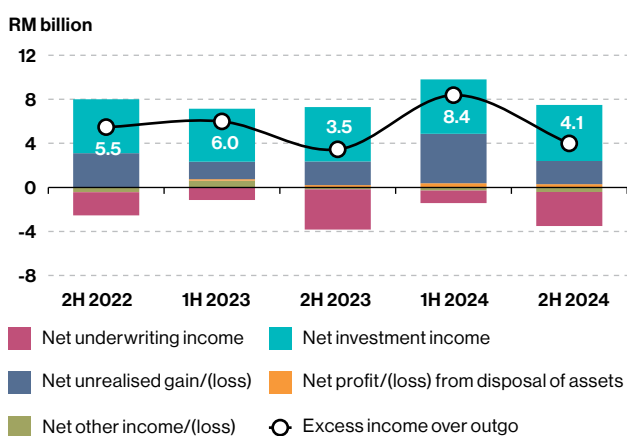


THE INSURANCE AND TAKAFUL SECTOR

Overall profitability of insurance and takaful funds declined on weaker investment performance and larger net underwriting losses

The overall profitability of life insurance and family takaful funds, as measured by excess income over outgo (EIOO),¹¹ declined in the second half of 2024 (RM4.1 billion; 1H 2024: RM8.4 billion) (Chart 2.21). The decline was mainly driven by lower net unrealised gains from investment portfolios following some paring back in the performance of equities and higher bond yields. Nevertheless, the EIOO for the full year of 2024 improved from the previous year to RM12.4 billion (2023: RM9.4 billion), supported by the stronger performance of the equity market for the year.

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 higher net underwriting losses in the second half of 2024. Net underwriting income was weighed down by higher medical payouts of RM6.2 billion (1H 2024: RM5.3 billion; 2H 2023: RM5.3 billion), mainly driven by increased overall average cost and utilisation rate for medical treatment, particularly from chronic

¹¹ The EIOO does not take into account changes in reserves required to be set aside by insurers and takaful operators to cover future insurance/takaful claims.

and acute cases. This led to premiums for medical and health insurance/takaful (MHIT) policies/certificates being adjusted upward to ensure sustainability of long-term coverage. Interim measures have been put in place by the insurance and takaful industry to assist individuals who are affected by the premium¹² revisions to their MHIT policies/certificates. One such measure is the spreading of premium adjustments due to medical claims inflation over a minimum period of three years. This measure applies to repricing exercises that take place between 2024 and 2026. The impact of the interim measures to stagger the repricing of MHIT products, increase in benefit payouts from medical claims and ongoing shrinkage of participating life insurance business could further weigh on net underwriting income of life and family ITOs going forward. In this regard, structural reforms addressing the root cause of rising medical costs are crucial in ensuring the sustainability of MHIT business.¹³

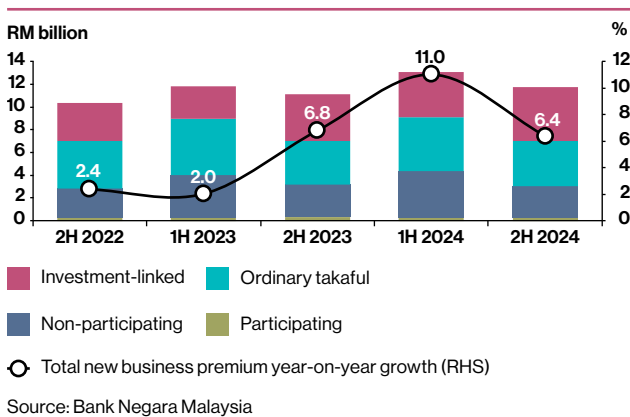
New business premium growth for life and family ITOs expanded by 6.4% in the second half of 2024 (2H 2023: 6.8%; 2019–23 half-yearly average: 9.1%) (Chart 2.22), mainly sustained by the growth in new business premium for investment-linked products. The participating life insurance segment¹⁴ continued its decline amid shifts in consumers' preference for broader coverage against life uncertainties such as medical and health coverages which are not typically covered by participating life insurance policies. Investment-linked products, which are perceived to be more flexible, are expected to remain as a key driver of overall new business premium growth.

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

¹³ Refer to the section on 'Securing Sustainable Access to Medical and Health Insurance/Takaful Protection' in BNM's Annual Report 2024 for more details.

¹⁴ Refer to the Box Article on 'Participating Life Insurance Business in Malaysia' from the Financial Stability Review for First Half 2024 for more details.

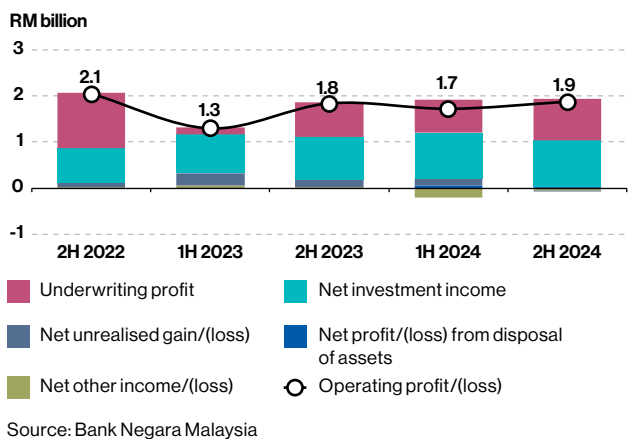
Chart 2.22: Life Insurance and Family Takaful Sector – New Business Premium Growth and Product Composition



In the general insurance and takaful sector, operating profits increased to RM1.9 billion in the second half of 2024, supported by underwriting profit (1H 2024: RM1.7 billion; 2H 2023: RM1.8 billion) (Chart 2.23). Underwriting performance was driven by the growth in the motor segment (Chart 2.24), which reflected stronger demand for motor vehicles. Lower claims from fire events also contributed to the improvement in underwriting profit of general ITOs. While seasonal flood events at the end of 2024 and early 2025 may pose a drag to the underwriting profit of general ITOs, claims from these events are expected to be less severe than that experienced in 2021.¹⁵

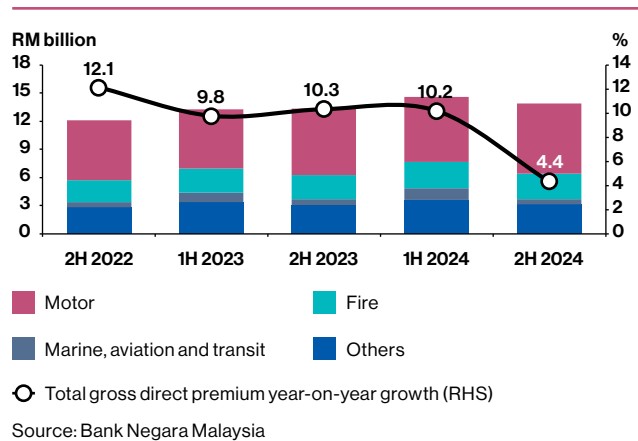
Gradual adjustments to the premium for Comprehensive, and Third Party, Fire and Theft motor insurance and takaful products continued during the second half of 2024. This is in line with the increased pricing

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



¹⁵ Losses from the flood events in 2021 were more extensive as it involved major economic centres, such as Kuala Lumpur and Shah Alam.

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



flexibility introduced under Phase 2A¹⁶ of the ongoing motor and fire tariffs liberalisation process. Under the transition, both premium increases and decreases have been observed. These indicate a more granular and differentiated pricing for various insured motorist segments to better reflect their respective risk profiles. The net claims incurred ratio¹⁷ for the motor line of business stabilised in the second half of 2024 (69%; 1H 2024: 69%), after normalising from low levels during the pandemic and is slightly below the pre-pandemic average of 71%.

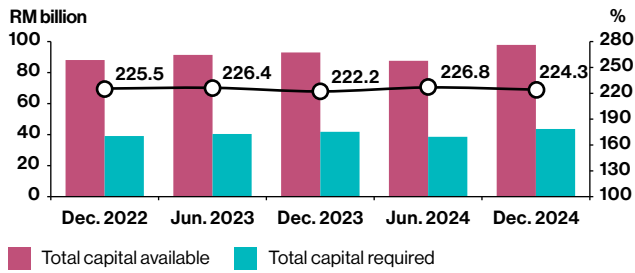
The insurance and takaful sector remained resilient, further supported by strong capital and liquidity positions. The aggregate capital adequacy ratio (CAR) for the industry remained healthy at 224% in the second half of 2024 (June 2024: 227%), well above the regulatory minimum of 130% (Chart 2.25). In addition, aggregate capital buffers in excess of regulatory requirements also remained ample at RM41.1 billion (June 2024: RM37.4 billion).

Looking ahead, investment performance of ITOs continues to be susceptible to financial market conditions given the sizeable investment holdings of ITOs in bonds and equities, as well as climate-related risks as increased physical and transition risks could translate into financial risks. ITOs are required to assess their exposure to climate-related risks in the inaugural

¹⁶ ITOs that commit to reforms to improve the motor claims ecosystem (encompassing prudential and market conduct conditions and 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.

¹⁷ Net claims incurred ratio refers to the ratio of net claims incurred to earned premium income.

Chart 2.25: Insurance and Takaful Sector – Capital Adequacy Ratio



Source: Bank Negara Malaysia

Climate Risk Stress Testing¹⁸ exercise in 2025. ITOs could also face constraints in growing new MHIT businesses due to concerns on medical cost pressures, making the current pricing structures unsustainable. The measures taken by ITOs to provide short-term relief to policyholders/participants from the repricing of MHIT premiums are also expected to weigh on the financial performance of the industry. Despite these potential headwinds, ITOs are expected to remain solvent with capital buffers above the regulatory minimum.¹⁹

¹⁸ Under the Climate Risk Stress Testing Methodology Paper, financial institutions are required to submit the results of their exercise to BNM either by 30 June 2025 (Cohort 1) or 31 December 2025 (Cohort 2).

¹⁹ Refer to the section on 'Assessing the Resilience of Financial Institutions' for more details.