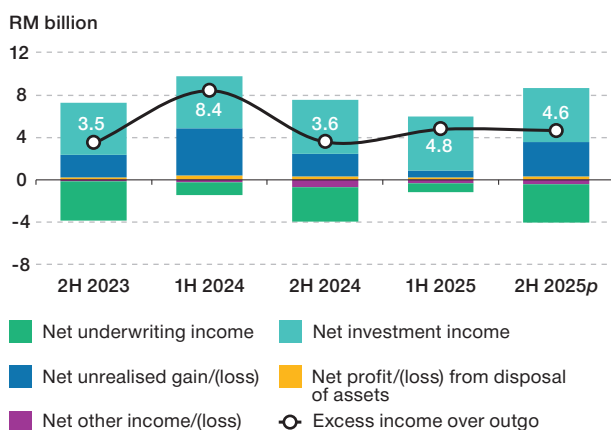


THE INSURANCE AND TAKAFUL SECTOR

Overall profitability of insurance and takaful funds declined driven by weaker underwriting activity, despite better equity investment performance

The overall profitability of life insurance and family takaful funds, as measured by excess income over outgo (EIOO),⁷ declined slightly to RM4.6 billion in the second half of 2025 (1H 2025: RM4.8 billion) (Chart 2.20). Higher net unrealised gains from the recovery in the equity market were more than offset by a sharper increase in net underwriting losses, which rose to RM3.6 billion (1H 2025: RM0.9 billion; 2H 2024: RM3.2 billion). The increase in net underwriting losses was partly driven by seasonal factors such as lower premiums from the renewal of group policies, which typically occur in the first half of the year. Additionally, premium income continued to be affected by the interim measures implemented by the insurance and takaful industry to assist individuals who experienced premium revisions of their medical and health insurance/takaful (MHIT) policies/

Chart 2.20: Life Insurance and Family Takaful Fund – Composition of Income and Outgo



^p Preliminary

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.

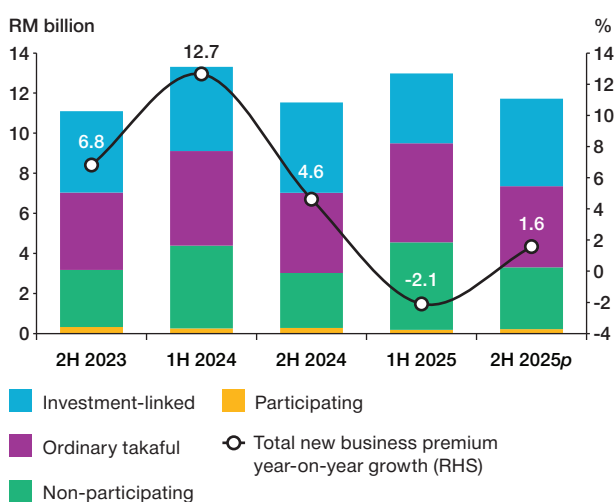
Source: Bank Negara Malaysia

certificates.⁸ The net underwriting losses were further compounded by higher medical payouts amounting to RM6.5 billion (1H 2025: RM5.7 billion; 2H 2024: RM6.2 billion) due to a rise in hospital admissions. Compared to the earlier half of 2025, hospital admissions rose across both individual and group medical policies following a spike in respiratory diseases such as influenza. A higher incidence of serious medical conditions and surgical procedures also contributed to the overall increase in medical utilisation.

New business premium⁹ in the second half of 2025 grew by 1.6% year-on-year (2H 2024: 4.6%; 2H 2023: 6.8%) (Chart 2.21). This was attributed to slower growth in new business premium for investment-linked (IL) products. Sales of IL products with MHIT riders continued to be weighed down by adverse sentiments surrounding it. Interest in IL products also declined, reflecting weaker appetite for investments amid financial market uncertainties and competition from alternative savings products. Notwithstanding these pressures, overall new business premium remained supported by steady contributions from the non-participating life insurance and ordinary family takaful segments.

As part of the ongoing RESET Strategy to address medical inflation and strengthen Malaysia's healthcare system, BNM, in collaboration with

Chart 2.21: Life Insurance and Family Takaful Sector – New Business Premium Growth and Product Composition



^p Preliminary

Source: Bank Negara Malaysia

⁷ 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.

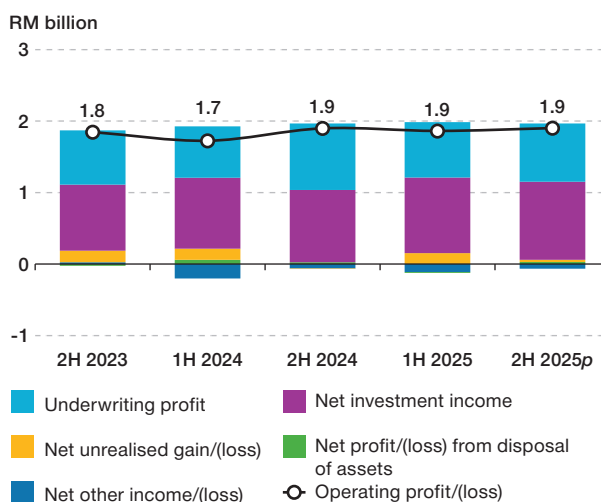
⁸ One such measure is the spreading of premium adjustments over a minimum period of three years for repricing exercises undertaken between 2024 and 2026.

⁹ Refers to both insurance premium and takaful contribution, unless stated otherwise.

the Ministry of Finance, the Ministry of Health and other key stakeholders, issued a White Paper on Base MHIT Plan in January 2026.¹⁰ The White Paper sets out the design of a standardised and voluntary medical protection plan, aimed at improving the affordability, transparency and long-term sustainability of private medical insurance and takaful coverage in Malaysia. Implementation is expected to commence with a pilot phase in the second half of 2026, with full market rollout targeted for early 2027. Further details on the RESET Strategy and Base MHIT Plan can be found in the section on ‘Catalysing Structural Reforms for Medical and Health Insurance/ Takaful’ in BNM’s Annual Report 2025.

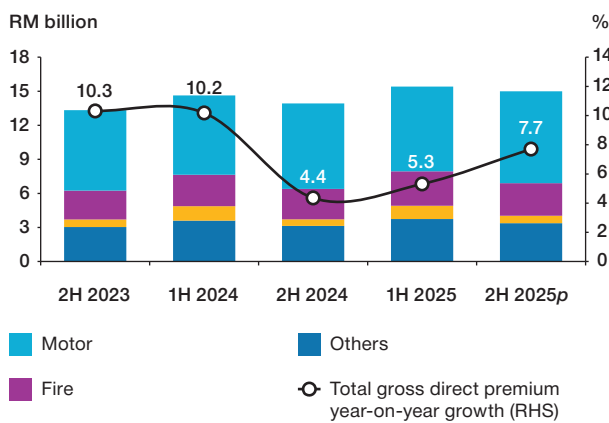
Operating profits of insurers and takaful operators (ITOs) in the general insurance and takaful sector remained stable at RM1.9 billion in the second half of 2025 (1H 2025: RM1.9 billion; 2H 2024: RM1.9 billion) (Chart 2.22). Despite softer bond investment performance, overall profitability was sustained by steady net underwriting income. The marginal increase in underwriting profits was primarily driven by the release of claims reserves, supported by higher third-party bodily injury claims settlements by general ITOs. The industry also recorded growth in motor premiums on the back of higher vehicle sales during the second half of the year (Chart 2.23), partly supported by front-loaded demand for completely built-up electric vehicles ahead of the tax holiday expiry in December 2025. General ITOs continued to demonstrate strong commitment in delivering their obligations under the digital roadside assistance initiative as BNM begins accepting applications for Phase 2B¹¹ of the phased liberalisation of motor and fire tariff.¹² This enhancement aims to further improve the motor claims experience and outcomes for consumers over time. Despite the ongoing shift, the motor segment’s net claims incurred ratio¹³ remained stable in the second half of 2025 at 68% (1H 2025: 70.3%; 2H 2024: 69%).

Chart 2.22: General Insurance and Takaful Fund – Composition of Operating Profits



p Preliminary
Source: Bank Negara Malaysia

Chart 2.23: General Insurance and Takaful Sector – Gross Direct Premium Growth and Product Composition



p Preliminary
Source: Bank Negara Malaysia

¹⁰ Refer to the ‘White Paper on Base MHIT Plan’ for more details.

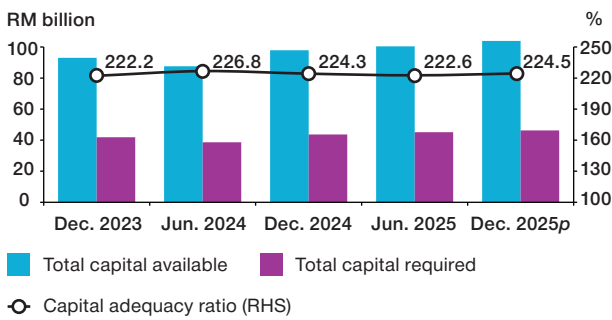
¹¹ ITOs that commit to reforms to improve the motor claims ecosystem will gradually be accorded greater pricing flexibility for motor and fire insurance/takaful products in two phases – Phase 2A, followed by Phase 2B – each allowing progressive adjustments to premium/takaful contribution limits.

¹² Refer to the section on ‘Advancing Reforms in Motor Insurance and Takaful Ecosystem’ in BNM’s Annual Report 2025 for more details.

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

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 225% in the second half of 2025 (June 2025: 223%), well above the regulatory minimum of 130% (Chart 2.24). Accordingly, aggregate capital buffers in excess of regulatory requirements also remained sound at RM43.8 billion (June 2025: RM41.8 billion).

Chart 2.24: Insurance and Takaful Sector – Capital Adequacy Ratio



p Preliminary

Source: Bank Negara Malaysia

Looking ahead, the investment performance of ITOs will remain sensitive to financial market conditions amid global economic and policy uncertainties, including those arising from the recent conflict in the Middle East. The conflict could also trigger supply chain disruptions, which may weaken ITOs’ underwriting performance by elevating claims costs. While the

expansion of data centre infrastructure is driving higher insurance coverage needs, this growth is unfolding against a backdrop of increasing climate risks. More frequent and unpredictable climate events could heighten claims volatility and necessitate more robust risk management and underwriting practices. Meanwhile, growth in new business premium is likely to be affected by ongoing public concerns surrounding MHIT products. Against these pressures, ITOs are actively engaging the RESET Strategy to place MHIT on a more sustainable footing and are developing new product offerings targeted at niche market segments. Notwithstanding these headwinds, ITOs are expected to remain resilient, with capital buffers comfortably above regulatory requirements.¹⁴

Beginning in 2026, BNM will implement the Malaysian Financial Reporting Standard (MFRS) 17 within its regulatory reporting framework. Insights derived from the standard will be progressively incorporated into the prudential assessments for ITOs. This transition is expected to strengthen alignment with prevailing accounting standards while strengthening the supervisory framework in support of BNM’s broader financial stability mandate. Throughout the implementation period, BNM will continue to engage closely with industry participants and other key stakeholders to ensure the smooth and effective incorporation of new complementary information and indicators into its supervisory review.

¹⁴ Refer to the section on ‘Assessing the Resilience of Financial Institutions’ for more details.