

INSURANCE DEVELOPMENTS IN CAMBODIA (2004)

I. Macroeconomic developments

Cambodia's economic performance in 2004 was good, with real GDP growth of 6 percent, reflecting robust construction activities, a strong rebound in tourism receipts, sustained exports of garment products and oil and gas exploration. Exports increased by 23%, including a 25% increase in garment exports, while imports increased by 17%. The number of tourist arrivals increased by 50%, reaching the 1-million benchmark. Cambodia continued to experience construction boom, in which house construction increased by 37%, apartment construction increased by 28% and other construction by 31%. Inflation increased slightly by 3.9%, the exchange rate was stable and the international reserves increased by 19%.

The macroeconomic outlook in the near future appears to be stable, due partly to oil and gas exploration which ensures economic growth of 5 to 6% per annum. The garment industry, which is the main driving force behind the Cambodian growth, will be likely to remain robust in 2005. According to the statistics from the Council for the Development of Cambodia, 40 new and expansion investment projects in the garment sector were approved to the total amount of US\$ 117 million. Total FDI approvals increased from US\$65 million in 2003 to US\$141 in 2004. The expansion in the tourism sector also ensures robust growth.

By 2007, growth is expected to be over 6%. The gains in competitiveness, stemming from policy reforms in 2005-06, could allow for a gradual recovery in garment exports and prompt investment in other manufacturing and service activity. Agricultural growth is expected to continue to improve toward 4% average annual growth with gradual productivity gains and with spillover effects for food and beverage sector, trade, and other services. More importantly, the structural and agricultural reforms will provide the foundation for sustained higher and more broad-based growth rates after 2006. However, improvements in agricultural productivity and rural income opportunities in the short-term will ensure that rural poverty will be reduced even during 2005-06.

II. The Development of the Cambodian Insurance Market

At present, there are only three non-life insurers operating in Cambodia, with the closure of Indochine Insurance Company PLC ("IICPLC"), which had been unable to fund the minimum deposit required under its license conditions.

The gross non-life written premium of the three insurance companies remained at the same level of US\$8.8 million as in 2003, despite the turbulence caused by the closure of Indochine. This is contrasted with the 25% increase during the last 3 years. Asia emerged as the number one player (US\$4 million or 46% of market shares, including about US\$2 million fronting), followed by FORTE (US\$3.8 million or 43% of the market share) and CAMINCO (about US\$1 million or 11% of the market).

2.1. Line of Insurance business

Table 2.1. Non Life Insurance Premium 1999-2002 and 6 months to June 2003

	2000	2001	2002	2003	2004
Non-life Insurance Premiums					
Gross premiums written					
USD million	2,322,129	3,617,765	4,587,087	8,821,708	8,873,870
Population, m	13	13.3	13.6	N/A	N/A
Premium per capita, USD	0.17	0.27	0.34	N/A	N/A
Non-life Insurance Premiums by Business Lines					
Gross Premiums, USD					
Non-life total	2,322,129	3,617,765	4,587,087	8,821,708	8,873,870
Motor	892,214	969,239	1,308,113	1,616,786	1,526,621
Fire	509,485	1,007,520	2,188,422	2,910,220	2,412,010
Marine	126,262	144,630	171,251	243,575	325,684
Engineering	44,489	116,510	280,616	454,945	180,222
Workman Compensation	198,671	280,616	343,362	158,975	53,015
Personal Accident	19,490	140,586	225,971	344,556	511,577
H&S	301,824	410,068	387,048	435,206	427,008
Miscellaneous	229,694	548,593	700,590	2,657,441	3,437,721

The miscellaneous class of business (burglary, theft, money insurance, liability, travel insurance, fidelity guarantee, general third party liability and employer's liability) accounted for the largest share of business underwritten in 2004 or 39% of the market. Fire ranked second in terms of market share, representing US\$2.4 million (27% of market premiums). There was a decrease in fire premium in 2004. It was followed by automobile at US\$1.6 million or 17% of the market. Personal accident and workman compensation ranked fourth at US\$0.5 million or 6% of the market share. Health and surgical business accounted for US\$0.4 million, with marine cargo and engineering segments following at US\$0.3 million and US\$0.2 million respectively.

Gross Premium written classified by line of business for the year 2004

Line of business	Asia	Caminco	Forte	Total
Auto	429,124.90	567,505	529,991.00	1,526,620.90
Fire	514,402.97	170,956	1,726,652.00	2,412,010.97
Marine	125,965.66	107,081	92,638.00	325,684.66
Engineering	0.00	27,787	152,435.00	180,222.00
WC	0.00	20,889	32,126.00	53,015.00
PA	0.00	12,448	499,129.00	511,577.00
H&S	0.00	10,189	416,819.00	427,008.00
Miscellaneous	2,996,295.68	64,287	377,149.00	3,437,721.68
Total	4,065,789.21	981,142	3,826,929.00	8,873,870.21

2.1.1. Fire and Engineering

In the past, due to the absence of an insurance law in Cambodia, many investors insured their property with insurers based outside Cambodia. However, since 2001, this line of business has picked up locally as investors comply with new Insurance Law requiring them to insure locally. During the last five years, fire premiums increased more than 5 folds, while engineering jumped 51 times. However, in 2004, fire premium experienced a decline of US\$0.5 million, due to market turbulence.

2.1.2. *Miscellaneous*

Miscellaneous business, personal accident insurances, casualty, liability, burglary, theft, money insurance, travel personal accident, fidelity guarantee and general third party liability, accounted for more than US\$3.4 million or 38% of the Cambodian insurance market. This line of business has grown 29% in 2004, compared to 2003.

2.1.3. *Motor Insurance*

Motor insurance, which accounts for 17 percent of the total business, is ranked third in terms of premium contribution. Insurance companies are being cautious in their approach to this segment, though the motor portfolio contributes substantially to their bottom lines. Premiums income for motor was stable during the last four years, but it dropped slightly in 2004. This class of business is expected to increase as a result of higher vehicle population in Cambodia. Motor Insurance is a clear area of growth, altogether tougher traffic conditions and abuses may affect its future profitability.

2.1.4. *Marine*

Marine cargo represented merely 3.7% of the market due to high rates in Cambodia, which is double that of similar rates in Hong Kong or elsewhere. Moreover, Cambodia's imports are mostly based on CIF, meaning that imports usually buy insurance and freight overseas, while exports are based on FOB.

2.1.4. *Medical Insurance*

Medical insurance is grossly undeveloped in Cambodia. This market, which is in the tune of US\$400000 annually, is still in a nascent stage. The quality of health services inside of Cambodia did not encourage well-to-do people to buy health insurance. Many people prefer to seek overseas health services. Thus, there is huge potential for health insurance in this country, especially when the formal sector will be getting more organized in coming years.

2.2. **Claim Experience**

Loss incurred in 2004 amounted US\$1.4 million or about 16% of the premiums. Claim experienced varied from one company to another. The claim ratio for Asia was 6.4%, followed by Forte at 13% and Caminco at 20%.

III. **Regulatory Developments**

3.1. *Solvency Margin:*

In 2002, the National Assembly of the Kingdom of Cambodia passed a Law on Insurance. The Law and the implementing Sub-decree on Insurance require each insurance company to have its registered capital of USD 7 million. To protect the public from possible risks caused by the bankruptcy of the insurance company, the law requires that an insurance company deposits 10% of its capital, i.e. USD 700000 at MEF's account at the National Bank of Cambodia (NBC). As a prudential measure, each insurance company is required to maintain a solvency margin of 50% of the registered capital.

Having seen the difficulties faced by the insurance companies to comply with the requirements of the Law in terms of registered capital, on December 9, 2002, the MEF issued an Instruction Circular to all insurance companies operating in the Kingdom of Cambodia, which provides grand-fathering conditions to allow insurance companies to operate in the insurance business. The Circular provides a grace period of five years for insurance companies to increase their capitals and maintain the solvency margin.

- Year 1: \$350000.00
- Year 2: \$525000.00

- Year 3: \$700000.00
- Year 4: \$875000.00
- Year 5: \$1050000.00

For the first year, all the insurance companies are required to deposit US\$700000 as guarantee deposit at the NBC and the US\$350000 at a commercial bank to be eligible for an operating license. For 2005, insurance companies are required to deposit a further US\$525000. Totally, the solvency margin of insurance companies amounted to US\$1.5 million.

To improve the current situation, the Ministry of Economy and Finance adopted in April 2005 a new formula for solvency margin;

Solvency will, in the case of direct insurance business, USD 1.5 million or 30% of net written premium income (assets over liabilities) in its last preceding financial year, whichever is higher.

3.2. New Accounting for Insurance

To implement the new solvency formula, the MEF adopted in April 2005 new accounting standards for assets and liabilities valuation.

Conclusion

The non-life business in Cambodia has been growing at more than 25% compound for the past 4 years not including the aviation business. As income rise, companies hope to see greater volumes personal and medical lines of business. With the entry of private sector investors into the Cambodian market, the property insurance market can be expected to pick up drastically, provided the Cambodian insurance market is well-regulated and secure.

However, with the increase in numbers of policies and given the inherent risks in Cambodia, insurance companies will have to deal with the issues of setting sensible premiums, management and selection of risks and customer servicing in order to ensure a profitable and secure insurance for the future.