

Developments in Medical and Health Insurance Business
industry performance

administration of insurance act 1996

supervision

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The Industry Performance in 2002

Overview of Industry Performance

In line with the improved economic conditions, the combined premium income of life (excluding annuity business) and general business of the insurance industry increased by 14.3% (2001: 9.3%) from RM14,706.3 million in 2001 to RM16,805.2 million in 2002, with life and general business recording a premium growth of 16.2% and 10.9% respectively. If annuity business were included, the combined premium income of the insurance industry declined by 1.6% (2001: +22.4%) to RM16,806.4 million due mainly to the suspension of the EPF Annuity Scheme towards the end of 2001. As a result, the total premium income of the insurance industry as a proportion of nominal Gross National Product (GNP) decreased marginally to 5% in 2002 as compared with 5.5% in 2001.

Total benefits and net claims paid by the industry in 2002 increased by 18.8% (2001: 16.3%) to RM7,622.1 million, representing 45.3% of the premium income of the industry. The increase in total benefits and net claims paid was mainly due to a larger payout of maturity benefits for life policies. The industry's insurance funds assets increased by 11.3% from RM59,869.2 million in 2001 to RM66,639.8 million in 2002 to account for 4.8% of the total assets of the financial system (2001: 4.6%).

With the consolidation of the industry through mergers and acquisitions, greater emphasis is placed on good governance practices, professionalism of the sales force as well as operational flexibility of business processes to ensure that the insurance industry remains efficient and robust. With these developments and in tandem with the underlying economic trend, the insurance industry is expected to maintain its growth momentum in 2003.

Performance of Life Business

New Business

The life industry, excluding annuity business, recorded new premium growth of 25.5%

(2001: 15.8%) to RM3,557.3 million in 2002.

The growth was largely attributable to the active promotion of investment-linked products and other savings plans. The prevalent low interest rate environment coupled with sluggish stock market conditions, created opportunities for life insurers to introduce insurance products that have a higher savings component. During the year, four insurers offered short-term single premium endowment with minimum guaranteed dividend yield as an alternative savings plan to the public. The sales of these plans were robust given that the guaranteed yield upon maturity was higher than the return on short-term savings deposits.

If annuity business is included, the life insurance industry recorded a drop in new business in 2002. The decline was mainly attributed to the suspension of the EPF Annuity Scheme towards the end of 2001. New business in 2002 declined by 32.2% to RM3,558.5 million (2001: RM5,247.9 million) as compared with the unprecedented growth of 54% in 2000 and 78.4% in 2001 as a result of discontinuation of the annuity business. The single premium business which was mostly made up of the annuity portfolio, declined by 48.2% after a remarkable growth of 171.7% in 2000 and 131.5% in 2001. Annual premium products, however, recorded a steady growth of 9.4% in 2002 (2001: 11.9%).

Table 3.1
New Business of Direct Insurers

Year	No. of Policies	Sums Insured	Premiums		
			Annual	Single	Total
	Units		RM million		
1998	1,151,540	87,631.4	1,119.1	333.6	1,452.7
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	1,381,125	140,715.7	1,598.9	1,959.6	3,558.5
			% change		
1998	1.5	-8.3	-12.0	-17.3	-13.2
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	9.1	9.4	-48.2	-32.2

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						
1998	403.5	370.9	366.5	279.5	32.3	–	1,452.7
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	433.8	1,032.9	810.0	412.6	868.0	1.2	3,558.5
% change							
1998	–21.0	–5.9	–20.9	–5.4	199.1	–	–13.2
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	–11.6	25.2	10.4	11.2	110.1	–99.9	–32.2
% share							
1998	27.8	25.5	25.2	19.3	2.2	–	100.0
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	29.0	22.8	11.6	24.4	...	100.0

... Negligible

In 2002, new sums insured and the number of new policies issued increased by 9.1% (2001: 10.4%) and 0.8% (2001: 16.7%) to RM140,715.7 million and 1,381,125 policies respectively. In terms of the new business portfolio, investment-linked and endowment policies achieved an impressive growth of 110.1% and 25.2% respectively while annuity and whole life policies declined by almost 100% and 11.6% respectively. Seven insurers

which actively promoted investment-linked products recorded a growth of more than 100% in investment-linked business in 2002.

In terms of composition of new business premiums, endowment policies remained the most dominant class of business, with a share of 29%, followed closely by investment-linked business, which increased in prominence from a mere 7.9% in 2001 to 24.4% in 2002.

Chart 3.1
Distribution of New Premiums and New Sums Insured

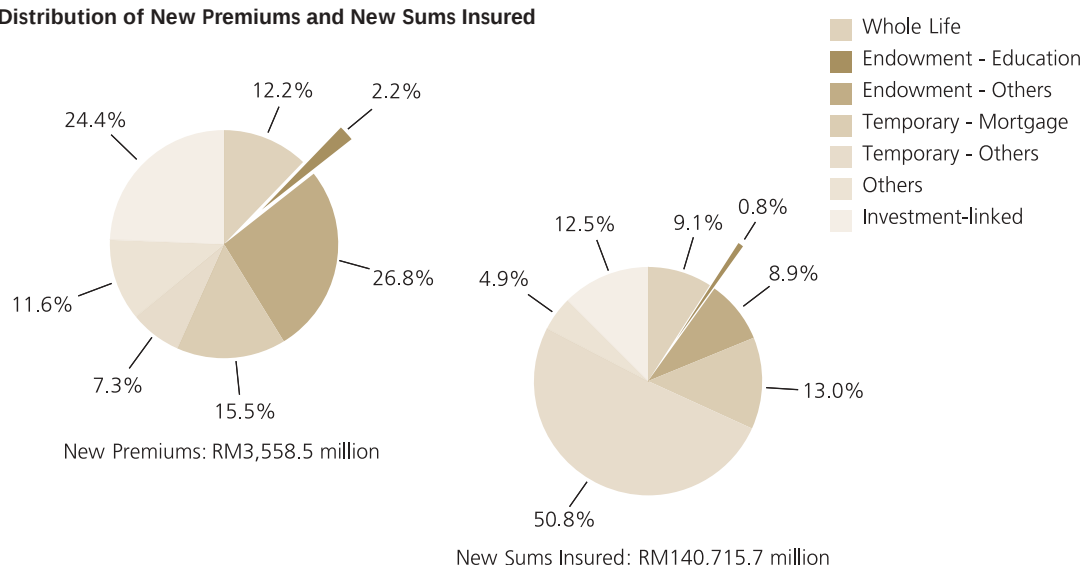


Table 3.3
Distribution of New Sums Insured of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole Life	Endowment	Temporary	Others			
	RM million						
1998	15,667.0	7,860.2	54,013.5	9,888.4	202.3	–	87,631.4
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	13,668.7	89,792.0	6,870.1	17,631.4	0.2	140,715.7
% change							
1998	–21.4	–5.0	–0.5	–23.9	1,421.1	–	–8.3
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	83.8	–99.9	9.1
% share							
1998	17.9	9.0	61.6	11.3	0.2	–	100.0
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

... Negligible

Temporary business, which comprised mostly group and mortgage-related policies, garnered a market share of 22.8% in tandem with the continuous growth in credit insurance through bancassurance. Whole life business which used to be the biggest class of new business in 1998 had deteriorated over the years, to only 12.2% in 2002, due to the emerging shift in consumer preference for savings rather than protection policies.

Given the low interest rate environment, there was a strong demand for fixed dividend endowment policies which recorded a substantial growth of 58.2% in single premium business to RM733.2 million in 2002. Short-term single premium fixed-dividend endowment policies and single premium capital-guaranteed investment-linked products offer attractive savings alternatives to the public in the financial market. Endowment and investment-linked business together accounted for 53% of the new business market of the life insurance industry.

With the trend towards customer segmentation, the development of new innovative products to meet the specific needs of consumers would help to spur new business growth of the life sector. One notable

development during the year has been the introduction of a new plan designed for senior citizens aged between 50 to 80 years underwritten on guaranteed acceptance basis. Although the mortality risk is high, insurers are able to capitalise on the demand by the older segment of the population and provide maximum value to policy owners to expand their market penetration.

To increase market penetration, several insurers also entered into strategic alliances with banking institutions to leverage on their branch network to meet the financial needs of the banking customers. With greater commitment from the strategic partners, new business garnered via the bancassurance channel increased from 11% in 1999 to 21% of total new business premiums in 2002. Nevertheless, the traditional agency sales force continued to be the dominant distribution channel and contributed 76% of new business in 2002, while direct marketing accounted for only 3% of new business sales.

Foreign-controlled insurers achieved 65% of new business market share, a dominant position in whole life, endowment, education policies and investment-linked business. Malaysian-controlled insurers however, had a

Table 3.4
Average Size and Cost of Ordinary Individual Life
New Policies of Direct Insurers¹

Year	Average Annual Premiums		Average Sums Insured		Average Cost ²	
	Whole Life	Endowment	Whole Life	Endowment	Whole Life	Endowment
RM						
1998	1,023	1,066	39,720	21,447	26	50
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	1,380	1,259	40,568	22,685	34	55

¹ For annual premium policies only

² New annual premiums per RM1,000 of new sums insured

larger market share of credit-related and other plans.

In terms of consumer spending, the average new annual premiums for whole life and endowment policies declined by 2% and 6% to RM1,380 and RM1,259 respectively. Similarly, the cover for whole life and endowment policies also decreased to an average sum insured of RM40,568 (2001: RM47,220) and RM22,685 (2001: RM23,126) respectively. The average premium per RM1,000 new sum insured for whole life policies increased to RM34 (2001: RM30) due to the repricing of the plans to reflect the lower investment returns in the market.

Table 3.5
Terminations of Annual Premiums of Direct Insurers

Year	Death	Maturity	Surrender	Forfeiture less Revivals	Others	Total
RM million						
1998	8.4	12.0	132.8	455.5	218.4	827.1
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	257.9	774.9
% change						
1998	20.0	27.7	79.5	37.2	22.9	37.8
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	5.6	-4.9	5.0
% share						
1998	1.0	1.4	16.1	55.1	26.4	100.0
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	2.5	26.8	35.9	33.3	100.0

Terminations

In 2002, the annual premiums terminated increased by 5% (2001: -10.3%) to RM774.9 million while sums insured terminated increased at a lower rate of 8.4% (2001: 11.6%) to RM98,713.3 million. With the expiry of a sizeable volume of short-term endowment policies sold prior to 2001, termination of sums insured by maturity increased significantly by 94.8% to RM818.8 million in 2002. Despite the significant increase, terminations by death and maturity accounted for only 0.5% and 0.8% of the total sums insured terminated respectively. This reflects a relatively young insured population with the bulk of the policy owners being below the age of 40.

Total sums insured terminated by surrender increased by 25.1% (2001: 10.2%) to RM10,040.3 million. The deterioration in surrenders was contributed mainly by six insurers which experienced higher surrenders ranging from 45% to 385% in 2002. Annuity business also contributed to the increase in surrenders following its robust sales in 2001. The surrender rate of the industry which measures the proportion of sum insured terminated after the policies have acquired cash values, consequently deteriorated marginally from 2% in 2001 to 2.3% in 2002.

Table 3.6
Terminations of Sums Insured of Direct Insurers

Year	Death	Maturity	Surrender	Forfeiture less Revivals	Others	Total
RM million						
1998	448.3	234.0	6,044.9	15,377.1	46,614.1	68,718.4
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	818.8	10,040.3	7,855.0	79,467.4	98,713.3
% change						
1998	30.2	6.8	82.6	35.3	30.1	34.6
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	25.1	16.1	5.4	8.4
% share						
1998	0.7	0.3	8.8	22.4	67.8	100.0
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	10.2	8.0	80.5	100.0

Table 3.7
Forfeiture and Surrender Rates of Direct Insurers

Year	Weighted Forfeiture Rate (%)	Surrender Rate (%)
1998	39.2 ¹	1.9
1999	32.1	1.9
2000	33.9	2.0
2001	20.8	2.0
2002	20.0	2.3

¹ Based on financial year, consolidated from financial year end 1 July to 30 June

Terminations by forfeitures increased by 5.6% (2001: -33.6%) to account for 35.9% of total annual premiums terminated in 2002. 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% for new business premiums for the latest year, first preceding year and second preceding year respectively), however, improved marginally to 20% from 20.8% in 2001. An analysis of the forfeitures of new business by policy years also revealed an improvement in the forfeiture rate from 28.4% for new business written in 1998 to 24.7% for new business premiums written in 1999. The projected forfeiture rates over three policy years are expected to improve further to 25.9%, 21% and 19.8% for business written in 2000, 2001 and 2002 respectively. The trend towards better forfeitures experience could be further enhanced if greater consumer education and proper advice are provided to policy owners at the point of sale. With greater professionalism in the sales practices, the level of forfeitures should improve in the future.

Table 3.8
Forfeiture Rate by Policy Years of Direct Insurers¹

Year	Year of Issue	1st Policy Year	2nd Policy Year	3rd Policy Year	Total
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
2001	2001	6.1	-	-	6.1
	2000	13.9	6.2	-	20.1
	1999	14.8	7.1	1.9	23.8
	1998	17.3	9.1	2.0	28.4

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

Business In Force

Despite the reduction in new business, the business in force of the life industry registered a sustained growth in annual premiums and sums insured in force of 11.4% and 9.5% (2001: 10.9% and 10.1%) to RM9,101 million and RM481,999.4 million respectively in 2002. Business in force in 2002 continued to expand with the number of policies in force increasing by 7.8% (2001: 9.1%) to 8,506,730 policies to achieve an insurance penetration rate (defined as the ratio of number of policies in force to the Malaysian population) of 34.7% (2001: 32.9%).

An analysis of the annual premiums in force indicated that most classes of conventional business recorded only moderate growth ranging from 2.5% to 10.7% in 2002. The key contributor to the growth was investment-linked business which registered a growth of 80.7% in 2002 (2001: 80.8%). Investment-linked business increased at an average annual rate of 146% since its debut in 1998. This phenomenon reflected the shift in sales trend from the conventional business to more innovative, unbundled as well as flexible investment products that meet the changing needs of the public. The growth in investment-linked business was also spurred by the attractive design of the products, which guarantee policy owners against erosion of capital as well as providing the potential for unlimited capital appreciation over the longer term horizon. The smaller domestic insurers also actively promoted investment-linked policies because

Table 3.9
Business in Force of Direct Insurers

Year	No. of Policies	Sums Insured	Annual Premiums
	Units	RM million	
1998	6,298,309	337,009.8	6,238.0
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	8,506,730	481,999.4	9,101.0
% change			
1998	7.4	6.3	6.1
1999	11.1	8.0	9.7
2000	3.4	9.8	7.6
2001	9.1	10.1	10.9
2002	7.8	9.5	11.4

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					
1998	2,818.7	1,928.1	332.3	1,129.2	29.7	6,238.0
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	3,772.7	2,407.8	382.3	1,448.8	1,089.4	9,101.0
% change						
1998	4.7	5.7	8.4	6.6	–	6.1
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	6.5	2.5	4.3	10.7	80.7	11.4
% share						
1998	45.2	30.9	5.3	18.1	0.5	100.0
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	15.9	12.0	100.0

of its low new business strain of these products on the capital resources of these insurers.

Investment-linked business recorded a substantial increase in the share of annual premiums in force from 7.4% to 12% in 2002. Six largest life insurers, which were predominantly key market players in whole life business accounting for a total market share of

88.9% of new whole life premium in 1998, reduced their aggregate portfolio of whole life business from 39.1% of their total business in 1998 to only 17% in 2002. Conversely, their investment-linked business increased significantly from 0.4% in 1998 to 16.3% of their total business in 2002. These six life insurers accounted for 42% of the total sales of investment-linked products of the industry in 2002. The portfolio changes of these few leading industry players clearly demonstrated a strategic shift in business direction of the industry. With greater emphasis on investment-linked business, the share of the whole life and endowment business in terms of annual premiums in force reduced from 45.2% and 30.9% in 1998 to 41.4% and 26.5% in 2002 respectively.

In terms of market share, the bulk of the life business was concentrated among the top few insurers. The five largest insurers (four of which were foreign-controlled) in the industry garnered 67.8% and 78.8% of sums insured and annual premiums in force respectively. In contrast, the five smallest insurers (Malaysian-controlled) only underwrote 6.7% of the sums insured in force and 3.4% of annual premiums in force. These small domestic insurers which were unable to expand their agency force need to explore alternative distribution channels such as bancassurance to enhance their new business growth. Given

Chart 3.2
Distribution of Annual Premiums and Sums Insured In Force

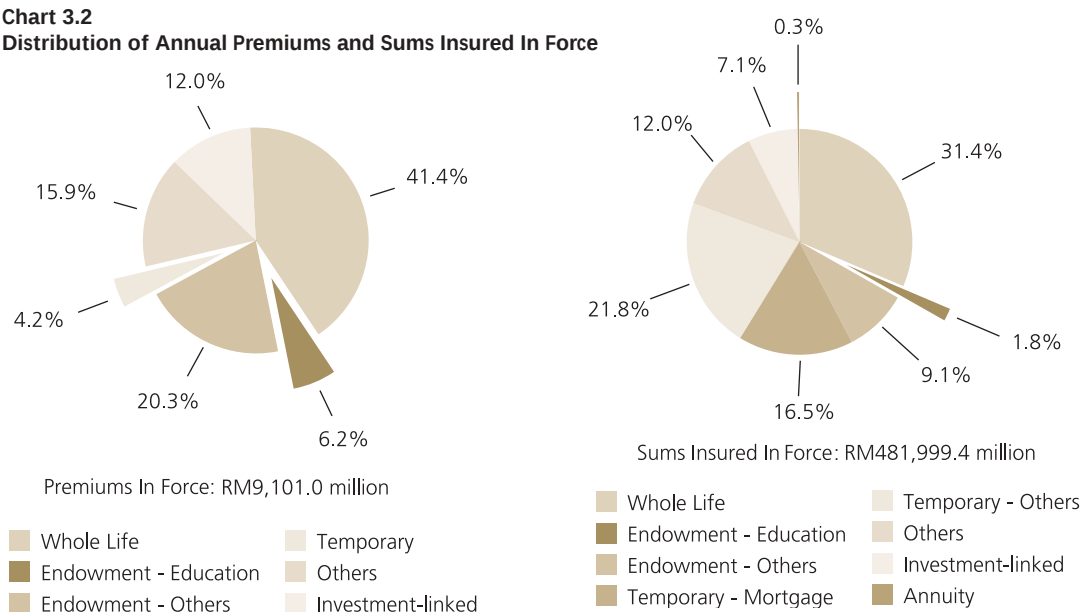


Table 3.11
Distribution of Sums Insured in Force of Direct Insurers

Year	Ordinary Life				Investment - linked	Annuity	Total
	Whole Life	Endowment	Temporary	Others			
	RM million						
1998	122,615.7	39,895.0	113,232.6	61,066.1	200.2	0.2	337,009.8
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	151,306.1	52,520.2	184,524.1	57,901.7	34,110.0	1,637.3	481,999.4
% change							
1998	4.4	8.5	11.5	−0.5	1,428.2	−33.3	6.3
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	5.0	12.2	−1.8	79.9	−6.9	9.5
% share							
1998	36.4	11.8	33.6	18.1	0.1	...	100.0
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	31.4	10.9	38.3	12.0	7.1	0.3	100.0

... Negligible

the rapid pace of liberalisation and globalisation, it would be extremely difficult for these small players to operate in an increasingly competitive environment if they continue to rely on organic growth. They should strive to achieve economies of scale through strategic alliances with financial institutions or through merger and amalgamations with strategic partners.

During early 2002, life insurers revised the pricing basis of their products to reflect the low investment earnings. The review was

necessary to ensure that premium rates as well as bonus expectations of the policy owner are realistic in the long run. As a result, annual premiums for most participating policies were revised upwards with higher loading to maintain the current bonus rates. For instance, the average insurance cost per RM1,000 of sums insured in force for whole life increased marginally from RM24 in 2001 to RM25 in 2002.

Income and Outgo

The discontinuation of the EPF annuity scheme affected the total income of the life insurance industry which registered a decline of 4.2% (2001: +25.7%) from RM14,708.7 million in 2001 to RM14,090.5 million in 2002, while total outgo registered an increase of 14.6% (2001: -1.2%) from RM6,671.9 million in 2001 to RM7,649.3 million in 2002. As a result, the excess of income over outgo in 2002 declined by 20% to RM6,441.2 million in 2002. Analysis revealed that only seven foreign-controlled insurers enjoyed positive growth in the net income (excess of income over outgo) of 22.7%, while the nine domestic-owned insurers experienced a reduction of 66.9% in 2002.

Table 3.12
Average Size and Cost of Ordinary Individual Life Policies in Force of Direct Insurers¹

Year	Average Annual Premiums		Average Sums Insured		Average Cost ²	
	Whole Life	Endowment	Whole Life	Endowment	Whole Life	Endowment
RM						
1998	964	926	41,929	17,978	23	52
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	1,130	1,060	45,296	19,569	25	54

¹ For annual premium policies only

² Annual premiums in force per RM1,000 of sums insured in force

Table 3.13
Income and Outgo

Item	2000		2001		2002	
	RMm	%	RMm	%	RMm	%
Income						
Premium income	8,888.6	76.0	11,684.8	79.4	10,834.9	76.9
Net investment income	1,711.7	14.6	2,008.5	13.7	2,326.8	16.5
Profit on sale of assets and miscellaneous income	1,100.4	9.4	1,015.4	6.9	928.8	6.6
Total	11,700.7	100.0	14,708.7	100.0	14,090.5	100.0
Outgo						
Net policy benefits	2,715.3	23.2	3,311.1	22.5	4,308.5	30.6
Agency remuneration	1,517.6	13.0	1,784.0	12.2	1,812.5	12.9
Management expenses	656.6	5.6	753.6	5.1	845.8	6.0
Loss on disposal of assets and other outgo	1,861.7	15.9	823.2	5.6	682.5	4.8
Total	6,751.2	57.7	6,671.9	45.4	7,649.3	54.3
Excess of income over outgo	4,949.5	42.3	8,036.8	54.6	6,441.2	45.7

Premium income declined by 7.3% to RM10,834.9 million in 2002. Of the 16 life insurers, six experienced decline in premium income ranging from 15.4% to 65.4% in 2002. The impact of the decrease in premium income was, however, cushioned by better investment performance which recorded a 15.8% increase in income from RM2,008.5 million to RM2,326.8 million in 2002. The investment performance of the life fund was enhanced by the profit on sale of assets/investments which increased by 82.9% to RM419 million in 2002. However, this was partially offset by the increase in provisions for diminution in value of investments as a result of the dampened equity market towards the end of 2002.

In terms of investment yield, the net rate of return of the life funds, both excluding and including net capital gains, improved from

5.4% and 4.6% in 2001 to 5.6% and 6.4% in 2002 respectively. Compared with the prevailing market interest rates of 3% to 4%, life insurers appeared to be more resilient within the depressed investment environment. However, despite the improvement, the investment earnings were still in the doldrums as compared with previous performance where the industry average rate of return excluding and including capital gains were 6.8% and 9.1% respectively for the past ten years. Prolonged low investment earnings could affect the ability of insurers to meet policy owners' reasonable expectation of bonus. Thus, the industry may have to consider a further revision in the pricing basis of life products to reflect the less favourable investment returns.

Total outgo of the industry increased by 14.6% to RM7,649.3 million mainly attributable to the higher policy benefit payments which accounted for 30.6% (2001: 22.5%) of the total outgo. Major components of benefit payments were maturity payments (23.9% of total benefit payment), followed by surrenders (22.7%), cash bonuses (12%) and death benefits (11.5%).

Agency remuneration and management expenses increased by 1.6% and 12.2% to RM1,812.5 million and RM845.8 million respectively in 2002. The distribution costs in terms of agency remuneration (as a percentage of the annual premium income)

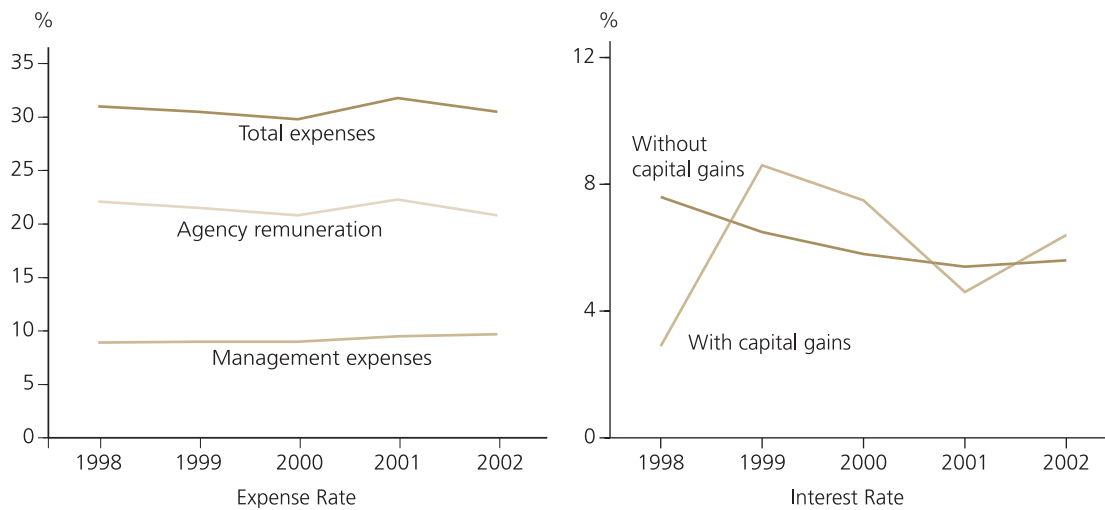
Table 3.14
Expense Rate and Rate of Interest Earned

Year	% of Annual Premium Income				Net Rate of Interest Earned	
	Agency Remuneration (a)	Staff Remuneration (b)	Other Expenses (c)	Total (a)+(b)+(c)	(1)	(2)
1998	22.1	3.8	5.1	31.0	7.6	2.9
1999	21.5	3.7	5.3	30.5	6.5	8.6
2000	20.8	4.0	5.0	29.8	5.8	7.5
2001	22.3	4.2	5.3	31.8	5.4	4.6
2002	20.8	4.2	5.5	30.5	5.6	6.4

(1) Rate of return on investments excluding capital gains

(2) Rate of return on investments including capital gains

Chart 3.3
Expense Rate and Rate of Interest Earned



improved from 22.3% in 2001 to 20.8% in 2002 while management expenses increased marginally by 0.2 percentage point to 9.7% of premium income in 2002. The overall expense rate improved from 31.8% in 2001 to 30.5% in 2002. By comparison, the expense rate prior to the introduction of the guidelines on cost control of life insurance business was 42.1% in 1996. The cost guidelines had effectively controlled acquisition expenses and improved the efficiency of the industry since its implementation in 1996.

Assets

Total assets of life insurance funds registered a slower growth of 14% (2001: 22.1%) to reach RM51,217.7 million in 2002. Seven life insurers achieved better than industry average growth of 14.4% to 31.5% while nine life insurers performed below the industry average by registering growth rates of between -0.4% to 13.6%.

In terms of size of the life fund, the two largest insurers had a combined life fund size of more than RM27,600 million or 54% of the total assets of the industry. The bulk (70%) of the total assets of the industry was concentrated in four largest insurers (comprising three foreign and one domestic-owned insurers), while the other market players which contributed the balance of 30% of the industry total assets, had a fund size ranging between RM200 million and RM2,800 million.

The assets of annuity funds reached RM2,727.4 million or 5.3% (2001: 6.3%) of the total life funds while assets of investment-linked business increased rapidly from RM846 million to reach RM1,451.6 million or 2.8% (2001: 1.9%) of the total life fund in 2002.

In terms of distribution of the assets of the life fund, investments in Malaysian Government papers and guaranteed loans, and corporate and debt securities grew by 18.7% to RM33,404.1 million or 65.2% of the total life fund in 2002. Investments in corporate and debt securities which include investments in debentures, bonds, loan stocks and shares increased to RM25,648.8 million or 50.1% (2001: 47%) of total assets, while investments in Malaysian Government papers and guaranteed loans accounted for 14.7% (2001: 15.2%) of the industry total assets. The loan portfolio comprising mainly mortgages, policy loans and other loans accounted for 13% of total assets. Loans to policy owners, a major component of the loan portfolio, increased by 11.9% to RM4,560.8 million reflecting higher utilisation of the accumulated cash surrender values by policy owners to pay for the outstanding premiums. Mortgage loans which were mainly housing loans given to policy owners increased by 4.5% to account for 2.4% of total assets in 2002. Cash and deposits increased by a slower rate of 5.9% (2001: 9.4%) to RM6,440.1 million, to account for 12.6% (2001: 13.5%) of total assets in 2002.

Table 3.15
Assets of Life Insurance Funds

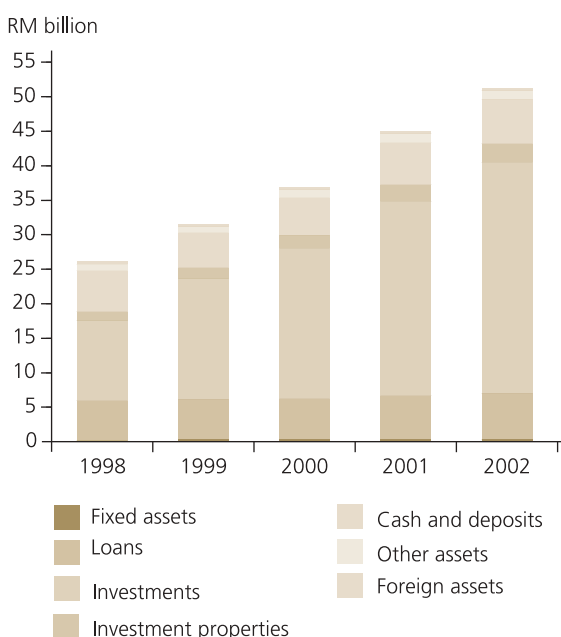
Type of Investment	1998		1999		2000		2001		2002	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Fixed assets	337.7	1.3	294.5	0.9	350.7	1.0	346.8	0.8	382.9	0.7
Loans	5,827.6	22.2	5,886.2	18.7	5,900.4	16.0	6,348.2	14.1	6,656.4	13.0
Mortgages	804.7	3.1	563.8	1.8	649.8	1.7	1,161.0	2.6	1,213.4	2.4
Policy	2,619.4	10.0	3,080.7	9.8	3,561.1	9.7	4,075.4	9.0	4,560.8	8.9
Others	2,403.5	9.1	2,241.7	7.1	1,689.5	4.6	1,111.9	2.5	882.2	1.7
Investments	11,567.9	44.0	17,434.6	55.4	21,831.9	59.3	28,146.4	62.7	33,404.1	65.2
Malaysian Government papers/guaranteed loans	3,542.9	13.5	4,363.6	13.9	4,978.9	13.5	6,818.5	15.2	7,544.2	14.7
Corporate/debt securities	7,957.3	30.3	12,963.2	41.2	16,748.4	45.5	21,123.6	47.0	25,648.8	50.1
Others	67.7	0.2	107.8	0.3	104.6	0.3	204.3	0.5	211.1	0.4
Investment properties	1,302.0	4.9	1,624.4	5.2	1,787.3	4.9	2,462.5	5.5	2,765.8	5.4
Cash and deposits	5,922.1	22.5	5,015.5	15.9	5,557.9	15.1	6,080.2	13.5	6,440.1	12.6
Other assets	986.6	3.8	902.2	2.9	1,047.0	2.8	1,212.7	2.7	1,252.5	2.5
Foreign assets	349.6	1.3	332.1	1.0	331.7	0.9	329.6	0.7	315.9	0.6
Total	26,293.5	100.0	31,489.5	100.0	36,806.9	100.0	44,926.4	100.0	51,217.7	100.0

Valuation Reports

Life insurers are required under Section 85 of the Insurance Act 1996 to carry out annual actuarial investigations into the financial condition of their life business in respect of their liabilities to policy owners, and to submit a summary of the valuation results to the Bank. The actuarial investigations determine the level

of reserves that an insurer has to maintain to meet the future policy benefits of its 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. The investigations for annuity business are based on the 'a (90) Annuitant Mortality Table' using 5% interest rate assumption. The valuation result and surplus distribution figures based on calendar year 2002 are shown in Table 3.16.

Chart 3.4
Assets of Life Insurance Funds



In line with the growth of in-force business, policy owners' funds registered a growth of 14.1% to reach RM45,404.4 million in 2002, while total valuation liabilities increased at a slower rate of 13.7% to reach RM38,091.6 million. With the lower growth in valuation liabilities, the ratio of policy owners' funds to valuation liabilities increased marginally from 118.8% to 119.2%. As a result, the aggregate actuarial surplus recorded a growth of 16.3% to reach RM7,312.8 million in 2002. The foreign-controlled insurers reflected a higher level of efficiency as they accounted for 77.8% (2001: 74.6%) of total industry surplus in 2002 as against a market share of 72.9% of total assets of the life funds.

Table 3.16
Valuation Result and Surplus Distribution

Item	2000		2001		2002	
	RMm	% change	RMm	% change	RMm	% change
Valuation result						
Policyholders' fund	30,643.4	15.2	39,781.4	29.8	45,404.4	14.1
Valuation liabilities	25,380.4	17.0	33,495.0	32.0	38,091.6	13.7
Surplus/deficit	5,263.0	7.0	6,286.4	19.4	7,312.8	16.3
Surplus distribution						
Allocation to policyholders	1,547.4	7.6	1,511.8	-2.3	1,628.3	7.7
Allocation to shareholders	730.3	-5.7	567.2	-22.3	862.5	52.1
Transfer to any fund/reserve	12.4	-41.6	-	-	-	-
Surplus carried forward	2,972.9	10.7	4,207.4	41.5	4,822.0	14.6

In line with the increase in actuarial surplus, the surplus distributed to participating policy owners and shareholders increased by 19.8% in 2002. The amount of surplus allocated to participating policy owners increased by 7.7% (2001: -2.3%), while the surplus allocated to shareholders increased significantly by 52.1% to RM862.5 million in 2002 due mainly to a higher allocation to shareholders of the foreign-controlled insurers. The surplus carried forward to meet future policy owners' bonus expectations including terminal bonus continued to increase to RM4,822 million in 2002, albeit at a lower rate of 14.6% (2001: 41.5%). The overall actuarial surplus of the industry was relatively high with a net surplus ratio (ratio of policy owners' fund after surplus allocation to valuation liabilities) of 112.7%, marginally higher than the preceding year's level of 112.6%.

However, the net surplus arising during the year (excluding surplus brought forward from the previous valuation and transfers from shareholders, but including interim bonuses) declined by 6.8% to RM3,146.7 million in 2002 (2001: +29.3%). The decline was partly due to the slower growth in investment income and an increase in provision for diminution in the value of investments and payment of policy benefits. Most of the domestic insurers (with the exception of three insurers) registered a decline in net surplus arising during the year. As a result of lower investment earnings, the ratio of the industry's net surplus to the average life fund (representing the rate at which surplus is

generated by the life fund) decreased by 2.1 percentage points to 7.4% (2001: 9.5%).

Socio-economic Indicators

Despite an improved nominal GNP growth of 8.9% (2001: -1.4%), the demand for life insurance coverage, as measured in terms of premium income, declined by 7.4% (2001: +31.5%) in 2002. As a result, the ratio of premium income to nominal GNP decreased from 3.8% to 3.2% in 2002. The ratio of premium income to GDP remained low at 3% in 2002 as compared with 3.4% in Singapore, 6% in Taiwan, 8.9% in Japan and 4.4% in the United States of America (USA).

Market penetration, measured in terms of the number of policies in force to the total population, continued to increase from 32.9% in 2001 to 34.7% in 2002. The penetration rate had increased at a compounded rate of 5.3% since 1997. Despite the growth of life insurance coverage, the level of insurance penetration remained relatively low, particularly when benchmarked against the more developed markets like Singapore, Taiwan, South Korea and Japan which experienced penetration rates ranging between 100% to 140%. Measured in relation to the working population, which has better financial capacity to purchase insurance, the ratio increased moderately by 4.5% from 83.1% in 2001 to 86.8% in 2002.

An analysis on per capita insurance spending showed that Malaysians spent only RM442 on life insurance annually as compared with

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 person	Per member of Employ- ment	RMm	million		RM
1998	337,009.8	125.8	15,181	6,271.5	2.3	283	729	267,923	22.2	8.6	12,097
1999	363,929.0	130.0	16,032	7,037.3	2.5	310	800	279,878	22.7	8.8	12,322
2000	399,662.8	127.6	17,007	8,888.6	2.8	378	956	313,248	23.5	9.3	13,333
2001	440,005.8	142.4	18,334	11,684.8	3.8	487	1,230	308,966	24.0	9.5	12,867
2002	481,999.4	143.3	19,673	10,834.9	3.2	442	1,106	336,408 ^p	24.5 ^p	9.8 ^p	13,716 ^p

¹ As per revenue accounts

^p Preliminary

(Source: Department of Statistics, Malaysia)

RM2,700 by Singaporeans, RM2,900 by Taiwanese and RM6,100 by Americans. The low per capita insurance expenditure provides clear indication that the market in Malaysia is largely untapped with potential for greater development in the future.

Premium income as a ratio to the gross national savings decreased marginally from 10.9% to 9.4% in 2002. By comparison with other mediums of savings, the ratio of bank deposits and contributions to the EPF to gross national savings were higher at 22% and 18.6% in 2002. Notwithstanding this, during the period 1998-2002, premium income generated from life business registered a compounded growth rate of 14.6%, higher than the growth of 3.7% in total deposits in the banking system and the growth of 9.8% in annual contributions to the EPF over the same period.

In terms of contribution to capital formation in the economy, life insurance assets recorded a growth of 14% (2001: 22.1%) to reach RM51,217.7 million in 2002 while the total assets of the financial system grew by 7.4% to RM1,401,773.8 million in 2002. The life insurers' share of the total assets of the financial system however increased from 3.4% in 2001 to 3.7% in 2002.

The various socio-economic indicators revealed that there is enormous potential for further expansion of the life insurance industry. In view of the growing sophistication of consumer needs and increasingly integrated financial

markets, the life insurance industry needs to leverage on new technologies and to adopt better selling approach and marketing techniques to accelerate growth in the life industry and to further increase the national savings pool. In this regard, insurers are encouraged to benchmark themselves against the more established players within and outside the country to be able to drive performance and efficiency.

Malaysian Mortality Experience

The mortality rates of Malaysian assured lives were compiled since 1996 based on the actual experience of assured lives in Malaysia. The mortality rates were updated annually from the submissions by life insurers in respect of whole life and endowment for policies in force for male and female assured lives, and the corresponding number of policies terminated by death during the financial year. To ensure a desirable level of statistical precision, the data were categorised by sex, medical underwriting requirement and type of life business. This distinction was made to ensure that the sub-groups were sufficiently homogenous to enable meaningful and reasonable analysis of the mortality data.

The mortality analysis is based on the five-year mortality experience of assured lives in Malaysia as against the initial analysis of seven-year duration which had an averaging effect of reducing the experience arising from a longer investigation period. The five-year

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

Age Attained Group	Ordinary (1996-2000)							
	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	44.39	0.38	367.61	0.33	31.11	0.03	264.98	0.23
15 - 19	43.03	1.02	329.70	1.39	25.72	0.23	206.50	0.38
20 - 24	49.43	1.44	568.81	1.28	32.69	0.31	473.52	0.38
25 - 29	83.49	0.97	910.97	0.99	60.35	0.40	837.72	0.40
30 - 34	129.73	0.95	1,057.82	0.95	77.49	0.61	849.77	0.48
35 - 39	177.33	1.02	1,036.36	1.28	87.68	0.73	732.99	0.66
40 - 44	215.31	1.50	855.39	1.91	87.34	1.24	548.76	0.86
45 - 49	200.84	2.20	587.96	2.96	72.75	1.48	344.34	1.55
50 - 54	146.90	4.19	300.88	5.17	59.97	2.43	157.89	2.58
55 - 59	99.41	6.76	105.34	8.45	53.68	3.73	57.46	4.65
60 - 64	53.95	11.38	32.20	15.52	33.59	7.08	18.24	6.69
65 - 69	22.41	21.29	7.53	24.71	16.57	12.37	4.84	17.76
70 - 74	7.71	36.69	2.23	46.65	5.50	22.19	2.11	32.30
Total	1,273.93	3.10	6,162.80	1.81	644.44	1.98	4,499.12	0.78

E_x - Number of lives exposed to risks in thousands

q_x - Mortality rate multiplied by 1,000

(Source: Life Insurance Association of Malaysia)

period provides for a sufficient size of exposure to risk which is important to minimise the effect of random fluctuation on the mortality rates.

The mortality experience of Malaysian assured lives during the period 1996-2000 is given in Table 3.18. The table is based on mortality experience for policies which have been in force for at least two years. The exclusion of policies with in-force period of less than two years was necessary to minimise the effect of any medical selection, anti-selection or other possible selections at the point of policy issuance. Even with the above exclusion, the mortality rates for male lives with medical examination were generally lower than for male lives without medical examination. However, male lives with medical examination for age groups 10-14 and 20-24 showed slightly heavier mortality as compared with male lives without medical examination mainly due to accident-related deaths. The mortality rates for female assured lives with medical examination were lower than for female assured lives without medical examination for most age groups, except for age groups 30-44 and 60-64.

The mortality rates of ordinary female lives continued to remain significantly lower than

that of male lives by about 36% to 73% for various age groups. The difference was most prominent at ages 15-24, largely due to accident-related deaths experienced by male assured lives in these age groups.

In comparison with the 'Malaysian 1983-88 Mortality Table – Male Ordinary' (M83-88), the Malaysian male mortality rates during 1996-2000 generally showed improvement for all age groups with the maximum of 65% recorded for age group 10-14. The overall improvement in mortality on the average for all ages was about 17%. Despite the improvement in mortality experience, the M83-88 mortality table is still the most commonly used table for pricing life insurance products. However, appropriate adjustment to the M83-88 table is made to reflect the mortality improvement as well as the individual company's experience. A similar comparison with the 'Statutory Valuation Mortality Table 1996' (SVMT) revealed that the male mortality rates were lower with the improvement averaging around 37% across all ages. Similarly, the female mortality rates during the period 1996-2000 recorded a more significant improvement averaging around 60% of SVMT. With the improvement in mortality, SVMT is considered a conservative mortality basis for the calculation of statutory reserves.

A comparison between the expected number of deaths based on the mortality experience for the 1995-1999 investigation (computed for the exposure to risk during the period 1996-2000) with the actual number of deaths in the 1996-2000 investigation appears to indicate that the Malaysian mortality has generally improved for all ages. For ordinary male lives with and without medical examination, the actual number of deaths were approximately 2% and 1% lower respectively than the expected number of deaths calculated using the mortality rates from the previous mortality investigation. Similarly, actual number of deaths during the period 1996-2000 for ordinary female assured lives without medical examination was about 6% lower than the expected number of deaths calculated with the mortality experience of the previous mortality investigation. However, for female assured lives with medical examination, the actual number of deaths was 3.8% higher than the expected number of deaths due mainly to older age groups 55-59 and 60-64 which reported higher increases in the number of deaths.

Performance of General Business

Premium Growth and Distribution

In 2002, gross direct premiums of the general insurance industry rose by 15.4% to RM7,387.8 million, compared with an increase of 8% to RM6,404 million in 2001. Besides improved business performance, the increase in gross direct premiums was due to higher premium rates which rose in tandem with the hardening of rates in the global markets following the September 11 events in the USA. The increase in premium rates was particularly evident in the Marine, Aviation and Transit (MAT) sector, which saw an increase of 60.3% in gross direct premiums compared with increases of less than 5% in the previous few years. Similarly, the increases of 23.9% (2001: 19%) in contractors' all risks and engineering and 38.9% (2001: 23.9%) in liability classes of business were also attributed to the increase in premium rates.

Of the 37 insurers (excluding the professional reinsurers and two direct insurers which were running off their general business), 26 insurers (2001: 21 of 44) recorded gross

direct premiums exceeding RM100 million, of which seven insurers recorded gross direct premiums exceeding RM300 million each (2001: 4 of 44). In aggregate, these 26 insurers accounted for 91.2% (2001: 77%) of the industry's gross direct premiums. The remaining 11 insurers had gross direct premiums of less than RM100 million each, with an average of RM59 million each. Such low volume of business is clearly not viable and is not commensurate with the required minimum paid-up capital of RM100 million. There is, therefore, still room for further consolidation, especially among the smaller insurers operating below optimal level.

Almost two-thirds of the gross direct premiums of general insurers were from motor (46%) and fire (19.7%) business. Of the 37 insurers, six insurers derived more than 70% of their total gross direct premiums from motor insurance business, accounting for a combined market share of 42%, while 18 insurers obtained between 25% to 50% of their gross direct premiums from motor business. Fire business was better distributed among the insurers, with 16 insurers obtaining between 25% to 50% of their gross direct premiums from fire business, while the remaining 21 insurers had less than 25% of their premiums emanating from this sector. All other classes comprised only a small proportion of the portfolio mix of the insurers, with each class accounting for shares not exceeding 10% of total gross direct premiums.

Table 3.19
Premium Income

Year	Gross Premiums ¹	Gross Direct Premiums	Net Premiums	Retention Ratio (%)
RM million				
1998	5,429.7	5,505.9	4,659.1	85.8
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	6,877.3	7,387.8	5,971.5	86.8
% change				
1998	-11.9	-11.7	-9.1	n.a
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	15.2	15.4	10.9	n.a

¹ Gross direct and reinsurance accepted premiums less reinsurance 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											
	1998	473.1	250.8	1,246.7	537.0	360.9	2,068.4	2,429.3	97.1	61.7	410.2	5,505.9
	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	739.8	401.8	1,454.5	700.1	402.4	3,000.8	3,403.2	203.7	85.1	399.6	7,387.8
	% change											
	1998	-6.2	-26.6	3.6	5.7	-2.9	-21.0	-18.7	11.9	-30.4	-19.6	-11.7
	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	60.3	23.9	14.0	7.3	6.3	10.5	10.0	38.9	6.5	8.2	15.4
% share												
1998	8.6	4.6	22.6	9.7	6.5	37.6	44.1	1.8	1.1	7.5	100.0	
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	5.4	19.7	9.5	5.4	40.6	46.0	2.8	1.2	5.4	100.0	

¹ Compulsory insurance cover required under the Road Transport Act 1987

... Negligible

Retention and Reinsurance of Malaysian Business

The overall retention ratio (aggregate retention by direct insurers and reinsurers) of Malaysian

business declined to 86.8% in 2002, after seven years of successive increases which culminated in a high retention of 90.2% at the end of 2001. The reversal of the upward trend

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										
1998	258.8	136.6	911.8	506.6	348.6	2,084.2	2,432.8	55.4	68.4	288.7	4,659.1
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	273.7	205.5	1,060.8	629.0	383.5	2,938.4	3,321.9	117.9	79.8	282.9	5,971.5
	% change										
1998	2.9	-24.4	9.1	9.0	-1.9	-17.7	-15.8	3.2	-29.0	-18.0	-9.1
1999	-13.4	-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	18.1	37.3	10.8	5.7	4.3	10.0	9.3	49.1	2.6	10.4	10.9
	% share										
1998	5.6	2.9	19.6	10.9	7.5	44.7	52.2	1.2	1.5	6.1	100.0
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	3.4	17.8	10.5	6.4	49.2	55.6	2.0	1.3	4.8	100.0

¹ Compulsory insurance cover required under the Road Transport Act 1987

in national retention was due to the increase in the cost of reinsurance in the global markets as was evident in the classes of business which were substantially reinsured abroad. Hence, the retention ratio of the MAT class of business was much lower at 41.8% (2001: 55.6%), while the retention ratio of contractors' all risks and engineering business fell to 62.8% (2001: 67.4%). However, high retention ratios of above 90% continued to be maintained for classes of business which were less reliant on reinsurance support, such as motor (99.5%), workmen's compensation and employers' liability (99.4%) as well as medical expenses and personal accident (94.6%).

The decline in the overall retention ratio can be attributed solely to the direct insurers whose retention ratio fell to 85.4% in 2002 from a high of 89.5% in 2001. The heavy reliance of Malaysian direct insurers on reinsurance support from overseas for classes of business with larger risks was clearly borne out when the impact of the high cost of reinsurance caused a drastic decline in the retention ratios for MAT (from 48.5% in 2001 to 34.1% in 2002) as well as contractors' all risks and engineering (from 52.5% in 2001 to 39.7% in 2002) classes

of business. Whilst there is a need for reinsurance protection for prudential risk management, over-reliance on overseas reinsurance support could render domestic insurers vulnerable to the vagaries of the international reinsurance markets. It is, therefore, imperative that the domestic insurance industry should improve their technical expertise as well as financial capacity to underwrite the larger and more specialised risks.

In contrast to the lower retention by the direct insurers, the professional reinsurers registered a higher retention ratio of 77.6% in 2002 compared with 74.3% in 2001. Excluding Malaysian National Reinsurance Berhad (MNRB), which retroceded part of its reinsurance accepted premiums to the industry under the voluntary cession arrangement, the professional reinsurers recorded a retention ratio of 94.7% (2001: 93%). In 2002, the Malaysian branches of the large international reinsurers stepped in to provide reinsurance capacity to Malaysian direct insurers which faced difficulty in reinsuring large risks with the shrinkage of the global reinsurance market and the imposition of stricter terms. Difficulties were encountered by

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				
1998 1999 2000 2001 2002	Combined ²										
	58.8	55.6	75.9	93.1	99.1	99.0	99.0	65.0	98.7	74.6	85.8
	54.8	56.7	78.7	93.2	99.4	99.4	99.4	70.5	99.2	78.2	87.1
	60.0	63.8	81.8	95.0	99.7	99.4	99.4	68.6	98.7	81.5	89.5
	55.6	67.4	84.1	95.2	99.7	99.4	99.5	59.6	99.4	84.6	90.2
	41.8	62.8	82.8	94.6	99.3	99.5	99.5	61.6	99.4	83.7	86.8
	Direct Insurers ²										
	53.7	41.8	71.2	92.5	99.0	99.0	99.0	62.4	98.6	70.4	84.6
	50.1	44.8	75.0	92.6	99.4	99.4	99.4	67.5	99.1	74.5	86.3
	54.6	49.1	78.7	94.7	99.7	99.4	99.4	64.5	98.6	77.7	89.0
48.5	52.5	80.8	94.8	99.6	99.4	99.5	55.7	99.4	81.1	89.5	
2002	34.1	39.7	78.0	94.0	99.3	99.5	99.5	56.1	99.3	80.6	85.4
1998 1999 2000 2001 2002	Professional Reinsurers ³										
	60.3	67.6	61.1	61.2	49.3	59.3	58.0	97.4	49.6	60.7	60.7
	55.0	70.2	66.5	71.9	49.3	60.3	59.0	86.3	57.1	69.3	64.5
	63.7	80.0	74.0	75.9	53.8	64.2	63.1	87.7	61.8	77.1	71.4
	68.1	81.4	76.8	78.3	60.5	68.2	67.4	87.2	68.1	79.8	74.3
	64.9	89.2	80.3	80.5	65.7	71.7	71.2	93.0	72.7	78.9	77.6

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	335.0	35.9	19.0	-280.1	-83.6
Marine, aviation and transit cargo	45.8	20.2	9.9	-15.7	-34.3
Contractors' all risks & engineering	121.8	53.3	22.2	-46.3	-38.0
Fire	219.8	103.5	47.2	-69.1	-31.4
Medical expenses and personal accident	36.2	24.0	10.4	-1.8	-5.0
Motor	18.3	12.1	1.4	-4.8	-26.2
'Act' cover ¹	2.6	9.8	0.1	7.3	280.8
Others	15.7	2.3	1.3	-12.1	-77.1
Liability	73.4	2.8	8.2	-62.4	-85.0
Workmen's compensation and employers' liability	0.5	0.1	0.1	-0.3	-60.0
Miscellaneous	54.9	33.7	11.0	-10.2	-18.6
Total	905.7	285.6	129.4	-490.7	-54.2

¹ Compulsory insurance cover required under the Road Transport Act 1987

direct insurers particularly in placing risks related to classes of business such as MAT, contractors' all risks and engineering and, to some extent, fire. The aggregate premiums written by professional reinsurers for MAT, contractors' all risks and engineering and fire classes of business accounted for 71.3% or RM158.3 million of the total premiums increase of RM222 million recorded by professional reinsurers in 2002. While direct insurers' retention ratios for the three classes declined, the branches of the professional reinsurers managed to maintain a higher retention of premiums due to their larger capacity. The improved aggregate retention ratio of 77.6% recorded by professional reinsurers, therefore, moderated to some extent, the impact of the substantially lower retention by the direct insurers on the overall retention ratio of the industry.

Insurers' participation in the Malaysian Aviation Pool (MAP) and Malaysian Energy Risks

Consortium (MERIC), the insurance industry's initiative to improve the retention of aviation and energy risks, continued to be very limited in 2002. MAP managed to write premiums amounting to only RM4.3 million (2001: RM2.4 million), while MERIC wrote premiums of RM10.8 million (2001: RM8.3 million). The higher premiums were largely attributable to premium rate increase rather than actual growth in business.

In 2002, total reinsurance premiums ceded and retroceded by the industry amounted to RM3,190.7 million. Of this, RM2,284.9 million or 71.6% (2001: 77.3%) was ceded to Malaysian and Labuan International Offshore Financial Centre (IOFC) reinsurers, while the remaining RM905.7 million was reinsured abroad. Reflective of the increased premium rates of marine and aviation risks, MAT formed the largest component of overseas cessions accounting for more than half of the total premiums placed overseas. As there were no

Table 3.24
Claims Ratio¹

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				
1998	72.0	69.9	52.3	50.9	156.4	50.9	65.0	80.5	16.5	86.5	62.7
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	59.7	70.5	46.6	65.0	142.8	57.3	67.3	36.8	23.5	90.6	63.2

¹ Net claims incurred as a ratio of earned premium income

² Compulsory insurance cover required under the Road Transport Act 1987

major claims in 2002, loss recoveries from overseas reinsurers were correspondingly less significant and inclusive of reinsurance and profit commissions received, total outflow in 2002 amounted to RM490.7 million (2001: net inflow of RM9.5 million).

Claims Experience

The claims ratio of the general insurance industry was marginally higher at 63.2% compared with 63% in 2001. The contractors' all risks and engineering class of business registered a significant decline in claims ratio to 70.5% from 99.8% in 2001. The claims ratio in 2001 was unusually high due to some very large claims. Liability business also showed a marked improvement in claims, with a claims ratio of 36.8% compared with 67.9% a year ago. This was due mainly to more stringent underwriting as well as release of reserves. Another noticeable feature of claims in 2002 was the sharp increase in the claims ratio for Motor 'Act' business, which rose to 142.8% compared with 111.7% a year ago. The upward trend in Motor 'Act' claims over the past few years has further widened the gap between the claims ratio for Motor 'Act' and other classes of motor business. This gap underlines a need for some rationalisation in the pricing structure of motor business, particularly the Motor 'Act' cover.

Underwriting Experience

The general insurers recorded an increase in underwriting profit of RM251.4 million or a margin of 4.4% of earned premium income, compared with a profit of RM170.1 million or a margin of 3.2% in 2001. The improvement in underwriting result was largely due to better control over management expenses, which rose

by only 2.6% compared with an increase of 10.4% in 2001. In 2002, 43% or 21 insurers (including four foreign professional reinsurers) suffered underwriting losses totalling RM236.3 million, compared with total losses of RM149.1 million suffered by 50% or 28 insurers in 2001.

Operating Results

The operating profit of general insurers increased by 8.3% to RM809.3 million in 2002 from RM747.1 million in 2001, mainly due to significant amount of capital gains and increase in underwriting profit as well as investment income. The ratio of operating profit of the industry to earned premium income however, remained relatively unchanged at 14.2% in 2002. During the year under review, nine

Table 3.25
Underwriting Experience

Year	Earned Premium Income	Net Claims Incurred	Net Com-missions	Management Expenses	Under-writing Margin
RM million					
1998	4,956.7	3,105.8	466.7	975.6	408.6
1999	4,567.2	2,877.8	473.5	987.0	228.9
2000	4,822.1	3,071.1	532.9	1,079.2	138.9
2001	5,231.6	3,293.8	576.7	1,191.0	170.1
2002	5,705.8	3,603.7	629.1	1,221.7	251.4
% of earned premium income					
1998	100.0	62.7	9.4	19.7	8.2
1999	100.0	63.0	10.4	21.6	5.0
2000	100.0	63.7	11.0	22.4	2.9
2001	100.0	63.0	11.0	22.8	3.2
2002	100.0	63.2	11.0	21.4	4.4
% change					
1998	5.5	15.6	0.3	4.2	-33.0
1999	-7.9	-7.3	1.5	1.2	-44.0
2000	5.6	6.7	12.5	9.3	-39.3
2001	8.5	7.3	8.2	10.4	22.5
2002	9.1	9.4	9.1	2.6	47.8

Table 3.26
Underwriting and Operating Results

Item	1998		1999		2000		2001		2002	
	RMm	% change	RMm	% change	RMm	% change	RMm	% change	RMm	% change
Underwriting profit	408.6	-33.0	228.9	-44.0	138.9	-39.3	170.1	22.5	251.4	47.8
Investment income	783.9	36.7	614.7	-21.6	501.3	-18.4	515.1	2.7	528.9	2.7
Capital gains	12.5	-82.6	223.8	1,690.4	212.7	-5.0	69.9	-67.1	124.3	77.8
Other income	323.5	411.1	260.9	-19.4	103.9	-60.2	275.3	165.0	190.7	-30.7
Capital losses	371.6	163.9	21.8	-94.1	23.0	5.5	129.9	464.8	82.3	-36.6
Other outgo	170.4	-78.1	146.1	-14.3	495.9	239.4	153.4	-69.1	203.7	32.8
Operating profit	986.5	146.6	1,160.4	17.6	437.9	-62.3	747.1	70.6	809.3	8.3

insurers (2001: seven), seven of which were local direct insurers, suffered operating losses totalling RM106.1 million.

Assets

Total assets of the general insurance funds grew at a slower pace of 3.2% to reach RM15,422.1 million (2001: 8.4% to RM14,942.8 million). The slower growth of assets despite the increase of 15.4% in gross direct premiums was because part of the premiums was diverted to meet higher reinsurance costs following the hardening of the market. There was no significant change in the distribution of assets from that in the

previous year. Cash and deposits remained the largest component, accounting for 35.4% (2001: 35.2%) of total general funds, followed by corporate and debt securities and Malaysian Government papers and guaranteed loans with a share of 32.9% and 12.1% respectively.

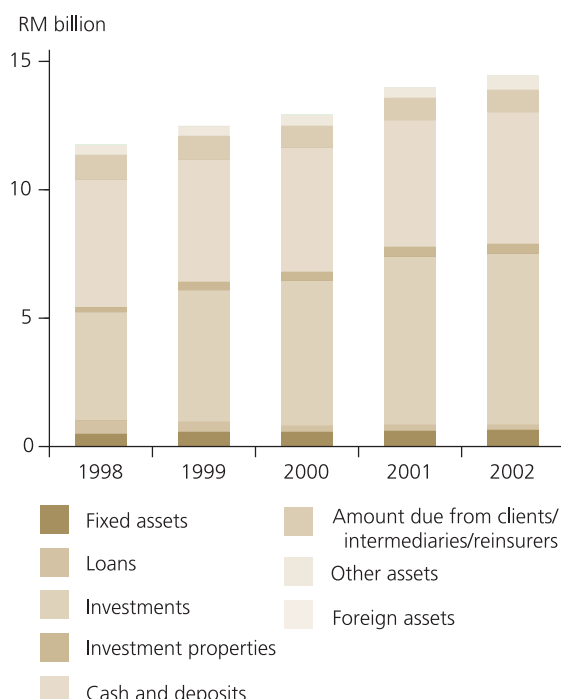
A classification of insurers by size of assets showed that of the 48 insurers (including two insurers which were running off their liabilities), 23 had general fund assets of at least RM300 million each, compared with 18 insurers in 2001. The increase in the number of companies with larger fund assets was attributed to the further market driven

Table 3.27
Assets of General Insurance Funds

Type of Investment	1998		1999		2000		2001		2002	
	RMm	%	RMm	%	RMm	%	RMm	%	RMm	%
Fixed assets	550.7	4.4	602.5	4.5	605.4	4.4	681.3	4.6	692.3	4.5
Loans	549.1	4.4	438.3	3.3	259.0	1.9	222.1	1.5	210.4	1.4
Investments	4,478.7	35.7	5,448.6	40.9	6,022.1	43.7	6,983.0	46.7	7,093.8	46.0
<i>Malaysian Government</i>										
<i>papers/guaranteed loans</i>	2,094.7	16.7	1,931.7	14.5	1,843.0	13.4	1,928.8	12.9	1,864.6	12.1
<i>Corporate/debt securities</i>	2,337.8	18.6	3,439.8	25.8	4,074.3	29.5	4,915.6	32.9	5,081.4	32.9
<i>Others</i>	46.2	0.4	77.1	0.6	104.8	0.8	138.6	0.9	147.8	1.0
Investment properties	208.4	1.6	378.9	2.9	384.9	2.8	427.5	2.9	426.4	2.8
Cash and deposits	5,311.8	42.3	5,042.9	37.9	5,157.0	37.4	5,258.9	35.2	5,456.6	35.4
Amount due from clients/ intermediaries/reinsurers	1,028.9	8.2	995.7	7.5	914.3	6.6	946.2	6.3	946.2	6.1
Other assets	416.6	3.3	403.7	3.0	444.7	3.2	421.5	2.8	592.8	3.8
Foreign assets	7.0	0.1	3.6	...	3.6	...	2.3	...	3.6	...
Total	12,551.2	100.0	13,314.2	100.0	13,791.0	100.0	14,942.8	100.0	15,422.1	100.0

... Negligible

Chart 3.5
Assets of General Insurance Funds



consolidation of the industry in 2002 as more insurers merged to remain competitive in a more liberalised market. The average assets size per insurer also increased to RM335.3 million from RM271.7 million in 2001.

Technical Reserves

The technical reserves ratio maintained by general insurers continued to decline further to 151% at the end of 2002, compared with 157% at the end of 2001 and 165.9% as at end 1999. The decline in technical reserves can be attributed in part to the release of reserves by some insurers. While the margin of reserves

Table 3.28
Classification by Size of General Insurance Funds

RM million	Number of Funds				
	1998	1999	2000	2001	2002
Less than 20	3 ¹	3 ¹	3 ¹	3 ¹	3 ¹
20 to less than 30	–	1	3	1	1
30 to less than 50	3	2	1	2	1
50 to less than 100	11	9	5	5	3
100 to less than 150	12	12	12	8	4
150 to less than 300	21	17	19	20	13
300 & above	11	14	15	18	23
Total	61	58	58	57	48

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

Table 3.29
Technical Reserves

Year	Reserves for Unexpired Risks	Provision for Outstanding Claims	Technical Reserves
RM million			
1998	2,107.8	5,240.9	7,348.7
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	2,773.8	6,243.4	9,017.2
% change			
1998	–12.1	12.8	4.3
1999	1.0	4.4	3.4
2000	10.1	5.0	6.4
2001	6.9	3.6	4.6
2002	10.8	4.9	6.6
% of net premiums			
1998	45.2	112.5	157.7
1999	46.5	119.5	165.9
2000	46.3	113.6	159.9
2001	46.5	110.5	157.0
2002	46.5	104.6	151.0

appear to be adequate, it is important for insurers to continue to build up reserves to meet contingencies of unexpected proportions as illustrated by global events in the past two years.

IBNR Claims

Insurers should maintain sufficient reserves for Incurred But Not Reported (IBNR) claims to absorb fluctuations in claims experience. Although individual insurers may have different link ratios, claims ratios and claims frequencies arising from differences in their portfolios, the industry figures shown in Tables 3.30, 3.31 and 3.32 can be utilised for comparison purposes.

Business from Outside Malaysia

During the year, gross premiums (both direct and reinsurance inward business) from outside Malaysia increased by 29.4% (2001: 15.4%) to RM380.5 million from RM294.1 million in 2001. The professional reinsurers continued to account for the bulk (66.2%) of business from outside Malaysia. The share of direct insurers, however, declined to account for 33.8% in 2002 compared with a share of 35.8% in 2001.

Business from outside Malaysia in 2002 continued to be dominated by fire business, accounting for 50.4% (2001: 52.9%) followed by miscellaneous and MAT classes representing

Table 3.30
Average Link Ratio for Cumulative Paid Claims and Emergence of Claims¹

Class	Development Year							% of Ultimate Incurred Claims Cost at End of Development Year 1	
	0 ²	1	2	3	4	5	Ultimate	2000	2001
Marine, aviation and transit	2.48	1.16	1.05	1.02	1.00	1.01	1.06	85.5	87.2
Fire	1.97	1.06	1.02	1.01	1.00	1.00	1.02	93.7	94.7
Motor									
'Act' cover ³	6.56	2.42	1.51	1.26	1.16	1.11	1.18	36.3	34.9
Others	1.95	1.04	1.01	1.01	1.00	1.00	1.02	93.8	95.0
Miscellaneous ⁴	1.84	1.11	1.04	1.02	1.01	1.01	1.09	81.9	85.2

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

26.8% (2001: 26.9%) and 13.7% (2001: 12.9%) respectively. In tandem with the increased inflow of business, the general fund assets supporting business from outside Malaysia in 2002 increased by 17.1% to RM749.5 million. The bulk of the assets was held in foreign assets (37.4%), followed by cash and deposits (30%) and investments in corporate and debt securities (15.8%).

Performance of Professional General Reinsurers

In 2002, reinsurance premiums accepted by the nine professional general reinsurers (MNRB and eight branches of foreign reinsurers) recorded a

higher growth of 21.8% to RM1,241.9 million (2001: 11.3% to RM1,019.7 million), a large part of which was due to the hardening of reinsurance premiums rates following the September 11 events. The reinsurers were more stringent and selective in underwriting with priority shifted to profitability of accounts rather than achievement of gross premium targets. Nevertheless, with shrinkage of capacity in the international market, the professional reinsurers supported the domestic market by increasing their participation in the reinsurance arrangement of direct insurers. Hence, there was a notable increase in

Table 3.31
Estimated Ultimate Net Incurred Claims Ratio¹

Class	Year of Occurrence of Loss						
	1995	1996	1997	1998	1999	2000	2001
	%						
Marine, aviation and transit	36.4	46.9	54.1	44.6	46.7	53.9	56.7
Fire	21.9	19.8	28.3	23.5	25.5	27.5	27.1
Motor							
'Act' cover ²	102.1	130.1	124.0	107.9	113.3	115.6	82.9
Others	35.6	38.0	42.9	49.6	62.4	60.9	62.0
Miscellaneous ³	31.6	39.3	44.1	52.1	64.4	66.4	71.5

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
Average Frequency of Loss and Average Cost per Claim¹

Class	Average Frequency of Loss	Average Cost per Claim
	%	RM
Marine, aviation and transit	6.6	3,286
Fire	1.6	6,405
Motor		
'Act' cover ²	1.2	5,921
Others	5.4	6,605
Miscellaneous ³	9.1	1,819

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			Liability	Workmen's Compensation and Employers' Liability	Miscellaneous	Total
					'Act' Cover ¹	Others	Total				
	Reinsurance accepted premiums (RM million)										
1998	83.8	103.6	419.3	74.6	43.7	296.8	340.5	6.3	16.4	103.5	1,148.0
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	128.2	145.1	447.7	79.8	29.5	281.2	310.7	26.7	9.0	94.7	1,241.9
	Net premiums (RM million)										
1998	50.5	69.9	256.4	45.7	21.6	175.9	197.5	6.2	8.1	62.8	697.1
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	83.2	129.4	359.5	64.2	19.4	201.8	221.2	24.8	6.5	74.7	963.5
	Claims ratio ² (%)										
1998	87.1	74.7	75.1	57.8	222.0	41.9	61.5	28.5	16.3	100.1	71.7
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	77.3	78.2	59.5	87.0	121.1	56.0	61.9	59.8	19.5	88.2	67.9

¹ Compulsory insurance cover required under the Road Transport Act 1987

² Net claims incurred as a ratio of earned premium income

premiums placed with professional reinsurers which, in 2002 accounted for 60.5% (2001: 57.5%) of total reinsurance placed within Malaysia. Of this, 40.6% (2001: 37.8%) was placed with licensed foreign professional reinsurers.

In terms of the composition of business of the professional reinsurers, fire and motor business combined continued to dominate with market share of 36% and 25% respectively. The other major classes of business were contractors' all risks and engineering as well as MAT which increased substantially by 42.2% and 39.7% respectively in 2002. As a result, contractors' all risks and engineering accounted for an increased market share of 11.7% (2001: 9.9%) of the reinsurance premiums underwritten by the professional reinsurers, while the share of MAT rose to 10.3% (2001: 9%).

The claims ratio of the professional reinsurers rose marginally to 67.9% in 2002 from 67.1% in 2001. The MAT sector registered a marked increase in claims, with the claims ratio rising to 77.3% (2001: 48.2%) due to an increase in provision for outstanding claims for large losses reported. The overall motor claims ratio increased to 61.9% from 55.4% in 2001,

mainly as a result of adverse claims from Motor 'Act' business. In line with the higher claims experienced in medical and health business, the claims ratio for medical expenses and personal accident also rose to 87% from 66.9% in 2001. In contrast, there was substantial improvement in claims in contractors' all risks and engineering business which offset to some extent, the increases in the claims ratio of other major classes of business.

The professional reinsurers recorded an underwriting profit of RM8.6 million compared with an underwriting loss of RM1.8 million in 2001. The improvement was mainly attributable to increase in reinsurance rates and controlled acquisition costs and management expenses. Although the underwriting profit was further buoyed by improved investment income, loss on sale of assets/investment diluted reinsurers' earnings resulting in a lower overall operating profit of RM80.7 million (2001: RM88.4 million).

Gross overseas reinsurance inward business attained by professional reinsurers increased to RM252 million in 2002 (2001: RM188.7 million) accounting for 88.8% (2001: 83.3%) of the industry's total overseas reinsurance inward

business of RM283.6 million. Of the eight foreign professional reinsurers licensed, one accounted for a share exceeding 50% of the gross overseas reinsurance inward premiums, while six accounted for shares ranging between 0.2% to 12.2%.

Insurance Broking

In line with the higher premiums generated by the industry in 2002, total premiums placed by the insurance broking sector increased by 39.2% to RM2,398.9 million (2001: 36.3% to RM1,723.4 million). All classes of business recorded a positive growth with MAT recording the highest growth rate of 102.5% (2001: 29.7%) largely due to the substantial increase in premium rates following the September 11 events. The miscellaneous and fire businesses registered growth of 22.3% and 22.2% respectively in year 2002. Placement of life business recorded a slower growth of 4.2% to RM54.7 million compared with 7.8% in 2001. In terms of market share of total premiums placed, the miscellaneous class maintained the largest share at 37.4%, followed by MAT business with 32.2%.

Of the total premiums placed by brokers in 2002, 69.9% or RM1,676 million (2001: 75.2% or RM1,296.3 million) was in the form of direct placements, while the balance of 30.1% or RM722.9 million was in respect of reinsurance placements. Premiums placed

locally increased marginally to 89.8% (2001: 89%) or RM2,153.7 million, whilst placement abroad decreased slightly to 10.2% (2001: 11%) or RM245.2 million.

The broking industry average premiums in 2002 amounted to RM66.6 million per broker (2001: RM47.9 million). Of the 36 insurance brokers, eight brokers dominated the broking industry with their market share of 71.5% of the total premiums placed (these brokers transacted an average premium of RM214.5 million per broker compared with RM120.4 million in 2001). The remaining 28 brokers accounted for the balance of the market share of RM682.7 million with average premiums of RM24.4 million per broker (2001: RM15.9 million).

The operating profit of insurance brokers showed an improvement of 40.7% to RM46.7 million in 2001 largely due to the significant increase in brokerage earned arising from high premiums transacted as well as investment income.

Total outstanding premiums increased by 43.8% to RM410.6 million compared with RM285.6 million at the end of 2000. About 72.5% (RM297.8 million) of the premiums outstanding were for the period of below two months while 15.8% (RM64.8 million) were outstanding for over six months. Long outstanding premiums would affect the profitability of insurers as they would be

Table 3.34
Total Premiums Transacted

Year	Marine, Aviation and Transit	Fire	Motor	Life	Miscellaneous	Total
Direct Premiums (RMm)						
2000	213.4	267.5	61.9	47.2	386.7	976.7
2001	253.6	356.0	69.6	51.2	565.9	1,296.3
2002	457.3	437.0	64.9	51.9	664.9	1,676.0
Reinsurance Premiums (RMm)						
2000	80.8	48.1	1.8	1.5	84.6	216.8
2001	127.9	125.7	4.3	1.3	167.9	427.1
2002	315.3	151.6	21.0	2.8	232.2	722.9
Combined (RMm)						
2000	294.2	315.6	63.6	48.7	471.3	1,193.5
2001	381.5	481.7	73.9	52.5	733.8	1,723.4
2002	772.6	588.6	85.9	54.7	897.1	2,398.9

Table 3.35
Outstanding Premiums Due to Insurers

Months	1999		2000		2001	
	Amount (RMm)	% of Total	Amount (RMm)	% of Total	Amount (RMm)	% of Total
0 - 2	125.3	55.8	187.4	65.6	297.8	72.5
>2 - 6	60.0	26.7	39.1	13.7	48.0	11.7
>6 - 12	21.7	9.7	24.5	8.6	19.7	4.8
over 12	17.5	7.8	34.6	12.1	45.1	11.0
Total	224.5	100.0	285.6	100.0	410.6	100.0

required to provide for doubtful debts for all receivables aged above six months. Poor collection of premiums due could also contribute to the problem of unreconciled balances that continue to persist between insurers and brokers. The insurance brokers should accord greater effort to improve their collection of premiums outstanding from clients, as well as to promptly remit balances to their insurers.

In terms of capitalisation, the average paid-up capital of the 35 insurance brokers increased to RM1.3 million as at end 2002 from RM1.2 million (of 36 brokers). The increase was due to capital injections undertaken by a few brokers to strengthen their financial positions. As in the past years, the paid-up capital levels of 24 of the brokers (2001: 23 of 36 brokers) were lower than the average industry level of RM1.3 million. Therefore, there are still a large number of insurance brokers in the industry with small capital base and transacting low volume of premiums. There

is a need for further consolidation to raise their competitive position and to mitigate the risks of being marginalised when the market is opened to greater competition.

Loss Adjusting

In 2002, the number of cases handled by the adjusting sector increased marginally by 5.8% to 247,546 (2001: 233,900). Motor cases handled by adjusters increased by 7.1% to 205,783 (2001: 192,167) and continued to dominate the market with a share of 83.1% (2001: 82.2%). Non-motor cases also increased, albeit at a lower rate of 0.1%, to 41,763. The average number of cases handled by each adjuster in 2002 was 6,189. As in previous years, 12 adjusters continued to dominate the sector's business, handling a total of 167,044 cases or 13,920 each (2001: 12,721), while the remaining 28 adjusters accounted for 80,502 cases or 2,875 cases each (2001: 2,802).

Table 3.36
Operating Results of Brokers¹

Item	1999		2000		2001	
	RMm	% change	RMm	% change	RMm	% change
Brokerage Earned	122.5	0.4	124.8	1.9	142.9	14.5
Other Income	14.9	-25.0	13.6	-8.7	17.4	27.9
Total Expenses	99.8	5.9	105.2	5.4	113.6	8.0
Operating Profit/(Loss)	37.6	-21.1	33.2	-11.9	46.7	40.7

¹ Based on financial year, consolidated from financial year end 1 July to 30 June

Table 3.37
Cases Handled by Adjusters

Year	Motor			Non-motor			Total	
	No.	% change	% share	No.	% change	% share	No.	% change
2000	186,348	21.3	83.0	38,055	49.6	17.0	224,403	25.3
2001	192,167	3.1	82.2	41,733	9.7	17.8	233,900	4.2
2002	205,783	7.1	83.1	41,763	0.1	16.9	247,546	5.8

Adjusting fees increased marginally by 1.8% to RM132.7 million in 2001, compared with RM130.3 million in 2000. Despite the increase in fees earned, total operating profit of the loss adjusting sector continued to decline by 50.3% to RM8.7 million in 2001. The reduction was attributable to the increase in total expenses by 9.3%, contributed mainly by increase in staff remuneration and higher provisioning for bad and doubtful debts for the outstanding adjusting fees. Of the 40 adjusters, 29 recorded operating profits totalling RM10.5 million, of which 86.4% were contributed by five adjusters. Eleven adjusters suffered losses totalling RM1.8 million.

In terms of capitalisation, the total paid-up capital of the adjusting sector increased from

RM12.3 million in 2001 to RM14.1 million in 2002. Consequently, the average paid-up capital of the adjusters also increased from RM299,997 in 2001 to RM353,747 in 2002. Only 10 adjusting companies exceeded the average paid-up capital level. Of the 30 adjusters with paid-up capital below the sector's average, 13 were at the minimum paid-up capital requirement of RM150,000.

The adjusting sector continued to be fragmented with a large number of small and weak players, and their performance gaps relative to the bigger players are increasingly widening. These players should seriously review their corporate objectives and business strategies to remain relevant as the level of market competition intensifies.

Table 3.38
Operating Results of Adjusters¹

Item	1999		2000		2001	
	RMm	% change	RMm	% change	RMm	% change
Fees Earned	123.0	15.7	130.3	5.9	132.7	1.8
Other Income	0.3	–	4.1	1,266.7	3.8	–7.3
Total Outgo	97.8	17.5	116.9	19.5	127.8	9.3
Operating Profit/(Loss)	25.5	10.4	17.5	–31.4	8.7	–50.3

¹ Based on financial year, consolidated from financial year end 1 July to 30 June