COUNTRY REPORT 2008 - THAILAND GENERAL INSURANCE*

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An Overview of the General (Non-Life) Insurance Market

2008 has been one of the remarkable years of the Thai insurance industry. Following a transformation of the Department of Insurance (DOI), a former regulatory agency under the Ministry of Commerce, to the Office of Insurance Commissioner under the Ministry of Finance in September 2007, the most significant issue in 2008 was the amendment and improvement of the Non-Life Insurance Act, BE 2535 (1992) as well as the Life Insurance Act BE 2535 (1992).

Becoming effective in February 2008, the newly enforced Acts introduce several relatively brand new rules and regulations for insurance companies in Thailand. Major issues as imposed by the Acts are as follows:

1. A gradual shift from rule-based to risk-based supervisory measures, specifically in capital calculation.
2. A lift-up in the quality standard of insurance brokers and agents by requiring every broker and agent to attend a compulsory insurance course, as specified by the OIC, to be eligible for license approval and renewal.
3. A requirement for a certified actuary in calculating reserves etc.

It is widely accepted that these enforcements will definitely induce many substantial challenges in insurance operations. However, the Thai insurance industry is somewhat fortunate in still being a conservative regulatory and supervisory regime, as evidenced by the recent global financial crisis arising from subprime problems in USA which affected several big insurance companies around the world. None of the companies in Thailand has been adversely affected by this modern threat.

Competition in the Thai insurance market in 2008 is as fierce as it has been in the past several years. Every player has to employ a set of strategies and techniques throughout the year hoping to keep their growth or at least maintain their market share. Telemarketing is now one of the hottest distribution channels. Grassroots insurance becomes more

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popular and is recognized as an effective way to promote insurance business. Several new insurance covers have been introduced to the market to serve both the diversified needs of consumers and, at some point of time, to cope with the new insurance laws in Thailand. After-sales services are also emphasized to ensure that Insureds will stay with the company year after year.

Key Statistical Indicators

In 2008, the number of general, non-life, insurance companies in Thailand was 73, compared to 72 in 2007, due to a merger of two domestic companies and a return of one license in June 2008. This merger was perceived as a plan to cope with the pressure from the imminent strengthened financial regulation.

Table 1: Number of Non-Life insurance Companies in Thailand

Business	Domestic	Foreign Branch	Total
Non-life Insurers	61	5	66
Health Insurers	5	0	5
Non-life Insurers	1	0	1
Total	**67**	**5**	**72**

During the first seven months of 2008, the market concentration remained high. A small number of major players still took control over the market. The top-ten companies gained more than 50% of direct premiums. From January to July 2008, Non-Life Direct Premiums Written was THB 61,481,822, an increase of 5.37% over the corresponding period in 2007. Motor insurance dominated the market, with a 61.28% market share (THB 37,675,754), follwed by Miscellaneous insurance at 27.27% (THB 16,768,019), and Fire insurance at 7.49% (THB 4,607,465), and Marine insurance at 3.96% (THB 2,430,585).

Table 2: Comparison of Non-life Direct Premiums Written

Classe of Business	Jan.-Jul.2007	Jan.-Jul.2008	% Growth
Fire	**4,386,872**	**4,607,465**	**5.03**
Marine & transportation	**2,200,018**	**2,430,585**	**10.48**
Hull	232,745	216,118	(7.14)
Cargo	1,967,273	2,214,466	12.57
Automobile	**35,359,537**	**37,675,754**	**6.55**
Compulsory	6,540,229	6,337778	(3.10)
Voluntary	28,819,307	31,337,976	8.74
Miscellaneous	**16,404,664**	**16,768,019**	**2.21**
Industrial All Risks	3,001,460	3,258,618	8.57
Public Liability	363,707	389,724	7.15
Engineeering Insurance	1,686,159	1,218,813	(27.72)
Aviation Insurance	226,361	236,354	4.41
Personal Accident	4,197,707	4,885,970	16.40
Health Insurance	1,320,705	1,766,517	33.76
Crop Insurance	-	140	-
Other Insurance	5,608,566	5,011,884	(10.64)
Total	**58,351,091**	**61,481,822**	**5.37**

Source: Office of Insurance Commission

At the beginning of 2008, Thai Re Research projected that the annual total Direct Premium Written in 208 would grow by 5.85-8.50 percent. Although, due to the slowdown in the overall economy which made the actual growth rate in the first seven months lower than the mentioned range, the industry remained optimistic that the latter part of that year would show an annual growth rate of 7.36%, producing total Direct Premiums Written of THB 108,058 million (OIC Presentation to the Minister of Finance). Political uncertainties and the global financial crisis are major factors that indirectly induce people to be aware of their daily risks and become interested in using insurance to mitigate their future uncertainties.

For loss ratios, in the first seven months of 2008 most of the classes showed improvement, yielding a decrease in the overall loss ratio to 51.59%, from 54.74% in the same period in 2007. In addition, the strengthened financial regulation indirectly forces insurance companies to be aware of their pricing strategies. Many companies publicly showed their positions in doing business with less emphasis on rate-cutting. Revenue from investment cannot be relied on during the current situation, and companies have to focus on a prudent operation to maintain their pace and protect their financial status as well as they can.

Table 3: Loss Ratios of Non-life Insurance Business

Classes of Business	2006	2007	Jan.-Jul.2007	Jan.-Jul.2008
Fire	**19.89**	**25.24**	**27.30**	**15.58**
Marine & transportation	**29.30**	**36.92**	**26.15**	**23.16**
Hull	23.83	39.32	26.06	52.92
Cargo	29.62	26.34	26.16	21.77
Automobile	**60.48**	**60.03**	**59.97**	**57.21**
Compulsory	45.19	46.61	47.06	42.21
Voluntary	64.23	63.11	63.00	60.45
Miscellaneous	**48.74**	**46.63**	**47.13**	**45.29**
Industrial All Risks	45.41	37.17	38.62	37.43
Public Liability	17.11	50.35	38.48	19.77
Engineering Insurance	48.93	43.41	43.99	55.61
Aviation Insurance	0.91	51.47	50.05	11.20
Personal Accident	45.08	41.66	40.98	37.15
Health Insurance	70.93	68.42	69.04	68.39
Crop Insurance	0.00	0.00	0.00	27.93
Other Insurance	46.69	45.70	47.57	48.70
Total	**54.78**	**54.60**	**54.74**	**51.59**

Source: Office of Insurance Commission

An Economic Overview

The insurance business is intimately linked to the national and world economy. Therefore the economic forecast for Thailand for the period covered by the above insurance forecasts and figures, is shown here, for historical record. Forecasting can never be an exact science: so many factors are uncertain and interact in complex changing ways. Based on forecasts made by the Thai Office of National Economic and Social Development, the Thai economy was forecast to expand by 5.2-5.7 percent in 2008 with a downward trend in the latter half due to export deceleration compared to the first half. Moreover, private expenditure and investment were not expected to fully recover under constraints of high oil prices and high inflation despite their subsiding trends. Consumer and business confidence also remained weak due to high cost of production, high living expenses, and political uncertainties.

Thai exports remained solid with a better performance in the first seven months of the year. The robust performance in the first seven months suggested that an export slowdown in the second half would be smaller than earlier anticipated. Better-than-expected export growth would help compensate for the slowdown in domestic demand.

However, domestic demand was likely to accelerate in the latter half of 2008, because of various factors including six measures to solve economic problems, upward salary and minimum wage adjustments, implementation of tax measures to boost consumption and investment, credit measures for the grassroots economy, and high agricultural prices. Meanwhile the prices of oil and consumer products were likely to soften and help inflationary pressure, especially in the last quarter. However, all in all for the year, domestic demand would remain weak and softer than forecast earlier.

The inflation trend for 2008 was forecast to be in the range of 6.5-7.0 percent, higher than the previous forecast of 5.3-5.8 percent. High inflation was due to price increases in raw materials, food, and agricultural products, while oil prices remained high. Furthermore, upward salary and minimum wage adjustment which had been effective since May would also add more inflationary pressure. Headline inflation in the first seven months was 6.6 percent. Given the 9.2 percent inflation rate in July, the third quarter was likely to record the peak of inflation before cooling down slightly in the last quarter. Inflation was foreseen to ease in the last quarter of 2008 based on the softening price of crude oil led by a slowdown in global demand, and a high base in the last quarter of 2007 would result in a lower percentage increase in oil price in the fourth quarter of 2008. In addition, a reduction of 3 baht per litre of excise tax imposed on bio-fuel, including gasohol and bio-diesel was expected to curb monthly inflation by approximately 1 percent, or around 0.41 percent for the annual average of inflation.

Being optimistic, the Thai economy in 2008 would be able to expand at a minimum rate of 5.5 percent, given the following conditions:

(1) The world economy expands by not lower than 4.0 percent. The export sector could adjust and compete along with the higher cost of production. The export volume of goods and services had to increase by at least 8 percent. Given these conditions, the export value would be likely to grow by a minimum of 16 percent, and tourism revenue would increase by approximately 8-9 percent.

(2) The budget disbursement had to be at least 85 percent of the overall budget for government and state-owned enterprises.

(3) Consumer and business confidence recovers after plummeting in the second quarter.

(4) Crude oil prices subside in the second half of the year owing to increases in OPEC's oil supply and lower oil demand in the world market. Moreover, oil prices were lily to adjust from the higher than fundamental price during the seven months. Average Dubai prices for 2008 were not expected to exceed 110-155 USD per barrel.