums participated increased by 101.2% to RM12,067.5 million. A total of 163,492 family takaful certificates were issued in year 2000, an increase of 62.7% (1999: 79.1% and 100,511 certificates). The increase in the number of new takaful certificates issued was mainly from individual and

Table 3.1 New Business

Year	No. of Certificates	Sums Participated	Contributions
	Units	RM million	
1996	39,366	1,947.1	55.0
1997	50,005	2,317.8	79.2
1998	56,126	5,606.6	119.3
1999	100,511	5,996.3	154.6
2000	163,492	12,067.5	279.5
	% change		
1996	27.2	40.8	123.6
1997	27.0	19.0	44.0
1998	12.2	141.9	50.7
1999	79.1	7.0	29.6
2000	62.7	101.2	80.8

Table 3.2 Distribution of New Business by Plan									
Item	1998	1999	2000	1998	1999	2000	1998	1999	2000
No. of certificates	Unit			% change			% share		
Individual	30,824	53,653	102,295	37.1	74.1	90.7	54.9	53.4	62.6
Term individual	717	2,427	5,111	–92.3	238.5	110.6	1.3	2.4	3.1
Mortgage	23,820	43,755	53,813	33.8	83.7	23.0	42.4	43.5	32.9
Group	765	676	2,273	88.0	–11.6	236.2	1.4	0.7	1.4
Total	56,126	100,511	163,492	12.2	79.1	62.7	100.0	100.0	100.0
Sums participated	RM million			% change			% share		
Individual	406.8	797.1	1,778.8	3.3	95.9	123.2	7.3	13.3	14.7
Term individual	1.7	2.3	187.6	–84.6	35.3	8,056.5	…	…	1.6
Mortgage	1,548.7	2,381.3	2,955.4	56.8	53.8	24.1	27.6	39.7	24.5
Group	3,649.3	2,815.6	7,145.7	294.4	–22.8	153.8	65.1	47.0	59.2
Total	5,606.6	5,996.3	12,067.5	141.9	7.0	101.2	100.0	100.0	100.0
Contributions	RM million			% change			% share		
Individual	17.9	28.8	64.6	36.1	60.9	124.3	15.0	18.6	23.1
Term individual	…	0.1	1.7	–90.7	158.5	1,600.0	…	0.1	0.7
Mortgage	82.4	115.7	163.9	47.2	40.4	41.7	69.1	74.8	58.6
Group	19.0	10.0	49.3	96.0	–47.4	393.0	15.9	6.5	17.6
Total	119.3	154.6	279.5	50.7	29.6	80.8	100.0	100.0	100.0

… Negligible

mortgage takaful plans, reflecting increasing awareness of individuals especially Muslims on the benefits of takaful.

In terms of new takaful contributions, all sectors of family takaful business, with the exception of mortgage takaful plans, registered triple-digit growth rates in year 2000. In the case of group takaful plans, it registered the second highest growth rate of 393% in new contributions to RM49.3 million (1999: RM10 million). This was due to the improving economic conditions which had increased the ability of employers to provide group takaful cover for their employees. On the other hand, mortgage takaful plans managed to record a growth rate of 41.7%, slightly higher than 1999's growth of 40.4% in new contributions to RM163.9 million (1999: RM115.7 million).

As in previous years, mortgage takaful plans continued to be the most dominant sector of the family takaful business in terms of contributions and sums participated. However, its share of total new takaful contributions declined from 74.8% in 1999 to 58.6% during the year under review. Of significance is that 86.5% of contributions of mortgage takaful plans in year 2000 originated from participation of civil servants who have obtained Islamic home financing from the Government. The persistent and continued double-digit growth rates of mortgage takaful plans have contributed to the overall strong growth of family takaful business. On the other hand, individual family takaful plans remained as the second most important sector with an increased share of 23.1% (1999: 18.6%) of total takaful contributions, partly due to the increase in disposable income of individuals following improved economic conditions. The encouraging trend in the takaful business in year 2000 was an indication that takaful business has contributed and played an important socio-economic role in mobilising savings for economic development of the country.

Term individual family takaful plans also recorded significant growth performance in year 2000. The number of new takaful certificates issued increased by 110.6% to 5,111 certificates in year 2000 (1999: 2,427 certificates). Term individual family takaful plans, which are predominantly yearly renewable term plans, only offer death and disability benefits without any saving elements. The increase in new certificates issued was mainly attributable to the increase in demand for the two most popular medical or health care-based plans. The initiative to sell these takaful plans through post office branches all over the country so as to reach all potential participants was another important factor which contributed to the better performance of term individual family plans in year 2000. However, as compared to the other family takaful business sectors, term individual family takaful plans remained small and constituted only 0.7% (1999: 0.1%) of total new takaful contributions in year 2000.

Terminations

There was an increase in the number of certificates terminated in the financial year 2000. During the year under review, terminations of sums participated increased by 119.7% to RM4,536.2 million. It involved 19,172 takaful certificates with takaful contributions totalling RM29.9 million. The termination of sums participated was mainly due to the maturity, non-renewal and reduction in sums participated (particularly in the group takaful plans) which constituted 88.9% of total sums participated terminated in year 2000. Similarly, terminations through surrenders increased by 371.4% and accounted for 10.5% of sums participated terminated in year 2000 compared with 4.9% in 1999. This increasing trend of certificates termination needs special attention and efforts from takaful operators so as to stem the loss of future contributions and to ensure that the impressive growth performance of takaful business is maintained.

Table 3.3 Terminations of Sums Participated

Year	Death	Surrender	Expiry, Maturity and Other Causes	Total
	RM million			
1996	3.5	18.9	164.2	186.6
1997	8.6	19.5	622.1	650.2
1998	15.7	49.6	1,063.2	1,128.5
1999	19.5	100.8	1,944.0	2,064.4
2000	28.6	475.2	4,032.4	4,536.2
	% share			
1996	1.9	10.1	88.0	100.0
1997	1.3	3.0	95.7	100.0
1998	1.4	4.4	94.2	100.0
1999	0.9	4.9	94.2	100.0
2000	0.6	10.5	88.9	100.0
	% of sums participated in force at the beginning of the year			
1996	0.1	0.7	5.9	6.7
1997	0.2	0.4	13.6	14.2
1998	0.2	0.6	13.4	14.3
1999	0.2	0.8	15.8	16.8
2000	0.1	2.5	15.8	23.8

Business in Force

Despite recording higher termination rates during the year, business in force for family takaful continued to expand in year 2000. The number of takaful certificates in force increased by 57.4% to 439,822 certificates. Total sums participated grew by 34.3% to reach RM25,568.2 million while contributions grew by 49.5% to RM596.7 million in year 2000.

In terms of sums participated in force, all sectors of family takaful business, except mortgage and group takaful plans, recorded higher growth rates in year 2000. Group takaful plans grew at a slower rate of 19.3% (1999: 32.9%) mainly due to employers taking up group policies for their employees with smaller participation amount. In terms of the

Table 3.4 Business in Force

Year	No. of Certificates	Sums Participated	Contributions
	Units	RM million	
1996	76,393	4,563.4	83.8
1997	112,605	7,892.2	162.3
1998	160,944	12,291.7	253.0
1999	279,491	19,031.4	399.1
2000	439,822	25,568.2	596.7
	% change		
1996	38.8	63.7	126.5
1997	47.4	72.9	93.7
1998	42.9	55.7	55.9
1999	73.7	54.8	57.7
2000	57.4	34.3	49.5

Table 3.5 Distribution of Business in Force by Plan									
Item	1998	1999	2000	1998	1999	2000	1998	1999	2000
No. of certificates	Unit			% change			% share		
Individual	82,506	129,339	225,354	55.1	56.8	74.2	51.3	46.3	51.3
Term individual	4,510	2,517	4,999	–51.6	–44.2	98.6	2.8	0.9	1.1
Mortgage	72,594	146,225	206,836	47.5	101.4	41.5	45.1	52.3	47.0
Group	1,334	1,410	2,633	52.6	5.7	86.7	0.8	0.5	0.6
Total	160,944	279,491	439,822	42.9	73.7	57.4	100.0	100.0	100.0
Sums participated	RM million			% change			% share		
Individual	1,183.9	1,925.2	3,200.0	34.5	62.6	66.2	9.6	10.1	12.5
Term individual	7.3	7.4	172.6	–36.6	1.4	2,232.4	0.1	…	0.7
Mortgage	3,977.8	7,633.0	10,900.1	57.5	91.9	42.8	32.4	40.1	42.6
Group	7,122.6	9,465.7	11,295.5	59.2	32.9	19.3	57.9	49.7	44.2
Total	12,291.7	19,031.4	25,568.2	55.7	54.8	34.3	100.0	100.0	100.0
Contributions	RM million			% change			% share		
Individual	48.2	75.0	128.5	34.9	55.6	71.3	19.0	18.8	21.5
Term individual	0.2	0.1	1.4	–54.1	–50.0	1,700.0	0.1	…	0.3
Mortgage	175.3	286.2	406.4	62.6	63.3	42.0	69.3	71.7	68.1
Group	29.4	37.7	60.0	60.1	28.2	59.1	11.6	9.5	10.1
Total	253.0	399.1	596.7	55.9	57.7	49.5	100.0	100.0	100.0

… Negligible

distribution of sums participated in force, group family takaful and mortgage takaful plans continued to dominate, with shares of 44.2% (1999: 49.7%) and 42.6% (1999: 40.1%) respectively. Even though term individual family takaful plans recorded favourable growth in terms of new business in year 2000, its share of total sums participated in force in year 2000 however, remained negligible.

Average Size of Certificates in Force

The average size of all types of family takaful contributions in force (as measured by dividing the total contributions in force by the number of certificates in force) decreased, except for term individual family takaful plans and mortgage takaful plans, which increased by 478% and 0.4% to RM289 and RM1,964

Table 3.6 Average Size of Certificates in Force								
Year	Contributions [1]				Sums Participated [2]			
	Individual	Term Individual	Mortgage	Group	Individual	Term Individual	Mortgage	Group
	RM							
1996	732	25	1,747	15,225	14,800	675	49,260	4,228,742
1997	671	38	2,191	21,053	16,548	1,235	51,344	5,118,944
1998	584	36	2,414	22,045	14,350	1,618	54,795	5,339,313
1999	580	50	1,957	26,747	14,885	2,958	52,200	6,713,291
2000	572	289	1,964	22,800	14,200	34,534	52,699	4,289,985

[1] Average size of contributions in force - total contributions in force divided by number of certificates in force
[2] Average size of sums participated in force - total sums participated in force divided by number of certificates in force

respectively. In the case of individual family takaful plans, the average takaful contributions in force continued to reduce in year 2000 by 1.4% to RM572 per certificate. The average sums participated per certificate in force (as measured by dividing the total sums participated in force by the number of certificates in force) also declined slightly by 4.6% to RM14,200. As for mortgage takaful plans, the average takaful contributions per certificate in force increased slightly by 0.4% to RM1,964 whereas the average sums participated per certificate in force increased by 1% to RM52,699 in year 2000, signifying that the prices of residential properties covered by mortgage takaful plans have also increased.

Average Cost of Certificates in Force

The average cost of certificates (as measured by the average takaful contribution in force per RM1,000 sums participated in force) for individual and group family takaful increased to RM40 and RM5 respectively. However, for term individual takaful plans, the average cost declined by 52.9% to RM8 in year 2000 due to strong competition among takaful operators to offer takaful protection (in the form of term individual takaful plans which were mostly yearly renewable products) at competitively low contribution rates. As for mortgage family takaful plans, its average cost remained stable at RM37 for the second consecutive year. Overall, the average cost of certificates in force showed an increasing trend except for the cost of term individual plans which continued to decline from RM17 in 1999 to only RM8 in year 2000.

Table 3.7 Average Cost of Certificates in Force[1]

Type of Plan	1996	1997	1998	1999	2000
	RM				
Individual	49	41	41	39	40
Term individual	38	31	22	17	8
Mortgage	35	43	44	37	37
Group	4	4	4	4	5

[1] Contributions per RM1,000 of sums participated in force

Income and Outgo

Total income of the family takaful funds grew by 32.7% (1999: 36.8%) to RM351.4 million in year 2000. As in previous years, contribution receipts continued to be the main source of revenue for family takaful funds which accounted for 90.4% of total income in year 2000 compared with a share of 88% in 1999. The share of investment earnings to total income, on the other hand, declined marginally from 11.7% in 1999 to 9.5% in year 2000. The bulk of investment earnings was derived from income from investment accounts and Islamic accepted bills (IAB).

On the expenditure side, the total amount incurred by the family takaful funds grew at a slightly faster rate than income at 45.8% to RM87.6 million in year 2000. Total claims and surrenders, which increased to RM51.3 million in year 2000, remained the largest component of expenditure, accounting for 58.6% of total outgo (1999: 65.2%). Surrenders of certificates alone continued to increase at a rate of 39.4% to RM17.7 million constituting 20.2% of total outgo. The increase in surrenders is an unhealthy trend and necessary steps need to be taken in order to improve the persistency of takaful plans.

The excess of income over outgo for the family takaful business increased by 28.9% (1999: 35.4%) to RM263.8 million in year 2000 (1999: RM204.7 million). This amount represented 75.1% (1999: 77.3%) of total income of the family takaful funds in year 2000. A total of RM13.6 million (1999: RM11.8 million) was transferred to the shareholders' funds in year 2000 for profit distribution under the profit sharing contract between the takaful operators and the family takaful participants. The favourable investment earnings which had increased by 8.1% to RM33.5 million in year 2000, had enabled the takaful operators to transfer a large sum for profit distribution this year.

Table 3.8 Income and Outgo

Item	1996		1997		1998		1999		2000	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Income										
Contribution receipts	88.0	90.3	122.2	88.1	183.2	94.7	233.0	88.0	317.8	90.4
Investment earnings	7.7	7.9	15.5	11.2	15.2	7.8	31.0	11.7	33.5	9.5
Other income	1.8	1.8	1.0	0.7	–4.9	–2.5	0.8	0.3	0.1	0.1
Total	97.5	100.0	138.7	100.0	193.5	100.0	264.8	100.0	351.4	100.0
Outgo										
Claims and surrenders	8.0	8.2	14.6	10.5	25.2	13.0	39.2	14.8	51.3	14.6
Profit payments	0.7	0.7	1.2	0.9	1.8	0.9	2.7	1.0	4.3	1.2
Retakaful	1.1	1.1	1.6	1.1	2.5	1.3	2.6	1.0	3.3	0.9
Commissions	0.1	0.1	4.2	3.0	6.4	3.3	9.2	3.5	14.2	4.0
Management expenses [1]	4.3	4.4	2.7	1.9	4.4	2.2	3.3	1.2	10.1	2.9
Other outgo	0.3	0.3	0.4	0.3	2.3	1.2	3.1	1.2	4.4	1.2
Total	14.5	14.9	24.7	17.8	42.4	21.9	60.1	22.7	87.6	24.8
Excess of income over outgo	83.0	85.1	114.0	82.2	151.2	78.1	204.7	77.3	263.8	75.1

[1] Including salaries and other management expenses

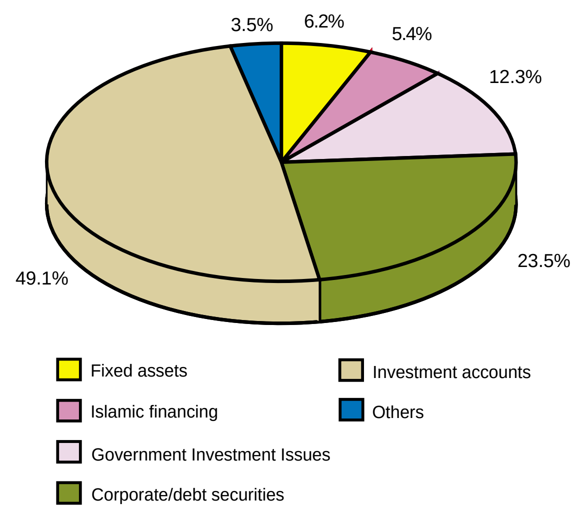
Takaful Benefits Payments

Total takaful benefits (including payment of profits) paid to participants in year 2000 amounted to RM55.6 million, an increase of 33% from RM41.9 million paid in year 1999. Death and disability benefits formed the major portion of benefit payments (56.7%) while surrenders accounted for 31.9%, followed by profit payments (7.7%) and maturity claims (3.5%). In the case of surrenders, the major portion involved individual family takaful certificates, signifying to a certain extent the impact of the recent economic slowdown on the disposable income of the average public. Under the individual family takaful plans, a certain proportion of the takaful contributions will be credited into the participants' account (PA) and considered as a savings portion of the participants and the balance into the participants' special account (PSA). As and when an individual family takaful certificate is surrendered or terminated, the amount accumulated in the PA (including the accumulated profits credited into the PA) will be refunded to the participant which can be used by the participant to meet his financial needs. In some cases, individual family takaful plans also allow participants to withdraw a certain proportion of the amount accumulated from the PA.

Assets of Family Takaful Funds

Total family takaful fund assets grew at a rate of 44.4%, lower than 1999's growth rate of 53.2% to reach RM877.1 million in year 2000. There has been a shift in the pattern of distribution of assets from that of 1999. Investment accounts with Islamic banks and banking institutions participating in Islamic banking scheme not only remained as the largest portfolio of assets but garnered an increased share of 49.1% of the total family takaful fund assets compared with only 28.8% in 1999. Owing to the unavailability of adequate supply of Government Investment Issues (GIIs) in the market, investment in GIIs accounted for

Chart 3.2 Composition of Assets of Family Takaful Funds



only 12.3% (1999: 10.9%) of the family takaful fund assets, forming the third largest portfolio of assets composition. Due to inadequate supply of GIIs, takaful operators have been allowed to invest in other Government-guaranteed Islamic debt securities in order to comply with the minimum statutory requirement of 15% on the holding of Government securities. Following this, the holding of corporate and debt securities continued to grow significantly by 57.3% to become the second largest portfolio of assets for the second consecutive year in year 2000, accounting for 23.5% (1999: 21.6%) of total family takaful fund assets.

Valuation Report

Section 42 of the Takaful Act 1984 requires a takaful operator carrying on family takaful business to conduct an annual actuarial investigation into the financial condition on the part of its family takaful fund specifically allocated for payment of takaful benefits and submit a report of the valuation results to the Director General. Under the takaful arrangement, the portion that is specifically allocated for payment of takaful benefits is the PSA. The statutory valuations of PSA for both takaful operators were conducted using the net contribution valuation method on the basis of the "Statutory Valuation Mortality Table 1996" at valuation profit rates of 4% and 4.5% for annual and single contribution takaful certificates respectively. In the case of annuity business, the valuation was carried out using the "a(90) Annuitant Mortality Table" at valuation profit rate of 5%.

Table 3.9 Assets of Family Takaful Funds

Type of Investments	1996		1997		1998		1999		2000	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Fixed assets	1.6	0.9	11.9	4.2	45.3	11.4	50.7	8.3	54.1	6.2
Islamic financing	14.4	8.2	25.2	8.8	38.8	9.8	54.7	9.0	47.4	5.4
Government investment issues	39.7	22.6	58.3	20.4	79.7	20.1	66.2	10.9	108.0	12.3
Corporate/debt securities	40.4	23.0	67.5	23.6	55.0	13.9	131.0	21.6	206.0	23.5
Investment accounts	54.0	30.7	80.3	28.1	99.0	25.0	174.7	28.8	430.7	49.1
Unit trusts	3.6	2.0	5.4	1.9	5.5	1.4	7.3	1.2	7.1	0.8
Islamic accepted bills	4.9	2.8	27.0	9.5	67.3	17.0	115.4	19.0	12.9	1.5
Cash and deposits	6.0	3.4	0.2	0.1	0.3	0.1	5.2	0.9	2.1	0.2
Other assets	11.4	6.5	9.8	3.4	5.6	1.3	2.2	0.3	8.8	1.0
Total	176.0	100.0	285.6	100.0	396.4	100.0	607.4	100.0	877.1	100.0

Table 3.10 Valuation Result

Item	1998		1999		2000	
	RMm	% change	RMm	% change	RMm	% change
Participants' special account						
Participants' fund	273.1	47.8	423.9	55.2	614.3	44.9
Valuation liabilities	269.7	59.6	399.9	48.3	555.6	38.9
Surplus/deficit	3.4	–78.3	24.0	605.9	58.7	144.6
Group account [1]						
Participants' fund	15.4	22.9	22.2	44.2	29.2	31.5
Unexpired risk contributions	8.6	87.2	11.5	33.7	15.5	34.8
Provision for claims incurred but yet to be submitted	1.8	39.1	2.6	44.4	3.4	30.8
Surplus/deficit	4.9	–25.7	8.1	65.3	10.3	27.2

[1] For one takaful operator only. The other takaful operator does not maintain a separate account for group plans

In line with the positive growth of business in force, total valuation liabilities of the PSA continued to increase, albeit at a slightly slower rate of 38.9% (1999: 48.3%) to reach RM555.6 million in year 2000. Aggregate actuarial surplus of the PSA increased by 144.6% from RM24 million in 1999 to RM58.7 million in year 2000. As for the group family takaful plans, the contributions were accumulated in a separate account from the PSA. Surplus, after making appropriate reserves and provisions, was shared equally between the takaful operator and eligible participants. The group family takaful account showed a surplus of RM10.3 million in year 2000 (1999: RM8.1 million).

Performance of General Takaful Business

Growth and Distribution of Takaful Contributions

General takaful business picked up its growth momentum in year 2000 with gross contributions increasing by 23.9% to RM177 million after recording moderate growth of 16.5% in the previous financial year. In

Table 3.11 Distribution of Gross Contributions

Year	Marine, Aviation and Transit	Fire	Motor			Miscell-aneous	All Sectors
			'Act' Cover	Others	Total		
	RM million						
1996	0.5	20.5	8.6	23.8	32.4	13.6	67.0
1997	0.5	31.4	7.7	33.0	40.7	19.5	92.1
1998	1.7	47.1	10.4	39.0	49.4	24.4	122.6
1999	1.5	57.7	11.6	42.2	53.8	29.8	142.8
2000	6.8	71.9	13.1	51.5	64.6	33.7	177.0
	% change						
1996	150.0	–12.4	13.2	26.6	22.7	72.2	15.7
1997	–	53.2	–10.5	38.7	25.6	43.4	37.5
1998	240.0	50.0	35.1	18.2	21.4	25.1	33.1
1999	–11.4	22.4	11.7	8.3	9.0	22.2	16.5
2000	353.3	24.6	12.9	22.0	20.1	13.1	23.9
	% share						
1996	0.8	30.6	12.8	35.5	48.4	20.3	100.0
1997	0.5	34.1	8.4	35.8	44.2	21.2	100.0
1998	1.4	38.4	8.5	31.8	40.3	19.9	100.0
1999	1.1	40.4	8.1	29.6	37.7	20.9	100.0
2000	3.9	40.6	7.4	29.1	36.5	19.0	100.0

tandem with the stronger growth, all sectors under general takaful business recorded at least a double-digit growth. The marine, aviation and transit (MAT) sector recorded the strongest growth of 353.3% to RM6.8 million in year 2000. A significant observation in year 2000 was that the ability of one takaful operator to participate in the aviation sector. It managed to secure business for an amount of RM3.46 million in terms of contribution and it constituted 51% of overall MAT sector. However, MAT sector only constituted 3.9% of the total gross contribution in year 2000. The fire sector recorded a growth rate of 24.6% (1999: 22.4%). As in the previous year, fire business continued to be the dominant sector and it accounted for a share of 40.6% of the total gross contributions in year 2000. Motor takaful sector, which accounted for 36.5% of the total gross contributions, grew at a higher rate of 20.1% after experiencing a slower growth of 9% in 1999 due to better performance in the sales of motor vehicles in year 2000.

Net Retention

During the year under review, the overall net retention ratio of the general takaful industry declined to 71.7% compared to a high of 89.2% recorded in 1991. The declining retention ratio was partly due to the takaful operators' participation in large risks which were normally ceded out due to lack of local capacity to retain. The industry recorded retention levels of below 80% since 1998. All sectors of business recorded lower retention levels except the MAT sector which recorded a favourable improvement with a retention ratio of 25% as against 6.8% in 1999. The motor, miscellaneous and fire sectors recorded retention ratios of 97.5%, 67.1% and 55.1% respectively in year 2000.

Table 3.12 Retention Ratio[1]

Year	Marine, Aviation and Transit	Fire	Motor: 'Act' Cover	Motor: Others	Motor: Total	Miscell-aneous	All Sectors
	%						
1996	60.0	65.4	96.5	97.9	97.5	89.0	85.7
1997	60.0	61.8	98.7	98.8	98.8	73.3	80.6
1998	47.0	55.2	100.0	97.4	97.9	67.2	74.7
1999	6.8	56.4	99.5	97.8	98.2	74.9	75.5
2000	25.0	55.1	98.5	97.3	97.5	67.1	71.7

[1] Percentage of net contributions to gross contributions

Table 3.13 Distribution of Net Contributions

Year	Marine, Aviation and Transit	Fire	Motor: 'Act' Cover	Motor: Others	Motor: Total	Miscell-aneous	All Sectors
	RM million						
1996	0.3	13.4	8.3	23.3	31.6	12.1	57.4
1997	0.3	19.4	7.6	32.6	40.2	14.3	74.2
1998	0.8	26.0	10.4	38.0	48.4	16.4	91.6
1999	0.1	32.5	11.6	41.3	52.9	22.3	107.8
2000	1.7	39.6	12.9	50.1	63.0	22.6	126.9
	% change						
1996	…	–11.3	12.2	26.6	22.5	80.6	20.6
1997	…	44.8	–8.4	39.9	27.2	18.2	29.3
1998	166.7	34.0	36.8	16.6	20.4	14.7	23.4
1999	–87.2	25.1	11.1	8.7	9.2	36.1	17.7
2000	1,600.0	21.8	11.2	21.3	19.1	1.3	17.7
	% share						
1996	0.5	23.3	14.5	40.6	55.1	21.1	100.0
1997	0.4	26.1	10.2	43.9	54.2	19.3	100.0
1998	0.9	28.4	11.3	41.5	52.8	17.9	100.0
1999	0.1	30.2	10.7	38.3	49.0	20.7	100.0
2000	1.3	31.2	10.2	39.5	49.7	17.8	100.0

… Negligible

The net contributions of the general takaful industry grew at the same rate of 17.7% to RM126.9 million in year 2000. Fire and miscellaneous business sectors recorded much slower rates of growth of 21.8% and 1.3% respectively while motor business sector recorded an increase of 19.1% during the year. The MAT business sector increased significantly by 1,600% in year 2000 as compared to -87.2% in 1999. The negative growth recorded in 1999 was due to the softening of marine cargo rates during the year which resulted in the contraction in business. As in the previous year, the motor sector continued to dominate and in terms of its composition to the total net contributions, it increased marginally by 0.7% from 1999 to a level of 49.7%. This was followed by the fire sector with a share of 31.2% while miscellaneous recorded a share of 17.8% in year 2000.

Claims Experience

Gross claims paid (gross claims paid less salvages) during the year amounted to RM43.7 million, an increase of 26.7% from RM34.5 million in 1999. Correspondingly, net claims paid (gross claims less recoveries from retakaful) also increased by 28.1% to RM31 million in year 2000 compared with RM24.2 million in 1999. The industry's overall claims ratio (net claims incurred to earned contribution income) deteriorated marginally from 38.1% in 1999 to 38.6% in year 2000. This slight deterioration in the claims ratio was attributable to the increase in the claims ratio for all the sectors of business except motor and MAT. Motor and MAT sectors registered improvement in claims ratios of 35.6% and 60.8% compared with 36.9% and 103.4% in 1999 respectively. However, the claims ratio for both miscellaneous and fire sectors increased slightly to 73% and 15.3% from 71.8% and 14% respectively in the previous year.

Table 3.14 Claims Experience

Year	Gross Claims		Net Claims	
	RM million	% change	RM million	% change
1996	8.4	–38.2	7.6	–8.4
1997	17.3	106.0	16.1	111.8
1998	18.9	9.2	17.4	8.1
1999	34.5	82.7	24.2	39.3
2000	43.7	26.7	31.0	28.1

Table 3.15 Claims Ratio[1]

Year	Marine, Aviation and Transit	Fire	Motor			Miscell-aneous	All Sectors
			'Act' Cover	Others	Total		
	%						
1996	6.6	13.9	73.8	25.0	38.3	44.3	34.5
1997	54.4	12.1	68.1	25.4	34.8	67.2	37.2
1998	14.5	12.5	33.8	28.2	29.5	96.6	36.0
1999	103.4	14.0	30.7	38.8	36.9	71.8	38.1
2000	60.8	15.3	43.3	33.6	35.6	73.0	38.6

[1] Net claims incurred as a ratio of earned contribution income

Underwriting Experience

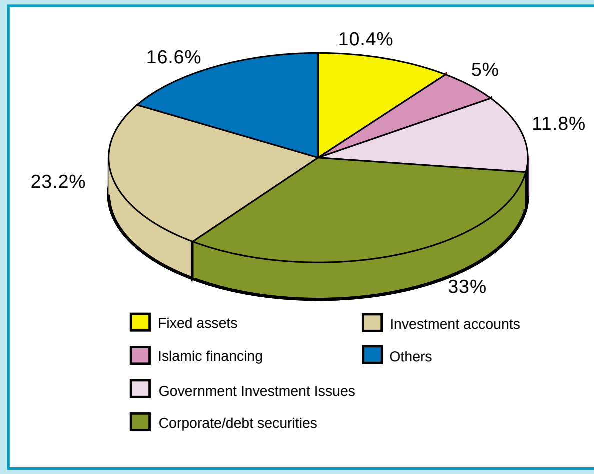
During the year under review, earned contribution income increased by 18.2% to RM114.1 million. At the same time, net claims incurred ratio deteriorated slightly by 0.5% to 38.6% in year 2000, while the management expenses incurred by takaful operators increased by 138.7% amounting to RM7.4 million. Similarly, commissions paid to agents from the general takaful funds also increased by 29.2% to RM3.1 million (1999: 71.4% to RM2.4 million). As a result, management expenses and commissions constituted 6.5%

Table 3.16 Underwriting Experience

Year	Earned Contribution Income	Net Claims Incurred	Com-missions	Manage-ment Expenses	Under-writing Margin
	RM million				
1996	50.9	17.6	0.7	1.0	31.5
1997	66.6	24.8	1.1	2.7	38.1
1998	76.3	27.5	1.4	3.2	44.3
1999	96.5	36.8	2.4	3.1	54.2
2000	114.1	44.0	3.1	7.4	59.6
	% change	% of earned contribution income			
1996	39.1	34.5	1.4	2.0	61.9
1997	30.8	37.2	1.7	4.1	57.2
1998	14.6	36.0	1.8	4.2	58.1
1999	26.4	38.1	2.5	3.2	56.2
2000	18.2	38.6	2.7	6.5	52.2

(1999: 3.2%) and 2.7% (1999: 2.5%) respectively of earned contribution income (RM114.1 million) in year 2000. Although the overall proportion of management expenses and commissions to earned contribution income is still low (9.2%) compared with conventional insurance, takaful operators should always be aware of this increasing trend and take steps to control their operating expenses. Despite the slower growth in contribution income and higher operating expenses (management expenses and commissions), general takaful business continued to maintain its good underwriting performance by recording an underwriting surplus of RM59.6 million (1999: RM54.2 million) in year 2000.

Chart 3.3 Composition of Assets of General Takaful Funds



Assets of General Takaful Funds

Total assets of the general takaful funds grew by 28.2% (1999: 43.5%) to reach RM291.1 million in year 2000. During the year under review, there was a significant change in the investment distribution pattern of general takaful fund assets. Investment in corporate and debt securities (CDS) formed the largest assets component of the general takaful fund in year 2000. Investment in CDS grew by 84% and accounted for 33% of total assets of general takaful fund compared with 23% in 1999. The increase in CDS holdings by takaful operators was due to the shortage of supply of GIIs in the market. The second largest assets composition which accounted for 23.2% of the total general fund assets was in the form of investment accounts with Islamic banks and banking institutions participating in Islamic banking scheme banks, which recorded a growth of 27.1%. GIIs constituted the third largest assets portfolio in year 2000, accounting for only 11.8% (1999: 10.3%) of total assets of general takaful funds. On the other hand, Islamic accepted bills became of lesser importance with a share of only 1.4% (1999: 13.5%) in year 2000.

Table 3.17 Assets of General Takaful Funds

Type of Investments	1996		1997		1998		1999		2000	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Fixed assets	0.5	0.4	1.8	1.1	23.3	14.7	27.1	11.9	30.2	10.4
Islamic financing	11.8	9.9	17.4	11.2	16.9	10.7	14.5	6.4	14.6	5.0
Government investment issues	26.3	22.0	32.0	20.6	34.0	21.5	23.4	10.3	34.3	11.8
Corporate/debt securities	37.9	31.7	39.2	25.2	18.1	11.4	52.2	23.0	96.0	33.0
Investment accounts	20.8	17.4	29.7	19.1	27.1	17.1	53.1	23.4	67.5	23.2
Unit trusts	0.7	0.6	3.3	2.1	1.6	1.0	2.1	0.9	2.2	0.7
Islamic accepted bills	13.8	11.5	20.4	13.1	25.9	16.4	30.7	13.5	4.0	1.4
Cash and deposits	4.2	3.5	1.8	1.1	2.2	1.4	8.5	3.7	10.2	3.5
Other assets	3.5	3.0	10.1	6.5	9.1	5.8	15.3	6.8	32.0	11.0
Total	119.6	100.0	155.7	100.0	158.2	100.0	227.0	100.0	291.1	100.0