Chapter 2. Insurance Companies In Malaysia

2.1 Background

Insurers commenced business in this country about 200 years ago. Since then, the insurance industry has expanded and developed in an impressive manner. Insurance services were first made available here by companies based abroad through the agency houses. These services were then provided almost entirely by the branch offices of foreign insurers set up locally for the purpose. In more recent years, local insurers have sprung up largely to challenge them. The history of the Malaysian insurance industry is also replete with developments depicting the industry's response to the changing demands of the market for its services, the display of its strength and limitations, and the problems confronting it along the way. Of just as much interest and significance are the many changes that have altered the framework within which insurers could conduct their business. These changes have brought forth the many and necessary assurances for safe and sound insurers; for insurers that can better meet the more demanding needs of a growing nation; and, for insurers that increasingly recognize the rights and interests of the consumers of their products.

2.2 Types of Insurance Offerings

Generally, Malaysia has four types of insurance companies namely Takaful, reinsurance, life and general (BNM 2000a).

The Takaful companies offer Islamic insurance while the Reinsurance companies deals with the sharing of insurance policies among multiple insurers, to reduce the risk for each party.

Life Insurance Companies perform two basic financial functions. The most primary, is the provision of protection to the insured or his dependants against

the major perils of life, the consequences of which may threaten their financial position and future.

The second function is financial intermediation. In other words, insurance companies are just like banks and finance companies. On one hand, they collect premium payments from policyholders on a regular basis or as a once-and-for-all payment for the protection they provide. On the other hand, they accumulate substantial funds that become available for investment, after meeting expenses such as policy claims, commissions to agents, and management expenses.

Their products include Temporary/Term Policies, Whole Life Policies, Endowment Policies, and others like riders and annuities.

Like life insurance companies, the general insurance companies also perform two basic financial functions, namely, the provision of protection to the insured against losses on account of exposure to certain perils, and serving as financial intermediaries.

The protection can be arranged into the following grouping:

- Protection against the consequences of losses of property
- Protection against loss of earning power
- Protection against loss the risk of having to incur substantial future expenses as a result of certain perils
- Protection against serious financial losses owing to legal liabilities to third parties for the consequences of certain properties owned or used, goods sold or produced, or acts done or not done.

Their products include Motor Insurance, Fire Insurance, Marine, Aviation, Transit Insurance and others like Personal Accident Policies, Public Liability Insurance, Product Liability Insurance, Professional Liability Insurance and insurance against theft and burglary.

2.3 Diagnostic of Current Situation of the Malaysian Insurance Sector

The regulation and supervision of the insurance industry was brought under Bank Negara Malaysia (BNM) in 1988. The insurance industry has made remarkable progress. A series of measures aimed at protecting public interest, promoting fairness and equity, and fostering a viable and competitive industry capable of serving the needs of a growing economy implemented over the years has substantially strengthened the industry (BNM 1999). In particular, the coming into force of the Insurance Act 1996 significantly enhanced the regulatory regime governing the operations of the insurance industry by raising the standards of accountability of insurers as custodians of public funds, strengthening their financial positions, giving better protection to policy owners and ensuring that insurance operations are conducted with professionalism and in accordance with sound insurance principles. As a result of these measures, public confidence in the industry has improved as reflected by the significant increase in the market penetration of life insurance business from only 11.4% of the Masterplan for Malaysia's Insurance Sector population in 1988 to 30.8%in 1999 (BNM 2000a). Insurers are also on a stronger financial footing, as evidenced by the total paid-up capital of the industry and the average capitalisation per insurer which has increased fivefold to RM4 billion and RM71.7 million respectively in 1999, compares to RM634.9 million and RM12.4 million respectively in 1998. At the same time, total insurance fund assets and the average asset base per insurance fund increased proportionately to RM45.4 billion and RM582.1 million respectively in 1999, compares to RM7 billion and RM93.7 million respectively in 1998.

Notwithstanding the progress made by the insurance industry, insurers face considerable challenges ahead as global trends of consolidation and specialisation are expected to create international insurers that are larger, better-skilled and more focused on core areas of competence. Apart from traditional players, insurers will also face increasingly sophisticated competition from new players such as asset managers, captive insurers, independent financial advisers and Internet players who, through dis-

intermediating core elements of the insurance value chain, are improving product range and performance and lowering the prices paid by consumers. Given these challenges, efforts need to be directed to achieve enhanced efficiency, effectiveness and stability. Specifically, benchmarks must be set:

- domestic players in the life and general insurance industries should improve further on economies of scale;
- greater progress should be made towards the development of skills in the areas of management, information technology and underwriting;
- greater competition should be encouraged to reduce acquisition costs, especially in the life sector, and premiums charged in the general sector;
- the penetration of alternative distribution channels such as Independent financial advisers (IFAs), banks, telephone, direct mail and Internet could be further enhanced;
- the quality and productivity of the agency force should be improved;
- the breadth and standard of insurance products and services in Malaysia should be improved to match that in more advanced markets.

Significant changes must be made to raise performance standards in the Malaysian insurance industry in tandem with advances being made globally so as to narrow the gap between Malaysian insurers and international best practices.