

# AN OVERVIEW OF THE INSURANCE INDUSTRY IN THAILAND

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## Economic Overview

Thailand's economy, the second largest in Southeast Asia, continued to grow in 2010, at the strongest pace since 1995 before the collapse of the currency in 1997, but the growth will be slower in 2011. Exports, tourism, private investment, and agriculture continue to be the key drivers while the global recovery, stronger Thai Baht, political unrest, labor shortages, and climate change are key risk factors for the economy in 2011.

Exports, which account for as much as 60-70 percent of the \$264 billion economy, are still booming. Thai exporters have proved highly resilient by diversifying to Asia and other emerging economies to offset the impact of weak growth in the United States, Europe, and Japan. However, the Baht's rise to a 13-year high against the dollar has prompted concerns about Thailand's exports. As a result, policymakers have been raising interest rates to control inflation.

As for private investment, companies look to increase production capacity as utilization already is high at 70-80%. New investments, led by public-private partnerships for small-scale projects to expand public health and education infrastructure, are expected to rise in 2011. Low interest rates and a robust farm sector are other factors that should support growth.

Projections for growth are based on the following assumptions: that

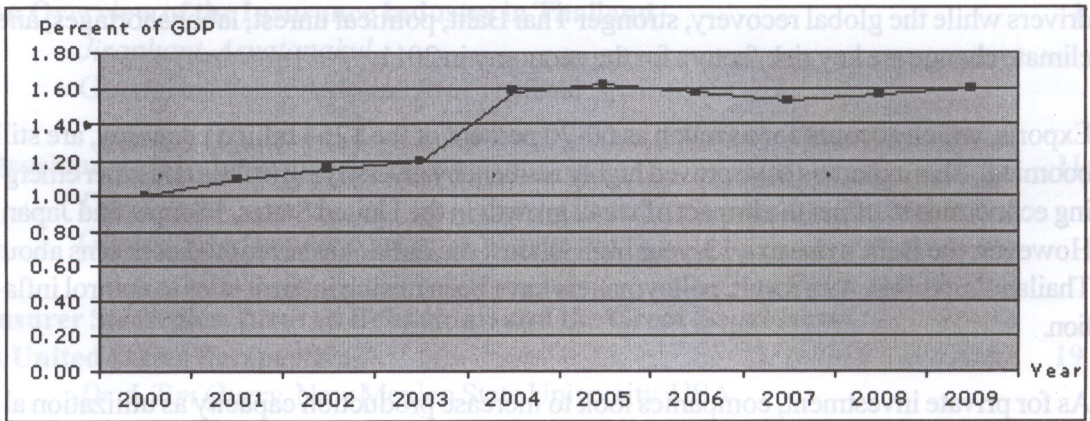
- the economic climate continues to be good,
- the world economic recession does not return although still stagnant,
- interest rate and liquidity are still at levels which are supportive to the expansion of lending and investment, and
- drought or floods will not have a severe impact on the prices of agricultural products.
- Other uncertain factors are the possible volatility of international currency movement and foreign exchange rates (Source: NESDB Office).

\*This is an adaptation and merger of two papers presented at the 25<sup>th</sup> East Asian Insurance Congress (EAIC) in October 2010 in Bali. Mr. Asvatanakul is President and CEO of Thaivivat Insurance plc and also President of the General Insurance Association of Thailand.

## An Overview of General Insurance

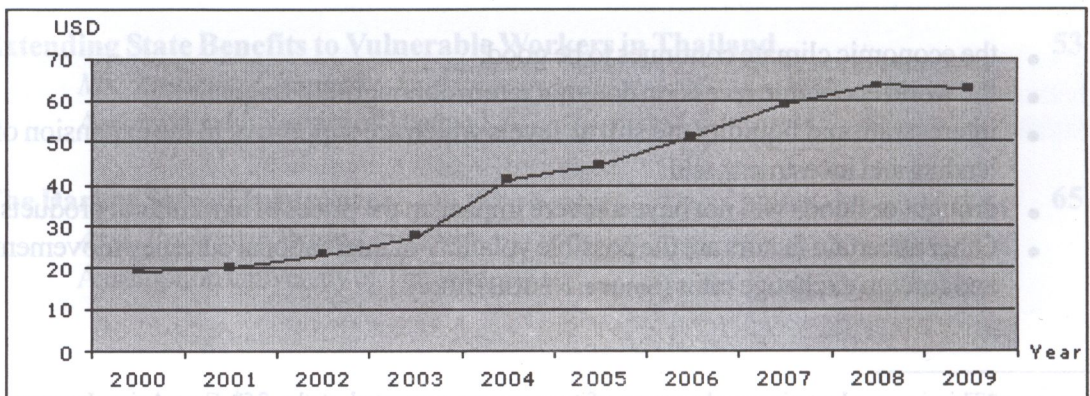
The Thai Non-Life insurance market is the ninth largest insurance market in Asia, with a premium volume of USD 4.2 billion (which is less than one percent of the world market share). Although the industry has experienced growth rates averaging 12.92 percent annually during the past ten years, Thailand is still relatively underdeveloped in terms of insurance penetration (1.6 percent of GDP in 2009) and insurance density (premium per capita of USD 62.7 in 2009). The Thai Non-Life insurance market comprises 70 companies, with the top four commanding 36 percent of the market share.

**Figure 1: Non-Life Insurance Penetration (2000-2009).**



Source: Swiss Re.

**Figure 2: Non-Life Insurance Density (2000-2009).**



Source: Swiss Re.

**Table 1: Number of Non-Life Insurance Companies (2009).**

Type of Business	Domestic	Foreign Branch	Total
Non-Life Insurance Companies	59	5	64
Health Insurance Companies	5	0	5
Non-Life Reinsurance Companies	1	0	1
Total	65	5	70

**Source:** Office of Insurance Commission.

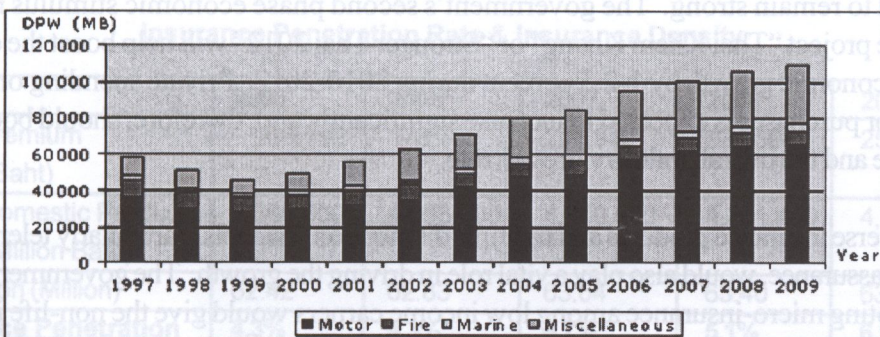
Non-Life insurance in Thailand is divided into four lines of business; Motor, Fire, Marine, and Miscellaneous. Motor insurance continues to dominate the market with 65.4 billion baht direct premium written, or a 59.5 percent market share, followed by Miscellaneous insurance, Fire insurance, and Marine insurance.

**Table 2: Non-Life Insurance Business (2009).**

Line of Business	Direct Premium Written (Billion Baht)	Market Share (Percent)	Number of Policies (Million)
Motor Insurance	65.43	59.5	25.0
Fire Insurance	7.75	7.0	2.1
Marine Insurance	3.63	3.3	0.6
Miscellaneous Insurance	33.19	30.2	0.4

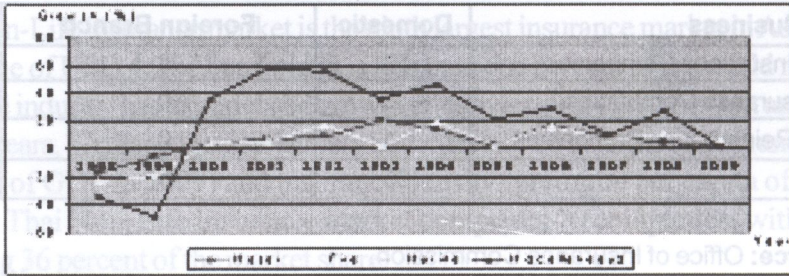
**Source:** Office of Insurance Commission.

**Figure 3: Direct Premium Written by Line of Business (2009).**



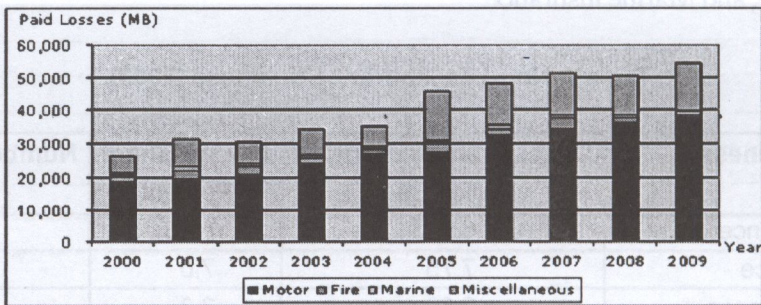
**Source:** Office of Insurance Commission.

**Figure 4: Direct Premium Written Growth Rate by Line of Business (2009).**



**Source:** Office of Insurance Commission.

**Figure 5: Paid Losses by Line of Business (2009).**



**Source:** Office of Insurance Commission.

Thanks to the improving economy, and increasing consumer awareness of insurance benefits, the insurance industry continues to grow. The strong growth of the insurance industry over the past few years is likely to be sustained in 2011. The export and manufacturing sectors are expected to remain strong. The government’s second phase economic stimulus measures under the project “Thai Khem Khang” or “Stronger Thai 2012” will help boost the country’s annual economic growth by 1-2.5 percent during 2010-2012. Private spending on housing and motor purchases is expected to increase significantly and, therefore, should boost motor insurance and the overall industry growth rate.

More diverse insurance products and multiple distribution channels, particularly telemarketing and bancassurance, would also play a vital role in driving the growth. The government’s policy of promoting micro-insurance among low income earners would give the non-life insurance industry a big boost.

Mergers and acquisitions among the large number of local insurers in the non-life insurance industry are likely to rise as an increased regulatory focus on solvency and professionalization of the insurance industry continues.

## An Overview of the Thai Life Insurance Business

There are 25 life insurance companies and 1 re-insurance company, operating in Thailand. In an overview of life insurance business in 2009, although the GDP rate in Thailand was negative and there was a series of political disturbances, nevertheless the life insurance business as a whole continued to grow. The following are some of the indicators of this growth.

### 1. Direct Premium Income:

Throughout the year 2009, the business saw an amount of 258,533 million Baht of direct premium income or a growth of 17% compared with 10% in the same period of 2008. Of this income, 57,246 million Baht was first year premium income which represented a growth of 31% against 0% in 2008, renewal premium was 170,538 million Baht, the retention rate was at 86% against the 83% level in 2008, and the single premium income was 30,349 million Baht, or a growth of 28% against that of 37% in 2008. The insurance penetration rate was 6.1% and the insurance density was 4,069 Baht.

#### Direct Premium Income Between 2005-2009

Unit: Million Baht

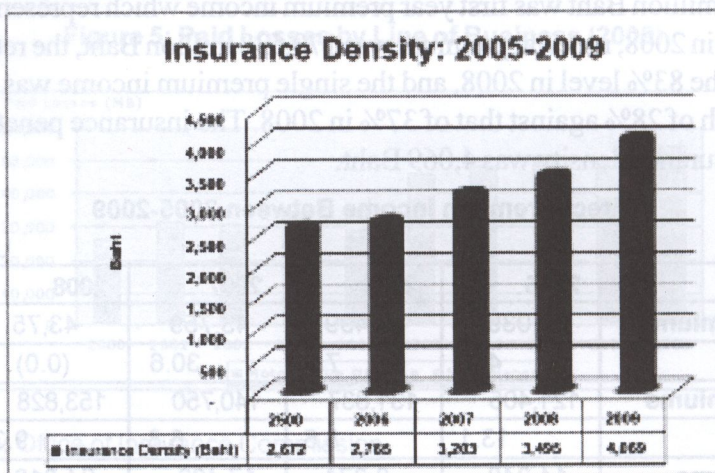
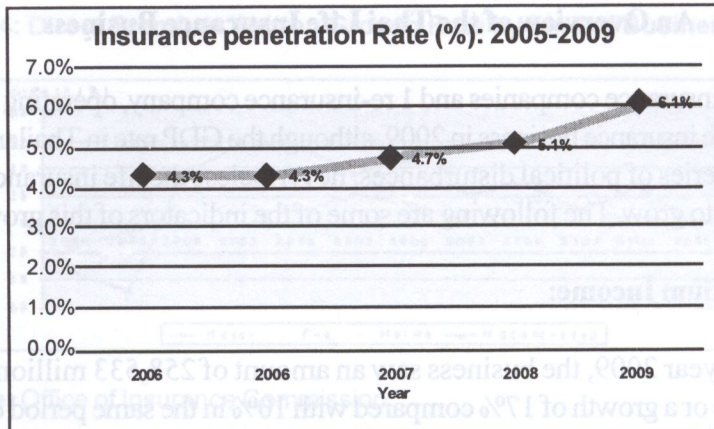
	2005	2006	2007	2008	2009
<b>First Year Premiums</b>	31,039	33,499	43,759	43,75	57,246
% Change	4.6	7.9	30.6	(0.0)	30.8
<b>Renewal Premiums</b>	121,405	131,837	140,750	153,828	170,538
% Change	13.1	8.6	6.8	9.3	10.9
<b>Single Premiums</b>	14,348	8,371	17,433	24,018	30,749
% Change	0.3	(41.7)	108.3	37.8	28.0
<b>Total</b>	166,792	173,708	201,942	221,598	258,533
% Change	10.2	4.1	16.3	9.7	16.7

#### Insurance Penetration Rate & Insurance Density

	2005	2006	2007	2008	2009
Direct Premium (Million Baht)	166,792	173,708	201,942	221,598	258,533
Gross Domestic Product (GDP) (Million Baht)	3,868,000	4,056,500	4,256,500	4,361,400	4,263,300
Population (Million)	62.42	62.83	63.04	63.40	63.53
<b>Insurance Penetration Rate (%)</b>	<b>4.3%</b>	<b>4.3%</b>	<b>4.7%</b>	<b>5.1%</b>	<b>6.1%</b>
<b>Insurance Density (Baht)</b>	<b>2,672</b>	<b>2,765</b>	<b>3,203</b>	<b>3,495</b>	<b>4,069</b>

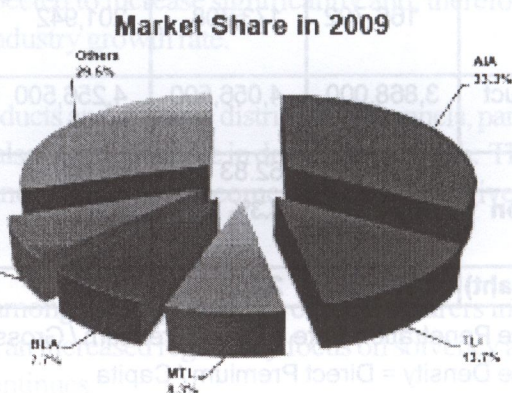
**Note:** Insurance Penetration Rate = Direct Premium / Gross Domestic Product (GDP)

Insurance Density = Direct Premium / Capita



## 2. Market Share

The structure of market share in the Thailand's life insurance business in a period between January-December 2009 in terms of gross premium income featured the top 5 life insurers namely: (1) AIA with the market share of 33.3% (2) Thai Life Insurance, 13.7%, Muang Thai Life Insurance, 8.3%, Bangkok Life Insurance (Plc), 7.7% and SCNYL at 7.5%.



### 3. Number of In-Force Policies

In 2009, the total number of in-force policies in the Thai life insurance business was 15,208,885 policies or an increase of 16.17%, and the total amount of sum-insured was 5,502,213 million Baht, or a growth of 35.81% against that in the year 2008; the average sum-insured per policy was 360,000 Baht and the penetration rate was 23.94%.

#### POLICIES IN FORCE AT THE END OF YEAR 2009

	No. of Policies	Sum Insured (Million Baht)
Ordinary		
Whole Life	4,421,406	815,355
Endowment	7,630,974	1,480,074
Term	861,199	390,347
Others	269	132
Industrial	2,274,950	131,725
Group	20,087	2,684,580
<b>Total</b>	<b>15,208,885</b>	<b>5,502,213</b>

The type of insurance policy that represents the largest proportion of all was ordinary life insurance which was at 84.92%, followed by industrial and group at 14.96% and 0.13%, respectively. Within the total of Ordinary policies, Endowment was 59.09% Whole Life was 34.24%, Term 6.67% and Others 0.002%

### 4. Total Assets and Investment Assets

The total amount of assets in Thailand's life insurance business was 1,047,379 million Baht, an increase of 17.19% of which 995,034 million Baht was investment assets. Major types of investments made by life insurance companies include government and state enterprise securities with a total amount of 642,346 million Baht or 64.56%, followed by private securities whose total amount of investment was 206,926 million Baht or 20.80%.

#### Investments by Life Insurance Companies

	2005	2006	2007	2008	2009	Investment Ratio
Government Security	354,663	401,107	449,934	516,943	642,346	<b>64.56%</b>
Private Security	148,524	171,367	215,012	186,661	206,926	<b>20.80%</b>
Foreign Security	15,333	19,045	33,685	48,060	55,845	<b>5.61%</b>
Other Loans & Investments	53,508	59,944	65,224	74,666	74,787	<b>7.52%</b>
Deposits at Financial Institutions with Interest	11,753	14,781	11,708	19,775	15,130	<b>1.52%</b>
<b>Total Investment Assets</b>	<b>583,782</b>	<b>666,245</b>	<b>775,562</b>	<b>846,105</b>	<b>995,034</b>	

Source: Life Insurance Annual Statistic Report 2009 (TLAA)

## Overview of Life Insurance Business in Thailand in 2010.

### 1) Direct Premium Income

Despite the severe impact of political turmoil in the country during the early period of 2010, the Thai life insurance business performed incredibly well during a period from January to August 2010 with a total gross premium income of 185,256.1 million Baht or an increase of 13% against that of 16% during the same period in 2009. This gross premium earning included the first year premium income of 38,578.2 million Baht or an increase of 6% against that of 24% in 2009. The renewal premium income was 128,478.9 million Baht, the persistency rate was at 89% and the total amount of single-premium income was 18,199.0 million Baht or – 5% against that of 28% in 2009. Source: The PC.1-2 report as of August 2010 (TLAA)

### 2) Premium Incomes by Channels of Distribution

In the second quarter of the year 2010, the total amount of premium income through agency, the main income earning channel was 84,425 million Baht which represents a proportion of 61.29%, followed by bancassurance whose total earning was 43,619 million Baht or 31.67%.

Source: The Distribution Premium Report Q2-2010 (TLAA)

It was expected that throughout the year 2010, the life insurance business in Thailand would see a business growth of not less than 15%, with a projected gross premium income of 296,900 million Baht. The main factor contributing to such expected expansion is improved public awareness in the importance of life insurance business as evident by the continuing business growth despite pressing economic and political situations.

### Regulatory Requirements

The Office of Insurance Commission, which operates under the Finance Ministry's supervision, has formulated the 2<sup>nd</sup> National Insurance Master Plan to upgrade the insurance industry and prepare it for the upcoming Free Trade Agreements. The five-year plan spans the period of 2010 to 2014.

The five-year plan can be achieved through various mechanisms such as an insurance education program, promotion of corporate social responsibility, continuous insurance professional development, revision of the current law and tax systems, and implementation of risk-based supervision through a risk-based capital framework, enterprise risk management requirements, and financial reporting standards.

The four major pillars or measures of this master plan include:



1. To create public understanding and access to life insurance products by all.

The goals of this measure for the year 2014 include:

- \* The proportion of insurance against GDP will increase to 6% from 4.07% in 2009.
- \* Insurance density will be 7,500 Baht (2009-4,600 Baht). Of this, 4,200 Baht is life insurance, and 3,300 Baht is for non-life.
- \* The proportion of policies per population or penetration shall increase to 40% against that of 26.75% in 2009.

2. Stabilization of Insurance Business

The goal of this measure is to create a good image and trust for the insurance business among the public, through complete and prompt performance by insurance companies in compliance with policy obligations. In order to achieve such performance, insurance companies must maintain the level of capital adequacy according to the prescribed standard, install an effective assets and liabilities management system, be able to make an efficient projection of income and expenses as well as an effective claim and compensation payment system.

3. Improving Service Standard and Protection of Public Interest

The goal of this measure is to ensure good and fair service for the public by insurance companies, which includes a convenient and quick claim process. To achieve this, the government agencies and private sector shall work together to make improvement in the following areas:

- \* To set up a comprehensive and standardized operation of customer service.
- \* To set up the Insurance Dispute Resolution Organization (IDRO)

4. Improving Insurance Infrastructure

Goals of the measure include:

- \* To establish an electronic insurance information center from which the information can be used to assess the financial status of insurance companies including the setting up of policies, to closely and promptly monitor the financial and operations status of insurance companies.
- \* To undertake an amendment to main legislation governing the business, to ensure that it is in line with the changing environment in the insurance business and in the interest of the public, and that insured persons are duly protected.
- \* To improve professional standard of insurance personnel through;  
Improvement of professional standard of brokers.  
Creation and improvement of the professional potential of insurance personnel.

Source: Office of Insurance Commission (OIC)

## Government Role in Business Promotion

The insurance business sector has asked for business promotion support from the government

in the following areas:

1. The sector has asked the Revenue Department to make an amendment to Section 65 of the Revenue Code which allows life insurance companies to take only 65% of policy reserve as tax exempted expense. The sector is asking the Revenue Department to allow life insurance companies to calculate the policy reserve on an actuarial basis as currently practiced by the Office of Insurance Commission.
2. The industry asked the Revenue Department to consider providing a tax deductible incentive of 100,000 Baht to policy holders of annuity insurance, in addition to the existing 100,000 Baht tax incentive being given to policy holders. If the request is granted, the total tax incentive to the insured would be 200,000 Baht which will enable companies to develop annuity products to serve the aging society in the near future and to help relieve the government's burden.
3. A request was also made to the Revenue Department to provide a tax deductible incentive to holders of health insurance policies issued by both the life and non-life companies. The requested amount was not more than 50,000 Baht. Health insurance is a useful option to enable people with income to have health care protection without having to depend on government welfare. This is another way to help reduce the government's welfare expense.
4. The sector also asked the Revenue Department to give a tax deductible incentive of 100,000 Baht to holders of unit-linked insurance policies that cover both the life protection and investments portions.

### **Industry Activities**

An "Insurance Week" fair, to promote public awareness of insurance, was held in September 2009 and 2010 by the Office of Insurance Commission. Life and non-life insurance companies as well as insurance brokers and commercial banks also joined these events. Many kinds of insurance products were offered to customers from all walks of life at a big discount, some at 30 percent reduction in insurance premiums. Motorcycle helmets were also available at the very low price of 99 Baht. The benefits of insurance protection were also promoted at the fairs. In addition, the General Insurance Association of Thailand participated in these events and offered various kinds of activities to raise insurance awareness to the public and show how non-life insurance has contributed to the Thai economy.