



MALAYSIAN RATING CORPORATION BERHAD  
(Company No.: 364803 V)

## **KURNIA INSURANS (MALAYSIA) BERHAD**

### **INSURANCE FINANCIAL STRENGTH RATING** Annual Review – January 2005

<b>Rating Action</b>	Affirmed	<b>A+</b>
<b>Rating History</b>	March 2004 May 2003 March 2002	A+ A A
<b>Rating</b>	Insurance Financial Strength	
<b>Sector</b>	General Insurance	
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# CREDIT ANALYSIS

## INSURANCE FINANCIAL STRENGTH RATING/ GENERAL INSURANCE

Annual Review – January 2005

### KURNIA INSURANS (MALAYSIA) BERHAD

#### Rationale

Kurnia Insurans (Malaysia) Berhad's (Kurnia) financial strength rating has been affirmed at A+ to reflect the Company's expanding share of the local general insurance market; its ability to maintain its leadership position in the motor insurance segment, realize its business strategies and improve its business operations; as well as its continuous efforts in introducing innovative products and services. The rating, however, is moderated by Kurnia's high business concentration on motor and weaker underwriting results in FY2004.

In 2002/2003, Kurnia held 13.4% and 22.6% share of the industry's total net premiums and motor net premiums respectively, making it the largest general and motor insurer in the country. The strength of Kurnia's motor business is based on its extensive distribution network, strong relationships with agents and other business associates, aggressive marketing approach and effective claims management. Kurnia aims to capture 30.0% share of the local general insurance market as early as year 2010, by actively expanding its non-motor business whilst maintaining its leadership in the motor segment. The IPO listing of Kurnia Asia Berhad, Kurnia's new holding company, in January 2005 will enhance Kurnia's brand awareness and customer acceptance, and help boost business volume going forward.

Kurnia's overall underwriting profit deteriorated by 70.1% to RM30.9 million due mainly to the higher charge on unearned premium reserve and the increase in net claims incurred during the year. Claims and total expense ratios stood at 68.0% (FY2003: 57.4%) and 26.6% (FY2003: 29.3%) respectively. Lower underwriting profit, coupled with the RM31.1 million impairment loss on goodwill, led to a 45.9% decline in the pre-tax profit to RM89.2 million.

In FY2004, Kurnia raised its equity exposure to 18.2% (FY2003: 11.0%), leading to a corresponding decline in the composition of liquid assets to 67.4% (FY2003: 72.6%). The higher investment leverage of 60.7% (FY2003: 28.6%) contributed to the improvement in total investment return to 6.9% (FY2003: 6.4%).

Kurnia's total cash flow position strengthened to 113.4% in FY2004 (FY2003: 112.2%). The liquid assets coverage of both technical reserves and liabilities also improved to 76.6% (FY2003: 75.6%) and 71.8% (FY2003: 69.5%) respectively, owing to the increase in the level of liquid assets to RM900.3 million (FY2003: RM763.0 million).

Kurnia's share capital remained at RM200.0 million as at 30 June 2004; double the regulatory requirement. Total shareholders' funds, however, declined marginally by 3.8% to RM412.8 million due to lower net profits and high dividend payment during the year.

#### Financial Highlights

FYE 30 JUNE	2004	2003	2002	2001	2000
Gross premiums (RM'000)	1,056,291	951,497	873,737	704,409	570,875
Underwriting profit (RM'000)	30,948	103,587	74,205	66,812	47,218
Underwriting margin (%)	3.4	12.4	10.2	11.0	9.8
Claims ratio (%)	68.0	57.4	58.7	57.2	56.9
Total expense ratio (%)	26.6	29.3	28.8	29.8	30.6
Total investment return (%)	6.9	6.4	7.9	2.8	5.3
Liquid asset/Technical reserves (x)	76.6	75.6	72.9	63.4	69.7

## BUSINESS DESCRIPTION

### Introduction

Kurnia Insurans (M) Berhad (Kurnia) was incorporated in 1978 as Industrial & Commercial Insurance (M) Bhd. In 1991, Kurnia Damai Sdn Bhd (KDSB) acquired the entire share capital of the Company and subsequently changed its name to the present one. Kurnia is principally engaged in the underwriting of general insurance. As at 30 June 2004, its authorized and paid up capital stood at RM300.0 million and RM200.0 million respectively.

In year 2000, Kurnia completed the acquisition of Nusantara Worldwide Insurance (M) Sdn Bhd (NWI), a general insurer with a heavy concentration in the non-motor sector, from Koperasi Polis Diraja Malaysia Berhad. This was in line with Kurnia's diversification plans, as well as Bank Negara Malaysia's efforts to consolidate the insurance industry.

In August 2001, KDSB acquired Asia Dynamic Insurance Co. Ltd in Thailand, marking the group's initial foray into the region. The Company was subsequently renamed Kurnia Insurans (Thailand) Co Ltd to allow a common branding across the border.

In November 2004, Kurnia became a wholly-owned subsidiary of Kurnia Asia Berhad (KAB)<sup>1</sup> through an exchange of shares with KDSB as part of KAB's listing exercise. KAB will be officially listed on the Main Board of Bursa Malaysia Securities Berhad<sup>2</sup> on 27 January 2005.

### INDUSTRY ANALYSIS

In line with Malaysia's real Gross Domestic Product (GDP) growth of 5.2% in 2003 (2002: 4.1%) and the recovery of the global insurance market, the insurance industry expanded by 11.7% to RM18.8 billion in combined premium income for both general and life insurance businesses. Gross direct premiums of the general insurers alone rose by 9.9% to RM8.2 billion in 2003, with motor business continuing to be the key contributor (44.0%), followed by fire (19.4%), and marine, aviation and transit (MAT) (11.3%) classes. The growth in gross direct premiums moderated during the year due to the considerable slowdown in motor premium growth to 5.1% (2002: +10.9%) following the huge drop in motor vehicle sales in anticipation of cheaper prices under the ASEAN Free Trade Area (AFTA) agreement; as well as the softening of MAT premium rates compared to the significant price hikes in 2002 subsequent to the September 11 terrorist attacks. Another direct effect of the terrorist attacks was the application of a terrorism exclusion clause to all general insurance policies with effect from 1 January 2002. This was in response to a similar move by many of the world's leading reinsurers to exclude terrorism cover from their reinsurance treaties.

Whilst 10 out of a total of 36 direct insurers registered more than RM300.0 million in gross direct premiums each in 2003, 9 insurers were still operating below capacity, recording an average total gross direct premium of RM66.0 million each. Bank Negara Malaysia (BNM) believes that the low business volume is both not viable and does not commensurate with the revised minimum paid-up capital of RM100.0 million<sup>3</sup>. There is, therefore, still room for further consolidation especially among the smaller insurers. As at 30 June 2003, 15 mergers and acquisitions (M&As) involving 28 insurers were completed, reducing the total number of direct insurers in the industry from 58 in 1999 to 43<sup>4</sup>.

The overall retention ratio of the general insurance industry reduced to 85.5% in 2003 (2002: 86.9%), attributed mainly to the decline in retention of the MAT and large construction and engineering classes of business. Under the Financial Sector Masterplan (FSMP), BNM has approved the phased removal of voluntary cessions to Malaysian National Reinsurance Berhad (MNRB) to enhance competition in the reinsurance sector and enable direct reinsurers to increase their retained income. Hence, the level of

<sup>1</sup> KAB is an investment holding company incorporated in Malaysia in 2001.

<sup>2</sup> Formerly known as Malaysia Securities Exchange Berhad.

<sup>3</sup> With effect from 30 September 2001, pursuant to section 18 of the Insurance Act 1996.

<sup>4</sup> Economic Report 2003/2004.

voluntary cessions reduced to 5.0% for each class of general reinsurance business effective 1 January 2003. The termination of MNRB's retrocession business with effect from the same date, nevertheless, lowered the gross premium income of insurers.

In 2003, the general insurers' underwriting profits surged by 129.4% to RM534.1 million owing mainly to the 9.2% growth in earned premium income which more than offset the 4.1% combined increase in net claims incurred, net commissions and management expenses. The growth in underwriting profits, coupled with the sizeable capital gains and investment income, led to a 72.0% jump in operating profits to RM1.4 billion in 2003 (2002: RM0.8 billion). The overall claims ratio also improved to 59.0% (2002: 62.9%); the lowest level registered since 1998. This was attributed to the favourable claims experience in all non-motor classes of business brought about by more stringent underwriting practices and some release of reserves.

The claims ratio for the motor 'Act'<sup>5</sup> business climbed to a five-year high of 161.7% in 2003 (2002: 141.5%), compelling insurers to move away from this highly risky and unprofitable business. The overall motor claims ratio also continued to rise to 69.7% in 2003 (2002: 67.1%) due to the sharp increase in theft claims from RM135.0 million in 1997 to RM570.0 million in 2003. As part of General Insurance Association of Malaysia's (PIAM) on-going efforts to counter the escalating number of thefts in the industry, as well as to assist in the recovery of stolen vehicles, it has collaborated with insurers to offer free sandblasting services to comprehensive motor insurance policy holders<sup>6</sup>. PIAM has also urged manufacturers to install reliable and effective anti-theft devices in their products, and proposed incentives in the form of premium discounts for motorists who install anti-theft devices recognized by PIAM.

Effective from 1 January 2004, all insurers were required to fully comply with BNM's directive for all own damage claims<sup>7</sup> to use a centralized database for motor parts prices and labour charges in estimating repair costs. The database built by Motordata Research Consortium Sdn Bhd (MRC) is aimed at reducing subjectivity in claims assessment and shortening claims approval time. A Central Processing Centre (CPC) is also being established to record all motor claims, monitor and track fraudulent claims, provide history on vehicles and their owners, as well as connect insurers, loss adjusters and repairers online.

With effect from October 2004, insurers are also required to subscribe to the gateway system<sup>8</sup> supplied by any one of the three providers appointed by the Road Transport Department (JPJ), and issue cover notes for motor vehicles electronically as physical cover notes will no longer be accepted by JPJ from January 2005 onwards. The e-cover note system is implemented to speed up the issuance of road tax and eliminate fraud.

As part of its on-going efforts to enhance the overall industry's standards of professionalism, transparency and accountability in the interest of consumers, PIAM has introduced a set of fair practices guidelines in mid 2003. BNM has also collaborated with industry players to launch a 10-year Consumer Education Programme, known as InsuranceInfo, in August 2003. The programme was implemented to enhance consumer awareness and understanding of insurance products and services, as well as to educate consumers on their rights and responsibilities. Other initiatives undertaken include improving claims processing, simplification of insurance policy wordings and translation of policy documents into Bahasa Malaysia. In addition, all insurance agents and brokers are required, effective from July 2004, to perform a need-based analysis on new clients under the new Proper Advice Practices Guideline set by BNM and recommend only products or services that are appropriate to their needs and financial circumstances. The Financial Mediation Bureau (FMB), integrating the functions of both Insurance Mediation Bureau and Banking Mediation Bureau, has also been established to deal effectively with consumer complaints against financial institutions under the purview of BNM.

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<sup>5</sup> Compulsory 'third party' insurance cover required under the Road Transport Act 1987 for vehicles to be legally useable on public roads.

<sup>6</sup> Whereby vehicle registration numbers are sandblasted on the front and rear windscreens and quarter-glass of motor vehicles.

<sup>7</sup> This will be extended to third party claims in the future.

<sup>8</sup> The system provides an electronic linkage to enable insurers to transmit cover note details to the Road Transport Department (JPJ) in real-time.

In order to allow insurers to better match their insurance liabilities with investment assets, BNM has relaxed its guidelines under the admitted assets framework. With effect from 1 January 2002, insurers are allowed to hold a minimum of 10.0% of their margin of solvency (MOS)<sup>9</sup> in low-risk assets<sup>10</sup>, compared to 20.0% previously. BNM has also revised upwards insurers' investment limits in credit facilities<sup>11</sup> to promote increased demand for private debt securities (PDS) to boost the domestic capital market. Effective 1 January 2004, insurers' investment limit in the combined secured and unsecured credit facilities was increased from 40.0% to 50.0% of their MOS, whilst the limit on unsecured credit facilities<sup>12</sup> alone rose from 30.0% to 40.0%.<sup>13</sup>

## BUSINESS ANALYSIS

FYE 30 June	2004	2003	2002	2001	2000
Gross premiums (RM'000)	1,056,291	951,497	873,737	704,409	570,875
Annual change (%)	11.0	8.9	24.0	23.4	16.0
Net premiums (RM'000)	963,769	864,195	789,407	650,254	522,500
Annual change (%)	11.5	9.5	21.4	24.5	20.2
<i>Net premiums by line of business (%)</i>					
Motor	93.6	93.7	94.5	93.3	92.9
Medical and Personal Accident	1.9	2.1	2.1	3.0	3.6
Fire	1.3	1.2	1.3	1.7	1.6
Marine, Aviation and Transit	0.6	0.7	0.4	0.3	0.2
Others	2.6	2.3	1.7	1.7	1.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Market share of general industry net premiums (%)	n.a.	13.4	13.1	12.1	10.3
Market share of motor net premiums (%)	n.a.	22.6	22.3	20.0	17.5

In 2002/2003, Kurnia maintained its pole position as the country's largest general insurer with a 13.4% share of the industry's net premiums (2001/2002: 13.1%)<sup>14</sup>, reflecting customer's acceptance and confidence in its products and services. In FY2004, the Company regained a double digit growth in gross premium of 11.0% (FY2002: +8.9%) to RM1.06 billion, albeit falling slightly short of its RM1.1 billion target. The growth was nevertheless moderated by the decline in the inward reinsurance business to RM3.2 million (FY2003: RM29.8 million) following the termination of MNRB's retrocession agreement. Conversely, the corresponding reduction in voluntary cessions to MNRB to RM52.2 million in FY2004 (FY2003: RM58.6 million) partly led to an 11.5% increase in net premium income to RM963.8 million during the year. In FY2005, the voluntary cessions were further reduced to between 4.0% and 5.0% of gross premiums for all classes of business.

Kurnia is the first general insurer in the ASEAN region to surpass the RM1.0 billion gross premium mark. The Company attributes its success to the Intensive Marketing Management (IMM) project implemented during the year, which focused on strengthening of marketing activities to spur production growth at all levels. The key elements of the project included the setting and constant monitoring of production targets from the state, branch, unit manager, marketing executive levels to the agent level; promoting better communication among various offices and personnel within Kurnia; as well as further strengthening of relationships with agents especially through the visits conducted by the chief executive officer (CEO) and the Senior Management Committee (SMC)<sup>15</sup> to their offices nationwide. Kurnia also leveraged on the company's strength, competitive advantage, IPO listing, as well as innovative products and services to encourage higher production from agents.

<sup>9</sup> The aggregate of a specified percentage of claims or net premiums, plus total liabilities of the general insurance fund determined at the end of the financial year.

<sup>10</sup> Which include securities and papers issued by the government and BNM.

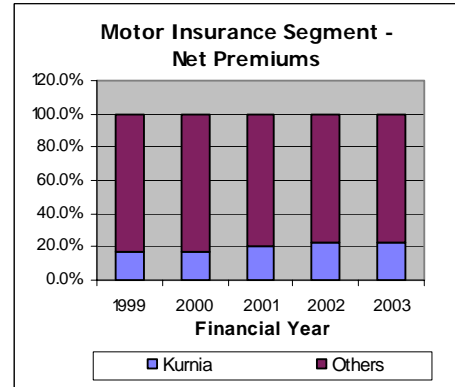
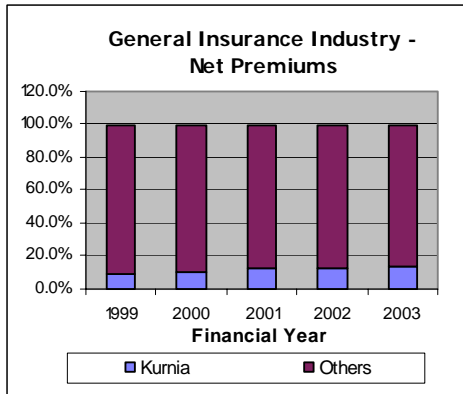
<sup>11</sup> Which includes private debt securities such as bonds, notes, debentures and local stocks, as well as convertible debt securities before their conversion to equities.

<sup>12</sup> An unsecured credit facility under the framework must be of a minimum rating of BBB, P3 or its equivalent given by a rating agency established in Malaysia or by an internationally recognized rating agency.

<sup>13</sup> BNM Insurance Annual Report 2003.

<sup>14</sup> BNM Insurance Annual Report 2003.

<sup>15</sup> Comprised of an executive director, CEO, two senior general managers and a general manager.



(Source: Bank Negara Malaysia Insurance Annual Reports)

Kurnia provides a full range of general insurance products including, but not limited to motor, medical and personal accident (PA), fire, and marine, aviation and transit (MAT). Nevertheless, the Company has successfully carved a niche in the motor segment, and has been able to build a business that is sizeable enough for the Company to operate effectively and efficiently as a specialist motor insurer, despite not having the advantage of being associated with a bank or corporate group with a ready client base. In 2002/2003, Kurnia maintained its leadership position in the local motor insurance segment, for the eighth consecutive year, with 22.6% share of the market's total net premiums compared to 22.3% previously. Uni.Asia General Insurance Berhad<sup>16</sup> trailed at a distant second, with a 6.6% market share (2001/2002: 7.0%).

While maintaining its leadership in the motor insurance market, Kurnia is moving actively into non-motor sectors, especially medical, PA and fire, in line with its aim to capture 30.0% of the industry's general insurance premium as early as year 2010. To achieve this objective, Kurnia will bank on its strong agency force to cross-sell personal line products to its large motor policyholder base; and channel non-motor insurance requirements of their small and medium-sized industries (SMI) clients to the Company. Kurnia will also continue to work with brokers to source more commercial and industrial risk businesses. In addition, the Company has established tie-ups with reinsurers and other technical partners to provide assistance and training to its underwriting personnel. Kurnia's efforts in building its non-motor expertise has generated positive results, evidenced by the underwriting of 20.0% of Sarawak Hidro (Bakun dam) and 25.0% of Tenaga Nasional Berhad's Janamanjung engineering risks in FY2004 which generated a combined gross premium of RM4.6 million. Marketing activities in respect of non-motor products have also been intensified, contributing to the 20.2% growth in non-motor gross premium income to RM96.0 million in FY2004. Going forward, Kurnia will continue to review and enhance existing products, as well as introduce new ones, such as MediGuard and MediGuard Express launched in December 2004.

**Motor** In FY2004, the motor business remained the main contributor (93.6%) to the Company's total net premium. The bulk (74.5%) of the RM959.0 million<sup>17</sup> motor gross premiums were contributed by private cars, followed by commercial vehicles (17.4%) and motorcycles (8.1%). In terms of policy mix, Kurnia derived 81.7% (FY2003: 82.3%) of its motor gross premium from non-mandatory motor covers. In line with the improvement in motor vehicle sales in the first half of 2004 and Kurnia's aggressive IMM campaign, the motor business expanded by 10.2% (FY2003: +7.1%), surpassing the industry growth of 5.1%.

The announcement of the 2004 tariff structure for the local automotive industry in December 2003 managed to remove uncertainties regarding motor vehicle prices. This, coupled with strong economic growth forecast, positive consumer sentiment and cheap hire purchase terms, contributed to the 12.5% growth in industry volume to 224,254 units in the first half of 2004 as compared to the previous corresponding period. The Malaysian Automotive Association consequently revised its preliminary

<sup>16</sup> Formerly known as South East Asia (SEA) Insurance Berhad.  
<sup>17</sup> Excluding MNRB's RM1.3 million inward retrocession business.

forecast upwards from 420,000 units to 440,000 units. The improved outlook on motor vehicle sales for 2004 is expected to translate into higher motor premium growth for Kurnia in FY2005.

The sustained growth in Kurnia's motor business, thus far, was driven by its extensive distribution network; strong relationships with agents; the success of various loyalty programs for customers and business associates; aggressive marketing efforts and effective claims management. Going forward, Kurnia aims to maintain its leadership position in the local motor insurance market. To achieve this goal, the Company will continue to enlarge its marketing force; intensify its marketing efforts; as well as attract and retain customers through the provision of its value-added services and innovative products, such as Kurnia Auto Assist (KAA) and Kurnia Express (KE).

Since the introduction of KAA<sup>18</sup> in October 2000, Kurnia continues with its efforts to maintain customer satisfaction and loyalty, for example, through the introduction of KAA servicing motorcycles in April 2004 to enable the Company to reach its policyholders faster, especially in heavily congested areas. To date, there are 26 KAA cars, 7 KAA tow trucks, 8 KAA motorcycles and 543 panel workshops with 52 panel tow trucks providing roadside assistance service to Kurnia's policyholders.

KE is an immediate claims settlement service launched in December 2003, the first of its kind in the local motor insurance industry. KE offers cash settlement for own damage claims not exceeding RM3,000 to comprehensive private car policyholders with vehicles below five years old. The claims are settled within a one-hour period at any of the KE Service Centers throughout Malaysia, after which claimants are allowed to send their vehicles for repair at their preferred workshop. In April 2004, KE extended its service to cover private vehicles of all ages. This has raised the number of claims by private vehicles that are more than five years old from 27.3% of the total number of KE claims in April 2004 to 55.4% in June 2004. The significant growth in total KE claims from 253 cases in December 2003 to 869 cases in June 2004 reflects the customers' acceptance of the service, as well as their preference for simplicity, speed, convenience and flexibility in claims settlement. The success of the scheme also prompted Kurnia to increase the number of KE Service Centers from 22 to 27 centers nationwide.

**Medical and Personal Accident (PA)** In FY2004, the medical and PA business remained as Kurnia's second largest insurance segment, although it contributed RM18.0 million or a mere 1.9% (FY2003: 2.1%) towards the Company's total net premium. In the short-term, Kurnia will be focusing on the growth of the medical business as part of the Company's plan to expand its share of the industry's non-motor market, and has thus introduced two new medical products, namely MediGuard and MediGuard Express, in December 2004.

**Fire** The premium split between commercial and residential buildings is approximately 87:13, with the concentration on commercial buildings being driven by its higher premium value. The fire segment registered a commendable growth of 20.0% in net premium income to RM12.8 million, raising its contribution to 1.3% (FY2003: 1.2%) of the Company's total net premium in FY2004.

**Marine, aviation and transit (MAT)** Net premium growth registered by the MAT business slowed down tremendously to 0.4% (FY2003: +88.8%) to reach RM5.7 million in FY2004. This was attributed to the selective acceptance of marine hull risks during the year, in view of poor industry performance in this business sub-class. Consequently, its contributions to the Company's total net premium remained insignificant at 0.6% (FY2003: 0.7%), with the bulk of the business being derived from cargo insurance.

**Others** In FY2004, gross premiums from the foreign workers compensation scheme (FWCS) business rose by 59.5% to RM5.9 million. During the year, the Ministry of Human Resources tightened the market to allow only four insurers, including Kurnia, to underwrite the foreign workers compensation scheme (FWCS) policy. Thus, with effect from 1 June 2004, every employer who hires foreign workers must insure them with any of the four appointed insurers<sup>19</sup>. Going forward, the FWCS business is expected to grow favourably and help boost Kurnia's non-motor business.

<sup>18</sup> KAA is a free 24-hour breakdown assistance service launched for Kurnia's comprehensive private car insurance policyholders and third party policyholders with DPPA (driver and passenger personal accident) policies.

<sup>19</sup> Failing which, they shall be guilty of an offence under Section 26 (2) of the Workmen's Compensation Act 1952, and be liable, on conviction, to a fine not exceeding RM20,000 or imprisonment for a term not exceeding 2 years or both.

## Distribution Channels

Being primarily a direct underwriter with inward reinsurance contributing less than 1.0% towards the Company's total gross premiums in FY2004 (FY2003: 3.1%) especially with the termination of MNRB's retrocession agreement in 2003, Kurnia relied heavily on agents as its main distribution channel. As at 30 June 2004, Kurnia's agency force grew to 7,611 (FY2003: 7,287), 21.4% of whom are full-time agents<sup>20</sup>. Recognizing the importance of its agency force, which contributed 94.0% of the Company's total gross premium income in FY2004 (FY2003: 91.3%), Kurnia has embarked on various efforts to empower its agents to stay ahead and compete effectively. Examples are the provision of training on both motor and non-motor products; as well as the roll-out of the web-based Electronic Agency Service Centre (e-ASC) which allows agents to process e-cover notes, submit policy applications and conduct other types of transactions through the internet.

As a means of improving its distribution network, Kurnia entered into a bancassurance arrangement with Hong Leong Bank Berhad (HLBB) in July 2001 to cross-sell the Company's motor insurance to HLBB's auto loan customers. In the same year, Kurnia established a joint-venture with Pos Malaysia to facilitate the marketing of its products and services nationwide, albeit predominantly motor insurance. In addition to the arrangements with HLBB and Pos Malaysia, Kurnia has also established reciprocal business relationships with eight financial institutions that channel their customers' insurance requirements to the Company.

## OPERATING/UNDERWRITING PERFORMANCE

FYE 30 June	2004	2003	2002	2001	2000
Underwriting profit (RM'000)	30,948	103,587	74,205	66,812	47,218
Profit before tax (RM'000)	89,176	164,764	152,477	86,385	88,261
Underwriting margin (%)	3.4	12.4	10.2	11.0	9.8
Pre-tax profit/ Average Shareholders' Funds (%)	21.2	40.6	46.3	35.3	44.6
Claims ratio (%)	68.0	57.4	58.7	57.2	56.9
Total expense ratio (%)	26.6	29.3	28.8	29.8	30.6
Combined ratio (%)	94.6	86.7	87.5	87.0	87.5
Operating ratio (%)	88.6	81.4	81.5	80.5	81.0

Kurnia's overall underwriting results for FY2004 deteriorated significantly by 70.1% to RM30.9 million (FY2003: +39.6%) despite registering a double digit growth in gross premium income. This was attributed mainly to the higher charge on unearned premium reserve of RM65.6 million (FY2003: RM27.3 million) and the 27.2% increase in net claims incurred to RM610.9 million during the year.

The increase in net claims incurred is in line with the growth in gross premiums and higher IBNR (Incurred But Not Reported) provisions. The latter was attributed to a one-off prior year adjustment for the motor 'Act' business arising from changes in the projected number of cases made by the appointed independent actuary based on the actual development of claims pattern that became more obvious in FY2004. This resulted in the deterioration of the overall claims ratio to 68.0% during the year (FY2003: 57.4%). However, excluding the effects of the one-off adjustment in respect of the prior year, the normalized claims ratio for FY2004 stood at a reasonable level of 58.3% (FY2003: 58.8%). The claims control practices employed by management to address the growth in net claims incurred include active investigation of theft, property damage and bodily injury claims; annual review of panel workshops to weed out recalcitrant operators; as well as stringent control on panel lawyers and adjusters. With the rapid expansion in business volume, the Company has also increased the number of claims personnel, in-house surveyors and investigators to ensure that claims management remain under control. Underwriting policies and guidelines were also further tightened in respect of certain high risk exposures, such as those involving chemical tankers and flammable liquid, whereby the acceptance authority is limited to the general manager level only.

<sup>20</sup> Full time agents are agents registered with PIAM, earning income generated from insurance business of at least RM1,500 per month on average.

Net commissions increased by only 0.6% to RM94.0 million despite the growth in gross premiums and agency force. The growth in management expenses was also contained to RM162.4 million (FY2003: RM159.5 million) despite the increase in staff costs and advertising expenses, owing to the reduction in the allowance for doubtful debts to RM3.9 million during the year (FY2003: RM16.4 million). The overall growth in management expenses has been on a decreasing trend since FY2000, resulting from the implementation of strict cost control measures such as the procurement tendering system; the cost conscious mindset fostered among employees; and the increasing use of information technology (IT) to improve business processes. The success of the cost control efforts is reflected in a lower total expense ratio of 26.6% (FY2003: 29.3%), which outperformed the industry average of 31.4%. However, marketing expenses are expected to rise due to the intensified efforts to promote non-motor products and value-added services such as KAA and KE.

Despite the improvement in investment income and write back of provision for diminution in value of investments resulting from the buoyant stock market environment in the first half of 2004, the 70.1% reduction in underwriting profit and RM31.1 million impairment loss on goodwill led to the 45.9% decline in pre-tax profit to RM89.2 million.

**Motor** The motor business continued to contribute the largest proportion (88.2%) towards the Company's total underwriting profits in FY2004. However, it ranked third in terms of underwriting margin. During the year, net claims incurred increased by 27.4% to RM586.1 million in line with the 11.4% growth in motor net premiums. Total gross claims paid of RM496.0 million<sup>21</sup> in FY2004 were made up mainly of own damage (36.8%), bodily injury (28.3%) and theft (16.5%) claims. In recent years, the sums for bodily injury claims have been on the rise because of higher court awards higher quanta to plaintiffs. To keep the claims escalation in check, Kurnia has re-centralised its TPBI (third party bodily injury) processing at the head office in August 2004. Commission expense, on the other hand, declined marginally by 0.2% to RM84.9 million. These translated into claims and commission ratios of 69.7% (FY2003: 58.5%) and 9.4% (FY2003: 10.5%) respectively. In FY2004, the motor 'Act'<sup>22</sup> business, representing 18.3% of the total motor portfolio, suffered a 154.9% increase in underwriting loss to RM115.5 million due to its high claims exposure of 164.5% (FY2003: 121.4%). This has prompted Kurnia to increase the premium loading on third party commercial vehicles policies effective November 2004. The RM285.9 million (FY2003: RM286.5 million) profits generated from the motor non-'Act' business managed to moderate the decline in the overall underwriting profits to RM170.4 million during the year (FY2003: RM241.2 million).

Peer Comparison – Selected Indicators

Motor Business	Kurnia 30.6.04	MAA 31.12.03	Uni.Asia 31.3.04	P&O 30.9.03
<b>Net Premiums (RM mil)</b>				
2003/2004	902,336	235,817	211,027	168,504
2002/2003	809,658	211,306	235,984	175,396
<b>Claims ratio (%)</b>				
2003/2004	69.7	76.9	63.3	87.7
2002/2003	58.5	71.4	51.8	97.4
<b>Underwriting Margin (%)<sup>23</sup></b>				
2003/2004	20.3	13.0	27.8	2.9
2002/2003	30.7	18.7	38.8	(7.1)

Note: Kurnia Insurans Bhd, Uni.Asia General Insurance Bhd (formerly known as SEA Insurance Bhd), MAA, Pacific & Orient Insurance Co. Bhd (P&O) are the four largest motor insurers in Malaysia.

**Peer Comparison** Kurnia maintained its lead in the motor insurance sector with the highest net premium income of RM902.4 million in 2003/2004. Kurnia also achieved the highest underwriting margin of 20.3% and the lowest claims ratio of 69.7% after Uni.Asia General Insurance Bhd<sup>24</sup>.

<sup>21</sup> Excluding inward claims, professional fees and other associated expenses.

<sup>22</sup> Compulsory 'third party' insurance cover required under the Road Transport Act 1987 for vehicles to be legally useable on public roads.

<sup>23</sup> Underwriting margin is computed before management expenses as follows:  
Underwriting profit (before management expenses)

Earned Premium Income

<sup>24</sup> Which ranks third, after MAA, in 2003/2004.

**Medical and PA** During the year, net claims incurred and net commissions for the medical and PA business declined to RM4.7 million (FY2003: RM5.9 million) and RM3.3 million (FY2003: RM3.9 million) respectively, resulting in the 19.2% increase in underwriting profit to RM9.6 million. These translated into lower claims and commission ratios of 26.8% (FY2003: 33.1%) and 18.2% (FY2003: 21.5%) respectively. Hence, the medical and PA segment remained as the Company's most profitable class of business in FY2004 with an underwriting margin of 54.5% (FY2003: 45.2%).

**Fire** The fire business registered a double digit growth in net premium to RM12.8 million in FY2004 (FY2003: RM10.7 million). However, net claims incurred only rose slightly to RM5.9 million (FY2003: RM5.1 million) owing partly to the low retention ratio of 57.8% (FY2003: 63.2%). Out of the total claims paid in FY2004, 90.0% related to commercial buildings whilst the remaining 10.0% were for residential buildings. Net commissions, on the other hand, remained stable at RM1.1 million, contributing to the 2.8% increase in underwriting profit to RM4.4 million. With an underwriting margin of 38.9% (FY2003: 41.3%), fire was the second most profitable class of business in FY2004. Going forward, the underwriting profitability of the fire business is expected to improve since the fire tariff is currently being reviewed by PIAM to give insurers more room and flexibility in the underwriting of fire policies.

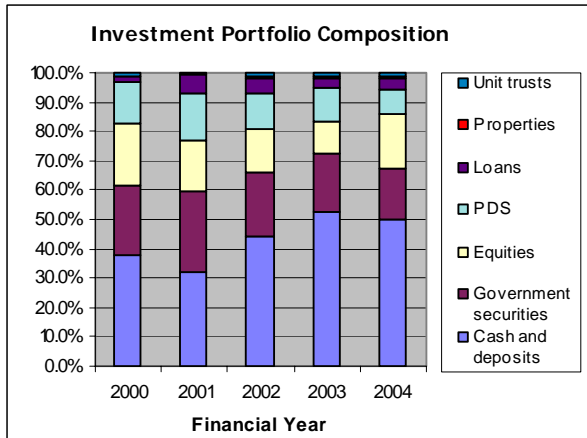
**MAT** Despite the marginal growth of 0.4% in net premiums to RM5.7 million in FY2004, adverse claims experience in the marine hull business led to a sharp 107.1% increase in net claims incurred to RM4.8 million. Commission expense increased by 53.0% to RM0.7 million. These translated into higher claims and commission ratios of 80.9% (FY2003: 46.5%) and 12.2% (FY2003: 8.0%) respectively. As a result, underwriting profit contracted to RM0.4 million (FY2003: RM2.2 million), making it the least profitable class of business with an underwriting margin of only 7.4% in FY2004 (FY2003: 44.4%).

## INVESTMENTS

FYE 30 June	2004	2003	2002	2001	2000
Net investment income (RM'000)	54,047	43,842	44,002	39,375	31,285
Investment yield (%)*	4.5	4.2	4.6	4.7	4.1
Investment return (%)	6.9	6.4	7.9	2.8	5.3
Total invested assets (RM'000)	1,335,425	1,050,750	1,030,873	877,444	783,982

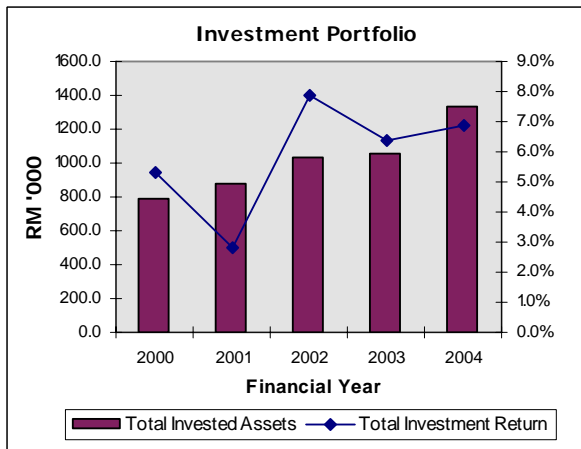
\* Excludes profit/(loss) on disposal of investments

Kurnia's investment policy, and hence portfolio mix, follows the guidelines prescribed by BNM and its in accordance with the Insurance Act 1996. However, the Company's exposure in each investment category is below the limit set by the Act, reflecting prudent and conservative fund management. Kurnia's equity portfolio is held with a view of gaining long-term returns and is selected based on strategic considerations including potential business referrals. As at 30 June 2004, all equities were held in Main Board counters. The private debt securities (PDS) investments, on the other hand, are required to have a minimum rating of BBB. There are, however, no policy restrictions on industry concentration. In FY2004, all the PDS held in the RM118.9 million portfolio have a minimum rating of A, with the bulk of it (66.0%) carrying an AA rating. In terms of industry segmentation, RM48.7 million or 41.0% were invested in the power industry, followed by 25.4% in infrastructure, and 12.8% in consumer products and trading. In terms of maturity profile, 65.2% of the PDS held have maturities of between one to five years.



In FY2004, Kurnia reduced its composition of liquid assets (cash and deposits plus government securities) to 67.4% (FY2003: 72.6%) and raised its investment in equities to 18.2% of total invested assets (FY2003: 11.0%), following the improved stock market sentiment during the period under review. Nevertheless, the level of liquid assets remained relatively high compared to its peers. The composition of PDS, on the other hand, reduced from 11.4% in FY2003 to 8.9% in FY2004 in view of the weak bond market in the second half of 2003. In absolute terms, equity investments more than doubled to RM243.2 million (FY2003: RM115.2 million), whilst PDS investments declined slightly by 0.4% to RM118.9 million.

### Investment yield



In line with the significant increase in equity investments, Kurnia's investment leverage rose from 28.6% in FY2003 to 60.7% in FY2004. The corresponding increase in dividend income to RM14.8 million (FY2003: RM6.7 million) and profit from the disposal of investments to RM28.0 million (FY2003: RM22.7 million) contributed to the improvement in total investment return to 6.9% (FY2003: 6.4%). Investment yield, which excludes realized capital gains and losses, also rose to 4.5% (FY2003: 4.2%) owing mainly to the 11.5% increase in interest income to RM37.8 million.

## LIQUIDITY AND CASH FLOW

FYE 30 June	2004	2003	2002	2001	2000
Underwriting cash flow ratio (%)	126.2	128.9	131.1	122.2	136.4
Total cash flow ratio (%)	113.4	112.2	133.3	116.4	100.6
Liquid assets/Technical reserves (%)	76.6	75.6	72.9	63.4	69.7
Liquid assets/Liabilities (%)	71.8	69.5	65.6	56.3	60.3

Net cash flow generated from Kurnia's underwriting activities improved to RM195.8 million in FY2004 (FY2003: RM190.1 million), driven by the 11.5% increase in net premium income. Underwriting cash flow ratio, however, reduced marginally to 126.2% (FY2003: 128.9%) due to the higher combined growth in claims payment, commission and management expenses. Total cash flow ratio, on the other hand, rose slightly to 113.4% (FY2003: 112.2%) owing to higher non-underwriting income during the year.

The Company's level of liquid assets continued to expand by 18.0% to RM900.3 million in FY2004, leading to an improvement in both liquid assets coverage of technical reserves and liabilities to 76.6% (FY2003: 75.6%) and 71.8% (FY2003: 69.5%) respectively.

In line with the 11.0% growth in gross premiums, net trade receivables rose by 44.7% to RM60.9 million in FY2004. This led to a higher ratio of trade receivables to shareholders' funds of 14.7% in FY2004 (FY2003: 9.8%). Slightly less than half of the gross trade receivables were more than six months old and have already been fully provided for. The relatively slower collection of insurance debts arose mainly from operational issues faced by newly merged insurance entities.

## CAPITALIZATION AND RESERVES

FYE 30 June	2004	2003	2002	2001	2000
Shareholders' funds (RM'000)	412,763	429,111	381,850	277,352	212,507
Operating leverage (%)	233.5	201.4	206.7	234.5	245.9
Investment leverage (%)	60.7	28.6	41.8	56.4	83.5
Claim reserves/Shareholders' funds (x)	181.6	151.0	158.1	198.7	216.6
Claims reserves (RM'000)	749,592	647,826	603,844	551,206	460,242
Claims reserves/Net premiums (%)	77.8	75.0	76.5	84.8	88.1
Technical reserves (RM'000)	1,176,080	1,008,683	937,361	826,035	689,713
Technical reserves/Net premiums (%)	122.0	116.7	118.7	127.0	132.0

Kurnia's share capital remained at RM200.0 million as at 30 June 2004; double the revised minimum paid-up capital requirement of RM100.0 million. However, total shareholders' funds declined marginally by 3.8% to RM412.8 million as a result of the 54.2% reduction in net profit to RM53.7 million and the RM70.0 million dividend payment in FY2004. This, coupled with higher net premium income and equities investments, led to greater operating and investment leverages of 233.5% (FY2003: 201.4%) and 60.7% (FY2003: 28.6%) respectively.

Kurnia's claims and technical reserves continued to strengthen to RM749.6 million (FY2003: RM647.8 million) and RM1.2 billion (FY2003: RM1.0 billion) respectively. These led to improvements in the claims and technical reserves over net premiums to 77.8% (FY2003: 75.0%) and 122.0% (FY2003: 116.7%) respectively.

The Company's solvency position remained adequate, with a surplus of admitted assets over the margin of solvency of RM83.4 million in FY2004 (FY2003: RM128.0 million).

## REINSURANCE

In line with the reduction in the voluntary cessions to MNRB, Kurnia's reinsurance usage continued to reduce in FY2004 with a high retention ratio of 91.2% (FY2003: 90.8%). This was also attributed to the Company's portfolio composition which is dominated by the motor class, a relatively small risk business. The low reliance on reinsurance support protects the Company from reinsurance premium rate hikes which may impose a downward pressure on underwriting results. Going forward, Kurnia's reinsurance usage is expected to drop further with the increase in the retention levels per risk<sup>25</sup> to RM0.35 million for motor and MAT classes, and RM0.50 million for contractor's all risk and engineering, and fire classes in FY2003.

The credit risk of reinsurers is well mitigated as Kurnia maintains a panel of six different reinsurers, with the addition of Caisse Centrale de Réassurance (CCR) during the year. The reinsurers are selected based on their financial strength; competitiveness of rates; and ability to provide technical support, with consideration given to continuity. Kurnia's minimum required rating for reinsurers is BBB, in line with BNM's guidelines. Notwithstanding this, the Company has historically maintained foreign reinsurers with a minimum rating of A-. In FY2004, claims recoverable from reinsurers reduced to RM51.8 million (FY2003: RM54.9 million), representing 12.6% (FY2003: 12.8%) of shareholders' funds.

The latest rating of Kurnia's reinsurers are as follows:

Reinsurers	Rating	Rating Agency
Munich Re	A+	Standard & Poor's
Labuan Re	B++	A.M. Best
MNRB	BBB	Standard & Poor's
China International Re	A-	Standard & Poor's
Partner Re	AA-	Standard & Poor's
CCR	AAA	Standard & Poor's

As at 30 June 2004, 76.3% of all outstanding premiums and claims receivable from reinsurers were at least six months old, with the bulk coming from treaty reinsurance placements. Slow recoveries were mainly caused by complex claims which have more stringent documentary requirements, as well as reinsurers that have been put under provisional liquidation. Going forward, recoveries are expected to be better controlled with the setting up of a centralized unit to oversee all claims recoveries from reinsurers.

## MANAGEMENT AND CORPORATE STRATEGY

**Management** Kurnia's executive committee (EXCO)<sup>26</sup> and senior management committee (SMC) are made up of highly experienced individuals, most of whom have at least ten years experience in the insurance industry. Factors such as aggressive marketing strategies; prudent claims policies; and the management's hands-on approach in dealing with operational issues, have benefited Kurnia over the years and led the Company to become the industry leader it is today.

Kurnia has also endeavoured to improve its succession planning with the launch of 'Kurnia Corporate Culture and Mentoring programme' in June 2003 which enables it to identify and groom potential leaders.

In August 2004, Mr Kong Shu Yin, who was previously the General Manager of Central Support, was appointed as Kurnia's CEO, taking over Dato' Adrian Loh's role. Both individuals have been with Kurnia since 1997. After stepping down as CEO, Dato' Loh became the Company's Chairman.

**Operations** The rapid expansion in Kurnia's business, reflected by the escalation in the number of insurance policies written from 0.4 million in FY1992<sup>27</sup> to 3.4 million in FY2004 is partly attributed to the quality of the service provided to the Company's customers and business associates. Kurnia follows the International Standardization Organization (ISO) requirements closely and has

<sup>25</sup> Determined with reference to the size of shareholders' funds, premium base, nature of risks insured as well as the expected frequency of claims.

<sup>26</sup> Comprised of an executive chairman, deputy executive chairman and executive director.

<sup>27</sup> Kurnia's second financial year.

successfully renewed its ISO 9001:2000 certification in November 2004. Kurnia's commitment to improving quality, efficiency and effectiveness of its operations is evidenced by its fully documented and up-to-date operational procedures, total quality inspections and audits, as well as the tracking of customer feedbacks and complaints. The ISO standards and quality culture provide the Company with a mechanism to monitor and cultivate market-driven and customer service attitudes at all levels, which in turn have helped Kurnia maintain its competitive edge in the industry.

From July 2002, Kurnia began to reorganize its operational structure involving the decentralization of its business to state level. Each state has a State Management Office, with its own marketing, underwriting and claims functions, which ultimately reports to their respective regional heads in East and West Malaysia. MARC concurs with management's belief that the decentralization exercise would enhance the effectiveness of all facets of Kurnia's business by bringing the Company closer to the market and by expediting the decision-making process, which will translate into improved profitability in the long run.

Kurnia invested RM8.5 million<sup>28</sup> in IT in FY2004 (FY2003: RM5.6 million). In line with its plans towards a paperless environment, part of the funds were used to migrate the existing systems to a web-based insurance application system which is targeted to be operational by July 2005. The new system, which allows transactions to be carried out in and out of the office via the internet, will help improve staff efficiency and productivity. Funds were also used to upgrade network infrastructure and security to cater for the e-business expansion and web-based environment; as well as to provide personal computers (PCs) to qualified agents. In early 2004, wireless LAN (local area network) enabled notebooks equipped with Kurnia's own proprietary, customized e-MMS (electronic marketing management system) software were provided to the Company's front-line marketing staff. This enables the marketing staff to access Kurnia's central database containing various information and policyholders' details while on the move, enabling them to provide prompt and efficient services to agents and customers nationwide. The expected increase in productivity, longer platform stability and lower IT support costs will help Kurnia to improve customer satisfaction and ultimately maintain its leadership position in the motor insurance market.

**Strategies** Kurnia Asia Berhad (KAB), Kurnia's new holding company, plans to expand further into the Association of South East Asian Nations (ASEAN) region, namely Indonesia and Thailand, over the next two to three years, either through the purchase of divested businesses or tie-ups with strong foreign insurers.

KAB will be officially listed on the Main Board of Bursa Malaysia Securities Berhad<sup>29</sup> on 27 January 2005. The listing will enable Kurnia to tap into the capital markets to fund its expansion plans, besides enhancing its brand awareness and customer acceptance, as well as maintaining the loyalty of its staff and agents through the ownership of shares in the Company.

*This communication is not an offer to sell or a solicitation of an offer to buy the securities mentioned. The information contained herein has been approved for publication by the rated entity and Malaysian Rating Corporation Berhad makes no representation as to the accuracy or completeness of such information.*

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<sup>28</sup> Excluding depreciation expense.

<sup>29</sup> Formerly known as Malaysia Securities Exchange Berhad.

## KURNIA INSURANS (MALAYSIA) BERHAD

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46150 Petaling Jaya, Selangor  
TEL: (603) 7875 3333 FAX: (603) 7875 9933  
Website: [www.kurnia.com.my](http://www.kurnia.com.my)

### BOARD OF DIRECTORS (As at 31 December 2004)

Chairman : Dato' Adrian Loh Heong Chow  
Deputy Chairman : Dato' Othman bin Abdul  
CEO/Director : Mr. Kong Shu Yin  
Directors : Dato' Quah Teong Moo  
Datuk Kua Sian Kooi  
Mr. Yuen Choong Lai

**MAJOR SHAREHOLDER** Kurnia Asia Bhd : 100.0 %

### KURNIA INSURANS (MALAYSIA) BERHAD PROFIT AND LOSS ACCOUNT

	RM'000				(Growth %)			
	2004	2003	2002	2001	2004	2003	2002	2001
<i>Financial Year Ending: June 30</i>								
<b>GENERAL INSURANCE REVENUE ACCOUNT</b>								
Gross Premiums - direct business	1,053,111	921,712	849,203	694,301	14.3	8.5	22.3	26.6
- reinsurances accepted	3,180	29,785	24,534	10,108	(89.3)	21.4	142.7	(55.0)
	<b>1,056,291</b>	<b>951,497</b>	<b>873,737</b>	<b>704,409</b>	<b>11.0</b>	<b>8.9</b>	<b>24.0</b>	<b>23.4</b>
Less: Reinsurance	92,522	87,302	84,330	54,155	6.0	3.5	55.7	11.9
Net Premiums Written	963,769	864,195	789,407	650,254	11.5	9.5	21.4	24.5
Add: Dec/(Inc) in reserve for unexpired risks	(65,631)	(27,340)	(58,688)	(41,972)	140.1	(53.4)	39.8	(0.2)
Earned Premium Income	898,138	836,855	730,719	608,282	7.3	14.5	20.1	26.6
Gross claims paid less salvage	562,223	480,387	418,479	361,116	17.0	14.8	15.9	40.0
Less: Reinsurance recoveries	53,125	44,051	42,317	30,482	20.6	4.1	38.8	21.0
Net claims paid	509,098	436,336	376,162	330,634	16.7	16.0	13.8	42.0
Add: Inc in provision for claims	101,766	43,982	52,638	17,302	131.4	(16.4)	204.2	(57.3)
Net Claims Incurred	610,864	480,318	428,800	347,936	27.2	12.0	23.2	27.3
Less: Net Commissions	93,952	93,434	86,467	73,783	0.6	8.1	17.2	21.5
Less: Management Expenses	162,374	159,516	141,247	119,751	1.8	12.9	18.0	20.8
	256,326	252,950	227,714	193,534	1.3	11.1	17.7	21.0
Underwriting result	<b>30,948</b>	<b>103,587</b>	<b>74,205</b>	<b>66,812</b>	<b>(70.1)</b>	<b>39.6</b>	<b>11.1</b>	<b>41.5</b>
Investment Income	54,047	43,842	44,002	39,375	23.3	(0.4)	11.8	25.9
Other Income/(Expenditure)	35,285	18,738	35,932	(18,417)	88.3	(47.9)	(295.1)	(288.7)
Net Other Income/(Expenditure)	89,332	62,580	79,934	20,958	42.7	(21.7)	281.4	(48.9)
Amortisation/impairment of goodwill	31,104	1,403	1,662	1,385	2117.0	(15.6)	20.0	n.m
<b>PROFIT BEFORE TAX</b>	<b>89,176</b>	<b>164,764</b>	<b>152,477</b>	<b>86,385</b>	<b>(46.9)</b>	<b>8.1</b>	<b>76.5</b>	<b>(2.1)</b>
Taxation	35,524	47,503	47,979	21,540	(25.2)	(1.0)	122.7	(25.7)
<b>PROFIT AFTER TAX</b>	<b>53,652</b>	<b>117,261</b>	<b>104,498</b>	<b>64,845</b>	<b>(54.2)</b>	<b>12.2</b>	<b>61.2</b>	<b>9.4</b>
<b>RETAINED PROFITS/(LOSS) B/F</b>	229,111	181,850	77,352	62,507	26.0	135.1	23.7	(24.9)
Capitalisation for bonus issue	0	0	0	50,000	n.m	n.m	(100.0)	0.0
Dividends	70,000	70,000	0	0	n.m	n.m	n.m	(100.0)
<b>RETAINED PROFIT/(LOSS) C/F</b>	<b>212,763</b>	<b>229,111</b>	<b>181,850</b>	<b>77,352</b>	<b>(7.1)</b>	<b>26.0</b>	<b>135.1</b>	<b>23.7</b>

**KURNIA INSURANS (MALAYSIA) BERHAD**  
**BALANCE SHEET**

Financial Year Ending : June 30

	RM'000				(Growth %)			
	2004	2003	2002	2001	2004	2003	2002	2001
<b>Cash and Deposits</b>								
Cash and bank balances	34,336	19,025	28,991	35,138	80.5	(34.4)	(17.5)	100.3
Fixed deposits / money market	634,227	531,195	426,067	248,358	19.4	24.7	71.6	(11.5)
<b>Investments</b>								
Malaysian Government papers	49,219	54,258	65,626	79,773	(9.3)	(17.3)	(17.7)	12.8
Malaysian Government guaranteed loans	17,396	128,512	125,159	122,545	(86.5)	2.7	2.1	65.2
Cagamas Papers	165,161	30,011	37,035	37,826	450.3	(19.0)	(2.1)	(0.1)
Debentures, Bonds, Loan Stocks	118,878	119,359	119,840	143,896	(0.4)	(0.4)	(16.7)	28.5
Shares	243,216	115,206	152,194	149,404	111.1	(24.3)	1.9	(11.1)
Other Investments	23,303	21,961	22,211	7,158	6.1	(1.1)	210.3	(24.9)
<b>Loans &amp; Mortgages</b>	49,689	31,223	53,750	53,346	59.1	(41.9)	0.8	292.7
<b>Other Assets</b>								
Outstanding premiums and agents' balances	100,987	82,005	66,489	42,343	23.1	23.3	57.0	80.5
Amount due from reinsurers/ceding companies	21,920	18,999	18,334	15,476	15.4	3.6	18.5	162.0
(Provision for doubtful debts)	(62,028)	(58,926)	(43,430)	(35,821)	5.3	35.7	21.2	148.6
Trade receivables	60,879	42,078	41,393	21,998	44.7	1.7	88.2	47.1
Other debtors, deposits and prepayments	18,636	151,156	72,745	36,274	(87.7)	107.8	100.5	24.3
Tax recoverable	10,136	6,042	0	0	67.8	n.m	n.m	n.m
<b>Goodwill</b>	0	31,104	32,507	40,169	(100.0)	(4.3)	(19.1)	n.m
<b>Property and equipment</b>	241,394	245,437	245,633	231,271	(1.6)	(0.1)	6.2	27.3
<b>TOTAL ASSETS</b>	<b>1,666,470</b>	<b>1,526,567</b>	<b>1,423,151</b>	<b>1,207,156</b>	<b>9.2</b>	<b>7.3</b>	<b>17.9</b>	<b>19.5</b>
<b>LIABILITIES</b>								
Provision for outstanding claims	801,427	702,708	656,706	610,056	14.0	7.0	7.6	24.3
(Recoverable from reinsurers)	(51,835)	(54,882)	(52,862)	(58,850)	(5.6)	3.8	(10.2)	92.8
Net Outstanding Claims	749,592	647,826	603,844	551,206	15.7	7.3	9.5	19.8
Amount due to agents/insureds	2,594	5,095	2,708	2,421	(49.1)	88.1	11.9	53.9
Amount due to reinsurer and ceding companies	24,518	13,910	24,207	40,861	76.3	(42.5)	(40.8)	278.4
Provision for taxation	0	16,942	34,252	17,562	(100.0)	(50.5)	95.0	(33.5)
Deferred taxation	5,730	7,121	4,459	3,302	(19.5)	59.7	35.0	0.0
Staff retirement benefits	8,040	6,836	5,520	4,428	17.6	23.8	24.7	(4.2)
Other creditors and accrued liabilities	36,745	38,869	32,794	35,195	(5.5)	18.5	(6.8)	13.8
<b>Reserves for Unexpired Risks</b>	426,488	360,857	333,517	274,829	18.2	8.2	21.4	19.8
<b>Shareholders' Fund</b>								
Share capital	200,000	200,000	200,000	200,000	0.0	0.0	0.0	33.3
Reserves	212,763	229,111	181,850	77,352	(7.1)	26.0	135.1	23.7
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>	<b>1,666,470</b>	<b>1,526,567</b>	<b>1,423,151</b>	<b>1,207,156</b>	<b>9.2</b>	<b>7.3</b>	<b>17.9</b>	<b>19.5</b>

n.m - not meaningful

## RATING SYMBOLS & DEFINITIONS –INSURANCE FINANCIAL STRENGTH RATINGS

### SECURE RANGE

- AAA** An institution rated AAA has an exceptionally strong capacity to meet its financial commitments and exhibits a high degree of resilience to adverse developments in the economy, and in business and other external conditions. These institutions typically possess a strong balance sheet and superior earnings record.
- AA** Insurance companies rated AA possess a very strong ability to meet their policyholder obligations. Their overall risk profile, while low, is not quite as favourable as for insurance companies in the highest rating category.
- A** Insurance companies rated A possess strong ability to meet their policyholder obligations but are somewhat more susceptible to adverse changes in economic and underwriting conditions than companies in higher-rated categories.
- BBB** Insurance companies rated BBB possess an adequate ability to meet their policyholder obligations. However, adverse changes in economic and underwriting conditions over time could affect their claims-paying ability.

### VULNERABLE RANGE

- BB** Insurance companies rated BB exhibit some weaknesses in their operating profile and / or financial condition. Currently able to meet their policyholder obligations, but claims-paying ability is regarded as marginal and cannot be assured over a long period of time. Such companies are vulnerable to adverse changes in economic and underwriting conditions.
- B** Insurance companies rated B exhibit fundamental weaknesses in their operating profile and / or financial condition. Currently able to meet their policyholder obligations, but claims-paying ability is regarded as weak. Such companies have limited capacity to withstand adverse changes in economic and underwriting conditions.
- C** Insurance companies rated C possess a very weak ability to meet their policyholder obligations. The continued capacity of these companies to meet their policyholder obligations is poor and highly dependent on favourable economic and underwriting conditions.
- D** Insurance companies rated D possess an inadequate ability to meet their policyholder obligations. Such companies require periodic external support or regulatory intervention without which their continued viability is in doubt. The rating indicates that a default may have already occurred or there is a high likelihood of default on their policyholder obligations.

Notes: Ratings from AA to B may be modified by the addition of a plus (+) or minus (-) suffix to show relative standing within the major rating categories.

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