

Financial Institution Soundness and Resilience

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Financial Institution Soundness and Resilience

THE BANKING SECTOR

Banks continue to maintain strong liquidity buffers

Banks' aggregate Liquidity Coverage Ratio (LCR) (Chart 2.1) and Net Stable Funding Ratio (NSFR) (Chart 2.2) remained broadly stable and above regulatory minima, standing at 154.4% and 117.0% respectively as at end-June 2023 (December 2022: 151.5% and 118.2%, respectively). This is supported by large amounts of high-quality liquid assets (HQLA) held by banks (June 2023: RM744.3 billion; December 2022: RM753.2 billion), mostly in central bank placements and government bonds which can be pledged in the interbank market or with the Bank for additional liquidity during times of stress. Further, all banks continue to have access to the standing facility and Restricted Committed Liquidity Facility (RCLF)¹ with the Bank to meet liquidity needs. To reinforce sound standards of liquidity management across all banks, the Bank published proposed principles capturing existing and enhanced supervisory expectations on the management of liquidity risk by banks for consultation in August 2023. The principles require banks to continually assess their exposures to liquidity risk and ensure that robust and comprehensive liquidity management frameworks, including contingency funding plans, are in place to manage liquidity needs under a range of stress scenarios.

¹ The RCLF was introduced by the Bank in 2016 to allow banks to obtain liquidity for tenures greater than 1 month from the Bank. Banks that intend to use the RCLF will be charged a fixed facility rate and will be required to designate a pool of unencumbered eligible securities that would be sufficient to support the total size of the RCLF.

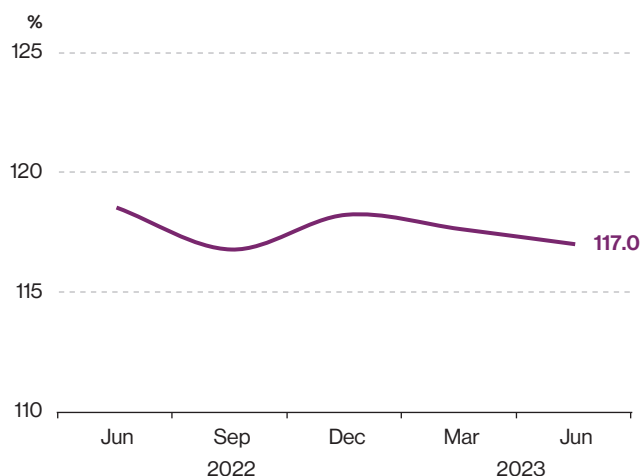
Chart 2.1: Banking System – Liquidity Coverage Ratio



Note: 1. MYR LCR is calculated based on HQLA and expected net cash outflows denominated in ringgit.
2. Overall LCR is calculated based on HQLA and expected net cash outflows denominated in all currencies.

Source: Bank Negara Malaysia

Chart 2.2: Banking System – Net Stable Funding Ratio



Source: Bank Negara Malaysia

Banks recorded healthy deposit growth of 5.9% (Chart 2.3), with individuals and businesses continuing to form the bulk of the funding base (36.3% and 32.9% of total deposits, respectively). In recent months, depositors' preferences shifted back towards longer-tenure fixed deposits in search of better returns. Consequently, the composition of fixed deposits (including Commodity Murabahah) increased to almost half of total banking system deposits, moving closer towards pre-pandemic levels (49.5%; 2015-2019 average: 51.2%) (Chart 2.4). This has improved the stability of banks' funding. The larger share of better remunerated fixed deposits, coupled with the gradual increase in OPR, has increased funding costs for banks, with the average cost of funds rising by 40 bps to 2.85% between December 2022 and June 2023 (Chart 2.5). Deposit competition remained elevated, but

has eased in recent months with a number of banks revising board and promotional rates lower amid comfortable liquidity buffers. The issuance of Bank Negara Interbank Bills (BNIB) by the Bank should further encourage better price discovery in the interbank funding market in support of efficient liquidity management by banks.

Higher funding rates have not so far led to a broad-based tightening of credit conditions. Bank lending to households and businesses expanded at a healthy rate (+4.4%; December 2022: +5.7%) (Chart 2.6). The weighted average lending rates for new business and retail loans increased at a more modest pace compared to earlier periods, with healthy competition observed among banks, and have declined for some segments of business and household loans (Table 2.1).

Chart 2.3: Banking System – Contribution to Growth in Deposits Accepted

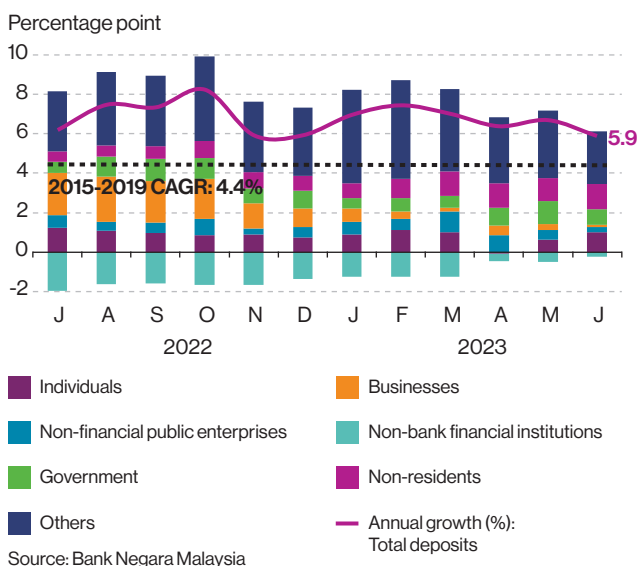


Chart 2.5: Banking System – Average Cost of Deposits, Average Cost of Funds and OPR

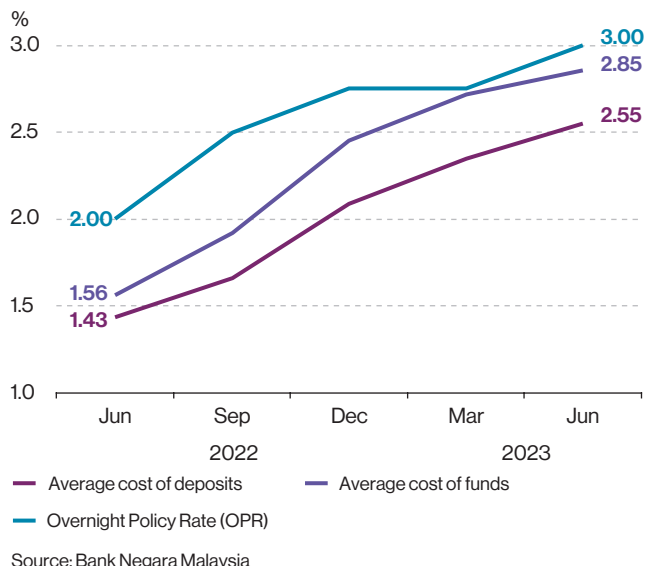


Chart 2.4: Banking System – Composition of Deposits by Type

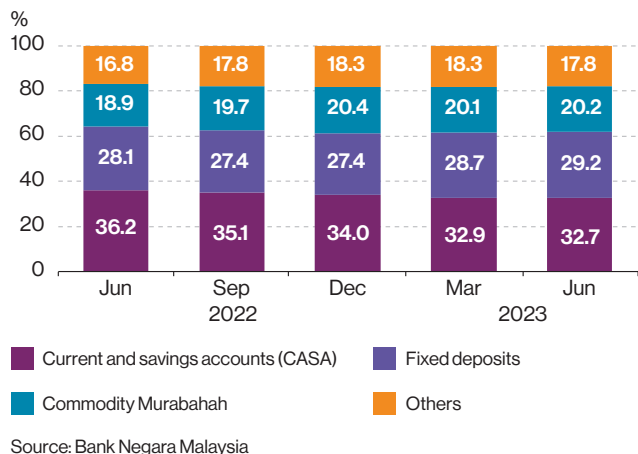


Chart 2.6: Banking System – Annual Loan Growth

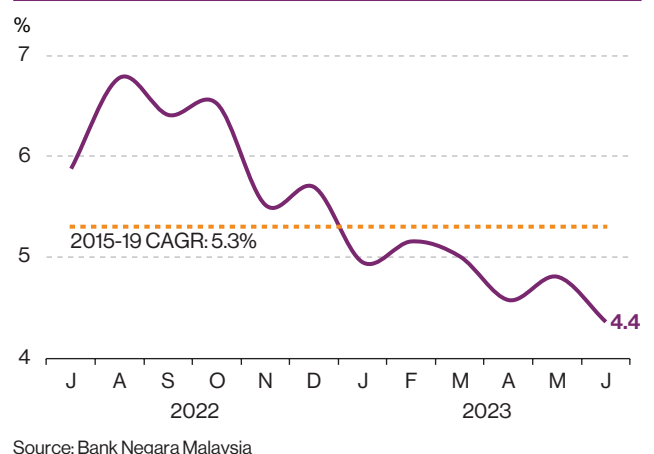


Table 2.1: Weighted Average Lending Rate (ALR) for New Loans (%; range)

Segment	2021	2022	June 2023
Businesses ^{1,2}	3.89 – 4.76	4.91 – 5.60	4.86 – 5.89
Households ³	3.06 – 6.73	4.01 – 7.64	4.19 – 8.96

¹ A 3-month moving average was applied to both the aggregate and business-related sectors to address data fluctuations.

² Business loans only take into account loans granted to domestic business enterprises.

³ Household loans only take into account loans granted to individuals.

Source: Bank Negara Malaysia

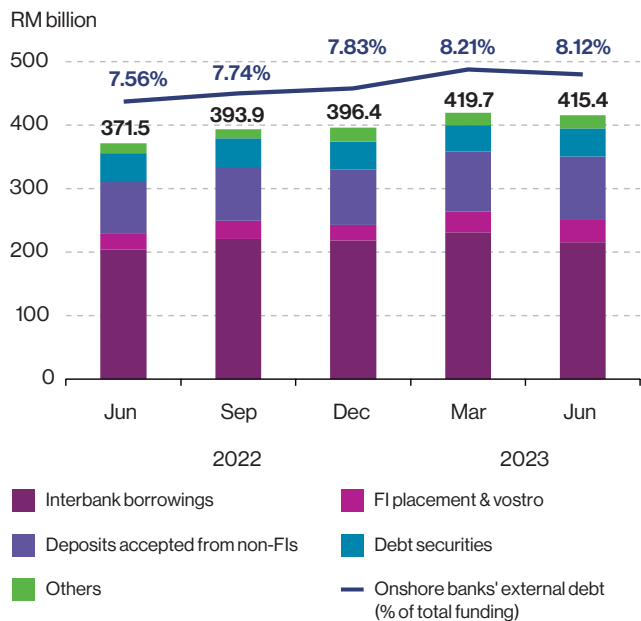
Contagion risks from exposures to external counterparties remained manageable despite depreciation of ringgit

Banking system external debt increased by RM18.9 billion in the first half of 2023 to RM415.4 billion (Chart 2.7). The increase primarily reflected revaluation effects driven by the depreciation of the ringgit, particularly in the second quarter of 2023. Excluding these revaluation effects, banks' net external borrowings declined in the first half of 2023 as domestic foreign currency (FCY) liquidity conditions remained relatively stable, reducing the need for banks to source FCY funding from international interbank markets. At the same time, maturing intragroup borrowings by banks in the Labuan International Business and Financial Centre (LIBFC) also contributed to the decline in interbank borrowings. Overall risk associated with banks' external debt remained low. The bulk (79.2%; December 2022: 78.3%) of total banking system external debt exposures continued to be with related counterparties or in the form of long-term, stable debt. Most of banks' FCY interbank borrowings – the largest component of banks' external debt – are sourced from parents or overseas subsidiaries, limiting rollover or withdrawal risks.

Banks continued to remain resilient against foreign exchange (FX) risk. Risks from FCY

mismatches, as measured by the overall FX net open position (NOP), continued to remain manageable at 3.8% of total capital (December 2022: 3.4%; 2020-2022 average: 4.2%) despite increased market volatility during the period (Chart 2.8).

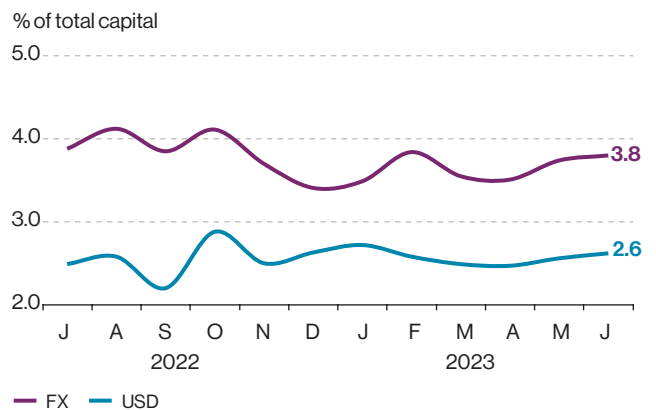
Chart 2.7: Banks' External Debt – by Instrument



Note: Banks' external debt in this context refers to external debt of DBGs, LIFBs and banks in the Labuan International Business and Financial Centre (LIBFC).

Source: Bank Negara Malaysia

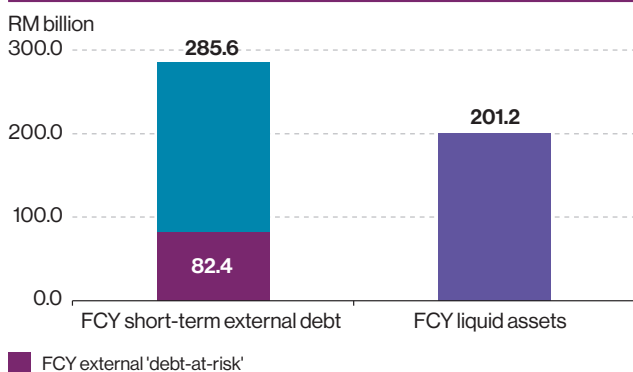
Chart 2.8: Banking System – FX and USD Net Open Positions



Source: Bank Negara Malaysia

Banks also maintained sizeable FCY liquid asset buffers, sufficient to cover up to 2.4 times (December 2022: 2.6 times) total FCY external debt-at-risk² (Chart 2.9). In addition, roughly one fifth of total banking system external debt is denominated in ringgit and is thus insulated from exchange rate volatility (Chart 2.10).

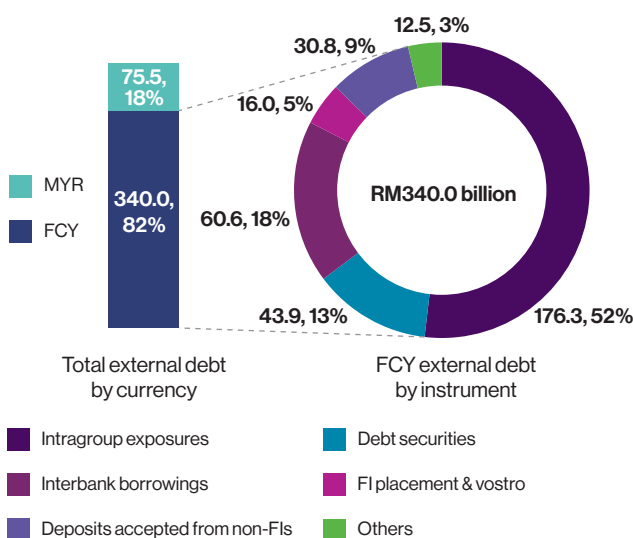
Chart 2.9: Banking System – FCY External ‘Debt-at-Risk’ and Liquid Assets



Note: Liquid assets comprise cash and cash equivalents, unencumbered debt securities held and interbank placements.

Source: Bank Negara Malaysia

Chart 2.10: Banks' External Debt – by Currency and Instrument (RM billion, % share)



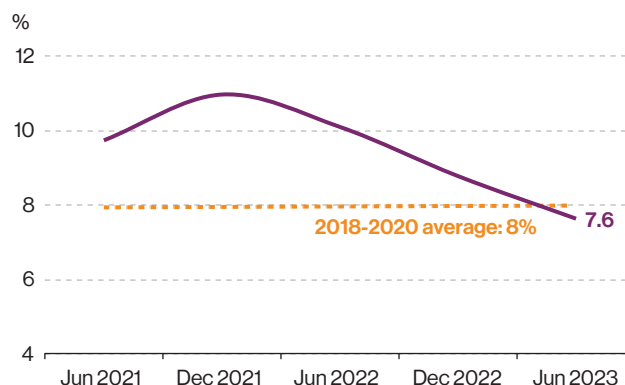
Source: Bank Negara Malaysia

² Banks' external debt-at-risk comprises financial institutions' deposits, interbank borrowings and short-term loans from unrelated non-resident counterparties, which are considered to be more susceptible to sudden withdrawal shocks.

Asset quality remained manageable amid unwinding of repayment assistance programmes

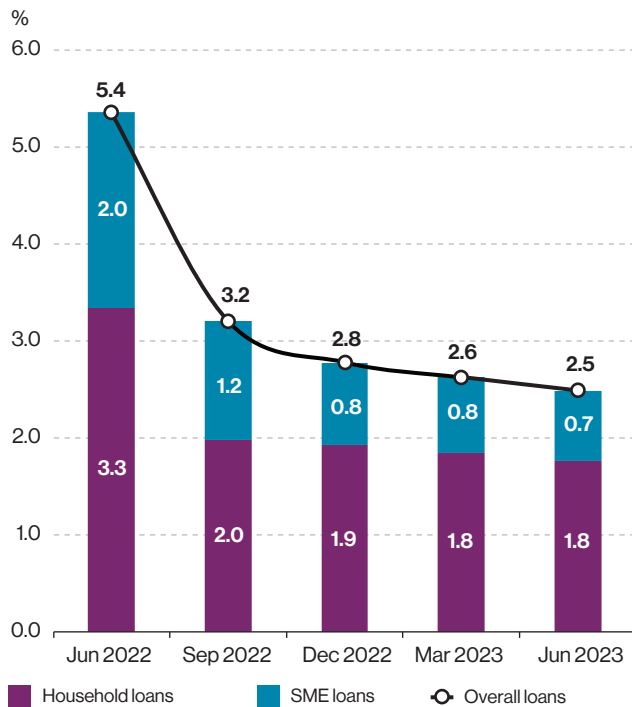
Banks' outlook for credit risk improved further in the first half of 2023. The share of loans classified under Stage 2 continued to decline and is now below pre-pandemic levels at 7.6% of total banking system loans (Chart 2.11). Loans under repayment assistance programmes also declined, with the vast majority of borrowers who exited repayment assistance programmes being able to resume and sustain regular loan repayments (Chart 2.12). Loans that were newly restructured or rescheduled during the period remained low, indicating limited new areas of vulnerabilities. In line with this, increases in loan delinquencies have been comfortably within banks' expectations. While higher interest rates and cost pressures could increase financial strains for some borrowers, the overall increase in impairments has been modest. The gross impaired loans ratio rose marginally to 1.8% of total loans (Chart 2.13), mainly driven by a small number of vulnerable retail and SME borrowers that have smaller cash buffers and continue to face challenging business conditions. While banks do not expect increasing widespread vulnerabilities, they remain vigilant in monitoring their higher risk borrowers as the impact of higher interest rates, higher costs of living and a challenging operating environment continue to pose downside risks to impairments over the medium-term. Borrowers that could be more at risk include lower income households, firms in the construction and export-dependent sectors and larger corporates with pre-existing financial vulnerabilities. Banks' exposures to property developers in China are small and hence, do not pose immediate concerns arising from the recent property market stress in China. These exposures only account for 0.1% of total loans and bonds and are well covered by banks' provisioning buffers.

Chart 2.11: Banking System – Stage 2 Loans Ratio



Source: Bank Negara Malaysia

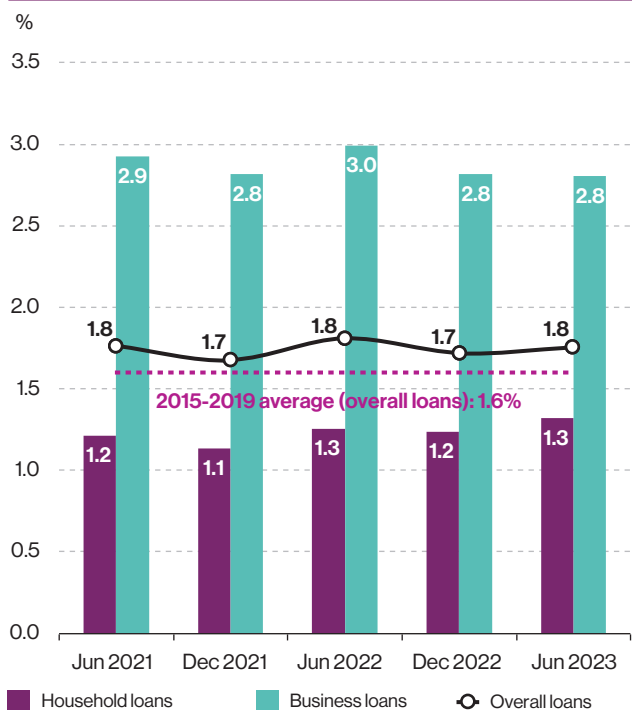
Chart 2.12: Banking System – Share of Loans under Repayment Assistance



Note: Beginning 1 January 2023, the R&R data used is based on updated statistical reporting requirements to reflect more accurate data definition and reporting methodology.

Source: Bank Negara Malaysia

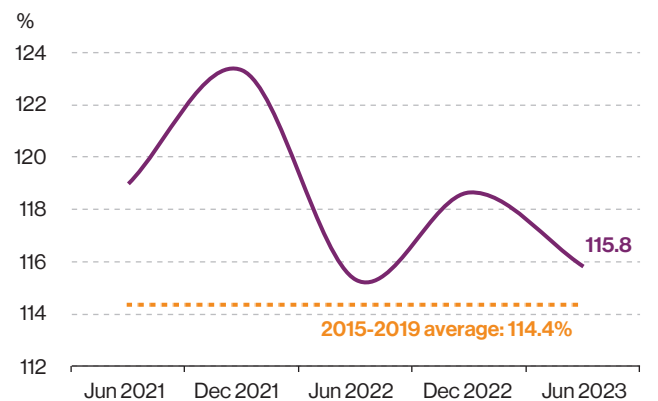
Chart 2.13: Banking System – Gross Impaired Loans Ratio



Source: Bank Negara Malaysia

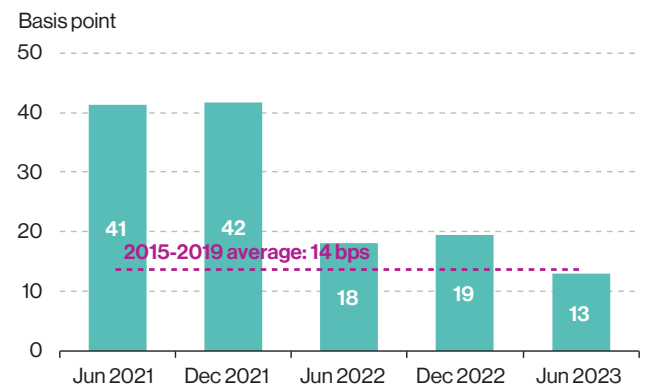
At the aggregate level, the banking system loan loss coverage ratio (including regulatory reserves) stood at 115.8% (December 2022: 118.6%) (Chart 2.14). Some banks have recalibrated their internal provisioning models to incorporate COVID-19 effects on borrowers that are more affected by the pandemic. Banks have remained prudent in approaching these changes and have not reflected effects from temporary support measures deployed during the pandemic that could underestimate observed default and loss rates. Overall banking system provisions have accordingly been sustained above pre-pandemic historical average levels at 1.6% of total loans (December 2022: 1.7%; 2015-2019 average: 1.3%). The use of management overlays remains prevalent among banks to account for uncertainty in the current operating environment, particularly for high-risk borrowers. Annualised credit costs, however, remained low due to high levels of pre-existing provision buffers and are now back to the historical average observed before the pandemic (Chart 2.15).

Chart 2.14: Banking System – Loan Loss Coverage Ratio (Including Regulatory Reserves)



Source: Bank Negara Malaysia

Chart 2.15: Banking System – Annualised Credit Cost Ratio

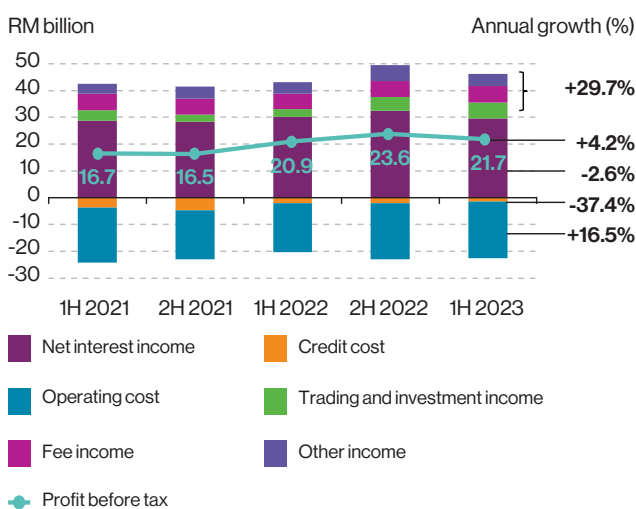


Source: Bank Negara Malaysia

Moderation in banks' earnings growth due to narrowing net interest margins

Banking system profits continued to increase year-on-year but were lower relative to the second half of 2022 (Chart 2.16). Profitability continued to be supported by lending activities amid some compression in interest margins due to higher funding costs. Sustained trading and investment income further supported banks' profitability. In recent periods, banks have increased their holdings of government bonds, particularly for longer-tenures over five years, to benefit from higher yields (June 2023: 10.1% of total banking system assets; 2015-2019 average: 6.8%). The higher government bond holdings have exposed banks to higher interest rate risks.³ However, banks continue to manage these risks actively within established risk tolerance limits. Almost half of government bonds purchased in this period are also held at amortised cost (June 2023: 48.9%; 2015-2019 average: 16.7%). This has helped to reduce fluctuations in banks' capital positions in an environment of higher interest rates.

Chart 2.16: Banking System – Income, Cost and Profit Before Tax



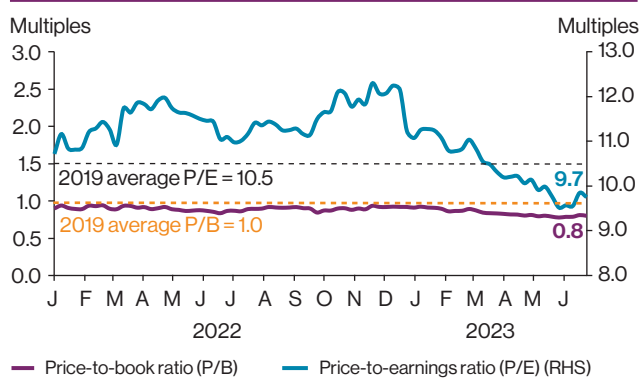
Note: 1. Annual growth computed based on figures for 1H 2022 and 1H 2023.
2. Figures may not add up due to rounding.

Source: Bank Negara Malaysia

³ Interest rate risk in the banking book (IRRBB) reflects the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the banks' banking book positions. It is measured as a percentage of banks' capital (June 2023; 7.6%, December 2022: 7.0%).

Returns on asset and equity of the banking system declined to 1.3% and 11.6%, respectively (December 2022: 1.4% and 12.3%, respectively). Similarly, market valuations of listed banks, as measured by the price-to-book (P/B) and price-to-earnings (P/E) ratios, trended lower to 0.8 and 9.7, respectively (Chart 2.17) amid ongoing uncertainties around the economic growth outlook and financial market developments affecting funding conditions for banks. Despite banks' continued profitability and strong buffers, market valuations have trended below their pre-pandemic averages since end-March, owing to spillover fears from banking system stresses in some advanced economies as well as less optimistic global growth prospects.

Chart 2.17: Banking System – Price-to-Book and Price-to-Earnings Ratios of Publicly Listed Banks in Malaysia



Note: Refers to median ratio of all publicly listed banks in Malaysia.

Source: Bloomberg

Looking ahead, an intensification of deposit competition to support loan growth could exert further pressure on banks' funding costs. Funding costs could also rise as banks continue to price in the latest round of policy rate hikes. Shifts in investor expectations of major economies' monetary policies and resultant volatility in the global bond market could expose banks to more interest rate and FX risks, thus affecting banks' trading and investment income. On the upside, banks expect asset quality to continue to perform better than earlier expected. Banks also have considerable buffers built up before and during the pandemic which would continue to cushion any adverse impact on profitability from market developments.

Banks maintained strong capital buffers to absorb potential unexpected losses and support credit intermediation

The banking system's total capital ratio remained strong at 18.5% of total risk-weighted assets (December 2022: 19.0%). Capital buffers in excess of regulatory minima stood at RM138.5 billion (Chart 2.18). The sound capitalisation levels continue to underpin banks' capacity to absorb unexpected losses and meet the financing needs of the economy, even during economic downturns. The large capital buffers have also enabled banks to sustain dividend payouts, which in turn have supported returns on household savings held through large institutional funds such as EPF, Permodalan Nasional Berhad and Lembaga Tabung Haji. Banks' capital buffers were further supported by revaluation gains from securities classified as fair value through other comprehensive income (FVOCI) as domestic bond markets stabilised. Despite recent stress episodes in the global banking sector, domestic banks still see sustained take-ups of their recent capital issuances, both in the primary and secondary markets. Issuances of Additional Tier 1 (AT1) and Tier 2 capital by banks in the first half of 2023 amounted to RM1.7 billion (December 2022: RM1.7 billion).

Chart 2.18: Banking System – Capitalisation



Note: Excess total capital refers to total capital above the regulatory minimum, which includes the capital conservation buffer requirement of 2.5% and bank-specific higher minimum requirements.

Source: Bank Negara Malaysia

Based on the Bank's latest assessment using end-2022 data submissions, the list of banking groups designated as domestic systemically important banks (D-SIBs) and their respective higher loss absorbency (HLA) requirements remain unchanged (Table 2.2). All D-SIBs continued to maintain Common Equity Tier 1 (CET1) capital ratios comfortably above regulatory minima, including HLA requirements.

Table 2.2: D-SIBs HLA Requirement

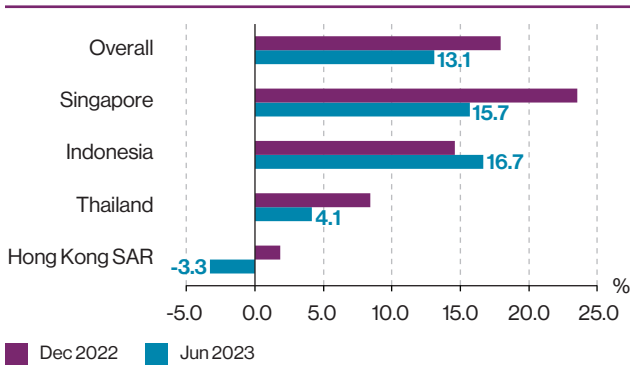
D-SIBs	HLA Requirement (% of risk-weighted assets)
Malayan Banking Berhad	1.0
CIMB Group Holdings Berhad	1.0
Public Bank Berhad	0.5

Source: Bank Negara Malaysia

Contagion risk from DBGs' overseas operations remains limited

The profitability of domestic banking groups' (DBGs) overseas operations declined in the first half of 2023, reflecting tighter monetary policy conditions in the major jurisdictions they operate in (Chart 2.19). This was mainly seen in Singapore and Thailand as local funding markets continue to price in interest rate hikes carried out in 2022. The two markets make up 61% of Malaysian banks' overseas presence by asset size (Chart 2.20). Nevertheless, profitability from overseas operations continued to be supported by sustained net interest income amid improvements in loan growth (June 2023: 10.1%; December 2022: 9.1%). The share of loans under repayment assistance programmes in most jurisdictions has similarly fallen (June 2023: 1.7% of total overseas operations loans; December 2022: 2.0%). Repayment trends also improved in most jurisdictions, leading to sustained asset quality (Chart 2.21). Thus far, credit risks from DBGs' overseas operations appear well-managed in an environment of inflationary pressures and monetary policy tightening. Impairment ratios are expected to gradually improve as remaining borrowers under repayment assistance recover their financial standing and exit repayment assistance programmes.

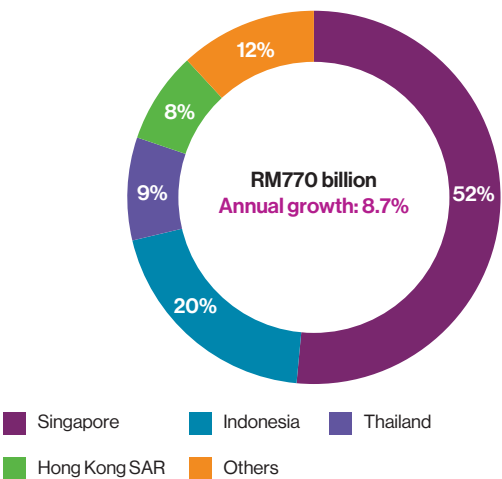
Chart 2.19: Banking System – Return on Equity of Overseas Operations by Jurisdiction



Note: 1. Overall average ROE is weighted by the asset size of selected overseas operations.
 2. Average ROE is weighted by the asset size of each domestic banking group's overseas operations in respective jurisdictions.

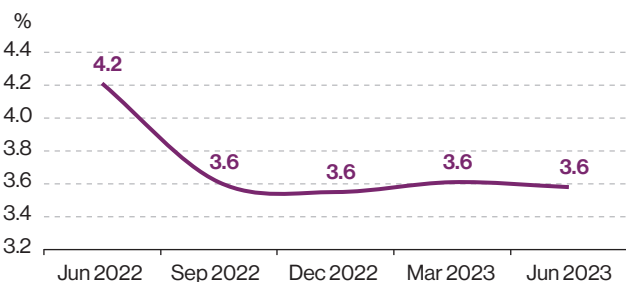
Source: Bank Negara Malaysia

Chart 2.20: Banking System – Asset Profile of Major Overseas Operations



Source: Bank Negara Malaysia

Chart 2.21: Banking System – Gross Impaired Loans Ratio of Overseas Operations

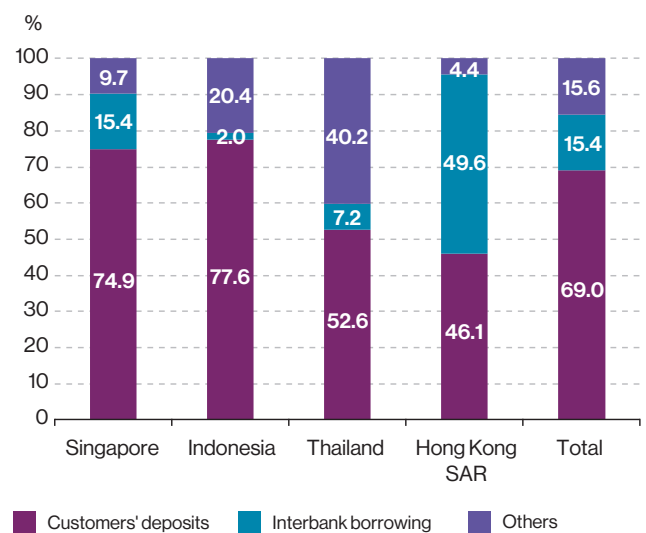


Note: The average gross impaired loans ratio is weighted by the asset size of selected overseas operations.

Source: Bank Negara Malaysia

Liquidity risks posed by DBGs' overseas operations also remain limited. All major overseas operations continue to maintain stable funding sources, mostly in stable deposits (Chart 2.22) and remain compliant with regulatory requirements in the country of operations. Additionally, overseas subsidiaries continue to independently maintain large capital buffers to absorb unexpected losses without depending on parental support (Chart 2.23). Collectively, these factors will serve to limit contagion risks from overseas operations to domestic banks in Malaysia.

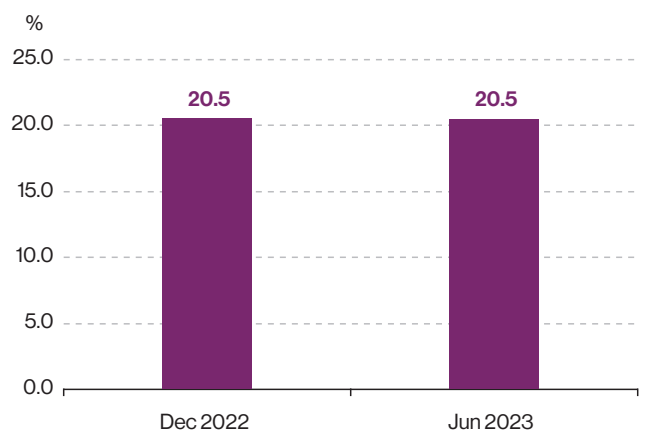
Chart 2.22: Banking System – Funding Profile of Major Overseas Operations



Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Chart 2.23: Banking System – Total Capital Ratio of Overseas Operations



Note: The average total capital ratio is weighted by the asset size of selected overseas operations.

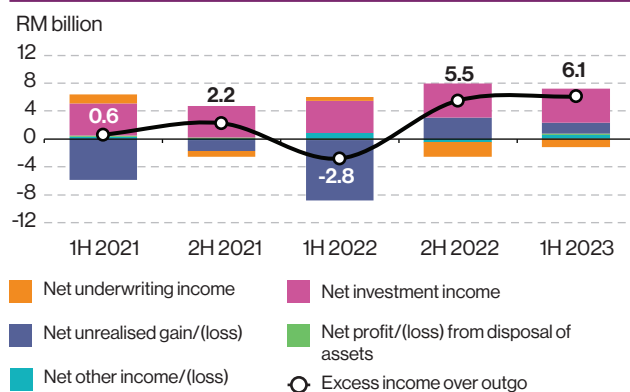
Source: Bank Negara Malaysia

THE INSURANCE AND TAKAFUL SECTOR

Aggregate profitability of insurance and takaful funds improved on better underwriting performance

Overall profitability of life insurance and family takaful funds improved in the first half of 2023, mainly due to better underwriting performance (Chart 2.24). Profitability was also supported by sustained investment income and unrealised gains from a decline in bond yields, although this was partly offset by the weaker performance of equities.

Chart 2.24: Life Insurance and Family Takaful Fund – Composition of Income and Outgo



Note: 1. Data excludes investment-linked unit funds.
2. Net underwriting income refers to excess of net premium after deducting benefit payouts, agency remuneration and management expenses.

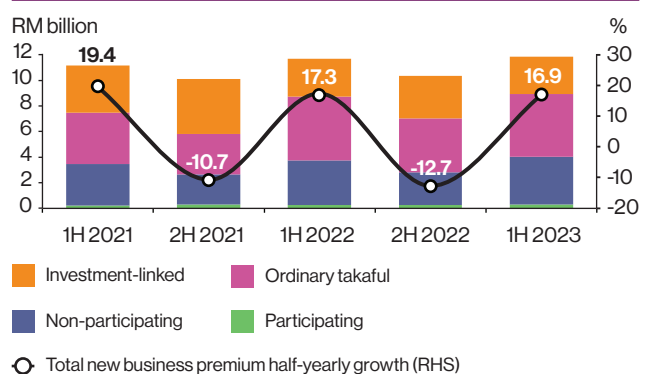
Source: Bank Negara Malaysia

The improvement in underwriting performance mainly reflected seasonally lower maturity and vested benefit payouts usually observed in the first half of the year. Insurers and takaful operators (ITOs), however, continued to record net underwriting losses, driven by the continued increase in medical and surrender payouts (1H 2023: RM7.4 billion; 2H 2022: RM6.8 billion; 1H 2022: RM5.7 billion). The higher medical payouts

were attributable to rising utilisation rates for medical treatment, and higher hospital admissions related to respiratory and infectious diseases. Average cost of claims for hospitalisation and surgical insurance products has also risen based on data submitted by several ITOs as part of their planned re-pricing exercises in 2023 to improve the sustainability of the medical insurance and takaful portfolios. To ensure affordability and fair outcomes for policyholders, ITOs are expected to moderate the quantum of re-pricing by either staggering premium⁴ adjustments over several years or switching to shorter re-pricing cycles with smaller quantum of adjustments. This would serve to ease short-term financial strains on policyholders and enable better financial planning.

New business premiums continued to record positive growth (Chart 2.25). After adjusting for seasonal trends, new premiums for life insurance and family takaful business expanded by 2.4% compared to the same period last year. The growth was driven primarily by an increased take-up of standalone medical and group employee benefit plans, partly supported by initiatives to widen financial protection for individuals with lower income. In contrast, investment-linked new business premiums recorded a decline relative to the first half of 2022, reflecting higher uncertainties in the investment outlook.

Chart 2.25: Life Insurance and Family Takaful Sector – New Business Premium Growth and Product Composition

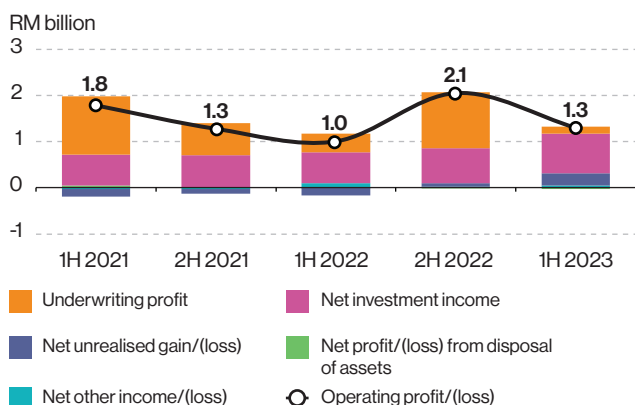


Source: Bank Negara Malaysia

⁴ Refers to both insurance premium and takaful contributions, unless stated otherwise.

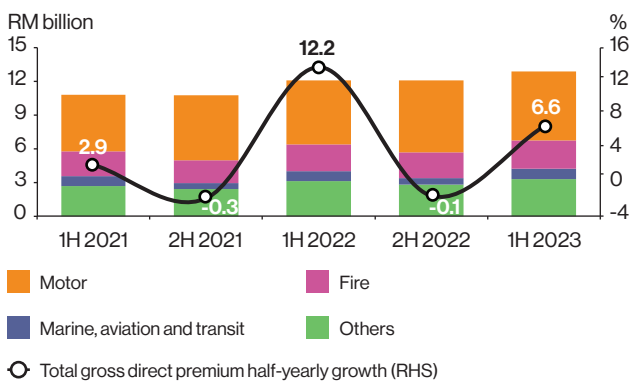
For general insurance and takaful funds, operating profits in the first half of 2023 experienced a decline (Chart 2.26) driven by markedly lower reported underwriting profit. This was attributed to higher net claims from the fire and motor segments. Notably, climate-related risks continue to affect general ITOs financially. This primarily stems from flood events that tend to occur towards the end of the year and sometimes extend into the new year. Consequently, flood-related claims covered under fire policies have had a notable impact on ITOs' underwriting performance, particularly in the first and fourth quarters of the year. Multiple large fire claims also contributed to higher claims recorded during this period. In the motor segment, claims continued to normalise from the lows seen during the pandemic, coinciding with increased mobility. Some improvement in investment performance along with sustained premium growth (Chart 2.27), however, helped shore up general ITOs' profitability.

Chart 2.26: General Insurance and Takaful Fund – Composition of Operating Profits



Source: Bank Negara Malaysia

Chart 2.27: General Insurance and Takaful Sector – Gross Direct Premium Growth and Product Composition



Note: Marine, aviation and transit include offshore oil-related.

Source: Bank Negara Malaysia

Higher rates and tighter underwriting conditions in the global reinsurance market have continued to drive a hard market environment during recent reinsurance contract renewals. Market observers expect this to continue into 2024. Reinsurers are also expressing expectations of stronger underwriting discipline from general ITOs in view of unfavourable results from domestic reinsurance treaty contracts in recent years. While this is exerting some pressure on underwriting margins in certain business segments, the overall impact on general ITOs' financial positions remains muted – supported by general pricing discipline observed among ITOs, prudent underwriting practices and sufficient surplus capital. There has been little impact from harder reinsurance conditions on coverage or premiums associated with personal business lines, although loss-making commercial portfolios⁵ have experienced small increases in premiums. The general insurance/takaful industry also appears to have the capacity to support climate transition activities, with several ITOs providing coverage for risks associated with solar energy generation and clean technologies. This is being further encouraged with the ongoing implementation of the CCPT in the financial sector.

In June 2023, the Bank published the revised policy document on Operating Cost Controls for General Insurance and Takaful Business. Changes made have been mainly to improve consistency in the application of regulatory requirements and provide additional operational flexibility for ITOs to manage their cost structures applied to agents and other intermediaries. These changes are not expected to have a significant competitive or financial impact on general ITOs given that key controls applied to major business segments remain in place under the revised policy document.

The Bank continues to closely monitor developments in premium rate adjustments amid the liberalisation of the motor and fire tariffs, to ensure that any adjustments (upwards or downwards) do not create market dislocations that could affect access to coverage or disproportionately impact segments of the covered population. Almost all general ITOs, representing a combined market share of 98%

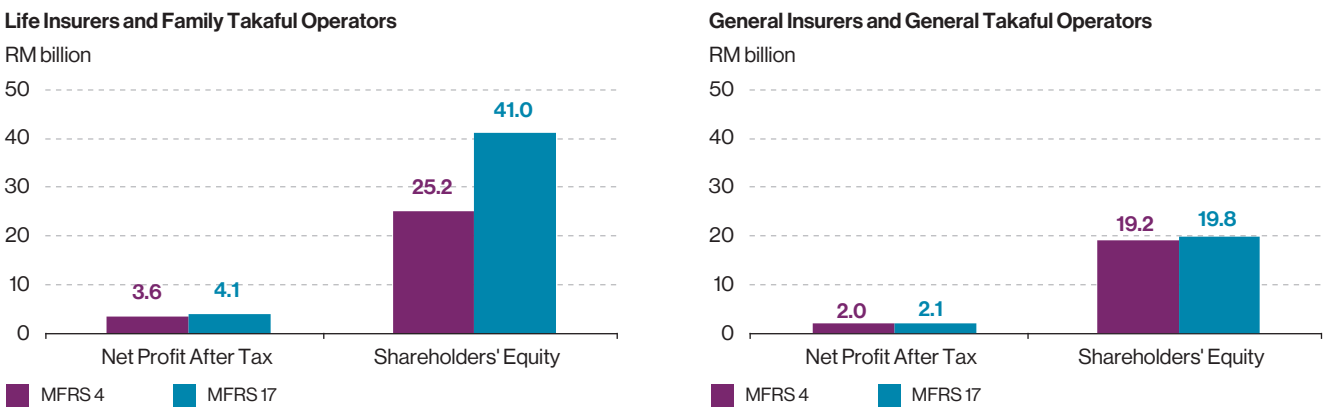
⁵ Particularly for high-risk construction classes (class 2 and 3 under the fire tariff) which consist of buildings constructed with higher proportion of combustible materials.

of total motor and fire gross premium income, are already operating under Phase 2A of the liberalisation roadmap.⁶ Pricing adjustments by these ITOs have continued to be gradual and more reflective of the underlying risk profiles. In some motor sub-segments, premium rates remain below technical pricing levels (based on loss experience) to maintain the affordability of insurance/takaful coverage. Ongoing reforms to improve transparency and address fraud in the motor insurance and repairs sectors will continue to be critical to better align pricing with risk, while ensuring the long-term sustainability of motor insurance coverage for all income segments of the population.

With the Malaysian Financial Reporting Standard (MFRS) 17 Insurance Contracts coming into force on 1 January 2023,⁷ the Bank continues to monitor the impact of the new accounting standard on the industry. Based on the Bank's latest survey⁸ of ITOs, the aggregate impact of measurement and reporting changes under MFRS 17 on life and family ITOs has been largely positive, while the impact on general

ITOs have been more neutral. Overall, for the 2022 full year financial results, life and family ITOs' total reported annual net profit after tax and shareholders' equity under MFRS 17 increased by 15.2% and 62.7%, respectively, while for general ITOs, these metrics have increased by 3.8% and 3.4% compared to under MFRS 4 (Chart 2.28). The impact of the change is more varied for life and family ITOs, as the financial outcomes under the MFRS 17 measurement model depend on the duration of the contracts, profit margin at inception and participation features of insurance contracts. These elements can differ significantly between individual life and family ITOs depending on their business strategy. In contrast, for general ITOs, the financial outcomes are broadly similar to that reported under MFRS 4 due to the shorter-term duration of contracts underwritten. ITOs do not expect changes to their business direction or strategy in the short term in response to the adoption of MFRS 17, but they expect to be better positioned to consider relevant adjustments or shifts to their business strategy in the coming years as implementation of the standard becomes more mature.

Chart 2.28: Comparison of ITOs' 2022 Annual Net Profit After Tax and Shareholders' Equity Following Adoption of MFRS 17



Note: Based on data collected via the Bank's survey which covered 40 out of 48 direct ITOs.

Source: Bank Negara Malaysia

⁶ ITOs that meet the Bank's expectations and requirements on reforms to the motor claims ecosystem will progressively be accorded greater pricing flexibilities for motor and fire insurance/takaful products under two phases, i.e., Phase 2A, followed by Phase 2B.

⁷ MFRS 17 Insurance Contracts contains more comprehensive accounting treatments for insurance and takaful contracts and will supersede MFRS 4 Insurance Contracts.

⁸ The survey covered 40 direct life and general insurers as well as family and general takaful operators out of a total of 48 ITOs.

The insurance and takaful sector remains resilient, supported by strong capital and liquidity positions. The aggregate industry capital adequacy ratio stood at 225% as at end-June 2023, well above the regulatory minimum of 130% (Chart 2.29). Aggregate capital buffers in excess of regulatory requirements also remained strong at RM38.8 billion.

Looking ahead, ITOs remain susceptible to financial market volatility given their sizeable bond and equity investments. This could also continue to dampen new business growth from investment-linked policies. The sustained upward pressure on medical costs is also expected to weigh on ITOs' overall profitability, although ITOs expect headline growth in this segment to continue to benefit from greater awareness on the need for insurance. Climate-related risk

considerations are expected to become more prominent – both from the effects of higher climate-related claims, and potential changes in reinsurance capacity.

Chart 2.29: Insurance and Takaful Sector – Capital Adequacy Ratio

