

DEVELOPMENT OF THE INSURANCE INDUSTRY IN MALAYA

(1) History

The history of the insurance industry in Malaya began in 1860 when an agency office representing the Royal Insurance Company Limited of England was established. By 1890, a hundred and twenty Insurance companies had opened up agency houses in Singapore for marine insurance. With the expansion of the business the British Companies gradually began to establish their own branch offices in Malaya. Many of them even started engaging in life assurance.

While the British Companies were, in fact in complete control of the whole marine insurance business, the wealthy local Chinese merchants began to pool their resources to go into the insurance business themselves. A company by the name of "Eastern United Assurance Corporation" with purely Chinese capital was formed to underwrite fire and marine insurance. The "Overseas Assurance Corporation Limited" another Chinese enterprise was formed in 1920, to underwrite fire, marine and accident insurance. Then many other companies which were founded originally to underwrite fire and marine accident risks later extended their activities to cover life insurance as well. From then onwards the number of companies grew in number. Some went out of their way to do business on unsound insurance principles. These new companies catered mostly for overaged people and thus made life insurance a form of gamble (1)

Evils of the "Mushroom Insurance Companies"

From 1920 onwards there was a gradual increase in demand for life and general insurance with the growth of the Malayan economy. Since the 1950s the life insurance companies cropped up so suddenly and in such a large number that they were locally described as "Mushroom Companies". There were about fifty-six "mushroom" Companies, operating on unsound principles. This situation called for government intervention. Consequently, thirty-nine of them were compulsorily liquidated by 1962.

This move was necessary because these companies operated along unsound insurance principles. The premiums they cleared were not actuarially calculated. Life assurance was abused to such an extent that it amounted to speculation on human lives for monetary gains. Without having the concept or principle

(1) See Chapter II under 'principles of insurance' Pp.4-5

of "insurable interest", anybody could take a policy for any amount on the life of another person. After the expiry of a certain initial period, deaths in many cases were intentionally caused with a view to claiming insurance money from the 'mushroom' companies which had issued the policy. There were no actuarially calculated and certified premium tables and in almost all the cases the premiums charged were out of proportion to the risk involved and were grossly inadequate. They also operated at very high costs and had hardly any underwriting standards.

A total of one million, three hundred thousand policy-holders were affected and many of them were unable to get back even ten percent of the premiums they had paid. This resulted from the lack of adequate insurance legislation and proper supervision of the insurance companies, or safeguards for the policy-holders.

Strange enough life insurance companies operating legitimately were not affected by the existence of 'mushroom' Companies. But the existence of these 'mushroom' Companies, so recently back, purely indicates the still under developed stage of our life assurance business. The activities of these companies did result in a temporary set back in the growth of new business plans of the ordinary life insurance companies.

Growth of general insurance: For general insurance companies there was a steady growth in the business with the increase in private property ownership. An excellent example is the motor vehicle insurance as required under the 1958 Road Traffic Ordinance. Thus, with the increase in the number of cars there is a corresponding increase in motor insurance policies. Together with the development of trade and commerce marine insurance. With the Workmen's Compensation Ordinance and the increase in employment in the phase of our economic development, there should be obvious progress in the field of general insurance.

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Growth of Legislation

Although the first insurance office was established around 1860, the first legislation was only initiated in 1917 and 1918 in the Straits Settlements and the Federated Malay States respectively. There was also a separate enactment for Johore called the Johore Enactment No. 129 and No. 130. There were two sets of enactments one catering for life insurance companies and other for fire insurance companies in each of the three above mentioned.

Following these came the Federation of Malaya

Ordinance 1948. Here again there were two ordinances. One was for life insurance and known as "The Life Assurance Companies Ordinance 1948". The other was for fire insurance and therefore named as "The Fire Insurance Companies Ordinance 1948". These two ordinances repealed the earlier mentioned enactments of the Straits Settlements, the Federated Malay States and Johore. In its stead was substituted one ordinance for fire and another for life insurance companies operating in the Federation of Malaya.

The 1948 Ordinances were never revised except for a few amendments until 1961. There was a period of rapid development in the number of life insurance Companies. in the latter half of the 1950's. These were the 'mushroom' companies referred to earlier in the chapter. The ill-practices of these companies came to the knowledge of the government in 1960. Finally came the "Life Assurance Act" in 1961 to curb the further growth of these companies. It was a temporary measure and the act emphasized on actuarial valuations.

In 1962, the "Life Assurance Companies (compulsory Liquidation) Act" was passed to liquidate those companies that did not heed the provisions of the 1961 Act (which had served as a temporary warning to the 'mushroom' companies). Thirty-nine life insurance companies fell victim to this Act. The government, thus became fully aware of the insufficiency in the legal control in this particular business and needed urgently a more comprehensive and stringent Act. The provisions of the 1948 Ordinances were weak in controlling the activities of the insurance companies.

This inadequacy was, however, remedied in the Insurance Act 1963 which is the present basis for the legislation of the insurance companies practising in Malaya. Control was enforced by this Act and it brought the chaotic nature of the industry back to normal.

(111) Present Position of the Insurance Industry

The number of Insurance Companies registered on 31st December 1965 was ninety-three (2) with eight underwriting both life and general insurance, eleven life insurance only and seventy-four for general insurance.

In the form of premium income, and sums insured at the end of 1964, the figures are \$32.2 million and \$616.4 million respectively (refer to Table II). These figures are for life insurance.

TABLE II SUMS INSURED AND ANNUAL PREMIUMS

YEAR	SUMS INSURED		ANNUAL PREMIUMS			
	NEW	DISCONTINUED	IN FORCE	NEW	DISCONTINUED	IN FORCE
	\$M	\$M	\$M	\$M	\$M	\$M
1963	159.0	83.8	530.3	8.0	3.3	28.4
1964	180.1	94.0	616.1	8.3	4.5	32.2

For General insurance business in 1964 gross premium income was \$58,483,258 and claims amounted to \$20,863,856. This can be seen in Table III

TABLE III PREMIUM INCOME AND CLAIMS (ON GROSS BASIS)

YEAR	PREMIUMS	CLAIMS	PERCENTAGE
1963	\$52,360,993	\$17,925,278	34.23
1964	\$58,483,258	\$20,863,856	35.67

This position of the insurance industry would be improved if three factors are improved. The three factors are the per capita income, the improvement in education and thereby lowering the illiteracy rate and finally proper control of the business. In 1963 the per capita of Malaya was only \$713. If there is an increase in income to individuals in the country the chances of buying insurances by these individuals are better. Similarly, with greater understanding of the principles of insurance they can realise the benefits from it. Lastly, control of the industry would ensure to the buying public of security in their contract. Thus they have more confidence in purchasing a policy. It is believed that the insurance industry is gradually developing in this country and gaining greater importance.

(2) See Table I Chapter II. P. 6.