



The Takaful Industry Performance

- **Overview of the Industry Performance**
- **Performance of Family Takaful Business**
- **Performance of General Takaful Business**

The Takaful Industry Performance

Overview of the Industry Performance

The takaful industry continued to grow in 2005 underpinned by a strong growth in the domestic economy. Major indicators showed strong performance as reflected by the following:

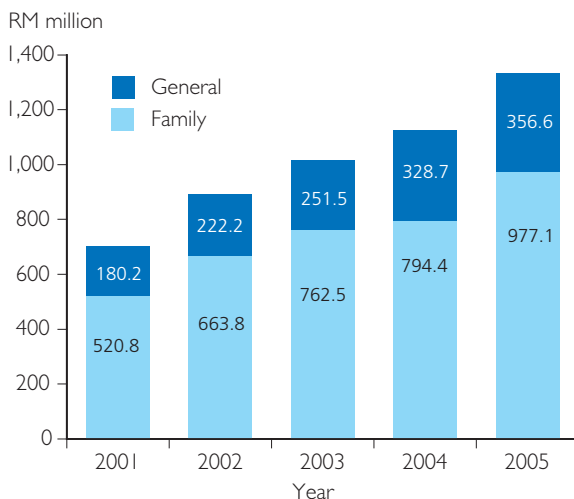
- Market penetration¹ of the takaful industry rose to 5.6% in 2005 from 5.1%;
- Combined family and general takaful net contributions grew by 18.8% to RM1.3 billion (2004: RM1.1 billion) thereby increasing its share to 5.4% (2004: 5.1%) of the combined net contributions in the insurance sector; and
- Total assets of the takaful industry increased by 16.9% to RM5.9 billion in 2005 (2004: RM5

billion), accounting for 5.7% (2004: 5.6%) of the total assets in the insurance sector.

The strong double-digit growth of the takaful industry was supported by the encouraging performance of the following three main distribution channels of bancatakaful, agency and brokers as well as direct marketing:

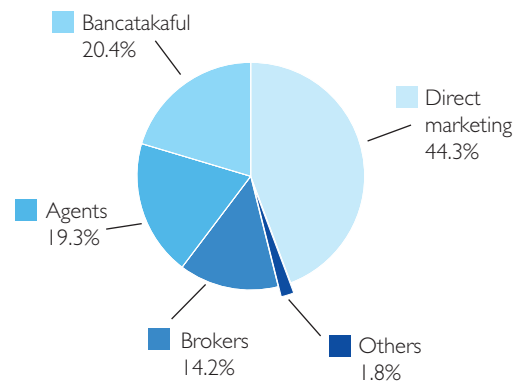
- Significant increase in product marketed through bancatakaful with 20.4% share (2004: 6.5%) as takaful operators continued to leverage on their group structure and the existing branches of financial institutions as distribution channels;
- Strong performance of agents and brokers who continued to generate higher contributions of RM428.7 million (2004: RM345.3 million), supported by more active agency force; and
- Direct marketing remained as the dominant distribution channel with 44.3% of new

Chart 1.1
Net Contributions



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

Chart 1.2
Contributions by Channels of Distribution



¹ The number of certificates in force divided by total population

The Takaful Industry Performance

business generated, although the distribution share has dropped from 61% in 2004. This reflects the growing preference for other distribution channels.

A number of initiatives were launched to further strengthen the resilience of takaful industry, thereby preparing Malaysia to be an international centre for takaful and retakaful. These initiatives, which emphasised among others on enhancing operational efficiency, strengthening corporate governance and risk management as well as improving market conduct and customer awareness, have transformed the Malaysian takaful industry into a more robust industry as reflected in the stronger performance of both family and general sectors.

Performance of Family Takaful Business

New Business

During the year, family takaful sector continued

to experience a higher growth rate of 20.2% (2004: 18.1%) to RM725.5 million of new business contributions. This was mainly contributed by the following:

- More than seven-fold increase in the investment-linked plan that was reflected in a larger share of new business contributions of 9.7% (2004: 1.6%) amounting to RM70.1 million. Of the total contributions, 97.9% was derived from single contributions. The growth was supported by attractive product design and effective use of bancatakaful as one of the main distribution channels. Dynamic investment strategies and more supply of Shariah compliant investment instruments further supported the strong growth of investment-linked plans;
- Significant growth of 57.2% of new business contributions of endowment education plan resulted from launching of new endowment

Table I.1
Distribution of New Business by Plan

	2001	2002	2003	2004	2005	2003	2004	2005	2003	2004	2005
No. of Certificates	unit					% change			% share		
Ordinary Family	205,871	236,939	263,101	287,921	353,514	11.0	9.4	22.8	99.3	99.1	99.1
Individual	204,660	235,468	260,968	283,594	348,619	10.8	8.7	22.9	98.5	97.6	97.7
Group	1,211	1,471	2,133	4,327	4,895	45.0	102.9	13.1	0.8	1.5	1.4
Annuity ¹	2	98	1,006	402	538	926.5	-60.0	33.8	0.4	0.1	0.2
Investment-linked	-	-	928	2,215	2,571	-	138.7	16.1	0.3	0.8	0.7
Total	205,873	237,037	265,035	290,538	356,623	11.8	9.6	22.7	100.0	100.0	100.0
Sums Participated	RM million					% change			% share		
Ordinary Family	12,817.1	14,174.8	18,317.1	36,420.6	36,241.4	29.2	98.8	-0.5	99.9	99.9	99.9
Individual	8,407.4	10,015.8	11,379.5	14,403.9	15,937.1	13.6	26.6	10.6	62.1	39.5	43.9
Group	4,409.7	4,159.0	6,937.6	22,016.7	20,304.3	66.8	217.4	-7.8	37.8	60.4	56.0
Annuity ¹	-	-	-	-	-	-	-	-	-	-	-
Investment-linked	-	-	12.8	37.5	39.6	-	193.2	5.7	0.1	0.1	0.1
Total	12,817.1	14,174.8	18,329.9	36,458.1	36,281.0	29.3	98.9	-0.5	100.0	100.0	100.0
Contributions	RM million					% change			% share		
Ordinary Family	368.7	451.3	502.9	592.4	653.2	11.4	17.8	10.3	98.4	98.1	90.0
Individual	330.2	412.2	452.8	485.0	507.2	9.8	7.1	4.6	88.6	80.3	69.9
Group	38.5	39.1	50.1	107.4	146.0	28.1	114.5	35.9	9.8	17.8	20.1
Annuity ¹	0.1	0.9	4.9	1.9	2.2	444.1	-62.0	15.6	1.0	0.3	0.3
Investment-linked	-	-	3.2	9.4	70.1	-	197.5	642.7	0.6	1.6	9.7
Total	368.8	452.2	511.0	603.7	725.5	13.0	18.1	20.2	100.0	100.0	100.0

¹ Net contributions for year 2001 exclude the annuity scheme (SATK) marketed to contributors of the Employees Provident Fund

The Takaful Industry Performance

Table 1.2
Distribution of New Business Contributions by Plan

	2004	2005	2005	2004	2005
	RM million		% change	% share	
Ordinary Family	592.4	653.2	10.3	98.1	90.0
Endowment	104.9	143.0	36.3	17.4	19.7
Education	29.1	45.7	57.2	4.8	6.3
Others	75.8	97.3	28.2	12.6	13.4
Temporary	407.3	418.2	2.7	67.5	57.6
Mortgage	373.6	376.6	0.8	61.9	51.9
Others	33.7	41.6	23.4	5.6	5.7
Medical & Health	57.7	63.2	9.5	9.5	8.7
Others ¹	22.5	28.8	27.9	3.7	4.0
Annuity	1.9	2.2	15.6	0.3	0.3
Investment-linked	9.4	70.1	642.7	1.6	9.7
Total	603.7	725.5	20.2	100.0	100.0

¹ Include riders

education plans and increased public awareness on the future costs of higher education, particularly at private colleges and universities. The industry generated RM45.7 million of new contributions from endowment education plan; and

- Marginal growth of 2.7% for temporary plan that remained as the dominant family takaful plan with 57.6% share of new business contributions. The demand for the temporary takaful plan was highly correlated with the level of Islamic house financing as 90% of temporary business was derived from mortgage reducing term takaful.

Endowment and investment-linked plans remained as the preferred investment-type takaful plans. The market share of new contributions for annuity takaful plan remained relatively small, mainly due to lack of new or enhancement of annuity product made during the year.

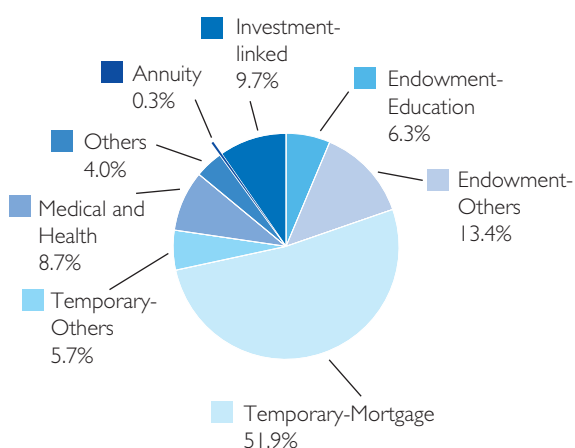
Terminations

A total of 174,169 certificates with RM90.4 million in annual contributions were terminated in 2005. The rate of terminations² increased from 13.2% (2004) to 19%. The largest component of termination for group and individual ordinary family plans was termination due to expiry and other causes, which accounted for 69.6% or RM62.9 million of total annual contributions. The surrender rate³ improved slightly from 5.5% in 2004 to 5.4% in line with a slower increase in annual contributions terminated of 8% (2004: 39.2%) to RM25.6 million. The terminations arising from surrender were largely due to encashment of takaful plan for personal needs, especially during the festive season, switching to other plan and early settlement of financing for mortgage plans. During the year, terminations due to maturity remained small, involving RM0.8 million annual contributions or a market share of 0.9%.

Business in Force

Business in force continued to show positive results with the number of certificates, sums

Chart 1.3
Distribution of New Business Contributions by Plan



² The total termination of annual contributions divided by the annual contributions in force beginning of year

³ The total surrendered of annual contributions divided by the annual contributions in force beginning of year

Table I.3
Distribution of Termination

No. of Certificates	2003	2004	2005	2004	2005	2004	2005
	unit			% change		% share	
Death	1,532	1,588	1,832	3.7	15.4	1.2	1.0
Maturity	620	1,514	1,628	144.2	7.5	1.1	0.9
Surrender	28,075	39,472	38,598	40.6	-2.2	29.8	22.2
Other Causes (including expiry)	51,925	89,957	132,111	73.2	46.9	67.9	75.9
Total	82,152	132,531	174,169	61.3	31.4	100.0	100.0
Sums Participated	RM million			% change		% share	
Death	55.2	85.5	151.3	55.1	77.0	0.6	0.8
Maturity	12.8	22.5	30.8	76.6	36.9	0.1	0.2
Surrender	1,081.3	1,356.2	1,558.7	25.4	14.9	9.2	8.4
Other Causes (including expiry)	6,289.0	13,316.6	16,765.6	111.7	25.9	90.1	90.6
Total	7,438.3	14,780.8	18,506.4	98.7	25.2	100.0	100.0
Annual Contributions	RM million			% change		% share	
Death	0.9	0.4	1.1	-57.8	191.8	0.7	1.2
Maturity	0.4	0.9	0.8	128.0	-10.4	1.6	0.9
Surrender	17.0	23.7	25.6	39.2	8.0	41.5	28.3
Other Causes (including expiry)	27.6	32.1	62.9	16.2	96.1	56.2	69.6
Total	45.9	57.1	90.4	24.3	58.4	100.0	100.0

participated and annual contributions increasing at double digit rates of 14%, 25.5% and 20.8% respectively. This was mainly due to the rapid expansion of new businesses and a marginal increase in termination rate.

Strong performance for business in force was supported by the following:

- Double digit growth rate of sums participated for investment-linked plans, a positive trend that has persisted since the introduction of investment-linked plans in 2003. The growth of investment-linked plans has consistently outpaced annuity plans, mainly due to the flexibility in product design. Annual contributions of investment-linked plans increased at a lower rate of 24.4% (2004: 175.8%) as the bulk of investment-linked plans was marketed as single contributions;
- Continued expansion of group ordinary family plans with 40.9% increase in sums participated as a result of aggressive marketing strategy, product enhancement through attachment of riders and strategic alliances with banks and co-operative societies; and

- Marginal growth of 3.5% of mortgage reducing term takaful, which remained as the dominant plan with 46.4% share of sums participated.

In terms of annual contributions in force, endowment takaful plans remained the largest component with 76.4% share, followed by rider takaful plans with 11.3% share. Of the annual contributions, 72.9% or RM420 million were generated from individual endowment plans.

Average Size and Cost of Annual Certificates in Force

Ordinary Family Individual Takaful Plans

The average annual contributions increased by 2.5% (2004: -1.2%) to RM741 in line with the increase in annual contributions. The average sums participated also increased by 11.2% (2004: 27.4%) to RM28,152. The increase in the average sums participated contributed of a reduction in the average costs of annual certificates by 7.8% to RM26 per RM1,000 sums participated.

Endowment takaful plans recorded an average annual contributions of RM650 (2004: RM644) with the average sums participated of RM21,572 (2004: RM20,157). Consequently, the average cost of annual certificates for endowment takaful

The Takaful Industry Performance

Table 1.4
Distribution of Business in Force by Plan

	2001	2002	2003	2004	2005	2003	2004	2005	2003	2004	2005
	unit					% change			% share		
No. of Certificates											
Ordinary Family	726,398	888,879	1,084,038	1,269,592	1,453,040	22.0	17.1	14.4	96.1	96.5	96.9
Individual	722,763	884,874	1,079,558	1,264,278	1,444,687	22.0	17.1	14.3	95.7	96.1	96.3
Group	3,635	4,005	4,480	5,314	8,353	11.9	18.6	57.2	0.4	0.4	0.6
Annuity	44,867	43,333	43,485	42,708	41,706	0.4	-1.8	-2.3	3.8	3.3	2.8
Investment-linked	-	-	923	2,888	4,945	-	212.9	71.2	0.1	0.2	0.3
Total	771,265	932,212	1,128,446	1,315,188	1,499,691	21.1	16.5	14.0	100.0	100.0	100.0
Sums Participated	RM million					% change			% share		
Ordinary Family	46,247.6	51,404.3	61,388.6	86,571.0	109,269.7	19.4	41.0	26.2	96.6	97.6	98.1
Individual	27,589.4	33,193.5	41,450.1	54,170.5	63,624.3	24.9	30.7	17.5	65.2	61.1	57.1
Group	18,658.2	18,210.8	19,938.5	32,400.5	45,645.4	9.5	62.5	40.9	31.4	36.5	41.0
Annuity	2,311.4	2,221.6	2,172.5	2,095.9	1,996.0	-2.2	-3.5	-4.8	3.4	2.3	1.8
Investment-linked	-	-	12.7	45.0	76.8	-	253.1	70.8	...	0.1	0.1
Total	48,559.0	53,625.9	63,573.8	88,711.9	111,342.5	18.6	39.5	25.5	100.0	100.0	100.0
Contributions¹	RM million					% change			% share		
Ordinary Family	1,057.8	1,357.5	431.3	473.7	572.1	-	9.8	20.8	99.7	99.3	99.2
Individual	945.3	1,213.6	405.5	455.4	551.5	-	12.3	21.1	93.7	95.5	95.7
Group	112.5	143.9	25.8	18.3	20.6	-	-29.1	12.5	6.0	3.8	3.5
Annuity	961.2	748.3	-	-	-	-	-	-	-	-	-
Investment-linked	-	-	1.3	3.5	4.3	-	175.8	24.4	0.3	0.7	0.8
Total	2,019.0	2,105.8	432.6	477.2	576.4	-	10.3	20.8	100.0	100.0	100.0

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

plans declined from RM32 to RM30 per RM1,000 sums participated.

Ordinary Family Group Takaful Plans

The average size of contributions declined by 9.4% to RM42,557 while sums participated

Table 1.5
Average Size of Annual Certificates in Force

	Contributions ¹		Sums Participated ²	
	Individual	Group	Individual	Group
	RM			
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
2005	741	42,557	28,152	4,598,796

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

increased by 8.8% to RM4.6 million per certificate reflecting a favourable trend for consumers as the participants paid lower contributions for higher benefits. This led to a reduction in the average cost of annual certificates from RM11 to RM9 per RM1,000 sums participated.

Income and Outgo

The family takaful fund sector recorded higher excess of income over outgo by 46.1% mainly attributable to the higher growth in net contributions that surpassed the growth of

Table 1.6
Average Cost of Annual Certificates in Force¹

	2001	2002	2003	2004	2005
	RM				
Individual	36	32	37	29	26
Group	6	8	6	11	9

¹ Contributions per RM1,000 of sums participated in force

Table 1.7
Income and Outgo

	2002		2003		2004		2005	
	RM million	%	RM million	%	RM million	%	RM million	%
Income								
Net Contributions	663.8	83.1	762.5	78.7	794.4	77.3	977.1	78.9
Net Investment Income	110.2	13.8	165.3	17.1	156.6	15.2	192.3	15.5
Other Income	25.0	3.1	41.2	4.2	77.5	7.5	69.5	5.6
Total	799.0	100.0	969.0	100.0	1,028.5	100.0	1,238.9	100.0
Outgo								
Net Certificate Benefits	178.6	22.4	201.4	20.8	281.0	27.3	347.2	28.0
Net Commissions	46.4	5.8	46.5	4.8	82.2	8.0	92.6	7.5
Management Expenses ¹	25.2	3.2	60.0	6.2	86.3	8.4	91.7	7.4
Other Outgo	34.5	4.3	51.4	5.3	136.3	13.3	60.6	4.9
Total	284.7	35.7	359.3	37.1	585.8	57.0	592.1	47.8
Excess of Income over Outgo	514.3	64.3	609.7	62.9	442.7	43.0	646.8	52.2

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

net certificate benefits payable by the takaful operators.

Total income for family takaful business continued to increase at a higher rate of 20.5% (2004: 6.1%) to RM1.2 billion in line with the growth of net contributions and investment income. The net contributions grew at a significantly higher rate of 23% (2004: 4.2%) to RM977.1 million, with ordinary participants' special account contributed a major portion (46.3%) of the net contributions. The net investment income improved tremendously by 22.8% to RM192.3 million compared with reduction of 5.3% in 2004. This comprised mainly of returns from dividend yields in the domestic equity market and Islamic private debt securities, which constituted 32.5% and 25.9% share of net investment income or RM62.5 million and RM49.7 million, respectively. The overall improvement in total income resulted in an increase in the overall rate of return from 4.4% to 4.8% (including capital gain) and 4.1% to 4.5% (excluding capital gain).

Total outgo showed only a marginal increase of 1.1% to RM592.1 million due to the slower increase in net certificate benefits, net commission and management expenses, as well as reductions in other outgo. The net certificate benefits paid in 2005 increased by 23.5% (2004: 39.5%) to RM347.2 million. Of the total net certificate benefits, 42.5% of payments were for death and disability while 42.1% share for surrenders. The net commission and management expenses increased

at a lower rate of 12.7% (2004: 76.5%) and 6.3% (2004: 43.7%) respectively while other outgo declined significantly to RM60.6 million.

Out of RM646.8 million in excess of income over outgo, 11.8% or RM76.4 million was transferred to shareholders' fund as shareholders' portion of profit and surplus while the balance of RM570.4 million was retained in the takaful fund.

Assets of Family Takaful Fund

Total assets of family takaful business increased at a higher rate of 17.3% to RM5 billion (2004: RM4.3 billion) in line with the higher excess of income over outgo during the year. Ordinary family takaful fund, the main component of assets that comprised of 75.3% of total assets, grew by 22.8% to RM3.8 billion. Assets of investment-linked funds increased strongly by 322.5% to account for 1.8% of total assets, in line with the growth of new investment-linked business. Meanwhile, the assets of annuity takaful funds eroded further by 2.6% to account for 23% of total assets due to payment of annuity benefits and surrender of Employees Provident Fund annuity scheme.

In terms of asset allocation, there was an increase in the share of Islamic private debt securities and equities while the share of investment accounts and Islamic money market instruments was further reduced. The significant allocations of assets are as follows:

The Takaful Industry Performance

Table 1.8
Assets of Family Takaful Fund

	2002		2003		2004		2005	
	RM million	% share	RM million	% share	RM million	% share	RM million	% share
Property, Plant and Equipment	3.1	0.1	7.2	0.2	4.9	0.1	3.2	0.1
Investment Properties	61.8	2.0	66.0	1.7	70.0	1.6	179.4	3.6
Financing	89.3	2.8	84.0	2.2	36.9	0.9	55.8	1.1
Investments	1,725.1	54.6	2,227.2	57.6	2,717.1	63.1	3,284.8	65.0
Government Islamic Papers	273.5	8.7	368.1	9.5	498.3	11.6	555.8	11.0
Islamic Private Debt Securities and Equities	1,447.0	45.8	1,850.6	47.9	2,215.0	51.4	2,671.1	52.9
Other Investments	4.6	0.1	8.5	0.2	3.8	0.1	57.9	1.1
Foreign Assets	7.7	0.2	7.7	0.2	7.7	0.2	18.1	0.3
Investment Accounts and Islamic Money Market	1,183.6	37.4	1,337.2	34.6	1,376.3	32.0	1,257.0	24.9
Cash and Bank Balances	70.4	2.2	98.9	2.6	36.6	0.8	144.9	2.9
Other Assets	21.8	0.7	32.8	0.9	55.6	1.3	105.2	2.1
Total	3,162.8	100.0	3,861.0	100.0	4,305.1	100.0	5,048.4	100.0

- Islamic private debt securities and equities were the largest component of assets, which accounted for 52.9% or RM2.7 billion. Of the total investments in Islamic private debt securities and equities, Islamic private debt securities constituted 73.6% share or RM2 billion. A substantial portion of Islamic private debt securities amounting to RM1.5 billion or 77.4% was invested in investment-grade securities. In terms of involvement of takaful operators in the equity market, investments in equities increased by 30.7% to RM706.3 million, which accounted for a 14% share of total assets. The growing share of Islamic private debt securities and equities showed a positive initiative taken by takaful operators towards better matching of assets and liabilities; and
- Placement in investment accounts and Islamic money market decreased by 7.1% to account for 24.9% of the total assets. The reduction reflected a shift in investment strategy from investment accounts and Islamic money market to Islamic private debt securities following the increase in the supply of Islamic private debt securities by 22.3% to RM112.2 billion in the market.

Chart 1.4
Composition of Assets of Family Takaful Fund

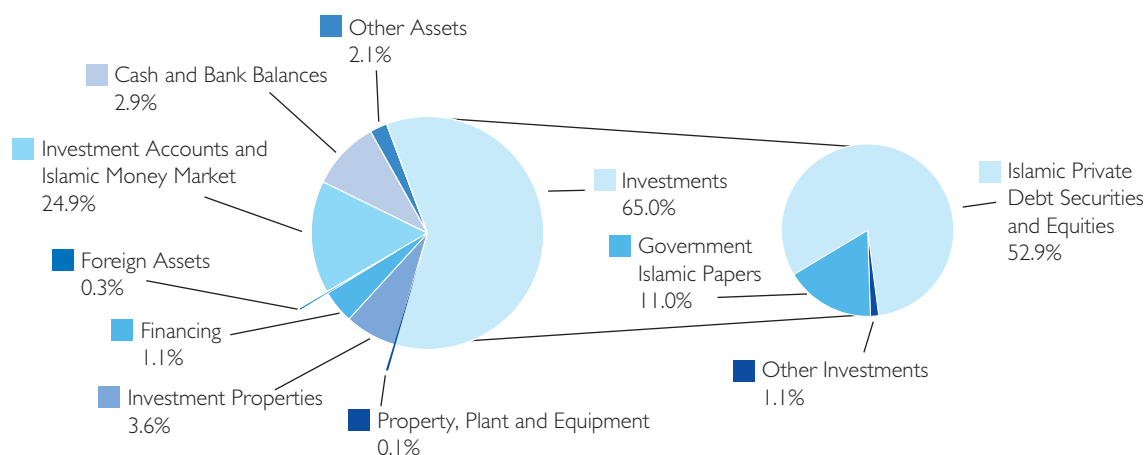


Table I.9
Valuation Result

	2003	2004	2005	2004	2005
	RM million			% change	
Participants' Special Account					
Participants' Fund	1,532.0	1,743.5	2,008.5	13.8	15.2
Less: Valuation Liabilities	1,324.0	1,580.5	1,796.9	19.4	13.7
Surplus	208.0	163.0	211.6	-21.6	29.8
Group Accounts					
Participants' Fund	163.0	182.8	226.0	12.2	23.7
Less: Unearned Contributions	68.6	80.5	95.9	17.4	19.2
Reserves					
Provision for Claims	10.9	13.8	13.8	26.5	-0.1
Incurred but Yet to be Submitted					
Surplus	83.5	88.5	116.3	6.0	31.5

Valuation Reports

In line with the growth in family business plans, participants' fund in the participants' special account (PSA) strengthened further with a higher growth of 15.2% to RM2 billion while valuation liabilities increased at a slower rate of 13.7%, resulting in a higher actuarial surplus of RM211.6 million (2004: RM163 million) at the end of 2005. Consequently, the ratio of participants' fund to valuation liabilities increased from 110.3% to 111.8%, indicating further improvement in the ability of participants' fund to meet future liabilities of the takaful fund.

As for group accounts, the aggregate surplus

increased significantly from RM88.5 million (2004) to RM116.3 million due to a significant increase of 23.7% in the participants' fund. The surplus from both PSA and group accounts was distributed as profit to eligible participants in accordance with the agreed profit distribution ratio.

Performance of General Takaful Business

Contributions Growth and Distribution

The general takaful sector continued to register double digit growth in 2005 with gross contributions increased by 12.4% (2004: 22.2%) to account for

Table I.10
Distribution of Gross Contributions

	Marine, Aviation and Transit	Fire	Motor			Contractor's All Risk & Engineering	Personal Accident	Miscellaneous	Total
			'Act' Cover	Others	Total				
	RM million								
2003	35.0	167.2	15.2	105.2	120.4	28.5	20.5	31.4	403.0
2004	75.4	186.2	17.7	132.1	149.8	22.4	21.7	36.9	492.5
2005	69.6	174.3	17.0	191.4	208.4	34.2	28.3	39.0	553.8
	% change								
2004	115.3	11.4	16.2	25.6	24.4	-21.3	5.6	17.8	22.2
2005	-7.7	-6.4	-3.8	44.9	39.1	52.5	30.4	5.5	12.4
	% share								
2003	8.7	41.5	3.8	26.1	29.9	7.1	5.1	7.7	100.0
2004	15.3	37.8	3.6	26.8	30.4	4.6	4.4	7.5	100.0
2005	12.6	31.5	3.1	34.5	37.6	6.2	5.1	7.0	100.0

The Takaful Industry Performance

Table I.11
Distribution of Net Contributions

	Marine, Aviation and Transit	Fire	Motor			Contractor's All Risk & Engineering	Personal Accident	Miscellaneous	Total
			'Act' Cover	Others	Total				
RM million									
2003	12.4	74.2	13.7	100.8	114.5	7.1	19.8	23.5	251.5
2004	15.7	113.6	17.1	126.7	143.9	7.9	21.0	26.5	328.6
2005	13.7	79.0	16.5	184.0	200.5	10.3	26.4	26.7	356.6
% change									
2004	27.2	53.0	25.6	25.7	25.7	11.5	6.4	12.7	30.7
2005	-13.1	-30.4	-3.7	45.2	39.4	29.7	25.6	0.9	8.5
% share									
2003	4.9	29.5	5.5	40.1	45.6	2.8	7.9	9.3	100.0
2004	4.8	34.6	5.2	38.6	43.8	2.4	6.4	8.0	100.0
2005	3.8	22.2	4.6	51.6	56.2	2.9	7.4	7.5	100.0

RM553.8 million. This strong performance was supported by the following:

- Stronger growth of 39.1% (2004: 24.4%) in gross contributions from the motor business to RM208.4 million. This is the highest growth rate experienced by the motor business during the past five years. The combined effect of higher number and more active agency force as well as the effective use of bancatakaful distribution channels were the main drivers for the strong positive growth. The growth was also due to increased public awareness on the potential of the sharing of surplus based on a pre-agreed ratio in motor takaful;
- Significant growth of 52.5% (2004: -21.3%) to RM34.2 million in gross contributions by the contractor's all risk and engineering business was attributable mainly to several major

accounts underwritten during the year; and

- Substantial growth of 30.4% (2004: 5.6%) to RM28.3 million in gross contributions recorded by the personal accidents business as a result of rigorous marketing campaigns launched during the year.

However, total gross contributions was moderated, in comparison with a stronger growth rate of 22.2% in 2004, due to sluggish performance of the following businesses:

- Contraction in fire business amidst more competitive market conditions that led to the softening of contribution rates. Fire business recorded lower gross contributions of RM174.3 million (2004: RM186.2 million) and ceased to become the dominant sector in the general takaful business with a reduced portfolio share of 31.5% (2004: 37.8%); and

Table I.12
Retention Ratio¹

	Marine, Aviation and Transit	Fire	Motor			Contractor's All Risk & Engineering	Personal Accident	Miscellaneous	Total
			'Act' Cover	Others	Total				
%									
2003	64.0	65.5	99.6	99.8	99.8	46.0	99.4	85.9	81.1
2004	23.5	84.7	99.9	99.8	99.8	71.6	99.5	90.0	80.7
2005	32.6	69.7	99.2	99.0	99.1	57.6	97.9	85.5	82.2

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

- Contraction by 7.7% of gross contributions in the marine, aviation and transit (MAT) business to RM69.6 million in 2005 (2004: RM75.4 million) due to a reduction in contribution rates in the aviation business.

Net contributions increased to RM356.6 million (2004: RM328.6 million) in tandem with the increase in gross contributions. A total of RM197.2 million was ceded to retakaful and reinsurance companies, of which only 17.1% were ceded to retakaful companies reflecting both the prevailing limited retakaful capacity and the limited ability of the retakaful industry to underwrite large and specialised risks. Of the total amount ceded, a higher percentage of 60.8% (2004: 52.2%) was to Malaysian companies including those operating in the Labuan International Offshore Financial Centre. This led to the overall improvement in the net retention level to 82.2% (2004: 80.7%). The balance RM77.3 million or 39.2% was ceded abroad, from which a significant proportion of 44.5% or RM34.4 million was for the fire business.

Claims Experience

The overall industry claims ratio deteriorated slightly to 42.8% from 41.2% (2004). All classes

Table I.13
Claims Experience

	Gross Claims Paid		Net Claims Paid	
	RM million	% change	RM million	% change
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
2005	187.6	61.7	116.9	28.7

Table I.14
Claims Ratio¹

	Marine, Aviation and Transit	Fire	Motor			Contractor's All Risk & Engineering	Personal Accident	Miscellaneous	Total
			'Act' Cover	Others	Total				
	%								
2003	30.1	6.1	245.6	16.8	46.3	33.1	75.9	62.9	37.3
2004	13.1	11.8	99.6	44.6	51.4	83.9	69.5	48.4	41.2
2005	23.1	24.6	100.3	45.1	50.4	29.5	56.8	37.6	42.8

¹ Net claims incurred as a ratio of earned contribution income

Table I.15
Underwriting Experience

	Earned Contribution Income	Net Claims Incurred	Net Comissions	Management Expenses ¹	Underwriting Profit
	RM million				
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
2005	312.7	133.8	-32.3	95.4	115.8
	% change	% of earned contribution income			
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	14.5	41.2	4.6	28.1	26.1
2005	18.7	42.8	-10.3	30.5	37.0

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

recorded better claims ratio, except for the MAT and fire businesses. Claims ratio for the MAT and fire businesses increased due to large claims recorded during the year.

Underwriting Experience and Operating Results

Underwriting profit in 2005 increased by 68.5% to RM115.8 million (2004: RM68.7 million) supported by an increase in earned contribution income and the reclassifications of commissions received on retakaful ceded by one takaful operator. Net claims incurred increased by RM25.2 million, primarily attributable to the adverse claims experience in the motor sector. Management expenses, which included the expenses borne by the shareholders' fund in general takaful business, increased by 28.9% to RM95.4 million.

The Takaful Industry Performance

Table I.16
Assets of General Takaful Fund

	2002		2003		2004		2005	
	RM million	% share	RM million	% share	RM million	% share	RM million	% share
Property, Plant and Equipment	0.5	0.1	1.3	0.2	1.5	0.2	6.1	0.7
Investment Properties	34.4	7.4	33.8	5.9	33.2	4.6	41.9	5.1
Financing	14.3	3.1	13.6	2.4	8.5	1.2	6.5	0.8
Investments	190.5	41.1	257.1	45.3	349.5	48.3	434.3	52.2
Government Islamic Papers	46.4	10.1	58.6	10.3	99.1	13.7	106.4	12.8
Islamic Private Debt Securities and Equities	142.5	30.7	197.1	34.7	248.9	34.4	326.6	39.3
Other Investments	1.6	0.3	1.4	0.3	1.5	0.2	1.3	0.1
Foreign Assets	2.5	0.5	2.5	0.4	2.5	0.3	2.5	0.3
Investment Accounts and Islamic Money Market	170.3	36.7	202.3	35.6	236.6	32.7	213.7	25.8
Cash and Bank Balances	12.7	2.7	4.8	0.9	8.0	1.1	16.7	2.0
Other Assets	38.9	8.4	52.7	9.3	83.7	11.6	108.3	13.1
Total	464.1	100.0	568.1	100.0	723.5	100.0	830.0	100.0

The operating profit of takaful operators amounted to RM123.6 million in 2005. Net investment income generated for the year was RM19.6 million, of which income from investment in Islamic private debt securities constituted of RM8.5 million, while RM6.9 million was from investment accounts and Islamic money market.

Assets of General Takaful Fund

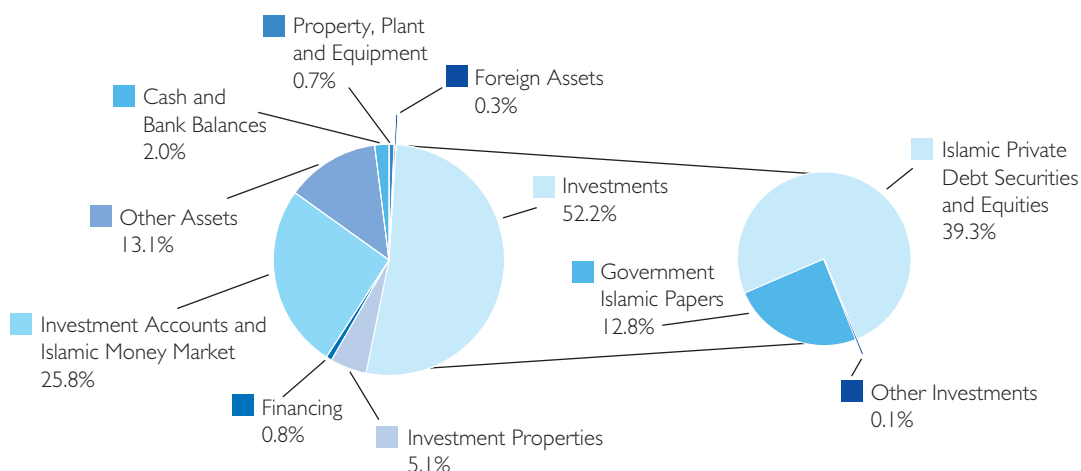
Total assets of the general takaful fund expanded by 14.7% (2004 : 27.3%) to RM830 million, in line with the growth of the general takaful gross contributions. The favourable growth of the Islamic private debt securities market during the year 2005 provided takaful operators with more options for investment. Investments in

Islamic private debt securities grew by 40.6% to RM232.3 million. The investment portfolio continued to dominate the general takaful fund assets with an increase share of 52.2% from 48.3% in 2004. Conversely, placement of funds in investment accounts and Islamic money market continued to decline due to preference for the higher yielding Islamic securities. The increase in other assets in 2005 was due to larger amount owed by retakaful companies, brokers and agents.

Technical Reserves

The technical reserves maintained by takaful operators in 2005 were adequate with a technical reserves ratio of 156%. Unearned

Chart I.5
Composition of Assets of General Takaful Fund



contribution reserves, which formed 63% of total technical reserves, grew at slower rate of 14.3% (2004: 107.4%) to RM350.6 million. Provision for outstanding claims was RM205.6 million, of which RM65.4 million or 31.8% was incurred but not reported claims reserves.

Table I.17
Technical Reserves

	Unearned Contribution Reserves¹	Provision for Outstanding Claims	Technical Reserves
	RM million		
2001	99.8	128.4	228.2
2002	122.9	163.8	286.7
2003	147.9	170.9	318.8
2004	306.7	188.7	495.4
2005	350.6	205.6	556.2
	% of net contributions		
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
2005	98.3	57.7	156.0

¹ The unearned contribution 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



