Malaysia Medical Claims Inflation Report 2025

Background

The term Medical Claims inflation is used to explain increase in medical claims year over year. It is the key metric for insurance and takaful operators in reviewing and adjusting premium rates.

Medical Claims inflation takes into account:

- **Inflation:** The general rise in the costs of services, supplies and pharmaceuticals.
- **Utilization:** Changes in how much health care services are used, which can be influenced by factors like **an aging population and a greater prevalence on chronic conditions.**
- **Treatment Mix:** The increasing use of more expensive treatments and new technologies.
- **Other Pressures:** Imported goods, staff shortages and increased reliance on private plans due to pressures on the public system.

Other Drivers of claims inflation include:

- **Medical & Health Insurance/Takaful (MHIT) plan design.** The majority of plans prior to 2024 were designed to cover the entire hospital bill without any out-of-pocket costs from the patient/insured. This caused many insureds to lose interest in the bill and services consumed. Recent co-payment provisions are expected to help address this problem where the insured patient pays a meaningful but small portion of the hospital bill. This is expected to cause the insured patient to question the bill when called for.
- **Lack of Transparency.** It's very difficult for insureds to compare prices of hospital services as the information is difficult to get. Starting 2026, There will be a publication of the average costs of common procedures in private hospitals across states in Malaysia. This will provide a benchmark for consumers to understand potential costs when choosing a hospital.
- **Waste, Fraud and Abuse.** There has been evidence of waste, fraud and abuse across the ecosystem. In 2025 the insurance industry, under direction from Bank Negara, has established a database of all claims in Malaysia. With analytics, this will help identify and reduce waste, fraud and abuse.
- **Anti-Selection.** This occurs when an insurance applicant fails to disclose material pre-existing conditions when taking out new cover. These situations can often go undetected and contribute to higher claims and the resulting higher premiums when claims are made for conditions that may not have been insurable had they been disclosed.

Claims inflation and the impact on medical insurance (MHIT) premiums

Medical Insurance premiums are derived from claims, expenses, distribution costs and profit. The overwhelmingly largest component is medical claims. This generally makes up 75% to 80% of the premiums.

When claims costs rise, it puts pressure on the adequacy of the pricing. Particularly when claims, expenses and distribution costs approach or exceed 100% of the premium, an adjustment must be made to keep the medical fund solvent and sustainable. This typically happens every two to three years. So, the premium adjustment that a policyholder may receive not just for one year but for multiple years. This is in addition to the age rated increases that occur as the insured gets older.

Standalone versus Rider coverage. Individual insurance can be purchased as a standalone policy or a rider to a life policy, typically an investment linked policy. The effect of premium adjustments for both types is different.

For standalone it's quite simple, when claims increase the cost of the policy increases until the next review period.

If your coverage is a rider on an investment linked policy it's a little more complicated. Investment Linked or ILP, is a flexible premium policy where a portion of your premiums are allocated to one or more investment funds. The cost of insurance, including MHIT riders, are then deducted every month from the account. When incepting an investment linked policy, an insured must decide on how long the coverage is desired for. This then determines the premium payable. Each year the investment linked policyholder will get a "sustainability statement". Due to the fact that the investment returns are not guaranteed, the period of sustainability can change year to year. The policyholder then can decide to accept the new estimated sustainability period or adjust his/her premiums to meet his objectives for the length of coverage desired.

Another factor that can influence the amount of sustainable premiums is the cost of the MHIT rider. When the cost of the rider goes up, there is less estimated future value to sustain the policy to the originally desired time. The policyholder then has two options, accept that coverage will not be sustainable for the original period or increase the premiums to make up the difference. Theoretically you can overfund your ILP premiums to try and cater for future increases in MHIT costs. However, claims inflation uncertainty as well as investment uncertainty make the premium determination an estimate at best.

Recent Experience

2013 to 2018. Medical claims inflation is not a new phenomenon. Inflation rates have been high for quite some time, although not as high as recent years. The insurance and

takaful industry commissioned a study by Actuarial Partners to look at claims inflation from 2013 to 2018. The average rate of claims inflation during this period was approximately 8% (cost of care, excluding changes in the number of annual claims). This may seem low compared to recent years, yet it still presented a challenge and premiums had risen throughout this time frame.

Experience in 2019 worsened to a claims inflation rate of 13.80%, then Covid-19 hit. During Covid-19, which was mainly 2020 to 2021, insurers and takaful operators were requested to defer any re-pricing action. This created a challenge for insurers who had not had an opportunity to re-price due to the recent inflationary years prior to Covid-19.

COVID-19

From 2020 to 2021 most Malaysians, for obvious reasons, were avoiding going to the hospital unless absolutely necessary, mainly due to the pandemic and strict Movement Control Orders (MCOs). As a result, many elective procedures and routine treatments were deferred due to concern of surgeries safety and shortage of doctors to curb Covid-19, which created a backlog that was only addressed once restrictions eased. Growth in medical claims inflation dropped by 15.98% in 2020 and 0.74% in 2021. This was driven by a drop in hospital visits offset by a sharp rise in claims severity. During this time insurers and takaful operators held premium rates steady.

This temporary dip in healthcare utilization led to lower medical claims during the lockdown period, but the subsequent surge in deferred treatments contributed to the sharp rebound in medical claims inflation observed in the following years.

Post COVID-19

In 2022, the first year following Covid-19, claims inflation rose by an unprecedented 33.30%. This was driven by a steep rise in hospital stays of 38.06%, offset partially by a drop in severity of 3.45%. The drop in severity was likely the result of lower cost of elective procedures versus more serious cases during Covid-19 as well as a drop in the cost of supplies like personal protective equipment (PPE), consumable items and no longer requiring pre admission Covid-19 tests.

Claims inflation grew by another 17.30% in 2023 driven by a 12.4% rise in admissions and a 4.36% rise in the cost of care. Hospitalizations continued to taper off in 2024 with a 8.39% rise versus 2023 and an increase in the cost of care of 2.7%. This resulted in a claims inflation rate of 11.32%. **Medical inflation continued to rise in 2025 at a rate of 12.28%**; once again primarily contributed by hospitalisation growth of 11.22%, with the balance coming from the cost of care.

The overall increase of the cost of care was low for 2025, moderated by an increase in claims from government and teaching hospitals, making up approximately 9% of all

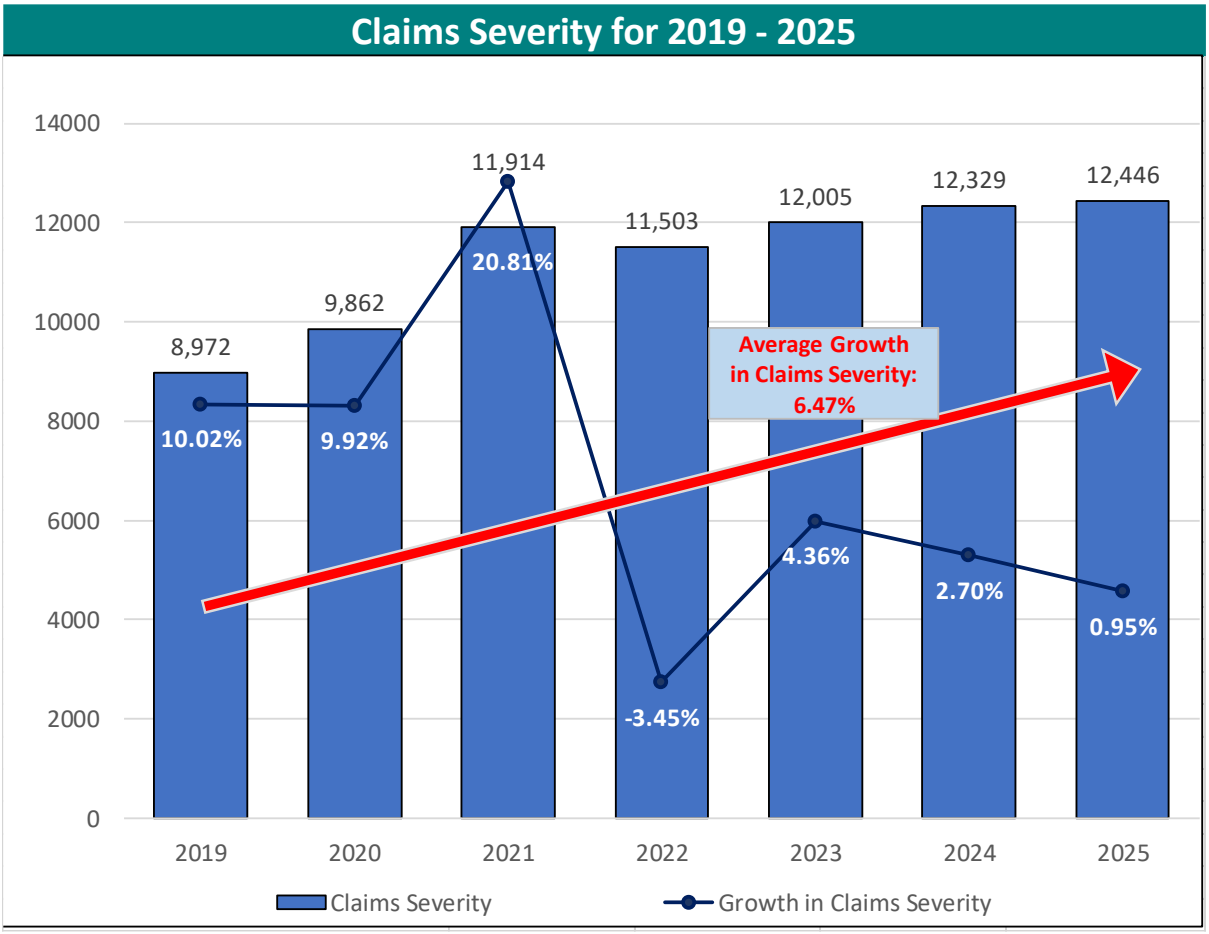
claims. These facilities recorded a negative cost growth of 14%. When you look only at private hospitals and private daycare facilities, the cost of care rose 5.86% and 2.3% respectively.

The table below shows the compound average inflation rate from 2023 to 2025 and 2019 to 2025.

Growth Rate	CAGR	
	2023 - 2025 (3 years)	2019 - 2025 (6 years)
Medical Claims Inflation	13.62%	8.49%

Between 2023 and 2025, the compound average growth rate (CAGR) for claims inflation was 13.62%, is thought to be largely attributable to procedures being deferred during Covid-19.

The bar chart below shows the claims severity from 2019 to 2025.

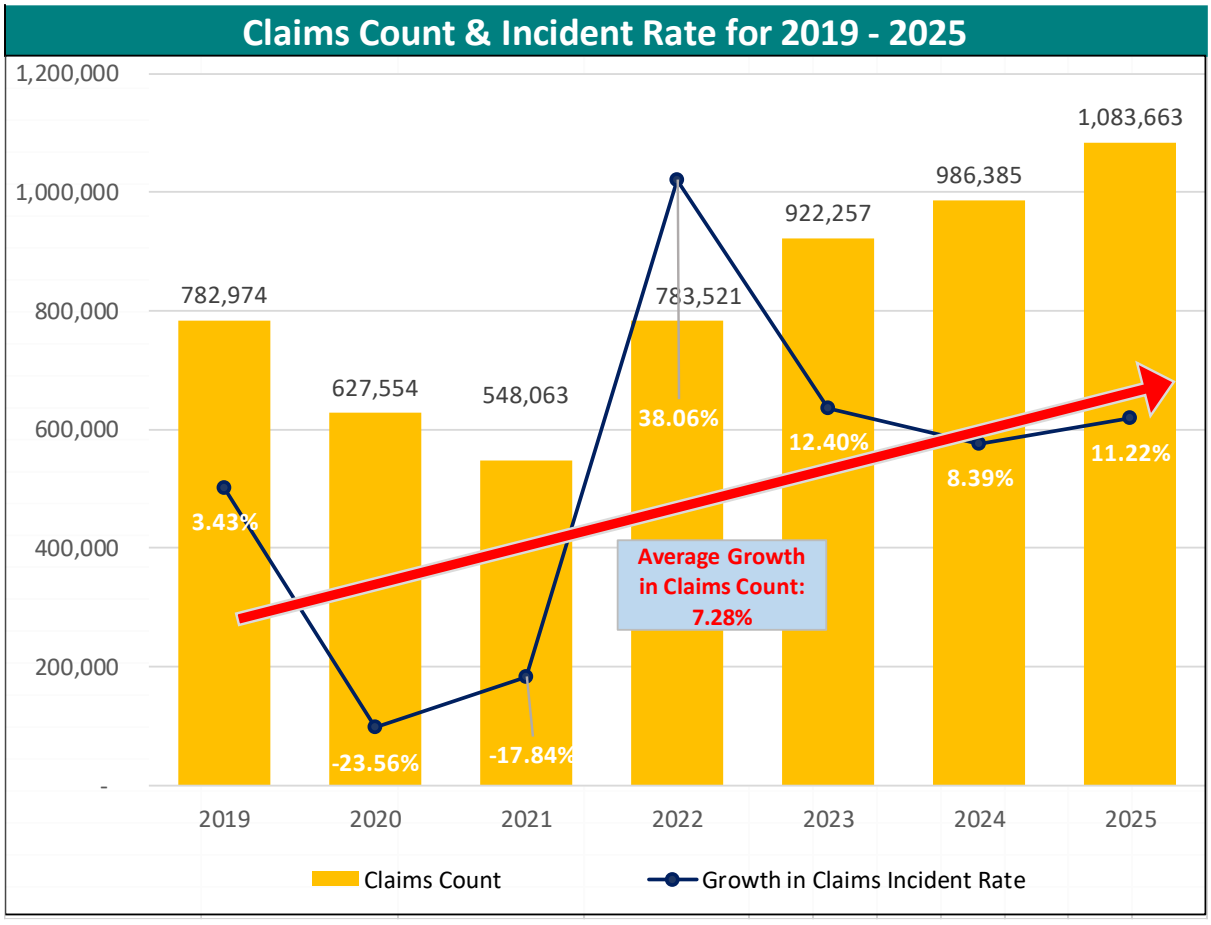


While Covid-19 temporarily reduced claim frequency, it simultaneously drove higher claims severity, better understood as the average costs of treatment. Claims costs rose sharply from 2019 to 2021 and has remained at historically high levels in recent post Covid-19 years.

While PPE and consumable prices have declined, implants cost for orthopaedic and cardiac procedures remain high due to specialized technology, strict regulatory requirements and limited suppliers.

Growth in the number of claims

While the cost of care has somewhat stabilized, the number of claims keeps rising, driving overall claims and subsequently premiums higher.



Near Term Outlook

While it's not possible to predict the claims inflation rate for 2026, we could expect the double-digit claims growth to continue. The continued introduction of cost containment measures such as deductibles and co-insurance is expected to moderate claims growth. The government's RESET initiative, which includes an affordably priced basic MHIT as well as the introduction of Diagnosis Related Group (DRG) billing are expected to have a

positive effect on controlling claims growth. The strong showing of the Ringgit is also a positive sign for claims moderation given the significant amount of imported medical supplies, medicine and equipment.

Finally, it's important to note that although the industry average medical claims inflation rate is 12.28% for 2025, any premium adjustments going forward will depend on the specific claims experience and premium sufficiency of each insurance and takaful operators medical insurance fund.

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Data Source: Centralized MHIT Claims Database – and industrywide database contributed by all MHIT operators.

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Further technical reference: ***World Bank (2026), Cost Drivers in Malaysia's Medical and Health Insurance/Takaful Sector: A First Look at the Centralized Claims Database.*** *The report provides a detailed external analysis of Malaysia's centralized MHIT claims database and discusses the broader drivers of medical cost growth, including utilization, price, intensity and setting-mix effects.*

Available at: P515710-3669950b-3a47-4923-a32a-8cad71973717.pdf