# The Industry Performance in 2004

# The Industry Performance in 2004

## Overview of Industry Performance

The insurance industry registered a second consecutive year of double-digit growth in 2004, supported by robust growth in the life sector. The combined premium income for life and general business increased at a stronger pace of 17.2% (2003: 11.6%) to achieve RM22,038.9 million (2003: RM18,812.3 million). The life business continued to enjoy exceptionally strong demand for single premium investment-linked and endowment products which underpinned an impressive growth in life premium income of 22.4% (2003: 14.2%). Growth in the general sector, however, remained sluggish as the combination of premium rate reductions following a further correction of the hard market cycle and weaker demand in the commercial lines slowed the growth in gross direct premiums.

Operating results improved for both life and general business, supported by the more bullish equity market and strong growth in the life sector. The fundamentals underlying profitability were also stronger, with more disciplined underwriting and stable investment income streams supporting positive results in the general sector, coupled with better matched asset-liability structures in the life sector. Efficiency gains also contributed to the improved results.

Better returns to policy owners were achieved in view of favourable investment conditions. Aggregate bonuses amounting to RM683.1 million (2003: RM582.3 million), an increase of 17.3% (2003: 9.9%), were paid by life insurers to participating policy owners during the year. In the general sector, improved underwriting practices enabled the industry to absorb several large industrial losses sustained during the year without significant deterioration to the industry's overall claims experience.

The insurance market continued to expand in reach to assume an increasingly important role in supporting economic and social development. Both insurance penetration and density levels were further enhanced. Combined premium income as a percentage of nominal Gross National Product (GNP) increased to 5.2% (2003: 5.1%), while the market penetration rate was also higher at 37.9% (2003: 36.8%), underscoring its growing importance within the economy in promoting economic activity and individual financial well-being.

Total assets of insurance funds expanded by 13.1% in 2004 to RM86,848.5 million. As in previous years, growth was mainly supported by the strong expansion of life fund assets. Investments of insurance funds in corporate and debt securities increased to account for a higher share of 46.4% (2003: 45.1%) of total insurance fund assets. Asset allocations shifted more prominently during the year in favour of investments in fixed income securities as more insurers sought to reduce volatility in investment returns and improve long-term investment performance. As a result, total investments in fixed income securities (including Malaysian Government papers) rose to RM41,213 million (2003: RM33,751.7 million), a marked increase of 22.1% from investments reported in 2003.

The outlook for the insurance industry remains positive. Notwithstanding more competitive market conditions, the increase in economic activity, rising income levels and strong domestic consumption, as well as growing risk awareness among both business enterprises and individuals would continue to result in increased demand for insurance. Stabilisation of prices will be an important additional determinant of growth in the general sector. In this respect, expectations are that reinsurance pricing in the international market will remain disciplined, thereby limiting the ability of direct insurers to cut rates further. Any additional premium reductions in future can therefore, be expected to be more measured. The prevailing investment climate, however, will continue to pose a challenge to life insurers. As such, continuing improvements to the underlying asset-liability structures of life insurance funds will be important to maintain stability in the long term.

## Performance of Life Business

### New Business

After an exceptionally strong growth year in 2003, the life insurance industry gained further ground in 2004 to achieve an overall new business growth of 36.3%. The key growth drivers at play in 2003 continued to shape new business trends in 2004, with strong demand for investment-linked and endowment plans underpinning growth. However, unlike 2003 which saw robust growth in annual premium policies, the increase in new premiums written in 2004 was wholly attributed to single premium business which expanded by 62.8%. In particular, single premium endowment and investment-linked policies continued to draw strong interest from consumers. As these are also the products that feature low risk premiums and a high investment component, their increasing prominence in the market reinforces the growing popular view of insurance as an alternative investment choice.

As in previous years, the distribution of new single premiums was heavily skewed towards endowment business which accounted for 60.8% of total new single premiums. Investment-linked business formed the second largest component with a 28.9% share of the single premium market. Capital guaranteed single premium investment-linked policies continued to enjoy brisk sales. Sales of such products contributed more than half of total single premium investment-linked business written by the industry in 2004. A significant proportion of such capital guaranteed products was sold through the bancassurance channel in view of their similarities with fixed deposits which made the products easy to identify with for both bank customers as well as the bank staff involved in insurance sales.

Although generally less common in the market, sales of single premium whole life policies more than doubled in 2004 to account for a larger share (8.6%) of total new business single premiums (2003: 4.4%). The significant increase was a result of product innovations which saw non-participating whole life plans packaged with banking products such as fixed deposits being introduced in the market. These were well-received particularly by banking customers, and reflects the increasing competitive pressures that are driving insurers to differentiate themselves, through innovation, from their competitors. A more diversified single premium market had also evolved with 11 (out of 16) insurers garnering single premiums in excess of RM100 million in 2004, compared with only five insurers in 2002. In 2002, only two domestic insurers featured among the single premium market leaders – by the end of 2004, there were seven.

The life insurance industry gained further ground, with strong demand for investment-linked and endowment business underpinning growth.

**Table 3.1**
**New Business of Direct Insurers**

| Year | No. of Policies | Sums Insured | Premiums | | |
|---|---|---|---|---|---|
| | | | Annual | Single | Total |
| | Units | RM million | | | |
| 2000 | 1,174,157 | 116,816.6 | 1,306.5 | 1,635.8 | 2,942.3 |
| 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 | 1,410,682 | 171,011.0 | 1,905.8 | 4,709.3 | 6,615.1 |
| | % change | | | | |
| 2000 | –18.3 | 17.0 | –0.2 | 171.7 | 54.0 |
| 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 | –11.9 | 1.4 | –2.7 | 62.8 | 36.3 |

New annual premium business contracted by 2.7% in 2004 (2003: +21%), only the fourth incidence of negative growth experienced in the last two decades. Unlike earlier experiences of negative growth which were the result of adjustments to external one-off events, including the introduction of cost control guidelines by Bank Negara Malaysia (the Bank) in 1996, the Asian financial crisis in 1997 and the launch of the single premium EPF annuity scheme in 2000 (subsequently discontinued in May 2001) which adversely affected sales of annual premium policies, the weak performance of annual premium business in 2004 was a result of changing underlying market forces that may be

**Table 3.2**
**Distribution of New Business Premiums of Direct Insurers**

| Year | Ordinary Life | | | | Investment - linked | Annuity | Total |
|---|---|---|---|---|---|---|---|
| | Whole Life | Endowment | Temporary | Others | | | |
| | RM million | | | | | | |
| 2000 | 464.3 | 520.1 | 624.2 | 303.7 | 533.9 | 496.1 | 2,942.3 |
| 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 | 420.6 | 2,264.6 | 1,112.9 | 578.1 | 2,238.5 | 0.4 | 6,615.1 |
| | % change | | | | | | |
| 2000 | 5.9 | 11.1 | 22.5 | –5.0 | 205.6 | – | 54.0 |
| 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 | –17.3 | 49.5 | 19.6 | 6.6 | 65.0 | – | 36.3 |
| | % share | | | | | | |
| 2000 | 15.8 | 17.7 | 21.2 | 10.3 | 18.1 | 16.9 | 100.0 |
| 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 | 6.4 | 34.2 | 16.8 | 8.7 | 33.9 | … | 100.0 |

… Negligible

more predictive of future trends. In particular, the increasing convergence of financial markets which continues to blur the distinctions between different financial service providers and products, more sophisticated consumers and depressed investment conditions following the Asian crisis have resulted in significantly greater prominence being attached to insurance as an investment alternative, overshadowing its traditional protection role. This has, in turn, spurred the remarkable growth of the single premium market, at the expense of annual premium policies.

All classes of business registered declines in new annual premium business growth, with

**Chart 3.1**
**Distribution of New Premiums and New Sums Insured**

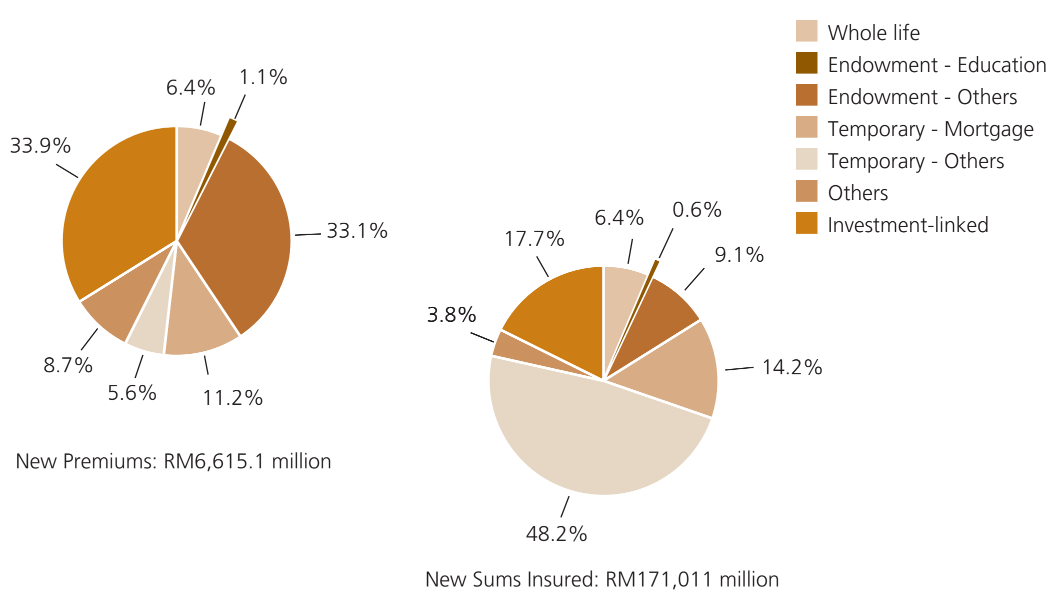


**Table 3.3**
**Distribution of New Sums Insured of Direct Insurers**

| Year | Ordinary Life | | | | Investment - linked | Annuity | Total |
|---|---|---|---|---|---|---|---|
| | Whole Life | Endowment | Temporary | Others | | | |
| | RM million | | | | | | |
| 2000 | 15,162.4 | 10,782.3 | 76,178.1 | 6,966.8 | 7,281.0 | 446.0 | 116,816.6 |
| 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 | 11,002.1 | 16,631.8 | 106,709.6 | 6,474.2 | 30,193.3 | … | 171,011.0 |
| | % change | | | | | | |
| 2000 | –5.1 | 26.8 | 20.0 | –20.5 | 134.2 | – | 17.0 |
| 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 | 3.9 | 3.0 | –8.8 | 9.0 | – | 1.4 |
| | % share | | | | | | |
| 2000 | 13.0 | 9.2 | 65.2 | 6.0 | 6.2 | 0.4 | 100.0 |
| 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 | 62.4 | 3.8 | 17.7 | … | 100.0 |

… Negligible

ordinary life business as a whole contracting by 14% (2003: +15%) in 2004. The contraction was primarily driven by slower sales of annual premium whole life policies as insurers focused on penetrating the single premium market. As a result, the industry experienced an overall contraction in new whole life business of 17.3% for the year. Sales of whole life policies last contracted in 2002 under similar conditions when more insurers diverted their resources and business focus towards investment-linked business. Annual premium investment-linked business, however, continued to expand in 2004, albeit at a slower rate, by 15% (2003: 31.6%), thereby further increasing its share of the market as the second largest annual premium class after whole life business to 45.8% (2003: 38.7%).

Notwithstanding the stronger demand for investment-type insurance products, the protection benefits of insurance remained important for many Malaysians. Temporary or term business, comprising pure protection policies that pay benefits upon the death of the insured, saw accelerated growth for the third consecutive year in 2004. After years of generally flat sales, term products experienced a growth spurt in 1999 when business increased by almost 40%, driven largely by the strong demand for mortgage insurance policies following the launch of the Government's first Home Ownership Campaign. Growth has remained strong ever since.

The demand for term insurance remains highly correlated with the level of mortgage debt, with more than 60% of term business derived from mortgage-related insurance. However, the distribution of term insurance in 2004 saw a growing prominence of other than mortgage-related term products which increased their share of the term market to 33.4% (2003: 31.5%). Apart from group term policies purchased by employers to provide death benefits to their employees, higher sales of individual non-mortgage specific consumer credit term plans that provide for the repayment of outstanding debts of policy owners in the event of death, disability or critical illness were also apparent, reflecting an increasing awareness among Malaysians of the need to manage their personal financial risk exposures.

Term products were also preferred by consumers seeking unbundled investment and protection solutions which can provide them with greater flexibility with investment choices, without affecting protection levels. The removal of the minimum group term life premium rates by the Life Insurance Association of Malaysia (LIAM) in 2004 is expected to promote a more competitive term market and increase the affordability of term insurance. The future prospects for term business are, therefore, positive. From a socio-economic perspective, the growing demand for term insurance is also an encouraging development as it serves to enhance the protection of families from financial vulnerabilities associated with the loss or incapacity of the primary wage earner.

The level of life insurance protection purchased, as reflected in aggregate new sums insured, continued to increase in 2004. The increase was however slower, consistent with the concentration of new business growth on investment-linked business which has a low protection element. Nevertheless, whole life and endowment policies that were sold in 2004 showed higher average sums insured compared with the previous year, reinforcing the continuing importance of insurance among the insuring public for protection purposes. It is also likely that, over time, more Malaysians will be able to afford higher levels of insurance protection with rising average income levels.

**Table 3.4**
**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 | | | | | |
| 2000 | 1,381 | 1,241 | 45,111 | 19,488 | 31 | 64 |
| 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 | 1,407 | 41,919 | 26,604 | 37 | 53 |

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

robust growth in 2004, reflecting the strong underlying demand for protection against rising healthcare costs. Growth was slower at 46% (2003: 77.2%), but only due to the larger premium base which has been increasing aggressively over the years with the strong demand. New premiums written for riders, the other major component of 'other' insurances, however, contracted in 2004 by 12.8% (2003: +14.9%), resulting in the slower overall growth of new premiums for such 'other' life business.

## Greater diversification achieved in the distribution system for life insurance, with bancassurance capturing significant market share of new life business.

The average cost of insurance for whole life policies increased by another 5.7% (2003: 2.9%) to RM37 per RM1,000 new sums insured in 2004. This was due in part to the repackaging of products to include added protection benefits such as critical illness, disabilities and survival-type benefits, as well as to penetrate the elderly and aged niche markets. In contrast, the average cost of endowment insurance continued on a declining trend at RM53 per RM1,000 new sums insured in 2004. The annual premium whole life insurance market remained concentrated with four insurers controlling close to 80% of the market share, compared to the more dispersed endowment sector with at least eight active insurers accounting for a similar market share.

Medical and health insurance, a component of 'other' life insurance, continued to enjoy

The year also saw greater diversification achieved in the distribution system for life insurance products, with bancassurance capturing a significant market share (48%) of new life business to surpass the agency force (47%) as the predominant distribution channel for life insurance. During the year, total new business premiums generated through the bancassurance channel increased by 70.2% to RM3,172.9 million. With domestic insurers leading the market in the implementation of successful bancassurance strategies, this development augurs well for the domestic industry in terms of improving the relative competitiveness of domestic insurers. Seven insurers, six of which were Malaysian-owned, secured the bulk (ranging between 45% and 100%) of their new business through bancassurance. The direct marketing of life business, including sales through direct mailing and telemarketing channels, was less prominent in 2004, accounting for a share of 1.7% (2003: 3%) of total new business premiums secured, while the distribution through brokers continued to account for a constant share of 3.3% of new premiums generated in 2004.

The more competitive and diversified life insurance market was also evident from the progressively increasing market share of Malaysian-controlled insurers. Driven in large part by the successful bancassurance strategies, the average growth rate of Malaysian-controlled insurers in terms of new business was 5.3% in 2004, compared with an average of 3.4% attained by foreign-controlled insurers. As a result, Malaysian-controlled insurers further increased their combined market share of new business written by the industry to a majority share of 54.9% (2003: 49%). This represents significant progress achieved over a relatively short time, considering that as recently as 1999, Malaysian-controlled insurers accounted for only 45.1% of new business premiums. They maintained dominant shares in the term (60.6%) and endowment (78.5%) classes of business, and gained further ground in the investment-linked market (44.8% compared with 33.6% in 2003). Foreign-controlled insurers, on the other hand, continued to account for the bulk (84.5%) of new whole life premiums written in 2004. The improving comparable positions of Malaysian-owned insurers have resulted in more innovative, dynamic and financially stronger domestic insurers rising within the ranks of the industry's market leaders. This, in turn, will enhance prospects for the emergence of a more responsive life insurance market that is both deeper in reach and wider in coverage.

### Terminations

Annual premiums terminated increased at a slower rate of 2.6% in 2004. The share of total annual premiums terminated that were attributed to death and maturity remained relatively unchanged from the shares reported in 2003. As observed since 2002, terminations by maturity were mostly attributed to short-term endowment policies which matured during the year.

Terminations by forfeiture and surrender continued to account for the largest combined share of 71.5% of total annual premiums terminated during the year. Notwithstanding this, improved policy conservation measures by insurers have shown positive results in reducing the forfeiture rate in 2004 to its lowest level in five years. The three-policy years forfeiture rate, defined as the ratio of premiums forfeited over three policy years to new annual premiums written in the third preceding year, was 23.4%. This also meant that 76.6% of new premiums underwritten in 2001 remained in force in the books of the insurers at the end of 2004 (2003: 73.5% of new premiums written in 2000). At its worst level, the forfeiture rate had peaked at 30.5% in 2000 following the economic slowdown. Positive measures undertaken by insurers to achieve the significant improvement in persistency levels included the more rigorous selection and training of agents, which contributed towards raising overall standards of professionalism within the agency force, and more concerted efforts to improve after-sales service in order to secure continued customer satisfaction. Forfeiture rates should continue to improve for policies issued after 2001 with the implementation of proper advice practices in 2004 which aims at ensuring that policies sold are appropriate to the needs of consumers, the introduction of higher minimum qualification standards and continuing professional development programmes for agents with effect from 2003. In addition, requirements

**Table 3.5**
**Terminations of Annual Premiums of Direct Insurers**

| Year | Death | Maturity | Surrender | Forfeiture less Revivals | Others | Total |
|---|---|---|---|---|---|---|
| | RM million | | | | | |
| 2000 | 9.9 | 12.6 | 161.6 | 397.0 | 241.9 | 823.0 |
| 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 | 14.8 | 32.4 | 259.4 | 308.3 | 238.9 | 853.8 |
| 2004 | 15.7 | 32.0 | 278.4 | 347.9 | 202.4 | 876.4 |
| | % change | | | | | |
| 2000 | 10.0 | 15.6 | 12.4 | 13.2 | 15.6 | 13.7 |
| 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 | 29.8 | 65.3 | 26.9 | 10.8 | 73.6 | 31.1 |
| 2004 | 6.1 | –1.2 | 7.3 | 12.8 | –15.3 | 2.6 |
| | % share | | | | | |
| 2000 | 1.2 | 1.5 | 19.7 | 48.2 | 29.4 | 100.0 |
| 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 | 30.4 | 36.1 | 28.0 | 100.0 |
| 2004 | 1.8 | 3.6 | 31.8 | 39.7 | 23.1 | 100.0 |

**Table 3.6**
**Terminations of Sums Insured of Direct Insurers**

| Year | Death | Maturity | Surrender | Forfeiture less Revivals | Others | Total |
|---|---|---|---|---|---|---|
| | RM million | | | | | |
| 2000 | 624.0 | 337.9 | 7,282.2 | 12,624.7 | 60,782.2 | 81,651.0 |
| 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 | 641.7 | 889.7 | 11,344.0 | 7,803.7 | 91,635.2 | 112,314.3 |
| 2004 | 706.5 | 987.7 | 12,902.1 | 8,905.6 | 87,077.0 | 110,578.9 |
| | % change | | | | | |
| 2000 | 47.6 | 16.2 | 14.3 | –6.7 | 20.4 | 14.8 |
| 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 | 20.7 | 8.7 | 13.2 | –1.6 | 16.7 | 14.8 |
| 2004 | 10.1 | 11.0 | 13.7 | 14.1 | –5.0 | –1.5 |
| | % share | | | | | |
| 2000 | 0.8 | 0.4 | 8.9 | 15.5 | 74.4 | 100.0 |
| 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 | 10.1 | 6.9 | 81.6 | 100.0 |
| 2004 | 0.6 | 0.9 | 11.7 | 8.1 | 78.7 | 100.0 |

have also been imposed for insurers to establish internal mechanisms to detect the replacement of policies which are not in the interests of policy owners and establish policy conservation units dedicated to taking remedial measures to effectively address such replacements.

Despite the improved industry forfeiture experience, Malaysian-controlled insurers continued to report relatively higher forfeiture rates than foreign-controlled insurers. In 2004, the forfeiture rates of five Malaysian-controlled insurers were two to four times higher than the industry average, while significantly more foreign-controlled insurers achieved forfeiture rates below the industry average. Improving their forfeiture experience clearly remains a critical area for attention if domestic insurers are to improve their relative long-term competitiveness.

**Table 3.7**
**Forfeiture and Surrender Rates of Direct Insurers**

| Year | 3 Policy Years Forfeiture Rate (%) | Surrender Rate (%) |
|---|---|---|
| 2000 | 30.5[1] | 2.4 |
| 2001 | 28.4 | 2.4 |
| 2002 | 24.7 | 2.5 |
| 2003 | 24.7 | 2.8 |
| 2004 | 23.4 | 2.7 |

[1] Based on financial year, consolidated from financial year end 1 July to 30 June

Consistent with the improved forfeiture experience, a lower surrender rate of 2.7% was also observed in 2004. While the rate remained above the average rate of 2.4% observed for the period 1999-2003, the relatively higher surrender rates recorded in 2003 and 2004 were largely attributed to redemptions of investment-linked units by policy owners capitalising on the improving equity market performance in recent years. Many of such redemptions do not actually involve surrenders of the underlying related life insurance policies. The surrender rate adjusted for such redemptions was, therefore, estimated

**Table 3.8**
**Forfeiture Rate by Policy Years of Direct Insurers[1]**

| Year | Year of Issue | 1st Policy Year | 2nd Policy Year | 3rd Policy Year | Total |
|---|---|---|---|---|---|
| 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 |
| 2003 | 2003 | 6.1 | – | – | 6.1 |
| | 2002 | 10.9 | 5.7 | – | 16.6 |
| | 2001 | 12.0 | 8.4 | 1.9 | 22.3 |
| | 2000 | 13.1 | 8.9 | 2.7 | 24.7 |

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

to approximate a level substantially closer to the five-year average.

Given the financial loss to insurers from unrecoverable front-end loaded acquisition costs incurred, as well as financial losses to policy owners as a result of poorer values received on forfeited or surrendered policies, continued measures to reduce the forfeiture and surrender rates will be important for the industry to sustain long-term profitability and fulfil the fundamental purpose of insurance, that is providing protection for policy owners in times of need. Such measures are also expected, over time, to contribute towards reducing the proportion of annual premiums terminated due to forfeitures and surrenders.

As in previous years, other common causes of terminations included the non-renewal of expired group annual term policies, conversions to paid-up policies, the discontinuance of riders and reductions in sums insured under mortgage reducing term assurances. These causes accounted for a lower share of annual premiums terminated in 2004 compared with 2003. Among them, the non-renewal of group policies and conversions to paid-up policies were generally more prevalent. Terminations due to the former may be attributed to the greater portability of annual renewable group policies which enabled companies to switch insurers with relative ease in order to secure more favourable term or service levels. Conversions to paid-up policies, on the other hand, tended to be more closely correlated with fluctuations in disposable household income levels. Terminations by such causes preserved a degree of protection, or even generated more favourable terms, for policy owners and as such, are more positive compared with terminations by forfeiture or surrender.

**Table 3.9**
**Business in Force of Direct Insurers**

| Year | No. of Policies | Sums Insured | Annual Premiums |
|---|---|---|---|
| | Units | RM million | |
| 2000 | 7,234,940 | 399,662.8 | 7,364.7 |
| 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 | 9,712,272 | 595,768.3 | 11,280.4 |
| | % change | | |
| 2000 | 3.4 | 9.8 | 7.6 |
| 2001 | 9.1 | 10.1 | 10.9 |
| 2002 | 7.8 | 9.8 | 11.8 |
| 2003 | 8.5 | 11.6 | 12.1 |
| 2004 | 5.2 | 10.6 | 10.2 |

major classes of business was dampened by the surge in demand for single premium policies which became the favoured choice for insurers and consumers alike. The slower growth in annual premiums for investment-linked business, on the other hand, was due to its larger premium base. In terms of volume, annual premiums in force for investment-linked business continued to see strong growth in 2004 (+RM688.8 million; 2003: +RM595.7 million). Generally, the trends that were observed for new annual premiums and sums insured in 2004 were consistently reflected in the trends for business in force during the year. Accordingly, the determinants of observed trends were also similar for both new business and business in force.

The increase in the number of policies in force moderated in 2004 in line with fewer new policies sold during the year. Nevertheless, the increase continued to outpace the population growth, thereby further boosting the penetration level to 37.9% in 2004 (2003: 36.8%). The consistently higher proportion of group policies, which insure multiple lives under a single policy,

## Increase in number of policies in force continued to outpace population growth, boosting market penetration level to 37.9%.

**Business in Force**

Despite the lower termination of annual premiums, business in force expanded at a slower rate in 2004 in line with the slower sales of new annual premium policies. Slower growth in annual premiums was observed across the board for all classes of business. Except for investment-linked business, growth in all the

sold compared with individual life policies also implies that a higher proportion of the population than suggested by the penetration rate actually has some form of life insurance protection.

The distribution of annual premiums in force continued to shift away from ordinary life

**Table 3.10**
**Distribution of Annual Premiums in Force of Direct Insurers**

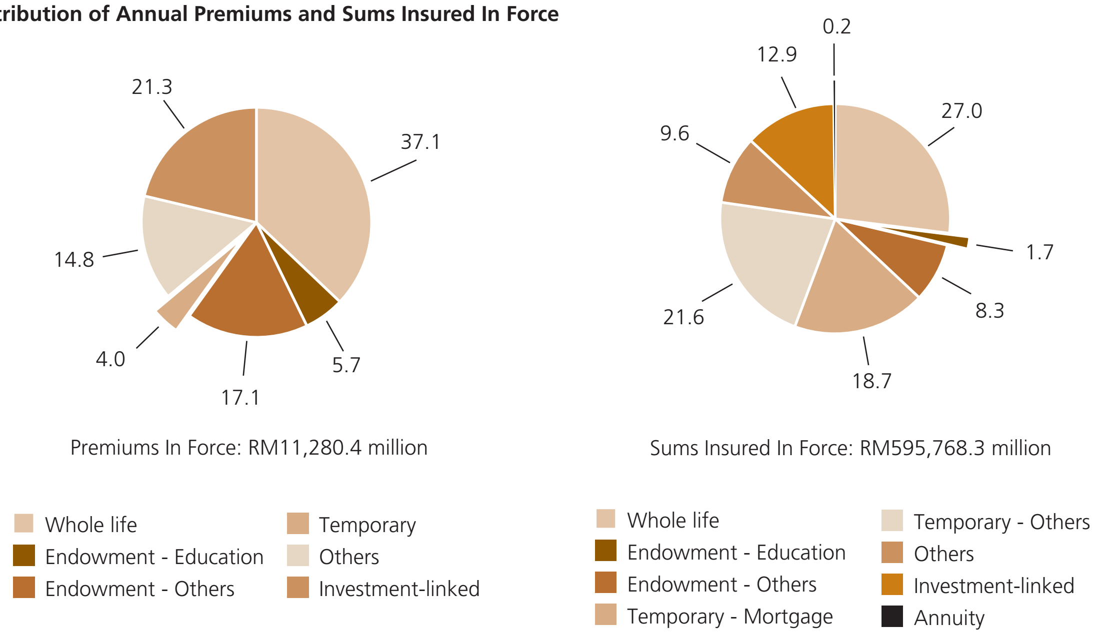
| Year | Ordinary Life | | | | Investment - linked | Total |
|---|---|---|---|---|---|---|
| | Whole Life | Endowment | Temporary | Others | | |
| | RM million | | | | | |
| 2000 | 3,259.6 | 2,225.5 | 352.7 | 1,193.5 | 333.4 | 7,364.7 |
| 2001 | 3,543.3 | 2,348.1 | 366.5 | 1,309.2 | 602.9 | 8,170.0 |
| 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 | 4,183.9 | 2,567.8 | 451.2 | 1,674.9 | 2,402.6 | 11,280.4 |
| | % change | | | | | |
| 2000 | 6.9 | 4.3 | –4.2 | 1.6 | 181.1 | 7.6 |
| 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 | 4.1 | 2.2 | 10.1 | 5.8 | 40.2 | 10.2 |
| | % share | | | | | |
| 2000 | 44.3 | 30.2 | 4.8 | 16.2 | 4.5 | 100.0 |
| 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 | 22.8 | 4.0 | 14.8 | 21.3 | 100.0 |

business towards an increasing prominence of investment-linked business, a trend that has persisted since the introduction of investment-linked products into the market in 1997. Over the same period, the investment-linked share of annual premiums in force has grown from just 1.3% in 1997 to 21.3% at the end of 2004. Within the ordinary life sector, whole life business continued to hold on to a dominant, albeit gradually eroding, share of annual premiums in force, largely supported by legacy policies written by three foreign-controlled insurers from previous years. The gap between the market shares of endowment and investment-linked business has also been progressively reduced over time to almost negligible levels.

**Table 3.11**
**Distribution of Sums Insured in Force of Direct Insurers**

| Year | Ordinary Life | | | | Investment - linked | Annuity | Total |
|---|---|---|---|---|---|---|---|
| | Whole Life | Endowment | Temporary | Others | | | |
| | RM million | | | | | | |
| 2000 | 135,590.2 | 46,933.5 | 146,901.7 | 59,744.6 | 10,046.7 | 446.1 | 399,662.8 |
| 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 | 160,809.8 | 59,570.6 | 240,310.2 | 56,878.2 | 76,793.1 | 1,406.4 | 595,768.3 |
| | % change | | | | | | |
| 2000 | 0.5 | 8.5 | 14.8 | 9.5 | 201.7 | 446,000.0 | 9.8 |
| 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 | 2.1 | 6.1 | 14.7 | –1.7 | 36.5 | –12.0 | 10.6 |
| | % share | | | | | | |
| 2000 | 33.9 | 11.7 | 36.8 | 15.0 | 2.5 | 0.1 | 100.0 |
| 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 | 40.3 | 9.6 | 12.9 | 0.2 | 100.0 |

**Chart 3.2**
**Distribution of Annual Premiums and Sums Insured In Force**




The in force business remains highly concentrated, with the four largest insurers (all foreign-controlled) continuing to control more than 72% of the market. With new business growth being predominantly driven by single premium business, the concentration of in force business, which constituted of annual premium policies, is likely to continue for some time to come. The annual premium market is, however, a shrinking one, with new annual premiums as a percentage of total new premiums having declined rapidly from over 40% up to 2003, to just under 30% in 2004. The future of the life insurance industry therefore, looks set to be redefined by the single premium market, which has shown itself to be a more competitive market, with 70% of new single premium business spread among six (including four Malaysian-controlled) insurers in 2004.

**Table 3.12**
**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 | | | | | |
| 2000 | 1,051 | 1,007 | 43,702 | 18,449 | 24 | 55 |
| 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 | 1,200 | 1,120 | 46,053 | 20,650 | 26 | 54 |

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

Movements observed in the average costs for new policies had little effect on the average costs of annual premium whole life and endowment policies in force which remained level in 2004 at RM26 and RM54 per RM1,000 sums insured respectively. This is due to the fact that new policies sold in 2004 were predominantly single, rather than annual premium policies. The average annual premiums for whole life and endowment policies, however, increased by 3.4% and 2.1% to RM1,200 and RM1,120 respectively in 2004 in line with the higher average sums insured.

## Income and Outgo

Net operating results in the life sector continued to improve in 2004. Boosted by strong new business growth, excess of income over outgo was higher at RM10,978.1 million, or 53.9% of total income earned in 2004. During the year, growth in total income was closely correlated with the growth in premium income, which increased at a faster rate of 22.4% in 2004 (2003: 14.2%). Total income correspondingly increased by 22.2%. Only three (2003: four) insurers reported lower excess of income over outgo in 2004 as a result of higher policy benefits paid which surpassed the increase in income.

**Table 3.13**
**Income and Outgo**

| Item | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|
| | RMm | % | RMm | % | RMm | % |
| **Income** | | | | | | |
| Premium income | 10,832.2 | 77.0 | 12,374.4 | 74.3 | 15,143.4 | 74.4 |
| Net investment income | 2,325.4 | 16.5 | 2,688.4 | 16.2 | 3,175.1 | 15.6 |
| Profit on sale of assets and miscellaneous income | 907.0 | 6.5 | 1,587.5 | 9.5 | 2,035.7 | 10.0 |
| Total | 14,064.6 | 100.0 | 16,650.3 | 100.0 | 20,354.2 | 100.0 |
| **Outgo** | | | | | | |
| Net policy benefits | 4,307.3 | 30.7 | 4,593.9 | 27.6 | 5,410.7 | 26.6 |
| Agency remuneration | 1,803.5 | 12.8 | 2,079.8 | 12.5 | 2,385.0 | 11.7 |
| Management expenses[1] | 841.3 | 6.0 | 922.0 | 5.5 | 1,009.8 | 5.0 |
| Loss on disposal of assets and other outgo | 720.8 | 5.1 | 532.1 | 3.2 | 570.6 | 2.8 |
| Total | 7,672.9 | 54.6 | 8,127.8 | 48.8 | 9,376.1 | 46.1 |
| Excess of income over outgo | 6,391.7 | 45.4 | 8,522.5 | 51.2 | 10,978.1 | 53.9 |

[1] Inclusive of net bad and doubtful debts

Investment income outperformed the level achieved in 2003, with an increase of 18.1% (2003: 15.6%) achieved largely as a result of a substantial increase in interest income. Changes to asset allocation structures in favour of higher (relative to deposits) interest-bearing debt securities during the year enabled the industry to increase its aggregate interest earnings by 15.9% (2003: 8.9%) over the previous year, despite the average investment yield (excluding capital gains) remaining relatively unchanged at 5.7%. Total interest income, amounting to RM2,429.8 million, continued to account for the largest component of 76.5% of total investment income. Dividends totaling RM614.6 million received from investments in equity formed the second largest component, accounting for 22.9% of total investment income. The industry also registered higher capital gains from disposals of equity during the year. A large part of this came from the liquidation of investments in a related corporation by one insurer pursuant to a group

**Chart 3.3**
**Expense Rate and Rate of Interest Earned**

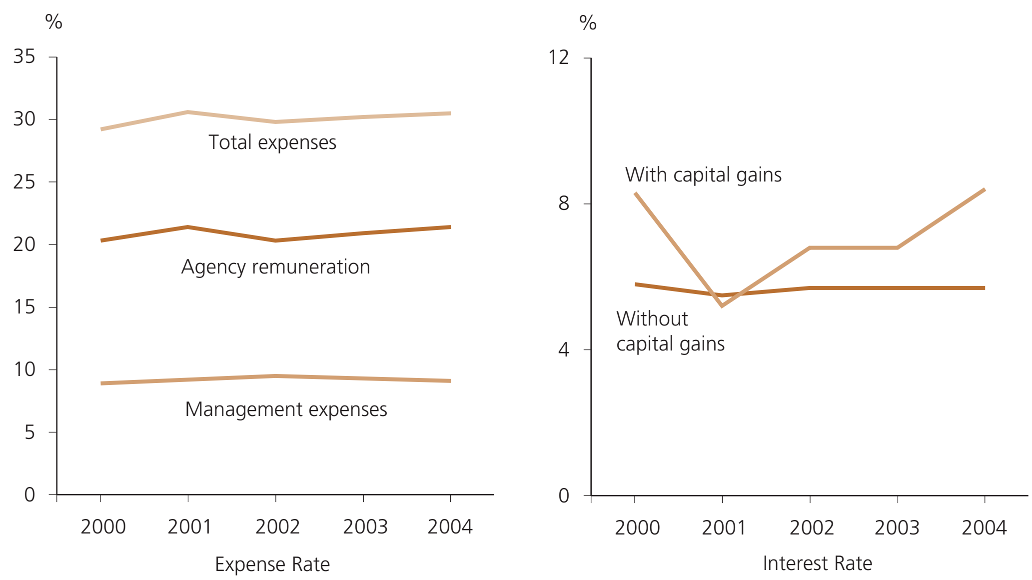


**Table 3.14**
**Expense Rate and Rate of Interest Earned**

| 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) |
| 2000 | 20.3 | 3.9 | 5.0 | 29.2 | 5.8 | 8.3 |
| 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 | 21.4 | 4.0 | 5.1 | 30.5 | 5.7 | 8.4 |

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

restructuring exercise. Several insurers also realised gains from profit-taking activity in the more bullish stock market which emerged in the first quarter of 2004. The combined capital gains more than offset the significantly lower profits associated with disposals of property and the write back of provisions for diminution in investment values which were key drivers of capital gain and miscellaneous income increases in 2003.

On the outgo side, total net policy benefits paid in 2004 increased significantly by 17.8% (2003: 6.7%) to RM5,410.7 million. Maturity payouts on one-year endowment policies sold by a few life insurers which matured in 2004, and higher payments for redemptions of investment-linked units by policy owners following the rise in share prices during the first quarter, accounted for over 50%, of the total net policy benefits. Under the more favourable investment conditions, aggregate bonuses paid on participating policies increased by 17.3% (2003: 9.9%) to a total of RM683.1 million, reflective of better returns to policy owners.

The current investment climate nevertheless remained challenging for life insurers, particularly those with large portfolios of legacy policies sold before 1999 that had been priced and illustrated at an assumed interest rate of 8.5%. The actual investment yield (excluding capital gains) was sustained at 5.7% for the third consecutive year, well below the illustrated level for policies sold before the onset of the Asian financial crisis. Investment yields including capital gains, however, continued to improve. Excluding the effects of the one-off gain on disposal of equity associated with one insurer's internal restructuring exercise, the average yield increased to 7.1% in 2004, the highest level recorded since 2000.

The investment performance of individual insurers was mixed. Only three direct insurers, with investment yields excluding capital gains ranging between 6% and 6.3%, were able to outperform the industry average. With capital gains, however, nine direct insurers outperformed the adjusted industry average, with yields ranging from 7.3% to 8.5%. Overall, current levels of investment returns are still substantially lower than the long-term average yields of 6.5% (excluding capital gains) and 8.6% (including capital gains) achieved for the period 1993-2003. The positive economic outlook should, however, continue to provide support for investment markets going forward.

Efficiency gains were also achieved in 2004, with the management expense ratio improving further to 9.1% of premium income. A larger proportion of expenditure was also directed at enhancing insurers' productive capacity. Expenses by insurers on upgrading information systems infrastructure formed a higher component (6.2%) of total expenses in 2004, compared with 4.8% in the previous year. A significant part of this was to support bancassurance strategies, enhance operational efficiencies and improve customer service.

Notwithstanding improved efficiencies, the total expense rate deteriorated marginally due to higher acquisition costs in the form of agency remuneration expenses incurred during the year. Even so, the rate of increase in agency remuneration expenses was slower in 2004 at 14.7% (2003: 15.3%). This was due to the higher sales of single premium policies which have a lower acquisition cost relative to annual premium policies, as well as the increasing penetration of bancassurance which contributed towards lower acquisition costs. These factors also contributed towards a significant improvement in the expense rate recorded by some Malaysian-controlled insurers.

**Assets**
Total life insurance fund assets grew at a slower rate of 16% (2003: 17.6%) to RM69,814.7

million in 2004, in tandem with the slower increase in excess of income over outgo during the year. Assets of investment-linked funds continued to increase their share of total assets to 6.8% (2003: 4.4%), while assets of ordinary life funds eroded further to 89.2% (2003: 91%). Annuity funds accumulated from the sales of the EPF annuity scheme also accounted for a smaller share of 4% (2003: 4.6%) of total life fund assets.

at 6.2%, or RM2,141.5 million (2003: 6.4%). Investments in Malaysian Government papers formed the second largest component of total life fund assets, accounting for 18% of the total assets.

In total, investments in fixed income securities (including private debt, Cagamas, and Malaysian Government papers) increased to 74.3% (2003: 71.6%) of total investment holdings.

## The life insurance industry continued to provide institutional support for the development of the capital market, with investments in corporate and debt securities totaling RM34,643.7 million.

The life insurance industry continued to play a key role in providing institutional support for the development of the capital market. This is reflected in the significant investments in corporate and debt securities which accounted for 49.6%, or RM34,643.7 million, of total insurance fund assets at the end of 2004. Of the total investments in corporate and debt securities, a higher share of 59.3% totaling RM20,543.9 million was invested in private debt securities, compared with 2003 (56.2%). Conversely, equity holdings formed a smaller share of 34.5% (2003: 37.4%) or RM11,958.2 million, while the share of investments in Cagamas papers remained relatively unchanged

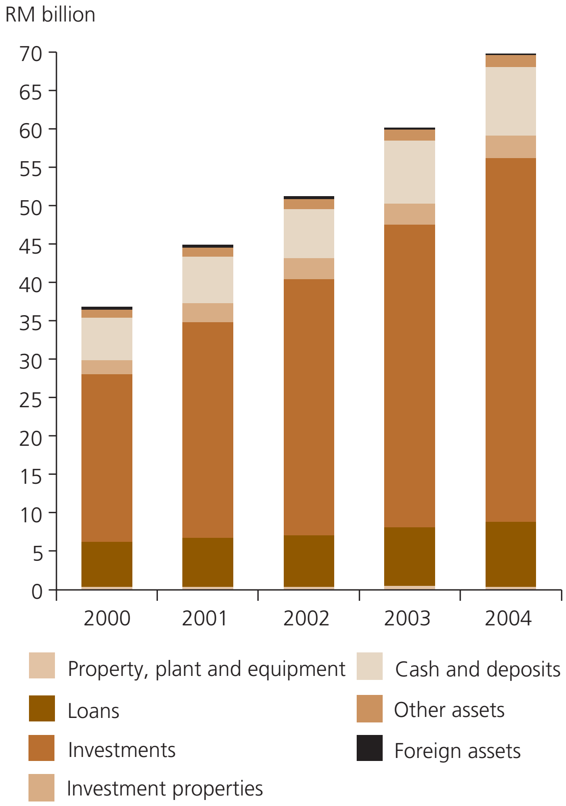
The proportion of investments in private debt securities which were of investment-grade (minimum ‘A’-rated) was also higher at 80% (2003: 69.7%). These factors provided a stronger foundation for greater stability in investment results and more positive investment prospects for the life insurance industry.

The distribution of investments by maturity was also more positive in terms of improving the asset-liability structure within the life insurance funds. The bulk (53.7%) of insurers’ holdings of private debt securities continued to be in longer-term papers with maturities exceeding five years. Such investments constituted a

**Table 3.15**
**Assets of Life Insurance Funds**

| Type of Investment | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMm | % | RMm | % | RMm | % | RMm | % | RMm | % |
| Property, plant and equipment | 350.7 | 1.0 | 346.8 | 0.8 | 383.0 | 0.7 | 439.3 | 0.7 | 356.2 | 0.5 |
| Loans | 5,900.4 | 16.0 | 6,348.2 | 14.1 | 6,661.9 | 13.0 | 7,619.6 | 12.7 | 8,456.1 | 12.1 |
| *Mortgages* | *649.8* | *1.7* | *1,160.9* | *2.6* | *1,213.4* | *2.4* | *1,877.8* | *3.1* | *2,329.8* | *3.3* |
| *Policy* | *3,561.1* | *9.7* | *4,075.4* | *9.0* | *4,566.3* | *8.9* | *4,971.9* | *8.3* | *5,336.6* | *7.7* |
| *Others* | *1,689.5* | *4.6* | *1,111.9* | *2.5* | *882.2* | *1.7* | *769.9* | *1.3* | *789.7* | *1.1* |
| Investments | 21,831.9 | 59.3 | 28,146.4 | 62.7 | 33,396.8 | 65.3 | 39,503.7 | 65.6 | 47,372.7 | 67.9 |
| *Malaysian Government papers/guaranteed loans* | *4,978.9* | *13.5* | *6,818.5* | *15.2* | *7,544.9* | *14.8* | *10,004.3* | *16.6* | *12,518.7* | *18.0* |
| *Corporate/debt securities* | *16,748.4* | *45.5* | *21,123.6* | *47.0* | *25,640.9* | *50.1* | *29,249.5* | *48.6* | *34,643.7* | *49.6* |
| *Others* | *104.6* | *0.3* | *204.3* | *0.5* | *211.0* | *0.4* | *249.9* | *0.4* | *210.3* | *0.3* |
| Investment properties | 1,787.3 | 4.9 | 2,462.5 | 5.5 | 2,708.4 | 5.3 | 2,661.1 | 4.4 | 2,968.6 | 4.3 |
| Cash and deposits | 5,557.9 | 15.1 | 6,080.2 | 13.5 | 6,428.5 | 12.6 | 8,258.0 | 13.7 | 8,891.9 | 12.7 |
| Other assets | 1,047.0 | 2.8 | 1,212.7 | 2.7 | 1,277.0 | 2.5 | 1,404.1 | 2.4 | 1,600.8 | 2.3 |
| Foreign assets | 331.7 | 0.9 | 329.6 | 0.7 | 315.9 | 0.6 | 309.7 | 0.5 | 168.4 | 0.2 |
| Total | 36,806.9 | 100.0 | 44,926.4 | 100.0 | 51,171.5 | 100.0 | 60,195.5 | 100.0 | 69,814.7 | 100.0 |

**Chart 3.4**
**Assets of Life Insurance Funds**




higher share of 31.8% (2003: 30.8%) of the life industry's total investment holdings. Total mortgage loans extended by life insurers also increased to over RM2 billion in 2004, with life insurers offering guaranteed and competitive mortgage interest rates which were attractive to borrowers. There are currently four active mortgage lenders among the life insurers that control over 96% of the market. The growing share of longer-term fixed income investments contributed towards reducing maturity mismatches and associated re-investment risks within the life fund. This, in turn, will enhance the ability of life insurers to meet their long-term obligations without imposing significant strain on capital funds.

## Valuation Reports

Section 85 of the Insurance Act 1996 requires life insurers to conduct annual actuarial investigations into the financial condition of their life business in respect of liabilities to policy owners. A summary of the valuation results has to be submitted to the Bank on an annual basis. The actuarial investigations provide the basis for setting the level of reserves required to meet the future policy benefits of existing policy owners and their beneficiaries. 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. For annuity business, the investigations are based on the 'a(90) Annuitant Mortality Table' at a 5% valuation interest rate. Table 3.16 displays the valuation result and the surplus distribution for the year 2004.

In line with the robust growth of life business, policy owners' fund increased 18.6% in 2004 to reach RM62,638.2 million. With the bulk of new business derived from single premium business with lower new business strains, corresponding valuation liabilities increased at a slower rate of 17.4%, resulting in a higher actuarial surplus of RM11,392.7 million at the end of 2004. The ratio of policy owners' fund to valuation liabilities for the industry as a whole

**Table 3.16**
**Valuation Result and Surplus Distribution**

| Item | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|
| | RMm | % change | RMm | % change | RMm | % change |
| **Valuation result** | | | | | | |
| Policy owners' fund | 45,404.4 | 14.1 | 52,799.2 | 16.3 | 62,638.2 | 18.6 |
| Valuation liabilities | 38,091.6 | 13.7 | 43,658.5 | 14.6 | 51,245.5 | 17.4 |
| Surplus | 7,312.8 | 16.3 | 9,140.7 | 25.0 | 11,392.7 | 24.6 |
| **Surplus distribution** | | | | | | |
| Allocation to policy owners | 1,628.3 | 7.7 | 1,716.9 | 5.4 | 1,898.5 | 10.6 |
| Allocation to shareholders | 862.5 | 52.1 | 957.4 | 11.0 | 1,139.6 | 19.0 |
| Surplus carried forward | 4,822.0 | 14.6 | 6,466.4 | 34.1 | 8,354.6 | 29.2 |

accordingly strengthened further from 120.9% in 2003 to 122.2% in 2004. The majority of insurers reported higher surpluses accumulated in 2004 from their participating life policies, with four insurers recording ratios of policy owners' fund to valuation liabilities above the industry average, ranging between 125.6% and 134.7%. The domestic insurers' share of the industry's total surplus declined marginally to 26% (2003: 26.5%) against a higher share of 29.8% (2003: 27.7%) of total insurance fund assets.

any future volatility, thereby preserving smooth returns to participating policy owners.

The net surplus arising during the year (after interim bonuses paid but excluding surplus brought forward from the previous valuation and transfers from shareholders) increased by 13.3%, or RM585.7 million to RM4,980.6 million, supported by continuing improvements in the investment results of life insurers. While the rate at which surplus was generated by the life fund (as represented by the surplus arising to the average life fund) was lower at 8.6% (2003: 9%), this was balanced by an improved asset allocation structure which achieved a better matching of insurers' assets with their long-term liabilities and better returns being provided to policy owners.

## Net surplus ratio continued to strengthen, reinforcing the adequacy of reserves within the life funds to absorb future volatility.

Estimated allocations to participating policy owners, representing returns to policy owners on their contributed premiums, amounted to RM1,898.5 million in 2004. This represented a significant increase of 10.6% over allocations in 2003, and the highest increase in allocations since 2000. Surpluses allocated to shareholders, derived mainly from non-participating policies, also increased by 19% to RM1,139.6 million in 2004. In line with the higher allocations made by insurers during the year, the surplus carried forward for the purpose of supporting future bonus payments to policy owners increased at a slower rate of 29.2% to RM8,354.6 million. The net surplus ratio (ratio of policy owners' fund after allocation to valuation liabilities) continued to strengthen to 116.3% in 2004 (2002: 112.7%; 2003: 114.8%), reinforcing the adequacy of reserves carried in the life funds to absorb

### Socio-economic Indicators

With a premium income growth of 22.4%, the life insurance industry continued to outpace the growth in nominal GNP which achieved 13.8% (2003: 10.4%) in 2004. Premium income to nominal GNP, which is a measure of the elasticity of demand for life insurance, correspondingly increased to 3.6% (2003: 3.3%). With higher elasticity typically commanded by higher income levels, demand for life insurance is expected to continue on an upward trend in tandem with the increase in per capita income levels. This is borne out by the more significant increase of

**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 |
| 2000 | 399,662.8 | 127.2 | 17,007 | 8,888.6 | 2.8 | 378 | 956 | 314,306 | 23.5 | 9.3 | 13,378 |
| 2001 | 440,005.8 | 142.5 | 18,334 | 11,684.8 | 3.8 | 487 | 1,256 | 308,781 | 24.0 | 9.3 | 12,859 |
| 2002 | 482,993.0 | 143.5 | 19,714 | 10,832.2 | 3.2 | 442 | 1,140 | 336,563 | 24.5 | 9.5 | 13,722 |
| 2003 | 538,779.3 | 145.0 | 21,551 | 12,374.4 | 3.3 | 495 | 1,250 | 371,673 | 25.0 | 9.9 | 14,838 |
| 2004 | 595,768.3 | 140.8 | 23,272 | 15,143.4 | 3.6 | 592 | 1,485 | 423,068[p] | 25.6 | 10.2[e] | 16,538[p] |

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

19.6% (2003: 12%) in per capita spending on life insurance to RM592 in 2004 from RM495 last year, which corresponded to the faster increase of 11.5% (2003: 8.1%) in per capita income over the same period. As expected, per capita spending on insurance by the working population increased more markedly by 18.8% in 2004 to RM1,485 (2003: 9.6% to RM1,250).

Relative to other markets, Malaysia's demand elasticity remained substantially below the Asia and world averages in 2003 of 4.6% and 5.7% respectively. Domestic per capita expenditure on insurance was also lower against more developed insurance markets in the region, including Japan (RM11,214) and Singapore (RM5,011).

system deposits to gross national savings was 44.6% (2003: 36.6%), while contributions to Employees Provident Fund (EPF) accounted for 15.9% (2003: 16.7%). In terms of the industry's contribution to capital formation, despite a slower growth of 16% (2003: 17.6%), the increase in life insurance assets continued to outpace the growth of 12.8% recorded for total assets in the financial system in 2004. As a result, life insurance assets accounted for a marginally higher share of 4% (2003: 3.9%) of the total assets in the financial system.

With the domestic economic outlook remaining positive against a backdrop of strong consumer confidence and sustained private consumption activity, the life industry is poised to benefit from further growth in demand for life insurance. This will also include growing demand for health care and retirement savings products offered by life insurers. On the supply side, the evolution of a more diversified distribution system driven by the increasing penetration of bancassurance, higher productive capacity of insurers following additional capital investments in technology and increasing pace of innovation also support positive conditions for growth going forward.

Premiums to gross national savings rose to 9.6%, reflecting the increasing prominence of the insurance industry as a mobiliser of domestic savings.

Market penetration, measured in terms of total number of annual premium policies in force to total population, continued to improve steadily to 37.9% in 2004 (2003: 36.8%). The penetration of the working population rose more significantly to 95.1% (2003: 92.9%), attributed largely to insurance coverage provided under group policies taken out by employers as part of the employee benefit package. The prevalence of group policies, which insure multiple lives under a single policy, support a larger insured population than reflected in the market penetration rate. This is further reinforced by the stronger demand for single premium policies which is also not factored in the market penetration rate. The actual number of lives insured is therefore estimated to be higher than indicated by the market penetration rate. Even so, opportunities for growth in the life insurance sector remains significant considering the large proportion of uninsured lives that persists relative to other markets in the region, the increasing awareness among Malaysians of the need to save for different stages of the life cycle and attractive returns offered in life insurance products relative to bank deposits.

Indeed, the role of the insurance industry as a mobiliser of domestic savings continued to increase in prominence in 2004, with premiums to gross national savings rising further to 9.6% from 9.2% in 2003. In comparison, banking

### Malaysian Mortality Experience

Since 1996, LIAM has been compiling the Malaysian mortality experience statistics based on the experience of assured lives in Malaysia. An annual exercise is conducted to update the mortality experience study via submissions by all life insurers on the number of policies terminated due to death for whole life and endowment policies in force for male and female assured lives respectively. The data is homogenously grouped in terms of sex, medical underwriting and type of life business in order to provide a reasonable and meaningful analysis.

The mortality study is computed based on the five-year mortality experience of Malaysian assured lives. To minimize the effect of random fluctuation on mortality rates, it is important to ensure adequate size of exposure. In this study, the volume of the business in force for a five-

**Table 3.18**
**The Rates of Mortality for Duration of Two or More Years**

| Age Attained Group | Ordinary (1998-2002) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 54.89 | 0.20 | 499.83 | 0.27 | 38.93 | 0.13 | 379.96 | 0.23 |
| 15 - 19 | 48.79 | 0.84 | 425.35 | 1.09 | 30.85 | 0.26 | 281.13 | 0.36 |
| 20 - 24 | 58.47 | 1.08 | 642.70 | 1.13 | 37.85 | 0.37 | 514.79 | 0.35 |
| 25 - 29 | 78.92 | 1.03 | 1,023.41 | 0.97 | 63.56 | 0.27 | 1,014.01 | 0.36 |
| 30 - 34 | 117.51 | 1.01 | 1,184.99 | 0.98 | 82.66 | 0.47 | 1,054.92 | 0.48 |
| 35 - 39 | 168.23 | 1.10 | 1,161.37 | 1.25 | 98.29 | 0.69 | 919.63 | 0.64 |
| 40 - 44 | 218.64 | 1.36 | 981.00 | 1.77 | 105.46 | 0.93 | 711.05 | 0.88 |
| 45 - 49 | 222.80 | 1.88 | 704.29 | 2.65 | 90.14 | 1.10 | 474.39 | 1.51 |
| 50 - 54 | 175.86 | 3.43 | 399.18 | 4.70 | 74.06 | 2.07 | 248.63 | 2.43 |
| 55 - 59 | 115.10 | 6.19 | 140.54 | 7.72 | 64.74 | 3.55 | 86.87 | 4.21 |
| 60 - 64 | 70.53 | 9.60 | 49.93 | 13.72 | 45.37 | 5.49 | 32.60 | 6.32 |
| 65 - 69 | 30.37 | 16.66 | 12.81 | 25.76 | 22.37 | 10.59 | 9.24 | 15.05 |
| 70 - 74 | 10.35 | 27.44 | 3.69 | 44.18 | 8.03 | 19.19 | 3.53 | 27.79 |
| Total | 1,370.46 | 2.92 | 7,229.09 | 1.75 | 762.31 | 1.80 | 5,730.75 | 0.80 |

$E_x$ - Number of lives exposed to risks in thousands
$q_x$ - Mortality rate multiplied by 1,000
(Source: Life Insurance Association of Malaysia)

year period is deemed sufficient. Table 3.18 presents the mortality experience of Malaysian assured lives for the period from 1998 to 2002. The mortality rates are tabulated based on lives assured of whole life or endowment policies that have been in force for at least two policy years. Those in force policies of below two years were excluded to minimise the effects of any form of selection made at issuance of the policies, such as medical selection and anti-selection.

As with previous years, the mortality experience for male assured lives that have undergone medical underwriting is 19.9% on average lower than those without medical underwriting. However, male lives with medical examination for two age groups 25-29 and 30-34 showed slightly heavier mortality as compared with those without medical examination. Similarly, three age groups of female assured lives with medical examination experienced heavier mortality as compared with those who did not undergo such underwriting.

The mortality experience of male assured lives improved during the 1998-2002 period over the previous study period. However, female assured lives continued to experience better mortality rates compared to their male counterparts. The difference between both genders currently ranges from 16.1% to 68.8% for all age groups. The ages of between 15 to 29 years continue to show the largest difference of mortality experience between male and female lives. High accident-related deaths experienced by male assured lives within these age groups remain the main reason for the difference.

The 1998-2002 study on Malaysian male assured lives exhibited an average improvement of 20.5% across all ages except for age group 15-19 years when compared with the 'Malaysian 1983-88 Mortality Table-Male Ordinary' (M83-88), the commonly used mortality table for pricing life insurance products. For the 15-19 years age group, the study showed the mortality experience to be 5.4% heavier than the corresponding age group for M83-88. Female assured lives similarly recorded an average improvement of 23.9% over M83-88 across all ages except ages 15-19 where it is 40% heavier than M83-88. More competitive premium rates for life products may be derived as individual insurers adjust the M83-88 table to reflect their better mortality experience. The 'Statutory Valuation Mortality Table 1996' (SVMT), the mortality basis used in the computation of statutory reserves for life insurers, is similarly compared to the mortality study of 1998-2002 to ensure that the SVMT remains conservative when compared to the pricing basis. The mortality rates for both male and female assured lives from the current study are still significantly lower than the SVMT, with averages of 44.1% and 62.8% respectively.

Using the exposed to risk data (i.e. number of lives observed) from the experience study of 1998-2002, a comparison of the expected number of deaths between the 1997-2001 mortality investigation against the current one revealed a continuing average improvement for male assured lives. Deaths among male lives assured with and without medical examination decreased by 7.6% and 5.5% respectively. Female assured lives showed improvement of 9.8% for those with medical examination, while those without medical examination recorded heavier mortality of 1.2%.

## Performance of General Business

### Premium Growth and Distribution

Growth in the general insurance sector moderated further in 2004, slowing to less than half of the average growth of 10.2% achieved for the period 1994-2003. Total gross direct premiums increased by only 4.2%, the lowest level recorded by the industry since returning to positive growth in 2000 after the effects of the Asian financial crisis. Premiums increased to RM8,532.5 million, with over 70% of the premium growth derived from motor business.

**Table 3.19**
**Premium Income**

| Year | Gross Premiums[1] | Gross Direct Premiums | Net Premiums | Retention Ratio (%) |
|---|---|---|---|---|
| | RM million | | | |
| 2000 | 5,648.4 | 5,928.6 | 5,057.3 | 89.5 |
| 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 | 7,857.8 | 8,532.5 | 6,895.5 | 87.8 |
| | % change | | | |
| 2000 | 7.4 | 9.2 | 10.4 | n.a. |
| 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 | 4.5 | 4.2 | 7.1 | n.a. |

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

with the return of competition and capacity to the global market. The contraction of MAT business was only partially offset by the more robust growth in cargo insurance premiums which rose 16.5% in tandem with a surge in total exports in 2004.

The continuing slowdown in the growth of fire business for the second consecutive year was also a major factor behind the slower overall growth in the general sector. Fire premiums, which remained the second largest class of general business, only managed an increase of 4.7% in 2004, well below the average of 8.7% for the period 1994-2003. This was

Growth in the general sector moderated following a further correction of premium rates for commercial property risks.

The slower growth was largely attributed to a further correction of the hard market which saw significant hikes in premium rates, particularly in the commercial property and liability lines in 2002. Total gross direct premiums in the marine, aviation and transit (MAT) sector (excluding cargo) contracted by 17.5% in 2004 following reductions in surcharge premiums imposed for war-related coverage, as well as primary rate adjustments on certain major risks to reflect their improved claims experience in 2003. The extent of the decline in rates observed on selected major MAT risks in 2004 was broadly consistent with the softening premium rates reported in the international property insurance markets for 2004 renewals

due to lower demand for industrial property and business interruption covers, especially in sectors which were affected by the scaling back of public infrastructure projects and construction activities, as well as rate reductions on large industrial fire risks. These factors also contributed to a contraction in combined contractors' all risks (CAR) and engineering insurance premiums in 2004. While the positive domestic economic outlook should revive demand among commercial risk owners for fire-related insurance covers, the more competitive market conditions bearing down on rates are not likely to abate. It therefore remains imperative for insurers to maintain prudent retention strategies

**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 'Act' Cover[1] | Motor Others | Motor Total | Liability | Workmen's Compensation and Employers' Liability | Miscellaneous | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | RM million | | | | | | | | | | |
| 2000 | 441.8 | 272.4 | 1,251.6 | 611.4 | 391.4 | 2,424.3 | 2,815.7 | 118.3 | 82.5 | 334.9 | 5,928.6 |
| 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 | 853.7 | 405.1 | 1,660.2 | 893.8 | 446.0 | 3,421.3 | 3,867.3 | 273.7 | 112.7 | 466.0 | 8,532.5 |
| | % change | | | | | | | | | | |
| 2000 | 2.9 | 2.7 | 0.6 | 12.3 | 12.3 | 17.2 | 16.5 | 16.3 | 0.1 | –2.3 | 9.2 |
| 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 | –6.0 | –13.1 | 4.7 | 10.5 | 7.9 | 6.5 | 6.7 | 4.4 | 7.8 | 9.3 | 4.2 |
| | % share | | | | | | | | | | |
| 2000 | 7.5 | 4.6 | 21.1 | 10.3 | 6.6 | 40.9 | 47.5 | 2.0 | 1.4 | 5.6 | 100.0 |
| 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 | 10.0 | 4.7 | 19.5 | 10.5 | 5.2 | 40.1 | 45.3 | 3.2 | 1.3 | 5.5 | 100.0 |

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

consistent with their capacity, and resist pressures to compromise on underwriting standards in the bid to increase premium volumes.

Growth in medical insurance business was weaker in 2004. This was, however, driven more by the application of tighter underwriting standards by insurers and the stabilisation of

**Table 3.21**
**Distribution of Net Premiums**

| Year | Marine, Aviation and Transit | Contractors' All Risks and Engineering | Fire | Medical Expenses and Personal Accident | Motor 'Act' Cover[1] | Motor Others | Motor Total | Liability | Workmen's Compensation and Employers' Liability | Miscellaneous | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | RM million | | | | | | | | | | |
| 2000 | 247.4 | 134.2 | 965.6 | 543.5 | 370.9 | 2,399.5 | 2,770.4 | 71.1 | 80.4 | 244.7 | 5,057.3 |
| 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 | 323.7 | 216.4 | 1,151.3 | 816.5 | 430.6 | 3,384.3 | 3,814.9 | 135.3 | 106.2 | 331.2 | 6,895.5 |
| | % change | | | | | | | | | | |
| 2000 | 10.3 | 0.1 | 4.5 | 6.5 | 10.6 | 15.8 | 15.0 | 11.1 | –2.1 | 5.5 | 10.4 |
| 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 | 16.2 | 5.2 | 9.8 | 5.7 | 6.5 | 6.4 | 0.6 | 4.3 | 7.4 | 7.1 |
| | % share | | | | | | | | | | |
| 2000 | 4.9 | 2.7 | 19.1 | 10.7 | 7.3 | 47.5 | 54.8 | 1.4 | 1.6 | 4.8 | 100.0 |
| 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 | 3.1 | 16.7 | 11.9 | 6.2 | 49.1 | 55.3 | 2.0 | 1.5 | 4.8 | 100.0 |

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

premium rates after significant increases in 2003, rather than by waning demand.

After recording slower growth in 2003, motor gross direct premiums rebounded to register a stronger growth of 6.7% in 2004, following robust motor vehicle sales which topped 480,000 units (2003: 405,010 units). Vehicle sales were mainly boosted by more affordable financing available in the prevailing low interest environment, coupled with more competitive vehicle prices as a result of greater competition among car manufacturers. The stronger growth achieved for motor business against the slower growth in almost all other classes of business marginally strengthened its dominance in the general sector to account for a higher share of 45.3% (2003: 44.3%) of total gross direct premiums written by the industry in 2004.

The motor insurance market remained highly concentrated. Six major motor insurers continued to secure more than half, or 55.2% (2003: 53.4%), of the market. A more competitive market is expected to emerge with the progressive deregulation of the motor insurance tariff in line with the recommendations of the Financial Sector Masterplan (FSMP). This, together with the larger number of takaful operators providing takaful (Islamic insurance) alternatives in the market, should pave the way for greater price competition within the motor sector. These developments will also augur well for consumers who stand to benefit from more competitively priced products and higher service standards.

Aggregate net premiums of direct insurers as a ratio of shareholders' funds increased to 103.1% (2003: 95.9%), reflecting the more efficient utilisation of capital by general insurers. The ratio, however, remains well below the optimal operating level which allows shareholders' funds to prudently support net premiums up to three times (or 300%) its size. The vast majority of general insurers continued to operate significantly below optimal levels, with 22 out of the 35 licensed general insurers reporting net premium to shareholders' fund ratios below 100%. The capacity building initiatives being undertaken by the Bank under the FSMP are therefore aimed at strengthening the core competencies of insurers to support growth and improve performance. The current

**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] | | | | | | | | | | |
| 2000 | 60.0 | 63.8 | 81.8 | 95.0 | 99.7 | 99.4 | 99.4 | 68.6 | 98.7 | 81.5 | 89.5 |
| 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 | 45.6 | 69.8 | 80.9 | 94.2 | 99.7 | 99.7 | 99.7 | 57.2 | 99.7 | 87.6 | 87.8 |
| | Direct Insurers[2] | | | | | | | | | | |
| 2000 | 54.6 | 49.1 | 78.7 | 94.7 | 99.7 | 99.4 | 99.4 | 64.5 | 98.6 | 77.7 | 89.0 |
| 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 | 40.1 | 51.9 | 75.4 | 93.7 | 99.7 | 99.7 | 99.7 | 53.8 | 99.7 | 85.7 | 86.4 |
| | Professional Reinsurers[3] | | | | | | | | | | |
| 2000 | 63.7 | 80.0 | 74.0 | 75.9 | 53.8 | 64.2 | 63.1 | 87.7 | 61.8 | 77.1 | 71.4 |
| 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 |

[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

lack of a critical mass among general insurers also indicates that substantial scope remains for further consolidation to take place in the market so that insurers are able to reap increased economies of scale.

**Retention and Reinsurance of Malaysian Business**
Higher net premiums retained by both direct insurers and reinsurers boosted the overall net retention level to 87.8% in 2004. CAR and engineering insurance registered a significant increase in retention due to fewer large infrastructure projects undertaken in 2004 requiring reinsurance support. The retention level in the MAT class also increased substantially as the market appeared to develop a renewed appetite for risk, particularly among the large risk carriers, as underwriting results continued to improve throughout 2003. This renewed appetite saw some insurers additionally favouring non-proportional reinsurance arrangements in a bid to lower reinsurance costs and increase profitability, thus further boosting retention levels.

Retention levels in the fire and liability classes, which had been on a declining trend, stabilised in 2004 following an exceptionally good claims year in 2003. In the other predominantly personal lines of business such as motor, medical and personal accident insurances, retention levels remained relatively unchanged from the previous year.

The net retention ratios of individual insurers are expected to edge up further in 2005 with the implementation of the next phase of progressive reductions to the voluntary cession rates for motor, personal accident and medical expenses insurance with effect from 1 January 2005. The reductions are part of a measured strategy under the FSMP to promote greater competition in the reinsurance market.

**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 | 339.8 | 188.0 | 26.2 | –125.6 | –37.0 |
| Marine, aviation and transit cargo | 46.4 | 16.7 | 8.2 | –21.5 | –46.3 |
| Contractors' all risks & engineering | 93.5 | 58.5 | 15.7 | –19.3 | –20.6 |
| Fire | 272.2 | 91.0 | 56.3 | –124.9 | –45.9 |
| Medical expenses and personal accident | 50.2 | 17.9 | 15.4 | –16.9 | –33.7 |
| Motor | 11.4 | 13.3 | 0.1 | 2.0 | 17.5 |
| 'Act' cover[1] | 1.3 | 6.7 | … | 5.4 | 415.4 |
| Others | 10.1 | 6.6 | 0.1 | –3.4 | –33.7 |
| Liability | 101.4 | 4.6 | 11.0 | –85.8 | –84.6 |
| Workmen's compensation and employers' liability | 0.3 | 0.3 | 0.1 | 0.1 | 33.3 |
| Miscellaneous | 47.1 | 19.8 | 6.5 | –20.8 | –44.2 |
| Total | 962.3 | 410.1 | 139.5 | –412.7 | –42.9 |

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

Returning confidence among underwriters, coupled with relatively fewer large commercial risks insured, also resulted in the domestic market absorbing a slightly higher proportion of total reinsurance cessions (including retrocessions) in 2004. Of the total reinsurance cessions amounting to RM2,986 million in 2004, (2003: RM3,264.1 million), 54.8% (2003: 54.5%) was absorbed by the domestic market, 13% (2003: 12.3%) by reinsurers in the Labuan International Offshore Financial Centre and the remaining 32.2% (2003: 33.2%) by reinsurers outside Malaysia.

The Scheme for Large and Specialised Risks (Scheme), which was introduced in 1993 to facilitate the full involvement of Malaysian insurers in the development of rates, terms and conditions for insurance and reinsurance placements of large risks, continued to play an important role in shoring up domestic reinsurance capacity. The year saw increased activity under the Scheme with a total of 804 risks referred to the Scheme, compared with 643 in 2003. At the same time, the underlying security of foreign reinsurance placements has also strengthened as the ratings of significant global reinsurers stabilised after widespread downgrades by international rating agencies in 2002 and 2003. With stronger balance sheets, and positive earnings prospects projected for 2004 and 2005, the security of foreign reinsurers supporting Malaysian risks remains strong in the near to medium term.

With the increasing combined capacity of licensed insurers and reinsurers to absorb insured risks, support for the two underwriting pools set up to undertake the underwriting of energy and aviation risks eroded further in 2004. The Malaysian Aviation Pool (MAP) and Malaysian Energy Risks Consortium (MERIC) registered only RM3.5 million (2003: RM5.6 million) and RM12 million (2003: RM22.5 million) in gross premiums respectively in 2004.

The combined effects of softening reinsurance rates, higher domestic retentions and a larger amount of claims recoveries from reinsurers outside Malaysia led to a lower net reinsurance outflow of RM412.7 million in 2004 (2003: RM647.3 million). The effects were particularly notable in the marine and aviation hull sector which contributed over 97% of the total reduction in outflows.

**Claims Experience**

Two major marine hull losses and a higher number of large fire and liability claims sustained by the industry weighed down the overall claims ratio which deteriorated slightly to 60.5% in 2004. Estimates of aggregate incurred losses on the two marine incidents alone exceeded RM300 million.

The claims ratio for motor insurance continued to escalate to reach another record level of 70.7%, the worst experience registered since 1994. The bulk of the claims arose from compulsory motor insurance (motor 'Act') policies which cover third party death and bodily injuries. The claims ratio for motor 'Act' cover reached its worst level since 1996 following an extended upward trend in the number of road accidents and related fatalities annually. Motor insurers continued to contend with the increasing frequency of claims, higher proportion of accident victims suffering serious injuries and a growing trend in the amount of court awards, all of which added to claims

**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 | | | | |
| 2000 | 71.0 | 63.9 | 44.8 | 59.5 | 100.9 | 60.9 | 66.3 | 81.6 | 23.8 | 120.4 | 63.7 |
| 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 | 62.7 | 50.3 | 39.2 | 56.2 | 177.8 | 57.0 | 70.7 | 31.3 | 23.2 | 56.6 | 60.5 |

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

costs. Twenty-three insurers, representing more than half the total number of licensed insurers, reported motor 'Act' claims ratio well above the industry average of 177.8%, ranging between 179.6% and 526.9%.

Closer collaboration between the industry, the police and vehicle manufacturers resulted in a higher recovery rate of stolen vehicles and correspondingly lower incurred theft claims.

The claims experience for comprehensive motor insurance, however, saw an improvement in 2004 as concerted efforts to contain spiralling theft losses began to bear results. Notably, the closer collaboration between the industry, the police and vehicle manufacturers supported more effective enforcement efforts by the police and increased the number of vehicle models installed with anti-theft devices as standard vehicle specifications. As a result of a higher recovery rate of stolen vehicles, total incurred theft claims in 2004 was lower at RM557 million (2003: RM586 million).

The strengthened resolve of medical insurers towards disciplined underwriting enabled the industry to further improve the claims ratio for medical expenses insurance in 2004 to 61.3% (2003: 69.9%). Current efforts by the industry working in collaboration with relevant stakeholders, including primary healthcare providers and managed care organisations, to address rising healthcare costs and insurance abuses should continue to improve the claims experience. A similar commitment towards improving underwriting and loss reserving practices is also required to reduce the volatility appearing in the claims ratio trend for liability business. This will be particularly important as the liability market in Malaysia continues, albeit still modestly, to grow in size.

In other classes, the claims experience on workmen's compensation and employers' liability insurances remained very favourable, while the CAR and engineering and bond (included under 'miscellaneous') portfolios registered substantial improvements in their claims ratios in 2004.

**Underwriting Experience**

Underwriting results continued to improve for the fourth consecutive year in 2004 despite the less favourable claims experience. The underwriting margin increased to 7.7%, supported by the more modest increase in expenses during the year. This, together with the larger premium base resulting from higher retentions, lowered the management expense ratio further, also for the fourth consecutive year, to 20.7% in 2004. While some insurers achieved marginal efficiency gains, the more favourable industry result was driven primarily by higher bad debt recoveries and lower provisions for insurance receivables recorded during the year. Nine insurers continued to suffer underwriting losses totaling RM60.1 million in 2004 (2003: 11 insurers with aggregated underwriting losses of RM205.7 million). With the more competitive market conditions expected to increase pressure on pricing, and the prevailing challenging investment conditions, insurers will need to focus on achieving more significant improvements in efficiency and maintaining sound underwriting discipline in order to achieve sustainable overall profitability.

**Table 3.25**
**Underwriting Experience**

| Year | Earned Premium Income | Net Claims Incurred | Net Commissions | Management Expenses[1] | Underwriting Margin |
|---|---|---|---|---|---|
| | RM million | | | | |
| 2000 | 4,822.1 | 3,071.1 | 532.9 | 1,194.0 | 24.1 |
| 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 | 6,749.0 | 4,080.5 | 749.9 | 1,400.3 | 518.3 |
| | % of earned premium income | | | | |
| 2000 | 100.0 | 63.7 | 11.0 | 24.8 | 0.5 |
| 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 | 60.5 | 11.1 | 20.7 | 7.7 |
| | % change | | | | |
| 2000 | 5.6 | 6.7 | 12.5 | 13.6 | –85.4 |
| 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 | 8.4 | 9.5 | 9.8 | 3.7 | 10.4 |

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

**Table 3.26**
**Underwriting and Operating Results**

| Item | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMm | % change | RMm | % change | RMm | % change | RMm | % change | RMm | % change |
| Underwriting profit | 24.1 | –85.4 | 134.0 | 456.0 | 232.8 | 73.7 | 469.6 | 101.7 | 518.3 | 10.4 |
| Investment income | 501.3 | –18.4 | 515.0 | 2.7 | 523.8 | 1.7 | 538.1 | 2.7 | 595.9 | 10.7 |
| Capital gains | 212.7 | –5.0 | 69.9 | –67.1 | 130.8 | 87.1 | 189.5 | 44.9 | 188.3 | –0.6 |
| Other income | 77.8 | –66.8 | 213.0 | 173.8 | 138.7 | –34.9 | 335.1 | 141.6 | 70.5 | –79.0 |
| Capital losses | 23.0 | 5.5 | 129.9 | 464.8 | 86.5 | –33.4 | 89.7 | 3.7 | 18.7 | –79.2 |
| Other outgo | 355.0 | 530.6 | 55.0 | –84.5 | 120.5 | 119.1 | 138.5 | 14.9 | 134.5 | –2.9 |
| Operating profit | 437.9 | –62.3 | 747.0 | 70.6 | 819.1 | 9.7 | 1,304.1 | 59.2 | 1,219.8 | –6.5 |

## Operating Results

The industry continued to achieve strong operating results for a second year in 2004, turning in profits comparable to the level in 2003. Total operating profits for the year amounted to RM1,219.8 million (2003: RM1,304.1 million). Higher net realised capital gains (RM169.6 million; 2003: RM99.8 million) boosted results as the stock market improved, particularly in the first quarter of 2004. Despite the continuing depressed average investment yield (excluding capital gains) of 3.5% (2003: 3.4%), aggregate net investment income from interest and dividend streams increased at a higher rate due to the larger asset base. Although the return on assets was lower in 2004 at 7.5% (2003: 8.4%), the components of profits were more positive from a technical perspective. Over 91% of operating profits in 2004 was attributed to underwriting and investment activities, compared with 77% in 2003 where a large component of profit was derived from the write-back of provisions for diminution in investment values. Underwriting profit as a component of operating profit has also increased over the years to account for 42.5% of operating results compared with 5.5% in 2000, further reinforcing the stronger technical fundamentals underlying the industry's profitability.

Industry continued to achieve positive underwriting and operating results, supported by more modest increase in expenses and higher retentions.

## Assets

Total assets of the general insurance funds grew at a slower rate of 2.5% (2003: 7.4%) to RM17,033.8 million in 2004, in line with the weaker growth of the general premium base. With low interest rates persisting, the industry continued to move an increasing proportion of general insurance funds from cash and deposits to the capital market in efforts to boost investment returns. In 2004, the industry's investment portfolio accounted for 47.7% of total general fund assets, the highest level on record for the general sector.

**Chart 3.5**
**Assets of General Insurance Funds**

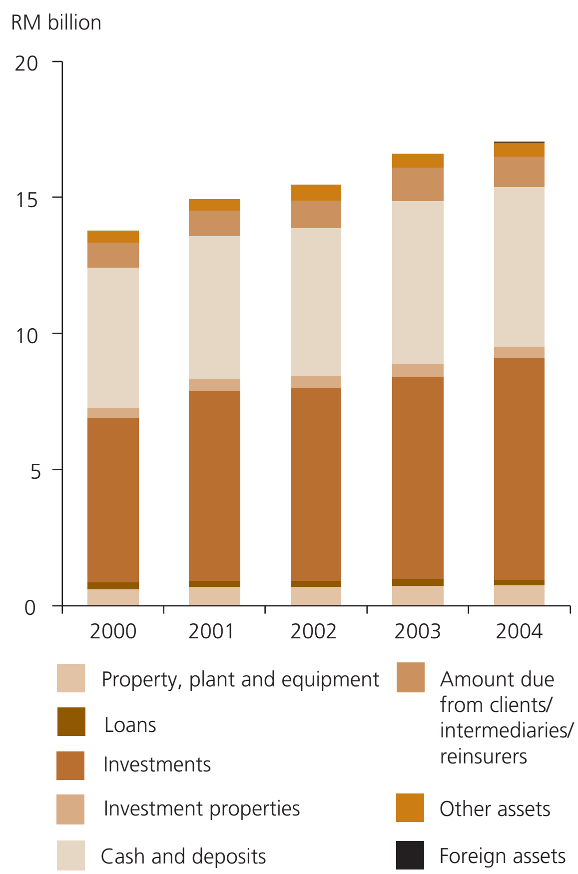


**Table 3.27**
**Assets of General Insurance Funds**

| Type of Investment | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMm | % | RMm | % | RMm | % | RMm | % | RMm | % |
| Property, plant and equipment | 605.4 | 4.4 | 681.3 | 4.6 | 696.1 | 4.5 | 734.3 | 4.4 | 732.9 | 4.3 |
| Loans | 259.0 | 1.9 | 222.1 | 1.5 | 210.4 | 1.4 | 242.4 | 1.5 | 226.6 | 1.3 |
| Investments | 6,022.1 | 43.7 | 6,983.0 | 46.7 | 7,093.8 | 45.8 | 7,429.7 | 44.7 | 8,133.6 | 47.7 |
| *Malaysian Government papers/guaranteed loans* | *1,843.0* | *13.4* | *1,928.8* | *12.9* | *1,862.6* | *12.0* | *1,952.3* | *11.8* | *2,276.9* | *13.4* |
| *Corporate/debt securities* | *4,074.3* | *29.5* | *4,915.6* | *32.9* | *5,086.5* | *32.9* | *5,370.8* | *32.3* | *5,684.7* | *33.4* |
| *Others* | *104.8* | *0.8* | *138.6* | *0.9* | *144.7* | *0.9* | *106.6* | *0.6* | *172.0* | *1.0* |
| Investment properties | 384.9 | 2.8 | 427.5 | 2.9 | 426.0 | 2.8 | 454.6 | 2.7 | 429.3 | 2.5 |
| Cash and deposits | 5,157.0 | 37.4 | 5,258.9 | 35.2 | 5,447.6 | 35.2 | 6,010.4 | 36.2 | 5,841.4 | 34.3 |
| Amount due from clients/ intermediaries/reinsurers | 914.3 | 6.6 | 946.2 | 6.3 | 1,006.2 | 6.5 | 1,223.1 | 7.4 | 1,153.2 | 6.8 |
| Other assets | 444.7 | 3.2 | 421.5 | 2.8 | 586.9 | 3.8 | 511.3 | 3.1 | 508.9 | 3.0 |
| Foreign assets | 3.6 | … | 2.3 | … | 4.4 | … | 5.7 | … | 7.9 | … |
| Total | 13,791.0 | 100.0 | 14,942.8 | 100.0 | 15,471.4 | 100.0 | 16,611.5 | 100.0 | 17,033.8 | 100.0 |

… Negligible

The more significant investment holdings was mainly attributed to substantially larger holdings of Malaysian Government Securities which increased by 20% (2003: 3.1%) following investments in new Government issues. Similarly, higher investments in corporate and debt securities were also observed, following investments by insurers in new Cagamas issues in 2004. The bulk of investments, however, continued to be in private debt securities which accounted for 54.6% (2003: 55.7%) of aggregate investments in corporate and debt securities, and 38.2% of total investments (2003: 40.3%). Investments in foreign assets increased at a higher rate of 38.6% in 2004, following the further liberalisation of the foreign exchange administration rules with effect from 1 April 2004.

**Table 3.28**
**Classification by Size of General Insurance Funds**

| RM million | Number of Funds | | | | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 |
| Less than 20[1] | 3 | 3 | 3 | 3 | 2 |
| 20 to less than 30 | 3 | 1 | 1 | 1 | 0 |
| 30 to less than 50 | 1 | 2 | 1 | 1 | 0 |
| 50 to less than 100 | 5 | 5 | 3 | 1 | 1 |
| 100 to less than 150 | 12 | 8 | 4 | 4 | 2 |
| 150 to less than 300 | 19 | 20 | 13 | 12 | 14 |
| 300 & above | 15 | 18 | 23 | 25 | 24 |
| Total | 58 | 57 | 48 | 47 | 43 |

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

Notwithstanding the shift in assets towards capital market investments, the industry maintained a comfortable level of liquidity in the form of cash and deposits to meet its claims obligations. As at the end of 2004, cash and deposit holdings were sufficient to cover 87.5% (2003: 92.5%) of provisions for outstanding claims, well above 30% generally considered to be a prudent level.

The ongoing consolidation of the industry which continued to progressively reduce the number of licensed general insurers, resulted in a higher proportion of insurers with assets exceeding RM300 million. As at the end of 2004, 55.8% (2003: 53.2%) of the total number of licensed general insurers fell in this category. The increased potential for greater economies of scale within the industry was largely spurred by the wave of consolidation which occurred in the industry between 1999 and 2002, and underscores the significant change taking place in the industry landscape since 2000 when only 25.9% of the total number of insurers were of this size. The average asset size per general insurer correspondingly increased to RM415.2 million in 2004 (2000: RM246.3 million), further reinforcing the stronger institutional capacity of individual insurers to face the competitive challenges on the horizon.

**Table 3.29**
**Technical Reserves**

| Year | Unearned Premium Reserves | Provision for Outstanding Claims | Technical Reserves |
|---|---|---|---|
| | RM million | | |
| 2000 | 2,342.3 | 5,745.5 | 8,087.8 |
| 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 | 3,227.1 | 6,679.3 | 9,906.4 |
| | % change | | |
| 2000 | 10.1 | 5.0 | 6.4 |
| 2001 | 6.9 | 3.6 | 4.6 |
| 2002 | 12.6 | 4.8 | 7.1 |
| 2003 | 7.3 | 4.2 | 5.2 |
| 2004 | 6.6 | 2.8 | 4.0 |
| | % of net premiums | | |
| 2000 | 46.3 | 113.6 | 159.9 |
| 2001 | 46.5 | 110.5 | 157.0 |
| 2002 | 46.8 | 103.6 | 150.4 |
| 2003 | 47.0 | 101.0 | 148.0 |
| 2004 | 46.8 | 96.9 | 143.7 |

## Technical Reserves

Technical reserves as a percentage of net premiums of the industry was lower at 143.7% in 2004. In terms of its components, unearned premium reserves as a percentage of net premiums remained relatively flat in line with the generally uniform prescribed method used by all insurers for establishing reserves. In contrast, claims reserves as a percentage of net premiums declined to 96.9% from reserve levels above 100% carried in prior years. Considering the insurers largely contributing to this trend, the declining reserves were due to more selective underwriting practices and the comprehensive review of claims reserves by insurers involved in mergers since 1999. This was particularly evident with the motor and medical expenses portfolios which recorded reductions in the claims reserves to 109.3% and 27.6% respectively in 2004 (2000: 134.8% and 41.9% respectively). Although the current level of technical reserves is considered adequate against the benchmark of 125%, the Bank will continue to closely monitor the loss reserving practices of individual insurers to ensure that prudent levels of reserves, including reserves for 'Incurred But Not Reported' (IBNR) claims reserves, are maintained at all times. The proposed implementation of the general reserving guidelines, which will include a requirement for the actuarial certification of reserves carried by general insurers, will further reinforce a strong reserving discipline within the general insurance industry. Relevant claims indicators for the industry incorporating submissions by insurers for 2004 are presented in Tables 3.30 to 3.32.

**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 | 2002 | 2003 |
| Marine, aviation and transit | 2.40 | 1.18 | 1.06 | 1.02 | 1.01 | 1.01 | 1.07 | 86.5 | 84.3 |
| Fire | 1.97 | 1.06 | 1.02 | 1.01 | 1.01 | 1.00 | 1.02 | 93.7 | 94.8 |
| Motor | | | | | | | | | |
| 'Act' cover[3] | 6.73 | 2.52 | 1.58 | 1.31 | 1.18 | 1.12 | 1.18 | 32.6 | 31.1 |
| Others | 1.88 | 1.04 | 1.01 | 1.01 | 1.00 | 1.00 | 1.02 | 95.3 | 96.0 |
| Miscellaneous[4] | 1.76 | 1.09 | 1.03 | 1.01 | 1.01 | 1.01 | 1.07 | 87.5 | 88.1 |

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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| | % | | | | | | |
| Marine, aviation and transit | 55.2 | 47.3 | 51.7 | 62.8 | 56.3 | 50.2 | 74.2 |
| Fire | 28.4 | 24.0 | 25.9 | 28.1 | 29.3 | 32.8 | 34.7 |
| Motor | | | | | | | |
| 'Act' cover[2] | 128.7 | 122.0 | 134.3 | 141.9 | 131.5 | 142.6 | 143.0 |
| Others | 42.6 | 49.6 | 62.7 | 61.7 | 60.4 | 60.5 | 65.6 |
| Miscellaneous[3] | 43.1 | 52.3 | 63.3 | 66.0 | 66.9 | 61.8 | 65.4 |

1 Ratio 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

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

| Class | Average Frequency of Loss[4] | Average Cost per Claim[4] |
|---|---|---|
| | % | RM |
| Marine, aviation and transit | 5.6 | 4,188 |
| Fire | 1.5 | 6,055 |
| Motor | | |
| 'Act' cover[2] | 1.0 | 7,312 |
| Others | 6.8 | 3,910 |
| Miscellaneous[3] | 8.6 | 1,960 |

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 registered by individual insurer

### Business from Outside Malaysia

In 2004, gross premiums written from outside Malaysia contracted marginally by 1.2% to RM405.7 million in 2004 (2003: RM410.5 million) following the withdrawal of two licensed professional reinsurers from the market, and some scaling back of business from loss-making markets by the remaining reinsurers. As in previous years, business underwritten by professional reinsurers accounted for the bulk (61.8%) of business from outside Malaysia, while direct insurers remained fairly inactive abroad. Fire business continued to retain its dominant share of 46.4% (2003: 48.8%) of business from outside Malaysia, followed by the miscellaneous and MAT classes with shares of 28.7% (2003: 26.6%) and 13.7% (2003: 13.4%) respectively. The general fund assets supporting business outside Malaysia increased at a slower rate of 5.6% in 2004 (2003: 12.4%) to RM902.2 million. Approximately 51.2% (2003: 57.2%) of the assets supporting business outside Malaysia were invested in Malaysia - mostly in the form of cash and deposits, shares and Malaysian Government papers, with the balance invested in the jurisdictions from which business was derived.

## Performance of Professional General Reinsurers

2004 proved to be another challenging year for professional reinsurers. The combined effects of higher retentions by direct insurers and softening rates during the year resulted in reinsurance premiums written by professional reinsurers declining further by 5.7% (2003: –16.2%) to RM987.8 million. As in previous years, approximately 60% of reinsurance accepted premiums were in the MAT, CAR and engineering and fire classes of business. Another 25% was derived from motor reinsurance, mostly for excess of loss covers.

In terms of its geographical distribution, regional business from outside Malaysia accounted for RM250.9 million or 20%, of total reinsurance accepted premiums in 2004, largely written by the foreign professional reinsurers from their Malaysian operations. The volume of reinsurance premiums from outside Malaysia was approximately the same as the volume written in 2003, with the share of reinsurance accepted premiums written by the professional reinsurers continuing to account for the bulk or 93.3% (2003: 90.2%) of the total reinsurance accepted premiums (including reinsurance business accepted by direct insurers) from outside Malaysia.

All classes of business registered lower reinsurance premiums accepted, with the exception of CAR and engineering reinsurance business which managed only a modest increase

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) | | | | | | | | | | |
| 2000 | 89.2 | 87.2 | 354.1 | 57.6 | 22.9 | 201.5 | 224.4 | 14.5 | 9.3 | 79.9 | 916.2 |
| 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 |
| | Net Premiums (RM million) | | | | | | | | | | |
| 2000 | 56.8 | 69.7 | 262.0 | 43.7 | 12.3 | 129.3 | 141.6 | 12.7 | 5.8 | 61.7 | 654.0 |
| 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 |
| | Claims Ratio[2] (%) | | | | | | | | | | |
| 2000 | 90.9 | 48.4 | 75.7 | 87.4 | 221.5 | 33.7 | 51.3 | 94.7 | 22.3 | 133.7 | 74.0 |
| 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 | 89.4 | 44.9 | 47.9 | 91.8 | 157.9 | 58.7 | 67.5 | 25.4 | 17.1 | 52.3 | 58.7 |

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

over premiums written in 2003. In terms of market share, the professional reinsurers, however, succeeded in capturing a larger share of the reinsurance market to account for 73.2% (2003: 69.1%) of total reinsurance accepted premiums in 2004, with the remaining 26.8% written by direct insurers. This was despite the reductions in 2003 to the voluntary cessions arrangement which had contributed towards securing a substantial captive market for Malaysian Reinsurance Berhad in the past. As intended, the move has also provided the impetus for the development of a more competitive reinsurance market, with a more even distribution of business beginning to emerge among the major reinsurance players.

Notwithstanding the contraction in business, the net premium base increased as a result of the significantly higher retention level achieved by professional reinsurers of over 90% in 2004 (2003: 85.1%). This mitigated the impact of the business slowdown on the industry's overall results. The higher retention was primarily attributed to the use of more sophisticated catastrophe models by one reinsurer which enabled it to shed off excessive retrocession protection previously purchased, and the rationalisation of global retrocession arrangements by another reinsurer.

The impact of the large losses sustained by the industry in 2004 was more pronounced in the reinsurance sector, with the claims ratio deteriorating more markedly to 58.7% from 55% in 2003, compared with only a marginal increase of less than one percentage point for the industry as a whole. The increase in incurred claims was most significant in value terms in the MAT and fire classes of business, consistent with the large claims made against direct insurers during the year.

The claims experience for medical and health and personal accident reinsurance business remained volatile. In 2004, the claims ratio for personal accident business increased significantly to 97.4% (2003: 29.9%) due to the provision of additional reserves for losses reported during the year. In the medical and health portfolio, the more selective acceptance of reinsurance coupled with more stringent underwriting practices observed in the direct market did not result in a marked improvement in the 2004 claims experience of professional reinsurers unlike the experience in the previous year. Contrary to expectations, the claims ratio for medical and health business was significantly higher at 83.4% in 2004 (2003: 77%; 2002: 91.1%). This was largely attributed to a substantial building of reserves by some reinsurers for IBNR claims during the year to support the increase in business. General accident treaties, covering 'miscellaneous' risks which are usually reinsured on a bouquet basis, faired better with improved claims ratios in 2004 in line with the experience of direct insurers. Such reinsurance typically cover losses under bond, theft and burglary insurance policies issued by direct insurers.

The overall deterioration in the claims experience, as well as higher operating costs associated with an increase in reinsurance commission payments and the redistribution of expenses to the local branches of foreign professional reinsurers, resulted in a lower combined underwriting profit recorded by professional reinsurers of RM97.1 million in 2004 (2003: RM169.5 million). Despite an improvement in investment results, the less favourable underwriting performance reduced operating profits by 25.8% to RM180.1 million (2003: RM242.8 million).

Notwithstanding the weaker operating results posted in 2004, countervailing factors were present to support a positive outlook for the reinsurance sector. These included the market corrections prior to 2003 which have led to risk related adjustments in both the rates and terms of reinsurance. Strong results achieved by the global reinsurance industry in 2003 have also strengthened the capital base of the global reinsurers with branch operations in Malaysia. These reinsurers also appeared to have weathered losses from the natural disasters in 2004 relatively well. Importantly, the reinsurance industry as a whole remains sufficiently capitalised to withstand future shocks.

## Insurance Broking

In 2004, total premiums placed by the insurance broking sector declined by 4.1% to RM2,668.9 million (2003: increased by 13.5% to RM2,783.7 million), which was mainly attributed to lower premium placements in CAR and engineering class by 13.5%. This was in line with the moderation in public development expenditure on infrastructure projects and construction activities in 2004.

Meanwhile, other classes of business experiencing reductions were MAT and motor. MAT class of business experienced a decline of RM27 million or 3% due mainly to the

**Table 3.34**
**Total Premiums Transacted**

| Year | General | | | | Life | Total |
|---|---|---|---|---|---|---|
| | Marine, Aviation and Transit | Fire | Motor | Miscellaneous[1] | | |
| | Direct Premiums (RM million) | | | | | |
| 2002 | 458.4 | 437.3 | 65.5 | 653.9 | 51.9 | 1,667.0 |
| 2003 | 547.0 | 417.3 | 69.0 | 862.7 | 45.9 | 1,941.9 |
| 2004 | 512.0 | 455.5 | 64.7 | 759.3 | 49.0 | 1,840.5 |
| | Reinsurance Premiums (RM million) | | | | | |
| 2002 | 316.1 | 156.1 | 65.4 | 244.5 | 2.8 | 784.9 |
| 2003 | 342.4 | 113.6 | 49.8 | 334.3 | 1.7 | 841.8 |
| 2004 | 350.4 | 166.4 | 34.0 | 275.9 | 1.7 | 828.4 |
| | Combined (RM million) | | | | | |
| 2002 | 774.5 | 593.4 | 130.9 | 898.4 | 54.7 | 2,451.9 |
| 2003 | 889.4 | 530.9 | 118.8 | 1,197.0 | 47.6 | 2,783.7 |
| 2004 | 862.4 | 621.9 | 98.7 | 1,035.2 | 50.7 | 2,668.9 |

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

**Table 3.35**
**Outstanding Premiums Due to Insurers**

| Months | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|
| | Amount (RMm) | % of Total | Amount (RMm) | % of Total | Amount (RMm) | % of Total |
| 0 - 2 | 159.8 | 54.4 | 237.0 | 68.4 | 193.3 | 64.1 |
| >2 - 6 | 71.6 | 24.4 | 56.5 | 16.3 | 63.0 | 20.9 |
| >6 - 12 | 24.1 | 8.2 | 17.8 | 5.1 | 17.5 | 5.8 |
| over 12 | 38.0 | 13.0 | 35.2 | 10.2 | 27.9 | 9.2 |
| Total | 293.5 | 100.0 | 346.5 | 100.0 | 301.7 | 100.0 |

protracted softening of premium rates in aviation following global rate hikes after September 11, 2001. As for motor class of business, despite the robust growth of vehicle sales in 2004, this growth was mainly in passengers' vehicles as opposed to commercial vehicles, thereby not contributing towards the premiums placed by the broking sector.

On the other hand, placement in fire business registered a growth of 17.1% (2003: declined by 10.5%) due mainly to the reclassification exercise of risks by one broker which resulted in an increase of RM70 million in fire business. Other contributors of growth included the local booking of premium placement for treaty business which was previously booked overseas, and increase in sum insured of risks as a result of asset revaluations. Premium placement in life business, mainly group life, also saw an increase of 6.5% to RM50.7 million (2003: declined by 13% to RM47.6 million) due to more intensive marketing of life business by brokers to corporate clients. As in previous years, the miscellaneous class continued to maintain the largest market share of total premiums placed at 38.8%, followed by MAT with 32.3%.

Of the total premiums placed by brokers, 69% or RM1,840.5 million (2003: 69.8% or RM1,941.9 million) was in the form of direct placements, with the balance of RM828.4 million or 31% accounted for by reinsurance placement. Premiums placed locally accounted for 79.5% (2003: 80.3%) or RM2,121.9 million, whilst that placed abroad represented the remaining 20.5% (2003: 19.7%).

In 2004, despite the reduction in total premiums placed by the broking sector, there was a marginal increase in brokerage earned by 0.5% to RM180.1 million (2003: increased by 18.1% to RM179.2 million). This was due to the increase in energy cover, which yielded a higher brokerage, arising from higher growth in the number of power plants. After taking into account the bigger increase in total expenses by 3.2%, the operating profit of the broking

**Table 3.36**
**Operating Results of Brokers**

| Item | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|
| | RMm | % change | RMm | % change | RMm | % change |
| Brokerage earned | 151.7 | 6.2 | 179.2 | 18.1 | 180.1 | 0.5 |
| Other income | 24.5 | 40.6 | 25.1 | 2.0 | 26.5 | 5.6 |
| Total expenses | 119.0 | 4.7 | 139.4 | 17.1 | 143.9 | 3.2 |
| Operating profit | 57.2 | 22.5 | 64.9 | 13.5 | 62.7 | –3.4 |

industry consequently reduced by 3.4% to RM62.7 million in 2004 (2003: RM64.9 million).

The broking industry continued to be dominated by a few large players. Of the 34 insurance brokers, 12 had an aggregate market share of 82.8% of the total premiums placed, with an average premium of RM184.3 million per broker. This far exceeded the industry average of RM78.5 million (2003: RM79.8 million). On the other hand, the remaining 22 brokers accounted for the balance of the market share with an average premium of only RM20.8 million per broker.

Total outstanding premiums due to insurers reduced by 12.9% to RM301.7 million in 2004 (2003: RM346.5 million). Of this, RM108.4 million was due to premiums outstanding for more than two months, which declined marginally by 1% (2003: reduced by 18.1%). The potential for further reduction in outstanding premium level remains high particularly with the implementation of the premium warranty requirement. In addition, other measures to reduce outstanding premiums are being reviewed by a working committee that was set up earlier by the industry to address the long-standing reconciliation problems faced by the industry players.

In 2004, the total paid-up capital of the broking industry increased marginally to RM44.6 million due to capital injections by five brokers. Consequently, the average paid-up capital of the insurance brokers increased marginally from RM1.2 million in 2003 to RM1.3 million in 2004. Twenty-three brokers or 67.6% of the total number of brokers in the industry, have paid-up capital below the industry average. Brokers are encouraged to strengthen their capacity and consolidate their resources to raise their competitive position and to mitigate the risk of being marginalised when the market is open to greater competition.

## Loss Adjusting

During 2004, the loss adjusting sector handled a total of 271,544 cases, an increase of 4.3% (2003: 260,226 cases). The increase was mainly attributed to motor claims which grew by 4.7% to 232,016 (2003: 221,647) as a result of higher third party death and bodily injury claims, and theft claims. Meanwhile, non-motor cases had also recorded an increase of 2.5% to 39,528 (2003: 38,579) which was attributed to the increase in cases involving MAT, fire and cargo claims. As in previous years, motor cases continued to dominate the market with a slightly increased share of 85.4% (2003: 85.2%).

The average number of cases handled by each adjuster in 2004 increased to 7,339 (2003: 6,672). As with previous years, a significantly high proportion of the loss adjusting business was carried out by a few large players. Of the 37 adjusters, 10 handled cases above the sector average amounting to 185,306 cases or an average of 18,531 each (2003: 14,731). The remaining 27 adjusters accounted for only 86,238 cases or an average of 3,194 each (2003: 3,091) reflecting a highly fragmented adjusting sector with majority of the players operating on a small-scale basis.

As a result of the overall increase in the number of cases handled by the loss adjusting sector and following the efforts of the industry to diversify their income base by providing value-added services, the total fees received by the sector, which had been on a decline for the past two years, recorded an increase of 9.6% to RM137.6 million in 2004 (2003: RM125.6 million). The

**Table 3.37**
**Cases Handled by Adjusters**

| Year | Motor | | | Non-motor | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. | % change | % share | No. | % change | % share | No. | % change |
| 2002 | 207,340 | 7.9 | 83.2 | 41,903 | 0.4 | 16.8 | 249,243 | 6.6 |
| 2003 | 221,647 | 6.9 | 85.2 | 38,579 | –7.9 | 14.8 | 260,226 | 4.4 |
| 2004 | 232,016 | 4.7 | 85.4 | 39,528 | 2.5 | 14.6 | 271,544 | 4.3 |

**Table 3.38**
**Operating Results of Adjusters**

| Item | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|
| | RMm | % change | RMm | % change | RMm | % change |
| Fees earned | 129.7 | –2.3 | 125.6 | –3.2 | 137.6 | 9.6 |
| Other income | 4.3 | 13.2 | 7.6 | 76.7 | 7.6 | – |
| Total outgo | 139.8 | 9.4 | 131.0 | –6.3 | 130.0 | –0.8 |
| Operating profit/(loss) | –5.8 | –166.7 | 2.2 | 137.9 | 15.2 | 590.9 |

higher fees coupled with a marginal decline in operating expenses of 0.8% to RM130 million (2003: RM131 million) contributed to the improved financial performance with operating profit increasing significantly to RM15.2 million (2003: RM2.2 million). The decline in operating expenses was largely due to lower provisioning for bad and doubtful debts of RM2.3 million (2003: RM6.5 million) as most adjusters had already made adequate provisions for the previous years' outstanding fees in 2003 as required by the Bank. Of the 37 adjusters, 25 reported operating profits amounting in total to RM15.9 million while the remaining 12 reported losses totaling RM0.7 million (2003: 24 adjusters reported operating profits amounting to RM9.7 million and 15 adjusters reported RM7.4 million in losses). Of the RM15.9 million in operating profits reported by the 25 adjusters, 83.7% was contributed by only five adjusters (2003: 82.2% of RM9.7 million was contributed by only four adjusters).

The total paid-up capital of the sector increased to RM14.4 million in 2004 due to additional capital injections by four adjusters. Of the 27 adjusters with paid-up capital below that of the sector averages, seven were at the minimum level of RM150,000.

In tandem with intensifying competition in the traditional business segments, the bigger players have moved on to establish business tie-ups with insurers to provide value-added services such as 24-hour toll-free emergency assistance, review and recovery of closed claim cases and 'no cure no pay' claim subrogation recovery services. These larger adjusters continue to reap efficiencies associated with economies of scale which, in turn, provide greater flexibility to make in-roads into new business segments. Such trends continue to pose challenges and exert pressure on the smaller firms to re-evaluate and rationalise their business strategies and operations.