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Editor's Note

As an industry, the insurance sector has been forced to refined new business strategies in tune with the changing economic and business environment. The article on "New Normal Shaping the Insurance Industry" describes how a new normal looks like for insurers in 2022.

In this issue, we also share some of the key trends in cybersecurity. Given the heightened cyber threat environment that companies are operating in, cyber insurance is increasingly becoming an essential cyber security and risk management tool in the post-pandemic world.

I recently had the opportunity to present in a webinar focusing on key value propositions that make Labuan IBFC a jurisdiction of choice for insurance and insurance-related companies. The webinar was organised and hosted by Labuan IBFC and Brighton International Group. Look out for more webinars to come in 2022!

As 2021 slowly recedes into the rear-view mirror, we must not take our eyes off the road ahead. The first step is to recognise that uncertainty will become a permanent part of the post-pandemic landscape, and that reaching the new reality is no longer the end-point but rather an evolving state.

Annie Undikai,
Managing Director

New Normal Shaping The Insurance Industry

The year 2021, dubbed as 'The Great Recovery', has so far been volatile and difficult to navigate. While recovery is in motion, the insurance industry continues to face considerable headwinds in a world in which business models are changing and demand drivers are being reset.

Since the outbreak of the pandemic, the industry has been forced to operate differently due to many first-of-its-kind hazards brought about by COVID-19: remote-working mandates, the evaporation of face-to-face channels, mass event cancellations and rising business interruption claims.[1] As companies transition from survival mode and gear up for post-pandemic recovery and growth, understanding factors impacting business conditions is imperative in refining their new business strategies to match the new normal.

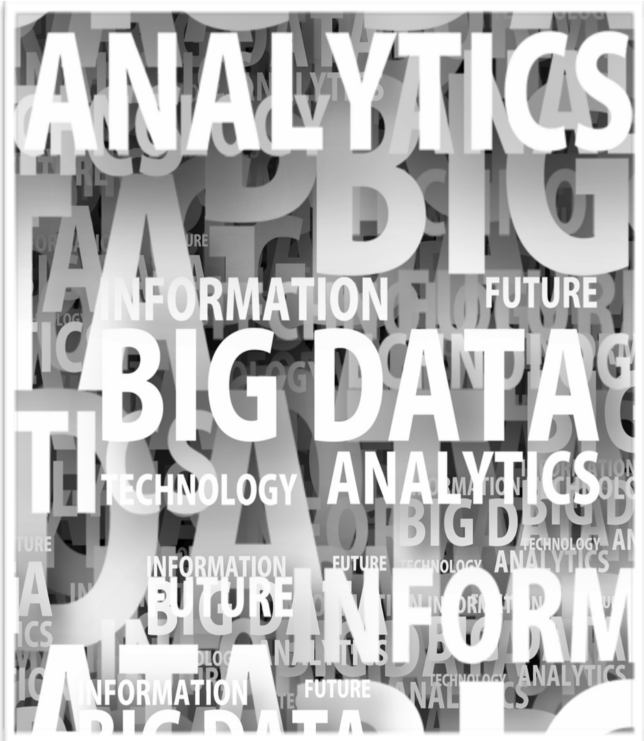
[1] https://insuranceblog.accenture.com/forget-covid-19-its-time-to-start-insuring-the-new-normal

The year 2021 was all about restoring business and consumer confidence through widespread vaccine rollout and easing of pandemic-related restrictions. With many countries likely to experience the next COVID-19 wave in December, a level of uncertainty will remain. Against this backdrop, what will this new normal look like for insurers in 2022?

The insurance industry has made great strides in their digital capabilities with the onset of the pandemic. It, however, still lags far behind that of its contemporaries. One of the biggest pandemic-related shift has been consumer's expectations and demand for digital services, thus making digital interaction the new norm. The rise of on-demand insurance, fuelled by lifestyle shifts amongst the 'Now Generation', is also set to reshape the future of insurance as we know it. For insurers, partnering with tech firms and businesses to embed insurance products, especially at point of purchase, can unlock valuable new revenue streams and attract new customers.

Big data, data analytics and the ability to derive new risk-related insights from it, will be key for competitiveness in the insurance industry. By tapping into the vast repositories of data available and combining this with machine learning and AI capabilities, insurers will be able to develop new data-based insurance products. It envisaged that through digital transformation and AI integration, the traditional role of insurance will potentially evolve from pure risk protection towards risk prediction and prevention.

In post-pandemic, remote working is set to play a major role in the 'new normal' in the insurance industry. As reported by McKinsey



Global Institute, the insurance industry is primed to become a leader in remote working environment.[2] The report reveals that the need for technological skills in the sector will increase by 55% by 2030, while the need for physical and manual skills will decline by 14%. Meanwhile, about 50% of tasks associated with claims will become automated. Given the acceleration of digital transformation seen during the pandemic, this trend is expected to continue well into 2022.

An explosion of new economies and evolving customer needs present incredible opportunities for insurers who can build innovative and adaptable products. Insurers that are slow to embrace this within their lines of business, risk losing market share to better-attuned competitors. Given these new realities, the insurance industry is expected to search for growth through new service-based models, innovative products and better focus on prevention.

[2] https://www.mckinsey.com/featured-insights/future-of-work/whats-next-for-remote-work-an-analysis-of-2000-tasks-800-jobs-and-nine-countries

Cyber Insurance: Insights, & Trends

Cyber insurance has grown steadily over the past decade. But it was only last year that it experienced a sharp increase in demand due to digitalisation accelerated by the COVID-19 pandemic and rapid increase in claims. If anything, the pandemic amplified cybercrime due to increased reliance on technology as it changes the way we live and work instantaneously.

In fact, experts have even classified COVID-19 and its effects as "the largest-ever cybersecurity threat". Thus, making cyber insurance an essential cyber security and risk management tool post-pandemic.

Although some form of normality has returned, cyber security continues to be a growing concern and issue for companies across all industries. As per the Global Risks Report 2021, cyber risks continue to be ranked among the top global risks facing businesses.[1] The report claimed that the pandemic has accelerated technological adoption, but at the same time exposed cyber vulnerabilities and unpreparedness, with ransomware being the most dominant threat.

[1] https://www.weforum.org/agenda/2021/01/top-cybersecurity-challenges-of-2021/

Undoubtedly, the pandemic has forced businesses to re-think their cybersecurity strategies, reassess their cyber threat exposures, and develop cyber policy plans that can adequately manage any potential threats. Some of the key trends in cybersecurity that have defined the digital space so far, and will continue to do so in the coming years are discussed below.

Trend #1: Remote Work Cybersecurity Risks

The shift to working from home, almost overnight, precipitated by the pandemic created massive security challenges. These included increase in ransomware attacks, firmware attacks, exploitation of unpatched vulnerabilities that have been disclosed to the public and data leakages. Given that home connections are less secure, cybercriminals have an easier entry into the company network. The explosion of various online tools, solutions, and services for collaboration tend to have the bare minimum of security default setting. Employees may also not be fully aware of the threats they face, and personal devices may not have the appropriate security settings installed, can all leave a company vulnerable to cybersecurity breaches.

Trend #2: The Rise of Frequency and Severity of Ransomware

Ransomware is not a new threat. But as the world's network and infrastructure gets more complex, ransomware has evolved to become one of the most damaging cybersecurity threats today. It is estimated that between 2019 and 2020, ransomware attacks rose by 62% worldwide.[2] Insurers have had to deal with ransomware attacks not only on a large scale, but an uptick in their frequency and severity as well. According to Cybersecurity Ventures, ransomware attacks in 2021 is predicted to cost businesses around $20 billion and with a new attack happening every 2 seconds, the report predicts that ransomware damages would cost the world some $265 billion by 2031.[3] Looking beyond the COVID-19 recovery, it is unlikely that the rise in ransomware attacks is going to slow down.

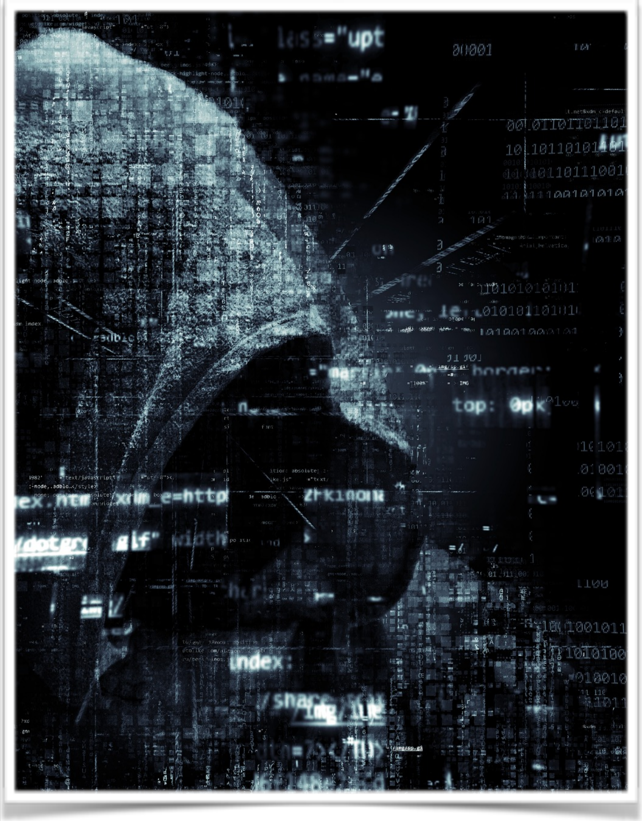
Trend #3: The Evolution of Internet of Things (IoT)

The internet of things, or IoT, have expanded and evolved to encompass everything from edge computing devices to home appliances, and from wearable technology to cars. It is estimated that by 2021, there will be more than 30 billion IoT connections and with almost 4 IoT devices per person on average, which amounts to trillions of sensors connecting and interacting on these devices.[4] The McKinsey Global Institute reported that about 127 new devices are connected to the internet every second.[5] With such constant and high volume of connectivity and data sharing, the risks of information being compromised is exponentially greater, with a growing rate of IoT attacks, particularly due to remote working and data sharing.

Trend #4: Cloud Security Risks and Threats

Cloud technology, which has revolutionised the way companies manage, share and store data; has become a common feature in most businesses' infrastructure. However, cloud adoption accelerated rapidly in the wake of the pandemic, with cloud services now being at the core of companies' digital

[2] https://www.pbs.org/newshour/nation/why-ransomware-attacks-are-on-the-rise-and-what-can-be-done-to-stop-them
[3] https://cybersecurityventures.com/global-ransomware-damage-costs-predicted-to-reach-250-billion-usd-by-2031/
[4] https://iot-analytics.com/state-of-the-iot-2020-12-billion-iot-connections-surpassing-non-iot-for-the-first-time/
[5] https://www.mckinsey.com/industries/semiconductors/our-insights/whats-new-with-the-internet-of-things



transformation efforts to support a remote workforce and digitalisation initiatives. But the high volume of data flowing between companies and cloud service providers, exposes them to new security threats including data breaches, data leak, insecure Application User Interface (API), misconfigured cloud services, malware infections, and poor access management.

Cyber threats now represent the number one top business risk, given the increasing number of cyber attacks reported and their serious financial consequences. Hence, cyber insurance, which was previously considered an optional investment, is becoming a necessity for many companies. As such, it is critical that companies – across all industry segments – understand the business risk presented by cyber attacks and ensure proper investment to manage these risks.

Based on the cyber security trends coupled with further acceleration of digitalisation, Munich Re estimates the global cyber insurance market to reach a value of approximately US$20 billion by 2025.[6] In addition, regulation is set to remain a key driver for cyber insurance, with cyber resilience a key regulatory trend in most jurisdictions within the Asia Pacific region.

As reported by Munich Re, a big portion of the demand for cyber insurance is expected to originate from the most expose industries including healthcare, professional services, retail, manufacturing, governmental agencies (including educational institutions) as well as financial services. However, as cyber threats are becoming increasingly common for small businesses, cyber insurance coverage is absolutely critical given today's environment.

There are now a raft of cyber products available in the market. In addition to traditional coverages, most cyber policy includes business interruption, cyber extortion threats and reward payments, loss of data, as well as repairing and recovering data. Business email compromise (BEC) phishing scams, a form of cyberattack, are often not covered by standard cybersecurity insurance, but are one of the most financially damaging online crimes.

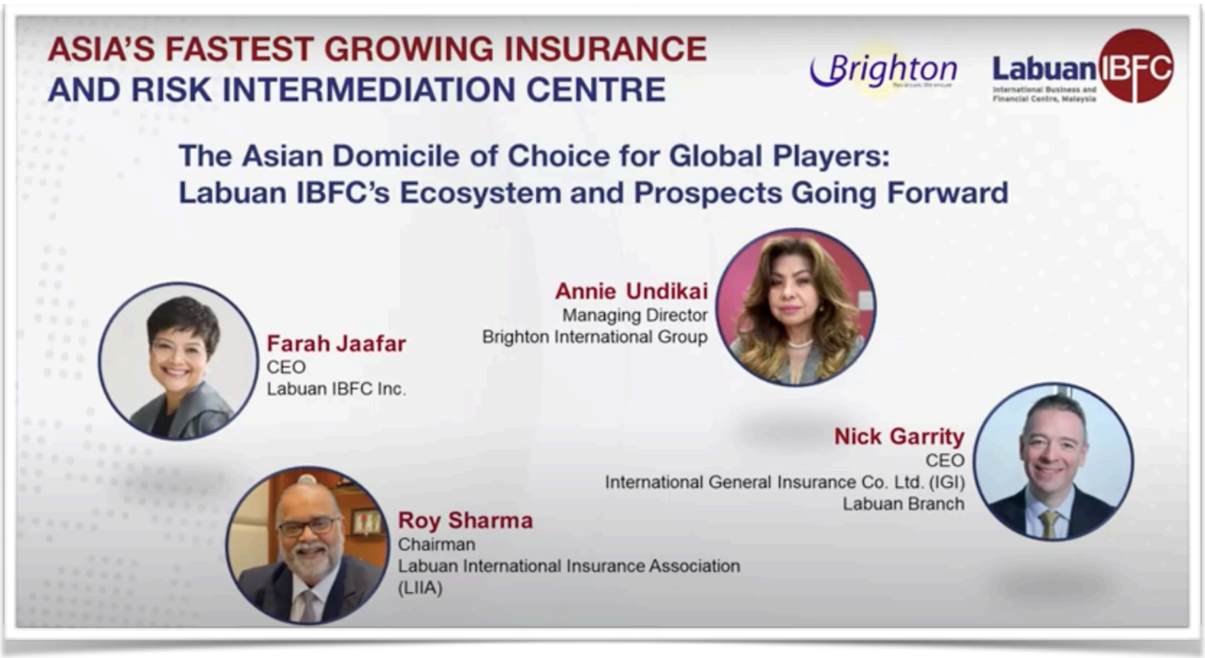
Having the right amount of cyber insurance is just as critical as obtaining a cyber coverage. How much cyber insurance that is needed will depend largely on how companies quantify their cybersecurity risks. This is done through risk quantification in which the likely financial impact of different cyber threats are identified and assessed.

[6] https://www.munichre.com/topics-online/en/digitalisation/cyber/cyber-insurance-risks-and-trends-2021.html

Labuan IBFC: Asia's Fastest Growing Insurance and Risk Intermediation Centre

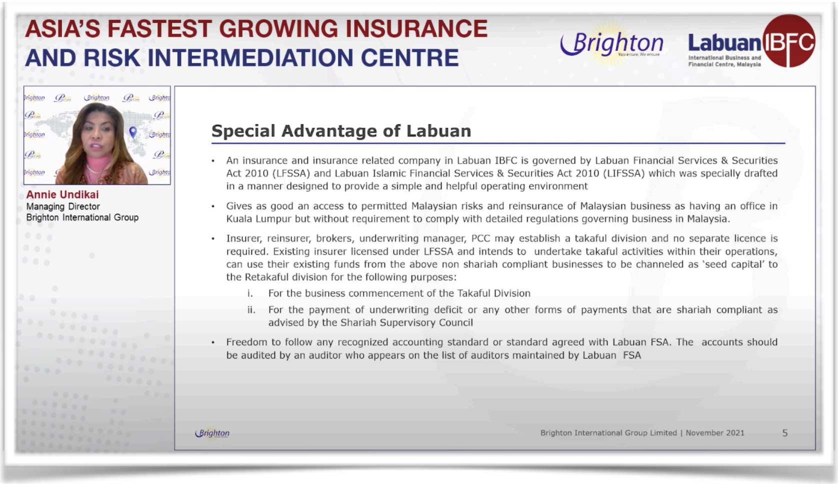
With home to over 220 insurance-related licensed entities, Labuan IBFC remains the fastest growing insurance and risk intermediation centre in the Asian region. As one of the fastest growing segments of Labuan IBFC's financial services ecosystem, the reinsurance and risk management sector is set to grow even more in tandem with the growing need for efficient risk transfer mechanisms in Asia. In a recent webinar organised by Labuan IBFC and Brighton International Group; industry experts shared their insights, market dynamics and the latest development in Labuan IBFC's insurance and risk management ecosystem.

Moderated by Farah Jaafar-Crossby (CEO, Labuan IBFC Inc.); panellists included Roy Sharma, (Chairman, Labuan International Insurance Association (LIIA)), Annie Undikai, (Managing Director, Brighton International Group) and Nick Garrity, (CEO, International General Insurance Co. Ltd (IGI) Labuan Branch).



Annie Undikai kicked off the webinar by presenting some key highlights and overview of the insurance landscape in Labuan IBFC. Despite the unprecedented challenges due to COVID-19, Labuan IBFC has weathered the pandemic resiliently with solid performance. Overall the insurance sector demonstrated better business performance with higher profitability in 2020. This was supported by improved underwriting results driven by lower claims experience.

She added that total underwritten premiums recorded a moderate growth, and largely driven by captive business followed by the Labuan reinsurance business. With foreign premiums at about 60.9% of all premiums written in Labuan IBFC, this highlights the role the jurisdiction is playing in managing risks of the growing Asian economies. Annie Undikai highlighted that an extension of this prominence in risk management is the growth in captive insurance. Home to 64 captives and with 70.2% of premiums written originated from international markets, she said that this clearly demonstrate the coming of age and maturity of the market; and subsequently makes Labuan IBFC a global domicile of choice. To-date, Labuan IBFC is the only jurisdiction in Asia that provides for the formation of protected cell companies.



As one of the leading players in Asia's insurance and reinsurance industry, Brighton International Group, via its subsidiaries – Brighton Management Limited and Park Lane PCC, is a key player in driving new captive formations, especially in Asia.

Annie Undikai went on to explain some key value propositions that make Labuan IBFC a jurisdiction of choice for insurance and insurance-insurance-related companies to set up base in the jurisdiction. Regulated and licensed by Labuan Financial Services Authority or Labuan FSA, all insurance and insurance-related companies enjoy an ideal balance of fiscal neutrality and certainty, allowing for effective management of their operational cost.

All insurance and insurance related companies in Labuan IBFC are governed by Labuan Financial Services & Securities Act 2010 (LFSSA) and Labuan Islamic Financial Services & Securities Act 2010 (LIFSSA), which was specially drafted in a manner designed to provide a simple and helpful operating environment but yet robust, modern and in compliance with international best standards and practices.

She added that a Labuan insurer and re-insurer can transact general insurance business, life insurance business (including takaful business) and may carry on the reinsurance/retakaful business of domestic Malaysian insurance business, including those transacted in ringgit Malaysia. However, they cannot transact Malaysia domestic business except as reinsurance and permitted local risks.

On the formation of captives, she explained that Labuan provides the ideal ecosystem for the establishment and management of captives, while the strong banking and corporate services industry provides for a seamless one stop jurisdiction for captive insurance entities. Annie Undikai stressed that a captive created in Labuan IBFC can be managed by subject matter experts such as Brighton Management Limited; which has the resources, knowledge and expertise to establish captives tailored to the specific needs of the clients.

As a testament to its standing as the fastest-growing risk and reinsurance wholesale intermediation market, Labuan IBFC was recently honoured the winner for the International Captive Domicile of 2021 at the European Captive Review Awards. This comes after winning the Best Asian Domicile category for the third year running at the recent APAC Captive Review Awards 2021.

During the panel discussion, Roy Sharma commented on the hardening of the insurance market. He said that in the current market conditions; rising premiums, reduced capacity and stricter underwriting can make the hard market cycle a difficult time for brokers, their clients and insurance companies. Annie Undikai added that with the hard market set to continue beyond 2021, captives have increasingly become more attractive as a risk retention tool as more and more companies are turning to captive insurance to self-insure their risks.

Sharing his experience of setting up a regional presence in Labuan, Nick Garrity explained that the plus point of choosing Labuan was that the regulator understood how company branches operate, which afford IGI to build its business in a scalable way. Thus, allowing them to build their resources here in Malaysia over time, not only primarily in underwriting but to include administration and claims as well as. He added that having a regional presence is about being closer to your customers and demonstrating to them that you are focused on their needs. The strategic geographic location of Labuan also means that IGI can serve the whole region including down into Australia and New Zealand as well as Southeast Asia.

Commenting on the growth of the Labuan insurance industry, Roy Sharma said that he is very enthusiastic about Labuan, not withstanding the challenges that the industry has been facing in the last 20 months. He added that the well-integrated financial ecosystem in Labuan provides for a conducive business environment. In fact, it was Labuan's strong ecosystem that has contributed to the resilience of Labuan IBFC as a business and financial centre despite the many challenges brought about by the pandemic and global market conditions.