Foreword

The insurance industry strengthened further in 2000. Premiums registered higher growth rates especially in the life sector, and improved claims experience culminated in moderately lower benefits payment thus contributing to the higher pre-tax profit earned by the industry for the financial year 1999/2000. Strengthened by the increase in profitability, the combined insurance fund assets of the industry improved further to account for nearly 4% of the total assets of the financial system.

Following the recovery of the industry, the financial requirements which were relaxed in 1998 to assist insurance companies during the difficult period, were reinstated. With effect from 31 December 2000, insurers were required to maintain a minimum paid-up capital/surplus of assets over liabilities of RM50 million from RM40 million previously. The absolute minimum margin of solvency (before taking into account insurance fund liabilities) required to be maintained for each class of insurance business was also reinstated to RM50 million, from RM40 million, with effect from 1 January 2001. With the improved economy, stakeholders were better able to financially commit funds to meet the capitalisation requirement of insurers. To further enhance the financial resilience of insurers, the minimum capitalisation was increased further to RM100 million to be complied with by the end of June 2001.

The increase in capitalisation should be able to increase the potential of domestic players to withstand the increased competition given the stronger presence of global players. Insurers that are serious in maintaining competitive positions in the market must chart their future in the light of the changing financial environment.

The rapid pace of liberalisation will further intensify competitive pressure in the industry. The industry must therefore quickly institute structural reforms to achieve better resilience while sustaining the growth momentum. Primary focus, therefore, continues to be given to the consolidation of the insurance industry in 2000. To-date, 6 M&As have been completed while 10 others involving 19 insurers are at various stages of implementation. Consolidation is no longer an option but a necessity for domestic players to remain viable. The pace of consolidation must be expedited. Strong commitment must be given by all relevant stakeholders to accord the highest priority to this area.

While financial strength is critical for an insurer, the need for insurers to improve image and accountability to the public must be given no less importance. In this regard, BNM continues to focus on the promotion of good corporate governance, operational efficiency and prudence in the management of insurers. The Framework on Corporate Governance released in May 2000 laid the foundation for the progressive improvement of corporate governance practices. Under the Framework, strong emphasis is placed on the role of the Board of Directors and management of insurers in ensuring a strong culture of good corporate governance. A disclosure to stakeholders on the manner in which insurers have applied the corporate governance principles further demands extra diligence on the part of the Board to ensure that the principles advocated in the Framework are properly observed. Greater self-regulation on the part of the industry will certainly complement a broad-based regulatory framework established by BNM.

As a service-oriented industry, strong focus must be directed at providing improved standards of service to meet the increasingly sophisticated needs of the insuring public in the most cost efficient manner. Insurance has evolved from providing mere risk protection to providing a wider range of coverage such as annuities, investment-linked products, bancassurance and alternative risk transfer. As the country progressively moves towards becoming a developed nation, the insurance industry must continue to review its role to meet the socio-economic needs of the country. The spectrum of insurance coverage required by an increasingly better educated society differs from the requirement a decade ago. The insurance industry has responded positively to this development with the successful implementation of the annuity scheme for Employees Provident Fund contributors effective 1 July 2000. Under the scheme, 6 insurers and 2 takaful operators have committed to provide retirement benefits to the country's ageing population. Pursuant to the Government's plans to transform the agricultural sector into a modern, more commercialised and technology-driven sector under the Third National Agricultural Policy, the insurance *industry must similarly be prepared and forthcoming to respond to the insurance needs of the agricultural sector. Tremendous opportunities exist for insurers with the foresight to invest in product development and continuously anticipate the evolutionary insurance needs of the nation.*

As financial markets converge, blurring the boundaries between financial products, opportunities will emerge for insurers to take advantage of the changing environment. Opportunities have been taken to develop bancassurance through strategic alliances between providers of expertise and efficient distribution channels. These relationships have proven to benefit the industry in tapping the expertise of foreign partners. The increasing competition from providers of alternative distribution channels such as independent financial advisers has made it inevitable for insurers to re-orientate their marketing strategies to adopt the most cost efficient and effective distribution channels in order to boost their market share.

In view of the increasing role played by Islamic banks and takaful operators in the development of the economy and to provide greater strategic focus, the Islamic Banking and Takaful Department was established in October 2000. The Department was vested with the responsibility to formulate strategic and prudential policies as well as handle and monitor the operational aspects of Islamic banks and takaful operators in Malaysia. In addition, a chapter has been dedicated in the Financial Sector Masterplan to position Malaysia as a regional centre for Islamic banking and finance.

Despite marked improvements made in the operational management and financial standing of insurers, there exists significant potential that remains to be tapped. With the expansion of the economy envisaged in the next decade, a large proportion of the population will have higher levels of per capita income that will significantly increase demand for risk and savings products. The ability of the insurance industry to mobilise a significant share of this disposable income will depend on the ability of insurers to maintain their competitive positions both within the industry as well as the financial sector. In the wake of the rapidly changing financial landscape, insurers will be faced with a multitude of challenges which must be overcome in order to avoid being marginalised.

The focus, as we move forward, will be to chart the transition of the Malaysian insurance industry into an open and competitive environment while incorporating changes to *the regulatory framework to be in line with the new business environment. The various phases of the development are contained in the Masterplan for the insurance sector. The end-game is to build an efficient, effective and stable financial sector that supports both the needs of the real economy and the socio-economic objectives of the country. The aim is also to build at the core of the financial system, strong domestic institutions that provide Malaysian consumers with world-class products and services, while meeting international commitments to liberalisation of the sector in the medium term.*

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