Over 85% of SMEs at risk due to underinsurance, says AIG statistics

Rising business costs and increased domestic competition, coupled with regional trade market turbulence, all pose challenges to SMEs turning a profit

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IT SHOULD come as no surprise that small and medium enterprises (SMEs) face increasing cost pressures amid a slowing economy. In August, Bank Negara Malaysia had revised downwards the country's full-year GDP growth for 2018 to 5% from 5.5%-6%.

Rising business costs and increased domestic competition, coupled with regional trade market turbulence, all pose challenges to SMEs turning a profit.

As a result, entrepreneurs tend to deprioritise insurance and risk management, exposing the business to unforeseen financial losses arising from incidences such as fire, flood or theft.

A look into AIG Malaysia Insurance Bhd's statistics shows a clear trend of underinsurance as a vast majority of policyholders do not increase the value of sum insured annually, despite rising inflation and appreciation of assets over time.

While being without insurance is a poor form of managing business risks, being underinsured can be equally risky as many policyholders assume, wrongly, that an existing policy will provide adequate protection indefinitely.

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An aftermath scene of a flood disaster in Kuala Krai, Kelantan, in 2015. With only close to 15% of insured policyholders having purchased flood cover, the low take-up rate raises concerns on whether SMEs fully comprehend the risk and consequences of natural disasters to their business continuity

Fire is Top Risk

Based on data gathered by AIG, over 85% of SMEs are exposed to business interruptions from fire or property damage as they are not adequately covered. In 2017, the Malaysian Fire and Rescue Department recorded RM5.2 billion in losses from fire nationwide, an increase from RM2.9 billion recorded in the previous year.

Claims data from AIG shows fire risk is the most significant risk for SMEs in Malaysia, accounting for a majority of SME claims in the last three years. Fire losses also increased year-on-year (YoY) in 2017 in both claims count and claims amount.

Despite these alarming figures, only close to 15% chose to buy business interruption insurance, also commonly known as consequential loss cover. This covers SMEs against loss of profit or revenue as a result of interruptions to operation due to fire or any other insured perils.

Pic by Afif Abd Halim

Firemen at work in a fire aftermath. Fire losses also increased YoY in 2017 in both claims count and claims amount

Floods, Burglary Concerns

Over the years, heavy downpour and unpredictable flooding have emerged as a growing risk for SMEs. The Ministry of International Trade and Industry reported that the harrowing Kelantan floods in 2014 affected over 13,000 SMEs, approximately 37.7% of all SMEs in the state. The Rural and Regional Development Ministry also reported that the 2017 floods cost the state more than RM30 million in damages.

In the Penang flood last year, close to 2,000 victims were evacuated. AIG SME was able to assist with 34 claims at an estimated reserve of RM2 million, proactively responding with interim payments of up to RM20,000 to some of the most affected policyholders within four days after notification.

Ominously, the Malaysian Meteorological Department expects the North-East monsoon to last until March next year, thus increasing the risk of flash floods in states like Kelantan, Terengganu, Pahang, Johor, Sabah and Sarawak.

With only close to 15% of insured policyholders having purchased flood cover, the low take-up rate raises concerns on whether SMEs fully comprehend the risk and consequences of natural disasters to their business continuity.

Burglary, or theft, is also a common insurance business claim. In the last three years, 15% of total SME claims were for burglary. This common theft can be detrimental to businesses — interrupting business operations and cashflow.

Insurance for burglary and robbery provides business round-the-clock coverage against thefts of goods and all properly locked and secured assets within the insured premises.

AIG forecasts that the greatest risks SMEs in Malaysia will face in the next 12 months are from damage to property and equipment. Last year alone, SMEs have made claims in excess of RM8.1 million from AIG and future claims are expected to persist on a higher range.

In the face of these increasing business risks, SMEs require a suitable packaged insurance policy that will protect their assets, liabilities and employees from the risks associated with operating a business.

One of the ways AIG is able to respond quickly to SMEs and provide superior service is due to its electronic platform, Transact, which allows seamless solutions including swift quotations and underwriting advice.

As traditional risks persist, and new risks emerge, SMEs need to understand that adequate insurance protection is the hallmark of any good business operation.

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Bank deals are happening in Europe, just not where you think

PRAGUE • European banks are vying for dominance in one of the continent's most dynamic corners.

Governments in parts of eastern Europe, where growth is outpacing the euro-area, are loosening their grip on state-held assets. Serbia and Slovenia are the latest to offer stakes in their banks, opening up a potential battlefield as OTP Bank Nyrt of Hungary, Vienna-based Raiffeisen Bank International AG and Erste Group Bank AG and financial investors seek to widen their footprint in the region.

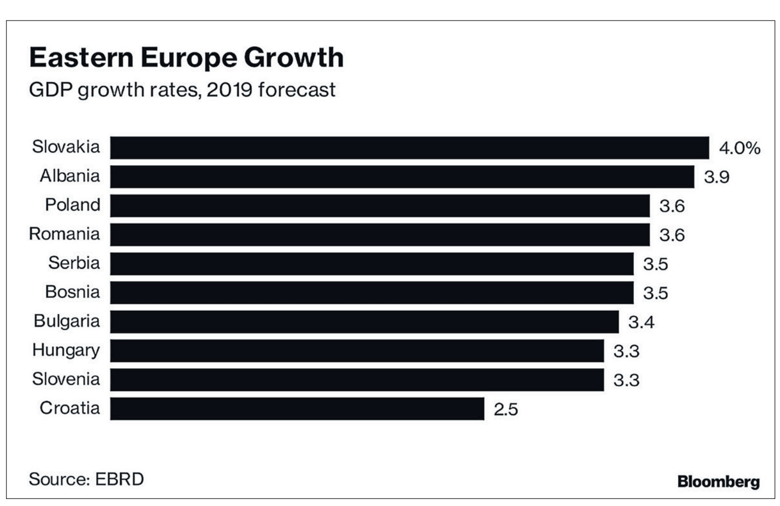
Across former communist eastern Europe, expanding loan books from higher consumer spending are making banks more attractive as takeover targets amid a reshuffling of the industry. In the Balkans, a decades-long wariness is easing about doing business in a region with a reputation of corruption, ethnic strife and economic instability.

"The former Yugoslav republics provide a kind of coming of age story and that makes public investments more reliable," said Matthias Siller, a fund manager at Barings in London with US$310 billion (RM1.3 trillion) in assets under management. "In the past, a lot of investors would have approached with more caution. Now, most people would actually agree that the former Yugo republics offer an interesting story."

Partly as a result of pressure from the European Union (EU) and the International Monetary Fund (IMF), euro-area Slovenia is offering two banks that together account for almost a third of the market and Serbia is selling a lender that controls about 11% of the banking industry.

As a sign of the buzz generated by the deals, 14 companies expressed interest in advising the planned sale of Komercijalna Banka AD Beograd, according to the Finance Ministry in Belgrade. The government wants to pick a winner by the end of the year for the bank with assets of €3.1 billion (RM14.57 billion).

The sale of the nation's third-largest bank — behind the local units of Intesa Sanpaolo SpA and UniCredit SpA — is a condition for Serbia to fulfil its new 30-month IMF programme. The Washington-based lender in July said that the transaction will be completed by the end of September next year.



"Serbia is a very attractive market and Komercijalna is the key to market leadership in terms of scale," said Klaus Vukovich, a managing partner at Vienna-based investment firm Alantra Partners SA. "Given where the strategic investors stand and also private-equity interest, I wouldn't be surprised if the outcome here is something more nuanced than a straightforward strategic buyout."

Slovenia this month sold 59.1% of Nova Ljubljanska Banka dd for €608.6 million. The bank was the chief recipient of a €3.2 billion state bailout in 2013 and the EU and European Central Bank have since urged the government to sell its holding.

At least five suitors may be interested in Abanka, Slovenia's third-biggest by assets, according to the *Finance* newspaper in Ljubljana. Potential bidders include OTP, US-based Apollo Global Management and Blackstone Group LP, *Finance* reported without saying where it got information. The sale agreement must also be completed by the end of next June.

While some European banks including Societe Generale SA (SocGen) are pulling back from certain countries to refocus on core markets, others are looking for opportunities from Poland to Bulgaria.

Even with scandals and money-laundering allegations buffeting some of the region's banks from Latvia and Estonia to Poland, much of the industry is thriving. In a sign of its strength, banks beating profit estimates for last quarter included local giants Bank Pekao SA, Komercni banka AS and OTP. Of the western European lenders with large operations in the region, KBC Group NV, Raiffeisen, SocGen, Intesa and Erste all performed above analysts' expectations as well. — *Bloomberg*