

# Session III: Country Experiences on Statistical Compilation and Monitoring of Insurance Industry

## *- Malaysia's perspective*

2nd OECD-Asia Regional Seminar:  
Enhancing Transparency & Monitoring of Insurance Market  
26-27 January 2012  
Bangkok, Thailand

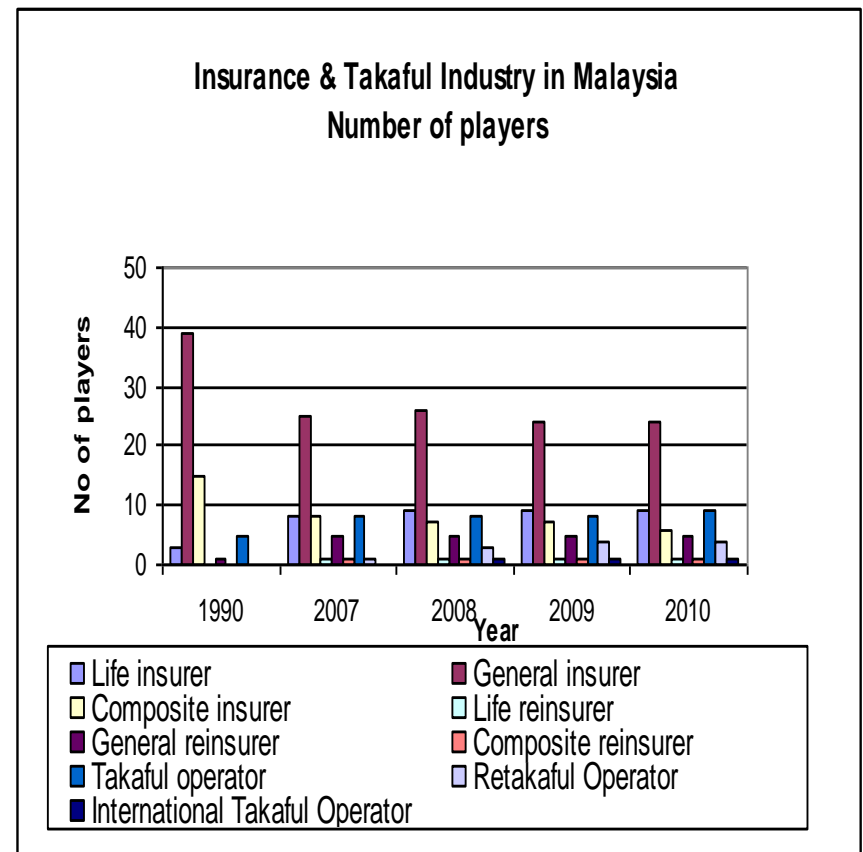
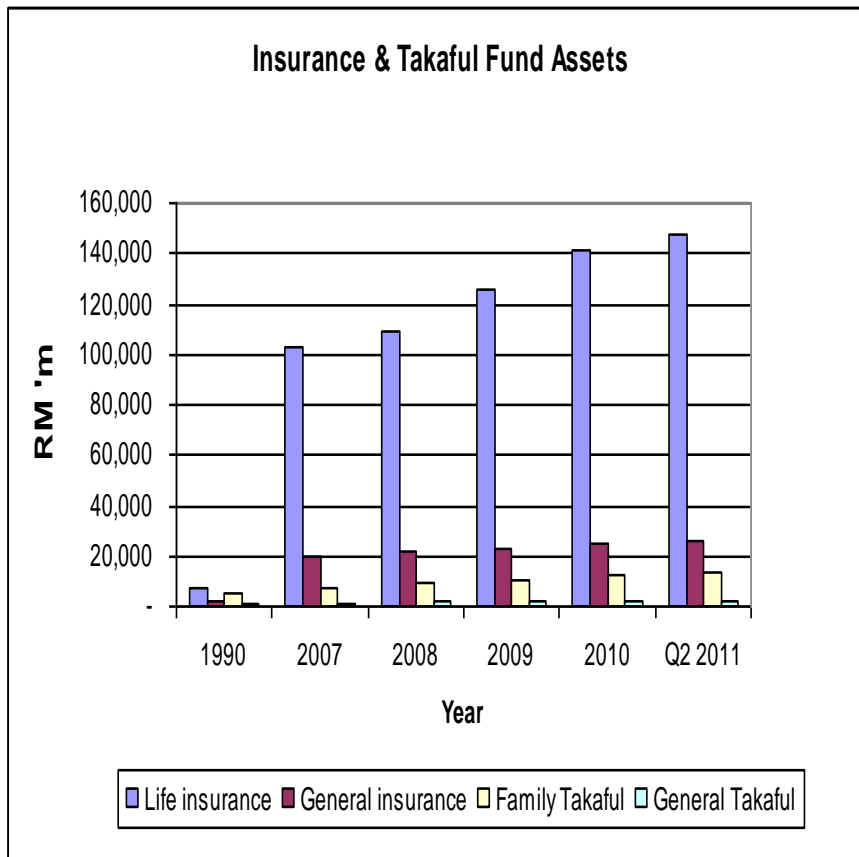
# Outline of Presentation

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1. Overview of Malaysian Insurance Industry
2. Legal Provisions on Insurance Statistics and Statistical Systems
3. Financial Stability Framework, Analysis, Risk Assessment and Deliverables
4. Statistics of Insurance Industry
5. Challenges and Direction of Statistical Compilation

# Malaysian Insurance Industry

- Total assets of Malaysian financial system as at end-2010 was RM3.0 trillion
- Insurance & Takaful Industry accounted for 6% of financial system assets
- 46 insurers and 14 takaful operators as at end-2010



# Legal Provisions on Insurance Statistics

**Main provisions under the Insurance and Takaful Acts in relation to statistical compilation include:**

- Collection of information and statistics as the Bank may specify
- Ensure confidentiality of individual information collected
- Allowance for public inspection of the statistics collected
- Ability to impose penalty for non-compliance with timeline and inaccurate submission

## **Insurance Act 1996 Section 87, 89 & 193**

### ***Applicable to submission by:***

- 46 Insurance Companies  
*(Life, General & Composite)*
- 82 Insurance intermediaries  
*(Insurance Brokers, Loss Adjusters & Financial Advisers)*

### **Reliability of Annual Financial Statements**

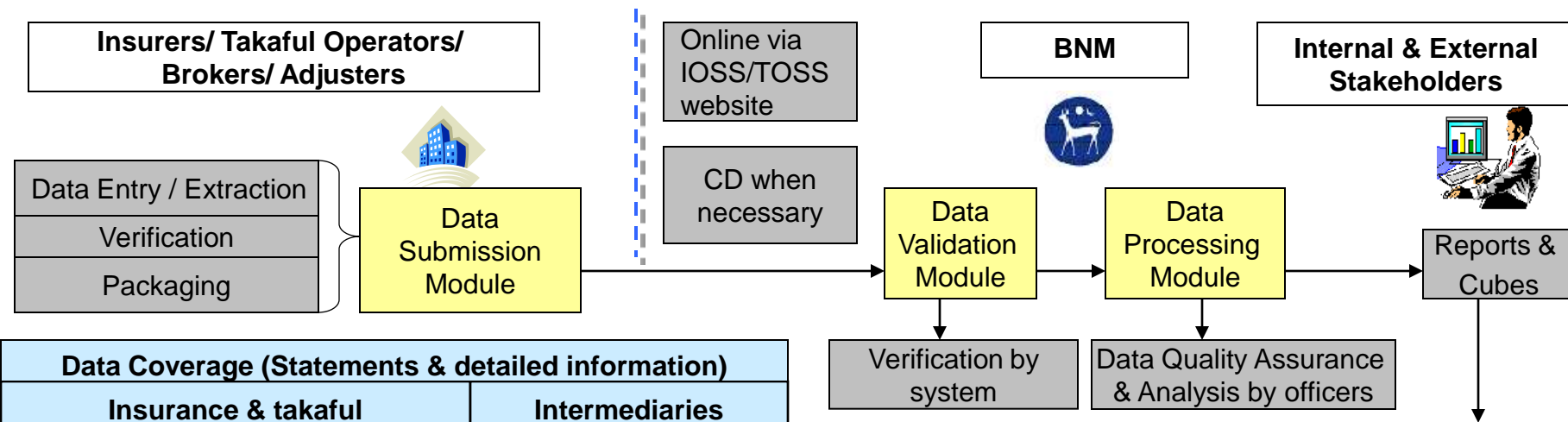
- Signed by a Senior level, i.e. CEO & at least one Non-executive Director
- For RBC, signed by actuary & CEO.
- Audited by the approved external auditors

## **Takaful Act 1984 Section 41 Second Schedule Part I, II and III**

- 14 Takaful Operators  
*(Family, General & Composite)*

# Overview of Insurance & Takaful Statistical Systems

*Electronic submission systems for insurance/takaful data compilation...*



Data Coverage (Statements & detailed information)	
Insurance & takaful	Intermediaries
<ul style="list-style-type: none"> <li>• Revenue Account</li> <li>• Income Statement</li> <li>• Balance Sheet</li> <li>• Changes in Equity</li> <li>• Premiums &amp; Claims</li> <li>• Commissions</li> <li>• New Policies</li> <li>• Terminations, Transfers &amp; Revivals</li> <li>• Investment Linked Business</li> <li>• Risk-based Capital (insurance)</li> <li>• Financial Condition Report (Life)</li> </ul>	<ul style="list-style-type: none"> <li>• Income Statement</li> <li>• Balance Sheet</li> <li>• Changes in Equity</li> <li>• Activity Report</li> <li>• Premiums &amp; Brokerage</li> <li>• Training Expenditure</li> </ul>

## Accessibility of statistics:

- BI tools i.e. Cognos Powerplay Multidimensional Cube
- Report i.e. Crystal/Excel Powerplay Report
- Extraction of data to secondary systems/databases e.g. CFIS (centralised FI reports) & INSIDES (debt securities database)

## Uses of statistics:

1. Surveillance, supervision, regulation and policy formulation
2. Dissemination of statistics to :
  - Government agencies e.g DOSM
  - International Organizations e.g. IMF, OECD
  - Public e.g. Annual Reports, Monthly Statistical Bulletin

# Comprehensive Financial Stability Surveillance Framework

*...dynamic, integrated and forward looking*

Complementary objectives of macro & micro surveillance

## Financial System Risks

- Identify transmission channels
- Understanding and monitoring linkages
- Assess contagion and systemic impact
- Payment system oversight

- Enable comprehensive coverage and assessment of risks
- Ensure optimal and efficient allocation of resources

## Financial Institution Risks

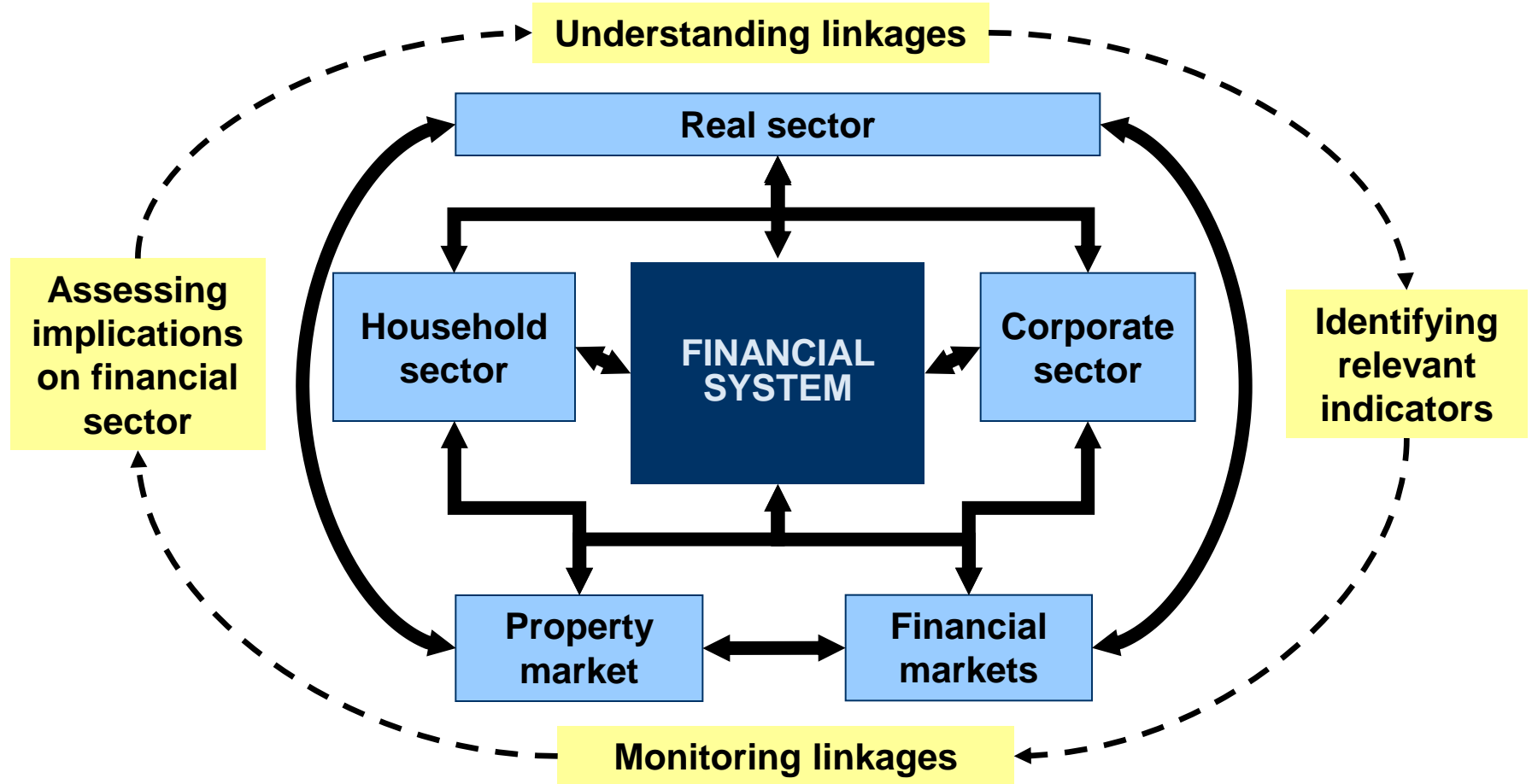
- Minimise potential risks and vulnerabilities and subsequent domino effect

**Mutually reinforcing**

**Mutually reinforcing**

# Financial Surveillance & Macroprudential Analysis

*...brings together macroeconomic, monetary, financial market and supervisory input to detect sources of systemic risk*



# Risk Assessment & Deliverables

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Financial Stability & Payment System Report,  
Monthly & Quarterly Statistical Bulletins,  
Speeches and Press Statements

**Public**

Daily Financial Market Report & Daily Global Regulatory Update

Weekly Financial Market Report & Weekly Global Regulatory Update

Monthly Key FSI – Fact sheets

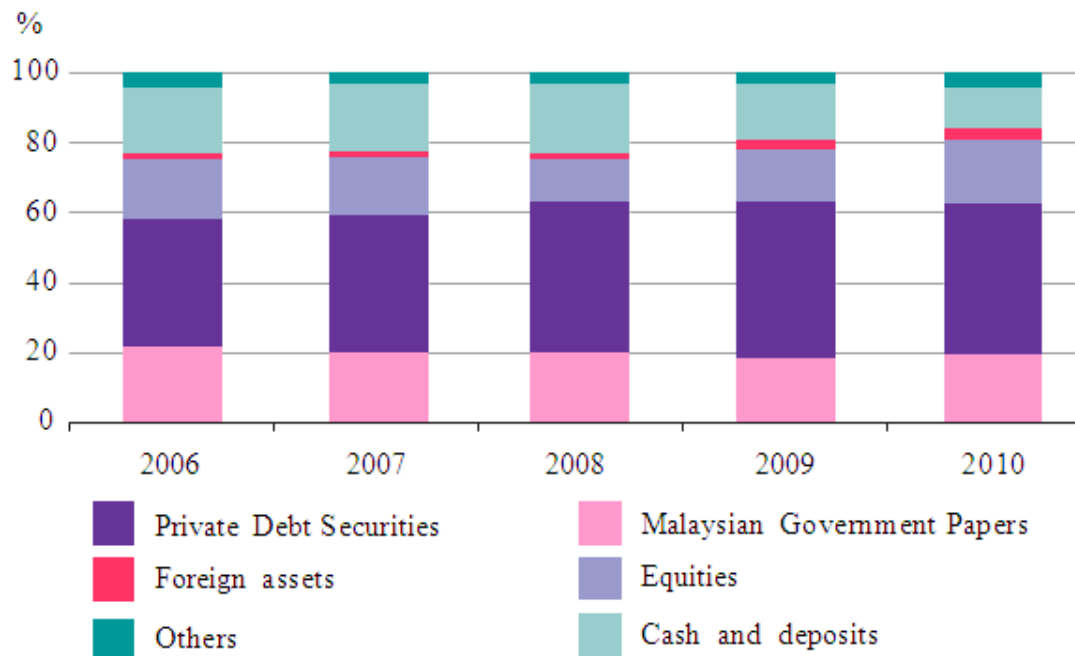
FS Watch & FS Company Watch (Ad-hoc)

**Management**



# Statistics of Insurance Industry.... #1

## Composition of Insurance and Takaful Industry Assets

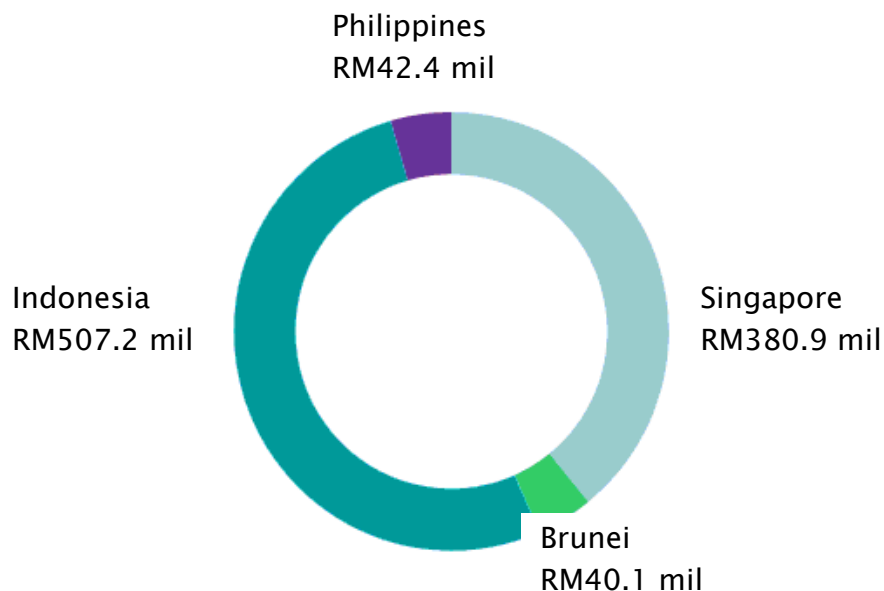


- Consistent holdings of long-term PDS account for 38.6% of total insurance industry assets
- Bulk of PDS concentrated on high investment grade papers (AA-rated and above)
- Fixed deposit placements declined (2010: 11.2% and 2009: 13.9%)

Source: Bank Negara Malaysia

# Statistics of Insurance Industry.... #2

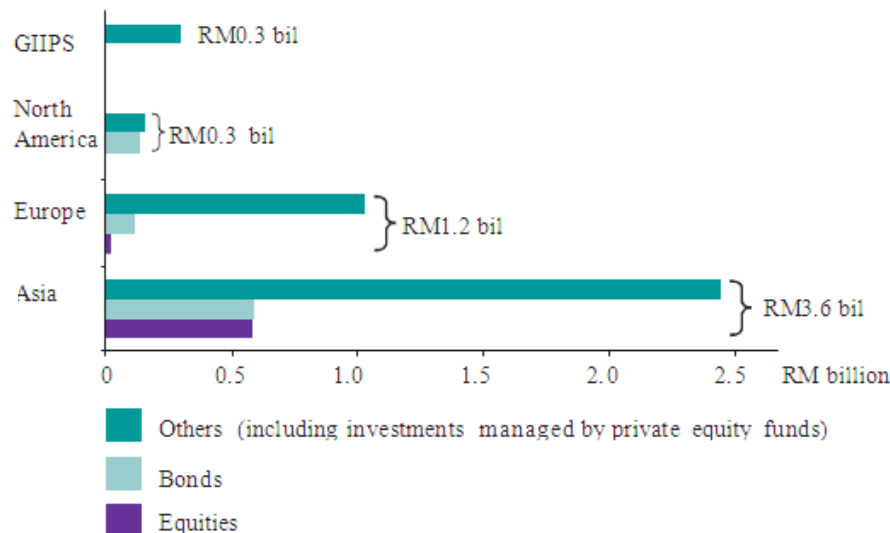
## Insurance Sector: Overseas Operation by Country and Total Assets



Source: Bank Negara Malaysia

- Several large domestic insurers expanded overseas operation, particularly in Indonesia and Singapore
- Remained small accounting for only 0.2% of Malaysia's total domestic assets

## Insurance Sector: External Exposures by Type of Investments

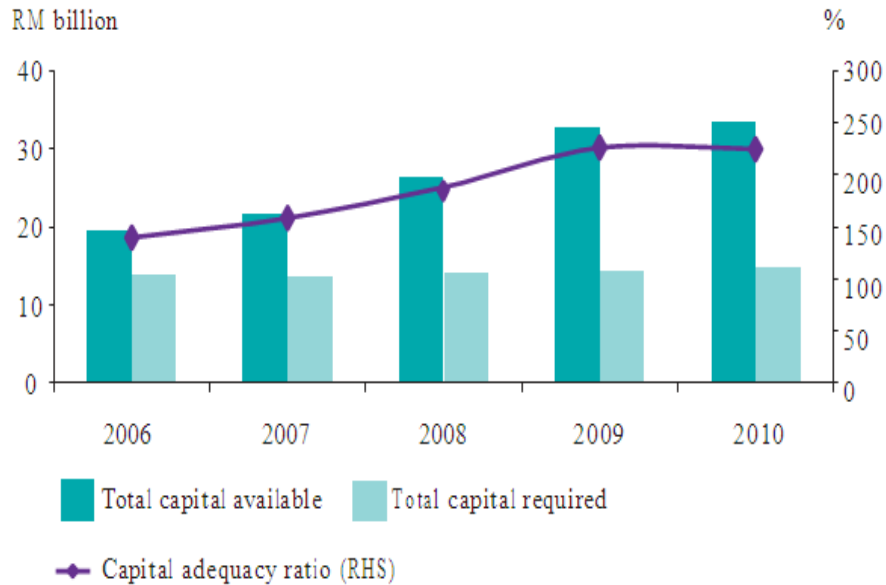


Source: Bank Negara Malaysia

- Direct exposures of Malaysian insurers to Europe and the Middle East amounted to only RM1.45 billion or 27.1% of total foreign exposures
- GIIPS exposures were small at 5.6% of total foreign assets, unlikely scenario of widespread sovereign defaults by the peripheral euro economies

# Statistics of Insurance Industry.... #3

## Insurance Sector: Capital Adequacy Ratio



Source: Bank Negara Malaysia

- Capitalisation of the insurance industry remained strong with a capital adequacy ratio (CAR) of 224.6% in 2010 (2009: 225.7%)

## Components of Market Risk Exposures of Insurance Industry

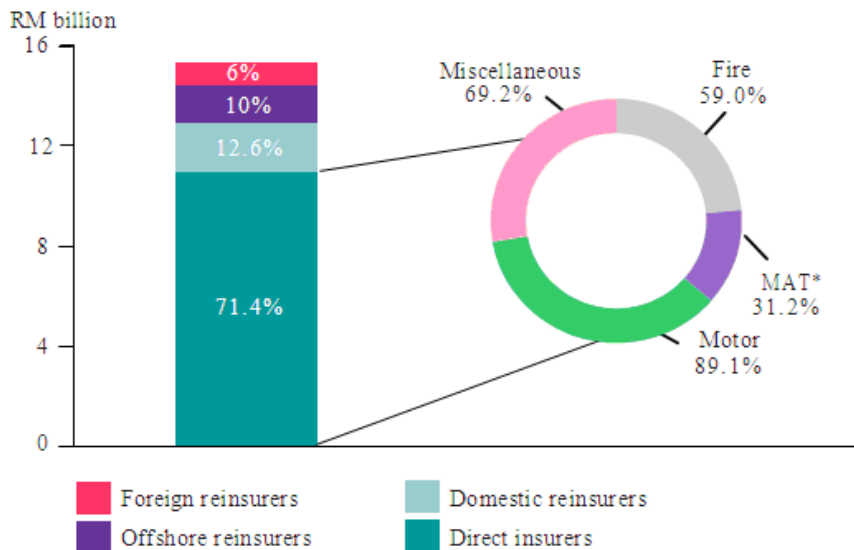


Source: Bank Negara Malaysia

- Investment portfolios moved into higher yielding assets
- Equity holdings by insurers grew marginally in 2010 to account for 16.5% of insurance industry assets compared to 13.5% in 2009
- Additional capital set aside by insurers for market risk, which accounted for 32.5% of total capital required (2009: 29.5%) or RM7.9 billion (2009: RM6.5 billion) as at end-2010

# Statistics of Insurance Industry.... #4

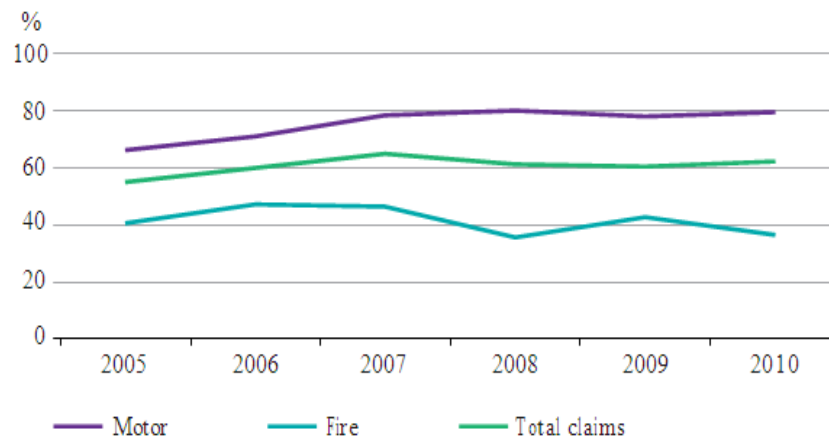
## Insurance Sector: Distribution of Gross Premium Income and Retention Ratio by Major Business Class



\*MAT: Marine, aviation & transit

- Domestic capacity remains adequate to support the bulk of Malaysian risks, with a net retention ratio of 71.4%
- Risks to the Malaysian insurance sector arising from the inability of major European reinsurers to honour reinsurance obligations are well-contained

## General Insurance and Takaful Businesses: Claims Ratio



Source: Bank Negara Malaysia

- Business growth was primarily driven by a strong recovery in demand for investment-linked products, and higher demand for ordinary life protections as well as motor and fire insurance
- Payout of benefits and claims as a percentage of premiums increased slightly to 58.1% for the life and 62.3% for the general business.
- Motor portfolio continues to pose a drag on overall performance given the substantially higher loss ratio of 79.5%

# Sample Financial Soundness Indicators

...BNM Financial Stability and Payment Systems Report 2010

Table A.2

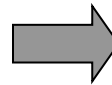
## Key Financial Soundness Indicators

	As at end				
	2006	2007	2008	2009	2010 <sub>p</sub>
	% (or otherwise stated)				
<b>Insurance Companies</b>					
Capital Adequacy Ratio	139.6	158.4	187.6	225.7	224.6
<b>Life Insurance &amp; Family Takaful</b>					
Excess Income over Outgo (RM billion)	12.2	14.8	8.8	12.7	14.1
New Business Premiums / Contributions (RM billion)	8.6	9.3	9.4	10.0	11.2
Capital Adequacy Ratio (conventional only)	146.1	151.8	200.0	254.4	253.2
<b>General Insurance &amp; General Takaful</b>					
Underwriting Profit (RM billion)	0.5	-0.1	0.2	0.9	0.9
Operating Profit (RM billion)	1.5	1.4	0.8	2.1	2.2
Gross Direct Premiums / Contributions (RM billion)	10.5	11.0	12.0	12.8	14.1
Claims Ratio	60.0	65.0	61.2	60.3	62.3
Capital Adequacy Ratio (conventional only)	182.8	182.1	181.1	184.9	204.4

# Challenges and Direction of Statistical Compilation

## Challenges

- Timeliness of data
  - ✓ Timeliness vs data accuracy
- Lack of granularity data
- Frequent ad hoc system enhancements due to policy changes and adoption of FRS
- Efficient data collection processes
- Current reporting/requirement unable to accommodate data needs for complex model for surveillance (e.g. VaR Value at Risk)
- Reporting burden and cost of doing business
  - ✓ Data comprehensiveness and statutory requirements vs. reporting burden



## Direction

Implementation of Enterprise-wide Statistical Information Architecture (ESIA), leverage on:

- ✓ The latest technology to promote a dynamic and integrated environment for efficient information and systems integration
- ✓ The eXtensible Business Reporting Language (XBRL) as reporting language for regulatory reporting to BNM

# Implementation of ESIA...

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## Initiatives to improve statistical framework:

1. Implement an **end-to-end Integrated Statistical System** (ISS) with agile IT infrastructure and architecture over a period of 2 years (2011 – 2012) with the following scope and functionalities:
  - a. A centralised, standard and **unified platform for submission** of financial, monetary and economic data to replace the various statistical submission systems at BNM
  - b. A **centralised data repository** for all statistical data from various data sources, covering the submission system, internal applications, data sharing partners and commercial databases, etc.
  - c. Facilities for **reporting, analysis, data query, data mining and dashboard** capabilities for alert, simulation and projection
  - d. A **common information portal** as the gateway for all internal and external stakeholders
2. Develop and implement **Data Governance** to instill discipline in managing structured data from data origination till archiving

Thank you