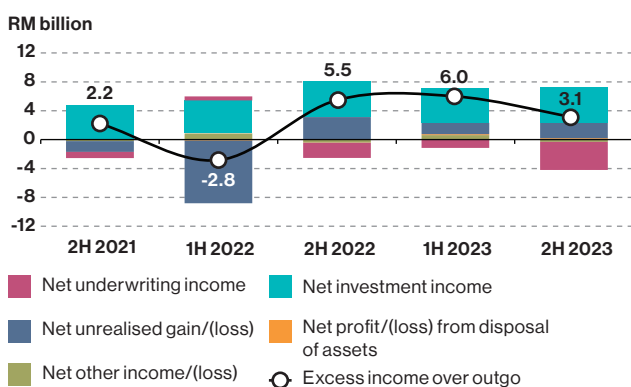


THE INSURANCE AND TAKAFUL SECTOR

Aggregate profitability of insurance and takaful funds declined due to larger net underwriting losses, but investment performance provided support

Overall profitability of insurance and takaful funds was lower in the second half of 2023 compared to the earlier half of the year. This was mainly driven by larger net underwriting losses of life insurance and family takaful funds amid a sustained increase in medical claims payments. As a result, the profitability of life insurance and family takaful funds, as measured by excess income over outgo, declined to RM3.1 billion (1H 2023: RM6 billion) (Chart 2.21).

Chart 2.21: 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

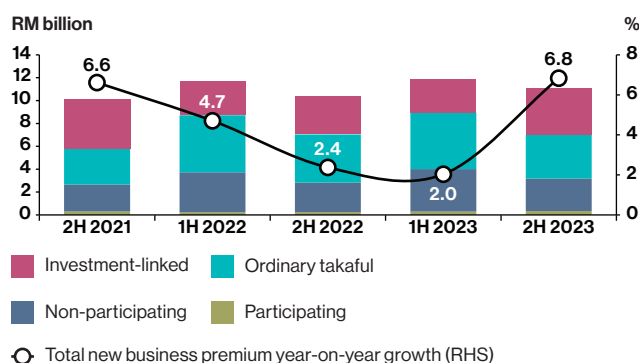
Underwriting income of life insurance and family takaful funds continued to be weighed down by higher medical benefit payouts (2H 2023: RM5.3 billion; 1H 2023: RM4.7 billion; 2H 2022: RM4.3 billion). Insurers and takaful operators (ITOs) observed higher average cost and incidence rate for medical treatment compared to the pre-pandemic period, resulting in higher-than-expected claims. While ITOs have commenced repricing exercises,¹¹ the effect of these changes on underwriting margins will take time to materialise as price adjustments

¹¹ Refer to the box article on 'Evaluating the Impact of Medical Re-pricing Deferrals on Life Insurers and Family Takaful Operators' in the BNM Financial Stability Review for First Half 2021 for further details.

are applied only at policy anniversaries. To maintain policy affordability and fair outcomes for policyholders, ITOs continue to spread the premium¹² increments over a longer period or opt for shorter repricing cycles with a smaller quantum of adjustments. Underwriting income was also weighed down by the longer-term decline of participating¹³ insurance business, where payouts related to participating insurance policies have surpassed net premium income. This reflects the continued shift in new business premiums from participating insurance policies to investment-linked policies over time. The share of net premiums for participating business has correspondingly declined sharply to 16% of total net premium income (2H 2022: 17%; 2015–19 half-yearly average: 35%). Notwithstanding this trend, insurers have set aside adequate reserves to fund the benefit payouts. Insurers are also required to take reasonable pre-emptive measures in managing small and shrinking participating life funds to safeguard the interests of policyholders.

Sustained growth in the total new business premiums continued to provide support to overall earnings. After accounting for seasonality effects, new business premiums in the second half of 2023 improved by 6.8% compared to the same period in 2022, supported mainly by the investment-linked and non-participating segments (Chart 2.22). The growth in these segments was driven mainly by the higher sales through the bancassurance channel, as well as the continued roll-out of new insurance and takaful products launched during the period.

Chart 2.22: Life Insurance and Family Takaful Sector – New Business Premium Growth and Product Composition



Source: Bank Negara Malaysia

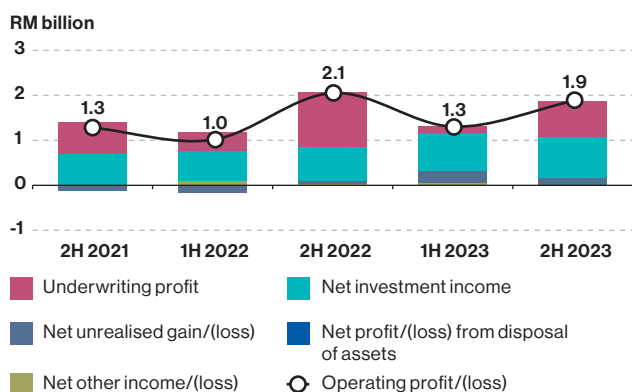
¹² Refers to both insurance premium and takaful contribution, unless stated otherwise.

¹³ A participating life policy provides policyholders with the opportunity to participate in the profits of the insurance fund, in addition to receiving guaranteed benefits. The profits may be distributed in the form of non-guaranteed cash bonuses and/or dividends at regular basis and/or upon termination, as determined by the insurers.

Sustained investment income in the second half of 2023, further bolstered by improvements in the performance of equities, also provided support to the profitability of life insurance and family takaful funds. For the year as a whole, excess income over outgo rose to RM9.1 billion (2022: RM2.6 billion).

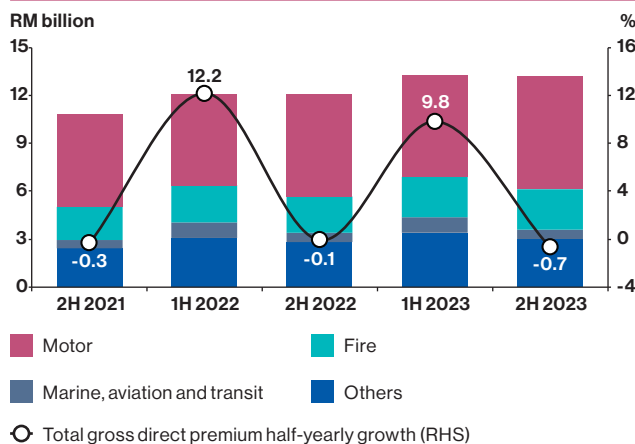
For general insurance and takaful funds, operating profits improved compared to the first half of 2023 (2H 2023: RM1.9 billion; 1H 2023: RM1.3 billion) (Chart 2.23). The increase in operating profits was contributed mainly by higher net underwriting profit, attributable largely to higher premium growth in the motor segment amid continued improvements in risk-based pricing (Chart 2.24). This corresponded with the higher car sales due to promotional campaigns and new model launches, including electric vehicles, during the period. The higher underwriting profits in the second half of 2023 was also supported by the absence of large claims from flood and

Chart 2.23: General Insurance and Takaful Fund – Composition of Operating Profits



Source: Bank Negara Malaysia

Chart 2.24: General Insurance and Takaful Sector – Gross Direct Premium Growth and Product Composition



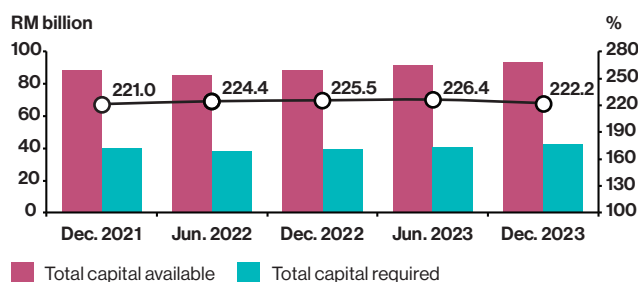
Source: Bank Negara Malaysia

fire events during the period compared to the first half of 2023 (see box article titled 'Floods and Finance: Building Resilience of Malaysian Businesses' for further details on flood risk in Malaysia).

Similar to life insurance and family takaful funds, sustained investment income lent further support to the operating profits of general insurance and takaful funds for 2023 as a whole. This resulted in a slight increase in the annual operating profits relative to that of the previous year (2023: RM3.2 billion; 2022: RM3.1 billion).

The industry aggregate capital adequacy ratio (CAR) remained healthy at 222.2% (June 2023: 226.4%), well above the regulatory minimum of 130% (Chart 2.25). Aggregate capital buffers in excess of regulatory requirements also remained sound at RM38.6 billion (June 2023: RM38.9 billion).

Chart 2.25: Insurance and Takaful Sector – Capital Adequacy Ratio



Source: Bank Negara Malaysia

Looking ahead to 2024, volatile financial market conditions will remain a key downside risk to ITOs given their sizeable bond and equity investments. Sustained cost pressures stemming from inflation in motor and medical claims are also likely to persist amid a more gradual pace of premium rate adjustments to preserve insurance affordability (see Chapter titled 'Promoting a Progressive and Inclusive Financial System' in the BNM Annual Report 2023). BNM will continue to monitor closely the ongoing phased liberalisation of tariffs in the motor and fire segments. This is to ensure that the pricing flexibility is aligned with the expanded phased liberalisation limits, and to prevent market dislocations that could hinder access to coverage or disproportionately impact segments of the insured population.

In the reinsurance market, while rates and terms continued to harden, the extent of adjustments had been smaller as the market adapted to the current risk

environment. More significant adjustments continue to be confined to loss-making commercial lines of business. As such, the impact to overall profitability has remained manageable, with minimal increase in the cost of protection borne by households and businesses apart from these loss-making segments. Looking ahead, more frequent and severe climate events, particularly floods, will continue to weigh on the performance of general ITOs in the short term. However, in the long run, it is also likely that this risk will increase demand for insurance

protection as a form of financial risk management. A robust approach to managing climate-related risks will be crucial, along with strong capital and sound reinsurance arrangements, to ensure that ITOs remain resilient to downside risks. The recent macro stress test exercise conducted by BNM, which has incorporated these downside risks, indicates that the insurance sector remains resilient to withstand potential shocks under adverse scenarios (refer to the section on 'Assessing the Resilience of Financial Institutions' for more details).