Brighton NEWSLETTER

You insure, We ensure

Editor's Note

It's been almost two years since the pandemic reached our shores, and we went into our first lockdown. Looking back at the past 24 months, it's safe to say the world has undergone something that is nothing short of a revolution.

Despite signs of global recovery, uncertainty remains. Russia's invasion of Ukraine had not only triggered seismic volatility, but had added fresh uncertainty in the markets. In the previous issue, we discussed about geopolitical risks and presented some measures on how to address them.

This issue presents outlook for captives in 2022 as well as some of the technology trends that are most likely to shape innovation within the insurance industry.

With the outlook for captive remains positive in 2022, Brighton Management Limited sees the current risk management climate in Asia to be mature enough for companies to incorporate captives as part of their risk management tools.

The article on "Technology Trends Shaping The Insurance Industry In 2022", reveals that AI, data analytics, smart contracts and blockchain are technologies the will see the most acceleration in 2022. Moving forward, digital transformation is no longer a competitive edge, but rather innovation and creating new opportunities are the New Black.

Annie Undikai,
Managing Director

Captive Insurance Outlook For 2022

In the past 2 years, Black Swan events, despite their supposed rarity, have occurred with startling frequency. From a global pandemic to a canal blockade impacting global trade and a winter storm creating a widespread power outage for days; these unforeseen risks are undoubtedly difficult to predict and insure against.

Given the present transformational times we are living in, such Black Swan events are expected to become more frequent. Although we can never predict with specificity which particular black swan will happen and when, we can know with certainty that one eventually will. As such captives, as an alternative risk financing tool, have increasingly become a key element in the overall risk management programmes of many organisations. The rising attractiveness of captives was also borne from prolonged hardening market, which is characterised by increased premium and reduced capacity in the market.

This growth in captives is manifested not only in an increase in the number of new captive formations, but also in the expansion of existing captives to finance risk across a wider range of coverages and different lines of business. This includes coverage for medical stop-loss, environment, cyber, medical professional liability, employment practices liability, and directors and officers liability.

As many companies increasingly turn to captives for their insurance needs, what are some of the opportunities and continuing challenges for captives in 2022?

It is likely that the captive industry will see ESG themes and principles integrated further into captive strategy, especially concerning the assessment of retained risk and investment strategy.[1] Moreover, businesses have realised that as they move to build a more sustainable carbon footprint, the ability to use surpluses generated from captives to implement future ESG initiatives could build value.

Emerging risks will continue to play a significant role in the formation and expansion of captives as they are, by default, designed to provide cover for 'extraordinary' risk.

2022 will also see captives for cyber risk coverage take off. According to the Identity Theft Research Center (ITRC), 2022 is expected be a record-breaking year for cybercrime, due largely to the acceleration in the implementation of digital transformation programmes and trends associated with cyber risks, which are the direct result of the global pandemic.[2] This was affirmed by the 2021 Global Risk Management Survey published by Aon, where cyber was ranked the number one risk globally.[3]

As the financial and economic effects of the pandemic continue to put a strain on businesses, managing supply chain risks have emerged as one of the top concerns for businesses worldwide. As such we can expect to see more businesses turning to captives to address these risk factors and circumvent business interruptions.

With corporate risk landscape constantly shifting and changing, 2022 will see continued formation of new captives with innovation and technology being key drivers. This follows the increasingly complex risks and the greater willingness of business owners to manage them.

[1] https://www.captiveinsurancetimes.com
[2] https://www.entrepreneur.com/article/416093
[3] https://www.aon.com/2021-global-risk-management-survey/index.html

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Technology Trends Shaping The Insurance Industry In 2022

Conservative by nature, the insurance industry has traditionally been slow to modernise and to adopt new technologies. However, the recent disruption from global pandemic had a profound impact on virtually every industry – not least, the insurance industry. Insurance providers have come to realise that systemic changes brought on by the pandemic will require a technology-focused approach to drive growth, improve operational efficiency and enhance consumer experience. Despite the challenging environment that has continued to impact operations, insurers have shown that they can undertake large-scale change quickly while continuing to serve customers with minimal disruptions.

The years 2020 and 2021 have seen a fundamental disruption to the 'normal' way of doing business. In the face of an unprecedented pandemic, businesses were forced to shift business strategy, accelerate digital transformation and grapple with the new normal.

As businesses plan for 2022, digital transformation will no longer be just a competitive edge but rather it will be about creating new possibilities through technology and innovations.

2022 will likely see insurers invest heavily in new technologies that would allow them to manage risks more effectively and make use of complex customer data. Data-driven analytics and effective data management will be key drivers in the insurance industry for operational efficiency, data reliability as well as in meeting regulatory requirements. The ability to compile and analyse granular data is now transforming the way insurers grasp market development trends and better understand the deep-seated. Consumers also stand to benefit from Big Data as pricing will more accurately reflect their risk behaviour.

Investment in artificial intelligence (AI) will continue to rise among insurers and become a prominent market trend. As reported by Deloitte, 74% of insurance executives plan to increase their investment in AI.[1] AI and machine learning are being used for an ever-expanding array of applications, including fraud detection, claims processing and risks assessment. For example, AI-driven underwriting systems enable underwriters to accurately quantifying unstructured and qualitative data points (social media, news feeds, data from public sources); and convey a comprehensive risk profile in a highly interpretable manner. Studies have reported that AI can help insurers improve underwriting capacity by over 50-60%.[2] Since the data processed by AI tends to be more accurate, insurers will be able to make better underwriting decisions.

The use of AI in insurance claims processing has been steadily increasing, with a 50% year-on-year increase in 2021 alone.[3] An AI-based claim management system can potentially reduce input time by almost half, cut human error, fast-tracked claims payments and improve turnaround time for claim processing.

Smart contracts and blockchain are becoming a common feature in the insurance industry's value chain. The recent Smart Contracts Market Research Report estimated that the global smart contracts market will reach approximately $300 million by 2023.[4] By applying smart contracts and blockchain to their existing processes, insurers will benefit from improved data quality and enhanced transparency across parties involved in the insurance value chain.

These market trends are shaping the current insurance landscape, creating significant opportunities for those insurers who are willing to embrace their potentials.

1 https://www2.deloitte.com/us/en/insights/industry/financial-services/financial-services-industry-outlooks/insurance-industry-outlook.html

2 https://www.birlasoft.com/articles/how-is-artificial-intelligence-transforming-commercial-insurance-underwriting

3 https://venturebeat.com/2022/02/02/how-ai-accelerates-insurance-claims-processing/

4 https://www.marketresearchfuture.com/reports/smart-contracts-market-4588

State Of The Cyber Insurance Market

Cybercrime has become a real threat today and has been on the rise, particularly during the onset of the pandemic. With the advancement of technology, cyber crimes have emerged as a major issue all across the globe that transcends geographical boundaries.

According to estimates by Cyber Ventures, global cybercrime cost is expected to grow by 15% annually over the next five years, to reach $10.5 trillion by 2025.[1] Cybercrime costs include a number of factors, including damage and destruction of data, theft of intellectual property, and stolen money.

By far, the most prominent threat in cyber space at present is ransomware. As highlighted in the 2022 Cyber Threat Report, there was a significant uptick in the frequency and severity of ransomware cyberattacks in 2021, with global attack volume increasing by 105%.[2] Multiple high profile ransomware attacks were reported last year, targeting mainly companies with global supply chain or critical infrastructure (such as the Colonial Pipeline Attack) and software/IT service providers (such as SolarWinds); causing widespread system downtime, economic loss, and reputational damage. This trend is set to continue in 2022 and beyond. Such ransomware events and other cyber incidents highlight the importance of effective cyber risk management and the need for adequate cyber insurance protection.

However, the widespread impact of ransomware and cyberattacks have led to major changes within the cyber insurance market and thus a hardening market. In response to the severity and frequency of losses experienced by the cyber insurance market, insurers have had to adjust rate to account for these losses, taking broad corrective measures such as restricting appetite, requiring minimum basic cybersecurity controls and requiring companies to demonstrate not just security but resilience as well.

Despite the surge in demand for cyber insurance as companies to sought to mitigate cyber risk presented by the new reality of the constantly growing cost of a data breach, the cyber insurance market faces several challenges that can potentially hinder its growth. These include lack of standardised policies, rising costs of cyber insurance and coverage changes in response to increase in substantial losses related to the ongoing surge of ransomware attacks and other cybersecurity breaches.

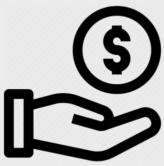
1 https://www.globenewswire.com/news-release/2020/11/18/2129432/0/en/Cybercrime-To-Cost-The-World-10-5-Trillion-Annually-By-2025.html

2 https://fortune.com/2022/02/17/ransomware-attacks-surge-2021-report

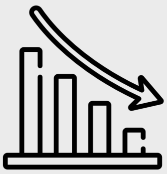
Insurance Industry At A Glance

2030: INSURANCE OUTLOOK

$10 trillion
Projected size of the global insurance industry by 2030



15% - 20%
China's expected share of global GWP by 2030

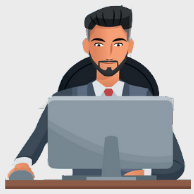


20%
Expected reduction in claims payout across all lines due to tech & data capabilities

50%
Expected reduction in operating expenses due to automation, IoT & modular technology architectures

Source: Insurance 2030, Bain & Company

CYBER INSURANCE SNAPSHOT



35%
of business leaders are considering taking out a cyber insurance policy

81%
of C-level executives said they feel inadequately protected against cybercrime

25%
of C-level executives were unaware of the opportunities that holistic cyber solutions offer

17%
of C-level executives do not have an overview of cyber insurance products & services in the market

Source: Munich Re Global Cyber Risk & Insurance Survey, 2021