ASPECTS OF THE INSURANCE INDUSTRY IN THAILAND

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Abstract

This is a report of various aspects of the insurance industry in Thailand as seen in 2014, adapted from two reports to the 27th East Asian Insurance Congress in Taipei in November 2014. Statistics are provided for premium income and growth, the portfolio mix, combined ratios, and market share. The economy is also examined as it is the context within which insurance flourishes or declines. Indeed insurance and the economy are entwined in a symbiotic dance. This article contains both life and non-life (general) insurance.

บทคัดย่อ

รายงานนี้คือรายงานของภาคธุรกิจการประกันภัยในประเทศไทยสำหรับปี พ.ศ. 2556 และ 2557 ซึ่งได้บรรยายไว้ในสัมมนาที่มีขึ้นในเดือนพฤศจิกายน พ.ศ. 2557 มีการแสดงสถิติสำหรับรายได้เบี้ยประกันภัย และการเจริญเติบโตของเบี้ยประกันภัย, ภาพรวมต่าง ๆ, อัตราส่วนต่าง ๆ และส่วนแบ่งทางการตลาด มีการกล่าวถึงภาพรวมของเศรษฐกิจซึ่งมีความสัมพันธ์ และผลกระทบต่อการเจริญเติบโตของภาคธุรกิจการประกันภัย ซึ่งในรายงานนี้ได้พูดรวมทั้งในส่วนประกันชีวิต และประกันวินาศภัย

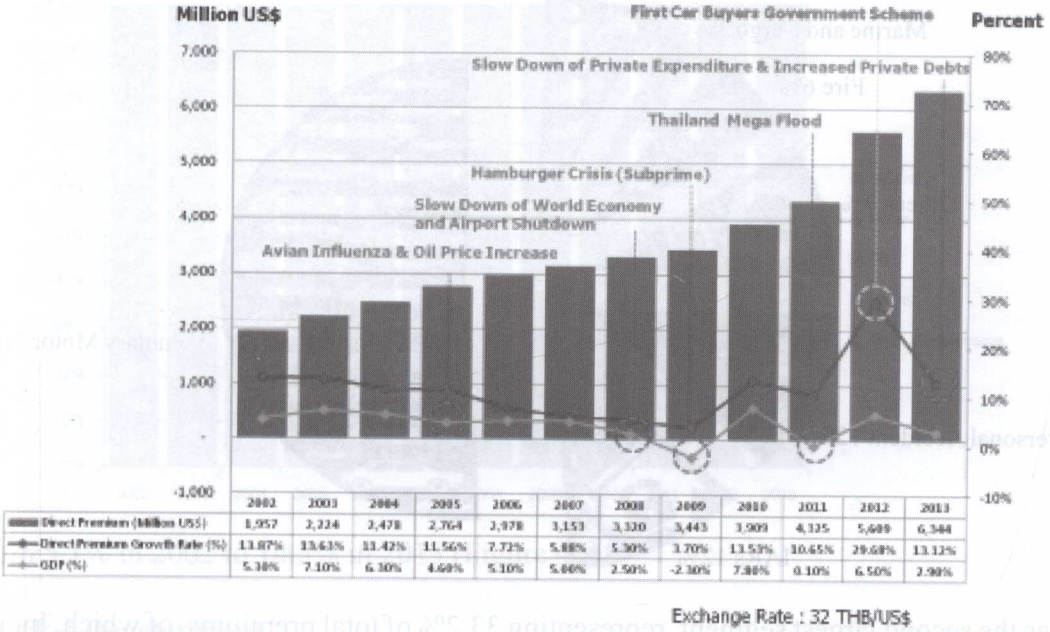
THE THAI NON-LIFE INSURANCE MARKET

A Macro Perspective

With a nominal Gross Domestic Product (GDP) of $US 387 billion in 2013, the Thai economy was the second largest in ASEAN after Indonesia. The expanding GDP, growing income, record high car sales and increasing number of new houses and condominiums, together with awareness of health risks and inflated health care costs led to an increased demand for insurance products over recent years. The total direct premiums expanded at a compound annual growth rate (CAGR) of 11.3% between 2002 and 2013, faster than Thailand's nominal GDP which expanded by a CAGR of 7.4% per annum within that period (Figure 1). Despite the Thai political vulnerability toward the end of 2013, the Non-Life insurance business demonstrated a positive growth of 13.1% with total premiums of $US 6.3 billion. However, the penetration rate was low at only 1.7%. The insurance density was $US 98.

*The latter part of this report was presented by a representative of the Life Insurance Association of Thailand.

Figure 1: Growth in Direct Premium of Non-Life Insurance Compared with GDP, 2002-2013



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Direct Premium (Million US$)	1,957	2,224	2,478	2,764	2,978	3,153	3,320	3,443	3,909	4,325	5,609	6,344
Direct Premium Growth Rate (%)	13.87%	13.63%	11.42%	11.56%	7.72%	5.88%	5.30%	3.70%	13.53%	10.65%	29.68%	13.12%
GDP (%)	5.38%	7.10%	6.30%	4.60%	5.10%	5.00%	2.50%	-2.30%	7.80%	0.10%	6.50%	2.90%

Exchange Rate : 32 THB/US$

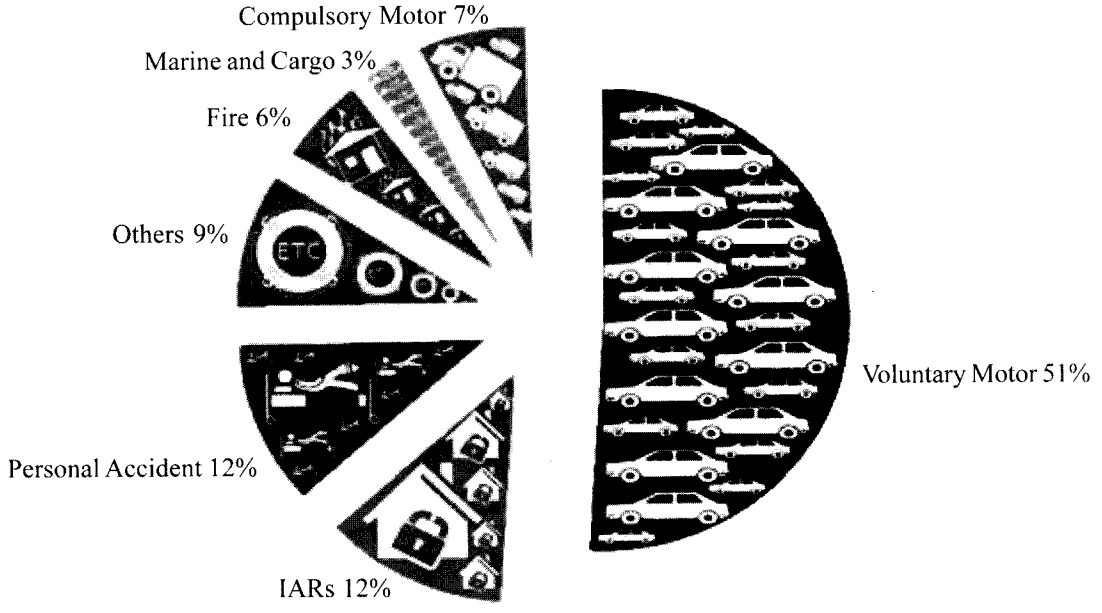
Portfolio Mix

Non-life Insurance in Thailand can be subdivided into four lines of business; Motor, Fire, Marine and Miscellaneous. Motor voluntary and compulsory insurances dominated the market, representing 58% of total direct premiums (Table 1). Miscellaneous insurance

Table 1: Number of Policies, Direct Premium and Market Share of Each Line of Business in 2013

Line of Business	Number of Policies	Direct Premium (Million US$)	Market Share (%)
Fire	**3,554,258**	**369**	**5.82%**
Marine	**863,817**	**166**	**2.61%**
Hull	5,912	12	
Cargo	857,905	153	
Motor	**35,237,171**	**3,701**	**58.33%**
Compulsory	27,227,755	465	
Voluntary	8,009,416	3,235	
Miscellaneous	**12,410,799**	**2,109**	**33.24%**
Industrial All Risks (IARs)	345,234	781	
Public Liability	32,178	55	
Engineering	25,398	96	
Aviation	554	32	
Personal Accident	9,158,729	729	
Health	754,549	189	
Crop	102	0	
Others	2,094,055	228	
Total	**52,066,045**	**6,344**	**100.00%**

Figure 2: Market Share by Classes of Business in 2013



was the second largest segment, representing 33.2% of total premiums, of which, Industrial All Risk (IARs) and personal accident insurance combined represented 24% of total premiums (Figure 2).

It should be noted that the remarkable increases in motor premium of 24.8% in 2012 and 13.9% in 2013 were due mainly to the First Car Buyers Government Scheme. This scheme contributed to sharp increases of domestic new car sales for three consecutive years, from 794,081 units in 2011 to 1,436,310 units in 2012, and 1,330,778 units in 2013. Miscellaneous insurance grew by 11.4% from 2012 (Figure 3), of which, personal accident and health insurance products showed a strong increase in the total market portfolio

Figure 3: Growth in Direct Premium of each class of business, 2002-2013

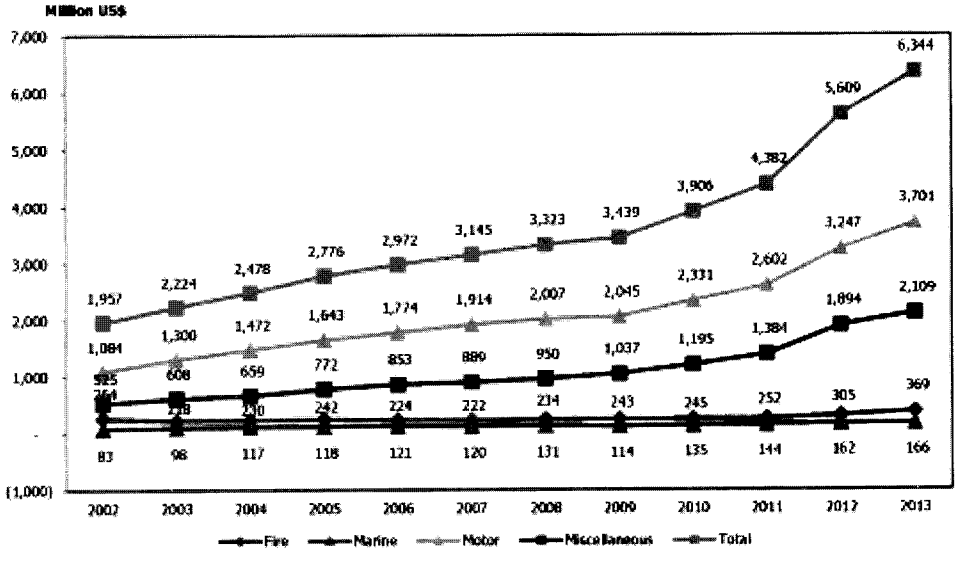
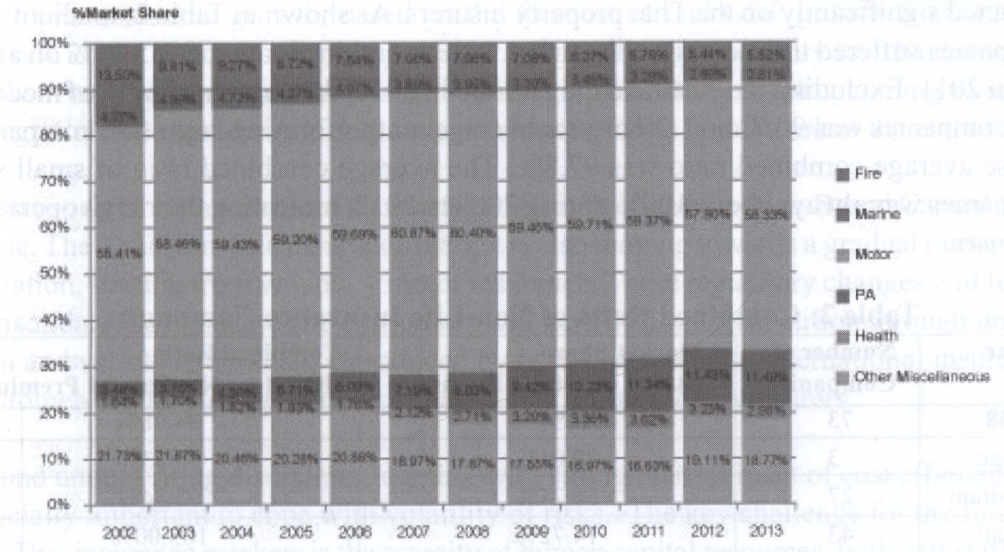


Figure 4: Market Share by Classes of Business, 2002-2013

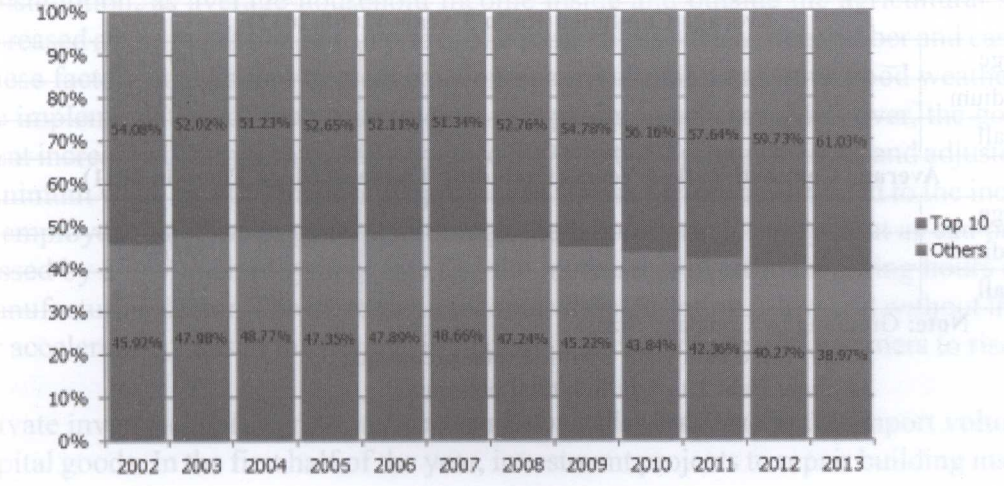


from 5.1% in 2002 to 14.5% in 2013 (Figure 4).

Market Development

During recent years, the number of non-life insurance companies decreased from 73 in 2008 to 64 in 2012. This was due to the revocation of licenses, and merger & acquisitions of businesses. As of December 2013, there were 64 market players sharing the non-life insurance market, of which, the 10 large size companies with more than Baht 5 billion premiums contributed 61%, the 26 medium size companies with premiums ranging between Baht one to five billion contributed 34% while the 28 small size players with premiums below Baht 1 billion contributed only a 5% market share. The number of small companies had been declining. Their market shares shrank dramatically from 14.7% in 2008 to 5% in 2013. On the other hand, the 10 largest companies with strong networks and good reputation had shown a strong increase in their market shares from 52.8% in 2008 to 61% in 2013 (Figure 5).

Figure 5: Market Share of Top 10 Non-Life Insurance Companies 2002-2013



Thailand's mega flood in 2011, the largest insured loss worldwide from a flood event, impacted significantly on the Thai property insurers. As shown in Table 2, medium size companies suffered the most from the event with a combined ratio of 355.56% on average in 2011. Excluding the Thailand mega flood in 2011, the combined ratio of medium size companies was 90.7% on a four year average, outperforming large-size companies whose average combined ratio was 97.8%. The average combined ratio of small size companies was always above 100% during 2008 to 2012, indicating their high operating expenses.

Table 2: Combined Ratio of Non-Life Insurance Companies

Year	Number of Companies	Market Share (Based on Direct Premuim)	Combined Ratio (Based on Net Earned Premium)
2008	**73**	**100%**	**94.78%**
Large	3	29.01%	90.93%
Medium	27	56.27%	93.84%
Small	43	14.72%	105.00%
2009	**71**	**100%**	**96.59%**
Large	4	35.60%	92.85%
Medium	27	52.70%	94.56%
Small	40	11.70%	116.84%
2010	**69**	**100%**	**97.85%**
Large	4	36.71%	94.68%
Medium	27	52.12%	97.15%
Small	38	11.17%	111.68%
2011	**68**	**100%**	**216.50%**
Large	6	45.08%	94.19%
Medium	27	45.84%	355.56%
Small	35	9.08%	160.80%
2012	**64**	**100%**	**95.21%**
Large	9	57.02%	103.72%
Medium	25	36.29%	75.62%
Small	30	6.69%	114.86%
Average Combined Ratio 5 Years (2008-2012)			
Large			99.88%
Medium			149.08%
Small			120.06%
Average Comined Ratio 4 Years (Excluding Thailand Mega Flood in 2011)			
Large			97.75%
Medium			90.69%
Small			111.55%

Note: Grouping by Company Sizes:

Large: more than Baht 5 billion total premiums;
Medium: Baht 1 to 5 billion total premiums;
Small: below Baht 1 billion total premiums

Going forward, the outlook of the non-life insurance industry remains strong despite moderate economic growth, based on the forecast of real GDP growth from 1.5% to 2.0% in 2014. There is still great potential and abundant opportunity for Thai insurers to grow in both domestic and international markets, particularly in the upcoming economic integration amongst the ASEAN nations under the AEC Framework at the end of 2015.

Also expected is an enhanced standardized framework of the Risk-Based Capital II Regime. The Thai Non-Life insurance market is also moving towards a gradual rating liberalization, starting from voluntary motor insurance. These regulatory changes will further consolidate the industry. The consumers will benefit from competition through innovation and variety of products introduced by both domestic and international insurers. A customer-centric strategy will be a challenging ground for all insurers.

Sound underwriting disciplines together with strong management of cost efficiency are crucially important to cope with volatility of risks. The key challenge for the future of the Thai insurance markets is the scarcity of human capital resources, both soft skills and technical expertise. The talent movement across ASEAN insurance markets is explicitly imminent. An increasing demand for higher acquisition costs from various distribution channels is another concern that needs to be addressed. Leveraging all the above issues is a challenging task for Thai insurers to pursue long term sustainability.

THE THAI LIFE INSURANCE MARKET

The Thai Economy in 2012

Insurance and the economy interact in a symbiotic relationship. The past is a great influence on the present and future, which is why this paper starts with a look at 2012 and even 2011 to provide a context of explanation and comparison before moving on to 2013. According to a report, issued by the Bank of Thailand, the Thai economy expanded by 6.4% in 2012 as a result of growing demand in the private sector and public consumption, as average household income inside and outside the agricultural sector increased as the result of a rise in prices of commodities such as rice, rubber and cassava. These factors contributed to an expansion in agricultural areas, plus good weather and the implementation of the government's rice pledging scheme. Moreover, the government increased the minimum daily wage to 300 Baht in 7 pilot provinces and adjusted the minimum wage by 40% in 70 other provinces. These factors contributed to the increase in employees' income in general, although the labor market is very tight as can be witnessed by a low unemployment rate and the increase in overtime working hours in the manufacturing sector. The increase in income whilst inflation is low and without irregular acceleration, caused the purchasing power and confidence of consumers to rise.

Private investment also grew well, consistent with an increase in the import volume of capital goods. In the first half of the year, investment projects to repair building installa-

tions and imports of machines to replace those damaged by the flood in several major industries such as automobile, electrical appliances, hard disk drive and electronics, continued throughout the year in order to expand production capacity to prepare for domestic demand, a tight labor market and higher labor cost, and for the establishment of the ASEAN Economic Community (AEC) and market liberalization. Factors contributing to expansion of investment include the confidence of business operators in economic trends, low borrowing cost, and high volume of lending released by financial institutions.

Overall Economic Stability

The average general and basic inflation of the whole year of 2012 were about 3.02% and 2.09%, respectively. The rate of inflation in general had slowed down, compared with that in 2011, as the price of fresh foods products dropped, especially the price of meat and eggs whose supplies in the market were high. The basic inflation also decelerated as the costs returned to normal after a period of acceleration during the flood at the end of 2011. The adjustment of the minimum wage that began on April 1, 2012 did not cause the basic inflation to rise over the normal level because some of the business operators considered that price increases under highly competitive condition could lead to a loss of their market share.

Strong Financial Sector

The ratio of capital adequacy against risk assets was high and the operational performance continued to be strong as the financial status of debtors in business and household segments was in good condition. The capability to make profit and the liquidity of companies listed in the securities market continued to be strong, while the financial status of in the household segment was positively affected by the expansion of employment and income.

The factors that may cause an economic imbalance that must be closely watched include:

(1) The fluctuation of capital movement as liquidity in international financial market is high and the world economy remains uncertain, affecting rapid change of investors' confidence.

(2) The expansion of consumer loans, especially car hire-purchase and personal loans which remains high may lead to a problem of payback capability in the household segment and the credit quality of the financial sector.

(3) The effect of minimum wage increase to 300 baht nationwide on January 1, 2013 may be more severe than the first round of adjustment as the net increase of minimum wage in the outer provinces (not the 7 pilot provinces) is higher. In these outer provinces, the number of small businesses whose ability to make profit and to absorb the increasing cost are not as strong as the larger businesses. *(Source: The Bank of Thailand)*

The Thai Economy in 2013

The Office of the National Economic and Social Development Board announced that the overall economy of Thailand in 2013 grew by 2.9% against that of 6.4% in 2012 for the

following two major reasons:

(1) Household expense and private investment in the second half of 2012 were higher than the normal trend as a result of the implementation of the tax rebate scheme for first car buyers by the government. The number of passenger cars sold in the fourth quarter of 2012 was 211,474. This caused the domestic demand to decelerate and, coupled with a drop in public confidence in the latter part of the year, the expansion of household expenditure in the whole year was merely 0.2% while private investment contracted by 2.8%, and the government expenditure and investment also dropped.

(2) The volume of exports and services was lower as the world economy was still recovering, and as a result of the spread of Acute Hepatopancreatic Necrosis Syndrome; AHPNS in the shrimp farming sector and the inability of the electronic industry to adjust to rapid development in the production of memory units used in hard disk. The overall value of exports in 2013 was 225,397 million US dollars, a drop of 0.2%.

A drop in expenditure and exports caused a slow-down in productivity of all sectors throughout the year 2013. Expansion in the agricultural sector was 1.4%, in the industrial sector was 0.1%, the construction sector was 1.2%, and the hotel and restaurant sector was 12.1%. The total number of tourists visiting Thailand was 26.7 million, an increase of 19.6%.

The country's economy remained stable as the unemployment rate was only 0.7% while inflation was 2.25, and the balance on the current account was negative by 0.6% against the GDP. (*Source: Office of the National Economic and Social Development Board*)

Overview of the Thai Life Insurance Industry in 2012

In 2012 and 2013, Thailand had 24 life insurance companies of which 23 companies are direct insurers and 1 is a re-insurer.

Direct Premium Income

In 2012, the total direct premium income was 12,145.4 million USD or an increase of 18.7%, compared with the previous year (2011: 11.1%). The first year premium income was 2,562.8 million USD or an increase of 22.3%, compared with 5.5% in 2011 while the renewal premium income was 8,099.8 million USD, the persistency rate was 88% against that of 87% in 2011 and the single premium income was 1,482.7 million USD, an increase of 53.3% over that of 4.2% in 2011.

The direct premium income per GDP or commonly known in the industry as the Insurance Penetration Rate was 3.44% (2011: 2.96%) and the direct premium income per 1 population or Insurance Density was USD 189.6 (2011: USD 159.5).

Premium Income by Channels of Distribution

In 2012, the premium income of life insurance business came from four major channels of distributions, namely:

(1) Agency channels whose total amount of earning was 6,987.4 million USD or 57.3% of total income (2011: 61.0%),

(2) Bancassurance, whose total earnings were 4,468.2 million USD or 36.7% of total earnings (2011: 32.5%),

(3) Tele Marketing & Direct Mail with a total income of 377.2 million USD or 3.1% of total earnings (2011: 3.4%),

(4) Other channels such as convenience stores and internet, whose total was 360.3 million USD or 3.0% of total earnings (2011: 3.1%).

Agency continued to be the main channel of distribution for life insurance business in Thailand while other channels provide convenient access to life insurance for the public, especially the Bancassurance channel which offers convenient access to clients in another level of the market. The ratio of earning through this channel of distribution continues to grow.

Number of Still-In-Force Policies and Total Sum-Insured

In 2012, the total number of in-force policies was 18,876,203 or an increase of 8.1% (2011: 7.2%). The total amount of sums-insured was 276,711.9 million USD, an increase of 21.2% against that in 2011. The average sum-insured per policy was USD 14,659.3, and the penetration rate was 29.29 (2011: 27.3%).

Total Assets and Investment Assets

The total value of assets of life insurance business in Thailand was 53,332.7 million USD, an increase of 15.3% (2011: 19.7%). The total investment assets was 50,661.8 million USD of which 32,459.7 million USD or 60.9% was invested in government and state enterprise bonds (2011: 63.3%) and 11,355.6 million USD or 21.3% was invested in private securities (2011: 23.5%).

Overview of Thai Life Insurance Industry in 2013

Direct Premium Income

The gross direct premium income of life insurance industry in Thailand for the whole of 2013 was 13,762.0 million USD, an increase of 13.1% over that of 19.0% in 2012. The first year premium income was 2,922.0 million USD, an increase of 13.3%, against that of 23.3% in 2012. The renewal premium income was 9,155 million USD, a rise of 86%, compared with 88% in 2012. Single premium income was 1,685 million USD, an increase of 13.8% against 53.3% in 2012. (Table 3, 4)

Table 3: Direct Premium Income, 2009-2013

Unit: Million USD

	2009	2010	2011	2012	2013
First Year Premiums	1,780	1,986	2,095	2,580	2,922
% Change	30.8	11.6	5.4	23.3	13.3
Renewal Premiums	5,304	6,296	7,167	8,111	9,155
% Persistency Rate	87	89	87	88	86
% Change	10.9	18.7	13.8	13.2	13.3
Single Premiums	956	928	967	1,480	1,685
% Change	28	-2.9	4.2	52.4	13.8
Total	**8,041**	**9,211**	**10,229**	**12,172**	**13,762**
% Change	16.7	14.6	11.1	19	13.1

Table 4: Insurance Penetration Rate & Insurance Density

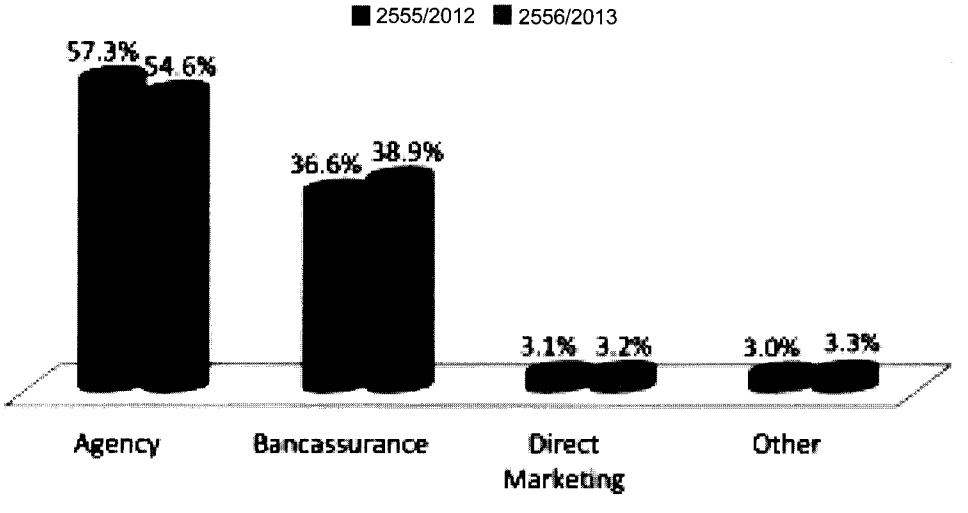
	2008	2009	2010	2011	2012	2013 proj.
Direct Premium (Million USD)	6,892	8,041	9,211	10,229	12,172	13,762
Gross Domestic Product (GDP)	300,420	298,278	333,082	345,856	353,771	364,376
Population (Million)	63.4	63.53	63.88	64.1	64.2	64.6
Insurance Penetration Rate (%)	2.29%	2.70%	2.77%	2.96%	3.44%	3.78%

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

Premium Income by Channel of Distribution

In 2013, the total premium income from the agency channel was 7,522,359.9 million USD or 54.6% of total premium income (2012: 57.3%). This was, followed by Bancassurance whose total income was 5,359,354.3 million USD or 38.9% (2012: 36.7%) of total income. Tele-marketing and direct marketing had an income of 435,917.56 million USD or 3.2% of total income (2012: 3.1%). Other channels' income was 456,059.2 million USD or 3.3% of total income (2012: 3.0%). (Figure 7)

Figure 7: Ratio of Distribution Channels Premium: 2012-2013

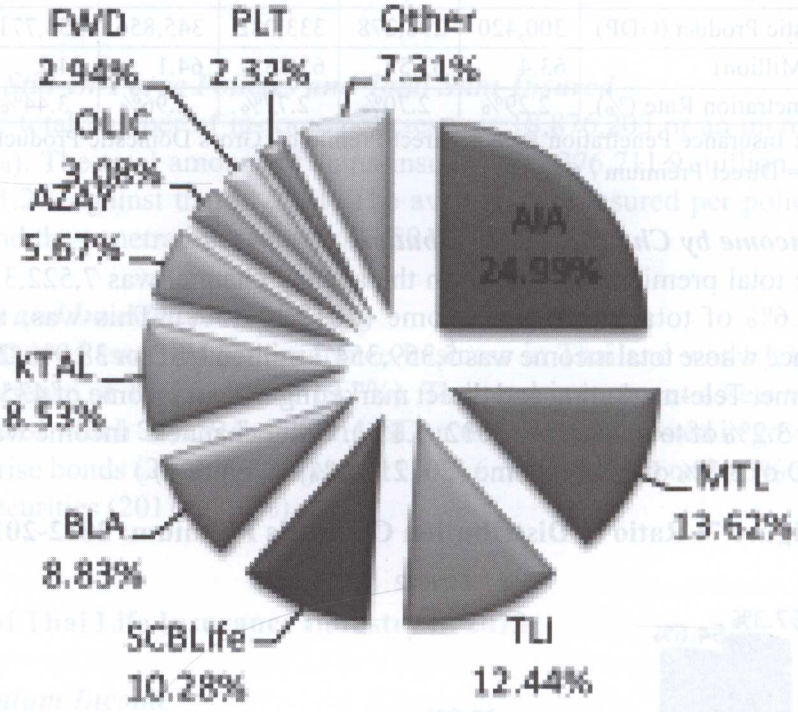


Market Share

The top ten leaders of life insurance companies in terms of gross premium income in 2013 were:

(1) The American International Assurance Co., Ltd.,	24.99%
(2) Muang Thai Life Insurance Public Co., Ltd.,	13.62%
(3) Thai Life Assurance Public Co., Ltd.,	12.44%
(4) SCB Life Assurance Public Co. Ltd.,	10.28%
(5) Bangkok Life Assurance Public Co., Ltd.,	8.83%
(6) Krungthai-AXA Life Assurance Public Co., Ltd.,	8.53%
(7) Allianz Ayudhya Life Assurance Public Co., Ltd.	5.67%
(8) Ocean Life Insurance Public Co., Ltd.,	3.08%
(9) FWD Life Public Co., Limited	2.94%
(10) Prudential Life Insurance Public Co., Ltd.,	2.32%

Figure 8: Market Share as of 2013



Number of New Policies and Sum-Insured

The total number of new policies in 2013 was 5,258,627. The total amount of sum-insured was 148,421.6 million USD

Government Regulation

In 2012-2013, the Office of Insurance Commission implemented the 2nd Insurance Development Plan as follows:

Measure 1: The Building of Confidence on the Importance of Insurance and Access to Insurance Service by the People at All Levels.

Measure 2: Building Stability in Insurance Business

Measure 3: Improvement of service and consumer right protection standard.

Measure 4: Promotion of Insurance Infrastructure

The life insurance business has followed up on the proposals that the industry has made to the government sector, including the Revenue Department, and taken the following actions on regulation-related issues.

- The amount of tax deduction of 100,000 Baht per year for unit-linked premium for both protection and investment portions.
- Conducted a study (roadmap) to expand business into the AEC market by life insurance companies.
- Conducted a study on the Foreign Account Tax Compliance Act (FATCA)