UNIVERSITI SAINS MALAYSIA
Second Semester Examination

Academic Session 1996/97
April 1997

AGW608 - CORPORATE STRATEGY

Time: [3 hours]

INSTRUCTION:
Please make sure that this examination paper consists of 15 printed pages before you begin.
Answer questions 1 and 2, and two others.

1. Read the accompanying case study and answer the following questions:

   a. What are Cosmic's present strengths and weaknesses as compared to competition?

   (10 marks)

   b. What do you think are the opportunities and threats facing Cosmic Insurance?

   (10 marks)

   c. If you were Sham, what strategies would you recommend to your Board of Directors to place Cosmic in a position of competitive advantage?

   (20 marks)

2. What do you think are the critical success factors for a manufacturing Malaysian company in the late 1990's?

   (20 marks)

3. Discuss the roles of vision, mission, goals, objectives and policies in strategic management. Illustrate your answer with reference to your company or a company you know best.

   (20 marks)

...2/-

4. "It is only when one is pursued that one becomes swift" (Kahlil Gibran). Comment on the applicability of this statement in the context of strategic management.

(20 marks)

5. What strategic and management control measures are necessary for effective implementation of strategies? Illustrate the use of these measures in your own company.

(20 marks)

...3/-

COSMIC INSURANCE

In early July 1989 Sham Ibrahim, managing director of Cosmic Insurance Sdn Bhd, (Cosmic) slumped back in his chair as his senior managers filed out of the discussion room. "Another meeting and still no concrete action plans," he thought. He had called the meeting to discuss the overall strategic direction of the company and to brainstorm ideas on how the company was to achieve the targets it had set itself for the next 5 years. These targets (see Exhibit 1) had been set in consultation with his senior managers in the course of the company's first attempt at formal corporate planning and would be incorporated into Cosmic's corporate plan for 1990–1994.

The meeting, however, had raised more questions than it had answered. During the discussion, various concerns and issues had been raised. One pressing concern was increased market competition. One of the senior managers present had pointed out that the company had lost some of its government sector market share to Syarikat Takaful Malaysia Sdn Bhd, another government-backed insurance company. Of concern also was the question of whether the company was taking full advantage of the opportunities in the market and responding quickly enough to industry demands and regulatory forces.

97

THE INDUSTRY ENVIRONMENT IN THE 1980s'

The insurance industry is a financial service industry involved in the business of providing individuals and organisations protection against uncertainty of loss (risk) in return for a monetary consideration (premium). The protection given can be against loss of property, income or life.

Insurance constituted an essential feature of the Malaysian economy in the 1980s'. Although its primary function was to provide financial security and protection against risks, it was also a major non-bank source of long-term investment capital for economic development. Within the financial system, however, the industry's assets were small—averaging about 3% of the total assets of the entire financial system throughout the 1980s'. At end 1988 the industry's assets amounted to about $7 billion, of which 76% were from the life insurance sector.

Authors' Note: The name of the company and the personalities involved have been disguised.

This case was written by June M.L. Poon and Halimah Badioze Zaman as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Copyright © 1992 by the Malaysian Institute of Management.

EXHIBIT 1

CORPORATE OBJECTIVES FOR THE PERIOD 1990–1994

Life Insurance Division

1 To achieve a 10% market share in new life business (excluding mortgage life insurance) by 1994 from its present market share of about 2%.
2 To promote investment-linked insurance.
3 To increase the yield on investment of life funds to not less than 7% as follows:

Type of Investment	Composition	Yield
Government securities	25%	8.5%
Shares	25%	12.5%
Loans	30%	11.0%
Properties	18%	12.0%
Others	2%	9.0%

Average weighted yield = 10.9%
Net of 35% tax = 7.1%

Nonlife Insurance Division

1 To achieve a minimum annual growth in premium of 10% from its present growth rate of 5.4%.
2 To achieve at least 80% of total business under the direct control of the company from the present 45%.
3 To achieve the following class-wise premium balance:

Class	Present	1994
Fire	38%	40%
Marine/Aviation	39%	30%
Accident	16%	20%
Motor	7%	10%

4 To achieve the following net retention ratios:

Class	Present	1990	1994
Fire	44%	48%	60%
Marine	32%	35%	35%
Aviation	3%	8%	8%
Accident	61%	64%	75%
Motor	88%	90%	94%

The Insurance Product

The insurance business in Malaysia could be broadly divided into life insurance and general insurance. The life insurance business was concerned with providing security and replacing income lost or impaired by death or disability. In a typical life insurance policy, the policyholder would sign a contract promising to pay a premium periodically to the insurer (insurance company) in return for a lump sum payment in the event of death or maturity of the policy. The premium to be paid would be computed based on factors such as the face value or potential claim of the policy; the sex, age and health of the insured; and estimated mortality factors.

The 3 most common forms of life policies in force in Malaysia at end 1989 were the whole life, endowment and term policies. The whole life policy was designed for price-conscious buyers primarily interested in protection. It had the lowest premium rate of any permanent type of life insurance. Premiums could be made on a monthly, quarterly or annual basis. At the death of the policyholder, the insurer would pay the beneficiary of the policyholder the face value of the policy (the sum assured).

The endowment policy, designed for buyers who were primarily interested in savings, called for a limited number of payments and enabled a policyholder to accumulate a sum of money which would be paid to him or her at a date specified in the policy. However, in the event of death before the maturity date, the sum assured would be paid to the beneficiary of the deceased policyholder. Premiums for endowment policies were high in relation to the face value of the policy.

The term (or temporary) policy was a pure protection policy and had lower premiums than other types of life policies. It provided for payment of the sum assured on death, provided death occurs within a specified period. No money would be payable to the policyholder if he or she survived to the end of the term. In addition to the whole life, endowment and term policies, purchasers of life insurance could also purchase special-purpose policies made by combining the major forms of policies. Protection against accident and sickness risks could be purchased through special disability policies or through a disability rider to a life insurance policy. A rider was an attachment to a policy that modified its condition by expanding or restricting benefits or excluding certain conditions from coverage.

Life insurance could also be categorised into group, mortgage life and home service insurance. Group insurance provided a means of insuring a group of people (usually employees of an organisation) under one master policy. Such policies were usually issued without any evidence of individual insurability. The main advantage of group over individual insurance was its lower cost.

Mortgage life policies were sold as a death payment guarantee on mortgage loans. The insurer would undertake to repay the lender should the borrower die before completing the mortgage payments.

Another category of life insurance sales was home service insurance which was marketed to lower income groups on a door-to-door basis. The amount assured under a home service policy was small, usually less than $5,000. Premiums were collected at the home or place of employment on a weekly, fortnightly or monthly basis.

...5/–

At end 1989 life insurance premium income of $1.3 billion accounted for 54% of the insurance industry's total premium income. This was generated mainly from whole life and term insurance businesses. The distribution of life insurance businesses (in terms of sums assured) by type of policy is given in Exhibit 2.

EXHIBIT 2

DISTRIBUTION OF LIFE INSURANCE SUMS ASSURED IN FORCE

(In percentages)

Year	Whole Life	Endowment	Term	Others
1980	36.3	30.8	9.9	23.0
1981	33.3	26.1	10.1	30.5
1982	32.6	22.8	10.1	34.5
1983	34.5	22.6	11.6	31.3
1984	36.4	21.2	12.1	30.3
1985	37.9	18.7	13.4	30.0
1986	36.4	15.6	18.1	29.9
1987	34.6	14.0	20.5	30.9
1988	35.8	13.1	22.7	28.4
1989*	36.5	14.4	31.9	17.2

* Preliminary data.

Source: Annual Report of the Director-General of Insurance, 1989.

The general insurance business involved the provision of an insurance contract other than for life insurance. The classes of general insurance included motor; fire and other damage to property; theft; liability; pecuniary loss; marine, aviation and transit; and personal accident. General insurance premiums were computed based on the cost of expected claims plus margins for commissions, management expenses, catastrophe protection cost and profit. Standard premiums were paid for policies which included ordinary classes of risks and extra premiums were charged for cover against specific and extraordinary risks.

Net premiums from the general insurance industry for 1989 were estimated at $1.1 billion, of which 45% were generated from motor insurance businesses and another 23% from fire insurance businesses. Exhibit 3 shows the distribution of net premiums among the various sectors of the general insurance industry.

Market and Industry Structure

The insurance market comprised the insured (buyer), the insurer (seller) and the intermediary between the buyer and seller. The intermediary was a full-time professional broker or a part-time or full-time agent. In certain cases, a reinsurer also entered the market. Reinsurance enabled the original insurer to limit the loss per risk to an

EXHIBIT 3

DISTRIBUTION OF GENERAL INSURANCE NET PREMIUMS

(In percentages)

Year	Motor	Fire	Marine, Aviation & Transit	Miscellaneous
1980	44.0	21.7	7.1	27.2
1981	43.2	21.9	6.6	28.3
1982	43.3	22.1	6.0	28.6
1983	42.2	23.2	6.4	28.2
1984	43.8	21.7	6.3	28.2
1985	43.5	21.6	6.5	28.4
1986	45.1	21.4	5.9	27.6
1987	42.9	24.4	6.6	26.1
1988	43.5	23.8	7.2	25.5
1989*	44.9	22.6	7.4	25.1

* Preliminary data.

Source: Annual Report of the Director-General of Insurance, 1989.

acceptable level by passing the excess over that level to a reinsurer and paying the reinsurer a proportion of the premiums.

As at end 1989 there were 60 licensed insurance companies operating in the country comprising 2 life insurers, 41 general insurers, 16 composite insurers and 1 reinsurer. The life insurance sector was dominated by a few large insurance companies. Approximately 60% of its total assets were in the hands of 5 top foreign insurers. The general insurance sector, on the other hand, was fragmented with a large number of small and undercapitalised companies. The top 7 general insurers accounted for only about 34% of total written premiums. As local general insurers had limited ability to undertake large risks, they tended to rely on foreign reinsurers.

There were also 41 licensed brokers and 40 loss adjusters in Malaysia as at end 1989. More than 50% of the insurance broking business were in the hands of 9 large foreign-affiliated insurance broking firms. The loss adjusting sector was characterised by a large number of small-sized firms. These firms acted as middlemen who interpreted policies and advised their clients on the amount of claims to be paid. They relied largely on foreign expertise in assessing complex technical claims.

At end 1989 there were 32,124 registered life insurance agents and 21,761 registered general insurance agents in the country. The industry, however, continued to face a shortage of local professionals with insurance, actuarial and accounting skills, and it had to rely mostly on foreign technical expertise.

In late 1984 the first Islamic insurance company, Syarikat Takaful Malaysia Sdn Bhd, was incorporated to provide coverage against risk based on Islamic principles.

The company operated on the concept of *takaful*; that is, mutual help among a group of people. Under its *takaful* family (life) insurance scheme, only term plans were available. Its general insurance business covered the normal motor, fire and personal accident insurance schemes.

Keen competition among the insurance companies had led to widespread premium discounting, payment of higher commissions and more relaxed underwriting standards. (Underwriting was the process of assessing the terms and conditions to be imposed on an insurance contract.) Some industry observers believed that the intense competition on premium was damaging to the long-term interests of the insuring public, as they felt that insurers would not have any margin left to invest in quality service. Other than price, factors such as the quality of service, reputation and stability of the insurer, and policy terms also influenced buyers' choice of an insurer.

Regulation

Insurance companies in Malaysia were governed by the Insurance Act, 1963. The purpose of this Act was to protect the public from irresponsible and insolvent companies as well as maintain existing companies in a healthy financial condition. Amendments to the Act had been made from time to time to strengthen and consolidate the operations of the industry.

The Insurance Act required insurers to maintain at least 80% of their total assets of funds in authorised Malaysian assets and at least 25% in securities of the federal government issued in Malaysia. Among the permissible classes of investments, insurers had discretionary powers in determining how their funds would be invested. The investment portfolio of the industry from 1985 to 1988 is given in Exhibits 4 and 5.

Insurers were also required to observe laws on the placement of statutory deposits (a minimum of $300,000 for each class of business) and the computation of minimum reserve requirements. Insurers in either the life or general business were required to maintain a solvency margin (surplus of assets over liabilities) of $5 million or 20% of their net premium income (premium on direct business plus reinsurances accepted less reinsurances ceded) in the preceding financial year, whichever amount was more. The solvency margin for composite insurers was the greater amount of $10 million or 20% of net premium income in the preceding financial year.

Industry Performance, Trends and Prospects

The insurance industry had been under increased pressure to improve performance after the slowdown in growth caused by the economic recession of the mid-1980s'. In line with the improvement in the Malaysian economy, both the life and general insurance sectors achieved higher profits in 1989.

The life insurance sector reported an excess of income over expenditure of $787.6 million for 1989 against $608.4 million in 1988. About 75% of this sector's 1988 income of about $1.5 billion came from premium receipts while 21% were from investment proceeds (see Exhibit 6). Benefit payments accounted for 29 cents of every

EXHIBIT 4
ASSETS OF LIFE INSURANCE FUNDS
(In millions of ringgit)

Type of Investment	1985	1986	1987	1988
Fixed assets	213.2	228.9	252.6	250.4
Loans:				
Mortgages	508.1	572.7	503.6	482.4
Policy loans	399.1	483.8	543.7	582.0
Others	115.2	153.2	129.7	78.2
Government securities and guaranteed loans	1,018.9	1,118.4	1,279.7	1,538.3
Corporate securities	577.7	608.0	980.0	1,151.5
Cash and deposits	885.3	996.8	989.4	1,106.8
Other assets	146.0	153.0	177.0	173.5
Total	3,863.5	4,314.8	4,855.7	5,363.1

Source: Annual Report of the Director-General of Insurance, 1989.

EXHIBIT 5
ASSETS OF GENERAL INSURANCE FUNDS
(In millions of ringgit)

Type of Investment	1985	1986	1987	1988
Fixed assets	146.2	166.4	190.7	180.3
Loans	46.9	44.4	47.3	39.0
Government securities and guaranteed loans	385.2	398.5	431.3	478.9
Corporate securities	161.9	153.3	167.2	209.8
Cash and deposits	401.2	425.9	428.8	467.9
Other investments	4.0	8.1	14.2	0.7
Outstanding premiums	150.2	145.0	145.4	158.8
Other assets	109.0	134.4	133.5	130.8
Total	1,404.6	1,476.0	1,558.4	1,666.2

Source: Annual Report of the Director-General of Insurance, 1989.

...7/-

life insurance dollar allocated. Operating expenses varied from company to company, but on average about 17 cents of every dollar was spent on commissions and 12 cents on salaries and other expenses.

EXHIBIT 6

1988 INCOME AND EXPENDITURE OF LIFE INSURANCE COMPANIES

Income:	
Premium receipts	$ 1,136,000,000
Investment earnings	320,200,000
Miscellaneous income	49,900,000
Total income	$ 1,506,100,000
Expenditure:	
Benefit payments	436,400,000
Commissions	260,100,000
Salaries and other expenses	188,800,000
Miscellaneous expenditure	12,400,000
Total expenses	$ 897,700,000
Excess of income over expenditure	$ 608,400,000

Source: DGI's Annual Report, 1989.

New life insurance business, valued at $17.8 billion from a total of 438,176 policies, brought in premiums of $358 million in 1989. At end 1989 the total sums assured stood at $70.5 billion (see Exhibit 7).

Operating profits of the general insurance sector in 1989 totalled about $56.4 million, the highest since 1985. Its underwriting loss of $11.6 million was also the lowest since 1985. The 1989 retention ratio—ratio of premium being retained in the country vis-a-vis overseas—of this sector was 76.8%. Performance data of the general insurance sector is given in Exhibits 8 and 9.

In order to stay competitive, insurance companies in the 1980s' were offering an increased breadth of product line and expanding their range of activities. They were also engaging in more aggressive marketing including mail-order selling and distribution through nonpersonal marketing outlets such as banks, credit card companies and hospitals. However, banks and other financial institutions were also expected to step up the marketing of their own insurance services.

Large companies in Malaysia were also expected to set up their own captive insurance companies in the future. (A captive insurance company is a limited purpose, wholly-owned insurance subsidiary of an organisation not in the insurance business.)

EXHIBIT 7

LIFE INSURANCE BUSINESS VOLUME

	No. of Policies (units)		Sum Assured ($'million)		Annual Premium ($'million)	
Year	New Business	Business In Force	New Business	Business In Force	New Business	Business In Force
1980	183,062	816,040	3,197.8	11,294.9	80.0	323.3
1981	206,764	924,851	5,311.1	15,334.8	95.1	375.2
1982	226,671	1,040,323	6,722.7	20,050.1	120.1	443.5
1983	252,768	1,172,672	8,111.1	25,846.1	166.0	548.1
1984	294,044	1,342,246	10,453.0	32,985.4	206.3	681.5
1985	347,377	1,496,030	12,241.6	40,277.5	231.4	785.5
1986	406,292	1,670,789	16,417.2	49,724.7	267.7	906.0
1987	370,180	1,783,102	12,867.9	54,924.2	243.3	958.5
1988	410,756	1,954,486	14,206.2	60,390.7	277.9	1,082.7
1989*	438,176	2,083,225	17,773.0	70,518.3	358.2	1,312.7

* Preliminary data.

Source: DGI's Annual Report, 1989.

EXHIBIT 8

GENERAL INSURANCE UNDERWRITING PERFORMANCE

(In millions of ringgit)

Year	Earned Premium Income*	Net Claims Incurred	Commission	Management Expense	Underwriting Margin
1980	536.8	279.3	157.4	101.6	-1.5
1981	619.5	324.0	177.8	121.5	-3.8
1982	692.3	349.2	189.7	141.3	12.1
1983	746.4	382.6	202.2	157.5	4.1
1984	824.9	434.4	220.6	173.9	-4.0
1985	892.1	520.7	218.5	200.0	-47.1
1986	887.9	533.3	211.8	200.3	-57.5
1987	886.1	506.2	203.6	218.0	-41.7
1988	945.0	611.5	203.9	219.4	-89.8

* Net premium plus changes in provision for unearned premium reserves during the year.

Source: DGI's Annual Report, 1989.

. . . /8-

EXHIBIT 9
GENERAL INSURANCE PREMIUM INCOME
(In millions of ringgit)

Year	Gross Premium	Net Premium	Retention Ratio*
1980	777.1	587.0	75.5%
1981	887.7	645.2	72.7%
1982	1,006.6	727.2	72.2%
1983	1,074.4	767.5	71.4%
1984	1,153.7	865.0	75.0%
1985	1,214.5	918.9	75.7%
1986	1,179.1	895.0	75.9%
1987	1,203.8	892.8	74.2%
1988	1,323.5	1,000.1	75.6%
1989	1,461.1	1,121.8	76.8%

* Retention ratio = net premium/gross premium.
Source: DGI's Annual Report, 1989.

These companies, which insured all or part of the risks of the parent and the parent's affiliates, would cause conventional insurance companies to lose some business. The government's ongoing efforts to privatise some of its public services would also have a negative impact upon insurers reliant on public sector business.

Industry observers, however, believed that with more aggressive marketing, the industry had tremendous potential for further growth since there was a vast market to be tapped still. At end 1989 only about 10% of the Malaysian population had a life policy. In the case of general insurance, there was still a fair degree of underinsurance of property and income loss as well as under-utilisation of risk management services that could still be tapped. Other environmental trends, such as the anticipated continued growth of the economy, population growth, rising disposable incomes and the growing awareness of the role of insurance, were also believed to be favourable to industry growth.

COMPANY BACKGROUND

Cosmic was incorporated in 1970 with an initial paid-up capital of $2 million to provide insurance services of all classes. The company ventured first into the general insurance field. It then began life operations in 1971 by introducing mortgage life insurance. These mortgage insurance schemes offered protection to civil servants who had taken housing loans. From this base it had expanded into other life insurance activities.

Cosmic had shown consistent growth over the years, and in 1989 was one of the largest insurance companies in the country. One contributing factor to the growth of the company's business had been support from the government. Its major clients were the government of Malaysia and other quasi-government bodies. In 1988 only about 20% of its total life premiums were derived from private-sector business. In the general insurance division, business from the private sector formed about 25% of gross premiums.

Cosmic's 1989 corporate structure is depicted in Exhibit 10. As at mid-1989 the company had 426 employees (excluding sales agents) comprising 8 senior managers, 20 middle managers, 104 executives and 294 non-managerial employees. From its head office in Kuala Lumpur, Cosmic operated through 13 branch offices throughout Malaysia. It marketed its products by direct contact with clients as well as through a network of insurance agents (non-employees on straight commission). As of June 1989 Cosmic had about 596 life agents and 65 credit agents.

LIFE INSURANCE OPERATION

Products and Distribution

Cosmic's life business could be broadly divided into mortgage life, ordinary life and group life activities. As at mid-1989 Cosmic had about 300,000 mortgage life policies, 45,000 ordinary life policies and 50 group policies (covering over 20,000 lifes) in force. Sales trends of the company's new life business is given in Exhibit 11, and data on the volume of life business Cosmic and other insurers generated in 1988 are provided in Exhibit 12.

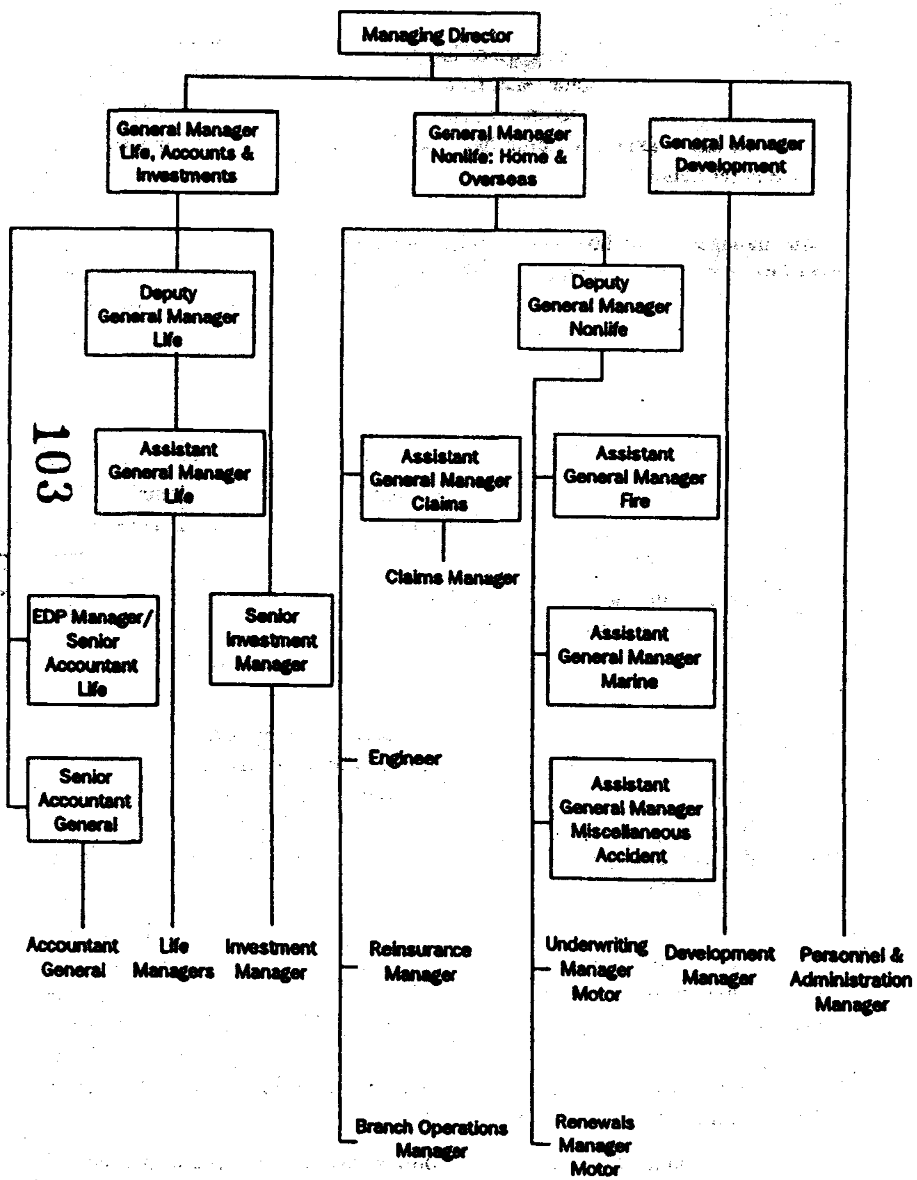
Cosmic's mortgage life business accounted for 81% of its 1988 gross premiums, and its management believed that the company controlled more than 80% of the mortgage life market. The company obtained over 90% of its mortgage life business from the government's housing loan division. Under its mortgage insurance scheme, Cosmic would undertake to pay the lending institution the balance of any housing loans owed by a deceased borrower in return for a one-time premium payment (single premium). The company conducted most of its mortgage business directly with its clients. It paid brokers bringing in such business a commission not exceeding 15% of the premium collected. Cosmic also sold most of its group policies directly.

In the ordinary life segment, Cosmic held about 2% share of the market. About 80% of its ordinary life policyholders were employees in the public sector. According to company sources Cosmic had experienced a gradual growth in ordinary life sales, but the rate of growth was much less than that of other insurance companies.

Cosmic sold its ordinary life policies through a network of life agents who received commissions on the policies they sold. In the year the policy was sold, the agent received a percentage of the premium (usually between 30–40% depending on the type of policy sold). Renewal commissions were paid to the agent during the second

...9/-

EXHIBIT 10
1989 CORPORATE STRUCTURE



Note: This chart shows only reporting relationships and not status.

EXHIBIT 11
PERFORMANCE TRENDS OF COSMIC'S NEW LIFE BUSINESS
(In millions of ringgit)

	Mortgage		Ordinary		Group	
Year	Sum Assured	Premium	Sum Assured	Premium	Sum Assured	Premium
1984	1,361	99.40	143	4.14	25	0.09
1985	1,612	116.82	120	3.86	60	0.24
1986	1,613	111.88	115	4.15	46	0.16
1987	1,248	89.63	128	4.17	127	0.50
1988	1,157	88.43	254	6.51	97	1.20

through the fifth year if the policy remained in force. While an intercompany agreement limited first-year commissions to 40%, insurers were at liberty to determine renewal rates. Although renewal rates were considerably lower than first-year commission rates, renewal commissions represented a substantial source of revenue for the agents. Cosmic's commission structure (maximum rate payable) for its life agents was as follows: 40% for the first year, 30% for the second year, 20% for the third year, and 5% each for the fourth and fifth year.

Sales Force Management

Cosmic's life agents came under the direct supervision of unit leaders who typically were promoted from among the better agents. The 115 unit leaders, like the ordinary agents, were non-salaried. They were, however, entitled to certain benefits such as medical benefits. Unit leaders were paid commissions on policies they personally sold as well as a percentage override of the commissions credited to the agents under their charge. In addition to selling, unit leaders were also responsible for helping to recruit and train new agents.

Sales force turnover at Cosmic was high, especially among the newer agents. Turnover among sales personnel was a common problem faced by insurers. The turnover rate for more experienced agents was lower primarily because of the residual compensation structure built into the industry. Cosmic also faced difficulty recruiting agents. In the opinion of a life manager, most Malaysians prefer jobs offering a more stable form of income. He commented:

> "There's a stigma to the insurance selling profession in this country, and insurance selling has become a career of last resort. Cosmic is also not that well-known in the market, and many agents prefer to work for foreign-owned insurance companies like AIA and Great Eastern. These companies have already made their name in the insurance business and have thousands of agents selling for them."

EXHIBIT 12

LIFE INSURANCE POLICIES ISSUED AND IN FORCE IN 1988

	New Policies Issued in 1988				Policies In Force At End 1988		
Company	**Number of Policies**	**Amount Assured**	**Single Premiums****	**Annual Premiums**	**Number of Policies**	**Amount Assured**	**Annual Premiums**
AIA*	47,900	$ 1,916,336,537	$ 3,501,781	$ 48,400,665	303,819	$ 12,534,487,386	$257,230,469
GREAT EASTERN*	108,976	3,668,142,511	2,769,712	73,790,644	437,183	12,052,077,900	288,521,522
COSMIC	44,054	1,514,676,347	81,231,353	9,196,955	310,817	11,717,218,082	23,691,870
ULG	54,051	1,922,565,692	344,811	49,055,276	164,360	5,597,125,228	135,822,245
MCIS	20,387	623,532,518	1,542,188	10,612,474	119,786	3,898,947,166	49,373,604
OAC*	26,043	678,441,872	262,135	17,291,769	146,213	2,712,470,126	90,509,660
ASIA LIFE*	13,912	490,700,854	427,218	11,819,295	81,631	2,031,991,987	56,559,811
PRUDENTIAL	6,418	426,085,434	13,250	7,913,644	34,510	1,842,018,945	37,282,922
TALASCO	3,071	369,033,207	10,926,663	942,939	15,027	1,528,785,034	3,212,934
MAA	11,950	610,008,536	1,888,742	10,878,777	28,343	1,495,178,320	27,060,700
Others	27,979	1,801,608,873	3,180,463	24,813,816	93,089	4,350,752,327	69,253,979
Home Service:							
BALGI	18,943	98,381,500	–	7,091,557	123,985	395,694,554	28,385,236
ULG	17,846	52,275,330	–	4,212,119	77,131	178,946,036	12,098,386
MCIS	9,226	34,431,319	–	1,903,704	18,592	54,984,940	3,665,096
TOTAL	410,756	14,206,220,530	106,088,316	277,923,634	1,954,486	60,390,678,031	1,082,668,434

* Foreign-incorporated companies ** One-time premium payments.

Source: Extracted from the Annual Report of the Director-General of Insurance, 1989.

Some of Cosmic's life agents had complained that the company was not providing them with enough technical support and backup and that it lacked product variety. One of its agents stated:

> "The company has a limited range of life products, and its rates are not as competitive as those of some other firms. Therefore, it's difficult for us to market its products. Of course, when compared to newer and smaller companies like Takaful, Cosmic has a wider range of products and the service is far better."

Some managers were, however, sceptical of whether the present sales force was capable of marketing products more sophisticated than the presently available ones. "Most of our agents are not college graduates, and they lack the technical expertise," explained one life manager.

Administration and Claims Settlement

All of Cosmic's sales were processed at its head office. Branches functioned primarily as a service centre which provided support services to agents such as attending to customer enquiries. As branch operations were not on-line, branches were unable to provide complete services.

The company's life department maintained all records of the policies issued. These records had to be updated from time to time as various transactions, such as premium collections, change of address, loans surrenders and claims, took place continuously.

A claims section under the accounts department processed the company's life insurance claims. These claims could be classified into maturity claims and death claims. A settlement of maturity claims was usually free from any complications relating to title of the claimant as, generally, the amount insured was paid to the assured. Death claims, however, could be complicated in cases where a dispute arose as to who should be entitled to the policy moneys.

Although claims could be processed and paid within a week, actual payment usually took longer. The main reason cited for such delays was that the claimants had not submitted the necessary documents for their claims to be duly processed. Some company executives felt that the life people could play a bigger role in expediting the process. One commented, "Life people are more interested in issuing policies and less concerned about providing the customer with continuous service such as following up on the settlement of claims. This attitude has to change."

Occasionally, there was a duplication of duties between the accounts people and the life people. "This," explained one executive, "is because responsibilities here have not been clearly defined. We do not even have a formal job description."

Cosmic did not have an actuary department. Instead, it used the services of an outside consulting actuary to develop new products, determine premium rates and conduct actuarial investigations of the financial condition of its life business.

...11/-

NONLIFE INSURANCE OPERATION

Products and Distribution

Cosmic was one of the largest general insurers in Malaysia in 1988 in terms of net premiums collected (see Exhibit 13). Its primary strength was in the government and quasi-government sectors. The company's underwriting performance vis-a-vis some of its competitors is as shown in Exhibit 14.

Cosmic's general business gross premium income for 1984 to 1988 is given in Exhibit 15. Fire insurance accounted for about 38% of Cosmic's nonlife sales volume in 1988 and was its most profitable general product line. The other general products were less profitable as can be seen in Exhibit 16.

Cosmic sold its general insurance services directly through its various underwriting departments and branches as well as through insurance brokers and credit agents. The company's branches (one in each state) handled about 10% of its general business. Branch executives who ran the branch operations reported directly to the branch operations manager at head office. These executives could underwrite certain classes of business only and approve claims not exceeding $8,000. They had to refer to head office for quotations on businesses involving large risks. Although branches also serviced the life business department, administratively they reported to the nonlife division.

Insurance brokers brought in about 60% of Cosmic's general business. These brokers received a flat commission of 15% of the premium collected.

Credit agent sales accounted for about 2% of Cosmic's general business sales volume. Cosmic gave its credit agents a credit period of 90 days for non-motor sales and 7 days for motor sales (motor sales were on a cash sales basis). Commission rates for credit agents varied according to the product. For example, commission rates for marine and miscellaneous accident sales were in the region of 20–25%, while commission rates for fire and motor sales were 15% and 10% respectively.

Not all of the company's nonlife business was retained within the company. Cosmic ceded out some of the larger risks to both local and foreign reinsurers. Exhibit 17 shows the company's retention ratios for its general services from 1984 to 1988.

Departmental Relationships

Cosmic's nonlife insurance division comprised 4 main underwriting departments: fire, motor, marine and miscellaneous accident. These departments determined applicants' insurability, underwrote risks and issued policies.

The claims department of the nonlife division was responsible for processing, approving and settling claims on the company. The assistant general manager of this department was authorised to interpret policies and decide whether a particular claim was payable according to the terms of the policy.

EXHIBIT 13

GENERAL INSURANCE COMPANIES NET PREMIUMS IN 1988

Company	Marine, Aviation & Transit	Fire	Motor	Miscellaneous	Total
MERCANTILE	$329,328	$1,957,252	$59,505,133	$6,096,912	$67,888,625
MNRB**	8,371,428	22,691,102	17,443,598	17,570,977	66,077,105
SEA	437,523	2,646,853	45,057,592	7,958,295	56,100,263
EAST WEST-UMI	3,563,380	11,674,904	19,222,435	17,546,640	52,007,359
PANGLOBAL	90,043	940,321	47,086,181	2,090,496	50,207,041
P & O	242,294	1,204,899	39,524,016	2,409,857	43,381,066
PROGRESSIVE	964,192	2,495,207	31,152,952	2,288,803	36,901,154
MBA	2,019,592	6,574,940	12,127,621	16,074,009	36,796,162
UOA	1,626,828	7,157,874	19,274,161	7,497,071	35,555,934
COSMIC	5,603,481	15,212,989	5,727,931	6,250,897	32,795,298
CU	5,129,374	13,954,611	5,163,222	7,876,190	32,123,397
MAYBAN	831,741	16,746,335	3,557,695	5,599,564	26,735,335
STRAITS & ISLAND	4,866,301	12,838,142	2,350,041	6,076,580	26,131,064
PEOPLE'S	25,914	739,855	19,556,576	1,942,507	22,264,852
MAA	1,558,070	3,279,384	8,820,447	7,394,873	21,052,774
GRE	3,553,370	9,068,335	3,041,793	5,314,176	20,977,674
HONG LEONG	1,531,598	6,318,012	3,122,671	8,603,907	19,576,188
UNITED PRIME	3,153,771	3,307,013	3,583,685	6,630,877	16,675,346
ROYAL	2,676,851	4,882,984	3,606,888	5,373,870	16,540,593
ARAB-MALAYSIAN EAGLE	2,452,617	3,664,719	3,973,410	5,188,244	15,278,990
QAC*	579,051	5,356,894	2,239,990	6,733,803	14,909,738
JERNEH	1,766,827	4,060,447	1,975,380	5,438,011	13,240,665
AMERICAN HOME*	2,216,452	2,911,055	2,662,178	5,238,990	13,028,675
INDUSTRIAL & COMMERCIAL	64,424	883,819	10,194,597	1,743,889	12,886,729
LON PAC	314,466	6,535,335	2,600,312	3,409,470	12,859,583
CAPITAL	1,196,846	5,560,248	3,561,193	2,196,038	12,514,325
BALGI	402,442	2,250,654	4,340,352	4,774,651	11,768,099
UMBC	943,288	5,940,568	1,868,325	2,640,927	11,393,108
AMERICAN M'SIAN	1,362,990	4,792,079	1,511,852	3,452,790	11,119,711
MBF	135,405	1,964,871	6,035,753	2,893,425	11,029,454
TALASCO	283,724	4,361,493	3,362,030	2,336,537	10,343,784
AIA*	127,662	135,140	81,810	9,947,443	10,292,055
SAFETY	136,731	1,089,787	6,071,042	2,990,773	10,288,333
ASIA*	232,313	1,967,227	4,991,505	3,017,531	10,208,576
NETHERLANDS	456,785	3,216,217	2,600,107	3,736,578	10,009,687
Others	13,044,268	39,087,377	28,339,679	48,687,339	129,158,663
Total	72,291,370	237,468,942	435,334,153	255,022,940	1,000,117,405

* Foreign-incorporated companies. ** Reinsurance company.

Source: Extracted from the Annual Report of the Director-General of Insurance, 1989.

...12/-

EXHIBIT 14

GENERAL INSURANCE UNDERWRITING ACCOUNT OF SELECTED COMPANIES IN 1988
(excludes overseas business and shareholders' funds)

Company	Earned Premium Income	Net Claims Incurred	Commissions	Management Expenses	Underwriting Gain/(Loss)
AIA*	$10,628,390	$3,069,356	$4,167,815	$1,736,180	$1,655,039
AMERICAN M'SIAN	10,374,011	3,636,527	2,851,723	3,510,146	375,615
ARAB-MALAYSIAN EAGLE	14,098,837	9,575,369	2,928,886	5,280,284	(3,685,702)
ASIA*	10,519,460	6,781,328	1,501,492	3,878,936	(1,642,296)
BALGI	11,881,060	13,170,074	3,113,598	3,431,981	(7,834,593)
CAPITAL	12,196,996	5,381,753	2,142,600	5,247,730	(575,087)
COSMIC	31,429,140	16,882,700	3,457,293	8,816,132	2,273,015
CU	29,970,260	9,127,507	8,856,817	8,451,277	3,534,659
EAST WEST-UMI	42,516,967	27,910,379	9,832,705	9,400,517	(4,626,634)
GRE	20,138,065	9,416,585	3,721,064	5,986,687	1,013,729
GREAT EASTERN*	1,328,772	732,823	322,280	175,692	97,977
HONG LEONG	17,943,642	8,764,359	3,678,503	4,747,683	753,097
MAA	19,794,310	12,270,232	5,126,966	4,932,292	(2,535,180)
MAYBAN	26,145,832	7,235,211	9,198,577	5,769,054	3,942,990
MBA	36,338,502	20,125,397	7,892,749	9,191,777	(871,421)
MBF	10,409,462	5,817,112	1,489,293	3,542,243	(439,186)
MCIS	7,429,871	4,553,274	1,155,371	1,846,334	(125,108)
MERCANTILE	59,809,384	38,376,344	18,185,825	6,147,719	(2,900,504)
NANYANG	2,710,960	1,200,239	1,252,891	892,370	(634,540)
OAC*	14,605,633	3,594,441	4,228,454	4,147,113	2,635,625
OUI	3,084,093	1,003,557	694,017	1,009,823	376,696
P & O	42,172,074	69,810,039	6,046,440	3,808,961	(37,493,366)
PANGLOBAL	44,880,846	33,226,120	5,549,274	9,348,592	(3,243,140)
PEOPLE'S	23,301,340	14,668,225	4,106,508	3,473,773	1,052,834
PROGRESSIVE	32,088,186	31,266,169	3,210,575	6,044,308	(8,432,866)
PRUDENTIAL	5,759,877	3,714,067	1,640,187	1,830,273	(1,424,650)
PUBLIC	3,094,413	1,855,356	192,259	444,988	601,810
ROYAL	16,773,326	7,934,136	3,733,796	3,641,784	1,463,610
SAFETY	11,063,203	16,610,257	2,815,826	2,985,191	(11,348,071)
SEA	52,563,497	34,130,427	8,830,178	11,308,054	(1,705,162)
STRAITS & ISLAND	24,869,532	8,526,837	7,667,093	8,098,484	577,118
TALASCO	10,937,068	11,706,707	3,178,086	4,227,417	(8,175,142)
ULG	4,837,793	3,314,545	1,817,970	1,435,889	(1,730,611)
UMBC	10,829,110	5,002,888	1,907,850	4,407,121	(488,749)
UNION	10,274,436	6,430,897	2,617,093	2,105,317	(878,871)
UOA	36,424,696	29,034,476	9,155,777	7,963,148	(9,728,705)

* Foreign-incorporated companies.

Source: Extracted from the Annual Report of the Director-General of Insurance, 1989.

EXHIBIT 15

PERFORMANCE TRENDS OF COSMIC'S GENERAL BUSINESS IN TERMS OF GROSS PREMIUM INCOME
(In millions of ringgit)

Type of Service	1984	1985	1986	1987	1988
Fire	34.12	37.25	37.63	41.38	40.56
Motor	7.37	5.93	6.37	5.39	6.59
Marine	33.24	31.93	33.70	35.24	32.77
Aviation	9.30	12.05	12.28	10.31	8.78
Miscellaneous accident	13.98	13.06	13.46	13.86	11.30
Engineering	5.83	5.35	6.49	5.42	5.59
Total	103.84	105.57	109.93	111.60	105.59

EXHIBIT 16

COSMIC'S UNDERWRITING PROFIT/(LOSS) BEFORE MANAGEMENT EXPENSES
(In millions of ringgit)

Type of Service	1984	1985	1986	1987	1988
Fire	4.44	2.89	3.75	5.27	6.86
Motor	0.26	0.86	1.06	1.48	2.28
Marine	0.95	1.41	1.64	0.81	2.10
Aviation	(0.32)	(0.69)	0.70	0.08	0.69
Miscellaneous accident	1.90	2.09	0.88	1.13	(0.73)
Engineering	0.69	0.31	(0.20)	0.08	0.06
Total	7.92	6.87	7.83	8.85	11.26

EXHIBIT 17

RETENTION RATIO OF COSMIC'S GENERAL BUSINESS
(In percentages)

Type of Service	1984	1985	1986	1987	1988
Fire	53.26	50.37	47.96	41.16	43.40
Motor	84.27	84.73	88.08	87.67	86.91
Marine	19.76	33.88	21.52	20.13	28.37
Aviation	4.29	9.46	(3.28)	4.05	5.45
Miscellaneous accident	56.02	53.87	47.76	44.53	57.18
Engineering	21.52	13.39	7.20	9.88	9.71

Differences between the claims people and the underwriting people often arose on the issue of claims settlement. The underwriting people viewed the claims people as being overly concerned with legalities and technicalities. One underwriting manager complained:

> "The claims people tend to interpret the policy contracts too strictly. We've lost a few accounts simply because those guys at claims refused to pay our clients due to minor technical mistakes made at the time the policy was underwritten. Since our general manager does not see the importance of claims, he usually rules in favour of the claims department when such matters are brought to his attention."

A former claims department manager, however, gave another view of the situation:

> "The underwriting people always want to please their clients while our job is to give a fair and objective assessment. It's not our intention to cheat anybody, and if we repudiate a claim, it's because the claim is not payable. We will always pay if a claim is payable; otherwise, the client can initiate court proceedings against us. And, when a case goes to court, the court will always interpret any ambiguity in the contract language in favour of the client. It is, therefore, our maxim to pay when in doubt. We also try not to be too petty about technicalities. Admittedly, we've a lot of outstanding claims, but there are valid reasons for them."

Coordination among the underwriting departments was also not always smooth. As each department specialised in its own product and could not commit to clients on products not under their jurisdiction, clients wishing to take up more than one class of insurance with Cosmic had to go from department to department. This had caused some clients to complain of poor customer service. A senior manager observed:

> "When making sales calls, underwriting executives do not project Cosmic as a total company but only represent a portion of Cosmic. Employees have become overly identified with their functional area and loyalty is more to the individual departments rather than the company."

Each underwriting department head sought its own clients and developed its own marketing procedures and strategies. These were often not documented. "Why should I," remarked one manager of an underwriting department, "put my strategies in writing and benefit someone else who may take over my position?"

Information Technology

Cosmic's information needs became more apparent in the 1980s' as the company continued to expand. The inadequacy of the company's management information systems had resulted in many decisions being made based on a qualitative basis. A manager had described the nonlife division as "running without statistics." Efforts to computerise the division and set up a data base failed due to lack of expertise. The company's EDP department was headed by a senior accountant who had no computer background.

INVESTMENT

The investment department of Cosmic was responsible for the company's investment operation including the selection, purchase, sale and review of all securities; the servicing and acquisition of loan investments; and the acquisition of equity investments in properties. Investment activities contributed to the company's income in the form of interest earnings and capital gains. Since return on investment was one of the factors determining premium rates, investment income played an important role in enabling Cosmic to compete with other companies on premium rates. "Other factors that determine our rates such as loading expenses and mortality experience are more difficult to control so we must make good investments to enhance our competitive standing," explained a manager. Cosmic's investment income data from 1984 to 1988 are presented in Exhibits 18 and 19.

EMPLOYEE COMPENSATION AND DEVELOPMENT

More than 90% of its non-management employees belonged to the company's in-house union which was affiliated to the National Union of Commercial Workers. These employees received a 2-month contractual bonus and one contractual increment (ranging from \$20 to \$50) annually. Management-level employees were paid annual bonuses (usually between 2–3 months' base salary) based on the company's performance. The maximum annual increment was \$200.

EXHIBIT 18
COSMIC'S LIFE BUSINESS INVESTMENT INCOME
(In millions of ringgit)

Type of Investment	1984	1985	1986	1987	1988
Quoted shares	3.58	6.35	3.85	- 5.00	7.73
Loans	11.53	16.11	19.23	15.47	13.68
Government securities	12.98	15.49	17.71	19.68	20.33
Fixed deposits	16.10	7.29	7.67	11.30	9.93
Short-term deposits/bills	0.73	2.38	3.29	0.88	0.90
Capital Gain/(Loss)	(0.01)	2.42	0.74	(22.65)	5.89
Policy loans	0.12	0.15	0.17	0.25	0.30
Others	0.33	1.10	0.84	0.67	0.71
Total	45.36	51.29	53.50	30.60	59.47

...14/-

EXHIBIT 19

COSMIC'S GENERAL BUSINESS INVESTMENT INCOME

(In millions of ringgit)

Type of Investment	1984	1985	1986	1987	1988
Quoted shares	0.77	1.32	1.18	1.31	1.83
Unquoted shares	0.07	0.10	0.06	0.06	0.08
Loans	3.31	6.38	6.44	5.48	3.36
Government securities	0.31	0.40	0.41	1.04	1.87
Fixed deposits	8.10	4.58	5.11	5.26	3.81
Short-term deposits/bills	0.36	0.55	0.23	0.13	0.42
Capital Gain/(Loss)	0.06	0.16	0.06	1.15	6.11
Others	0.20	0.60	0.41	0.44	0.26
Total	13.18	14.09	13.90	14.87	17.74

Promotion decisions were made at top management level; that is, by the individual general managers. This had led some employees to comment that it was more important to have technical "know who" than technical know-how.

In the area of employee development, it was the company's policy to send all its managers and executives for training abroad. This was usually in the form of short courses of a few weeks' duration. Managers took turns to attend such courses. However, some managers questioned the usefulness of attending these courses. One manager said, "The training officer who identifies these courses does not know our training needs. His main concern is to ensure that the training budget is used up by year end." Another manager added, "We also have to sign a 5-year service contract with the company after attending an overseas course. If we turn down a training offer, we are blacklisted."

Some company executives felt that employees at Cosmic lacked motivation. A senior executive characterised the company's employees as he saw them in early 1989 as follows:

> "Employees here are generally complacent and not performance oriented. They lack a sense of urgency in their work. Perhaps, it's because some of them feel they're underpaid. If we can solve the staff problem, then a lot of other problems will disappear. But how do we change attitudes?"

THE TASKS AHEAD

As Sham walked back to his office he looked at his watch. It was 6.15 pm and almost time for him to leave. But first, he wanted to make a few notes on the issues he thought had to be addressed before the next meeting. Upon arriving at his office, he took a pen and wrote the following:

1 What is Cosmic's present position in relation to competition?

2 What organisational deficiencies have to be resolved before the company's goals can be achieved? Is it necessary to modify the present management structure, policies and methods of operation (e.g. agency structure)?

3 Is the company doing enough in terms of product and market development in light of the present industry developments?

4 What product, pricing, promotion, distribution and human resources strategies should the company implement to enable it to compete more effectively in the 1990s"?

As he re-read the list of issues he had just jotted down, Sham realised there was still a lot to be done to attain the company's growth objectives and to improve its long-term competitive position in the market. He also knew that the company's growth had to be planned carefully:

> "In the insurance business we cannot simply grow. We must know the capacity of the company before expanding. We cannot grow too fast because new business acquisition cost is always greater than the revenue generated in the first year. For instance, we may spend $1.60 to bring in $1.00 worth of new business in the first year."

Sham had accepted the position at Cosmic 8 months ago and was committed to improving the company's market share and profitability. Prior to joining Cosmic, he was the chief executive of another locally-incorporated insurance company. He had spent the first few months at Cosmic familiarising himself with the company's operations and introducing some changes within the company including instituting formal strategic planning. In his fourth month at Cosmic, Sham had commissioned an outside consultant to examine and evaluate the company's organisational and structural situation. After reviewing the situation and interviewing various groups of employees, the consultant had recommended that the organisation be changed from functional to divisional basis. Under the recommended plan, certain departments would be consolidated into product groups with a client focus; that is, each executive would handle every transaction related to a particular client.

Sham knew that any change in the present structure would involve management reassignments and cause some old-timers to be upset and unhappy. While a reorganisation would offer expanded opportunities for some employees, it would also result in a loss of status of job functions for others. Moving away from a functional basis would also mean losing the benefit of specialised effort. Sham felt that his task was made more difficult by the shortage of qualified personnel with insurance qualifications and background.

Despite his misgivings, Sham felt strongly that changes were needed and that these changes had to be made very soon if the company's performance position was to be improved. Although Cosmic's past performance had been satisfactory, he believed that it had the potential to do even better in the future with proper planning and management. Cosmic's financial statements are presented in Exhibits 20 and 21.

...15/-

EXHIBIT 20

COSMIC INSURANCE SDN. BHD.

BALANCE SHEETS AS AT JANUARY 31

(In thousands of ringgit)

	1989	1988	1987
ASSETS			
Current Assets:			
Cash and bank balances	4,670	4,580	3,832
Fixed deposits	249,632	208,749	156,170
Discounted bills	42,515	16,848	7,529
Outstanding premiums	32,516	38,549	35,165
Other debtors	25,228	26,031	23,759
Amount due from reinsurers	10,430	8,419	10,095
Short-term loans	32,768	41,483	54,694
Total Current Assets	397,759	344,659	291,244
Long-term Deposits	27,702	33,800	61,600
Loans Receivable	320,702	324,230	360,139
Investments:			
Stocks and shares	439,868	381,160	280,470
Real properties	16,750	17,118	17,568
Fixed Assets	28,644	28,560	27,507
TOTAL ASSETS	1,231,425	1,129,527	1,038,528
LIABILITIES AND FUNDS			
Current Liabilities:			
Claims admitted or intimated but not claimed	63,644	52,748	48,753
Due to reinsurers and agents	47,387	48,988	48,393
Other creditors and accruals	3,768	13,704	6,461
Taxation	23,009	47,204	56,296
Proposed final dividend	2,925	2,700	2,700
Interim dividend payable	2,925	-	2,700
Total Current Liabilities	143,658	165,344	165,303
Deferred Liabilities:			
Unearned premium	70,745	65,792	59,442
Provision for retirement benefits	2,145	1,734	1,424
Deferred Taxation	819	710	-
Shareholders' Funds:			
Share capital	30,000	30,000	30,000
Reserves	72,165	50,704	40,402
Life Assurance Fund	891,012	794,159	725,657
General Insurance Reserve for Unexpired Risks	20,881	21,084	16,300
TOTAL LIABILITIES AND FUNDS	1,231,425	1,129,527	1,038,528

EXHIBIT 21

COSMIC INSURANCE SDN. BHD.

PROFIT AND LOSS ACCOUNT FOR YEARS ENDED JANUARY 31

(In thousands of ringgit)

	1989	1988	1987
Profit transferred from general insurance revenue account	18,900	14,950	14,521
Transfer from life assurance fund out of surplus arising from statutory valuation	12,808	12,644	12,522
Profit before tax	31,708	27,594	27,043
Taxation	4,397	8,893	6,904
Profit after tax	27,311	18,701	20,139
Extraordinary item	-	3,000	3,000
Profit after tax	27,311	15,701	17,139
Dividends	5,850	5,400	5,400
Retained profits for the year	21,461	10,301	11,739

...oooOOOooo...