

Malaysia: Interim measures on medical and health insurance/Takaful (MHIT) products

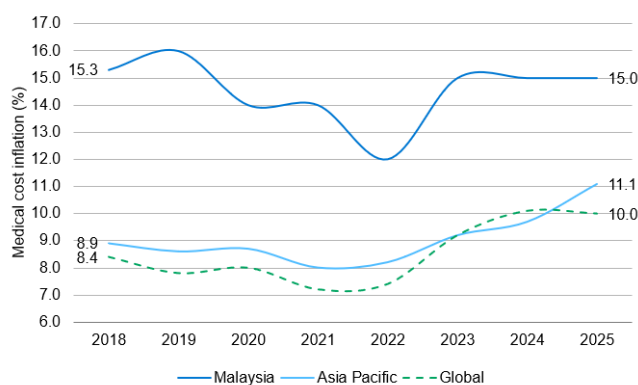
On 20 December 2024, Bank Negara Malaysia (BNM) issued interim measures on MHIT business to assist policyholders who may be experiencing premium revisions of their MHIT products.

This e-Alert summarises recent background to medical inflation in Malaysia and the interim measures introduced by BNM, and comments on the implications to Malaysian insurance companies and Takaful operators (ITOs), with a focus on life insurers and family Takaful operators.

Background

Between 2013 and 2018, a study¹ commissioned by the Malaysian insurance and Takaful industry found that, in Malaysia, medical claims inflation (defined as the change in the average cost of hospitalisation coverage) climbed at an average pace of 8% to 9% annually. The study identified five key drivers contributing to high medical inflation: advances in medical treatment, imported equipment and medicine, a high prevalence of noncommunicable diseases (NCDs), an ageing population and increasing benefits and policy design.

FIGURE 1: MEDICAL COST INFLATION %



Source: Global Medical Trend Rates Report, Aon

- CodeBlue (17 June 2022). Study Reveals 8% To 9% Annual Medical Inflation In Malaysia. Retrieved 25 February 2025 from <https://codeblue.galencentre.org/2022/06/study-reveals-8-to-9-annual-medical-inflation-in-malaysia/>.
- The Star (7 January 2025). Tackling Malaysia's medical inflation requires urgent, holistic action. Retrieved 25 February 2025 from <https://www.thestar.com.my/starpics/2025/01/07/tackling-malaysias-medical-inflation-requires-urgent-holistic-action>.

Subsequently, as shown in Figure 1, medical cost inflation in Malaysia has nearly doubled to 15% per annum (p.a.) in 2024, which is significantly higher than the global and Asia Pacific averages of 10% p.a.²

Historically, ITOs in Malaysia (particularly life insurers and family Takaful operators) have not always repriced MHIT products in line with medical inflation, due to several factors, including competitive pressures. Common market practice has emerged for ITOs to conduct repricing every two to three years, with infrequent large price increases potentially driving selective lapsing of policyholders with lower claims, as compared to smaller frequent price increases. It is also noted that during the COVID-19 years, ITOs deferred planned repricing exercises that were due for MHIT plans, as part of relief measures provided in consultation with BNM³. As a result of the infrequent and insufficient repricing, combined with selective lapses, ITOs have been faced with increasing claims ratios, especially during the post-COVID-19 years, with companies now experiencing losses on certain blocks of MHIT business.

In response to increasing medical claims inflation, many ITOs resorted to implementing repricing of MHIT business in 2024, with media reporting premium or contribution increases of up to 40% to 70%.⁴ The large premium increase likely reflects the market practice of non-annual repricing where this most recent pricing cycle has captured several recent years of high medical inflation. Many policyholders will have been affected by the premium increases, which led to complaints being raised in the media as well as to public representatives. The issue of the significant impact relating to (higher) medical repricing gained traction in late 2024, when the topic was escalated to Parliament, led by the Parliament Special Select Committee (Jawatankuasa Pilihan Khas, or JKPK) on Health.

- BNM Annual Report 2020 (31 March 2021). Insurance and takaful – COVID-19 relief measures. Retrieved 25 February 2025 from https://www.bnm.gov.my/documents/20124/3026128/ar2020_en_ch1b_finstability.pdf
- New Straits Times (25 November 2024). "Burdensome": Medical insurance premiums to rise 40-70pct next year [WATCH]. Retrieved 25 February 2025 from <https://www.nst.com.my/news/nation/2024/11/1139676/burdensome-medical-insurance-premiums-rise-40-70pct%C2%A0next-year-watch>.

As a result of these discussions, which involved the Health JKKP, the Malaysian Ministry of Finance, BNM and insurance industry associations, a number of initiatives have been put in place by various government agencies, including the Malaysian Ministry of Health and BNM to manage medical cost inflation in Malaysia. They include plans to introduce medical cost controls for private hospitals through the implementation of a diagnosis-related group (DRG) payment model, as well as the publication of costs of common medical procedures, to provide greater transparency of medical costs.

Introduction of interim measures

Amid public backlash on the substantial hike in medical and health insurance premiums, BNM announced interim measures on 20 December 2024 aimed at providing temporary support and alleviating the immediate financial impact to policyholders.

The interim measures are:

- For any repricing performed up to the end of 2026, ITOs must spread out any increase in premiums over a minimum period of three years, such that at least 80% of policyholders are expected to experience yearly premium adjustments due to medical claims inflation of less than 10%.
- For policyholders aged 60 years old and above who are covered under the minimum plan within the MHIT product that they purchased, ITOs will temporarily pause premium adjustments due to medical claims inflation for one year from their policy anniversary.
- Policyholders who have surrendered or whose MHIT policies have lapsed in 2024 due to the repricing can reach out to their ITOs to request a reinstatement of their policies based on the adjusted premium under this measure without additional underwriting requirements.
- All ITOs will provide appropriate alternative MHIT products at the same or for lower premiums for policyholders who do not wish to continue their existing MHIT plans that have been repriced. ITOs that do not currently offer appropriate alternative products must make these products available to policyholders by the end of 2025. Switching to the alternative MHIT products will not require any additional underwriting or involve any switching cost.

The first two interim measures are not applicable to premium increases that may apply when a policyholder moves to a higher age band.

ITOs are expected to release communications on these measures to individual policyholders on a gradual basis.

Implications to insurers

The interim measures are expected to affect insurers in a number of ways, especially given the short implementation period. Potential implications include:

- **Impact to profit and loss (P&L):** The immediate impact to P&L arises where ITOs are unable to fully implement planned repricing in light of the interim measures, thereby resulting in lower profits or higher losses than expected.
- **Reserving implications:** ITOs would need to consider reflecting the impact of lower-than-planned repricing in their projected cash flows, particularly for MHIT products that have long-term contract boundaries, as the new regulations will likely result in an increase in reserves. This would likely have a secondary impact on the P&L, which may be significant under the statutory reserving basis, or on the release of contractual service margin (CSM) under the IFRS 17 basis.
- **Impact on solvency:** Changes in P&L and reserves would give rise to a decline in the solvency positions of ITOs, affecting both capital available (due to lower retained earnings, for example) and required capital.
- **Impact on deposit insurance levy applied by the Malaysia Deposit Insurance Corporation (Perbadanan Insurans Deposit Malaysia, or PIDM):** As the changes above may result in a deterioration of solvency ratio, one consequence may be changes in the levy category and hence levy rate under the Differential Levy System (DLS) applied on ITOs by PIDM. With lower solvency ratios, a higher levy rate would further negatively impact the profitability of ITOs.
- **Operational impacts:** ITOs would also need to put in place operational arrangements to meet the interim measures, for example the reinstatement of policies and certificates which have lapsed in 2024 due to repricing, as well as allocating resources to address customer enquiries and requests.
- **Impact on business strategy:** In the medium term, ITOs will need to consider how their repricing and product development decisions will change in view of the interim measures, for example the need to develop alternative products for policyholders who do not wish to continue with existing MHIT policies that have been repriced. ITOs will also need to consider revamping MHIT product designs to make them more sustainable. Offering alternative medical products during the repricing exercise, a common market practice, also presents operational challenges, as ITOs must manage and monitor multiple cohorts of business simultaneously. More fundamentally, ITOs may want to revisit their appetite for involvement in the MHIT space and some of the related implications of

continuing to offer MHIT products, especially around product design, profitability and capital. For ITOs with MHIT products with long-term contract boundaries, closing their medical books to new business may introduce additional challenges. Over time, the claims ratio is likely to increase due to the combined effects of medical inflation and an ageing policyholder base.

Conclusion and next steps

The interim measures aim to provide temporary support to policyholders in light of the persistent high medical inflation environment which has necessitated the need for ITOs to reprice MHIT plans.

Medical cost inflation is a complex issue affecting not just Malaysia, but other countries in South East Asia. All stakeholders, including BNM, the Ministry of Finance (MOF), the Ministry of Health (MOH), private hospitals and ITOs have announced their commitment to work out a long-term sustainable solution to this complex issue. The Governor of BNM acknowledged that it is essential to “address the root causes of rising medical and health insurance and Takaful premiums which are driven by higher medical costs and utilisation of medical services.”⁵ As part of a medical cost containment effort, BNM reported plans for greater transparency in the price of drugs, advancement of

digitalisation to enable sharing of electronic medical records that would reduce the need for repeated tests for patients and pooled strategic purchasing between both public and private healthcare providers to reduce supply-side input costs. BNM has also stated that “progress on these measures will be monitored to ensure the intended outcomes of reducing medical cost inflation are achieved.”⁶

However, given the complexity of this issue and the uncertainty around when such cost controls will be put in place and whether they will be effective in controlling medical costs, ITOs will need to consider the impact of the interim measures in the short to medium term, and adapt business strategies accordingly.

Our consultants have extensive expertise in helping insurers and Takaful operators in managing their MHIT business, covering the entire value chain (i.e., underwriting, claims, pricing, provider management, products etc.), drawing on our experience in other markets across the region and globally. This experience includes product design and benchmarking, pricing analysis and monitoring and troubleshooting in-force blocks of MHIT business.

For further information, please contact your usual Milliman consultant or those listed below.

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5. BNM (20 December 2024). Interim measures to assist policyholders and to promote continued access to suitable medical and health insurance/Takaful products. Retrieved 25 February 2025 from <https://www.bnm.gov.my/web/guest/-/mhit-pr>.

6 Ibid.