Issue 01/2009/Q3 Jul-Sept 2009

INSURANCE

A Quarterly Publication of The Malaysian Insurance Institute

Challenges for Malaysian Insurers

Interview:
Governor
Bank Negara Malaysia

Focus:
Marine insurance & piracy
Solutions to piracy on the high seas

Features:
Outlook for Malaysian Insurance Industry
Fitch Ratings expects insurance spending to rise

Malaysia Reinsurance Market
The impact on capital

The Malaysian Insurance Institute

KDN:PP 15104/04/2010 (023890)
Price: RM 12.00

INSURANCE is a quarterly publication of The Malaysian Insurance Institute (MII) produced exclusively for members. The views of the contributors are not necessarily endorsed by the Institute or the Editor.

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Article contributions are welcomed. INSURANCE reserves the right to edit or decline materials submitted.

Printer
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Welcome to the inaugural issue of INSURANCE

The main purpose of this new quarterly magazine is to enhance the communication within all segments of the insurance and *takaful* industries. The magazine aims to be an industry-wide publication in Malaysia that serves as a forum for knowledge sharing and as a catalyst for the discussion of industry trends and issues.

The introduction of a platform of this nature will allow easier discussion and debate of issues affecting the insurance industry. This has a very real influence in the new directions taken by the industry and in resolving the challenges of the time.

INSURANCE replaces *MII News*, a newsletter which was mainly focused on providing information on training and other MII activities. As much as the newsletter served its purpose, we wanted to move a step further by providing a more value-added publication with expanded coverage so that it is more relevant and meaningful. The expanded information will now be included in INSURANCE, which will become the main and more effective member communication tool.

In this first issue of INSURANCE, we are very privileged to have secured an exclusive interview with the Governor of Bank Negara Malaysia, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz. Tan Sri Zeti has recently stepped down as MII's Chairman after almost a decade of exemplary and strong leadership. Under her chairmanship, MII made significant strides and fructuous developments that gained increasing local and international industry recognition. She has highlighted a number of challenges for the industry in 2009 and beyond. High on the agenda of any industry right now is the continuing impact of the international financial crisis. Whilst the crisis must continue to be managed, it is now time to start learning from its lessons. We have therefore in this first issue focused on the problems of D&O insurance, which was also one of the subjects discussed at MII's conference on liability in May.

Another issue that Tan Sri Governor pointed to, with continuing importance to the insurance industry in Malaysia, is the full implementation of the Risk Based Capital requirement starting from this year. We will have a number of perspectives from industry players about this landmark initiative, in future issues.

Each of the issues of INSURANCE will focus on important topics of the day and we trust this will contribute positively to industry debate in these areas. It is definitely a forum for every reader to consider their own. As such, I invite every reader to support and help us make this industry magazine a truly sought after read. We would highly appreciate your contributions through providing comments, ideas, letters and topical articles for publication.

As a gesture of our appreciation to the industry, the first two issues will be complimentary. Please help us to introduce and promote this industry magazine to all your friends, colleagues, clients, business partners or even family members. We welcome interests for advertisements in our subsequent issues. We are indeed very excited about this new magazine for our industry. Let us nurture this together and ensure its continued success.

Hope you will find this inaugural INSURANCE magazine of great interest.

Khadijah Abdullah
Editor

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En Hashim Harun, Chairman of MII

NEW MII CHAIRMAN

En Hashim Harun has been appointed as Chairman of MII. His appointment was announced by MII's former Chairman, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, during the recent MII Annual General Meeting 2009, held on 16 June 2009. Tan Sri Zeti stepped down as MII's Chairman and member of the MII Board of Directors after helming the Institute for nine years. En Hashim is also Chairman of Persatuan Insurans Am Malaysia and President & CEO of Malaysian Reinsurance Berhad.

~ Source: The Malaysian Insurance Institute ~

S&P: LIFE INSURANCE SECTOR OUTLOOK

Challenging operating environment continues to affect most life insurers in Asia Pacific with capitalisation and profitability dampened by a weak economic outlook for this region.

Under such circumstance, Standard & Poor's Ratings Services pronounced a negative outlook for the Asia Pacific life insurance sector. S&P had also included a comprehensive review of eight other countries, namely, China, Australia, Japan, Hong Kong, New Zealand, Singapore, Taiwan and Thailand and revealed increased negative pressure in the majority of markets within this region.

However, despite the overall negative review for the Asia Pacific life insurance market, S&P's insurance ratings still have stable outlooks reflecting insurers' resilience to current market conditions which have had negative performance.

It is expected that the regional industry will gradually start to recover from 2010 which is in line with S&P's expectation of a gradual economic recovery across Asia Pacific.

~ Source: Standard & Poor's Ratings Direct, 7 May 2009 ~

PROFITABLE MICROINSURANCE INDUSTRY

Commercial firms recognise that insuring the poor (microinsurance) is not just good public relations but also profitable. Craig Thorburn, a senior insurance specialist at the World Bank who has developed microinsurance programmes and who advises countries on insurance market development said that interest in microinsurance has exploded throughout the world.

According to Michael McCord, president of the US-based MicroInsurance Centre, microinsurance began as a form of charity in the 1990s, when the International Labour Organisation experimented with super-cheap insurance policies. In 1995, McCord developed an entirely commercial microinsurance product backed by insurer AIG to sell it through a microfinance institute in Uganda.

Within a decade, AIG's Ugandan business covered about 1.6 million lives and microinsurance premiums accounted for nearly 17% of its Ugandan unit's profits. He said, a $1,000 life insurance policy sells for just $1 a year in Uganda making it affordable to the poor. He estimates that about 135 million low-income people around the world are covered by cheap insurance up from 78 million two years ago.

Investors are seeing the potential in this multi-billion dollar industry. The Leapfrog Financial Inclusion Fund announced that it had raised $44 million for the world's first microinsurance fund and will invest in India, Pakistan, South Africa, Ghana and Kenya.

Dr Andrew Kuper, president and founder of LeapFrog, a Luxembourg-based fund said, "The world desperately needs market-based solutions to poverty that draw in major financial investors by offering fair but competitive returns."

Insurance experts, including Ruchismita and McCord, said such microinsurance schemes tend to be more successful when a community-based organisation works in partnership with a private insurer, as both have strengths in different areas. For insurers, the sheer number of potential customers in the low-income bracket makes this an attractive market.

~ Source: The Star, 25 June 2009 ~

BNM: CONSUMERS TO BENEFIT FROM PREMIUM REBATES

Effective 1 July 2009, individuals who purchase general insurance covers directly from insurance companies will be eligible to receive premium rebates. The quantum of rebate, however, will depend on the types of insurance purchased.

For motor insurance, individuals will receive a 5% premium rebate in the first year of implementation and 10% thereafter. For others, the rebates are between 5% and 25%. Direct purchase includes walk-in, through the Internet, direct mailing and the telemarketing channel.

Bank Negara's move to implement premium rebates for the direct purchase of general insurance covers is expected to put millions back into consumers' pockets, especially during these challenging times. Deputy governor, Datuk Mohd Razif Abd Kadir said the objective was in line with the Government's intention of enhancing consumption.

Razif noted in 2008, the general insurance policy premium amounted to RM4.4bil, of which half was motor insurance and 15%, or RM450mil, came from direct channels, but without getting any rebate.

Despite the emergence of direct distribution channels, insurance agents remain an important intermediary in the general insurance sector to provide personalised service for the convenience of policy owners and value-added services, such as advice on insurance products and in providing assistance in claims handling.

~ Source: The Star, 20 June 2009 ~

BNM: CONSIDERING RISK-BASED SYSTEM FOR VEHICLE INSURERS

Bank Negara is studying the possibility of reviewing the "tariff-based" insurance system for motor vehicles that had been effective since 1978 and replace it with a "risk-based" system, said Deputy Finance Minister Datuk Dr Awang Adek Hussein.

The proposal was to ensure a level playing field in the motor vehicle insurance industry; it should have a more sustainable system where insurance premiums were based on risk instead of being controlled by tariffs. He added that Malaysia was one of the few countries that adopted the "tariff-based" system.

While the tariff-based insurance system recorded RM4.5 billion gross premiums for motor vehicles in 2008, the profits by insurers following underwriting performance were minimal as Malaysia had a high loss ratio of 80.9% as compared with Thailand (60%), China (68%) and Indonesia (70%).

A query was raised regarding central bank's action on insurers that compelled old motor vehicles owners to purchase personal accident policy besides the "first party" or "third party" insurance policy. Awang said Bank Negara would not allow insurance companies to force motor vehicle owners to purchase "third party" or comprehensive insurance protections should the owners themselves be unhappy with it.

He said some insurers rejected certain risks which include that of old vehicles which were highly risky, stressing that there were a host of claims that were experienced by insurance companies on the particular vehicle category. However, as motor insurance is mandatory under the Transport Act 1987, the general insurance industry has set up Malaysian Motor Insurance Pool (MIMP) to act as the end-insurer.

~ Source: The Edge Daily, 16 June 2009 ~

STRONGER BASE FOR INSURANCE SECTOR

The Malaysian insurance industry is undergoing a transformation to provide a strong foundation for a more resilient and competitive industry in support of Malaysia's economic development agenda.

According to Bank Negara assistant governor, Datuk Muhammad Ibrahim, Malaysia has implemented the risk-based capital framework this year and new product regulations.

These developments are part of a broader move towards introducing a more principle-based regulatory regime that would allow greater flexibility for insurers to compete and improve performance. And, later in this year, Bank Negara will consult with the industry on risk management standards that insurers are expected to observe as part of this evolution.

Muhammad said the distribution channels for insurance products and services have also been broadened significantly with the development of bancassurance and financial advisers. This will contribute towards enhancing revenue and reducing costs, while enhancing consumer protection and improving the insurance penetration rate in Malaysia.

In April, Bank Negara announced a liberalisation package for the financial sector aimed at strengthening Malaysia's economic inter-linkages with other economies and enhancing the role of the financial sector as a key enabler and catalyst of economic growth.


Datuk Muhammad Ibrahim

In the insurance sector, the measures included the issuance of new family *takaful* licences with higher limits of up to 70% on foreign equity participation in insurance companies and *takaful* operators, and incentives for the consolidation and rationalisation of the insurance industry. They also included the removal of restrictions on the establishment of branches and bancassurance tie-ups, and greater flexibility to employ specialist expatriates.

~ Source: The Star, 23 June 2009 ~

SWISS RE'S SURVEY FINDS MALAYSIA'S GEN X AND Y AMONGST ASIA'S MOST HEALTH CONSCIOUS AND RISK AVERSE

A new study done on the risk appetite of Asia-Pacific's 20 to 40 year olds, also known as Generation X and Y, has found that in the midst of the global economic downturn, Malaysians (who scored a CARFI value of 41.5) have among the lowest risk appetites of eight markets surveyed in the Asia Pacific region. The findings also showed this preference for risk avoidance in Malaysians' personal as well as business lives. [Refer to Figure 1]

Survey sponsor Swiss Re, one of the world's largest and most diversified reinsurance companies, also uncovered a strong interest among Malaysians to use financial planners, unlike most other markets in the region. Mr Eric Gan, Swiss Re's Director, Client Markets, said this appears to be a great business opportunity for the insurance industry.

He added that Malaysians are more positive about using professional advisers compared to other parts of Asia and this is a clear opportunity for financial services providers to help bridge the gap between those consumers who think about and those who actually have a plan to ensure financial security.

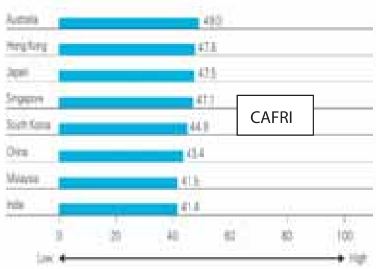
The "Swiss Re Survey of Risk Appetite: Asia-Pacific 2009" was launched in the first quarter of 2009 with the aim to gather insights on the risk-taking attitudes of consumers and small-and-medium enterprise (SME) decision-makers between 20 and 40 years old across eight Asia-Pacific markets.

The survey covered four key consumer risk aspects: finance, career, health and lifestyle, as well as two key business risk aspects: growth and operation. The results were consolidated into two indices to allow comparison between markets, and so changes can be tracked over time: the Swiss Re Asia Pacific Consumer Appetite for Risk Index (CAFRI) and Business Appetite for Risk Index (BAFRI).

Consumers in Malaysia are the most willing to take lifestyle risks and would pursue a sport or an activity for fun even if some think it is dangerous. But, they are more conservative when it comes to travel, with approximately 65% of the respondents saying that safety is a top priority when they select a travel or holiday destination.

Malaysian consumers are the least willing to take health risks with more than 65% of respondents saying they exercise regularly to keep fit and healthy, and they tend to plan their diet around healthy food. In addition, more than half of the respondents find it necessary to go for regular medical check-ups, even if they do not have a medical condition.

Figure 1: Ranking on attitudes towards taking consumer risks



	CAFRI ranking	Risk aspects			
		Health	Lifestyle	Finance	Career
Australia	1	4	6	2	1
Hong Kong	2	2	5	4	2=
Japan	3	5	7	1	4
Singapore	4	3	3	7	2=
South Korea	5	1	8	3	7
China	6	7	4	5	5
Malaysia	7	8	1	6	6
India	8	6	2	8	8

Note: 1 being the highest ranking,denoting the market most willing to take risk overall and with respect to individual risk aspects

~ Swiss Re, Media Information, 18 June 2009 ~

PIRATES HIJACK TURKISH SHIP IN GULF OF ADEN

Pirates hijacked a Turkish ship in the Gulf of Aden in an unusual attack because of rough seas at this time of year, Kenyan and Turkish transportation officials said.

Andrew Mwangura, coordinator of the East African Seafarers' Assistance Programme, named the vessel as Horizon-1. "It was taken in the Gulf of Aden this morning with 23 Turkish crew," he said. "In this season, it is hard to take ships because monsoon winds make the seas rough. No one expected attacks at this time." Rough seas make it difficult for pirates to manoeuvre the small, open skiffs they generally use to come alongside merchant ships. Mwangura said he believed the ship was carrying sulphate.

Turkey's Transportation Minister Binali Yildirim said two Turkish frigates were following the Horizon-1, which was en route from Jordan to Saudi Arabia when it was hijacked by Somali pirates, according to state run Anatolia news agency. Yildirim said one of the frigates had gone to the scene of the attack but that it had not intervened to avoid putting the lives of the crew at risk.

Shipping information service Lloyd's List put the 1980-built Horizon-1's size at 34,173 deadweight tonnes. Lloyd's List said at the onset of the attack, the ship's master radioed for urgent assistance and that a Turkish warship had been sent to the scene. Poor weather has hampered pirate attacks of late giving the nearly 20,000 ships that pass through the Gulf of Aden each year some temporary reprieve.

Foreign navies have been deployed off Somalia since the turn of the year to try to prevent attacks but find themselves overstretched given the vast expanses of water involved. A Danish newspaper reported that piracy at sea off the horn of Africa has caused a 10-fold increase in insurance premiums for shipping companies. "There has been a big increase in premiums to go through the Gulf of Aden," Svein Ringbakken, insurance director at Den Norske Krigsforsikring for Skib, a Norwegian ship insurer, told the paper. To keep clear of the Gulf of Aden, many shippers are choosing to avoid the Suez Canal and sail instead around Africa, adding 5,000 sea miles to the journey.

~ Source: Reuters, 9 July 2009 ~

[More on Marine Insurance on page 28]

CLIMATE CHANGE AND INSECURITY WILL ALTER GLOBAL BUSINESS AND TRADE

According to a new report released by Lloyd's, the world's leading specialist insurance market, climate change will increase water scarcity, alter food production and dramatically change energy supply and migration patterns.

Lloyd's Chief Executive, Dr Richard Ward said that this is likely to result in increased economic nationalism and greater global insecurity, which will in turn add to the complexity and cost of doing business. He added that companies that are able to understand this impact are going to be protected and this could also open up new business opportunities for them.

IISS Director of Transnational Threats and Political Risks, Nigel Inkster said, "Climate change has the potential to act as an accelerator of global instability and has been recognised in both the USA and Europe as an issue affecting national security. Climate change could lead to increased competition between states for ever more scare resources and could in the worst case lead to inter-state conflict."

He added, "Doing business in a world increasingly affected by climate change will present challenges and companies will need to be aware of both the general and specific aspects of climate change likely to affect their particular businesses. But climate change also presents major business opportunities. And the business work has a crucial role to play in both developing new low-carbon technologies and changing consumer behaviour to adopt a low-carbon lifestyle."

The report explores four key areas through case studies, outlining their impacts on business:

- Water - The risk of water-induced conflict with particular reference to competition between India and Pakistan over access to the diminishing supply of water from the Indus river basin.
- Food - Issues of food security - looking at the problems facing China, a country with a large population and declining water resources and arable land, and the prospect for tension with Russia, a country with an excess of arable land and water and a declining population.
- Energy security - looking specifically at the Arctic, an area rich in oil and gas resources which are becoming increasingly exploitable as the ice-cap melts, and which could be the subject of competing claims by five nations.
- Migration - with a particular focus on the problems potentially faced by the USA in the event that climate change drives populations in Mexico to migrate northwards.

While awareness of the threats and opportunities is a key factor, businesses also have an important role to play in encouraging debate and greater understanding of the problem.

"The private sector needs to support research on climate change, and develop and promote new technologies both to mitigate and adapt to climate change. Just as important is encouraging informed public debate, such as our 360 Risk Insight project," Dr Ward said.

The full report, Climate Change and Security: Risks and Opportunities for Business, is available at: www.lloyds.com.

~ Source: Climate change and security: Risks and opportunities for business, Lloyd's, 28 April 2009 ~

MALAYSIANS POSITIVE ABOUT LONG - TERM FINANCIAL GOALS DESPITE ECONOMIC CRISIS

According to the HSBC Asian Insurance Monitor 2009, over a third of Malaysians feel financially prepared in case of crisis but a quarter will use extra savings to cover income gaps.

The survey was conducted by HSBC Insurance (Asia Pacific) Holdings Limited with the aim of studying attitudes of Malaysians towards insurance and retirement planning in the Asian region. Asia is deemed as one of the world's fastest growing regions for the insurance market.

Over half of Malaysians are confident about achieving their long-term financial goals which account for the second highest in the Asian region. And, over half of Malaysians aim for retirement financial security and a comfortable life for the family.

The Monitor also found in terms of monthly personal income distribution, close to 70% of Malaysians' income is being utilised for living expenses and only a quarter of income is saved. Mode of savings is diversified over a wide range of financial tools with 71% holding property and lower percentages in cash and insurance.

The survey results indicate a significant number of Malaysians have changed their financial portfolio over the past 12 months - moving away from higher risk financial instruments to higher cash deposits and insurance.

~ Source: HSBC Asian Insurance Monitor 2009 & HSBC Press Release, 19 May 2009 ~

LIAM: NEW PRESIDENT AND VICE-PRESIDENT ELECTED

Md Adnan Md Zain , President

The Life Insurance Association of Malaysia (LIAM) had elected Md Adnan Md Zain and Ooi Say Teng as the President and Vice President of LIAM at LIAM's 35th Annual General Meeting held on 25 March 2009.

Md Adnan is the Chief Executive Officer of MCIS ZURICH Insurance Berhad. He began his career in the banking industry with Standard Chartered Bank (SCB) in 1981.

Whilst serving the SCB Group, he held various senior positions, including a posting to head a key regional corporate banking project based in Standard Chartered Bank, Hong Kong from 1990 until 1992. He was the Head of Global Electronic Banking, reporting directly to the Group Head Office in London, prior to leaving SCB in 1995.

He subsequently held various key management positions within the banking industry, including being the Acting CEO of Alliance Merchant Bank in 2003. He joined MCIS ZURICH in April 2005 as its Deputy CEO and was subsequently appointed as CEO in February 2006. Md Adnan sits on the Board of the Malaysian Insurance Institute and Malaysian Life Reinsurance Group Berhad.

A graduate with a Bachelor of Science (Honours) degree in Actuarial Science from The City University, London and a Diploma in Actuarial Techniques from the Institute of Actuaries, London, Ooi Say Teng has about 26 years of experience in the insurance industry.

Ooi Say Teng, Vice President

Prior to joining Uni.Asia Life Assurance Berhad as the Chief Executive Officer in January 2003, Ooi was the Assistant General Manager of Mayban Life Assurance Berhad from January 2000 to December 2002, and Deputy General Manager of MBA Life (now known as Allianz Life Insurance Berhad) from 1996 to 1999.

Ooi started his career with MCIS Insurance Berhad (now known as MCIS Zurich Insurance Berhad) in 1983 as an Actuarial Officer and his last position in MCIS was Assistant General Manager for Operations. Ooi sits on the Board of Directors of the Malaysian Life Reinsurance Group Berhad.

~ Source: Life Insurance Association Malaysia (LIAM), 27 March 2009 ~

ASEAN-UN-WORLD BANK COLLABORATE TO REDUCE DISASTER RISK

The ASEAN Secretariat, United Nations International Strategy for Disaster Reduction (UNISDR) and the World Bank announced a cooperation programme to strengthen disaster risk reduction and disaster management in Southeast Asia.

The programme aims to help ASEAN reduce its vulnerability to natural disasters and to protect its citizens from the impact of extreme weather events in the future. It lays a framework for technical support from the UN and the World Bank to help ASEAN formulate and implement strategies and action plans for disaster risk reduction and management.

The objectives of the programme include building ASEAN's capacity in the areas of disaster risk reduction and climate change adaptation; mobilising resources for the implementation of disaster risk reduction initiatives in ASEAN; and helping ASEAN policy-makers gain knowledge of effective and practical ways to reduce disaster risks.

ASEAN sits between several tectonic plates causing earthquakes, volcanic eruptions and tsunamis. The region is also located in between huge oceans namely the Pacific and the Indian oceans causing seasonal typhoons and in some areas, tsunamis.

Dr Surin Pitsuwan, the Secretary-General of ASEAN said with 570 million people in the region, it was time for ASEAN to be better prepared for future disasters by empowering itself with better techniques and coordinating mechanisms involving the governments and civil societies of ASEAN.

~ Bernama, 18 May 2009 ~

UNITED NATIONS

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The Malaysian Insurance Institute

Professional Service Provider of the year 2007

New Challenges for the Malaysian Insurance Industry

Interview with the Governor Bank Negara

YBhg Tan Sri Dato' Sri Dr Zeti Akhtar Aziz, Governor Bank Negara Malaysia, gave this insightful interview for the inaugural issue of INSURANCE.

Q: From your experience in dealing with the global financial crisis, what are some of the key lessons learnt that are relevant to the insurance industry?

A: Financial market development needs to be tempered with effective regulation and supervision and the insurance industry is one of the many financial market players that need to be well regulated, which is the case in Malaysia. One of the key lessons learnt from the financial crisis is that unfettered financial market innovation and over reliance on financial leveraging instruments by non-regulated financial institutions can be a source of financial instability.

The impact of the international financial crisis has been mainly in the area of investments. Globally, insurers with direct exposures to structured finance products, and in particular credit derivatives linked to sub-prime assets, have been the hardest hit. However, such exposures as a proportion of total investments of Malaysian insurers' are negligible, thus limiting any material threat to the industry's aggregate financial strength.

Insurers have also experienced marked-to-market losses from equity holdings and reserving pressures from the lower interest rate environment. But overall, the industry remains generally sound. The insurance industry in Malaysia has remained well capitalised, with a capital adequacy ratio well above the minimum regulatory requirement. The industry has also continued to record strong profits of RM1.9 billion despite the more challenging operating environment. As part of pre-emptive measures announced in 2008, access to Bank Negara Malaysia's liquidity facility is also extended to insurance companies and *takaful* operators. To-date, this has not been drawn upon. However, it has further contributed towards shoring up confidence in Malaysia's insurance industry and the overall financial system.

We have seen the severe impact of the global financial crisis on the global insurance industry, resulting in the need for government bail-out of affected insurers. Some of the important lessons learned from this crisis are that the global financial crisis has brought to the forefront the importance of establishing comprehensive and robust risk management frameworks. For insurers, the crisis highlights the importance of adequate risk pricing, both on insurance and credit risks, robust asset-liability management strategies, including the management of currency mismatches, and rigorous stress testing approaches. Complacency is not a viable option.

To a large extent, the global insurance industry had benefited from sharp adjustments that followed the financial crisis of 2001 and 2002, which saw the global property and casualty insurance industry suffer significant losses from the under-pricing of insurance risk and volatile financial markets that were relied upon to compensate for inadequate risk premiums. Since then, improved pricing of risks driven by technical fundamentals and increased operating efficiencies, have led to better operating performance and stronger position of most insurers coming into this crisis.

In Malaysia, the regulatory and supervisory framework continues to emphasise sound underwriting and reserving practices, responsible behaviour towards consumers and adequate capital buffers for unexpected losses. The implementation of the Risk-Based Capital framework has further reinforced these important foundations.

Looking ahead, achieving profitable growth will be a significant challenge for insurers. The economic slowdown will have some impact on growth while competitive pressures have increased. At the same time, higher capital expectations and more difficult conditions will also increase pressures on shareholder returns. In this environment, it is critical that insurers stay the course in upholding sound underwriting and investment

> “... the global financial crisis has brought to the forefront the importance of establishing comprehensive and robust risk management frameworks.”

standards so that short-term growth and returns are not pursued at the expense of long-term viability.

Finally, sound corporate governance will have a central role in this regard. Boards must set the tone for risk management in their companies, clearly define the parameters for doing business and improve dialogue with management on risk issues. Boards must ensure that controls are in place and are operating effectively. All of this must be aligned with incentive structures that promote positive risk behaviour with a sustainable medium and long-term growth perspective.

Q: What are Governor's expectations for the industry on Risk Based Capital (RBC) Framework?

A: The RBC framework was implemented on 1 January 2009 after a two year parallel run. During this period, there has been close engagement between BNM and insurers on the preparations for the adoption of the new capital requirements.

Under the RBC framework, the expectation is to see more visible improvements in risk management practices of insurers given the need for more explicit quantitative assessments of risks and stronger financial buffers. There should also be greater alignment between business strategy and risk, and a greater appreciation by the Boards on risk issues given the more pronounced focus on the relationship between risk management and capital management under the RBC framework. This is further reinforced by the risk-based approach to supervision by the Central Bank.

We have begun to see positive developments in the industry. Enhancements to risk management practices have been intensified as more insurance companies have taken steps to improve their internal processes and become more risk oriented in their underwriting and investment activities. Insurers, particularly life insurers, are also placing more emphasis on product design and pricing, as they seek to enhance the capital efficiency of their product range. This has also resulted in the review and implementation of appropriate risk mitigation strategies by insurers, including reinsurance arrangements and the rebalancing of portfolio mixes, by insurers so as to diversify their risk exposures.

The discussions between the Board and Management of insurance companies surrounding risk governance and organisation have also increased. This has been further encouraged by initiatives in training on the RBC framework and the risk issues, undertaken by the industry in association with MII and the Central Bank.

The end game is to provide strong incentives and the supporting infrastructure to significantly strengthen the risk management capabilities of insurers. This in turn, will further strengthen the resilience of Malaysian insurers and better position the industry in the more competitive operating environment.

Q: Whilst Malaysia can properly consider itself a leader in *Takaful*, in comparison to conventional insurance, both market share and penetration levels are low. What are Bank Negara Malaysia's plans with respect to further development of the *Takaful* industry?

A: The *takaful* industry in Malaysia began 25 years ago. While the *takaful* sector is still in its nascent stage compared to the conventional insurance sector, it has experienced rapid growth that has averaged 20% annually from 2003 to 2008.

While this growth momentum is expected to be sustained, industry players need to review their strategic direction to evolve in this rapidly changing environment and thus enhance their market share and penetration targets, which in turn would lead to strengthening the industry's contribution in the financial system.

Pertinent areas that warrant the players attention include size and capability of individual players to have meaningful participation in underwriting risks for example from the large and specialised risks (LSR) scheme. Risks under this scheme are hardly covered under a *takaful* concept which promises great potential for the industry. Secondly, whilst the growth of the non-family *takaful* products have generally dovetailed the expansion of financing offered by the Islamic banking fraternity particularly Islamic hire purchase, over reliance on this strategy would expose the industry to the performance of the latter and may limit the potential growth in other areas. Innovation is core to enable the industry to diversify and expand its product range beyond financing-related *takaful* products to propel the industry to the next phase of development. Thirdly, the multiplicity of distribution channels of the *takaful* industry has to be improved via agency, bancatakaful, brokers and financial planners. The expression "insurance is sold, not bought" also applies to *takaful* as

> "For insurers, the crisis highlights the importance of adequate risk pricing, both on insurance and credit risks, robust asset-liability management strategies, including the management of currency mismatches, and rigorous stress testing approaches."

many of the targeted consumer segments do not have the awareness of the importance or the necessity in having adequate protection. Ability to leverage on suitable distribution channels for maximising market reach in the Malaysian and international market through white labelling cannot be underestimated. Additionally, industry players, particularly bank-backed entities should harness their data mining capabilities of their banca-partners' customer database to produce market leads and assist in the designing of customised *takaful* coverage which would enhance the marketability of these products.

Recognising these gaps, the Bank encourages the *takaful* operators to build capacity to become more competitive and innovative, and to leverage on mutually beneficial arrangements and alliances to offer the complementary range of financial services to consumers. Greater operational flexibility has also been accorded to the *takaful* operators to introduce multiple distribution channels and to bring in expatriates who can impart their technical expertise to the institution. The Bank has also progressively liberalised the *takaful* industry through the issuance of four *takaful* licences in 2005, followed by issuance of *retakaful* and international *takaful* licences in 2006, and two new additional licences in family *takaful* were included under the recent liberalisation announcement.

Q: There has been a lot of interest from overseas insurance companies in Malaysia. What are the regulator's future plans for overseas market entry into Malaysia?

A: The Asian insurance market is an attractive insurance market given its low levels of penetration and the high growth potential. It also has the added advantage of the country's status as one of the most developed *takaful* markets in the world.

The plans to liberalise the financial sector were announced in April this year and is aimed at pursuing opportunities that will bring net benefits and contribute to the development of the Malaysian financial sector and the economy as a whole, while ensuring that overall financial stability and soundness is preserved. With this objective, up to two new family *takaful* licences will be issued in 2009 to applicants who offer strong value proposition to the country. The foreign equity limit for insurance companies and *takaful* operators has also been increased to 70 percent to allow Malaysian insurers and *takaful* operators to leverage on foreign partners to strengthen the *takaful* operators' capacity and accelerate the transfer of technology as well as improve their competitiveness.

Thank you Governor, for your views and words of encouragement.

Directors & Officers Insurance: Fallout from the Economic Crisis

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D&O claims rise in every financial crisis. The current crisis has been no exception and claims are emerging in all continents. This was one of the central messages of the recent Liability Insurance Conference in Kuala Lumpur organised by the Malaysian Insurance Institute.

Although many commentators are talking about the early signs of economic turnaround and several sectors are looking forward to improvements in profit outlook; for the insurance industry, the fallout from the economic crisis is just beginning to take hold. This is in terms of claims under Directors & Officers (D&O) policy claims.

This was one of the central messages of the recent Liability Insurance Conference in Kuala Lumpur organised by the Malaysian Insurance Institute. The conference was held from 19 to 20 May 2009 at the Istana Hotel and was attended by some 100 insurance professionals.

According to conference speaker Patrick White, who is a senior underwriter with UK based Markel International Ltd, "As expected, the initial claims have been in the USA. Firstly, this is because the USA is where the crisis and related issues originated but also because of the relative ease of bringing class actions as compared to other jurisdictions. In India for instance, you cannot bring a class action, so the litigation that is likely to be seen there will take longer to happen because of course individuals have to act alone." White has just been appointed as head of D&O by Markel.

Although the largest number of class actions are likely to emanate from the US, this does not mean that companies in the Asian region will escape class action suits because many have been listed in the US or have ADRs. Recently, three US-based law firms filed class action lawsuits against the Indian company Satyam Computer Services Ltd., on behalf of shareholders of the firm's ADRs. This followed the resignation of Satyam's chairman, Ramalinga Raju, shortly after he publicly announced his involvement in an accounting fraud[i].

In the US, a report by Integro Insurance Brokers in March 2009[ii], reported that 2008 had seen 227 class action filings, with nearly half the suits related to subprime or credit events. This however, is most likely the tip of the iceberg and the Financial Times reported that claims from the financial crisis could cost insurers $6bn on policies that protect US companies and directors from legal costs. [iii]

Apparently, a new feature of these actions which is likely to impact claims is the expanding definition of "officer" in some jurisdictions and the related issue of expected skill and knowledge of officers. The 2003 Australian case of the ASIC vs. Vines found that an officer with a specific function, in this case a Chief Finance Officer, is expected to exercise the same skill and care as another person in a "like position". This is an expansion of the skill requirements of officers which in the past did not relate to the specific function. The impact of this decision is likely to be seen when assessing the liability of former officers of banks who carried titles such as risk officer or compliance officer or indeed legal counsel or directors who are brought on to a board because of their financial or legal backgrounds.

Accept that the claims arising out of the crisis will eventually have to be settled, what are the lessons for the insurers? According to White, "I don't think there are too many silver linings. However, a crucial impact is that we are going to have to take a very cold hard look at how we assess the standard of corporate governance of

Patrick White

Notes
i. Asia Pacific D&O insurance market, Financier Worldwide March 2009, Pauline Renaud, HCC Global Financial Products
ii. 2009:D&O insurance- Brave New World, Tara Cummins & Vincent G. Caracciolo, Integra Insurance Brokers March 2009
iii. Insurers face $6bn bill for D&O claims, Saskia Scholtes FT.com, June 23 2009

Steven Dewhurst

> ... the Financial Times reported that claims from the financial crisis could cost insurers $6bn on policies that protect US companies and directors from legal costs.

clients when we write D&O policies. This is not an area we can treat as a portfolio and apply statistical techniques to. We simply do not have the loss data to treat D&O risk in the same way as life or motor underwriting. We have to look at the individual situation and so, we really have to have the senior and experienced underwriter who is going to be able to gauge the quality of corporate governance."

The Integro report echoes this view and says that there is a need to, "go beyond traditional neighbourhood benchmarking [and you must] appreciate your entities individual risk factors."

It is very difficult to assess the quality of corporate governance within a company because ultimately, it is down to the ethical standards of individuals and the pressures of the environment in which they are operating. Many other industries have tried to come up with indices for corporate governance and failed. For instance, various credit rating agencies have attempted to include corporate governance frameworks in their assessment methodologies. However, there is little transparency in the methodology used, so its effectiveness cannot be gauged.

Even the so-called professionals in this area have failed, sometimes with remarkably embarrassing results. The most recent example being Satyam. That company was awarded the International Peacock Award for excellence in corporate governance by the World Council of Corporate Governance.

"For insurers," says Steven Dewhurst, partner in a Singapore legal firm Stephenson Harwood, "the difficulty is multiplied many times because of the nature of D&O cover. It is a composite cover so the directors and officers past, present and future are covered. Now you might be able to get to know the ethical standards of individual directors and officers by being close to them, but how do you understand the ethics and competence of future directors - they may not even have been identified as yet, let alone nominated for appointment to the board."

According to White, the only solution seems to be to invest time in your major clients to get close to them and truly understand the corporate governance frameworks and standards that they exercise. The issue of composite cover, however, could well lead to a review of policy coverage and also the excess amounts of such policies. In Germany for instance, says Dewhurst, "it is common for directors to have to pay up to a year's salary from their own pockets in the settlement of these claims."

Another area insurers are going to have to negotiate their way through is the quagmire of requests for advances for the purpose of defending suits. Whilst in most liability cases, this is straightforward and after consultation would be advanced; in the present circumstances, a number of cases are in relation to suspected fraud during the crisis and during the lead up to the crisis. In fraudulent situations, the director would not be covered by the D&O policy. However, if he successfully defends the case and is found not guilty of fraud, then he is covered. So, should the advance be made for defence costs? If proven guilty, there is no cover but also no hope of recovery of the advance. An interesting conundrum with no easy answers.

The issue is further complicated by the fact that a number of companies whose directors are facing suits would also be in a bankruptcy scenario, so should any insurance monies, including advances be made to the director or to the company and therefore to creditors?

D&O still a profitable product

In spite of the expected peak in D&O claims arising from the crisis, however, White points out that the business remains a profitable product category. "After all, given the number of companies and therefore the D&O policies for both listed and unlisted companies; the number of claims is small and infrequent. Nonetheless, insurers are becoming more selective in the cover they provide."

Malaysia Reinsurance Market Environment
Where Are We Going?

Is reinsurance just another form of capital? This is discussed in the context of the current Insurance/Reinsurance market environment. Where is the Malaysian market heading in the next five years?

Mr Lau Sook Weng MCIS Zurich

Prize winning essay from
AON RE GLOBAL
ASIA-PACIFIC CLIENT REINSURANCE SEMINAR SCHOLARSHIP 2008

Introduction

The earliest form of insurance can be traced back to the beginning of the 14th century whereby risky marine voyages were underwritten by wealthy Venetian merchants for both the ship and cargo owners.[1] These Venetian merchants who "insured" the voyages needed private wealth amounting to the total sum of guarantees granted. If there was any loss during the voyage or the ship fell prey to storms or pirates, the underwriter had to pay the loss out of his own pocket. This form of risk transfer in those days perhaps is more akin to speculation and not only comprised of solidarity and sharing of fortunes, but also private risk capital.[2]

After about three hundred years later, the Lloyd's insurance market started to trade on the same principle of private and unlimited liability and it is only recently that institutional investors with limited capital were admitted. However, for many of these forms of capital, it proved to be insufficient to withstand major losses and potentially could put many insurers out of business. In order to mitigate the exposure of such risks, professional reinsurance was established to help direct insurers to spread their risk. The world's first

1. Hersberger (1996), Insurance and Risk Capital - Swiss Re's Value Proposition, p. 3
2. Hersberger (1996), Insurance and Risk Capital - Swiss Re's Value Proposition, p. 3

The Major Losses 1970 - 2007

No.	Date	Event	Country	Insured Loss (In USD million)
1	28.08.2005	Hurricane Katrina	US, Gulf of Mexico, Bahamas, North Atlantic	68 515
2	23.08.1992	Hurricane Andrew	US, Bahamas	23 654
3	11.09.2001	Terror attack on World Trade Centre, Pentagon and other buildings	US	21 999
4	17.01.1994	Northridge earthquake	US	19 593
5	02.09.2004	Hurricane Ivan	US, Carribean Barbados	14 115
6	19.10.2005	Hurricane Wilma	US, Mexico, Jamaica, Haiti	13 339
7	20.09.2005	Hurricane Rita	US, Gulf of Mexico, Cuba	10 704
8	11.08.2004	Hurricane Charley	US, Cuba, Jamaica	8 840
9	27.09.1991	Typhoon Mireille	Japan	8 599
10	15.09.1989	Hurricane Hugo	US, Puerto Rico	7 650

~ Source: Swiss Re: Sigma No 1/2008 Natural Catasrophes and Man Made Disasters in 2007 ~

professional reinsurance, Cologne Re was established after the 1846 Hamburg fire and the formation of Swiss Reinsurance Company in 1863 following the devastating fire of Glarus in Switzerland.[3]

Reinsurance and Capital

Like most business firms, insurance companies rely upon capital as a form of financing. However, unlike other types of commercial business, insurance companies are "different" because it is a form of risk transfer and they create explicit liabilities whenever they sell their products.

The above table shows the 10 biggest losses as a result of natural and man-made catastrophes around the world from 1970-2007. These 10 largest losses if accumulated worldwide would amount to a whopping USD197 billion. Many insurance companies would have their capital completely wiped out and the industry would not have survived from these catastrophic events if not because of the risk mitigation effects from reinsurance.

Reinsurance is the transfer of risk from a primary insurer (cedent) to a reinsurer.[4] The reinsurer agrees to indemnify the ceding company against all or part of the costs of losses which the cedent may incur under certain policies of insurance that it had issued. In turn, the cedent pays a consideration, typically a premium to help to provide protection for risks that they cannot or do not wish to retain fully themselves.[5]

Traditionally, reinsurance was considered as a means of stabilising the variation in aggregate annual claims within reasonable ranges or as a way to extend the insurer's capacity to underwrite its business.[6] Hence, it is to improve financial security and reduce underwriting risk. A more recent view of reinsurance is to consider it as a substitute for capital.[7] Purchasing reinsurance will lower the retained risk which will in turn lower the capital otherwise needed by insurers to back their retained risks. It allows the insurers to accept more business with the same amount of capital and consequently they do not need to allocate capital for these risks.[8] In most instances, the additional capital the reinsurer needs to accept a risk is smaller than the reduction of risk capital achieved by the primary insurer who cedes the risk.[9] The reason is because that reinsurer has built up a world-wide multi-line portfolio in which additional risks will have an additional diversification effect.[10]

As a result of the ability to assume more risks with the same level of capital, the primary insurer can spread its overheads and benefit from economies of scale.[11] Expenses such as distribution networks, claims handling and other administration costs can be spread over a broader

3. Beale, (2006). "Global Reinsurance: A key enabler of economic and societal progress in a riskier world" (Speech at The British-Swiss Chamber of Commerce), p.3.
4. Baur and O'Donoghue (2004), Swiss Re: Understanding Reinsurance, p. 3
5. Baur and O'Donoghue (2004), Swiss Re: Understanding Reinsurance, p. 3
6. Dacorogna, (2004), The Economic Value of Reinsurance, p.1
7. Dacorogna, (2004), The Economic Value of Reinsurance, p.1
8. Dacorogna, (2004), The Economic Value of Reinsurance, p.1
9. Dacorogna, (2004), The Economic Value of Reinsurance, p.1
10. Baur and O'Donoghue (2004), Swiss Re: Understanding Reinsurance, p. 4
11. Dacorogna, (2004), The Economic Value of Reinsurance, p.1

> A more recent view of reinsurance is to consider it as a substitute for capital. Purchasing reinsurance will lower the retained risk which will in turn lower the capital otherwise needed by insurers to back their retained risks.

base of business portfolio. In addition, the economies of scale would enable the insurer to better price products and come out with innovative policies that otherwise would not be insurable.[12]

Solvency II

During the last decade there was a great effort by the European Community to reform its regulatory system and create a common universal approach. Solvency II is the European solvency system for insurance undertaking and is a reform of the existing solvency rules aiming to harmonise the regulations and differences of the member states.[13] The existing European Solvency I requirement is regarded as a simple formula that is not sufficiently sensitive to risk and does not direct or allocate capital accurately to those risks.[14] The Solvency II project will introduce a new solvency regime which will be characterised by an integrated risk approach, whereby it will take into account the risks an insurer is facing and align capital adequacy requirements with the true risks of insurance companies.[15]

The objectives of Solvency II are to protect policyholders and to establish a measure of solvency that better reflects the risks to which an insurer is exposed. The new system has a three-pillar approach to supervision. This is similar to the Basel II Accord structure introduced to banks which has a quantitative capital requirement to assure capital adequacy (Pillar I), supervisory review process which addresses internal risk management processes and supervisory intervention (Pillar II) and disclosure requirements for greater transparency (Pillar III).[16]

Reinsurance and Solvency II

The use of reinsurance undoubtedly has an effect on the solvency of primary insurers. Without reinsurance, many insurers may not write or may reduce the number or size of risks under their portfolio.

What sets Solvency II ahead of existing regulatory schemes is its Pillar II, the risk management pillar.[17] Indeed, this pillar recognises that companies with stronger risk management capabilities are less likely to default on insurance obligations and thus need comparably less financial capital than companies without similar capabilities.[18]

As Solvency II heightens the need to evaluate the various means of meeting capital adequacy requirements, it will likely change the way insurance companies assess and utilise reinsurance.[19] To this day, reinsurance is one of the major risk and capital management tools available to insurance companies. Reinsurers typically assume the largest and most complex risks from insurers such as an earthquake in Japan or a Katrina type hurricane. By assuming some of the risks and losses, it reduces the likelihood of extreme losses and hence lowers the amount of capital required to be held on the balance sheet by the ceding company.[20] In essence, the ceding company is reducing the capital required on its balance sheet by instead "renting capital" that is on the reinsurer's balance sheet. This will help to minimise the potentially negative impact of large risks to the insurer.[21]

12. Dacorogna, (2004), The Economic Value of Reinsurance, p.2
13. Towers Perrin & CEA (2006), Solvency II Introductory Guide, p.1
14. Towers Perrin & CEA (2006), Solvency II Introductory Guide, p.1
15. Towers Perrin & CEA (2006), Solvency II Introductory Guide, p.1
16. Olesen (2005), Solvency II, p.29
17. The Review (2005), From Anticipation to Action, p.2
18. The Review (2005), From Anticipation to Action, p.2
19. The Review (2005), From Anticipation to Action, p.2
20. Shah and Hole (2004), Using Reinsurance To Drive Economic Value, p.1
21. Shah and Hole (2004), Using Reinsurance To Drive Economic Value, p.1

When viewed in light of Solvency II, reinsurance is not simply a risk mitigation tool but also a means to achieve solvency capital relief and may therefore be viewed as a capital surrogate.[22] Insurers will be expected to consider how much capital relief reinsurance can provide, how reinsurance can support its business plans and strategies and how much this support will cost. As a form of capital, insurers will likely be weighing reinsurance against alternative sources of capital such as traditional shareholder capital and its expected return or capital provided by debt instruments.[23] Hence, Solvency II will likely make reinsurance decisions more critical and complex than before as it serves to reduce the regulatory capital requirements.[24]

Effects of Reinsurance on Solvency of Insurer

Fundamentally, reinsurance is a trade off between decreasing volatility risk in the underwriting results and often increasing credit risk through adding reinsurance recoverables to the balance sheet.[25] The financial stability of reinsurance companies remains the key factor in determining the risk of default. The new holistic risk management of Solvency II will make insurers more mindful than ever of the credit risk they are accumulating with reinsurance and conscious of the amount of reinsurance recoverable assets being concentrated with any single reinsurer.

The increase in capital or the decrease in the net premium written will lower the insurer's probability of insolvency. On the other hand, given that the insurer's own capital and net premium written are constant, then when an insurer uses more reinsurance, it is developing new business by ceding more premiums to others. At the beginning, using reinsurance could lower the insurer's risk of insolvency because of the effect of diversification of risks.[26] However, when the insurer issues more and more policies without increasing its own capital, its insolvency risk will increase.[27] This happens because the insurer has full obligation to pay its policyholders' claim no matter whether its reinsurance is recovered.[28] In other words, when reinsurance is not fully recovered or is paid back but delayed, the primary insurer's risk of insolvency will increase.

The Malaysian Insurance Industry in the Next Five Years

Over the past decade, there has been much discussion on trade liberalisation not only in Malaysia but also in the rest of the world. In most markets, enhancing competition typically involves the removal of trade barriers or easing of regulations that inhibit the workings of the market.

> "...in light of Solvency II, reinsurance is not simply a risk mitigation tool but also a means to achieve solvency capital relief and may therefore be viewed as a capital surrogate."

22. The Review (2005), From Anticipation to Action, p.3
23. The Review (2005), From Anticipation to Action, p.3
24. The Review (2005), From Anticipation to Action, p.3
25. Shah and Hole (2004), Using Reinsurance To Drive Economic Value, p.2
26. Chen, Hamwi & Hudson (2001), The Efect of Ceded Reinsurance on Solvency of Primary Insurers, p.4
27. Chen, Hamwi & Hudson (2001), The Efect of Ceded Reinsurance on Solvency of Primary Insurers, p.4
28. Chen, Hamwi & Hudson (2001), The Efect of Ceded Reinsurance on Solvency of Primary Insurers, p.4

"The more efficient allocation of capital across the industry will ultimately be reflected in increased competition and reduced costs for consumers, contribute to increased transparency leading to improved product development."

In March 2001, the central bank of Malaysia, Bank Negara Malaysia (BNM) launched the Financial Sector Masterplan (FSMP), its ten-year road map for the country's banking and insurance sectors.[29] The FSMP is fairly extensive and includes specific recommendations that are to be implemented in phases over the ten-year period to deregulate and liberalise the financial industry.[30] Many of these recommendations have already been put in place and in the next five years when it is fully implemented, it will change the local insurance landscape by presenting many challenges as well as opportunities.

Deregulation in other industries generally has had a favourable impact on consumer welfare, often reducing costs and prices, improving the quality and variety of services available to consumers and providing incentives for firms to adopt new technologies and improve productivity.[31] Those industries which are bound by many rules lack aspirations for proactive innovation and often evading competition with rivals creating inefficiencies in the industry.[32]

Any sector which was deregulated has resulted in benefiting the ultimate customers with reduction in costs of service. In insurance, the pricing will become more rational as insurers will adopt a "risk-based" approach to determine premiums.[33] A risk will be judged on its own merits and poor risks or currently under-rated risks will see price increases or tightening of coverage.[34] Under a risk-based system, it strives to allocate capital accurately to where the risks are. Unlike the previous regulatory capital benchmark, where insurance companies have to hold more capital against some risks than is necessary, thus increasing the cost of insurance for customers.[35] For other risks, too little capital will be held leading to a higher risk of failure. Ideally, a risk-based system will accurately measure the level of risk in a portfolio and indicate a proportionate amount of capital leading to the most efficient use of capital as much as possible.[36] The more efficient allocation of capital across the industry will ultimately be reflected in increased competition and reduced costs for consumers, contributing to increased transparency leading to improved product development.[37]

While the tariff on the motor and fire insurance has served its purpose well since its implementation, it was regarded as becoming outdated and not reflective of the realities. The tariff mechanism provides floor rates for various classes and different types of risks. This has resulted in cross subsidisation among different classes of risk and also within a class whereby the better risks subsidise the loss making risks.[38] The monetary

29. Bank Negara Malaysia (2001), The Financial Sector Masterplan, p.62
30. Bank Negara Malaysia (2001), The Financial Sector Masterplan, p.62
31. Cummins (2001), Property-Liability Insurance Price Regulation: The Last Bastion?,p.1
32. Cummins (2001), Property-Liability Insurance Price Regulation: The Last Bastion?,p.1
33. Cummins (2001), Property-Liability Insurance Price Regulation: The Last Bastion?,p.5
34. Cummins (2001), Property-Liability Insurance Price Regulation: The Last Bastion?,p.6
35. Towers Perrin, CEA (2006), Solvency II Introductory Guide, p.1
36. Towers Perrin, CEA (2006), Solvency II Introductory Guide, p.1
37. Towers Perrin, CEA (2006), Solvency II Introductory Guide, p.2
38. Cummins (2001), Property-Liability Insurance Price Regulation: The Last Bastion?,p.2

> Fundamentally, reinsurance is a trade off between decreasing volatility risk in the underwriting results and often increasing credit risk through adding reinsurance recoverables to the balance sheet.

limits whether by way of deductibles or limits set had not been appropriately revised to reflect inflation and other economic changes.[39] Coverage has remained largely static and standardised giving little choice available to the insuring public in terms of products and prices.

Under a free market, the insurer gets the freedom to price their products according to the risk exposures and also empowers them to reward the good risks or penalise bad risks.[40] It will also enable insurance companies to customise the most suitable coverage at the most competitive price without the restrictions of the tariff. For the customers, it gives an opportunity to reap the benefits of a competitive market and have access to cheaper and wider product choices that suit their specific needs.

Generally, the countries with a tariff regime and with a controlled market tend to have higher premiums than those of the free market.[41] The removal of tariffs will result in price war among the insurers. However, if one looks at the experience of other detariffed markets such as Japan, it can be seen that the premium rates had come down in the short term but settled to a level which reflected the level of risk exposures in the medium term.[42] In a competitive environment, there will be a strong incentive for insurers to improve their operating efficiency and reduce operating costs.[43] Those that are unable to do so will have to exit the industry or merge with other rivals to gain synergies.

The introduction of independent financial advisers (IFAs) in the FSMP will create a new breed of insurance advisers.[44] Unlike the current agents who have limited technical knowledge and are often tied to certain insurers, these advisers will be able to provide professional independent advice to consumers without any bias. The public awareness of different forms of product being offered in the market will also increase. Rapid technological advancement such as the information superhighway will continue to drive efficient delivery of products and services. Both of these will likely be important new distribution channels for insurers in the future.

In the coming years, progressive liberalisation and deregulation undertaken by BNM will see fierce competition among the industry players to get a share of the pie. Despite this, the insurance industry is expected to continue its positive growth. As in other liberalised industries, the heightened public awareness of the need for insurance and lower costs of insurance products will create a greater demand in the market. The pie does not get smaller but it gets bigger as it expands by reaching out to untapped markets.

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Photos courtesy of the U.S. National Oceanic and Atmospheric Administration

39. Rao (2006), The Impact of Detariffing, p.6
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The Malaysian Insurance Market Survival of the Fittest

by Fitch Ratings

This is an extract from the Malaysia Special Report, The Malaysian Insurance Market - Survival of the Fittest published by Fitch Ratings (www.fitchratings.com) and is reprinted with permission

Market Overview

The Asian insurance markets have attracted the attention of international investors and insurers looking to capitalise on the tremendous opportunities the region has to offer. Not surprisingly, the enormous potential of China and India is in the spotlight, but, at the same time, the Association of Southeast Asian Nations (ASEAN) has become too important to ignore.

With a premium volume of USD8.8bn, Malaysia was the eighth-largest Asian insurance market in 2007 (see Table 1). Although the country only accounted for a modest 1.0% of insurance business in Asia (and 2.1% in non-Japan Asia), its long-term potential is not to be overlooked, given its relatively low insurance penetration (4.6% of GDP) and density (USD332 per capita).

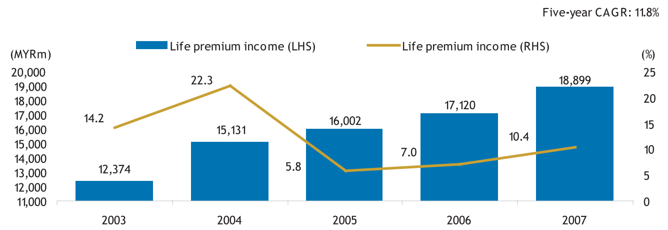
Fitch expects average insurance spending in Malaysia to rise noticeably in 2009-2010, despite the slowing global economy. Between 2002 and 2007, the Malaysian

Table 1: 2007 Statistics of East/Southeast Asian Insurance Markets

	Total premiums (USDbn)	Asia total (%)	World total (%)	Density USD/capita	Penetration (% of GDP)
Japan	424.8	50.5	10.5	3,319.9	9.6
South Korea	117.0	13.9	2.9	2,384.0	11.8
China	92.5	11.0	2.3	69.6	2.9
Taiwan	60.4	7.2	1.5	2,628.0	15.7
India	54.4	6.5	1.3	46.6	4.7
Hong Kong	24.3	2.9	0.6	3,373.2	11.8
Singapore	14.2	1.7	0.3	2,776.0	7.6
Malaysia	**8.8**	**1.0**	**0.2**	**332.1**	**4.6**
Thailand	8.3	1.0	0.2	129.7	3.4
Indonesia	6.9	0.8	0.2	30.0	1.6
Philippines	2.1	0.3	0.1	23.9	1.5
Vietnam	1.0	0.1	0.0	11.8	1.5
Sri Lanka	0.5	0.1	0.0	24.9	1.5
Asia total	**840.6**	**100.0**	**20.7**	**210.7**	**6.2**
World total	**4,060.9**		**100.0**	**607.7**	**7.5**

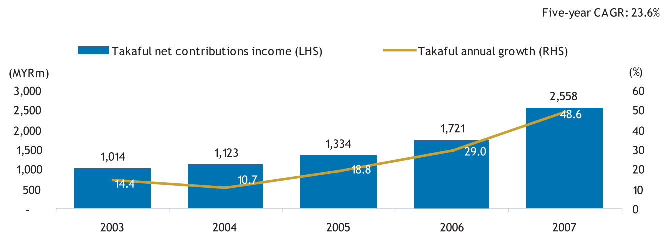
Source: Swiss Re Sigma No 3/2008

Chart 1: Total Life Insurance Premium Income



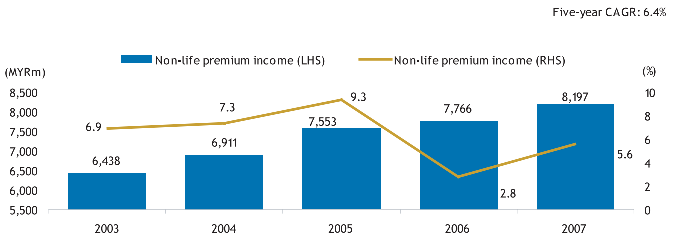
Source: Bank Negara Malaysia

Chart 3: Net Takaful Contributions



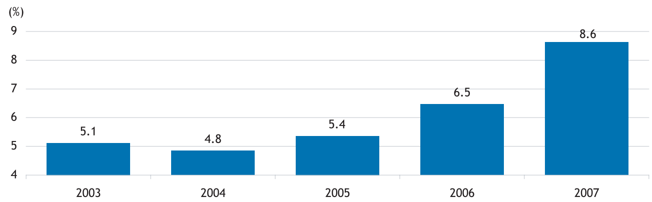
Source: Bank Negara Malaysia

Chart 2: Total Non-Life Insurance Premium Income



Source: Bank Negara Malaysia

Chart 4: Net Takaful Contributions/Insurance and Takaful Market



Source: Bank Negara Malaysia

insurance market recorded a compound annual growth rate (CAGR) of 10.0%, fueled by average double-digit growth in the life sector (five-year CAGR: 11.8%) and sustained, albeit somewhat slower, expansion in the non-life sector (five-year CAGR: 6.4%) (see Charts 1 and 2).

No discussion of Malaysia's insurance industry would be complete without considering its *Takaful* counterpart. The "nascent" *Takaful* market in Malaysia has actually been in existence for over 20 years, but it was not until the implementation of the Financial Sector Master Plan (FSMP) that the regulator began to actively promote the market's development and introduce new competition. From 2002-2007, net *Takaful* contributions increased at an average growth rate of 23.6% per year. At end-2007, net *Takaful* contributions accounted for 8.6% of the combined insurance and *Takaful* industry, compared with 5.0% in 2002 (see Charts 3 and 4).

In Fitch's opinion, the "competition" between insurance and *Takaful* is far from being a zero-sum game. With continued product innovation, *Takaful* has become a solution for many Malaysians whose needs for savings, protection and wealth management were not previously met by conventional alternatives.

Regulatory Environment

As the central bank, Bank Negara Malaysia (BNM) is responsible for the supervision of the country's insurance and *Takaful* industries. The Insurance Act 1996 and the *Takaful* Act 1984 provide the respective regulatory frameworks for the two sectors. In the context of the ASEAN region, Fitch believes that the

“The objective of the FSMP is to develop a more resilient, competitive and dynamic financial system with best practices, that supports and contributes positively to the growth of the economy...”

Malaysian market is well regulated, with BNM playing a dual role of protecting the interests of policyholders (and *Takaful* participants) and promoting the long-term growth of the industry.

Insurance and *Takaful* feature prominently in BNM's FSMP, which is a 10-year blueprint the central bank unveiled in 2001. The objective of the FSMP is "to develop a more resilient, competitive and dynamic financial system with best practices, that supports and contributes positively to the growth of the economy throughout the economic cycle, and has a core of strong and forward-looking domestic financial institutions that are more technology driven and ready to face the challenges of liberalisation and globalisation."

Under the FSMP, BNM's recommendations for the insurance sector have been implemented in three phases (Source: BNM):

- **Phase I:** Building the capabilities of domestic insurers. Under this phase, insurers will be allowed greater operational and management flexibility to develop and optimise skills, scale

> "The Asian insurance markets have attracted the attention of international investors and insurers looking to capitalise on the tremendous opportunities the region has to offer."

and technology. Recommendations include deregulatory measures in specific aspects of business activities that will encourage innovation in the market, allow insurers access to a broader product range, enable them to leverage on distribution channels and promote increased levels of competition within the domestic market.

- **Phase II:** Promoting consolidation and strengthening incentives for improved performance. Under this phase, concerted measures will be taken to establish the foundation necessary to support a greater role for market discipline to complement regulation and supervision of the insurance industry. The same foundation will also serve to prepare the industry for the progressive liberalisation in the third phase. The focus under Phase II will be on strengthening the financial resilience of insurers and enhancing consumer protection. The expected results of the recommendations under this phase are domestic industry consolidation and the convergence of performance standards in the domestic industry towards best practice and performance benchmarks.
- **Phase III:** Stimulating innovation through progressive liberalisation. With the necessary foundations in place, measures will be taken under Phase III to progressively liberalise the insurance sector. This will provide Malaysian consumers with greater access to world-class products and services. Gradual liberalisation is also expected to act as a powerful catalyst to hasten the development of the domestic industry to international standards. Opportunities for market entry will be made available under this phase.

As envisioned by the regulator, the FSMP has paved the way for a wave of regulatory changes for the insurance and *Takaful* industries. Perhaps, the most significant of these changes is the full implementation of the risk-based capital (RBC) regime in 2009. This regime has run in parallel with the existing European Solvency I-type regime since 2007, giving the companies adequate time to prepare for its full roll-out.

Although no single capital regime can prevent all insurance company failures, the RBC framework is a useful tool for the regulator, senior management and other informed market observers.

To begin with, the RBC framework will force senior managers to re-evaluate their business strategies, particularly the business/product lines they intend to focus on and the assets their companies hold. As the RBC model will require a larger capital cushion for more volatile product lines and asset classes, many companies will find it challenging to deliver adequate returns to their shareholders under this system.

A direct consequence is that market consolidation will likely continue. The polarisation of the industry players' financial strength will become apparent, as the RBC's implementation encourages the exit and acquisition of companies with weaker market positions. Some companies that remain in the market will have to re-invent themselves as niche players, focusing on select product segments that are most profitable to their shareholders. In Fitch's view, the orderly exit of smaller competitors and consolidation of underwriting capacity could lead to more efficient use of capital.

It remains to be seen how quickly further M&A activity will materialise in the market. However, many companies are already waking up to the reality that their competitive position might be at risk. In addition to their traditional competitors, conventional insurers have to cope with an emerging competitive threat in the form of *Takaful* firms. The fact that *Takaful* companies will not be subject to the new RBC requirements will make the playing field more uneven and the competition more intense. Solvency regulation on the *Takaful* sector is a complex issue due to the mutual assistance concept. Fitch expects BNM's current revision of the *Takaful* Act 1984 to provide clearer guidance in this area.

Conclusion

The Malaysian insurance market is undergoing a major transformation period, driven by a wave of regulatory changes, the most important of which is the implementation of risk-based capital requirements in 2009. As the industry participants adjust to the new rules and regulations and re-evaluate their business strategy in a more competitive market, Fitch believes that the separation between the stronger players and their weaker peers will become more apparent. BNM's FSMP created new benchmarks and higher standards for the industry to follow. How companies respond to these higher expectations will determine their viability as industry consolidation continues. In Fitch's view, the more stringent capital requirements and the potential changes in the industry landscape will ultimately lead to improvements in the sector's overall credit quality.

Focus: Marine Insurance

The modern origins of marine insurance law were in the law merchant, with the establishment in England in 1601 of a specialised chamber of assurance separate from the other Courts. Lord Mansfield, Lord Chief Justice in the mid-eighteenth century, began the merging of law merchant and common law principles. The establishment of Lloyd's of London, competitor insurance companies, a developing infrastructure of specialists (such as shipbrokers, admiralty lawyers, and bankers), and the growth of the British Empire gave English law a prominence in this area which it largely maintains and forms the basis of almost all modern practice. The growth of the London insurance market led to the standardisation of policies and judicial precedent further developed marine insurance law. In 1906 the Marine Insurance Act was passed which codified the previous common law; it is both an extremely thorough and concise piece of work. Although the title of the Act refers to marine insurance, the general principles have been applied to all non-life insurance.

In the 19th century, Lloyd's and the Institute of London Underwriters (a grouping of London company insurers) developed between them standardised clauses for the use of marine insurance, and these have been maintained since. These are known as the Institute Clauses because the Institute covered the cost of their publication.

By Capt. St Rakish Mi.lk
Master Mariner, Research Fellow
Centre for Ocean Law and Policy

Hunt, Board and We Pay

The future of the Marine War Risk Policy to cover the acts of piracy.

A contract of insurance must impose an obligation upon the insurer to indemnify the assured in the event of a loss from an insured risk, provided that other contractual provisions have been fulfilled. In other words, there must be a legally enforceable agreement in order to properly refer to it as a 'contract'. Accepting that the contract between a member and his club is a contract of insurance, a further issue to consider is whether the contract of insurance amounts to a contract of marine insurance.

Marine insurance is generally considered to have been the very first type of insurance. The oldest tangible evidence of this insurance is a policy written in 1343. In a different form, however, marine insurance was introduced many centuries prior to that time. Trade of various sorts was an important feature of ancient civilization starting from trade conducted primarily on land and gradually growing towards water transportation making it more important and cheaper commercially.

Marine insurance can be traced back to the bottomry bonds and respondentia bonds used in ancient Greece and Rome and, even further back, to the relationship between Babylonian traders and their darmathas. Sometime during the Middle Ages, the first true insurance transaction took place. By the seventeenth century, marine insurance was being transacted by individual underwriters who congregated in London coffeehouses, most notably Edward Lloyd's coffeehouse, which was the predecessor to the modern Lloyd's of London.

> "...there must be a legally enforceable agreement in order to properly refer to it as a 'contract'. Accepting that the contract between a member and his club is a contract of insurance, a further issue to consider is whether the contract of insurance amounts to a contract of marine insurance."

Fast forward to the 21st century. Towards the end of the year 2007 and the start of 2008, the insurance companies, especially marine were issuing policies at competitive rates due to the increase in supply and reduction in claims. The period was being used by the marine insurers to exploit the financial situation by increasing their investments. The financial situation at that time had provided for a 'real' competition between the underwriters. Although the last few years saw an increased volume of premiums, rates remained at about 30-40 percent below nominal. Factors that influence the increase in volume were the strong freight market and expensive new builds or second hand assets.

The recent economic downturn had resulted in the freight market standing at 90 percent lower than what it was in 2008. Hull insurance claims in late 2008 went up by 86 percent, due to the increase in expenses incurred to meet claims including higher towage and salvage rates, cargo values, pollution fighting equipment and the cost of expensive replacement parts. The average cost of a claim in

2009 is set to be higher than the one reported in the previous decade. While protection and indemnity rates continue to increase rapidly, costs in other liability lines are static in comparison. The high costs of crew maintenance and resources are pinching their way deeper into the ship-owner pocket.

Marine insurance can be broadly classified as either property or liability insurance. PROPERTY INSURANCE insures against financial loss resulting from damage to, or destruction of, property in which the insured has an insurable interest. LIABILITY INSURANCE insures against financial loss resulting from some person or organisation making a claim against the insured for damages because of bodily injury, death, property damage, or some other injury for which the insured is allegedly responsible.

The "perils clause" of a marine property policy lists the causes of loss covered by the policy. The perils of principal importance covered by hull and cargo policies are the "perils of the seas," which do not include every loss that occurs on the sea, but only accidental, unanticipated losses occurring through extraordinary action of the elements at sea, as well as mishaps in navigation such as collision with another vessel or running aground. Various other perils - such as fire, lightning, or earthquake - are also named in the perils clause. As the insurance needs of ship-owners and cargo shippers became more complex, new clauses were devised to cover additional perils such as bursting of boilers, breakage of shafts, and accidents in loading and unloading. Eventually, the concept of "all-risks" policy was introduced, which states that any risk of physical loss is covered unless it is specifically excluded. War, capture, seizure, political or labour disturbances, civil commotion, riot, and similar perils are excluded under basic marine insurance forms but can be bought back through an endorsement or by a separate policy.

> "... ransoms of nearly USD 150 million were paid as a result of attacks by the Somali pirates."

> "The recent economic downturn had resulted in the freight market standing at 90 percent lower than what it was in 2008."

The peril normally covered by a liability policy is a claim or suit brought against the insured claiming damages for some alleged wrongful act of the insured. Unless the claim is made or the suit is brought, the insured will not suffer a liability loss, even though the insured may have negligently injured another or damaged another's property. The types of loss covered by liability policies are presented in different ways. Typically, protection and indemnity policies contain several clauses describing the specific types of losses, costs, or expenses that the insurer will pay if, and only if, the insured is held liable for and has paid them.

Piracy attacks are considered as war risk in marine insurance and not covered under normal marine risk. Insurers would always request the ship-owner to insure the vessel against attacks if the vessel is expected to transit through the areas normally prone to these attacks such as the west coast of Africa, the Gulf of Aden, the Andaman Sea, the straits of Malacca, the waters of Borneo and the Philippines.

In normal marine insurance coverage, the Hull Cover classed under the perils clause, as used in the Institute Hull clause 1983, includes 'piracy' to embrace the notion of violent acts of persons who board the vessel with an intention to steal. The insurance would include damage to or loss of the vessel. In the Marine Insurance Act 1906, pirate activity was classified as passengers who mutiny and rioters who attack the ship from the shore.

Recent rampant attacks on merchant ships in the Gulf of Aden have sent the cost of sending ships through one of the busiest transport routes soaring. Insurance companies have increased premiums for sending a cargo shipment through the Gulf of Aden to about USD9,000 from USD900 a year ago. In 2008 alone, ransoms of nearly USD150 million were paid as a result of attacks by the Somali pirates. These have affected many of the ship-owners in Europe because the cost of premiums was evidently transferred to them and later to consumers. This is not what people in the European Union (EU) want in the midst of this economic crisis. Being a major exporter of goods, the EU is facing the grim reality of these attacks. To counter the horrific attacks and ransom payments, the EU has formalised its very own Naval Force Coalition to escort, monitor and ensure the safety of its merchant ships transiting in the Gulf of Aden. i

Marine Piracy, Then and Now

The International Chamber of Commerce operates the International Maritime Bureau (IMB), which is tasked with the responsibility of tracking and reporting all acts of piracy worldwide. Based in Kuala Lumpur, Malaysia IMB has a full-fledged office providing ships with up to date information on all piracy related activities.

The IMB lists the following areas to be hotspots for piracy. This list is not exhaustive:

1) Gulf of Eden
2) Nigeria
3) Chittagong, Bangladesh
4) Straits of Malacca,
5) Philippines Anchorage

The pirates operating out of Indonesia target large, slow moving vessels plying the Straits of Malacca. They are usually armed with sharp knives and are not known to carry firearms. Their interest is usually in the cash carried by the ship for crew salary, ship provision and the crew's personal valuables. Such attacks are short and they usually flee once they have completed their

The fact that piracy still exists today is indeed a regrettable truth. Piracy first surfaced with the trade routes well back in the 13th Century. The social economic situation back then was different. Most parts of the world were in a state of political confusion filled with rampant poverty. Going by this definition nothing seems to have changed.

L M Mohamed Ismail
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heist. Bodily harm to ship crew is also rare. The same goes for the pirates who operate out of Bangladesh.

Insurers chanced upon these piracy instances and imposed additional premiums and war surcharges on all vessels plying the Straits of Malacca. This action vexed ship owners and operators, who demanded action from the three countries which border the Straits of Malacca. Hearing their pleas and in order to keep foreign navies from taking unilateral action, Indonesia, Malaysia and Singapore (the littoral states) began military patrols deploying both naval vessels and military aircraft against these miscreants. Since then there has been a sharp reduction in the number of reported piracy attacks.

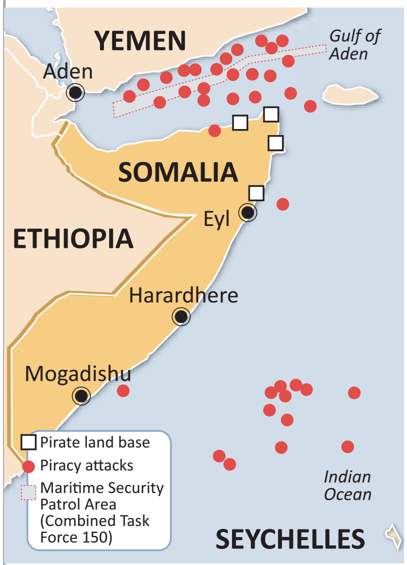
While piracy is a small time operation in the Far East, it has become a multi million-dollar business for the warlords operating out of Somalia in West Africa. Hardly a day goes by without some mention of a piracy attack occurring along the Gulf of Eden. No one can deny that Somalia is a poor nation with a population of 9.5 million having a GDP with annual GDP income of US$660/- per person. The country has been without a legal government since 1978.

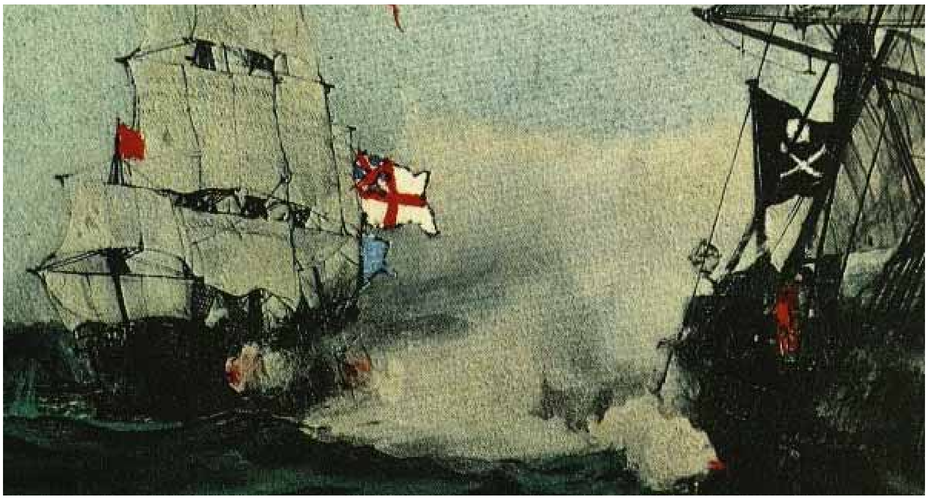
Poverty was the reason behind the piracy attacks. When the warlords first began their activities they were poorly armed. Apart from speedboats the only other dangerous weapons that they used were small firearms. Now these modern day pirates are better armed than most third world country navies. Using their ill-gotten money, the Somalian pirates have gone on a shopping spree for modern arms. Today, the Somalian pirates are well armed with rocket propelled grenades, bazookas and machine guns. They also have state of the art communication and tracking tools such as global positioning based tracking systems and satellite linked communication devices.

Their modus operandi is sophisticated and could be equated to those employed by first world navies. The Somalian pirates use innocent looking fishing boats and trawlers to identify possible targets on the Gulf of Eden. Once a target has been identified their information is transmitted to their colleagues at land, who then deploy high-speed boats to intercept their targets. As the target vessel comes within sight of the high-speed boats, pirates will try to board them. Should the ship's crew put up any resistance rocket propelled grenades are launched to damage the ships steering equipment.

Fearing for their lives the ship's Captain usually surrenders and the vessel is forced to sail into Somalia's territorial waters. This is done to thwart any action by the navies of

"While piracy is a small time operation in the Far East, it has become a multi million-dollar business for the warlords operating out of Somalia in West Africa."





the super power countries. Once the ship is anchored in Somalia territorial waters, armed pirates take over control of the vessel and hold the ship crew hostage.

Negotiation with the ship-owners will immediately commence. The asking figure is usually in the tens of millions and this gets adjusted based on the value of the ship and the type of cargo it is carrying. Talks will usually last for months and during this time the ship's crew is put through severe mental stress. Any settlement that is agreed upon is paid in cash and in unmarked United States Dollars.

The Cost of Piracy to the marine industry

Insurers have increased their cost of protection to ships plying along the piracy prone routes. Surcharges as high as 1% are very

> "The navies of friendly nations can provide escort service to vessels plying along these dangerous routes, such as the one currently in place to protect the Straits of Malacca."

common these days. Some cargo insurers have even stopped providing coverage to areas that are listed as having high piracy risks. All these have resulted in higher business cost. Getting ship crew is also a challenge as many fear for their safety and life.

What can be done?

Currently, IMB proposes two solutions that ship owners can use to protect their human and physical assets.

One such device is an electrifying fence surrounding the entire ship. The fence uses 9000 volts pulse to deter any unauthorised entry into the vessel. The non-lethal electric shock that any intruder receives is sufficient to deter the perpetrator from gaining entry into the vessel. Apart from this, loud sirens are activated alerting the ships crew and turning on powerful floodlights throughout the vessel.

The second option that ship owners can pursue is the installation of ship tracking devices. One such cost effective solution is provided by Ship Loc, which makes use of satellite based technology to identify the exact location of the ship. In case of an attack, ship crew can activate an alarm, which will be picked up by authorities in nearby locations who may then alert naval vessels that are around the vicinity of the attack.

On a collective basis the marine industry can get together to explore possible solutions.

The navies of friendly nations can provide escort services to vessels plying along these dangerous routes, such as the one currently in place to protect the Straits of Malacca.

A more probable solution would be to collect a cess and use those funds to pay professional escort services for protection. This is easier said than done as getting the approvals from all concerned parties can be tough.

The other way is to pay protection money to the Somalian warlords. This suggestion will indeed draw widespread objection and condemnation as this can be deemed as extortion. Should this model work it will definitely encourage other rogue organisations to adopt the same technique.

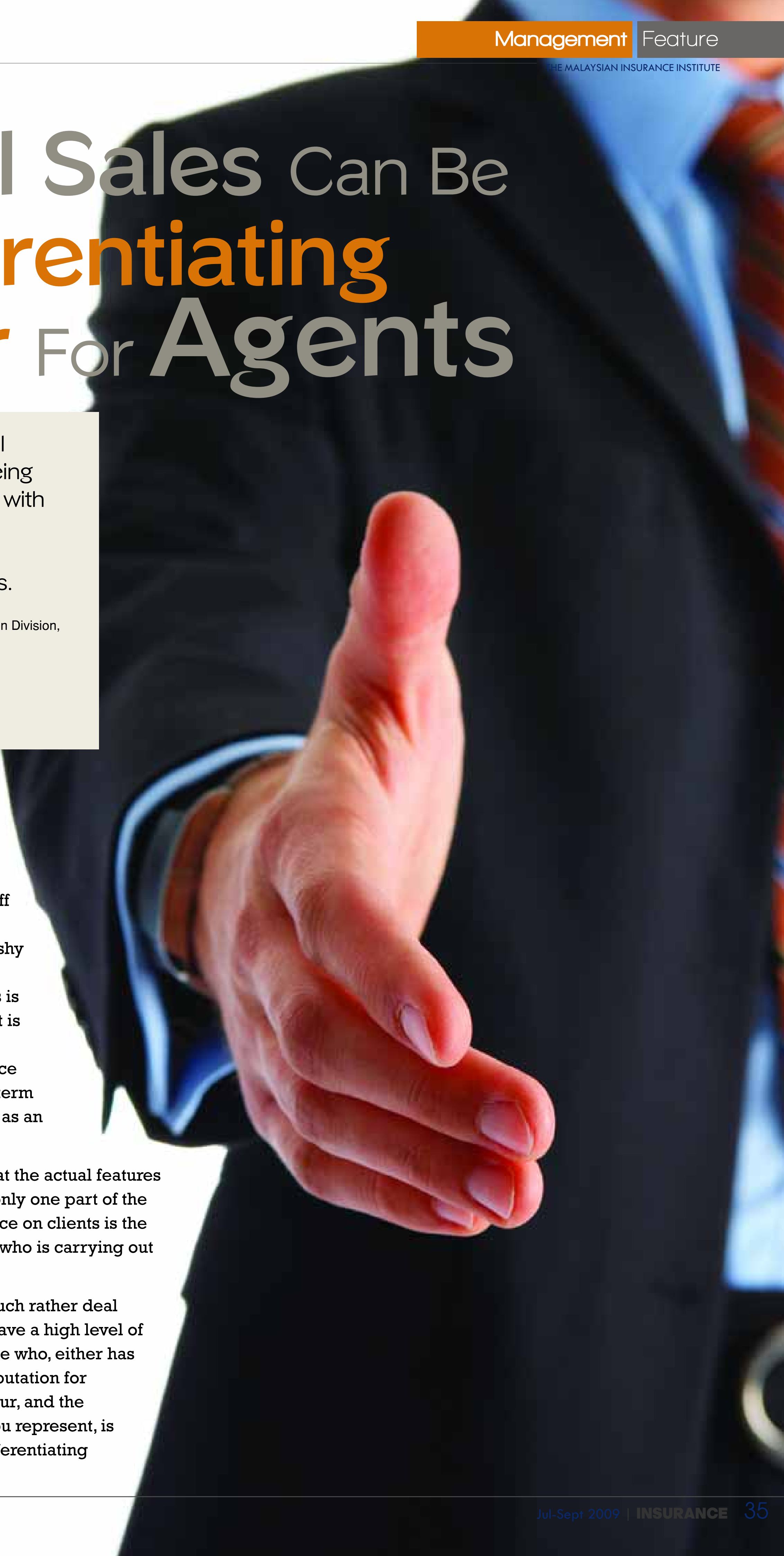
> "The International Chamber of Commerce operates the International Maritime Bureau (IMB), which is tasked with the responsibility of tracking and reporting all acts of piracy worldwide."

There is a popular saying "When there are only two options available, go for the third one." A sure fire way of keeping the pirates away will be to increase the level of affluence in the countries that promote piracy. Once their stomachs are filled there will be lesser reasons to turn to theft and violence for food.

Till such time piracy will continue, sustaining billion dollar losses to the maritime industry.

Photos courtesy of the United States Navy

Ethical Sales Can Be A Differentiating Factor For Agents



Find out what is "ethical behaviour" and how being ethical in your dealings with clients can be a key differentiating factor in difficult economic times.

Courtesy of the Corporate Communication Division, DeCalais Publishers

As economic problems take hold, insurance sales become harder and there can be tremendous pressure on sales people to perform. Competition is very stiff and at the same time clients, especially retail clients, tend to shy away from making insurance decisions until better times. This is especially so with life policies. It is during such times of high buyer resistance and tremendous choice between agents, that your long-term reputation for ethical behaviour as an agent will make or break you.

It is generally acknowledged that the actual features of your insurance products are only one part of the buying decision. A large influence on clients is the trust they have in the individual who is carrying out the face-to-face sale.

Given a choice, clients would much rather deal with a person who is known to have a high level of ethical behaviour rather than one who, either has no reputation or worse, has a reputation for shoddy behaviour. Your behaviour, and the behaviour of the insurers that you represent, is therefore likely to become a differentiating

Table 1: Typical ethical and unethical responses to client questions

Q: Client question	A: Non - committal	A: Unethical	A: Ethical response
From what you know is there another endowment policy, maybe from another provider that tends to perform better?	I guess there could be, but if you find it let me know also.	I did a lot of research before deciding who to represent. I can tell you this is the best performing insurer.	Yes there are insurers that performed better last year for their endowment products, I can give you information about those too or point you in the right direction. However, past performance is not always the only indicator of future performance. All products have their good points; let me tell you about this product…

factor in times of economic difficulty and greater client choice, such as we have now.

So what exactly is ethical behaviour?

Being ethical in business means always doing the right thing. Very often this means going beyond the minimum requirements of the law and it may often mean acting in a way that seems against your own interests.

Building a reputation based upon ethical behaviour requires you to take both reactive and proactive steps with your clients. The reactive side is largely dependent upon the way that you and your sales team respond to target client questions and inquiries.

Table 1 is one live example of ethical and non-ethical reactions that frequently arise in a typical client sales meeting: How do you answer a client who asks if other endowment policies are better? The ethical response is to be very clear and honest. Obviously with so many insurers and *takaful* operators; agents must answer that there may well be better performing options when it comes to endowment products, if they are being honest and ethical. The next step is to explain how the product meets the prospect's needs, future expectations, stability of returns and so on. However, the starting point has to be honest confirmation that yours may not the best performing product in the world.

Non-committal responses are generally evasive and do not answer the question. The wholly unethical response is, of course, a down right lie. Which one of us has researched all endowment policies in the world?

The real point of being ethical is the client perception that you create. So, let us dig a little deeper into this. In our example, the ethical response is a little dangerous of course. You are practically inviting the client to look at other options which have performed better. In fact, they may ask you to help them to do this and introduce them to a different company! However, the risk is slight; in fact the client may even be testing your honesty. Very likely he already knows there are better performing options.

So you answer ethically. By doing this, you immediately confirm to your client that he is dealing with a realistic person, who understands both the ups and downs of his product in relation to the competition and all you are asking for is an opportunity to explain the strengths and weaknesses so a reasoned choice can be made by the client.

> “The question on claims processing times is particularly important for travel, medical and business related insurance products”

If you are evasive, the client is left irritated because you have not answered the question and even whilst you continue with your sales pitch, his mind is still on the unanswered question and a growing sense of unease with you. If you answer with a lie even if it is a disguised one as in our example, you can be sure that the target client has understood the lie and nobody manages their insurance needs by trusting them to a man who has just lied to them.

This, of course, is an analysis of just one question that was posed in one client sales meeting. In reality, there are hundreds of such questions which you and your sales team will encounter. This is where the proactive aspects of ethical selling need to kick in.

If you are working on your own, then you know exactly the standards that you have. However, if you have a team to manage, then you need to lay down in great detail exactly what standards are expected. One way to do this is to have a list of acceptable responses to FAQs for the use of your sales team and then train them in using this list.

Table 2 gives some further examples of typical client questions which involve an ethical dilemma and for which you should have a clear cut ethical answer prepared in advance.

The question on claims processing times is particularly important for

Table 2: Examples of Client questions involving an ethical dilemma

1. Are there other insurers that have performed better in the past?
2. What are your claims processing standards and in reality how close is performance to the processing times?
3. Do you have your personal insurance policies with this insurer?
4. What is the worst performance this product has had?

travel, medical and business related insurance products, because there is plenty of anecdotal evidence to suggest long delays in this area that go way beyond the official times for claims turnaround times that are given out by agents or on websites during the sales process. Somehow, the question is less often asked for pure life products.

Other proactive steps you can take to enhance your ethical reputation, go beyond the simple question and answer scenario, but are necessary in establishing an ethical environment.

Having a written down and formalised ethics statement that each salesperson and each employee in your organisation is expected to sign is a firm establishment of your ethical standards.

Remember, however, that for ethical behaviour to have a lasting impact on your sales, it must be demonstrated to your potential clients. Your ethics statement should therefore be part of your sales kit and it should be something that the sales agent actually shows the client and briefly talks him through it as well.

A more robust way of demonstrating ethical behaviour, however, is to be seen to be acting ethically and doing things voluntarily. In this context, it would be good for groups that have both conventional insurance and *takaful* offerings to have a clear and easily available explanation for their clients as to the differences between the two offerings. Many clients request an explanation of the alternatives, but few agents are equipped to provide the appropriate depth of response. A comprehensive explanation for potential clients would be an ethical response to a question, that up until now, has generally been getting rudimentary and fragmented responses.

Summarising, it is clear that with the current difficult economic situations, retail customers in particular are faced with difficult choices. As products are only marginally differentiated, the choices of clients are more influenced by the reputation of the individuals they interface with and the public profile of the insurer themselves. Ethical behaviour is therefore vital to a long-term sales relationship. There is no room for evasion of ethical dilemmas. They must be faced and explained clearly to clients during face-to-face meetings, even when you risk losing the sale. Beyond this, sales teams need to plan how to answer future ethical issues, then formalise their ethical standards and live by them and share them with clients. In this way, ethical standards become not only a way of doing business but also a differentiating factor between you and your competitors.

“Your behaviour, and the behaviour of the insurers that you represent, is therefore likely to become a differentiating factor in times of economic difficulty”

“be seen to be acting ethically and doing things voluntarily”

The Good News About Stress Management: How "Good" Stress Keeps Us Going & Growing

Every health and lifestyle magazine contains articles claiming stress is bad for us. But stress is not always as bad as these cautionary articles insist. In fact, some stress is actually necessary to keep us going and growing.

Barbara Schiffman, C.Ht., is SelfGrowth.com's Official Guide to Stress Management, a Life Balance Coach, Certified Hypnotherapist and NLP Practitioner. For a list of her favorite stress relief books/resources, send her an email request for "The Eustress List" with your name and city/state to eustress@balanceradio.info or visit www.hypnosynergy.com

> "...stress is not always bad or unhealthy. It can actually keep us from becoming complacent..."

Every health and lifestyle magazine contains articles claiming stress is bad for us. They list dozens of ways to relieve stress, from exercise to eating healthy foods. A wide range of relaxation techniques have also been proven to help manage stress in our crazy-busy world, especially for people who take care of others and tend to neglect themselves.

But stress is not always as bad as these cautionary articles insist. In fact, some stress is actually necessary to keep us going and growing.

Our individual responses to different types and levels of stress can either drain or energise us. It is how we perceive and process both ongoing and unexpected stressors that intensifies or reduces their impact on our bodies, minds and emotions.

The term "stress" was first used in the mid-1950s by endocrinologist Dr. Hans Selye in his book "The Stress of Life". In his research experiments, Selye discovered that we experience stress not only when we hear bad news but also when we receive good news. He differentiated these two types of stressors by calling negative stress "distress" and positive stress "eustress" (the Greek prefix "eu" means well or good).

The idea that we naturally feel stressed by positive experiences -- like getting married, having a baby, graduations, promotions, winning awards or races -- is echoed in the Social Readjustment Ratings Scale. Devised by University of Washington medical researchers Holmes and Rahe, the SRRS ranks the impact of good stress-events as well as bad stressors like death, divorce or losing a job.

They discovered it is the accumulation of minor plus major changes over a period of time that increases one's chances of developing stress-related ailments like heart disease, cancer or a weakened immune system. Stress effects also intensify when several changes occur without enough time between them to recharge our physical and mental resources.

When dealing with normal life changes, Holmes and Rahe also concluded that a single event is rarely stressful enough to cause significant illness if we have some control over the situation and are able to view it as a challenge or opportunity instead of a threat.

So, stress is not always bad or unhealthy. It can actually keep us from becoming complacent or staying too long in jobs, relationships or environments which are not good for us. When bad stress builds to the "breaking point", it usually forces us to make choices and change our behaviour or environment with positive and healthier results.

Stress is also necessary to keep us moving forward while working toward a goal -- like a creative or business project -- or training for athletic events like championship games or marathons. This type of eustress prevents us from slowing down or giving up too soon and helps us build momentum in the early stages to empower us to reach the "finish line".

So, positive stress management can actually give us a Competitive Edge via increased focus and drive. As we move forward on what researchers call the Performance Stress Curve, eustress helps us make choices, take actions and communicate more clearly.

When it comes to managing stress, there are two basic approaches: Defensive or Offensive. If we take a Defensive approach, we subconsciously distort reality by hoping the situation will change without having to do anything about it. But this keeps us in a state of denial and often amplifies the internal impact of distress, contributing to disease or depression.

Taking an Offensive approach, however, enables us to manage stress by using it to our advantage. By consciously changing or adapting, we adjust to life-changes organically and can view things in perspective that at first feel like problems. Then we can reframe these "problems" as opportunities or challenges and take appropriate action.

Offensive ways to manage stress include:

1. Changing our situation whenever possible
2. Increasing our ability to cope with the situation as it is
3. Changing our perception so the situation looks and feels different
4. Changing our behaviour, as this is truly where we have the most control

Whenever we feel stressed, it can be useful to first determine whether it's Distress or Eustress. Then we can decide whether to become Offensive by utilising or adjusting it, or remain Defensive and wait to see if the situation changes on its own. Sometimes choosing to live with stress is appropriate, like when it energises our Competitive Edge.

We can also balance our stress levels to avoid being thrown off-centre too easily or often. Ongoing stress management techniques for creating balance include sleeping well, eating healthy foods, exercising, meditating and/or focusing on the positive things in our lives. These are simple and inexpensive ways to relieve pressure, especially when we're faced with unexpected events or must manage stress over a long period of time.

While the bad news is that it's nearly impossible to avoid stress in our crazy-busy world, the good news is that using stress management techniques and being mindful can actually make stress empowering instead of draining. This puts us in control of the stressors in our lives so they can't stop us from continuing to go forward and grow more joyfully empowered every day.

MoU with Bangladesh Insurance Association (BIA)

MII has moved another step forward in its pursuit of human capital development in the emerging markets by signing an MoU with the Bangladesh Insurance Association (BIA) on 29 April 2009 in Dhaka, Bangladesh.

From left: Mr A. K. Azizul Huq Chaudhuri, BIA Convenor of the Training & Seminar Sub-Committee, Mr Mollah Md. Nurul Islam, BIA Secretary General, Mrs Khadijah Abdullah, MII CEO, Mr Rafiqul Islam, BIA Chairman and Mr Hamizan Hashim, Acting High Commissioner of Malaysia in Dhaka.

The MoU was signed by Mr Mollah Md Nurul Islam, the Secretary General of BIA and Mrs Khadijah Abdullah, the CEO of MII. The signing was witnessed by Mr Rafiqul Islam, the Chairman of BIA and the Acting High Commissioner of Malaysia in Dhaka, Mr Hamizan Hashim. The event was also attended by captains of the insurance industry in Dhaka.

This collaborative effort will create the path for MII's professional programme, the Associateship of The Malaysian Insurance Institute (AMII), to be offered to insurance professionals in Bangladesh. In this collaboration, BIA will provide lecturers to facilitate learning and to prepare the students for the final examination which will be prepared and marked by MII.

MoU with ASIA e UNIVERSITY (AeU)

MII signed an MoU with the ASIA e University (AeU) on 11 May 2009 at the ASIA e University campus in Kuala Lumpur.

The MoU was signed by Prof. Dato' Dr Ansary Ahmed, AeU President & Chief Executive Officer and Mrs Khadijah Abdullah, the CEO of MII, in the presence of Prof. Dr Hairudin Harun, Deputy President, AeU and Mr Mohd Taipor Bin Suhadah, Head of Training and Education, MII.

Under this MoU, both parties will endeavour to undertake the following activities:

- Promote collaborative academic and training programmes and courses;
- Conduct professional development training of staff;
- Promote collaborative projects, workshops and conferences; and
- Undertake any other academic activities which may be mutually beneficial.

Prof. Dato' Dr Ansary Ahmed (3rd from left) and Mrs Khadijah Abdullah, with their respective team, exchanging the MoU documents after the signing ceremony

Liability Insurance Conference 2009

Theme: "Managing Underwriting and Claims Challenges"
Date: 19 - 20 May 2009
Venue: Hotel Istana, Kuala Lumpur

The recent market developments of the past few months on the implications of the hard liability market have caused a great impact on the underwriting of the portfolio. As a result, the Liability Insurance Conference was organised by MII on 19 to 20 May 2009 with the theme "Managing Underwriting and Claims Challenges".

Unlike previous programmes, the content and style of the conference was substantially overhauled to make it more relevant and intellectually challenging to the participants and speakers. One-person delivery was partly replaced with stimulating debates by a panel of renowned industry figures and concurrent sessions were introduced to streamline and emphasise a wide variety of issues.

The conference was officiated by En Hashim Harun, the Chairman of PIAM and President and CEO, Malaysian Reinsurance Berhad. It was very well attended by 101 participants from five countries, namely Hong Kong, Singapore, India, Indonesia and Malaysia. In terms of networking opportunities, the conference successfully reached out to 52 companies from five countries.

A team of 23 knowledgeable and experienced key leaders in the liability discipline from London, Hong Kong, Singapore and Malaysia graced the conference as speakers to share their practical experiences and case studies.

En Hashim (front row, 5th from left) with some of the 23 speakers in the Liability Insurance Conference

Upcoming Conferences

	Title	Date
a.	International Marine Insurance Conference	1 - 2 October 2009
b.	Risk Management Conference for Insurers	14 -15 October 2009
c.	Insurance Fraud Conference	16 - 17 November 2009
d.	Industry Annual Lecture	2 December 2009

Event Management Services (EMS)

MII is pleased to share that effective this year, MII is offering a *new* service called Event Management Services (EMS). If your company or agency plans to organise an event* which involves the scope of work described below and wish to outsource them:

- Design and development including event budgeting
- Source for trainers and facilitators
- On-site and off-site event management including logistics with hotels, travel agents and caterers, registration, master of ceremony, protocol etc.

(example of events are induction programme for staff or agents, special conventions, teambuilding, incentive trips, incentive study tours, special talks etc.)*

Please contact our team below to discuss further on your requirements.

Hairul Hilmi - 20878882 ext 202; Email: hairul@mii.org.my
Linda Khor - 20878882 ext 511; Email: linda@mii.org.my

MII CORPORATE SONG

MII has its very own corporate song now. The song was composed by MII's staff, En Badrul Hisham bin Abdul Hamid (pic). En Badrul is also active in composing and singing poetic songs. In the recent music awards event (Sayembara Mencipta Lagu Puisi 2009) organised by the Dewan Bahasa dan Pustaka and RTM, he emerged as the winner beating other renowned and famous song writers. This is his second win in a songwriting competition at national level.

MII, Visi dan Misi
Menggapai cita dan hasrat murni
Membangun kecapaian
Profesionalis diri
Memikul wawasan dan satu hasrat
Pusat pembangunan
Insurans Negara

Penyalur pilihan
Pembangunan insani
Meningkat profesionalisma
Dalam menjurus pengetahuan
Sumber informasi
MII, teguh tegap berdiri

The Malaysian Insurance Institute
Pemangkin insurans Negara
The Malaysian Insurance Institute
Mendukung insurans Negara

Sebagai penjana ilmu
Pembangunan dan Pendidikan
Platform jaringan kerja
Dengan khidmat yang mesra
Kami berasa bangga
Meletakkan nama mu
Di pesada dunia

(Translation)
MII, Vision and Mission
Reaching out to achieve our aspirations and noble goal
Towards developing professional achievement
Upholding a vision with one unified goal
Insurance Development Centre for the Nation

As a channel of options for human capital development
Enhancing professionalism with focus on knowledge
Source of Information
MII - solidly standing strong

The Malaysian Insurance Institute,
The catalyst for the insurance of the nation
The Malaysian Insurance Institute,
Upholding the insurance for the nation

As a source of knowledge in development and education
Providing a platform for networking
With warm and friendly services
We are very proud
Putting your name on the global pedestal

THE ASEAN INSURANCE TRAINING AND RESEARCH INSTITUTE (AITRI)

Overview

The ASEAN Insurance Training and Research Institute (AITRI), a non-profit organisation, established by the Regulators of the ASEAN member countries was officially incorporated on 1 December 2004 in Malaysia. ASEAN consists of 10 member countries namely Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

The Malaysian Insurance Institute (MII) being the secretariat of AITRI has continued to progress in the operations and development of AITRI serving and facilitating the human capital development needs through education, training and research for the Regulators and Insurers of the region.

Forth Coming Programmes / Events

Date	Programme	Venue
Regulators Programmes		
17 - 20 Aug 2009	Workshop on Risk Based Capital	Thailand
2 – 5 Nov 2009	Workshop on Risk Management	Singapore
6 – 9 Nov 2009	Workshop on Market Conduct Regulation and Supervision	Brunei Darussalam
Industry Programmes *		
7 Oct 2009	7th ASEAN Insurance Congress	Vientiane, Laos
8 Oct 2009	5th Young ASEAN Manager Award Ceremony	Vientiane, Laos

** The events will be held in conjunction with the 12th ASEAN Insurance Regulators and 35th ASEAN Insurance Council meetings which will be held on 7 to 9 October 2009 at Don Chan Palace, Vientiane, Laos PDR.*

Programmes for the Regulators

AITRI had successfully conducted a capacity building training programme for the insurance regulators in the ASEAN region entitled "AITRI-OSFI Supervisory Programme: Workshop in On-site and Off-site Examinations" on 27 to 30 April 2009 at Lanai Kijang, Bank Negara Training Centre in Kuala Lumpur, Malaysia.

A total of three field experts from the Office of the Superintendent of Financial Institutions Canada (OSFI) participated in the delivery of the workshop which benefited 45 participants from 16 countries (29 participants from nine ASEAN Countries and 16 participants from seven non-ASEAN countries including Cook Island, Hong Kong, Kazakhstan, Kenya, Lesotho, Macau, Papua New Guinea, Republic of Maldives, Saudi Arabia and Swaziland).

Funding support for the workshop came from Bank Negara Malaysia (BNM), the International Association of Insurance Supervisors (IAIS), the Office of the Superintendent of Financial Institutions Canada (OSFI) and Tourism Malaysia, who sponsored a half-day city tour for the delegates.

Participants of the AITRI-OSFI Supervisory Workshop at Lanai Kijang, Bank Negara Malaysia, Kuala Lumpur 27-30 April 2009.

Meetings

In March 2009, AIC Secretary General, Mr Teddy Hailamsah accompanied by Mr Hairul Hilmi of AITRI and Ms Linda Khor of MII, visited Vientiane, Laos from 7 to 9 March 2009 for a discussion with the Laos Ministry of Finance regarding the 7th ASEAN Insurance Congress.

5th Young ASEAN Manager Award

Vientiane, Laos, 7 October 2009

The ASEAN Insurance Training & Research Institute (AITRI) is organising the 5th Young ASEAN Insurance Manager Award this year at Don Chan Palace in Vientiane, Laos. The prestigious award was introduced by the ASEAN Insurance Council (AIC) to honour outstanding young managers for their achievement, contribution and dedication to the insurance industry and to recognise their potential as future leaders in ASEAN insurance economies. This initiative by AIC through this event is to inspire young leaders to step forward to lead in today's competitive business world. Nominations are open until 1 September 2009. For more details visit: **www.aitri.org/event**

Computer Based Assessment System (C-BASS)

MII is constantly seeking ways to improve its services to the insurance industry, both in efficiency and effectiveness. Through the years, MII has introduced positive changes and improvements in the examination process. In 2008, MII embarked on further developments by having a web-based C-BASS.

C-BASS comprises of a robust question bank system (QBASS) and a computer-based examination system (CBE). With C-BASS, all multiple-choice examinations can be offered as CBE. This will enable the exams to be conducted not only in Kuala Lumpur but also in identified centres in other regions. The main advantages of having the C-BASS are, both the PCEIA and CEILLI examinations can be offered in the same CBE session, as well as, additional CBE sessions can also be conducted. The results can be immediately released after each examination session whereby potential agents can be recruited immediately after passing the examination.

The system has been fully implemented at the MII City Centre branch in Kuala Lumpur since January 2009. With the system in place, MII will be able to better meet the industry's demands while ensuring consistency and not compromising on the standards required by the industry.

CBE Session - MII City Centre Kuala Lumpur

Having the new C-BASS in place, MII will be able to conduct additional CBE sessions. Although these examinations have different durations, the system keeps track of the examination durations and automatically terminates the examination session based on the duration of the examination. MII need only to assign the examination based on the candidate's registration.

With this facility, there will be more seats available to candidates. The CBE lab presently offers 60 seats per examination session and MII will have 180 seats available over three examination sessions on a daily basis.

For a start, MII is opening two additional evening sessions. As and when the demand for examination seats increases, daily evening sessions will be considered.

The exam schedule is as follows:

CBE Schedule from 1 June 2009

	Session 1	Session 2	Session 3	Session 4
Monday & Wednesday PCEIA (AB or AC) PCEIA (B or C only) CEILLI	 **9.30-11.30 am** **9.30-11.00 am** **9.30-11.00 am**	 **12.30- 2.30 pm** **12.30-2.00 pm** **12.30-2.00 pm**	 **3.00-5.00 pm** **3.00-4.30 pm** **3.00-4.30 pm**	 **5.30-7.30 pm** **5.30-7.00 pm** **5.30-7.00 pm**
Tuesday & Thursday PCEIA (AB or AC) PCEIA (B or C only) CEILLI	 **9.30-11.30 am** **9.30-11.00 am** **9.30-11.00 am**	 **12.30- 2.30 pm** **12.30-2.00 pm** **12.30-2.00 pm**	 **3.00-5.00 pm** **3.00-4.30 pm** **3.00-4.30 pm**	 **n/a**
Friday PCEIA (AB or AC) PCEIA (B or C only) CEILLI	 **9.30-11.30 am** **9.30-11.00 am** **9.30-11.00 am**	 **n/a**	 **3.00-5.00 pm** **3.00-4.30 pm** **3.00-4.30 pm**	 **n/a**

The registration procedures remain the same. Registrations must be submitted at least two days prior to the date of the examination session requested. Acceptance of the registration is based on full compliance of the examination requirements and on first-come, first-served basis.

CBE Registration Fees

Beginning 1 June 2009, the registration fees for the CBE are as follows:

Exam	CBE Registration Fees
PCEIA (AB or AC)	**RM80**
PCEIA (B or C only)	**RM75**
CEILLI	**RM95**

CBE Session - Johor Bharu and Penang

MII will start offering the CBE for PCEIA and CEILLI in Johor Bahru and Penang centres on 4 July 2009. The CBE will be conducted on Saturdays with four examination sessions. Registrations will be on a first-come, first-served basis and will be limited to a specified maximum capacity. For further administrative details and examination schedules please download the information from MII's website: www.insurance.com.my.

MII City Centre Operation Hours

To cater to the new CBE sessions, MII City Centre Kuala Lumpur will change its operation hours as follows:

	Open for Operation	Close for Lunch
Monday – Friday	**8.30 am – 5.30 pm**	**1.00 – 2.00 pm**
Saturday, Sunday & Public Holidays	**Closed**	

More customers are getting their services at the MII City Centre in Kuala Lumpur due to its central location and availability of various services.

Pre-Contract Examination for Insurance Agents (PCEIA)

The Pre-Contract Examination for Insurance Agents (PCEIA) is a pre-qualifying examination to be an insurance agent for life or general insurance. This examination is one of the two examinations which MII offers in two modes. The traditional examination mode is the paper and pencil examination, and the other is the Computer Based Examination (CBE).

Revised PCEIA Text book

Beginning 1 June 2009, the new PCEIA textbook is the main reference for the PCEIA examination. The new text incorporates not only the latest developments in both the principles of insurance but also the local practices. This makes it more practical and comprehensive as a reference for all insurance personnel and agents. It also includes medical and health insurance topics, and practice questions for the preparation of the examination.

The revised PCEIA textbook was made available in April 2009 for examinations from June 2009 onwards. The new revised text is available in three languages i.e. English, Bahasa Malaysia and Mandarin. The Tamil revised textbook will be ready in June 2009 for the August 2009 examination.

The new PCEIA textbook can be purchased from MII in three modes:

a. Hardcopy - RM30.00
b. CD - RM10.00
c. E-book - FOC

It can also be downloaded from MII's website: www.insurance.com.my by the registered candidate with a password provided upon registration.

Review of the Exam Registration Fees

LIAM and PIAM have kindly supported MII's proposal to increase the PCEIA, CEILLI and BAMC registration fees. With effect from June 2009, the examinations and fees are as follows:

Examination	Type of Exam	Present Fee (RM)	Approved Fee (RM)	Remarks
PCEIA (AB and AC only)	Normal	40	50	Increased by RM10
	CBE	75	80	Increased by RM5
PCEIA (B only and C only)	Normal	35	35	Remains the same
	CBE	75	75	
CEILLI	Normal	60	70	Increased by RM10
	CBE	90	95	Increased by RM5
BAMC	Normal	50	60	Increased by RM10
	CBE	N/A	100	To be effective when MII starts offering BAMC-CBE)

e-Entry Permit

In August 2008, MII launched the e-entry permit facility over the internet for the PCEIA and CEILLI examinations replacing the standard hardcopy entry permit. Candidates no longer need to rely on the postal service to deliver their entry permit and companies too will benefit by saving time, cost and resources.

Candidates will be able to print the Examination Entry Permit from the website (www.insurance.com.my) before the commencement of the scheduled examination date. MII is also targeting to extend the e-entry permit facility to other examinations in 2009.

Registered Financial Planner (RFP)

The MFPC Examination Board has extended the use of the old syllabus texts for examination purposes as shown in Table 1.

Based on the RFP Examination & Language offered schedule, the last session for students to sit for the old syllabus in Mandarin and BM examinations (Modules 1 to 6) shall be July 2009.

From September 2009, examination sessions for Modules 1 to 6 will be based on the new syllabus and the languages offered shown in Table 2.

Table 1

Modules	Examination Session	Syllabus & Language offered
1 to 6	July 2009	• New (English) • Old (BM and Mandarin)
7	July 2009	No Change (English only)

Table 2

Module	Language
Modules 1 & 2 (new syllabus)	English, BM, Mandarin
Modules 3, 4, 5 & 6 (new syllabus)	English
Module 7 (no change)	English

For further information, please contact the Examination Department of MFPC at 03-2693 1900.

Takaful Basic Examination (TBE)

In 2009, MII has been appointed the examination provider for TBE by the Malaysian Takaful Association (MTA). The first TBE was conducted throughout the 14 states on 14 February 2009. TBE candidates are required to answer 50 questions within one and a half hours with a fee of RM40.00. For the time being, TBE is conducted in Bahasa Malaysia only. The source of reference is the *Buku Panduan Asas Takaful* which can be obtained from MTA. Registrations can be done through MII customer service counters while the registration form is available from MTA counters.

The table on the right is the 2009 examination schedule.

PEPERIKSAAN ASAS TAKAFUL TAKAFUL BASIC EXAM (TBE)				
MONTH	SESSION	EXAM DATE (Saturday)	CLOSING DATE	STATE HOLIDAYS (no exam)
January	-	-	-	-
February	First	14 Feb	14 Jan	-
	Second	28 Feb	4 Feb	
March	First	14 Mar	18 Feb	-
	Second	28 Mar	4 Mar	-
April	First	11 Apr	18 Mar	-
	Second	25 Apr	1 Apr	-
May	First	16 May	22 Apr	-
	Second	30 May	6 May	Sabah & WP Labuan
June	First	13 Jun	20 May	-
	Secon d	27 Jun	3 Jun	-
July	First	11 Jul	17 Jun	Penang
	Second	25 Jul	1 Jul	-
August	First	8 Aug	15 Jul	-
	Second	22 Aug	29 Jul	Johor , Melaka & Kedah
September	First	5 Sept	12 Aug	-
October	First	3 Oct	9 Sept	-
	Second	24 Oct	30 Sept	Pahang
November	First	7 Nov	14 Oct	-
	Second	21 Nov	28 Oct	-
December	First	12 Dec	18 Nov	-

Being dormant in providing trainings for the life insurance sector for the last five years, MII started to actively offer life training programmes to staff as well as the agency force in 2008. Since then, more new programmes relevant to the needs of the agency force in particular were introduced.

The availability of Bumiputera Training Funds (BTF), which provides up to 80% subsidy of the training fees, has attracted many *bumiputera* participants to attend various trainings listed under the BTF approved training programmes.

In response to the feedback and suggestions received from the industry, the BTF Taskforce, which comprises of representatives from Life Insurance Association Malaysia (LIAM), The Malaysian Insurance Institute (MII) and the Central Bank of Malaysia (BNM) as advisor, had extended the utilisation of BTF for in-house programmes conducted by MII.

The industry faces the following problems which require improvements:

- The lack of motivation and work habits of growing the business within experienced agency managers
- The lack of necessary skills to face the challenges of the current business environment with younger agency managers

Hence, MII in collaboration with LIMRA, USA launched a programme through the Agency Management Training Course (AMTC) to resolve these areas. The programme is an action oriented training programme that cultivates both the skills and work habits in an environment that promotes real bottom-line performance.

Among other programmes that have received significant demand are:

1. Selling Techniques and Goal Setting for Life Insurance Agents
2. Strategies to Achieve MDRT
3. Rail Track Mindset (RTM) in Branch Agency Coaching
4. Islam, Muslim and Islamic Social Dealings
5. Leadership and Building Agency Culture

KONVENSYEN EJEN INSURANS HAYAT BUMIPUTERA 2009 & ANUGERAH CEMERLANG KETUA AGENSI BUMIPUTERA 2009

1 OGOS 2009, LEGEND HOTEL, KUALA LUMPUR

We are organising a one-day Convention with the theme 'Kreativiti Menjana Prestasi', that aims to inspire the Bumiputera Life Insurance Agents to face and overcome difficult challenges in order to succeed in business. It is also a platform for them to learn, share and exchange new knowledge, skills and experiences to sustain and further enhance business success.

For the first time in 2009, MII will be acknowledging the top 3 Bumiputera Agency Leaders nominated by life insurance companies in an award ceremony "Anugerah Ketua Agensi Bumiputera 2009".

Please contact our team below for further information on Life Training Programmes.

Sharifah Fazlina - 20878882 ext 331; Email: sharifah@mii.org.my
Siti Malina - 20878882 ext 338; Email: malina@mii.org.my

The Education Unit offers four new programmes besides the existing Diploma and Associateship of The Malaysian Insurance Institute (AMII). These programmes are:

Basic Certificate in General Insurance Actuarial Programme (BCGIAP)

The Basic Certificate in General Insurance Actuarial Programme (BCGIAP) was introduced in September 2008. It caters to the pressing needs of the insurance industry to have people equipped with the basic understanding and skills in the actuarial practices, especially in meeting the risk-based capital requirements for the general insurance industry. The BCGIAP was designed by both practitioners and academicians, and endorsed and supported by the Actuarial Society of Malaysia (ASM) and Insurance Services Malaysia Berhad (ISM).

This specially designed 4-module programme aims to equip participants with sufficient knowledge and expertise to carry out the essential tasks in assisting actuaries in pricing and reserving in a general insurance company. Besides keeping participants abreast with the technical aspects of general insurance, the course also covers different aspects of the general insurance practices including the market overview and regulations, product knowledge and data.

The next BCGIAP programme will be held from 20 July to 13 August 2009.

International Certificate in Risk Management (CIRM)

The International Certificate in Risk Management (CIRM) is a broad-based introductory qualification in risk management offered in collaboration with the Institute of Risk Management (IRM), UK. It provides a practical platform to pursue a career in risk management and is also a base for further development for those already pursuing a career in this related discipline. The Certificate provides a straightforward opportunity to obtain a recognised risk management qualification. Completion of this programme offers an entry route to IRM membership.

Internationally, IRM courses are studied online as a distance-learning programme. However, through MII, participants of this programme are offered 90 hours of tutorials in addition to online learning at no additional cost. This is to ensure better understanding of the subject matter.

There are no entry requirements, so anyone with an interest in risk management can apply.

The next intake for CIRM will be in November 2009.

International Management of Risk and Uncertainty (iMORU)

In acknowledging the increasing emphasis placed on risk management across the globe and the different approaches taken in different countries and regions, MII in collaboration with the Institute of Risk Management (IRM), UK offers a two-day training programme, International Management of Risk and Uncertainty (iMORU). The course aims to improve knowledge and practical skills in the identification, assessment and control of business risks. Participants in this course will be given a broad introduction to the subject of risk management, both the positive and negative aspects of risks and exposed to the most prominent risk management models and codes of governance employed worldwide.

The programme has been designed for use across all business sectors and is equally relevant to those working in private entities and public authorities.

The next intake for the iMORU programme will be in October 2009.

Diploma of Financial Services

This specialised programme provides a basic education for those employed as agents and staff of the insurance industry, particularly the life insurance segment. It will be highly relevant for those seeking employment in the financial services industry or for enhancement in their career. It equips participants with the practical knowledge relating to insurance business and financial planning areas.

The Diploma comprises of 10 modules. The modules in the Diploma are drawn and selected from various insurance and financial planning qualifications including the Registered Financial Planner (RFP) to sufficiently meet the current need of the industry. The curriculum of study provides knowledge and skills that would enhance professionalism and prepare participants to handle assignments with a higher degree of competence.

In ensuring that the Diploma qualifies the quality assurance and academic accreditation, this Diploma is validated by the Asia e University. The Asia e University (AeU) is a dual-mode multinational university under the Asia Cooperation Dialogue (ACD). Its establishment is an initiative of Malaysia as the prime mover for e-education with the support of the 31 ACD member countries.

Upon completion of the programme, participants will be awarded with the MII Diploma and Executive Diploma from the Asia e University. Participants will also have an opportunity to move to the second year of the AeU degree programme in business.

Exemption may be given to participants who have gained prior learning on any of the modules subject to MII's Exemption policy and guidelines.

Please contact our team below for further information on these programmes.

Freddie Phoon - 20878882 ext 254; Email: freddie@mii.org.my
Putri Noraini - 20878882 ext 255; Email: putri@mii.org.my
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INSURANCE

A Quarterly Publication of the Malaysian Insurance Institute

The Malaysian Insurance Institute (MII)

INSURANCE is a magazine for the **Malaysian Insurance Institute (MII)**. It is a **modern professional magazine** that not only keeps members in touch with the Institute's local and international activities but it is also a **practical aid** to a member's **professional development**.

INSURANCE is published quarterly and is read by MII members from **across Malaysia and the region**. It has a **readership of 10,000 members** in the **insurance profession** and continues to develop its dual role as MII's service to members and a tool to help with **continuing professional development**.

The typical editorial coverage of **INSURANCE** includes: industry news and updates, feature articles on specific areas of the insurance industry, interviews with industry captains and regulators as well as news about MII's activities locally and abroad.

INSURANCE offers a range of **opportunities** to help you **communicate** with your **potential customers** in the most **effective way** possible.

The Best Way to Send Your Message to the Industry

Advertisement Placement	Normal Rates	Promotional Rates for 2009 only
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Half Page	RM1,500.00	RM950.00
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Issue Calendar

January – March
April – June
July – September
October – December

The No.1 Insurance Magazine in Malaysia

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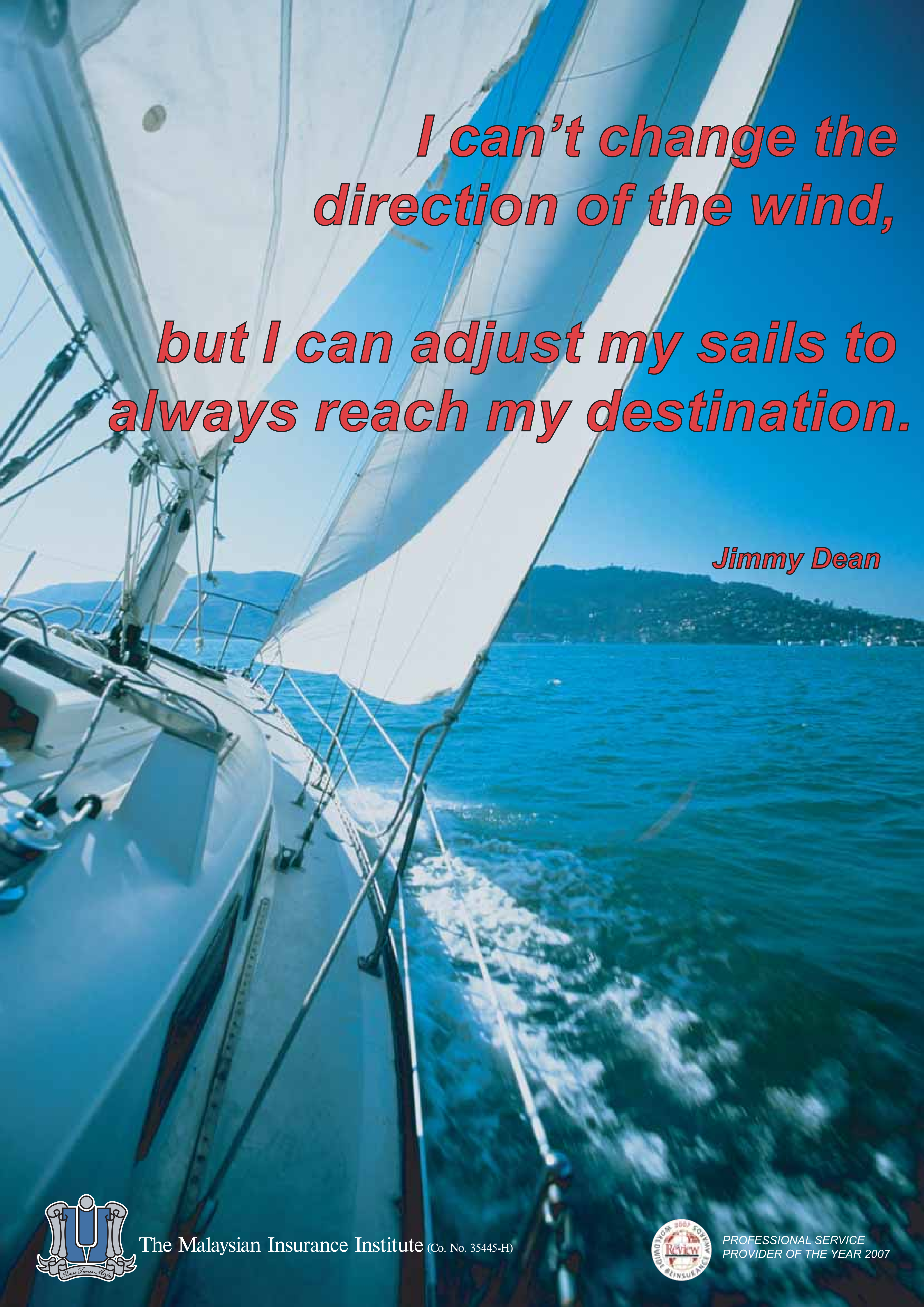
I can’t change the
direction of the wind,
but I can adjust my sails to
always reach my destination.
Jimmy Dean
The Malaysian Insurance Institute (Co. No. 35445-H)
PROFESSIONAL SERVICE
PROVIDER OF THE YEAR 2007