

The Takaful Industry Performance

- Overview of the Industry Performance
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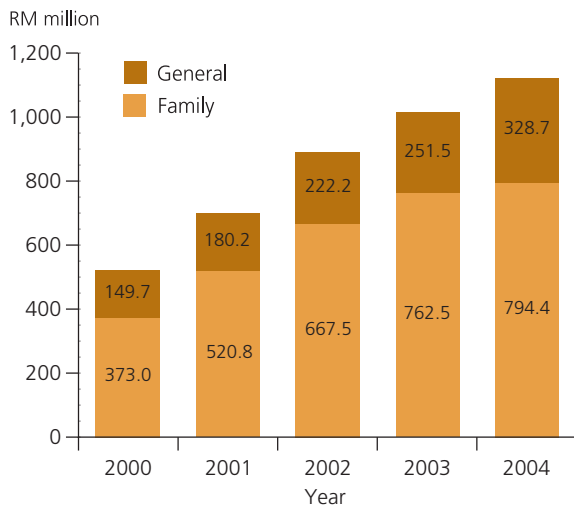
The Takaful Industry Performance

Overview of the Industry Performance

The takaful industry expanded further in 2004 in tandem with the growth in the domestic economy. All key indicators of the industry showed positive growth as follows:

- Combined family and general takaful net contribution income increased by 10.8% to RM1.1 billion;
- Market penetration¹ of the takaful industry rose to 5.1% in 2004 from 4.5%; and
- Takaful assets expanded by 13.5% to RM5 billion. The market share of takaful in the combined insurance and takaful industry in terms of assets remained at 5.6%, whilst contributions moderated slightly to 5.1% (2003: 5.4%) due to a sharp expansion in the life business of the insurance industry.

Chart 1.1
Net Contributions



Note : Net contributions for years 2000 - 2001 exclude the annuity scheme (SATK) marketed to contributors of the Employees Provident Fund

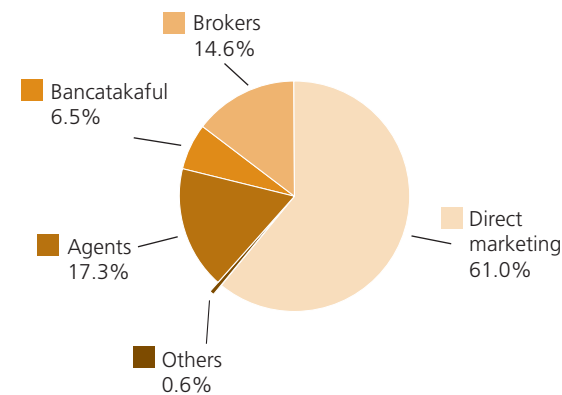
The takaful fund registered a surplus in 2004 despite a sharp increase in claim payments. Total benefits and net claims paid by the takaful industry increased by 34.7% to RM377.3

million, of which RM1 million was in the form of compensation to members affected by the tsunami late in the year.

The industry operates a multi-distribution channel; namely direct marketing, agency force, brokers and bancatakaful:

- Direct marketing remained as the main channel with contributions of RM659.1 million, an increase of 10.2% and representing 61% of contributions;
- Contributions generated through the agency force and brokers increased by 24.1% and 76.5% to RM187 million and RM158.3 million respectively. The agency force was enlarged with the recruitment of 2,513 new agents in 2004; and
- Bancatakaful showed tremendous potential as an effective distribution

Chart 1.2
Contributions by Channels of Distribution



channel based on the experience of a takaful operator, which solely uses this form of distribution channel.

Contributions from bancatakaful arrangements totaled RM69.9 million, of which RM51.1 million was derived from family takaful business.

In 2004, several positive developments in the industry contributed in setting the course

¹ The number of certificates in force divided by total population

for future growth of the takaful sector in Malaysia:

- The implementation of mandatory takaful cover for Islamic financing, in which the cost of coverage constitutes part of the financing package, will lead to greater optimisation in the use of the takaful industry capacity;
- Greater utilisation of bancatakaful arrangements, which leverage on the extensive branching network of the banking and development finance institutions, would further extend the reach of the takaful market and promote better product bundling;
- The completion of the capital raising exercise of each takaful operator to a minimum of RM100 million is expected to improve underwriting capacity and

will precipitate more product launches, which would in turn enhance the dividend yield to shareholders of the takaful operators; and

- Significant demand for investment-linked takaful plan since its introduction in 2003, as reflected in the growth of new business contributions by 197.5% in 2004.

Performance of Family Takaful Business

New Business

Family takaful business continued to grow in 2004, with new business contributions increasing by 18.1% to RM603.7 million, while sums participated expanded sharply by 98.9% to RM36.5 billion. The favourable performance were contributed by the followings:

Table 1.1
Distribution of New Business by Plan

	2000	2001	2002	2003	2004	2002	2003	2004	2002	2003	2004
	unit					% change			% share		
No. of Certificates											
Ordinary Family	191,717	205,871	236,939	263,101	287,921	15.1	11.0	9.4	100.0	99.3	99.1
Individual	190,486	204,660	235,468	260,968	283,594	15.1	10.8	8.7	99.4	98.5	97.6
Group	1,231	1,211	1,471	2,133	4,327	21.5	45.0	102.9	0.6	0.8	1.5
Annuity ¹	9	2	98	1,006	402	4,800.0	926.5	-60.0	...	0.4	0.1
Investment-linked	-	-	-	928	2,215	-	-	138.7	-	0.3	0.8
Total	191,726	205,873	237,037	265,035	290,538	15.1	11.8	9.6	100.0	100.0	100.0
Sums Participated	RM million					% change			% share		
Ordinary Family	11,405.5	12,817.1	14,174.8	18,317.1	36,420.6	10.6	29.2	98.8	100.0	99.9	99.9
Individual	6,348.8	8,407.4	10,015.8	11,379.5	14,403.9	19.1	13.6	26.6	70.7	62.1	39.5
Group	5,056.7	4,409.7	4,159.0	6,937.6	22,016.7	-5.7	66.8	217.4	29.3	37.8	60.4
Annuity ¹	-	-	-	-	-	-	-	-	-	-	-
Investment-linked	-	-	-	12.8	37.5	-	-	193.2	-	0.1	0.1
Total	11,405.5	12,817.1	14,174.8	18,329.9	36,458.1	10.6	29.3	98.9	100.0	100.0	100.0
Contributions	RM million					% change			% share		
Ordinary Family	297.0	368.7	451.3	502.9	592.4	22.4	11.4	17.8	99.8	98.4	98.1
Individual	248.8	330.2	412.2	452.8	485.0	24.8	9.8	7.1	91.2	88.6	80.3
Group	48.2	38.5	39.1	50.1	107.4	1.6	28.1	114.5	8.6	9.8	17.8
Annuity ¹	0.3	0.1	0.9	4.9	1.9	800.0	444.1	-62.0	0.2	1.0	0.3
Investment-linked	-	-	-	3.2	9.4	-	-	197.5	-	0.6	1.6
Total	297.3	368.8	452.2	511.0	603.7	22.6	13.0	18.1	100.0	100.0	100.0

¹ Net contributions for years 2000-2001 exclude the annuity scheme (SATK) marketed to contributors of the Employees Provident Fund
... Negligible

Table 1.2
Distribution of New Business Contributions by Plan

	2003	2004	2004	2003	2004
	RM million		% change	% share	
	Ordinary Family	502.9	592.4	17.8	98.4
Endowment	54.6	81.7	49.9	10.7	13.5
Education	7.6	14.0	85.8	1.5	2.3
Others	47.0	67.7	44.1	9.2	11.2
Temporary	399.8	423.2	5.8	78.2	70.1
Mortgage	340.5	361.2	6.1	66.6	59.8
Others	59.3	62.0	4.5	11.6	10.3
Medical & Health	36.0	57.7	60.0	7.1	9.6
Others ¹	12.5	29.8	138.1	2.4	4.9
Annuity	4.9	1.9	-62.0	1.0	0.3
Investment-linked	3.2	9.4	197.5	0.6	1.6
Total	511.0	603.7	18.1	100.0	100.0

¹ Include riders

- Tremendous growth of 114.5% in contributions from the group ordinary family takaful plans. Greater focus was directed to further develop business from the group takaful plans, particularly for group temporary and medical takaful;
- Improved demand for investment-linked takaful plans with new contributions increasing by 197.5% amounting to RM9.4 million and involving 2,215 certificates. The plan reflected tremendous potential of expansion in meeting consumer needs for Shariah compliant investment avenues;
- Higher demand for endowment takaful plans with the increase in consumer

inclination towards savings-type takaful plans. Contributions for endowment takaful plans grew by 49.9% to RM81.7 million supported by new product launches during the year;

- Fast expansion in medical and health takaful plans with contributions increasing by 60% to RM57.7 million in

Chart 1.3
Distribution of New Business Contributions by Plan

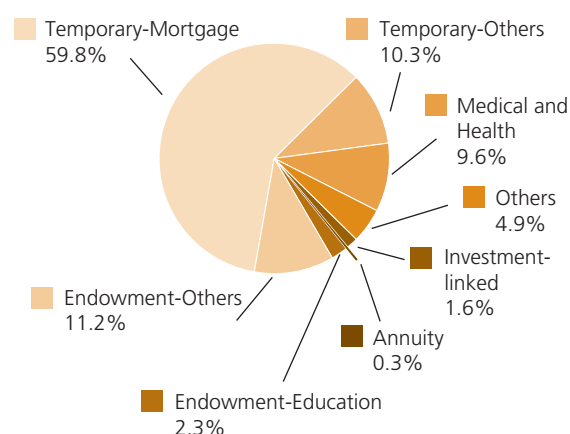


Table 1.3
Terminations of Sums Participated

	Death	Surrender	Maturity and Other Causes	Total
	RM million			
2000	17.6	200.0	869.6	1,087.2
2001	30.2	286.9	2,795.1	3,112.2
2002	39.8	460.2	3,457.7	3,957.7
2003	55.2	1,081.3	6,301.8	7,438.3
2004	85.5	1,356.2	13,339.1	14,780.8
	% share			
2000	1.6	18.4	80.0	100.0
2001	1.0	9.2	89.8	100.0
2002	1.0	11.6	87.4	100.0
2003	0.8	14.5	84.7	100.0
2004	0.6	9.2	90.2	100.0
	% of sums participated in force at the beginning of the year			
2001	0.1	0.8	8.2	9.1
2002	0.1	0.9	7.1	8.2
2003	0.1	2.0	11.8	13.9
2004	0.1	2.1	21.0	23.2

Table 1.4
Distribution of Business in Force by Plan

	2000	2001	2002	2003	2004	2002	2003	2004	2002	2003	2004
No. of Certificates	unit					% change			% share		
	Ordinary Family	554,809	726,398	888,879	1,084,038	1,269,599	22.4	22.0	17.1	95.4	96.1
Individual	552,018	722,763	884,874	1,079,558	1,264,278	22.4	22.0	17.1	95.0	95.7	96.1
Group	2,791	3,635	4,005	4,480	5,321	10.2	11.9	18.8	0.4	0.4	0.4
Annuity	17,545	44,867	43,333	43,485	42,708	-3.4	0.4	-1.8	4.6	3.8	3.3
Investment-linked	-	-	-	923	2,888	-	-	212.9	-	0.1	0.2
Total	572,354	771,265	932,212	1,128,446	1,315,195	20.9	21.1	16.5	100.0	100.0	100.0
Sums Participated	RM million					% change			% share		
	Ordinary Family	33,222.2	46,247.6	51,404.3	61,388.6	86,571.0	11.2	19.4	41.0	95.9	96.6
Individual	19,486.0	27,589.4	33,193.5	41,450.1	54,170.5	20.3	24.9	30.7	61.9	65.2	61.1
Group	13,736.2	18,658.2	18,210.8	19,938.5	32,400.5	-2.4	9.5	62.5	34.0	31.4	36.5
Annuity	945.5	2,311.4	2,221.6	2,172.5	2,095.9	-3.9	-2.2	-3.5	4.1	3.4	2.3
Investment-linked	-	-	-	12.7	45.0	-	-	253.1	-	...	0.1
Total	34,167.7	48,559.0	53,625.9	63,573.8	88,711.9	10.4	18.6	39.5	100.0	100.0	100.0
Contributions¹	RM million					% change			% share		
	Ordinary Family	789.1	1,057.8	1,357.5	392.9	473.7	28.3	-	20.6	64.4	99.7
Individual	687.6	945.3	1,213.6	367.1	455.4	28.4	-	24.0	57.6	93.7	95.5
Group	101.5	112.5	143.9	25.8	18.3	28.0	-	-29.1	6.8	6.0	3.8
Annuity	468.1	961.2	748.3	-	-	-22.1	-	-	35.6	-	-
Investment-linked	-	-	-	1.3	3.5	-	-	175.8	-	0.3	0.7
Total	1,257.2	2,019.0	2,105.8	394.2	477.2	4.3	-	21.1	100.0	100.0	100.0

¹ In force contributions reported from 2003 onwards is only for annual contributions
... Negligible

2004. This was supported by the increase in consumer demand to secure protection against the escalation in medical costs;

- The twofold increase of rider takaful plans to RM22.5 million in 2004. Preference for riders² heightened, as the contribution rates were cheaper compared with participating in takaful certificate that provides similar coverage. The coverage provided under the rider takaful plans includes among others personal accident, medical and health and dread diseases; and
- Steady performance of mortgage takaful plans remained the main source of new contributions, contributing

59.8% or RM361.2 million of the new contributions in 2004.

Terminations

A total of RM14.8 billion sums participated involving 132,531 certificates was terminated during 2004. Terminations arising from death amounted to RM85.5 million. The mortality experience remained stable with mortality rate³ of 0.1%. The surrender rate remained relatively unchanged at 2.1%, despite a 25.4% increase in the amount of sums participated terminated. The largest share of certificates surrendered was from annual contributions certificate as opposed to single contributions certificate.

² Riders provide supplementary protection to a basic takaful certificate
³ Percentage of sums participated in force at the beginning of the year

Table 1.5
Average Size of Annual Certificates in Force

	Contributions ¹		Sums Participated ²	
	Individual	Group	Individual	Group
	RM			
2000	571	36,368	14,259	4,921,594
2001	598	30,937	16,842	5,132,917
2002	625	35,934	19,849	4,547,022
2003	731	27,991	19,882	4,324,261
2004	722	46,956	25,327	4,228,446

- ¹ Average size of contributions in force - contributions in force divided by number of certificates in force
² Average size of sums participated in force - sums participated in force divided by number of certificates in force

Terminations arising from maturity remained small, involving 1,514 certificates with sums participated of RM22.5 million. Terminations due to other causes increased sharply by 111.7% to RM13.3 billion attributable to the withdrawals of individuals covered under the group takaful certificates and expiry of ordinary family temporary takaful certificates.

Business in Force

Business in force continued to sustain its growth throughout 2004 as reflected by the followings:

- Total number of certificates in force rose

Table 1.6
Average Cost of Annual Certificates in Force¹

	2000	2001	2002	2003	2004
	RM				
	Individual	40	36	32	37
Group	7	6	8	6	11

- ¹ Contributions per RM1,000 of sums participated in force

- by 16.5% to 1.3 million units. Certificates in force generated by new takaful operators during the year rose from 12,084 to 50,069 units; and
- Total annual contributions in force increased by 21.1% to RM477.2 million. Endowment takaful plans remained as the dominant sector with a 51.3% share, followed by temporary takaful plans with 26.5% share. Even though the market share of the investment-linked takaful plans is relatively small, the plans showed tremendous potential as reflected by the strong growth of 175.8% in contributions.

Average Size and Cost of Annual Certificates in Force

Ordinary Family Individual Takaful Plans

The size of contributions ranged from RM333 to RM859 and sums participated from

Table 1.7
Income and Outgo

	2001		2002		2003		2004	
	RM million	%	RM million	%	RM million	%	RM million	%
Income								
Net Contributions	1,219.8	92.2	663.8	83.1	762.5	78.7	794.4	77.3
Net Investment Income	78.0	5.9	110.2	13.8	165.3	17.1	156.6	15.2
Other Income	24.7	1.9	25.0	3.1	41.2	4.2	77.5	7.5
Total	1,322.5	100.0	799.0	100.0	969.0	100.0	1,028.5	100.0
Outgo								
Net Certificate Benefits	132.7	10.0	178.6	22.4	201.4	20.8	286.4	27.8
Net Commissions	31.5	2.4	46.4	5.8	46.5	4.8	82.2	8.0
Management Expenses ¹	22.6	1.7	25.2	3.2	60.0	6.2	86.3	8.4
Other Outgo	18.3	1.4	34.5	4.3	51.4	5.3	136.3	13.3
Total	205.1	15.5	284.7	35.7	359.3	37.1	591.2	57.5
Excess of Income over Outgo	1,117.4	84.5	514.3	64.3	609.7	62.9	437.3	42.5

- ¹ Management expenses from 2003 onwards include the expenses borne by the shareholders' fund in respect of the family takaful fund

RM3,537 to RM38,103. The overall average size of contributions was largely influenced by endowment takaful plans. This was followed by medical and health takaful plans at an average of RM717 per certificate. The lowest average size of contributions was recorded by individual-others takaful plans. The change in overall average size led to the decline in the average cost per certificate from RM37 to RM29 in 2004.

Ordinary Family Group Takaful Plans

The average size of contributions was RM46,956 and sums participated was RM4.2 million per certificate. The change in average size of certificates led to the increase in average cost from RM6 to RM11. Group annual certificate plans currently consisted of solely endowment takaful plans.

Income and Outgo

Income

Growth of total income of the family takaful business increased marginally by 6.1% to RM1 billion in 2004, impacted by the slowdown in the growth of net investment income from deposit placements and lower yield from Islamic bonds. On the other hand, dividend yield received from investment in equities increased to RM47.7 million. The industry also recorded profits of RM19 million from the disposal of equities.

Outgo

Total outgo of the family fund increased sharply

by 64.5% to RM591.2 million. The significant increase was attributable to the provision of RM41 million for non-performing financing and RM22.5 million for the diminution in the value of securities. Net certificate benefits rose by 42.2% to RM286.4 million, of which 43.9% of payments was for death and disability and 40.9% for surrenders. Agency remuneration increased significantly by 76.5% to RM82.2 million in line with the expansion in the agency force of takaful operators and a restructuring in agency benefits. Management expenses grew by 43.8% to RM86.3 million arising from a general increase in the operational expenses of the fund.

Assets of Family Takaful Fund

Total assets of the family takaful business expanded further to RM4.3 billion, an increase of 11.5% in 2004. Ordinary family takaful fund grew by 16.8% to RM3.1 billion to account for 71.9% of total assets. This was followed by annuity takaful fund with a 27.6% share.

Asset allocation remained relatively unchanged. A substantial portion of the funds were placed in Islamic bonds and Government Islamic instruments so as to match the long-term nature of the family takaful plans, whilst ensuring a steady flow of investment returns. Among the significant developments in 2004 were as follows:

- Islamic bonds accounted for 39% of the takaful fund assets, followed by investment account and Islamic money

Chart 1.4
Composition of Assets of Family Takaful Fund

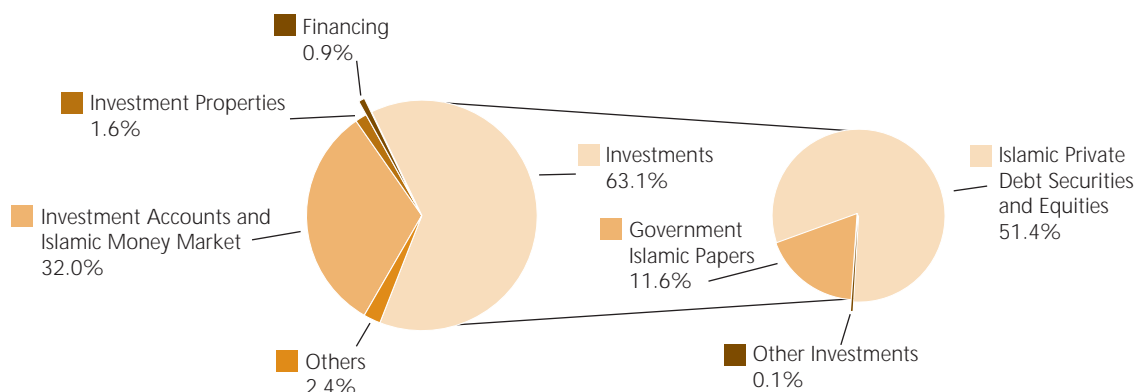


Table 1.8
Assets of Family Takaful Fund

	2001		2002		2003		2004	
	RM million	% share	RM million	% share	RM million	% share	RM million	% share
Property, Plant and Equipment	1.0	...	3.1	0.1	7.2	0.2	4.9	0.1
Investment Properties	59.6	2.2	61.8	2.0	66.0	1.7	70.0	1.6
Financing	91.4	3.5	89.3	2.8	84.0	2.2	36.9	0.9
Investments	1,302.7	49.3	1,725.1	54.6	2,227.2	57.6	2,717.1	63.1
Government Islamic Papers	176.9	6.7	273.5	8.7	368.1	9.5	498.3	11.6
Islamic Private Debt Securities and Equities	1,120.6	42.4	1,447.0	45.8	1,850.6	47.9	2,215.0	51.4
Other Investments	5.2	0.2	4.6	0.1	8.5	0.2	3.8	0.1
Foreign Assets	7.5	0.3	7.7	0.2	7.7	0.2	7.7	0.2
Investment Accounts and Islamic Money Market	1,142.2	43.2	1,183.6	37.4	1,337.2	34.6	1,376.3	32.0
Cash and Bank Balances	25.9	1.0	70.4	2.2	98.9	2.6	36.6	0.8
Other Assets	14.4	0.5	21.8	0.7	32.8	0.9	55.6	1.3
Total	2,644.7	100.0	3,162.8	100.0	3,861.0	100.0	4,305.1	100.0

... Negligible

- market with a combined share of 32%;
- The share of Government Islamic instruments increased to RM498.3 million with additional subscriptions of RM130.2 million from the new issuance of Government Islamic instruments during the year; and
- Larger investment of RM536.7 million in Shariah-approved equities resulting from

the improvement in the performance of the equity market.

Valuation Report

The participants' fund under the participants' special account continued to record a surplus of RM163 million, despite higher valuation liabilities arising from stringent profit rate assumptions. The stringent assumptions were

Table 1.9
Valuation Result¹

	2002	2003	2004	2003	2004
	RM million			% change	
Participants' Special Account					
Participants' Fund	1,224.8	1,532.0	1,743.5	25.1	13.8
Less: Valuation Liabilities	1,137.7	1,324.0	1,580.5	16.4	19.4
Surplus	87.1	208.0	163.0	138.7	-21.6
Group Account					
Participants' Fund	142.4	163.0	182.8	14.4	12.2
Less: Unearned Contributions					
Reserves	56.9	68.6	80.5	20.4	17.4
Provision for Claims Incurred but Yet to be Submitted	7.3	10.9	13.8	48.8	26.5
Surplus	78.2	83.5	88.5	6.8	6.0

¹ Based on calendar year figures. The figures for the preceding years have been restated

reflective of the current investment yield earned by the takaful fund. Following this, the ratio of participants' fund to valuation liabilities declined to 110.3%, compared to 111.5% in 2003.

As for group accounts, the total surplus increased marginally to RM88.5 million due to an increase in unearned contributions reserves since the bulk of the contributions were generated towards the end of the year. Both the surplus from participants' special account and group account were eligible for distribution as profit to eligible participants according to the agreed profit distribution ratio.

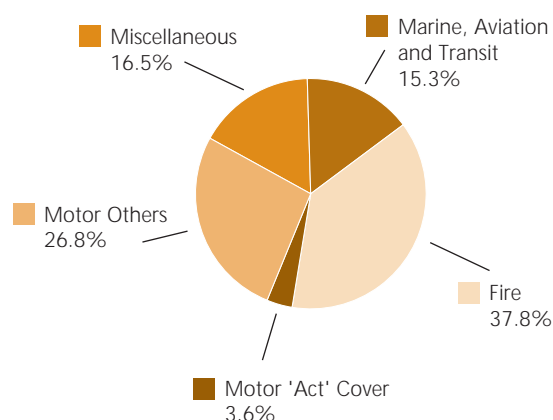
Performance of General Takaful Business

Contributions Growth and Distribution

The general takaful business expanded further in 2004 with total gross contributions increasing by 22.2% (2003: 21.2%) to RM492.5 million, supported by the favourable development in the following sectors:

- Further expansion from the marine, aviation and transit sector following larger co-takaful share secured by a takaful operator on a large risk aviation account. This had lessened the impact of the softening of aviation contribution rates experienced industry-wide;
- Continued growth in the motor sector, driven by the demand for comprehensive motor takaful plans, which led to the overall increase of 24.4% in total gross motor contributions to RM149.8

Chart 1.5
Distribution of Gross Contributions



million. In addition, the new takaful operators further strengthened their market presence through leveraging of agency networks, greater utilisation

Table 1.10
Distribution of Gross Contributions

	Marine, Aviation and Transit	Fire	Motor			Miscellaneous	All Sectors
			'Act' Cover	Others	Total		
RM million							
2000	7.2	82.4	13.8	61.6	75.4	37.7	202.7
2001	11.0	115.9	15.9	75.8	91.7	48.2	266.8
2002	20.9	149.5	16.2	86.0	102.2	60.0	332.7
2003	35.0	167.2	15.2	105.2	120.4	80.4	403.0
2004	75.4	186.2	17.7	132.1	149.8	81.1	492.5
% change							
2001	53.3	40.8	15.5	22.9	21.6	27.6	31.6
2002	89.5	28.9	2.0	13.5	11.5	24.5	24.7
2003	67.4	11.9	-6.2	22.3	17.8	33.9	21.2
2004	115.3	11.4	16.2	25.6	24.4	0.8	22.2
% share							
2000	3.6	40.6	6.8	30.4	37.2	18.6	100.0
2001	4.1	43.5	6.0	28.4	34.4	18.0	100.0
2002	6.3	44.9	4.9	25.9	30.8	18.0	100.0
2003	8.7	41.5	3.8	26.1	29.9	19.9	100.0
2004	15.3	37.8	3.6	26.8	30.4	16.5	100.0

Table 1.11
Distribution of Net Contributions

	Marine, Aviation and Transit	Fire	Motor			Miscellaneous	All Sectors
			'Act' Cover	Others	Total		
RM million							
2000	1.6	48.5	13.2	59.4	72.6	27.1	149.8
2001	3.4	57.8	14.6	73.3	87.9	31.1	180.2
2002	6.8	73.7	16.0	82.3	98.3	43.5	222.2
2003	12.4	74.2	13.7	100.8	114.5	50.4	251.5
2004	15.7	113.6	17.2	126.7	143.9	55.4	328.6
% change							
2001	116.4	19.2	11.0	23.5	21.1	14.9	20.3
2002	100.7	27.4	9.5	12.2	11.8	39.7	23.3
2003	82.2	0.8	-14.8	22.6	16.5	15.8	13.2
2004	27.2	53.0	25.6	25.7	25.6	10.1	30.7
% share							
2000	1.1	32.4	8.8	39.6	48.4	18.1	100.0
2001	1.9	32.1	8.1	40.7	48.8	17.2	100.0
2002	3.1	33.1	7.2	37.0	44.2	19.6	100.0
2003	4.9	29.5	5.5	40.1	45.6	20.0	100.0
2004	4.8	34.6	5.2	38.6	43.8	16.8	100.0

of bancatakaful arrangements and introduction of innovative takaful coverage with value added services. By the end of 2004, the market share garnered by the new takaful operators in the motor sector grew to 16.4% of total gross motor contributions, compared with only 2.5% as at end 2003;

- The increase of 11.4% in gross contributions in the fire sector was mainly attributable to the recognition of RM26.7 million contributions from the long-term Federal Treasury fire takaful plans. Under this plan, contributions were received upfront for a period of cover spanning over a few years. The contributions were previously apportioned over the tenure of the plan as opposed to immediate recognition as income. Gross fire contributions excluding contributions from the long-term Federal Treasury fire takaful plans were RM159.5 million; and
- There was a contraction of 21.3% in contributions from the contractors' all risk and engineering sub-sectors arising from

Table 1.12
Retention Ratio¹

	Marine, Aviation and Transit	Fire	Motor			Miscellaneous	All Sectors
			Act Cover	Others	Total		
%							
2000	21.7	58.9	95.7	96.3	96.3	71.7	73.9
2001	30.7	49.9	92.0	96.7	95.9	64.6	67.6
2002	32.5	49.3	98.8	95.6	96.1	72.4	66.8
2003	64.0	65.5	99.6	99.8	99.8	80.3	81.1
2004	23.5	84.7	99.9	99.8	99.8	90.0	80.7

¹ The retention ratio from 2003 onwards is calculated based on percentage of net contributions to gross direct and retakaful accepted contributions less retakaful ceded within Malaysia

Table 1.13
Claims Experience

	Gross Claims Paid		Net Claims Paid	
	RM million	% change	RM million	% change
2000	55.3	60.3	34.1	40.9
2001	98.9	78.8	38.7	13.5
2002	121.7	23.1	72.9	88.4
2003	104.1	-14.5	78.7	7.9
2004	116.0	11.5	90.8	15.5

Table 1.14
Claims Ratio¹

	Marine, Aviation and Transit	Fire	Motor			Miscellaneous	All Sectors
			Act Cover	Others	Total		
%							
2000	102.5	11.3	50.8	35.9	38.8	77.4	39.0
2001	103.6	15.1	61.7	46.6	49.1	76.1	45.0
2002	65.8	23.3	67.1	65.1	65.4	73.1	54.4
2003	30.1	6.1	245.6	16.8	46.3	63.8	37.3
2004	13.1	11.8	99.6	44.6	51.4	61.4	41.2

¹ Net claims incurred as a ratio of earned contribution income

the negative growth in the construction sector in 2004. This had thus affected the developments in the miscellaneous sector of the takaful industry.

The fire and motor sectors continued to dominate the portfolio of general takaful business with 37.8% and 30.4% share of total gross contributions respectively. Share of marine, aviation and transit sector increased to 15.3% in line with the increase in business volume.

Net contributions grew further by 30.7% to RM328.6 million compared with RM251.5 million in the previous year. The overall retention ratio however, declined marginally from 81.1% to 80.7% in 2004 arising from the current limited capacity of takaful operators to retain the marine, aviation and transit business.

A total of RM163.9 million was ceded out, of which 52.2% was cessions to Malaysian companies including those operating in the Labuan International Offshore Financial Centre. RM78.4 million was ceded abroad, of which 98.4% was to foreign reinsurers. The largest outflow abroad was from the marine, aviation and transit sector with 65.4% share, followed by the fire sector with 26.3% share. Further development in the retakaful market is necessary to mitigate the high cessions to foreign reinsurers.

Claims Experience

Total gross claims paid increased by 11.5% involving RM116 million with 21.7% or RM25.2 million of the total gross claims paid being borne by retakaful and reinsurance companies under the retakaful arrangement. Claims

Table 1.15
Underwriting Experience

	Earned Contribution Income	Net Claims Incurred	Net Commissions	Management Expenses ¹	Underwriting Profit
RM million					
2000	131.3	51.2	-1.1	8.5	72.6
2001	162.5	73.1	7.0	11.8	70.5
2002	199.2	108.2	4.7	13.7	72.5
2003	230.0	85.7	9.1	60.6	74.6
2004	263.4	108.6	12.1	74.0	68.7
% of earned contribution income					
	% change				
2000	-	39.0	-0.8	6.5	55.3
2001	23.8	45.0	4.3	7.2	43.4
2002	22.6	54.4	2.3	6.9	36.4
2003	15.5	37.3	3.9	26.4	32.4
2004	14.6	41.2	4.6	28.1	26.1

¹ Management expenses from 2003 onwards include expenses that were borne by the shareholders' fund in respect of the general takaful fund

Table 1.16
Technical Reserves

	Unearned Contributions Reserves ¹	Provision for Outstanding Claims	Technical Reserves
RM million			
2000	82.0	103.7	185.7
2001	99.8	128.4	228.3
2002	122.9	163.8	286.7
2003	147.9	170.9	318.8
2004	306.7	188.7	495.4
% of net contributions			
2000	54.8	69.3	124.0
2001	55.4	71.3	126.6
2002	55.3	73.7	129.0
2003	58.8	68.0	126.8
2004	93.3	57.4	150.7

¹ The unearned contributions reserves for 2004 includes the portion of reserves in respect of the long-term Federal Treasury fire takaful plans. No adjustments were made for reserves in the preceding years

experience also worsened as reflected by the overall industry claims ratio of 41.2% as the result of increases in provision for outstanding claims for the fire sector and higher net claims paid for the motor sector.

Underwriting Experience and Operating Results

The general takaful fund experienced lower underwriting profit following higher underwriting expenses. Net claims incurred increased by RM22.9 million primarily

attributable to the adverse claims experience in the motor and fire sectors. Management expenses rose to RM74 million mainly attributable to information technology (IT) expenditure as IT infrastructure enhancements were part of the takaful operators' initiative to increase their operational efficiency. The increase in net commissions by 32.9% was commensurate with the higher gross contributions generated by the industry.

Operating profit for the year increased by

Chart 1.6
Composition of Assets of General Takaful Fund

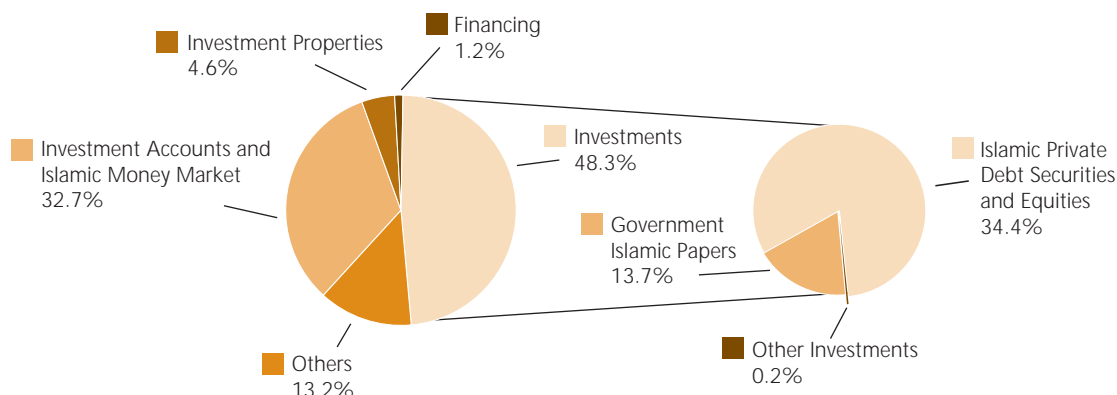


Table 1.17
Assets of General Takaful Fund

	2001		2002		2003		2004	
	RM million	% share	RM million	% share	RM million	% share	RM million	% share
Property, Plant and Equipment	7.0	1.9	0.5	0.1	1.3	0.2	1.5	0.2
Investment Properties	27.5	7.3	34.4	7.4	33.8	5.9	33.2	4.6
Financing	15.4	4.1	14.3	3.1	13.6	2.4	8.5	1.2
Investments	129.5	34.6	190.5	41.1	257.1	45.3	349.5	48.3
Government Islamic Papers	17.9	4.8	46.4	10.0	58.6	10.3	99.1	13.7
Islamic Private Debt Securities and Equities	110.1	29.4	142.5	30.7	197.1	34.7	248.9	34.4
Other Investments	1.6	0.4	1.6	0.3	1.4	0.3	1.5	0.2
Foreign Assets	2.5	0.7	2.5	0.5	2.5	0.4	2.5	0.3
Investment Accounts and Islamic Money Market	160.1	42.7	170.3	36.7	202.3	35.6	236.6	32.7
Cash and Bank Balances	14.3	3.8	12.7	2.7	4.8	0.9	8.0	1.1
Other Assets	18.5	4.9	38.9	8.4	52.7	9.3	83.7	11.6
Total	374.8	100.0	464.1	100.0	568.1	100.0	723.5	100.0

22.9% to RM410.2 million. Net investment income generated for the period was RM14.7 million. A substantial portion of the income was from Islamic bonds, investment accounts and Islamic money market. On the other hand, total outgo amounted to RM21.3 million, of which RM11.7 million was for diminution in the value of selected non-performing equities and financing.

Technical Reserves

The technical reserves ratio strengthened to 150.7% compared with 126.8% recorded in the previous year. Total provision for outstanding claims increased by 10.4% to RM188.7 million, of which RM55.5 million or 29.4% was for incurred but not reported claims (IBNR) reserves. The significant increase of

107.4% in unearned contributions reserves was attributable to the inclusion of reserves of the long-term Federal Treasury fire takaful plans.

Assets of General Takaful Fund

Total assets of general takaful business increased by 27.3% to RM723.5 million. Placements in investment accounts and Islamic money market totaled RM236.6 million and accounted for 32.7% share of total assets. Investments in long-term instruments increased by 47.1% to RM265.2 million, of which 62.6% were in Islamic bonds and 37.4% were in Government Islamic Papers. Holdings in Government Islamic Papers were for purposes of compliance with the authorised assets requirement. As at 2004, investments in equities rose to RM82.8 million from RM75.5 million in the previous year.