



UNIVERSITI PUTRA MALAYSIA

**A CASE STUDY OF
STRATEGIC PLANNING FOR
PERDANA CIGNA INSURANCE BERHAD**

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PERDANA CIGNA INSURANCE BERHAD**

BY

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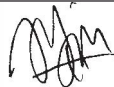
PENGESAHAN KEASLIAN LAPURAN

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ABSTRACT

The after effects of Asian Currency Crisis were still lingering in the economies of South East Asia countries. The crisis begun in July 1997, however, the general insurance industry took the brunt of the economic downturn in 1998. The 1997 financial result for general insurance companies shown good return and potential growth in gross and net written premium, and profit for the next financial year. Most general insurance companies including Perdana CIGNA Insurance Berhad had targeted major growth in 1998. The uncertain economic conditions dashed the company's hopes of producing the desired results. The general insurance market or premium size had shrunk considerable, especially, in motor insurance, as there are less new cars and devaluation of second hand car value. Other general insurance lines like fire was also affected as the value of properties were reduced, along with the fire insurance premium. The general insurance companies competed among each other to achieve growth and profitable, thus, reduction of premium occurred as too many insurers were fighting for business. Perdana CIGNA Insurance Berhad had a small portfolio of motor insurance, therefore, massive drop of turnover or net written premium did not occurred. However, losses in claims were high and desirable growth was not achieved in 1998. Despite of the economic downturn, companies must reorganized and planned to take on new challenges or fight for survival as the most cost efficient and innovative company would be able to weather out the bad economic conditions.

TABLE OF CONTENT

TITLE PAGE	i
PENGESAHAN KEASLIAN LAPURAN	ii
ACKNOWLEDGEMENT	iii
ABSTRACT	iv
TABLE OF CONTENT	v
PART I – CASE STUDY	
1.0 INTRODUCTION	1
2.0 COMPANY BACKGROUND	2
3.0 PCIB - VISION	3
3.1 Mission Statement	3
3.2 Our Objectives	4
3.3 Background Information on the Mission Statement	5
4.0 MANAGEMENT	6
5.0 OVERALL COMPANY FINANCIAL PERFORMANCE	7
6.0 PROPERTY & CASUALTY DIVISION (P &C)	8
6.1 P & C Division Financial Performance	9
6.1.1 Revenue Or Net Written Premium	10
6.1.2 Total Incurred Claims/Losses	11
6.1.3 Profitability – Underwriting Profit	11
6.1.4 Liquidity	11
6.1.5 Risk Involved in Business	12
6.1.6 Collection of Bad Debts	12
6.1.7 Economy of Scale and Experience	13
6.2 Marketing	13
6.2.1 Lines of Business	14
6.2.2 Product Lines	14
6.2.3 Product Mix and Quality	14
6.2.4 Product Replacement Life Cycle	15
6.2.5 Underwriting Expertise	15

6.2.6	Market Share	16
6.2.7	Marketing Channel	17
6.2.8	Technology Know-how	17
6.2.9	Competitor Capability	18
6.3	Operations	19
6.3.1	Customer Service	19
6.3.2	Claims	19
6.3.3	Risk Management Services	20
6.3.4	Information Technology	20
6.3.5	Staff Development Program	21
6.4	Management	22
6.4.1	Team Effectiveness	22
6.4.2	Empowerment	23
6.4.3	Result Oriented Based on Clear Objectives	23
6.4.4	Cross Function Training	24
6.5	Unique Success Factors	24
6.5.1	Accelerated New Product Development	24
6.5.2	International Network	25
6.5.3	Satisfying Customers Need	25
7.0	ACCIDENT & HEALTH DIVISION (A & H)	26
7.1	A & H Financial Performance	28
7.1.1	Revenue Or Net Written Premium	29
7.1.2	Total Incurred Claims/Losses	29
7.1.3	Profitability – Underwriting Profits	29
7.1.4	Cash Flow	30
7.1.5	Liquidity	30
7.1.6	Risk Involved in Business	30
7.1.7	Economy of Scale and Experience	31
7.2	Marketing	31
7.2.1	Market Segment	31
7.2.2	Marketing Channel	32
7.2.3	Promoting DM Expertise to Potential Sponsors	33
7.2.4	Product Mix & Quality	34

7.2.5	Product Replacement Cycle	34
7.2.6	Underwriting Expertise	34
7.2.7	Competitor's Capability	36
7.2.8	Technological Know How	36
7.3	Operations	37
7.3.1	Customer Service	37
7.3.2	Claims	38
7.3.3	Conservation	38
7.3.4	Information Technology	39
7.3.5	Staff Training Program	39
7.3.6	Loyalty Program	39
7.4	Management	40
7.4.1	Teamwork Effectiveness	40
7.4.2	Empowerment and Result Oriented	40
8.0	INDUSTRY PERFORMANCE	41
8.1	Politics	42
8.2	Economy	42
8.3	Social-Cultural	43
8.4	Technological Changes	45
8.5	Rate of Inflation	46
8.6	Demand Variability	46
8.7	Price Range of Competing Products	47
8.8	Barriers to Enter into Market	48
8.9	Competitive Pressure/Rivalry	48
8.10	Consumers	49
8.11	Competitors	49
8.12	Suppliers	50
8.13	Substitute Products	50
8.14	Growth and Profit Potential	51
8.15	Financial Stability	52
8.16	Technology Know How	52
8.17	Productivity & Capacity Utilization	53
8.18	Supplier Bargaining Power	53

5.0	A & H DIVISION ANALYSIS	72
5.1	A & H – INTERNAL FACTORS ANALYSIS (STRENGTH & WEAKNESS)	72
5.2	A & H – EXTERNAL FACTORS ANALYSIS (OPPORTUNITY & THREAT)	75
5.3	ANALYSIS OF STRATEGIC FACTORS FOR A & H DIVISION	78
a.	Using SPACE Model to Derive Suitable Strategies for A & H Division	78
b.	Formulation of Strategies Using SWOT Matrix Based on Internal and External Factors Analysis	81
5.4	ALTERNATIVE STRATEGIES FOR A & H DIVISION	82
a.	Strategic Alliances with Key Sponsors	82
b.	Increase Telemarketing Activities/Outsourcing	82
c.	Targeting New Sponsors	83
d.	New Distribution Channel - Agents	83
e.	A & H Web Site Promotions	84
f.	Increase Productivity and Reduce Unnecessary Cost	84
g.	Increase Loyalty Program	85
h.	Increase Conservation Activities	85
i.	Transformation of Operations	86
6.0	RECOMMENDED STRATEGIES BASED ON SPACE MODEL AND SWOT MATRIX FOR P & C AND A & H DIVISIONS	87
6.1	Growth & Competitive Strategies for P & C Division	87
6.2	Growth & Competitive Strategies for A & H Division	87
7.0	EVALUATION OF THE RECOMMENDED STRATEGIES	88
7.1	Evaluation of Strategies Recommended for P & C Division	88
7.2	Evaluation of Strategies Recommended for A & H Division	89

8.0	THE STRATEGIC ANNUAL ACTION PLANS FOR 1999	91
8.1	P & C Division Strategic Annual Plans For 1999	91
a.	SAAP1 – Maintain Profitable Market Segment	91
b.	SAAP2 – Focus on Broker Relationship Management	92
c.	SAAP3 – Increase Local Market Share in Auto, Marine and Liability	93
d.	SAAP4 - Aggressively Market New Innovative Product	94
e.	SAAP5 - Reorganize Distribution Channel	95
8.2	A & H Division Strategic Annual Plans For 1999	96
a.	SAAP1 - Strategic Alliances With Sponsors	96
b.	SAAP2 - Increase Telemarketing Activities/Outsourcing	97
c.	SAAP3 - Targeting New Sponsors	98
d.	SAAP4 - New Distribution Channel	99
e.	SAAP5 - A & H Web Site Promotion	100
9.0	CONCLUSION	101
	ATTACHMENT A	
	ATTACHMENT B	
	ATTACHMENT C	
	ATTACHMENT D	
	REFERENCE	

PART 1 – CASE STUDY

(Page 1- 53)

1.0 INTRODUCTION

In 1996, Cliff Lee, the CEO promised the Board of Directors that by end of 1999, PCIB hoped to generate a turnover of RM 100 Million. By end of 1997, PCIB managed to achieve a turnover of RM 63 Million and were expect to grow to RM 80 Million by end of 1998. However, the PCIB strategic planning did not foresee the brewing of an economic storm.

In 1997, the Asian Currency Crisis affected all the economy of South East Asian. Malaysia's economy was not spared, a lot of companies was faced with less or lost revenue, lower profits and high costs of servicing foreign loans especially in US dollars. At that point, the crisis did not force an immediate negative affect to the insurance industry. Thus, the insurance industry did not actually feel the brunt of the Asian currency crisis in 1997.

However, in 1998, some industries were beginning to show some recovery or stability from the economic crisis after being hit hard in 1997. Mean while, the insurance industry especially the general insurance sectors were feeling the delay affects of the economic crisis. The insurance industry gross written premium (GWP) were reducing compared with 1997 and the numbers and value of claims had increased drastically.

Perdana CIGNA Insurance Berhad did not escape from the affect of the slow or hard hit Malaysia economy as certain lines of business were not profitable and projection of growth did not materialize. Therefore, management of PCIB, lead by Cliff Lee need to devise a new three years Strategic Planning to be presented to the Board of Directors. The keywords for the strategic planning would be "Profitable Growth" with core objectives were to achieve a turnover of RM 100 Million by year 2001 and RM 110 Million by year 2002. The new strategic planning were required as PCIB lead by Cliff Lee failed to achieved the expected growth of RM 80 at the end of 1998 due to weak economy.

2.0 COMPANY BACKGROUND

Perdana CIGNA Insurance Berhad (PCIB) was formed through a joint venture between CIGNA International Holdings Limited and Advance Synergy Berhad in 1995. Previously, PCIB operated in Malaysia as Insurance Company of North America as a branch office of CIGNA International. CIGNA International was part of CIGNA Corporation. CIGNA Corporation was one of the top ten Insurance companies in United States. CIGNA Corporation had US \$98 Billion in assets, US \$6.8 Billion in shareholder equity and ran by 52,000 employees in 78 countries worldwide. CIGNA Corporation consisted of different division with specific business focus where CIGNA International competed for global insurance business.

PCIB principal activity were in the underwriting of general insurance through Property & Casualty Division where the lines of business were fire, liability and marine insurance. In 1986, a new business division, Accident & Health Division was formed to develop the personal accident and group accident cover insurance market in Malaysia.

PCIB operated in the capital of Malaysia did not possess any branches. The bulk of Property & Casualty Division (P & C) businesses were conducted through insurance brokers' network. Companies required the services from insurance brokers to obtain the relevant insurance coverage like fire, liability or marine insurance. Brokers forwarded customer insurance needs to insurance companies to obtain quotation on the risk. The value of risks range from thousands to billions in Ringgit like KLCC building. Huge risk required the broker to split the risk to a few insurance companies based on their capacity. Capacity here means the amount of risk value could the insurance company take. PCIB as foreign owned insurance company had adequate capacity that could take massive risks and PCIB had always targeted major risks as its core portfolios of business.

The business channel used by Accident & Health Division (A & H) were through banks, credit card companies and brokers. A & H Direct Marketing team had to obtain approval from banks to rent their customer credit name list

for a nominal fee per name. Then, direct marketing department would launch direct mailing which contain proposal to sell Personal Accident Insurance Cover, Hospitalization Benefits, Dread Disease Coverage to the credit card holders. Once the credit cardholders decided to enroll to the plan, part of the premium were forward to the banks as commission. While A & H Basic Book markets its group personal accident coverage through brokers' corporate clientele. In Malaysia, PCIB Accident & Health was one of the pioneers in Direct Marketing. Besides that, telemarketing was also another way of contacting the potential customer or existing customer where the telemarketing representative will try to sell insurance products to the customers through telephone calls.

The specific type of operations in both P & C and A & H did not required branch operations in Malaysia. PCIB had only 58 staff in 1997 compared with 43 staff in 1996. With staff strength of 58, PCIB managed to generate total revenue of RM 63 Million in 1997. PCIB was an international company and in some cases where expertise that were required to service our customers were not available in Malaysia, PCIB could tap into its International network and get the resources there.

3.0 PCIB - VISION

PCIB vision was "We strive to be a growing, consistently, profitable, borderless provider of insurance products and services, meeting the needs of select customer segments through well-trained, highly successful people."

3.1 MISSION STATEMENT

Perdana CIGNA Insurance Berhad will strive to be a growing, consistently profitable, borderless provider of insurance products and services, meeting the needs of select customer segments through well-trained highly successful people. Not a big difference from our vision, just one word, but an important one. We've retained our original vision statement, but we've added this **growth** imperative.

Now, attaining growth doesn't mean just talking about it. It means actions. Specifically, we have to passionately believe in the necessity to grow. We have to have management and staff that are focused in their actions and in their plans on growth. We have to have accountability at every level of our organization for growth. We have to start thinking about new skills to match this growth challenge. And we have to start thinking about existing and new people and turning them into growers - NOT CATCHERS, BUT GROWERS.

Who are GROWERS? Simply, these are people who achieve growth in revenues and profits by anticipating, recognizing and creating opportunities in our business. They're people who think dynamically and aggressively. They pursue market opportunities, they pursue the development of new products, they identify new distribution channels, and they identify and deliver high-quality services to our customers much more than all of our competitors. In a nutshell, growers are our entrepreneurs, and they take personal responsibility and pride in building a business, in growing a business.

3.2 Our Objectives

- To be recognized as the market leader and a specialist insurer we need sustained profitable growth delivered through well-trained highly successful people
- Economy of scale with high productivity and innovativeness will ensure Perdana CIGNA was lean, efficient and cost affective to compete in the ever changing and competitive market
- meeting this goal will be a significant challenge to most of our operations
- Sustained profitable growth are the critical driver to ensure Perdana CIGNA survives in an open economy

3.3 Background Information on the Mission Statement

In 25 October 1995, Perdana CIGNA Insurance Berhad was formed by a joint venture between Insurance Company of North America and Advance Synergy Berhad. The Malaysian government had been enforcing the localization of fully owned foreign insurance companies. In compliance with the regulation, Insurance Company of North America a local branch office of CIGNA International which part of CIGNA Corporation agreed to form a joint-venture company to assume the existing insurance business with Advance Synergy Berhad.

Besides enforcing local partner participation into foreign-based insurance companies, the paid-up capital of all insurance company must be raised to RM 50 Million. Starting in 1997, those insurance companies paid-up capital was below RM 50 Million were required to have a minimum capital of 30 Million. In the subsequent year, another RM 10 Million must be injected or through other means until the capital was RM 50 Million by end of 1999.

The CEO of Perdana CIGNA Insurance Berhad (PCIB) realized that based on the amount of capital required by insurance regulator, PCIB must try to achieve the turnover of RM 100 Million by year 1999 as the capital will be RM 50 Million. The goal was to generate adequate revenue and return to the investors of PCIB. This challenge requires a mission statement and PCIB CEO presented the mission statement in a special training session with all the staff in early 1996. At his presentation, the CEO stresses that PCIB will had to work towards achieving the target of RM 100 Million in turnover by end of 1999 financial year. The board of directors further endorsed the goal and mission statement.

4.0 MANAGEMENT

PCIB's holding company were CIGNA International, and within the multi level of management, CIGNA practiced matrix type of management. Local management was the management for country level while regional management refers to the management of the entire region as CIGNA International had offices in a few South East Asia countries. (Refer to the Attachment A1 the Country Senior Management team, Attachment A2 for P & C Division Organization Chart, Attachment A3 for A & H Division Organization Chart and Attachment A4 for the Support Division Organization Chart.)

PCIB organization were structured into three different divisions where Property & Casualty (P & C) and Accident & Health (A & H) divisions were business or profit center divisions. While the third division was the support division where administration, finance and system departments were clustered together to provide internal services to the other two business division.

CEO assumed full responsibility for the company performance and the CEO reports to the Board of Directors, Regional Senior Vice President. Chief Financial Officer were responsible for the business support departments like finance, administrative and system departments who reports direct to CEO at country level and to the Regional Vice President of Finance. While the management of the two businesses division, Accident & Health and Property & Casualty was headed by Assistant General Managers who reports to CEO at country level and also direct to Regional Vice President of respective business division. In the daily decisions making of the business division, regional management plays an important role in decision making on investments, marketing planning, and approvals of business initiatives or approval of business activity.

5.0 COMPANY FINANCIAL PERFORMANCE

The completed audited financial results for 1998 had not been release. However, some of company financial information had been release for the business division. Total revenue or gross written premium for 1998 was RM 64 Million a slight increase compared to 1997 total gross written premium of RM 63 Million. Table 1 shows some of the performance indicators in 1996 and 1997.

Table 1: Summary of Attachment B – Statutory Accounts For 1997 & 1996

No	DESCRIPTION	Year Ended 31.12.1997 (RM)	Period From 26.10.1995 to 31.12.1996 (RM)	Notes
	FINANCIAL SUMMARY			
1	Revenue	63,434,007	14,997,981	Refer to Attachment B1 & B2
	% Revenue Increase by year	323%	-	
2	Profit (Loss) After Taxation	9,519,484	5,279,249	Refer to Attachment B1 & B2
	% Profit/Loss Increase	80%	-	
3	Total Assets	85,785,242	64,018,742	Refer to Attachment B3 & B4
	% Total Assets Increase	34%	-	
4	Total Liabilities	29,632,488	22,528,580	Refer to Attachment B3 & B4
	% Total Liabilities Increase	32%	-	
5	Earnings Per Share	0.32	0.18	Refer to Attachment B2
6	Capitalized for bonus Issue	10,000,000	-	Refer to Attachment B2. Profits from 1996 & 1997 were used to increase the paid up capital
7	Retained Profits Carried Forward	4,798,733	5,279,249	Refer to Attachment B1 & B2
8	Underwriting Surplus	7,544,523	4,063,153	Refer to Attachment B5 & B6
9	Investment Income	4,557,664	933,642	Refer to Attachment B5 & B6
10	Claims Incurred	(12,963,176)	(2,549,471)	Refer to Attachment B5 & B6

6.0 PROPERTY & CASUALTY DIVISION (P & C)

The core business of PCIB was general insurance where P & C had been a player in Malaysia market since 1957 under the previous company name of Insurance Company of America. The initial business focus of P & C were fire, marine and casualty. However, over the past years a number of new products was introduced, thus, P & C division's lines of business (LOB) increased as the performance or productivity and cost center of P & C were segmented by LOB. Each lines of business had their focus and core products, although, P & C division had recently embrace the concept of offering an array of products in a package deal to satisfied customers needs and add value to the products. In 1998, P & C division strategy was to realign its business segment from potential large risk to less risky coverage.

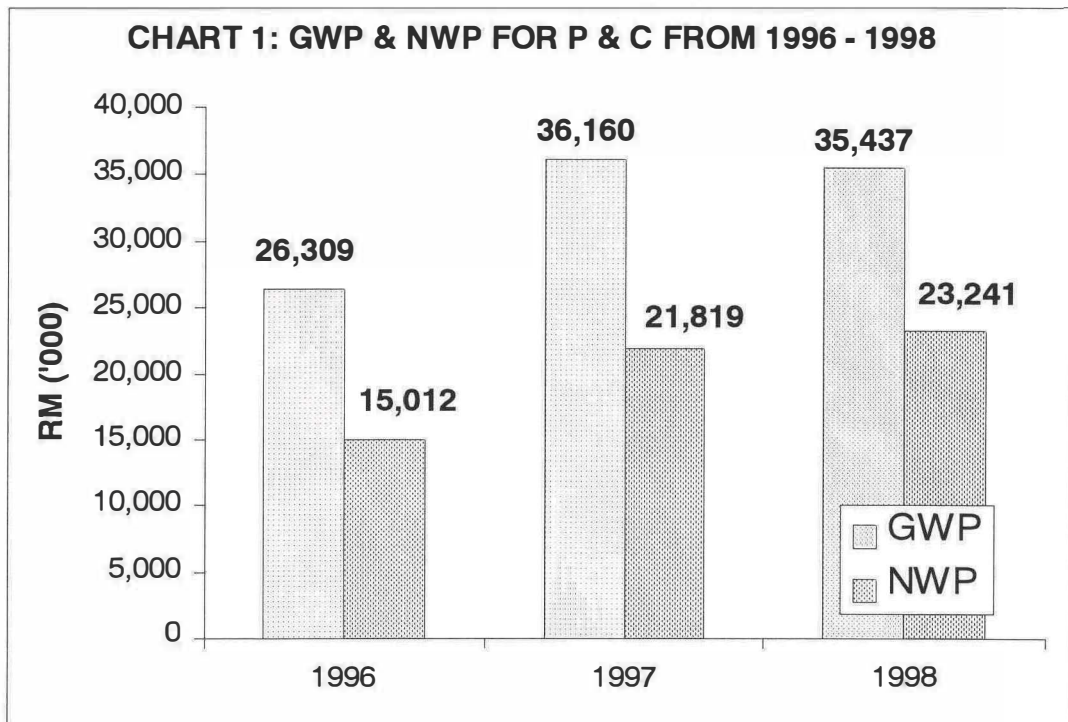
The customer base of P & C division encompass of corporations, property owners, multinational companies and others. Although, PCIB did not had branches in Malaysia, P & C division does business regardless of location within Malaysia and even follows local business, which expands into other countries. In the recent years of economic boom in Malaysia, a lot of major corporations had expanded their business to foreign countries like Lion Group with investments in China and other South East countries. Here, P & C division provides the Global Risk Management where the insurance coverage expands to other countries where the corporate does business.

P & C division's array of successful products were developed within CIGNA International group and tested in the international market. If the new product was successful in one country, it could be quickly brought into another country by sharing the expertise in underwriting, technical, IT and human resource skills. One excellent example was Landmark which was very successful in United States and Australia which were introduced to Malaysia market was one of its kind. The advantage of sharing an international pool of unique products and quick development of new products or solution that could satisfied customers need were required for the survival of P & C division across the international general insurance industry.

6.1 P & C Division Financial Performance**TABLE 2: P & C GWP & NWP BY BUSINESS LINES FOR 3 YEARS**

		1996	1997	1998
RM' 000				
FIRE	GWP	9,787	13,196	16,386
	NWP	4,570	8,051	10,950
	RETENTION	47%	61%	67%
TECHNICAL	GWP	9,636	11,838	9,042
	NWP	5,456	6,921	6,218
	RETENTION	57%	58%	69%
ENERGY	GWP	782	1,677	1,373
	NWP	524	1,157	661
	RETENTION	67%	69%	48%
SPECIALTY	GWP	0	223	1,362
	NWP	0	122	604
	RETENTION	0%	55%	44%
CASUALTY	GWP	2,268	2,722	2,850
	NWP	1,556	2,200	2,077
	RETENTION	69%	81%	73%
AUTO	GWP	982	1,257	840
	NWP	770	1,164	769
	RETENTION	78%	93%	92%
MARINE	GWP	2,854	5,247	3,584
	NWP	2,136	2,204	1,962
	RETENTION	75%	42%	55%
P & C TOTAL	GWP	26,309	36,160	35,437
	NWP	15,012	21,819	23,241
	RETENTION	57%	60%	66%

GWP refers to Gross Written Premium. NWP was Net Written Premium where gross written premium minus the reinsurance premium. Retention means that the percentage of premium that were not reinsured. Therefore, net written premium was the actual income or revenue for general insurance company. The figures for 1998 was correct at the time of release from finance department while waiting for auditors to audit the books.



From Chart 1 above, the GWP in 1998 had decrease slightly while the NWP had increased RM 1.422 Million in 1998 to RM 23.241 Million compared to RM 21.819 Million in 1997. This shows that in terms of revenue P & C division had grown. (Refer to Attachment D for the P & C division financial performance)

6.1.1 Revenue Or Net Written Premium

P & C division gross written premium had decreased from RM 36.16 Million in 1997 to RM 35.437 Million in 1998. However, the net written premium had increased from RM 21.819 Million in 1997 to RM 23.241 Million in 1998. The net written premium growth in 1998 compared to 1997 was 6.5%. (Refer to Attachment D1)

6.1.2 Total Incurred Claims/Losses

Table 3: P & C Division Losses in 1997 & 1998

	1998 RM ('000)	1997 RM ('000)
Total Incurred Losses	15,507	7,651
(Increase % from previous year)	102.7%	

From the table 4 above, the losses had increased 102.7% in 1998 compared to 1997. (Refer to Attachment D2)

6.1.3 Profitability – Underwriting Profit

Table 4: P & C Division Underwriting Profit in 1997 & 1998

	1998 RM ('000)	1997 RM ('000)
Underwriting Profit	1,154	7,537
(decrease % from previous year)	84.7%	

From the table 5 above, the underwriting profit dropped 84.7% in 1998 compared to 1997 results. The drastic drops in underwriting profits were caused by unexpected heavy losses in 1998 compared to 1997.

6.1.4 Liquidity

The liquidity within P & C division was very high as there was no inventory required for this kind of business and in terms of expenses, were known as underwriting expenses. The underwriting expenses include the staff payroll, rental, utilities bill, expenses incurred to obtain business like travel, entertainment and other services. The overall underwriting expenses was low as there were no major expenses that required immediate cash investment.

6.1.5 Risk Involved in Business

In general insurance business, profits were obtained by accepting customers risk. Therefore, the risks involved in this line of business were very high. However, P & C would cushion or reduce its risk factor by reinsure the accepted risk. This would result in lower premium as a portion of the premium collected from customer were used to purchase additional protection against the customer risk. P & C business model required that all risks had to be reinsured if the value exceeded RM 1 million and if the value of the risk was very high, the percentage of reinsurance will be maximized.

6.1.6 Collection of Bad Debts

In general insurance industry, premium collections were one of the most important factors in maintaining the high liquidity of the company. In generic cases, after the customer had purchased the insurance policy, brokers were expected to collect the full amount within 120 days of the policy effective day. In numerous cases, brokers failed to collect in time or the money was with the broker but had not been remitted back to P & C division. P & C division considered this as a critical factor to the division's financial health, therefore, a task force of debt collectors was formed with the objective to collect the full amount of the premium within 180 days. The task force consists of financial department and P & C account managers. The task force met every week and based on the Aging Report, which shows which customers still had not paid the premium in full. Then, finance assistant and account manager will call the customer and broker to pressure them to make payment. The results achieved by this task force in 1998 were unexpected as all debts were collected within 120 days. Except 10 bad cases where the policy was terminated or partial or installment type of payment were accepted, in lieu of the full amount.

6.1.7 Economy of Scale and Experience

P & C division had been concentrating on selected market segment since it begun its operations in Malaysia. The present regional and local management believes that to achieve future exponential growth in premium and market share, P & C division must expand its business segment and attack the low premium and high volume businesses. The first strategy was in fire line of business where a strategic cooperation with United Merchant Finance (UMF) where P & C will provided fire insurance coverage to UMF's housing loan customer. The objective was to provide home loan customer with fire insurance and limit house content insurance upon the expiry of the existing fire insurance. UMF will receive a percentage of the premium as commission and in 1998, a total number of 18,645 fire policies were issued to UMF home loan customers. Although, P & C still lag behind compared with other general insurance in Malaysia, the experience acquired from the UMF cooperation marks the beginning of a new market segment focus.

6.2 *Marketing*

P & C division businesses were generated through working close relationships with Insurance Brokers. Insurance Brokers were the middlemen, who introduce customers' needs to Insurer and expects the Insurer to provide the necessary insurance coverage for its portfolios of corporate clients. Major corporate clients normally do not deal directly with Insurer. Besides tapping broker channel, P & C division had a very small network of insurance agents. Most general insurance players in Malaysia had network of branches in towns or major cities where they had a wider customer base reach.