

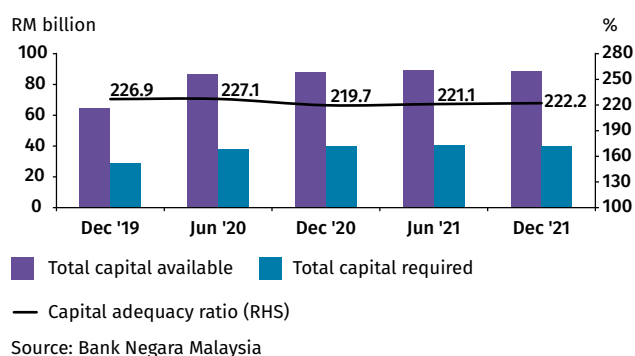
tenures between 3 years and 10 years, in line with strategies to minimise potential mark-to-market losses as prospects of higher yields increased. Overall, however, asset allocations have remained broadly stable relative to periods before the pandemic with the bulk (about 80%) of total investments continuing to be held in MGS/GII, government-guaranteed securities, and papers rated AA and above.

### Insurance and takaful sector remains resilient

Moving forward, recovery in insurance and takaful business growth remains contingent upon the economic outlook. ITOs' financial performance also remains highly susceptible to volatility in financial markets due to their sizeable bond and equity investments. Higher revaluation losses on these investments could potentially materialise, given expectations of further increases in yields

in 2022. Nevertheless, ITOs are expected to remain resilient, supported by pre-existing financial buffers. The aggregate capital adequacy ratio (CAR) remained strong at 222.2%, well above the regulatory minimum of 130% (Chart 2.23). Macro stress tests conducted by the Bank also affirm that insurers remain resilient, with sufficient capital buffers to withstand potential shocks even under adverse scenarios.<sup>12</sup>

**Chart 2.23: Insurance and Takaful Sector – Capital Adequacy Ratio**



## Evaluating the Impact of December 2021 Floods on the Insurance and Takaful Sector

### Impact on the liquidity and solvency positions of general ITOs is manageable. Flood risk is underinsured, especially in the retail sector

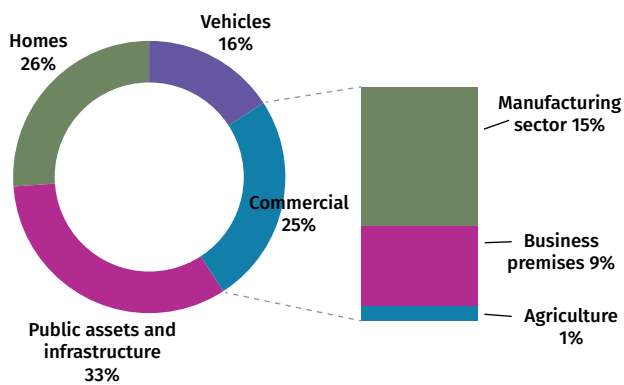
Overall economic losses<sup>13</sup> from the December flood events were estimated to be at RM6.1 billion, with about RM2.6 billion incurred by the retail sector, and RM3.5 billion by the commercial and public sectors (Chart 2.24). Around 36% of these losses were insured/covered. In absolute terms, this was the largest claims payout by the industry for a flood event over the past decade. The impact of these losses on the liquidity and solvency positions of general ITOs has been manageable, with all direct ITOs expected to maintain positive underwriting performance for the year. General ITOs were supported by sufficient liquid resources and reinsurance/retakaful arrangements, with a significant proportion of flood risk ceded out by general ITOs. Results of the 2H 2021 bottom-up industry-wide stress test, which incorporates significantly higher gross insured/covered losses than observed in the 2021 flood events, also affirm the resilience of the insurance and takaful sector against a severe flood scenario. However, the large losses sustained during the recent floods are expected to lead to a hardening of reinsurance premium/retakaful contribution rates for flood-related cover over the near term. This may also result in a recalibration of retention levels by some ITOs to optimise arrangements for the changing risk profile.

<sup>13</sup> Based on 'Special Report on Impact of Floods in Malaysia 2021' released by Department of Statistics, Malaysia on 28 January 2022.

<sup>12</sup> Refer to the section on 'Assessing the Resilience of Financial Institutions' for more details.

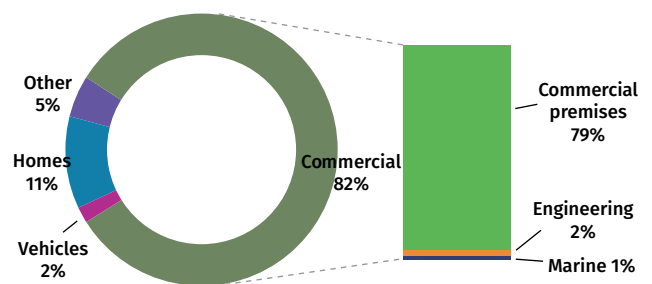
Despite a higher level of coverage relative to earlier periods, the December floods highlight the significant underinsurance of flood risks. Gross insured/covered losses<sup>14</sup> from the floods were estimated to be RM2.2 billion. Most of these losses were from the commercial sector where coverage levels are generally high (Chart 2.25). Within the commercial sector, the bulk of the claim amounts were registered by large corporates, which is in line with their higher level of sums insured/covered and the relatively smaller take-up rate of flood cover by SMEs. Despite coverage against floods becoming more affordable in tandem with the phased liberalisation of motor and fire tariffs, significant gaps remain in flood insurance/takaful protection particularly among households. Only 11% and 16% of motor comprehensive insurance policies/takaful certificates nationwide and in flood-prone areas,<sup>15</sup> respectively, have flood cover<sup>16</sup> (Chart 2.26). Surveys<sup>17</sup> also suggest that many households may not have any form of insurance/takaful cover for their homes, with even less coverage for flood-related losses (Chart 2.27).

**Chart 2.24: Composition of Economic Losses from December 2021 Floods**



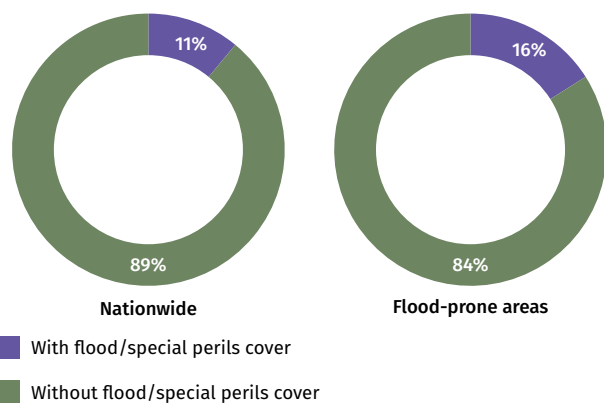
Source: Special Report on Impact of Floods in Malaysia 2021 released by Department of Statistics Malaysia on 28 January 2022

**Chart 2.25: Composition of Gross Insured/Covered Losses from December 2021 Floods**



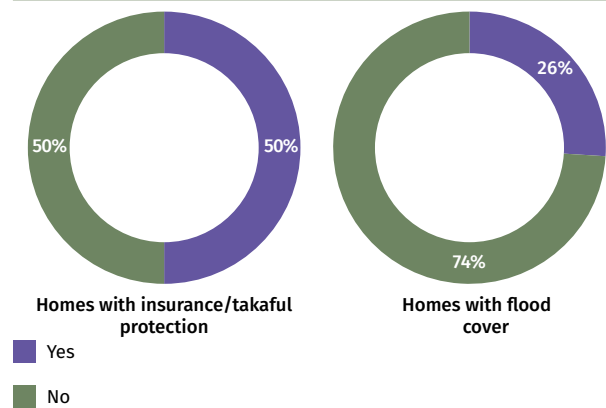
Source: Bank Negara Malaysia

**Chart 2.26: Motor Comprehensive Insurance Policies/Takaful Certificates with Flood Cover**



Source: Bank Negara Malaysia

**Chart 2.27: Insurance/Takaful Cover for Homes**



Source: Survey conducted by Zurich Malaysia

<sup>14</sup> Based on an industry survey conducted in January 2022.

<sup>15</sup> Flood-prone areas refer to states that were affected by the December 2021 floods.

<sup>16</sup> Based on an industry survey conducted in January 2022.

<sup>17</sup> Based on a survey conducted on 1,201 Malaysians in September 2021 by Zurich Malaysia as part of their market study on the 'Impact of Pandemic on Protection'. A survey conducted by the Department of Statistics, Malaysia (28 January 2022) focusing on 8 districts affected by the recent floods also indicated significant underinsurance of residential buildings and home contents.

Underinsurance in flood insurance/takaful protection remains prevalent despite a variety of insurance/takaful products available in the market to mitigate financial losses due to floods for both the retail and commercial sectors. This may be attributed mainly to the lack of awareness of the availability and utility of such products, despite the general reduction in rates<sup>18</sup> that have followed the phased liberalisation of motor and fire tariffs.

With the expected increase in the frequency and severity of flood events amid climate change, insurance/takaful protection will play a more important role in strengthening household and business resilience. The Bank is collaborating with ITOs to spur the development of suitable and affordable insurance/takaful products for flood and other climate-related perils. Efforts to further liberalise motor and fire tariffs will also help promote healthy competition among general ITOs. Collaboration between all stakeholders will be important to enhance awareness among households and businesses of the availability and need for these solutions.

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<sup>18</sup> For instance, some ITOs have reduced the premium/contribution rates for the special perils extension to motor comprehensive insurance/takaful cover, which cover flood damage to motor vehicles, by up to 70% from the original tariff rates.