The Industry Performance in 2000 and 2001

Overview of Industry Performance

The performance of the insurance industry continued to improve in 2000 in line with the growth of the Malaysian economy. The combined premium income of the insurance industry recorded a significant growth of 28.6% (1999: 8.5%) to reach RM15,216 million (1999: RM11,833.3 million). The rapid growth was driven by the life sector which accounted for RM10,151.3 million or two-thirds (1999: RM7,156.1 million or 60.5%) of the combined income, with the balance of RM5,064.7 million accounted for by the general sector. As a result of the rapid growth, premium income of the insurance industry as a proportion of nominal Gross National Product (GNP) increased to 4.9% in 2000 compared with 4.2% in 1999. Total benefits and net claims paid by the industry in 2000 increased by 15.7% (1999: 9.3%) to RM5,702.9 million, representing 37.5% (1999: 41.7%) of the premium income of the industry.

The higher benefits and claims payments in 2000 besides lower investment returns, increased provisions for diminution in value of investments and losses due to disposal of assets largely contributed to a lower pre-tax profit of RM1,174.9 million compared with a pre-tax profit of RM1,889.6 million in 1999. The lower pre-tax profit coupled with the increase in the capitalisation of insurers (including the working capital of foreign insurers) resulted in lower return to equity (ratio of pre-tax profit to the shareholders' fund) which declined from 25.6% in 1999 to 15.1%. The combined insurance fund assets expanded at a slower growth rate of 15% to RM52,203.2 million (1999: 15.4% to RM45,401.4 million), representing 4.2% (1999: 3.9%) of the assets of the financial system. Life fund assets accounted for 73.2% (1999: 69.8%) of the industry's assets.

In line with the slowdown in the economy, preliminary data for 2001 showed that the growth rate for combined premium income slowed down to 12.4%, compared with 28.6% in 2000. The combined premium income increased to RM17,101.2 million to account for 5.4% (2000: 4.9%) of GNP. Total benefits and claims paid out in 2001 increased by 12.6% to RM6,423.5 million while combined insurance fund assets of both life and general businesses expanded at a slower growth rate of 14.6% to reach RM59,848.5 million.

Performance of Life Business in 2000

New Business

The life insurance industry recorded an impressive growth in the year 2000. Total new premiums increased significantly by 108% (1999: 37.4%) to RM4,113.7 million. The remarkable growth was mainly attributable to the rapid expansion of single premium business from RM654.7 million to RM2,810.7 million arising from the introduction of the Annuity Scheme for Employees Provident Fund (EPF) contributors as well as diversification by some insurers into the new single premium investment-linked market. With the shift towards single premium annuity and investment-linked products, the sale of conventional annual premium policies registered a marginal decline of 1.5% in new premiums to RM1,303 million as against a growth of 22.4% in 1999. However, new sums insured grew by 17.6% (1999: 15.2%) to RM118,521.3 million, while the number of new policies recorded a decline of 14.6% (1999: +29.3%) to 1,239,994 policies.

Table 3.1
New Business of Direct Insurers

Year	No. of Policies	Sums Insured	Premiums		
			Annual	Single	Total
	Units	RM million			
1996	908,196	76,045.5	1,158.8	264.0	1,422.8
1997	1,111,999	90,053.4	1,292.9	309.7	1,602.6
1998	1,123,472	87,464.4	1,080.6	358.3	1,438.9
1999	1,452,287	100,769.3	1,322.9	654.7	1,977.6
2000	1,239,994	118,521.3	1,303.0	2,810.7	4,113.7
	% change				
1996	–12.2	–0.5	–8.5	8.2	–5.8
1997	22.4	18.4	11.6	17.3	12.6
1998	1.0	–2.9	–16.4	15.7	–10.2
1999	29.3	15.2	22.4	82.7	37.4
2000	–14.6	17.6	–1.5	329.3	108.0

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						
1996	447.8	355.8	384.5	234.7	–	–	1,422.8
1997	504.7	393.5	378.0	305.2	21.2	–	1,602.6
1998	409.0	360.9	374.1	272.1	22.8	–	1,438.9
1999	454.4	472.8	535.6	324.7	190.1	–	1,977.6
2000	460.6	513.6	642.0	304.6	529.0	1,663.9	4,113.7
	% change						
1996	–14.2	–12.6	18.5	–8.8	–	...	–5.8
1997	12.7	10.6	–1.7	30.0	–	–	12.6
1998	–19.0	–8.3	–1.0	–10.8	7.5	–	–10.2
1999	11.1	31.0	43.2	19.3	733.8	–	37.4
2000	1.4	8.6	19.9	–6.2	178.3	–	108.0
	% share						
1996	31.5	25.0	27.0	16.5	–	–	100.0
1997	31.5	24.6	23.6	19.0	1.3	–	100.0
1998	28.4	25.1	26.0	18.9	1.6	–	100.0
1999	23.0	23.9	27.1	16.4	9.6	–	100.0
2000	11.2	12.5	15.6	7.4	12.9	40.4	100.0

... Negligible

An analysis of the new business portfolio including single premium revealed that most classes of business registered growth in 2000 except riders under 'others' category which declined by 6.2% (1999: +19.3%). A major development in the market was the launching of the EPF Annuity Scheme in July 2000. In addition, the active promotion of the sales of investment-linked and single premium endowment policies to the customers of financial institutions as well as through direct marketing to existing policy owners by some insurers were equally of significant importance. The EPF Annuity Scheme which received overwhelming acceptance from EPF contributors, accounted for 59.2% of new single premiums in 2000. New investment-linked premiums also expanded significantly to

Chart 3.1
Distribution of New Premiums and New Sums Insured

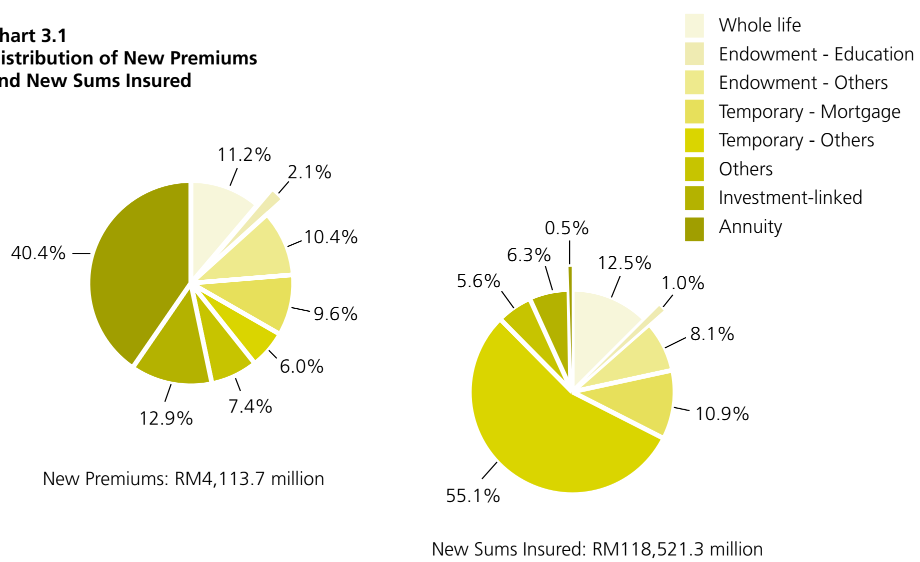


Table 3.3
Distribution of New Sums Insured of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole life	Endowment	Temporary	Others			
	RM million						
1996	17,599.4	7,215.3	39,210.9	12,020.0	–	–	76,045.6
1997	20,116.1	8,386.5	46,987.8	14,428.9	134.1	–	90,053.4
1998	15,899.1	7,729.3	52,791.2	10,944.1	100.7	–	87,464.4
1999	16,342.1	8,492.5	63,807.7	8,826.1	3,300.9	–	100,769.3
2000	14,759.0	10,761.4	78,248.3	6,680.8	7,455.8	616.0	118,521.3
	% change						
1996	–19.2	–7.3	12.7	–0.4	–	–	–0.5
1997	14.3	16.2	19.8	20.0	–	–	18.4
1998	–21.0	–7.8	12.4	–24.2	–24.9	–	–2.9
1999	2.8	9.9	20.9	–19.4	3,178.0	–	15.2
2000	–9.7	26.7	22.6	–24.3	125.9	–	17.6
	% share						
1996	23.1	9.5	51.6	15.8	–	–	100.0
1997	22.4	9.3	52.2	16.0	0.1	–	100.0
1998	18.2	8.8	60.4	12.5	0.1	–	100.0
1999	16.2	8.4	63.3	8.8	3.3	–	100.0
2000	12.5	9.1	66.0	5.6	6.3	0.5	100.0

reach RM529 million (1999: RM190.1 million). The significant growth of investment-linked business was enhanced by six new entrants to the market which contributed slightly more than one third of the total new investment-linked business premiums in 2000. Temporary insurance policies, which are mainly credit-related policies sold via financial institutions, registered an increase of 19.9% (1999: 43.2%) to RM642 million in new premiums. The tie-up between banks and insurers to promote bancassurance to bank customers has largely contributed to the growth of credit-related policies. One insurer, through attractive packaging of its insurance cover with the mortgage financing provided by the bank within the group, managed to register a high growth in mortgage reducing term assurance policies. The higher sales of mortgage assurance policies was also attributable to the partial recovery in the demand for residential properties as well as the promotion of attractive mortgage financing packages by the financial institutions. Several insurers also took advantage of the low interest environment by offering to the public a short-term single premium endowment plan with a guaranteed dividend rate. These savings plans are attractive as the short-term dividend rates are comparable with savings rates of banks. New premiums for 'others' policies declined by 6.2% (1999: +19.3%) to RM304.6 million mainly due to lower sales of supplementary riders cover.

In terms of composition of new business premiums, the EPF Annuity Scheme outpaced all policies to become the most dominant class with a share of 40.4% of the total new premiums. With the dominance of this scheme, the shares of other traditional business, mainly temporary and endowment assurance declined from 27.1% and 23.9% to 15.6% and 12.5% respectively in 2000. Similarly, the market share for whole life policies continued to decline to 11.2% (1999: 23%) of new business premiums reflecting the progressive shift in consumers' preference towards life insurance as a savings and investment vehicle rather than a risk protection instrument against contingency of death. This was reflected in the growing popularity of investment-linked business from a share of 9.6% in 1999 to 12.9% of new business premiums in 2000. It is therefore pertinent to note that for insurers to stay relevant in the years ahead, there is a need for them to proactively diversify their products from the traditional life insurance products to new innovative investment and retirement products through research and development on niche market penetration.

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					
1996	957	1,069	37,622	22,492	25	48
1997	1,038	1,114	40,387	24,773	26	45
1998	1,021	1,033	39,686	21,153	26	49
1999	1,198	1,170	43,069	21,322	28	55
2000	1,378	1,250	44,151	19,522	31	64

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

While the foreign-controlled insurers (equity ownership by foreigners of more than 50%) continued to control market share of more than 50% in new sums insured, the market share of these insurers in terms of new business premiums recorded a significant decline from 54.9% in 1999 to 36% in 2000. The foreign-controlled insurers, however still maintained a dominant position in whole life, endowment and education policies while Malaysian-controlled insurers had a larger market share of the annuities and temporary policies.

In line with the higher consumer spending, the average new annual premiums for whole life and endowment policies increased by 15% and 6.8% to RM1,378 and RM1,250 respectively. Similarly, the average new sums insured for whole life policies increased to RM44,151 (1999: RM43,069), while endowment policies declined to RM19,522 (1999: RM21,322) respectively. The average premium per RM1,000 new sums insured for whole life and endowment policies increased to RM31 (1999: RM28) and RM64 (1999: RM55) respectively, reflecting the additional cost for added value protection such as coverage against critical illness and disabilities, medical reimbursements and other types of survival benefits which are packaged together with basic life products.

Terminations

Despite improved economic conditions in 2000, the termination of annual premiums increased by 15.5% (1999: -14%) to RM833.4 million, while sums insured terminated increased significantly by 39.1% (1999: 2.4%) to reach RM99,328.3 million. Although the termination of sums insured was high, the phenomenon was not a cause of concern as the bulk (60.6%) of the termination was mainly due to reductions in sums insured under mortgage reducing term assurances, expiry or non-renewal of annual group policies, discontinuance of riders and conversions to paid-up policies. Single premium policies, particularly group policies accounted for the

Table 3.5
Terminations of Annual Premiums of Direct Insurers

Year	Death	Maturity	Surrender	Forfeiture less Revivals	Others	Total
	RM million					
1996	6.6	8.5	52.8	268.4	151.4	487.7
1997	7.2	9.4	78.1	339.3	134.9	568.9
1998	8.4	12.1	133.5	430.9	253.7	838.6
1999	9.2	11.1	151.0	357.4	192.8	721.5
2000	9.8	13.1	160.6	367.2	282.7	833.4
	% change					
1996	26.9	4.9	21.4	34.1	16.0	25.9
1997	9.1	10.6	47.7	26.4	–11.2	16.5
1998	16.7	28.7	71.2	27.0	88.6	47.5
1999	9.5	–8.3	13.1	–17.1	–24.0	–14.0
2000	6.5	18.0	6.4	2.7	46.6	15.5
	% share					
1996	1.4	1.7	10.8	55.0	31.1	100.0
1997	1.3	1.7	13.7	59.6	23.7	100.0
1998	1.0	1.4	15.9	51.4	30.3	100.0
1999	1.3	1.5	20.9	49.5	26.8	100.0
2000	1.2	1.6	19.3	44.0	33.9	100.0

Table 3.6
Terminations of Sums Insured of Direct Insurers

Year	Death	Maturity	Surrender	Forfeiture less Revivals	Others	Total
	RM million					
1996	297.8	161.3	2,435.9	10,290.3	24,951.2	38,136.5
1997	350.2	218.1	4,050.5	12,091.9	33,590.1	50,300.8
1998	452.6	240.2	6,080.4	16,595.1	46,347.1	69,715.4
1999	428.6	293.7	6,633.1	13,634.3	50,419.8	71,409.5
2000	625.1	354.5	7,505.5	9,859.0	80,984.2	99,328.3
	% change					
1996	8.5	4.8	36.1	27.6	11.7	16.9
1997	17.6	35.2	66.3	17.5	34.6	31.9
1998	29.2	10.1	50.1	37.2	38.0	38.6
1999	–5.3	22.3	9.1	–17.8	8.8	2.4
2000	45.8	20.7	13.2	–27.7	60.6	39.1
	% share					
1996	0.8	0.4	6.4	27.0	65.4	100.0
1997	0.7	0.4	8.1	24.0	66.8	100.0
1998	0.7	0.3	8.7	23.8	66.5	100.0
1999	0.6	0.4	9.3	19.1	70.6	100.0
2000	0.6	0.4	7.6	9.9	81.5	100.0

Table 3.7
Forfeiture and Surrender Rates of Direct Insurers

Year	Weighted Forfeiture Rate (%)	Surrender Rate (%)
1996	24.6	1.0
1997	31.2	1.4
1998	39.2	1.9
1999	33.0	2.0
2000	31.2	2.0

bulk (84.3%) of the sums insured terminated due to expiration of contract. Terminations through death and maturity remained low, constituting only 0.6% and 0.4% of total sums insured terminated respectively, reflecting the relatively young Malaysian population.

Total sums insured terminated by surrender increased by 13.2% (1999: 9.1%) to reach RM7,505.5 million, contributed mainly by six insurers that registered more than 30% increase in surrender. Nevertheless, the surrender rate of the industry, defined as the ratio of the total sums insured terminated by surrender to the total sums insured in force at the beginning of the year, remained manageable at 2%.

The forfeiture experience of the industry continued to improve further with the sums insured forfeited decreasing by 27.7% in 2000 (1999: -17.8%). However, annual premiums forfeited increased slightly by 2.7% (1999: -17.1%) emanated mainly from the deteriorating experience recorded by three insurers. Although forfeiture still accounted for the bulk of the total annual premiums terminated, 11 of the 17 direct life insurers recorded much better improvements in their forfeiture experience in 2000. This improvement augurs well for the industry as the loss of premiums and insurance coverage to policy owners through discontinuance of their policies will be minimised. As a result, the weighted forfeiture rate (WFR) of the industry, defined as the ratio of annual premiums forfeited to new annual premiums in respect of policies written in the last three years (weightage of 20%, 56% and 24% for new business premiums for the latest year, first preceding year and second preceding year respectively) improved to 31.2% (1999: 33%) in 2000.

An analysis of the forfeitures of new business by policy year also revealed an improvement in the forfeiture rate from 31.7% for new business underwritten in 1996 to 30.5% for new business written in 1997 (which had recorded the full level of forfeitures over three policy years). The projected forfeiture rates after three policy years is expected to improve further to 29.9%, 22.6% and 20.3% for business written in 1998,1999 and 2000 respectively.

Business in Force

Despite the improvements in persistency during the year, business in force in terms of sums insured and annual premiums in force for direct business increased moderately by 7% and 7.5% (1999: 8.6% and 9.6%) to reach RM394,842.4 million and RM7,373 million respectively in 2000. Similarly, the number of policies in force registered a moderate increase of 4.3% (1999:

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

Financial Year	Year of Issue	1st Policy Year	2nd Policy Year	3rd Policy Year	Total
2000	2000	5.9	–	–	5.9
	1999	14.9	4.2	–	19.1
	1998	18.4	9.1	1.8	29.3
	1997	16.4	10.9	3.2	30.5
1999	1999	6.8	–	–	6.8
	1998	19.1	6.4	–	25.5
	1997	19.4	11.6	1.7	32.7
	1996	16.1	12.5	3.1	31.7

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

Table 3.9
Business in Force of Direct Insurers

Year	No. of Policies	Sums Insured	Annual Premiums
	Units	RM million	
1996	5,358,067	282,605.3	5,259.4
1997	5,926,363	321,993.5	5,967.2
1998	6,319,027	339,612.9	6,256.7
1999	7,038,724	368,979.3	6,859.4
2000	7,340,334	394,842.4	7,373.0
	% change		
1996	7.7	14.8	14.0
1997	10.6	13.9	13.5
1998	6.6	5.5	4.9
1999	11.4	8.6	9.6
2000	4.3	7.0	7.5

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					
1996	2,397.8	1,660.2	405.6	795.8	–	5,259.4
1997	2,702.8	1,861.8	329.2	1,064.0	9.4	5,967.2
1998	2,826.1	1,950.4	335.8	1,117.8	26.6	6,256.7
1999	3,069.1	2,125.7	373.8	1,182.9	107.9	6,859.4
2000	3,275.9	2,214.5	352.6	1,186.2	343.8	7,373.0
	% change					
1996	13.1	12.0	32.4	12.9	–	14.0
1997	12.7	12.1	–18.8	33.7	–	13.5
1998	4.6	4.8	2.0	5.1	183.0	4.9
1999	8.6	9.0	11.3	5.8	305.6	9.6
2000	6.7	4.2	–5.7	0.3	218.6	7.5
	% share					
1996	45.6	31.6	7.7	15.1	–	100.0
1997	45.3	31.2	5.5	17.8	0.2	100.0
1998	45.2	31.2	5.4	17.8	0.4	100.0
1999	44.7	31.0	5.5	17.2	1.6	100.0
2000	44.4	30.0	4.8	16.1	4.7	100.0

11.4%) to 7,340,334 policies to achieve an insurance penetration rate of 31.5%.

All classes of business except for 'others' policies registered slower growth in terms of sums insured in force. As a result of the more active promotion of newly launched products, investment-linked policies recorded an impressive growth to reach RM10,260.7 million in sums insured in force (1999: RM3,374.1 million). The annuity business, launched in the second half of year 2000, showed an encouraging debut with sums insured in force of RM613.3 million. However, the shares of whole life and temporary policies continued to decline to 34.5% and 35.7% respectively of the total sums insured in force.

In terms of annual premiums in force, the shares of whole life and endowment policies continued to remain dominant with shares of 44.4% and 30% respectively. However, the market share of these policies had declined gradually in favour of the more need-based insurance products such as education, health insurance (including long-term care) and investment-linked policies. The annual premiums in force of these actively promoted products had increased to account for a combined share of 17.9% of the total annual premiums in force. The development of new innovative products to meet the specific needs of consumers is expected to be the main drivers of new business growth for the industry in future. Another notable trend is the development of products which target niche market with specific coverage for specific customer groups, including benefit payments for diseases related to women and living

Chart 3.2
Distribution of Premiums in Force and Sums Insured in Force

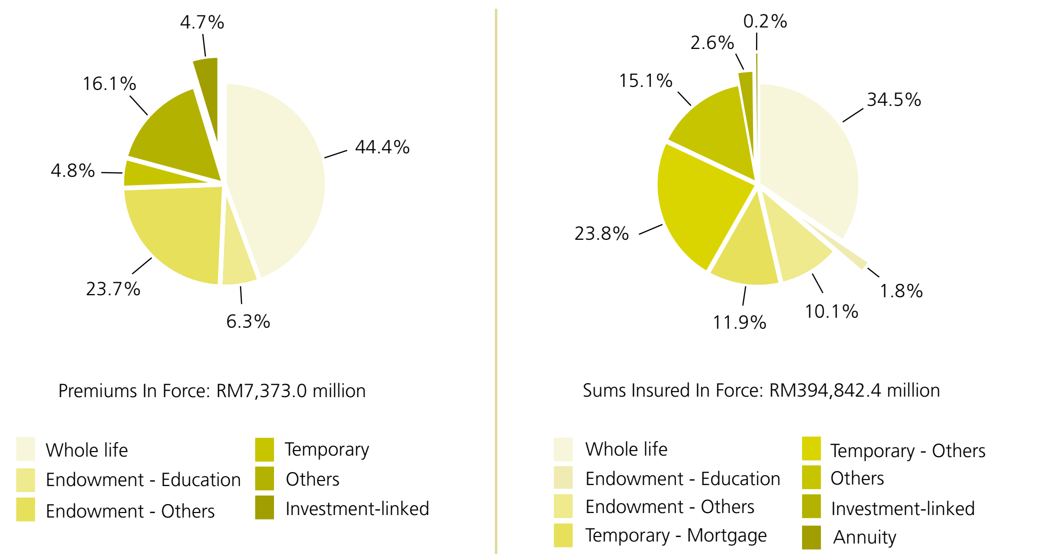


Table 3.11
Distribution of Sums Insured in Force of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole Life	Endowment	Temporary	Others			
	RM million						
1996	105,141.9	31,279.7	108,735.7	37,447.7	–	0.3	282,605.3
1997	117,672.6	37,698.6	103,244.4	63,250.6	127.0	0.3	321,993.5
1998	122,233.6	40,329.6	114,578.7	62,261.3	209.5	0.2	339,612.9
1999	135,464.8	43,630.5	133,032.2	53,477.6	3,374.1	0.1	368,979.3
2000	136,125.7	46,897.6	141,105.0	59,840.1	10,260.7	613.3	394,842.4
	% change						
1996	11.0	13.5	15.9	24.4	–	–	14.8
1997	11.9	20.5	–5.1	68.9	–	–	13.9
1998	3.9	7.0	11.0	–1.6	65.0	–33.3	5.5
1999	10.8	8.2	16.1	–14.1	1,510.5	–50.0	8.6
2000	0.5	7.5	6.1	11.9	204.1	613,200.0	7.0
	% share						
1996	37.2	11.1	38.5	13.2	–	…	100.0
1997	36.6	11.7	32.1	19.6	…	…	100.0
1998	36.0	11.9	33.7	18.3	0.1	…	100.0
1999	36.7	11.8	36.1	14.5	0.9	…	100.0
2000	34.5	11.9	35.7	15.1	2.6	0.2	100.0

… Negligible

benefits for the elderly or retirees. This is one good example of successful customer segmentation where it can increase the level of penetration by focusing on sectors which are underinsured or which meet specific needs of the consumers.

Foreign-controlled insurers continued to account for a substantial market share of life insurance business, by controlling 63.6% and 75.9% of sums insured and annual premiums in force respectively. These foreign-controlled insurers successfully maintained a dominant position in whole life policies with a market share of 87.5% and 83.8% of the sums insured and annual premiums respectively, while Malaysian-controlled insurers commanded a larger market share of temporary policies, underwriting 63.3% and 67.1% of the sums insured and annual premiums in force for this class of business.

The bulk of the life business is concentrated in the top few insurers, whereby the five largest insurers (four of which are foreign-controlled) in the industry controlled 71.6% and 79.1% (1999: 71.2% and 79.1%) of sums insured and annual premiums in force respectively. Contrary to this, the five smallest insurers (all Malaysian-controlled) only underwrote 6.8% and 3.2% (1999: 5.3% and 2.6%) of sums insured and annual premiums in force, respectively. These small Malaysian-controlled insurers have a long way to go to achieve economies of scale through organic growth. As a step forward to enhance business opportunities, local insurers have either merged or formed strategic alliance with other financial institutions to boost their market share. Tie-ups with banking institutions to leverage on the branch networks or banking customer base would help these insurers to penetrate into new markets. Bancassurance business recorded satisfactory progress with greater acceptance and commitment of bank personnel to promote insurance products. Bancassurance policies, including credit-related business increased to account for 16% of total new business of the industry. It is therefore, pertinent to note that small insurers should seriously strategise their business plan to enhance their market potentials through this new marketing channel. This will ensure that they remain viable and be able to meet the competitive challenges of the future market environment arising from the rapid pace of liberalisation of the insurance industry.

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					
1996	929	898	40,740	16,925	23	53
1997	936	914	39,850	18,258	23	50
1998	970	937	41,971	18,068	23	52
1999	1,021	983	45,055	18,350	23	54
2000	1,053	995	43,752	18,305	24	54

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

The average annual premiums in force for whole life and endowment policies increased marginally by 3.1% and 1.2% to RM1,053 and RM995 per policy, while the average sums insured in force declined by 2.9% to RM43,752 and 0.2% to RM18,305 per policy, respectively. The average premium per RM1,000 sums insured in force for whole life increased from RM23 to RM24, whereas the figure for endowment remained at RM54 in 2000.

Income and Outgo

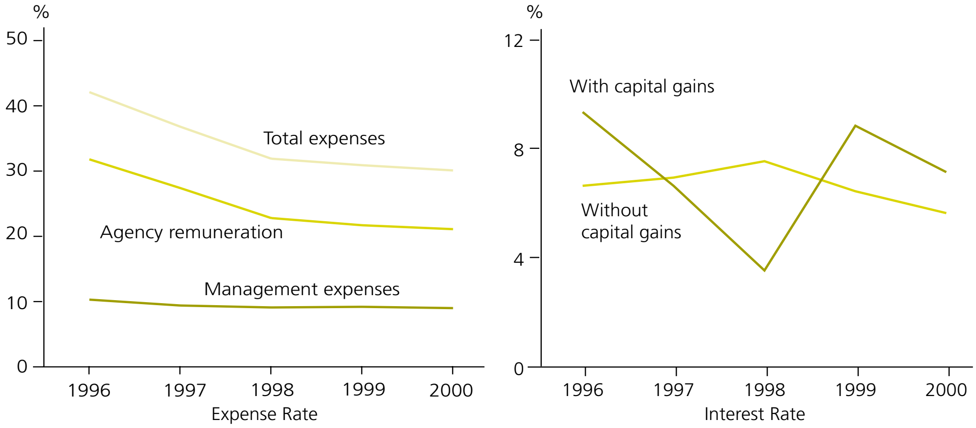
Reflecting the encouraging new business performance, total income of the life insurance funds grew at a higher rate of 28.4% (1999: 20.3%) to reach RM13,021.6 million in 2000. The growth was supported mainly by premium income, which increased by 41.9% to RM10,151.3 million. Premium from the EPF Annuity Scheme accounted for 16.2% of total premium income while the income from investment-linked business increased by 334.4% (1999: 78.7%) to achieve RM582.3 million or 5.7% of the total premium income in 2000. Net investment income of the life funds increased by 6.5% to RM1,740.4 million (1999: RM1,633.6 million) to account for 13.4% of total income. Interest income arising from investments in fixed deposits, Malaysian Government papers and guaranteed loans, private debt securities and loans continue to form the bulk (84.9%) of net investment income. Profit from sale of assets increased to RM757 million (1999: RM591.1 million), mainly from the capital gains arising from the sale of quoted securities.

Total outgo of life insurance funds increased significantly by 57.6% (1999: -10.8%) to RM7,023.7 million, mainly attributable to the higher provision for diminution in value of investments of RM577.5 million and also losses arising from the disposal of assets of RM333.9 million. Benefit payments continued to increase by 25.7% to RM2,815.7 million, representing 27.7% (1999: 31.3%) of the premium income in 2000. Surrenders formed the bulk of benefit payments (24.5%), while maturity claims accounted for 22.2%, followed by death and disability benefits (17.4%) and cash bonuses (15.2%). In line with the new business growth, agency remuneration and management

Table 3.13
Income and Outgo

Item	1998		1999		2000	
	RMm	%	RMm	%	RMm	%
Income						
Premium income	6,217.9	73.8	7,156.1	70.5	10,151.3	78.0
Net investment income	1,634.1	19.4	1,633.6	16.1	1,740.4	13.4
Profit on sale of assets and miscellaneous income	577.7	6.8	1,354.4	13.4	1,129.9	8.6
Total	8,429.7	100.0	10,144.1	100.0	13,021.6	100.0
Outgo						
Net policy benefits	1,936.5	23.0	2,239.4	22.1	2,815.7	21.6
Agency remuneration	1,335.1	15.8	1,413.2	13.9	1,549.2	11.9
Management expenses	535.4	6.4	595.2	5.9	659.4	5.1
Loss on disposal of assets and other outgo	1,190.7	14.1	209.5	2.0	1,999.4	15.3
Total	4,997.7	59.3	4,457.3	43.9	7,023.7	53.9
Excess of income over outgo	3,432.0	40.7	5,686.8	56.1	5,997.9	46.1

Chart 3.3
Expense Rate and Rate of Interest Earned



expenses also increased by 9.6% and 10.8% to RM1,549.2 million and RM659.4 million respectively. With the increase in total outgo outpacing the increase in total income, excess of income over outgo moderated to RM5,997.9 million or 46.1% of total income (1999: 56.1%).

Despite the higher total outgo, the expense rate (the ratio of agency remuneration and management expenses to annual premium income) of the industry improved further to 30.1% in 2000 (1999: 30.9%). This improvement was due to the gradual impact of the cost guidelines on life insurance business which was implemented by Bank Negara Malaysia (BNM) in 1996. The guidelines resulted in progressive reduction in the expense rate from 42.1% in 1996 to 30.1% in 2000. However, the expense rate of the Malaysian-controlled insurers remained high at 39.5%, mainly due to their inability to expand their base

Table 3.14
Expense Rate and Rate of Interest Earned

	% of Annual Premium Income					
Year	Agency Remune-ration (a)	Staff Remune-ration (b)	Other Expenses (c)	Total (a)+(b)+(c)	Net Rate of Interest Earned (1)	(2)
1996	31.8	3.7	6.6	42.1	6.7	9.4
1997	27.4	3.9	5.5	36.8	7.0	6.7
1998	22.8	3.8	5.3	31.9	7.6	3.6
1999	21.7	3.9	5.3	30.9	6.5	8.9
2000	21.1	3.9	5.1	30.1	5.8	7.3

(1) Rate of return on investments excluding capital gains
(2) Rate of return on investments including capital gains

premium in order to achieve economies of scale. The productivity indicators in terms of premium income per employee improved by 35.2% to RM506,580 (1999: 14.6% to RM374,745) while the industry's staff cost per employee increased by 8.4% from RM13,205 to RM14,319 (1999: 12.1%).

In terms of investment yield, consonant with the low interest rate environment, the net rate of interest of the insurance funds, excluding capital gains or losses, continued to decline for the second consecutive year from 6.5% in 1999 to 5.8% in 2000. Similarly, with the lower net capital gains arising from the sale of securities, the investment yield including capital gains decreased by 1.6 percentage points from 8.9% to 7.3% in 2000. However, over the last 10 years, the life insurance industry had achieved reasonably good returns on their investments, where the industry recorded an average rate of return (including capital gains) of 9.6% for the period 1991-2000.

In 2000, the returns to shareholders measured in terms of surplus transferred from life insurance funds to shareholders' fund (or head office accounts) improved by 38.4% to RM978.1 million. The bulk of the surplus transfers emerged from the operations of six foreign-controlled insurers which transferred a total of RM860.4 million to their shareholders.

Assets

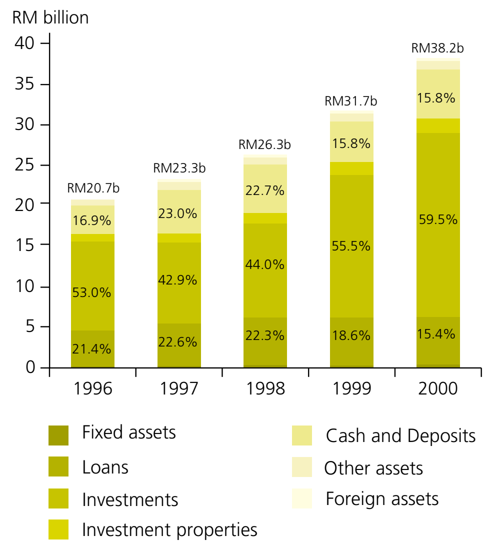
In line with the growth in income, total assets of life insurance funds grew by 20.6% (1999:

Table 3.15
Assets of Life Insurance Funds

Type of Investment	1996		1997		1998		1999		2000	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Fixed assets	127.3	0.6	170.9	0.7	314.9	1.2	296.3	0.9	367.6	0.9
Loans	4,443.1	21.4	5,269.6	22.6	5,873.1	22.3	5,905.3	18.6	5,877.1	15.4
Mortgages	*990.8*	*4.8*	*886.0*	*3.8*	*1,170.0*	*4.4*	*877.3*	*2.8*	*922.4*	*2.4*
Policy	*1,595.8*	*7.7*	*1,981.1*	*8.5*	*2,663.3*	*10.1*	*3,122.8*	*9.8*	*3,598.9*	*9.4*
Others	*1,856.5*	*8.9*	*2,402.5*	*10.3*	*2,039.8*	*7.8*	*1,905.2*	*6.0*	*1,355.8*	*3.6*
Investments	10,978.4	53.0	10,005.2	42.9	11,582.0	44.0	17,593.1	55.5	22,757.2	59.5
Malaysian Government papers/guaranteed loans	*5,181.1*	*25.0*	*3,489.9*	*15.0*	*3,429.9*	*13.0*	*4,472.3*	*14.1*	*5,035.8*	*13.2*
Corporate/debt securities	*5,704.7*	*27.5*	*6,437.9*	*27.6*	*8,087.3*	*30.7*	*13,007.8*	*41.0*	*17,538.1*	*45.9*
Others	*92.6*	*0.5*	*77.4*	*0.3*	*64.8*	*0.3*	*113.0*	*0.4*	*183.3*	*0.4*
Investment properties	957.6	4.6	1,133.9	4.9	1,329.7	5.1	1,599.3	5.1	1,782.1	4.7
Cash and deposits	3,494.2	16.9	5,354.2	23.0	5,969.2	22.7	5,022.2	15.8	6,056.6	15.8
Other assets	728.8	3.5	1,019.7	4.4	898.5	3.4	962.3	3.0	1,055.7	2.8
Foreign assets	–	–	354.4	1.5	349.5	1.3	332.6	1.1	332.1	0.9
Total	20,729.4	100.0	23,307.9	100.0	26,316.9	100.0	31,711.1	100.0	38,228.4	100.0

20.5%) to reach RM38,228.4 million in 2000. The assets of the annuity funds increased rapidly to account for 4.2% of the total asset of life funds while assets of investment-linked funds also recorded a significant growth to reach RM574.6 million or 1.5% (1999: 0.8%) of the total assets of the life funds. A classification of insurers by size of assets showed that 10 direct insurers, including four Malaysian-controlled insurers had life fund assets exceeding RM1.5 billion each. Another two insurers achieved an asset size of about RM900 million, while the remaining five insurers recorded an asset size of less than RM400 million. These relatively small-sized insurers usually outsource their investment management to external providers in order to maximise investment returns.

Chart 3.4
Assets of Life Insurance Funds



In terms of distribution of assets, a high proportion of the life funds had been invested in corporate and debt securities. Investments in corporate and debt securities, which grew significantly by 34.8% (1999: 60.8%) to RM17,538.1 million in 2000, remained the largest portfolio of assets, representing 45.9% of the total life fund assets. Of the portfolio of corporate and debt securities, investments in debentures, bonds and loan stocks increased by 84.4% to reach RM8,750.5 million, representing 22.9% (1999: 15%) of total assets. To facilitate the development of the bond market, BNM had reduced the minimum rating for unsecured credit facilities to 'BBB' for purpose of meeting the admitted assets requirement for insurers. Further, the combined investment limit of 55% for credit facilities and shares was revised and insurers were allowed a more flexible individual limit of 40% for credit

Table 3.16
Valuation Result and Surplus Distribution

Item	1998		1999		2000	
	RMm	% change	RMm	% change	RMm	% change
Valuation result						
Policyholders' fund	23,582.5	12.5	28,796.0	22.1	34,009.7	18.1
Valuation liabilities	20,380.4	13.5	23,549.3	15.5	28,361.5	20.4
Surplus/deficit	3,202.1	6.5	5,246.7	63.9	5,648.2	7.7
Surplus distribution						
Allocation to policy owners	1,311.8	–1.1	1,526.5	16.4	1,605.8	5.2
Allocation to shareholders	352.2	–44.6	853.1	142.2	768.1	–10.0
Transfer to any fund/reserve	–	–	21.2	–	–	–
Surplus carried forward	1,538.1	45.3	2,845.9	85.0	3,274.3	15.1

facilities and 30% for shares. In 2000, 59% of the total investment-linked funds were invested in corporate and debt securities. Cash and deposits which remained the second largest portfolio of assets with a share of 15.8% increased by 20.6% (1999: -15.9%), to RM6,056.6 million. The loan portfolio comprising mainly mortgages, policy loans and other loans, declined marginally by 0.5% to account for a share of 15.4% (1999: 18.6%) of total assets. Loans to policy owners declined to account for 9.4% (1999: 9.8%) of total assets reflecting lesser utilisation of the accumulated cash surrender values by policy owners to pay for outstanding premiums. Mortgage loans which were mainly housing loans given to policy owners increased by 5.1% (1999: -25%) to account for 2.4% of total assets in 2000. Investment in Malaysian Government papers and guaranteed loans decreased to 13.2% (1999: 14.1%) of total assets.

Valuation Reports

A life insurer is required under Section 85 of the Insurance Act 1996 to carry out annual actuarial investigations into the financial condition of its life business in respect of its liabilities to the policy owners, and to submit a summary of the valuation results to BNM. The actuarial investigations determine the level of reserves that the insurer has to maintain to meet the future policy benefits of its 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. The investigations for annuity business are based on the 'a(90) Annuitant Mortality Table' using 5% interest rate assumption.

In 2000, total valuation liabilities registered a growth of 20.4% to reach RM28,361.5 million, while policyholders' funds increased at a slower rate of 18.1% to reach RM34,009.7 million. With the higher growth in valuation liabilities, the ratio of policyholders' fund to valuation liabilities decreased from 122.3% to 119.9%. As a result, the aggregate actuarial surplus recorded a slower growth of 7.7% (1999: 63.9%) to RM5,648.2 million in 2000. The foreign-controlled insurers continued to account for the bulk of the industry's total surplus with a market share of 80% (1999: 73.9%) of total industry surplus in 2000 as against their market share of 72.4% of total assets of the life funds.

Despite the increase in actuarial surplus, the surplus distributed to participating policy owners and shareholders decreased marginally by 0.2% in 2000. The amount of surplus allocated to participating policy owners increased moderately by 5.2% (1999: 16.4%), while the surplus allocated to shareholders declined by 10% (1999: +142.2%). The reduction in surplus allocation to shareholders was due to the need to maintain adequate solvency margins within the life funds, in line with the reinstatement of solvency requirement to 100% on 1 January 2001, which had been earlier relaxed due to the economic slowdown of 1997-1998. Despite the decline in surplus allocation in 2000, the surplus carried forward to meet future policy owners' bonus expectations including terminal bonus continued to increase to RM3,274.3 million in 2000, albeit at a lower rate of 15.1% (1999: 85%). The net surplus ratio (ratio of policyholders' fund after surplus allocation to valuation liabilities) was 0.7 percentage points lower at 111.5% as compared with the preceding year of 112.2%. In view of the difficult investment environment, insurers should strive to improve the surplus ratio so as to enhance their financial resilience to meet any future unexpected adverse circumstances.

In line with the reduction in growth of actuarial surplus, the net surplus arising during the year (excluding surplus brought forward from the previous valuation and transfers from shareholders, but including interim bonuses) declined by 25.2% to RM2,777.4 million in 2000 (1999: +96.3%). The decline was partly due to the provision for diminution in the values of quoted investments. With the exception of two insurers, all other insurers registered a decline in net surplus arising during the year. In terms of profitability of life insurance business, the ratio of the industry's net surplus due to the average life fund (representing the rate at which surplus is generated by the life fund) fell by 5.4 percentage points to 8.8% (1999: 14.2%) in 2000.

Socio-economic Indicators

Consonant with the higher growth rate of nominal GNP of 11.7% in 2000 (1999: 4.3%), the demand for life insurance coverage (in terms of premium income) increased with a stronger growth of 41.9% (1999: 15.1%). The elasticity measured by the growth in premium income in relation to GNP growth recorded a high positive correlation due to the vast untapped potential for life insurance. As a result, the ratio of premium income to both nominal GNP and nominal GDP increased from 2.6% and 3.7% to 3.3% and 4.8% respectively in 2000. However, these ratios are still low when compared with those in the more developed insurance markets overseas where the ratio of premium income to GDP is between 5% to 9%.

Market penetration (measured in terms of the number of policies in force as a ratio of total population of the nation) continued to increase marginally to 31.5%, compared with 31% in 1999. However, the ratio of number of policies in relation to only the working population reduced slightly from 79.1% in 1999 to 78.9% in 2000. In terms of number of lives covered by life insurance policies, including both individual and group policies, to total Malaysian population, the ratio increased from 44.4% in 1999 to 50.4% in 2000. Despite the continuous growth of life insurance coverage, the level of insurance penetration remained low, when compared with the more developed markets like Singapore, Taiwan, South Korea and Japan which experienced a penetration rate of around 100% to 140%.

Similarly, premium income constituted a small portion of gross national savings, with the ratio

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 person	Per member of Employment	RMm	million		RM
1996	282,605.3	116.8	13,330	5,209.2	2.2	246	620	241,931	21.2	8.4	11,429
1997	321,993.5	120.7	14,838	5,970.8	2.2	275	679	266,699	21.7	8.8	12,309
1998	339,612.9	126.8	15,298	6,217.9	2.3	280	723	267,922	22.2	8.6	12,080
1999	368,979.3	132.0	16,255	7,156.1	2.6	315	804	279,452	22.7	8.9	12,304
2000	394,842.4	126.5	16,946	10,151.3	3.3	436	1092	312,152	23.3	9.3	13,411

[1] As per revenue accounts
(Source: Economic Reports of the Ministry of Finance)

of premium income generated in 2000 to gross national savings increasing marginally from 6.2% in 1999 to 8.3% in 2000. In comparison, this ratio is lower than the ratio of 20.9% for bank deposits and 13.9% for contributions to the EPF to gross national savings. The ratio of premium income to gross national savings for the more developed countries ranged from 9% to 25%.

In terms of contribution to capital formation, life insurance assets recorded a sustained growth of 20.6% to reach RM38,228.4 million, while the total assets of the financial system increased by 6% to RM1,243 billion in 2000. With the higher growth of the life insurance funds, the life insurers' share of the total assets of the financial system increased from 2.7% in 1999 to 3.1% in 2000 as compared with more than 4% in the more matured markets.

A comparison with other mediums of savings indicated that the growth in premium income was higher than the increase in total deposits of the financial institutions. During 1996-2000, premium income grew at an average annual rate of 18.2%, higher than the average increase in total deposits and the average annual contributions to the EPF of 7.2% and 9.2% respectively during the same period. As the level of consumerism becomes more sophisticated and with the growing convergence of financial products in the financial market, the competition for a share of the nation's savings among the different institutions within the financial industry will intensify. To accelerate growth, life insurers should exploit the vast untapped potential and review their business strategies, enhance operational efficiency through re-engineering of processes and invest in product research and development in order to offer more innovative products to customers to increase their market share of the savings in the country.

Preliminary 2001 Data

After registering a high growth rate of 108% in the year 2000, new business premiums moderated with growth of 27.6% to RM5,249.5 million in 2001. New sums insured and new policies grew by 8.4% and 10% (2000: 17.6% and -14.6%) to RM128,418.2 million and 1,364,582 policies respectively. The growth in the new life premiums was mainly driven by single premiums, which registered a significant increase of 34.9% in 2001. The bulk of the increase in single premiums was due to the sale of annuity products which grew significantly by 45.1% to reach RM2,414.9 million. Single premium annuity accounted for 46% of total new business premiums. The sale of annuity products through the EPF Annuity Scheme, which provides an option for EPF contributors to convert part of their accumulated savings for retirement into a stream of guaranteed income for old age, was robust. If single premium annuity business is excluded, the growth of new business premiums was 15.7% (2000: 23.9%) in 2001. New annual premiums also registered a commendable growth of 11.9% (2000: -1.5%), mainly spurred by five insurers which achieved growth of more than 20% each in 2001. These five insurers were successful in promoting savings-type participating life plans and investment-linked policies vis-a-vis the competition from other saving institutions. Even under the current difficult investment environment, these insurers managed to innovate savings products with reasonable life cover and competitive dividend rates to the insuring public. Given the right strategic focus, similar potential for growth in niche markets such as retirement schemes, investment-linked insurance and long-term care could be achieved.

All classes of business, except single premium investment-linked business, registered growth in new business premiums in 2001. The decline in single premium investment-linked business was mainly due to the shift by some insurers to give more emphasis to the sale of annual premium investment-linked policies during 2001. Investment-linked business as a whole registered a decline of 23% to RM407.4 million in 2001. In terms of new business composition, the annuity business continued to account for the largest share of 46% of new business premiums. Endowment policies increased by 60.7% to account for a share of 15.7% of total new business, followed by temporary and whole life with shares of 14.1% and 9.4% respectively. The growth of endowment policies was mainly due to single premium endowment with guaranteed dividend which were marketed directly to existing policy owners or through tie-ups with financial institutions. Given the low distribution costs, these endowment plans were able to compete more effectively with other savings products offered by other financial institutions.

The persistency of life insurance policies continued to improve during 2001 with the termination of annual premiums and sums insured decreasing by 8.7% each (2000: +15.5% and +39.1%) to RM760.8 million and RM90,645.5 million respectively. Forfeiture of annual premiums recorded further improvement by 24.9% (2000: +2.7%) to RM275.6 million in 2001. As a result, the weighted forfeiture rate of the industry improved from 31.2% in 2000 to 21.6% in 2001. With more emphasis placed on ethical selling practices through training and education of intermediaries, the quality of new business underwritten had shown gradual improvement. Terminations by 'other' causes (which is mainly due to expiry of yearly renewable policies) accounted for a dominant share of 82.8% of the sums insured terminated. However, the surrender rate of the industry remained unchanged at 2% in 2001.

Consonant with the improvement in terminations, business in force, both in terms of annual premiums and sums insured, increased by 10.5% and 11.4% (2000: 7.5% and 7%) to reach RM8,145.5 million and RM439,835.2 million respectively in 2001. Similarly, the number of policies in force increased by 6.9% (2000: 4.3%) to 7,843,959 policies to reach a penetration rate of 33%, which is 1.5 percentage points higher than the preceding year. The ratio of number of policies in relation to the working population increased from 78.9% in 2000 to 82.6% in 2001, indicating that for every 10 working persons eight owned insurance policies. Whole life policies, which registered growth of 7.9%, continued to maintain a dominant position with a share of 43.4% of annual premiums in force, followed by endowment and 'others' policies with a share of 28.6% and 16.2% of the total annual premiums in force respectively. With the gradual shift in business focus from traditional products to investment-linked business, the annual premiums and sums insured in force of investment-linked policies increased significantly by 74.5% and 81.9% to RM599.8 million and RM18,668.6 million respectively in 2001. Consequently, the market share of investment-linked business continued to increase to 7.4% and 4.2% (2000: 4.7% and 2.6%) of the total annual premiums and sums insured in force respectively.

Total income of the life insurance industry increased by 13.2% (2000: 28.4%) to reach RM14,735.9 million in 2001. However, compared to 2000, the growth of income during the year dampened mainly attributable to the lower profit on realisation of assets, which contracted by 69.9% from RM757 million in 2000 to RM227.6 million in 2001. Premium income increased by 15.4% (2000: 41.9%) to account for the bulk (79.5%) of total income in 2001. Net investment income from dividends, interest, rents or other fixed interest securities grew at higher rate of 16.2% to RM2,022.2 million in 2001. Total outgo of the industry declined by 4.6% (2000: +57.6%) to RM6,700.1 million. Provision for diminution in value of investments declined by 69.3% in 2001 to RM177.6 million, while benefit payments continued to increase by 18.1% to RM3,324 million, representing 28.4% (2000: 27.7%) of the premium income in 2001. Agency remuneration and management expenses increased by 16.2% and 15.8% to RM1,799.8 million and RM763.4 million respectively in conjunction with the higher business turnover. The expense rate of the life insurance industry increased marginally to 31.9% in 2001. The operational efficiency of Malaysian-controlled life insurers still lagged behind with expense levels much higher than the foreign-controlled insurers.

With the reduction in total outgo, the excess of income over outgo of the life business recorded an increase of 34% to RM8,035.8 million. In terms of investment yield, the net rate of interest of insurance funds, excluding capital gains, declined marginally to 5.7% (2000: 5.8%). The investment yield, including capital gains or losses, declined to 4.8% in 2001 (2000: 7.3%).

In line with the overall improvement in business performance, total assets of life insurance funds expanded by 17.5% to reach RM44,922.3 million as at end 2001. The annuity fund recorded a significant growth of 73.8% to RM2,822.9 million, while assets of investment-linked funds recorded a growth of 46.9%

(2000:133.7%) to reach RM844.1 million in 2001. Consequently, the asset share of annuity funds and investment-linked funds to total life fund assets increased to 6.3% and 1.9% (2000: 4.2% and 1.5%) respectively. A classification of life insurers by size of assets showed that 11 out of 16 direct insurers had an asset size of more than RM1 billion. The remaining five life insurers had an asset size of less than RM500 million and had not been able to achieve economies of scale as indicated by their high expense ratios. In terms of distribution of assets, investments in corporate and debt securities which registered a growth of 20.4% to RM21,113.2 million, accounted for the largest share of 47% of total assets. Investments in Malaysian Government papers (including guaranteed loans) and policy loans increased by 35.6% and 13.1% to RM6,828.5 million and RM4,070.1 million, representing a share of 15.2% and 9.1% of total assets respectively. The share of cash and deposits reduced from 15.8% to 13.5% of total assets in 2001.

Malaysian Mortality Experience

The Life Insurance Association of Malaysia has been providing the annual updates of mortality rates of Malaysian assured lives based on the actual experience of assured lives in Malaysia since 1996. The mortality rates were updated based on the annual submissions by life insurers for whole life, endowment and temporary insurance policies in force on male and female assured lives, and the corresponding number of policies terminated by death during the financial year. To ensure that a desirable level of statistical precision is maintained, the data were segregated for male and female lives, 'with medical' and 'without medical' lives, as well as ordinary and home service business. This was also to ensure that the sub-groups were sufficiently homogenous to enable useful and reasonable conclusions to be drawn.

In order to ensure that the exposure to risk is sufficiently large to minimise the effect of random fluctuations in the calculated mortality rates, a seven-year period was initially used for the mortality analysis. However, with the increase in volume of business in force, the period of investigation was subsequently shortened to five years. The use of a shorter investigation period has the advantage of reducing the averaging effect resulting from an extended period of investigation. It would also provide more up-to-date mortality statistics which are more reliable and representative.

The mortality experience of Malaysian assured lives during the period 1995-1999 is given in Table 3.18. The table is based on mortality

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

Age Attained Group	Ordinary (1995-1999)							
	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	38.87	0.33	304.25	0.33	27.02	0.04	212.28	0.25
15 - 19	37.90	0.98	279.66	1.43	21.90	0.14	168.54	0.44
20 - 24	45.62	1.34	525.61	1.31	29.23	0.24	427.36	0.36
25 - 29	85.20	0.80	847.62	1.00	56.53	0.42	735.15	0.40
30 - 34	134.59	0.85	993.94	0.99	73.25	0.60	748.22	0.52
35 - 39	181.20	0.92	967.94	1.29	80.87	0.69	636.77	0.71
40 - 44	213.02	1.36	786.02	1.90	78.06	1.13	468.87	0.90
45 - 49	191.82	2.19	530.07	3.01	64.60	1.55	284.03	1.70
50 - 54	138.93	4.42	259.32	5.07	55.18	2.41	122.13	2.80
55 - 59	92.64	6.99	88.63	8.89	48.50	3.34	44.96	4.65
60 - 64	47.34	12.44	24.58	15.50	29.08	6.77	12.56	7.72
65 - 69	19.50	22.82	5.66	24.21	13.96	12.53	3.37	19.01
70 - 74	6.63	40.25	1.61	31.68	4.52	21.00	1.48	35.93
Total	1,233.26	3.03	5,614.91	1.79	582.70	1.86	3,865.72	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)

experience for policies which had been in force for a period of two or more years, while policies which had been in force for less than two years were excluded from the study. The exclusion is to minimise the mortality reduction effect of medical selection, anti-selection or other selection made at issuance of the policies. Despite this exclusion, it was found that the mortality rates of male assured lives who had undergone a medical examination for age 15 and above continued to be significantly lower than those who had not, with the exception of the age groups 20-24 years and 70-74 years. Based on the age groups studied, the difference ranges from about 6% to almost 32% for ages between 15 to 74 years. For the age groups 20-24 and 70-74, male assured lives with medical examination showed a heavier mortality of between 2% and 27% than those without examination. Similarly, the mortality of female assured lives after medical examination was generally found to be significantly lower than those without medical examination across all age groups, with the exception of age groups 25-34 and 40-44. The mortality rates for female assured lives at the youngest age group and also the older age groups were also subject to random fluctuations as the number of female lives exposed to risk was less than half of the male lives.

The mortality rates of ordinary female lives continued to remain significantly lower than that of male lives by around 30% to 70% with the difference most prominent at ages 15-24, largely due to the accident-related deaths experienced by male assured lives within these age groups.

Compared with the 'Malaysian 1983-88 Mortality Table - Male Ordinary', the Malaysian male mortality rates during the period 1995-1999 generally showed an improvement of between 3% and 26% across all age groups, except for age group 15-19 and at older ages. A similar comparison with the 'Statutory Valuation Mortality Table 1996' (SVMT) revealed that the male mortality rates were lighter, ranging from 12% to 77%, for all age groups. Similarly, the female mortality rates during the period 1995-1999 were at least 30% lower than the SVMT, with the difference among ages groups varying up to 60%. This indicates that the SVMT remains appropriate as a conservative mortality basis to be used for the statutory reserves.

A comparison between the number of expected deaths based on the mortality rates derived from the 1994-1998 investigation (computed for the exposure to risk during the period) with the actual number of deaths recorded in the 1995-1999 investigation revealed that the Malaysian mortality has generally improved for all ages. For ordinary males without medical examination, the actual number of deaths was 3.5% lower than the expected number of deaths under the mortality rates calculated from the previous mortality investigation. The actual number of deaths during the 1995-1999 period for with medical and without medical ordinary female assured lives were 4.3% and 6.7% lower than the 1994-1998 mortality rates respectively.

Performance of General Business in 2000

Premium Growth and Distribution

In 2000, general insurance business continued to record improved performance with gross direct premiums increasing by 8.2% to RM5,996.8 million, compared with a marginal growth of 0.6% to RM5,541 million in 1999. Motor and liability classes of business recorded the highest growth rate of 13.9% each (1999: 2% and 6.6% respectively). The high growth rate registered by the motor sector was due mainly to the favourable sales of motor vehicles in 2000, while that of liability class of business was supported largely by an increase in liability cover related to oil and gas business. Medical expenses and personal accident lines also

Table 3.19
Premium Income

Year	Gross Premiums[1]	Gross Direct Premiums	Net Premiums	Retention Ratio (%)
	RM million			
1997	6,074.2	6,227.8	5,161.6	85.0
1998	5,422.8	5,505.3	4,685.7	86.4
1999	5,328.4	5,541.0	4,677.2	87.8
2000	5,673.3	5,996.8	5,064.7	89.3
	% change			
1998	–10.7	–11.6	–9.2	n.a
1999	–1.7	0.6	–0.2	n.a
2000	6.5	8.2	8.3	n.a

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

Table 3.20
Distribution of Gross Direct Premiums

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[1]	Others	Total				
	RM million										
1997	503.5	339.3	1,224.6	447.5	387.4	2,558.0	2,945.4	93.8	87.5	586.2	6,227.8
1998	471.1	253.1	1,251.5	530.8	380.3	2,084.0	2,464.3	96.9	67.9	369.7	5,505.3
1999	426.8	278.1	1,242.5	553.8	358.4	2,154.7	2,513.1	103.3	80.5	342.9	5,541.0
2000	472.4	275.6	1,237.9	619.9	389.4	2,472.0	2,861.4	117.7	81.2	330.7	5,996.8
	% change										
1998	–6.4	–25.4	2.2	18.6	–1.8	–18.5	–16.3	3.3	–22.4	–36.9	–11.6
1999	–9.4	9.9	–0.7	4.3	–5.7	3.4	2.0	6.6	18.6	–7.2	0.6
2000	10.7	–0.9	–0.4	11.9	8.6	14.7	13.9	13.9	0.9	–3.6	8.2
	% share										
1997	8.1	5.4	19.7	7.2	6.2	41.1	47.3	1.5	1.4	9.4	100.0
1998	8.6	4.6	22.7	9.6	6.9	37.9	44.8	1.8	1.2	6.7	100.0
1999	7.7	5.0	22.4	10.0	6.5	38.9	45.4	1.9	1.5	6.2	100.0
2000	7.9	4.6	20.6	10.3	6.5	41.2	47.7	2.0	1.4	5.5	100.0

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

registered higher growth at 11.9% (1999: 4.3%) with increased demand for such cover by the public. Reversing the previous year's trend when it suffered a contraction of 9.4%, marine, aviation and transit (MAT) grew by 10.7% in 2000 partly attributable to offshore oil-related business. Workmen's compensation and employers' liability, however, registered only a nominal growth of 0.9%, compared with a sharp increase of 18.6% in 1999. Fire business experienced a contraction of 0.4% in gross direct premiums largely due to the downward revision in fire tariff effective July 2000. Contractors' all risks and engineering also

Table 3.21
Distribution of Net Premiums

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering[1]	Fire	Medical Expenses and Personal Accident[1]	Motor			Liability[1]	Workmen's Compensation and Employers' Liability[1]	Miscellaneous	Total
					'Act' Cover[2]	Others	Total				
	RM million										
1996	225.3	–	750.6	–	347.2	2,170.9	2,518.1	–	–	1,011.5	4,505.5
1997	250.1	179.8	869.9	415.7	372.9	2,486.1	2,859.0	54.1	97.5	435.5	5,161.6
1998	232.9	139.5	933.1	498.8	367.7	2,107.7	2,475.4	55.1	71.4	279.5	4,685.7
1999	227.4	128.7	923.1	513.1	343.3	2,155.4	2,498.7	67.4	79.5	239.3	4,677.2
2000	232.7	132.2	957.6	549.9	368.6	2,427.1	2,795.7	70.1	80.1	246.4	5,064.7
	% change										
1996	18.3	–	19.1	–	20.4	30.5	29.0	–	–	30.7	27.0
1997	11.0	–	15.9	–	7.4	14.5	13.5	–	–	–56.9	14.6
1998	–6.9	–22.4	7.3	20.0	–1.4	–15.2	–13.4	1.8	–26.8	–35.8	–9.2
1999	–2.4	–7.7	–1.1	2.9	–6.6	2.3	0.9	22.3	11.3	–14.4	–0.2
2000	2.3	2.7	3.7	7.2	7.4	12.6	11.9	4.0	0.8	3.0	8.3
	% share										
1996	5.0	–	16.7	–	7.7	48.2	55.9	–	–	22.5	100.0
1997	4.8	3.5	16.9	8.1	7.2	48.2	55.4	1.0	1.9	8.4	100.0
1998	5.0	3.0	19.9	10.6	7.8	45.0	52.8	1.2	1.5	6.0	100.0
1999	4.9	2.8	19.7	11.0	7.3	46.1	53.4	1.4	1.7	5.1	100.0
2000	4.6	2.6	18.9	10.8	7.3	47.9	55.2	1.4	1.6	4.9	100.0

[1] Prior to 1997, classes were grouped under miscellaneous
[2] Compulsory insurance cover required under the Road Transport Act 1987

contracted by 0.9% (1999: 9.9%) in line with the slower construction activities, while miscellaneous business contracted by 3.6%.

In terms of volume of business underwritten, 22 of the 48 insurers (1999: 20 of 51) (excluding the professional reinsurers and two direct insurers which were running off their general business), recorded gross direct premiums exceeding RM100 million each. In aggregate, these 22 insurers accounted for nearly 80% (1999: 71.4%) of the industry's gross direct premiums. Of the remaining 26 insurers with gross direct premiums not exceeding RM100 million each, 14 wrote premiums of less than RM50 million each, with average premiums of only RM31.1 million each. Such a low volume of business is clearly not viable and untenable as well as not commensurate with the required minimum paid-up capital of RM100 million. Insurers, in particular the smaller ones, should therefore pursue consolidation in greater earnest to achieve economies of scale in operations.

An analysis of the portfolio mix of insurers showed that a large number of insurers still concentrated on motor business, which remained the dominant class of business, accounting for 47.7% of total gross direct premiums. Four insurers derived more than 80% of their total gross direct premiums from motor insurance business, accounting for a combined market share of 39.4%, while 29 insurers had 25% to 50% of their gross direct premiums from motor business. Fire business, which was the second largest class of business accounting for 20.6% of total gross direct premiums, was better distributed among the insurers. Of the 48 insurers, 22 derived between 25% to 50% of their gross direct premiums from fire business, while the remaining 26 insurers had less than 25% of their business from this sector. Insurers' penetration in the other classes of business, however, continued to be low.

It is evident that the insurers should continue to strive to explore and expand into other classes of business. Besides spreading risk exposure over a wider range of business, the needs of customers for other insurance services could also be effectively met. In view of Malaysia's status as a trading nation, insurers should further exploit the MAT market as a means of diversifying their overall portfolio and at the same time support the national objective of reducing the outflow of funds. Insurers should also strive to strengthen underwriting skills and enhance knowledge in

Table 3.22
Net Retention Ratio

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
	Combined[2]										
1997	54.3	54.2	73.0	91.0	98.0	98.5	98.4	62.1	98.4	80.1	85.0
1998	55.0	53.7	77.6	93.1	98.9	98.9	98.9	69.0	98.2	80.7	86.4
1999	57.0	56.6	79.1	93.5	99.9	99.5	99.6	73.4	99.1	78.8	87.8
2000	54.1	63.5	82.3	95.0	99.7	99.4	99.4	68.0	99.1	83.1	89.3
	Direct Insurers[2]										
1997	48.7	36.5	68.5	90.1	97.8	98.5	98.4	59.3	98.3	78.1	83.6
1998	49.4	39.7	72.5	92.5	98.8	98.9	98.9	67.1	98.1	77.5	85.1
1999	52.7	44.3	75.8	93.0	99.9	99.5	99.6	69.7	99.1	75.1	87.3
2000	47.6	48.6	78.9	94.7	99.7	99.4	99.5	64.4	99.0	79.6	88.6
	Professional Reinsurers[3]										
1997	58.9	75.7	57.1	58.3	48.7	54.4	53.6	99.4	48.9	57.1	58.3
1998	60.6	70.0	63.2	62.4	49.2	59.6	58.3	96.7	49.9	61.6	62.0
1999	53.3	72.1	69.1	73.5	50.2	61.9	60.5	87.0	58.9	72.7	66.3
2000	67.8	79.1	74.0	74.9	55.0	65.4	64.4	86.4	62.8	78.1	72.0

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

other classes of business, such as liability as well as contractors' all risks and engineering.

In the wake of the September 11 events in the United States, insurers could seriously consider pooling their resources to collectively participate in the formation of a pool or consortium and make available insurance coverages that have been withdrawn or reduced by international markets or are prohibitively priced. Such initiative on the part of the industry is essential to ensure continued availability of cover to the insuring public, in spite of uncertainties in the international insurance markets.

Retention and Reinsurance of Malaysian Business

The retention of Malaysian business (both direct insurers and reinsurers) continued to improve in 2000 to reach a net retention ratio of 89.3% (1999: 87.8%). However, retention in respect of MAT deteriorated to 54.1% (1999: 57%). In the case of liability class of business, a lower retention ratio of 68% was recorded in 2000 (1999: 73.4%) due to insurers scaling down their exposure to this class following the poor performance experienced in 1999 when the claims ratio surged to 86.1% compared with 68.1% in 1998.

The direct insurers maintained a retention ratio of 88.6% in aggregate in 2000 (1999: 87.3%), with the remaining 11.4% (1999: 12.7%) reinsured with other direct insurers and professional reinsurers in Malaysia and the Labuan International Offshore Financial Centre (IOFC) as well as overseas. As in the previous year, the direct insurers retained a large proportion of the smaller retail risks related to motor, medical expenses and personal accident as well as workmen's compensation and employers' liability. As a result, the retention ratio of these classes of business was above that of the industry average of 89.3%. The lowest retention was in the MAT class of

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	133.9	250.9	9.5	126.5	94.5
Marine, aviation and transit cargo	63.9	30.0	13.2	–20.7	–32.4
Contractors' all risks & engineering	76.1	59.0	17.2	0.1	0.1
Fire	206.5	122.3	54.4	–29.8	–14.4
Medical expenses and personal accident	28.8	16.6	8.3	–3.9	–13.5
Motor	15.5	14.2	0.7	–0.6	–3.9
'Act' cover [1]	*1.1*	*7.1*	*0.1*	*6.1*	*554.5*
Others	*14.4*	*7.1*	*0.6*	*–6.7*	*–46.5*
Liability	33.0	3.6	4.1	–25.3	–76.7
Workmen's compensation and employers' liability	0.7	0.1	0.1	–0.5	–71.4
Miscellaneous	50.2	52.8	13.0	15.6	31.1
Total	608.6	549.5	120.5	61.4	10.1

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

business, which recorded a retention ratio of 47.6%, a decline from 52.7% in 1999. Although the retention ratio related to contractors' all risks and engineering improved to 48.6% (1999: 44.3%), the retention level was nevertheless low. With increased capitalisation, there is room for greater retention of risks by the industry.

The retention ratio of the professional reinsurers including Malaysian National Reinsurance Berhad (MNRB), improved to 72% in 2000 (1999: 66.3%). Excluding MNRB, which retroceded more than one-third of its reinsurance accepted premiums to the market under the voluntary cession arrangement, the foreign professional reinsurers recorded a retention ratio of 92.9% (1999: 90.4%), with two (1999: three) retaining 100% of the reinsurance premiums accepted.

Total reinsurance premiums ceded and retroceded by the industry grew by 3.1% (1999: -12%) to RM2,366 million (1999: RM2,295.4 million). It was noted that placement of reinsurance with professional reinsurers in Malaysia and Labuan IOFC licensees increased to account for 74.3% of total reinsurance premiums ceded and retroceded compared with 71.6% in 1999. With the increase in local placement, cessions to overseas insurers declined to RM608.6 million in 2000 (1999: RM651.2 million). Fire and MAT classes formed the largest component of overseas cessions accounting for shares of 33.9% and 32.5% respectively. The outflow of reinsurance premiums was, however, offset by claims recoveries as well as reinsurance and profit commissions aggregating RM670 million (1999: RM642.8 million) received from overseas reinsurers, resulting in a net inflow of RM61.4 million in 2000 (1999: outflow of RM8.4 million).

The two underwriting pools, which were initiated with the objective of increasing insurers' participation and enhancing technical expertise in underwriting specialised classes of business, remained small. For underwriting year 2000, the Malaysian Aviation Pool, comprising 30 insurers (including one offshore reinsurer and two foreign professional reinsurers), accepted gross premiums amounting to only RM1.5 million (1999: RM1.4 million). The Malaysian Energy Risks Consortium with 19 insurers (including an offshore reinsurer) wrote premiums of RM4.8 million, similar to that in 1999. In the aftermath of the September 11 events, it is expected that pooling of resources, skills and expertise should assume greater importance as Malaysian insurers strive to provide capacity to fulfil the insurance needs of the country, when international reinsurance capacity shrinks or becomes unavailable or available only at prohibitive costs. In addition, the provision of insurance cover to the agricultural sector in support of the Government's effort to increase the sector's productivity and competitiveness will likely be on a pooling basis.

Claims Experience

The claims ratio of the general insurance industry was marginally lower at 63.4% in 2000 compared with 63.7% in the previous year. However, the lower ratio was mainly due to the release of claims reserves in an environment of premium growth rather than there being an improvement in claims experience. Total provisions for claims dropped

Table 3.24
Claims Ratio

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering[1]	Fire	Medical Expenses and Personal Accident[1]	Motor			Liability[1]	Workmen's Compensation and Employers' Liability[1]	Miscellaneous	Total
					'Act' Cover[2]	Others	Total				
1996	63.1	–	34.5	–	167.8	48.1	65.0	–	–	52.1	56.4
1997	67.4	76.9	50.1	45.0	158.3	45.9	60.7	86.4	16.4	62.9	58.0
1998	72.8	76.9	52.1	54.0	132.8	56.0	66.7	68.1	17.9	91.3	64.1
1999	65.0	72.7	39.3	62.2	81.6	67.8	69.8	86.1	20.0	98.9	63.7
2000	68.0	73.9	44.5	59.1	100.6	60.9	66.2	77.7	23.1	115.8	63.4

[1] Prior to 1997, classes were grouped under miscellaneous
[2] Compulsory insurance cover required under the Road Transport Act 1987

by 24.1% while earned premium income registered a growth of 5.1%. This was particularly evident in the motor class of business, which registered a substantially lower claims ratio of 66.2% compared with 69.8% in 1999, although actual claims paid in 2000 increased by 11% to RM1,734.2 million (1999: RM1,562.7 million) and net claims incurred increased by 2% to RM1,753.2 million (1999: RM1,718.5 million). Similar release of reserves was also observed for medical expenses and personal accident class of business which recorded lower claims ratios of 59.1% (1999: 62.2%). At the same time, fire, MAT and miscellaneous classes suffered significant adverse claims. The claims ratio for fire business deteriorated to 44.5% from 39.3% in 1999 due mainly to a few large losses suffered by the industry. In the case of MAT, the claims ratio rose to 68% from 65% in 1999, attributable largely to the adverse claims experience in cargo and offshore oil-related classes. The miscellaneous sector recorded its worst claims experience in the last five years with the claims ratio deteriorating to 115.8% compared with 98.9% in 1999 due mainly to higher incidences of burglary and fidelity guarantee claims.

Table 3.25
Underwriting Experience

Year	Earned Premium Income[1]	Net Claims Incurred	Net Com- missions	Manage- ment Expenses	Under- writing Margin
	RM million				
1996	4,133.0	2,332.3	412.1	843.9	544.7
1997	4,885.2	2,833.6	469.7	962.0	619.9
1998	4,886.0	3,130.0	475.6	996.5	284.0
1999	4,614.1	2,939.6	492.3	1,032.1	150.1
2000	4,851.4	3,076.4	529.9	1,094.6	150.5
	% of earned premium i ncome				
1996	100.0	56.4	10.0	20.4	13.2
1997	100.0	58.0	9.6	19.7	12.7
1998	100.0	64.1	9.7	20.4	5.8
1999	100.0	63.7	10.7	22.4	3.3
2000	100.0	63.4	10.9	22.6	3.1
	% change				
1996	26.1	27.6	38.9	22.2	18.0
1997	18.2	21.5	14.0	14.0	13.8
1998	…	10.5	1.3	3.6	–54.2
1999	–5.6	–6.1	3.5	3.6	–47.1
2000	5.1	4.7	7.6	6.1	0.3

[1] Figures prior to 1997 have been amended due to the revision in the reserves for unexpired risks to include additional reserves
… Negligible

Underwriting Experience

The general insurers recorded a marginal increase in underwriting profit of RM150.5 million or a margin of 3.1% of earned premium income in 2000, comparable with the profit of RM150.1 million or margin of 3.3% in 1999. The low underwriting margin was due to the continued high level of net claims incurred as well as high management expenses. In aggregate, management expenses and net commissions accounted for 33.5% of earned premium income in 2000, having increased over the years from 29.3% in 1997. The increment in commission payments and management expenses is of concern, with some insurers found to have breached the operating costs control guidelines in their quest to increase their business volume.

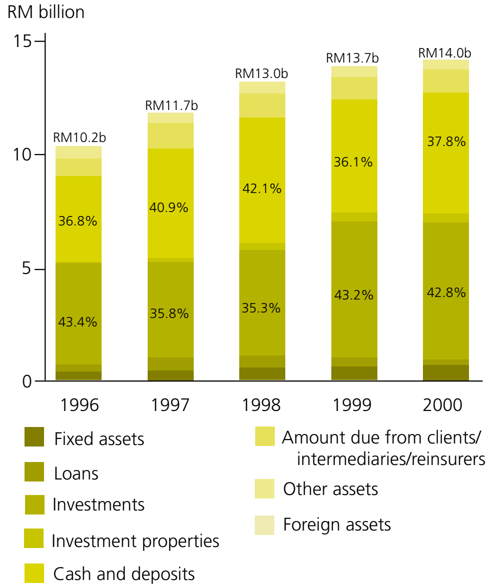
In 2000, 26 insurers (including seven foreign professional reinsurers) suffered underwriting losses totalling RM178.8 million, compared with total losses of RM202.9 million for a similar number of insurers in 1999. Of the RM178.8 million, 38.5% (1999: 16.5%) was attributable to the foreign professional reinsurers. Twenty insurers which experienced

Table 3.26
Underwriting and Operating Results

Item	1996		1997		1998		1999		2000	
	RMm	% change	RMm	% change	RMm	% change	RMm	% change	RMm	% change
Underwriting profit	544.7	18.0	619.9	13.8	284.0	–54.2	150.1	–47.1	150.5	0.3
Investment income	458.7	40.2	618.1	34.8	754.8	22.1	591.6	–21.6	506.2	–14.4
Capital gains	196.7	125.1	33.1	–83.2	77.8	135.0	250.4	221.9	125.5	–49.9
Other income	46.1	35.6	88.5	92.0	220.1	148.7	305.8	38.9	118.5	–61.2
Capital losses	6.5	97.0	392.0	5,930.8	126.7	–67.7	23.6	–81.4	87.3	269.9
Other outgo	107.9	114.5	501.4	364.7	261.9	–47.8	184.1	–29.7	513.8	179.1
Operating profit	1,131.8	32.1	466.2	–58.8	948.1	103.4	1,090.2	15.0	299.6	–72.5

underwriting losses were noted to have recorded earned premium income of less than RM100 million each. The large number of small insurers suffering underwriting losses serves to underscore again the urgent need for consolidation in the industry, particularly of the smaller domestic insurers in order to harness the benefits of operational economies of scale.

Chart 3.5
Assets of General Insurance Fund



Operating Results

The operating profit of general insurers contracted by 72.5% to RM299.6 million in 2000 from RM1,090.2 million in 1999. The poor operating result was mainly due to the adverse stock market conditions, coupled with the low underwriting profit. The weak stock market sentiment and the prevailing low interest rates resulted in a lower investment income, capital gains as well as other income, while there was a substantial increase in the provisioning for bad and doubtful debts, comprising mainly outstanding premiums and claims recoveries, as well as for diminution in the value of corporate and debt securities. As a result, the ratio of operating profit to earned premium income of the general insurers declined significantly to 6.2% in 2000 (1999: 23.6%). During the year under review, 17 insurers, 10 of which were local direct insurers,

Table 3.27
Assets of General Insurance Funds

Type of Investment	1996		1997		1998		1999		2000	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Fixed assets	389.6	3.8	420.2	3.6	562.6	4.3	601.0	4.4	658.0	4.7
Loans	293.5	2.9	564.7	4.9	523.1	4.0	400.6	2.9	243.0	1.7
Investments	4,428.3	43.4	4,174.7	35.8	4,592.1	35.3	5,916.5	43.2	5,977.1	42.8
Malaysian Government papers/guaranteed loans	*2,582.0*	*25.3*	*2,203.0*	*18.9*	*2,204.2*	*16.9*	*2,064.3*	*15.1*	*1,832.5*	*13.1*
Corporate/debt securities	*1,791.3*	*17.6*	*1,937.2*	*16.6*	*2,338.5*	*18.0*	*3,758.3*	*27.4*	*4,055.8*	*29.0*
Others	*55.0*	*0.5*	*34.5*	*0.3*	*49.4*	*0.4*	*93.9*	*0.7*	*88.8*	*0.7*
Investment properties	37.0	0.4	166.2	1.4	305.6	2.4	378.3	2.8	382.4	2.8
Cash and deposits	3,754.7	36.8	4,768.4	40.9	5,474.5	42.1	4,947.2	36.1	5,277.8	37.8
Amount due from clients/ intermediaries/reinsurers[1]	761.5	7.5	1,120.1	9.6	1,044.1	8.0	967.1	7.1	1,010.3	7.2
Other assets	532.4	5.2	424.3	3.7	505.1	3.9	475.8	3.5	422.8	3.0
Foreign assets[2]	–	–	13.2	0.1	2.6	...	3.8	...	3.4	...
Total	10,197.0	100.0	11,651.8	100.0	13,009.7	100.0	13,690.3	100.0	13,974.8	100.0

[1] Prior to 1997, amount due from reinsurers were reported under other assets
[2] Prior to 1997, amount was reported under other assets
... Negligible

Table 3.28
Classification by Size of General Insurance Funds

RM million	Number of Funds				
	1996	1997	1998	1999	2000
Less than 20	3[1]	3[1]	3[1]	3[1]	3[1]
20 to less than 30	2	0	0	1	3
30 to less than 50	5	3	4	2	1
50 to less than 100	16	13	10	9	5
100 to less than 150	11	12	14	12	12
150 to less than 300	15	20	20	18	18
300 & above	8	9	11	14	15
Total	60	60	62	59	57

[1] Including two insurers which were running off their general insurance business

Table 3.29
Technical Reserves

Year	Reserves for Unexpired Risks	Provision for Outstanding Claims	Technical Reserves
	RM million		
1996	2,042.0	4,048.8	6,090.8
1997	2,320.5	4,743.1	7,063.6
1998	2,122.5	5,309.2	7,431.7
1999	2,185.5	5,553.5	7,739.0
2000	2,371.5	5,722.3	8,093.8
	% change		
1996	24.4	25.7	25.3
1997	13.6	17.1	16.0
1998	–8.5	11.9	5.2
1999	3.0	4.6	4.1
2000	8.5	3.0	4.6
	% of net premiums		
1996	45.3	89.9	135.2
1997	45.0	91.9	136.8
1998	45.3	113.3	158.6
1999	46.7	118.7	165.4
2000	46.8	113.0	159.8

suffered operating losses amounting to RM261.9 million (1999: four insurers, to RM67.1 million).

Assets

Total assets of the general insurance funds grew at slower pace of 2.1% to reach RM13,974.8 million in 2000 (1999: 5.2% to RM13,690.3 million). The composition of assets has not significantly changed from that in the previous years. Cash and deposits remained the largest component, accounting for 37.8% (1999: 36.1%) of total general funds, followed by corporate and debt securities and Malaysian Government papers and guaranteed loans with a share of 29% and 13.1% respectively.

A classification of insurers by size of assets showed that of the 57 insurers (including two which were running off liabilities), 45 had general fund assets of at least RM100 million each (1999: 44). Out of the 45, 15 insurers (1999: 14) had general fund assets of more than RM300 million. Of the remaining 12 insurers with general funds assets of less than RM100 million, seven (1999: six) had assets of less than RM50 million each.

Technical Reserves

The technical reserves ratio (technical reserves as a percentage of net premiums) declined to 159.8% in 2000 (1999: 165.4%).

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	1999	2000
Marine, aviation and transit	2.50	1.16	1.05	1.02	1.01	1.01	1.07	88.2	85.5
Fire	1.92	1.05	1.02	1.01	1.00	1.00	1.03	93.5	93.7
Motor									
'Act' cover[3]	*6.61*	*2.43*	*1.52*	*1.24*	*1.15*	*1.09*	*1.17*	*37.5*	*36.3*
Others	*2.00*	*1.05*	*1.02*	*1.01*	*1.00*	*1.00*	*1.03*	*92.6*	*93.8*
Miscellaneous[4]	1.85	1.11	1.04	1.02	1.02	1.01	1.11	80.2	81.9

[1] Actual average link ratios rounded to two decimal places
[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
Estimated Ultimate Net Incurred Claims Ratio

Class	Year of Occurrence of Loss						
	1994	1995	1996	1997	1998	1999	2000
	%						
Marine, aviation and transit	41.4	38.7	47.8	55.6	45.3	47.6	69.3
Fire	22.8	22.5	19.9	28.5	23.9	25.2	26.2
Motor							
'Act' cover[1]	*135.5*	*117.8*	*125.4*	*114.4*	*100.7*	*102.4*	*90.9*
Others	*40.0*	*36.7*	*38.2*	*43.4*	*50.3*	*64.0*	*66.7*
Miscellaneous[2]	31.1	35.4	40.7	46.0	54.3	67.8	69.4

[1] Compulsory insurance cover required under the Road Transport Act 1987
[2] Includes all classes other than MAT, fire and motor

Table 3.32
Average Frequency of Loss and Average Cost per Claim

Class	Average Frequency of Loss	Average Cost per Claim
	%	RM
Marine, aviation and transit	8.7	2,464
Fire	2.3	4,880
Motor		
'Act' cover[1]	*1.3*	*5,378*
Others	*7.5*	*5,941*
Miscellaneous[2]	9.3	1,671

[1] Compulsory insurance cover required under the Road Transport Act 1987
[2] Includes all classes other than MAT, fire and motor

The decline was due to a combination of slower growth of 4.6% in technical reserves and a higher growth rate of 8.3% in net premiums for the year. Provisions for outstanding claims, which form the bulk of technical reserves at 70.7%, grew at a lower rate of 3% due mainly to release of reserves. Reserves for unexpired risks increased at a higher rate of 8.5% largely due to the motor as well as medical expenses and personal accident classes.

IBNR Claims

Insurers are required to place more emphasis on the provisioning for Incurred But Not Reported (IBNR) claims due to the importance of having sufficient reserves to absorb fluctuations in claims experience. Although individual insurers may have different link ratios, claim ratios and claim frequencies arising from differences in their portfolios, the industry figures shown in Tables 3.30, 3.31 and 3.32 can be utilised for comparison purposes. It is necessary to make prudent provisions and to exercise caution before considering any release of reserves.

Business Outside Malaysia

In 2000, gross premiums (both direct and reinsurance inward business) from business outside Malaysia turned around to register an increase of 4.9% (1999: - 12.7%) to RM268.2 million (1999: RM255.7 million), following the gradual economic recovery in the region. Although the professional reinsurers accounted for the bulk (62.4%) of business from outside Malaysia, the share of direct insurers in such business has been increasing to account for 37.6% in 2000, compared with a share of 34.2% and 31.1% respectively in 1999 and 1998.

Fire business continued to account for a large part of business from outside Malaysia, with its share increasing to 47.6% (1999: 44.9%). MAT and motor businesses captured a share of 17.6% (1999: 15.1%) and 7.5% (1999: 6%) respectively. Miscellaneous business accounted for a reduced share of 27.3% (1999: 34%). The general fund assets supporting business outside Malaysia grew at a slower rate of 2.2% (1999: 12%) to RM591.8 million. The bulk (71.9%) of these assets were held in the form of Malaysian assets, with 26.8% held in the form of cash and deposits and 19.5% in investments mainly in corporate and debt securities. The balance of these assets of 28.1% (1999: 36%) was held in foreign assets. The substantial drop in foreign assets was mainly due to maturity of foreign bonds.

Preliminary 2001 Data

Based on preliminary data, the general insurance industry recorded a lower growth of 6.8% in gross direct premiums to RM6,405.7 million in 2001 (2000: 8.2% to RM5,996.8 million). All classes recorded positive growth, except for MAT and workmen's compensation and employers' liability classes of business which contracted by 2.3% and 1.6% respectively. The highest growth of 24.3% was in liability business, followed by contractors' all risks and engineering as well as miscellaneous business with growth rates of 16.8% and 11.8% respectively. The motor sector, which maintained its dominance in 2001 accounted for 48.1% (2000: 47.7%) of the gross direct premiums of the industry. Fire as well as medical expenses and personal accident represented the next largest classes of business with shares of 19.9% and 10.5% of gross direct premiums respectively (2000: 20.6% and 10.3% respectively). The net premiums of RM5,388.7 million recorded by the industry during the period resulted in a net retention ratio of 90.3% (2000: 89.3%).

The general insurance industry's overall claims ratio declined to 62.4% at the end of 2001 compared with 63.4% in 2000. The lower claims ratio was attributable to lower provisions being made for claims, rather than there being an improvement in claims experience. As a result, net claims incurred grew by 6.2% compared with the higher rate of 7.9% in earned premium income. In the motor sector, provisions for claims grew at a slower rate compared to premium income, particularly for motor 'Others'. Hence, the claims ratio for the motor sector fell to 65.4% from 66.2% in 2000. The lower industry claims ratio was also attributed to the release of reserves in fire and MAT businesses, which resulted in claims ratios of 42.7% (2000: 44.5%) and 58.7% (2000: 68%) respectively. The claims ratio for medical expenses and personal accident class deteriorated to 64.1% (2000: 59.1%), with net claims incurred rising by 24.5% to RM375.4 million and earned premium income grew at a more moderate rate of 14.9% to RM586.1 million. With expected growth continuing in the medical expenses and personal accident class of business, insurers should continue to exercise caution in their underwriting and at the same time, ensure prudent reserving against fluctuation in claims.

The underwriting margin of insurers improved by 27.8% to RM192.4 million compared with RM150.5 million in 2000. As a result, the margin of underwriting profit to earned premium income rose to 3.7% from 3.1% in 2000. The improvement was due to the increase of 7.9% in earned premium income which offset the 7.2% growth in net claims incurred, net commissions and management expenses combined. A quarter on quarter analysis showed that the weakest underwriting performance of the general insurance was recorded in the fourth quarter of 2001, following the September 11 events in the United States.

The operating profit of general insurers increased significantly to RM767.4 million in 2001 compared with RM299.6 million in 2000. This was largely due to write back on provisions for diminution in value of corporate and debt securities, recovery of bad debts, sale of assets and investments as well as improvement in underwriting profit. The operating profit to earned premium income ratio accordingly increased to 14.7% from 6.2% in 2000.

Total assets of the general insurance funds grew by 6.8% to reach RM14,926.2 million at the end of 2001. As in the previous year, cash and deposits continued to be the preferred form of assets held by insurers accounting for 35.2% of total assets at the end of 2001 (2000: 37.8%). Investments in corporate and debt securities as well as Malaysian Government papers and guaranteed loans which represented the second and third largest components, accounted for shares of 32.2% and 12.9% respectively (2000: 29% and 13.1% respectively).

Performance of Professional General Reinsurers

In 2000, reinsurance premiums accepted by the 10 professional general reinsurers (MNRB and nine branches of foreign reinsurers) turned around to register a growth of 2.5% to RM925.3 million compared with a decline of 19% to RM902.7 million in 1999. The highest growth of 13.8% was recorded by the miscellaneous class of business with covers such as bonds, burglary and fidelity guarantee, followed by fire and motor businesses with a growth of 6.7% and 1.8% respectively (1999: -20.5% and -30.8% respectively). MAT business registered the most significant contraction of

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 'Act' Cover[1]	Motor Others	Motor Total	Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
	Reinsurance accepted premiums (RM million)										
1997	88.0	127.7	392.3	76.8	47.5	313.1	360.6	6.1	28.9	101.9	1,182.2
1998	79.4	99.0	423.3	68.3	40.3	285.0	325.3	5.0	13.0	100.8	1,114.1
1999	96.2	87.1	336.5	63.7	26.9	198.3	225.2	14.1	9.1	70.8	902.7
2000	85.2	88.0	359.2	60.5	23.0	206.3	229.3	13.0	9.5	80.6	925.3
	Net premiums (RM million)										
1997	51.9	96.7	223.9	44.8	23.1	170.3	193.4	6.0	14.1	58.2	689.0
1998	48.2	69.3	267.6	42.6	19.8	169.8	189.6	4.9	6.5	62.1	690.8
1999	51.3	62.8	232.3	46.8	13.5	122.7	136.3	12.2	5.4	51.5	598.6
2000	57.8	69.6	265.9	45.3	12.7	134.9	147.6	11.2	6.0	63.0	666.4
	Claims ratio (%)										
1997	72.2	78.0	74.6	43.3	158.0	39.9	55.1	45.2	18.9	92.4	67.9
1998	88.8	83.9	71.5	71.1	192.4	37.2	54.0	24.4	30.8	91.8	70.0
1999	97.8	51.7	60.4	75.6	–225.7	89.6	57.0	184.6	–5.8	98.9	66.9
2000	59.4	77.4	68.8	71.9	198.4	52.0	65.2	79.3	26.1	130.1	73.3

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

11.4% (1999: 21.2%) followed by liability of -7.8% (1999: 176.5%). The composition of market share in 2000 remained largely unchanged compared with 1999, with fire as the most dominant class at 38.8%, followed by motor at 24.8% share.

Premiums placed with professional reinsurers accounted for 60.1% (1999: 64.6%) of reinsurance premiums placed by direct insurers within Malaysia. Of this, 36.5% (1999: 32%) was placed with the foreign professional reinsurers, reflecting their continuing growth in share in the domestic reinsurance market.

The claims ratio of the professional reinsurers in 2000 deteriorated substantially to 73.3% from 66.9%, due mainly to the unfavourable claims experience of fire and motor, the two largest classes of business. The claims ratio for motor business deteriorated to 65.2% (1999: 57%) due to the substantial increase in motor 'Act' claims ratio to 198.4% (1999: -225.7%). The motor 'Act' claims ratio was in line with the trend of previous years except for 1999 where there was a reclassification of IBNR claims by a reinsurer. A few large fire losses incurred by the industry pushed claims ratio for fire to 68.8% (1999: 60.4%). Similarly, the claims ratio for miscellaneous class of business increased to 130.1% (1999: 98.9%) due largely to the higher incidences of burglary and fidelity guarantee claims.

The professional reinsurers recorded an underwriting loss of RM39.6 million in 2000 compared with an underwriting gain of RM10.5 million in 1999, due largely to the substantial increase in net claims incurred. The poor underwriting performance was further exacerbated by reduced net investment and other income as well as increased miscellaneous expenses. As a result, the professional reinsurers recorded a substantially lower operating profit of RM4.4 million in 2000 (1999: RM157.8 million).

The gross overseas reinsurance inward business written by professional reinsurers declined marginally to RM167.5 million in 2000 (1999: RM168.2 million). This represented 80% (1999: 84.5%) of the industry's total overseas reinsurance inward business of RM209.5 million (1999: RM199.1 million). It is also noted that the RM167.5 million in gross overseas reinsurance inward business represented only 15.3% (1999: 15.7%) of the total business of the professional reinsurers. Of the nine professional reinsurers, only two (1999: one) reported a share each exceeding 20% of the gross overseas reinsurance inward business in 2000, while the market share of each of the remaining seven ranged between 0.3% to 9%. In accordance with licensing condition for professional reinsurers to strive to make their Malaysian branch into a regional centre, professional reinsurers are required to place greater emphasis on and to underwrite more regional business.

Reinsurance premiums accepted by professional reinsurers increased by 9.9% to RM1,016.9 million in 2001. The improvement was supported by the positive growth recorded in all classes of business, except workmen's compensation and employers' liability which contracted by 7.4% to RM8.8 million (2000: 4.2% to RM9.5 million).

Insurance Broking

In 2001, total premiums placed by the insurance broking sector rose by 36.3% to RM1,723.4 million (2000: 2.8% to RM1,264 million), in tandem with the higher premiums recorded by the industry. All classes of business recorded positive growth, except for life business which maintained premium placements at RM52.5 million. Miscellaneous business registered the highest growth of 47.1% to RM733.8 million, largely attributed to increased placements of contractors' all risks and engineering business.

The fire and MAT classes of business followed with growth of 42.2% to RM481.7 million and 25.7% to RM381.5 million respectively. Placement of motor business recorded a slower growth of 4.7% to RM73.9 million compared with 6.5% to RM70.6 million in 2000. In terms of market share, the miscellaneous class maintained the largest share at 42.6% of total premium placements, followed by fire business with 28%.

Of the total premiums placed by brokers, 75.2% or RM1,296.3 million (2000: RM1,042.9 million or 82.5%) was in the form of direct placements, with the balance of RM427.1 million accounted for by reinsurance placements. Premiums placed locally accounted for 89% or RM1,533.1 million (2000: 90.1% or RM1,138.7 million), whilst that placed abroad represented the remaining 11% (2000: 9.9%). To diversify their business base and acquire the relevant expertise in international broking, local brokers should play a more proactive role in placements involving foreign reinsurers. Brokers working in close association with their more well-informed foreign counterparts are urged to take the opportunity to tap the requisite brokerage and skills for enhancement of professionalism in the local broking fraternity.

Of the 36 insurance brokers, 11 brokers together accounted for 76.9% of total premiums placed by the insurance broking industry, with average premiums of RM120.4

Table 3.34
Total Premiums Transacted

Year	Marine, Aviation and Transit	Fire	Motor	Life	Miscellaneous	Total
	Direct Premiums (RMm)					
1999	145.4	268.6	66.2	40.8	464.1	985.1
2000	221.5	289.2	68.9	51.0	412.3	1,042.9
2001	253.6	356.0	69.6	51.2	565.9	1,296.3
	Reinsurance Premiums (RMm)					
1999	57.5	54.7	0.1	1.0	131.5	244.8
2000	81.7	49.5	1.8	1.5	86.5	221.1
2001	127.9	125.7	4.3	1.3	167.9	427.1
	Combined (RMm)					
1999	202.9	323.4	66.3	41.7	595.6	1,229.9
2000	303.4	338.7	70.6	52.5	498.8	1,264.0
2001	381.5	481.7	73.9	52.5	733.8	1,723.4

Table 3.35
Outstanding Premiums Due to Insurers

Months [1]	1998		1999		2000	
	Amount (RMm)	% of Total	Amount (RMm)	% of Total	Amount (RMm)	% of Total
0 - 2	126.1	58.8	125.3	55.8	186.9	65.6
>2 - 6	40.2	18.7	60.0	26.7	39.1	13.7
>6 - 12	26.1	12.2	21.7	9.7	24.5	8.6
over 12	22.2	10.3	17.5	7.8	34.4	12.1
Total	214.6	100.0	224.5	100.0	284.9	100.0

[1] Previously quoted in days

million per broker compared with RM80.5 million in 2000. The remaining 25 brokers accounted for the balance of the market share of RM398.1 million or with average premiums of RM15.9 million per broker (2000: RM12.4 million), reflecting a need for the consolidation of the insurance broking sector.

Total income of the insurance brokers rose marginally by 0.7% to RM138.4 million in 2000 compared with RM137.4 million in 1999. Although earnings from brokerage fees increased by 1.9% (1999: 1.5%) to RM124.8 million, other income fell by 8.7% to RM13.6 million (1999: RM14.9 million) due to poor returns on investments. The operating profit of the broking industry continued its downward trend to RM33.2 million from RM37.6 million in 1999 and RM47.1 million in 1998 due to faster rate of increase in expenses. With the upward trend in the ratio of total expenses to total income to 76% in 2000 (1999: 72.6% and 1998: 66.5%), there is an urgent need for the broking industry to manage its expenses to improve operational efficiency and remain financially viable.

In 2000, total outstanding premiums due to insurers arising from business placed by brokers increased by 26.9% to RM284.9 million compared with RM224.5 million as at end of 1999. Although, two-thirds of the premiums were outstanding for two months or less, the percentage of premiums outstanding for more than six months increased to 20.7% in 2000 from 17.5% in 1999. Following a dialogue held with the industry in July 2001, brokers are urged to continue with their efforts to reduce the outstanding balances due from their clients to insurers. BNM had also issued a circular in November 2001 to assert the broking industry to resolve unreconciled balances.

In terms of capitalisation, the average paid-up capital of the 36 insurance brokers increased from RM1,106,451 in 2000 to RM1,172,675 as at the end of 2001. The increase in paid-up

Table 3.36
Operating Results of Brokers

Item	1998		1999		2000	
	RMm	% change	RMm	% change	RMm	% change
Brokerage Earned	120.7	–39.9	122.5	1.5	124.8	1.9
Other Income	19.9	929.2	14.9	–25.1	13.6	–8.7
Total Expenses	93.5	–34.9	99.8	6.7	105.2	5.4
Operating Profit/(Loss)	47.1	–14.1	37.6	–20.2	33.2	–11.7

Table 3.37
Cases Handled by Adjusters

Year	Motor			Non-motor/Non-marine			Total	
	No.	% change	% share	No.	% change	% share	No.	% change
1999	153,599	10.6	85.8	25,439	10.4	14.2	179,038	10.5
2000	186,348	21.3	83.0	38,055	56.9	17.0	224,403	25.3
2001	175,246	–6.0	81.0	40,986	7.7	19.0	222,031	–1.1

capital was due to capital injection by a number of brokers to further strengthen their financial position. Of the 36 brokers, 23 (2000: 25) or more than 60% have paid-up capital below the industry average. In tandem with the consolidation of the insurance companies, there is also a need for brokers to consolidate into bigger and better capitalised entities with adequate resources to invest in training and the upgrading of skills to be in a better position to offer better services in the face of greater and keener competition.

Loss Adjusting

In 2001, the 41 adjusters handled a total of 222,031 cases compared with 224,403 cases in 2000. Although motor claims continued to dominate the loss adjusting business, there has been a gradual diversification into non-motor claims. The share of motor claims adjusting has declined from 85.8% in 1999 to 83% in 2000 and 81% in 2001. About two-third of the loss adjusting business was accounted for by 12 adjusters, with the average of 12,592 cases per company compared with 12,322 cases in 2000. The balance of the 29 adjusters accounted for the remaining market share or with the average of 2,446 cases for each company (2000: 2,639 cases).

In terms of capitalisation, the average paid-up capital of the adjusters increased to RM290,008 in 2001 from RM258,140 in 2000 due to capital injections by a few adjusters. Nevertheless, adjusters continued to be very small with 30 of the 41 companies having paid-up capital below the industry average.

Loss adjusting fees increased by 5.9% to RM130.2 million in 2000, compared with RM123 million in 1999. Of the 41 adjusters, 17 earned fees of less than RM1 million each in 2000, with six recording fees of less than RM500,000 each. Despite the increase in fees earned, total operating profit of the loss adjusting industry contracted by 31.4% to RM17.5 million in 2000 from RM25.5 million in 1999, mainly due to an increase in expenses of which staff remuneration accounted for half of the expenses. More than 80% of the profits were earned by five adjusters, with the balance of 20% accounted for by 28 adjusters. The remaining eight (1999: one) adjusters suffered losses.

Table 3.38
Operating Results of Adjusters

Item	1998		1999		2000	
	RMm	% change	RMm	% change	RMm	% change
Fees Earned	106.3	22.8	123.0	15.7	130.2	5.9
Other Income	–	–	0.3	–	4.1	1,240.3
Total Outgo	83.2	18.8	97.8	17.5	116.9	19.5
Operating Profit/(Loss)	23.1	39.9	25.5	10.4	17.5	–31.4