LIFE INSURANCE INDUSTRY IN MALAYSIA: A CASE STUDY OF GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD

BY:
KU YOU SIANG
EGA 00025

SUPERVISOR:
PROF. MADYA DR. SITI ROHANI BTE HJ. YAHYA

SUBMITTED TO THE FACULTY OF ECONOMICS AND ADMINISTRATION, UNIVERSITY OF MALAYA IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTER OF ECONOMICS

SEPTEMBER 2001
Acknowledgements

I would like to thank my supervisor Prof. Madya Dr. Siti Rohani bte Hj. Yahya for her insightful reviews and valuable comments in completing this research paper.

My thanks also go to Mr. Bruce Lee, Assistant General Manager of Great Eastern (Finance & Customer Service) and Mr. Foo Hon Lin, Senior Group Sales Manager of Great Eastern, for their expert directions and much general encouragement. The comments and suggestions of company executives and insurance agents for providing the necessary data to complete this research paper are also greatly appreciated.

I am indebted to many individuals who have helped me either directly or indirectly with this research paper. Finally, I wish to express my deepest gratitude to my family for their support and inspiration.
Abstract

This study focus on the background of life insurance industry and concepts or main features that are common to many aspects of the life insurance mechanism in order to help us to solve some of our financial problems. This report is largely based on the Annual Reports of the Director General of Insurance and the Annual Reports of the Great Eastern. It also takes into account additional information and numerous helpful comments supplied by the management team, company executives and insurance agents in its course.

The aim of this research is to investigate several factors that affect total demand of insurance and total profit in the Great Eastern Life Assurance (Malaysia) Berhad for the year 1980-1999. This study concerns solely on how these factors are correlated to the total demand of insurance and total profit in the Great Eastern. In Hypothesis 1, the factors used are Gross National Product, population, and savings, which are independent variables and demand of insurance is used as the dependent variables. In Hypothesis 2, the factors used are annual premium, investment income, commission expenses, and management expenses, which are independent variables and gross profit is used as the dependent variables. The core of this research is to review how all these independent variables had proven to be an important indicator to the total demand of insurance and total profit in the Great Eastern.
Table of Contents

Acknowledgement i
Abstract ii
Table of Contents iii
List of Tables vi
List of Figures vii
List of Charts viii

Chapter

1 Introduction
1.1 Introduction 1
1.2 Definition of Insurance 2
1.3 Objectives of the Study 3
1.4 Methodology 4
1.5 Limitations 5
1.6 Scope and Significance of the Study 5
1.7 Organization of the Study 6

2 Literature Review
2.1 Introduction 8
2.2 Literature Review 8

3 Development and Main Features of Life Insurance Industry in Malaysia
3.1 Background of Life Insurance Industry 16
3.2 Insurance Legislation 17
3.2.1 Review of Insurance Legislation 20
3.2.2 Registration of Insurers 23
3.3 The Role of Life Insurance Industry in the Economy 24
3.3.1 Overview of the Industry 25
3.3.2 Performance of the Life Insurance Business 25
3.3.3 Socio-economic Indicators 34
3.4 Economic Bases of the Life Insurance 39
  3.4.1 Diminishing Nature of the Economic Value 40
  3.4.2 Bases for Life Insurance 43
3.5 Concept of Life Insurance 44
  3.5.1 The Need for Life Insurance 45
  3.5.2 Main Types of Life Insurance Policies 47
  3.5.3 Premium Calculation 51
3.6 Consumer Choice and the Purchase of Life Insurance 53
  3.6.1 The Problem of Choice 54
  3.6.2 Variations on Basic Policy Types 55
  3.6.3 Distinctive Features of Life Insurance Contracts 56

4  Great Eastern Life Assurance (Malaysia) Berhad 58
  4.1 Introduction 58
  4.2 Corporate Background 59
  4.3 Operation Review 62
  4.4 Corporate Developments 64
    4.4.1 Products 65
    4.4.2 Services 67
    4.4.3 Information Technology 68
    4.4.4 Contributions to the Economy 70
    4.4.5 Contributions to the Community 71
  4.5 Corporate Performance 72
  4.6 Special Features of Great Eastern Compared to its Competitors 74
  4.7 Outlook and Prospects 79
  4.8 Conclusion 79
5 Factors that Affect Total Demand of Insurance and Total Profit
- The Case of Great Eastern Life Assurance

5.1 Introduction 81
5.2 Hypothesis 81
5.3 Theories Related to the Study 82
5.4 Model Set-up 85
  5.4.1 Hypothesis 1 86
  5.4.2 Hypothesis 2 87
5.5 Economic Criteria 88
  5.5.1 Signs of Relationship 88
  5.5.2 Elasticity 89
5.6 Statistical Criteria 90
  5.6.1 R Square (R²) 91
  5.6.2 F-test 92
  5.6.3 t-test 93
5.7 Results of the Study 94
  5.7.1 Regression Model 94
  5.7.2 Economic Criteria 97
  5.7.3 Statistical Criteria 102
5.8 Findings and Discussion 110
5.9 Conclusion 112

6 Summary and Conclusion

6.1 Introduction 113
6.2 Summary 113
6.3 Suggestions for Improvements for Great Eastern Life Assurance 114
6.4 Suggestions for Improvement of the Insurance Industry 116
6.5 Conclusion 118

Bibliography xi
Appendices xv
## List of Tables

<table>
<thead>
<tr>
<th>No.</th>
<th>Table Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Types of Registered Insurers</td>
<td>24</td>
</tr>
<tr>
<td>2</td>
<td>New Businesses</td>
<td>27</td>
</tr>
<tr>
<td>3</td>
<td>Active Businesses</td>
<td>28</td>
</tr>
<tr>
<td>4</td>
<td>Distribution of Annual Premiums in Force</td>
<td>29</td>
</tr>
<tr>
<td>5</td>
<td>Distribution of Sums Insured in Force</td>
<td>32</td>
</tr>
<tr>
<td>6</td>
<td>Life Insurance Growth and Socio-Economic Indicators</td>
<td>35</td>
</tr>
<tr>
<td>7</td>
<td>Growth Assets of Life Insurance Fund</td>
<td>37</td>
</tr>
<tr>
<td>8</td>
<td>Performance of Life Insurers in Malaysia by Components</td>
<td>76</td>
</tr>
</tbody>
</table>
## List of Figures

<table>
<thead>
<tr>
<th>No.</th>
<th>Figure Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New Businesses</td>
<td>26</td>
</tr>
<tr>
<td>2</td>
<td>Distribution of Market Share of Annual Premiums in Force for the years 1998 and 1999</td>
<td>31</td>
</tr>
<tr>
<td>3</td>
<td>Distribution of Market Share of Sums Insured in Force for the years 1998 and 1999</td>
<td>33</td>
</tr>
<tr>
<td>4</td>
<td>Growth of Life Insurance and Population Insured</td>
<td>36</td>
</tr>
<tr>
<td>5</td>
<td>Life Insurance Fund Assets Growth VS Total Assets of the Financial System</td>
<td>38</td>
</tr>
<tr>
<td>6</td>
<td>Hypothetical Illustration of Economic Value of a Human Life</td>
<td>41</td>
</tr>
<tr>
<td>7</td>
<td>Typical Pattern of Earnings</td>
<td>42</td>
</tr>
<tr>
<td>8</td>
<td>Distribution of Components of Life Insurers in Malaysia</td>
<td>78</td>
</tr>
</tbody>
</table>
List of Charts

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Insurance Regulation and Supervision Departments</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>as at 31 December 1999</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Organization of Great Eastern Life Assurance (Malaysia) Berhad</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>as at 26 September 2000</td>
<td></td>
</tr>
</tbody>
</table>