

THAILAND'S INSURANCE INDUSTRY

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Economic Overview

In 2005, the Thai economy was affected by many negative factors such as: the Tsunami disaster which occurred on December 26, 2004; the recurrence of Avian Flu; droughts and floods; unrest in three southernmost provinces; and a continuously soaring oil price in the world market. All these caused an economic slowdown in the first half of the year, from 6.5% in 2004 to 3.9% in 2005. In the second half year the government had implemented many measures along with the use of monetary policy to stimulate fiscal security and stability of the Thai economy resulting in an overall 4.5% increase in 2005, a slowdown from 6.2% in 2004. Inflation was at 4.5%.

It is anticipated that the above negative factors will continue to have a significant impact in the Thai economy. The Office of the National Economic and Social Development Board mid-year forecast was that the Thai economy in 2006 should grow at a rate of 4.5% to 5.5% - a lower than previous forecast.

The Non-Life Insurance Market

The overall performance of the non-life insurance industry in 2005 was moderately successful. The gross direct premium was recorded at Baht 88,833 million or about US\$ 2,250 million, representing an increase of 12% over 2004. All classes of insurance business showed favorable growth, except marine hull insurance. Personal accident insurance represented the highest percentage growth of 48.7% due to the government's Ua Arthorn Personal Accident Scheme which has stimulated people in the grassroots areas to become insurance conscious. The number of policies increased from 1.5 million in 2004 to 2.2 million in 2005, an increase of 37.3%. The sum insured was also increased from Baht 4,237 million to Baht 7,261 million, an increase of 71.4%.

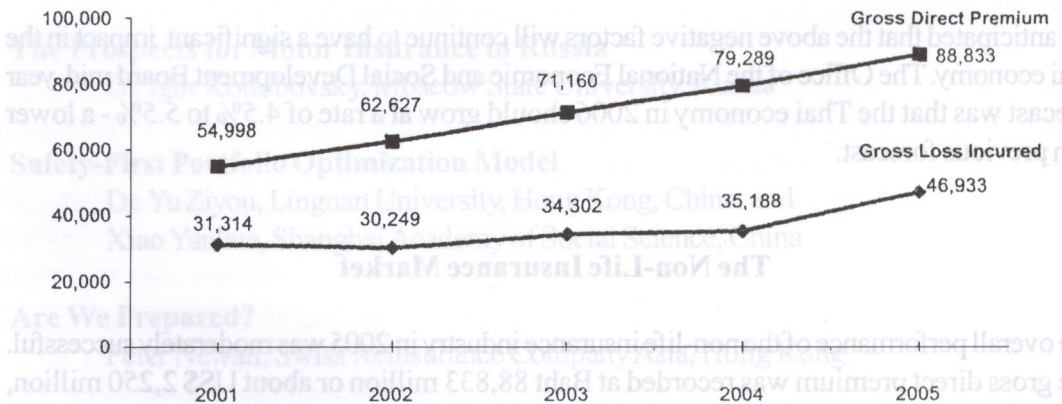
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Health insurance showed an increase of 12.6% due to the fact that people pay more attention to their health and wish to relieve their medical expenses. It was recorded that the number of policies has shown an increase of 64.4% in 2005 compared to 31.5% in 2004. The sum insured for 2005 showed a strong increase of 280.8% from 2004. It must be mentioned that Personal Accident and Health insurances have great potential.

Motor insurance also showed moderate growth of 11.6%, a decline from 13.3% in 2004. This is due to a decline rate of growth in car sales from 17.4% in 200 to 12.4% in 2005. Fire insurance premiums increased by 5.3% in 2005 compared to 5.6% in 2004 as real estate business was not promising due to high interest rate, the rise of housing unit prices and low purchasing power.

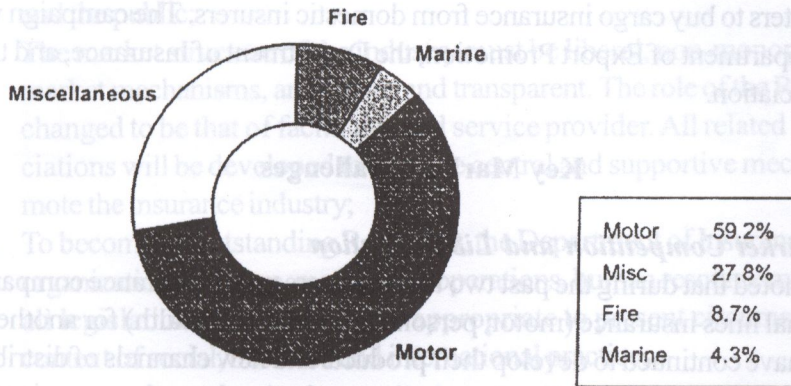
All Classes

Million Baht.



In 2005 the overall loss was about Baht 46,933 million, representing an increase of 33.4% over 2004. The Tsunami loss on December 26 2004 caused severe effects on the Thai Non-life insurance industry. The loss was estimated at about Baht 9,565 million or about US\$ 239 million, representing about 12.1% of the gross direct premium of the market in 2004. There were 3,466 claimants, and 84% of their policies were for property insurance.

Composition of Market Premium for 2005



In 2005, motor insurance still dominated, having the largest market share at 59.2% of the gross direct premium of Baht 52,590 million. Premium for compulsory motor insurance was about 18.9% of total motor premiums. The loss ratio for 2005 was recorded at 61.3%, a slight increase compared to 60.9% in 2004. In 2005 the Department of Insurance had increased the premium rate of some classes of motorcycle in the compulsory scheme and also revised the whole tariff for voluntary motor insurance to make it fairer and more reasonable for both insurers and insured. Competition through price cutting is very severe.

Miscellaneous accident insurance in 2005 represented the 2nd largest premium share, at 27.8%, for premiums amounting to Baht 24,710 million. Its overall loss ratio was 55.9% compared to 28.0% in 2004. Such a high loss ratio was mostly the result of the Tsunami loss, with claims of Baht 7,967 million or about 32.2% of the premium for this class of business. Another large loss in this class was a warehouse fire at a furniture factory on 9 June 2005. This loss was estimated at Baht 600 million under an Industrial All Risks policy. It was also noted that the loss ratio of personal accident insurance in 2005 showed a remarkable result of 36.6%, whereas the loss ratio of health insurance was still unfavorable.

Fire insurance had a market share of about 8.7% in 2005, with premiums recorded at Baht 7,744 million representing an increase of 5.3% which was the same increase as in 2004. The industry promoted this class of insurance in 2005 by conducting a campaign for fire dwelling/house insurance in major provinces throughout the country. The campaign is ongoing and is well accepted by people in these provinces. The loss ratio was satisfactory at 20.3% compared to 43.3% in 2004. Fortunately there were no major fire losses under fire policies in 2005.

Marine insurance was the smallest class in 2005 with only a 4.3% share, representing a premium of Baht 3,790 million. This was a small increase of 1.3% over 2004. The total claims

amount increased for Baht 779 million in 2004 to Baht 1,001 million in 2005, bringing the loss ratio up from 19% in 2004 to 26.4% in 2005. There was a special campaign in 2005 to motivate exporters to buy cargo insurance from domestic insurers. The campaign was agreed between the Department of Export Promotion, the Department of Insurance, and the General Insurance Association.

Key Market Challenges

1. Market Competition and Liberalization

In 2005 it was noted that during the past two to three years many insurance companies turned towards personal lines insurance (motor, personal accident and health) for another source of income. They have continued to develop their products and new channels of distribution such as bancassurance, telemarketing, direct marketing, and sales through convenience stores in order to allow the public to have easier and more convenient access to the products. Moreover, strong competition through price cutting measures among insurers was still a significant factor in most classes of insurance, especially in motor.

Concerning liberalization of the insurance industry, there were much-debated government negotiations in 2005 for Free Trade Agreements (FTAs) with several countries including USA, Japan, and Australia. After careful consideration it was agreed by the industry that liberalization of the local insurance industry would only be possible after a certain period of time, to prepare the companies for such an environment.

2. Government and the Insurance Industry

The Department of Insurance intends to improve the financial strength of non-life insurers by increasing the required shareholders' funds from either Baht 30 million to Baht 300 million or the solvency ratio from 10% to 20%, whichever produces the higher figure. The Department of Insurance has also been considering suitable methods to promote the merger and acquisition of companies. However, there has been some consolidation through merger and acquisition during the past two years, since smaller companies realize that consolidation of the industry is inevitable.

The Department of Insurance, working with all the professional associations, including the General Insurance Association, has drafted the 1st National Insurance Master Plan, for 2006 - 2011. Its goals are:

- Insurance companies must have stable financial strength, operate as professionals, be able to compete with any competitors, and be well respected by the public;
- The insurance industry must play an important role in strengthening the social and economic wellbeing of the country and improving the living standards of the people;
- Insurance awareness and consumer protection must be promoted to the public regularly in order to initiate and motivate people to become more insurance con-

scious. Policy wordings and premium rates of all classes of insurance should be regularly reviewed for easy understanding, clear, and be fair for both the insurers and the public;

- The market structure of the industry must be liberal, non-monopolistic, operate market mechanisms, and be fair and transparent. The role of the Regulator will be changed to be that of facilitator and service provider. All related insurance associations will be developed to become central and supportive mechanisms to promote the insurance industry;
- To become an outstanding Regulator, the Department of Insurance will revise its organization structure, managerial operations, human resource management, and all legislation, so as to be more appropriate to present circumstances within a context of social, business and international practices.

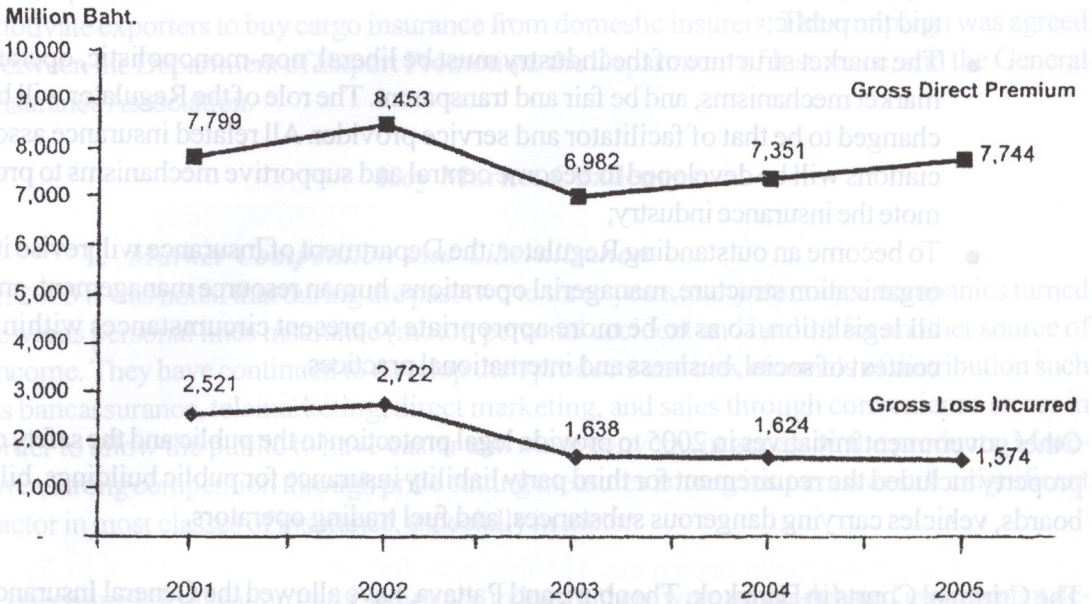
Other government initiatives in 2005 to provide legal protection to the public and the safety of property included the requirement for third party liability insurance for public buildings, billboards, vehicles carrying dangerous substances, and fuel trading operators.

The Criminal Courts in Bangkok, Thonburi, and Pattaya, have allowed the General Insurance Association to set up bail bond booths on behalf of insurance companies, to facilitate suspects and defendants who want to buy bail bond insurance, and thus prevent unscrupulous people supposedly offering such securities. The trend is promising, and will increase public confidence in the insurance industry.

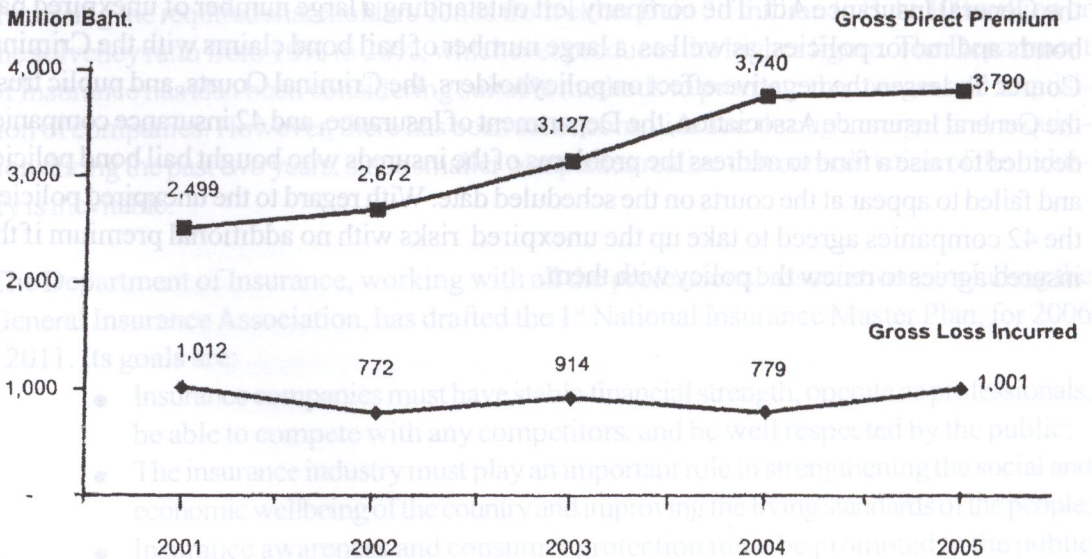
In July 2005, the Ministry of Commerce revoked the business license of Commercial Insurance Co. Ltd. On the grounds of unstable financial condition and violations of the provisions of the General Insurance Act. The company left outstanding a large number of unexpired bail bonds and motor policies, as well as a large number of bail bond claims with the Criminal Courts. To lessen the negative effect on policyholders, the Criminal Courts, and public trust, the General Insurance Association, the Department of Insurance, and 42 insurance companies decided to raise a fund to address the problems of the insureds who bought bail bond policies and failed to appear at the courts on the scheduled date. With regard to the unexpired policies, the 42 companies agreed to take up the unexpired risks with no additional premium if the insured agrees to renew the policy with them.

In 2005, life insurance business in Thailand still enjoyed a continuing expansion, of 13%, with a total gross premium income of Baht 160,815 million. The total of new year premiums was Baht 30,205 million. An increase of 6%. Renewal premium income was Baht 130,610 million, with a retention rate of 89%. The total income from single premium business was Baht 15,117

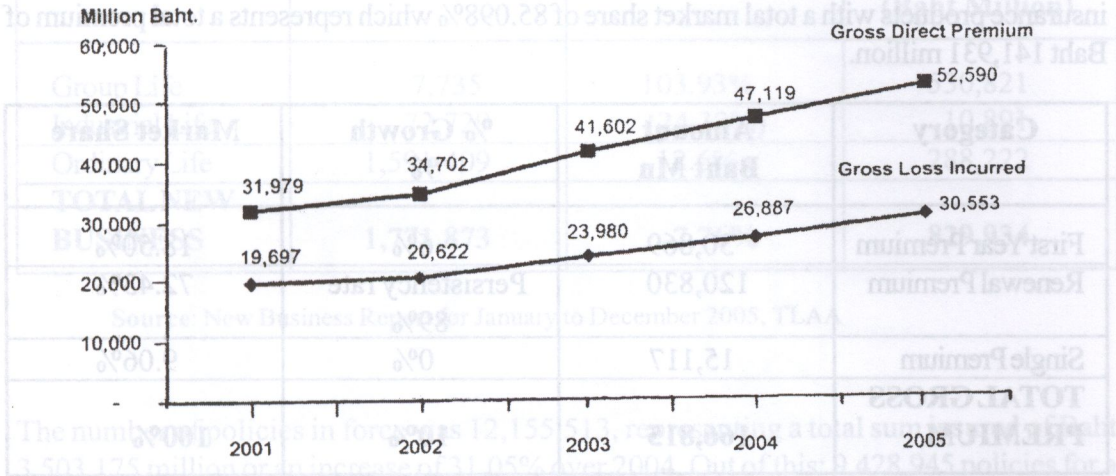
Fire



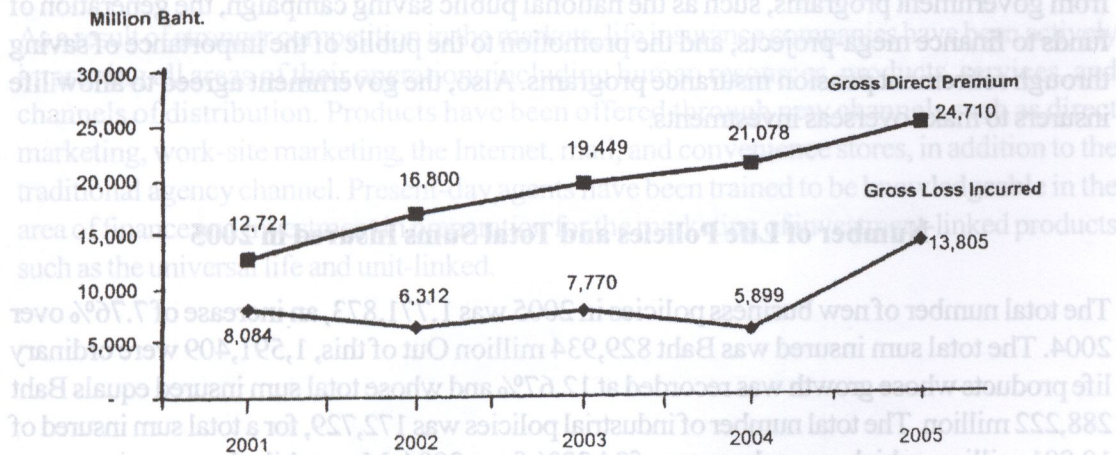
Marine



Moter



Miscellaneous



The Life Insurance Market

In 2005, life insurance business in Thailand still enjoyed a continuing expansion, of 10%, with a total gross premium income of Baht 166,815 million. The total of first year premiums was Baht 30,869 million. An increase of 6%. Renewal premium income was Baht 120,830 million, with a retention rate of 89%. The total income from single premium business was Baht 15,117

million. The sluggishness in business growth was caused by a steady increase of interest rates and oil price that culminated in lower public spending. The major earners were the ordinary life insurance products with a total market share of 85.098% which represents a total premium of Baht 141,931 million.

Category	Amount Baht Mn	% Growth %	Market Share
First Year Premium	30,869	6%	18.50%
Renewal Premium	120,830	Persistency rate 89%	72.43%
Single Premium	15,117	0%	9.06%
TOTAL GROSS PREMIUM	166,815	10%	100%

Source: New Business Report for January to December 2005, TLAA

The reason attributed to a continuing growth of life insurance business was a steady support from government programs, such as the national public saving campaign, the generation of funds to finance mega-projects, and the promotion to the public of the importance of saving through retirement pension insurance programs. Also, the government agreed to allow life insurers to make overseas investments.

Number of Life Policies and Total Sums Insured in 2005

The total number of new business policies in 2005 was 1,771,873, an increase of 7.76% over 2004. The total sum insured was Baht 829,934 million. Out of this, 1,591,409 were ordinary life products whose growth was recorded at 12.67% and whose total sum insured equals Baht 288,222 million. The total number of industrial policies was 172,729, for a total sum insured of 10,891 million, which was a decrease of 24.32% from 2004. Meanwhile the group insurance business saw an increase of 103.93%, with a total number of 7,735 policies and sum insured of Baht 530,821 million.

Category	No. of Policies	% Growth	Total Sum Insured (Baht Million)
Group Life	7,735	103.93%	530,821
Industrial Life	72,729	(24.32%)	10,891
Ordinary Life	1,591,409	12.6%	288,222
TOTAL NEW BUSINESS	1,771,873	7.76%	829,934

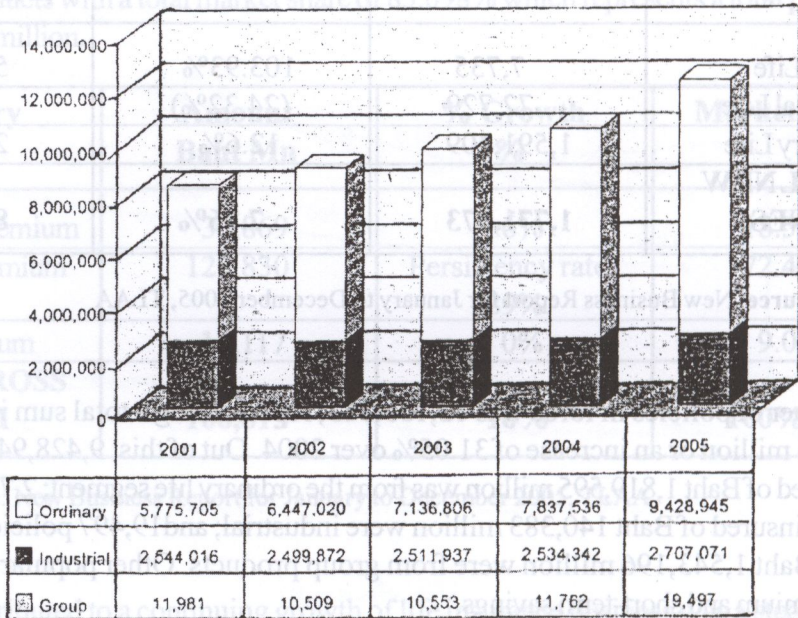
Source: New Business Report for January to December 2005, TLAA

The number of policies in force was 12,155,513, representing a total sum insured of Baht 3,503,175 million or an increase of 31.05% over 2004. Out of this: 9,428,945 policies for a sum insured of Baht 1,819,595 million was from the ordinary life segment; 2,707,071 policies for a sum insured of Baht 140,383 million were industrial; and 19,497 policies for a sum insured of Baht 1,543,196 million were from group products. Other popular products were single premium and short-term savings.

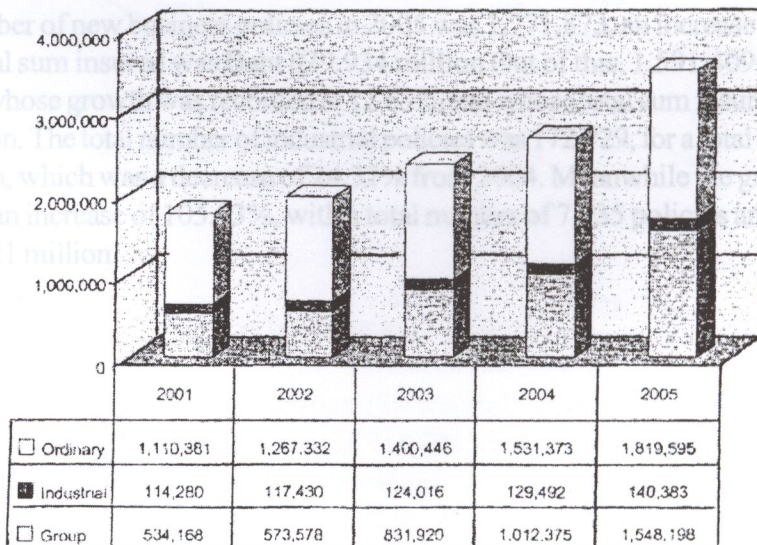
As a result of stronger competition in the markets, life insurance companies have been actively improving all areas of their operations including human resources, products, services, and channels of distribution. Products have been offered through new channels such as direct marketing, work-site marketing, the Internet, mail, and convenience stores, in addition to the traditional agency channel. Present-day agents have been trained to be knowledgeable in the area of finance and investment in preparation for the marketing of investment-linked products such as the universal life and unit-linked.



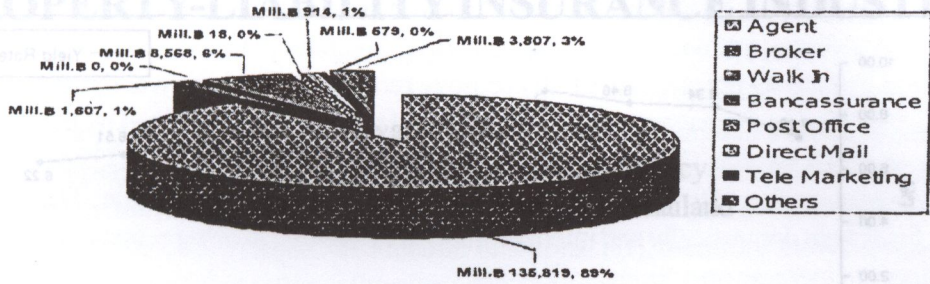
Number of Life Insurance Policies



Sum Insured of Life Insurance Policies (Million Baht)



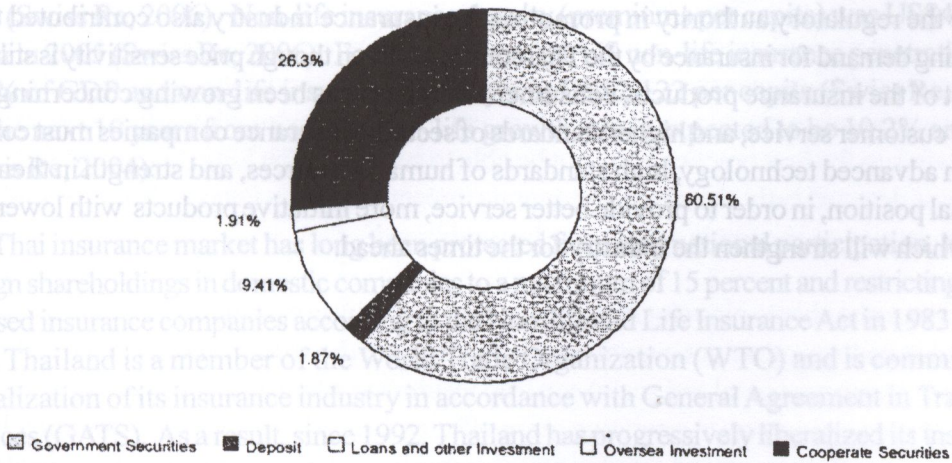
Premium Income in 2004: Distribution by Channel



Source: Department of Insurance, Ministry of Commerce

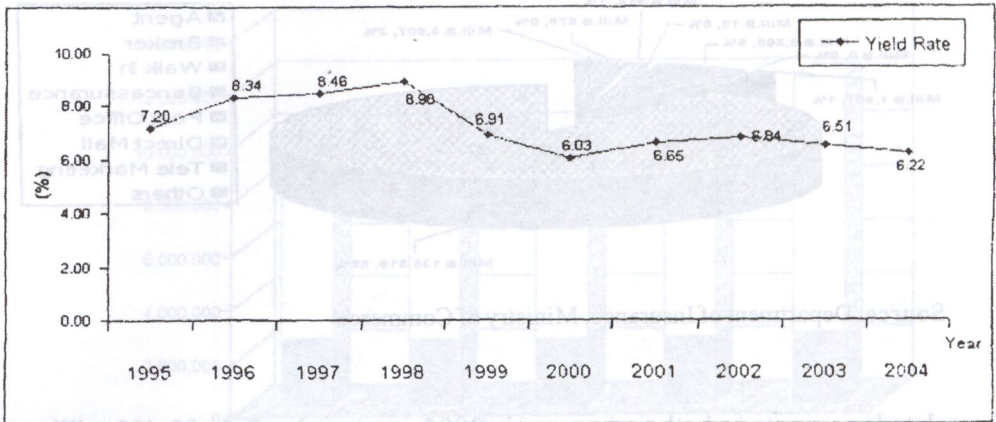
Policy related payments and other expenses in 2005 amounted to Baht 92,400 million which was an increase of 12.9% over 2004. Of this Baht 49,131 million was for policy payments, and the other Baht 43,269 million was for operational expenses. In 2005 the total value of investment assets for the whole Life insurance industry was Baht 491,388 million or 93.32% of total assets. A total of Baht 297,197 million was been invested in Government securities followed by Cooperated securities, amounting to Baht 129,176 million; loans and other investments amounting to Baht 46,201 million; overseas investments amounting to Baht 9,368 million, and deposits amounting to Baht 9,198 million, representing 60.53%, 26.29%, 9.40%, and 1.91% of total assets, respectively.

Type of Investment for Life Insurance Investment Assets



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Average Yield Rate to Investment, 1995 to 2004



Source: TLAA

However, in 2005 most investment was mainly in government issued bonds. The second largest investment was in the high risk but good return private sector securities.

In Conclusion

Despite the negative environment, both local and international, Thai general insurance was still able to show continuous growth in 2005 and the first half of 2006. This shows the success of ongoing improvement and strengthening of Thai insurance companies. Moreover, the support role by the regulatory authority in promoting the insurance industry also contributed to the increasing demand for insurance by the Thai consumer. Even though price sensitivity is still high in most of the insurance products, consumer awareness has been growing concerning high quality customer service, and higher standards of security. Insurance companies must concentrate on advanced technology, high standards of human resources, and strength in their own financial position, in order to provide better service, more initiative products with lower cost, all of which will strengthen the industry for the times ahead.