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Malaysian Insurance Industry – A Macro Perspective

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In a nutshell

- Malaysia's insurance industry is one of the key drivers of the services sector. A general breakdown indicates that the country's finance and insurance industry accounted for 20.1% of the services sector's output in 2011 (2000: 18.6%) as well as 11.8% of the country's gross domestic product or GDP (2000: 9.2%). The services sector as a whole accounted for a hefty 58.6% of GDP and is expected to remain a major contributor to economic growth in the years to come.

- Several developments in the Malaysian capital market will affect the landscape of the insurance industry. For instance, with the benefits and advantages of the Risk-Based Capital (RBC), a draft of a similar framework is being considered for takaful operators in the future. In line with Malaysia's bid to become an Islamic Financial hub, the Bank Negara (BNM) has also identified the family takaful business as a near-term insurance priority with micro-takaful, medical and retirement products seen as the next steps for the industry. In the motor segment, gradual increases in premiums will continue in the next four years after they were revised for the first time in 30 years with effect from January 2012.

- The life insurance industry has been growing at a rapid pace in the past decade following strong economic growth that led to rising income and living standards among the population. Life new business premiums have expanded at a compounded average growth rate (CAGR) of 9.4% between 2000 and 2011, growing from merely RM2.9 billion to RM7.9 billion, faster than Malaysia's nominal GDP which expanded by a CAGR of 8.3% per annum within that period.

- Gross direct premiums of general insurance, on the other hand, grew at a more moderate pace between 2000 and 2011, expanding by a CAGR of 7.8% and rising from RM5.9 billion to RM13.6 billion. The growth in premiums (7.8%) which lagged the pace in the nominal GDP expansion (8.3%) was partly attributed to a decline in the growth of premiums for Marine, Aviation and Transit (MAT) which was partially offset by the growth in Medical and Personal Accident (PA), which expanded at a faster pace of 12.1% in the last five years compared with 9.5% in the 2000-2005 period.

- Growth of the takaful industry was phenomenal in the past several years. Its new business family contributions have grown by 20.2% per annum on a CAGR basis between 2003-2011, compared with a CAGR of 6.3% per annum for conventional new business premiums. Similarly, for general insurance, takaful's gross direct contributions surged from RM551 million in 2005 to RM1.6 billion in 2011, rising by a CAGR of 19.4% per annum, compared with a 6.4% per annum growth on a CAGR basis for the general conventional gross direct premiums within the same period.

- Motor and Fire insurance are the two biggest contributions to general insurance in Malaysia in terms of the amount of premiums. Motor premiums, which represented 46% of total direct premiums in 2011, have grown by a CAGR of 7.6% between 2000 and 2011. Fire premiums, which commanded about 16.5% of total gross direct premiums in 2011, have grown at a CAGR of 5.4% between 2000 and 2011, the same pace as the expansion in property sales within that period (5.4%).

- Overall, the gross direct premiums in MAT grew at a much lower pace of 4.3% on a CAGR basis between 2006 and 2011, compared with a robust 18.1% pace on a CAGR basis between 2000 and 2005. Other segments save for Medical and PA, also recorded slower growth on a CAGR basis between 2006 and 2011 compared with the period between 2000 and 2005. On the other hand, premiums for Medical and PA grew at a faster pace of 12.1% in the last 5 years compared with 9.5% in the 2000-2005 period.

- The Great Recession in 2009 has somewhat softened the growth of the insurance industry, particularly in the industrial world. However, the outlook for the Malaysian insurance industry remains encouraging for both life and general insurance despite moderating economic growth following the slowdown of major advanced countries. The life insurance segment will benefit from the rising per capita income of the population as well as new and innovative products introduced by insurance companies. For general insurance, softer growth is expected in some sub-segments although Workmen's Compensation and Employer's Liability (WCEL) and Contractors' All Risks & Engineering (CAR & Engineering) will likely benefit from the upcoming mega projects in Malaysia. Similarly, strong demand for medical and PA will likely continue in the near future.

Growth, issues and prospects

- The Malaysian insurance industry expanded at a rapid pace over the last several years in tandem with the economy which saw its nominal GDP grow by 8.2% on a CAGR basis between 2006 and 2011, compared with 7.9% between 2000 and 2005. Although it was mired in a recession in 2009 following the Great Recession, Malaysian economy rebounded swiftly and posted a robust 7.2% growth in 2010 before moderating to 5.1% in 2011. The recovery was driven by a rebound in global trade but more importantly, it was propelled by strong domestic demand, led by resilient private consumption and sustained growth in private investment. As a result of a commendable expansion in economic activity as well as continued rise in per capita income, the insurance industry managed to chalk up another year of healthy growth in 2011.
- Some developments in the financial market will no doubt affect the landscape of Malaysia's insurance industry. The RBC requirement introduced by BNM in 2010 will continue to enhance transparency while emphasising the optimal risk management of insurers. Given the benefits and advantages of the RBC, a draft of a similar framework is being considered for takaful operators in the future. In line with Malaysia's bid to become an Islamic financial hub, the BNM has also identified the family takaful business as a near-term insurance priority with micro-takaful, medical and retirement products seen as the next steps for the industry.
- The Competition Act 2010 will have important ramifications for the insurance industry, possibly by way of a continuous de-tariffication exercise on insurance premiums in the coming years. For instance, motor tariff premiums were revised for the first time in 30 years with effect from January 2012. According to BNM, gradual increases will take place in the next four years. On top of that, the element of loading would still apply based on the risk profile and age of the vehicles, with the maximum rate of loading pegged at 150%. With such measures, insurers will be competing based on pricing, hence motivating them to achieve optimal efficiency and ensuring strict underwriting guidelines. The impending implementation of the goods and services tax (GST) will also likely affect future product pricing as it will generally raise the costs of insurance products and squeeze the margins on tariff-controlled segments such as Motor and Fire insurance. This is due to the fact that a number of goods and services that insurance companies provide are believed to be tax-exempted from GST and will therefore not be entitled to input tax credit claims.
- Globally, like other major industries, the growth of the insurance industry has been affected by increasing economic volatility. The Great Recession in 2009 has somewhat softened the growth of the industry, particularly in the industrial world. In emerging economies where economic growth has proven to be more resilient than the western part of the world, the insurance industry continued to grow at a respectable pace.
- Going forward, the outlook for Malaysian insurance industry remains encouraging for both life and general insurance despite moderating economic growth following the slowdown of major advanced countries. Premiums in both life and general segments are expected to increase at respectable rates in line with economic growth. The life insurance segment will benefit from the rising per capita income of the population as well as new and innovative products introduced by insurance companies. Assuming that nominal GDP growth will expand at an average 8% per annum in the next few years, it is estimated that life new business premiums will reach RM10.2 billion in 2012 and RM13 billion in 2015. For general insurance, softer growth is expected in some sub-segments. Nonetheless, some segments such as WCEL and CAR & Engineering will benefit from the ongoing mega projects in Malaysia (e.g. the MRT project, the extension of the existing LRT, proposed high speed rail between KL-Singapore, KL financial center, etc) while Medical and PA will see further strong demand amidst higher per capita income. Overall, it is envisaged that gross direct premiums will continue to expand to RM14.3 billion in 2012 and RM17.5 billion by 2015.

Table 1: Premiums per capita for Life insurance between 2001-2010

	Premiums Per Capita (Life, USD)		
	2001	2010	%
Industrial markets	1451	2069	42.6
Emerging markets	15	62	313.3
Emerging Asia	10	67	570.0
Latin America	31	93	200.0
Eatern Europe	26	61	134.6
Middle east	16	25	56.3

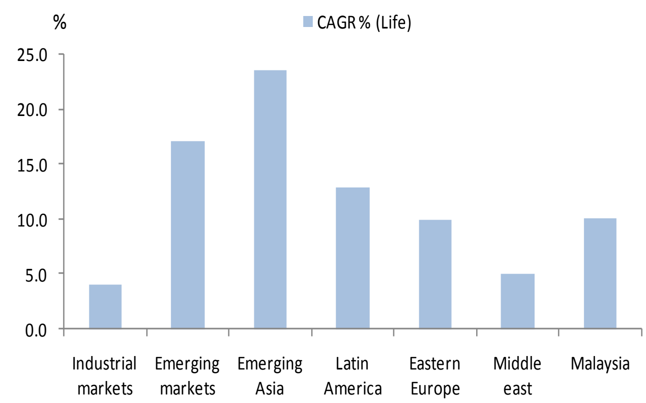
Source: Swiss Re

Table 2: Premiums per capita for General insurance between 2001-2010

	Premiums Per Capita (non-Life, USD)		
	2001	2010	%
Industrial markets	930	1458	56.8
Emerging markets	14	49	250.0
Emerging Asia	6	27	350.0
Latin America	54	126	133.3
Eatern Europe	41	213	419.5
Middle east	35	78	122.9

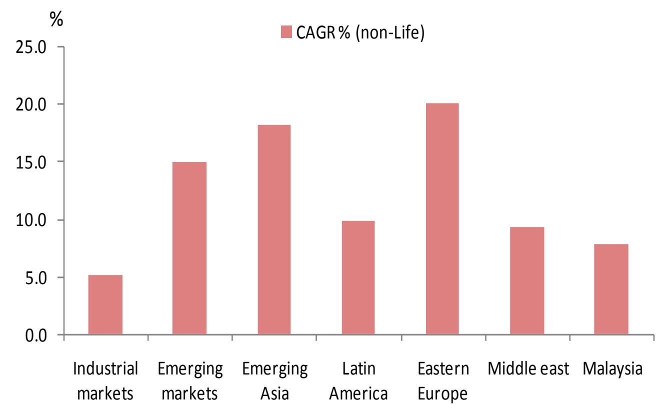
Source: Swiss Re

Chart 1: CAGR for Life premiums per capita between 2001-2010



Source: Swiss Re, CEIC, BNM, MARC Economic Research

Chart 2: CAGR for General premiums per between 2001-2010

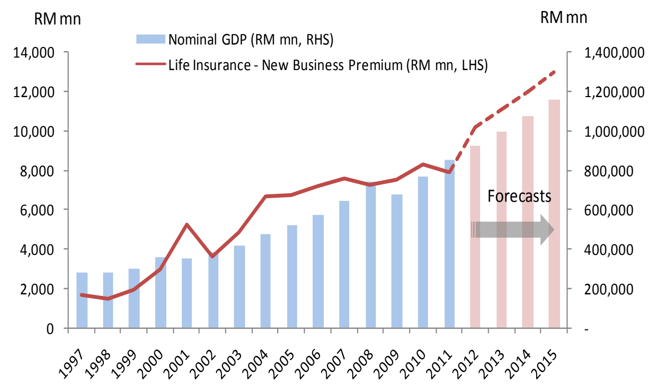


Source: Swiss Re, CEIC, BNM, MARC Economic Research

Life insurance industry

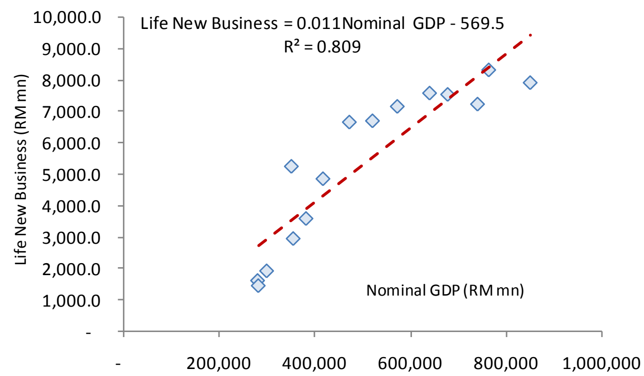
- Malaysia's life insurance industry has been growing at a rapid pace in the past decade following strong economic growth that led to rising income and living standards among the population. Life new business premiums have expanded at a CAGR of 9.4% between 2000 and 2011, growing from merely RM2.9 billion to RM7.9 billion, faster than Malaysia's nominal GDP which expanded by a CAGR of 8.3% per annum within that period. The rapid increase in life new business premiums was mainly attributed to the rising per capita income of the population as well as new and innovative products introduced by insurance companies. Malaysia's per capita income (per capita nominal GDP) has grown by a CAGR of 6.3% per annum between these periods. Going by the relationship that exists between life new business and nominal GDP (Chart 6 which shows a strong correlation of 81%) and assuming that nominal GDP growth will expand at an average 8% per annum in the next few years, it is estimated that life new business premiums will reach RM10.2 billion in 2012 and RM13 billion in 2015.

Chart 3: Life new business premiums and nominal GDP



*Source: CEIC, BNM, *2011 figures are from LIAM statistics, MARC Economic Research*

Chart 4: Scatter diagram of life new business premiums and nominal GDP



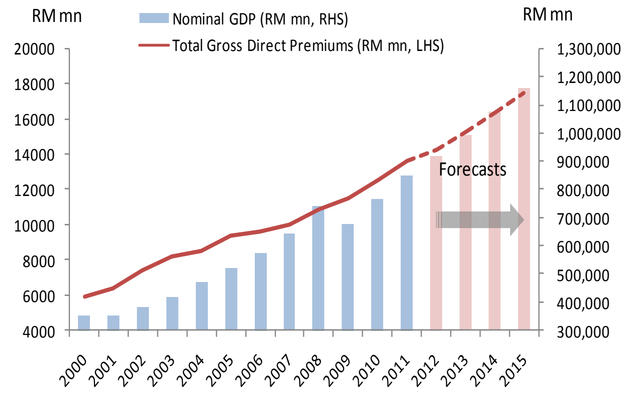
Source: CEIC, BNM, MARC Economic Research

General insurance industry

- Gross direct premium of general insurance, on the other hand, grew at a more moderate pace between 2000 and 2011, expanding by a CAGR of 7.8% and rising from RM5.9 billion to RM13.6 billion. The growth in premiums (7.8%) which lagged the pace in the nominal GDP expansion (8.3%) was partly attributed to a decline in the growth of premiums for MAT as a result of volatile trade activities. Gross direct premiums in MAT grew at a much lower pace of 4.3% on a CAGR basis between 2006 and 2011, compared with a robust 18.1% pace on a CAGR basis between 2000 and 2005. Other segments save for Medical and PA, also recorded slower growth on a CAGR basis between 2006 and 2011 compared with the period between 2000 and 2005. In particular, the growth in premiums for Motor, CAR & Engineering, Fire insurance and WCEL grew by a more moderate pace of 7.7%, 5.5%, 5.2% and 5.4% respectively on a CAGR basis between 2006 and 2011 (2000-05: 9.5%, 7.5%, 6.3% and 8.0% respectively). On the other hand, premiums for Medical and PA grew at a faster pace of 12.1% in the last 5 years compared with 9.5% in the 2000-2005 period in line with nominal GDP which posted a higher CAGR of 8.2% between 2006 and 2011 compared with 7.9% between 2000 and 2005.

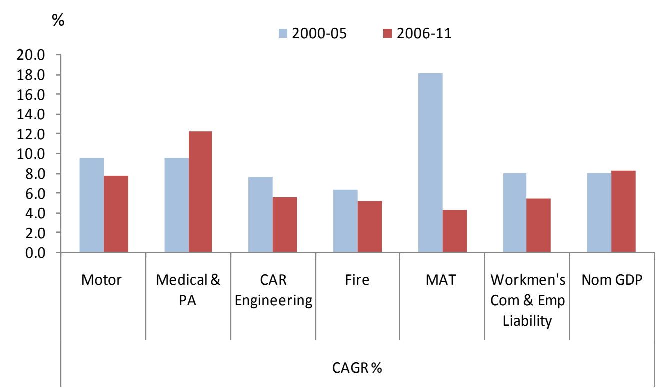
- The sharp decline in the growth of MAT premiums in between 2006 and 2011 when compared with the period between 2000 and 2005 was in tandem with Malaysia's languishing export performance which resulted in a much weaker nominal export growth of 3.3% from 7.5% in both periods respectively. This led to a moderation in the growth of cargo loaded to 6.9% in 2006-2011 from 12.8% in 2000-2005. As for Motor premiums, the slight deceleration in growth (from 9.5% between 2000-2005 to 7.7% between 2006-2011) was in line with slower growth in the number of vehicle sales within the two periods (9.9% between 2000-2005 compared with 4.1% between 2006-2011). At the same time, the declining trend in CAR & Engineering premiums which grew at a more moderate pace of 5.5% between 2006-2011 (compared with 7.5% between 2000-2005) was in tandem with slower employment growth in the construction industry (3.3% between 2006-2011 compared with 3.5% between 2000-2006).

Chart 5: Gross direct premiums of general insurance and nominal GDP



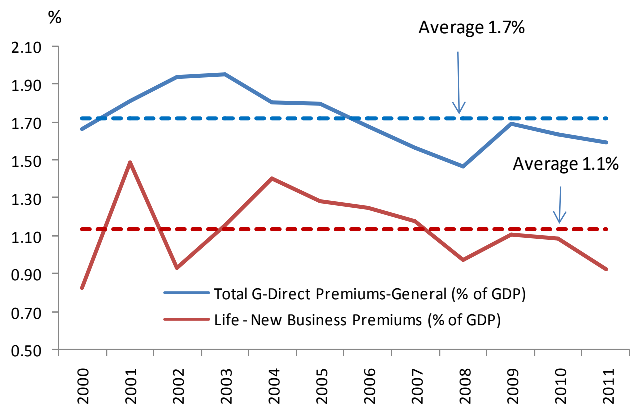
Source: CEIC, BNM, MARC Economic Research

Chart 6: Growth of general insurance segments 2000-05 and 2006-11



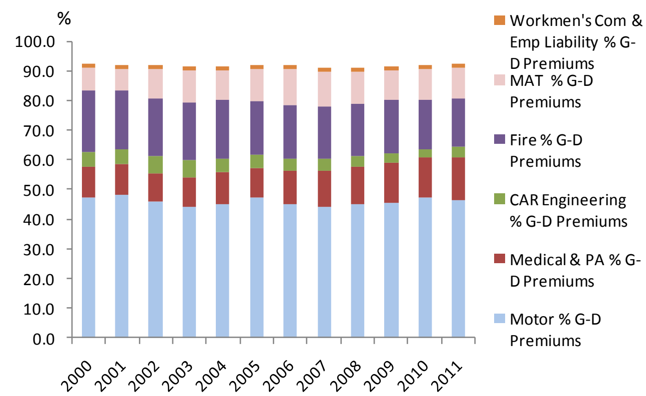
Source: CEIC, BNM, MARC Economic Research

Chart 7: Ratio of general gross direct premiums and life new business premiums to GDP



Source: CEIC, BNM, MARC Economic Research

Chart 8: Ratio of general insurance segments to total gross direct premiums



Source: CEIC, BNM, MARC Economic Research

- As a ratio of GDP, gross direct premiums for general insurance have averaged 1.7% in the past 11 years, compared with an average of 1.1% for life new business premiums. However, the ratio has been on the downtrend for both segments of insurance industries. For general insurance, its ratio to GDP has declined from as high as 1.95% 2003 to 1.59% in 2011. As for life new business premiums, the ratio has slipped from a high of 1.49% in 2001 to 0.93% in 2011.

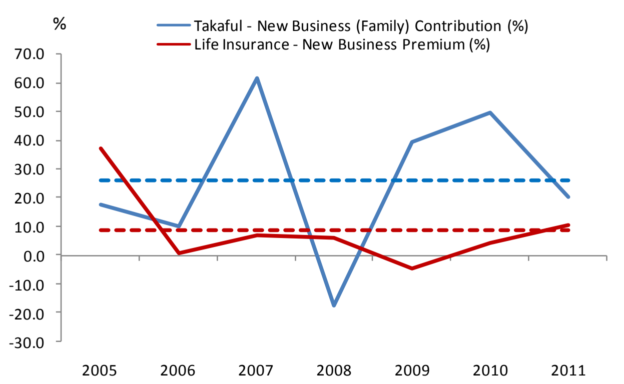
- Based on its relationship between 2000 and 2011, gross direct premiums of the general insurance have a strong correlation with nominal GDP, as evidenced by a high 94% r-squared. Going by this relationship and assuming that nominal GDP grows at 8% per annum in the next few years, gross direct premiums are envisaged to reach circa RM14.3 billion in 2012 and RM17.5 billion by 2015.

Takaful industry

- The growth of the takaful industry was phenomenal in the past several years. Its new business family contributions have grown from a mere RM503 million in 2003 to RM2.18 billion in 2011, an increase of 20.2% per annum on a CAGR basis, compared with a CAGR of 6.3% per annum for conventional new business premiums. In 2003, takaful's new business contributions were only 10% of the new business in the conventional segment of life insurance. By 2011, however, takaful's new business contributions were equivalent to 28% of total conventional life new business premiums. The implosive growth of takaful business was generally attributed to new innovative Syariah-based products that were introduced over the years.

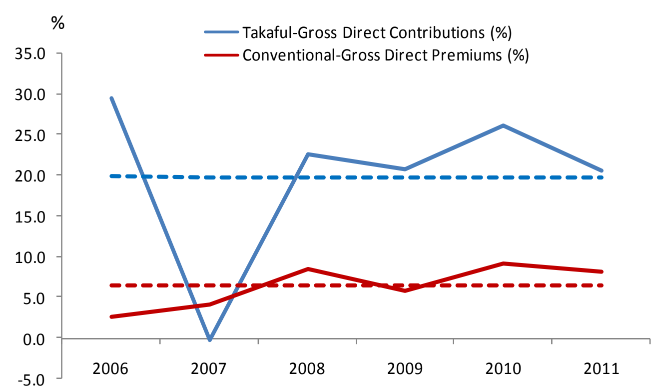
- Similarly, for general insurance, takaful's gross direct contributions surged from RM551 million in 2005 to RM1.6 billion in 2011, an average of 19.8% per annum, compared with an average of 6.4% per annum growth in the general conventional gross direct premiums within the same period.

Chart 9: Growth of takaful and conventional life insurance



Source: CEIC, BNM, MARC Economic Research

Chart 10: Growth of takaful and conventional general insurance



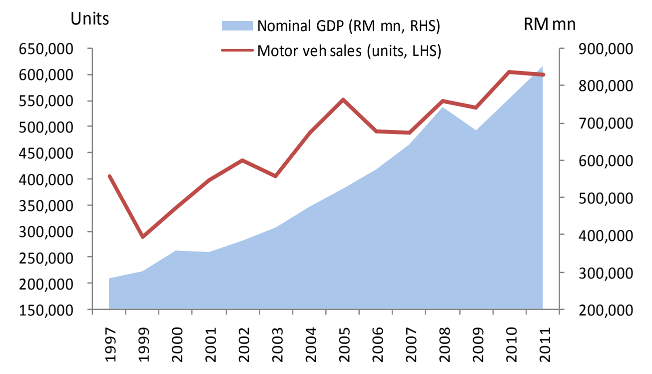
Source: CEIC, BNM, MARC Economic Research

Detail breakdown of the general insurance

- Motor premiums, which represented 46% of total direct premiums in 2011, have grown by a CAGR of 7.6% between 2000 and 2011. Notwithstanding this, its share of direct premiums has slipped from 48% in 2001 to as low as 44% in 2007 before it rebounded to 46 in 2011. As a percentage of GDP, Motor premiums fell from 0.79 in 2000 to 0.74 in 2011.

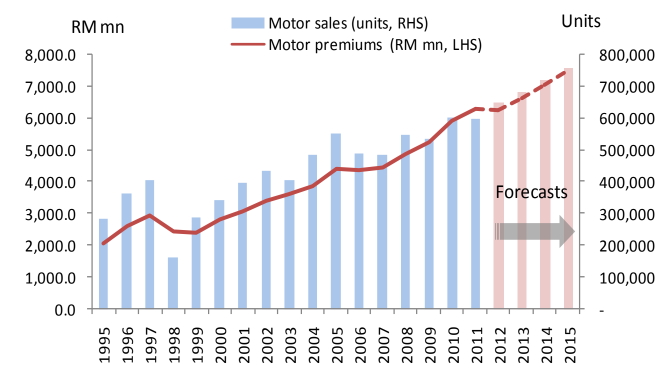
- Motor premiums are highly correlated with total motor vehicle sales, which have grown by 5.2% on a CAGR basis between 2000 and 2011. At the same time, motor vehicle sales move in tandem with the economy (nominal GDP). Based on the assumption that the economy will grow by a CAGR of 8% in the next few years, vehicle sales are envisaged to reach about 759,000 units in 2015. As a result, Motor premiums, which are expected to remain around RM6.2 billion in 2012, will likely increase to circa RM7.5 billion in 2015.

Chart 11: Motor vehicle sales and nominal GDP



Source: CEIC

Chart 12: Motor vehicle sales and motor premiums

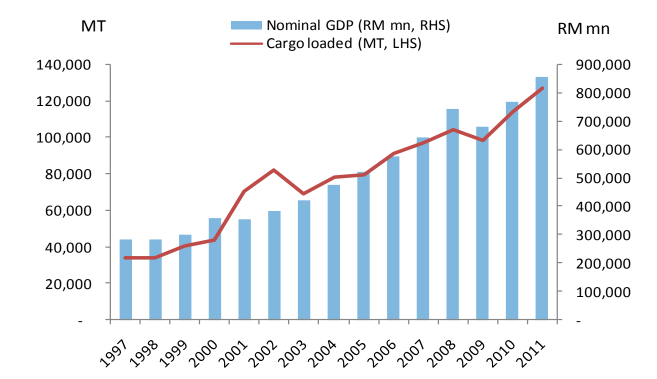


Source: CEIC, MARC Economic Research

- MAT premiums have expanded at a CAGR of 11.1% between 2000 and 2011, as the Malaysian external sector benefited from growing global trade activity. Notwithstanding this, the amount of cargo loaded (a proxy of trade activity), grew at a much slower CAGR of 6.9% per annum between 2006 and 2011, compared with a CAGR of 12.8% per annum between 2000 and 2005 following greater volatility of the global economy.

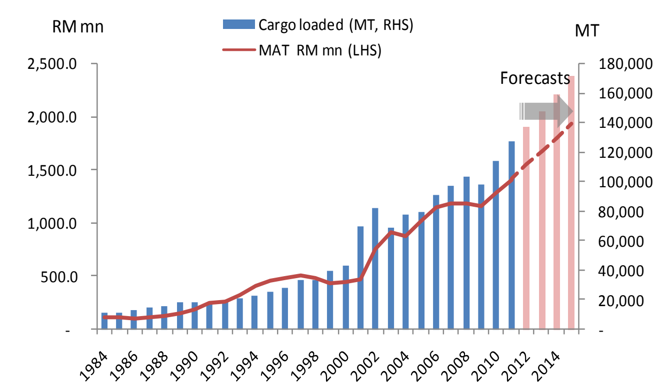
- Assuming that Malaysian nominal GDP expands at an average 8% pace in the next few years, the amount of cargo loaded is anticipated to climb to circa 137,000 MT in 2012 and will reach 171,000 MT by 2015. Based on the past relationship between MAT premiums and the amount of cargo loaded, MAT premiums are anticipated to climb to circa RM1.55 billion in 2012 and to around RM1.94 billion in 2015.

Chart 13: Cargo loaded and nominal GDP



Source: CEIC

Chart 14: Cargo loaded and MAT premiums

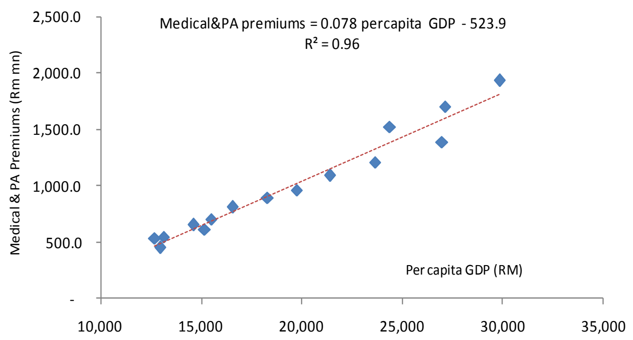


Source: CEIC, MARC Economic Research

- Premiums for Medical and PA have been growing at a rapid pace of 11% on a CAGR basis between 2000 and 2011, second only to MAT within that period. Between 2006 and 2011, the growth momentum in the Medical and PA premiums surpassed other segments of the general insurance, posting a robust 12.1% pace on a CAGR basis, compared with a 9.5% expansion in the prior five years.

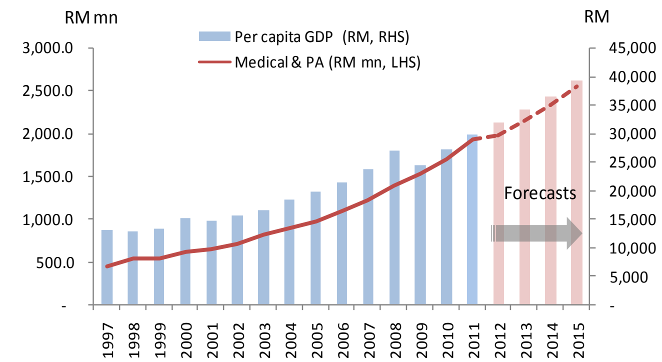
- The rapid expansion in Medical and PA premiums has been in tandem with rising per capita income of Malaysians in the past 11 years, although the latter only grew by a CAGR of 6.3% between 2000 and 2011. Based on the expectation that per capita GDP will expand to RM31,000 in 2012 and to RM39,000 in 2015, premiums for the Medical and PA segment of the general insurance are anticipated to climb to RM2.0 billion in 2012 and to circa RM2.5 billion in 2015.

Chart 15: Scatter diagram of Medical & PA premiums with per capita GDP



Source: CEIC, MARC Economic Research

Chart 16: Medical & PA premiums and per capita GDP

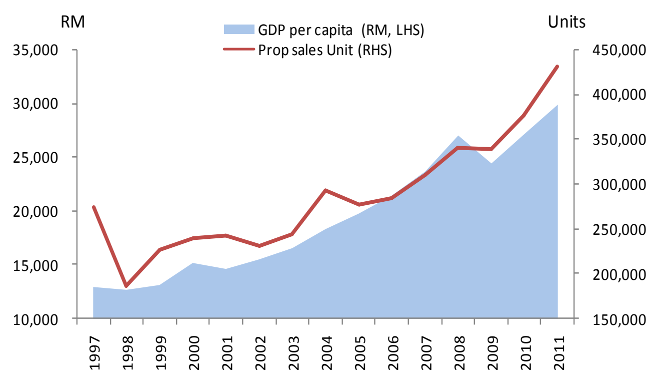


Source: CEIC, MARC Economic Research

- Fire premiums have grown at a CAGR of 5.4% between 2000 and 2011, the same pace as the expansion in the property sales within that period (5.4%). Fire premiums commanded about 16.5% of total gross direct premiums in 2011, trailing behind only Motor premiums which commanded 46% of the total gross direct premiums.

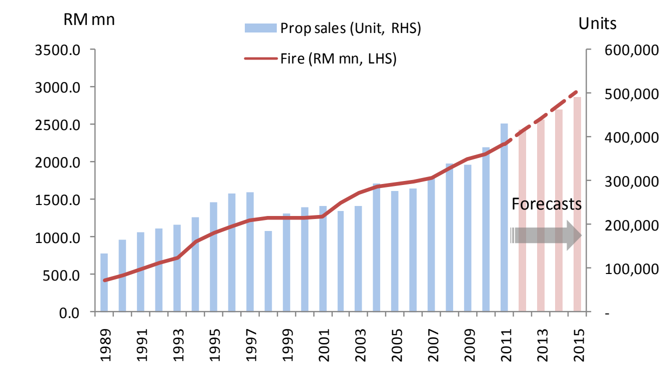
- As Malaysian property sales are highly correlated with per capita GDP (correlation of 86%), the expected rise in the latter will likely translate into higher property sales in the next few years. Based on the anticipated CAGR of 7% in per capita income between 2011 and 2015, Fire premiums are expected to climb to RM2.4 billion in 2012 and will reach circa RM2.9 billion by 2015.

Chart 17: Property sales and per capita GDP



Source: CEIC

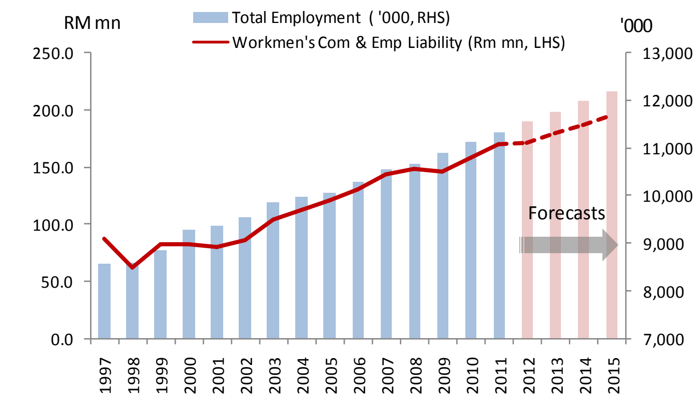
Chart 18: Property sales and Fire premiums



Source: CEIC, MARC Economic Research

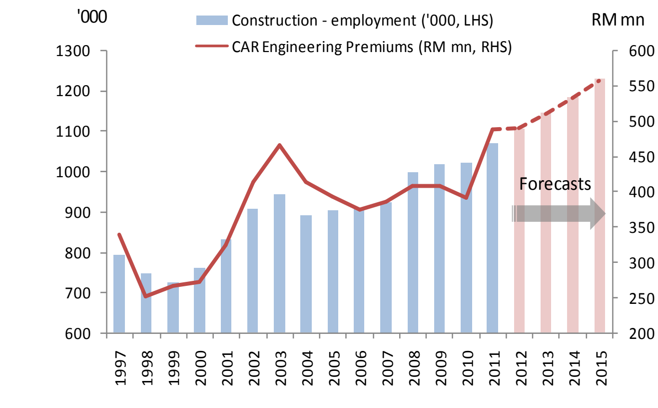
- WCEL premiums have grown at a CAGR of 6.8% between 2000 and 2011, but the pace of expansion moderated to 5.4% between 2006 and 2011, down from 8.0% on a CAGR basis between 2000 and 2005. The growth in WCEL premiums was in tandem with the number of employed in the labour force in Malaysia which grew at a CAGR of 1.8% between 2000 and 2011. Assuming that the employment grows at an average 1.8% in the next few years, WCEL premiums are anticipated to climb to circa RM172 million in 2012 and reach approximately RM195 million in 2015.
- The CAR & Engineering premiums grew by a slower pace of 5.4% on a CAGR basis between 2000 and 2011. The growth in the premiums tapered off to 5.5% between 2006-11, compared with 7.5% between 2000 and 2005 on a CAGR basis. Based on its 73% correlation with the number of employment in the construction sector, and assuming that the latter grows by a CAGR of 4% between 2010 and 2015, CAR & Engineering premiums are expected to climb to RM489 million in 2012 and will reach circa RM557 million in 2015.

Chart 19: WCEL premiums and total employment



Source: CEIC, MARC Economic Research

Chart 20: CAR & Engineering premiums and employment in construction



Source: CEIC, MARC Economic Research

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