

THE INSURANCE AND TAKAFUL SECTOR

Overall profitability declined for the insurance and takaful sector amid the challenging operating environment

The financial impact of COVID-19 has mainly affected insurers and takaful operators (ITOs) through the investment channel and lower new business. On aggregate, insurance and takaful funds recorded a decline in profitability in the first half of 2020. This was attributed to the life insurance and family takaful funds, which recorded unrealised losses from equity investments and a decline in new premiums amid movement restrictions during the MCO (Charts 2.19 and 2.20). However, higher gains from investments in bonds provided some support to overall investment performance and profits. The profitability of general insurance and takaful funds meanwhile improved slightly despite lower premium growth (Charts 2.21 and 2.22).

The underwriting performance of life insurance and family takaful funds improved during the period due to lower benefit payouts on medical and health policies in line with the deferment of elective procedures by both hospitals and policyholders. Policy surrenders and lapses were also lower during 1H 2020 due in part to the temporary relief measures. This included options for policyholders to defer the payment of premiums and avail themselves of premium holidays without affecting their coverage.¹⁰ The impact of these measures on ITOs' profitability has been manageable due to the relatively short deferment period and a large share of life/family takaful policies already having such flexibilities built into the policy features. General ITOs meanwhile recorded higher underwriting profits from lower motor claims paid during the MCO and CMCO periods as fewer vehicles were on the road and repair workshops were closed.

¹⁰ Premium deferment refers to the temporary relief measure where customers affected by COVID-19 can defer payments of life insurance premiums and family takaful contributions by three months between April and December 2020. Premium holiday refers to continued insurance/takaful coverage despite an absence of premium payments and applies to products with the premium holiday feature already in place such as investment-linked products. This is allowed as long as the investment value in the unit fund remains sufficient to meet the necessary insurance cost during the holiday period.

In response to the COVID-19 pandemic, ITOs have revised their plans to re-price medical and health insurance policies/takaful certificates in an effort to reduce the financial burden of policyholders/takaful participants and preserve their coverage. The revised plans include deferring planned re-pricing for the year, providing refunds on any premium increase until end-2020, and extending the deferral of premiums to protect coverage. A number of ITOs have not re-priced medical and health insurance policies that have sustained underwriting losses in recent years despite rising medical cost pressures. However, the impact of further delaying planned re-pricing exercises is expected to be manageable given the healthy capital positions and overall profitability of ITOs (refer to the Box Article 'Measures to Mitigate the Impact of the COVID-19 Pandemic And Preserve Financial Stability' for further details on insurance and takaful relief measures).

Insurance and takaful sector remained well-capitalised

The aggregate capital adequacy ratio (CAR) of the insurance and takaful sector remained well above the regulatory minimum (Chart 2.23). In March 2020, the Bank implemented revisions to the stress parameters used for the computation of interest/profit rate capital charge under the Risk-based Capital (RBC) Framework for ITOs. The revised parameters better reflect prevailing market conditions by refining the sensitivity of ITOs' balance sheet to interest rate movements. This aims to ensure that the risk measures within the RBC Framework continue to provide an appropriate basis for the computation of capital levels that promotes the safety and soundness of ITOs under a range of stress conditions. These changes resulted in improvements to ITOs' capital positions, mostly among life insurers and family takaful operators.

Based on the Bank's sensitivity analysis, life insurers are expected to remain solvent should interest rates decline further, with aggregate industry CAR remaining comfortably above the regulatory minimum.¹¹ The healthy overall underwriting performance of most ITOs, along with a gradual improvement in new business growth in tandem with the economic recovery, will further support the strong capitalisation of ITOs.

¹¹ Refer to the Information Box 'Assessing the Impact of Declining Interest Rates on Life Insurers' Solvency Positions' in FSR 2H 2019 for further details on the methodology.

Chart 2.19: Life Insurance and Family Takaful Fund – Composition of Income and Outgo

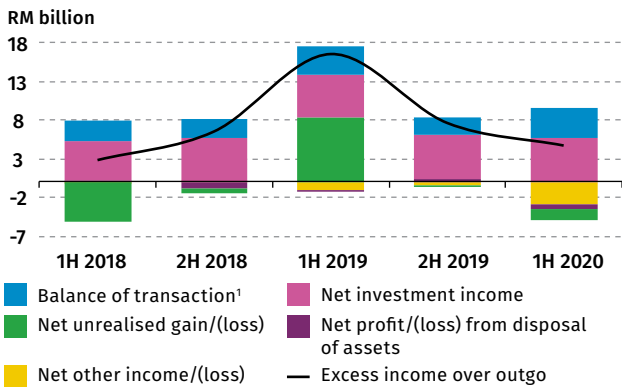


Chart 2.20: Life Insurance and Family Takaful Sector – New Business Premium Growth and Product Composition

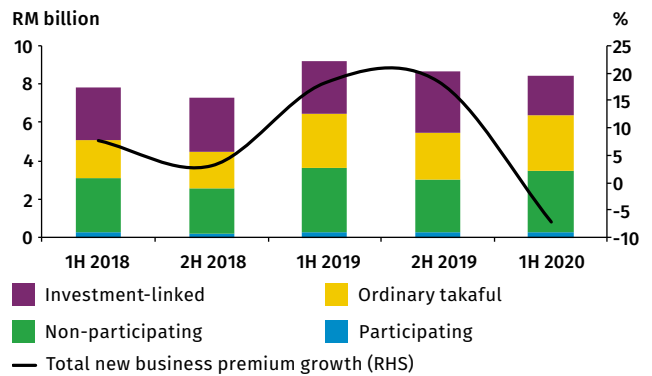


Chart 2.21: General Insurance and Takaful Fund – Composition of Operating Profits

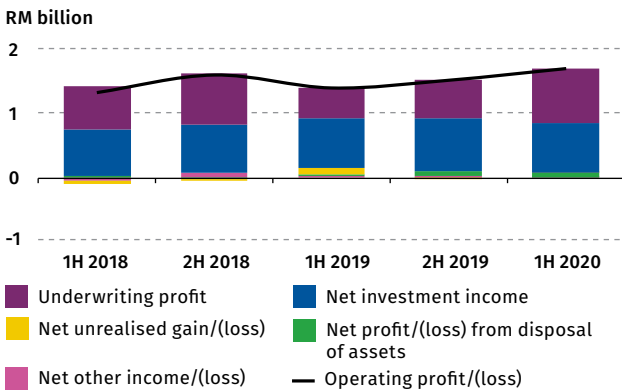


Chart 2.22: General Insurance and Takaful Sector – Gross Direct Premium Growth and Product Composition

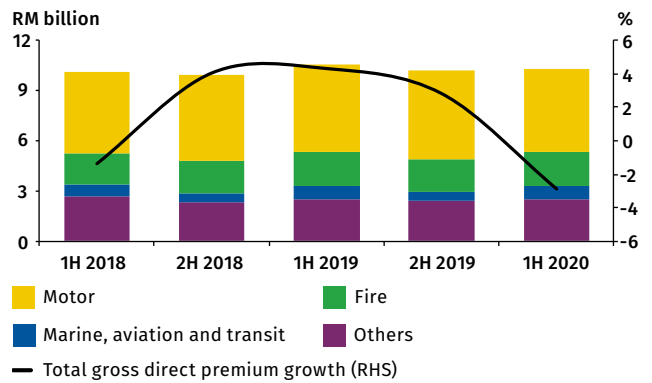
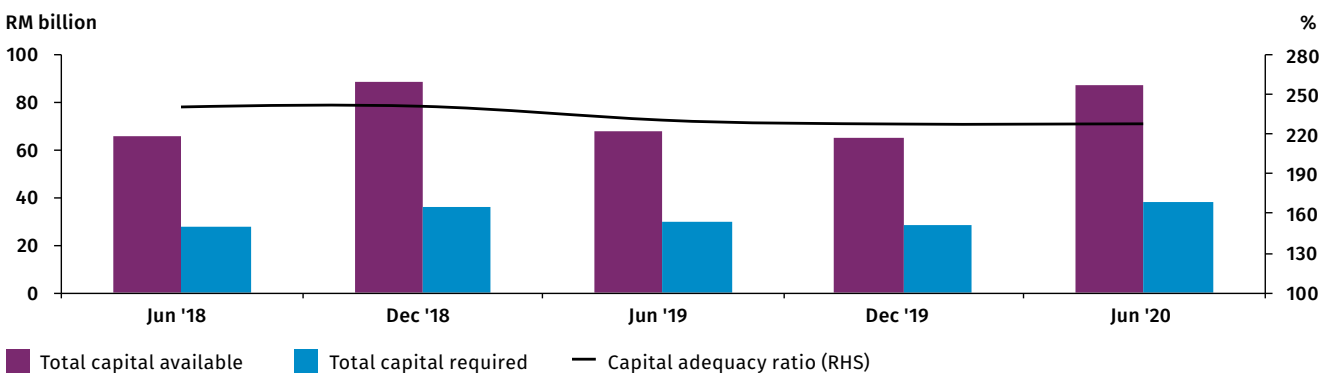


Chart 2.23: Insurance and Takaful Sector – Capital Adequacy Ratio



¹Excess of net premium after deducting benefit payouts, agency remuneration and management expenses

Source: Bank Negara Malaysia