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Malaysia: New accounting standard unlikely to affect major takaful company negatively

The new Malaysian Financial Reporting Standards (MFRS) 17 will not have an impact on the fundamentals of the business of Syarikat Takaful

Malaysia Keluarga (STMK), in terms of its financial strength, ability to pay claims and dividend distribution, according to STMK corporate finance and strategy general manager, Ms Juliana Lo.

She was speaking at an event on MFRS 17, organised by CGS-CIMB Research for institutional investors recently, reported the newspaper *The Star*. STMK is the second biggest takaful operator in Malaysia, behind Etiqa.

MFRS 17 is a new accounting standard for insurance and takaful contracts that will be adopted by insurance companies and takaful operators with effect from 1 January 2023.

Based on STMK's guidance on the MFRS 17 impact on its financial year 2023 performance, CGS-CIMB Research said the establishment of the contract service margin (CSM) is expected to reduce the group's retained earnings by about 30% to 45%. The group's takaful liabilities will also increase, mainly due to CSM, said the research house in a note to clients.

Upon transition, CGS-CIMB Research expects STMK's profit for the year to decline by 15% to 20%, mainly due to the recognition of new business profits in CSM and the change in the timing of earnings from investment-related activities.

However, the group's earnings are expected to normalise within five to six years, the research house says.

CGS-CIMB Research, however, does not expect MFRS 17 to trigger any equity capital raising by STMK in the next two years.

STMK also does not expect the adoption of MFRS 17 to materially alter its underwriting strategies as the profitability of its takaful products would remain unchanged, said CGS-CIMB Research.