faber

SUBSTANCE IS
OUR STRENGTH

Contact
Henner Alms
ha@faberconsulting.ch
+41 44 256 1082

MEDIA INFORMATION

ASEAN INSURANCE PULSE 2022: INSURERS TO PLAY A KEY ROLE IN DECARBONIZING THE REGION'S ECONOMY

Kuala Lumpur, 8 December 2022 – This year's ASEAN Insurance Pulse, published today by Malaysian Re, highlights the contribution of the insurance industry to climate adaptation and resilience building. ASEAN countries have pledged to implement the UN's Paris accord of 2015, reducing their carbon emission to limit global warming to 1.5° Celsius. The region will have to transform its economy and install a business model less reliant on carbon emissions. Overall, until 2050 more than USD 800 billions of investments in energy supply are needed to meet the region's expanding demand for power and fulfill its commitments to the Paris accord. As risk managers, risk takers and investors, the insurance industry will play a key role in facilitating and financing the region's transition towards a low carbon economy.

"In December 2021 Malaysia was hit by the Great Malaysian Flood (GMF 2021), the most deadly and expensive natural catastrophe in our history," said Zainudin Ishak, President and Chief Executive Officer of Malaysian Re. "Also in December, the Philippines and Vietnam were struck by typhoons while across the region and in South Asia, we experience more and more devastating rainfalls during monsoon seasons. Insurers across the ASEAN region support the decarbonization of our economies, set themselves targets to contribute to lower or even to "zero-carbon" emissions and to better understand, manage and stress-test our exposure towards climate risks – a trend strongly encouraged by regulators. The basis for this development is the Environmental, Social and Governance framework (ESG) which turned into a governance standard by which insurers measure and report their impact on climate risk, but also demonstrate social responsibility and transparent business practices."

Now in its sixth year, the *ASEAN Insurance Pulse* 2022 highlights the contribution of the region's insurers to climate adaptation and resilience building. The industry plays a prominent role in promoting climate action, ranging from its own asset management and underwriting to supporting clean technologies and changes in its own operations. Reflecting on the different activities and stages that the ASEAN insurers assume to contribute to the transformation of their economies, the *ASEAN Insurance Pulse* surveyed the region's risk carriers and intermediates on the relevance of the Paris accord, how the decarbonization of the ASEAN economies shapes their strategies and operations and how they measure and disclose their progress.

Transformation of the ASEAN economy

In the last 30 years the ASEAN's economies have grown tenfold to a GDP of more than USD 3.1 trillion, becoming one of the most dynamic regions in the world. The region's economic ascent was coupled with rising demand for energy. CO2 emissions from fuel combustion have steadily increased in ASEAN, with the power sector becoming the largest emitter in most ASEAN member states. ASEAN countries have made major commitments to implement the UN's Paris Agreement of 2015. However, according to initial findings many countries in the region still fall short to support the Paris Agreement targets, which is partially due to institutional barriers but also weak financing.

ASEAN insurers are well aware of the Paris accord. The region has experienced a steady increase in losses resulting from climate change. Most ASEAN insurers already have taken strategic steps to incorporate the Paris accord or ESG into their operations. However, a general taxonomy how to classify assets and liability according to a clear ranking is still being developed in most markets. This applies both to their investment and underwriting strategies.

On the asset side, insurers aim to phase out of thermal coal, thermal power plant or coal cargo – and to increase renewable energy. However, the challenges in building up a climate resilient or ESG compliant investment portfolio still outweigh the opportunities. Insurers see themselves at the forefront of the energy transformation, funnelling investments towards renewable energy projects, such as hydro, wind or solar energy, or to innovative technologies that enable a less carbon intensive economic model.

On the liability side, most insurers see exclusions as the most advanced measure to decarbonize their underwriting portfolio. The most widespread exclusions are coal fired power plants, coal mining, arctic drilling or animal testing. Since the ASEAN countries are largely fossil fuel exporters, insurers will not pull out of established contracts or withdraw capacity from existing clients. But they might have set themselves strict targets to reduce their fossil fuel portfolio to a minimum.

ASEAN insurers expect growing demand arising from the emergence of “green” technologies. Insurance products may cover renewable energy products, their manufacturing, derivatives, green energy pools as well as mass products like electric cars. Insurers develop credit products to guarantee loans issued for renewable energy investments. In many markets, property policies must be refined or developed to cover hydro, solar or wind energy risks. Insurers also introduce weather derivatives for renewable energy if the envisioned wind or solar production falls short of expectations.

ASEAN regulators are a key driver, if not the main force promoting and encouraging the integration of ESG or decarbonization targets into insurers’ operations and reporting. Malaysia and Singapore seem most advanced, having introduced principle-based taxonomies or guidelines on environmental risk management, expecting the country’s insurers to monitor and stress-test their exposure to climate risks. Other insurance commissions expect disclosure on climate risk, made regulatory sustainability reports a standard and asked to fill in questionnaires to gain transparency on the risks of their insurers.

About Malaysian Re

As the national reinsurer of Malaysia, Malaysian Reinsurance Berhad (Malaysian Re) continues to enhance the competitiveness and efficiency of the local insurance companies in an increasingly globalised marketplace through its active involvement in providing effective risk solutions. Leveraging on its breadth and depth of experience and expertise, strong fundamentals and a proven record of accomplishment, Malaysian Re has grown in stature as an international player having established a strong market presence in Asia and the Middle East with a growing footing in Europe.

faber

SUBSTANCE IS
OUR STRENGTH

About Faber Consulting

Founded in 2008 and based in Zurich, Faber Consulting supports its clients in researching and analysing their business environment, developing and implementing a distinct strategic profile and effectively communicating with their key stakeholders. We focus on organisations from the financial services industry, mainly insurance and reinsurance companies. Our services proposition is based on our partners' in-depth sector expertise and senior management experience gained in the Americas, Asia, the Middle East and Europe. For further information about Faber, please visit www.faberconsulting.ch and/or download our renowned publications here.