

# SURVIVE TO THRIVE: DO SMES NEED INSURANCE TO SAFEGUARD THEIR BUSINESS?

Having the right insurance plan is a balancing act – SMEs need to evaluate what they need to protect themselves while staying afloat.

By **Eza Ezamie**



In Malaysia, a Small and Medium Enterprise (SME) is defined as companies with a sales turnover not exceeding RM20 million or a number of full-time employees not exceeding 75. SMEs are the backbone of the Malaysian economy (or most emerging economies), accounting for 97.2% of total business establishments, generating 38.2% of the national Gross Domestic Product (GDP) and providing employment for 7.3 million people.

Malaysia's economy regained momentum in 2021 when the country transitioned to Phase 4 of the National Recovery Plan (NRP), and interstate travel restrictions were lifted. The gradual recovery enabled entrepreneurs to pick up business momentum, thus fuelling Malaysia's economic rebound. Nevertheless, Malaysia's economic performance in 2021 is still lower than pre-pandemic levels in 2019. Subsequently, the share

of Micro, Small & Medium Enterprises (MSMEs) in terms of GDP, Exports, and Employment remained to decline in 2021.

With Malaysia still recovering from the effects of the pandemic, SMEs are taking a slower time to bounce back. There were some positive signs when our borders had opened on April 1 2022, but the minimum wage order of RM1,500 came into effect on May 1 2022, which hit the SMEs the hardest. The cost of operations has increased, causing an increase in the prices of goods and services.

This caused an increase in inflation, which led to Bank Negara Malaysia having to increase the Overnight Policy Rate (OPR) to curb inflation. High inflation and high-interest rates affect Malaysians from all walks of life, especially SMEs.

**Smart Investor** got in touch



with Sunther Kuppan, CEO of QBE Insurance (Malaysia) Berhad, to find out more about the state of the SMEs and

the SME insurance industry in Malaysia.

“The pandemic has certainly impacted the general insurance industry here in Malaysia. About 60% of the Malaysian market's

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Gross Written Premium (GWP) per annum covers the retail market, comprising motor insurance at 47%. At the same time, the balance is spread across health, personal accident, and travel insurance,” says Sunther.

These sectors were impacted due to the lack of economic activity, except for motor insurance which saw marginal growth. There was also a notable decline in GWP across commercial policies and property, casualty, and financial lines for obvious reasons.

In addition, the other major impact was the reductions of premiums caused by customers compromising on coverage by reducing the sum insured and, in some sectors, completely lapsing on their policies as they could not afford to pay the premiums to renew their coverage. This begs the question of whether SMEs need to be covered by business insurance – and more specifically what kind of coverage is needed.

“The three major insurance sectors in Malaysia comprise retail, SME, as well as the large and corporate sectors. All three require risk protection. In retail, the major component is motor, health, and household coverage. In the SME sector, it is mainly for property, namely fire, theft, and public liability coverage. In the large and corporate sectors, these industries require a full range of property and consequential loss coverage along with liability and professional indemnity coverages. All of the above coverages are essential to managing the risks they are exposed to,” responds Sunther.

But what about SMEs struggling to survive the pandemic, and just simply do not have enough for insurance as



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an expense. How can they cope? Is there any help coming from the insurance industry?

“The largest closure and suspension of business came from the SME sectors due to their low capital capacity. Many businesses had to restructure their insurance programmes,” states Sunther.

Depending on the type of business, a variety of options are available to SMEs:

- a. Lapse on the policy altogether due to the lack of economic activities, such as those involved in logistics, restaurants, and other service industries.
- b. Reduce their coverage by reducing the sum insured and excluding coverage that is not required.

- c. Continue without requesting any additional coverage.

Some insurers rolled out assistance programmes and premium restructuring initiatives to ease the SMEs’ financial exposure. If banks and financial institutions had moratoriums for Malaysians, there was also similar help given to SMEs and their insurance plans.

It is also time to re-evaluate all your insurance plans and seek professional help. Remove some coverage that is not that important or reduce the coverage. The path to having the right insurance coverage is a balancing act.

Too much, and you might make it more daunting to maintain a healthy cash flow and further expand your business. If your business is underinsured, you might be in a financial quandary. Good on you for getting the ball rolling by having SME insurance policies based on what you can currently afford. However, do recognise that you will need to review your needs over time to ensure an effective financial risk management plan.

It is very important to prioritise and get through this difficult phase with your business intact. Sacrifices must be made but knowing Malaysians – we will bounce back even stronger once the dust is settled. 