

Cambodia: A Quick Overview

Many still think of Cambodia as the infamous Killing Fields. But the country has quietly been forging ahead under the new administration with significant results enough even to scare the US with its increased textile exports. Here, we bring you a quick overview of the market as reported by **Dr Hang Chuon Naron**, Secretary General, Ministry of Economy and Finance (MEF) and Secretary General, Supreme National Economic Council, one of the leading technocrats of the country with a vision to make the market more professional and stable for the long term.

The year 2004 was a good one with a 6% real GDP growth underpinned by robust construction activities, a strong rebound in tourism receipts with a million visitors, sustained exports of garment products and oil and gas exploration. The outlook for the near future appears stable, due partly to oil and gas exploration and a stable garment sector with greater investments to the tune of some US\$117 million approved in 2004.

Agricultural growth is expected to continue to improve, and the structural reforms are expected to provide the foundation for sustained higher and more broad-based growth rates after 2006.

A Close-Up On Insurance

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 licence 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 three years. Asia Insurance emerged as the number-one player (US\$4 million or 46% of market share, 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).

Lines Of Insurance Business

The miscellaneous class of business (burglary, theft, money insurance, liability, travel insurance, fidelity guarantee,

About Dr Hang Chuon Naron

Dr Naron, a distinguished and reputable leader in the country, has several concurrent key appointments as:

- Deputy Chair, Committee on Financial Sector Development in Cambodia (since 2001);
- Chairman, Board of Directors and Management Board, Cambodian Reinsurance Company (since 2002);
- Member, Board of Directors, Electricity of Cambodia (EDC) (since 2000);
- Member, Board of Directors, Cambodia Development Resource Institute (CDRI) (since 2004);
- Chairman, Board of Directors, Community-Based Natural Resource Management Learning Institute (since February 2005);
- Vice Chairman, Board of Directors, Telecom Cambodia (since March 2005).



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 the 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 percent 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.



Cambodia: Gross Premium Written By Line Of Business 2004	
Auto	1,526,621
Fire	2,412,011
Marine	325,685
Engineering	180,222
WC	53,015
PA	511,577
H&S	427,008
Miscellaneous	3,437,722
Total	8,873,870

Fire & 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 complied with the new Insurance Law requiring them to insure locally. During the last five years, fire premiums increased more than fivefold, while engineering jumped 51 times. However, in 2004, fire premium experienced a decline of US\$0.5 million due to market turbulence.

Miscellaneous Class

Miscellaneous business, personal accident, 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.

Motor

Motor insurance, which accounts for 17% of the total business, is ranked third in terms of premium contribution. Insurance companies are still cautious in their approach to this segment, though the motor portfolio contributes substantially to their bottom lines. Premium 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 a higher vehicle population in Cambodia and the introduction of compulsory commercial motor insurance in the Kingdom. Motor insurance is a clear area of growth although tougher traffic conditions and abuses may affect its future profitability.

Marine

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

Medical Insurance

Medical insurance is grossly underdeveloped in Cambodia. This market, which is to the tune of US\$400,000 annually, is still in a nascent stage. The quality of health services inside Cambodia does not encourage well-to-do people to buy health insurance. Many people prefer to seek health services overseas. Thus, there is huge potential for health

insurance in this country, especially when the sector gets more organised in the coming years.

Claim Experience

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

Regulatory Developments, Solvency Margin

In 2002 the National Assembly of the Kingdom of Cambodia passed the Law on Insurance which, along with the sub-decrees, require each insurance company to have a registered capital of US\$ 7 million. To protect the public from possible risks caused by the bankruptcy of the insurance company, the Law requires that an insurance company deposit 10% of its capital, ie. US\$700,000 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.

Seeing the difficulties faced by insurers to comply with the higher registered capital, in December 2002, the MEF issued an Instruction Circular which provides grand-fathering conditions with a five-year grace period to increase their capitals and maintain the solvency margin:

- Year 1: US\$350,000;
- Year 2: US\$525,000;
- Year 3: US\$700,000;
- Year 4: US\$875,000;
- Year 5: US\$1,050,000.

For the first year, all insurance companies are required to deposit US\$700,000 as guarantee deposit at the NBC and US\$350,000 at a commercial bank to be eligible for an operating license.

For 2005, insurance companies are required to deposit a further US\$525,000. In total the solvency margin of insurance companies amounted to US\$1.5 million.

To improve the current situation, in April 2005, the Ministry of Economy and Finance adopted a new formula for solvency margin: Solvency will, in the case of direct insurance business, be US\$1.5 million or 30% of net written premium income (assets over liabilities) in its last preceding financial year, whichever is higher. To implement the new solvency formula, the MEF also adopted 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 four years not including the aviation business. As incomes rise, companies hope to see greater volumes in the 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 dramatically 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 industry for the future. ■