



# THE UPSIDES AND DOWNSIDES IN THE INSURANCE INDUSTRY

The insurance sector is in for a roller-coaster ride, with highs and lows in different market segments.

While there was some relief in the domestic stock market in February, most analysts and economists agree that the crisis will continue to dampen sentiments for some time to come. Nonetheless, the life insurance industry expected growth to continue while some segments of the insurance industry are expected to expand in the next few years.

This includes insuring one has sufficient funds for retirement and seeking health insurance. Malaysia's retirement market is still in its infancy at the moment. With the ageing population and the government's push for retirement planning, the life insurance industry is well positioned to take on the challenge and fulfil consumers' needs, say experts.

According to the Life Insurance Association of Malaysia (LIAM), the outlook for life insurance industry is favourable with new business premiums slated to register single-digit growth of close to 10%.

Insurance protection is even more important during difficult times as if something untoward happens, people will not have excess funds to deal with the situation if they are without insurance coverage.

The local insurance sector is expected to improve in the next six to 12 months to chart a growth of between 8% and 9% in 2009 despite the weak global economy, according to LIAM. In 2008, industry growth in terms of annual new business premiums is slated at around 7% to 8%

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compared with 9.4% in 2007.

Based on its previous track record, the life insurance industry growth is likely to surpass Malaysia's gross domestic product (GDP) by two or three times. LIAM expects protection products such as whole life, term and medical and long-term savings products such as education products and retirement products may be less affected. However, investment-linked products may perform poorly with consumers while traditional products could make a comeback.

Investors who use insurance as a long-term savings vehicle would also find it a good time to consider increasing their savings or investment in order to benefit from the next up turn. With an insurance penetration rate of 40% currently, or in other words on average of only 40% of the population covered by insurance, there is still a huge potential for the life insurance industry.

Insurance experts also urge investors to include insurance as part of their investment portfolio. In fact, a life insurance policy requires a smaller investment in terms of premium payment than other forms of investment while the insurance coverage given is large.

Regardless of the type of life insurance one decides to purchase, the key is to ensure a policyholder has enough financial means during his retirement days and for those who have children, which he has sufficient funds to ensure they receive the best that education can offer.

A life insurance policy promises financial stability and maintenance of an adequate standard of living should something



unfortunate such as death, critical illness or total permanent disability (TPD) occurs to the breadwinner of the family. This is one of the main reasons why life insurance is an important component of investment and highlights the need for insurance to be included in every Malaysians' total investment portfolio.

In addition, life insurance is the only instrument that allows for the immediate creation of wealth with a small amount of premium. For adults with dependents, it is even more pertinent as the breadwinners in the family will want to ensure their children or loved ones are financially secure should something unfortunate happen such as a serious illness or death. Life insurance products now cover the element of wealth protection, preservation, savings, investment and others, making it complete and comprehensive.

Ng says that it is fortunate that the local industry is well capitalised and with stricter regulations since the 1997 financial crisis, the industry is well poised to take on the challenges going forward.

Nonetheless it will be a challenging environment this year due to several factors. Firstly, the economic environment in 2009 is widely expected to be tough and consumer confidence will be low while the unemployment rate will be high. These are some of the challenges faced by most industries with no exception to the life insurance industry.

Medical insurance is another area with

significant growth potential. This is particularly evident with rising medical inflation, an ageing population as well as increased awareness of the importance of living a healthy life. Demand for medical insurance is growing in the middle-age to elderly group and there may be further product innovation in this area.

Investment-linked products are financial and protection tools that cover several areas including planning for a policyholder's children's education, or his long-term investment and retirement plans.

Most companies with investment-linked products have decided to take a defensive stance and move into capital preservation. The fund managers are positioning themselves in some quality, lowly-valued stocks to capture opportunities when the market recovers. In doing so, these companies can try to attain investment objectives over a medium- to long-term period, in line with the long-term nature of insurance policies.

In essence, insurance has a long-term investment horizon, and the company will focus on long-term returns to meet their insurance obligations.

Travel insurance is an area that has been neglected but is gaining ground, with the need to seek coverage for medical bills that may be significantly higher abroad or unforeseen events such as trip cancellation. In deciding which kind of travel insurance is ideal before you leave on a trip, it is best to carry out research on the types of

coverage available.

Trip cancellation insurance is a popular form of travel insurance, which protects the policyholder from changes in his plans and allows flexibility in rescheduling one's trip without losing any money or paying any fees. Another type of coverage is trip insurance, which assures that your trip goes as planned. And finally, there is comprehensive travel insurance, which protects you, your family and your possessions when you are travelling.

According to PIAM, general insurance companies are heading for a tough year, as average motor premium continues to fall while insurers suffer from higher-than-expected claims ratio. It is estimated that motor insurance comprises 44.3% of overall general insurance business in Malaysia.

Statistics show that the general insurers forked out RM 3.49 billion or an average RM 9.6 million a day for motor claims, out of the total gross premiums of RM 4.68 billion collected in 2007. The combined claims ratio totalled 114% in 2007. This claims ratio worsened to 121% in the first half of 2008.

Among the factors that led to the decline were further increase in labour costs for vehicle repair, falling vehicle values and the contraction of motor vehicle sales.

This has led insurers to take on stricter underwriting controls on motor insurance, including the application of premium loadings. Furthermore, this could impact the renewal and availability of motor insurance in 2009.

Finally, it is a good sign that the local insurance industry is well capitalised and with stricter regulations since the 1997 financial crisis, the industry is well poised to take on the challenges going forward.

It will be a daunting task to overcome economic challenges in 2009 with waning consumer confidence and a high unemployment rate. The insurance industry will have to weather these difficulties to move onto the next level. **SI**

