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Insurance sector fails to see wish list realised

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MALAYSIA'S insurance industry had next to nothing in terms of a booster for next year as none of the sector's wish list made its way into Budget 2002.

The only consolation came in the form of personal tax rate deductions that may place aside some cash for potential insurance coverage.

On top of the wish list of the industry, which bagged about RM8 billion premium payment last year, was the proposal to split the combined personal tax relief for insurance and Employees Provident Fund (EPF) contributions.

At present, a maximum of RM5,000 tax relief is given for the combined life insurance premiums and EPF contributions before being assessed for personal income tax.

An opening there would have acted as an immediate incentive to the man in the street to purchase better life insurance cover - an area that needs addressing as Malaysian life insurance penetration rate is still at a low 31 per cent.

"This industry does not have the financial clout to press for demands to be met," said one insurer in response to last Friday's Budget presentation by Prime Minister Datuk Seri Dr Mahathir Mohamad.

Another insurer noted that the Government had turned its attention to the non-financial sector, focusing on the stimulus package to ensure the smooth sailing of the country's economy in light of the slowdown in the US, especially after the September 11 attacks.

"The financial sector did not seem to get too much attention this time around," said MCIS Insurance Bhd chief executive L. Meyyappan, who is also the president of the Life Insurance Association of Malaysia (Liam).

However, he welcomed the cut in personal income tax as a means to boost consumer and business spending, which is critical for the recovery of the economy.

"The Malaysian economy is facing one of the toughest challenges to date. It needs all the fiscal and monetary help that the Government can provide, to see to it that it does not deteriorate any further nor is affected too drastically by external economic forces," he said.

During the pre-Budget dialogue, Liam - which acts as an umbrella body for Malaysian life insurers - had requested an increase to RM5,000 from the current tax rate of RM1,000 for annuity policies purchased through the EPF and also the inclusion of all types of annuity plans.

Even though the earlier version of the EPF annuity scheme had been suspended indefinitely, the insurers were still hoping for the proposal for new annuity programmes that might come into the market.

Insurers noted that the EPF alternative of opening a separate account in place of the suspended annuity scheme was not an answer for a lifelong retirement plan.

"The people still need a solid, insurance-backed annuity plan that will take care of their "The so-called alternative suggested by the unions and adopted by the EPF is merely a long-term savings plan and no replacement for the earlier annuity scheme," said an insurer.

Hence, insurance companies were looking forward to the proposal getting approval.

In the Finance Ministry's Economic Report 2001/2001, it was noted that there was a 185 per cent increase in the life insurance business for the first half of this year.

Life insurers managed to bring in new business premiums worth RM3.46 billion compared with RM1.22 billion in the previous corresponding period. In the same period, new sums insured grew by 10 per cent to RM66.15 billion, largely due to the annuity scheme.

For the first five months before suspension last May, the EPF-initiated scheme brought in new business amounting to RM2.16 billion as against RM1.4 million in the third quarter of 2000 when it was first launched.

For the general insurance sector, gross direct premium grew a moderate 9.3 per cent to RM3.21 billion in the first half of this year compared with RM2.93 billion in the previous corresponding period.

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