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The Takaful Industry Performance

Overview of The Industry Performance

The takaful industry continued to grow in the year 2001 with the main business indicators recording higher and impressive double-digit growth rates. The combined contributions income of the family and general takaful business sectors grew by 229.5% (2000 : 30.5%) to RM1,465.5 million, of which 89.1% of the income was generated from the family takaful business sector. The higher growth of the combined contributions income was attributable to the marketing campaign undertaken by the takaful operators to penetrate the largely untapped potential of the takaful sector. Contributions income as a percentage of total premiums income of the insurance industry increased to 9.1% in year 2001, compared with 3.8% in 2000. Total benefits and claims paid (including profits) increased by 36.9% (2000 : 30.5%) to RM157.7 million, constituting 10.7% of total contribution income in year 2001. Although a major share of the benefits and claims paid was from the family business sector, the movement is not alarming as it is seen to be in tandem

with the growth in business volume. Total assets of takaful funds grew at a rate of 106% (2000: 40.1%) to reach RM2,407 million, accounting for 4.6% (2000 : 2.6%) of the total assets of the insurance funds in year 2001.

Performance of Family Takaful Business

New Business

Family takaful business sector recorded strong growth in year 2001, with total new takaful contributions growth of 367.4% (2000: 80.8%) reaching RM1,306.4 million. Similarly, new sums participated increased by 44.9% to RM17,483.7 million. A total of 221,868 new family takaful certificates were issued in year 2001, representing an increase of 35.7% (2000 : 163,492 certificates). The overwhelming demand for the newly introduced annuity scheme (SATK) which was specifically marketed to Employees Provident Fund (EPF) contributors had been the major driver towards the favourable development in family takaful business.

The annuity scheme, which was launched in July 2000, allows EPF contributors to withdraw part of their existing savings in EPF into a stream of guaranteed income. The awareness on the need for security of lifetime income upon retirement

Chart 1.1 Takaful Contributions

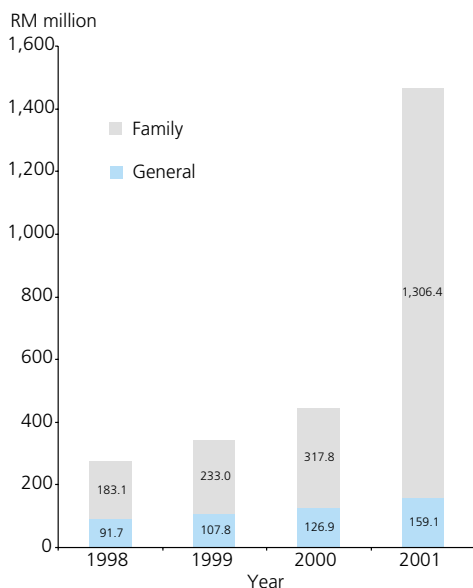


Table 1.1 New Business

Year	No. of Certificates	Sums Participated	Contributions
	Units	RM million	
1997	50,005	2,317.8	79.2
1998	56,126	5,606.6	119.3
1999	100,511	5,996.3	154.6
2000	163,492	12,067.5	279.5
2001	221,868	17,483.7	1,306.4
% change			
1997	27.0	19.0	44.0
1998	12.2	141.9	50.7
1999	79.1	7.0	29.6
2000	62.7	101.2	80.8
2001	35.7	44.9	367.4

Table 1.2
Distribution of New Business by Plan

Item	1999	2000	2001	1999	2000	2001	1999	2000	2001
No. of certificates	Unit			% change			% share		
Individual	53,653	102,295	115,215	74.1	90.7	12.6	53.4	62.6	51.9
Term individual	2,427	5,111	5,482	238.5	110.6	7.3	2.4	3.1	2.5
Mortgage	43,755	53,813	65,249	83.7	23.0	21.3	43.5	32.9	29.4
Group	676	2,273	2,384	-11.6	236.2	4.9	0.7	1.4	1.1
Annuity	-	-	33,538	-	-	-	-	-	15.1
Total	100,511	163,492	221,868	79.1	62.7	35.7	100.0	100.0	100.0
Sums participated	RM million			% change			% share		
Individual	797.1	1,778.8	2,561.5	95.9	123.2	44.0	13.3	14.7	14.7
Term individual	2.3	187.6	38.1	35.3	8,056.5	-79.7	...	1.6	0.2
Mortgage	2,381.3	2,955.4	6,417.2	53.8	24.1	117.1	39.7	24.5	36.7
Group	2,815.6	7,145.7	6,702.0	-22.8	153.8	-6.2	47.0	59.2	38.3
Annuity	-	-	1,764.9	-	-	-	-	-	10.1
Total	5,996.3	12,067.5	17,483.7	7.0	101.2	44.9	100.0	100.0	100.0
Contributions	RM million			% change			% share		
Individual	28.8	64.6	74.4	60.9	124.3	15.2	18.6	23.1	5.7
Term individual	0.1	1.7	1.7	158.5	1,600.0	0	0.1	0.7	0.1
Mortgage	115.7	163.9	291.8	40.4	41.7	78.0	74.8	58.6	22.3
Group	10.0	49.3	58.3	-47.4	393.0	18.3	6.5	17.6	4.5
Annuity	-	-	880.2	-	-	-	-	-	67.4
Total	154.6	279.5	1,306.4	29.6	80.8	367.4	100.0	100.0	100.0

... Negligible

and the facility to transfer part of the savings in EPF had appealed to many EPF contributors, particularly the lower income group. Within a span of less than a year through aggressive marketing by the takaful operators, the annuity scheme captured 67.4% share of total new contributions and 10.1% share of total sums participated. The scheme however was discontinued in May 2001.

Mortgage takaful plans continued to be in good demand as reflected by the 21.3% growth in number of new certificates. Its dominance in terms of share of total contributions and sums participated was however affected following the introduction of the SATK. Its share of total new takaful contributions declined from 58.6% in 2000 to 22.3% during the year under review. As in previous years, mortgage takaful business from civil servants who obtained Islamic house financing from the Government continued to be the major source of business for this sector. Despite the growth in mortgage takaful plans, takaful operators should explore other potential market through alternative means of marketing channel, particularly bancassurance, to generate

new business for this sector. As with mortgage takaful plans, the shift in the pattern of interest of individuals towards the SATK had also affected the total share of new contributions for individual family plans. This sector recorded a reduction in share from 23.1% to 5.7% in 2001.

Term individual family takaful plans, which are predominantly yearly renewable term plans offering death and disability benefits without any saving elements, recorded negative growth in terms of new sums participated and contributions. The unattractive features of the term individual family takaful such as fixed sums participated, with no saving elements had caused participants to shift their preference to more innovative takaful plans. Takaful operators should enhance the features of the term individual family takaful plan to make it more appealing to participants. In comparison with the other family takaful business sectors, term individual family takaful plans remained small and constituted only 0.1% (2000 : 0.7%) of total new takaful contributions in year 2001.

Table 1.3
Terminations of Sums Participated

Year	Death	Surrender	Expiry, Maturity and Other Causes	Total
	RM million			
1997	8.6	19.5	622.1	650.2
1998	15.7	49.6	1,063.2	1,128.5
1999	19.5	100.8	1,944.0	2,064.4
2000	28.6	475.2	4,032.4	4,536.2
2001	29.7	237.9	5,170.1	5,437.7
% share				
1997	1.3	3.0	95.7	100.0
1998	1.4	4.4	94.2	100.0
1999	0.9	4.9	94.2	100.0
2000	0.6	10.5	88.9	100.0
2001	0.5	4.4	95.1	100.0
% of sums participated in force at the beginning of the year				
1997	0.2	0.4	13.6	14.2
1998	0.2	0.6	13.4	14.3
1999	0.2	0.8	15.8	16.8
2000	0.1	2.5	21.2	23.8
2001	0.1	0.9	20.2	21.3

Overall, family takaful maintained encouraging growth trend during the financial year 2001. Nevertheless, this expansion in growth was primarily due to overwhelming demand by participants for the SATK coupled with aggressive marketing effort by takaful operators. Without SATK, family takaful plans new contributions and sums participated would register growth rate of only 52.5% and 30.3%, respectively. With the discontinuance of the SATK which has been the major source of business and income, takaful operators should strive to build business from other family plans on order to sustain the growth in family takaful business.

Termination

During the year under review, termination of sums participated increased by 19.9% to RM5,437.7 million. It involved 20,650 takaful certificates with takaful contributions totalling RM27.9 million. The main cause of termination of sums participated was the maturity, non-renewal and reduction in sums participated which constituted 95.1% of total sums participated terminated in year 2001. It is encouraging to note that termination through surrenders decreased by 49.9% as against an increase of 371.4% in 2000. The decline in the

surrender rate shows that the efforts taken by takaful operators such as offering wider scope of cover and benefit, is beginning to produce result.

Although the SATK was discontinued in May 2001, it has not adversely affected the operators as majority of the certificates remained in force. Only 118 certificates representing 0.3% of the total new SATK certificates with sum participated amounting to RM6.3 million were surrendered during the year.

Business in Force

The significant growth in new business from the SATK coupled with moderate surrender rate had contributed towards the increase of business in force for family takaful in year 2001. The number of takaful certificates in force increased by 47.5% to 648,654 certificates. Total sums participated grew by 46.6% to reach RM37,492.0 million while contributions grew substantially by 184.6% to RM1,698.5 million in year 2001.

In terms of sums participated in force, all sectors of family takaful business, except term individual takaful plans, registered steady growth rates in year 2001. Term individual takaful plans registered a drastic fall during the year, with negative growth of 69.6%. Mortgage takaful plans grew at a slower rate of 31.7% (2000: 42.8%) while group takaful plans managed to secure a slightly higher growth than the previous year. Continued demand for two group

Table 1.4
Business in Force

Year	No. of Certificates	Sums Participated	Contributions
	Units	RM million	
1997	112,605	7,892.2	162.3
1998	160,944	12,291.7	253.0
1999	279,491	19,031.4	399.1
2000	439,822	25,568.2	596.7
2001	648,654	37,492.0	1,698.5
% change			
1997	47.4	72.9	93.7
1998	42.9	55.7	55.9
1999	73.7	54.8	57.7
2000	57.4	34.3	49.5
2001	47.5	46.6	184.6

Table 1.5
Distribution of Business in Force by Plan

Item	1999	2000	2001	1999	2000	2001	1999	2000	2001
No. of certificates	Unit			% change			% share		
Individual	129,339	225,354	329,641	56.8	74.2	46.3	46.3	51.3	50.8
Term individual	2,517	4,999	5,710	-44.2	98.6	14.2	0.9	1.1	0.9
Mortgage	146,225	206,836	276,691	101.4	41.5	33.8	52.3	47.0	42.7
Group	1,410	2,633	3,179	5.7	86.7	20.7	0.5	0.6	0.5
Annuity	-	-	33,433	-	-	-	-	-	5.1
Total	279,491	439,822	648,654	73.7	57.4	47.5	100.0	100.0	100.0
Sums participated	RM million			% change			% share		
Individual	1,925.2	3,200.0	7,565.7	62.6	66.2	136.4	10.1	12.5	20.2
Term individual	7.4	172.6	52.5	1.4	2,232.4	-69.6	...	0.7	0.1
Mortgage	7,633.0	10,900.1	14,350.5	91.9	42.8	31.7	40.1	42.6	38.3
Group	9,465.7	11,295.5	13,764.8	32.9	19.3	21.9	49.7	44.2	36.7
Annuity	-	-	1,758.6	-	-	-	-	-	4.7
Total	19,031.4	25,568.2	37,492.1	54.8	34.3	46.6	100.0	100.0	100.0
Contributions	RM million			% change			% share		
Individual	75.0	128.8	184.3	55.6	71.3	43.1	18.8	21.5	10.8
Term individual	0.1	1.4	1.9	-50.0	1,700.0	35.7	...	0.3	0.1
Mortgage	286.2	406.4	542.9	63.3	42.0	33.6	71.7	68.1	32.0
Group	37.7	60.0	94.4	28.2	59.1	57.3	9.5	10.1	5.6
Annuity	-	-	875.0	-	-	-	-	-	51.5
Total	399.1	596.7	1,698.5	57.7	49.5	184.6	100.0	100.0	100.0

... Negligible

takaful plans products, namely group retirement plans and group credit plans had helped the group takaful plans sector to secure a slightly higher growth than in the previous year. In terms of the distribution of sums participated in force, mortgage takaful plans and group family takaful plans continued to dominate, with shares of 38.3% (2000: 42.6%) and 36.7%

(2000: 44.2%) respectively. Due to the negative growth of term individual family takaful plans during the year, its share of total sums participated in force in year 2001 remained negligible.

Average Size of Certificates in Force

The average size of all types of family takaful

Table 1.6
Average Size of Certificates in Force

Year	Contributions ¹				Sums Participated ²			
	Individual	Term Individual	Mortgage	Group	Individual	Term Individual	Mortgage	Group
	RM							
1997	671	38	2,191	21,053	16,548	1,235	51,344	5,118,944
1998	584	36	2,414	22,045	14,350	1,618	54,795	5,339,313
1999	580	50	1,957	26,747	14,885	2,958	52,200	6,713,291
2000	572	289	1,964	22,800	14,200	34,534	52,699	4,289,985
2001	559	325	1,962	29,710	22,951	9,194	51,865	4,329,915

¹ Average size of contributions in force - total contributions in force divided by number of certificates in force

² Average size of sums participated in force - total sums participated in force divided by number of certificates in force

Table 1.7
Average Cost of Certificates in Force¹

Type of Plan	1997	1998	1999	2000	2001
	RM				
Individual	41	41	39	40	24
Term individual	31	22	17	8	36
Mortgage	43	44	37	37	38
Group	4	4	4	5	7

¹ Contributions per RM1,000 of sums participated in force

contributions in force (as measured by dividing the total contributions in force by the number of certificates in force) has increased except for individual family takaful plans and mortgage takaful plans, which recorded a slight decrease by 2.3% and 0.1% to RM559 and RM1,962 respectively. In the case of group and term individual family takaful plans, the average takaful contributions in force improved by 30.3% and 12.5% to RM29,710 and RM325 per certificate respectively.

During the year under review, the average sums participated per certificate in force for individual

takaful plans (as measured by dividing the total sums participated in force by the number of certificates in force) increased substantially by 61.6% to RM22,951 (2000: RM14,200) as a result of wider coverage provided under the plans. As for group takaful plans, the average sums participated per certificate in force in 2001 increased slightly by 0.9% to RM4,329,915 compared to RM4,289,985 last year.

Average Cost of Certificates in Force

The average cost of certificates (as measured by the average takaful contribution in force per RM1,000 sums participated in force) for term individual takaful plans and group family takaful plans increased to RM36 and RM7 respectively. However, for individual takaful plans the average cost declined by 40% to RM24 in year 2001 due to strong competition among takaful operators to offer takaful protection at competitively low contribution rates. As for mortgage family takaful plans, its average cost remained relatively stable at RM38 (2000: RM37) for the third consecutive year. Overall, the average cost of family takaful certificates in force showed an increasing trend except for the cost of individual plans which declined sharply during the year.

Table 1.8
Income and Outgo

Item	1997		1998		1999		2000		2001	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Income										
Contribution receipts	122.2	88.1	183.2	94.7	233.0	88.0	317.8	90.4	1,306.4	96.1
Investment earnings	15.5	11.2	15.2	7.8	31.0	11.7	33.5	9.5	46.9	3.5
Other income	1.0	0.7	-4.9	-2.5	0.8	0.3	0.1	0.1	5.8	0.4
Total	138.7	100.0	193.5	100.0	264.8	100.0	351.4	100.0	1,359.1	100.0
Outgo										
Claims and surrenders	14.6	10.5	25.2	13.0	39.2	14.8	51.3	14.6	87.6	6.4
Profit payments	1.2	0.9	1.8	0.9	2.7	1.0	4.3	1.2	4.4	0.3
Retakaful	1.6	1.1	2.5	1.3	2.6	1.0	3.3	0.9	3.9	0.3
Commissions	4.2	3.0	6.4	3.3	9.2	3.5	14.2	4.0	24.4	1.8
Management expenses ¹	2.7	1.9	4.4	2.2	3.3	1.2	10.1	2.9	18.2	1.3
Other outgo	0.4	0.3	2.3	1.2	3.1	1.2	4.4	1.2	-2.0	-0.1
Total	24.7	17.8	42.4	21.9	60.1	22.7	87.6	24.8	136.4	10.0
Excess of income over outgo	114.0	82.2	151.2	78.1	204.7	77.3	263.8	75.1	1,222.7	90.0

¹ Including salaries and other management expenses

Income and Outgo

Total income of the family takaful funds grew substantially by 286.8% (2000: 32.7%) to RM1,359.1 million in year 2001. As in previous years, contribution receipts continued to be the main source of revenue for family takaful funds, accounting for 96.1% of total income in year 2001. On the other hand, share of investment earnings to total income declined to 3.5% (2000: 9.5%) arising from the significant growth in contribution receipts.

On the expenditure side, total amount incurred by the family takaful funds grew at a slower rate than income at 55.7% to RM136.4 million in year 2001. Total claims including surrenders remained the largest component of expenditure, accounting for 64.2% of total outgo (2000: 58.6%).

Excess of income over outgo for the family takaful business increased by 363.5% (2000: 28.9%) to RM1,222.7 million in year 2001 (2000: RM263.8 million). This amount represented 90.0% (2000: 75.1%) of total income of the family takaful funds in year 2001. Year 2001 saw an increase in profits transferred to the takaful operators. A total of RM23.7 million (2000: RM13.6 million) was transferred to the shareholders' funds under the profit sharing contract between the takaful operator and the family takaful participants.

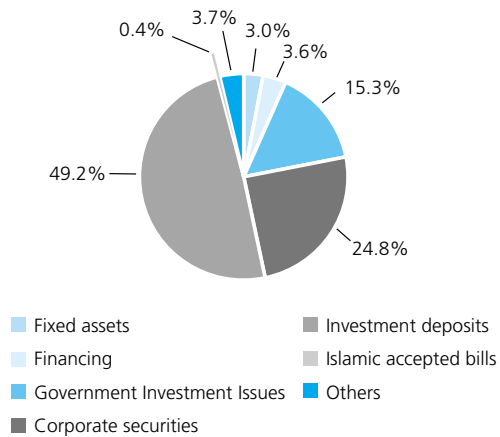
Takaful Benefits Payments

Total takaful benefits (including payment of profits) paid to participants in year 2001 amounted to RM92.0 million, an increase of 65.5% from RM55.6 million paid in year 2000. Death and disability benefits formed the major portion of benefit payments (46.8%) while surrenders accounted for 31.5%, followed by profit payments (4.8%) and maturity claims (4.1%). In the case of surrenders, the major portion involved individual family takaful certificates. The ease of withdrawal of participant's account without forfeiture continued to be the main reason for the prevalent trend in surrenders of individual family takaful certificates.

Assets of Family Takaful Funds

Total family takaful fund assets grew more

Chart 1.2
Composition of Assets of Family Takaful Funds



than two-fold to reach RM2,039.6 million in year 2001. More placements were made in investment deposits whilst takaful operators review their options to invest the influx of income arising from increased business volume during the year. Year 2001 also saw an increase in investments in Government Investment Issues from RM108 million to RM312.6 million. The holding of these papers were largely guided by the Act requirement on 15% minimum holding of Federal or State Government issues. Although investments in corporate securities had increased significantly by 145.6% to RM505.9 million, this was mainly in Government guaranteed bonds which are deemed as low-risk assets.

Valuation Report

Section 42 of the Takaful Act 1984 requires takaful operator carrying on family takaful business to conduct an annual actuarial investigation into the financial condition on the part of its family takaful fund specifically allocated for payment of takaful benefits and submit a report of the valuation results to the Director General. Under the takaful arrangement, the portion that is specifically allocated for payment of takaful benefits is the participants' special account (PSA). The statutory valuations of PSA for both takaful operators were conducted using the net contribution valuation method on the basis of the "Statutory Valuation Mortality Table 1996" at valuation profit rates of 4% and 4.5% for annual and single contribution takaful certificates

Table 1.9
Assets of Family Takaful Funds

Type of Investments	1997		1998		1999		2000		2001	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Fixed assets	11.9	4.2	45.3	11.4	50.7	8.3	54.1	6.2	61.2	3.0
Financing	25.2	8.8	38.8	9.8	54.7	9.0	47.4	5.4	74.1	3.6
Government Investment Issues	58.3	20.4	79.7	20.1	66.2	10.9	108.0	12.3	312.6	15.3
Corporate securities	67.5	23.6	55.0	13.9	131.0	21.6	206.0	23.5	505.9	24.8
Investment deposits	80.3	28.1	99.0	25.0	174.7	28.8	430.7	49.1	1,003.6	49.2
Unit trusts	5.4	1.9	5.5	1.4	7.3	1.2	7.1	0.8	5.1	0.3
Islamic accepted bills	27.0	9.5	67.3	17.0	115.4	19.0	12.9	1.5	8.5	0.4
Cash and deposits	0.2	0.1	0.3	0.1	5.2	0.9	2.1	0.2	42.4	2.1
Other assets	9.8	3.4	5.6	1.3	2.2	0.3	8.8	1.0	26.2	1.3
Total	285.6	100.0	396.4	100.0	607.4	100.0	877.1	100.0	2,039.6	100.0

respectively. In the case of annuity business, the valuation was carried out using the "a(90) Annuitant Mortality Table" at valuation profit rate of 5%.

In line with the positive growth of business in force, total valuation liabilities of the PSA continued to increase at a higher rate of 118.4% (2000: 38.9%) to reach RM1,213.3 million in year 2001. Aggregate actuarial surplus of the PSA registered a decline of

36.8% from RM58.7 million in 2000 to RM37.1 million in year 2001 due to increased actuarial provisions. As for the group family takaful plans, the contributions were accumulated in a separate account from the PSA. Surplus, after making appropriate reserves and provisions, was shared equally between the takaful operator and eligible participants. The group family takaful account showed a surplus of RM23.4 million in year 2001 (2000: RM10.3 million).

Table 1.10
Valuation Result

Item	1999		2000		2001	
	RMm	% change	RMm	% change	RMm	% change
Participants' special account						
Participants' fund	423.9	55.2	614.3	44.9	1,250.4	103.5
Valuation liabilities	399.9	48.3	555.6	38.9	1,213.3	118.4
Surplus/deficit	24.0	605.9	58.7	144.6	37.1	-36.8
Group account						
Participants' fund	22.2	44.2	29.2	31.5	101.0	245.9
Unexpired risk contributions	11.5	33.7	15.5	34.8	74.0	377.4
Provision for claims incurred but yet to be submitted	2.6	44.4	3.4	30.8	3.5	2.9
Surplus/deficit	8.1	65.3	10.3	27.2	23.4	127.2

Performance of General Takaful Business

Contributions Growth and Distribution

General takaful business continued its growth momentum in year 2001, with total gross contributions growth of 28.6% reaching RM227.7 million. Both takaful operators were sourcing more business from the miscellaneous sector, which recorded the strongest growth rate of 33.1% (2000: 13.1%) compared to other general takaful sectors. The increase in business from the miscellaneous sub-sectors, namely personal accident, workmen compensation, liability and miscellaneous accident. Marine, aviation and transit (MAT) recorded growth of 11.2% in 2001, a sharp drop compared to growth rate of 353.3% in the previous year. However, the significant growth in 2000 was not representative of the industry growth rate as the gross contribution base in prior years was small. In terms of portfolio distribution, fire remained as the dominant sector for the

Table 1.11
Distribution of Gross Contributions

Year	Marine, Aviation and Transit	Fire	Motor			Miscellaneous	All Sectors
			'Act' Cover	Others	Total		
RM million							
1997	0.5	31.4	7.7	33.0	40.7	19.5	92.1
1998	1.7	47.1	10.4	39.0	49.4	24.4	122.6
1999	1.5	57.7	11.6	42.2	53.8	29.8	142.8
2000	6.8	71.9	13.1	51.5	64.6	33.7	177.0
2001	7.5	95.5	14.4	65.4	79.8	44.9	227.7
% change							
1997	-	53.2	-10.5	38.7	25.6	43.4	37.5
1998	240.0	50.0	35.1	18.2	21.4	25.1	33.1
1999	-11.4	22.4	11.7	8.3	9.0	22.2	16.5
2000	353.3	24.6	12.9	22.0	20.1	13.1	23.9
2001	11.2	32.7	9.9	27.1	23.6	33.1	28.6
% share							
1997	0.5	34.1	8.4	35.8	44.2	21.2	100.0
1998	1.4	38.4	8.5	31.8	40.3	19.9	100.0
1999	1.1	40.4	8.1	29.6	37.7	20.9	100.0
2000	3.9	40.6	7.4	29.1	36.5	19.0	100.0
2001	3.3	41.9	6.3	28.7	35.1	19.7	100.0

Table 1.12
Retention Ratio¹

Year	Marine, Aviation and Transit	Fire	Motor			Miscellaneous	All Sectors
			'Act' Cover	Others	Total		
%							
1997	60.0	61.8	98.7	98.8	98.8	73.3	80.6
1998	47.0	55.2	100.0	97.4	97.9	67.2	74.7
1999	6.8	56.4	99.5	97.8	98.2	74.9	75.5
2000	25.0	55.1	98.5	97.3	97.5	67.1	71.7
2001	28.9	55.1	95.3	95.1	95.1	63.3	69.9

¹ Percentage of net contributions to gross contributions

third consecutive year since 1999, constituting 41.9% share of total general takaful gross contributions. The increase in contributions in fire sector was attributable to two new large and specialized risks, in the non-residential property sector, that was secured during the year.

Table 1.13
Distribution of Net Contribution

Year	Marine, Aviation and Transit	Fire	Motor			Miscellaneous	All Sectors
			'Act' Cover	Others	Total		
%							
1997	0.3	19.4	7.6	32.6	40.2	14.3	74.2
1998	0.8	26.0	10.4	38.0	48.4	16.4	91.6
1999	0.1	32.5	11.6	41.3	52.9	22.3	107.8
2000	1.7	39.6	12.9	50.1	63.0	22.6	126.9
2001	2.2	52.6	13.7	62.2	75.9	28.4	159.1
% change							
1997	...	44.8	-8.4	39.9	27.2	18.2	29.3
1998	166.7	34.0	36.8	16.6	20.4	14.7	23.4
1999	-87.2	25.1	11.1	8.7	9.2	36.1	17.7
2000	1,600.0	21.8	11.2	21.3	19.1	1.3	17.7
2001	28.7	32.9	6.6	24.2	20.6	25.7	25.4
% share							
1997	0.4	26.1	10.2	43.9	54.2	19.3	100.0
1998	0.9	28.4	11.3	41.5	52.8	17.9	100.0
1999	0.1	30.2	10.7	38.3	49.0	20.7	100.0
2000	1.3	31.2	10.2	39.5	49.7	17.8	100.0
2001	1.4	33.1	8.6	39.1	47.7	17.8	100.0
... Negligible							

Table 1.14
Claims Experience

Year	Gross Claims		Net Claims	
	RM million	% change	RM million	% change
1997	17.3	106.0	16.1	111.8
1998	18.9	9.2	17.4	8.1
1999	34.5	82.7	24.2	39.3
2000	43.7	26.7	31.0	28.1
2001	81.3	86.1	38.7	24.8

From the total gross contributions recorded during the year, 69.9% or RM159.1 million was retained within the industry. As part of the measure to mitigate the impact of escalation in claims costs in motor and miscellaneous sectors, both takaful operators had chosen to reduce their retention in these two sectors. Both motor and miscellaneous sectors recorded lower retention ratios of 95.1% (2000: 97.5%) and 63.3% (2000: 67.1%) respectively in year 2001. On the other hand, it is interesting to note that although fire sector has consistently registered favourable claims experience, fire business retention ratio maintained at 55.1% due to small capacity of the operators to increase their retention in this sector.

Claims Experience

Gross claims paid (gross claims paid less salvages) during the year amounted to RM81.3 million, an increase of 86.1% from RM43.7 million in 2000. Out of the total gross claims paid, 52.1% or RM42.6 million were recovered from retakaful operators and reinsurers. Overall claims experience of the general takaful fund had worsened as reflected by the escalation in claims ratio from 38.6% in 2000 to 41.5% in year 2001. The main contributor towards this was due to the higher provision made for Incurred But Not Reported (IBNR) claims reserves of RM5.4 million in the motor sector, increasing the overall motor IBNR reserve to RM38 million in year 2001. The escalation in miscellaneous claims ratio from 73.0% to 80.0% is of particular concern as takaful operators are moving towards increasing business from this sector.

Underwriting Experience

Underwriting results for year 2001 increased by 18.6% to RM70.7 million. The results however,

Table 1.15
Claims Ratio¹

Year	Marine, Aviation and Transit	Fire	Motor			Miscellaneous	All Sectors
			'Act' Cover	Others	Total		
%							
1997	54.4	12.1	68.1	25.4	34.8	67.2	37.2
1998	14.5	12.5	33.8	28.2	29.5	96.6	36.0
1999	103.4	14.0	30.7	38.8	36.9	71.8	38.1
2000	60.8	15.3	43.3	33.6	35.6	73.0	38.6
2001	103.5	10.2	48.7	44.6	45.3	80.0	41.5

¹ Net claims incurred as a ratio of earned contribution income

do not include the management expenses and commissions of one takaful operator whose accounting policy is to charge these expenses against the shareholders' fund. Notwithstanding the above, the increase in underwriting results still did not commensurate with the increase in earned contribution income due to rise in claims paid during the year. The escalation in claims cost had prevented takaful operators from reporting better underwriting margin for year 2001. Underwriting margin recorded by takaful operators in 2001 was 50.4% as compared to 52.2% in the previous year. Serious effort would be required by both takaful operators to review the quality of business underwritten in order to better manage outflow from the general takaful fund.

Table 1.16
Underwriting Experience

Year	Earned Contribution Income	Net Claims Incurred	Commissions	Management Expenses	Underwriting Margin
	RM million				
1997	66.6	24.8	1.1	2.7	38.1
1998	76.3	27.5	1.4	3.2	44.3
1999	96.5	36.8	2.4	3.1	54.2
2000	114.1	44.0	3.1	7.4	59.6
2001	140.3	58.2	1.7	9.7	70.7
	% change	% of earned contribution income			
1997	30.8	37.2	1.7	4.1	57.2
1998	14.6	36.0	1.8	4.2	58.1
1999	26.4	38.1	2.5	3.2	56.2
2000	18.2	38.6	2.7	6.5	52.2
2001	24.5	41.5	1.2	6.9	50.4

Assets of General Takaful Funds

Total assets of the general takaful funds grew by 26.2% (2000: 28.2%) to reach RM367.4 million in year 2001. During the year under review, there was a significant shift in general takaful fund assets distribution. Takaful operators placed more of their general takaful funds in investment deposits. Investments deposits recorded the highest increase during the year with growth rate of 135%, accounting for 43.2% of total general takaful fund assets. The increase in the amount of placements in investments deposits was also as a result of inflow of proceeds arising from the maturity in Government Investment Issues. On the other hand, corporate securities, which were previously the main component of investment, recorded decline in assets growth of 11.8%, due to shift into low risk assets by takaful operators.

Chart 1.3
Composition of Assets of General Takaful Funds

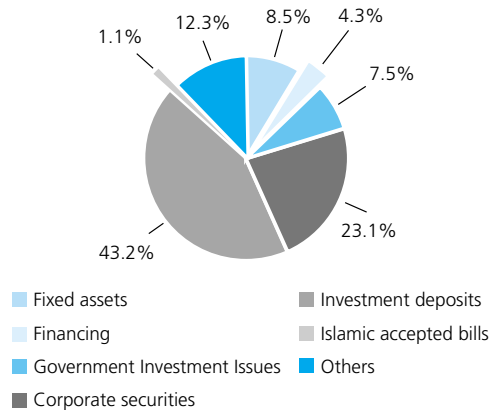


Table 1.17
Assets of General Takaful Funds

Type of Investments	1997		1998		1999		2000		2001	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Fixed assets	1.8	1.1	23.3	14.7	27.1	11.9	30.2	10.4	31.3	8.5
Financing	17.4	11.2	16.9	10.7	14.5	6.4	14.6	5.0	15.9	4.3
Government Investment Issues	32.0	20.6	34.0	21.5	23.4	10.3	34.3	11.8	27.6	7.5
Corporate securities	39.2	25.2	18.1	11.4	52.2	23.0	96.0	33.0	84.7	23.1
Investment deposits	29.7	19.1	27.1	17.1	53.1	23.4	67.5	23.2	158.6	43.2
Unit trusts	3.3	2.1	1.6	1.0	2.1	0.9	2.2	0.7	1.5	0.4
Islamic accepted bills	20.4	13.1	25.9	16.4	30.7	13.5	4.0	1.4	4.0	1.1
Cash and deposits	1.8	1.1	2.2	1.4	8.5	3.7	10.2	3.5	6.5	1.8
Other assets	10.1	6.5	9.1	5.8	15.3	6.8	32.0	11.0	37.2	10.1
Total	155.7	100.0	158.2	100.0	227.0	100.0	291.1	100.0	367.4	100.0