The Industry Performance in 2003

Overview of Industry Performance

With the strengthening of the domestic economy, the growth momentum of the insurance industry improved in 2003. During the year, the industry recorded growth of 11.7% in combined life and general premium income to reach RM18,825.6 million (-1.3% to RM16,854.5 million in 2002). The life sector, spurred by substantial increase in investment-linked and endowment business, increased its market share to 65.8% or RM12,390.9 million (2002: 64.3% or RM10,832.2 million) of the total combined premium income. Premium income of the insurance industry accounted for 5.1% of nominal Gross National Product (GNP) in 2003, compared with 5% in 2002.

Total benefits and net claims paid by the industry in 2003 increased at a slower rate of 5.9% (2002: 18.8%) to RM8,070.8 million, accounting for 42.9% of premium income of the industry (2002: 45.2%). The slower growth in the total amount paid out by the industry was mainly due to a reduction in maturity payments by the life insurers, following substantially large maturity payments in 2002.

Insurance fund assets showed strong growth, increasing by 15.3% to RM76,805 million in 2003, mainly contributed by 17.6% growth of the life fund assets. Investments of insurance funds in corporate and debt securities accounted for the largest share of 45.1% or RM34.6 billion (2002: 46.1% or RM30.7 billion) of total fund assets of the industry. However, the ratio of the insurance fund assets to total assets of the financial system remained small at 4.9% (2002: 4.8%).

With improving underlying economic prospects and the more optimistic global outlook in 2004, the growth momentum of the insurance industry is expected to strengthen in tandem with the domestic economy. With increased efficiency and enhanced capability, the insurance industry should continue to support economic development with the provision of effective financial protection and risk transfer.

Performance of Life Business

New Business

The life insurance industry recorded new premium growth of 35.2% (2002: -31.7%) to RM4,844.9 million in 2003 attributed largely to the impressive expansion of investment-linked business and endowment products. Given the prevalence of low interest rate environment, single premium products that offer a guaranteed rate of return on the initial outlay continued to attract strong interest from consumers. Consequently, four insurers achieved a remarkable growth of more than 90% for single premium endowment in 2003.

The single premium business recorded an impressive growth of 47.1% in 2003 (2002: -48.1%). Single premium endowment, including single premium investment-linked endowment, accounted for 76.5% of the increase in total single premium business. Five life insurers (four of which are Malaysian-controlled) recorded significant growth in single premium endowment business to account for a combined market share of 50.9% of this line of business which was generated mainly through their bancassurance tie-ups with financial institutions. The bancassurance tie-up enabled one insurer to successfully market 89.2% of its single premium policies through a financial institution and another insurer to generate 56.1% of the industry total new premium growth for investment-linked business. The capital

Table 3.1
New Business of Direct Insurers

Year	No. of Policies	Sums Insured	Premiums		
			Annual	Single	Total
	Units	RM million			
1999	1,437,056	99,854.6	1,308.7	602.0	1,910.7
2000	1,174,157	116,816.6	1,306.5	1,635.8	2,942.3
2001	1,370,448	129,003.8	1,461.6	3,786.3	5,247.9
2002	1,382,020	140,809.5	1,619.1	1,963.3	3,582.4
2003	1,601,689	168,575.2	1,957.2	2,887.7	4,844.9
	% change				
1999	24.8	13.9	16.9	80.5	31.5
2000	–18.3	17.0	–0.2	171.7	54.0
2001	16.7	10.4	11.9	131.5	78.4
2002	0.8	9.2	10.8	–48.1	–31.7
2003	15.9	19.7	20.9	47.1	35.2

Table 3.2
Distribution of New Business Premiums of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole Life	Endowment	Temporary	Others			
	RM million						
1999	438.4	468.2	509.7	319.7	174.7	–	1,910.7
2000	464.3	520.1	624.2	303.7	533.9	496.1	2,942.3
2001	490.9	824.9	733.7	370.9	413.2	2,414.3	5,247.9
2002	436.9	1,032.8	810.3	409.6	891.6	1.2	3,582.4
2003	508.5	1,508.8	930.0	541.4	1,356.2	–	4,844.9
	% change						
1999	8.6	26.2	39.1	14.4	440.9	–	31.5
2000	5.9	11.1	22.5	–5.0	205.6	–	54.0
2001	5.7	58.6	17.5	22.1	–22.6	386.7	78.4
2002	–11.0	25.2	10.4	10.4	115.8	–99.9	–31.7
2003	16.4	46.1	14.8	32.2	52.1	–100.0	35.2
	% share						
1999	23.0	24.5	26.7	16.7	9.1	–	100.0
2000	15.8	17.7	21.2	10.3	18.1	16.9	100.0
2001	9.3	15.7	14.0	7.1	7.9	46.0	100.0
2002	12.2	28.8	22.6	11.5	24.9	…	100.0
2003	10.5	31.1	19.2	11.2	28.0	–	100.0

… Negligible

guaranteed investment-linked products were widely sold through the bancassurance channel as these products were offered at competitive rates relative to other savings products.

New business premiums for annual premium policies doubled its growth to 20.9% (2002: 10.8%) mainly due to the robust expansion of annual premium investment-linked policies which recorded a growth of 31.6% in 2003. In terms of ordinary life business, total new business premiums for single and annual premium endowment policies grew by 46.1% while the growth of whole life and temporary policies also improved by 16.4% and 14.8% respectively in 2003.

The number of new policies increased by 15.9% to 1,601,689 policies in 2003 while new sums insured expanded by 19.7% (2002: 9.2%) to

Chart 3.1
Distribution of New Premiums and New Sums Insured

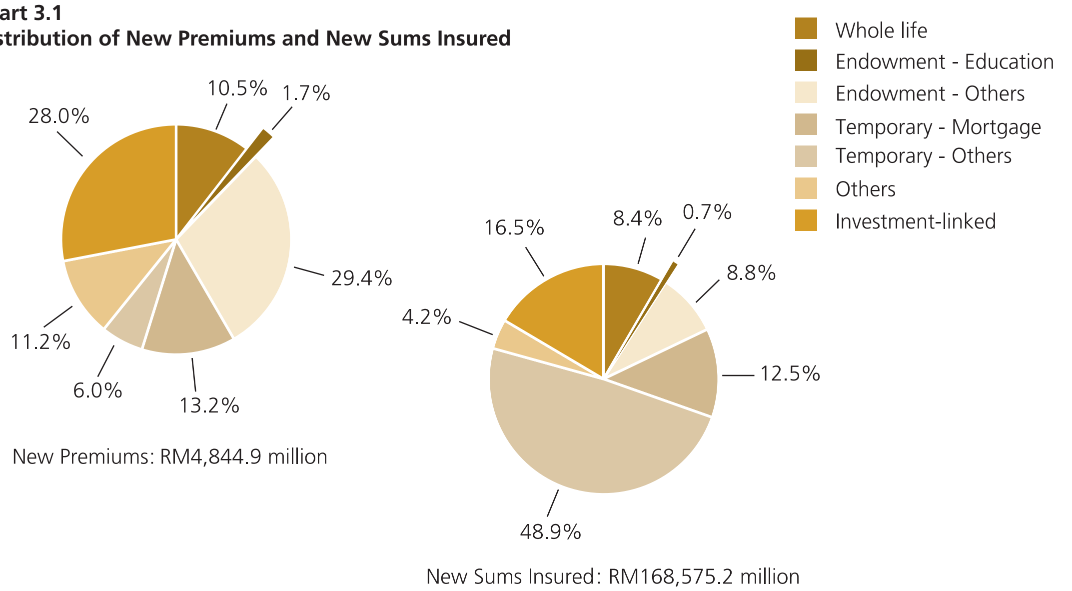


Table 3.3
Distribution of New Sums Insured of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole Life	Endowment	Temporary	Others			
	RM million						
1999	15,982.4	8,502.4	63,501.7	8,759.8	3,108.3	–	99,854.6
2000	15,162.4	10,782.3	76,178.1	6,966.8	7,281.0	446.0	116,816.6
2001	16,443.5	12,452.9	82,024.4	6,874.8	9,591.1	1,617.1	129,003.8
2002	12,753.3	13,668.6	89,852.8	6,870.2	17,664.4	0.2	140,809.5
2003	14,195.6	15,995.7	103,555.2	7,122.3	27,706.4	–	168,575.2
	% change						
1999	2.0	8.2	17.6	–11.4	1,436.5	–	13.9
2000	–5.1	26.8	20.0	–20.5	134.2	–	17.0
2001	8.4	15.5	7.7	–1.3	31.7	262.6	10.4
2002	–22.4	9.8	9.5	–0.1	84.2	–99.9	9.2
2003	11.3	17.0	15.2	3.7	56.8	–100.0	19.7
	% share						
1999	16.0	8.5	63.6	8.8	3.1	–	100.0
2000	13.0	9.2	65.2	6.0	6.2	0.4	100.0
2001	12.7	9.7	63.6	5.3	7.4	1.3	100.0
2002	9.1	9.7	63.8	4.9	12.5	…	100.0
2003	8.4	9.5	61.4	4.2	16.5	–	100.0

… Negligible

RM168,575.2 million in 2003. The growth in sums insured was partly enhanced by the higher coverage for group yearly renewable temporary business.

In terms of composition of new business premiums, endowment and investment-linked policies continued to dominate the market with their share increasing to 31.1% and 28% (2002: 28.8% and 24.9%) respectively. The market share for whole life and temporary policies eroded from 12.2% and 22.6% in 2002 to 10.5% and 19.2% respectively. This new business trend reflects strong consumer preference for savings-type insurance products over protection policies. Attractive policy benefit features such as capital guarantee at maturity and a minimum guaranteed rate of return were important factors which contributed to the growth of these policies.

Competitive pressure for market share has prompted life insurers to introduce new innovative products to meet the needs of niche markets. For example, non-insurance services such as bereavement service was packaged together with life insurance products. Similarly, pure endowments were packaged together with property schemes to enable purchasers of properties to accumulate sufficient savings which would reimburse the purchase price of the property at maturity of the policies.

Medical and health insurance business which recorded a significant growth of 77.5% in new premiums in 2003 has tremendous potential for further expansion in view of the increasing demand by consumers for better hospitalisation and other medical related covers. The private medical policies complement the existing health care services provided by the government. To facilitate expansion of this business, the industry has drawn up the underwriting guidelines as well as adequate product disclosure rules to ensure that the products meet the insurance needs of the Malaysian population.

Bancassurance tie-ups between life insurers and banking institutions as an alternative distribution channel for life insurance products have contributed significantly to the increased penetration of life insurance business. With greater commitment from banking institutions, new business generated via this marketing channel increased from 21% in 2002 to 38.4% in 2003 with six insurers generating more than 50% of their new business premiums through bancassurance. Although the agency force contributed to a decreasing proportion of new business premiums of 56.3%

Table 3.4
Average Size and Cost of Ordinary Individual Life New Policies of Direct Insurers[1]

Year	Average Annual Premiums		Average Sums Insured		Average Cost[2]	
	Whole Life	Endowment	Whole Life	Endowment	Whole Life	Endowment
	RM					
1999	1,172	1,156	42,730	21,323	27	54
2000	1,381	1,241	45,111	19,488	31	64
2001	1,410	1,340	47,220	23,126	30	58
2002	1,390	1,259	40,568	22,685	34	55
2003	1,352	1,335	38,362	24,820	35	54

[1] For annual premium policies only
[2] New annual premiums per RM1,000 of new sums insured

(2002: 76%), it still remained as the predominant distribution channel. Business garnered through direct marketing accounted for 3% of new business premiums while the remaining 2.3% of new business premiums was generated through brokers.

Table 3.5
Terminations of Annual Premiums of Direct Insurers

Year	Death	Maturity	Surrender	Forfeiture less Revivals	Others	Total
	RM million					
1999	9.0	10.9	143.8	350.8	209.2	723.7
2000	9.9	12.6	161.6	397.0	241.9	823.0
2001	10.5	14.2	178.8	263.7	271.1	738.3
2002	11.4	19.6	207.7	278.3	241.2	758.2
2003	14.8	27.9	258.0	286.7	363.4	950.8
	% change					
1999	7.1	–9.2	8.3	–23.0	–4.2	–12.5
2000	10.0	15.6	12.4	13.2	15.6	13.7
2001	6.1	12.7	10.6	–33.6	12.1	–10.3
2002	8.6	38.0	16.2	5.5	–11.0	2.7
2003	29.8	42.3	24.2	3.0	50.7	25.4
	% share					
1999	1.2	1.5	19.9	48.5	28.9	100.0
2000	1.2	1.5	19.7	48.2	29.4	100.0
2001	1.4	2.0	24.2	35.7	36.7	100.0
2002	1.5	2.6	27.4	36.7	31.8	100.0
2003	1.6	2.9	27.1	30.2	38.2	100.0

In terms of market share, foreign-controlled insurers recorded a further reduction in share from 64.7% in 2002 to 51% of the total market share of new business in 2003. Although foreign-controlled insurers still maintained dominance in the whole life and investment-linked business, the share of Malaysian-owned insurers improved to account for 20.6% and 33.6% of the total market share of these two lines of business respectively (2002: 15.1% and 27.4%). Malaysian-controlled insurers exhibited increasing dominance in endowment policies with their combined market share increasing from 34% in 2002 to 72% in 2003. Temporary insurance business was also dominated by Malaysian-owned insurers.

Table 3.6
Terminations of Sums Insured of Direct Insurers

Year	Death	Maturity	Surrender	Forfeiture less Revivals	Others	Total
	RM million					
1999	422.7	290.9	6,370.2	13,538.0	50,475.7	71,097.5
2000	624.0	337.9	7,282.2	12,624.7	60,782.2	81,651.0
2001	462.3	420.3	8,026.1	6,766.3	75,426.6	91,101.6
2002	531.8	818.7	10,020.4	7,929.8	78,516.7	97,817.4
2003	638.4	880.8	11,167.9	6,866.5	90,553.2	110,106.8
	% change					
1999	–5.7	24.3	5.4	–12.0	8.3	3.5
2000	47.6	16.2	14.3	–6.7	20.4	14.8
2001	–25.9	24.4	10.2	–46.4	24.1	11.6
2002	15.0	94.8	24.8	17.2	4.1	7.4
2003	20.0	7.6	11.5	–13.4	15.3	12.6
	% share					
1999	0.6	0.4	9.0	19.0	71.0	100.0
2000	0.8	0.4	8.9	15.5	74.4	100.0
2001	0.5	0.5	8.8	7.4	82.8	100.0
2002	0.5	0.8	10.3	8.1	80.3	100.0
2003	0.6	0.8	10.2	6.2	82.2	100.0

Table 3.7
Forfeiture and Surrender Rates of Direct Insurers

Year	Weighted Forfeiture Rate (%)	Surrender Rate (%)
1999	32.1	1.9
2000	33.9	2.0
2001	20.8	2.0
2002	20.0	2.3
2003	18.1	2.3

In line with the shift in consumer preference from protection to savings type of policies, the average new annual premium for whole life policies decreased by 2.7% to RM1,352 while the average premium for endowment policies increased by 6% to RM1,335. Correspondingly, the average sums insured for whole life policies reduced by 5.4% to RM38,362 while endowment policies recorded a growth of 9.4% to RM24,820 per policy. In terms of average cost per new policy, the average new annual premium per RM1,000 new sum insured rose marginally by 2.9% for whole life but reduced by 1.8% for endowment policies.

Terminations

In 2003, the annual premiums terminated increased by 25.4% (2002: 2.7%) to RM950.8 million while sums insured terminated rose by 12.6% (2002: 7.4%) to RM110,106.8 million. The terminations arose mainly from the expiry or non-renewal of short-term endowment and group annual term policies, the conversion to 'paid-up' policies, discontinuance of riders and reduction in sums insured under mortgage reducing term assurances. Although the annual premiums and sums insured terminated due to death and maturity showed a significant increase of 37.4% and 12.5% respectively, these terminations only accounted for 4.5% and 1.4% of the total annual premiums and sums insured terminated.

Despite an overall increase in sums insured terminated, nine insurers recorded an improvement with a combined sums insured terminated declining by 21.5%. Sums insured terminated by surrender increased at a slower rate of 11.5% (2002: 24.8%) to reach RM11,167.9 million. Seven insurers registered a decline in surrenders by more than 30% in 2003. Despite this improvement, the industry's surrender rate remained unchanged at 2.3%.

Annual premiums terminated from forfeitures less revivals increased marginally by 3% (2002: 5.5%) to account for 30.2% of total annual premiums terminated in 2003 (2002: 36.7%). Forfeitures increased at a lower rate due to more revivals or reinstatements of lapsed policies instituted through prompt follow-up action with the affected policy owners. The weighted forfeiture rate, defined as the ratio of annual premiums forfeited to new annual premiums in respect of policies written in the last three years (with weightage of 20%, 56% and 24% of new annual premiums for the latest year, preceding year and second preceding year respectively), consequently further improved from 20% in 2002 to 18.1% in 2003. Out of the 16 life insurers, five insurers recorded better weighted forfeiture rates than the industry level, while the remaining 11 insurers experienced higher weighted forfeiture rates of between 18.8% and 73.2%.

Table 3.8
Forfeiture Rate by Policy Years of Direct Insurers[1]

Year	Year of Issue	1st Policy Year	2nd Policy Year	3rd Policy Year	Total
2003	2003	5.7	–	–	5.7
	2002	11.2	5.6	–	16.8
	2001	12.0	8.5	1.9	22.4
	2000	13.1	8.9	2.7	24.7
2002	2002	6.0	–	–	6.0
	2001	11.8	5.7	–	17.5
	2000	13.3	9.3	3.3	25.9
	1999	14.6	7.8	2.3	24.7

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

Table 3.9
Business in Force of Direct Insurers

Year	No. of Policies	Sums Insured	Annual Premiums
	Units	RM million	
1999	6,998,733	363,929.0	6,842.7
2000	7,234,940	399,662.8	7,364.7
2001	7,890,907	440,005.8	8,170.0
2002	8,506,398	482,993.0	9,137.0
2003	9,216,876	539,307.0	10,240.4
	% change		
1999	11.1	8.0	9.7
2000	3.4	9.8	7.6
2001	9.1	10.1	10.9
2002	7.8	9.8	11.8
2003	8.4	11.7	12.1

Table 3.10
Distribution of Annual Premiums in Force of Direct Insurers

Year	Ordinary Life				Investment - linked	Total
	Whole Life	Endowment	Temporary	Others		
	RM million					
1999	3,047.9	2,133.4	368.1	1,174.7	118.6	6,842.7
2000	3,259.6	2,225.5	352.7	1,193.5	333.4	7,364.7
2001	3,543.3	2,348.1	366.5	1,309.2	602.9	8,170.0
2002	3,781.2	2,425.2	382.4	1,430.1	1,118.1	9,137.0
2003	4,012.6	2,494.1	408.9	1,597.7	1,727.1	10,240.4
	% change					
1999	8.1	10.6	10.8	4.0	299.3	9.7
2000	6.9	4.3	−4.2	1.6	181.1	7.6
2001	8.7	5.5	3.9	9.7	80.8	10.9
2002	6.7	3.3	4.3	9.2	85.5	11.8
2003	6.1	2.8	6.9	11.7	54.5	12.1
	% share					
1999	44.5	31.2	5.4	17.2	1.7	100.0
2000	44.3	30.2	4.8	16.2	4.5	100.0
2001	43.4	28.7	4.5	16.0	7.4	100.0
2002	41.4	26.5	4.2	15.7	12.2	100.0
2003	39.2	24.3	4.0	15.6	16.9	100.0

Despite the overall improvement, analysis of the forfeiture experience by policy year for new policies underwritten in 2000 and 2001 revealed that at the end of 2003, only 75.3% and 77.6% of these policies were still in force in the books of the insurers. The remaining 24.7% and 22.4% of these blocks of business were forfeited during the first three policy years resulting in financial loss to the policy owners. Ten insurers (eight of which are Malaysian-controlled insurers) recorded higher annual premiums forfeited than the industry level, ranging from 24.9% to 50.2% for business underwritten in 2000 and 2001. The analysis indicates that Malaysian-controlled insurers need to improve the management of their agency force to ensure that policies sold are appropriate to the needs of policy owners, by improving the selection and training of agents and enhancement of after-sales service to policy owners.

Chart 3.2
Distribution of Annual Premiums and Sums Insured In Force

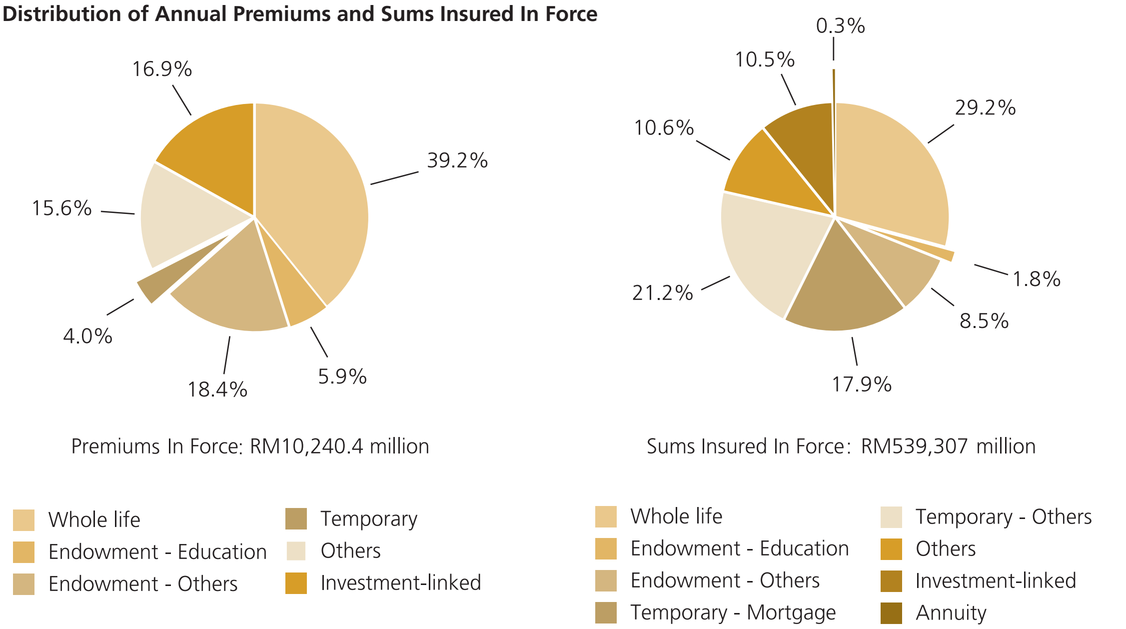


Table 3.11
Distribution of Sums Insured in Force of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole Life	Endowment	Temporary	Others			
	RM million						
1999	134,854.5	43,268.6	127,933.8	54,541.8	3,330.2	0.1	363,929.0
2000	135,590.2	46,933.5	146,901.7	59,744.6	10,046.7	446.1	399,662.8
2001	145,790.2	50,019.7	164,493.3	58,984.7	18,959.5	1,758.4	440,005.8
2002	151,297.6	52,570.7	185,567.9	57,814.7	34,085.5	1,656.6	482,993.0
2003	157,416.6	55,873.9	210,733.4	57,093.3	56,595.9	1,593.9	539,307.0
	% change						
1999	10.0	8.5	13.0	–10.7	1,563.4	–50.0	8.0
2000	0.5	8.5	14.8	9.5	201.7	446,000.0	9.8
2001	7.5	6.6	12.0	–1.3	88.7	294.2	10.1
2002	3.8	5.1	12.8	–2.0	79.8	–5.8	9.8
2003	4.0	6.3	13.6	–1.2	66.0	–3.8	11.7
	% share						
1999	37.1	11.9	35.1	15.0	0.9	…	100.0
2000	33.9	11.7	36.8	15.0	2.5	0.1	100.0
2001	33.1	11.4	37.4	13.4	4.3	0.4	100.0
2002	31.3	10.9	38.4	12.0	7.1	0.3	100.0
2003	29.2	10.3	39.1	10.6	10.5	0.3	100.0

… Negligible

Business in Force

Consonant with the encouraging new business growth, business in force continued to expand with annual premiums and sums insured in force reporting a higher growth of 12.1% and 11.7% (2002: 11.8% and 9.8%) to RM10,240.4 million and RM539,307 million respectively in 2003. Correspondingly, the number of policies in force increased by 8.4% (2002: 7.8%) to 9,216,876 policies, thus increasing the penetration rate (defined as the ratio of number of policies in force to the Malaysian population) from 34.6% to 36.7% in 2003.

Table 3.12
Average Size and Cost of Ordinary Individual Life Policies in Force of Direct Insurers[1]

Year	Average Annual Premiums		Average Sums Insured		Average Cost[2]	
	Whole Life	Endow-ment	Whole Life	Endow-ment	Whole Life	Endow-ment
	RM					
1999	1,017	995	45,009	18,322	23	54
2000	1,051	1,007	43,702	18,449	24	55
2001	1,094	1,049	45,018	19,058	24	55
2002	1,132	1,068	45,294	19,564	25	55
2003	1,159	1,090	45,450	20,181	26	54

[1] For annual premium policies only
[2] Annual premiums in force per RM1,000 of sums insured in force

Although all types of ordinary life policies reported steady growth in terms of annual premiums ranging from 2.8% to 11.7%, particularly noteworthy was the development of the medical and investment-linked business. The annual premiums in force for medical insurance and investment-linked policies recorded significant growth of 43.1% and 54.5% respectively in 2003. The impressive growth in medical policies reflects growing demand for better private health care facilities. The shift to investment-linked policies is mainly due to the flexibility of the plans in terms of investment and insurance coverage level as well as the transparent nature of these policies which enables consumers to easily understand the product features.

In terms of the composition of the business in force, whole life and endowment policies retained their dominance with 39.2% and 24.3% market shares of the total premiums in force respectively. However, their market shares have been continuously reduced over the last five years. Three large foreign-owned insurers controlled over 80% and 51% of these classes. Since the introduction of investment-linked business in 1997, there has been clear evidence of a gradual shift towards this line of business.

Table 3.13
Income and Outgo

Item	2001		2002		2003	
	RMm	%	RMm	%	RMm	%
Income						
Premium income	11,684.8	79.5	10,832.2	77.0	12,390.9	74.4
Net investment income	2,008.6	13.7	2,325.4	16.5	2,693.1	16.2
Profit on sale of assets and miscellaneous income	1,002.4	6.8	907.0	6.5	1,566.3	9.4
Total	14,695.8	100.0	14,064.6	100.0	16,650.3	100.0
Outgo						
Net policy benefits	3,311.1	22.5	4,307.3	30.7	4,617.6	27.7
Agency remuneration	1,784.0	12.2	1,803.5	12.8	2,080.7	12.5
Management expenses[1]	768.2	5.2	841.3	6.0	917.8	5.5
Loss on disposal of assets and other outgo	795.7	5.4	720.8	5.1	512.8	3.1
Total	6,659.0	45.3	7,672.9	54.6	8,128.9	48.8
Excess of income over outgo	8,036.8	54.7	6,391.7	45.4	8,521.4	51.2

[1] Inclusive of net bad and doubtful debts

The market share for investment-linked business has surged from less than 1% in 1998 to 16.9% in 2003. The prominence of investment-linked business is expected to expand since adequacy of capital is not a constraint to the growth of investment-linked business as this line of business has very low new business strain compared with ordinary life products. Investment-linked plans are attractive to the public in view of similarities with unit-trust funds which allow investment gains to be realised immediately from the first policy year onwards. With greater awareness developed through consumer education programmes and expansion in financial literacy among the public, there will be higher demand from consumers for more customised insurance products.

In terms of market share, life business remains concentrated in the portfolios of a few large insurers. Six insurers (five of which are foreign-controlled) controlled 81.8% and 80.5% of annual premiums and sums insured in force respectively. In contrast, four small-sized insurers (all Malaysian-controlled) only garnered 1.9% and 2.3% of the annual premiums and sums insured in force respectively. These insurers should therefore explore and implement strategic business plans to enhance their market shares in anticipation of a liberalised market in the near future. These insurers can no longer be dependent on organic growth as competitive forces would further erode their existing small portfolios.

The average annual premiums and sums insured for individual whole life policies increased by 2.4% and 0.4% respectively, partly reflecting the higher attained age for the insured population for this class of business. The average cost per RM1,000 sum insured for individual whole life policies ranged from RM17 and RM47, reflecting the variation in benefit features offered by insurers. However, the average cost for endowment policies ranged from RM20 to RM80, varying according to the duration of the policies in force.

Income and Outgo

Spurred by the growth in new business premium, the total income of the life insurance industry registered a significant growth of 18.4% (2002: -4.3%) to RM16,650.3 million in 2003 while total outgo increased at a slower rate of 5.9% (2002: 15.2%) to RM8,128.9 million in 2003. As a result, the net income (excess of income over outgo) increased significantly by 33.3%, resulting in a higher accumulation of insurance funds during 2003. Malaysian-controlled insurers recorded an impressive growth in net income of 112.5% while the growth in net income for foreign-controlled insurers was significantly lower at 27.2%. An analysis revealed that

Table 3.14
Expense Rate and Rate of Interest Earned

Year	Agency Remuneration (a)	Staff Remuneration (b)	Other Expenses (c)	Total (a)+(b)+(c)	Net Rate of Interest Earned (1)	(2)
	% of Annual Premium Income					
1999	21.5	3.7	5.4	30.6	6.6	8.7
2000	20.8	4.0	5.1	29.9	5.8	7.5
2001	22.3	4.2	5.4	31.9	5.5	4.6
2002	20.8	4.2	5.4	30.4	5.7	6.5
2003	21.4	4.2	5.3	30.9	5.7	6.6

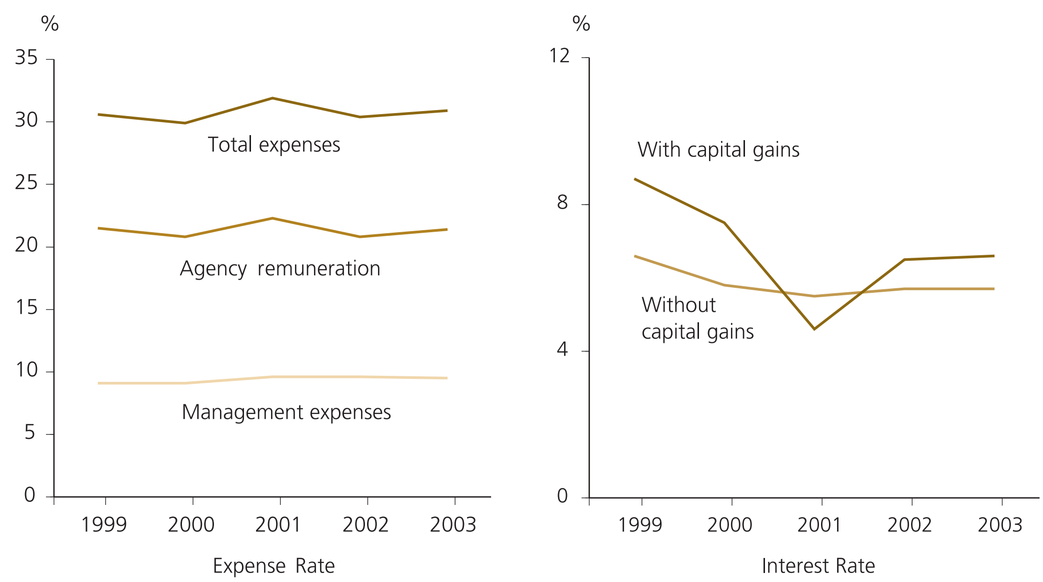
(1) Rate of return on investments excluding capital gains
(2) Rate of return on investments including capital gains

14 insurers registered positive growth in net income with only two insurers experiencing reductions of 4% and 78% respectively.

Premium income increased by 14.4% from RM10,832.2 million to RM12,390.9 million in 2003. In terms of composition of premium income, the share of single premiums increased by 25.1% to RM2,683.1 million while first year premiums and renewal premiums grew by 24.9% and 9.5% to RM1,721.1 million and RM7,986.7 million respectively. In terms of investment performance, the net investment income of the life insurance fund increased by 15.8% to RM2,693.1 million with the bulk of the income arising from interest on fixed income securities and dividends received from equity investments. The gradual improvement in the equity market resulted in higher gross dividends received and a significant write back of the provisions for diminution in value of investment amounting to RM476.4 million in 2003.

The net investment yield (excluding capital gains) of the life insurance fund remained stable at 5.7%. However, the investment yields (including capital gains) improved slightly to 6.6% in 2003. Nine insurers enjoyed net investment yields (including capital gains) higher than the industry average with the highest yield recorded at 8.9%. If capital gain was excluded, only four insurers experienced yields higher than the industry average with the highest yield recorded at 7.1%. Although there were variations in relative investment performance among insurers, in terms of overall performance, insurers outperformed the benchmark yield on long-term government securities. However, the current investment return is still lower than the past ten years average yield of 7.2% (excluding capital gains) and 8.7% (including capital gains) of the life insurance fund. With the prolonged low investment earnings experienced by life insurers, some insurers have adjusted the pricing basis for their existing products. Another strategy adopted by life insurers is to shift their business focus to investment-linked products as this line of business enables them to mitigate the investment risks with the bulk of the gains or losses accruing directly to the policy owners.

Chart 3.3
Expense Rate and Rate of Interest Earned



The increase in total outgo of the industry was mainly due to higher policy benefit payments which accounted for 56.8% of total outgo. The major components of benefit payments were surrenders at 31.3%, maturity at 20.4%, death benefits at 13.6% and cash bonuses at 12.7% respectively.

In line with the strong growth in new business, agency remuneration also increased by 15.4% to RM2,080.7 million in 2003. In terms of cost efficiency, the distribution cost of agency force (as a percentage of annual premium income) deteriorated from 20.8% in 2002 to 21.4% in 2003. Despite the increase in management expense by 9.1% to RM917.8 million, the management expense ratio of the industry improved marginally from 9.6% in 2002 to 9.5% in 2003. Four insurers recorded lower management expenses ratios due mainly to the recoveries of bad and doubtful debts. Staff costs continued to remain a significant component at about 44% of management expenses. The total expense rate of the industry deteriorated marginally from 30.4% in 2002 to 30.9% in 2003 with five insurers recording ratios of more than 50%. These few insurers with high expense ratios have yet to acquire the critical mass to enable them to achieve economies of scale. The foreign-controlled insurers generally have better cost efficiency with an overall expense rate of less than 30%.

Assets

Total assets of life insurance funds increased by 17.6% (2002: 13.9%) to RM60,193.3 million in 2003. Nine insurers recorded better than the industry average growth with one of the smaller insurers achieving a high growth of 112.8%.

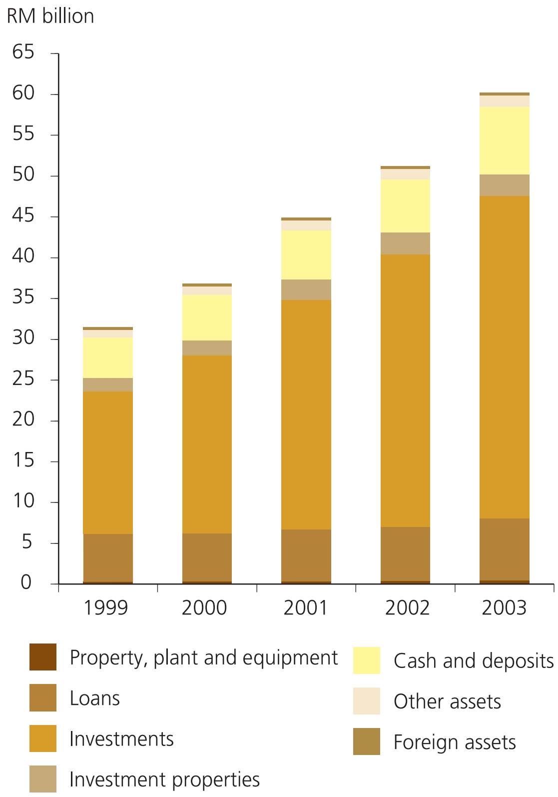
In terms of market share, six foreign-controlled insurers accounted for 72% of the total assets of the industry. The remaining market players with a share of 28% of the total assets had smaller fund sizes ranging from RM237 million to RM4,341 million.

Although the sale of the EPF annuity scheme was discontinued in May 2001, six Malaysian-owned insurers which were allowed to underwrite the business prior to the discontinuance managed to accumulate a total of RM2,795.2 million in annuity funds which accounted for 4.6% (2002: 5.3%) of total assets in the life insurance industry. The investment-linked fund expanded significantly by 83.4% (2002: 71.6%) to reach RM2,662.8 million or

Table 3.15
Assets of Life Insurance Funds

Type of Investment	1999		2000		2001		2002		2003	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Property, plant and equipment	294.5	0.9	350.7	1.0	346.8	0.8	383.0	0.7	441.3	0.7
Loans	5,886.2	18.7	5,900.4	16.0	6,348.2	14.1	6,661.9	13.0	7,624.8	12.7
Mortgages	*563.8*	*1.8*	*649.8*	*1.7*	*1,161.0*	*2.6*	*1,213.4*	*2.4*	*1,877.8*	*3.1*
Policy	*3,080.7*	*9.8*	*3,561.1*	*9.7*	*4,075.4*	*9.0*	*4,566.3*	*8.9*	*4,977.1*	*8.3*
Others	*2,241.7*	*7.1*	*1,689.5*	*4.6*	*1,111.9*	*2.5*	*882.2*	*1.7*	*769.9*	*1.3*
Investments	17,434.6	55.4	21,831.9	59.3	28,146.4	62.7	33,396.8	65.3	39,501.2	65.6
Malaysian Government papers/guaranteed loans	*4,363.6*	*13.9*	*4,978.9*	*13.5*	*6,818.5*	*15.2*	*7,544.9*	*14.8*	*10,004.3*	*16.6*
Corporate/debt securities	*12,963.2*	*41.2*	*16,748.4*	*45.5*	*21,123.6*	*47.0*	*25,640.9*	*50.1*	*29,247.0*	*48.6*
Others	*107.8*	*0.3*	*104.6*	*0.3*	*204.3*	*0.5*	*211.0*	*0.4*	*249.9*	*0.4*
Investment properties	1,624.4	5.2	1,787.3	4.9	2,462.5	5.5	2,708.4	5.3	2,661.7	4.4
Cash and deposits	5,015.5	15.9	5,557.9	15.1	6,080.2	13.5	6,428.5	12.6	8,249.9	13.7
Other assets	902.2	2.9	1,047.0	2.8	1,212.7	2.7	1,277.0	2.5	1,404.7	2.4
Foreign assets	332.1	1.0	331.7	0.9	329.6	0.7	315.9	0.6	309.7	0.5
Total	31,489.5	100.0	36,806.9	100.0	44,926.4	100.0	51,171.5	100.0	60,193.3	100.0

Chart 3.4
Assets of Life Insurance Funds



4.4% (2002: 2.8%) of the total life insurance fund in 2003.

Investments in Malaysian Government papers and corporate and debt securities which accounted for 16.6% and 48.6% of the total assets of life insurance funds grew by 32.6% to RM10,004.3 million and 14.1% to RM29,247 million respectively. The loan portfolio continued to expand by 14.5% to RM7,624.8 million. The growth was mainly attributable to higher demand for mortgage loans offered by some life insurers at attractive fixed interest rates to their policy owners. The investment in cash and deposits grew by 28.3% to RM8,249.9 million, indicating an increase in the overall liquidity of the life fund.

Valuation Reports

Pursuant to Section 85 of the Insurance Act 1996, life insurers are required to conduct annual actuarial investigations into the financial condition of their life business in respect of liabilities to policy owners, and to submit a summary of the valuation results to Bank Negara Malaysia. The actuarial investigations set the level of reserves required to meet the future policy benefits of existing policy owners and their beneficiaries. The investigations are conducted using the net premium valuation methodology on a basis not less stringent than the 'Statutory Valuation Mortality Table 1996', at valuation interest rates of 4% and 4.5% for annual and single premium policies respectively while the valuation of annuity business is based on the 'a(90) Annuitant Mortality Table' at 5% interest rate. The valuation result and the surplus experienced during the calendar year 2003 are shown in Table 3.16.

Consistent with the growth of in force business, policy owners' fund increased at a rate of 16.3% to reach RM52,799.2 million in 2003. However, valuation liabilities increased at a slower rate of 14.6% to reach RM43,658.5 million, thus resulting in a higher increase in actuarial surplus to RM9,140.7 million in 2003. As a result, the ratio of policy owners' funds to valuation liabilities increased from 119.2%

Table 3.16
Valuation Result and Surplus Distribution

Item	2001		2002		2003	
	RMm	% change	RMm	% change	RMm	% change
Valuation result						
Policy owners' fund	39,781.4	29.8	45,404.4	14.1	52,799.2	16.3
Valuation liabilities	33,495.0	32.0	38,091.6	13.7	43,658.5	14.6
Surplus	6,286.4	19.4	7,312.8	16.3	9,140.7	25.0
Surplus distribution						
Allocation to policy owners	1,511.8	–2.3	1,628.3	7.7	1,716.9	5.4
Allocation to shareholders	567.2	–22.3	862.5	52.1	957.4	11.0
Surplus carried forward	4,207.4	41.5	4,822.0	14.6	6,466.4	34.1

Table 3.17
Life Insurance Growth and Socio-economic Indicators

Year	Total Sums Insured in Force			Premium Income[1]				GNP at Market Price	Popula-tion	Employ-ment	Per capita Income
	RMm	% of GNP	Per capita	RMm	% of GNP	Per capita	Per member of Employ-ment	RMm	Million		RM
1999	363,929.0	130.0	16,032	7,037.3	2.5	310	791	279,878	22.7	8.9	12,322
2000	399,662.8	127.4	17,007	8,888.6	2.8	378	956	313,703	23.5	9.3	13,352
2001	440,005.8	142.5	18,334	11,684.8	3.8	487	1,230	308,686	24.0	9.5	12,855
2002	482,993.0	143.9	19,634	10,832.2	3.2	440	1,105	335,597	24.6	9.8	13,683
2003	539,307.0	146.0	21,486	12,390.9	3.4	494	1,215	369,398[p]	25.1[p]	10.2[p]	14,592[p]

[1] As per revenue accounts
[p] Preliminary
(Source: Department of Statistics, Malaysia and Economic Planning Unit)

in 2002 to 120.9% with five insurers recording improvement with ratios of up to 135.4% in 2003. The share of foreign-controlled insurers in the total surplus of the industry declined from 77.8% in 2002 to 73.5% in 2003 as against their market share of 72.3% of total assets of the life insurance funds.

The surplus distributed to participating policy owners increased by 5.4% to RM1,716.9 million while the surplus allocated to shareholders increased by 11% to RM957.4 million in 2002. Surplus distributed to shareholders accounted for 35.8% of the total distributed surplus in 2003. The surplus carried forward, which is mainly to provide for future bonus payments to policy owners, increased at a higher rate of 34.1% (2002: 14.6%) to achieve RM6,466.4 million in 2003. The net surplus ratio (ratio of policy owners' fund after allocation to valuation liabilities) improved slightly from 112.7% in 2002 to 114.8% in 2003.

The net surplus arising during the year, which excludes surplus brought forward from the previous valuation and transfers from shareholders, but includes interim bonuses, turned around to record a significant growth of 39.7% (2002: -6%) to achieve RM4,394.9 million in 2003. The improvement in the current year surplus was due to improvement in investment yields and also a significant write back of diminution in value of securities and other investments. All insurers, except one Malaysian-controlled insurer, registered positive net surplus arising in 2003. As a result, the ratio of the industry net surplus arising to the average life fund (representing the rate at which surplus is generated by the life fund) increased from 7.4% in 2002 to 9% in 2003. The performance of participating and non-participating funds in terms of net surplus ratio improved from 7.5% and 8% in 2002 to 9.4% and 9.1% in 2003 respectively.

Socio-economic Indicators

Premium income growth of 14.4% outpaced the growth in nominal GNP of 10.1% (2002: 8.7%). The higher elasticity of demand for life insurance reflects the relatively low insurance penetration in the country. Although the premium income to nominal GDP ratio increased from 3% to 3.2%, the ratio is still relatively low compared with that recorded in the United Kingdom at 10.2%, the United States of America at 4.6% and Japan at 8.6%.

Market penetration, measured in terms of total number of policies in force to total population, continued to expand from 34.6% in 2002 to 36.7% in 2003. However, the level of market penetration remained relatively low in comparison with the more developed markets such as Singapore, South Korea and Japan which experienced penetration rates ranging between 87% to 141%. The market penetration measured against the working population also improved from 86.8% in

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

Age Attained Group	Ordinary (1997-2001)							
	Males				Females			
	With Medical		Without Medical		With Medical		Without Medical	
	E_x	q_x	E_x	q_x	E_x	q_x	E_x	q_x
10 - 14	49.36	0.28	437.48	0.32	34.74	0.14	325.78	0.24
15 - 19	47.12	0.81	381.98	1.22	28.83	1.17	245.91	0.36
20 - 24	55.35	1.08	618.62	1.20	36.26	0.36	509.89	0.32
25 - 29	81.39	1.09	984.39	1.03	62.87	0.37	950.37	0.37
30 - 34	123.60	0.96	1,135.60	1.00	80.77	0.50	964.81	0.49
35 - 39	173.51	1.03	1,112.67	1.32	94.31	0.71	836.98	0.61
40 - 44	219.50	1.44	930.32	1.90	97.41	1.07	635.39	0.84
45 - 49	213.24	2.07	653.18	2.84	81.51	1.26	412.53	1.47
50 - 54	161.56	3.78	352.47	4.90	67.40	2.15	202.76	2.40
55 - 59	107.79	6.54	122.38	8.18	59.93	3.59	71.19	4.40
60 - 64	62.40	10.59	40.84	15.01	39.65	5.95	25.09	6.14
65 - 69	26.23	18.99	10.00	23.10	19.58	11.70	6.93	16.02
70 - 74	8.97	30.90	2.94	47.68	6.73	22.45	2.86	27.99
Total	1,330.02	3.01	6,782.87	1.81	709.99	1.92	5,190.49	0.76

E_x - Number of lives exposed to risks in thousands
q_x - Mortality rate multiplied by 1,000
(Source: Life Insurance Association of Malaysia)

2002 to 90.4% in 2003, reflecting an increased demand by income earners to obtain insurance coverage. Correspondingly, the insurance density, measured as per capita spending on life insurance products increased from RM440 in 2002 to RM494 in 2003 which was still low in comparison with RM10,579 recorded in Japan, RM10,182 in the United Kingdom, RM6,318 in the United States of America and RM2,774 in Singapore. The low insurance density represents a vast potential for the domestic insurers to further develop and increase their penetration into the untapped market.

Premium income as a ratio to gross national savings increased marginally from 9.4% to 9.8% in 2003. In comparison, the ratio of banking system deposits to gross national savings was higher at 39.1% while the ratio of contributions to EPF to gross national savings declined from 19.1% to 17.1% in 2003.

In terms of contribution to capital formation in the economy, total assets of the life insurance industry recorded a growth rate of 17.6% (2002: 13.9%) which outpaced the 12.9% (2002: 6.7%) growth rate recorded for total assets in the financial system. As a result, the ratio of life insurance funds as a proportion of total assets in the financial system increased from 3.7% to 3.8% in 2003.

Although there has been improvement in the propensity to save via insurance products, there is still great potential for the life insurance industry to expand further. The market needs to respond effectively to the evolving needs of the increasingly sophisticated consumers by leveraging on strategic alliances to effectively distribute insurance products as well as innovating product designs to meet the changing consumers' needs. With the appropriate strategies to meet and satisfy consumer expectations, the life insurance industry should be able to enhance its role in the financial system.

Malaysian Mortality Experience

Statistics on the Malaysian mortality experience have been compiled since 1996 based on the experience of assured lives in Malaysia. The mortality experience study is updated annually through the submissions by all life insurers on the number of policies terminated due to death for whole life and endowment policies in force for male and female assured lives respectively. The data is grouped in terms of sex, medical underwriting and type of life business in order to provide meaningful analysis based on the homogenous groups of data.

The mortality study is computed based on the five-year mortality experience of assured lives in Malaysia. The five-year period provides a bigger size of exposure which is important to minimise the effect of random fluctuation on mortality rates.

The mortality experience of Malaysian assured lives for the period between 1997 and 2001 as tabulated in Table 3.18 is based on policies which have been in force for at least two years to remove the effect of medical selection at the point of policy issuance. The mortality experience for male assured lives which have undergone medical underwriting was 19.5% on average lower than those without medical underwriting. However, the results for female assured lives were affected by the random statistical fluctuations arising from smaller size of data available for female assured lives.

Female assured lives continued to experience better mortality compared to their male counterparts with the mortality rates difference ranging from about 27.1% to 72.9% for all age groups. The most notable difference was for ages between 15 and 29 years largely due to the high accident-related deaths experienced by male assured lives within these age groups.

In comparison with the 'Malaysian 1983-88 Mortality Table – Male Ordinary' (M83-88) which is commonly used for pricing life insurance products, the current study on Malaysian male assured lives shows an average improvement of 15% across all ages except for age group 15-19 where it experienced 16.3% heavier mortality than the corresponding age group for M83-88. Similarly, the female assured lives recorded an average improvement of 21.2% across all ages. To reflect the better mortality experience in the pricing of life insurance products, the M83-88 table is usually adjusted to reflect individual insurer's experience. A similar comparison with the 'Statutory Valuation Mortality Table 1996' (SVMT) revealed that the mortality rates for both male and female assured lives were significantly lower by about 40% and 61% of the SVMT respectively. The lighter mortality experience implies that SVMT remains a conservative basis for the computation of statutory reserves for life insurers.

An analysis on the expected number of deaths based on the mortality data for the 1996-2000 investigation but using the exposure of assured lives for the period 1997-2001 against the actual number of deaths for the 1997-2001 period indicates that the Malaysian mortality experience has generally improved for all ages except for female assured lives with medical underwriting. For male assured lives with and without medical examination, the average observed number of deaths across all age groups were lower by about 11% and 3% respectively compared with the expected number of deaths calculated using data from the previous investigation. However, female assured lives without medical underwriting exhibited a 7% improvement in mortality while a heavier than expected mortality of 5% was experienced by the group with medical underwriting especially for the younger ages.

Performance of General Business

Premium Growth and Distribution

In 2003, the general insurers registered a premium growth of 9.9% to RM8,185.1 million, compared with an increase of 16.3% to RM7,449.1 million in 2002. The moderation in premium growth was due to significantly slower motor premium growth of 5.1% (2002: 10.9%), following

Table 3.19
Premium Income

Year	Gross Premiums[1]	Gross Direct Premiums	Net Premiums	Retention Ratio (%)
	RM million			
1999	5,259.7	5,428.4	4,579.2	87.1
2000	5,648.4	5,928.6	5,057.3	89.5
2001	5,971.1	6,404.0	5,386.7	90.2
2002	6,933.2	7,449.1	6,022.3	86.9
2003	7,522.3	8,185.1	6,434.7	85.5
	% change			
1999	–3.1	–1.4	–1.7	n.a
2000	7.4	9.2	10.4	n.a
2001	5.7	8.0	6.5	n.a
2002	16.1	16.3	11.8	n.a
2003	8.5	9.9	6.8	n.a

[1] Gross direct and reinsurance accepted premiums less reinsurances within Malaysia

n.a. Not applicable

Table 3.20
Distribution of Gross Direct Premiums

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[1]	Others	Total				
	RM million										
1999	429.5	265.2	1,244.6	544.5	348.4	2,069.2	2,417.6	101.7	82.4	342.9	5,428.4
2000	441.8	272.4	1,251.6	611.4	391.4	2,424.3	2,815.7	118.3	82.5	334.9	5,928.6
2001	461.6	324.2	1,275.4	652.6	378.7	2,715.8	3,094.5	146.6	79.9	369.2	6,404.0
2002	748.2	413.0	1,458.6	703.6	405.4	3,026.3	3,431.7	205.3	85.6	403.1	7,449.1
2003	922.3	464.6	1,585.1	807.5	413.1	3,193.7	3,606.8	268.4	103.4	427.0	8,185.1
	% change										
1999	–9.2	5.7	–0.2	1.4	–3.5	…	–0.5	4.7	33.5	–16.4	–1.4
2000	2.9	2.7	0.6	12.3	12.3	17.2	16.5	16.3	0.1	–2.3	9.2
2001	4.5	19.0	1.9	6.7	–3.2	12.0	9.9	23.9	–3.2	10.2	8.0
2002	62.1	27.4	14.4	7.8	7.1	11.4	10.9	40.0	7.1	9.2	16.3
2003	23.3	12.5	8.7	14.8	1.9	5.5	5.1	30.7	20.8	5.9	9.9
	% share										
1999	7.9	4.9	22.9	10.0	6.4	38.1	44.5	1.9	1.6	6.3	100.0
2000	7.5	4.6	21.1	10.3	6.6	40.9	47.5	2.0	1.4	5.6	100.0
2001	7.2	5.1	19.9	10.2	5.9	42.4	48.3	2.3	1.2	5.8	100.0
2002	10.0	5.5	19.6	9.5	5.4	40.6	46.0	2.8	1.2	5.4	100.0
2003	11.3	5.7	19.4	9.9	5.0	39.0	44.0	3.3	1.2	5.2	100.0

[1] Compulsory insurance cover required under the Road Transport Act 1987
… Negligible

the slowdown in motor vehicles sales in anticipation of price adjustments under the ASEAN Free Trade Area (AFTA) Agreement.

Another contributing factor was the softening of premium rates for Marine, Aviation and Transit (MAT) business compared with 2002

Table 3.21
Distribution of Net Premiums

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[1]	Others	Total				
	RM million										
1999	224.2	134.1	924.4	510.2	335.5	2,072.7	2,408.2	64.0	82.1	232.0	4,579.2
2000	247.4	134.2	965.6	543.5	370.9	2,399.5	2,770.4	71.1	80.4	244.7	5,057.3
2001	231.7	149.7	957.4	595.0	367.8	2,671.9	3,039.7	79.1	77.8	256.3	5,386.7
2002	278.7	208.7	1,070.0	632.3	385.3	2,962.3	3,347.6	119.3	80.4	285.3	6,022.3
2003	284.5	185.8	1,091.0	744.0	406.9	3,169.7	3,576.6	140.8	101.1	310.9	6,434.7
	% change										
1999	–16.4	–1.8	1.4	0.7	–3.8	–0.6	–1.0	15.5	20.0	–19.6	–1.7
2000	10.3	0.1	4.5	6.5	10.6	15.8	15.0	11.1	–2.1	5.5	10.4
2001	–6.3	11.5	–0.8	9.5	–0.8	11.4	9.7	11.3	–3.2	4.7	6.5
2002	20.3	39.4	11.8	6.3	4.8	10.9	10.1	50.8	3.3	11.3	11.8
2003	2.1	–11.0	2.0	17.7	5.6	7.0	6.8	18.0	25.7	9.0	6.8
	% share										
1999	4.9	2.9	20.2	11.1	7.3	45.3	52.6	1.4	1.8	5.1	100.0
2000	4.9	2.7	19.1	10.7	7.3	47.5	54.8	1.4	1.6	4.8	100.0
2001	4.3	2.8	17.8	11.0	6.8	49.6	56.4	1.5	1.4	4.8	100.0
2002	4.6	3.5	17.8	10.5	6.4	49.2	55.6	2.0	1.3	4.7	100.0
2003	4.4	2.9	17.0	11.6	6.3	49.3	55.6	2.2	1.5	4.8	100.0

[1] Compulsory insurance cover required under the Road Transport Act 1987

which saw significant price hikes following the September 11, 2001 attacks.

Of the 36 direct insurers, 10 recorded gross direct premiums of more than RM300 million, with two insurers registering gross direct premiums of more than RM500 million. This represents a vast improvement over the position five years ago when only one of the 51 insurers recorded gross direct premiums exceeding RM300 million. The increasing volume of business underwritten per insurer can be attributed to the capacity building measures as well as the consolidation exercise which has seen a total of 15 mergers since 1999. There is room for further consolidation as there are still insurers operating below capacity, with nine insurers recording average gross direct premiums of RM66 million each in 2003.

An analysis of the portfolio mix of insurers showed that a large number of insurers still concentrated on motor business, which remained the dominant class of business, accounting for 44% of total gross direct premiums. Seven insurers derived almost two-thirds of their total gross direct premiums from motor business, accounting for a combined market share of 54.6%. Fire business was more evenly distributed among the insurers, with 15 insurers deriving between 25% to 50% of their gross direct premiums from fire business, while the remaining 21 insurers had less than 25% of their gross direct premiums from this class of business. Insurers' penetration in other classes of business continued to be low, ranging between 1.2% to 11.3% of total gross direct premiums.

Retention and Reinsurance of Malaysian Business

The overall net retention ratio of Malaysian business declined marginally to 85.5% in 2003 (2002: 86.9%), mainly due to a decline in the retention of MAT as well as the large construction and engineering classes of business. Adverse claims experience in these classes of large risks increased the need for higher reinsurance protection to minimise exposure to losses. Other classes of business which comprised relatively smaller risks, such as motor, workmen's compensation and employers' liability as well as medical expenses and personal accident, were less reliant on reinsurance

Table 3.22
Net Retention Ratio

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[1]	Others	Total				
	Combined[2]										
1999	54.8	56.7	78.7	93.2	99.4	99.4	99.4	70.5	99.2	78.2	87.1
2000	60.0	63.8	81.8	95.0	99.7	99.4	99.4	68.6	98.7	81.5	89.5
2001	55.6	67.4	84.1	95.2	99.7	99.4	99.5	59.6	99.4	84.6	90.2
2002	42.2	62.4	83.0	94.6	99.3	99.5	99.5	61.8	99.4	83.8	86.9
2003	37.4	52.2	81.3	94.7	99.4	99.7	99.6	58.8	99.5	89.4	85.5
	Direct Insurers[2]										
1999	50.1	44.8	75.0	92.6	99.4	99.4	99.4	67.5	99.1	74.5	86.3
2000	54.6	49.1	78.7	94.7	99.7	99.4	99.4	64.5	98.6	77.7	89.0
2001	48.5	52.5	80.8	94.8	99.6	99.4	99.5	55.7	99.4	81.1	89.5
2002	34.6	40.0	78.0	94.1	99.3	99.5	99.5	56.3	99.3	80.8	85.4
2003	31.2	34.1	76.4	94.3	99.4	99.7	99.6	55.9	99.5	88.3	84.2
	Professional Reinsurers[3]										
1999	55.0	70.2	66.5	71.9	49.3	60.3	59.0	86.3	57.1	69.3	64.5
2000	63.7	80.0	74.0	75.9	53.8	64.2	63.1	87.7	61.8	77.1	71.4
2001	68.1	81.4	76.8	78.3	60.5	68.2	67.4	87.2	68.1	79.8	74.3
2002	65.0	88.3	80.5	80.5	65.7	71.7	71.2	93.0	72.7	79.0	77.6
2003	65.1	89.8	86.8	90.9	86.0	87.7	87.6	93.2	86.6	83.1	85.0

1 Compulsory insurance cover required under the Road Transport Act 1987
2 Net premiums to gross direct and reinsurance accepted premiums less reinsurances within Malaysia.
3 Net premiums to reinsurance accepted premiums

Table 3.23
Net Reinsurance Position

Class	Premiums Ceded and Retroceded Overseas	Reinsurance and Retrocession Claims Recoveries from Overseas	Reinsurance and Profit Commissions Received from Overseas	Net Inflow (+) / Outflow (–)	Net Inflow / Outflow as a % of Premiums Ceded and Retroceded Overseas
	RM million				
Marine and aviation hull	435.0	55.4	25.8	–353.8	–81.4
Marine, aviation and transit cargo	41.4	25.4	7.6	–8.4	–20.3
Contractors' all risks & engineering	169.9	68.7	24.3	–76.9	–45.3
Fire	250.4	86.4	47.0	–117.0	–46.7
Medical expenses and personal accident	41.8	24.1	11.1	–6.6	–15.8
Motor	13.3	18.1	1.0	5.8	43.6
'Act' cover[1]	2.5	13.0	0.1	10.6	424.0
Others	10.8	5.1	0.9	–4.8	–44.4
Liability	98.6	3.8	10.7	–84.1	–85.3
Workmen's compensation and employers' liability	0.5	0.1	0.3	–0.1	–20.0
Miscellaneous	36.8	24.0	6.6	–6.2	–16.8
Total	1,087.7	306.0	134.4	–647.3	–59.5

[1] Compulsory insurance cover required under the Road Transport Act 1987

support and continued to maintain high retention ratios of above 90%.

In contrast to the lower retention by the direct insurers, the professional reinsurers registered a higher retention ratio of 85% in 2003 compared with 77.6% in 2002. This was partly due to the revised structure of voluntary cession arrangement effective January 2003, which no longer required Malaysian National Reinsurance Berhad (MNRB) to retrocede the quota share portion of the voluntary cession business back to the industry. The foreign professional reinsurers registered a marginally higher retention ratio of 95.4% (2002: 94.5%) due to higher capacity.

The underwriting pools, the Malaysian Aviation Pool (MAP) and Malaysian Energy Risks Consortium (MERIC) which were initiated by the industry to underwrite energy and aviation risks, remained insignificant. For underwriting year 2003, the MAP, comprising 20 insurers (including one offshore reinsurer) accepted gross premiums amounting to RM4 million (2002: RM6.3 million), while MERIC comprising 16 insurers (including one offshore reinsurer) accepted gross premiums amounting to RM14.7 million (2002: RM15.4 million).

In 2003, total reinsurance premiums ceded and retroceded by the industry amounted to RM3,253.3 million. Cession to Malaysian reinsurers as well as insurers in the Labuan International Offshore Financial Centre (IOFC) declined to 66.6% or RM2,165.6 million (2002: RM3,214.8 million or 71.7%), while premiums ceded and retroceded abroad increased to RM1,087.7 million (2002: RM910.9 million) mainly contributed by the MAT class of business. MAT continued to form the largest component of overseas cessions as a result of limited reinsurance capacity within the country. Dictated by

Table 3.24
Claims Ratio[1]

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover[2]	Others	Total				
1999	62.5	85.5	39.5	61.1	94.0	65.1	69.3	61.3	23.2	93.7	63.0
2000	71.0	63.9	44.8	59.5	100.9	60.9	66.3	81.6	23.8	120.4	63.7
2001	60.8	99.8	43.0	63.7	111.7	58.6	65.4	67.9	18.8	103.1	63.0
2002	58.6	67.7	45.4	65.9	141.5	57.3	67.1	44.0	22.8	90.9	62.9
2003	54.5	65.0	33.4	55.1	161.7	57.8	69.7	16.2	21.6	64.1	59.0

1 Net claims incurred as a ratio of earned premium income
2 Compulsory insurance cover required under the Road Transport Act 1987

overseas reinsurers, premium rates for MAT, especially aviation, continued to increase albeit at a more moderate pace compared with 2002. As a result, total net outflow rose to RM647.3 million from RM490.7 million in 2002.

Claims Experience

The overall claims ratio improved to 59% in 2003 from 62.9% in 2002, the lowest ratio recorded since 1998. All classes of business, except motor, recorded better claims experience with the fire class of business registering a significant improvement in claims experience to 33.4% from 45.4% in 2002. The better claims experience in fire business will likely be reflected in the fire tariff which is currently under review. The substantial improvement in claims ratios in the other classes of business, especially liability as well as medical expenses, can be attributed to more stringent policy terms and conditions as well as some release of reserves. In contrast, the motor class of business showed further deterioration in claims experience. The claims ratio for the compulsory class of motor ('Act') business escalated from 94% in 1999 to its highest level in the past five years to 161.7% in 2003. Claims for the comprehensive class of business also rose substantially, mainly as a result of theft claims which escalated to an estimated RM570 million in 2003 from RM135 million in 1997.

Underwriting Experience

With the improvement in overall claims experience as well as the containment of acquisition costs, underwriting profit recorded by the general insurance industry rose to RM534.1 million or a margin of 8.6% of earned premium income compared with RM232.8 million or a margin of 4.1% in 2002. The better underwriting experience was also reflected at the individual company level with a lower number of 12 insurers suffering aggregate underwriting losses of RM177.2 million, compared with 21 insurers with total losses of RM236.3 million in 2002.

Operating Results

The total operating profit of the general insurers rose to RM1,408.5 million in 2003 from RM819.1 million in 2002 as a result of the better underwriting profit as well as the favourable investment environment which saw substantial write back of provision for diminution in value of investments and capital gains. With the significant improvement in operating results, the return on assets rose to 8.5% in 2003 compared with 5.7% in 2002.

Table 3.25
Underwriting Experience

Year	Earned Premium Income	Net Claims Incurred	Net Commissions	Management Expenses[1]	Underwriting Margin
	RM million				
1999	4,567.2	2,877.8	473.5	1,050.6	165.3
2000	4,822.1	3,071.1	532.9	1,194.0	24.1
2001	5,231.6	3,293.8	576.7	1,227.1	134.0
2002	5,709.9	3,592.8	631.7	1,252.6	232.8
2003	6,235.4	3,677.7	682.0	1,341.6	534.1
	% of earned premium income				
1999	100.0	63.0	10.4	23.0	3.6
2000	100.0	63.7	11.0	24.8	0.5
2001	100.0	63.0	11.0	23.4	2.6
2002	100.0	62.9	11.1	21.9	4.1
2003	100.0	59.0	10.9	21.5	8.6
	% change				
1999	–7.9	–7.3	1.5	3.1	–54.7
2000	5.6	6.7	12.5	13.7	–85.4
2001	8.5	7.3	8.2	2.8	456.0
2002	9.1	9.1	9.5	2.1	73.7
2003	9.2	2.4	8.0	7.1	129.4

1 Management expenses is inclusive of net bad and doubtful debts

Table 3.26
Underwriting and Operating Results

Item	1999		2000		2001		2002		2003	
	RMm	% change	RMm	% change	RMm	% change	RMm	% change	RMm	% change
Underwriting profit	165.3	–54.7	24.1	–85.4	134.0	456.0	232.8	73.7	534.1	129.4
Investment income	614.7	–21.6	501.3	–18.4	515.0	2.7	523.8	1.7	557.5	6.4
Capital gains	223.8	1,690.4	212.7	–5.0	69.9	–67.1	130.8	87.1	193.9	48.2
Other income	234.6	–13.7	77.8	–66.8	213.0	173.8	138.7	–34.9	326.4	135.3
Capital losses	21.8	–94.1	23.0	5.5	129.9	464.8	86.5	–33.4	95.6	10.5
Other outgo	56.3	–24.7	355.0	530.6	55.0	–84.5	120.5	119.1	107.8	–10.5
Operating profit	1,160.4	17.6	437.9	–62.3	747.0	70.6	819.1	9.7	1,408.5	72.0

Assets

Total assets of the general insurance funds grew by 7.4% to RM16,611.7 million as at the end of 2003 (2002: 3.5% to RM15,471.4 million). The composition of assets remained similar to previous years. Cash and deposits constituted the largest component, accounting for 36.2% (2002: 35.2%) of total general insurance funds, followed by corporate and debt securities and Malaysian Government papers and guaranteed loans with a share of 32.3% and 11.8% respectively.

A classification of insurers by size of assets showed that of the 47 insurers (including professional reinsurers), 25 had general fund assets of more than RM300 million each (2002: 23), while 16 insurers (2002: 17) had general fund assets of RM100 million to RM300 million. The remaining six insurers with general fund assets of less than RM100 million are less likely to be economically efficient because of their limited business portfolio.

Technical Reserves

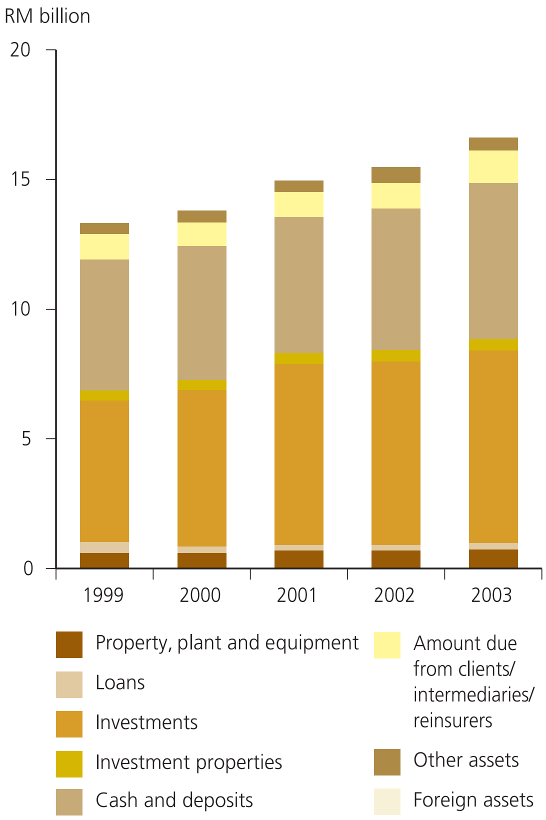
The technical reserves ratio continued to decline albeit marginally to 147.2% in 2003 mainly due to the trend of lower claims reserving by insurers. Provision for outstanding claims which formed 68% of total technical reserves, grew at a slower

Table 3.27
Assets of General Insurance Funds

Type of Investment	1999		2000		2001		2002		2003	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Property, plant and equipment	602.5	4.5	605.4	4.4	681.3	4.6	696.1	4.5	736.1	4.4
Loans	438.3	3.3	259.0	1.9	222.1	1.5	210.4	1.4	241.7	1.5
Investments	5,448.6	40.9	6,022.1	43.7	6,983.0	46.7	7,093.8	45.8	7,429.9	44.7
Malaysian Government papers/guaranteed loans	*1,931.7*	*14.5*	*1,843.0*	*13.4*	*1,928.8*	*12.9*	*1,862.6*	*12.0*	*1,951.2*	*11.8*
Corporate/debt securities	*3,439.8*	*25.8*	*4,074.3*	*29.5*	*4,915.6*	*32.9*	*5,086.5*	*32.9*	*5,372.1*	*32.3*
Others	*77.1*	*0.6*	*104.8*	*0.8*	*138.6*	*0.9*	*144.7*	*0.9*	*106.6*	*0.6*
Investment properties	378.9	2.9	384.9	2.8	427.5	2.9	426.0	2.8	454.7	2.8
Cash and deposits	5,042.9	37.9	5,157.0	37.4	5,258.9	35.2	5,447.6	35.2	6,016.3	36.2
Amount due from clients/ intermediaries/reinsurers	995.7	7.5	914.3	6.6	946.2	6.3	1,006.2	6.5	1,231.6	7.4
Other assets	403.7	3.0	444.7	3.2	421.5	2.8	586.9	3.8	496.2	3.0
Foreign assets	3.6	…	3.6	…	2.3	…	4.4	…	5.2	…
Total	13,314.2	100.0	13,791.0	100.0	14,942.8	100.0	15,471.4	100.0	16,611.7	100.0

… Negligible

Chart 3.5
Assets of General Insurance Funds



rate of 3.5% (2002: 4.8%). Nevertheless, the overall technical reserves appear to be adequate against the benchmark of 125%.

Adequate 'Incurred But Not Reported' claims reserves are critical, particularly for long-tailed business such as the compulsory motor ('Act') cover, for which the experience has been to require significant adjustments in the ultimate net claims incurred ratio in subsequent years. Insurers should be more prudent to ensure adequacy of reserves for such long-tailed business. The industry figures shown in Tables 3.30, 3.31 and 3.32 can be used as reference by insurers in evaluating their reserving position.

Table 3.28
Classification by Size of General Insurance Funds

RM million	Number of Funds				
	1999	2000	2001	2002	2003
Less than 20[1]	3	3	3	3	3
20 to less than 30	1	3	1	1	1
30 to less than 50	2	1	2	1	1
50 to less than 100	9	5	5	3	1
100 to less than 150	12	12	8	4	4
150 to less than 300	17	19	20	13	12
300 & above	14	15	18	23	25
Total	58	58	57	48	47

[1] Inclusive of insurers which were running off their general insurance business

Table 3.29
Technical Reserves

Year	Unearned Premium Reserves	Provision for Outstanding Claims	Technical Reserves
	RM million		
1999	2,128.2	5,470.2	7,598.4
2000	2,342.3	5,745.5	8,087.8
2001	2,504.4	5,951.5	8,455.9
2002	2,820.6	6,238.2	9,058.8
2003	3,015.8	6,453.6	9,469.4
	% change		
1999	1.0	4.4	3.4
2000	10.1	5.0	6.4
2001	6.9	3.6	4.6
2002	12.6	4.8	7.1
2003	6.9	3.5	4.5
	% of net premiums		
1999	46.5	119.5	165.9
2000	46.3	113.6	159.9
2001	46.5	110.5	157.0
2002	46.8	103.6	150.4
2003	46.9	100.3	147.2

Business from Outside Malaysia

In 2003, gross premiums (both direct and reinsurance inward business) from outside Malaysia increased further to RM410.4 million from RM381.7 million in 2002, albeit at a lower rate of 7.5% (2002: 29.8%). The increase was mainly due to the professional reinsurers which accounted for 62% of business from outside Malaysia. Fire business continued to account for a large part of business from outside Malaysia, with its share amounting to 48.8% (2002: 50.3%), followed by miscellaneous class of business of 26.6% (2002: 27%) and MAT 13.4% (2002: 13.7%). The general fund assets supporting business from outside Malaysia in 2003 increased by 12.4% to RM854.3 million. The bulk (42.8%) of these assets were held in the form of foreign assets while assets in Malaysia were held in the form of Malaysian Government papers, corporate and debt securities as well as in cash and deposits.

Table 3.30
Average Link Ratio for Cumulative Paid Claims and Emergence of Claims[1]

Class	Development Year							% of Ultimate Incurred Claims Cost at End of Development Year 1	
	0[2]	1	2	3	4	5	Ultimate	2001	2002
Marine, aviation and transit	2.50	1.17	1.05	1.02	1.01	1.00	1.07	87.2	86.5
Fire	1.98	1.06	1.02	1.01	1.01	1.00	1.02	94.7	93.7
Motor									
'Act' cover[3]	6.80	2.42	1.53	1.28	1.17	1.11	1.20	34.9	32.6
Others	1.92	1.04	1.01	1.01	1.00	1.00	1.02	95.0	95.3
Miscellaneous[4]	1.80	1.10	1.04	1.01	1.01	1.01	1.07	85.2	87.5

1 Based on financial year, consolidated from financial year end 1 July to 30 June
2 Development year 0 refers to the year of occurrence of loss
3 Compulsory insurance cover required under the Road Transport Act 1987
4 Includes all classes other than MAT, fire and motor

Performance of Professional General Reinsurers

In 2003, reinsurance premiums accepted by the nine professional general reinsurers (Malaysian National Reinsurance Berhad (MNRB) and eight branches of foreign reinsurers) declined by 17% to RM1,037.3 million compared with a growth of 22.6% to RM1,250.1 million in 2002. The reduction in reinsurance premiums can be attributed to the cessation of business by two professional reinsurers as well as the revision in the voluntary cessions arrangements which took effect on 1 January 2003, with lower cessions to MNRB by the direct insurers. The lower reinsurance premiums were evident in all classes of business, with liability business registering the most significant contraction of 33.6% followed by miscellaneous and contractors' all risks and engineering of 29.8% and 24.1% respectively.

The foreign professional reinsurers continued to underwrite a sizeable share of the domestic reinsurance business, with reinsurance premiums totaling RM420 million in 2003 (2002: RM512.6 million). The bulk of these reinsurance premiums continued to be retained within the country, contributing towards

Table 3.31
Estimated Ultimate Net Claims Incurred Ratio[1]

Class	Year of Occurrence of Loss						
	1996	1997	1998	1999	2000	2001	2002
	%						
Marine, aviation and transit	46.8	57.0	48.1	54.3	66.7	60.3	51.1
Fire	19.9	28.7	24.2	26.3	29.1	30.1	34.1
Motor							
'Act' cover[2]	133.7	128.4	115.8	128.9	136.6	114.8	102.2
Others	37.9	43.2	50.4	64.0	64.0	63.0	58.7
Miscellaneous[3]	38.8	44.2	52.9	64.8	67.1	68.2	62.8

1 Based on financial year, consolidated from financial year end 1 July to 30 June
2 Compulsory insurance cover required under the Road Transport Act 1987
3 Includes all classes other than MAT, fire and motor

Table 3.32
Estimated Average Frequency of Loss and Average Cost per Claim[1]

Class	Average Frequency of Loss	Average Cost per Claim
	%	RM
Marine, aviation and transit	6.8	3,382
Fire	1.8	4,976
Motor		
'Act' cover[2]	1.0	6,770
Others	6.2	3,702
Miscellaneous[3]	9.1	1,713

1 Based on financial year, consolidated from financial year end 1 July to 30 June
2 Compulsory insurance cover required under the Road Transport Act 1987
3 Includes all classes other than MAT, fire and motor

Table 3.33
Performance of Professional General Reinsurers

Year	Marine, Aviation and Transit	Contractors' All Risks and Engineering	Fire	Medical Expenses and Personal Accident	Motor: 'Act' Cover[1]	Motor: Others	Motor: Total	Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
	Reinsurance Accepted Premiums (RM million)										
1999	90.3	90.8	355.6	65.0	29.8	215.4	245.2	11.0	9.8	70.0	937.7
2000	89.2	87.2	354.1	57.6	22.9	201.5	224.4	14.5	9.3	79.9	916.2
2001	91.8	100.6	370.3	73.6	28.5	247.3	275.8	14.0	8.8	84.8	1,019.7
2002	128.4	147.1	453.4	79.8	29.5	281.2	310.7	26.8	9.0	94.9	1,250.1
2003	116.6	111.7	390.6	68.7	23.1	235.0	258.1	17.8	7.2	66.6	1,037.3
	Net Premiums (RM million)										
1999	49.6	63.8	236.4	46.8	14.7	129.8	144.5	9.5	5.6	48.5	604.7
2000	56.8	69.7	262.0	43.7	12.3	129.3	141.6	12.7	5.8	61.7	654.0
2001	62.5	81.9	284.2	57.6	17.2	168.6	185.8	12.2	6.0	67.7	757.9
2002	83.5	130.0	365.2	64.3	19.4	201.8	221.1	24.9	6.5	75.0	970.5
2003	75.9	100.2	339.1	62.5	19.9	206.2	226.1	16.6	6.2	55.3	881.9
	Claims Ratio[2] (%)										
1999	74.2	85.1	52.0	64.0	111.9	52.2	58.7	99.7	30.8	87.8	62.7
2000	90.9	48.4	75.7	87.4	221.5	33.7	51.3	94.7	22.3	133.7	74.0
2001	48.2	107.5	59.7	66.9	95.0	51.5	55.4	10.0	25.9	113.0	67.1
2002	74.0	74.7	55.7	88.3	121.1	54.6	60.6	73.7	15.3	85.4	65.5
2003	63.2	49.6	34.7	42.1	143.1	70.9	77.3	–2.0	17.1	101.6	53.6

[1] Compulsory insurance cover required under the Road Transport Act 1987
[2] Net claims incurred as a ratio of earned premium income

improving national retention. The net retention ratio of the industry has risen to 85.5% in 2003 from 74.4% in 1995. Being branches of the top global reinsurers, the foreign professional reinsurers have also assisted in making available reinsurance capacity to the local market.

Consonant with the licensing condition to make the Malaysian branch a regional centre, the foreign professional reinsurers in Malaysia have increasingly written higher volume of regional business. Gross overseas reinsurance inward business written by foreign professional

Table 3.34
Total Premiums Transacted

Year	General: Marine, Aviation and Transit	General: Fire	General: Motor	General: Miscellaneous[1]	Life	Total
	Direct Premiums (RM million)					
2001	253.6	356.0	69.6	565.9	51.2	1,296.3
2002	458.4	437.3	65.5	653.9	51.9	1,667.0
2003	553.5	417.3	69.0	871.6	45.8	1,957.2
	Reinsurance Premiums (RM million)					
2001	127.9	125.7	4.3	167.9	1.3	427.1
2002	316.2	156.1	65.4	244.4	2.8	784.9
2003	340.9	110.2	49.8	333.3	1.6	835.8
	Combined (RM million)					
2001	381.5	481.7	73.9	733.8	52.5	1,723.4
2002	774.6	593.4	130.9	898.4	54.7	2,451.9
2003	894.5	527.5	118.8	1,204.9	47.3	2,793.0

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

Table 3.35
Outstanding Premiums Due to Insurers

Months	2001[1]		2002		2003	
	Amount (RMm)	% of Total	Amount (RMm)	% of Total	Amount (RMm)	% of Total
0 - 2	297.8	72.5	159.8	54.4	221.2	67.3
>2 - 6	49.0	11.9	71.6	24.4	53.4	16.3
>6 - 12	19.7	4.8	24.1	8.2	16.9	5.1
over 12	44.1	10.8	38.0	13.0	37.0	11.3
Total	410.6	100.0	293.5	100.0	328.5	100.0

[1] Based on financial year, consolidated from financial year end 1 July 2001 to 30 June 2002

reinsurers continued to increase progressively from RM167.5 million in 2000 to reach RM197.6 million in 2003 despite the cessation of business by certain foreign reinsurers during this period. One foreign professional reinsurer accounted for more than 50% of the gross overseas reinsurance inward premiums. However, more effort is required on the part of the reinsurers to build their volume of regional business for the Malaysian branch to be a truly regional office.

The claims ratio of professional reinsurers in 2003 improved to 53.6% from 65.5% in 2002 as a result of more selective underwriting especially in medical expenses and personal accident. With the improved claims experience, the professional reinsurers recorded a significant increase in underwriting profit of RM182.5 million in 2003, compared with RM33.8 million in 2002. The favourable underwriting performance was boosted by a substantial write-back of provision for diminution in value of investments, resulting in an overall operating profit of RM268.1 million (2002: RM97 million).

Insurance Broking

In 2003, total premiums placed by the insurance broking sector recorded a slower growth of 13.9% to RM2,793 million (2002: 42.3% to RM2,451.9 million), which was in tandem with the moderation in premium growth registered by the insurance industry. The bulk of the growth in premium placement was in respect of miscellaneous class which recorded a higher growth of 34.1% (2002: 22.4%) as a result of increase in workmen's compensation and employers' liability premiums. Another contributor to the growth in total premium placement was the MAT class of business, albeit at a slower rate of 15.5% (2002: 103%) arising from the softening of premium rates in the international market for MAT business.

Meanwhile, placements from motor business registered a decline of 9.2% (2002: increased by 77.1%) due mainly to the reduction in consumers' purchase of motor vehicles in anticipation of price adjustments under the ASEAN Free Trade Area Agreement. Reduction was also noted in placement from life business which declined by 13.3% to RM47.3 million (2002: increased by 4.2% to RM54.7 million) reflecting a shift in brokers' preference to deal with other classes of business. As in previous years, the miscellaneous class maintained the largest market share of total premium placed at 43.1% followed by MAT at 32%.

In tandem with the increase in the placement of premiums in the miscellaneous class, which rely less on reinsurance support, direct premium placement continued to represent the bulk of premiums transacted by insurance brokers, amounting to RM1,957.2 million or 70% of total premiums transacted in 2003 (2002: 68% or RM1,667 million). The balance of RM835.8 million or 30% was in respect of reinsurance premium placement. Of the total premiums handled by brokers amounting to RM2,793 million, 80.3% were placed locally compared with 82.5% in 2002.

Table 3.36
Operating Results of Brokers

Item	2001[1]		2002		2003	
	RMm	% change	RMm	% change	RMm	% change
Brokerage earned	142.9	14.5	151.2	5.8	178.7	18.2
Other income	17.4	27.9	24.6	41.4	24.2	–1.6
Total expenses	113.6	8.0	119.0	4.8	137.6	15.6
Operating profit	46.7	40.7	56.8	21.6	65.3	15.0

[1] Based on financial year, consolidated from financial year end 1 July 2001 to 30 June 2002

As in the past, the industry continued to be dominated by a few brokers. Of the 35 insurance brokers, 11 had an aggregate market share of 78.4% of the total premiums placed, with an average premium of RM199 million each. This far exceeded the industry average of RM79.8 million (2002: RM70.1 million). On the other hand, the remaining 24 brokers accounted for the balance of the market share with an average premium of only RM25.2 million each.

The broking industry recorded an increase in operating profit by 15% to RM65.3 million in 2003 (2002: RM56.8 million). The higher operating profit was mainly due to an increase in brokerage earned by 18.2% to RM178.7 million (2002: 5.8% to RM151.2 million) arising from increased business activities.

Improvement was noted in the level of premiums outstanding for more than two months which declined to 32.7% (2002: 45.6%). However, total outstanding premiums showed an increase of 11.9% to RM328.5 million (2002: RM293.5 million). Brokers should continue efforts to improve premium collection and remittance to insurers.

The paid-up capital of the industry increased from RM43.9 million in 2002 to RM44.1 million in 2003 due to a capital injection by a broker. Consequently, the average paid-up capital of the insurance brokers also increased marginally to RM1.3 million in 2003. Twenty four brokers or 68.6% of the market players have paid-up capital below the industry average. In view of the anticipated increase in competition as a result of market liberalisation, the broking sector in general, and the smaller brokers specifically, should move towards consolidating their resources to improve capacity in the areas of technology and professional expertise so as to improve business viability.

Loss Adjusting

During 2003, the loss adjusting sector handled a total of 260,093 cases, an increase of 4.6% (2002: 248,581 cases) which was attributed to an increase in motor cases handled by adjusters. Motor cases

Table 3.37
Cases Handled by Adjusters

Year	Motor			Non-motor			Total	
	No.	% change	% share	No.	% change	% share	No.	% change
2001	192,167	3.1	82.2	41,733	9.7	17.8	233,900	4.2
2002	206,609	7.5	83.1	41,972	0.6	16.9	248,581	6.3
2003	221,512	7.2	85.2	38,581	– 8.1	14.8	260,093	4.6

Table 3.38
Operating Results of Adjusters

Item	2001[1]		2002		2003	
	RMm	% change	RMm	% change	RMm	% change
Fees earned	132.7	1.8	129.7	–2.3	125.6	–3.2
Other income	3.8	–7.3	4.3	13.2	6.4	48.8
Total outgo	127.8	9.3	139.8	9.4	129.4	–7.4
Operating profit/(loss)	8.7	–50.3	–5.8	–166.7	2.6	144.8

[1] Based on financial year, consolidated from financial year end 1 July 2001 to 30 June 2002

increased by 7.2% to 221,512 (2002: 206,609) as a result of higher accident and theft claims, while non-motor cases declined by 8.1% to 38,581 (2002: 41,972). The decline in non-motor cases was due to the imposition of more stringent underwriting policies by insurers. As expected, motor cases continued to dominate the market with an increased share of 85.2% (2002: 83.1%).

The average number of cases handled by each adjuster in 2003 was 6,669 (2002: 6,215). As in previous years, the bulk of the adjusting business was managed by a small number of adjusters. Of the 39 adjusters, only 12 handled cases exceeding the sector average, with a total of 176,648 cases or 14,721 each (2002: 13,929). The remaining 27 adjusters accounted for 83,445 cases or 3,091 each (2002: 2,908) reflecting a market situation where the majority of players operated on a small-scale basis.

In line with the decline in non-motor cases, which usually generated higher fees, total adjusting fees declined for the second consecutive year to RM125.6 million. Despite the decline, the loss adjusting sector turned around by recording a total operating profit of RM2.6 million (2002: -RM5.8 million). The improvement was attributable to a decrease of 7.4% in total expenses, and an increase of 48.8% in other income which consisted mainly of higher investment income, increased receipts from sale of fixed assets, and improved recovery of bad and doubtful debts. A total of 25 adjusters recorded operating profits amounting to RM9.7 million, of which 82.2% were contributed by four adjusters, while 14 adjusters suffered losses totaling RM7.1 million.

The average paid-up capital of the adjusters in 2003 increased marginally by 2.6% to RM366,125 (2002: RM356,747) due to capital injections by two adjusters. The total paid-up capital of the industry stood at RM14.2 million in 2003. Of the 29 adjusters with paid-up capital below that of the sector average, 10 were at the minimum paid-up capital requirement of RM150,000.

Revenues generated by the adjusting sector declined due to the tighter controls on claims cost and expenses by insurers, high policy deductibles and reduced cases of high-end specialised claims following the stricter implementation of underwriting and risk management controls by insurers. The tight market situation had pushed the larger adjusting firms to engage in activities such as third-party bodily injury and property damage claims which were traditionally done by the smaller firms. Having more resources and thus, capacity, the larger firms were better positioned to provide value-added services, which are important prerequisites to enhancing claims handling by insurers. Consequently, the domination of the adjusting sector business by the larger firms, is set to continue.

Notwithstanding, adjusting firms with sufficient economies of scale should continue to build capacities through investments in technology and human resources and expand into non-traditional business segments such as providing value-added services in claims administration. For the smaller firms, consolidation should be a primary option towards enhancing capacity and viability.