The Industry Performance in 2005

Overview of Industry Performance

The insurance industry continued to register positive growth in 2005, buoyed by stronger growth in the general insurance sector. Combined premium income for life and general insurance business expanded by 6.9% to RM23,564.6 million (2004: 17.2% to RM22,041.9 million). Sustained economic activity and strong private consumption supported robust growth in the general insurance business, with higher premiums recorded in all major business lines except contractors' all risks (CAR) and engineering. Higher sales of motor vehicles was a key factor drawing growth in the general sector, contributing over 67% of the increase in gross premiums for the year. In the life sector, growth moderated after two consecutive years of exceptional growth as the continuing investment challenges saw insurers scale back on sales of capital-guaranteed investment-linked and endowment products in line with prudent risk management considerations. Demand for protection and regular savings products, however, remained resilient with increasing risk awareness among the public. This and the significant growth of general insurance business supported the overall insurance penetration level (measured in terms of combined premium income to gross national product) at 5% which represented only a marginal decline from 2004 (5.2%).

Despite weaker investment returns, operating results remained favourable for both life and general business. Profitability was supported by improved underwriting results, higher productivity, greater economies of scale, as well as the more efficient utilisation of capital, particularly among general insurers. Efficiency gains were also observed as a result of more effective cost controls and reduced intermediation costs achieved through the penetration of bancassurance and direct distribution channels.

Total assets of the insurance funds expanded by 11.4% in 2005 to RM96,742.8 million. Asset allocations to corporate or debt securities continued to increase during the year to account for 49.9% (2004: 46.5%) of total insurance fund assets as more active investment strategies were adopted by insurers to optimise yields and reduce maturity mismatches. For the same reasons, the shift from cash and deposit holdings to capital market instruments by both life and general insurers was also more distinct. Insurers continued to maintain prudent credit risk policies for their investments in bonds, while demand from life insurers for long-term securities to match their long-term liabilities remained strong. The further liberalisation of the foreign exchange administration rules in 2005 also provided insurers with expanded opportunities to access international financial markets for longer term investments and currency-matched assets to back their insurance liabilities.

The level of insurance coverage continued to expand in 2005. Market penetration, measured in terms of life insurance policies in force to the total population, deepened further to 38.7% (2004: 37.9%). Total sums insured in the life sector, indicating the level of insurance protection covering the population for death, medical expenses and retirement, correspondingly rose to over RM645 billion. The higher penetration in the life sector and stronger demand for general insurance with the continued expansion in economic activity, in turn, supported further increases in per capita spending on insurance.

The factors supporting a positive outlook for future growth in the insurance industry continue to be in place. Demand conditions will remain positive with the strengthening growth prospects for the domestic economy, the relatively low level of market penetration underscoring a vast untapped market, demographic changes leading to a growing ageing population and the increasing affluence and risk awareness among consumers. At the same time, greater product diversity, proliferation of alternative distribution channels and regulatory measures taken to improve returns and benefits to policy owners will reinforce conditions for the industry to expand its market reach, although investment conditions will remain challenging for life insurers. In the general insurance sector, the stabilisation of premium rates and expectation of rate increases in some lines following the hurricane losses in the United States will provide additional support for growth going forward.

Table 3.2
Business in Force of Direct Insurers

Year	No. of Policies	Sums Insured	Annual Premiums
	Units	RM million	
2001	7,890,907	440,005.8	8,170.0
2002	8,506,398	482,993.0	9,137.0
2003	9,228,966	538,779.3	10,240.2
2004	9,723,010	593,922.7	11,251.1
2005	10,142,994	645,047.5	12,301.7
	% change		
2001	9.1	10.1	10.9
2002	7.8	9.8	11.8
2003	8.5	11.6	12.1
2004	5.4	10.2	9.9
2005	4.3	8.6	9.3

Performance of Life Business

New and In Force Business

New business in the life sector only expanded marginally in 2005 as reflected by the growth in new business premiums by only 0.6%, after an average annual growth rate of 36.3% in the two previous years. The slowdown was mainly due to the scaling back of sales of capital-guaranteed investment-linked products as the prevailing low-interest rate environment constrained further aggressive sales of such products at the attractive levels of return previously offered to policy owners. Although this adversely impacted growth in the single premium market, total new single premium volumes were nevertheless sustained at a level close to that achieved in the previous year, supported by the continued positive growth of 13% (2004: 26.1%) in single premiums for ordinary life business.

Growth in the life sector moderated amidst persistent challenging investment conditions.

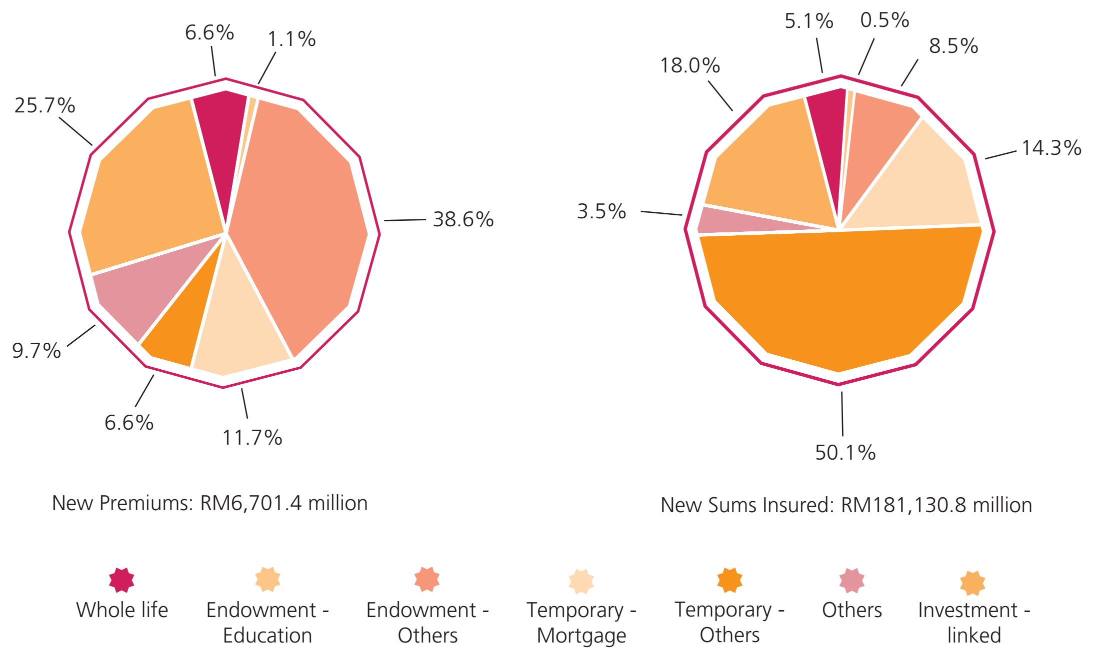
Table 3.1
New Business of Direct Insurers

Year	No. of Policies	Sums Insured	Premiums Annual	Premiums Single	Premiums Total
	Units	RM million			
2001	1,370,448	129,003.8	1,461.6	3,786.3	5,247.9
2002	1,382,020	140,809.5	1,619.1	1,963.3	3,582.4
2003	1,600,570	168,594.4	1,958.5	2,893.5	4,852.0
2004	1,402,207	171,599.1	1,918.6	4,742.6	6,661.2
2005	1,364,572	181,130.8	2,091.4	4,610.0	6,701.4
	% change				
2001	16.7	10.4	11.9	131.5	78.4
2002	0.8	9.2	10.8	–48.1	–31.7
2003	15.8	19.7	21.0	47.4	35.4
2004	–12.4	1.8	–2.0	63.9	37.3
2005	–2.7	5.6	9.0	–2.8	0.6

Notwithstanding the market adjustments associated with capital-guaranteed investment products, life insurance remained an important medium for regular long-term savings by individuals as evidenced by the expansion in new annual premium business which returned to growth of 9% in 2005, after a mild contraction in 2004. Notably, new annual investment-linked premiums posted a more robust growth of 17.7% over the preceding year (2004: 15.1%) which contributed towards maintaining overall growth in annual premiums in force at above 9% in 2005.

The growing prominence of insurance as an alternative investment option for consumers observed in recent years also continued to be evident. This was borne out by the continuing dominance of single premium business which accounted for 68.8% (2004: 71.2%) of total new business premiums, and more than half of new premiums generated among the majority of life insurers. Investment-linked and ordinary life endowment policies accounted for 58.2%

Chart 3.1
Distribution of New Premiums and New Sums Insured



of total new single premiums, reinforcing the sustained consumer interest in life insurance in meeting short-to-medium term investment objectives. Domestic insurers continued to hold on to their improving competitive positions, collectively commanding 68.2% of the single premium market, mostly generated through bancassurance.

Demand for investment and savings plans offered by insurers is expected to remain resilient in the long term, bolstered by recent measures

Table 3.3
Distribution of New Business Premiums of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole Life	Endowment	Temporary	Others			
	RM million						
2001	490.9	824.9	733.7	370.9	413.2	2,414.3	5,247.9
2002	436.9	1,032.8	810.3	409.6	891.6	1.2	3,582.4
2003	508.5	1,514.3	930.5	542.4	1,356.3	–	4,852.0
2004	418.4	2,268.4	1,130.9	590.6	2,252.5	0.4	6,661.2
2005	445.0	2,661.7	1,227.2	646.8	1,720.2	0.5	6,701.4
	% change						
2001	5.7	58.6	17.5	22.1	-22.6	386.7	78.4
2002	–11.0	25.2	10.4	10.4	115.8	–99.9	–31.7
2003	16.4	46.6	14.8	32.4	52.1	–100.0	35.4
2004	–17.7	49.8	21.5	8.9	66.1	–	37.3
2005	6.4	17.3	8.5	9.5	-23.6	25.0	0.6
	% share						
2001	9.3	15.7	14.0	7.1	7.9	46.0	100.0
2002	12.2	28.8	22.6	11.5	24.9	…	100.0
2003	10.5	31.2	19.2	11.2	27.9	–	100.0
2004	6.3	34.0	17.0	8.9	33.8	…	100.0
2005	6.6	39.7	18.3	9.7	25.7	…	100.0

… Negligible

Table 3.4
Distribution of Annual Premiums in Force of Direct Insurers

Year	Ordinary Life				Investment - linked	Total
	Whole Life	Endowment	Temporary	Others		
	RM million					
2001	3,543.3	2,348.1	366.5	1,309.2	602.9	8,170.0
2002	3,781.2	2,425.2	382.4	1,430.1	1,118.1	9,137.0
2003	4,020.0	2,513.1	409.8	1,583.5	1,713.8	10,240.2
2004	4,170.9	2,578.5	433.5	1,662.2	2,406.0	11,251.1
2005	4,333.6	2,642.0	448.8	1,710.8	3,166.5	12,301.7
	% change					
2001	8.7	5.5	3.9	9.7	80.8	10.9
2002	6.7	3.3	4.3	9.2	85.5	11.8
2003	6.3	3.6	7.2	10.7	53.3	12.1
2004	3.8	2.6	5.8	5.0	40.4	9.9
2005	3.9	2.5	3.5	2.9	31.6	9.3
	% share					
2001	43.4	28.7	4.5	16.0	7.4	100.0
2002	41.4	26.5	4.2	15.7	12.2	100.0
2003	39.3	24.5	4.0	15.5	16.7	100.0
2004	37.1	22.9	3.8	14.8	21.4	100.0
2005	35.2	21.5	3.7	13.9	25.7	100.0

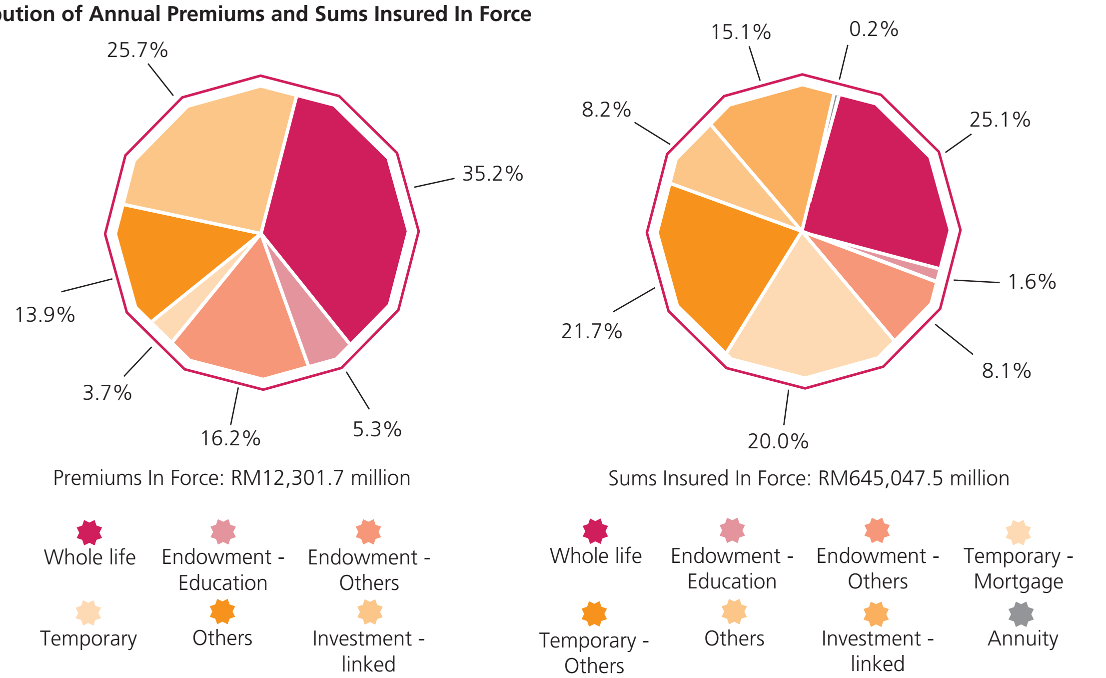
taken to enhance the competitiveness of such products relative to other similar investment options available in the market. These included the implementation of new guidelines applicable to investment-linked policies which are aimed at maximising benefits to policy owners through adjustments to the cost structure for such products and greater investment flexibility provided to insurers to enhance yields. Further impetus is also expected to come from regulatory changes effected during the year which included measures to allow insurers to offer foreign currency-denominated education and investment-linked policies. The introduction of financial advisers in the insurance industry is further expected to promote well-structured insurance solutions that are best suited to consumers' financial planning needs.

Demand for investment and savings plans is expected to remain resilient in the long term, bolstered by measures to enhance the competitiveness of such products.

Reflecting the growth trends observed during the year, the market share of investment-linked business in terms of new business premiums declined for the first time in four years, while the market share of ordinary life endowment business gained further ground. In terms of annual premiums in force, however, the share of investment-linked business continued on an uptrend in line with the robust growth sustained for new annual investment-linked premiums. Ordinary whole life business retained a dominant share of annual premiums in force, although that share, supported primarily by legacy policies sold by insurers in earlier years, has continued to decline progressively over the years with the growing preference among consumers for the more flexible and transparent features of investment-linked insurance products.

Pure protection life policies in the form of temporary (or term) policies saw slower new premium growth against the larger base recorded in 2004. Demand for such products, however, remained strong in tandem with the continued expansion in bank lending activities during the

Chart 3.2
Distribution of Annual Premiums and Sums Insured In Force



year. While mortgage-reducing term assurance plans remained dominant in this sector, the share of non-mortgage related premiums increased further to account for 36.2% (2004: 33%) of new business premiums generated for this class of business. In particular, sales of employer-sponsored group term life policies increased substantially, encouraged in part by downward pressure on term rates following the removal of the minimum group term life rates previously adopted by the Life Insurance Association of Malaysia (LIAM) in 2004. Consumer credit term insurance which provides for the repayment of outstanding debts in the event of death, disability or critical illness also continued to attract strong interest from bank consumers, reinforcing the

Table 3.5
Distribution of New Sums Insured of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole Life	Endowment	Temporary	Others			
	RM million						
2001	16,443.5	12,452.9	82,024.4	6,874.8	9,591.1	1,617.1	129,003.8
2002	12,753.3	13,668.6	89,852.8	6,870.2	17,664.4	0.2	140,809.5
2003	14,195.6	16,002.7	103,587.1	7,102.6	27,706.4	–	168,594.4
2004	10,998.8	16,636.2	107,460.3	6,463.7	30,040.1	…	171,599.1
2005	9,196.4	16,332.8	116,646.0	6,291.2	32,664.4	…	181,130.8
	% change						
2001	8.4	15.5	7.7	–1.3	31.7	262.6	10.4
2002	–22.4	9.8	9.5	–0.1	84.2	–99.9	9.2
2003	11.3	17.1	15.3	3.4	56.8	–100.0	19.7
2004	–22.5	4.0	3.7	–9.0	8.4	–	1.8
2005	–16.4	–1.8	8.5	–2.7	8.7	…	5.6
	% share						
2001	12.7	9.7	63.6	5.3	7.4	1.3	100.0
2002	9.1	9.7	63.8	4.9	12.5	…	100.0
2003	8.4	9.5	61.5	4.2	16.4	–	100.0
2004	6.4	9.7	62.6	3.8	17.5	…	100.0
2005	5.1	9.0	64.4	3.5	18.0	…	100.0

… Negligible

Table 3.6
Distribution of Sums Insured in Force of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole Life	Endowment	Temporary	Others			
	RM million						
2001	145,790.2	50,019.7	164,493.3	58,984.7	18,959.5	1,758.4	440,005.8
2002	151,297.6	52,570.7	185,567.9	57,814.7	34,085.5	1,656.6	482,993.0
2003	157,509.9	56,121.2	209,447.6	57,845.0	56,257.3	1,598.3	538,779.3
2004	160,478.5	59,478.2	241,339.8	55,160.9	75,933.3	1,532.0	593,922.7
2005	162,111.0	62,692.8	269,204.2	52,541.8	97,032.9	1,464.8	645,047.5
	% change						
2001	7.5	6.6	12.0	–1.3	88.7	294.2	10.1
2002	3.8	5.1	12.8	–2.0	79.8	–5.8	9.8
2003	4.1	6.8	12.9	0.1	65.0	–3.5	11.6
2004	1.9	6.0	15.2	–4.6	35.0	–4.1	10.2
2005	1.0	5.4	11.5	–4.7	27.8	–4.4	8.6
	% share						
2001	33.1	11.4	37.4	13.4	4.3	0.4	100.0
2002	31.3	10.9	38.4	12.0	7.1	0.3	100.0
2003	29.2	10.4	38.9	10.7	10.5	0.3	100.0
2004	27.0	10.0	40.6	9.3	12.8	0.3	100.0
2005	25.1	9.7	41.7	8.2	15.1	0.2	100.0

higher level of individual awareness of insurance as a tool for personal financial risk management.

In line with the sustained demand for pure protection insurance, the aggregate level of mortality protection continued to improve with total new sums insured breaching RM180 billion in 2005. Including policies in force, total sums insured exceeded RM645 billion. Collectively, term and medical and health insurance plans accounted for 64.5% and 41.8% of new sums insured and sums insured in force respectively. At the same time, sums insured associated with investment-linked products also recorded a rise during the year, as more consumers took advantage of the flexibility afforded under investment-linked plans to adjust the level of protection cover obtained in line with their personal investment and protection objectives.

With many households still lacking in insurance protection, the further deepening of insurance penetration will be important for domestic households to maintain living standards after the death of the primary wage earner. To this end, initiatives continued to be geared towards encouraging the introduction of a wider range of innovative, yet affordable, insurance protection plans through a balanced approach to product regulation and healthy competition. As a result, the year saw further product innovations by insurers which enhanced benefits provided to policy owners under traditional product lines, as well as the introduction of customised products designed exclusively for senior citizens and the female population. The Bank, in collaboration with the insurance industry, also continued with efforts to promote greater public awareness of the benefits of insurance and product options available under the ongoing InsuranceInfo consumer education programme.

Contrasting the downward pressure on premium rates for term policies, the average costs of new ordinary whole life and endowment policies (excluding single premium policies) were higher

Table 3.7
Average Size and Cost of Ordinary Individual Life New Policies of Direct Insurers[1]

Year	Average Annual Premiums		Average Sums Insured		Average Cost[2]	
	Whole Life	Endowment	Whole Life	Endowment	Whole Life	Endowment
	RM					
2001	1,410	1,340	47,220	23,126	30	58
2002	1,390	1,259	40,568	22,685	34	55
2003	1,352	1,335	38,362	24,820	35	54
2004	1,539	1,406	41,919	26,548	37	53
2005	1,914	1,612	40,981	26,801	47	60

[1] For annual premium policies only
[2] New annual premiums per RM1,000 of new sums insured

Table 3.8
Average Size and Cost of Ordinary Individual Life Policies in Force of Direct Insurers[1]

Year	Average Annual Premiums		Average Sums Insured		Average Cost[2]	
	Whole Life	Endow-ment	Whole Life	Endow-ment	Whole Life	Endow-ment
	RM					
2001	1,094	1,049	45,018	19,058	24	55
2002	1,132	1,068	45,294	19,564	25	55
2003	1,161	1,097	45,453	20,170	26	54
2004	1,196	1,127	45,969	20,648	26	55
2005	1,249	1,167	46,617	21,339	27	55

[1] For annual premium policies only
[2] Annual premiums in force per RM1,000 of sums insured in force

in 2005. The increases, which translated into a 27% increase in the average cost for whole life policies and 13.2% for endowment policies, were largely the result of premium rate adjustments by insurers to reflect updated pricing assumptions. The relatively concentrated market for such products, with the top five insurers controlling 71.4% and 81.8% of new annual endowment and whole life premiums respectively in 2005, may have also had a bearing on the extent of rate adjustments observed. These adjustments, however, continued to have little effect on the corresponding average costs for policies in force in these categories due to the continued concentration of new business in single, rather than annual, premium policies.

Bancassurance remained an important distribution channel for life insurance, accounting for 45.3% (2004: 48.2%) of new business premiums generated. Domestic insurers continued to account for a dominant share of 81.9% (2004: 82.4%) of the bancassurance market in terms of new premiums. However, the higher productivity of the agency force, which saw the ratio of new premiums per agent increase substantially by 14.6% during the year to RM27,071, resulted in agents recapturing their position as the predominant distribution channel for life insurance with a share of 49.4% of new business premiums in 2005 (2004: 47.1%). With foreign-controlled insurers controlling the bulk of the agency force as a result of their longer presence in the market, successful bancassurance strategies by domestic insurers will continue to be an important factor in expanding their relative market share. Apart from bancassurance, the recent introduction of financial advisers as a new alternative channel will also provide an important avenue for domestic insurers to increase their penetration of the market, particularly within the high net worth customer segments. The share of new premiums generated from direct marketing, brokers and other channels remained largely unchanged at 2.1%, 2.4% and 0.8% respectively in 2005.

Malaysian-controlled insurers continued to lead new business growth for the second consecutive year, capturing 54.5% of new business premiums in 2005 (2004: 55%). Importantly, they maintained dominant shares in the endowment (78.2%) and term (62.8%) classes of business which registered the strongest new business growth rates among major product lines in 2005. Foreign-controlled insurers retained their stronghold over the whole life (73.3%) and investment-linked (66.8%) insurance classes. Going forward, ongoing capacity building initiatives under the Financial Sector Masterplan will continue to be important to consolidate the improving comparable positions of domestic insurers, with the ultimate objective of promoting a more competitive market while securing long-term market stability.

Terminations

In 2005, annual premiums and sums insured terminated increased by 12.3% and 14.9%

Table 3.9
Terminations of Annual Premiums of Direct Insurers

Year	Death	Matu-rity	Sur-render	Forfei-ture less Revivals	Others	Total
	RM million					
2001	10.5	14.2	178.8	263.7	271.1	738.3
2002	11.4	19.6	204.4	278.3	137.6	651.3
2003	14.7	32.3	256.8	304.6	238.5	846.9
2004	15.2	31.6	277.1	358.4	235.5	917.8
2005	17.9	38.9	302.1	369.2	303.0	1,031.1
	% change					
2001	6.1	12.7	10.6	–33.6	12.1	–10.3
2002	8.6	38.0	14.3	5.5	–49.2	–11.8
2003	28.9	64.8	25.6	9.5	73.3	30.0
2004	3.4	–2.2	7.9	17.7	–1.3	8.4
2005	17.8	23.1	9.0	3.0	28.7	12.3
	% share					
2001	1.4	2.0	24.2	35.7	36.7	100.0
2002	1.8	3.0	31.4	42.7	21.1	100.0
2003	1.7	3.8	30.3	36.0	28.2	100.0
2004	1.7	3.4	30.2	39.0	25.7	100.0
2005	1.7	3.8	29.3	35.8	29.4	100.0

Table 3.10
Terminations of Sums Insured of Direct Insurers

Year	Death	Maturity	Surrender	Forfeiture less Revivals	Others	Total
	RM million					
2001	462.3	420.3	8,026.1	6,766.3	75,426.6	91,101.6
2002	531.8	818.7	10,020.4	7,929.8	78,516.7	97,817.4
2003	638.5	888.4	11,187.1	7,727.2	91,380.3	111,821.5
2004	690.0	983.4	12,879.7	10,293.2	88,284.6	113,130.9
2005	771.0	1,458.7	15,017.2	11,922.8	100,834.8	130,004.5
	% change					
2001	–25.9	24.4	10.2	–46.4	24.1	11.6
2002	15.0	94.8	24.8	17.2	4.1	7.4
2003	20.1	8.5	11.6	–2.6	16.4	14.3
2004	8.1	10.7	15.1	33.2	–3.4	1.2
2005	11.7	48.3	16.6	15.8	14.2	14.9
	% share					
2001	0.5	0.5	8.8	7.4	82.8	100.0
2002	0.5	0.8	10.3	8.1	80.3	100.0
2003	0.6	0.8	10.0	6.9	81.7	100.0
2004	0.6	0.9	11.4	9.1	78.0	100.0
2005	0.6	1.1	11.5	9.2	77.6	100.0

respectively, due mainly to non-renewals of term policies, conversions to paid-up policies, discontinuance of riders and reductions in sums insured under mortgage reducing term assurances. Terminations due to such causes increased by 28.7% and 14.2% in terms of annual premiums and sums insured respectively.

Of more significance, was the more positive trend observed in combined terminations due to forfeiture and surrender which continued to account for the largest share of annual premiums terminated. In 2005, combined terminations due to forfeiture and surrender declined to account for 65.1% of total annual premiums terminated (2004: 69.2%), its lowest level in four years. Notably, intensified efforts by some insurers to improve policy conservation resulted in a significantly slower rate of increase in annual premiums terminated by forfeiture during the year. At the institutional level, almost half (or seven out of 16) of life insurers reported improved three-policy year forfeiture rates (defined as the ratio of premiums forfeited over three policy years to new annual premiums written in the third preceding year). Comparative forfeiture rates between Malaysian and foreign-controlled insurers also narrowed during the year following the improvement in the three-policy year forfeiture rate of Malaysian-controlled insurers to 35.7% (2004: 39.2%), against a deterioration registered by foreign-controlled insurers.

At the broader industry level, however, the positive results expected from the various policy conservation measures implemented since 2003 have yet to crystallize fully as more than half of life insurers, including three out of the five largest insurers, reported a deterioration in their forfeiture experience which pushed the three-year industry forfeiture rate up to 26.3% in 2005 for policies issued in 2002. More consistent improvements in the forfeiture experience across the industry should emerge for policies issued from 2003 with the implementation of various measures to reinforce professional market conduct within the industry. These included the introduction of higher minimum qualification

Table 3.11
Forfeiture and Surrender Rates of Direct Insurers

Year	3 Policy Years Forfeiture Rate[1] (%)	Surrender Rate (%)
2001	28.4	2.4
2002	24.7	2.5
2003	24.7	2.8
2004	23.4	2.7
2005	26.3	2.7

[1] Combination of whole life, endowment and 'others' policies

Table 3.12
Forfeiture Rate by Policy Years of Direct Insurers[1]

Year	Year of Issue	1st Policy Year	2nd Policy Year	3rd Policy Year	Total
2005	2005	6.0	–	–	6.0
	2004	11.0	4.7	–	15.7
	2003	13.5	7.9	2.0	23.4
	2002	11.7	11.4	3.2	26.3
2004	2004	5.8	–	–	5.8
	2003	12.9	5.1	–	18.0
	2002	10.9	11.4	2.3	24.6
	2001	12.0	8.4	3.0	23.4

[1] Combination of whole life, endowment and 'others' policies

standards and continuing professional development programmes for agents with effect from 2003, and the implementation of proper advice practices in 2004 aimed at ensuring that policies sold are appropriate to the needs of consumers. Further measures to improve sales and advisory practices followed in 2005 with the tightening of institutional mechanisms to monitor and remedy replacements of policies that compromise the interests of policy owners, the requirement for all life insurers to establish dedicated conservation units responsible for ensuring that policy owners are properly advised of the full ramifications of any decision to replace their life insurance policies, and enhancements to training programmes for the staff of banking institutions involved in the sale of bancassurance products.

Notwithstanding the deterioration in the forfeiture rate, the surrender rate remained unchanged at 2.7% as the majority of insurers that reported a deterioration in forfeiture rates also reported offsetting improvements in their surrender rates during the year. This supported an overall improvement in the conservation ratio (as measured by the ratio of current year renewal premiums to first year and renewal premiums in the previous year) to 92.7% (2004: 91.7%). Participating policy owners who purchased their policies after June 2005 can also expect improved surrender values following the implementation of new regulatory rules which provided for a more equitable basis for the determination of surrender payments to policy owners.

The Bank continues to place a high priority on achieving more substantive and sustainable improvements in forfeiture and surrender rates given the significant leakage of value to policy owners who lapse or surrender their policies in the initial policy years. Measures to this end are also important to sustain progressively higher levels of insurance protection in the country and thereby, realise the positive socio-economic benefits accruing therefrom.

Income and Outgo

Slower premium income growth coupled with significant capital losses from the disposal of assets resulted in weaker operating results in the life sector in 2005. Excess of income over outgo was 9.5% lower, with nine (or three times as many) insurers reporting lower excess of income over outgo in 2005 compared with 2004. Notwithstanding this, improved efficiencies enabled insurers to maintain continuing profitability of RM9,939.9 million for the year.

Combined aggregate interest and dividend income grew at a slower rate of 12% in 2005 (2004: 16.1%) in tandem with the slower growth of insurance fund assets. Interest income which amounted to RM2,706.3 million in 2005 remained the largest component of investment income, accounting for 73.9% of total investment income, followed by dividends amounting to RM703.7 million which accounted for 19.2%. Most insurers achieved better investment yields excluding capital gains against their individual performances in the previous year, with only five insurers, including both foreign and domestic insurers, recording lower comparative yields. The investment yield excluding capital gains for the life funds as a whole, however, remained relatively flat at 5.7%. Including capital gains, the average investment yield slumped to 6.5% in 2005 as a result of capital losses on disposal of assets which increased significantly by 59.5% to RM215.9 million. The vast majority of insurers reported higher realised losses due to the bearish equity market. The persistent depressed investment yields pose a continuing financial challenge to life insurers with large portfolios of participating life policies which were underwritten prior to 1999 based on an illustrated interest rate of 8.5%.

Strategies by insurers to counter what remains weak equity market conditions included the introduction of equity index-linked products

Table 3.13
Income and Outgo

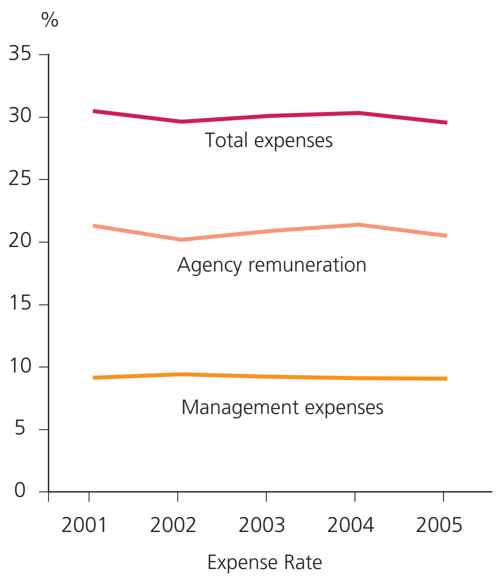
Item	2003		2004		2005	
	RMm	%	RMm	%	RMm	%
Income						
Premium income	12,374.4	74.3	15,131.0	74.3	16,010.4	76.4
Net investment income	2,688.4	16.2	3,175.8	15.6	3,662.5	17.5
Profit on sale of assets and miscellaneous income	1,587.5	9.5	2,057.9	10.1	1,269.8	6.1
Total	16,650.3	100.0	20,364.7	100.0	20,942.7	100.0
Outgo						
Net policy benefits	4,593.9	27.6	5,397.3	26.5	6,261.2	29.9
Agency remuneration	2,079.8	12.5	2,382.3	11.7	2,506.1	12.0
Management expenses[1]	922.0	5.5	1,016.3	5.0	1,112.7	5.3
Loss on disposal of assets and other outgo	532.1	3.2	584.4	2.9	1,122.8	5.3
Total	8,127.8	48.8	9,380.3	46.1	11,002.8	52.5
Excess of income over outgo	8,522.5	51.2	10,984.4	53.9	9,939.9	47.5

[1] Inclusive of net bad and doubtful debts

which limited insurers' investment risks only to the extent of any guarantees provided. Many insurers have also continued to increase asset allocations to fixed income securities, although their limited supply has continued to drive down yields, particularly on longer-dated bonds. On the whole, the industry expects investment yields to remain relatively flat in the coming year.

Total net policy benefits increased at the rate of 16% in 2005 (2004: 17.5%). There was a moderation in payouts for death, disability, surrender and medical benefits during the year. The bearish equity market combined with slower sales of new investment-linked policies contributed to a lower increase in surrender payments (the largest component of net policy benefits) made in connection with the redemption of investment-linked units by policy owners. In contrast, maturity payouts on short-term endowment policies sold earlier continued to increase at an accelerated pace of 30.6%

Chart 3.3
Expense Rate and Rate of Interest Earned



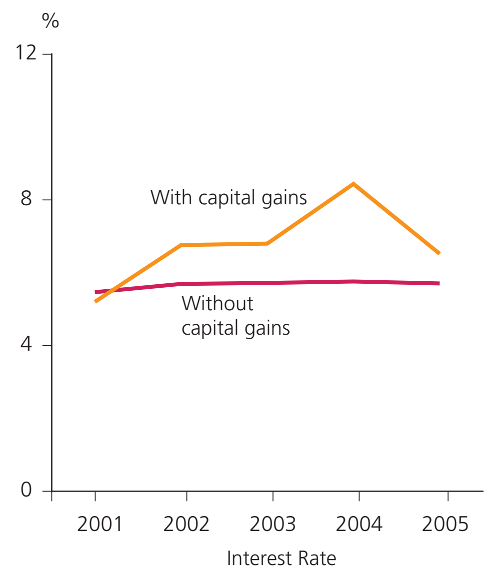


Table 3.14
Expense Rate and Rate of Interest Earned

Year	% of Adjusted Premium Income[1]				Net Rate of Interest Earned	
	Agency Remune-ration (a)	Staff Remune-ration (b)	Other Expenses (c)	Total (a)+(b)+(c)	(1)	(2)
2001	21.4	4.0	5.2	30.6	5.5	5.2
2002	20.3	4.2	5.3	29.8	5.7	6.8
2003	20.9	4.1	5.2	30.2	5.7	6.8
2004	21.5	4.0	5.2	30.7	5.8	8.4
2005	20.6	3.8	5.3	29.7	5.7	6.5

[1] The sum of first year premiums, renewal premiums and 10% of single premiums
(1) Rate of return on investments excluding capital gains
(2) Rate of return on investments including capital gains

(2004: 24.3%) to account for a higher share of 24.1% (2004: 21.4%) of total net policy benefits. Supported by prudent reserving practices, insurers were also able to sustain higher bonus payments on participating policies which increased further by 22% (2004: 14.7%) despite the continuing investment challenges faced by insurers. Regulatory measures implemented to promote the fair treatment of participating policy owners will ensure that insurers continue to adopt equitable bonus allocation policies in the long term that are broadly consistent with the performance of insurance funds.

Further efficiency gains by life insurers during the year shaved a percentage point off the industry management expense rate which improved to 9.1% (2004: 9.2%) of adjusted premium income. Four out of five insurers with the most significant improvements were major domestic bancassurance players, as some of these players reached the critical business mass needed to produce positive returns on investments made in bancassurance strategies.

Efficiency gains and reduced intermediation costs contributed to an improvement in the expense rate to an all-time low.

The continued prominence of single premium products (which attract lower agency commissions compared to annual premium policies), significant penetration of bancassurance, and regulatory measures introduced during the year to reduce intermediation costs for investment-linked products also contributed towards containing agency expenses. The increase in agency expenses moderated for the second consecutive year to 5.2% (2004: 14.5%), resulting in a reduction in the agency remuneration rate to 20.6% of adjusted premium income, the second lowest level recorded in over a decade. The total expense rate correspondingly improved to an all time low of 29.7%. With increasing financial convergence set to define the financial landscape, such sustained efficiency improvements will position the industry well to compete more effectively within the broader financial services industry.

Assets

Notwithstanding the weaker operating results, total assets of life insurance funds continued to expand at a double-digit rate of 12.9% (2004: 15.9%) to reach RM78,753.4 million in 2005. Assets of investment-linked funds increased further to account for a larger share of 7.5% of total assets (2004: 6.7%), while the share of ordinary life fund assets continued to decline to 88.9% (2004: 89.2%). Annuity funds, mostly from policies sold under the discontinued EPF annuity scheme, accounted for the remaining share of 3.6% (2004: 4.1%).

Continuing the trend in previous years, asset allocations to corporate and debt securities were higher at RM42,096.1 million, or 53.4% of total life fund assets. The bulk (61.2% or RM25,780.9 million) of these investments were held in private debt securities (PDS) which have accounted for a progressively higher share of the industry's investment portfolio over the years. Insurers generally continued to maintain prudent credit policies as reflected in the further increase in holdings of investment-grade (minimum 'A'-rated) papers to 82.2% of total investments in PDS. Investment allocations to equity, which stood at RM13,793.4 million at book value as at end 2005, were reduced further to 32.8% (2004: 33.8%) of total investments in corporate

Table 3.15
Assets of Life Insurance Funds

Type of Investment	2001		2002		2003		2004		2005	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Property, plant and equipment	346.8	0.8	383.0	0.7	439.3	0.7	355.8	0.5	432.6	0.6
Loans	6,348.2	14.1	6,661.9	13.0	7,619.6	12.7	8,455.4	12.1	9,725.3	12.3
Mortgages	*1,160.9*	*2.6*	*1,213.4*	*2.4*	*1,877.8*	*3.1*	*2,329.3*	*3.3*	*3,003.3*	*3.8*
Policy	*4,075.4*	*9.0*	*4,566.3*	*8.9*	*4,971.9*	*8.3*	*5,335.9*	*7.7*	*5,790.6*	*7.3*
Others	*1,111.9*	*2.5*	*882.2*	*1.7*	*769.9*	*1.3*	*790.2*	*1.1*	*931.4*	*1.2*
Investments	28,146.4	62.7	33,396.8	65.3	39,503.7	65.6	47,413.7	67.9	55,229.2	70.1
Malaysian Government papers/guaranteed loans	*6,818.5*	*15.2*	*7,544.9*	*14.8*	*10,004.3*	*16.6*	*12,518.7*	*17.9*	*12,746.3*	*16.2*
Corporate/debt securities	*21,123.6*	*47.0*	*25,640.9*	*50.1*	*29,249.5*	*48.6*	*34,694.7*	*49.7*	*42,096.1*	*53.4*
Others	*204.3*	*0.5*	*211.0*	*0.4*	*249.9*	*0.4*	*200.3*	*0.3*	*386.8*	*0.5*
Investment properties	2,462.5	5.5	2,708.4	5.3	2,661.1	4.4	2,969.4	4.3	3,037.0	3.9
Cash and deposits	6,080.2	13.5	6,428.5	12.6	8,258.0	13.7	8,899.1	12.8	8,316.3	10.6
Other assets	1,212.7	2.7	1,277.0	2.5	1,404.1	2.4	1,513.6	2.2	1,752.6	2.2
Foreign assets	329.6	0.7	315.9	0.6	309.7	0.5	168.4	0.2	260.4	0.3
Total	44,926.4	100.0	51,171.5	100.0	60,195.5	100.0	69,775.4	100.0	78,753.4	100.0

and debt securities in response to the continuing lacklustre performance of the equity market.

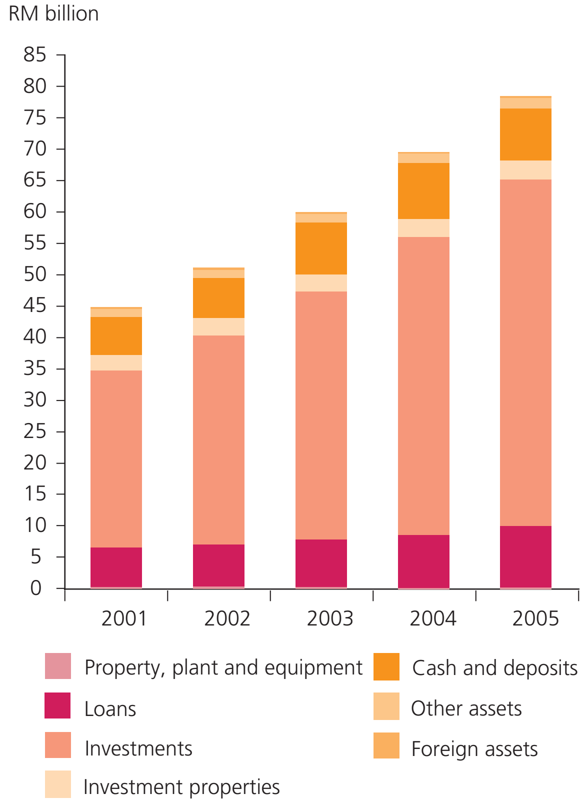
Demand from life insurers for long-term securities to match their long-term liabilities remained strong. However, the continued concentration (70.4%) of PDS issuances in short to medium-term securities with tenures of 10 years and below, coupled with insurers' investment preference for fixed income securities, led to a marked increase in investments of life insurance funds in PDS with shorter maturities of up to five years which accounted for a higher combined share of 48% of total PDS investments in 2005 (2004: 46.3%). The proportion of investments in PDS with maturities exceeding five years conversely declined to 52% (2004: 53.7%) of total PDS holdings. Continuing efforts, therefore, to lengthen the benchmark yield curve - including the inaugural issuance of a 20-year Malaysian Government Securities (MGS) and extension of the tenure for Cagamas Islamic Residential Mortgage Backed Securities and Government Investment Issues – and the resulting shift in the tenure of PDS issues to tenures above 10 years in 2005 augurs well for the insurance industry. Meanwhile, investments in both Cagamas papers and MGS increased at a slower rate in 2005 to RM2,335.5 million and RM12,746.3 million respectively in line with the lower volume of net funds raised in the market.

Asset allocation to corporate and debt securities continued to increase, while mortgage loans extended by life insurers expanded further.

Total investments in fixed income securities (including PDS, MGS and Cagamas papers) as a share of total investments in securities remained relatively unchanged at 74% (2004: 74.3%) due to the offsetting effects of higher allocations to PDS and lower shares of MGS and Cagamas holdings.

Mortgage loans extended by life insurers grew by 28.9% to RM3,003.3 million in 2005 as the four most active financing insurers continued to expand their loan portfolios as an alternative

Chart 3.4
Assets of Life Insurance Funds



investment strategy to mitigate maturity mismatches and associated reinvestment risks within the life fund. As a result, the share of mortgage loans to total assets increased to 3.8%, with borrowers benefiting from the attractive mortgage rates which life insurers were able to provide in line with their longer-term commitments to policy owners.

The liberalisation of the foreign exchange administration rules on 1 April 2005 also saw higher investments by life insurers in foreign assets in 2005. While the volume of such investments remained small, the number of insurers with foreign investment exposures increased significantly from four to nine in 2005 as insurers took advantage of expanded opportunities to enhance investment yields and access longer term investments from international financial markets. Investments in foreign assets are expected to increase further in 2006 to back insurance liabilities under foreign-currency denominated education and investment-linked insurance products recently introduced by some life insurers in the market.

Valuation Reports

Life insurers are required under Section 85 of the Insurance Act 1996 to conduct annual actuarial investigations into the financial condition of their life business in respect of liabilities to policy owners and submit the summary of the valuation results to the Bank. The actuarial investigations form the basis to determine the appropriate level of reserves to meet future policy benefits of life policies in force as at the valuation date. The investigations are conducted using the net premium valuation methodology on a basis not less stringent than the 'Statutory Valuation Mortality Table 1996' at valuation interest rates of 4% and 4.5% for annual and single premium policies respectively. Due to the different nature of mortality exposure for annuity policies, the investigations for annuity business are conducted based on the 'a(90) Annuitant Mortality Table'

Table 3.16
Valuation Result and Surplus Distribution

Item	2003		2004		2005	
	RMm	% change	RMm	% change	RMm	% change
Valuation result						
Policy owners' fund	52,799.2	16.3	62,638.2	18.6	71,057.1	13.4
Valuation liabilities	43,658.5	14.6	51,245.5	17.4	58,890.2	14.9
Surplus	9,140.7	25.0	11,392.7	24.6	12,166.9	6.8
Surplus distribution						
Allocation to policy owners	1,716.9	5.4	1,898.5	10.6	1,898.6	...
Allocation to shareholders	957.4	11.0	1,139.6	19.0	1,121.2	–1.6
Surplus carried forward	6,466.4	34.1	8,354.6	29.2	9,147.1	9.5

... Negligible

at valuation interest rate of 5%. The valuation results and the surplus position during the calendar year 2005 are shown in Table 3.16.

In line with the slower growth of in force business, policy owners' funds and valuation liabilities grew at slower rates of 13.4% and 14.9% (2004: 18.6% and 17.4%) respectively. Given the growth rate of valuation liabilities which outpaced that of policy owners' funds, the ratio of policy owners' funds to valuation liabilities for the industry as a whole fell from 122.2% to 120.7% in 2005. However, the financial condition of the life insurance industry as a whole remained strong to support future obligations to policy owners with an increased number of insurers (from four to five) recording ratios of policy owners' funds to valuation liabilities higher than the industry average, ranging between 120% and 129.9%. As foreign-controlled insurers continued to dominate the life insurance market, the share of actuarial surplus attributable to foreign-controlled insurers increased to 76.5% (2004: 74.3%).

Allocations of surplus to participating policy owners remained stagnant at RM1,898.6 million in 2005, while surplus allocated to shareholders reduced by 1.6% to RM1,121.2 million against the double-digit growth recorded in the preceding year. Despite this reduction, the ratio of surplus distributed to shareholders to total surplus remained unchanged at 9.2% (2004: 10%). The surplus carried forward, which is mainly used to provide future bonus payments to policy owners, increased at a significantly lower rate of 9.5% (2004: 29.2%) to reach RM9,147.1 million. The slower growth in surplus carried forward reflects the weaker investment performance of life insurance funds. The net surplus ratio, defined as policy owners' funds after allocations to policy owners and shareholders to valuation liabilities, also reflected the lower investment yields and stood at 115.5% (2004: 116.3%) as margins were squeezed to provide adequate returns to policy owners and shareholders.

The net surplus arising during the year (after payment of interim bonus but excluding surplus brought forward from the preceding year and transfers from shareholders) deteriorated by over 23% (2004: +13.8%) reflecting the poorer investment results. Correspondingly, the rate at which surplus was generated by the life fund, represented by the ratio of net surplus arising to the average life fund, reduced to 5.6% (2004: 8.4%). Given these trends, life insurers should continue to enhance their risk and asset management practices to optimise the performance of the insurance funds in order to generate favourable yields to support expanding organic growth.

Socio-economic Indicators

With sustained robust growth in the economy, premium income growth in the life sector lagged nominal GNP growth in 2005. Premium income for the year expanded at a slower pace of 5.8% (2004: 22.3%) against nominal GNP growth of 11.3% (2004: 14.1%). Correspondingly, the ratio of premium income to nominal GNP was lower at 3.4%. The sanguine economic outlook, rising disposable income levels and the relatively low level of market penetration should, nevertheless, continue to provide support for positive growth going forward. This is reinforced by the persistent upward trend in per capita spending on life insurance which increased further during the year to RM600.

Domestic per capita expenditure on life insurance remained higher than the regional average for Asia, but well below levels achieved in the more developed Asian markets which were more than six times higher. Despite the vast potential for growth given the relatively low market penetration in Malaysia, domestic premium income to GNP was comparatively lower than that observed in more saturated markets. Increasing risk awareness among the public, therefore, remains key to capturing the full potential for growth in the life sector.

As financial convergence continues to gather momentum, increased access to insurance products that offer competitive returns and flexibility to policy owners in meeting both their protection and savings objectives have continued to reinforce the role of the insurance sector in the mobilization of domestic savings. As a result, premium income as a proportion of gross national savings was sustained at above 9% (2005: 9.1%; 2004: 9.6%) despite slower premium growth during the year. In comparison, the share of banking system deposits to gross national savings declined

Table 3.17
Life Insurance Growth and Socio-economic Indicators

Year	Total Sums Insured in Force			Premium Income[1]				GNP at Market Price	Population	Employment	Per capita Income
	RMm	% of GNP	Per capita	RMm	% of GNP	Per capita	Per member of Employment	RMm	Million		RM
2001	440,005.8	142.5	18,334	11,684.8	3.8	487	1,243	308,781	24.0	9.4	12,859
2002	482,993.0	143.3	19,554	10,832.2	3.2	439	1,117	336,951	24.7	9.7	13,738
2003	538,779.3	144.6	21,296	12,374.4	3.3	489	1,237	372,480	25.3	10.0	14,870
2004	593,922.7	139.7	22,843	15,131.0	3.6	582	1,441	425,060	26.0	10.5	16,616
2005	645,047.5	136.4	24,159	16,010.4	3.4	600	1,469	473,074[p]	26.7[e]	10.9[e]	18,106[p]

[1] As per revenue accounts
[p] Preliminary
[e] Estimate
(Source: Department of Statistics, Malaysia and Economic Planning Unit)

more markedly to 39.1% (2004: 44.3%). Contributions to the Employees Provident Fund also accounted for a lower share of 16.1% (2004: 16.6%) of gross national savings for the year. In terms of contribution to capital formation, the share of life insurance fund assets to total assets of the financial system remained relatively unchanged at 4.1%.

Market penetration continued to deepen in 2005 with the total number of policies in force to total population achieving 38.7% (2004: 37.9%). The penetration rate of the working population correspondingly rose to 92.7% (2004: 92.4%). Looking ahead, demographic changes leading to a growing ageing population and rising healthcare costs will continue to stimulate demand for life insurance as a financial planning tool, particularly to meet individual financing needs during retirement and for medical expenses. However, as market penetration continues to improve, intensified efforts to promote greater risk awareness and financial literacy, fiscal incentives, greater product diversity and further proliferation of alternative distribution channels to reach the more remote market segments will have an increasingly important bearing on the extent and pace at which further expansion of insurance coverage can be achieved.

Malaysian Mortality Experience

The Malaysian mortality experience statistics for assured lives have been compiled by LIAM since 1996 based on the annual updated submissions by all life insurers in Malaysia. The data submitted by life insurers for the statistical compilation includes the number of policies terminated due to death for whole life and endowment policies in force, by male and female assured lives respectively. To avoid distortions to the observed mortality experience for policies with dread disease coverage, the data for this year's report has specifically excluded policies with accelerated dread disease benefits. The data is analysed based on homogenous groups in terms of sex, medical underwriting and product type in order to provide a meaningful and reasonable analysis.

The mortality study is based on a 5-year moving cohort of Malaysian assured lives in order to minimise the effect of random statistical fluctuations of the observed mortality rates which may be caused by insufficient volume of data. The latest mortality experience as tabulated in Table 3.18 is based on observations between 1999 and 2003 for endowment and whole life policies which have been in force for at least two years in order to minimise the selection effect during the initial policy years.

As can be expected, most age groups for male and female assured lives exhibited lighter mortality experience for lives which have been medically underwritten compared to those which have not. However, the 15-19 and 30-39 age groups for female lives with medical underwriting showed heavier mortality

Table 3.18
The Rates of Mortality for Duration of Two or More Years[1]

Age Attained Group	Ordinary (1999-2003)							
	Males				Females			
	With Medical		Without Medical		With Medical		Without Medical	
	E_x	q_x	E_x	q_x	E_x	q_x	E_x	q_x
10 - 14	58.05	0.16	491.20	0.24	41.96	0.07	384.65	0.18
15 - 19	44.44	0.59	387.61	0.86	29.45	0.48	268.51	0.32
20 - 24	48.61	1.01	476.32	1.17	29.06	0.21	350.28	0.35
25 - 29	59.91	0.90	781.11	1.03	45.95	0.15	776.17	0.34
30 - 34	92.82	0.89	969.53	1.02	66.73	0.55	906.97	0.45
35 - 39	144.17	0.92	997.72	1.27	85.64	0.70	820.07	0.64
40 - 44	196.52	1.28	886.29	1.87	98.56	0.79	654.13	0.94
45 - 49	219.86	1.76	671.22	2.71	89.10	1.12	451.80	1.45
50 - 54	183.65	3.14	410.40	4.48	71.67	2.00	254.94	2.60
55 - 59	116.11	5.54	153.02	8.04	57.62	3.47	93.09	4.23
60 - 64	78.44	9.12	59.66	12.76	48.14	5.15	38.94	6.27
65 - 69	36.10	16.68	16.44	25.55	25.95	10.98	11.60	13.79
70 - 74	12.38	28.02	4.74	39.05	10.01	18.58	4.14	26.06
Total	1,291.06	3.00	6,305.26	1.90	699.84	1.95	5,015.29	0.86

[1] Excluding policies with accelerated dread disease benefits
E_x - Number of lives exposed to risks in thousands
q_x - Mortality rate multiplied by 1,000
(Source: Life Insurance Association of Malaysia)

experience compared with those without medical underwriting.

On average, the mortality experience for male and female assured lives with and without medical underwriting showed improvement across all age groups compared with the previous study period. However, certain age groups experienced heavier mortality experience compared with the previous corresponding study period and in particular, the age range between 20 to 49 years old for male assured lives without medical underwriting.

Comparing between male and female assured lives, the mortality rates for male assured lives were heavier by between 18.6% and 83.3%. The gap between the mortality rates of both genders remained the highest for the ages between 15 and 29 years, attributed by the high accident-related deaths experienced by male assured lives within this age range.

In comparison with the 'Malaysian 1983/88 Mortality Table' (M83-88) which is widely used to price life insurance products, the 1999-2003 study indicated that the mortality experience for male and female assured lives has further improved by 22.3% and 17.1% on average across all ages respectively. However, it is worth noting that the age groups 30-34 for male assured lives and 15-19 for female assured lives actually experienced heavier mortality rates compared with the corresponding age groups for M83-88. A similar comparison between the 'Statutory Valuation Mortality Table 1996' (SVMT) with the observed mortality experience for 1999-2003 revealed that the statutory valuation mortality table remains valid as a basis for valuation of life insurance policies. The mortality rates for both male and female assured lives remained significantly lower on average by 45% and 64% respectively in comparison with the SVMT.

Using the exposed to risk data or the number of lives observed from the experience study 1999-2003, a comparison between the expected number of deaths for the period 1998-2002 against that of the current 1999-2003 period indicated that the mortality experience for all assured lives continued to improve except for male assured lives without medical underwriting which declined slightly by 0.2%. Deaths among male assured lives with medical underwriting, however, improved by 6.8% while female assured lives experienced a 2.5% and 0.9% improvement for those with and without medical underwriting respectively.

Performance of General Business

Premium Growth and Distribution

The general insurance sector expanded on a strong upswing in 2005 after a sluggish year in 2004, with premium growth achieving 9.7% to reach RM9,386.1 million despite the continued softening of rates in some lines. As in previous years, premium growth continued to track the performance of the motor insurance sector which saw its most significant growth since 2000. Higher motor insurance premiums contributed 67.1% of the increase in total premiums during the year, while strong growth in the marine, aviation and transit (MAT) insurance sector also bolstered performance.

The general insurance sector expanded at a faster rate, driven by significant growth in motor insurance business.

Motor insurance premiums grew 14.4% during the year, underpinned by a significant increase in motor vehicle sales to an all-time high of over 550,000 units representing a 13% increase over sales in 2004. Positive consumer sentiment, an accommodative interest rate environment and aggressive sales campaigns accompanying the introduction of new models were key drivers of higher new vehicle sales. The consequential growth in motor insurance premiums saw the sector further strengthen its dominance of general insurance business with a higher share of 47.2% of total general premiums written. Motor insurance business remained highly concentrated, with the top six motor underwriters continuing to secure more than half (54.3%) of total motor premiums written. Notwithstanding this, the continued robust growth of motor takaful business is expected to result in a more competitive market emerging for motor business, gradually leading to a more balanced distribution between conventional premiums and takaful contributions over time.

In contrast to its performance in 2004, the MAT insurance sector returned to double-digit growth in 2005 with premiums expanding by 15.3%, mostly from the aviation and offshore oil-related sectors. Although low loss levels continued to support softening premium rates for major airline accounts, substantial rate increases were observed for helicopter risks following higher losses sustained in the global market. This, in turn, boosted domestic aviation premium levels. The introduction of additional routes by a carrier also saw more premiums booked in the aviation sector, which registered an overall growth of 21.7% for the year (2004: -42.3%).

Growth in premiums from offshore oil-related risks continued to gain momentum at 29.6% (2004: 21.6%), primarily from a large increase in exposures associated with new offshore construction projects during the year. Initial spillover effects of global rate increases imposed on offshore energy accounts in the wake of massive losses from Hurricanes Katrina, Rita and Wilma also contributed to growth, although their full impact may only be seen in 2006 after the renewal season. The significant extent of insured losses from the hurricanes is expected to trigger severe industry reactions in the global market that are likely to include, apart from substantial upward rate adjustments, reduced capacity as well as the imposition of aggregate exposure limits for offshore energy risks.

Premiums in the fire sector lost further ground as the second largest class of general insurance

Table 3.19
Premium Income

Year	Gross Premiums[1]	Gross Direct Premiums	Net Premiums	Retention Ratio (%)
	RM million			
2001	5,971.1	6,404.0	5,386.7	90.2
2002	6,933.2	7,449.1	6,022.3	86.9
2003	7,522.0	8,186.3	6,437.9	85.6
2004	7,888.0	8,557.5	6,910.9	87.6
2005	8,510.8	9,386.1	7,554.2	88.8
	% change			
2001	5.7	8.0	6.5	n.a.
2002	16.1	16.3	11.8	n.a.
2003	8.5	9.9	6.9	n.a.
2004	4.9	4.5	7.3	n.a.
2005	7.9	9.7	9.3	n.a.

[1] Gross direct and reinsurance accepted premiums less reinsurances within Malaysia
n.a. Not applicable

Table 3.20
Distribution of Gross Direct Premiums

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[1]	Others	Total				
	RM million										
2001	461.6	324.2	1,275.4	652.6	378.7	2,715.8	3,094.5	146.6	79.9	369.2	6,404.0
2002	748.2	413.0	1,458.6	703.6	405.4	3,026.3	3,431.7	205.3	85.6	403.1	7,449.1
2003	908.5	465.9	1,585.1	809.0	413.5	3,211.3	3,624.8	262.2	104.6	426.2	8,186.3
2004	880.2	412.7	1,668.6	895.5	446.2	3,425.2	3,871.4	249.7	113.0	466.4	8,557.5
2005	1,015.0	391.9	1,700.1	963.2	503.0	3,924.4	4,427.4	268.3	121.0	499.2	9,386.1
	% change										
2001	4.5	19.0	1.9	6.7	–3.2	12.0	9.9	23.9	–3.2	10.2	8.0
2002	62.1	27.4	14.4	7.8	7.1	11.4	10.9	40.0	7.1	9.2	16.3
2003	21.4	12.8	8.7	15.0	2.0	6.1	5.6	27.7	22.2	5.7	9.9
2004	–3.1	–11.4	5.3	10.7	7.9	6.7	6.8	-4.8	8.0	9.4	4.5
2005	15.3	–5.0	1.9	7.6	12.7	14.6	14.4	7.4	7.1	7.0	9.7
	% share										
2001	7.2	5.1	19.9	10.2	5.9	42.4	48.3	2.3	1.2	5.8	100.0
2002	10.0	5.5	19.6	9.5	5.4	40.6	46.0	2.8	1.2	5.4	100.0
2003	11.1	5.7	19.4	9.9	5.1	39.2	44.3	3.2	1.2	5.2	100.0
2004	10.3	4.8	19.5	10.5	5.2	40.0	45.2	2.9	1.3	5.5	100.0
2005	10.8	4.2	18.1	10.3	5.4	41.8	47.2	2.9	1.2	5.3	100.0

[1] Compulsory insurance cover required under the Road Transport Act 1987

business as growth slowed for the third consecutive year to 1.9%. Competitive rates on large industrial fire risks which persisted throughout most of the year continued to have a dampening effect on growth, as did construction activities which were also subdued following the completion of several large infrastructure projects and the reallocation of Government resources to smaller projects. These factors also contributed to a further contraction in CAR and engineering premiums in 2005. Nevertheless, growth in fire insurance premiums continued to be supported by resilient demand sustained for residential property in the accommodative interest-rate environment. Although current pricing levels for commercial risks still reflect healthy profit margins, further premium reductions are expected to moderate following the hurricane losses, providing additional support for future growth. Growth in both the fire and engineering insurance sectors will also receive positive impetus from the more favourable outlook for the construction sector in 2006, supported by the commencement of new projects slated under the Ninth Malaysia Plan and the continued expansion of residential and non-residential constructions.

In other classes of business, growth remained positive in the medical and health, personal accident and liability classes. The liability class, in particular, returned to positive growth after a contraction in 2004 with renewed demand for directors' and officers' liability covers brought on in part by progressively higher corporate governance expectations and responsibilities placed on directors, coupled with increasing shareholder activism and ongoing regulatory initiatives to enhance enforcement and investor redress mechanisms. Professional liability insurance premiums also saw healthy growth with premium rates generally holding steady, as well as higher coverage limits purchased by legal firms to cover increased exposures with the growth in both the number and value of corporate mergers and acquisitions handled during the year. In the miscellaneous class, a heightened awareness of security among businesses led to increased demand for money-in-transit, burglary and fidelity insurance covers during the year. Premiums associated with these businesses, however, tended to be concentrated among insurers that were already positioned elsewhere in the insureds' insurance programmes, in view of the high level of underwriting due diligence required.

Table 3.21
Distribution of Net Premiums

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[1]	Others	Total				
	RM million										
2001	231.7	149.7	957.4	595.0	367.8	2,671.9	3,039.7	79.1	77.8	256.3	5,386.7
2002	278.7	208.7	1,070.0	632.3	385.3	2,962.3	3,347.6	119.3	80.4	285.3	6,022.3
2003	285.2	186.3	1,094.0	743.5	407.4	3,176.8	3,584.2	134.5	101.8	308.4	6,437.9
2004	323.6	218.0	1,146.1	817.9	437.2	3,390.9	3,828.1	135.8	107.1	334.3	6,910.9
2005	344.3	204.3	1,213.9	868.3	494.5	3,827.4	4,321.9	143.0	116.8	341.7	7,554.2
	% change										
2001	–6.3	11.5	–0.8	9.5	–0.8	11.4	9.7	11.3	–3.2	4.7	6.5
2002	20.3	39.4	11.8	6.3	4.7	10.9	10.1	50.8	3.3	11.4	11.8
2003	2.3	–10.7	2.2	17.6	5.7	7.2	7.1	12.7	26.6	8.1	6.9
2004	13.5	17.0	4.8	10.0	7.3	6.7	6.8	1.0	5.2	8.4	7.3
2005	6.4	-6.3	5.9	6.2	13.1	12.9	12.9	5.3	9.0	2.2	9.3
	% share										
2001	4.3	2.8	17.8	11.0	6.8	49.6	56.4	1.5	1.4	4.8	100.0
2002	4.6	3.5	17.8	10.5	6.4	49.2	55.6	2.0	1.3	4.7	100.0
2003	4.4	2.9	17.0	11.5	6.3	49.4	55.7	2.1	1.6	4.8	100.0
2004	4.7	3.2	16.6	11.8	6.3	49.1	55.4	2.0	1.5	4.8	100.0
2005	4.6	2.7	16.1	11.5	6.5	50.7	57.2	1.9	1.5	4.5	100.0

[1] Compulsory insurance cover required under the Road Transport Act 1987

In line with the robust gross premium growth, aggregate net premiums expanded at a faster rate of 9.3% in 2005. Of greater significance was the marked improvement in terms of capital efficiency observed as the ratio of net premiums to shareholders' funds of direct insurers increased significantly to 112.8% (2004: 99.7%). Malaysian-controlled insurers demonstrated the most significant improvements, collectively registering net premiums to shareholders' funds of 119.8% from 104% last year, while the ratio for foreign-controlled insurers rose to 101.4% from 92.4%. The improvements were also broad-based, with all except three insurers reporting higher levels of capital efficiency. As a result, the proportion of direct insurers continuing to operate at suboptimal levels of below 100% reduced significantly from 66.7% to 53.8%, reinforcing a more stable and resilient industry.

Retention and Reinsurance of Malaysian Business

The industry's overall net retention ratio rose further for the second consecutive year to 88.8% (2004: 87.6%). The higher retention in 2005 was primarily supported by the increase in motor business volumes which are significantly less reliant on reinsurance support. With large-scale construction activity remaining subdued, the concentration of risks with smaller exposure written by the industry during the year also boosted retention levels in the fire and CAR lines which contributed to the higher overall retention level achieved. In other personal lines of insurance, retention levels remained relatively stable, with medical and personal accident insurance showing some improvement as insurers were able to secure more favourable reinsurance terms following improved underwriting standards and results. At the institutional level, retention ratios registered by individual insurers also improved with the implementation of further reductions in voluntary cessions to Malaysian Reinsurance Berhad (MRB) as part of measures to promote greater competition in the market under the second phase of the Financial Sector Masterplan.

The aggregate retention level was, however, weighed down by lower retention in the MAT sector which declined to 41.8% in 2005. This was largely due to the impact of significantly lower retained shares of marine hull risks following adverse loss experience in 2004 which led one major marine underwriter to reduce its retention levels for older ships. The anticipation of tighter underwriting conditions

Table 3.22
Net Retention Ratio

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[1]	Others	Total				
	Combined[2]										
2001	55.6	67.4	84.1	95.2	99.7	99.4	99.5	59.6	99.4	84.6	90.2
2002	42.2	62.4	83.0	94.6	99.3	99.5	99.5	61.8	99.4	83.8	86.9
2003	38.1	51.9	81.1	94.7	99.4	99.7	99.7	57.3	99.5	88.5	85.6
2004	43.9	68.5	80.5	94.2	99.7	99.7	99.7	63.9	99.7	87.7	87.6
2005	41.8	76.9	83.9	95.3	99.5	99.8	99.8	64.4	99.7	87.2	88.8
	Direct Insurers[2]										
2001	48.5	52.5	80.8	94.8	99.6	99.4	99.5	55.7	99.4	81.1	89.5
2002	34.6	40.0	78.0	94.1	99.3	99.5	99.5	56.3	99.3	80.8	85.4
2003	31.6	33.8	76.0	94.3	99.4	99.7	99.7	53.9	99.5	87.2	84.2
2004	38.3	50.2	75.1	93.8	99.7	99.7	99.7	60.7	99.7	85.8	86.3
2005	36.6	64.6	79.9	95.0	99.5	99.8	99.8	60.4	99.7	85.9	87.8
	Professional Reinsurers[3]										
2001	68.1	81.4	76.8	78.3	60.5	68.2	67.4	87.2	68.1	79.8	74.3
2002	65.0	88.3	80.5	80.5	65.7	71.7	71.2	93.0	72.7	79.0	77.6
2003	65.9	89.5	87.0	90.9	86.0	87.7	87.6	93.8	86.6	83.1	85.1
2004	68.4	94.9	92.7	97.8	99.9	98.8	98.9	98.7	99.2	91.2	92.2
2005	70.5	94.5	93.4	97.9	100.0	98.3	98.5	98.4	99.6	90.0	92.2

1 Compulsory insurance cover required under the Road Transport Act 1987
2 Net premiums to gross direct and reinsurance accepted premiums less reinsurances within Malaysia
3 Net premiums to reinsurance accepted premiums

and firmer reinsurance rates following the US hurricane losses is expected to restrict any substantial increase in hull retentions in the near future barring a significant improvement in loss experience. Increased shipping activity with the growth in international trade has also boosted demand for marine-related liability insurance covers, a large part of which was reinsured in the international markets due to limited domestic capacity. This further contributed to the lower retention in the MAT sector.

During the year, efforts were continued to enlarge domestic capacity to absorb a higher proportion of large risks, thereby reducing the knock-on effects of the increasingly volatile international reinsurance market developments on domestic insurers and businesses. This included ongoing efforts to encourage greater access by industry players to the Scheme for Insurance of the Large and Specialised Risks (LSR Scheme) which was conceived to provide technical underwriting and placement support for qualifying risks, and intensified reviews by the Bank of global reinsurance programmes with a view to promote more optimal use of available domestic capacity.

In 2005, the LSR Scheme reported a further increase in activity, with a total of 944 risks involving total premiums amounting to RM980.5 million (2004: 804 risks with premiums totalling RM936.6 million) handled by the Scheme. Notably, net premiums ultimately retained within the domestic market increased significantly to 43.6% from 39.1% in 2004 for risks referred to the Scheme, underscoring the continuing effectiveness of the Scheme in developing capacity to support optimal domestic retention levels. In particular, greater use of non-proportional reinsurance facilities and improved technical assessments acquired from the wider exposure to international market practices in the development of terms and rates have been observed in the placements of more complex risks referred to the Scheme.

As a result, reinsurance cessions absorbed by the domestic market (including insurers and reinsurers operating in the Labuan International Offshore Financial Centre) increased to 69.4% in 2005 (2004: 67.4%). Reinsurance premiums ceded abroad were correspondingly lower at RM956.6 million (2004: RM977.1 million) or 30.6% of total reinsurance premiums ceded

Table 3.23
Net Reinsurance Position

Class	Premiums Ceded and Retroceded Overseas	Reinsurance and Retrocession Claims Recoveries from Overseas	Reinsurance and Profit Commissions Received from Overseas	Net Inflow (+) / Outflow (–)	Net Inflow / Outflow as a % of Premiums Ceded and Retroceded Overseas
	RM million				
Marine and aviation hull	432.5	195.1	28.8	-208.6	–48.2
Marine, aviation and transit cargo	47.6	10.0	8.0	-29.6	–62.2
Contractors' all risks & engineering	61.3	65.0	11.2	14.9	24.3
Fire	232.5	79.0	49.0	–104.5	–44.9
Medical expenses and personal accident	42.9	11.8	9.3	–21.8	–50.8
Motor	10.1	11.1	0.4	1.4	13.9
'Act' cover[1]	2.6	7.9	…	5.3	203.8
Others	7.5	3.2	0.4	–3.9	–52.0
Liability	79.1	6.6	9.8	–62.7	–79.3
Workmen's compensation and employers' liability	0.4	0.1	…	–0.3	–75.0
Miscellaneous	50.2	16.0	11.2	–23.0	–45.8
Total	956.6	394.7	127.7	–434.2	–45.4

[1] Compulsory insurance cover required under the Road Transport Act 1987
… Negligible

(2004: 32.6%). Notwithstanding this, net reinsurance outflows abroad increased slightly by 2.3% to RM434.2 million (2004: RM424.5 million), with both lower reinsurance commissions received as well as reinsurance losses recovered in line with the reduced volume of premiums ceded and more favourable loss experience.

On the whole, domestic portfolios ceded abroad have continued to be highly profitable for foreign reinsurers. The ratio of net outflows to premiums ceded overseas increased for the second consecutive year to 45.4% (2004: 43.4%) and continued to reflect large underwriting profit margins to foreign reinsurers. While it is important for the industry to maintain stability in results over time, the substantial net outflow position indicates scope for domestic insurers to further augment their underwriting portfolios by leveraging more effectively on available domestic capacity. This, however, needs to be achieved on a strong prudential foundation that is built on sound underwriting and risk modelling practices.

With supportive conditions prevailing in the international reinsurance market for aviation and energy risks for most of 2005 prior to the US hurricanes in the third quarter, the Malaysian Aviation Pool and the Malaysian Energy Risks Consortium continued to book in lower premiums amounting to only RM3.4 million (2004: RM4.6 million) and RM17.8 million (2004: RM24.1 million) respectively in 2005. The industry's continued support for these mechanisms nevertheless remains important to provide needed insurance support under unfavourable international market conditions, especially where significant capacity is suddenly withdrawn from the market. Indeed, their continued relevance has been reinforced with more constrictive market conditions expected following the hurricane losses, including reduced capacity (by as much as half for some windstorm prone areas) and steep rate hikes for energy risks.

Notwithstanding the impact of the US hurricanes on the international property and casualty insurance industry, the security of foreign reinsurance placements of Malaysian risks remains sound. Overall, major global insurers and reinsurers are expected to have the capacity to absorb the hurricane losses within their enlarged surpluses built up post 9/11 as a result of significant premium rate increases and new capital injections. The credit exposure of domestic insurers to affected global reinsurers is assessed to be low with strong credit ratings having been reaffirmed for the reinsurers accounting for the bulk of reinsurance from Malaysia. Major rating agencies have further indicated that any future rating changes due to adjustments to hurricane loss estimates are likely to be limited.

Nevertheless, with trends pointing towards the higher frequency and severity of natural catastrophes and man-made disasters, it is increasingly critical to develop and maintain adequate domestic insurance capacity in order to reduce the potentially destabilising effects of international insurance cycles on the domestic market.

Claims Experience

The industry experienced its most favourable loss year in over a decade with the claims ratio improving significantly from 60.9% in 2004 to 55.4% in 2005. The improvement cut across all business lines, but was most distinct in the CAR and engineering and the MAT classes which saw unprecedented improvements of 25.4 and 23.4 percentage points respectively in the absence of large-scale losses during the year.

In the CAR and engineering sector, lower losses were attributed to smaller exposures to large infrastructure projects, as well as higher deductibles absorbed by risk-owners in the small-to-medium risk categories. Meanwhile, in the MAT sector, improvements in risk management and security measures - such as the installation of global positioning systems which successfully reduced the number of inland transit hijacking incidents, increased marine enforcement patrols pursuant to the law enforcement patrols treaty signed in 2004, as well as improved safety measures adopted for marine vessels in conformity to the International Ship and Port Security Code - collectively reduced hull losses after an adverse loss year in 2004. In other sub-sectors, more rigorous risk assessments and higher deductibles contained cargo losses, while an improved safety record in the aviation sector and mostly small losses below the level of insurance deductibles on offshore oil-related risks further contributed to a favourable loss year for MAT business.

The motor claims ratio also saw a marked improvement in 2005, supported by the significant growth in premium base achieved for the year coupled with the lower loss reserves provided by a number of major motor underwriters following intensified efforts to contain claims costs. These included the more active management of motor claims by, among other things, negotiating early settlements with third parties. Losses paid for theft claims were also lower for the year (by approximately 4%) in 2005 as a result of improved security features installed by vehicle owners to track stolen vehicles. Although the number of road accidents has continued to escalate, aggregate property damage losses appear to have been contained,

Table 3.24
Claims Ratio[1]

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[2]	Others	Total				
2001	60.8	99.8	43.0	63.7	111.7	58.6	65.4	67.9	18.8	103.1	63.0
2002	58.6	67.7	45.4	65.9	141.5	57.3	67.1	44.0	22.8	90.9	62.9
2003	58.4	64.3	34.3	56.2	162.7	58.2	70.1	23.4	22.0	64.6	59.8
2004	62.6	56.6	39.4	56.1	179.6	56.6	70.8	35.1	22.7	58.4	60.9
2005	39.2	31.2	38.9	47.7	160.2	54.2	66.3	34.9	19.8	51.5	55.4

1 Net claims incurred as a ratio of earned premium income
2 Compulsory insurance cover required under the Road Transport Act 1987

partly due to the higher relative proportion of claims relating to less costly motorcycle damages.

Notwithstanding the improvement in the motor claims experience, the pricing of compulsory 'Act' covers remains well below technically supportable levels and needs to be addressed for long-term sustainability, particularly in the light of escalating court awards for motor accident fatalities and injuries coupled with the imminent reduction in reinsurance capacity for unlimited liability covers in relation to bodily injury losses. In 2005, paid claims for motor third party bodily injury losses exceeded RM580 million, representing a further increase of 12.1% from losses paid in 2004. Twenty-six out of thirty-five insurers (or more than 70% of insurers in the industry) continued to report claims ratios for compulsory motor 'Act' covers above the industry average, with ratios at the higher end increasing dramatically to reach over 700% in 2005, compared to just over 520% in 2004.

Another favourable loss year, the third since 2003, was achieved in the medical and health and personal accident classes of business. The improvement in 2005 was also more significant than that observed in 2004, reinforcing stronger technical fundamentals supporting the industry's underwriting practices particularly in the medical insurance sector. Fewer large losses contributed to similarly positive loss trends in other remaining classes of business.

Table 3.25
Underwriting Experience

Year	Earned Premium Income	Net Claims Incurred	Net Commissions	Management Expenses[1]	Underwriting Margin
	RM million				
2001	5,231.6	3,293.8	576.7	1,227.1	134.0
2002	5,709.9	3,592.8	631.7	1,252.6	232.8
2003	6,228.4	3,725.7	683.0	1,350.1	469.6
2004	6,744.0	4,109.2	748.5	1,421.7	464.6
2005	7,291.0	4,035.7	784.1	1,514.9	956.3
	% of earned premium income				
2001	100.0	63.0	11.0	23.4	2.6
2002	100.0	62.9	11.1	21.9	4.1
2003	100.0	59.8	11.0	21.7	7.5
2004	100.0	60.9	11.1	21.1	6.9
2005	100.0	55.4	10.8	20.7	13.1
	% change				
2001	8.5	7.3	8.2	2.8	456.0
2002	9.1	9.1	9.5	2.1	73.7
2003	9.1	3.7	8.1	7.8	101.7
2004	8.3	10.3	9.6	5.3	–1.1
2005	8.1	–1.8	4.8	6.5	105.8

[1] Management expenses is inclusive of net bad and doubtful debts

Apart from the more favourable loss experience achieved with the application of rigorous underwriting assessments and controls, continued efficiency gains by the industry also contributed to the higher profits achieved. In particular, past investments in productive capacity enabled several, mostly larger, insurers to reap the resulting economies of scale from larger premium volumes written. Many other insurers were able to contain increases in the variable components of management expenses to modest levels. As a result, the industry as a whole trimmed its management expense ratio further down to 20.7% of earned premiums, extending the positive trend to a fifth consecutive year. Net commission as a percentage of earned premiums also dipped below 11% for the first time in six years, partly due to the growing trend towards fee-based brokerage compensations for large corporate accounts as well as the more aggressive penetration by some insurers of direct distribution channels such as direct marketing.

The favourable loss experience coupled with continued efficiency gains returned the underwriting margin to double digit levels and boosted operating profit to a record high since the Asian financial crisis.

Underwriting and Operating Results

Robust premium growth and continued underwriting discipline maintained in the general insurance sector returned the underwriting margin in 2005 to double-digit levels, not seen since 1997. Total underwriting profits more than doubled for the year to RM956.3 million or 13.1% of earned premium income. The number of insurers recording underwriting losses for the year correspondingly declined further to five (compared to nine in 2004) with combined aggregate losses totalling RM42.1 million (2004: RM68.2 million).

Table 3.26
Underwriting and Operating Results

Item	2001		2002		2003		2004		2005	
	RMm	% change	RMm	% change	RMm	% change	RMm	% change	RMm	% change
Underwriting profit	134.0	456.0	232.8	73.7	469.6	101.7	464.6	–1.1	956.3	105.8
Investment income	515.0	2.7	523.8	1.7	538.1	2.7	593.7	10.3	642.0	8.1
Capital gains	69.9	–67.1	130.8	87.1	189.5	44.9	188.9	–0.3	108.2	–42.7
Other income	213.0	173.8	138.7	–34.9	335.1	141.6	75.0	–77.6	97.1	29.5
Capital losses	129.9	464.8	86.5	–33.4	89.7	3.7	18.8	–79.0	89.0	373.4
Other outgo	55.0	–84.5	120.5	119.1	138.5	14.9	124.6	–10.0	190.2	52.6
Operating profit	747.0	70.6	819.1	9.7	1,304.1	59.2	1,178.8	–9.6	1,524.4	29.3

The expected turn of the pricing cycle again after the US hurricanes should continue to provide support for prudent pricing in the coming year. This, together with enhanced productivity levels, should in turn strengthen the conditions for further improvements in underwriting profitability going forward.

Boosted by the significant underwriting gains, operating profits achieved a record high since the Asian financial crisis of RM1,524.4 million in 2005, up 29.3% from the previous year. Return on assets correspondingly increased to 8.9% from 7.2% in 2004. The gap between Malaysian and foreign-controlled insurers also narrowed substantially to a spread of 1.4 percentage points, from 2.5 percentage points in the previous year. The technical components of profitability continued to strengthen, with the underwriting account contributing a significantly higher share of 62.7% (2004: 39.4%) of operating profits.

Investment results were, however, substantially weaker due to the bearish equity market. Net realised and unrealised capital losses built up to RM68.1 million for the year from a net gain position of RM147.8 million in 2004, offsetting the higher interest and dividend income streams achieved with the investment yield (excluding capital gains) improving to 3.7% from 3.5% in 2004. With continuing volatility persisting in the equity market, adequate risk pricing and prudent investment strategies will remain key to sustaining overall profitability.

Assets

In line with the stronger premium growth, total assets of the general insurance funds expanded at a faster rate of 5.3% (2004: 2.8%) to RM17,989.4 million as at end-2005. General insurers continued to pursue more active investment management strategies during the year, resulting in lower cash holdings and larger investment portfolios. Total investment holdings rose almost RM1 billion to RM9,106.1 million, up 11.7% from 2004, to command more than half of allocations of general insurance fund assets. Of this amount, investments in PDS increased further to RM3,647.6 million, constituting 20.3% of total assets (2004: RM3,103.4 million or

Chart 3.5
Assets of General Insurance Funds

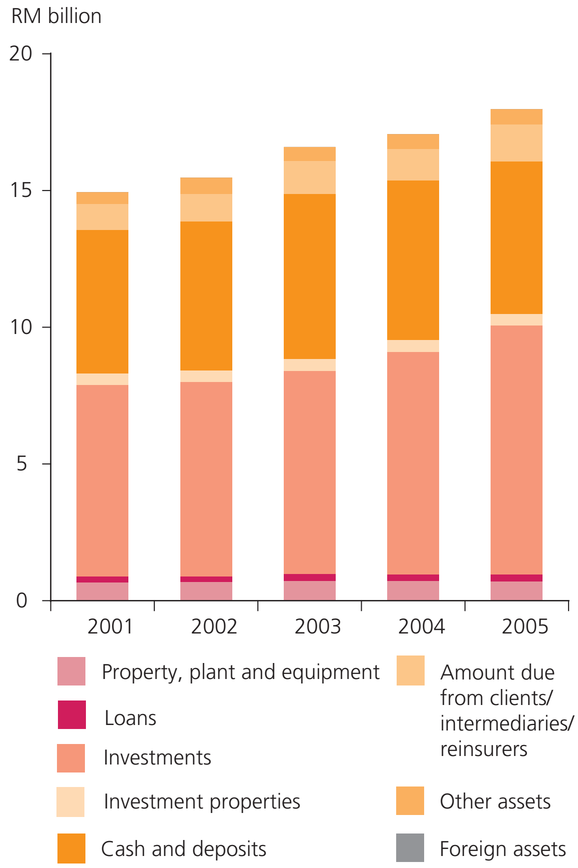


Table 3.27
Assets of General Insurance Funds

Type of Investment	2001		2002		2003		2004		2005	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Property, plant and equipment	681.3	4.6	696.1	4.5	734.3	4.4	733.0	4.3	720.7	4.0
Loans	222.1	1.5	210.4	1.4	242.4	1.5	226.5	1.3	244.7	1.4
Investments	6,983.0	46.7	7,093.8	45.8	7,429.7	44.7	8,149.3	47.7	9,106.1	50.6
Malaysian Government papers/guaranteed loans	*1,928.8*	*12.9*	*1,862.6*	*12.0*	*1,952.3*	*11.8*	*2,292.2*	*13.4*	*2,671.4*	*14.8*
Corporate/debt securities	*4,915.6*	*32.9*	*5,086.5*	*32.9*	*5,370.8*	*32.3*	*5,685.1*	*33.3*	*6,225.2*	*34.6*
Others	*138.6*	*0.9*	*144.7*	*0.9*	*106.6*	*0.6*	*172.0*	*1.0*	*209.5*	*1.2*
Investment properties	427.5	2.9	426.0	2.8	454.6	2.7	429.7	2.5	428.4	2.4
Cash and deposits	5,258.9	35.2	5,447.6	35.2	6,010.4	36.2	5,837.6	34.2	5,562.9	30.9
Amount due from clients/ intermediaries/reinsurers	946.2	6.3	1,006.2	6.5	1,223.1	7.4	1,172.2	6.9	1,370.8	7.6
Other assets	421.5	2.8	586.9	3.8	511.3	3.1	520.7	3.1	547.6	3.1
Foreign assets	2.3	…	4.4	…	5.7	…	8.0	…	8.2	…
Total	14,942.8	100.0	15,471.4	100.0	16,611.5	100.0	17,077.0	100.0	17,989.4	100.0

… Negligible

18.2%), with insurers leveraging on rising bond yields towards the fourth quarter of the year, particularly for shorter-term papers, to enhance investment results. As a result, the proportion of general insurers' PDS holdings in papers with terms of maturity of five years and below rose to 65.4% (2004: 58.7%). Similar to observations in the life sector, investment-grade (minimum 'A'-rated papers) constituted an overwhelming proportion (86.9%) of general insurers' PDS holdings. Demand from general insurers also remained strong for MGS which continued to increase, albeit at a more moderate pace, by 16.5% (2004: 17.4%) due to the lower volume of new issues during the year.

Meanwhile, capital erosion during the second half of the year resulted in a further decline in allocations to equity to 10.6% (2004: 10.8%) of total assets. As at end 2005, the book value of investments in equity amounted to RM1,898.1 million, representing only a marginal increase of 2.7% from the level reported in 2004. Insurers generally stayed the course with conservative strategies adopted for equity investments in line with the cautious outlook on recovery prospects for the stock market.

Notwithstanding the continuous shift of cash holdings into capital market investments, liquidity support for the settlement of general insurance claims remained well within prudent levels with sufficient cash and deposits to cover 81.4% (2004: 87%) of aggregate provisions for outstanding claims.

The distribution of insurers by size of insurance fund assets remained unchanged in 2005 in the absence of mergers and acquisitions among general insurers during the year. However,

Table 3.28
Classification by Size of General Insurance Funds

RM million	Number of Funds				
	2001	2002	2003	2004	2005
Less than 20[1]	3	3	3	2	2
20 to less than 30	1	1	1	0	0
30 to less than 50	2	1	1	0	0
50 to less than 100	5	3	1	1	1
100 to less than 150	8	4	4	2	2
150 to less than 300	20	13	12	14	14
300 & above	18	23	25	24	24
Total	57	48	47	43	43

[1] Inclusive of insurers which were running off their general insurance business

the average asset size for general insurers rose 4.9% to RM440.3 million (2004: RM419.7 million) in line with the larger asset base achieved. Considerable scope remains for insurers operating at the fringe to enhance their economies of scale through consolidation strategies, particularly with imminent and far-reaching changes in the operating environment drawing closer to implementation. These include the implementation of the risk-based capital framework, adoption of new financial reporting standards and the progressive deregulation of the motor and fire tariffs, all of which will require significant investments by insurers in management information systems as well as human resources to rise to the higher standards of risk management called for in the new environment. The announcement of tax incentives in the 2006 Budget is also expected to provide further impetus for the resumption of merger and acquisition activity in the coming years.

Table 3.29
Technical Reserves

Year	Unearned Premium Reserves	Provision for Out-standing Claims	Technical Reserves
	RM million		
2001	2,504.4	5,951.5	8,455.9
2002	2,820.6	6,238.2	9,058.8
2003	3,026.1	6,499.9	9,526.0
2004	3,247.4	6,707.2	9,954.6
2005	3,506.7	6,833.3	10,340.0
	% change		
2001	6.9	3.6	4.6
2002	12.6	4.8	7.1
2003	7.3	4.2	5.2
2004	7.3	3.2	4.5
2005	8.0	1.9	3.9
	% of net premiums		
2001	46.5	110.5	157.0
2002	46.8	103.6	150.4
2003	47.0	101.0	148.0
2004	47.0	97.1	144.0
2005	46.4	90.5	136.9

Technical Reserves

The technical reserve ratio as a percentage of net premiums declined to 136.9% in 2005, reflecting the more favourable claims ratio registered for the year. Claims reserves as a percentage of net premiums stood at 90.5% for the year, down from 97.1% in 2004. Significantly lower reserve ratios were particularly distinct in the motor 'Act' and offshore oil-related classes which declined to 468.2% and 256.4% (2004: 515.8% and 911.3%) respectively as a result of the substantially enlarged premium base in both sectors, against relatively marginal increases in claims reserves.

Overall reserve levels remained comfortably above prudent levels given the industry's relatively low exposure to long-tailed liability claims. The Bank will continue to ensure that individual insurers maintain adequate levels of reserves relative to their underwriting and claims handling experiences. The impending implementation of new general insurance reserving guidelines will further support the adoption of a more realistic

Table 3.30
Average Link Ratio for Cumulative Paid Claims and Emergence of Claims[1]

Class	Development Year							% of Ultimate Incurred Claims Cost at End of Development Year 1	
	0[2]	1	2	3	4	5	Ultimate	2003	2004
Marine, aviation and transit	2.46	1.17	1.07	1.03	1.01	1.01	1.06	84.3	83.8
Fire	1.97	1.07	1.02	1.01	1.01	1.00	1.03	94.8	93.5
Motor									
'Act' cover[3]	8.21	2.62	1.61	1.31	1.21	1.17	1.16	31.1	28.8
Others	1.86	1.04	1.01	1.01	1.00	1.00	1.02	96.0	96.1
Miscellaneous[4]	1.73	1.09	1.03	1.02	1.01	1.01	1.07	88.1	87.7

1 Based on financial year, consolidated from financial year end 1 July to 30 June
2 Development year 0 refers to the year of occurrence of loss
3 Compulsory insurance cover required under the Road Transport Act 1987
4 Includes all classes other than MAT, fire and motor

Table 3.31
Ultimate Claims Ratio[1]

Class	Year of Occurrence of Loss						
	1998	1999	2000	2001	2002	2003	2004
	%						
Marine, aviation and transit	45.7	50.0	62.1	57.5	46.1	60.8	61.0
Fire	23.8	25.8	28.1	29.0	31.7	31.6	41.9
Motor							
'Act' cover[2]	121.6	139.3	146.2	133.0	145.7	142.4	144.8
Others	49.2	62.1	60.6	59.2	59.1	64.6	61.0
Miscellaneous[3]	51.4	62.6	63.6	65.8	59.8	58.7	62.2

1 Ratios are based on unadjusted aggregated financial year data on movement of claims by duration submitted by the industry, consolidated from financial year end 1 July to 30 June
2 Compulsory insurance cover required under the Road Transport Act 1987
3 Includes all classes other than MAT, fire and motor

reserving basis by insurers, enabling them to shed off any implicit buffers that may be hidden within their current reserves within acceptable prudential boundaries.

Relevant claims indicators for the industry incorporating submissions by insurers for 2005 are presented in Tables 3.30 to 3.32.

Business from Outside Malaysia

Gross premiums written from outside Malaysia contracted further by 2.1% (2004: 1.2%) in 2005 to RM397.3 million (2004: RM405.7 million) mainly due to lower premiums written by professional reinsurers, particularly in the MAT sector. Total gross premiums attributed to professional reinsurers declined by 4.6% for the year to RM239.4 million (2004: RM250.9 million). Of this amount, MAT premiums, mostly from risks located in the Middle East markets, were 24.5% lower compared to the previous year in line with the continued downward trend in international rates for most of the year prior to the US hurricane events. Global portfolio rationalisation exercises, which included the withdrawal of reinsurance support for loss-making accounts and consolidation of geographically dispersed businesses, also contributed to the contraction in business booked by foreign professional reinsurers in Malaysia.

In contrast, foreign business activity among direct insurers increased with a growth of 2% in business outside Malaysia underwritten by direct insurers to RM157.9 million in 2005. Larger business volumes were achieved in all major business classes except the fire portfolio, mainly supported by the more aggressive expansion by one domestic insurer into the Singapore market. On balance, however, professional reinsurers continued to account for the bulk of business from outside Malaysia, contributing 60.3% of gross premiums (2004: 61.8%).

Business outside Malaysia continued to be concentrated around the fire and miscellaneous segments with shares of 46% (2004: 46.4%) and 30.6% (2004: 28.7%) of total gross premiums respectively. With continued expansion abroad in the construction sector by Malaysian conglomerates, particularly to high-growth economies in the region, future prospects for growth in these segments remains positive. The ability of domestic insurers to tap the emerging business opportunities abroad will, however, depend critically on their success in building up the necessary capacity to manage and absorb risks abroad, as well as in improving their global competitiveness.

Underwriting profits on business outside Malaysia rose 315.7% to RM42.4 million for the year, adding to assets supporting foreign business which increased by 1.4% in 2005 to RM915.2

Table 3.32
Estimated Average Frequency of Loss and Average Cost per Claim[1]

Class	Average Frequency of Loss[4]	Average Cost per Claim
	%	RM
Marine, aviation and transit	6.2	6,572
Fire	1.3	4,238
Motor		
'Act' cover[2]	1.0	7,670
Others	7.1	3,917
Miscellaneous[3]	8.7	2,170

1 Based on financial year, consolidated from financial year end 1 July to 30 June
2 Compulsory insurance cover required under the Road Transport Act 1987
3 Includes all classes other than MAT, fire and motor
4 Ratio and data represent estimations only based on available industry data. Actual experience may differ according to the actual claims experience of individual insurers

million (2004: 5.7% to RM902.5 million). The bulk (67.6%) of assets supporting business outside Malaysia continued to be invested in Malaysia, mostly in Malaysian Government securities, shares and deposits.

Performance of Professional General Reinsurers

Reinsurance premiums written by professional reinsurers contracted by a further 12.5% to RM864.6 million in 2005 (2004: -5.7%), extending the downward trend in business turnover for the third consecutive year. The continued softening trend in rates and higher net retentions maintained by direct insurers were the main causes for the decline. In particular, the downward revision of voluntary cessions to MRB for motor, personal accident and hospital and surgical classes of business significantly boosted net retentions by direct insurers. Domestic market capacity provided by professional reinsurers also contracted during the year, with one reinsurer in the process of running-off its business. As a result, lower reinsurance accepted premiums were recorded in all major classes of business, except liability, with the highest contraction observed in the motor sector in line with rate reductions for excess of loss protections. Premium volumes increased slightly for the longer-tailed liability and motor 'Act' business, although the possibility of limitations being introduced on reinsurance protection for third party bodily injury losses (currently unlimited) is likely to constrain future reinsurance premium increases in this segment. The fire, motor, CAR and engineering and MAT classes of business continued to make up almost 85% of reinsurance accepted premiums by professional reinsurers.

Of total premiums reinsured in the market, the share of reinsurance premiums absorbed by professional reinsurers declined to 66.6% (2004: 72.9%), with a correspondingly larger share captured by direct insurers as a result of the various measures implemented to optimise available institutional capacity (see section on Retention and Reinsurance of Malaysian Business). Business written by professional reinsurers remained concentrated around the top three reinsurers which controlled a combined market share of 82.6% of total reinsurance premiums accepted. Their combined share has, however, declined from 84.2% in 2004 with more intense competition evolving in the reinsurance sector.

Table 3.33
Performance of Professional General Reinsurers

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[1]	Others	Total				
	Reinsurance Accepted Premiums (RM million)										
2001	91.8	100.6	370.3	73.6	28.5	247.3	275.8	14.0	8.8	84.8	1,019.7
2002	128.4	147.1	453.4	79.8	29.5	281.2	310.7	26.8	9.0	94.9	1,250.1
2003	119.3	112.8	395.6	68.7	23.1	235.0	258.1	19.7	7.2	66.6	1,048.0
2004	107.5	123.6	369.7	67.9	21.0	219.2	240.2	17.4	5.8	55.7	987.8
2005	100.5	102.5	349.3	55.1	21.5	158.1	179.6	22.8	5.3	49.5	864.6
	Net Premiums (RM million)										
2001	62.5	81.9	284.2	57.6	17.2	168.6	185.8	12.2	6.0	67.7	757.9
2002	83.5	130.0	365.2	64.3	19.3	201.8	221.1	24.9	6.5	75.0	970.5
2003	78.6	101.0	344.0	62.5	19.9	206.2	226.1	18.4	6.2	55.3	892.1
2004	73.5	117.3	342.6	66.4	21.0	216.6	237.6	17.2	5.7	50.8	911.1
2005	70.8	97.0	326.1	54.0	21.5	155.4	176.9	22.4	5.3	44.6	797.1
	Claims Ratio[2] (%)										
2001	48.2	107.5	59.7	66.9	95.0	51.5	55.4	10.0	25.9	113.0	67.1
2002	74.0	74.7	55.7	88.3	121.1	54.6	60.6	73.7	15.3	85.4	65.5
2003	73.7	49.2	37.5	46.0	143.1	67.2	73.9	2.4	18.0	101.5	55.0
2004	89.2	56.2	48.0	90.5	157.9	59.2	67.9	37.4	16.8	52.5	60.4
2005	57.4	15.0	48.5	33.7	154.3	76.6	85.1	27.8	22.3	35.0	51.0

[1] Compulsory insurance cover required under the Road Transport Act 1987
[2] Net claims incurred as a ratio of earned premium income

The ratio of reinsurance accepted business from outside Malaysia to total reinsurance business accepted by professional reinsurers declined marginally to 20.2% (2004: 21.7%). Foreign professional reinsurers continued to account for the bulk (79.9%) of regional reinsurance business, mostly from the ASEAN and South Asian countries. At RM239.4 million, the regional portfolio remains small in volume terms, leaving substantial scope for more significant progress to be achieved in securing a larger share of business from the region. In this context, the foreign professional reinsurers licensed in Malaysia are expected to play a key role in shoring up growth in regional business booked in Malaysia in line with the long-term objective of growing Malaysia as a regional reinsurance centre.

The retention ratio registered by professional reinsurers remained stable at 92.2%, with net premiums written by professional reinsurers declining in proportion to the decline in reinsurance accepted premiums. The retention level remains the highest achieved by professional reinsurers collectively so far since the policy move was taken to license foreign professional reinsurers in Malaysia in 1993, underscoring the continued importance of their contribution towards supporting the national retention level.

Improvements observed in the claims experience for the industry in 2005 were again more pronounced for professional reinsurers with the overall claims ratio declining significantly to 51%. As seen for the industry as a whole, marked improvements were registered in the claims ratios of professional reinsurers for the MAT, CAR and engineering and medical expenses and personal accident classes of business. Apart from improvements related to the more favourable claims experience observed in the direct insurance market, improvements in the claims ratios registered by the professional reinsurers were also attributed to the commutation of run-off treaties which resulted in lower reinsurance settlements negotiated with direct insurers, review of reserves for maturing multi-year programmes, and the release of conservative reserves provided for the 2004 tsunami losses. In contrast with the experience in the direct insurance market, however, the claims experience for fire and motor reinsurance business deteriorated. This was largely attributed to the reduced scale and spread of motor and fire reinsurance business in 2005, with new fire risks insured in the direct market concentrated around smaller risks that did not require reinsurance support, and rate reductions observed for non-proportional motor reinsurance facilities. As a result, isolated reinsurance claims and the adoption of more conservative reserving methodologies by some reinsurers had a larger impact on the claims ratio in the reinsurance sector for these business segments.

Despite the contraction in business written, underwriting results achieved by professional reinsurers improved significantly, with a lower combined ratio of 81.3% (2004: 90.9%) as a result of the more favourable claims experience as well as lower reinsurance commissions incurred. Underwriting profits achieved RM150.3 million for the year (2004: RM82.5 million), up 82.2% from 2004. This, in turn, boosted operating profits which increased by 32.1% to RM231.1 million (2004: RM175 million). Operating results for professional reinsurers should continue to strengthen with the market expected to harden following the US hurricanes. Global reinsurers are also expected to maintain their long-term pricing discipline and conservative investment strategies, which in turn, will support positive results for their Malaysian operations. Consolidation trends observed in the global reinsurance industry also provided further impetus towards enhancing the financial position and prospects of reinsurers involved that have operations in Malaysia.

Insurance Broking

In 2005, total premiums placed by the insurance broking sector rebounded and rose by 11.1% to RM2,958.3 million (2004: declined by 4.3% to RM2,662.7 million), which was mainly attributed to higher premium placements in the CAR and engineering class by 32.9% to RM431.1 million and the offshore oil-related class by 26% to RM329.6 million. This was in line with the rise in construction related offshore projects undertaken in 2005 following new investments in the oil and gas sector. In addition, the cargo class of business increased by 19.5% to RM131.2 million due to a build-up in external demand for electrical and electronics products, while aviation class of business increased by 12.8% to RM386.9 million due to the hardening of rates and the introduction of additional routes by a local low cost airline carrier. Placement in the motor class

Table 3.34
Total Premiums Transacted

Year	General				Life	Total
	Marine, Aviation and Transit	Fire	Motor	Miscellaneous[1]		
	Direct Premiums (RM million)					
2003	547.0	417.3	69.0	862.7	45.9	1,941.9
2004	510.6	454.7	64.3	755.6	49.0	1,834.2
2005	576.5	437.8	64.6	877.0	53.6	2,009.5
	Reinsurance Premiums (RM million)					
2003	342.4	113.6	49.8	334.3	1.7	841.8
2004	351.4	163.8	33.1	278.5	1.7	828.5
2005	434.4	132.3	41.1	340.2	0.8	948.8
	Combined (RM million)					
2003	889.4	530.9	118.8	1,197.0	47.6	2,783.7
2004	862.0	618.5	97.4	1,034.1	50.7	2,662.7
2005	1,010.9	570.1	105.7	1,217.2	54.4	2,958.3

[1] Includes all classes other than MAT, fire and motor

also registered an increase of 8.5% to RM105.7 million (2004: declined by 18% to RM97.4 million) following a surge in commercial vehicle sales in 2005.

On the other hand, placement in fire business experienced a decline of 7.8% or RM48.4 million due mainly to the slowdown experienced by the construction sector in 2005 as a result of a scale down in public sector-driven projects. As in previous years, of the total premiums placed, miscellaneous class maintained the largest share at 41.1% (2004: 38.8%), followed by MAT at 34.2% (2004: 32.4%).

Of the total premiums placed by brokers in 2005, 67.9% or RM2,009.5 million (2004: 68.9% or RM1,834.2 million) was in the form of direct placements, while the balance, 32.1% or RM948.8 million, was in respect of reinsurance placements. Premiums placed locally accounted for 78.8% (2004: 79.6%) or RM2,330.2 million, whilst that placed abroad represented the remaining 21.2% (2004: 20.4%).

In tandem with the increase in total premiums placed by the broking sector, brokerage earned also increased by 7.7% to RM193.5 million (2004: increased by 0.3% to RM179.7 million).

Table 3.35
Outstanding Premiums Due to Insurers

Months	2003		2004		2005	
	Amount (RMm)	% of Total	Amount (RMm)	% of Total	Amount (RMm)	% of Total
0 - 2	237.0	68.4	179.4	63.8	154.0	58.7
>2 - 6	56.5	16.3	52.9	18.8	63.4	24.2
>6 - 12	17.8	5.1	19.2	6.8	12.2	4.7
over 12	35.2	10.2	29.8	10.6	32.5	12.4
Total	346.5	100.0	281.3	100.0	262.1	100.0

Table 3.36
Operating Results of Brokers

Item	2003		2004		2005	
	RMm	% change	RMm	% change	RMm	% change
Brokerage earned	179.2	18.1	179.7	0.3	193.5	7.7
Other income	25.1	2.0	28.2	12.4	27.8	–1.4
Total expenses	139.4	17.1	146.5	5.1	152.8	4.3
Operating profit	64.9	13.5	61.4	–5.4	68.5	11.6

Accompanying the increase in brokerage earned was a smaller increase of 4.3% in total expenses which resulted in the broking industry recording a higher operating profit of RM68.5 million in 2005 (2004: RM61.4 million).

As in previous years, the few larger players continued their dominance of the broking industry. Of the 34 insurance brokers, 11 had an aggregate market share of 83.2% of the total premiums placed, with an average annual premium of RM223.7 million per broker, far exceeding the industry average of RM87 million per broker (2004: RM78.3 million). The remaining 23 brokers accounted for the remaining 16.8% market share with an average premium of only RM21.7 million per broker.

As at end 2005, total outstanding premiums due to insurers continued to decline by 6.8% to RM262.1 million (2004: RM281.3 million), which represented 8.9% of the total premiums transacted (2004: 10.6%). The improvement was due to the continuous efforts undertaken by both brokers and insurers to improve their operational efficiency in enhancing service standards to consumers. Both Insurance Brokers Association of Malaysia and Persatuan Insurans Am Malaysia are jointly developing a best practice standards aimed at facilitating efficient recording and collection of premiums as well as accounts reconciliation.

The average paid-up capital of the 34 insurance brokers increased marginally from RM1.3 million in 2004 to RM1.4 million in 2005. The increase was mainly due to capital injections undertaken by eight brokers to fulfill the minimum paid-up capital requirement as specified under the takaful licensing conditions. As in the previous year, 23 brokers have paid-up capital below the industry average. Brokers must continue their efforts to consolidate their resources and strengthen their capacities to meet growing business demands and consumer expectations. Efforts in raising standards of market conduct and professionalism should be undertaken together with enhancing operational efficiency and product innovation.

Loss Adjusting

During 2005, the loss adjusting sector handled a total of 274,376 cases, a marginal increase of 1% (2004: 271,546 cases). The increase was mainly

Table 3.37
Cases Handled by Adjusters

Year	Motor			Non-motor			Total	
	No.	% change	% share	No.	% change	% share	No.	% change
2003	221,647	6.9	85.2	38,579	–7.9	14.8	260,226	4.4
2004	232,016	4.7	85.4	39,530	2.5	14.6	271,546	4.4
2005	236,378	1.9	86.2	37,998	–3.9	13.8	274,376	1.0

Table 3.38
Operating Results of Adjusters

Item	2003		2004		2005	
	RMm	% change	RMm	% change	RMm	% change
Fees earned	125.6	–3.2	137.5	9.5	142.1	3.3
Other income	7.6	76.7	8.3	9.2	4.9	–41.0
Total outgo	131.0	–6.3	131.5	0.4	131.6	0.1
Operating profit/(loss)	2.2	137.9	14.3	550.0	15.4	7.7

attributed by motor cases which grew by 1.9% to 236,378 (2004: 232,016) arising from higher third party property damage and bodily injury claims as well as theft claims. On the other hand, non-motor cases recorded a reduction of 3.9% to 37,998 (2004: 39,530) due to decline in cases involving cargo and marine hull as well as medical and health insurance claims. As in previous years, motor cases continued its dominance of the market with its 86.2% share (2004: 85.4%).

The average number of cases handled by each adjuster in 2005 increased to 7,621 (2004: 7,339). Reflecting the highly fragmented sector, only nine adjusters out of the total 36 handled cases above the sector average, accounting for 68% of total cases or an average of 20,741 cases each (2004: 18,531). The remaining 27 adjusters handled an average of 3,248 cases each (2004: 3,194), less than half of the sector average.

Following the increase, albeit a small one, in the overall number of cases handled by the loss adjusting sector, the total fee income received by the sector had increased by 3.3% to RM142.1 million in 2005 (2004: RM137.5 million). With the marginal increase of 0.1% in operating costs (from RM131.5 million in 2004 to RM131.6 million in 2005), the sector reported an increase in operating profit of 7.7% to RM15.4 million (2004: RM14.3 million). Of the 36 adjusters, 31 reported operating profits amounting to RM15.6 million while the remaining five reported losses totalling RM0.2 million (2004: 25 adjusters reported operating profits amounting to RM15.4 million and 12 adjusters reported RM1.1 million in losses). The bulk or 82% of the RM15.6 million operating profits reported by the 31 adjusters was contributed by only five adjusters (2004: 86% of RM15.4 million was contributed by five adjusters).

With the reduction of one player in the industry, the total paid-up capital of the sector decreased marginally from RM14.4 million in 2004 to RM14 million in 2005. There were 19 adjusters with paid-up capital below that of the sector average of RM0.4 million while another seven were at the minimum level of RM150,000.

The intense competition in the sector continued to exert great pressure in compelling the players, especially the bigger adjusters, to invest in building up their technical capabilities and expertise as well as the necessary IT infrastructure. In addition, efforts were made to further diversify into value-added services as well as to form strategic alliances with external parties for ventures abroad. Observations from other developed countries also showed an upcoming trend that forensic accounting firms which provide expertise in adjustment of business interruption insurances and stock reconciliation accounting for fire damages or destroyed stock claims are encroaching into the services provided by the loss adjusting sector. Such trends coupled with competition within the adjusting sector continued to pose challenges to the players in the sector. Given these developments and the need to have economies of scale in operations, there needs to be further consolidation within the industry to ensure the continued viability and competitiveness of the players.