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Life insurance business a profitable industry

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LIFE insurance is an important method of protection. Malaysia has various insurance companies and takaful operators. This article focuses on life insurance companies in Malaysia.

Data from Bank Negara Malaysia's website shows that the life insurance business in Malaysia is mostly owned by foreign entities. There are only four locally-owned entities, namely, Etiqa Life Insurance Berhad, Hong Leong Assurance Berhad, Axxa Affin Life Insurance Berhad and Sunlife Malaysia Assurance Berhad.

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Various incentives have been given by the government, especially in terms of taxation, to ensure the life

Life insurance companies, is also not taxable. Apart from that, the government also gives relief to life policy buyers, up to a maximum of RM3,000. This shows the importance of life insurance to the people and country.

Since 2018, Bank Negara Malaysia requires all insurance companies and takaful operators in Malaysia to distinguish and keep their life insurance business and general insurance separate. In essence, this is to enable insurance companies to focus more on the products sold.

It is intriguing to note that data gathered from audited financial statements of life insurance companies for the period between 2018 and 2020, resulted in total gross income of RM29 billion in 2018, of which RM25 billion was from foreign-owned companies, and RM4 billion from locally-owned companies.

For 2019, the gross income from life insurance companies showed a sharp increase of RM44 billion, of which RM35 billion was contributions from foreign-owned companies, and RM8 billion from locally-owned life insurance companies.

Whereas for 2020, there was a slight decrease in gross income amounting to RM42 billion, of which RM8 billion was from locally-owned companies, and the rest from foreign-owned companies. The plausible

explanation for the reduction in 2020 may be due to the Covid-19 pandemic that hit Malaysia towards the end of 2019, where it had a huge impact on the country and across the globe.

From the total gross income reported, the largest contribution to life insurance companies was from the sale of policies or premiums. A total of RM29 billion was received for 2018 and 2019, while there was an increase for 2020 of RM31 billion. This shows that Malaysians have a growing awareness on the importance of life insurance. Although the overall gross income reported a slight decline in 2020, policy sales continued to show an increase.

Comparing the percentage of policy sales for foreign-owned and locally-owned life insurance companies, the percentage of sales for foreign-owned companies showed a downward trend, from 86% in 2018 to 81% in 2020, while locally-owned companies reflected an increase in policy sales, with 14% for 2018 and 19% for 2020. The possible increase may be due to the type of products offered, promotions and advertising.

From the total number of policies sold or risks to be borne, life insurance companies have reinsured some of the risks to reinsurance companies. Only 4% of reinsurance policies have been purchased by life insurance companies. This indicates that life insurance companies, whether foreign owned or locally owned, have a high ability to pay claims in the event of an insured risk.

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The insurance industry in Malaysia is constantly changing and growing. This poses a challenge to all insurance companies, including life insurance companies. Among the challenges that they will face is the introduction of the Malaysian Financial Reporting Standards (MFRS) 17 to replace MFRS 4, which will come into effect in 2023.

All parties, especially insurance companies and enforcers, mainly Bank Negara Malaysia and Inland Revenue Board (IRB) need to play their respective roles more efficiently and effectively to ensure MFRS 17 is in line with existing laws and provisions.

The government, through the IRB, will cooperate with insurance industry players in terms of understanding and assessment of tax laws. As this industry has yet to contribute more to the general economy of this nation through direct tax, it is hoped that locally-owned and foreign-owned companies will work together to offer more innovative advertising methods as well as competitive products that will lead to increase in sales, which in return will benefit everyone.

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Note: Data in this article is taken from publicly available information.

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