



Administration of the Act

Legislation

The insurance industry is governed by the Insurance Act 1996 (Act) which came into force on 1 January 1997. The Act is supplemented by the Insurance Regulations (Regulations) through which Bank Negara Malaysia (BNM) prescribes the details of mandatory requirements contained in certain provisions of the Act.

Insurance Regulations

The Regulations which were amended to prescribe the maintenance of a minimum paid-up capital/surplus of assets over liabilities of RM50 million for insurers came into effect on 31 December 2000. In a move to heighten insurers' awareness on the need for industry consolidation, the minimum paid-up capital/surplus of assets over liabilities requirement for a direct insurer would be further increased to RM100 million with effect from 30 June 2001. Steps are currently being taken to effect the change, which has been approved by the Minister of Finance, and will be brought into force in 2001 by order published in the Gazette.

Specifications

The Act empowers BNM to specify matters pursuant to the provisions of the Act. To accord insurers greater investment flexibility without compromising prudence, the specification of admitted assets pursuant to section 46(2) of the Act was amended to remove the aggregate limit of 55% of margin of solvency on investment in credit facilities and shares. Previously, insurers were allowed to invest up to 40% of the margin of solvency in credit facilities provided that combined investments in credit facilities and shares did not exceed 55%. With the relaxation, insurers can invest up to 40% and 30% of the margin of solvency in credit facilities and shares respectively.

Licensing and Market Structure

Licensing of Insurers, Insurance Brokers and Adjusters

As at the end of 2000, there were 64 licensed insurers compared with 67 as at the end of 1999. The reduction in the number of insurers was due to the revocation of the licences of Paramount Assurance Berhad, Sime Axa Assurance Berhad and Nusantara Worldwide Insurance (Malaysia) Berhad following their successful mergers with other direct insurers. The general reinsurance licence issued to Hannover Ruckversicherungs-Aktiengesellschaft was revoked and replaced by a composite reinsurance licence effective 18 January 2000. In January 2000, a licence was also issued to General Reinsurance Corporation (GRC) of the United States of America for the conduct of general reinsurance business in Malaysia. With the licensing of GRC, all general reinsurance licences offered by Malaysia under the WTO Agreement have been fully issued. A breakdown of the 64 insurers licensed under the Act is as follows:-

- 36 insurers carrying on direct general insurance business;
- 7 insurers carrying on direct life insurance business;
- 10 insurers carrying on direct life and general insurance business;
- 9 professional reinsurers carrying on general reinsurance business;
- 1 professional reinsurer carrying on life reinsurance business; and
- 1 professional reinsurer carrying on life and general reinsurance business.

As at the end of 2000, there were 141 licenses comprising 64 insurers, 36 brokers and 41 adjusters as shown in Table 1.1. The names of licensed insurers and reinsurers, insurance brokers and adjusters are given in Appendices II, III and IV to this Report.

As at end of December	1999	2000
Direct insurers		
<i>Malaysian-incorporated</i>	54	51
<i>Foreign-incorporated</i>	2	2
Sub-total	56	53
Professional reinsurers		
<i>Malaysian-incorporated</i>	2	2
<i>Foreign-incorporated</i>	9	9
Sub-total	11	11
Total insurers	67	64
Insurance brokers	36	36
Adjusters	41	41

Agents

Agents are not directly supervised by BNM under the Act, but are required to be registered with the mandatory insurance associations, namely, the Life Insurance Association of Malaysia (LIAM) for life agents and Persatuan Insuran Am Malaysia (PIAM) for general agents. To enhance professionalism among the agency force, all agents are required to pass a compulsory Pre-Contract Examination for Insurance Agents (PCEIA) conducted by the Malaysian Insurance Institute as a prerequisite to registration.

There were 128,608 (1999: 126,650) registered insurance agents as at the end of 2000. The number of life agents registered with LIAM fell from 88,786 as at the end of 1999 to 87,375. Part-time agents accounted for 62.7% of the total life agents. In contrast, the number of general agents registered with PIAM increased from 37,864 to 41,233 over the same period.

Change of Company Status

Section 14 of the Act requires all licensed insurers (other than professional reinsurers which are allowed to operate as a branch) to be incorporated as public companies under the Companies Act 1965. As at end 2000, only two foreign insurers have yet to domesticate their operations to become

	Insurers	Insurance Brokers	Adjusters
Approved in 2000	51	1	8
As at 31 December 2000	832	30	105

locally incorporated public companies. These two foreign insurers were given an extension of time to locally incorporate their Malaysian operations. The list of foreign-incorporated insurers which had restructured into Malaysian-incorporated insurers is given in Appendix V.

Offices of Licensees

Section 36 of the Act requires a licensee to obtain the prior approval of BNM to establish an office (including electronic terminals) in or outside Malaysia. However, since August 1999, insurers are no longer required to seek BNM's approval to establish electronic terminals at the premises of their intermediaries, provided the terminals only provide information relating to the intermediaries' own portfolio and are non-interactive. In 2000, approval was given for 60 branch offices, compared with 20 in the preceding year. Of this, 51 were new branches of insurers, bringing the total number of insurance companies branches to 832 as at the end of 2000 compared with 882 as at the end of 1999. The reduction in the number of branches was mainly due to the conversion of 30 branches into agency offices by one insurer as well as the rationalisation of office network of insurers following the completion of their merger exercises. The number of branch offices of licensees as at end 2000 is shown in Table 1.2.

Changes in Equity

Section 18 of the Act requires a Malaysian incorporated licensee to maintain a minimum paid-up capital of an amount prescribed by BNM. Licensed foreign insurers are required to maintain a corresponding surplus of assets over liabilities in Malaysia. Pursuant to this, direct insurers are required to maintain a minimum paid-up capital of RM50 million by 31 December 2000 and RM100 million by 30 June 2001, while insurance

As at end of December	1999		2000	
	RMm	%	RMm	%
Held by Malaysians	2,501.2	62.3	2,795.5	66.3
<i>Bumiputera</i>	1,403.1	34.9	1,502.7	35.6
<i>Non-Bumiputera</i>	1,098.1	27.4	1,292.8	30.7
Held by non-Malaysians	1,514.2	37.7	1,419.8	33.7
Total	4,015.4	100.0	4,215.3	100.0

brokers and adjusters are to maintain paid-up capital unimpaired by losses of RM500,000 and RM150,000 respectively.

As at 31 December 2000, the capitalisation of Malaysian-incorporated insurers stood at RM4,215.3 million, a marginal increase of 5% from RM4,015.4 million in the previous year. Despite the revocation of the licences of three insurers following the completion of their merger exercises, the capitalisation of the industry increased marginally, primarily due to insurers complying with the minimum paid-up capital requirement of RM50 million by 31 December 2000. Malaysian equity participation accounted for 66.3% (1999: 62.3%) with 35.6% (1999: 34.9%) held by Bumiputera, thus meeting the National Development Policy (NDP) requirement. The capital distribution of Malaysian-incorporated insurers is given in Table 1.3.

As at the end of 2000, the total paid-up capital of licensed insurance brokers increased by 14.4% to reach RM39.8 million, while licensed adjusters registered a total capitalisation of RM11.8 million, an increase of 13.5% from 1999. The capital distribution of insurance brokers and adjusters are shown in Tables 1.4 and 1.5 respectively.

As at end of December	1999		2000	
	RMm	%	RMm	%
Held by Malaysians	31.8	91.5	37.2	93.5
<i>Bumiputera</i>	26.1	74.9	30.8	77.4
<i>Non-Bumiputera</i>	5.7	16.6	6.4	16.1
Held by non-Malaysians	3.0	8.5	2.6	6.5
Total	34.8	100.0	39.8	100.0

As at end of December	1999		2000	
	RMm	%	RMm	%
Held by Malaysians	9.4	89.8	10.8	91.5
<i>Bumiputera</i>	4.7	45.1	5.7	48.3
<i>Non-Bumiputera</i>	4.7	44.7	5.1	43.2
Held by non-Malaysians	1.0	10.2	1.0	8.5
Total	10.4	100.0	11.8	100.0

Margin of Solvency

Part IX of the Regulations prescribes the margin of solvency required of licensed insurers as follows:-

- for life insurance business, the aggregate of a computed amount derived from a percentage of the actuarial valuation liabilities, sums at risk and net premiums on all life policy extensions, plus total liabilities of the life insurance fund determined at the end of the financial year; and
- for general business, the aggregate of a computed amount derived from a specified percentage of claims or net premiums plus the total liabilities of the general insurance fund determined at the end of the financial year.

The Regulations further provide that the computed amount derived in the manner described above shall be subject to a minimum amount for each of the insurer's life and general insurance business. The minimum margin of solvency has been prescribed at RM40 million from 1 January 2000 and RM50 million from 1 January 2001 for all insurers and reinsurers except foreign professional reinsurers, where it is RM10 million. The margin of solvency must be supported by admitted assets of the form, and to the extent, specified by BNM.

As at the end of financial year 1999, retained profits registered by the industry recorded an increase of 68.8% to reach RM2,042.6 million, though this was slightly below the performance in 1998 when it increased by 80.1% to RM1,209.9 million. Combined with the higher solvency margin

Table 1.6 Shareholders' Funds of Malaysian-incorporated Insurers

Shareholders' Fund	Financial Year End	
	1998	1999
	RM million	
Paid-up capital	3,373.6	3,973.3
Retained profit/loss	1,209.9	2,042.6
Other reserves	846.9	799.0
Total	5,430.4	6,814.9

requirement, the shareholders' funds of Malaysian-incorporated insurers increased by 25.5% (1998: 21.7%) to RM6,814.9 million in 1999 (Table 1.6). The shareholders' funds of insurers are expected to increase further following the imposition of the new minimum capital requirement of RM100 million with effect from 30 June 2001.

The requirement to maintain an admitted asset ratio (defined as the proportion of admitted assets required to be maintained by an insurer to the margin of solvency) was increased from 80% to 90% by 1 January 2000. Despite this higher requirement, the industry registered a combined aggregate solvency surplus (assets in excess of the required margin of solvency) of RM4,706.7 million for the financial year ended 1999/2000, an increase of 51.1% compared with a decrease of 17% in the previous financial year (Table 1.7). This was due to 14.8% growth in combined admissible assets against 11.7% increase in the required margin of solvency. A total of 12 (1999: 17) insurers

transferred or assigned assets from their shareholders' funds to meet the admitted assets requirement. Two insurers reported technical solvency deficiencies at the close of the 1999/2000 financial year. Of these, one was running off its general insurance business, while the other was acquired by another insurer.

In line with the improved performance of insurers following the economic recovery, the temporary reprieve given to insurers to maintain a lower admitted asset ratio was removed. Effective 1 January 2001, insurers (which have been allowed to maintain an admitted asset ratio of 80% for the financial year ending in 1999 and 90% by 1 January 2000) are required to maintain an admitted asset ratio of 100%. The full reinstatement would require insurers to be more circumspect with their asset management decisions and in monitoring their solvency margin positions.

Section 92(5) of the Act empowers BNM to direct a licensee to obtain BNM's confirmation before laying its accounts at the general meeting and publishing its accounts. This section is invoked when there is a need to ensure that the solvency requirement is complied with before dividends are paid. In 2000, three insurers were required to submit their accounts for approval. The accounts of two insurers were approved after one had submitted concrete proposals to rectify its solvency deficit while the other had implemented remedial measures prescribed by BNM. The accounts of another insurer were approved, subject

Table 1.7 Solvency Surplus

As at Financial Year End	General Insurance Fund		Life Insurance Fund		Shareholders'/ Working Fund ¹		Total	
	1998	1999	1998	1999	1998	1999	1998	1999
	RM million							
Minimum required margin of solvency	11,219.6	11,681.9	25,474.7	29,302.9	n.a.	n.a.	36,694.3	40,984.8
Admissible assets	13,124.5	13,807.8	26,183.3	31,496.1	500.6	387.6	39,808.4	45,691.5
Solvency surplus							3,114.1	4,706.7

¹ Assets can be assigned from the shareholders'/working fund with the prior approval of BNM to meet the solvency margin requirement
n.a. Not applicable

to it taking prescribed remedial actions to ensure solvency compliance.

Examination

In 2000, the Insurance Supervision Department of BNM conducted 22 commercial examinations, eight actuarial examinations and seven market conduct examinations on 29 insurance companies and their branches. In addition, the Insurance Supervision Department also conducted examinations on 10 insurance agents and one managed care organisation (MCO).

BNM continued its risk-based examination approach, focussing on areas significantly impacting the financial health of the insurers being examined. This is to ensure that insurers were carrying out their operations in a prudent manner towards meeting their obligations to policy owners. In order to establish an overall rating assessment on each insurer that has been examined, the examinations also covered an in-depth review and appraisal of insurers' EMAS (Earnings, Management, Assets Quality and Solvency) ratings. To complement the above risk-based examination, market conduct examinations were also carried out on some insurers. This is to ensure that insurers subscribed to professional and fair market practices, in line with BNM's legal and administrative requirements.

From the results of the examinations conducted, BNM is generally satisfied with the progress made during the year. However, there remained several areas that needed to be strengthened, particularly in the areas of market practices, corporate governance, customer service, assets management, productivity, compliance with the National Development Policy and financial resilience. The areas of concern highlighted in the examinations formed the basis for remedial measures. In this regard, the commitment of the Board and management of insurers were sought to address those concerns and to strive towards enhancement of their strengths, rectification of weaknesses as well as eradication of irregular and fraudulent practices in the insurance industry.

Table 1.8 Compounding of Offences

Nature of Offence	Number of Licensees Fined
Contravention of:	
Section 36(2)	1
Section 87(1)	3
Note: In addition to the above, one person was fined due to contravention of section 67(1) of the Act	

Compounding of Offences

Section 211(1) of the Act empowers the Governor of BNM to compound an offence under the Act or the Regulations. In 2000, fines were imposed on four licensees as follows:-

- 1 adjuster for opening an office without the prior approval of BNM; and
- 1 broker and 2 adjusters for late submission of their annual accounts to BNM.

In addition, one person was compounded for acquiring shares exceeding 5% of the equity of the controller of a licensee without obtaining the prior approval of the Minister of Finance.

Public Complaints

The number of complaints against insurers which has been on an upward trend since 1998, increased to reach 1,783 as at the end of 2000 (1999:1,598). Complaints against general insurers accounted for 83.7% of total complaints. Delays in settling claims and low settlement sums persistently remained as the most significant cause for complaints against insurers, accounting for 51% of the total number of complaints received. While the number of cases in other nature of complaints remained relatively unchanged against that recorded in 1999, improvement however, was seen in the number of cases involving delay in reply to correspondences which recorded a 13.5% decline in 2000 compared with an increase of 49.5% in 1999.

Table 1.9 Public Complaints			
Nature of Complaints	Number of Complaints		
	1998	1999	2000
Against general insurers			
Delay in settling claims	551	477	555
Amount offered for settlement of claims	228	241	308
Delay in authorising repairs	15	22	–
Agency matters	33	31	12
Delay in issuance of policy	11	12	25
Refusal to renew policy	1	3	6
Delay in reply to correspondence	176	266	228
No-claim-discount entitlement	23	20	21
Repudiation of liability with reference to conditions of policy contract	102	131	154
Issues on cancellation of policy	5	8	6
Miscellaneous	97	114	178
Sub-total	1,242	1,325	1,493
% change	19.2	6.6	12.7
Against life insurers			
Delay in settling claims	44	34	31
Amount offered for settlement of claims	23	20	15
Amount of cash surrender value	9	5	–
Agency matters	45	62	46
Delay in issuance of policy	–	9	6
Refusal to renew policy	1	–	–
Delay in reply to correspondence	16	21	20
Bonus entitlement	2	4	2
Repudiation of liability with reference to conditions of policy contract	19	15	23
Issues on cancellation of policy	33	23	16
Miscellaneous	58	80	131
Sub-total	260	273	290
% change	19.8	5.0	6.2
Total	1,502	1,598	1,783
% change	19.3	6.4	11.6

To handle complaints and enquiries on insurance matters from the public, BNM has set up the Customer Service Bureau (CSB) in its Insurance Regulation Department. The CSB works closely with insurers and insurance associations to resolve grievances against insurers as well as

other licensees under the Act. As part of BNM's efforts to raise the standard of service provided by insurers, the CSB analyses trends emerging from complaints received in order to identify and address persistent problems in insurance practices. The CSB's functional efficiency is further enhanced with the use of a computerised database system on public complaints against financial institutions. The system enables expeditious handling of public complaints, while allowing better record keeping.

The Insurance Mediation Bureau (IMB) set up in 1992, serves as an alternative channel to the public to assist them in their complaints. The IMB aims to resolve claims disputes which policy owners have with their insurance companies. The scope of the IMB is confined to claims by policy owners against their own insurers (excludes third party claims) for claim amounts of up to RM100,000 per claim. In 2000, the cases handled by IMB rose by 11.2% to 515 cases (1999: 463), of which motor insurance cases accounted for 36.9%. As in the previous year, the general insurance sector continued to account for the bulk (67%) of the cases handled by IMB.

Insurance Guarantee Scheme Fund

Section 173(1) of the Act empowers BNM to establish and maintain a separate insurance guarantee scheme fund (IGSF) for general business and life business in respect of Malaysian policies. The IGSF is for the purpose of partially meeting the liabilities of any insolvent insurer. It is funded mainly from levies imposed on licensed insurers. Other sources of remittances into the IGSF include income from investments of the fund, proceeds from the realisation of investments, moneys recovered from insurers being wound up, borrowings, donations or contributions, and 50% of all fines collected from the compounding of offences under the Act.

At present, levies are imposed only for general insurance business. Total annual levies collected from general insurance business

Table 1.10 IGSF: Compensation and Expenses

	FGI		SEG		MISB		Total	
	1999	2000	1999	2000	1999	2000	1999	2000
	RM'000							
Amount settled to-date								
Judgement awards	4,856	4,856	11,103	11,115	59,426	62,846	75,385	78,817
Out-of-court settlements	1,295	1,295	465	517	98,848	105,216	100,608	107,028
Expenses: MIB (Administrative Unit)	269	269	–	–	–	–	269	269
Professional charges	763	763	–	–	–	–	763	763
Premium refunds	–	–	–	–	1,977	1,977	1,977	1,977
Deposit refund (bond)	–	–	–	–	409	409	409	409
Others	8	8	–	–	3,697 ¹	6,802 ¹	3,705	6,810
Total	7,191	7,191	11,568	11,632	164,357	177,250	183,116	196,073
% change	–	–	2.2	0.5	24.2	7.8	21.4	7.1
No. of cases settled in the year	–	–	8	5	3,622	1,663	3,630	1,668
No. of cases settled to-date	883	883	1,218	1,223	41,873	43,536	43,974	45,642
¹ Refers to solicitors' and adjusters' fees								

in 2000 amounted to RM60.9 million, bringing the total amount in the IGSF for general insurance business to RM291.6 million as at 31 December 2000. No levy is imposed for life insurance business. Nevertheless, proceeds received from fines collected for offences related to life insurance business are credited into the IGSF for life insurers. As at 31 December 2000, the amount in the IGSF for life insurance business totalled RM0.4 million.

Insurance claims in respect of three liquidated insurers, namely, First General Insurance (M) Sdn. Bhd. (FGI), SEG Insurance Sdn. Bhd. (SEG) and

Mercantile Insurance Sdn. Bhd. (MISB), came under the ambit of the IGSF for general insurance business. There were no claims against FGI in 2000. However, the following payments were made from the IGSF for claims against the remaining two companies during the year:-

- 5 claims against SEG amounting to RM64,000; and
- 1,663 claims against MISB amounting to RM12,893,000.

The total cumulative payments made to-date from the IGSF for general insurance business is shown in Table 1.10.