



UNIVERSITI PUTRA MALAYSIA

A CASE STUDY ON JERNEH INSURANCE BERHAD

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JERNEH INSURANCE BERHAD



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A case study on Jerneh Insurance Berhad / Ho Wai Kee.

BY

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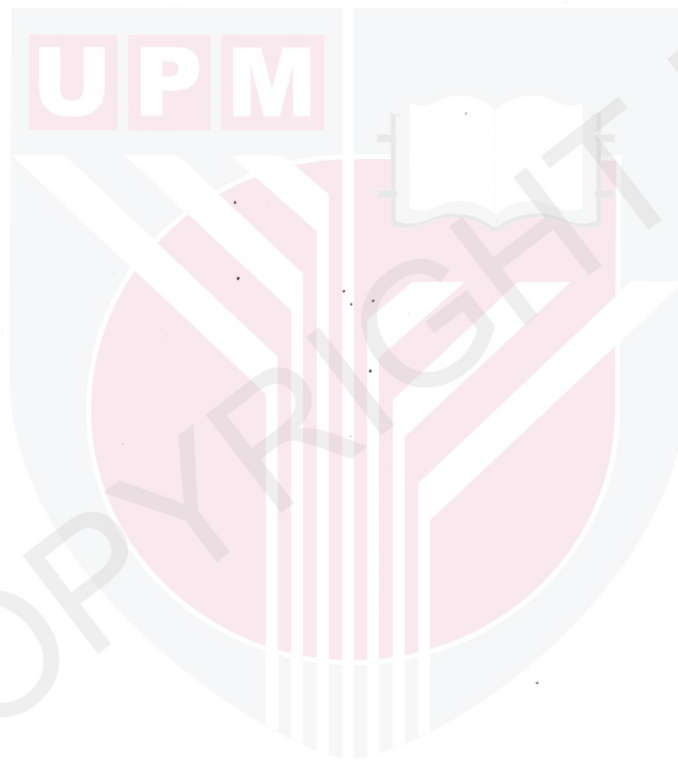
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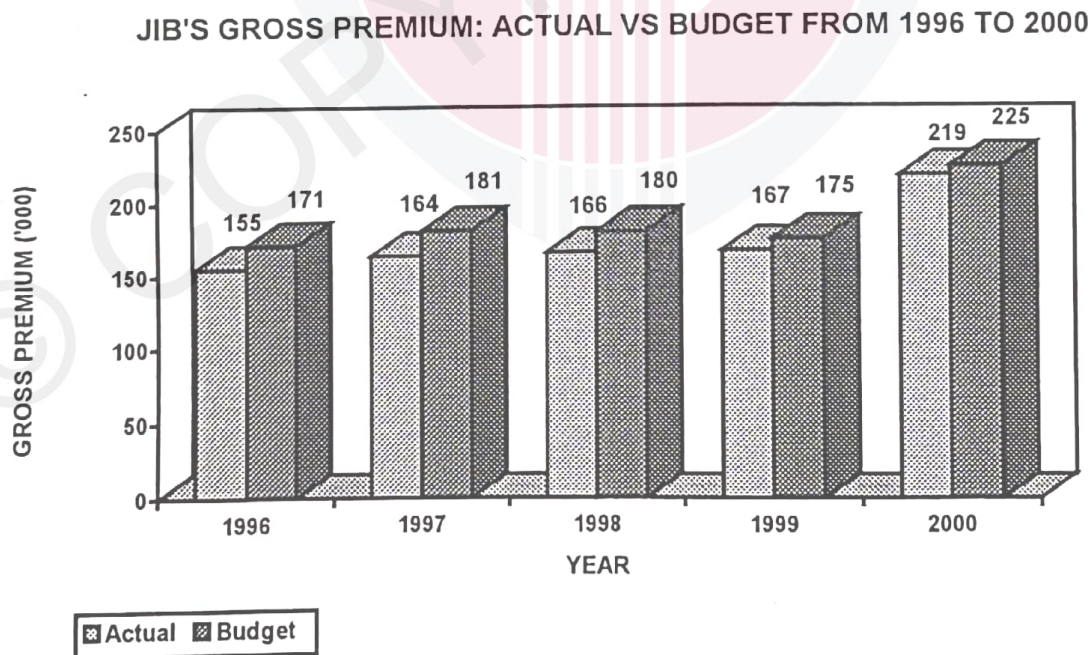
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PART I : CASE DESCRIPTIONS



Company CEO, Mr. Ralph Liew reported that the total gross premium written by Jerneh Insurance Berhad (JIB) as at 30th September 2001 is RM142 million and the figure is about RM100 million short from the budgeted RM248 million targets. Datuk Khor Chin Poey, the Chairman of Jerneh Insurance Berhad was very concerned with the huge shortfall of the business performance and urged the management team to look into the problems urgently in order to ensure a positive business growth. He has warned the management team that continuous short fall in business performance could seriously affect the company short terms survival in term of less sales revenue to cover operating cost as well as long term growth in term of deteriorating shareholders' value and market shares.

Figure 1 : Jerneh Insurance Bhd's Gross Premium



In the 61st Board of Directors Meeting, dated 4 December 2001, Datuk Khor Chin Poey commented that the Board appreciated the effort put in by the management in achieving a set of commendable results for the first nine (9) months ended 30 September 2001. However, the chairman was also concerned with some erosion in the Company's market shares due to keen competition in the insurance industry as well as the recent change in the Company's strategy of selective in underwriting better quality business to improve the bottom-line but at the expense of market share.

The Chairman urged management to pay more emphasis on the marketing and reinsurance aspects of the Company's operations in the preliminary preparation of budget for year 2002. In the aftermath of the September 11 incident in USA, it is anticipated that the local insurance industry would be faced with a hike in the rates for reinsurance and shrinkage in the capacity of existing re-insurers in the market (**Appendix 12: Retention ratio**). The Chairman commented that the tabling of a paper on the development of the re-insurance market environment in the later part of this meeting was timely. But, more emphasis should be placed on the quantitative aspects of reinsurance as well as its impact on the pricing of the Company's products and the bottom-line of the Company

2.0 THE GROUP BACKGROUND

The Kuok Group is a multi-national conglomerate operating in several countries in the Western Pacific Rim (**Appendix 1**). By concentrating its investment in those sectors where it can best perform, it has emerged as a market or industry leader in several businesses in which it has been involved.

The strength of the Kuok Group lies in the diversity of its business activities. From its modest beginnings in Malaysia in 1949, the Group's operations have evolved from traditional commodity trading operations to such diverse fields as trading and financial services, hotel owning and management, property owning and estate management, ship-owning and management and manufacturing and retail.

Its international prominence in the business world is clearly seen in the Group's Shangri-La Hotel chain, which owns and manages several hotels e.g. China World Hotel and Rasa Sayang Hotel in the Asia-Pacific region. After four decades of steady growth and expansion, the Group's success can be attributed to its ability to adapt and respond to changing economic and business condition in the countries of operations and to its commitment to provide opportunities for employment, training and the enhancement of skills.

3.0 THE COMPANY BACKGROUND

3.1 Incorporation

Jerneh Insurance Berhad was incorporated in Malaysia under the Company Act, 1965 as a private limited company on 5 August 1970.

3.2 The business

The principal activity of Jerneh Insurance Berhad since its incorporation is the provision of general insurance.

3.3 Corporate Mission

"Jerneh Insurance Berhad - Mission Statement"

To serve our customers not only as a desiccated and responsible provider of insurance, that but also as their partner in the risk management process.

To provide our employees with a dynamic work environment that will continually challenge, motivate and reward them.

To provide our shareholders with a superior level of profits and asset growth

In all these, we aspire to be a model of excellence and lead in terms of financial strength, market shares, profitability and customer satisfaction.

Our base is Malaysia and from here, we shall expand to establish a regional presence

3.4 The History

Jerneh means “clear” or “pure” in the Malay Language. Jerneh Insurance Berhad commenced operations in 1971 as the insurance arm of the Kuok group of companies, to service the insurance needs of its shareholders and has now expanded successfully to include clientele outside of the Kuok Group. The main companies of the Kuok Group include Perlis Plantations Berhad, Pelangi Berhad, Federal Flour Mills Bhd, Shangri-La Hotel (Malaysia) Bhd and Malayan Sugar Manufacturing Company Bhd. Jerneh Insurance Berhad has what it takes: financially strong, a 30-year underwriting track record, a solid management backed by equally solid shareholders (the Kuok Group) and a well-diversified portfolio. According to the Bank Negara Report 2000, Jerneh Insurance Berhad is currently amongst the top ten profitable general insurance insurers in terms of underwriting result.

Jerneh Insurance Berhad has a well diversified and balance business portfolio within the industry with activities including the underwriting of fire, marine, motor and miscellaneous insurance. The type of cover/plans provided by Jerneh Insurance Berhad can be categories into four sectors (**Appendix 2**).

Traditionally, Jerneh Insurance Berhad's business had concentrated substantially in the marine and fire insurance sectors. However, its construction related insurance has also been gaining prominence. Since 1995, Jerneh Insurance Berhad has in line with Bank Negara Malaysia's directive, increased its motor portfolio insurance.

For the financial year ended 31 December 2000, the fire, marine and motor insurance sectors contributed approximately 38.5%, 12.6% and 29.0% respectively to the operating revenue of Jerneh Insurance Berhad. The balance of 19.9% of Jerneh Insurance Berhad's operating revenue was from the miscellaneous sectors such as engineering, workmen's compensation, bonds, personal accidents and public liability.

Jerneh Insurance Berhad's sources of business are multi-faceted. The contributions from the Kuok Group (of about 15%) have given Jerneh Insurance Berhad a solid base in terms of revenue, with the contributions from agents (of about 42%), brokers and re-insurers becoming increasingly significant. The main contributors from the Kuok Group of Companies to the business of Jerneh Insurance Berhad include Federal Flour Mills Berhad, Shangri-La Hotel (M) Berhad, Perlis Plantation Berhad, Pelangi Berhad, Malayan Sugar Manufacturing Company Berhad and Pacific Carrier Limited (Singapore). Other major contributors, not from the Kuok Group of Companies include ABB Power

Generation Ltd, Len Brothers Industries Berhad, Tan & Tan Development Berhad, Malaysia Shipyard and Engineering Sdn Bhd and Rohas Euco Industries Berhad.

Jerneh Insurance Berhad also transacts facultative and treaty reinsurance business.

Facultative refers to a reinsurance contract under which a ceding insurer has the option to cede and re-insurer has the option to accept or decline individual risks.

The facultative reinsurance business emanates mainly from the local risks that Jerneh Insurance Berhad exchanges with Malaysian insurance companies on reciprocal basis. Treaty reinsurance refers to prearranged reinsurance contract under which the ceding insurer does not have an option to cede and the re-insurer does not have the option to accept or decline individual risks.

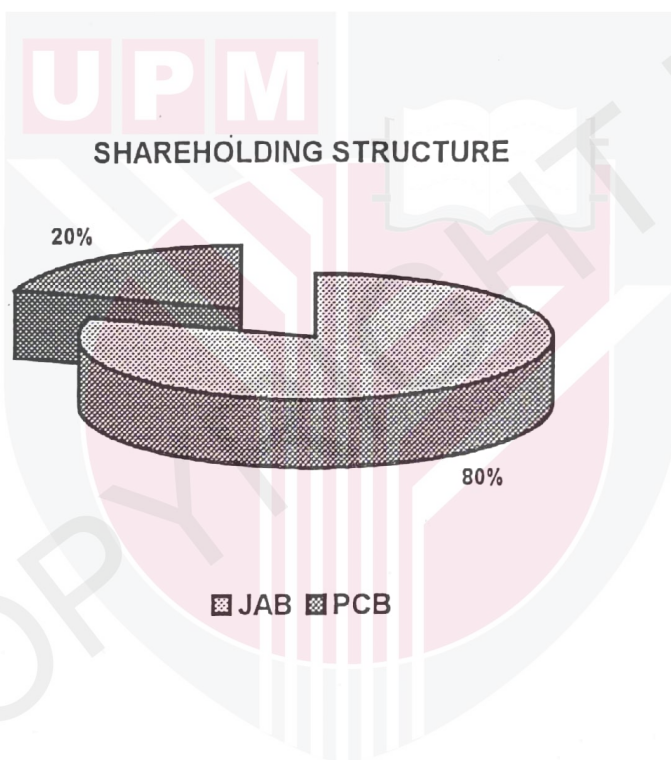
There are approximately 1,400 agents with the Jerneh Insurance Berhad and they are located in the major towns of Malaysia such as Kuala Lumpur, Penang, Melaka, Johor Bahru, Kuching, Kota Kinabalu, Jerantut, Ipoh, Kuala Terengganu, and Sibu.

Jerneh Insurance Berhad operates through its Kuala Lumpur Head Office at 18th Floor, Wisma Jerneh, No. 38, Jalan Sultan Ismail, 50250 Kuala Lumpur and has a network of 20 branches located throughout Malaysia (**Appendix 4**).

3.5 Shareholding Structure

As at 30 September 2001, the authorized share capital of Jerneh Insurance Berhad is RM150,000,000 comprising 150,000,000 ordinary shares of RM1.00 each of which 100,000,000 ordinary shares have been issued and fully paid-up, with Jerneh Asia Berhad (JAB) holding 80% stake and Paramount Corporation Berhad (PCB) 20%.

Figure 2 : Jerneh Insurance Bhd's shareholding structure



3.6 Organization Structure

3.6.1 Board of Directors

The directors sit on the board of Jerneh Insurance Berhad are as follows: -

Datuk Khor Chin Poey

Madam Tam Chew Lin

Y.M. Raja Dato' Seri Abdul Aziz bin Raja Salim

Dato' Seri Ismail Farouk bin Abdullah

Anwarudin bin Haji Abdul Rahman

Dato' Lim Chee Wah

Encik Ahmad Riza bin Basir

Mr. Tan Yew Jin

Dr Teo Chiang Quan

Out of the nine directors, two directors are actively involve in the operation of Jerneh Insurance Berhad namely Datuk Khor Chin Poey and Madam Tam Chiew Lin.

Datuk Khor, aged 65, joined the Kuok Group in 1975. He was appointed as a Director of Jerneh on 27 June 1996 and was appointed as the chairman of Jerneh in 1986. He holds a Bachelor of Engineering (Honors) Degree in Civil Engineering from University of Malaya (1960). When he took charge of Jerneh Insurance Berhad, it registered a gross written premium of RM36 million and an after tax profit of nearly RM2 million. For the financial year 2000, the Jerneh Insurance Berhad's results showed an incredible growth. The gross written premium rose to RM219 million

while after tax profit RM17.9 million. Datuk Khor immediate concern is to ensure the survival of Jerneh Insurance Bhd following the Bank Negara's call for consolidated among the insurance companies. In Dec 1999, Jerneh Insurance Bhd merged its general insurance business operations with Paramount Assurance Bhd (PAB).

Madam Tam Chiew Lin, aged 51, was appointed as a Director of Jerneh on 27 June 1996 and as a Director of Jerneh Insurance Berhad in 1992. She was admitted as a member of the Institute of Chartered Accountants in England and Wales in 1975 and as a member of the Malaysian Association of Certified Public Accountants of Certified Public Accountants in 1976. She was the General Manager of Finance in Perbadanan Nasional Shipping Line Bhd for seven years before joining the Wawasan-IMC Group of Companies in Malaysia in 1992 as the Senior General Manager, Finance & Corporate Services.

3.6.2 The senior management

The management team of Jerneh Insurance Bhd which is headed by Mr. Ralph Liew Sing Loong (**Appendix 5**) who is in charged of the day to day operations of Jerneh Insurance Bhd, comprises: -

Mr. Ralph, aged 59 is the Chief Executive Officer of Jerneh Insurance Berhad. Mr. Ralph was appointed as CEO of Jerneh Insurance Berhad in 2000.

Mr. Lim Sun, aged 51, is the Assistant General Manager and the head of the Technical Division. He holds a Bachelor of Science degree from the University of London (1974) and a Certificate in Advanced Studies in Statistics from Brunel University, United Kingdom (1977). He joined Jerneh Insurance Berhad in 1978 as an executive. He has had a total of 23 years in the insurance industry.

Encik Mohd Fauzi Bin Wan Nawang, aged 48, is the Senior Manager and the head of the Marketing Division. He holds a Certificated in Insurance from the Mara Institute of Technology. He joined Jerneh Insurance Berhad in 1975 as a junior executive. Prior to joining Jerneh Insurance Berhad, he worked about 1½ year in Prudential Assurance Co. Ltd. He has had a total of 28 years experience in the insurance industry.

Ms. Yong Kiow Ying, aged 53, is the Senior Manager and the head of the Finance and Administration Division. She is an Associate of the Australian Insurance Institute. She joined Jerneh Insurance Berhad in 1972 as a junior executive and has been with Jerneh Insurance Bhd for a total of 29 years.

3.7 Merger and Acquisition

On 10 August 1999, Bank Negara Malaysia had granted its approval for the proposed merger of the general insurance business operations of Jerneh Insurance Berhad and Paramount Assurance Bhd (PAB). The merger of the general insurance business operations of Jerneh Insurance Berhad and PAB was through the acquisition by Jerneh Insurance Berhad of the general insurance business of PAB. The general insurance business of Jerneh Insurance Berhad and PAB were merged and operating under Jerneh Insurance Berhad. PAB had surrendered its insurance license to Bank Negara Malaysia.

The consideration for the acquisition was satisfied by issuing 10,425,000 new shares of RM1.00 each (at par) in Jerneh Insurance Berhad to PAB, representing 13.90% of the enlarged issued and paid-up share capital of Jerneh Insurance Berhad of 75,000,000 shares. In the same year, JAB disposed of 4,575,000 shares or 6.10% of the enlarged issued and paid-up share capital of 75,000,000 to PAB at RM3.76 per share. On completion of the merger and disposal, JAB and PAB have equity interest of 80% and 20% respectively in Jerneh Insurance Berhad.

The merger is to enhance the growth prospects and financial strength of Jerneh Insurance Berhad. The merger is also to improve the underwriting capacity, operational efficiency, technical expertise and performance of Jerneh Insurance

Berhad through the expansion of its market share and thus strengthening its competitive position in the general insurance industry.

After the merger, 20% of the PAB are continued their services with Jerneh Insurance Berhad with the condition their position to be downgraded by two levels; for example, assistant general manager downgraded to manager. Within one year after the merger, around 50% of the employees from PAB left the company. When the employees from marketing department and underwriting department employee left Jerneh Insurance Berhad, they also brought away some of the business.

1.0 THE INSURANCE OPERATIONS

4.1 Marketing Department

Encik Fauzi is the head of marketing department. There are one hundred and ninety one (191) employees (including branches) in marketing department (**Appendix 10**). The functions of this department are developing new business and maintaining the existing business for the Company. Marketers have to service the agents, brokers and insured with adequate information of the Company's products, including its policies, rating plan, loss adjustment services and loss-control capabilities. The marketers also work as a support team to technical department including involve in product development, carry out survey on risk acceptance and preparing quotation. Besides that the marketers have to follow up with the outstanding debts and collecting premium from their customers.

4.1.1 Before August 2001

Before August 2001, marketing division was divided into four (4) business units, i.e. broking, group business, banking and agency (**Appendix 6**).

Madam June Chia manages the agency department. She is at aged 51. She is the Associate of Australian Insurance Institute. She is the pioneer in Jerneh Insurance Berhad. She left the company in 1989 and joined back in 1995. She has thirty (30) years of experience in insurance industry.

The others department are managed by Mr. Wong Eng Yan. He is 38 years old and he is the Associate of Chartered Insurance Institute. He joined Jerneh Insurance Berhad in 1995 and he has thirteen (13) years of experience in insurance industry.

Under this departmental structure, each business unit has to responsible for their own data processing such as issuing policy and issuing official receipt. The marketers felt that they were not able to focus on developing business for the company as they were spending too much time on data processing and handling paper work.

In view of the deteriorating in the company's business, the senior management team decided to restructure marketing department. The objective of the restructuring is to enable the marketers to focus on their marketing activities in order to improve the production result and to carry out the marketing task effectively and efficiently.

4.1.2 After August 2001

In August 2001, there was a restructuring in marketing division. In this restructuring exercises the four (4) business units were dissolved and there are two (2) new departments were set up namely customer service and pool. After the restructuring, marketing division is divided in to **Traditional Business and Non-Traditional Business (Appendix 7).**

4.1.2.1 Traditional Business

This department is taken charge by June Chia. They are thirty (30) employees in this department. This department is subdivided into four (4) sections, i.e., broking, agency, group business and direct business. This department is handling the business through traditional distribution channel i.e. brokers, agents and direct customers. Later the senior management realizes that June Chia's portfolio is overloaded and she is lack of experience in handling the broking business. In November 2001, broking department is transferred out from June Chia's portfolio and put under Mr. Wong's portfolio (Appendix 8).

4.1.2.2 Non-Traditional Business (Alternative Distribution Channel)

This department consists of banc-assurance, customer service and alternative distribution channel e.g. telemarketing and e-business. Mr. Wong is the head of this department. There are eleven employees reporting to him. This department is responsible to develop business through a non-traditional distribution channel such as banks, internet, direct mail, shopping complex and kiosk.

Jerneh Insurance Berhad has launch its website in year 2000 to prepare the company move towards to e-business era. A new committee is formed to contribute their idea to the website. The committee consists of employees from marketing department, technical department, finance and administrative department. This committee is chaired by Mr. Lim Sun and Madam Tam Chiew Lin acts as the adviser. The website visitors are able to obtain the information from Jerneh Insurance Berhad's homepage such as the products offered by the company, the company's mission, the management and the frequent ask question of general insurance. At the initial stage, the website visitors are giving a free gift for visiting and contributing their feedback on the website presentation. However the website do not attract many visitors.

4.1.2.3 Pool

Pool is set up in August 2001 to handle data processing and issuance of policy. The pool is formed and supervised by Technical Division. In October 2001 the supervision of the pool was transferred to Marketing Division due to a lot of conflict and misunderstanding between Marketing Division and Technical Division. Another reason for this reshuffled is to overcome the shortage of manpower in marketing division. Ms. Kim Chee

(Assistant Manager of Agency Department) is appointed as the acting head of this department and she is reporting directly to Encik Fauzi.

The year 2001 is a very challenging year to marketing department. The company is facing deteriorating in business by approximately RM30 million as compare to the year 2000. The drops in the gross written premiums resulted from the slow down in the Malaysia economy and the company is forgone some of the high-risk business in order to protect the bottom line result. Furthermore, the company also imposed stringent underwriting guideline so that the company writes a book of business that is profitable and reasonably stable. For example, the company imposed excess and loading term on motor business. However most of the insurance does not imposed such terms in the motor insurance policy. As a result, Jerneh Insurance Berhad has lost its business to its competitors on motor as well as non-motor business (Group Personal Accident, Fire, General Accident, and etc) because some of the customers are prefer to go for package coverage.

The marketers are giving permission to accept a risk in accordance to their respective risk acceptance authority limit. The marketers need to refer to the underwriting department for the risk that fall under the category of either beyond the authority limit, declined risk or referred risk. Sometimes the marketers are faced losing the business to the competitors because they have to wait for the underwriter around one week to confirm on the terms, rating and the confirmation

from re-insurers. The company needs acceptance confirmation from the re-insurers for the risk beyond its capacity. In Oct 2001, the management decides to withdraw the excess term on motor business in order to compete with its competitors for market share.

Most of the brokers, agents and other insurance companies commented that Jerneh Insurance Berhad's marketers pay less visit to their customers. It is hardly for another insurer's marketers to meet Jerneh Insurance Berhad's marketers in the customers' offices. June Chia commented that this is the culture of Jerneh Insurance Berhad and some of the marketers do not have their own transport. There is one company car available for business purpose. Mr. Wong also getting some feedback from the market on the service provided by Jerneh Insurance Berhad is not as innovative as others insurance company, for example Jerneh Insurance Berhad does not provide innovative idea to the customer to help them to save cost in term of premium.

Mr. Wong and June Chia both commented that the existing MIS system is not user friendly and most of the time the company has to rely on the Information Department or the vendor to produce some of the report that are required to make marketing decision. As a result, this has delayed the processing time and decision-making process.

4.2 Risk Management Department

Mr. Ong Hong Keat is the head of risk management department. He is in his early thirties. He joined Jerneh Insurance Berhad in 1994 as an executive in risk management department. He holds a master degree in Manufacturing System Engineering and currently he is pursuing a professional degree in insurance.

He has four (4) subordinates to assist him to carry out the department's daily operations and he is reporting direct to Assistance General Manager, Mr. Lim. The services provided by the risk management department are limited to fire and burglary risk because of lack of expertise and manpower. The activities carried out by this department are conducting fire and burglary underwriting survey and make recommendation to the underwriters to determine the relevant underwriting term when underwrite a risk and to make assessment on Possible Maximum Loss for reinsurance department and underwriting department to determine the risk exposure.

Besides that they also recommend loss prevention and protection methods to insured on fire and burglary policies and handling/making special rating application, block rating application, unclassified risk application and sprinkler discount application to Persatuan Insurance Am (PIAM). Furthermore they also involve in handling self-rating computation, manage Jerneh Insurance Berhad loss exposure and conduct in-house training on site survey, risk management, Fire

Extinguishing Appliance (FEA) evaluation, a few sections of Revised Fire Tariff (RFT) and self-rating.

In July 2001, Mr. Ong undertaking a new job function in underwriting department. He is leading a team of two (2) subordinates to underwrite the fire risk and general accident risk. Fire risk is regulated by fire tariff. The underwriter has to comply with the fire tariff regulations when they underwrite a fire risk. General Accident risk is not regulated and therefore the underwriter has to determine to reasonable rate when underwrite this type of risk. In the year 2000, the company has experienced a huge increased in the claim ratio on General Accident Portfolio (1999:81.93%; 2000:135.61%). In view of this, the Company has imposed a very strict underwriting term on this risk in order to have a better underwriting result. This reaction has caused the Company lost some of its business to the competitors that offer a linier underwriting term.

Besides that, Mr. Ong also actively involves in developing the company website and handling other special projects (i.e. Information System Steering Committee, operation workflows for "Pool", etc). He feels that he has a very tight working schedule and this has affected his performance either in underwriting department or risk management department.

Mr. Ong commented that the current General Insurance System used by Jerneh Insurance Berhad couldn't produce the necessary statistic for them to carry out

risk analysis effectively. Normally they need to spend at least a day to extract information from the system with the assistance from Information Technology Department. The user may not be able to extract the data from their personnel computer. The user has to put up a request form to Information Technology Department to request for the data and information required for risk management survey and underwriting survey.

4.3 Underwriting Department

The underwriting department is divided into motor, fire, medical and marine. The head of these sections are Mr. Lee Kong Voon, Mr. Ong Hong Keat, Ms. Geng Mun Har and Mr. Tan Yoke Leong respectively.

The underwriting department is set up to decide the premium, terms and conditions under which Jerneh Insurance Bhd will provide coverage and to decide which applicant will be insured. This department also acts as a counterbalance to the marketing department in the development of underwriting guides and the selection of applicant to insure. This is to ensure the company writes a book of business that is profitable and reasonably stable. The underwriting department aids the marketing department by developing policy forms and rating plans that are marketable and by trying to find ways to insure marginal risks by modifying the policy contract, the rating plan or the risk.

4.3.1 Marine Department

Mr. Tan Yoke Leong is the head of this department. He is at his early forty. He is the Fellow Chartered Institute of Insurance and he also holds an Honor Degree of Economics. He has been in insurance industry for eighteen (18) years. He joined Jerneh Insurance Berhad in 1995.

There are thirteen personnel in the underwriting department. Mr. Tan usually go for selective basis when underwrite a risk on marine hull and marine cargo in order to protect the underwriting result for the company. Mr. Tan will study the nature of the commodity and the insured's background when underwrite a risk. Their targeted business is on the class of insurance of marine cover. The company also favor in underwriting the bulk cargo risk because there are no limitation on tonnage. As a result there is a better recovery aspect. However, the company does not favor in underwriting the cargo risk on machinery, as there is limitation on tonnage so that there is a minimum recovery obtain by the company. The CEO always stressed that leniency in underwriting should not be practiced in order to achieve the premium. Jerneh Insurance Berhad always imposes strict terms and conditions in underwriting a risk.

4.3.2 Motor Department

Mr. Lee Kong Voon is managing the Motor Department. He is 48 years old and he holds a Diploma in Insurance from the Association Malaysia Insurance Institute. He is currently pursuing his Associate of Malaysian Insurance Institute. He has been in insurance industry for twenty-five (25) years and he has served Jerneh Insurance Berhad for twenty (20) years.

There are twenty-six (26) employees in motor department reporting to Mr. Lee. Jerneh Insurance Berhad imposes excess term on various category of car policy based on cubic capacity. The policy with the excess term will make the insured bear some responsibility in the event of loss. Besides that the Company also imposes loading term of 10% to 15% on the young driver. This has resulted that the premium charged on the motor policy not as competitive as its competitors such as Kurnia Insurance Bhd, CGU Insurance Sdn Bhd and Royal Sun Alliance Assurance Bhd.

The company has stopped underwriting motorcycle business in year 2001 because it is not profitable to maintain this class of business. Jerneh Insurance Berhad also goes on selective basis in underwriting the commercial vehicle. Commercial vehicle policy usually comes together on a package (e.g. Fire, Group Personal Accident, Household, Engineering and etc.) for group business. The company is favored in underwriting the

private car risk as the commercial vehicle has greater loss impact in the event of accident as compare to private car. The underwriting department needs to review the renewal risk before they accept the renewal business. The company may decide not to renew the risk coverage if the insured has an unhealthy historical claims record.

Jerneh Insurance Berhad has provided additional service to the motor policyholder, i.e. Jerneh Careline. The policyholders are provided tow struck service in the event of accident and repairing service in the event of breakdown. The company has outsourcing this service to a company named Life Link Sdn Bhd. Mr. Lee has proposed to the management in the November 2001 monthly management meeting to provide a sticker (with the Jerneh Insurance Berhad's name and logo) to the policyholders so that they can stick it on their vehicle and let the public aware that Jerneh Insurance Berhad is provided this type of service to its policyholders. Mr. Lee was asked to carry out a market survey and present a report for the management to make final decision on this issue.

4.4 Reinsurance Department

Reinsurance is the tool use to transfer/share the risk accepted by one insurance company to another insurance company. When JIC accepts a risk that is larger than it is willing or able to bear, it will transfer all or that part of that risk to other insurers through reinsurance transactions.

Ms Wan aged 31, heads this department for the past four years. She joined Jerneh Insurance Berhad in 1995 as an executive in Reinsurance Department. There are eight (8) personnel in this department.

However this department has facing a tough situation in negotiating the reinsurance annual renewal cover with re-insurer especially after the World Trade Center at New York was attacked by the terrorist on 11 September 2001 ("911" incident). Reinsurance companies have to increase their reinsurance premium to cover their losses suffered from the "911" incident. If the Company unable to obtain better rating from the re-insurers, then it has to transfer part of the burden to the insured in a way of increased premium. This could cause Jerneh Insurance Berhad's pricing on its products become more uncompetitive.

The Chairman, Datuk Khor commented in the 61st Board of Directors Meeting that management should try their best to negotiate with the re-insurers for the best rates available in the market. However, management must, at the same time, ensure that the foreign re-insurers has minimum rating of 'A' or a combined paid-up capital and surplus of at least US\$150 million as required under Bank Negara Malaysia's Reinsurance Guideline JPI/GPI22"

4.5 Claim Department

Claim department is divided into motor, non-motor and marine. Mr. Lee Kong Voon, Mr. John Cheng and Mr. Tan Yoke Leong are the head of these three sections respectively.

The function of this department is handling all the claims made by the insured for a covered loss. There are eighteen (18) personnel in this department. Their job function is to scrutinizing each claim to assure that the claim is covered and to determine the amount of damages. They must make sure that contract or tort liability exists and culling those cases where claims are fraudulent or groundless, only legitimate claims are paid.

In year 2001, Jerneh Insurance Berhad has centralized the claims department. All the claims previously processed by the branches have to transfer back to head office and process in claim department. The purpose for this centralization is to enable the branches to focus on developing business for the company. Besides that claim department at head office has more expertise to handle the claims.

However the branch managers would prefer to handle claims on their own as they feel much more confidence in facing their clients/agents if they are in control of the claim settlement. To them, this will expedite the claim processing and the claim could further be settled on the fair ground, as they know the cases handled by them better than the head office staff.

4.6 Research and Development Department (R & D)

R&D department set up in June 2001. The function of this department is to initiate and support research and development of business, product and process. R&D department is a branch of the Technical Division that is headed by the Assistant General Manager, Mr. Lim. He has an executive, Nini Juanita to assist him to carry out the operation of this department. Nini at her early thirties, she holds an Honors Law Degree and she joined Jerneh Insurance Berhad in 1997 as an executive in motor claim department. Before she joins Jerneh Insurance Berhad, she has been with Hong Leong Assurance for a year as an executive in motor claim department. In June 2001 she was transferred to this department to assist Mr. Lim.

Currently the department is undertaking the projects such as coordinating the dual language project for Proposal forms and policy schedules of various classes of insurance, involved in the re-engineering exercise to the claim department, conducting analysis on various insurance portfolios to prepare and support business plan/strategy of 2002 and reviewing workflow documentations for Motor Claims Department.

The R & D department has faced some problem in carrying out its activities. The General Insurance System 400 used by Jerneh Insurance Berhad does not have sufficient features to support a research and development approach. The department has difficulty in obtaining business statistic for the purpose of analyzing trends and pattern in the business.

Besides that, the R & D department also has difficulty to get data and information from other departments. When R & D conducts research and development, they require a lot of interaction and communication with other department i.e. technical, human resource, finance, information technology and marketing. Normally the staffs from other departments will give first priority to their own departmental tasks and have very little time to attend the R & D's queries.

5.0 MARKETING

5.1 Product

According to the Senior Marketing manager, Encik Fauzi, the products and services (**Appendix 3**) offers by Jerneh Insurance Berhad are not as competitive as its competitors.

The ex-CEO, Mr. Goh Chin Eng in the year 2000 budget meeting held on September 1999 commented as follow: -

“Over the years, Jerneh Insurance Berhad has been a follower and never been a leader in product development. The employees are weak in research and product development. Hence, we should change our mindset to be more proactive and innovative in product development in order to increase our market share.”

In Feb 2001, Jerneh Insurance Berhad has launched a new product named Medi Top-Up. This product will benefit the insured only if the actual medically necessary expenses incurred for any on disability during hospitalization have been paid under a Basic Hospital and Surgical Insurance Policy and such expenses have exceeded the amount as stated in the selected plan. According to the branch coordinator, Mr. Ang, up to November 2001 Jerneh Insurance Berhad manages to

sell two policies for the nine months period. He feels that this product is not attractive in term of pricing and the term offers to the insured. The insured normally does not make a claim up to RM500,000 on hospitalization therefore they do not feel that it is necessary to take up more cover on hospitalization.

5.2 Pricing

5.2.1 Premium regulated by tariff

Premium on motor and fire policies are regulated by tariff. The company has to follow strictly the pricing on these policies.

5.2.2 Premium not regulated by tariff

Non-motor policies except for fire are not regulated by tariff. Jerneh Insurance Berhad is acting in a very prudent and conservative way in setting the premium on these policies. The Company is setting the premium on a policy based on the risk involved. The Company seldom reduces the rate for premium or for reason of competition.

5.3 Distribution Channel

5.3.1 Agents

There are approximately one thousand four hundred (1,400) agents with Jerneh Insurance Berhad as at September 2001. Bank Negara Malaysia (BNM) has carried out an inspection on the company in year 2000. BNM requested Jerneh Insurance Berhad to obtain documentary proof of a guarantor's financial standing and to establish criteria on the eligible of a guarantor. In view of this requirement Jerneh Insurance Berhad has implemented a policy in recruiting new agents. Under the new requirements the agents must have a guarantor with a minimum annual income of RM50,000 or a collateral of RM5,000 and RM25,000 for individual and corporate applicants respectively in the absence of a suitable guarantor.

According to Encik Fauzi the agents feel that these requirements are unreasonable, as other insurance companies e.g. Tokyo Marine Insurance Bhd, Malaysian British Assurance Bhd, Kurnia Insurance Bhd and Hong Leong Assurance Bhd do not imposed these conditions in recruiting new agents. Encik Fauzi will look into this matter and try to find a solution so that the Company can compete with the competitors in getting new agents.

The services provided by Jerneh Insurance Berhad to the agents including assists in preparing quotation to the insured, trains the agents on the new insurance requirement and understands and responses to their needs. Every year Jerneh Insurance Berhad is having the Agency Conference to express appreciation to the agents on their contribution to Jerneh Insurance Berhad.

5.3.2 Brokers

There are approximately 15 brokers dealing with Jerneh Insurance Berhad. In the year 2000 and 2001, Jerneh Insurance Berhad has lost a substantial business from brokers due to Jerneh Insurance Berhad imposed stringent underwriting term on the risk accepted and went on selective customer basis. This has frustrated the brokers and as a result the brokers do not pass business to the Company. Besides that Jerneh Insurance Berhad also fails to provide service up to the brokers' expectation, e.g. Jerneh Insurance Berhad pay the least visit to them as compare to others insurance companies such as Hong Leong Assurance Bhd and Malaysian British Assurance Bhd and the products offers by Jerneh Insurance Berhad are those on the shelves products which are not meet the insured needs. Mr. Wong has commented that the Company needs to improve its service in order to gain back the confidence from the brokers.

5.3.3 Customer Service Department

This department is set up to handle the walk in customers. It started its operation on 20 August 2001. There are six (6) personnel in customer service department. The function of customer service staff is to handle walk in customer requirement and general enquires through telephone. Mr. Wong has proposed to the Senior Management in the monthly management meeting to have uniform for customer service staff that reflects Company identity. Besides that he also requested for all the customer service staff to have their individual phone line so that they can handle enquiries efficiently and effectively.

In October 2001, the Company has conducted in-house training course for all the customer service staff. This training is to enhance the product knowledge among the customer service personnel so that they are able to handle the customers' enquiries efficiently and effectively. The training was conducted by the manager, assistant manager and senior executive. The training was divided into morning session and afternoon session so that the customer service staff can take turn to attend the training without affect their daily operation work.

5.3.4 Financial Institutions

Jerneh Insurance Berhad has lost the contribution from banking business approximately 2% this year as compare to year 2000. This is resulted from the merger of the operations of banking business. Jerneh Insurance Berhad was taken away from the list of panel insurer in most of the bank after the merger of the banking industry. This is because most of the bank has its own insurance company after the merger and preference is given to those companies as compare to others.

5.3.5 Branches- Branch's Operations

There are twenty (20) branches set up to service the agents, brokers and other insured. The managers of all branches are reporting directly to Encik Fauzi. In June 2001, Jerneh Insurance Berhad recruited a branch coordinator manager, Mr. Ang Beng Ee to assist Encik Fauzi to coordinate with all the branch managers. Mr. Ang B.E. is at mid-forties (40). He holds a Higher National Diploma in Business Study. He has been in insurance industry for 21 years. According to Mr. Ang the branch coordinator position has been vacant for almost one year before he takes up the position. Mr. Ang is responsible to do branches visiting to understand the branches' needs and to compile the reports submitted by the branches to present to the top management for decision-making

purpose. Furthermore he is also involved in product development; arrange branch internal training schedule and sales and promotion activities.

The branches have contributing approximately 40% to Jerneh Insurance Berhad's business. Penang is the largest branch following by Johor branch. The branches are divided into online branches and offline branches. Online branches have their own marketing department, underwriting department and claims department. Online branches have to do their own data processing i.e. issue policy, underwriting risk and handling claims.

Offline branches mainly responsible to develop new business, maintain existing business, service the agents, brokers and insured. The data processing, underwriting and claims are handled by head office. Before August 2001, the data processing is handle by the branch coordination department in head office. There are nine employees reporting to Mr. Ang. B.E. After August 2001, all the staff are relocated to pool to handling data processing. Currently Mr. Ang has two subordinates assist him in his daily operation.

The branch managers have to submit weekly production report and monthly management report to head office for monitoring branches performance purpose. The branch managers will report the feedback from

the customer to head office. The branch managers have to seek for head office's approval for any decision beyond their authority. The comments received by the branch managers from the customers such as price for Jerneh Insurance Berhad's non-tariff products are high as compare to the other insurance companies e.g. Hong Leong Assurance Bhd, CGU Insurance Bhd and Maybank Assurance Bhd, Jerneh Insurance Berhad only offers on the shelves products i.e. product already available in the market for a long time. There is no repackaging and re-innovation in product and sales and promotion is not done comprehensively and extensively as compare to Kurnia Insurance (M) Bhd, Hong Leong Assurance Bhd and Malaysian Assurance Alliance Bhd.

Besides that, the other feedbacks received by Mr. Ang B.E. from the branches including the branch manager hopes that the managers from head office to visit their branch to have better understanding on their operations and the problem faced by the branch managers. Besides that the branches also have difficulty in extracting data and information from the system in order to prepare weekly and monthly reporting, to measure performance of agents and brokers in order to further charting the appropriate marketing strategy. On top of that the branch managers have requested head office to provide an updated data and information on time for them to expedite their decision-making. Furthermore, they also wish that the management allowed all the branches to have e-mail facility to enhance communication

among the branches and with head office. Currently Sibu branch and Sandakan branch do not have the e-mail facility and they feel that update information has not reached them on time for them to make decision.

5.4 Selling and Promotion

Jerneh Insurance Berhad has never advertised through mail, on television, or in newspaper to market its services like Kurnia Insurance Bhd and Hong Leong Assurance Bhd. For the past thirty years, the major selling and promotion activities carried out by the Company only on ad-hoc basis. "National Project – Raise Flag" was carried out on 20 August 2001 in conjunction with The National Day and The Official Opening of the Customer Service Department. Jerneh Insurance Berhad had printed 5,000 flags and 2,000 stickers with Company's logo to distribute to the public in front of Wisma Jerneh.

Another sales and promotion activities are Road- show activities that carried out from October 2001 to December 2001 at Shah Alam, Penang, Ipoh, Malacca, Kota Kinabalu and Sibu to promote Defensive Driving and Anti Crime Project. Customer service department has taken this opportunity to set up a stall to promote the company's services to the public. Furthermore, Jerneh Insurance Berhad also invited Tan Chong Motor, EON and Polis Diraja Malaysia to participate in the exhibition to promote their product and services to the public.

THE COMPETITIONS

The general insurance companies operate in Malaysia generally constitute the forces of competition in the local insurance industry. Generally, the top 20 insurers with their respective written premium above RM100 million are the commonly presence, most popular and well-positioned general insurers in Malaysian insurance market. The top 20 insurers are as follow: -

Table 1 : The top 20 insurers

Rank	Company name	Premium (RM 000)
1	Kurnia Insurance (Malaysia) Berhad	548,391
2	Hong Leong Assurance Berhad	313,834
3	Malaysia British Assurance Berhad	291,979
4	Malaysian Assurance Alliance Berhad	274,285
5	Mayban Assurance Berhad	251,371
6	American Home Assurance Company	217,510
7	Malaysia National Insurance Berhad	211,594
8	South East Asia Insurance Berhad	211,426
9	Jerneh Insurance Berhad	155,182
10	Taisho Marine & Fire Insurance (M) Berhad	153,111
11	Arab-Malaysian Assurance Berhad	152,781
12	Pacific & Orient Insurance Co. Berhad	144,944
13	CGU Insurance Berhad	144,491
14	Lonpac Insurance Berhad	141,498
15	People's Insurance Company (M) Berhad	138,732
16	AMI Insurans Berhad	137,402
17	Guardian Royal Exchange Assurance (M) Bhd	123,884
18	PanGlobal Insurance Berhad	120,839
19	American International Assurance Company	117,388
20	Royal & Sun Alliance (M) Berhad	103,180

However, the concentration and the source of business of the top 20 large and sizeable insurers are difference. Some of them focus on motor business that could bring them bulk of business income in terms of cash and some others are concentrating on non motor business which appearing to be more 'profitable' and 'less risky' as compare to motor insurance. Besides, some insurers are focusing on agency-related business and market business whilst others focusing on in-house business or related companies business.

Generally, the following companies are more prominent in the general (non motor business) sectors as the composition of non-motor in relation to motor size is less than 50%. Thus, the competition experienced by the below company are normally from among the below mentioned listing (refer Table 2).

Table 2 : The competitors

Ranks	Company Name	Motor%	Non Motor %
1	AMI Insurance Berhad	20%	80%
2	American International Assurance Company	20%	80%
3	Malaysia National Insurance Berhad	22%	78%
4	Hong Leong Assurance Berhad	26%	74%
5	Jerneh Insurance Berhad	27%	73%
6	Mayban Assurance Berhad	27%	73%
7	Taisho Marine & Fire Insurance (M) Berhad	28%	72%
8	CGU Insurance Berhad	32%	68%
9	Malaysia British Assurance Berhad	35%	65%
10	Lonpac Insurance Berhad	37%	63%
11	Royal & Sun Alliance Insurance (M) Berhad	39%	61%
12	Guardian Royal Exchange Assurance (M) Bhd	43%	57%

7.0 FINANCIAL PERFORMANCE

7.1 Nine months result for the year 2001 (Appendix 11)

According to the external auditor report, for the past nine months ended 30 September 2001, the Company recorded a sharp decline in gross written premium of RM30 million or 17.4% as compared to the corresponding period in the previous year. This amount represents only 57.2% of the budgeted gross written premium of 2001.

The gross premium estimated from treaty inward business reduced to RM8 million in the nine (9) months ended 30 September 2001, from RM17.5 million in 2000. In 2000, approximately RM10.9 million of gross premium were released from the “open underwriting” account due to the change to the “direct accounting” method of estimating inward treaty business.

Following the high claims experienced in 2000, Jerneh Insurance Berhad has adopted a more conservative and stringent strategy in underwriting motor business particularly for motorcycle policies. Further, the amount of motor business contributed from one of the big client started to decline from the beginning of 2001 due to more favorable terms given by other market competitors i.e. Kurnia Insurance Bhd. The motor premium from this client for the seven months ended 31 July 2001 was RM 453,000, compared to RM3.4 million in the

corresponding period in year 2000. The motor premium was down 15.3% from RM45.6 million in the nine (9) months to 30 September 2000 to RM38.6 million in the 2001.

The downward revision of the fire tariff effective from 1 July 2000 (resulting in an industry average premium reduction estimated at 14.8%) has also contributed to a drop in gross written premium. Jerneh Insurance Berhad recorded the fire premium income of RM53.7 million for the 9 months ended 30 September 2001 against RM60.3 million in the corresponding period in 2000.

Marine, aviation and transit premium from non-treaty inward business has reduced by RM7.5 million mainly due to the lost of a major cargo policy which contributed a gross written of RM7.3 million in January 2000.

The overall net premium retention ratio has reduced from 56% to 53%. This is due to lower inward treaty premium that is wholly retained by Jerneh Insurance Berhad. The unexpired risk provision as at 30 September 2001 represents 65% of retained premium compared to 48% at the end of 2000.

Net claims have reduced substantially by RM21.02 million or 29% as most classes of business registered lower net claims ratio except for liability class. The reduction is mainly in marine, aviation and transit, motor and burglary claims where the net claims have reduced by RM3.6 million, RM16 million and RM3.5

million respectively. Motor class recorded a reduction in net claims due to less fraudulent and burglary loss.

Liability class, however, experienced a significant increase in net claims, from RM1.63 million previously to RM4.75 million, mainly due to additional reserves amounting to RM3.9 million being provided in June 2001 in respect of several major claims. The additional reserves are necessary as claims recovery from two re-insurers namely, HIH Casualty and General Insurance (Labuan and Hong Kong) are uncertain due to their bankruptcy.

7.2 Financial analysis for the past five years (Appendix 12, 13 and 14)

Set against the industry, Jerneh Insurance Berhad wrote RM 219 million of gross written premium, up over last year's RM 167 million by 31%. Despite writing more business, the underwriting surplus declined by 86.4% to RM2.7 million from RM19.8 million in 1999. Jerneh Insurance Berhad was not spared the onslaught of high claims experience felt by the industry. In the past 30 years of Jerneh Insurance Berhad's history of writing risk, in year 2000 the Chairman reported that the underwriting results is the worst ever faced by the Company. Net claims incurred were up by 95% to RM84 million, largely due to unexpected higher claims in Motor, Marine Hull and General Accident business and higher retention levels due to lower reinsurance requirement on large commercial risks. From 1996 to 1999, Jerneh Insurance Berhad recorded lower retention and lower

claims. Jerneh Insurance Berhad's loss ratio in year 2000 was 69.7% compared to the industry's average 64.8%.

A lower investment income of RM11.7 million was recorded in the Investment Portfolio. This was due to the reduction in yield rates on fixed income securities and a weak performance on the Kuala Lumpur Stock Exchange.



8.0 THE INDUSTRY

There are currently 36 insurance companies that conduct general insurance business in business. In line to the call of government in terms of market consolidation through merger and acquisition (M&A), the number of general insurer sees a trend of reduction (see Table 3).

Table 3 : The number of general insurers in the industry

Year	1997	1998	1999	2000
No of General Insurer	39	40	38	36

Insurance sector is one of the important sectors that contribute significantly to the nation economic growth. The fundamental aspect of insurance in providing protection to insured against any misfortune has boost the confidence of the commercial sector in expanding their business as the possibility of risk arising from misfortune event will be taken care by insurance companies. Generally, premium from the general insurance sector has recovered steadily after the Asian financial crisis (see Table 4).

Table 4 : Gross Written Premium from the general insurance sector

Year	1997	1998	1999	2000
Premium	RM3.17 billion	RM10.9 billion	RM11.83 billion	RM13.86 billion
Premium (% of GNP)	2.9%	4.1%	4.2%	4.6%

The insurance fund that accumulated by insurance companies is the most vital consideration by the consumer. The readiness and sizeable of the insurance fund of the company is important in ensuring the repayment capabilities of the insurance companies in the event of misfortune. From the period of 1998-2000; we noted that the insurance fund that accumulated by local general insurance companies has increased consistently (see Table 5).

Table 5 : The Insurance Fund Assets

Year	1997	1998	1999	2000
Insurance Fund Asset	RM2.4 million	RM13.0 million	RM13.69 million	RM13.74 million

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