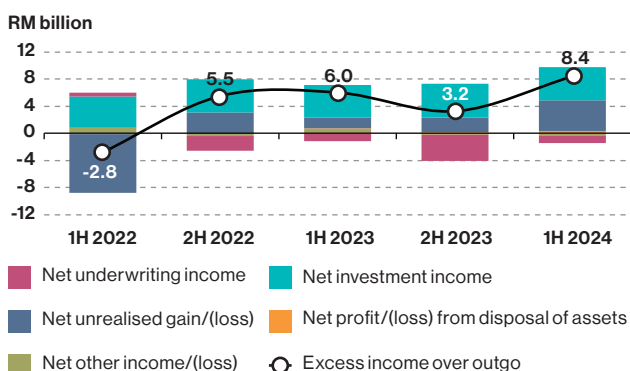


## THE INSURANCE AND TAKAFUL SECTOR

### Overall profitability of insurance and takaful funds increased on strong investments and improved underwriting performance

Overall profitability of life insurance and family takaful funds, as measured by excess income over outgo, was higher in the first half of 2024 (RM8.4 billion; 2H 2023: RM3.2 billion) (Chart 2.21). This was largely due to higher net unrealised gains from equity investment portfolios, driven by the strong market performance of Bursa Malaysia, and sustained investment income.

**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

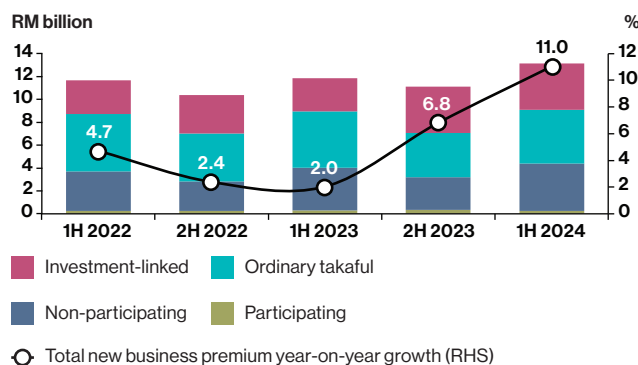
Life insurers and family takaful operators (life and family ITOs) recorded lower net underwriting losses in the first half of 2024, reflecting seasonally lower maturity and vested benefits payouts typically observed in the first half of the year. However, underwriting performance continued to be weighed down by medical benefit payouts, which remained elevated (1H 2024: RM5.3 billion; 2H 2023: RM5.3 billion; 1H 2023: RM4.7 billion), driven by increasing incidence rates, particularly from chronic and acute cases, coupled with the rising overall average cost of medical treatment. In response, most ITOs continue to conduct repricing exercises for medical and health policies. The effects of these adjustments on underwriting margins are expected to be gradual, as price adjustments are only applied at policy anniversaries. Measures by ITOs to preserve

policy affordability such as capping price increases, and staggering these increases over time further moderate the impact on pricing and margins.

Measures to contain medical inflation remain critical to ensure continued access to affordable medical insurance and takaful coverage. To this end, the revised policy document on Medical and Health Insurance/Takaful (MHIT) Business issued by BNM in February 2024 requires all ITOs to offer consumers the choice to purchase MHIT products with a co-payment feature as a more affordable option, starting from September 2024. Over time, greater uptake of co-payment MHIT products is expected to improve accessibility of MHIT offerings while aligning incentives with needs-based utilisation of healthcare services, which will help contain medical cost inflation. This complements broader healthcare and health financing reforms being pursued by the Government which are essential to further improve the delivery of quality healthcare services and health outcomes.

Sustained growth in new business premium<sup>6</sup> continued to support the overall profitability of life insurance and family takaful funds. New business premium expanded by 11% in the first half of 2024 (1H 2023: 2%; 2017–19 half-yearly average: 9.8%) (Chart 2.22), led by medical and health products as well as investment-linked products. In contrast, the participating life insurance segment has continued to contract. Despite the continued decline in the participating life insurance segment, the overall impact on the sector's profitability has been limited, largely due to strong substitution effects, with policyholders shifting from participating policies to alternative products, mainly investment-linked and non-participating policies (refer to box article titled 'Participating Life Insurance Business in Malaysia' for further details).

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

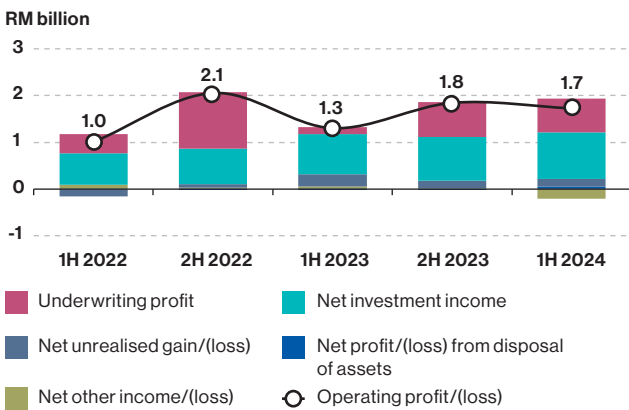


Source: Bank Negara Malaysia

<sup>6</sup> Refers to both insurance premium and takaful contribution, unless stated otherwise.

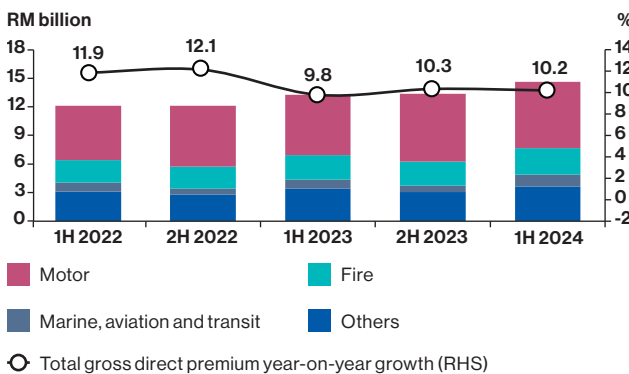
In the general insurance and takaful sector, operating profits were broadly sustained in the first half of 2024 (RM1.7 billion; 2H 2023: RM1.8 billion; 1H 2023: RM1.3 billion) (Chart 2.23). Underwriting performance was supported by sustained growth in gross direct premium from the motor segment (Chart 2.24), stemming from higher car sales in tandem with favourable economic conditions and successful new model launches, including electric vehicles. This was despite higher provisions for motor claims (1H 2024: RM0.6 billion; 2H 2023: RM0.3 billion) commensurate with robust business growth, as well as rising repair costs. Meanwhile, lower claims from significant flood events compared to previous years and sustained investment income also helped support the operating profits of general ITOs.

**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**



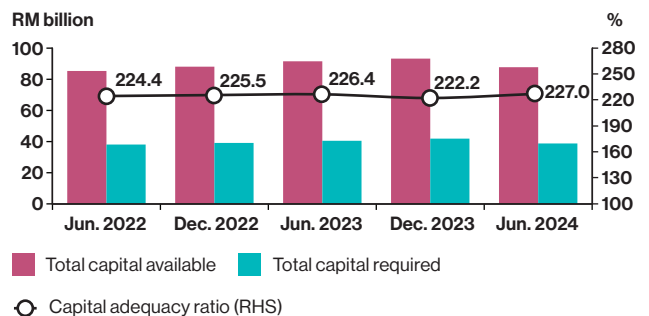
Source: Bank Negara Malaysia

As of June 2024, all general ITOs have met the requirements to transition to Phase 2A<sup>7</sup> of the ongoing motor and fire tariff liberalisation process. The increased pricing flexibility introduced in Phase 2A has facilitated a gradual adjustment of premium and contribution rates to better reflect risk profiles of insured motorists and strengthen incentives to support road safety outcomes. Under the transition, both premium increases and decreases have been observed, reflecting more differentiated pricing of insured segments based on risks. Following these adjustments, the industry has continued to observe some stabilisation in the net claims incurred ratio<sup>8</sup> for the motor line of business over the past 12 months (1H 2024: 69%; 2H 2023: 68%; 1H 2023: 69%).

The industry's aggregate capital adequacy ratio remains strong at 227.0% in the first half of 2024 (December 2023: 222.2%), well above the regulatory minimum of 130% (Chart 2.25). Aggregate capital buffers in excess of regulatory requirements also remained sound at RM37.4 billion (December 2023: RM38.6 billion).

In June 2024, BNM issued the exposure draft on Risk-Based Capital Framework for Insurers and Takaful Operators<sup>9</sup> for public consultation as part of BNM's ongoing multi-phase review of the capital adequacy requirements for ITOs (including reinsurers and retakaful operators). The exposure draft sets out proposed enhancements to the capital framework, aimed at improving the comprehensiveness of risk coverage, risk sensitivity and comparability of capital adequacy measures across the insurance and takaful industry.

**Chart 2.25: Insurance and Takaful Sector – Capital Adequacy Ratio**



Source: Bank Negara Malaysia

<sup>7</sup> ITOs that commit to reforms to improve the motor claims ecosystem (encompassing prudential and market conduct conditions, along with a commitment to digitalise the motor claims process for greater control and efficiency) will gradually receive greater pricing flexibility for motor and fire insurance/takaful products. This will happen in two stages: Phase 2A and then Phase 2B.

<sup>8</sup> Refers to the ratio of net claims incurred to earned premium income.

<sup>9</sup> The exposure draft is available at <https://www.bnm.gov.my/-/ed-rcpito>.



## Financial Institution Soundness and Resilience

Looking ahead in the near term, uncertainty in financial market conditions will continue to present a key downside risk to ITOs' earnings, given their sizeable exposures to bond and equity investments. Additionally, exposures to climate events, particularly floods, could see increased

volatility in the performance of general ITOs. Meanwhile, further losses from medical inflation could increase risks of reduced access to affordable medical insurance and takaful coverage, leaving households potentially more vulnerable to financial shocks.