

## **ASSESSING RISK AND FINANCIAL STRENGTH OF GENERAL INSURERS IN MALAYSIA**

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### *ABSTRACT*

Risk creates an economic burden for society by compelling the creation of reserve funds, raising the cost of certain services and excluding the provision of some goods and services. Because of the threat of failure and insolvency, the risk of insurance company is closely monitored by managers and regulators. Ever since the 1997 financial crisis that led to the liberalisation in the insurance industry, monitoring insurers that are in or heading a hazardous condition has created a challenge to the regulatory bodies. Failure on the part of an insurer to give due performance of its obligations can lead to the policyholders losing part of the premiums paid or worse they or the third party may be deprived of any compensation due when claims are made. Capital, also called surplus or equity, is the excess of assets over liabilities. Technical insolvency occurs when obligations exceed assets requiring intervention by the regulators. Solvency of an insurer is intimately linked to the condition of its financial statement. Risk-based capital (RBC) is the theoretical amount of capital needed to absorb the risks of conducting a business. For insurance, it is the amount of capital necessary to assure major parties to insurer insolvency that the danger of failure is acceptably low. Generally, RBC categorises risk into different components to cover the liquidity, asset management and leverage aspects of an insurer. In this study, the risk-based capital is attempted to assess the risk and financial strength of twenty general insurers in Malaysia from the years 2002 to 2004. Our study found that based on RBC about a fifth of the insurers need regulatory intervention.

*Keywords:* risk; risk-based capital; solvency; general insurer

### *ABSTRAK*

Kewujudan risiko merupakan satu beban ekonomi kepada masyarakat kerana ia menyebabkan wujudnya dana rizab, meningkatkan kos perkhidmatan serta meniadakan peruntukan bagi sesetengah barangan dan perkhidmatan. Disebabkan oleh ancaman kegagalan dan ketidaksolvenan, risiko syarikat insurans diawasi dengan teliti oleh pihak pengurusan dan badan pengawalan. Semenjak krisis kewangan 1997 yang membawa kepada liberalisasi industri insurans, pemantauan syarikat insurans telah menjadi satu cabaran kepada badan pengawalan. Kegagalan syarikat insurans menunjukkan prestasi yang sepatutnya ke atas tanggungjawabnya boleh menyebabkan pihak pemegang polisi hilang sebahagian premium yang dibayar atau lebih teruk mereka dan pihak ketiga tidak mendapat sebarang pampasan apabila tuntutan dibuat. Modal merupakan lebihan aset daripada liabiliti. Ketidaksolvenan teknikal berlaku apabila tanggungjawab melebihi aset menyebabkan perlunya campur tangan badan pengawalan. Kesolvenan sesebuah syarikat insurans adalah berkait rapat dengan keadaan penyata kewangan syarikat tersebut. Modal berasas risiko (RBC) adalah jumlah modal teoretikal yang diperlukan untuk menyerap risiko sesebuah perniagaan. Bagi perniagaan insurans, ia adalah jumlah modal yang diperlukan bagi menyakinkan pihak yang berkepentingan bahawa bahaya ketidaksolvenan adalah pada tahap yang sangat rendah. Secara keseluruhan, RBC mengkategorikan risiko kepada beberapa komponen meliputi aspek kecairan, pengurusan aset dan keumpulan syarikat insurans. Kajian ini mengkaji modal berasas risiko untuk menilai risiko dan kekuatan kewangan dua puluh buah syarikat insurans am di Malaysia dari tahun 2002 hingga 2004 mendapati berdasarkan kepada RBC, satu perlima daripada syarikat insurans am memerlukan campur tangan pihak badan pengawalan.

*Kata kunci:* risiko; modal berasas risiko; kesolvenan; syarikat insurans am

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