

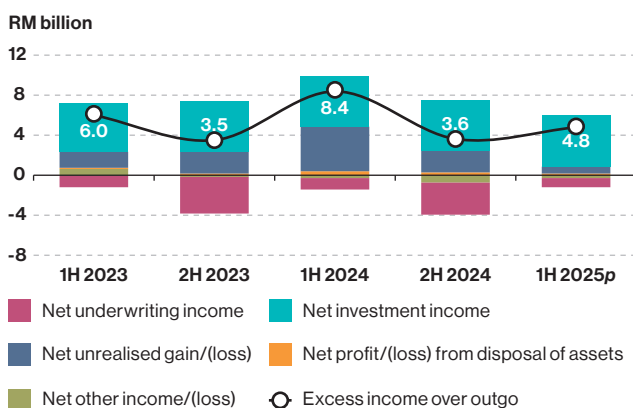
THE INSURANCE AND TAKAFUL SECTOR

Overall profitability of insurance and takaful funds improved on better bond investment and underwriting performance

In the first half of 2025, the overall profitability of life insurance and family takaful funds, as measured by excess income over outgo (EIOO),⁹ improved to RM4.8 billion (2H 2024: RM3.6 billion) (Chart 2.21). This was driven mainly by sustained investment income. During this period, insurers and takaful operators (ITOs) in the life and family segment were impacted by weaker equity investment performance amid uncertainty surrounding US tariffs. However, higher net unrealised gains from bond investment portfolio helped offset the subdued equity market returns, amidst a decline in bond yields.

Life and family ITOs recorded lower underwriting losses during this period. This reflected the seasonally lower policy maturities and vested benefit payouts, which are typically observed in the first half of the year. The improved underwriting performance was also supported by seasonal renewals from group policies.

Chart 2.21: Life Insurance and Family Takaful Fund – Composition of Income and Outgo



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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.

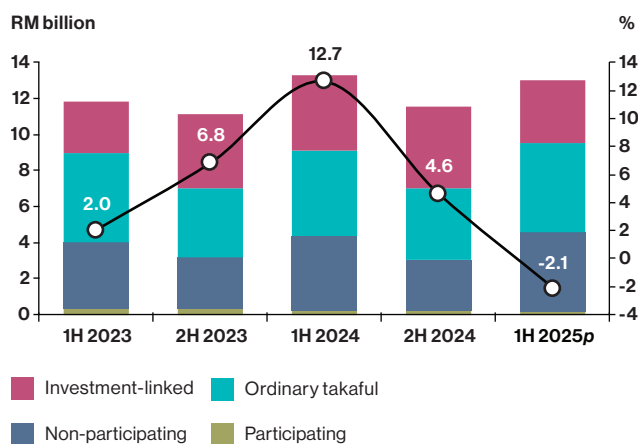
Source: Bank Negara Malaysia

⁹ 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.

Growth in new business premium¹⁰ declined in the first half of 2025 (-2.1%; 1H 2024: 12.7%; 1H 2023: 2%) (Chart 2.22). This was primarily attributed to slower growth in new business premium for investment-linked (IL) products. Customers reduced their top-ups due to weaker appetite for investments amid uncertainties in the financial markets. Additionally, sales of IL products declined broadly due to increased competition for the bancassurance channel from other bank-distributed investment products. The agency channel was also affected by prevailing sentiment surrounding life and medical insurance products. Nonetheless, growth in the overall new business premium remained supported by steady seasonal contributions from the ordinary family takaful and non-participating life insurance segments.

To preserve medical and health protection amid high medical inflation, ITOs have implemented premium adjustments under the interim repricing measures introduced in December 2024.¹¹ Nevertheless, achieving a sustainable healthcare financing would require broader structural reforms and collective effort from all stakeholders. To this end, BNM, in collaboration with the Ministry of Health, the Ministry of Finance and key stakeholders from the healthcare industry, has introduced the RESET health financing initiative. RESET focuses on revamping healthcare insurance/ takaful, improving price transparency, strengthening

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



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Source: Bank Negara Malaysia

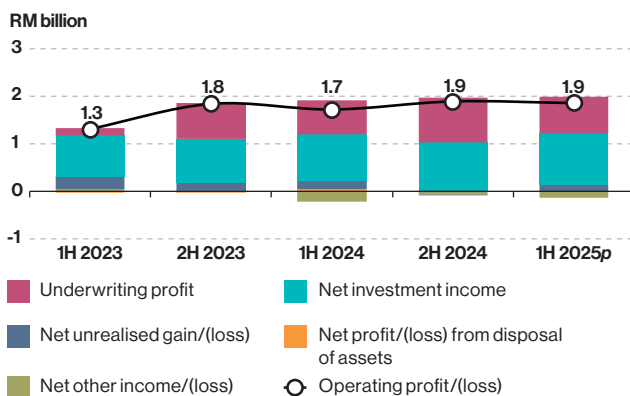
¹⁰ Refers to both insurance premium and takaful contribution, unless stated otherwise.

¹¹ Refer to the section on 'Securing Sustainable Access to Medical and Health Insurance/ Takaful Protection' in BNM's Annual Report 2024 for more details.

the digital healthcare system, and enhancing cost and payment efficiency. Key priorities under RESET include developing a base Medical and Health Insurance/ Takaful product, implementing the Diagnosis-Related Group payment mechanism, and establishing consistent measures of medical inflation. These reforms aim to ensure affordable and sustainable access to healthcare protection for all Malaysians.

In the general insurance and takaful sector, operating profits were broadly sustained at RM1.9 billion (2H 2024: RM1.9 billion; 1H 2024: RM1.7 billion) (Chart 2.23). This performance was supported by higher net unrealised gains from bond investment, offsetting the lower underwriting income recorded in the same period. The slight dip in underwriting profits was driven by higher provisions for claims and premium liabilities. These provisions were attributed to premium growth particularly in the fire segment (Chart 2.24), seasonal policy renewals and claims volume reported during the festive seasons. As the phased liberalisation of motor and fire tariff progresses,¹² general ITOs are focused on fulfilling their commitments under Phase 2A applications before transitioning to Phase 2B. The commitments under Phase 2A include the substantial implementation of digital roadside assistance to improve customers' motor claims experience and outcome. Amid this transition, the net claims incurred ratio¹³ for the fire and motor segment remained stable at 36.5% and 70.3% respectively.

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

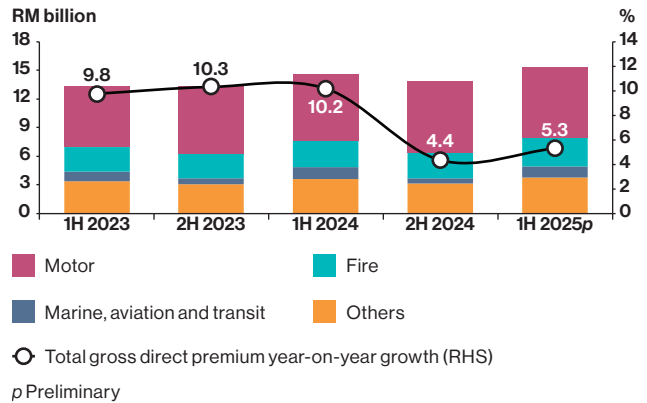


ρ Preliminary
Source: Bank Negara Malaysia

¹² ITOs that commit to reforms to improve the motor claims ecosystem will gradually be accorded greater pricing flexibility for motor and fire insurance/takaful products in two phases – Phase 2A, followed by Phase 2B – each allowing progressive adjustments to premium/takaful contribution limits.

¹³ Net claims incurred ratio refers to the ratio of net claims incurred to earned premium income.

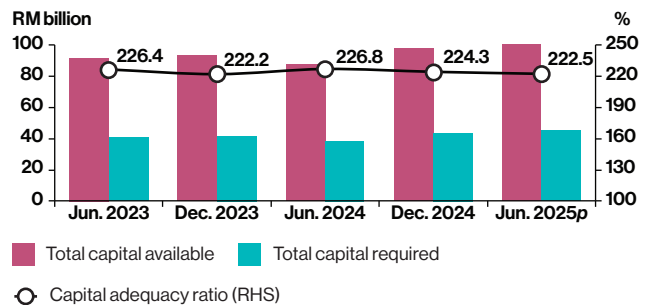
Chart 2.24: General Insurance and Takaful Sector – Gross Direct Premium Growth and Product Composition



Source: Bank Negara Malaysia

The insurance and takaful sector remained resilient, supported by strong capital and liquidity positions. The aggregate capital adequacy ratio for the industry remained healthy at 223% (December 2024: 224%), well above the regulatory minimum of 130% (Chart 2.25). Accordingly, aggregate capital buffers in excess of regulatory requirements remained ample at RM42 billion (December 2024: RM41 billion).

Chart 2.25: Insurance and Takaful Sector – Capital Adequacy Ratio



ρ Preliminary
Source: Bank Negara Malaysia

Looking ahead, global economic and policy uncertainties and the consequent volatile financial market conditions continue to pose a key downside risk to the performance of ITOs, given their sizeable investment holdings in bonds and equities. Domestically, securing new growth may prove challenging due to dampened demand amid cost-of-living pressures. ITOs need to carefully balance evolving customer needs with sustainable expansion, particularly for medical products. While the medicine price transparency rules, effective May 2025, are likely to partially ease medical cost pressures, costs are expected



Financial Institution Soundness and Resilience

to remain elevated in the near term due to high reliance on imported drugs and equipment. Claims costs could potentially face upward price pressure amid the uncertain effect of tariffs on trade and price of goods. Any resulting impact is likely to be more pronounced in business lines that are more exposed to cost of materials, such as the motor,

fire, engineering and medical business. Additionally, the rising frequency of severe climate events poses increasing physical and liability risks, which could translate into higher financial risks for ITOs. Amid these potential headwinds, ITOs are well-positioned to withstand adverse impact with sufficient capital buffers above the regulatory minimum.¹⁴

¹⁴ Refer to the section on 'Assessing the Resilience of Financial Institutions' in BNM's Financial Stability Review for Second Half 2024.

Progress in Strengthening Senior Management Accountability through Responsibility Mapping

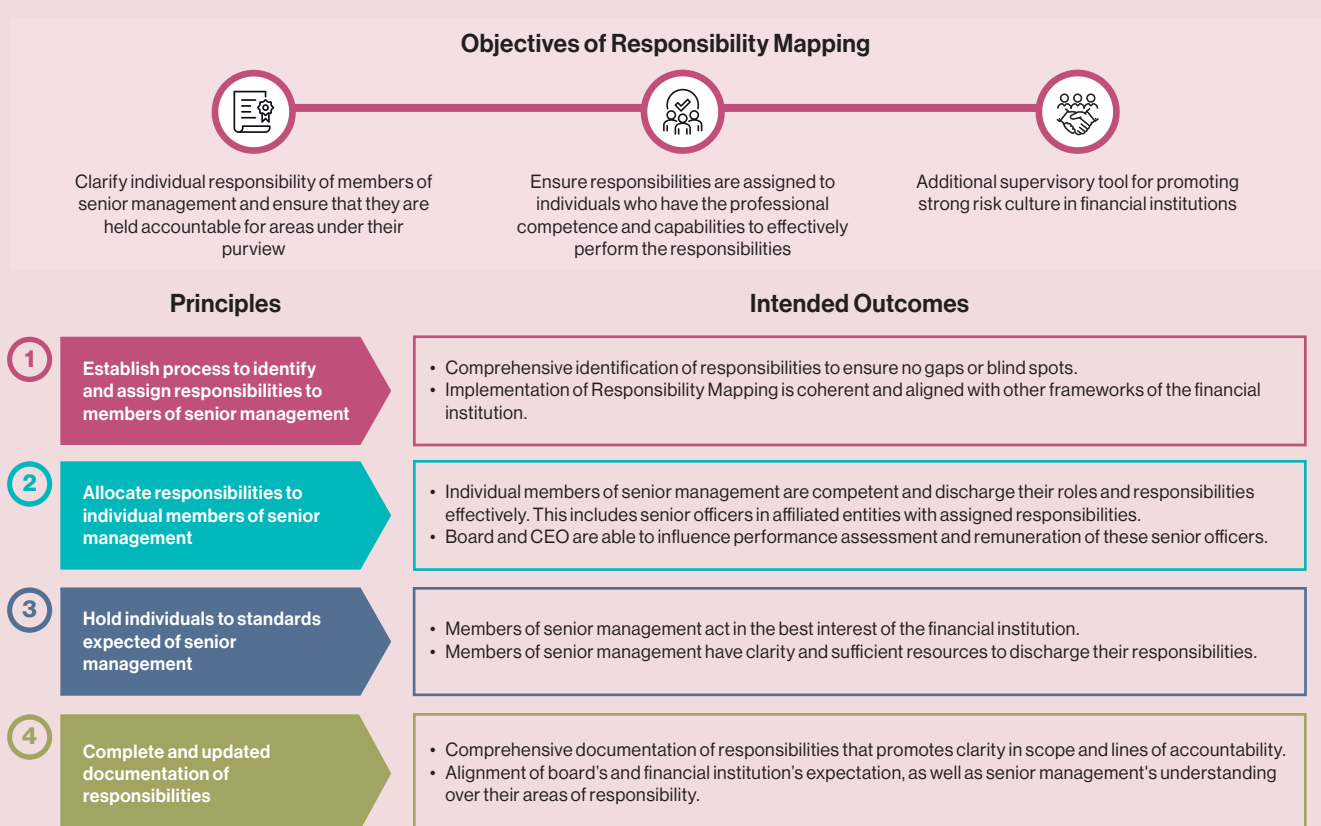
A culture of accountability is critical in financial institutions given the role they play in the economy. Accountability helps ensure that individuals entrusted with the management of financial institutions make decisions that serve the best interest of their institution, shareholders and customers, while supporting long-term sustainable economic growth.

Regulators often face difficulties in identifying and taking enforcement actions against individuals accountable for failures during financial crises or in episodes of misconduct and scandals.¹ This is mainly due to job descriptions often outlining responsibilities in broad and generic terms, rather than clearly specifying the individual who is accountable for the decisions and outcomes. This challenge is further complicated by collective decision-making through committees and processes that cut across the financial institution. Thus, policies that aim to clearly assign critical decision areas to specific members of senior management are crucial in ensuring specific persons are identified and held accountable. These policies promote a strong sense of individual accountability among senior management of financial institutions.

On 29 December 2023, Bank Negara Malaysia (BNM) issued the Responsibility Mapping policy document, outlining an accountability framework for members of senior management of financial institutions in Malaysia. This policy is set to take effect on 1 January 2026.

The policy document provides high-level principles for financial institutions to ensure clarity in the roles and responsibilities of senior management. This is particularly important in areas involving shared responsibilities, matrix reporting structures, collective decision-making forums and intricate reporting structures within financial groups, where reporting lines and individual accountability can be ambiguous. An overview of the policy document is illustrated in Diagram 1.

Diagram 1: Responsibility Mapping Policy Document Objectives, Principles and Intended Outcomes



Source: Bank Negara Malaysia

¹ Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors. (2018). Financial Stability Board.

Financial institutions are making meaningful implementation progress

BNM engaged several financial institutions (including banks, insurers and takaful operators) on their progress in implementing Responsibility Mapping. These engagements focused on arrangements to support implementation of the Responsibility Mapping policy document, approaches to identify and assign responsibilities to members of senior management and challenges in documenting responsibilities.

Most financial institutions designate either the Chief Compliance Officer or Chief Human Resource Officer to lead the implementation of the Responsibility Mapping policy document. The designated lead works alongside a cross-functional team that includes representatives from human resource, compliance and risk management. This structure is essential to ensure that the accountability framework not only meets regulatory requirements but also aligns with the financial institutions' performance and incentive frameworks.

Overall, financial institutions are making steady progress in the identification and allocation of responsibilities to members of senior management. Most institutions began this process with a structured, bottom-up approach that involves identifying gaps in their existing governance framework and arrangements. These gaps were identified by reviewing existing organisation structure, reporting lines, job descriptions, committee terms of references, accountability matrices, and ensuring alignment with regulatory requirements. Several institutions complemented this with a top-down approach by analysing alignment between board expectations and senior management's actual span of control and influence.

Financial institutions acknowledged that the Responsibility Mapping exercise was useful in identifying blind spots, overlaps and ambiguities in responsibilities across their organisations. BNM observed that these issues varied depending on the institution's size, scale, risk profile and complexity.

In larger and more complex institutions, governance structures often involve multi-layered arrangements and matrix reporting that are designed to help maintain oversight and control, manage risks and meet regulatory requirements across their vast operations. Business functions are further segmentised into functional units or lines due to the sheer scope of responsibilities. Efforts of these institutions were often dedicated to understanding and capturing the interactions and dynamics between senior management and their direct reports. Tools such as the RACI² framework are commonly employed by financial institutions to clarify roles, distinguishing those responsible for task execution, those accountable for decision-making, those offering functional advice, and those who need to be kept informed regarding specific responsibilities.

In smaller institutions, where members of senior management may take on multiple roles,³ the gaps assessment often focuses on the responsibilities of individual senior management to ensure they can discharge their duties effectively, avoid conflicts of interests and maintain sufficient oversight. Where necessary, some responsibilities are reassigned to other members of senior management.

Some financial institutions leverage the talent and expertise of their affiliated entities, especially when in-house capabilities are limited. However, such reliance can pose challenges in ensuring adequate oversight and accountability for decisions and actions taken by affiliate employees. The Responsibility Mapping exercise enabled these institutions to review and strengthen their governance arrangements.

A common challenge across all financial institutions was finding the appropriate level of granularity when documenting responsibilities. This becomes more acute in governance arrangements involving collective decision-making forums, shared roles or responsibilities and matrix reporting within financial groups. Financial institutions should periodically review and test the accuracy, comprehensiveness and granularity of their documented responsibilities. This process may involve analysing past incidents or simulating hypothetical scenarios to trace lapses or issues back to individuals within senior management. Such exercises allow financial institutions to uncover accountability gaps and blind spots

² Responsible, Accountable, Consulted, Informed.

³ For example, roles in areas such as operations and information technology, and risk management and compliance.

within their organisation – typically occurring at role handover points or where responsibilities span multiple business functions – and across affiliated entities. This reflection enables institutions to evaluate their governance arrangements and make necessary changes to reporting lines to resolve identified gaps.

Despite these challenges, financial institutions reported that members of senior management have responded positively to the framework. This is in recognition of its role in clarifying lines of accountability when issues arise and in closing expectation gaps between the board and senior management. The Responsibility Mapping exercise also provided a more structured opportunity for senior management to highlight obstacles affecting their ability to discharge responsibilities and identify the support needed from the board to address those challenges.

Responsibility Mapping is not merely a compliance exercise

Responsibility Mapping should not be a one-off compliance exercise; it serves as an important governance tool that strengthens financial institutions' risk management and long-term resilience. Therefore, it is important for financial institutions to take active steps to critically evaluate the effectiveness of their existing governance frameworks. Designed to be an iterative exercise, BNM expects financial institutions to continuously enhance and strengthen their accountability culture and governance practices, which in turn elevates senior management to a higher standard of professional conduct.

When implemented effectively, Responsibility Mapping delivers a myriad of benefits across multiple stakeholders. At the leadership level, it provides the board with greater visibility into the roles and accountabilities of senior management, enabling more effective oversight and performance evaluation. For senior management, it reinforces better accountability culture through the consistent application of reasonable steps, ensuring responsibilities are actively managed, emerging risks are promptly addressed, delegated responsibilities are supervised with appropriate controls, and decisions are well-documented. BNM believes Responsibility Mapping will help financial institutions enhance public trust and consumer confidence in their commitment to a strong governance and accountability culture.