

Insurance industry on growth track

2009 IN REVIEW

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THE year 2009 kick-started the last leg of the 10-year Financial Sector Masterplan (FSMP), which saw the government further liberalising the insurance industry.

The liberalisation initiatives did not come as a surprise to the industry as these were already mapped out in the masterplan.

Most industry players had initiated measures to capitalise on the liberalisation and have seen announcements by some companies on more bancassurance partnership, higher foreign equity holding as well as opening of more branches.

A number of insurance companies have also announced their intention to apply for the new takaful licence.

"Allowing freedom in bancassurance partnership is likely to have the most impact at this stage. We see bancassurance business flour-

ishing, further improving its share of new business sales," said the Life Insurance Association of Malaysia (LIAM), the umbrella body for Malaysian life insurance companies.

This year also marks the implementation of the Risk Based Capital (RBC) regime for local insurance companies that provides an opportunity for consolidation.

Under the RBC regime, capital required is linked to risks undertaken, whereby insurance companies need to have a proper capital management plan to ensure the efficient deployment of capital.

The RBC framework aims to put insurers on a sound footing by managing capital well and to create value by taking over companies that have not managed their capital efficiently.

For the whole year, LIAM is expecting new business premiums to secure a 17 per cent growth rate in tandem with the improving consumer sentiment.

"On the assumption that the new business weighted premium grows by 17 per cent in 2009, in absolute figure, this translates to RM3.2 billion," LIAM told Business Times.

Among the growth drivers are state of economy, investment performance and outlook, insurance



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penetration rate, government policies and consumer sentiment.

The industry is on track to meet the new business growth target based on September 30 statistics which showed that the combined total weighted premium for traditional and investment-linked businesses grew 16 per cent.

In that same period, traditional business enjoyed a 31 per cent growth, while investment-linked businesses suffered a 7 per cent decline.

LIAM said the protection element of life insurance is not affected by

the economic environment, and in fact, it tends to perform better when the external environment is less certain.

However, the investment element of life insurance mainly in the form of investment-linked business may be more closely linked to the investment market and sentiment.

LIAM president Md Adnan Md Zain said that 2009 will continue to be a challenging year for investment-linked products although it had seen continued sign of improvement since the first quarter of

this year.

"In 2009, we have seen a strong recovery in the equities market, which augurs well for the investment-linked products, especially in the second half," he said.

"For the whole of 2009, the new business weighted premium for investment-linked products will still likely be in the negative growth zone albeit at a smaller negative figure of around 5 per cent," he added.

On the industry's premium income, LIAM believes that it will be affected to a certain extent by the sale of single premium deposit-like products.

"The sale of such products suffered a decline last year. For 2009, we have seen a pick-up in such products and we may see a small negative growth for the whole year and in the best scenario this sector may actually enjoy a small positive growth," LIAM said.

"The investment performance for most life insurance funds may not be too good in the first quarter of 2009, but with the recovery of the overall investment market since then, the investment performance for the whole year should be above average for the industry," it added.