

ผลกระทบของวิกฤตเศรษฐกิจที่มีต่อบริษัทประกันภัยใน ประเทศไทย

Impact of the Economic Crisis on the Thai Insurance Industry

ธโนคม โลกทัศน์*

Thanodom Likaphadhana

บทคัดย่อ

ในขณะที่ประเทศไทยประสบปัญหาเศรษฐกิจถดถอยมาตั้งแต่ปี ค.ศ.1997-1999 สาเหตุมาจากฐานะการเงินของประเทศที่อ่อนแอและนโยบายการลอยตัวค่าเงินบาท ได้ส่งผลกระทบต่อธุรกิจเกือบทุกประเภท รวมทั้งธุรกิจภาคการเงินอย่างเช่นธุรกิจประกันภัยและจากนโยบายการเปิดเสรีธุรกิจประกันภัย ทำให้มีบริษัทประกันภัยใหม่เพิ่มขึ้นถึง 28 บริษัท ทำให้มีการแข่งขันเพิ่มสูงขึ้น ยิ่งเป็นการเพิ่มปัญหามากขึ้นให้กับบริษัทประกันภัยที่มีอยู่เดิม การวิจัยนี้จะศึกษาถึงผลกระทบที่เกิดขึ้นต่อธุรกิจประกันภัยในช่วงเศรษฐกิจถดถอยนี้ เช่น ยอดขายที่ลดลงของการประกันภัยแต่ละประเภท การขาดสภาพคล่องของบริษัท รายได้จากการลงทุนลดต่ำลง ปัญหาทางสังคมต่าง ๆ ที่ทำให้เกิดความเสี่ยงสูงขึ้น ทำให้มีการขายค่าสินไหมทดแทนสูงขึ้น เป็นต้น นอกจากนี้จะมีการเสนอแนะกลยุทธ์สำหรับบริษัทประกันภัยที่จะช่วยแก้ปัญหาทั้งในระยะสั้นและระยะยาว รวมทั้งเสนอแนะบทบาทของรัฐบาล ในการส่งเสริมธุรกิจประกันภัยในอนาคต

* ผู้ช่วยกรรมการผู้จัดการ บริษัท เมืองไทยประกันภัย จำกัด

Abstract

The economic recession in Thailand during 1997-1999 due to the financial weakness, as well as the floating of currency exchange rate, has impacted almost all types of Thai business, including insurance. Furthermore, the liberation of insurance business resulted in 28 new companies, thus intensify the competitive situation in the market. This had added a problem to the existing insurance companies. This paper studied the impacts realized in the insurance business during this period. Such impacts are: the decrease in sale of each insurance type, the liquidity of the companies, the decreasing return from investment, and the higher risk rate and claim amounts due to social problems. Also, strategies for short- and long- term as well as the suggestion for government role to promote the insurance business are presented.

INTRODUCTION

In early 1990s, Thailand enjoyed a high growth rate of economy with real GDP of over 8%. The poor fundamentals of the country combining with the accumulated current account deficit turned the Thai economy into recession since 1997 with a considerably weakened Thai Baht and a weakened financial position in the international money market. These situations forced the government to devalue the Thai Baht and to entreat the International Monetary Fund (IMF) for financial assistance on July 2, 1997.

The real GDP growth reached the level of -8.0% in 1998 (*Appendix 2*) while the consumption and the investment fell to -8.3% and -29.2% in that year. These were due to

1) Tight monetary policy by raising the level of interest rate in mid1997 – 1998 to protect the value of the currency and to attract more foreign investors. However, the investors decided to hold their investment because the cost of fund was so high and not attractive for them;

2) Tight fiscal policy by maneuvering the Value Added Tax (VAT) from 7% to 10% in 1997 and decrease in government spending. The rise in VAT deteriorated consumption because it increased the price of goods and services.

The general price level increased to 8.1% in 1998 which was very high when compared to the past (*Appendix 3*). At the same time, the price of imported goods also increased substantially due to the level of Thai Baht which devalued by 50% since July 2, 1997 (*Appendix 4*).

The volume of international trade also dropped to the record level of -6.8% and -33.8% for export and import in 1998 (*Appendix 5 & 6*).

This economic recession, which has spread to other countries worldwide, is a major issue in Thailand and does not affect only the Thai economy, but also the Thai insurance industry and the international reinsurance market.

The objectives of this paper are:-

- 1) To give an overview of the Thai economy and the Thai insurance industry;
- 2) To identify the major problems which the Thai insurance industry is facing;
- 3) To suggest feasible strategies which the insurers should implement in the short run and the long run;
- 4) To suggest the appropriate role of the government in assisting the insurance industry;
- 5) To summarize the main points which insurers should be aware of.

This paper could serve as a scenario for insurers in other countries to study should there be a similar situation in their own economy.

IMPACT OF THE ECONOMIC CRISIS

There are 8 impacts on the insurance industry in Thailand as follows:-

1. Decrease in premium income
2. Lack of liquidity
3. Devaluation
4. Intense competition
5. Decrease in investment return
6. Underinsurance
7. Moral hazard
8. Lower quality of risk

Decrease in premium income

After Thailand was hit by the economic turbulence, many companies went bankrupt, facing negative income or being taken over by financially stronger companies. Some companies went on intense cost cutting programs, including salary reduction and employees' lay off. The unemployment rate in Thailand shot up to 4.4% in 1998 compared to 1.9% in 1997. This resulted in lower income, less purchasing power and forced people to reduce their spending.

With limited income, people had to cut any unnecessary expense including insurance. Many people decided to cancel or discontinue their policies to save some money. Potential customers changed or postponed their decision to buy new insurance while existing policyholders cancelled or reduced their cover. As a result, demand for insurance has significantly decreased for both life and non-life insurance.

The life insurance industry has been affected since 1997. First year premium was at -12.36% and -21.10% in 1997 and 1998. Total premium for life insurance dropped for the first time in its history by 3.42% in 1998 to THB 56.768 Billion. (*Appendix 8*).

The number of new policies has also decreased with the growth rate of -14.92% and -18.03% in 1997 and 1998 (*Appendix 9*). This corresponds with the sum insured of new policies with the growth rate of -2.91% and -20.62% in 1997 and 1998 (*Appendix 10*).

Renewal premiums were also affected by lower persistency rate of total premium which decreased from 84.61% in 1996 to 78.20% in 1998 (*Appendix 13*).

Non-life insurance industry has been affected with a growth rate of -5.77% and -14.06% in 1997 and 1998 after 25 years of continuous growth (*Appendix 17*). The total premium was THB 49.552 Billion in 1998 (*Appendix 14*). Motor Insurance, which accounts to 60% of the entire premium (*Appendix 16*), was affected most with a growth rate of -10.75% and -18.50% in 1997 and 1998 (*Appendix 17*).

Before the crisis began, the number of new cars kept on increasing because almost everybody could easily buy new cars through the finance companies. They required these people to buy Motor Insurance through their companies. Therefore, finance companies were the major producers for most of the motor insurers. Following the crisis, a lot of cars were repossessed and very few new loans were provided by these financial institutions because of Non-Performing Loans (NPLs). The growth rate for new car sales in 1997 and 1998 dropped by 39.03% and 61.36% (*Appendix 20*).

Other reasons for the reduction in motor insurance premium were

- a) Some of the existing insureds changed their cover to a less expensive one, for example, from Full Comprehensive to Third Party Liability only or from Third Party Liability to Compulsory Motor only;
- b) The government reduced the premium rate of Compulsory Motor Insurance by 10% in 1997;
- c) Many vehicle owners do not comply with the law which requires them to buy Compulsory Motor Insurance. Currently, there are only 60 – 65% of the number of cars which actually have this cover.

For Fire Insurance, the premium income dropped by 8.42% in 1998 (*Appendix 17*) which was due to:-

- a) Many businesses ceased their operations and stopped purchasing insurance;

b) Major corporate accounts changed from Fire Insurance to Industrial All Risks Insurance which the insurers offer at lower rates;

c) Very few new loans were provided by the financial institutions for houses or factories due to the problem of Non-Performing Loans (NPLs);

d) Some of the insureds decreased their sum insured;

e) The government decreased fire insurance rates for several risk categories to reflect overall good loss experience.

For Marine Cargo Insurance, the premium income dropped by 9.63% in 1998 (*Appendix 17*) due to slumping imports which dropped 13.4% and 33.8% in 1997 and 1998 (*Appendix 6*), while exports dropped by 6.8% in 1998 (*Appendix 5*).

For Miscellaneous Accident Insurance, which includes Engineering Insurance, the premium income dropped by 3.77% in 1998 (*Appendix 17*) due to the reduction in investment, with virtually no new major construction projects and the suspension of incomplete projects, along with price cutting to attract the remaining business.

Lack of liquidity

This was due to : Funds trapped in 56 finance companies closed by the government after the economic crisis began. The amount which the insurers deposited with these finance companies was around THB 13 Billion. These insurers could not withdraw their money for 5 years and their cash flow was stuck. Some insurers have had to borrow from somewhere else to pay claims and operating costs. Facing liquidity problem, some companies, especially the major motor insurers, delay their claims payments.

a) Bad debts from the closed finance companies. Before the economic crisis, finance companies were the major producers for the insurance industry. They usually held the premium which they collected for 3 - 6 months before remitting to the insurers. When the economy slowed down, they also faced liquidity problems themselves and had problems with financing. They could not afford to pay the outstanding premiums owed to the insurers following the closure by the government.

b) Delay in premium payment by the policyholders and the producers. Once the Insured has financial difficulty, he or she is likely to delay or avoid premium payment. The policyholders are paying their premiums much slower than before because they face cash flow problems themselves while the producers also try to hold the premium longer in order to earn more interest on these monies.

This reduces the premium that should have been collected and invested and creates cash flow problems to the insurers because they have less cash inflow while they still have to pay claims and operating costs.

c) **Increase in surrenders by life policyholders.** Since the crisis began, all of the life insurers are facing the problem of surrenders by their policyholders who could not continue to pay their premiums and desperately needed some money. The amount of surrender value increased by 66.37% and 65.53% in 1997 and 1998. The amount of surrender value was THB 5.08 Billion in 1998 as compared to THB 1.833 Billion in 1996 representing an increase of 177.04% while the number of surrendered policies increased by 106.71% from 1996 to 1998. (Appendix 12).

Lack of liquidity causes many insurers to delay their payment to overseas reinsurers with the average of 3 - 6 months after the end of that quarter.

Devaluation

Devaluation has the following impacts to the insurers:-

- a) Increase in prices for imported spare parts;
- b) Increase in prices for spare parts manufactured locally;
- c) Increase in medical expense charged by the hospitals for imported medical equipments and medicines;
- d) Insurers' rating downgraded – the asset values of the insurers converting to major foreign currencies decreased significantly following the devaluation. As a result, the rating of certain Thai insurers as reviewed by the rating agency, such as Standard & Poor's (S & P), had been downgraded to reflect their view of the impact of reduced asset values on the Thai insurers' financial position.

Devaluation also increases the claims cost for Motor, Personal Accident and Health Insurances. However, due to intense competition, most of the insurers cannot increase their premiums at this moment. This means that the loss ratio for these classes will increase in the short run.

Devaluation also caused problems to overseas reinsurers as their reinsurance premium, after converting to Pound Sterling or U.S. Dollar, decreased by 30% , on average, in 1997 as a result of the devaluation.

Intense competition

This was due to:-

- a) **Premium withering** - strong insurers tried to write more business in order to maintain their premium income while weak insurers desperately sought cash to survive. As the result, it led to rampant price competition which further destabilized the insurance industry;

As demand for insurance decreased, the insurers have tried very hard to attract more business. Currently, the competition in the non-life insurance industry is very intense especially on the

major corporate accounts with 40 – 70% premium reduction. In order to compete with other insurers that lowered their premium, the existing insurer has to lower its premium further in order to retain that account.

b) Increase in insurers The government decided to open 12 new life and 13 new non-life companies in 1997 as the first step to open the market for local investors (*Appendix 7*). It was the time when the crisis had just begun. This resulted in reduction of market share by each company.

c) Soft international reinsurance market with huge reinsurance capacity available – some major reinsurers try to write more business to compensate their premium reduction by accepting almost every risk offered to them.

The fierce competition brought in by some major insurers causes the following problems:-

a) Create additional burden to many insurers who already faced the liquidity problems. Their bottom line will get worse if the premium volume from additional insureds cannot generate sufficient income to cover the potential claim cost. These insurers may write more business but get less income due to significant rate reductions. The insured is the one who enjoys these benefits.

b) Exaggerated commission level demanded by some producers who have a lot of business. This increases the operating cost and reduces the profit margin further.

c) Increase in turnover of the agents, especially the life insurers, who were forced out because they could not meet their companies' target.

Decrease in investment return

The investment yield for the insurance industry is decreasing with average yield of 8% for the life insurance industry (*Appendix 22*) and 9.23% for the non-life insurance industry in 1998 (*Appendix 23*).

There are 5 factors which contribute to the decrease in investment return :-

a) Change in monetary policy. Between July 1997 – June 1998, the government used a high interest rates policy to attract more foreign investors. The insurance industry had enjoyed high interest rates on deposit. However, since July 1998, the government decided to use the low interest rate policy in order to boost the economy. This has significantly reduced the investment return of insurers on deposits (*Appendix 24*);

b) Capital loss in the stock market. Many insurers who invested in the stock market in recent years have suffered capital loss as the price of shares decreased significantly due to the poor performance of those companies;

c) Lower dividend received. Most of the stocks which the insurers have invested in do not give any dividend at all because of their poor performance;

d) Less investment assets available. Due to the delay in premium payment by the policyholders and the producers, the insurers have less money to invest;

e) Non-Performing Loan (NPL) The life insurers who lend money to the real estate sector before the economic crisis also suffered NPL. Due to tight investment control of the government which does not allow the insurers to lend money to this sector more than 20% of their investment assets, the percentage of NPL to the life insurers is around 50% of their lending in this sector or the equivalent of 10% of the life insurers' total assets. This is not so serious because they may be able to reduce the loss by selling these properties in the long run.

The life insurance industry has increased its proportion in long term investment, such as government bonds, debentures, from 29.49% in 1997 to 33.87% in 1998 and reduced the proportion of deposits and lending from 70.51% in 1997 to 66.13% (*Appendix 21*)

The non-life insurance industry, on the other hand, has decreased its proportion of long term investment from 27.20% in 1997 to 23.68% in 1998 and significantly increased the proportion of bank deposits from 41.95% in 1997 to 55.75% in 1998, in order to increase the high liquidity level and earn more interest, while reducing the deposits with finance companies and maintaining the proportion of lending (*Appendix 21*).

Underinsurance

Due to the recession, the market price of properties such as land, houses and buildings, have decreased by 20 – 60%. However, the cost to rebuild these buildings or to replace certain spare parts of the machines has increased significantly due to inflation and devaluation.

The impact to the non-life insurers are:-

a) Premium reduction – For those who insured their properties on actual cash value basis, as the market price of their insured properties decreased, there is the tendency for them to reduce their sums insured;

b) Underinsurance – For those who insured their properties on the replacement cost basis, they tend to be reluctant to adjust their sums insured upward in order to save premium. This means that most of the insureds are underinsured. In order to maintain the account, some insurers may decide to waive the average provision or to give more ex-gratia payments.

Moral hazard

The problem of moral hazard which the insurers may experience are

a) Increase in numbers of arson. This is not serious because most of the properties' owners who mortgaged their properties know that their claims proceeds will go to the bank if there is any fire to their properties;

b) Increase in fraudulent claims for medical expense. There is an increasing trend for fraudulent claims by the insured or certain hospitals to exaggerate the amount of claims;

c) Increase in theft losses for motor vehicles. Due to more poor and unemployed people or gangs of thieves who sell the insured vehicles to neighbouring countries and claim that they were stolen;

Lower quality of risk

With the recession, most people will try to save their money by reducing any unnecessary expense or postponing certain expense. For example, reduction of the number of security guards in the premises will increase the chance for theft loss, while delaying periodic maintenance for machines will increase the chance for accident or machinery breakdown.

STRATEGIES FOR THE INSURERS' SURVIVAL

Insurers should consider the following strategies :-

- 1) Short term strategies – if the crisis lasts between 1- 3 years ;
- 2) Long term strategies – if the crisis lasts longer than 3 years.

Short Term Strategies

1) Reduce operating costs

These strategies can be implemented immediately by

- 1.1 Reducing any unnecessary operating expense, for example, to use electricity and water wisely, to use paper on both sides, to lower outgoing phone calls;
- 1.2 No increase in salary and no bonus for the employees;
- 1.3 No new recruitment to replace people who resign;
- 1.4 Closure of unprofitable branches.

2) No growth

Under the current economic climate, it is better to maintain the existing market share with no growth in premium income at all. Otherwise, they have to go into a price war to get more business.

3) Develop the company

These strategies can be implemented immediately without incurring a lot of expense by

- 3.1 Developing the process by shortening it, making it more organized and eliminating any unnecessary work;
- 3.2 Training and developing the staff to work faster and have higher efficiency;
- 3.3 Training and developing the executive to be more competent and make faster decisions.

4) Increase customer's satisfaction

Customer's satisfaction is the key to long-term profitability. Under the current situation, insurers must try to retain the existing policyholders by :-

- 4.1 Providing faster service such as arriving at the scene of the accident much sooner than before;
- 4.2 Providing value added services such as loss prevention engineering service for the major accounts;
- 4.3 Developing customer relationships, meeting face-to-face with each client and showing them long term commitment by understanding what they want and trying to meet their needs.

5) Modify existing products

The insurers may try to increase the premium income by

- 5.1 Adopting the package which meet the customers' needs
- 5.2 Offering cheaper packages by cutting any unnecessary cover and lowering the premium;

6) Change the marketing policy

In order to increase the premium income, the insurers may

- 6.1 Use direct marketing to target a larger market, for example, selling compulsory motor insurance in the branch offices of the bank, convenience stores, gas stations or cooperatives, by contacting their head office first;
- 6.2 Penetrate into unoccupied market such as life insurance where the Thai people have only 12.23 policies per 100 population (*Appendix 11*) or compulsory motor insurance of which only 60 - 65% of the vehicle owners actually have this cover;

7) Improve the company's liquidity

Liquidity is one of the key factors for the insurers' survival. This may be improved by

- 7.1 Giving longer credit terms to existing policyholders who have financial difficulty. Instead of having a huge bad debt allowance, the insurer will be able to collect the premium even though it is slower than before;
- 7.2 Encouraging the producers to remit premium faster by giving additional commission which should be commensurate with additional investment return;
- 7.3 Arranging a loan with a bank / finance company for the policyholders to pay their premiums on an installment basis;
- 7.4 Allow the life policyholders to change from annual to half yearly, quarterly or monthly premium payment without additional charge;

8) Improve the company's investment

The insurers may improve their investment policy by

- 8.1 Having more proportion in the high liquidity assets with reliable financial institutions;
- 8.2 Having a more conservative investment strategy by not investing in risky assets;
- 8.3 Saving money for the future and being prudent in spending decisions.

9) Prevent and minimize loss

The insurers may deal with moral hazard by

- 9.1 Having more cooperation among the local insurers to share information of the fraudulent claims on various classes of insurance through the creation of a "Black List";
- 9.2 Being more careful in risk selection especially on new business;
- 9.3 Having periodic risk surveys for loss prevention on major accounts.

Long Term Strategies

1) Develop the company

The government is liberalizing the insurance industry by allow foreigners to gradually hold more shares in Thai companies, i.e. from the current level of 25% to 35%, 45% , 49% and up to 100% in the next 5 years.

Foreign insurers will usually have more experience, advanced technology and more capital fund. This will make the insurance market highly competitive in the near future. The insurers have to continue to

- 1.1 Develop the company by reducing the work process, increasing the work efficiency and upgrading the information technology systems. Even though they have to invest a lot of money now but, in the long run, they can reduce substantial operating costs;

1.2 Develop the staff to be more efficient and up to international standards from both intellectual and technological aspects to comply with new technology in the globalization era and be capable to compete with foreign insurers;

1.3 Improve the quality of management up to international standards as the leading positions in the insurance industry requires modern and good vision managers.

2) Develop the product

The insurers must develop new products to meet the consumers' needs with emphasis on the middle class people who still have purchasing power. For example, life insurance with long term saving which earns more than interest on deposits with the bank

3) Control operating costs

The insurers have to evaluate productivity by comparing the premium income with the operating costs. If the premium income does not cover the operating costs, they have to downsize the company by laying off redundant staff.

4) Merger / Joint Venture

The current capital fund, as required by the government, is THB 30 Million for non-life insurers and THB 50 Million for life insurers. This amount is considered very low and they need more capital fund to write more business. The government is considering to increase their capital funds to be THB 300 Million for non-life insurers and THB 500 Million for life insurers.

However, it is very difficult to have additional capital funds during the recession. The potential solutions would be

4.1 Merger among local insurers. As competition in the insurance industry becomes fierce, mergers would reduce the overall competitive risk in the market. By merging, the companies can gain synergistic competitive advantages, provide a larger customer base, and, given the right complimentary characteristics of each merging company, increase their financial stability;

4.2 Joint Venture with foreign partner. This will strengthen the local companies with fresh capital, technology, product development, marketing and training as well as boosting the overseas network for the local companies;

4.3 Sell the company to interested party if the insurer cannot find any partner or increase the capital fund by itself;

4.4 Close the company if they cannot do anything else.

GOVERNMENT'S ASSISTANCE

The government can assist the insurance industry by

1) Increased tax deductible

- 1.1 Increase tax deductible level for life insurance premium from THB 10,000 per person per year to THB 20,000 – 30,000 per person per year. This will give more advantage to the policyholders and encourage them to buy more insurance;
- 1.2 Enable the non-life insurance premiums paid by private insureds such as fire, motor, and personal accident insurance to be tax deductible;
- 1.3 Double tax deduction for marine cargo insurance premium if insured locally. Without this incentive, a lot of importers and exporters are insuring overseas.

2) Monitoring the financial strength

It is very important for the government to monitor the liquidity and stability position of insurers to ensure that they are still healthy and can pay claims to the policyholders within a reasonable period of time.

3) Promoting the insurance industry

The government can educate the public about the benefits of insurance, assist in training the professional agents, create confidence among the public and act as an information center for the foreigners who are interested to joint venture with local insurers.

4) Lessening government control

The insurance industry is highly regulated by the government. There should be more flexibility for the industry to regulate themselves through the concept of "self-regulation", for example, the decision to issue certain rules or regulations for the industry, the new products and the rates to be used. The government should have less interference to the insurance industry at this moment, especially on the policy to reduce the premium rates as it will worsen the situation.

CONCLUSION

More impact in 1999

Four most important impacts on the Thai insurance industry in 1999 are

1) Decrease in premium income

Although the Thai economy is improving, it will take at least 3 years from now before it will fully recover from the recession. The insurance industry is not likely to recover this year because

- 1.1 Thai people still have less purchasing power as most of them do not have any increase in their salaries, those unemployed still look for jobs and there is more unemployment. At the same time, the government implements the easing of monetary policy by lowering interest rate on deposits to a very low level which significantly reduces the income of the depositors;
- 1.2 The timing in which the government implemented some economic stimulus packages to boost the economy by easing fiscal policy, such as reducing VAT and personal income tax, was too late and too low. Most of the people think that they have to reduce their spending and save for their future. No measures to stimulate more insurance purchase through the increase in tax deductible level for the life policyholders was given in these packages;
- 1.3 The government implemented the easing of monetary policy by lowering the interest rates on lending to encourage more investment, but the banks are still afraid of Non-Performing Loans and set very high criteria so that very few people will successfully be granted loans.

2) Lack of liquidity

This is resulting from the funds trapped in the closed finance companies and delay in premium payment by the policyholders and producers. Fortunately, the stability of the insurers, which is considered as the key factor of the insurance industry, has not been damaged. As the result, the trust from public has not been affected;

3) Intense competition among the insurers

Insurers found themselves intensely compete with each other in order to maintain their own premium level, which resulted in more severe price cutting than in 1998. The situation is improving with the latest directive from the Insurance Commissioner on June 1, 1999 to ease the intense competition and to put some stability in the market;

4) Decrease in investment return

As the result of the easing of monetary policy which decreases the interest rate on deposits with the banks to a much lower rate than in early 1998 (*Appendix 24*), insurers will have much less investment income. This will have more impact on the non-life insurers due to the high proportion in the bank deposits (*Appendix 21*). The life insurers will also suffer if they actually earn less interest than what they assumed in their premium calculation formula at 6% per year.

Key strategies for insurers' survival

The insurers derive profits from underwriting and investment. As the investment income has an unfavorable outlook, in the short run they should focus on underwriting – either by increase the premium income or decrease the operating cost – in order to maintain liquidity, stability and ability to pay claims within a reasonable timeframe. There are several unoccupied markets for the insurers to penetrate. They should not use price cutting to maintain or increase the number of customers as they will write more business, have more liability but less premium.

In the long run, if the crisis continues to persist, the insurers must use the survival mode by

- 1) Forecasting the situation;
- 2) Anticipating the potential problems;
- 3) Having proper planning;
- 4) Simulating the situation.

Role of the government

The role of the government on supervision of the insurance industry should be changed from a strict monitor to

- 1) Overseeing the operation and supporting the potential advancement of the industry;
- 2) Developing better rules and regulations as well as canceling the obsolete ones;
- 3) Increasing the role of the insurance industry through the concept of "self regulation" among themselves;
- 4) Providing knowledge to the public, private sector and government itself;
- 5) Adopting high technology to perform in a more flexible and improved manner;
- 6) Taking care of the insurance industry to operate in the best manner for the maximum benefits of the policyholders.

Insurance industry outlook

Following the economic crisis, it is likely that there will be the following changes in the Thai insurance industry:-

1. More company improvement in
 - 1.1 Controlling the operating costs;
 - 1.2 Developing the process - to be shorter and more organized;
 - 1.3 Increasing operational efficiency;

- 1.4 Staff & agency development - to be capable of handling more complicated work on the "one stop service" concept;
 - 1.5 Management development – to have competent managers who know how to manage the company , have good vision, make the right decisions and right strategy at the right time and have awareness of the changing environment. These capabilities can be proved during this period if they can save the company;
 - 1.6 Information technology – there must be good systems which support the management's fast and accurate decision making and helps to improve the business;
2. More customer orientation – to serve the need of different groups of customers with specific products that have higher quality and benefits. The insurers have to train their staff and agents to be capable of providing one stop customer service;
 3. More joint ventures between foreign shareholders and Thai insurers because of the need for additional capital funds and to receive new technological support. With the devaluation of Thai Baht by 50% and the decision of the government to open up the insurance market to the foreigners much sooner than required by the World Trade Organization (WTO), it is good timing for foreign insurers to bargain for such joint ventures;
 4. It is unlikely that there will be very few mergers among the local companies as Thai people don't like to be No. 2 in the new company;
 5. Tougher competition from foreign insurers - once the insurance market has been fully liberalized where foreign insurers can hold 100% share, they will operate with higher technology, more reinsurance capacity and more capital funds than the local insurers;
 6. Less government control through the concept of "self regulation" by which the insurers have to agree and regulate themselves.
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Appendices

Appendix 1
Thailand Key Economic Indicators

	1990	1991	1992	1993	1994	1995	1996	1997*	1998E	1999E
1. Population (millions)	56.30	56.96	57.79	58.34	59.18	59.46	60.12	60.82	61.47	62.1
2. GDP										
2.1 GDP at constant 1988 price	11.2	8.6	8.1	8.5	8.9	8.8	5.5	(-0.4)	(-0.0)	1.0
(% change)										
Agriculture	(-4.7)	7.2	4.8	(-1.3)	5.3	2.5	3.8	1.4	1.8	2.2
Non-agriculture	14.1	8.8	8.6	9.8	9.4	9.7	5.7	(-0.7)	(-0.1)	8.8
2.2 GDP at current price (billion baht)	2,183.5	2,586.6	2,830.9	3,178.3	3,638.8	4,188.9	4,598.3	4,827.2	4,817.5	
(% change)	(-17.6)	(-14.8)	(-12.9)	(-12.0)	(-14.5)	(-15.3)	(-9.7)	(-5.0)	(-0.2)	
2.3 GNP per capita (baht)	38,613	43,655	48,311	53,593	60,612	69,847	74,585	77,246	75,893	
3. CPI (% change)	6.0	5.7	4.1	3.3	5.0	5.8	5.9	5.6	8.1	2.1 (Jan.-pr.99)
4. External Account (billions of US\$)										Jan.-Apr. 99
4.1 Export	21.9	28.3	32.2	36.6	44.7	55.7	54.7	56.7	52.9	17.1
(% change)	(-15.1)	(-23.8)	(-13.8)	(-13.4)	(-22.5)	(-24.8)	(-1.9)	(3.8)	(-6.8)	(-2.4)
4.2 Import	32.7	37.8	40.1	45.1	53.4	70.4	70.8	61.3	40.7	13.8
(% change)	(-28.8)	(-15.7)	(-6.0)	(-12.4)	(-18.1)	(-31.9)	(-0.6)	(-13.4)	(-33.8)	(-1.7)

Appendix 1 (Continued)

	1990	1991	1992	1993	1994	1995	1996	1997p	1998E	1999E
4.3 Trade balance	(-9.8)	(-9.5)	(-7.9)	(-8.5)	(-8.7)	(-14.7)	(-16.1)	(-4.6)	11.2	3.2
4.4 Current account balance	(-7.1)	(-7.4)	(-6.1)	(-6.1)	(-7.8)	(-13.2)	(-14.4)	(-3.1)	14.3	3.5
(% of GDP)	(-8.3)	(-7.5)	(-5.5)	(-4.9)	(-5.4)	(-7.8)	(-7.9)	(-2.6)	(12.3)	
4.5 Net capital movement	9.7	11.3	8.1	10.5	12.2	31.9	19.5	(-9.1)	(-9.6)	(-3.0)
Private 1/	11.0	10.3	8.6	10.3	12.0	20.8	18.2	(-8.1)	(-15.6)	(-5.8)
Public	-1.2	1.0	0.1	0.2	0.2	1.1	1.3	1.6	2.0	1.6
BOT	-	-	-	-	-	-	-	(-2.6)	4.0	1.2
4.6 Balance of payments	3.8	4.2	3.0	3.9	4.2	7.2	2.2	(-10.6)	1.7	1.8
4.7 International reserves (billions of US\$)	14.3	18.4	21.2	25.4	30.3	37.0	38.7	27.0	25.5	30.6
4.8 Total debt outstanding (billions of US\$)	29.3	37.9	43.5	52.1	64.9	82.6	90.5	93.4	86.2	83.9
(of which : public debt)	(-11.5)	(-12.8)	(-13.1)	(-14.2)	(-15.7)	(-16.4)	(-16.8)	(-24.3)	(-31.5)	(-32.8)

Appendix 1 (Continued)

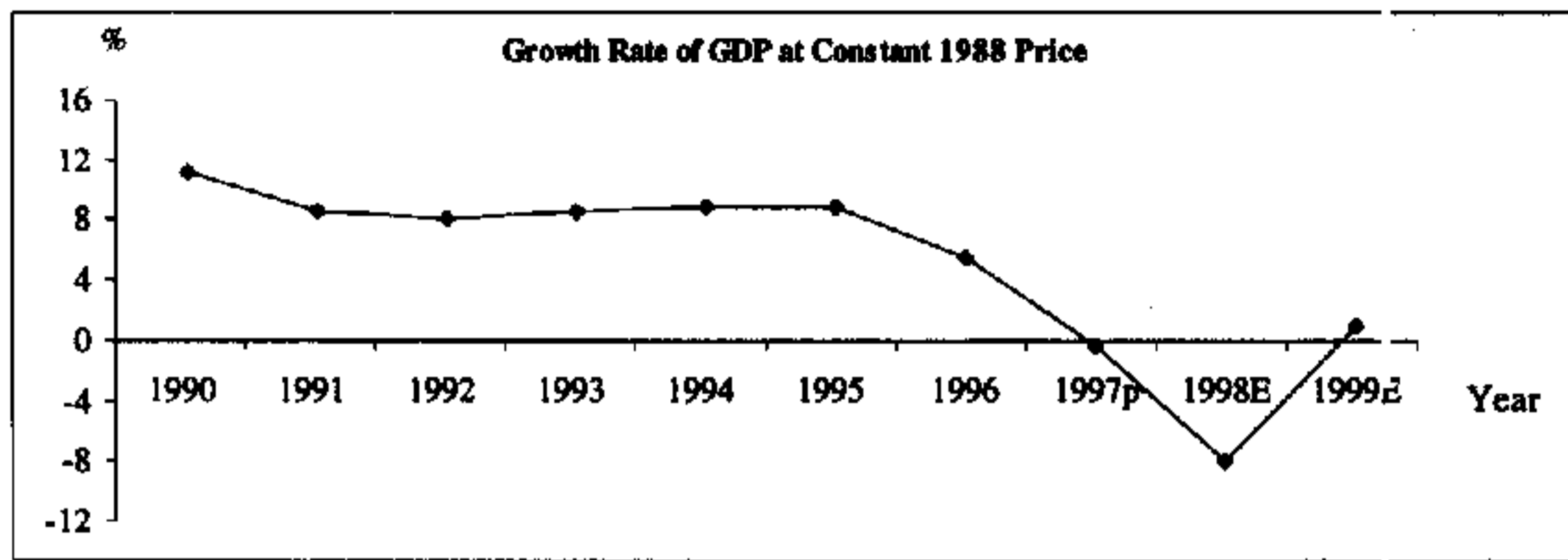
	1990	1991	1992	1993	1994	1995	1996	1997p	1998E	1999E
4.9 Total debt service ratio (%)	10.8	10.6	11.3	11.3	11.7	11.4	12.2	15.6	20.8	n.a.
of which : public (included BOT since 1997)	(-6.0)	(-4.2)	(-3.7)	(-3.7)	(-3.4)	(-2.8)	(-2.5)	(-2.6)	(-3.2)	
5. Government Finance (Fiscal Year)										Oct. 98-Apr. 99
(billions of baht)										
5.1 Cash balance	103.3	123.7	85.9	68.9	65.8	112.5	104.3	(-31.1)	(-115.0)	(-66.8)
(as % of GDP)	(-4.7)	(-4.9)	(-3.0)	(-2.2)	(-1.8)	(-2.7)	(-2.2)	(-0.7)	(-2.4)	
6. Monetary Statistic										Apr. 99
6.1 M2 (billions of baht)	1,529.1	1,831.4	2,117.8	2,507.1	2,829.4	3,310.6	3,726.6	4,339.3	4,753.4	4,789.5
(% change)	(-26.7)	(-19.8)	(-15.6)	(-18.0)	(-12.9)	(-17.0)	(-11.6)	(-16.4)	(-9.5)	(-8.9)
6.2 M2A (billions of baht)	n.a.	n.a.	n.a.	3,814.5	3,551.1	4,193.4	4,725.2	4,821.8	5,118.1	5,136.3 (Apr. 99)
(% change)					(-17.4)	(-18.1)	(-12.7)	(-2.8)	(-6.2)	(-5.0)
6.3 Domestic credit (% change)	26.9	15.5	18.0	22.7	28.9	23.1	14.0	34.5	(-1.2)	2.5
Private 2/ (% change)	33.2	21.0	28.5	23.3	38.3	24.1	14.4	30.5	(-7.9)	(-4.8)

Appendix 1 (Continued)

	1990	1991	1992	1993	1994	1995	1996	1997p	1998E	1999E
6.4 Deposit 3/ (% change)	27.5	21.4	16.2	19.2	13.1	18.2	13.7	16.8	8.8	9.1
6.5 Interest rate (year end)										
Prime rate	16.25	14.00	11.50	10.50	11.75	13.75	13.00-13.25	15.25	11.50-12.00	9.00-9.75
Fixed deposits (1 yr.)	13.00-15.50	10.50	8.50	7.00	8.25-10.25	10.25-11.00	8.50-9.25	10.00-13.00	6.00	5.00
7. Exchange rate										Jan.-Apr. 99
Baht : US\$ (EEF) average 4/	25.59	25.52	25.40	25.32	25.15	24.92	25.34	31.37	41.37	37.19
1/ Include commercial bank and BIRF's										
2/ Exclude non-financial public enterprise										
E = Estimated P = Preliminary										
Source : Bank of Thailand										

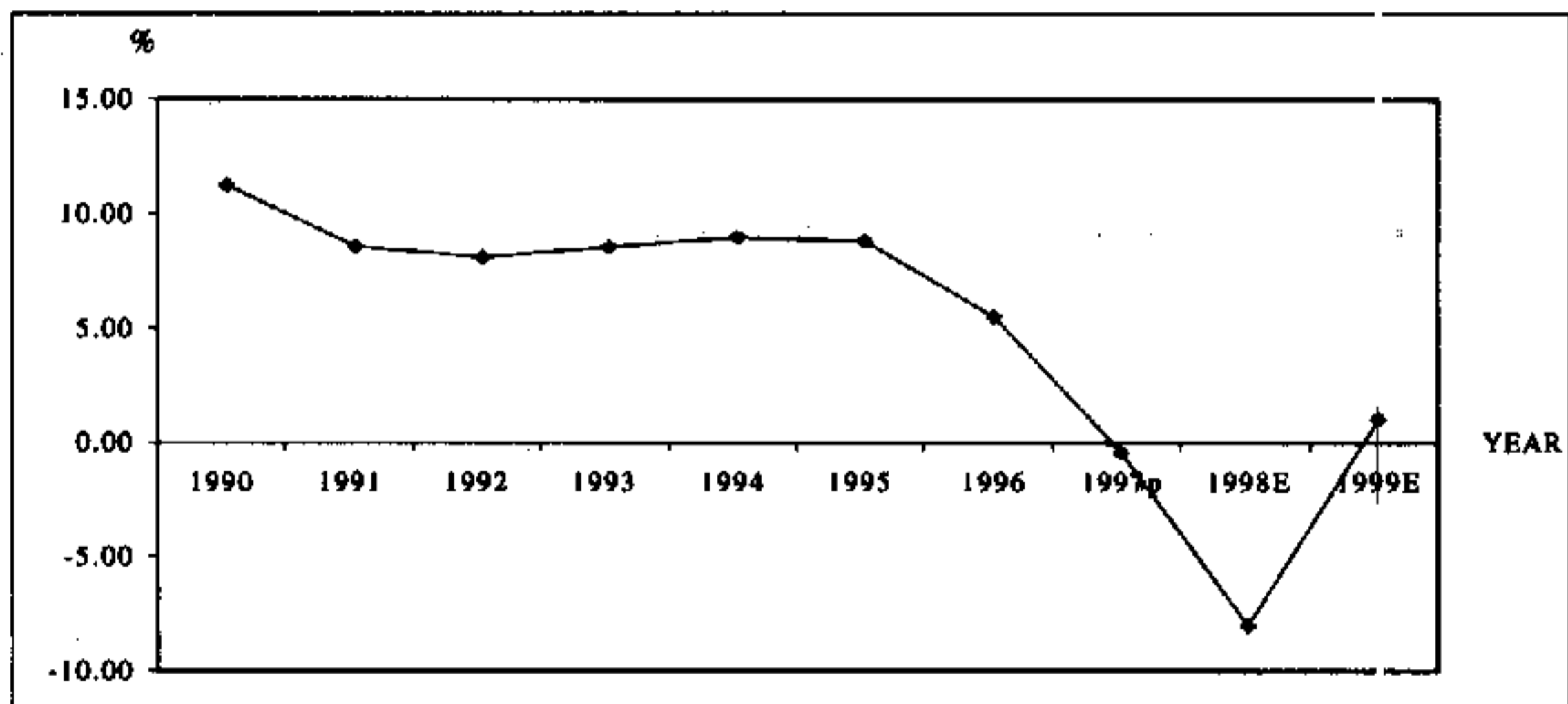
3/ Exclude foreign and interbank deposits

4/ Since July 1997, the figures are represented by average inter-bank exchange rate.

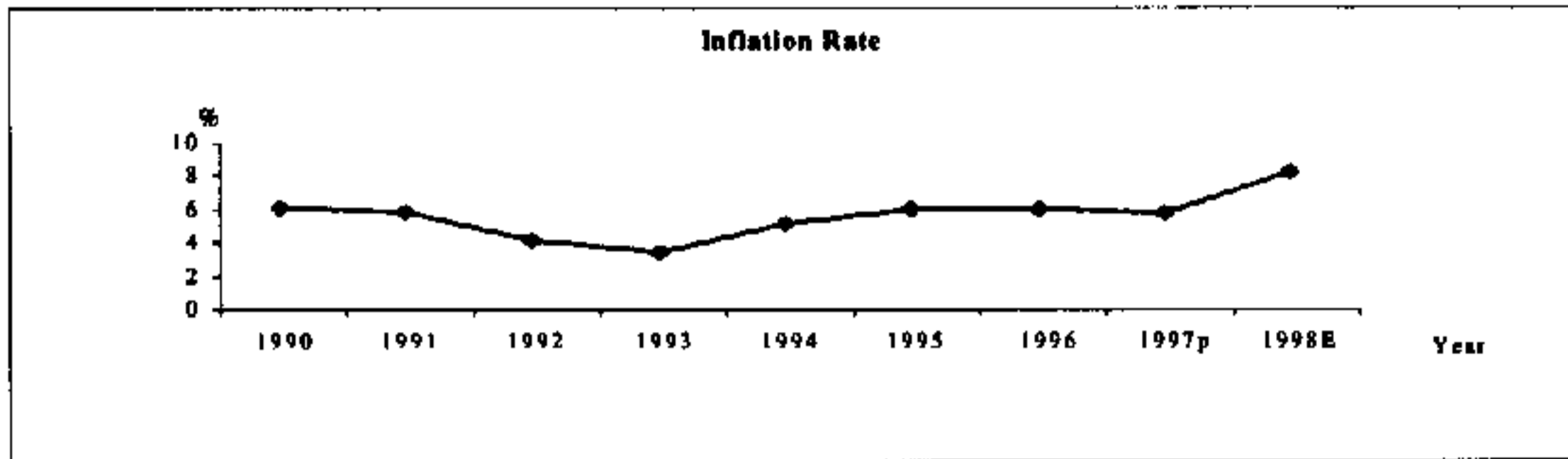


Source : Bank of Thailand

GDP at constant 1988 price

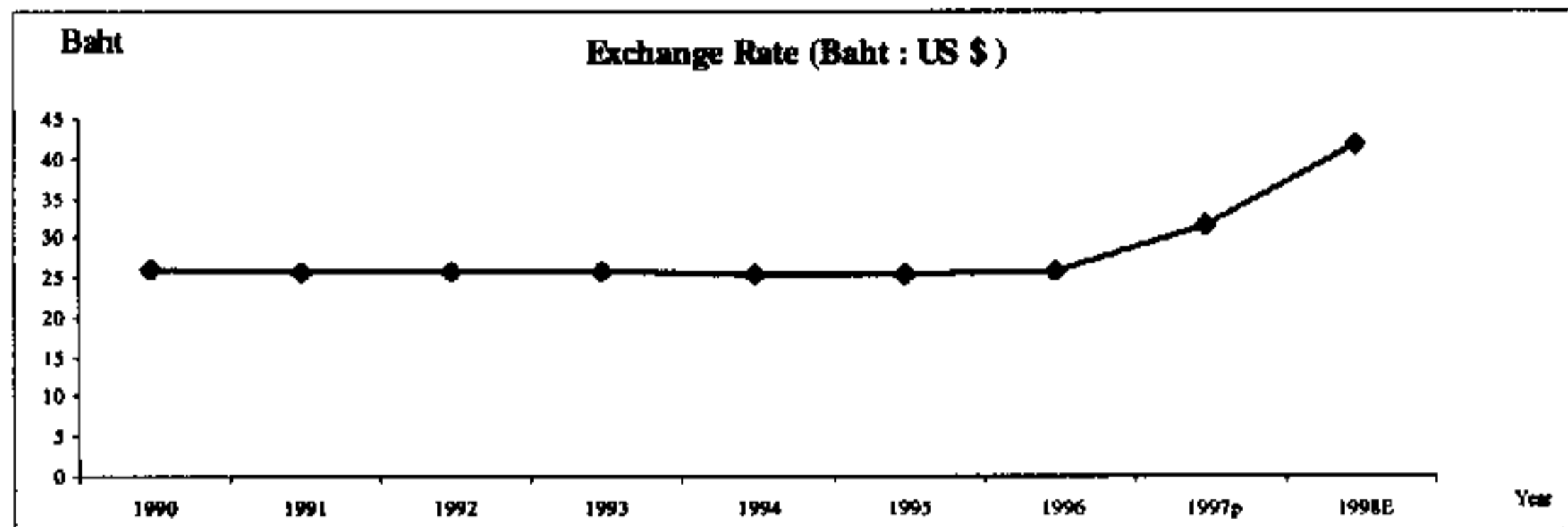


Appendix 3



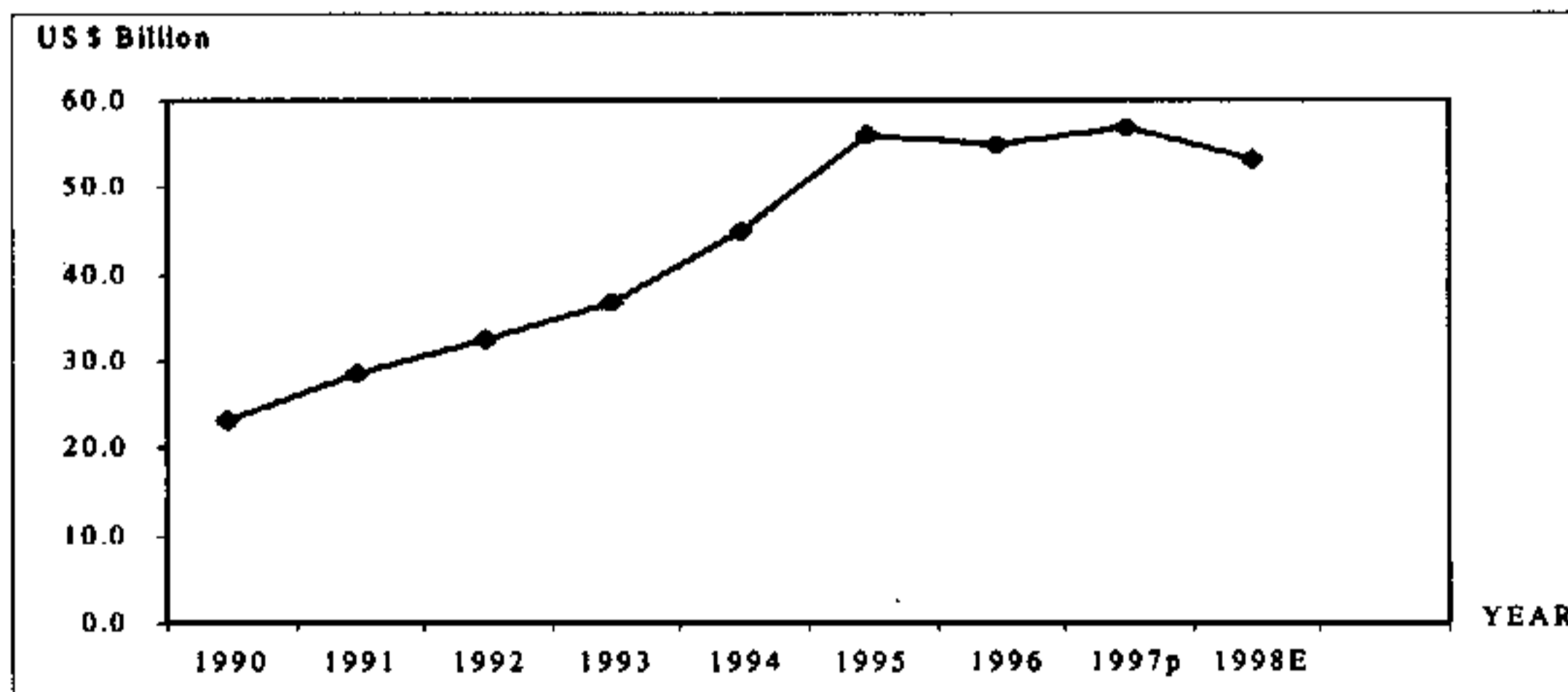
Source : Bank of Thailand

Appendix 4

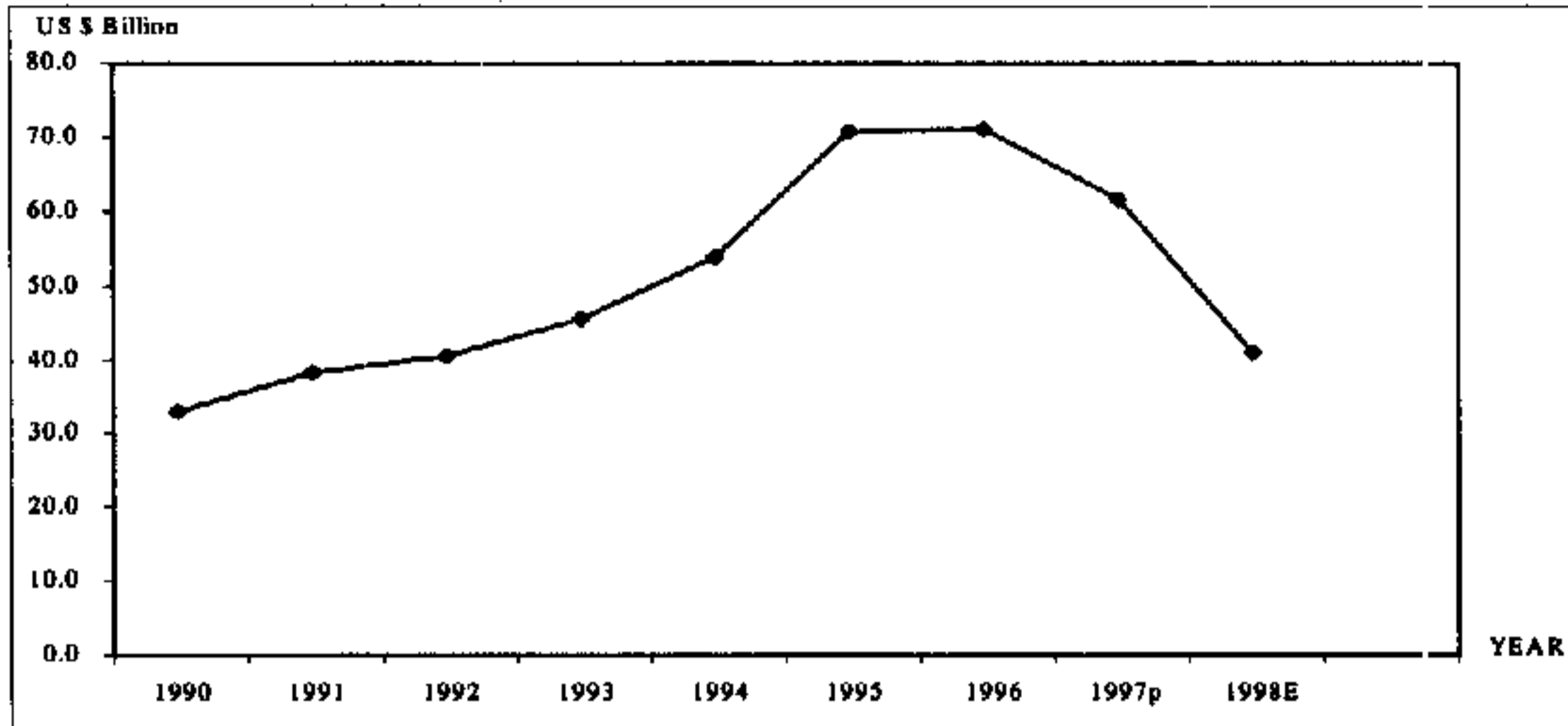


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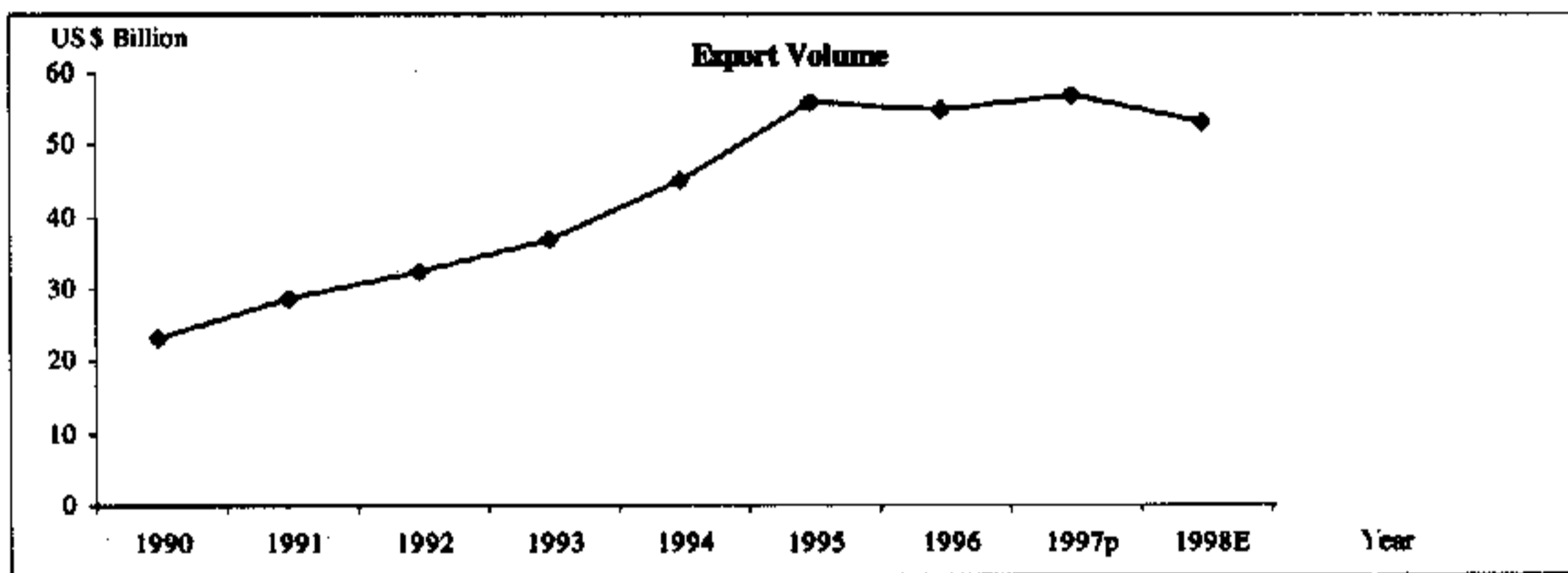
Export Volume



Import Volume

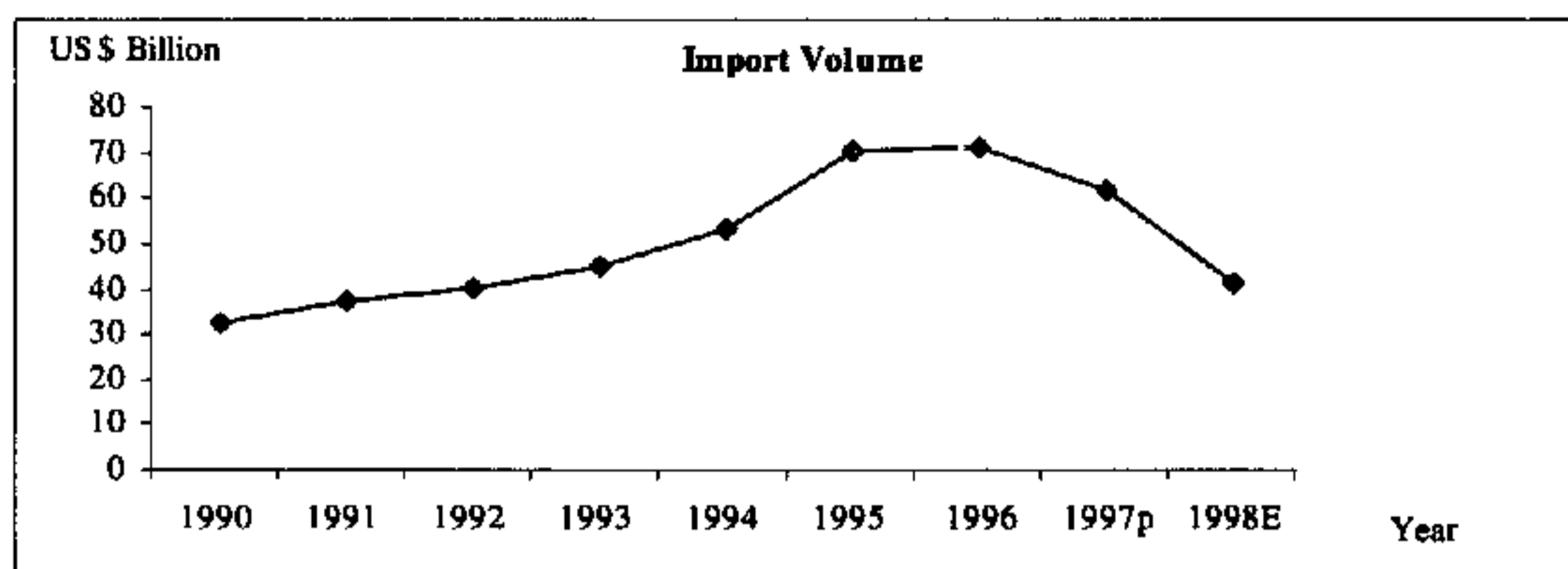


Appendix 5



Source : Bank of Thailand

Appendix 6



Source : Bank of Thailand

Appendix 7

Number of Insurance Companies in Thailand as at 1/1/1997

Types of Business	Domestic	Foreign Branch	Total
Life Insurance	8	-	8
Non-Life Insurance	52	4	56
Life & Non-Life Insurance	4	1	5
Health Insurance	6	-	6
Reinsurance	1	-	1
Total	71	5	76

Source : Department of Insurance

Number of Insurance Companies in Thailand as at 1/6/1999

Types of Business	Domestic	Foreign Branch	Total
Life Insurance ^a	21	-	21
Non-Life Insurance ^b	65	4	69
Life & Non-Life Insurance ^c	3	1	4
Health Insurance	6	-	6
Reinsurance	1	-	1
Total	96	5	101

Remark : a) There were 12 new life insurance companies established in 1997 and 1 life insurance company established in 1999 in compliance with the separation of the composite company;

b) There were 13 new non-life insurance companies established in 1997, 1 non-life insurance company was closed by the government in 1998 and 1 non-life insurance company established in 1999 in compliance with the separation of composite company.

c) Decrease in 1 local composite company in compliance with the separation of the composite company on 1/1/1999.

Source : Department of Insurance

Appendix 8

Life Insurance

Premium and Growth Rate

Unit : Million Baht

Year	First Year		Renewal		Single		Total	
	Premium	Growth Rate	Premium	Growth Rate	Premium	Growth Rate	Premium	Growth Rate
		%		%		%		%
1989	4,905	37.82	9,843	27.42	4	-	14,752	30.68
1990	6,702	36.64	13,133	33.42	8	100.00	19,843	34.51
1991	7,368	9.93	16,462	25.36	48	500.00	23,878	20.34
1992	8,279	12.36	20,741	25.99	106	120.83	29,128	21.99
1993	9,217	11.32	25,151	21.26	190	79.25	34,558	18.64
1994	10,687	11.31	29,976	21.26	204	78.88	40,867	18.64
1995	12,678	18.63	35,273	17.67	302	47.68	48,253	18.07
1996	14,771	16.51	40,604	15.11	353	17.00	55,728	15.49
1997	12,945	(12.36)	45,416	11.85	419	18.89	58,780	5.48
1998*	10,213	(21.10)	46,176	1.67	379	(9.55)	56,768	(3.42)

* estimate

Source : Department of Insurance Thai Life Assurance Association

Appendix 9

Life Insurance

Number of New Policies and Growth Rate

Unit : Million Baht

Year	Ordinary		Industrial		Group		Total	
	Policies	Increase (Decrease) %	Policies	Increase (Decrease) %	Policies	Increase (Decrease) %	Policies	Increase (Decrease) %
1989	396,452	38.30	471,407	6.05	2,011	55.29	869,870	18.76
1990	520,524	31.30	519,303	10.16	2,693	33.91	1,042,520	19.85
1991	620,830	19.27	328,702	(36.70)	3,110	15.48	952,642	(8.62)
1992	641,803	1.97	417,151	26.91	2,214	(28.81)	1,061,168	11.39
1993	654,432	1.28	426,327	2.20	3,288	48.51	1,084,047	2.16
1994	736,760	12.58	421,269	(1.19)	2,354	(28.41)	1,160,383	7.04
1995	834,090	13.21	476,541	13.12	2,533	7.60	1,313,164	13.17
1996	971,161	16.43	496,169	4.12	2,424	(4.30)	1,469,754	11.92
1997	851,691	(12.30)	396,626	(20.06)	2,105	(15.15)	1,250,412	(14.92)
1998*	715,480	(15.99)	307,703	(22.42)	1,759	(16.44)	1,024,942	(18.03)

* estimate

Source : Department of Insurance

Appendix 10

Life Insurance

Sum Insured of New Policies and Growth Rate

unit : Million Baht

Year	Ordinary		Industrial		Group		Total	
	Sum	Increase	Sum	Increase	Sum	Increase	Sum	Increase
	Insured	(Decrease) %	Insured	(Decrease) %	Insured	(Decrease) %	Insured	(Decrease) %
1989	57,801	40.20	20,703	8.14	8,336	28.25	86,840	29.86
1990	75,625	30.84	22,705	9.67	13,397	60.71	111,727	28.66
1991	94,429	24.86	13,154	(42.06)	23,944	78.72	131,527	17.72
1992	103,965	10.10	17,884	35.96	21,729	(9.25)	143,578	9.16
1993	110,240	6.04	18,872	5.52	38,484	77.11	167,596	16.73
1994	131,350	19.15	19,866	5.27	39,720	3.21	190,936	13.93
1995	151,943	15.68	23,536	18.47	65,112	63.93	240,592	26.01
1996	174,549	14.88	24,376	3.57	53,755	(17.44)	252,680	5.02
1997	145,744	(16.50)	20,104	(17.53)	79,480	47.86	245,328	(2.91)
1998*	115,261	(20.92)	17,447	(13.22)	62,029	(21.96)	194,738	(20.62)

* estimate

Source : Department of Insurance

Appendix 11

Number of Life Insurance Policies Per 100 Population

YEAR	NUMBER OF POLICIES
1989	5.46
1990	6.39
1991	6.92
1992	7.74
1993	8.37
1994	9.14
1995	10.21
1996	11.18
1997	11.70
1998	12.23

Source : Department of Insurance

Appendix 12

Life Insurance

Surrender Value

URRENCY '000 THB

YEAR	AMOUNT	GROWTH RATE	NO. OF POLICIES	% CHANGE
1995	1,394,851		68,714	
1996	1,833,941	31.48	81,272	18.28
1997	3,051,067	66.37	117,411	44.47
1998	5,080,797	66.53	168,001	43.09

Source : Thai Life Assurance Association

Appendix 13

Life Insurance

Total Persistency Rate

Month	1996	1997	1998	1999*
JAN	92.54	88.80	76.42	82.60
JAN-FEB	88.55	86.70	78.55	81.17
JAN-MAR	86.45	85.41	80.09	82.60
JAN-APR	87.30	84.81	79.44	
JAN-MAY	86.32	84.02	78.84	
JAN-JUNE	85.56	83.79	79.07	
JAN-JULY	85.82	83.49	78.60	
JAN-AUG	85.40	82.71	78.44	
JAN-SEP	84.98	82.65	78.05	
JAN-OCT	85.33	81.92	77.78	
JAN-NOV	84.35	81.14	78.12	
JAN-DEC	84.61	81.58	78.20	

Source : Thai Life Assurance Association

Appendix 14**Non-Life Insurance****Direct Premium of Non-Life Insurance Industry**

Unit : Million Baht

Year	Fire	Hull	Cargo	Motor	Miscellaneous	Health	Total
1989	3,661	107	906	6,160	1,604	78	12,516
1990	4,309	118	1,129	9,217	2,189	135	17,097
1991	5,039	174	1,242	10,586	3,083	219	20,343
1992	5,592	202	1,346	13,869	3,866	270	25,145
1993	6,409	217	1,528	22,680	4,669	443	35,946
1994	7,352	274	1,845	28,210	6,218	525	44,424
1995	8,261	322	2,220	34,638	7,024	614	53,079
1996	9,318	459	2,294	40,441	7,986	687	61,185
1997	9,588	246	2,388	36,092	8,614	729	57,657
1998*	8,781	173	2,158	29,414	8,289	737	49,552

* estimate

Appendix 15**Non-Life Insurance****Direct Premium of Motor & Non-Motor Business**

Unit : Million Baht

Year	Non-Motor	Motor	Total
1989	6,356	6,160	12,516
1990	7,880	9,217	17,097
1991	9,757	10,586	20,343
1992	11,276	13,869	25,145
1993	13,266	22,680	35,946
1994	16,214	28,210	44,424
1995	18,441	34,638	53,079
1996	20,744	40,441	61,185
1997	21,565	36,092	57,657
1998*	20,138	29,414	49,552

* estimate

Appendix 16

Non-Life Insurance

Proportion of Motor & Non-Motor Business

Year	Non-Motor (%)	Motor (%)
1989	50.78	49.22
1990	46.09	53.91
1991	47.96	52.04
1992	44.84	55.16
1993	36.91	63.09
1994	36.50	63.50
1995	34.74	65.26
1996	33.90	66.10
1997	37.40	62.60
1998*	40.64	59.36

* estimate

Source : Department of Insurance

Appendix 17

Non-Life Insurance

Growth Rate (%) of Direct Premium

Year	Fire	Hull	Cargo	Motor	Miscellaneous	Health	Total
1989	18.32	37.18	22.76	52.81	21.79	36.84	34.37
1990	17.70	10.28	24.61	49.63	36.47	73.08	36.60
1991	16.95	47.17	10.06	14.84	40.80	61.71	18.98
1992	10.98	15.96	8.35	31.02	25.40	23.04	23.61
1993	14.60	7.55	13.56	63.53	20.79	64.55	42.96
1994	14.71	26.27	20.88	24.38	33.18	18.51	23.55
1995	12.36	17.52	20.33	22.79	12.96	16.95	19.48
1996	12.80	42.55	3.33	16.75	13.70	11.89	15.27
1997	2.90	(46.41)	4.10	(10.75)	7.86	6.11	(5.7)
1998*	(8.42)	(29.67)	(9.63)	(18.50)	(3.77)	1.10	(14.06)

*estimate

Appendix 18

Non-Life Insurance

Number of Non-Life Insurance Policies

Year	Fire	Hull	Cargo	Motor	Miscellaneous	Health	Total
1989	952,082	665	257,635	519,573	205,301	6,254	1,941,510
1990	952,503	650	291,325	613,165	272,040	10,239	2,205,922
1991	1,178,343	681	312,576	679,835	359,856	18,731	2,550,022
1992	1,279,243	590	348,925	876,821	488,022	24,346	3,017,947
1993	1,390,239	545	376,940	4,433,426	583,572	36,215	6,820,937
1994	1,566,629	659	423,162	6,115,605	699,323	44,067	8,849,445
1995	1,540,369	765	476,843	9,734,503	863,230	53,786	12,669,496
1996	1,678,928	834	500,351	11,596,084	1,055,995	41,145	14,873,337
1997	1,803,216	892	499,339	10,974,309	1,034,726	39,435	14,351,917
1998*	1,632,812	674	504,817	9,951,131	1,081,411	46,353	13,217,198

* estimate

Appendix 19

Non-Life Insurance

Growth Rate (%) of Number of Policies

Year	Fire	Hull	Cargo	Motor	Miscellaneous	Health	Total
1989	11.34	(21.30)	17.74	22.14	24.86	37.48	16.32
1990	6.98	(2.26)	13.08	18.01	32.51	63.72	13.62
1991	15.69	4.77	7.29	10.87	32.28	82.94	15.60
1992	8.56	(13.36)	11.63	28.98	35.62	29.98	18.35
1993	8.68	(7.63)	8.03	405.62	19.58	48.75	126.01
1994	12.69	20.92	12.26	37.94	19.83	21.68	29.74
1995	(1.68)	16.08	12.69	59.17	23.44	22.06	43.17
1996	9.00	9.02	4.93	19.12	22.33	(23.50)	17.39
1997	7.40	6.95	(0.40)	(5.36)	(2.01)	(4.16)	(3.51)
1998*	(9.45)	(24.44)	1.10	(9.32)	4.51	17.54	(7.91)

* estimate

Appendix 20

Number of New Car Sales in Thailand

Year	Local Manufactured Cars (CBU)	Imported Cars (CKD)	Total	% Change
1995	571,580	55,000	626,580	-
1996	589,126	33,224	622,350	-0.67%
1997	363,156	16,264	379,420	-39.03%
1998	144,065	2,549	146,614	-61.36%

Remark : New car sales include sedans, vans, micro buses, buses, pick up, trucks but exclude motorcycle.

Source : Federation of Thai Industries

Appendix 21

Proportion of Investment

By the Insurance Industry %

	Life Insurers			Non-Life Insurers		
	1996	1997	1998	1996	1997	1998
Deposits with the Banks	23.54	23.48	21.63	23.92	41.95	55.75
Deposits with Finance Companies	22.28	21.82	20.36	41.02	25.17	14.95
Lending	23.32	25.21	24.14	5.61	5.68	5.62
Other Long Term Investments	30.86	29.49	33.87	29.45	27.20	23.68

Source : Department of Insurance

Remark : Other long term investments include securities, government bond, common stock, debenture, unit trust and warrant.

Appendix 22

Investment Yield for Life Insurers

Unit : Million Baht

Year	Investment Assets		Net Investment Income		Investment Yield %
	Amount	Increase (Decrease) %	Amount	Increase (Decrease) %	
1989	30,924	27.44	2,635	32.74	8.54
1990	38,836	25.59	3,677	39.54	9.54
1991	50,055	28.89	5,040	37.06	10.10
1992	63,064	25.99	5,612	11.30	8.90
1993	90,993	44.29	6,503	15.88	7.15
1994	105,350	15.78	7,146	9.89	6.78
1995	123,496	17.22	9,061	26.80	7.34
1996	129,204	4.62	10,733	18.45	8.31
1997	143,197	10.83	12,080	12.55	8.44
1998*	173,057	20.85	13,841	14.58	8.00

*estimate

Source : Department of Insurance

Appendix 23

Investment Yield for Non-Life Insurers

Unit : Million Baht

Year	Investment Assets		Net Investment Income		Investment Yield
	Amount	Increase (Decrease) %	Amount	Increase (Decrease) %	
	1989	10,515	55.94	784	56.80
1990	17,011	61.78	1365	74.10	8.02
1991	23,232	36.57	2531	85.42	10.90
1992	29,736	27.99	2309	8.77	7.80
1993	47,932	61.19	2505	8.49	5.23
1994	52,721	9.99	2,968	18.48	5.63
1995	60,115	14.02	4,190	41.17	6.97
1996	57,636	-4.12	4,750	13.37	8.24
1997	50,178	-12.94	5,041	6.13	10.05
1998*	53,832	7.28	4,967	1.49	9.23

*estimate

Source : Department of Insurance

Appendix 24**Average Interest Rate on Deposit for Corporate Firms**

Month-Year	Bank		Finance Company
	Saving	Fixed 3 Months	Fixed 3 Months
07/1997	5	10	13
08/1997	5	10	13.5
09/1997	5	10	14.25
10/1997	5	10	14.25
11/1997	5	10	14.25
12/1997	5	10	15.5
01/1998	5	10	15.75
02/1998	5	10	15.75
03/1998	5	10	16.25
04/1998	5	10	16.5
05/1998	5	10	16.5
06/1998	5	10	16.5
07/1998	5	10	15.25
08/1998	5	9	14.5
09/1998	4.5	6.5	11.5
10/1998	1	4.5	9
11/1998	1	4	8
12/1998	1	4	7.25
01/1999	1	3	7.25
02/1999	1	2	6.25
03/1999	1	2	6.25
04/1999	0.5	1.5	5.75
05/1999	0.5	1	5.75
06/1999	0.5	1	5.75
07/1999	0.5	1	5.25

Source : Thai Farmers Bank Public Company Limited

Phatra Finance Public Company Limited