

# Brighton NEWSLETTER

You insure, We ensure

## Editor's Note

### Embracing A New Normal

The COVID-19 pandemic has forced us to adjust and change the way we do things. Family, friends, and colleagues are all faces we see on-screen these days. Working remotely and social distancing have become the new norms; something that many of us are still getting used to.

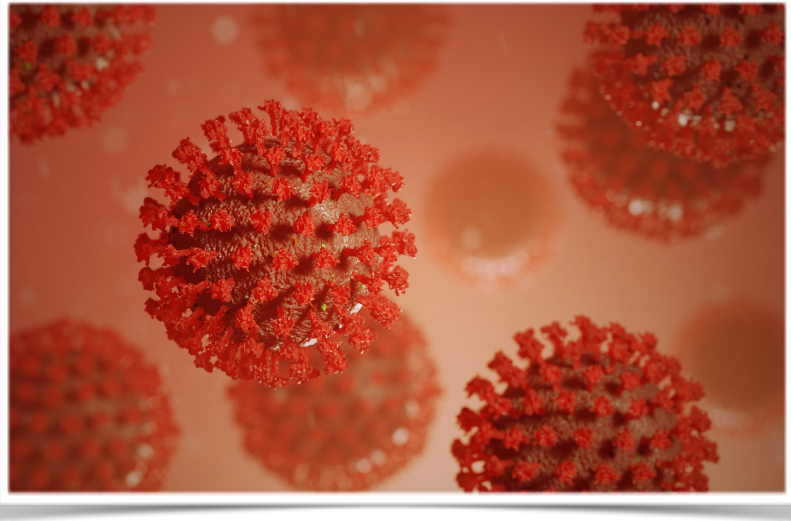
The unprecedented disruptions to our day-to-day life is taking its toll – mentally and physically.

In the face of so much change and uncertainty; practicing kindness and compassion, and supporting each other becomes more important than ever.

Despite the ongoing realities taking place at this time, Brighton remains steadfast committed to serving our clients and driving the industry forward.

Stay Healthy. Stay Safe.

**Annie Undikai,**  
**Managing Director**



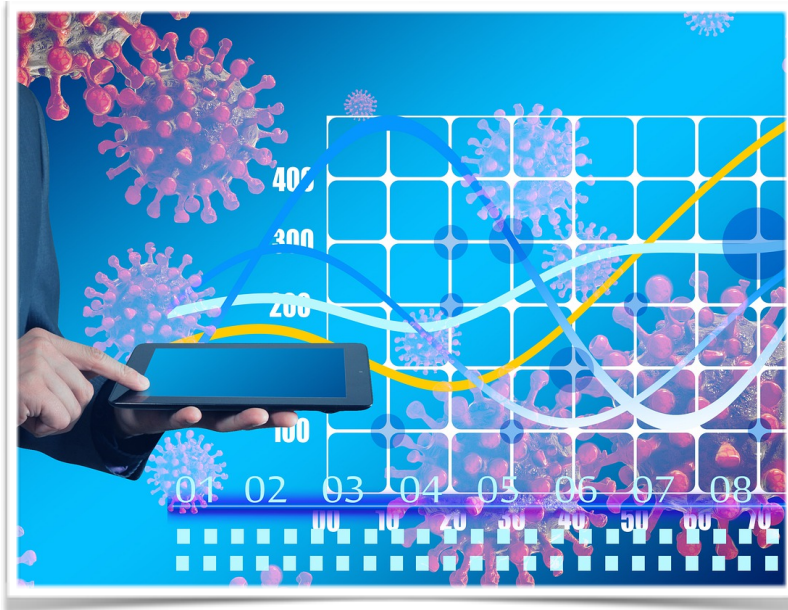
## Impact of COVID-19 on the Insurance Industry

What started out as a national health emergency in China, COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020. But without a vaccine or effective treatment, the World Economic Forum predicts that we would be facing continued infections and death until at least the end of this year.

As we move through June and into July, the implications of the pandemic is starting to hit reality to many of us. But it is still early days to assess how long the crisis will persist nor the full scale and scope of the pandemic's global impact.

Besides the heavy toll on human lives, it is already having a dramatic impact on economies across the globe. Recent data suggests that the aggregate economic impact of COVID-19 will be comparable to the 2008-2009 Great Recession with the IMF projecting a negative 3% global growth for 2020.<sup>1</sup>

<sup>1</sup> <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>



This new global crises (health and economic crisis), is putting pressures on insurance companies in a unique way, as it impacts both the asset and liability sides of the balance sheet and threatens business continuity as well as future economic growth. For the insurance industry, implications arising from the COVID-19 pandemic are wide ranging.

However, the pandemic has amplified the important role that the insurance industry plays in the development and economic resilience of businesses and individuals.

According to a report published by Marsh titled *COVID-19: Evolving Insurance and Risk Management Implications*; COVID-19 would have implications for a variety of coverage lines, including property, casualty, event cancellation, management liability, cyber, and credit risk.<sup>2</sup>

The impact of this global pandemic on the insurance industry, however, will not be limited to claims from death, hospitalisation, events cancellation and business interruption cover, among other eventualities. The Financial Stability Institute (FSI) of the Bank for International Settlements (BIS) stressed that insurers are more likely to experience losses from financial market volatility than from higher insurance claims.<sup>3</sup> Furthermore, an ultra-low interest rate environment is likely to impact general insurers from both an earnings and solvency perspective, with the impact likely to be greater for life insurers.

As the global economic recession accelerates, insurance companies will also face reduced revenues due to lower demand for various types of insurance coverage, increased market and credit risk exposures from investment portfolios and higher surrenders of certain life insurance policies.

What is evidently clear is that COVID-19 has forced a monumental change in the whole business environment and has resulted in the emergence or amplification of several risks, especially ones that may cause additional property, mortality and health risks. Undeniably, the pandemic brought about a change in the risk landscape, in particular bringing together a confluence of risks. We are now witnessing the emergence of operational and financial risks associated with the pandemic containment efforts. However, some risks associated with COVID-19 may not fully materialise for years to come. As the coronavirus crisis extends, there could be a domino effect where one risk triggers another in a cascading nature.

<sup>2</sup> Marsh. 2020. *COVID-19: Evolving Insurance and Risk Management Implications*. Available at <https://coronavirus.marsh.com>

<sup>3</sup> Yong, J. 2020. *Insurance Regulatory Measures in Response to Covid-19*. FSI Briefs. Available at <https://www.bis.org/fsi/fsibriefs4.pdf>

## How COVID-19 is Driving the Digital Transformation of the Insurance Industry

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Referred to as the invisible enemy, COVID-19 has forever changed not only the lives of individuals but has challenged businesses to rethink their business models and how they conduct business activities. Insurance companies are no exception!

For the insurance industry, the current crisis is a double-edged sword. While the crisis has affected the profitability of insurers and brought about significant economic challenges, it has also propelled the industry to fast-track its digital transformation.

Although the industry has been making significant steps in embracing technology in recent years, progress has been somewhat at a snail's pace and has arguably lagged other industries in digital transformation.

Undoubtedly, we will see acceleration in business innovation with shifts happening from physical to digital channels and products, end-to-end automation and optimization of processes.

According to KMPG International, insurers will likely be looking to significantly streamline and enhance processes such as more advanced digital underwriting, claims, and administrative processes to include the below:<sup>1</sup>

- Pricing: through real-time, dynamic, behavioural models.
- Underwriting: speed up data collection and risk assessment.
- Claims handling: with drones replacing the first notice of loss and with advanced algorithms to handle initial routing.
- Policyholder interactions: through voice and text messaging (chatbots) and personalized customer experiences.
- Fraud management: help detect, predict and prevent fraud patterns and attacks, with enhanced forensic capabilities to interrogate and analyse data.

We will also likely to see acceleration in the adoption of robotics and Artificial Intelligence (AI) as standard tools for insurers. Such technologies will profoundly affect and improve business outcomes in customer experience, cost optimisation, operational efficiencies, market competitiveness and newer business models.



<sup>1</sup>Hay, L. 2020. *COVID-19 puts insurers on the fast-track to technology adoption*. Available at <https://home.kpmg/xx/en/home/insights/2020/04/covid-19-puts-insurers-on-fast-track-to-technology-adoption.html>

## The Rise of Captive Insurance in the Wake of COVID-19

In light of the current pandemic risks arising from COVID-19, companies will be forced to become more innovative in their approach to risk and explore or expand the use of captive as alternative risk management.

Business interruption risk and pandemic risk requires a specific underwriting approach. Captives, for example, can be used by businesses to write new lines of coverage if there are coverage gaps in the existing commercial policies.

Once COVID-19 wanes and businesses recover from the pandemic woes, we can expect to see a marked increase in new captive formations and growing interest from existing captive owners who will be looking at how best they can utilise their captives.

Captive insurance allows businesses to customise insurance coverage to specific needs as the underwriting is based on the business's own risk profile.

Captives can also provide access to liquidity by extending loans to parent companies to aid cash flow, especially when other sources of corporate revenue has dried up.

Where there is excess surplus; captives can pay dividend to the parent company, accelerate claim payments or even fund the parent's risk management expenses.

Captives can also invest in other parent company assets, including real estate and trade receivables.

Going forward, captives are likely to be used more broadly to cover pandemic-related risks, especially in the hospitality and food beverage industries.

## Labuan FSA Eases Rules to Allow Businesses to Focus on COVID-19 Response

Labuan Financial Services Authority (Labuan FSA) has granted Temporary Regulatory Reliefs (TRRs) for Labuan entities, in a bid to cushion the impact and disruption to business operations caused by the COVID-19 pandemic.

The TRRs are intended to provide both administrative and financial relief to captives and other entities domiciled in Labuan IBFC during the COVID-19 crisis to allow them to focus on their business continuity measures. This would facilitate uninterrupted business and market operations in Labuan IBFC.

Under the TRRs, Labuan FSA relaxed administrative requirements around governance and market conduct, and provided greater flexibility for other technical submissions. It also offered an extension for regulatory reporting and submissions.





## Emerging Risks Arising from COVID-19

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In addition to its human toll, the sizeable economic impact of COVID-19 is starting to become apparent. While it has had the effect of making some global risks (such as climate change) less of an immediate concern, this pandemic crisis has at the same time accelerated new emerging risks.

During the advent of the pandemic, supply chains have become a crucial new focus of the global economy. Every single supply chain from healthcare to travel and tourism, manufactured goods and retail has been profoundly impacted.

This black swan event highlights existing supply chain risks and brings new one to lights: risks related to procurement, finance, suppliers, logistics and workforce.

Businesses are forced to rethink and transform their global supply chain model to mitigate these risks while building supply chain resilience globally. These include conducting scenario analysis to ensure supply chain is resilient in the face of future disruption and identifying opportunities to improve transparency along the supply chain.

In response to the COVID-19, many organisations have had to quickly change working practices and protocols to enable remote working, which has resulted in the emergence of new cyber security risks. With at-home workers using unsecured personal technology devices and home Wi-Fi networks, this is likely to increase the likelihood of cyber attacks. The security flaws found in video-conferencing software Zoom exemplified this vulnerability.

In a recent survey, World Economic Forum (WEF) asked 350 of the world's top risk experts to assess the most likely and most concerning fallout risks from COVID-19 over the next 18 months.<sup>1</sup> Unsurprisingly, a prolonged global recession tops the list of most feared risks, replacing long-term risks like climate change as key business threats.

Other economic risks identified were bankruptcies, industry consolidation, failure of industries to recover and a disruption of supply chains as crucial worries. However, WEF stressed that sustainability should be a key component of economic recovery post COVID-19.

<sup>1</sup> World Economic Forum. 2020. *COVID-19 Risks Outlook: A Preliminary Mapping and its Implications*. Available at <https://www.weforum.org/reports/covid-19-risks-outlook-a-preliminary-mapping-and-its-implications>

## COVID-19 Guidance & Safeguards at Brighton

Brighton has implemented a number of safeguards to minimise the risks on our employees, clients and communities arising from the COVID-19 health pandemic.

These are based on the compulsory SOP provided by MITI for Professional Services during the Conditional Movement Control Order (CMCO).



### Health Screening

Before coming to office, employees should check themselves for any COVID-19 symptoms. Employees will be subjected to temperature checks upon entering the office. After taking temperature screening, they are to use the hand sanitisers provided at the reception area.



### Premise Disinfection

Cleaning and disinfecting work is done daily and shall commence before start of business operation and will be repeated at least 3 times a day. Hand sanitisers and disinfectant sprays are placed at strategic areas within reach. Employees are also encouraged to disinfect their workstations daily.

### Maintain Physical (Social) Distancing

All employees are required to practice social distancing by keeping a safe distance of at least 1 meter from others. They will be segregated into teams for work rotation to minimise the total number of people in the office at any one time. While some will be relocated to a temporary sitting arrangement to promote safe distancing while working.



### Strict Personal Hygiene

Employees are to maintain strict personal hygiene at all times. These include washing hands regularly and wearing face mask at all times. Employees are to avoid sharing of food, utensils, cups, plates and bowls. They must also sanitise their hands before and after using commonly used items such as photocopy machines, shredders, staplers, punchers and especially water dispensers.