# 3 The Industry Performance in 1999 and 2000

## Overview of Industry Performance

The performance of the insurance industry showed an improvement in 1999 following the recovery of the Malaysian economy. The combined premium income of the insurance industry recorded a growth of 8.5% (1998: -2.1%) to reach RM11,829.9 million (1998: RM10,902.9 million). The life sector has been the major contributor accounting for RM7,152.7 million (1998: RM6,217.2 million) or 60.5% of the premium income, while the remaining balance of RM4,677.2 million (1998: RM4,685.7 million) represented premium income generated from the general sector. Premium income of the industry as a proportion of nominal gross national product (GNP) increased to 4.2% in 1999, compared with 4.1% in 1998. Total benefits and net claims paid by the industry during 1999 increased by 9.3% (1998: 23.6%) to RM4,928.5 million, representing 41.7% (1998: 41.4%) of the premium income of the industry.

The lower rate of increase in total benefits and claims payment contributed to the higher pre-tax profit of RM1,889.6 million in 1999, an improvement of 31.8% from 1998. During the year, the industry continued to perform with the return to equity (ratio of pre-tax profit to the shareholders' fund) increasing from 23.3% in 1998 to 25.6%. Buoyed by the increase in pre-tax profit, the combined insurance fund assets recorded a growth of 15.4% (1998: 12.5%) to RM45,397.3 million, representing 3.9% (1998: 3.6%) of the assets of the financial system. Life fund assets accounted for 69.8% (1998: 66.9%) of the industry's assets.

Preliminary data for 2000 in respect of premium income looked encouraging with combined premium income of life and general business registering a growth rate of 17.1% to RM13,855.9 million, contributing 4.6% of GNP. As at the end of 2000, the total benefits and claims paid out increased by 10.9% to RM5,464.9 million while combined insurance fund assets of both businesses expanded at a slower rate of 10.9% to reach RM50,336.4 million.

## Performance of Life Business in 1999

### *New Business*

In line with the sustained economic recovery, the life insurance industry rebounded strongly to register an impressive double-digit premium growth in 1999, soaring well above pre-crisis levels. Total new premiums increased significantly by 37.4% (1998: -10.2%) to RM1,977.6 million, breaching the 10-year high of 29.2% achieved in 1994. Consequently, new sums insured and the number of new policies transacted grew by 15.2% and 29.3% (1998: -2.9% and 1%) to RM100,769.3 million and 1,452,287 policies respectively. While new annual premiums grew by 22.4% (1998: -16.4%) to RM1,322.9 million, the industry's new single premium income almost doubled over 1998 to RM654.7 million, charting an increase of 82.7% (1998: 15.7%). The growth in single premiums was mainly attributable to a significant increase in the sales of mortgage reducing term assurance policies as well as diversification by some insurers into the new investment-linked market. Seven insurers recorded a growth of more than 50% in single premiums.

**Table 3.1 New Business**

| Year | No. of Policies | Sums Insured | Premiums | | |
|---|---|---|---|---|---|
| | | | Annual | Single | Total |
| | Units | RM million | | | |
| 1995 | 1,034,523 | 76,436.7 | 1,266.5 | 244.0 | 1,510.5 |
| 1996 | 908,196 | 76,045.5 | 1,158.8 | 264.0 | 1,422.8 |
| 1997 | 1,111,999 | 90,053.4[1] | 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 |
| | % change | | | | |
| 1995 | 9.2 | 16.6 | 23.2 | 4.3 | 19.6 |
| 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 |

[1] Revised to include reinsurance accepted business

**Table 3.2 Distribution of New Business Premiums**

| Year | Ordinary Life | | | | Invest ment - linked | Total |
|---|---|---|---|---|---|---|
| | Whole Life | Endow- ment | Tempo - rary | Others | | |
| | RM million | | | | | |
| 1995 | 521.7 | 407.1 | 324.4 | 257.3 | – | 1,510.5 |
| 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 |
| | % change | | | | | |
| 1995 | 10.2 | 36.9 | 8.3 | 34.3 | – | 19.6 |
| 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 |
| | % share | | | | | |
| 1995 | 34.5 | 27.0 | 21.5 | 17.0 | – | 100.0 |
| 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 |

In terms of the new business portfolio, all classes of business registered double-digit growth in 1999. A major development in the market was the expansion into investment-linked business. With the increasing number of life insurers granted approval to carry on this business coupled with the low interest rate environment, new investment-linked premiums expanded by more than eight times to RM190.1 million (1998: RM22.8 million). Temporary policies also registered an increase of 43.2% (1998: -1%) to RM535.6 million largely attributed to the increase in sales of group term life policies. New premiums for mortgage reducing term assurance policies increased significantly by 53.2% (1998: 20.9%) to RM298.4 million while employment related group term schemes increased by 32.2% (1998: 0.9%) to RM237.2 million in 1999. The higher sales of mortgage assurance policies was attributable to the partial recovery in the demand for residential properties aided by the active promotion on home ownership as well as attractive mortgage financing packages by the financial institutions. Endowment policies also registered an impressive growth of 31% in new premiums (1998: -8.3%) partly due to the aggressive promotion of the one-year single premium endowment plan with a guaranteed dividend rate by an insurer in 1999. New premiums for 'other' policies which are mainly medical insurance with dread disease covers, registered a growth of 19.3% (1998: -10.8%) to RM324.7 million.

In terms of composition of new business premiums, temporary policies outpaced whole life policies to become the most dominant class with a share of 27.1% of the total new premiums, followed by endowment policies with a share of 23.9%. The market share for whole life policies continued to decline further to 23% (1998: 28.4%) of new business premiums reflecting the 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

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

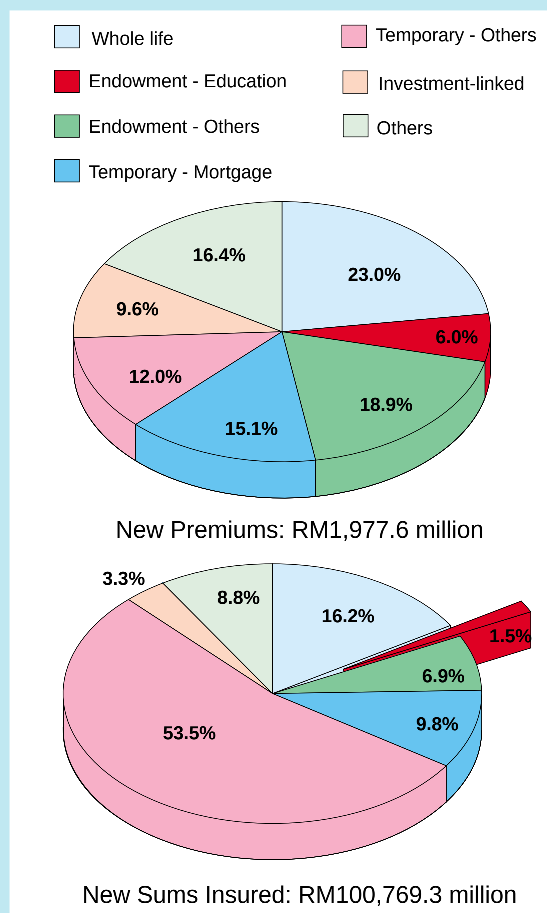


**Table 3.3 Distribution of New Sums Insured**

| Year | Ordinary Life | | | | Investment - linked | Total |
|---|---|---|---|---|---|---|
| | Whole Life | Endowment | Temporary | Others | | |
| | RM million | | | | | |
| 1995 | 21,777.5 | 7,786.9 | 34,805.5 | 12,066.8 | – | 76,436.7 |
| 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 |
| | % change | | | | | |
| 1995 | –2.7 | 42.0 | 18.8 | 44.2 | – | 16.6 |
| 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 |
| | % share | | | | | |
| 1995 | 28.5 | 10.2 | 45.5 | 15.8 | – | 100.0 |
| 1996 | 23.1 | 9.5 | 51.6 | 15.8 | – | 100.0 |
| 1997 | 22.3 | 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 |

investment-linked business from a mere share of 1.6% in 1998 to 9.6% of new business premiums in 1999. The trend towards unbundled products with a high investment component as a medium of savings, offers excellent opportunity for life insurers to increase their market penetration. The life sector is also expected to benefit from the development of annuity business, with the launch of the Employees Provident Fund Annuity Scheme in July 2000. The gradual shift from the traditional life insurance products to new innovative investment and retirement products has enabled the industry to capitalise on the changing pattern of demand of the Malaysian consumers and thus enhance new business growth.

The market share of foreign-controlled insurers (equity ownership by foreigners of more than 50%) in terms of new business premiums and new sums insured increased to 54.9% and 52.3% (1998: 50.8% and 45.3%) respectively. These foreign-controlled insurers maintained a dominant position in whole life, endowment, education and medical and health business while Malaysian-controlled insurers have a larger market share of the temporary policies.

The average size per policy underwritten by insurers during the year increased perceptibly in line with the improved underlying economic scenario and expansion of investment-linked business. The average new annual premiums for whole life and endowment policies increased by 30.3% and 14.1% to RM1,330 and RM1,189 respectively. The average new sums insured for whole life and endowment policies also increased to RM46,759 (1998: RM39,694) and RM22,195 (1998: RM21,512) respectively. The

**Table 3.4 Average Size and Cost of Ordinary Life New Policies**

| Year | Average Annual Premiums | | Average Sums Insured | | Average Cost[1] | |
|---|---|---|---|---|---|---|
| | Whole Life | Endow-ment | Whole Life | Endow-ment | Whole Life | Endow-ment |
| | RM | | | | | |
| 1995 | 937 | 1,110 | 39,127 | 21,562 | 24 | 51 |
| 1996 | 957 | 1,069 | 37,622 | 22,492 | 25 | 48 |
| 1997 | 1,068 | 1,146 | 42,579 | 24,906[2] | 25 | 46 |
| 1998 | 1,021 | 1,042 | 39,694 | 21,512[2] | 26 | 48 |
| 1999 | 1,330 | 1,189 | 46,759 | 22,195 | 28 | 54 |

[1] New annual premiums per RM1,000 of new sums insured
[2] Revised due to reclassification

average premium per RM1,000 new sums insured for whole life and endowment policies increased to RM28 (1998: RM26) and RM54 (1998: RM48) respectively, reflecting the additional cost of other benefits including coverage against critical illness and disabilities, medical reimbursement and other income benefits which are packaged together with basic life products.

## Terminations

In 1999, aggregate premiums terminated decreased by 13.9% (1998: 47.4%) to RM721.8 million, while sums insured terminated increased marginally by 2.4% (1998: 38.6%) to RM71,409.5 million, due to improved economic conditions. The bulk of the terminations in sums insured were due to the reduction in sums insured for mortgage-related policies, the expiry or non-renewal of annual group term policies, discontinuance of riders and conversions to paid-up policies.

While overall terminations had decreased, discontinuance through surrenders increased by 9.1% (1998: 50.1%) accounting for 9.3% of the total sums insured terminated. There was an increase in surrender recorded by three insurers, following the conversion of ordinary policies to investment-linked policies by policy owners. These insurers have taken action to minimise the switching of policies which may not be in the best interest of the policy owners. Consequently, the overall surrender rate for the industry increased marginally to 2% in 1999 (1998: 1.9%). Terminations through death and maturity remained low, with a combined share of only 2.8% and 1% of the annual premiums and sums insured terminated respectively, reflecting the demographic structure of the Malaysian population, where about 76.7% of the population was under the age of 40.

**Table 3.5 Terminations of Annual Premiums**

| Year | Death | Maturity | Surrender | Forfeiture less Revivals | Others | Total |
|---|---|---|---|---|---|---|
| | RM million | | | | | |
| 1995 | 5.2 | 8.1 | 43.5 | 200.1 | 130.5 | 387.4 |
| 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 | 193.1 | 721.8 |
| | % change | | | | | |
| 1995 | 22.8 | 11.3 | 13.3 | 30.2 | 33.9 | 28.7 |
| 1996 | 26.9 | 4.9 | 21.4 | 34.1 | 16.0 | 25.9 |
| 1997 | 9.1 | 10.6 | 47.9 | 26.4 | –10.9 | 16.6 |
| 1998 | 16.7 | 28.7 | 70.9 | 27.0 | 88.1 | 47.4 |
| 1999 | 9.5 | –8.3 | 13.1 | –17.1 | –23.9 | –13.9 |
| | % share | | | | | |
| 1995 | 1.3 | 2.1 | 11.2 | 51.7 | 33.7 | 100.0 |
| 1996 | 1.4 | 1.7 | 10.8 | 55.0 | 31.0 | 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 |

**Table 3.6 Terminations of Sums Insured**

| Year | Death | Maturity | Surrender | Forfeiture less Revivals | Others | Total |
|---|---|---|---|---|---|---|
| | RM million | | | | | |
| 1995 | 274.4 | 153.9 | 1,789.7 | 8,064.3 | 22,340.3 | 32,622.6 |
| 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 |
| | % change | | | | | |
| 1995 | 22.6 | 2.9 | 18.1 | 33.7 | 33.4 | 32.2 |
| 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 |
| | % share | | | | | |
| 1995 | 0.8 | 0.5 | 5.5 | 24.7 | 68.5 | 100.0 |
| 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 | 0.6 | 0.3 | 8.7 | 23.8 | 66.5 | 100.0 |
| 1999 | 0.6 | 0.4 | 9.3 | 19.1 | 70.6 | 100.0 |

**Table 3.7 Forfeiture and Surrender Rates**

| Year | Weighted Forfeiture Rate (%) | Surrender Rate (%) |
|---|---|---|
| 1995 | 21.1 | 0.9 |
| 1996 | 24.6 | 1.0 |
| 1997 | 31.2 | 1.4 |
| 1998[1] | 39.2 | 1.9 |
| 1999[1] | 33.0 | 2.0 |

[1] The weighted forfeiture and surrender rates include investment-linked business

**Table 3.8 Forfeiture Rate by Policy Years**[1]

| Financial Year | Year of Issue | 1st Policy Year | 2nd Policy Year | 3rd Policy Year | Total |
|---|---|---|---|---|---|
| 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 |
| 1998 | 1998 | 9.6 | – | – | 9.6 |
| | 1997 | 18.7 | 17.0 | – | 25.7 |
| | 1996 | 15.9 | 9.6 | 3.8 | 29.3 |
| | 1995 | 13.3 | 8.8 | 4.6 | 26.7 |

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

The forfeiture experience of the industry in 1999 improved with the annual premiums and sums insured forfeited decreasing by 17.1% and 17.8% (1998: 27% and 37.2%) respectively. Although forfeiture still accounted for 49.5% of the total annual premiums terminated, of the 18 life insurers, 14 insurers recorded much better improvement in their forfeiture experience in 1999. This improvement augurs well for the industry as the loss of premium and insurance coverage to policy owners 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 (with a weightage of 20%, 56% and 24% for new business premiums for the latest year, first preceding year and second preceding year respectively) improved markedly to 33% (1998: 39.2%) in 1999. Nine insurers recorded lower WFRs than the industry, four of which were foreign-controlled insurers.

An analysis of the forfeitures of new business by each policy year revealed an increase in the forfeiture rate from 26.7% for new business underwritten in 1995 to 31.7% for new business written in 1996 (which had recorded the full level of forfeitures over three policy years). In respect of the business written in 1997 and 1998, the projected forfeiture rates after three policy years is expected to deteriorate to 32.4% and 31.7% respectively. The new business written in 1999 recorded lower forfeitures in the first policy year consonant with the better economic environment during the year. The forfeiture rate for this block of business on the third policy year is projected to improve to 22.5%.

## *Business in Force*

In tandem with the strong pace of growth in new business and overall decrease in terminations, both sums insured and annual premiums in force registered a higher growth of 8.7% and 9.9% (1998: 5.5% and 4.6%) to RM368,979.1 million and RM6,859.4 million respectively in 1999. The number of policies in force also expanded significantly by 11.4% (1998: 6.6%) to 7,038,691 policies to achieve an insurance penetration rate exceeding 30% (defined as the ratio of number of policies in force to the Malaysian population) for the first time.

In terms of sums insured in force, all classes of business registered higher growth rates in 1999 except ‘other’ policies (which mainly consisted of riders) which declined further by 14.1% (1998: -1.6%). The market share of whole life and temporary policies were 36.7% and 36.1% of the total sums insured in force respectively. The sums insured of investment-linked policies expanded significantly to reach RM3,374.1 million (1998: RM209.5 million). However, as a relatively new portfolio introduced only in 1997, investment-linked business only constituted a share of 0.9% (1998: 0.1%) of the industry’s total sums insured in force.

**Table 3.9 Business in Force**

| Year | No. of Policies | Sums Insured | Annual Premiums |
|---|---|---|---|
| | Units | RM million | |
| 1995 | 4,977,203 | 246,228.2 | 4,612.7 |
| 1996 | 5,358,028 | 282,605.0 | 5,259.3 |
| 1997 | 5,926,324 | 321,993.3 | 5,967.2 |
| 1998 | 6,318,992 | 339,598.7 | 6,240.1 |
| 1999 | 7,038,691 | 368,979.1 | 6,859.4 |
| | % change | | |
| 1995 | 14.3 | 21.8 | 23.6 |
| 1996 | 7.7 | 14.8 | 14.0 |
| 1997 | 10.6 | 13.9 | 13.5 |
| 1998 | 6.6 | 5.5 | 4.6 |
| 1999 | 11.4 | 8.7 | 9.9 |

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

| Year | Ordinary Life | | | | Invest-ment-linked | Total |
|---|---|---|---|---|---|---|
| | Whole Life | Endow-ment | Tempo-rary | Others | | |
| | RM million | | | | | |
| 1995 | 2,119.4 | 1,481.9 | 306.4 | 705.0 | – | 4,612.7 |
| 1996 | 2,397.8 | 1,660.2 | 405.6 | 795.7 | – | 5,259.3 |
| 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 | 10.0 | 6,240.1 |
| 1999 | 3,069.1 | 2,125.7 | 373.8 | 1,182.9 | 107.9 | 6,859.4 |
| | % change | | | | | |
| 1995 | 21.4 | 22.7 | 24.0 | 32.3 | – | 23.6 |
| 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 | 6.4 | 4.6 |
| 1999 | 8.6 | 9.0 | 11.3 | 5.8 | 979.0 | 9.9 |
| | % share | | | | | |
| 1995 | 45.9 | 32.1 | 6.7 | 15.3 | – | 100.0 |
| 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 | 45.3 | 31.2 | 5.4 | 17.9 | 0.2 | 100.0 |
| 1999 | 44.7 | 31.0 | 5.5 | 17.2 | 1.6 | 100.0 |

In terms of annual premiums in force, the shares of whole life and endowment policies continued to remain dominant with shares of 44.7% and 31% respectively. However, the market share of these policies continued to gradually reduce in favour of the newly promoted need-based products like education and health insurance as well as investment-linked policies. The annual premiums in force of these three actively promoted products grew significantly by 26.5% to account for a combined share of 14.9% of the total annual premiums in force. With the trend towards customer segmentation, the development of new innovative products to meet the specific needs of consumers is expected to be the main driver of new business growth for the industry in future. One notable development has been in products for women to include coverage like breast and cervical cancer. Insurers who are able to capitalise on this demand and provide maximum value to policy owners in these products will be able to build a real competitive advantage in the market.

Foreign-controlled insurers continued to account for the major market share of life insurance business, by controlling 62.3% and 74.2% of sums insured and annual premiums in force respectively. These foreign-controlled insurers successfully maintained a dominant position in whole life policies with market shares of 83.8% and 83.4% of the sums insured and annual premiums in force respectively, while Malaysian-controlled insurers held a larger market share of temporary policies, underwriting 66.8% and 67.5% of the sums insured and annual premiums in force for this class of business.

In terms of market share, the bulk of the life business is concentrated in the top few insurers. The five largest insurers (four of which were foreign-controlled) in the industry underwrote 64.5% and 72.9% (1995: 70.4% and 75.1%) of sums insured and annual premiums in force respectively. In contrast, the five smallest insurers (all Malaysian-

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

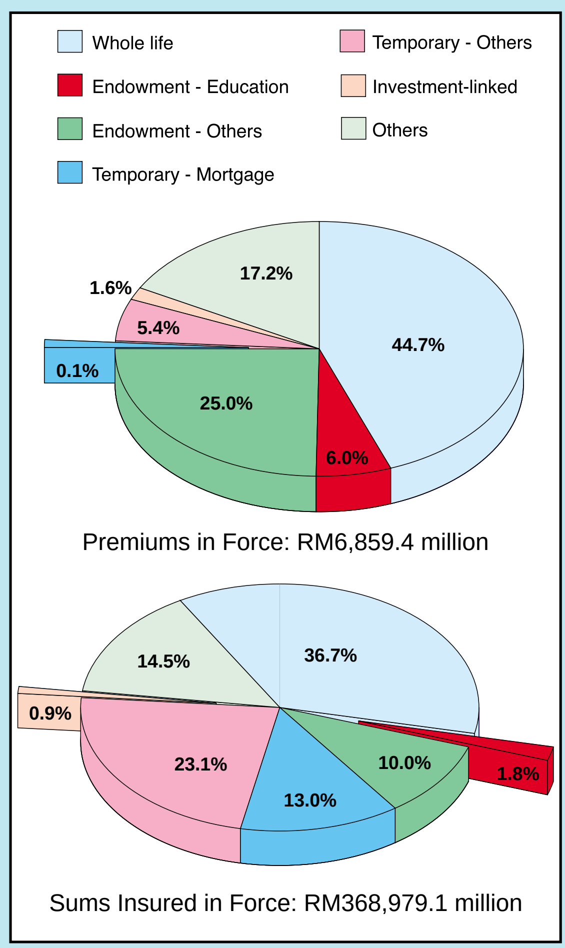


**Table 3.11 Distribution of Sums Insured in Force**

| Year | Ordinary Life | | | | Investment - linked | Total |
|---|---|---|---|---|---|---|
| | Whole Life | Endowment | Temporary | Others | | |
| | RM million | | | | | |
| 1995 | 94,726.9 | 27,547.8 | 93,846.6 | 30,107.0 | – | 246,228.2 |
| 1996 | 105,141.9 | 31,279.7 | 108,735.7 | 37,447.7 | – | 282,605.0 |
| 1997 | 117,672.6 | 37,698.6 | 103,244.4 | 63,250.7 [1] | 127.0 | 321,993.3 |
| 1998 | 122,233.6 | 40,329.6 | 114,578.7 | 62,247.3 | 209.5 | 339,598.7 |
| 1999 | 135,464.8 | 43,628.1 | 133,032.2 | 53,479.9 | 3,374.1 | 368,979.1 |
| | % change | | | | | |
| 1995 | 18.4 | 24.4 | 17.9 | 47.1 | – | 21.8 |
| 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 | 5.5 |
| 1999 | 10.8 | 8.2 | 16.1 | –14.1 | 1,510.5 | 8.7 |
| | % share | | | | | |
| 1995 | 38.5 | 11.2 | 38.1 | 12.2 | – | 100.0 |
| 1996 | 37.2 | 11.1 | 38.5 | 13.3 | – | 100.0 |
| 1997 | 36.5 | 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 |

[1] Revised to include reinsurance accepted business
... Negligible

controlled) only garnered 5.7% of sums insured in force and 2.6% of annual premiums in force. In fact, the market share of the small domestic insurers had declined over the last five years mainly due to the inability of these small insurers to expand their distribution network. Given the rapid pace of developments in the liberalisation and globalisation of the insurance market, the smaller players must achieve economies of scale through mergers and business amalgamations to remain viable and be able to meet the competitive challenges of the future market environment or face the prospect of being marginalised in the industry.

**Table 3.12 Average Size and Cost of Ordinary Life Policies in Force**

| Year | Average Annual Premiums | | Average Sums Insured | | Average Cost[1] | |
|---|---|---|---|---|---|---|
| | Whole Life | Endow - ment | Whole Life | Endow - ment | Whole Life | Endow - ment |
| | RM | | | | | |
| 1995 | 906 | 864 | 40,482 | 16,052 | 22 | 54 |
| 1996 | 929 | 898 | 40,740 | 16,925 | 23 | 53 |
| 1997 | 957 | 936 | 41,676 | 18,943 | 23 | 49 |
| 1998 | 970 | 945 | 41,967 | 19,551 | 23 | 48 |
| 1999 | 1,039 | 992 | 45,481 | 20,372 | 23 | 49 |

[1] Annual premiums in force per RM1,000 of sums insured in force

Consonant with the better new business performance of the industry, the average annual premiums in force for whole life and endowment policies also expanded by 7.1% and 5% to RM1,039 and RM992 per policy respectively due to higher consumer expenditure on insurance protection. Consequently, the average sums insured in force for whole life and endowment policies also increased by 8.4% and 4.2% to RM45,481 and RM20,372 per policy respectively. The average premium per RM1,000 new sums insured for whole life remained at RM23, whereas the figure for endowment increased very marginally from RM48 in 1998 to RM49 in 1999.

## *Income and Outgo*

Total income of the life insurance funds increased significantly by 20.3% (1998: 9.5%) to reach RM10,140.6 million in 1999, contributed by a

**Table 3.13 Income and Outgo**

| Item | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|
| | RMm | % | RMm | % | RMm | % |
| **Income** | | | | | | |
| Premium income | 5,970.7 | 77.6 | 6,217.2 | 73.7 | 7,152.7 | 70.5 |
| Net investment income | 1,372.0 | 17.8 | 1,634.1 | 19.4 | 1,633.5 | 16.1 |
| Profits on sale of assets and miscellaneous income | 355.0 | 4.6 | 577.7 | 6.9 | 1,354.4 | 13.4 |
| Total | 7,697.7 | 100.0 | 8,429.0 | 100.0 | 10,140.6 | 100.0 |
| **Outgo** | | | | | | |
| Net policy benefits | 1,510.8 | 19.6 | 1,936.3 | 23.0 | 2,238.2 | 22.1 |
| Agency remuneration | 1,545.5 | 20.1 | 1,334.8 | 15.8 | 1,412.2 | 13.9 |
| Management expenses | 535.3 | 7.0 | 532.8 | 6.3 | 592.2 | 5.8 |
| Losses on disposal of assets and other outgo | 1,503.5 | 19.5 | 1,191.6 | 14.1 | 209.5 | 2.1 |
| Total | 5,095.1 | 66.2 | 4,995.5 | 59.3 | 4,452.1 | 43.9 |
| Excess of income over outgo | 2,602.6 | 33.8 | 3,433.5 | 40.7 | 5,688.5 | 56.1 |

significant increase in profits on sale of assets to RM591.1 million (1998: RM29.5 million). All 18 life insurers in the industry recorded capital gains from sales of investments during the year. These gains together with the miscellaneous income partly from the write back of provisions for diminution in value of investments, increased significantly by 134.4% to RM1,354.4 million in 1999. Similarly, consonant with the better business performance, premium income increased by 15.1% (1998: 4.1%) to RM7,152.7 million in 1999 with the investment-linked business accounting for 1.9% (1998: 1.2%) of the total premium income. However, the fixed interest investment income of the life funds decreased marginally to RM1,633.5 million (1998: RM1,634.1 million). Premium income accounted for 70.5% of the total income, while profits on sale of assets and other income almost doubled its share to account for 13.4% of total income.

Total outgo of life insurance funds decreased by 10.9% (1998: 2%) to RM4,452.1 million, benefiting mainly from the significant reduction in investment losses from RM837.5 million in 1998 to RM16.2 million in 1999. Nevertheless, benefit payments continued to increase by 15.6% to RM2,238.2 million, representing 31.3% (1998: 31.1%) of the premium income in 1999. Surrenders formed the bulk of benefit payments (25.8%), while maturity claims accounted for 23.6%, followed by death and disability benefits (20.7%) and cash bonuses (15%). Agency remuneration and management expenses increased by 5.8% and 11.2% to RM1,412.2 million and RM592.2 million respectively, consonant with the higher new business growth. With the significant increase in total income, excess of income over outgo improved markedly by 65.7% to reach RM5,688.5 million.

The expense rate (the ratio of agency remuneration and management expenses to annual premium income) of the industry improved further to 30.9% (1998: 31.9%). The cost guidelines on life insurance business which was introduced in 1996 had not only curbed the increase on agency remuneration but also set

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

| Year | % of Annual Premium Income | | | | Net Rate of Interest Earned | |
|---|---|---|---|---|---|---|
| | Agency Remune-ration (a) | Staff Remune-ration (b) | Other Expenses (c) | Total (a)+(b)+(c) | (1) | (2) |
| 1995 | 34.4 | 3.7 | 9.8 | 47.9 | 6.5 | 7.9 |
| 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 |

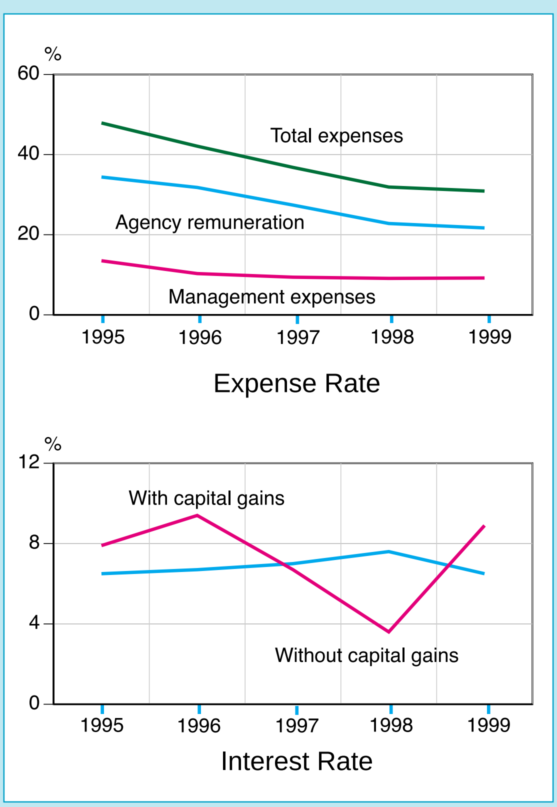
(1) Rate of return on investments excluding capital gains

(2) Rate of return on investments including capital gains

the trend for higher cost efficiency as evidenced in the reduction in the expense rate from 47.9% in 1995 to 30.9% in 1999. However, the expense rate of the Malaysian-controlled insurers remained high at 40.8%, mainly due to their inability to expand their premium base in order to achieve economies of scale.

In terms of investment yield, the net rate of interest of the insurance funds, excluding capital gains or losses, decreased from 7.6% to 6.5% due to the low interest rate environment in 1999, given that approximately 15% of the assets of the life funds were in bank deposits in 1999. However, the investment yield including capital gains improved significantly to 8.9% (1998: 3.6%), reflecting the better performance of the equity market. The life insurance industry has achieved reasonably good returns on their investments in the last 10-years. The average rate of return (including capital gains) achieved by the life insurance industry over the 10-year period from 1990 to 1999 was 9.8%.

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




In 1999, the returns to shareholders measured in terms of surplus transferred from life insurance funds to shareholders' funds (or head office accounts) improved by 32.2% to RM706.5 million. The bulk of the surplus transfers emanated from the six foreign controlled insurers which transferred a total of RM478.4 million (1998: RM346.1 million) to their shareholders.

### *Assets*

In line with the overall improvement in business performance, total assets of life insurance funds grew by 20.5% (1998: 12.9%) to reach RM31,707 million in 1999. In respect of investment-linked business, the investment-linked funds grew significantly by 113.3% to reach RM245.8 million, accounting for 0.8% (1998: 0.4%) of the total assets of the life funds.

In terms of distribution of the assets of the life funds in 1999, there was a decline in the proportion of assets held in cash and deposits, which was replaced by a higher allocation in investments in corporate and debt securities. Investments in corporate and debt securities which grew significantly by 60.3% to RM12,963.3 million in 1999, remained as the

**Chart 3.4 Assets of Life Insurance Funds**

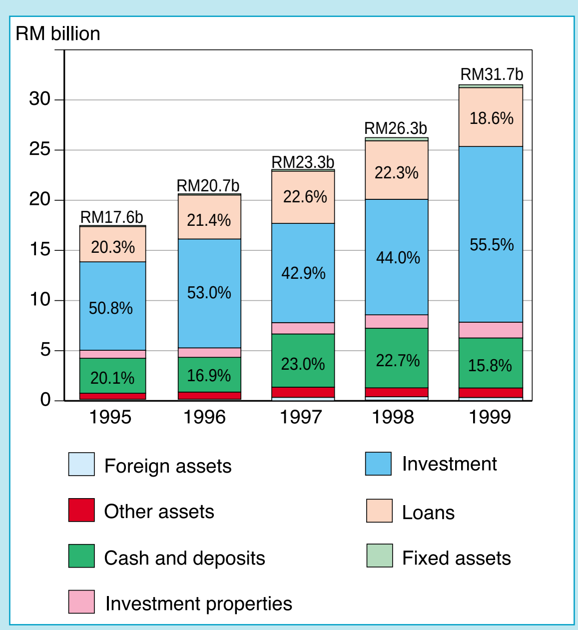


**Table 3.15 Assets of Life Insurance Funds**

| Type of Investment | 1995 | | 1996 | | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMm | % | RMm | % | RMm | % | RMm | % | RMm | % |
| Fixed assets | 110.6 | 0.6 | 127.3 | 0.6 | 170.9 | 0.7 | 314.9 | 1.2 | 296.3 | 0.9 |
| Loans | 3,575.0 | 20.3 | 4,443.1 | 21.4 | 5,269.6 | 22.6 | 5,873.2 | 22.3 | 5,905.3 | 18.6 |
| *Mortgages* | *732.1* | *4.2* | *990.8* | *4.8* | *886.0* | *3.8* | *1,170.0* | *4.4* | *877.3* | *2.8* |
| *Policy* | *1,356.6* | *7.7* | *1,595.8* | *7.7* | *1,981.1* | *8.5* | *2,663.3* | *10.1* | *3,122.8* | *9.8* |
| *Others* | *1,486.3* | *8.5* | *1,856.5* | *9.0* | *2,402.5* | *10.3* | *2,039.8* | *7.8* | *1,905.1* | *6.0* |
| Investments | 8,928.1 | 50.8 | 10,978.4 | 53.0 | 10,005.2 | 42.9 | 11,582.0 | 44.0 | 17,592.3 | 55.5 |
| *Malaysian Government papers/guaranteed loans* | *4,729.9* | *26.9* | *5,181.1* | *25.0* | *3,489.9* | *15.0* | *3,429.9* | *13.0* | *4,516.0* | *14.2* |
| *Corporate/debt securities* | *4,143.5* | *23.6* | *5,704.7* | *27.5* | *6,437.9* | *27.6* | *8,087.3* | *30.7* | *12,963.3* | *40.9* |
| *Others* | *54.7* | *0.3* | *92.6* | *0.4* | *77.4* | *0.3* | *64.8* | *0.2* | *113.0* | *0.4* |
| Investment properties | 807.0 | 4.6 | 957.6 | 4.6 | 1,133.9 | 4.9 | 1,329.7 | 5.1 | 1,599.3 | 5.0 |
| Cash and deposits | 3,530.1 | 20.1 | 3,494.2 | 16.9 | 5,354.1 | 23.0 | 5,967.7 | 22.7 | 5,019.8 | 15.8 |
| Other assets | 623.6 | 3.5 | 728.8 | 3.5 | 1,018.8 | 4.4 | 897.9 | 3.4 | 961.5 | 3.0 |
| Foreign assets | — | — | — | — | 354.4 | 1.5 | 349.5 | 1.3 | 332.6 | 1.0 |
| Total | 17,574.4 | 100.0 | 20,729.4 | 100.0 | 23,306.9 | 100.0 | 26,314.8 | 100.0 | 31,707.0 | 100.0 |

largest portfolio of assets representing 40.9% of the total life fund assets. The significant increase in corporate and debt securities was due to the improved confidence in the capital market arising from the economic recovery and also the growth of equity funds of investment-linked business. In 1999, 59.8% of the total investment-linked funds were invested in corporate and debt securities. The loan portfolio comprising mainly mortgages, policy loans and other loans, grew marginally by 0.5% to become the second largest portfolio of assets with a share of 18.6% (1998: 22.3%) of total assets. Mortgage loans which were mainly housing loans given to policy owners decreased by 25% (1998: 32.1%) to account for 2.8% of total assets in 1999. Growth in policy loans moderated to 17.3% (1998: 34.4%), to account for 9.8% of total assets mainly reflecting lesser utilisation of the accumulated cash surrender values by policy owners to pay for outstanding premiums. Given the low interest rate environment, cash and deposits decreased to 15.8% of total assets (1998: 22.7%) while investment in Government papers and Government guaranteed loans increased to 14.2% (1998: 13%) of total assets.

## *Valuation Reports*

Life insurers are required under section 85 of the Insurance Act 1996 to conduct annual actuarial investigations into the financial condition of their life business in respect of their policy owners' liabilities, and to submit a summary of the valuation results to BNM. The actuarial investigations determine the level of reserves that an insurer has to maintain to fulfil its long-term financial obligations to its policy owners and their beneficiaries. The statutory valuation is conducted using the net premium valuation methodology on a basis

**Table 3.16 Valuation Result and Surplus Distribution**

| Item | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|
| | RMm | % change | RMm | % change | RMm | % change |
| **Valuation result** | | | | | | |
| Policyholders' fund | 20,958.8 | 10.0 | 23,581.6 | 12.4 | 28,794.2 | 22.1 |
| Valuation liabilities | 17,952.9 | 12.1 | 20,379.6 | 13.5 | 23,547.5 | 15.5 |
| Surplus/deficit | 3,005.9 | –1.2 | 3,202.0 | 6.0 | 5,246.7 | 63.9 |
| **Surplus distribution** | | | | | | |
| Allocation to policy owners | 1,326.5 | –4.8 | 1,311.8 | –1.1 | 1,526.5 | 16.4 |
| Allocation to shareholders | 635.9 | 7.4 | 352.2 | –44.6 | 853.1 | 142.2 |
| Transfer to any fund/reserve | – | – | – | – | 21.2 | – |
| Surplus carried forward | 1,058.7 | 0.1 | 1,538.0 | 45.3 | 2,845.9 | 85.0 |

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. In the case of annuity business, valuation is based on the 'a(90) Annuitant Mortality Table' at an interest rate of 5%.

In line with the growth in business, total valuation liabilities continued to increase by 15.5% (1998: 13.5%) to reach RM23,547.5 million in 1999. The policyholders' fund grew by 22.1% (1998: 12.4%) to reach RM28,794.2 million. With the strong growth in policyholders' fund outpacing the increase in the valuation liabilities, the actuarial surplus of the industry registered a significant improvement by 63.9% (1998: 6%) to reach RM5,246.7 million. The improvement in investment yield (including capital gains) as well as the substantial growth of new single premium business with lower or minimal new business strain had contributed to the higher growth in actuarial surplus. With this increase, the ratio of policyholders' fund to valuation liabilities strengthened from 115.7% in 1998 to 122.3% in 1999.

In line with the improvement in actuarial surplus, the surplus distributed to participating policy owners and shareholders also increased significantly by 43% (1998: -15.2%) to RM2,379.6 million. The amount of surplus allocated to participating policy owners and surplus allocated to shareholders increased by 16.4% (1998: -1.1%) and 142.2% (1998: -44.6%) to reach RM1,526.5 million and RM853.1 million respectively. With the significant increase in surplus allocated to shareholders, policy owners' share of total allocated surplus fell from 78.8% in 1998 to 64.1% in 1999. Despite the higher surplus allocation in 1999, the surplus carried forward to meet future policy owners' bonus expectations, including terminal bonus, also registered a strong increase of 85% (1998: 45.3%) to reach RM2,845.9 million in 1999. This translated into a net surplus ratio (ratio of policyholders' fund after surplus allocation to valuation liabilities) of 111.4%, an improvement from the 107.1% ratio recorded in 1998. The stronger position of the policyholders' fund indicated a greater financial resilience to meet policy owners' reasonable expectations in the face of unexpected adverse circumstances.

In tandem with the increase in total actuarial surplus, the net actuarial surplus arising during the year (excluding surplus brought forward from the previous valuation and transfers from shareholders, but including interim bonuses) increased significantly by 85.7% (1998: 2.7%) to RM3,715.6 million. Twelve life insurers registered higher net surplus arising in 1999. With the significant increase in net surplus arising, the ratio of the industry's net surplus to the average life fund (representing the rate at which surplus is generated by the life fund) grew by 5.3 percentage points to 14.4% (1998: 9.1%) in 1999.

## *Socio-economic Indicators*

In tandem with the higher growth in nominal GNP of 3.8% in 1999 (1998: 0.9%), the demand for life insurance coverage (measured in terms of premium income) also increased with a stronger growth of 15.1% (1998: 4.1%). Reflecting the high correlation between demand for insurance relative to growth in national income, the elasticity of growth in premium income in relation to GNP growth increased significantly to 10.8 in 1999 (1998: 3.2). The ratios of premium income to both nominal GNP and nominal gross domestic product (GDP) increased from 2.3% and 2.2% to 2.6% and 2.4% respectively in 1999. These ratios, however, were still low when compared with the more developed insurance markets overseas where the ratio of premium income to GDP ranged from 4.2% to 10.3%.

Market penetration (measured in terms of the number of policies in force to total population) continued to increase from 28.4% in 1998 to 30.8% in 1999. Measured in relation to only the working population, the ratio increased from 73.5% in 1998 to 80.9% in 1999. In terms of number of lives covered by life insurance policies to total Malaysian population, the ratio increased to 44.8% in 1999 from 41.1% in 1998. Despite the growth of life insurance coverage, the level of insurance penetration remained low, particularly when compared with the more developed markets like Singapore, Hong Kong and Japan which had penetration rates ranging from 60% to more than 200%.

Premium income constituted a small portion of gross national savings, with the ratio of premium income generated in 1999 to gross national savings increasing marginally to 6.2% (1998: 5.5%). In comparison, the ratio of premium income to gross national savings for the developed countries like Hong Kong, Taiwan and the United States ranged from 11% to more than 22%.

In terms of contribution to capital formation in the economy, life insurance assets grew by 20.5% (1998: 12.9%) to reach RM31,707 million, while the total assets of the financial system grew by 6.9% to RM1,171 billion in 1999. With the sustained growth of the life insurance funds, the life insurers' share of the total assets of the financial system increased from 2.4% in 1998 to 2.7% in 1999.

A comparison with other mediums of savings revealed that the growth of premium income was slightly lower than the increase in total deposits of the financial institutions. During 1994-1999,

**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 |
| 1995 | 246,228.2 | 118.2 | 11,895 | 4,549.9 | 2.2 | 220 | 569 | 208,294 | 20.7 | 8.0 | 10,068 |
| 1996 | 282,605.0 | 118.9 | 13,330 | 5,209.2 | 2.2 | 246 | 620 | 237,687 | 21.2 | 8.4 | 11,228 |
| 1997 | 321,979.5 | 120.7 | 14,838 | 5,970.7 | 2.2 | 275 | 678 | 266,800 | 21.7 | 8.8 | 12,051 |
| 1998 | 339,598.9 | 126.2 | 15,297 | 6,217.2 | 2.3 | 280 | 723 | 269,151 | 22.2 | 8.6 | 12,135 |
| 1999 | 368,979.1 | 132.0 | 16,255 | 7,152.7 | 2.6 | 315 | 822 | 279,461 | 22.7 | 8.7 | 12,305 |

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

premium income generated from life business grew at an average annual rate of 13.9%, slightly lower than the average increase in total deposits and the average annual contributions to the EPF, both of which increased by 14.8% during the same period.

The various socio-economic indicators revealed that there are enormous possibilities for the further expansion of the life insurance industry. To enhance its market penetration, life insurers should not confine themselves to providing financial security but rather expand into more comprehensive financial products to mobilise the savings and investments in the country. In view of the growing sophistication of consumers and increasingly integrated financial market, the life insurance industry needs to adopt new, cost saving distribution channels, exploit the potential of the Internet, upgrade the skills and quality of their agency forces, and strengthen their risk management and operational capabilities.

## Preliminary 2000 Data

The introduction of new annuity and investment-linked products continued to spur the growth of the life insurance industry in 2000. Based on preliminary data for calendar year 2000, the total new premiums increased significantly by 47.7% (1999: 37.4%) to RM2,920.5 million, while new sums insured grew by 13.4% (1999: 15.2%) to RM114,299.1 million. New single premiums increased by 144.9% to RM1,603.4 million, mainly due to the growth in annuity business following the launch of the EPF Annuity Scheme in July 2000 as well as diversification by some insurers into investment-linked business. However, new annual premiums recorded a decline of 0.4% (1999: 22.4%) to RM1,317.1 million in 2000.

In terms of the new business portfolio, all classes of business except 'others', registered positive growth in new business premiums. Investment-linked business increased significantly to RM514.4 million to account for 17.6% (1999: 9.6%) of total new business premiums in 2000. The high growth was mainly due to more intensive promotion of the products by the new entrants to investment-linked business as well as the increasing preference of the public for products with a high investment component as a medium of saving. Currently, 12 life insurers have been granted approval to underwrite investment-linked business. A significant development in the life insurance industry was the expansion into annuity business following the launch of the EPF Annuity Scheme. The six life insurers which participated in the Scheme recorded new business premiums of RM496.8 million (based on premiums received), accounting for 17% of the total new business premiums in 2000. As at end-December 2000, a total of 83,457 applications involving premiums of RM1.5 billion were still in the process of being underwritten. The growth of annuity business would enhance the role of life insurers in the provision of retirement benefits to the gradually ageing population. Temporary policies recorded a growth of 17.9% (1999: 43.2%) to account for a dominant share of 21.6% of the new premiums while the share of endowment, whole life and 'other' policies were 17.4%, 16% and 10.3% respectively.

Termination of annual premiums and sums insured increased by 6% (1999: -13.9%) and 9.7% (1999: 2.4%) to RM765.2 million and RM78,347.1 million respectively in 2000. Forfeiture of annual premiums increased by 12.1% (1999: -17.1%) to RM400.5 million in 2000. As a result, the weighted forfeiture rate of the industry deteriorated to 34% from 33% in 1999. Termination by 'other' causes, mainly due to expiry of yearly renewable policies, accounted for 73.1% (1999: 70.6%) of the sums insured terminated.

In line with the growth in new business, both annual premiums and sums insured in force increased by 8.4% and 8.5% (1999: 9.9% and 8.7%) to RM7,434.8 million and RM400,500.1 million respectively. The number of policies in force grew marginally by 2.9% (1999: 11.4%) to 7,240,355 policies. Whole life policies, which registered a growth of 7.7%, continued to maintain a dominant position with a share of 44.4%, followed by endowment and 'other' policies with a share of 30.2% and 16% of the total annual premiums in force respectively. In terms of sums insured in force, temporary policies outpaced whole life policies to become the most dominant class with a share of 37.1% of the total sums insured in force, followed by whole life policies with a share of 35.4%. The annual premiums and sums insured in force for the investment-linked business increased significantly to RM333.9 million and RM10,082.8 million respectively, accounting for 4.5% and 2.5% of the industry's total annual premiums and sums insured in force respectively. As at end-2000, 11 life insurers launched a total of 42 investment-linked funds. As a relatively new portfolio, the size of the fund is still small with a total net asset value of RM457.1 million. However, with aggressive promotion by some insurers, the portfolio of investment-linked business is expected to grow significantly.

Total income of the life insurance industry increased by 12.1% (1999: 20.3%) to reach RM11,363 million, supported mainly by an increase of 23.2% (1999: 15.1%) in premium income to RM8,809.7 million in 2000. Net investment income increased marginally by 4.8% to RM1,712.2 million. Total outgo of the industry rose by 25% (1999: -10.9%) to RM5,566.8 million, mainly due to higher benefit payments which increased by 18.7% (1999: 15.6%) to RM2,657.2 million, representing 30.2% (1999: 31.3%) of the premium income in 2000. Agency remuneration and management expenses increased by 6% (1999: 5.8%) and 11.4% (1999: 11.2%) to RM1,497.6 million and RM659.6 million respectively, consonant with the higher new business growth. The expense rate of the life insurance industry continued to improve from 30.9% in 1999 to 29.9% in 2000. Despite the improvement, the operational efficiency of life insurers can be further enhanced through mergers and acquisitions as well as penetration into new markets. With the higher increase in total outgo, excess of income over outgo recorded a marginal increase of 1.9% to reach RM5,796.2 million. In terms of investment yield, the net rate of interest of the insurance funds, excluding and including capital gains or losses, decreased to 5.8% (1999: 6.5%) and 6.6% (1999: 8.9%) respectively in 2000. The decrease in investment yield imposed greater pressure on the insurance funds to meet the bonus expectations of the policy owners.

In line with the overall improvement in business performance, total assets of life insurance funds grew by 15.4% (1999: 20.5%) to reach RM36,594 million as at end 2000. Investment-linked funds recorded a significant growth of 120.4% (1999: 113.3%) to reach RM541.7 million, while the newly launched annuity business accumulated a total fund of RM488.1 million. Investment-linked funds and annuity funds accounted for 1.5% and 1.3% of the total life fund assets respectively. In terms of distribution of assets, investments in corporate and debt securities which registered the highest growth of 28.1% to RM16,605.1 million, remained the largest portfolio of assets representing 45.4% of the total assets. Investments in Malaysian Government securities and policy loans increased by 11.7% and 13.9% to RM5,043 million and RM3,556.9 million, representing a share of 13.8% and 9.7% of total assets respectively. Investments in cash and deposits increased by 9.2% to RM5,480.9 million to account for 15% of the total assets.

## Malaysian Mortality Experience

The Life Insurance Association of Malaysia undertakes annual updates of the mortality rates of Malaysian assured lives based on the actual experience of assured lives in Malaysia. The mortality rates were derived from the annual submissions by life insurers in respect of whole life, endowment and temporary insurance policies in force for male and female assured lives, and the number of policies terminated by death during the financial year. The data were analysed separately in respect of male and female lives as well as 'with medical' and 'without medical' examination to ensure that the resulting sub-groups were sufficiently

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

| Age Attained Group | Ordinary (1993-1997) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Males | | | | Females | | | |
| | With Medical | | Without Medical | | With Medical | | Without Medical | |
| | Ex | qx | Ex | qx | Ex | qx | Ex | qx |
| 10 - 14 | 31.60 | 0.35 | 243.92 | 0.32 | 21.76 | 0.05 | 164.86 | 0.24 |
| 15 - 19 | 31.52 | 1.17 | 227.21 | 1.56 | 17.61 | 0.23 | 131.42 | 0.46 |
| 20 - 24 | 41.07 | 1.24 | 462.88 | 1.38 | 25.19 | 0.24 | 364.01 | 0.36 |
| 25 - 29 | 84.36 | 0.76 | 763.82 | 1.01 | 51.81 | 0.50 | 626.58 | 0.41 |
| 30 - 34 | 136.48 | 0.81 | 911.72 | 0.98 | 68.51 | 0.58 | 644.92 | 0.49 |
| 35 - 39 | 182.57 | 0.95 | 885.00 | 1.32 | 74.51 | 0.78 | 543.98 | 0.74 |
| 40 - 44 | 208.96 | 1.28 | 711.09 | 1.94 | 69.46 | 1.08 | 396.20 | 0.95 |
| 45 - 49 | 183.68 | 2.05 | 472.28 | 3.15 | 57.78 | 1.80 | 232.43 | 1.87 |
| 50 - 54 | 134.12 | 4.47 | 225.98 | 5.51 | 51.94 | 2.31 | 96.13 | 3.21 |
| 55 - 59 | 86.32 | 6.92 | 73.83 | 8.94 | 43.69 | 3.30 | 34.16 | 5.59 |
| 60 - 64 | 42.65 | 13.20 | 18.53 | 15.76 | 25.88 | 6.99 | 8.42 | 9.86 |
| 65 - 69 | 17.49 | 22.98 | 4.26 | 27.71 | 12.02 | 13.73 | 2.34 | 20.52 |
| 70 - 74 | 5.84 | 40.62 | 1.13 | 34.50 | 3.83 | 22.44 | 0.94 | 40.47 |
| Total | 1,186.65 | 2.94 | 5,001.64 | 1.82 | 524.01 | 1.93 | 3,246.38 | 0.83 |

Ex - Numbers of lives exposed to risks in thousands
qx - Mortality rate multiplied by 1,000
(Source: Life Insurance Association of Malaysia)

homogenous to enable useful and reasonable conclusions to be drawn.

A seven-year period was initially used for the mortality analysis to ensure that the exposure to risk was sufficiently large to minimise the effect of random fluctuations in the calculated mortality rates. However, with the increase in volume of business in force in line with the growth of the industry, 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 ordinary Malaysian assured lives for both male and female during the period 1994-1998 is given in Table 3.18. The mortality rates are based on policies which had been in force for a period of two or more years. Policies which had been in force for less than two years were excluded from the study to minimise the mortality reduction effect of medical selection, anti-selection or other selection made at issuance of the policies.

Even with the above exclusion, the mortality rates for male assured lives who had undergone a medical examination were found to be generally lower than those who had not. Based on the age groups studied, the difference was between 10% to 35% for ages between 15 and 69. For the youngest and oldest age groups i.e. 10–14 and 70–74 respectively, male assured lives with medical examination showed a heavier mortality due to random fluctuations at these age groups.

However, the mortality reduction effect of medical underwriting is less apparent for female assured lives. For ages between 25 and 44, female assured who had undergone a medical examination experienced heavier mortality than those without medical examination. For other age groups studied, female lives with medical examination showed lighter mortality experience than those without medical examination. Further analysis reveals that for the age groups between 25 and 44, female lives with medical examination showed significantly heavier mortality as compared with the results of the mortality investigation for the 1993–1997 period. This result must be interpreted with caution as the exposure to risk of female lives with medical examination is still small amounting to about 5% of the total exposure and thus its mortality experience is subject to random fluctuations.

The mortality rates of female lives continued to be significantly lower than those of male lives, ranging from 34% to 75% for the various age groups. As in previous studies, the difference was most prominent in the younger age groups between 15 and 24, where the mortality rates of male lives were between 70% to 75% higher than the corresponding rates for female lives. This is largely due to the accident-related deaths experienced by male assured lives within these age groups. Female assured lives do not experience higher accident-related deaths at the lower ages.

Compared with the 'Malaysian 1983-88 Mortality Table - Male Ordinary', mortality rates for ordinary male assured lives during the period 1994–1998 showed an improvement in most age groups. The improvement ranged from less than 1% to 25%, depending on the age group. A similar comparison with the 'Statutory Valuation Mortality Table 1996' (SVMT) revealed that the ordinary male assured lives mortality rates for the period under study were lighter, with the difference among age groups varying from 5% to 95%. This indicates that 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 1993–1997 investigation (computed for the exposure to risk during the period 1994–1998) with the actual number of deaths recorded in the 1994–1998 investigation revealed that Malaysian mortality rates have deteriorated except for ordinary male lives without medical examination. For ordinary male assured lives with medical examination, the actual number of deaths was 12.6% higher than the expected number of deaths. Similarly, the actual number of deaths during the 1994–1998 period for with medical and without medical ordinary female assured lives were 18.2% and 1.9% higher than the respective expected number under mortality rates calculated based on the previous mortality investigation. However, for male assured lives without medical examination, the actual number of deaths were 3.7% lower than the expected number of deaths.

## Performance of General Business in 1999

### Premium Growth and Distribution

In 1999, general insurance business turned around to record a marginal growth of 0.6% in gross direct premiums increasing to RM5,541 million, compared with a decline of 11.6% in 1998. With the revival of projects which were stalled during the financial crisis two years earlier, the sectors which registered substantially higher growth in gross direct premiums were workmen's compensation and employers' liability which rose by 18.6% (1998: -22.4%) and contractors' all risks and engineering which grew by 9.9%

**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 |
| | % change | | | |
| 1998 | –10.7 | –11.6 | –9.2 | n.a. |
| 1999 | –1.7 | 0.6 | –0.2 | 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 | 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 |
| | % 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 |
| | % 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 |

(1998: -25.4%). Motor business recorded a modest increase of 2% in gross direct premiums, after a sharp decline of 16.3% in 1998. On the other hand, marine, aviation and transit (MAT) business experienced a contraction of 9.4% in gross direct premiums during the year, while miscellaneous business registered a decline of 7.2%.

In terms of volume of business underwritten, of the 51 insurers (excluding the professional reinsurers and two direct insurers which were running off their general business), 20 (1998: 23) recorded gross direct premiums exceeding RM100 million each. In aggregate, these 20 insurers accounted for 71.4% (1998: 75.2%) of the industry's gross direct premiums. Another 15 insurers fell within the group with gross direct premiums of RM50 million – RM100 million each, with aggregate premiums accounting for 18.9% of the industry's gross direct premiums. However, 16 insurers wrote premiums of less then RM50 million each, with average premiums of only RM33.7 million each. Of these 16 insurers, nine have either merged or are in the process of merging with other insurers. The consolidation of marginal players will effectively improve the capability of the merged entity to harness increased premium volume.

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 45.4% of total gross direct premiums. Three insurers derived more than 80% of their total gross direct premiums from motor insurance business, with a market share of 32.2%, while 31 insurers had 25% to 50% of their gross direct premiums in motor business. Fire business, which was the second largest class of business accounting for 22.4% of total gross direct premiums, was better distributed among the insurers. Of the 51 insurers, 26 derived between 25% to 50% of the gross direct premiums from fire business, while the remaining 25 insurers had less than 25% of their business from this sector. Besides the two dominant classes of motor and fire business, all other classes comprised only a small proportion of the portfolio mix of the insurers, each class not exceeding 10% of the total gross direct premiums.

It is evident that there are some classes of business which have yet to be fully exploited by insurers. Although medical expenses and personal accident business has been gradually growing, with its share increasing from 7.2% of total gross direct

**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 Compen-sation and Employers' Liability[1] | Miscella-neous | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 'Act' Cover | Others | Total | | | | |
| | RM million | | | | | | | | | | |
| 1995 | 190.5 | – | 630.4 | – | 288.4 | 1,633.1 | 1,951.5 | – | – | 773.9 | 3,546.3 |
| 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 | 930.7 | 498.8 | 367.7 | 2,107.7 | 2,475.4 | 55.1 | 71.4 | 281.9 | 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 |
| | % change | | | | | | | | | | |
| 1995 | 24.5 | – | 21.3 | – | 12.0 | 25.9 | 23.6 | – | – | 15.2 | 21.3 |
| 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 | 7.0 | 20.0 | –1.4 | –15.2 | –13.4 | 1.8 | –26.8 | –35.3 | –9.2 |
| 1999 | –2.4 | –7.7 | –0.8 | 2.9 | –6.6 | 2.3 | 0.9 | 22.3 | 11.3 | –15.1 | –0.2 |
| | % share | | | | | | | | | | |
| 1995 | 5.4 | – | 17.8 | – | 8.1 | 46.9 | 55.0 | – | – | 21.8 | 100.0 |
| 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 |

[1] Prior to1997, classes were grouped under miscellaneous

premiums in 1997 to 10% in 1999, there is room to further develop this class of business. Low public awareness on the significance of medical expenses and personal accident insurance is a contributory factor to the relatively low premiums generated. It must be highlighted, however, that although medical expenses is a potential source of business, insurers are advised to exercise extra caution in its underwriting and ensure adequate controls are in place, in view of the adverse claims experience of some insurers which have ventured into this business. The other sector with low penetration rate is the MAT sector, with only three insurers securing between 25% to 50% of their premium portfolio in this business. To increase penetration rates, insurers must explore various options which include formulating innovative and strategic marketing tools, seeking new marketing channels and offering new insurance products that serve individual and commercial needs such as agricultural insurance. It is also essential for insurers to extend the necessary support to their customers by providing professional advice and anticipating their insurance needs.

## Retention and Reinsurance of Malaysian Business

The retention of Malaysian business (by both direct insurers and reinsurers) continued its upward trend in 1999 to reach 87.8% compared with 86.4% in 1998. This high retention is boosted by the motor sector which registered a retention ratio of 99.6%. With the exception of the miscellaneous class, all classes showed higher retention levels, with the highest increase recorded in the contractors' all risks and engineering classes. Retention in respect of liability business has been steadily improving since 1997 to 73.4% (1998: 69%) as the insurers had greater experience and more exposure to underwriting this class of business, which was required to be placed within the country since the Act came into force in January 1997. The licensed professional reinsurers were also expanding their liability portfolio, assisting in further boosting retention for the liability class.

The direct insurers retained in the aggregate 87.3% of their premiums in 1999,

**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 | Motor: Others | Motor: Total | Liability | Workmen's Compensation and Employers' Liability | Miscellaneous | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Combined [1] | | | | | | | | | | |
| 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 |
| | Direct Insurers [1] | | | | | | | | | | |
| 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 |
| | Professional Reinsurers [2] | | | | | | | | | | |
| 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 |

[1] Net premiums to gross direct and reinsurance accepted premiums less reinsurances within Malaysia
[2] Net premiums to reinsurance accepted premiums

with the remaining 12.7% reinsured with other direct insurers and professional reinsurers in Malaysia and Labuan International Offshore Financial Centre (IOFC) as well as overseas reinsurers. With the exception of medical expenses and personal accident, motor and workmen's compensation and employers' liability business, retention of all other classes of business by the direct insurers was below the industry average rate of 87.8%. The lowest retention rate of 44.3% was recorded in the contractors' all risks and engineering classes followed by MAT at 52.7%.

In 1999, RM598.6 million or 66.3% of the RM902.7 million premiums accepted by professional reinsurers, was retained in Malaysia. This relatively lower retention ratio of the professional reinsurers was mainly attributable to Malaysian National Reinsurance Berhad (MNRB) which retrocedes more than one-third of its reinsurance accepted premiums back to the market under the voluntary cession arrangement. Excluding MNRB, the foreign professional reinsurers recorded a retention ratio of 90.4% in 1999. It is interesting to note the contrasting experience in the retention profile of professional reinsurers compared with direct insurers in respect of the contractors' all risks and engineering, and liability classes. While the direct insurers retained a small proportion of such risks, the professional reinsurers retained a substantial amount, partly due to their larger retention capacity as well as the availability of underwriting expertise.

In 1999, total reinsurance premiums ceded and retroceded by the industry amounted to RM2,295.4 million. Of this, RM1,644.2 million or 71.6% (1998: 71.8%) was ceded to Malaysian and Labuan IOFC reinsurers, while the remaining amount of RM651.2 million was reinsured abroad. As in 1998, the largest outflow emanated from the fire class, accounting for 37.5% (1998: 36.6%) of total overseas cessions. This was followed by MAT and contractors' all risks and engineering, each constituting 26.4% and 15.2% respectively. The outflow of reinsurance premiums was partly offset by claims recoveries as well as reinsurance and profit

| 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 | 117.4 | 51.5 | 10.1 | –55.8 | –47.5 |
| Marine, aviation and transit cargo | 54.4 | 30.9 | 13.5 | –10.0 | –18.4 |
| Contractors' all risks and engineering | 98.7 | 102.4 | 24.5 | 28.2 | 28.6 |
| Fire | 244.4 | 171.4 | 68.6 | –4.4 | –1.8 |
| Medical expenses and personal accident | 35.5 | 32.5 | 10.1 | 7.1 | 20.0 |
| Motor | 11.3 | 24.7 | –2.3 | 11.1 | 98.2 |
| *'Act' cover* | 0.4 | 11.2 | –0.8 | 10.0 | 2,500.0 |
| *Others* | 10.9 | 13.5 | –1.4 | 1.2 | 11.0 |
| Liability | 24.4 | 6.4 | 3.4 | –14.6 | –59.8 |
| Workmen's compensation and employers' liability | 0.7 | 0.1 | 0.1 | –0.5 | –71.4 |
| Miscellaneous | 64.4 | 77.9 | 17.0 | 30.5 | 47.4 |
| Total | 651.2 | 497.8 | 145.0 | –8.4 | –1.3 |

commissions received from overseas reinsurers resulting in a net outflow of RM8.4 million in 1999 (1998: inflow of RM1,137 million). The better claims experience of the industry in 1999 resulted in lower claims recoveries from overseas reinsurers during the year, unlike in 1998 when substantial recoveries were made from overseas reinsurers following the occurrence of a few major claims.

Underwriting pools, which were initiated with the objective of increasing insurers' participation and enhancing technical expertise in underwriting specialised classes of business, remained small due to the lacklustre support from the industry. For the underwriting year 1999, the Malaysian Aviation Pool comprising 31 insurers (including one offshore reinsurer and one foreign reinsurer) accepted gross premiums amounting to only RM1.4 million (1998: RM1.8 million). The Malaysian Energy Risk Consortium with 21 insurers (including an offshore reinsurer) wrote gross premiums amounting to RM4.7 million (1998: RM5.6 million).

It is anticipated that insurance capacity will continue to expand in view of the ongoing merger exercises and higher minimum capitalisation requirement for insurers. To benefit from the enlarged capacity, the insurers need to further improve their skills and expertise, especially in underwriting large and specialised risks. Hence, greater efforts need to be focused on equipping the industry workforce with the requisite knowledge to enable them to underwrite quality risks and expand the scope of the industry's business portfolio.

## *Claims Experience*

The industry's deteriorating trend in claims experience reversed in 1999 for the first time in four years from 64.1% in 1998 to 63.7% in 1999. Although most classes of business registered improved claims ratios, the turnaround was mainly attributable to the substantial improvement in the claims experience in the fire and MAT sectors. Fire business registered a substantial improvement

**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 | Others | Total | | | | |
| 1995 | 57.7 | – | 36.5 | – | 183.2 | 42.4 | 65.2 | – | – | 46.4 | 55.8 |
| 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 | 66.4 | 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 |

[1] Prior to 1997, classes were grouped under miscellaneous

in claims ratio of 39.3% in 1999, compared with 52.1% in 1998, which was adversely affected by a few major losses. The MAT sector recorded a reduction in claims ratio to 65% compared with 72.8% in 1998.

Liability business, however, experienced a significant deterioration in claims ratio from 68.1% in 1998 to 86.1% in 1999, as a result of a few large professional indemnity claims. During the year, the overall claims ratio for the motor sector deteriorated to 69.8% (1998: 66.7%), which was attributable to higher incidence of vehicle thefts. The claims experience of the medical expenses and personal accident classes deteriorated further during 1999 to 62.2% from 54% in 1998. The deterioration in this class of business was due to the adverse claims experience of a few insurers, some of which registered claims ratio exceeding 100%. The lack of proper underwriting controls has been identified as a contributory factor.

## Underwriting Experience

The underwriting margin of insurers deteriorated significantly in 1999 to RM150.1 million, compared with RM284 million in 1998 and RM619.9 million in 1997. The substantially lower underwriting profit despite lower claims cost is due to reduced earned premium income, exacerbated by higher commissions and management expenses incurred during the year. Earned premium income for 1999 decreased by 5.6% for the first time since 1995. Although net claims incurred declined by 6.1%, net commissions and management expenses grew by 3.5% and 3.6% respectively. In aggregate, net commissions and management expenses accounted for 33% (1998: 30.1%) of earned premium income for the year. The adverse trend in the underwriting experience of the industry should be of concern to insurers

**Table 3.25 Underwriting Experience**

| Year | Earned Premium Income[1] | Net Claims Incurred | Net Commissions | Management Expenses | Underwriting Margin |
|---|---|---|---|---|---|
| | RM million | | | | |
| 1995 | 3,276.5 | 1,827.7 | 296.7 | 690.5 | 461.6 |
| 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 |
| | % of earned premium income | | | | |
| 1995 | 100.0 | 55.8 | 9.1 | 21.1 | 14.1 |
| 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 |
| | % change | | | | |
| 1995 | 21.5 | 18.3 | 22.3 | 26.6 | 27.1 |
| 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 |

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

**Table 3.26 Underwriting and Operating Results**

| Item | 1995 | | 1996 | | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMm | % change | RMm | % change | RMm | % change | RMm | % change | RMm | % change |
| Underwriting profit | 461.6 | 27.1 | 544.7 | 18.0 | 619.9 | 13.8 | 284.0 | –54.2 | 150.1 | –47.1 |
| *Investment income* | 327.2 | 28.9 | 458.7 | 40.2 | 618.1 | 34.8 | 754.8 | 22.1 | 591.6 | –21.6 |
| *Capital gains* | 87.4 | –30.8 | 196.7 | 125.1 | 33.1 | –83.2 | 77.8 | 135.0 | 250.4 | 221.9 |
| *Other income* | 34.0 | 17.5 | 46.1 | 35.6 | 88.5 | 92.0 | 220.1 | 148.7 | 305.8 | 38.9 |
| *Capital losses* | 3.3 | 719.2 | 6.5 | 97.0 | 392.0 | 5,930.8 | 126.7 | –67.7 | 23.6 | –81.4 |
| *Other outgo* | 50.3 | –30.6 | 107.9 | 114.5 | 501.4 | 364.7 | 261.9 | –47.8 | 184.1 | –29.7 |
| Operating profit | 856.6 | 22.4 | 1,131.8 | 32.1 | 466.2 | –58.8 | 948.1 | 103.4 | 1,090.2 | 15.0 |

especially with the re-emergence of unhealthy practices such as price undercutting and payment of higher remuneration to agents. In a bid to compete for agents, certain insurers were found to have rewarded their agents with perks such as overseas trips disguised as training, and profit commissions that insurers can ill-afford to pay. Such practices will only be to the detriment of the industry as other insurers are pressured to follow suit to retain their agency force. A concerted effort must be made by all insurers to eliminate such unhealthy practices and to move towards competition in a professional manner.

In 1999, 26 insurers (including four foreign professional reinsurers) suffered combined underwriting losses of RM202.9 million compared with RM145.3 million registered by 23 insurers in 1998. Of this amount, 16.5% (1998: 45.9%) was attributable to the underwriting losses incurred by foreign professional reinsurers. Twelve insurers which experienced underwriting losses recorded earned premium income of less than RM30 million each, a volume too small to harness any benefit from operational economies of scale.

## Operating Results

Despite the decline in the underwriting profit, the general insurance industry recorded an improvement in operating profit to RM1,090.2 million in 1999 (1998: RM948.1 million) due mainly to a substantial increase in capital gains, increase in other income and writeback of provisions for diminution in value of investment. The operating profit of the industry in 1999 represented 23.6% of earned premium income compared with 19.4% in 1998. During the year under review, only four insurers (1998: 10) suffered operating losses amounting to RM67.1 million, three of which were local direct insurers.

**Chart 3.5 Assets of General Insurance Funds**

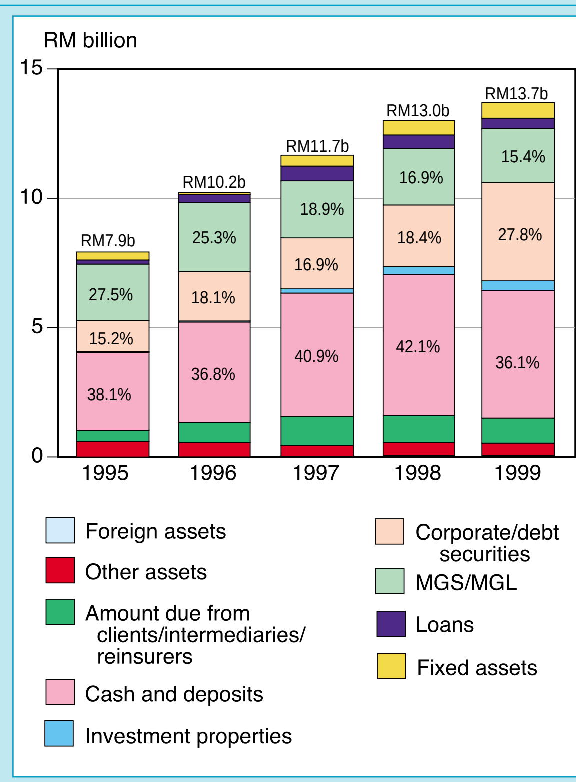


**Table 3.27 Assets of General Insurance Funds**

| Type of Investment | 1995 | | 1996 | | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMm | % | RMm | % | RMm | % | RMm | % | RMm | % |
| Fixed assets | 309.7 | 3.9 | 389.6 | 3.8 | 420.2 | 3.6 | 562.6 | 4.3 | 601.0 | 4.4 |
| Loans | 156.3 | 2.0 | 293.5 | 2.9 | 564.7 | 4.9 | 523.1 | 4.0 | 400.6 | 2.9 |
| Malaysian Government papers/guaranteed loans | 2,179.1 | 27.5 | 2,582.0 | 25.3 | 2,203.0 | 18.9 | 2,204.2 | 16.9 | 2,108.9 | 15.4 |
| Corporate/debt securities | 1,202.4 | 15.2 | 1,846.3 | 18.1 | 1,971.7 | 16.9 | 2,387.9 | 18.4 | 3,807.6 | 27.8 |
| Investment properties | 28.0 | 0.3 | 37.0 | 0.4 | 166.2 | 1.4 | 305.6 | 2.4 | 378.3 | 2.8 |
| Cash and deposits | 3,016.1 | 38.1 | 3,754.7 | 36.8 | 4,768.4 | 40.9 | 5,474.5 | 42.1 | 4,947.2 | 36.1 |
| Amount due from clients/ intermediaries/reinsurers[1] | 418.1 | 5.3 | 761.5 | 7.5 | 1,120.1 | 9.6 | 1,044.1 | 8.0 | 967.1 | 7.1 |
| Other assets | 609.2 | 7.7 | 532.4 | 5.2 | 424.3 | 3.7 | 505.1 | 3.9 | 475.8 | 3.5 |
| Foreign assets[2] | – | – | – | – | 13.2 | 0.1 | 2.6 | … | 3.8 | … |
| Total | 7,918.8 | 100.0 | 10,197.0 | 100.0 | 11,651.8 | 100.0 | 13,009.7 | 100.0 | 13,690.3 | 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

## Assets

In 1999, the total assets of the general insurance funds grew at a slower pace of 5.2% (1998: 11.7%) to reach RM13.7 billion. The pattern of distribution of assets has not significantly changed from that in the previous years. Cash and deposits remained the largest component, accounting for 36.1% of total general funds, followed by corporate/debt securities and Malaysian Government securities with a share of 27.8% and 15.4% respectively. The share of corporate debt has increased markedly to 27.8% in 1999 (1998: 18.4%) following the improved confidence in the capital market as the economic recovery gained momentum.

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

| RM million | Number of Funds | | | | |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1999 |
| Less than 20 | 4[1] | 3[1] | 3[1] | 3[1] | 3[1] |
| 20 to less than 30 | 3 | 2 | 0 | 0 | 1 |
| 30 to less than 50 | 3 | 5 | 3 | 4 | 2 |
| 50 to less than 100 | 20 | 16 | 13 | 10 | 9 |
| 100 to less than 150 | 10 | 11 | 12 | 14 | 12 |
| 150 to less than 300 | 11 | 15 | 20 | 20 | 18 |
| 300 & above | 6 | 8 | 9 | 11 | 14 |
| Total | 56 | 60 | 60 | 62 | 59 |

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

A classification of insurers by size of assets showed that of the 59 insurers in 1999, 44 had general fund assets exceeding RM100 million each. Out of the 44, only 14 insurers (1998: 11) had more than RM300 million in general fund assets. Fifteen insurers fell within the group with general fund assets of less than RM100

**Table 3.29 Technical Reserves**

| Year | Reserves for Unexpired Risks[1] | Provision for Outstanding Claims | Technical Reserves |
|---|---|---|---|
| | RM million | | |
| 1995 | 1,642.0 | 3,220.9 | 4,862.9 |
| 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 | 2,257.7 | 5,706.3 | 7,964.0 |
| | % change | | |
| 1995 | 20.1 | 23.3 | 22.2 |
| 1996 | 24.4 | 25.7 | 25.3 |
| 1997 | 13.6 | 17.1 | 16.0 |
| 1998 | –8.5 | 11.9 | 5.2 |
| 1999 | 6.4 | 7.5 | 7.2 |
| | % of net premiums | | |
| 1995 | 46.3 | 90.8 | 137.1 |
| 1996 | 45.3 | 89.9 | 135.2 |
| 1997 | 45.0 | 91.9 | 136.8 |
| 1998 | 45.3 | 113.3 | 158.6 |
| 1999 | 48.3 | 122.0 | 170.3 |

[1] Figures prior to 1997 have been revised to include additional reserves

million, compared with 17 in 1998. Six of these 15 insurers had assets of less than RM50 million. These small-sized insurers are less likely to be operating efficiently as their small portfolio does not permit effective diversification of assets which is necessary to avoid fluctuations in rate of return.

### *Technical Reserves*

The technical reserve ratio (technical reserves as a percentage of net premiums) continued to increase from 158.6% in 1998 to 170.3% in 1999. The increase was due to a combination of growth in technical reserves and a slight decline in the net premiums for the year. Provisions for outstanding claims, which represented the main component or 71.7% of technical reserves, grew at a slower rate of 7.5% in 1999 (1998: 11.9%), mainly due to lower provisioning for claims in respect of reinsurance accepted business. However, reserves for unexpired risks increased by 6.4% (1998: -8.5%), largely attributable to the fire and motor classes.

### IBNR Claims

Insurers continued to place emphasis on the provisioning for IBNR claims due to the increasing awareness on the importance of having sufficient reserves to absorb fluctuations in claims experience. Although individual insurers may have different link ratios, claims ratios and claims frequencies arising from differences in their portfolios, the industry figures shown in tables 3.30, 3.31 and 3.32 can be utilised as benchmarks for comparison purposes.

**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 | 1998 | 1999 |
| Marine, aviation and transit | 2.48 | 1.16 | 1.03 | 1.02 | 1.01 | 1.00 | 1.08 | 85.7 | 88.2 |
| Fire | 1.91 | 1.06 | 1.03 | 1.00 | 1.01 | 1.00 | 1.03 | 88.9 | 93.5 |
| Motor | | | | | | | | | |
| *'Act' cover* | 6.73 | 2.46 | 1.52 | 1.23 | 1.14 | 1.07 | 1.18 | 35.3 | 37.5 |
| *Others* | 2.00 | 1.06 | 1.02 | 1.01 | 1.01 | 1.00 | 1.04 | 92.4 | 92.6 |
| Miscellaneous[3] | 1.89 | 1.12 | 1.05 | 1.03 | 1.02 | 1.01 | 1.12 | 80.8 | 80.2 |

[1] Actual average link ratios rounded to two decimal places
[2] Development year 0 refers to the year of occurrence of loss
[3] Includes all classes other than MAT, fire and motor

**Table 3.31 Estimated Ultimate Net Incurred Claims Ratio**

| Class | Year of Occurrence of Loss | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
| | % | | | | | | |
| Marine, aviation and transit | 45.2 | 44.3 | 42.6 | 52.3 | 58.2 | 54.4 | 56.0 |
| Fire | 21.0 | 24.5 | 24.5 | 22.1 | 30.6 | 26.9 | 24.9 |
| Motor | | | | | | | |
| *'Act' cover* | 128.0 | 150.4 | 123.7 | 140.9 | 162.0 | 142.5 | 116.4 |
| *Others* | 36.3 | 39.8 | 38.7 | 38.4 | 46.0 | 49.0 | 56.5 |
| Miscellaneous[1] | 34.3 | 33.4 | 36.4 | 42.9 | 49.5 | 65.2 | 74.1 |

[1] 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 | 9.6 | 2,103 |
| Fire | 2.3 | 3,966 |
| Motor | | |
| *'Act' cover* | 1.3 | 6,050 |
| *Others* | 7.3 | 4,139 |
| Miscellaneous[1] | 37.3 | 1,560 |

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

## *Business Outside Malaysia*

During the year, gross premiums (both direct and reinsurance inward business) from business outside Malaysia decreased further by 12.7% (1998: -29.7%) to RM255.7 million from RM292.9 million in 1998. A shift was also observed in the composition of business, with professional reinsurers accounting for 65.8% of the premiums compared with 68.9% in 1998. The downward trend in gross premiums generated by the industry was mainly due to spillover effects following the economic crisis experienced by the region in the second half of 1997 and 1998. The recovery commencing in 1999 has yet to fully offset the effects of the crisis.

Business from outside Malaysia in 1999 continued to be dominated by fire insurance, accounting for 44.9% (1998: 46.2%) of total gross premiums generated, followed by miscellaneous and MAT insurance representing 34% (1998: 25.1%) and 15.1% (1998: 20.3%) respectively. The total general fund assets of insurers held abroad in 1999 increased by 12% to RM578.9 million (1998: RM516.7 million). About 36% (1998: 40%) of the assets supporting business outside Malaysia is in the form of foreign assets, while cash and deposits and investments in foreign corporate and debt securities constituted approximately 25% (1998: 33%) and 20% (1998: 8%) of the assets portfolio respectively. The substantial hike in the foreign corporate and debt securities investment component of the fund assets during the year was mainly attributable to the transfer of shareholders' fund assets into the insurance fund for business outside Malaysia by one reinsurer.

## Preliminary 2000 Data

Based on preliminary data for 2000, the general insurance industry recorded a growth of 6.6% in gross direct premiums to RM5,908.2 million, in tandem with the economic recovery. Most of the sectors showed encouraging improvement between 0.6% to 11.6% compared with 1999. The highest increase was in the motor sector which recorded a growth of 11.6%, while the largest contraction was registered by the contractors' all risks sector with a decline of 2.7%. The distribution of gross direct premiums in 2000 was similar to that of 1999. Among all the classes of business, the motor sector which maintained its dominance in 2000, contributed 47.5% (1999: 45.4%) of the gross direct premiums of the industry. The fire class of business and medical expenses and personal accident sectors accounted for shares of 21.2% and 10.3% of gross direct premiums respectively (1999: 22.4% and 10% respectively). The net premiums of RM5,046.2 million recorded by the industry during the period resulted in a net retention ratio of 89.6% (1999: 87.8%).

The modest growth of 4.6% in earned premium income in 2000 together with an increase of 6.3% in net claims incurred resulted in a deterioration in the industry's overall claims ratio to 64.8% (1999: 63.7%). All classes of business, except contractors' all risks and engineering, motor, medical expenses and personal accident and liability, showed deterioration in claims experience, with the deterioration most pronounced in the miscellaneous class. With the unfavourable claims experience, the underwriting profit of the industry declined by 41.6% to RM87.7 million, compared with RM150.1 million in 1999. It was noted that the poorest underwriting performance of the general insurance players was recorded in the first quarter of 2000. The reduction in investment income of 15.6% further depressed the profitability of insurers, resulting in a significant decline in operating profit to only RM393.6 million in 2000 compared with RM1,090.2 million in 1999.

Total assets of the general insurance funds grew by 0.4% to reach RM13,742.4 million at the end of 2000. Being the most liquid, cash and deposits continued to be the most preferred form of assets held by insurers accounting for 37.6% of total assets in 2000. As in 1999, investments in corporate debt securities represented the second largest component, with increased proportion of 29.8% (1999: 27.8%), followed by Malaysian Government securities with a share of 13.9% (1999: 15.4%).

## Performance of Professional General Reinsurers

In 1999, reinsurance premiums accepted by the nine professional general reinsurers in the country (MNRB and eight branches of foreign reinsurers) continued to decline by 19% (1998: -5.8%) to RM902.7 million. With the exception of MAT and liability business, all other classes of business declined. Two factors contributed significantly to the lower reinsurance premiums received by the professional reinsurers. The first is the reduction in the level of voluntary cessions by the industry to MNRB following a review of the voluntary cession agreement in January 1999. The reduction was aimed at giving the opportunity to direct insurers to retain a higher proportion of risks for their own account. The second factor arose from the better capacity of direct insurers to retain risks for their own account following the merger and acquisition exercises and increase in capitalisation requirement. To ensure optimisation of local retention capacity, insurers were strongly urged to adhere to the provision of JPI/GPI 22: "Guidelines on General Reinsurance Arrangements" which required them to exhaust the capacity of the domestic market prior to placing reinsurances in Labuan IOFC and overseas.

Premiums placed with professional reinsurers accounted for 64.6% (1998: 75%) of reinsurance premiums placed by direct insurers within Malaysia. Of this, 32% (1998: 28.8%) was placed with the foreign professional reinsurers, reflecting the increasing proportion of the domestic reinsurance market captured by licensed foreign professional reinsurers. In 1999, three of the eight foreign professional reinsurers wholly retained their premiums within Malaysia compared with five reinsurers in 1998.

Claims ratio of the professional reinsurers in 1999 showed an overall improvement to 66.9% from 70% in 1998. The improvement was mainly a result of IBNR adjustments undertaken by one reinsurer in respect of the motor 'Act' class of business. Other classes registered deteriorating claims, especially the liability business which recorded a claims ratio of 184.6% compared with 24.4% in 1998. The deterioration in liability business is consistent with the increasing claims experience of the industry. The professional reinsurers continued to improve their underwriting performance with a significant increase of 138.6% (1998: 2.3%) in combined underwriting gain to RM10.5

| Table 3.33 Performance of Professional General Reinsurers | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Marine, Aviation and Transit | Contractors' All Risks and Engineering | Fire | Medical Expenses and Personal Accident | Motor | | | Liability | Workmen's Compensation and Employers' Liability | Miscellaneous | Total |
| | | | | | 'Act' Cover | Others | 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 | 6.1 | 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 |
| | 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 |
| | 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 |

million (1998: RM4.4 million). This significant improvement was attributable mainly to a substantial drop in the net claims incurred as well as a slight decline in the commissions paid. The favourable underwriting performance was boosted by investment and other income, resulting in an overall operating profit of RM157.8 million (1998: RM43.5 million).

Gross overseas reinsurance inward business garnered by professional reinsurers declined to RM168.2 million in 1999 (1998: RM201.8 million), accounting for 84.5% (1998: 82.7%) of the industry's total overseas reinsurance inward business of RM199.1 million. The slow recovery of economies in the region following the crisis of 1997/1998 had adversely affected the overseas reinsurance inward business written by the industry. Other reasons included the lack of serious efforts on the part of some professional reinsurers to underwrite business other than Malaysian business.

Based on preliminary data for the period between January to December 2000, reinsurance premiums accepted by professional reinsurers registered a marginal increase of 0.6% to RM908.1 million. Prominent increase was recorded in the miscellaneous and fire sectors, recording growth rates of 12.9% and 4.4% respectively.

## Insurance Broking

Despite the higher premiums generated by the industry, total premiums placed by the insurance broking sector continued to decline by 6.3% to RM1,229.9 million in 1999, compared with a decline of 8% in 1998. Except for miscellaneous class of business which showed a significant improvement of 6.5%, all other classes of business experienced negative growth rates in 1999. Premiums placed in respect of the MAT and motor classes of business registered a decline of 26.6% and 20.9%, respectively, while the proportion of premiums placed by brokers to gross direct premiums declined marginally to 22.2% in 1999 from 23.8% in 1998. In terms of the composition of business, the miscellaneous class remained the dominant component accounting for

| Table 3.34 Total Premiums Transacted | | | | | | |
|---|---|---|---|---|---|---|
| Year | Marine, Aviation and Transit | Fire | Motor | Life | Miscellaneous | Total |
| | Direct Premiums (RMm) | | | | | |
| 1998 | 199.8 | 273.2 | 82.0 | 47.0 | 429.7 | 1,031.7 |
| 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 |
| | Reinsurance Premiums (RMm) | | | | | |
| 1998 | 76.6 | 71.8 | 1.9 | 1.2 | 129.5 | 281.0 |
| 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 |
| | Combined (RMm) | | | | | |
| 1998 | 276.4 | 345.0 | 83.8 | 48.2 | 559.2 | 1,312.6 |
| 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 |

48.4% of total placements, followed by fire with 26.3%.

Direct premiums placement represented the bulk of premiums handled by insurance brokers, amounting to RM985.1 million or 80.1% of total premiums transacted in 1999 (1998: 78.6%). The balance of RM244.8 million or 19.9% comprised reinsurance premiums placements. Premiums placed abroad, which represented 14.3% of total premiums transacted, dropped by 23% in 1999 to RM177.9 million, in tandem with lower reinsurance cessions by the industry during the year under review.

In 1999, the 36 insurance brokers transacted an average premium of RM34.2 million each. Of these, 13 brokers (seven with foreign equity interest) handled premiums exceeding the industry average, accounting for 80.6% of the market share. Seven brokers recorded more than RM50 million in premiums placed. Ten of these 13 brokers also earned annual operating profits of more than RM1 million each. On the other hand, of the remaining 23 brokers which transacted premiums less than the industry average, 11 suffered operating losses, while seven earned operating profit of less than RM500,000 each.

In line with the decline in total premiums transacted, total income of insurance brokers dropped by 2.3% (1998: -29.2%) to RM137.4 million. The earnings from brokerage fees which increased marginally by 1.5% from RM120.7 million in 1998 to RM122.5 million in 1999 was offset by a reduction of 25.1% in other income earned. In 1999, the broking industry recorded an operating profit of RM37.6 million, a deterioration of 20.2% compared with RM47.1 million earned in 1998.

| Table 3.35 Outstanding Premiums Due to Insurers | | | | | | |
|---|---|---|---|---|---|---|
| Days | 1997 | | 1998 | | 1999 | |
| | Amount (RMm) | % of Total | Amount (RMm) | % of Total | Amount (RMm) | % of Total |
| 0 - 60 | 123.2 | 61.1 | 126.1 | 58.8 | 125.3 | 55.8 |
| 61 - 120 | 33.2 | 16.5 | 24.1 | 11.2 | 44.5 | 19.8 |
| 121 - 180 | 10.8 | 5.3 | 16.1 | 7.5 | 15.5 | 6.9 |
| 181 - 365 | 24.8 | 12.3 | 26.1 | 12.2 | 21.7 | 9.7 |
| over 365 | 9.7 | 4.8 | 22.2 | 10.3 | 17.5 | 7.8 |
| Total | 201.7 | 100.0 | 214.6 | 100.0 | 224.5 | 100.0 |

**Table 3.36 Operating Results of Brokers**

| Item | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|
| | RMm | % change | RMm | % change | RMm | % change |
| Brokerage Earned | 200.9 | 54.7 | 120.7 | –39.9 | 122.5 | 1.5 |
| Other Income | –2.4 | –168.0 | 19.9 | 929.2 | 14.9 | –25.1 |
| Total Expenses | 143.7 | 60.8 | 93.5 | –34.9 | 99.8 | 6.7 |
| Operating Profit/(Loss) | 54.8 | 24.5 | 47.1 | –14.1 | 37.6 | –20.2 |

As at the end of 1999, total outstanding premiums owed by brokers to insurers increased by 4.6% to RM224.5 million (1998: 6.4%). This represented 18.3% of total premiums transacted, higher than the 16.3% reported in 1998. An ageing analysis of outstanding premiums as at 31 December 1999 revealed that 55.8% (1998: 58.8%) were outstanding for two months or less. Brokers have been constantly reminded to ensure timely collection of premiums outstanding from clients, as well as to immediately remit all balances to their insurers as they fall due.

In terms of capitalisation, the average paid-up capital of the 36 insurance brokers increased from RM978,243 in 1999 to RM1,106,451 as at the end of 2000. The increase in the level of paid-up capital was a result of a few brokers injecting additional capital to further strengthen their financial position. Of the 36 brokers, 25 or more than 60% have paid-up capital below the industry average. To survive, these small sized brokers should enlarge their capital base and enhance their professional efficiency through consolidation.

Premiums placed in the year 2000, increased by 2.8% (1999: -6.3%) to RM1,264 million. Except for the miscellaneous class, which declined by 16.3%, all other classes recorded positive growth. Direct premiums placements accounted for RM1,042.9 million or 82.5% of total premiums placed, while reinsurance placements represented the balance of 17.5%. Consonant with the increase in premiums placed, total brokerage earned recorded a growth of 9.7% to reach RM128.8 million, generating a higher ratio of brokerage earned to total premiums placed of 10.2%, compared with 9.5% in 1999.

## Loss Adjusting

In 1999, the number of cases handled by the loss adjusting sector increased at a slower rate of 10.5% (1998: 12.1%) to 179,038. Loss

**Table 3.37 Cases Handled by Adjusters**

| Year | Motor | | | Non-motor/Non-marine | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No. | % change | % share | No. | % change | % share | No. | % change |
| 1998 | 138,928 | 12.3 | 85.8 | 23,037 | 10.6 | 14.2 | 161,965 | 12.1 |
| 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 |

**Table 3.38 Operating Results of Adjusters**

| Item | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|
| | RMm | % change | RMm | % change | RMm | % change |
| Fees Earned | 86.6 | 22.4 | 106.3 | 22.8 | 123.0 | 15.7 |
| Other Income | – | – | – | – | 0.3 | – |
| Total Outgo | 70.1 | 19.4 | 83.2 | 18.8 | 97.8 | 17.5 |
| Operating Profit/(Loss) | 16.5 | 36.8 | 23.1 | 39.9 | 25.5 | 10.4 |

adjusting in respect of motor claims continued to dominate, accounting for 153,599 cases or 85.8% of total cases handled in 1999. The average number of cases handled by adjusters increased to 4,263 each in 1999 (1998: 3,856 cases). Fourteen adjusters exceeded the industry average and together accounted for 68.4% of total cases handled. Nine adjusters (1998: 12), of which two were involved solely in motor insurance claims, handled less than 1,500 cases each.

In terms of capitalisation, the average paid-up capital of the 41 adjusters (excluding one adjuster whose licence was revoked in 2000) increased from RM254,558 in 1999 to RM288,789 as at the end of 2000 vis-à-vis the minimum unimpaired paid-up capital requirement of RM150,000. Thirty or slightly more than two-thirds of the adjusters have paid-up capital below the industry average.

In 1999, fees earned by adjusters increased by 15.7% (1998: 22.8%) to RM123 million. Eighteen or almost half of the adjusters earned fees of less than RM1 million each, of which seven recorded fees of less than RM500,000. Total operating profit of the loss adjusting sector recorded a lower growth rate of 10.4% (1998: 39.9%) to RM25.5 million. In 1999, 25 adjusters earned an annual net profit of less than RM100,000, while three adjusters suffered losses, reflecting the highly fragmented market comprising marginal players. These small adjusters should seriously consider mergers to strengthen their competitive position.

The loss adjusting sector handled a total of 224,403 cases in 2000, a marked increase of 25.3% over 1999. The number of motor claims handled grew by 21.3% (1999: 10.6%), compared with non-motor claims which recorded a growth rate of 56.9% (1999: 10.4%). Although motor claims continued to form the bulk of the cases handled, the market share declined to 83% (1999: 85.8%), while the market share in respect of non-motor claims increased to 17% (1999: 14.2%) of total cases handled.