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NEWSLETTER

Editor's Note

Sustainability agenda has now become an increasingly important part of companies' overall business strategy. The impact of COVID-19 pandemic has taught us lasting lessons on sustainability and in particular, climate or biodiversity crisis.

With much of Asia and Europe, experiencing a slowdown in cases, a return to some level of normality may finally be in sight. But the question now is how do we approach the topic of sustainability after the pandemic? What role can the insurance industry play in ensuring sustainability post pandemic?

If there is one glimmer of hope that emanates from the chaos brought by COVID-19, it's that the eventual return to normal life offers us a new opportunity to make a fresh start in practicing sustainable living. As for the insurance industry, any post pandemic responses must be intrinsically linked to the sustainability, ESG and climate agenda.

Annie Undikai,
Managing Director

Artificial Intelligence In The Insurance Industry

The term Artificial Intelligence or AI was advanced in 1956 by John McCarthy, a computer scientist, where he described AI as the science and engineering of making intelligent machines. In its simplest terms, AI refers to systems or machines that mimic human intelligence to perform tasks including learning, planning and problem solving. From SIRI to self-driving cars, AI is progressing rapidly.

For the insurance industry, AI is no longer a nice to have but a need to have in these unprecedented times. AI technologies such as machine learning, neural networks and natural language processing are poised to transform the industry from customer acquisition to claims processing.

There has been an acceleration in AI development in recent years as a direct result of the rise in data accessibility and increased computing capabilities, coupled with changing consumer expectations. Many businesses worldwide are already adopting AI in their transformation journey as they strive for agility, innovation and resilience. According to the International Data Corporation (IDC), early adopters of AI reported an improvement of 25% in customer experience, accelerated rates of innovation, higher competitiveness, higher margins, and better[1] employee experience.

In the insurance industry, AI has the potential to disrupt many areas that were traditionally performed by humans such as underwriting, customer service, claims analysis, marketing, risk calculation and fraud detection. Given the current development and scenario, we can expect to see a range of innovative insurance products that fully meet the changing needs of customers. For instance, our roads are set to change dramatically as smart driverless vehicles become more common, and this will require changes in insurance coverage. What may be a daunting scenario for some, today we are already seeing many vehicles fitted with semi-autonomous features such as self-

Another area in which AI will potentially transform the insurance industry is the emergence of automated image recognition, which can be used in property damage analysis. For example, Tractable Technology, a London-based insureTech startup, applies AI to accident and disaster recovery. Here, deep learning is used to automate visual damage appraisal, and subsequently help speed up insurance payouts, estimate vehicle repair as well as detect any suspicious claims.

AI also has the potential to improve claims processing, which has long been a pain-point for the insurance industry. With its reputation for slow procedures and even slower payments, AI's role in payments and claims processes is poised to expand driven by customers demand for convenience, speed and efficiency.

In underwriting, AI can update analysis instantaneously, generating accurate pricing results and risk assessments. For instance, AI can help underwriters look at current and past risk levels and pricing guidelines that correlate. The adoption of AI would enable insurers to use dynamic and real-time data to deliver better products and pricing.

As AI becomes more deeply integrated in the industry, insurance companies must proactively position themselves to respond to the changing business landscape and evolving needs of consumers. It is imperative that they understand factors that will contribute to these changes and how AI will reshape claims, distribution, underwriting and pricing.

[1] https://www.helpnetsecurity.com/2020/06/15/ai-adoption-business/fsibriefs4.pdf

The Rising Threats of Cyber Attacks

With the growing dependency on technology and the heightened threat of unauthorised access to information, cyber risks have increased significantly. We have witnessed a growth in both risk and severity of cyber attacks over the past few years. Under the COVID-19 lockdown, for example, cyber risks have heightened as a result of remote working, online shopping and generally with more people being digitally connected than ever. Over 85% of companies feel that cyber risks have increased significantly over the past year and even more so now as COVID-19 exposes digital assets to increased cyber security risks.[1]

Cyber risks come in many shapes and forms, and they are evolving rapidly. Malware, phishing scams, data breaches, ransomware, IoT-based[1] attacks, identity theft, hacking and cyber extortion are all examples of cyber risks affecting businesses. According to a report by Threat Horizon, companies will face cyber threats under three key themes: [2]

- Disruption: Over-dependence on fragile connectivity will increase the risk of premeditated internet outages that compromise business operations. Cybercriminals will use ransomware to hijack the Internet of Things.
- Distortion: Spread of misinformation by bots and automated sources will cause compromise of trust in the integrity of information.
- Deterioration: Rapid advances in smart technologies and conflicting demands posed by evolving national security will negatively impact an enterprise's ability to control information.

With the rising threats of cyberattacks becoming more frequent and damaging, it becomes imperative for businesses to rethink their risk strategies – including insurance strategies – with a view to protect themselves as well as their customers from the magnitude of cyber-related financial losses.

[1] https://www.strategyr.com/market-report-industrial-cybersecurity-forecasts-global-industry-analysts-inc.asp

[2] https://www.securityforum.org/research/threat-horizon-2019/

Some of the key trends in cyber risks that businesses must take into considerations as they evaluate their risk management strategies to include cyber threats are as follows:

- Internet of things (IoT) attacks – With Cloud-based services and the rollout of 5G, cyber risks are expected to expand as each new device connected to the IoT represents another possible entry point for a security breach.
- Advancement in technology will increase efficiency in terms of speed and scope of cyber crimes. The rising availability of AI poses a new cyber crime threat as it is being harnessed by criminals to rapidly upscale the breadth of their targets.
- The use of deepfake technology in cyber crime is a real cause for concern. There are increasing documented cases of criminals using this technology to demand access to secure networks, or even money transfers through fake voices and videos generated by deep fake technology.
- As cybersecurity threats elevate, so do the number and extent of regulations that seek to establish a set of robust cybersecurity practices to protect consumers as well as support the stability of the global economy. The burden of regulation comes at a cost as businesses endeavour to put the right processes in place in order to readily comply with new rules and regulations.

Top Security Trends in 2020

Climate Change Tops Global Risks In 2020

The Global Risks Report 2020 by World Economic Forum (WEF) highlighted climate crisis-related concerns as the top 5 global risks to world's economy. These include extreme weather events, climate action failure, natural disasters, biodiversity loss and human-made environmental disasters. The WEF also identified climate action failure as the risk with the greatest impact on the global economy.

With climate change posing systemic threat to the global economy, it is incumbent on policymakers across the issue spectrum – from energy and tax policy to infrastructure and financial services – to mitigate the impacts of climate change and facilitate a timely transition to the UN goal of net-zero greenhouse gas emissions by 2050.[1] In 2019, climate change contributed to extreme weather events causing at least $100 billion in damages.[2] By 2050, cumulative damages from climate change is estimated to reach $8 trillion with global economy contracting by 3%.[3]

Implications for insurance companies are enormous if they don't understand the systemic risks climate change poses to the financial markets. As the repercussions of the climate crisis directly affect the insurance industry, the industry needs to take decisive actions. This include identifying climate-related risks, and integrate the management of these risks by developing solutions for loss minimisation and risk transfer.

Preparing For Future Pandemics: Parametric Insurance Is Key

The COVID-19 outbreak has revealed a critical gap in insurance coverage – many business interruption (BI) policies do not provide protection against business losses resulting from the pandemic.

As a result of the inadequacy of BI policies, we are now seeing a spike in the numbers of businesses issuing lawsuits against their insurers. Parametric insurance may help close the protection gap (the amount of economic loss that isn't insured).

Under parametric insurance, claims payouts are made based on predefined triggers, which is usually set in such a way that aligns with a client's own business continuity plan and risk tolerance. Unlike the traditionally insurance which indemnifies for actual loss incurred, parametric insurance covers the probability of a particular predefined event happening such as an earthquake of a certain magnitude or a hurricane of a specific intensity.

By addressing gaps in the cover such as business interruption costs, loss of attraction and other non-physical damage, parametric insurance complements rather than replace traditional indemnity products.

Although parametric insurance has been around for over 20 years, the ongoing COVID-19 outbreaks highlight the critical role that parametric insurance can play in closing the coverage gap.

1 https://www.americanprogress.org/issues/greenreport2019/10/10/475605/100-percent-clean-future/
2 https://www.eiu.com/n/global-economy-will-be-3-percent-smaller-by-2050-due-to-lack-of-climate-resilience/
3 https://www.christianaid.org.uk/sites/default/files/2019-12/Counting-the-cost-2019-report-embargoed-27Dec19.pdf

The Road Ahead For Sustainable Insurance

According to EY's 2020 Global Insurance Outlooks, insurers are uniquely positioned to close the massive natural catastrophe-related protection gap that currently exists. Estimates released by Swiss Re show that this gap now accounts for $221 billion, with catastrophe losses at 29%. [1]

The global insurance industry has a pivotal role to play in transiting to a low-carbon and sustainable global economy, both in terms of the risks it covers as well as the investments that it makes. Under the sustainable insurance approach, all activities in the insurance value chain are conducted in a responsible and forward-looking manner by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues. [2]

The insurance sector is responding to sustainability challenges with strategic actions across both underwriting and investment, including through the UN-backed Principles for Sustainable Insurance (PSI). A growing number of insurance supervisors and regulators are beginning to incorporate sustainability into the way they oversee the sector.

Given the current economic landscape and social vulnerabilities, now more than ever insurance is vital to the sustainability of the world's economies and improving societal financial resilience. For example, insurance and reinsurance can play a centre role in facilitating the transition to a net zero carbon world by derisking clean energy projects and carbon mitigation efforts. Technological advances have provided insurers with tools to support sustainable insurance. A key enabler of progress here is parametric insurance, which pays out based on predetermined triggers.

In a positive development towards sustainable insurance agenda, the UN Environment Programme (UNEP) recently launched the first ESG guide for the global insurance industry. The guide outlines 8 areas comprising possible actions for insurers to manage ESG risks (or known as sustainability risks), focussing on risk assessment and insurance underwriting. The guide is envisaged to raises awareness of the many potential benefits of integrating ESG in the insurance business model.[3]

[1] https://www.ey.com/en_gl/innovation-in-insurance/how-the-insurance-industry-can-boldly-shape-a-more-sustainable-future

[2] https://www.sustainableinsuranceforum.org/about

[3] https://www.unepfi.org/psi/wp-content/uploads/2020/06/PSI-ESG-guide-for-non-life-insurance.pdf