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#### MEDIA INFORMATION

### **MALAYSIA'S INSURERS SEE NO CAPACITY ISSUE FOR FLOOD INSURANCE**

*Kuala Lumpur, 17 May 2022 – Floods are Malaysia's most frequent and severe natural disaster. According to Malaysian Re's third edition of its annual research, the Malaysian Insurance Highlights, launched today, last year's great flood, which hit from 16 to 21 December 2021, caused economic losses of RM 5.3 billion to RM 6.5 billion (US\$ 1.26 billion – US\$ 1.55 billion). Typically, flood risk is underinsured. The study, which again was compiled by Zurich based Faber Consulting, finds that on average only about 10% of economic losses are covered. This time Malaysia's insurers shouldered about RM 1.5 to RM 2.0 billion (US\$ 360 million to US\$ 480 million) or 20% to 30% of the economic loss as a high share of manufacturing properties were hit in the Federal Territory of Kuala Lumpur and the State of Selangor. Due to climate change, urbanization, deforestation and higher values at risk the country's insurers expect a further rise of flood losses going forward.*

Historically Malaysia has experienced adverse flood events once every three years. From 1998 – 2021, around 14 major flood events took place in Malaysia. Apart from the December 2021 event, a flood event in 2014, affecting the East Coast region had been the worst hydrological disaster. The recent great flood in December 2021 was by far the largest and costliest event that the country has experienced, caused by more than 36 hours of continuous rain and extending across eight Malaysian States or 33 districts and displacing more than 100'000 people. More than 50 people died.

About 5 million Malaysians live in flood prone areas. Less than 25% of home owners and only about 5% of all vehicles are flood insured. Thus, the underinsurance of flood risk is a major challenge. According to Malaysian Insurance Highlights, insurance and reinsurance capacity for flood risk is sufficiently available, despite the low insurance penetration. The country's general insurers are adequately capitalized to shoulder the risk, which predominately concerns Malaysia's rural regions.

“The cost for flood insurance is rather nominal. The cover is available as an extension to the standard fire police and costs about 0.086% of the sum-insured”, says Zainudin Ishak, President and Chief Executive Officer of Malaysian Re. “Still, in the personal lines, the pricing of the risk is perceived as high and is often only purchased in flood prone regions or following recent events. Mostly homeowners are insured as the banks arrange the cover as part of the mortgage. The lower-income segment of the population, who run a high flood exposure, rely on the government in case of a loss. In the recent flood it supported the people affected with a financial contribution of RM 1.4 billion (US\$ 336 million). Currently, we are working with Bank Negara and Malaysia's National Disaster Management Agency to develop a solution that ties together those who can afford to insure with those who cannot.”

## **Need to address underinsurance as flood risk increases**

Demand for flood cover is influenced by the government's support of the country's low-income segment for the loss caused by a disaster. Currently, the government assumes the role of an insurer of last resort. Although it budgets for these kinds of events, there is a high consensus that historically the government's bail-out measures have been insufficient to compensate the lower income sections for its losses. Malaysia's large corporations and public institutions, by contrast, are seen to recognize the risk, while SMEs and consumers tend to underestimate it.

Supply side shortcomings are rare. Capacity only tightens in flood prone areas that are mostly inhabited by the country's low-income population. Flood models have greatly improved and although they might still lack granularity, their availability is continuously improving with vendor models now complementing the most widely used broker and reinsurer models.

Climate change has become a driver to purchase more flood protection with more people realizing that weather patterns have changed, and catastrophes occur more frequently. In addition, human interventions, such as urbanization, deforestation and the expansion of agriculture have changed the ability of the environment to absorb or retain water from heavy rainfall. Furthermore, drainage systems are often either insufficient or blocked. Finally, assets and values have been growing as the country's GDP increased. Insurance penetration is mainly seen to have progressed in tandem, but not in excess of value creation.

## **Impact on pricing**

The pricing for flood coverage has been stable to declining for the last three years. However, the December floods will have an immediate effect on Malaysia's insurance markets. Particularly for residential and commercial properties, the content of households and the extensions of motor policies demand is expected to increase. Still, the pricing of the original property and fire policies of primary insurers will be less affected as flood is an additional peril to be insured optionally.

However, reinsurance pricing is expected to increase substantially in the coming renewals. Insurers are expected to review their reinsurance structures to ensure they have sufficient coverages in place. Besides, understanding of flood risk is changing. Previously, insurers had considered Malaysia not as a part of the Pacific «Ring of Fire» with its high exposure to natural catastrophes. Insurers are adapting that view to the new realities, particularly re-evaluating how to assess its flood risk. Within 2021 the industry experienced unprecedented flood losses in Germany and Belgium, followed by the severe Henan flooding in China in October and finally the Malaysian flood – all caused by torrential rainfalls.



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### **Improving flood risk mitigation and coverage**

Finally, the government is likely to further enhance its flood mitigation program as a result of the December flood. Following the SMART tunnel built in Kuala Lumpur a further stormwater tunnel is planned to mitigate future issues. In addition, existing pump systems located at the prone flooding areas need to be reconsidered as in the December floods public installation had simply been unable to cope with the masses of water.

From an insurance point of view, there is a need to push for a deeper discussion to find a solution to better cover the country's flood risk by bringing together the insurance sector, the regulator (Bank Negara), Malaysia's Natural Disaster Management Agency (NADMA), and the government. While previously, the focus had been on developing a coverage which foremost addressed the exposure of the lower-income segments of Malaysia's population, the current wholesome solutions aim to provide faster protection to consumers and encompass all parts of society or policyholders.

### **About Malaysian Re**

Malaysian Reinsurance Berhad (Malaysian Re) is a wholly-owned subsidiary of MNRB Holdings Berhad (MNRB). As the national reinsurer, 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.

### **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](http://www.faberconsulting.ch) and/or download our renown publications [here](#).