

BUSINESS & FINANCE

High bonus trend a threat, says ASM chief

Warning to insurers

By ZAINUL ARIFIN

THE public's confidence in the life assurance industry could be eroded in the long run if steps are not taken to check the unrealistic — usually too high — bonus projections for premiums paid.

These unrealistic projections have resulted in the inability of some insurers to meet these bonus payments which in turn could affect the performance of newer and smaller companies in the future, president of the Actuarial Society of Malaysia (ASM) Mr Tan Suee Chieh said.

Speaking to reporters at a Press conference in Kuala Lumpur yesterday, he predicted this trend would see people shying away from life insurance.

Bonus payments are like annual dividends and the projections are largely based on the investment returns of the insurance companies. The bonus is calculated as a percentage of the accumulated premiums paid at the period.

Mr Tan said: "Because of the intensity in competition between insurance companies, there are those which are projecting double-digit bonuses despite lower premiums and lower returns on their investments."

Some of the projections are even

higher than those offered during the 1984-1985 period when investment returns were much higher.

Even though bonuses are not guaranteed, companies have been known to project excessive payouts, which could lead to unfulfilled promises.

He said consumer protection was best served by solvent and secured life companies, and adequacy of premium rates and reasonable bonus projections were prerequisites to life companies' solvency.

"Unfettered competition in premium rates and bonus projections is directly against the interests of policy holders whom the industry is serving."

However, Mr Tan said several other factors also affected the determination of bonuses such as a change in the tax basis, increases in agency compensation and high commissions paid to agents. Another factor was the mortality rate.

"The advent of the Acquired Immune Deficiency Syndrome (AIDS) is also significant, as the effect of the disease in the long run has yet to be determined."

Mr Tan said ASM feels the industry should address the problem of bonus projections before it rears its head in the future.

"We do not want the life assurance industry to be caught short, as in the general insurance, where problems regarding over-exposure to certain sectors had troubled some companies."

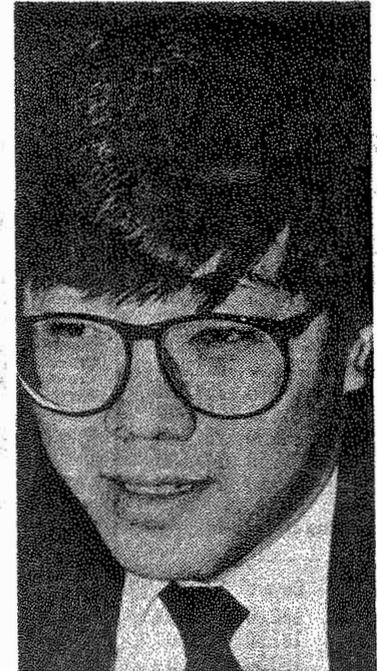
He added that ASM members recognising the potential problems would raise this issue with the director-general of insurance when the ASM submitted its views on the proposed amendments to the Insurance Act 1963.

The assistant general manager and actuary of the international division of Prudential Assurance Co Ltd, Mr Graham Clay, said the authorities in the United Kingdom had intervened in this matter and ruled that insurers must limit bonus projections to a maximum of 10 per cent.

This, he said, had stopped bonus projections from getting out of hand, while at the same time protecting the interests of the industry and policyholders.

The local life insurance industry needs to face the problems before a similar fate befell it, he told ASM members at a luncheon talk he was giving entitled *Bonus illustrations: developments in the UK in recent years*.

Excessive bonus projections would only defer the problem to the future when the promises could not be met.



MR TAN ...
unrealistic projections