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MEDIA INFORMATION

INCREASING IMPORTANCE OF ESG AND IMPACT ON MALAYSIA'S INSURERS

Kuala Lumpur, 10 March 2023 – Climate change seemed to be taking its toll when in December 2021, Malaysia was hit by the Great Malaysian Flood (GMF 2021), the country's deadliest and costliest natural catastrophe in its history. To avert such disaster and limit global warming to 1.5 degrees Celsius, Malaysia had signed the Paris accord in 2015, committing to reduce its greenhouse gas emission. Insurance is thought to play a key role in transitioning the country's economy towards a less carbon intensive business model, as the industry assesses and covers environmental risks and invests into new technologies. Against this backdrop, Malaysian Re decided to dedicate its annual survey, the Malaysian Insurance Highlights, released today, to the increasing importance of environmental, social and governance (ESG) issues and their impact on Malaysia's insurers.

Although insurance is key in facilitating and establishing a global net zero economy often enough its means are limited. Due to its strong bias on personal lines, Malaysia's insurers are limited to accelerate the transition of the country's industry to a less carbon intensive business model. Between 2011 – 2021 Malaysia's total insurance premiums and takaful contributions grew by a CAGR of 3.2%. Most of this growth can be attributed to life insurance and takaful life segment, which has achieved a CAGR of 4.5%, resulting in an increased penetration from 3.1% in 2011 to 3.9% in 2021. The general (non-life) insurance and takaful market witnessed modest growth. Over the past decade the CAGR expanded by just 0.4% in terms of gross written premiums and takaful contributions.

Regulatory, insurance and financial markets initiatives

The country's insurance industry is encouraged to strengthen its risk management on climate-related exposures by its regulators, peers, international reinsurers as well as investors and financial markets. Malaysia's central bank, Bank Negara, is at the forefront of the transformation of Malaysia's insurers to reduce their climate-risk related exposure. In April 2021, Bank Negara Malaysia (BNM) issued the Climate Change and Principle-based Taxonomy (CCPT), making it one of the regulatory pioneers in Southeast Asia in adopting a standardized classification system for climate-related risks. Later that year, the regulator released the draft Climate Risk Management and Scenario Analysis, which proposes climate risk management requirements and guidelines to ensure that financial institutions increase their resilience to climate-related risks and facilitate an orderly transition to a low-carbon economy.

Pressure is also coming from within the industry. The Net-Zero Insurance Alliance (NZIA), launched by the United Nations, a group of insurers representing more than 14% of global premium volume, has committed to transitioning their insurance and reinsurance underwriting portfolios to net-zero greenhouse gas (NTG) emissions by 2050. Among them, some of the world's largest reinsurers have already imposed restrictions on unconventional fossil fuels such as tar sands and Arctic oil and gas drilling. This will have a significant impact on the insurability of carbon-related risks, particularly for thermal coal and new oil and gas projects.

ESG is given top priority in the Malaysian insurance sector

ESG has assumed top relevance across Malaysia's insurance sector. However, it must be understood, that ESG in Malaysia refers predominately to the environmental aspects of the scheme, while both the social and the governance aspect receive less attention.

Most insurers confirm that they have already started to draw up their own processes how to include ESG in their underwriting and investment strategies as well as in their operations. They try and develop guidelines to categorize their risks and assets in those with a positive or negative impact on their overall ESG performance.

However, Malaysia's insurers are not yet in a position to follow a set strategy based on ESG criteria for their investment portfolio. Insurers struggle with the limited investment opportunities available.

On the upside, insurers expect green or sustainable investments to provide stable and robust returns, based on the assumption that they will be investing in long-terms assets geared towards generating predictable returns. In terms of renewable energy, risks and volatility might be higher, but therefore return expectations are also more ambitious, reflecting the large ramp-up investments needed to establish and expand the sector in Malaysia.

Insurers are preparing to take advantage of the enhanced focus on renewables and the electrification of the mobility sector. However, not all insurance products to be deployed are new, but might need solely a refinement to accommodate for the requirements to cover solar, hydro and wind energy risks. One of the key challenges though is still a lack in data and experience with the risks. While in some cases this may result in tighter limits or even exclusions as insurers decide to tread cautiously, the majority is moving forward covering risks related to renewables.

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.

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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 renown publications here.

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