REINSURANCE IN THAILAND

by

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I. Structure of the insurance industry

A. Number of companies

Since 1982, the number of insurance companies in Thailand had remained at 75, comprising 70 that were locally incorporated and five foreign branches; of the total, 56 were non-life, seven life, five composite, six health insurance and one a professional reinsurer. In 1995, a new life insurance company was established by a co-operative institution, bringing the number of life insurance companies to eight and the total number of insurance companies to 76.

In 1997, 13 additional non-life and 12 additional life insurance companies, all of them domestic, were granted insurance licences. In May 1998, one non-life insurance licence was revoked.

At present, there are 100 insurance companies operating business in Thailand, as shown in Table 1 below.

Table 1: **Number of Insurance Companies**

Type of Business	Domestic Companies	Foreign Branches	Total
Non-life	64	4	68
Life	20	--	20
Life &Non-life	4	1	5
Health	6	--	6
Reinsurance	1	--	1
TOTAL	95	5	100

B. Performance of the industry

Life insurance

In 1997, 1 250 412 new life policies were issued, with a total sum insured of 245 328 million baht. Total direct premiums for the year were 58 ,780 million baht; this comprised first-year premiums of 12 945 million baht, renewal premiums of 45 416 million baht, and single premiums of 419 million baht. At year-end, there were 7 215 160 life policies in force, with a total sum insured of 1 179 836 million baht.

In 1998, from January to September, 765 096 new life policies were issued, with a total sum insured of 142 787 million baht, declining by 18.50 per cent and 7.29 per cent, respectively, over the same period of 1997. Total direct premiums for the first 9 months were 40 747 million baht, consisting of first-year premiums of 6 153 million baht, renewal premiums of 33 344 million baht, and single premiums of 1 250 million baht, a 4.35 per cent decrease from the same period of the previous year. The decrease of total direct premiums was due mainly to a shrinking number of new policies sold.

Table 2: **Life Insurance Business, January-September 1998**

Type of Business	Number of Newly Issued Policies	Share (%)	Sum Insured (million Baht)	Share (%)
Ordinary	528 550	69.08	79 999	56.04
Industrial	235 215	30.75	13 683	9.58
Group	1 331	0.17	49 105	34.39
TOTAL	765 096	100.00	142 787	100.00

Table 3: **Life Insurance Premiums Breakdown, January-September 1998**

Unit: million Baht

Direct Premiums	Ordinary	Industrial	Group	Total	Change from previous year	
					Amount	%
First-year	4 760	904	489	6 153	(3474)	(36.09)%
Renewal	27 971	4 325	1 048	33 344	679	+2.08%
Single	994	0	256	1 250	943	+307.18%
TOTAL	33 725	5 229	1 793	40 747	(1 852)	(4.35)%

Non-life insurance

In 1997, 14 351 931 policies were sold, with a total sum insured of 11 144 307 million baht. Total direct premiums amounted to 57 657 million baht.

In 1998, for the first nine months, the number of non-life insurance policies sold and the total direct premiums declined correspondingly. The total number of policies sold was 9 788 654, a 11.32 per cent decrease from the same period of 1997; total direct premiums dropped by 16.64 per cent, from 45 218 million baht in the first 9 months of 1997 to 37 692 million baht in 1998. Approximately 60 per cent of the total direct premiums came from automobile insurance. Table 4 illustrates the distribution of policies, sums insured and direct premiums, classified by line of business.

Table 4: **Non-life Insurance Business, January-September 1998**

Line of Business	Number of Policies	Share (%)	Sum Insured (million Baht)	Share (%)	Direct Premiums (million Baht)	Share (%)
Fire	1 267 617	12.95	4 963 670	38.28	6 719	17.96
Marine & Transportation						
--Hull	528	0.00	8 040	0.06	146	0.39
--Cargo	304 056	3.11	1 543 790	11.91	1666	4.42
Automobile						
--Compulsory	6 098 695	62.30	-	-	5 163	13.70
--Voluntary	1 305 565	13.34	2 292 289	17.68	17 148	45.50
Miscellaneous	812 193	8.30	4 157 968	32.07	6 800	18.03
TOTAL	9 788 654	100.00	12 965 757	100.00	37 692	100.00

C. Insurance penetration and insurance density

Thailand's insurance penetration is relatively low, compared to other Asian countries. In 1995, the country's insurance penetration rate was only 2.43 per cent, while South Korea had 13.16 per cent, Japan 12.78 per cent, Taiwan 5.53 per cent, Malaysia 4.28 per cent and Singapore 4.25 per cent.

Table 5: **Insurance Penetration (Premiums as a Percentage of GDP, 1995)**

Country	Total Business	Non-life	Life
South Korea	13.16	2.91	10.25
Japan	12.78	2.54	10.24
Taiwan	5.53	1.79	3.74
Malaysia	4.28	2.17	2.11
Singapore	4.25	1.30	2.95
Thailand	2.43	1.27	1.16

For insurance density, Thailand is also far behind many Asian countries. In 1995, the country's insurance density was only $67.60, compared to Japan, which had $5 088.30; South Korea, with $1 337.60; Singapore, with $1 190.80; Taiwan, with $678.50; and Malaysia, with $181.20.

Table 6: **Insurance Density (Premiums per Capita, 1995, in U.S. Dollars)**

Country	Total Business	Non-life	Life
Japan	5 088.3	1 012.5	4 075.8
South Korea	1 337.6	295.5	1 042.1
Singapore	1 190.8	364.7	826.1
Taiwan	678.5	219.2	459.3
Malaysia	181.2	91.9	89.3
Thailand	67.6	35.4	32.2

II. Reinsurance in Thailand

A. Thailand's professional reinsurer

At present, Thai Reinsurance Public Company Limited is the only Thai professional reinsurer whose shares originally were held by all life and non-life insurance companies in Thailand. The primary objectives of incorporating Thai Re were to support and enhance the Thai insurance industry and the country's economy by:

1. Increasing domestic underwriting capacity;
2. Promoting the highest efficiency in underwriting domestic insurance;
3. Securing reinsurance from abroad to support the domestic insurance industry;
4. Extending co-operation and support to State insurance projects, to benefit the industry and society as a whole;
5. Arranging and managing Thailand's reinsurance sector at the highest level of efficiency;
6. Promoting knowledge and understanding of the industry by assisting in advisory and consultant capacities;
7. Promoting the growth and development of the insurance industry in Thailand to be in line with international trends;
8. Serving as a center of information and statistics of the Thai insurance business; and
9. Investing in businesses with emphasis on economic development of the country.

Direct insurers in Thailand are obligated, by gentleman's agreement, to cede at least 5 per cent of their fire, marine and transportation, and miscellaneous businesses to Thai Re on a quota share basis.

B. Domestic retention

The domestic retention rates for non-life insurance had been quite stable for the last 5 years. Among all lines, motor insurance showed the highest domestic retention rate, while marine and transportation insurance demonstrated the lowest. The retention rates, classified by line of business in 1993-1997, are shown in Table 7.

Table 7: **Domestic Retention Rates**
(net premiums divided by gross premiums, 1993-1997)

Line of Business	1993	1994	1995	1996	1997
Fire	38.46	40.18	38.68	39.06	41.19
Marine & Transportation	37.57	34.24	37.05	36.25	34.69
Automobile	97.27	96.75	96.65	95.50	94.89
Miscellaneous	37.70	34.35	36.40	37.73	36.11
ALL LINES	**72.95**	**72.49**	**73.82**	**73.29**	**71.65**

For life insurance, owing to the nature of its business, the amount of premiums ceded under life insurance is quite small and is ceded only for premium at risk.

C. Balance of the reinsurance trade

In 1997, the non-life insurance sector ceded 12 457.88 million baht of premiums to foreign reinsurers while inward reinsurance was only 495.72 million baht. As a result, the country experienced a large deficit in net reinsurance transacted.

Table 8: **Outward and Inward Reinsurance Premiums in 1997**

Line of Business	Outward Reinsurance		Inward Reinsurance		Balance
	Premium (million Baht)	+/- % change from previous year	Premium (million Baht)	+/- % change from previous year	(million Baht)
Fire	4 591.64	+0.23%	341.07	+18.72%	-4 250.57
Marine & Transportation	1 435.59	-3.84%	70.01	-6.01%	-1 365.58
Automobile	1 301.66	+10.84%	0.66	+50.00%	-1 301.00
Miscellaneous	5 128.99	+11.05%	83.98	+15.77%	-5 045.01
TOTAL	**12 457.88**	**+4.98%**	**495.72**	**+14.02%**	**-11 962.16**

In 1998, insurers in Thailand ceded their premiums to 209 foreign reinsurers through 3 648 treaties. The five countries with the highest numbers of treaties from insurance companies in Thailand were: Singapore (1 613 treaties, or 44.22 per cent), Hong Kong (591 treaties, or 16.20 per cent), Switzerland (297 treaties, or 8.14 per cent), Japan (291 treaties, or 7.98 per cent), and Malaysia (223 treaties, or 6.11 per cent).

For inward reinsurance, in 1998, there were 69 foreign insurers ceding premiums to the insurers in Thailand through 217 treaties. The top five ceding countries were Japan (55 treaties, or 25.35 per cent), Hong Kong (45 treaties, or 20.74 per cent), Malaysia (27 treaties, or 12.44 per cent), Singapore (23 treaties, or 10.60 per cent), and Indonesia (16 treaties, or 7.37 per cent).

D. The government role in reinsurance supervision

Reinsurance is supervised by the Department of Insurance (DOI), which is the government insurance supervisory agency under the Ministry of Commerce.

The purposes of reinsurance supervision can be summarised as follows:

1. To ensure that insurers not assume risks of more than 10 per cent of their surplus, which is clearly stated and prohibited by the Non-life Insurance Act 1992;
2. To ensure that insurers have adequate reinsurance protection at reasonable cost;
3. To promote the local insurance industry and domestic retention, which help stabilise the country's foreign exchange reserve;
4. To prevent reinsurance from being used as a means to illegally transfer money abroad or as a tool to avoid local taxes;
5. To ensure that reinsurance accounts are transacted with financially sound reinsurers.

There is no specific requirement regarding choices of reinsurers. However, every insurance company is strictly required to submit copies of reinsurance treaties to the DOI within 30 days of the signing/renewal date.

E. Current policy on reinsurance

Having a goal of strengthening the domestic insurance industry, the Department of Insurance has been continuously concerned with improving the country's retention capacity.

Table 9 : **Loss Ratios, 1993-1998*, Classified by Lines of Business**

Year	Fire	Marine & Transportation	Automobile	Miscellaneous	All Lines
1993	25.62	36.92	68.14	42.66	**59.62**
1994	19.62	37.02	64.06	42.92	**57.05**
1995	26.34	32.03	68.92	43.44	**61.68**
1996	36.90	35.08	63.45	47.90	**58.31**
1997	23.06	25.06	72.89	44.54	**58.65**
1998*	32.54	26.16	65.48	38.82	**53.80**

Note : * From January-September only.

According to the historical data, Thailand had shown good risk profiles, *i.e.* low loss ratios, meaning that there was room for the country to improve its domestic retention level. As a result, starting on 1 January 1998, all insurers in Thailand were encouraged to retain more risks, especially in fire and all-risk insurance policies.

Guidelines to increase the domestic retention are summarised as follows:

1. First-surplus treaties that historically illustrated low loss ratios and yielded profits to foreign reinsurers are subject to 20 to 25 per cent domestic retention;

2. Property fire policies (special tariff rates only) and property all-risk policies with sums insured of 300 million baht or more are subject to at least 30 per cent domestic retention;

3. Fire policies with sums insured of 30 million baht or more must reinsure 10 per cent of the premiums, but not exceeding 10 million baht per policy, with the Thailand Fire Pool, a pool set up by the DOI and the General Insurance Association and managed by Thai Re;

4. Fire and all-risks insurance policies providing coverages for losses or damages to finished buildings and properties and having sums insured not exceeding 5 million baht are subject to full self-retention or domestic reinsurance. For policies that have sums insured between 5 million and 30 million baht, insurers should retain the risks as much as their individual capacities allow.

III. Conclusion

Thailand's insurance industry is still profitable and attractive. Insurance companies continuously improve their underwriting and operating standards in order to strengthen the companies' wealth while being able to maintain their competitiveness.

The country's low risk profiles, especially in the lines of fire and marine and transportation insurance, draw attention from reinsurers around the world. All of them want to benefit from this growing and profitable market. At the same time, technical supports and know-how transfers from those highly experienced reinsurers are, in return, expected to improve and strengthen the local insurance industry to reach international standards in the near future.