Brighton NEWSLETTER

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Editor's Note

Insurers and reinsurers today have to be content with an uncertain post-pandemic world, the rise of Insurtech and emerging risks as they push their digital strategies. Those insurers which are able to navigate this new world will be best positioned to support the economy as it enters what analysts are calling a multi-year up-cycle.

In this issue, we feature articles that explore some of the trends and key issues impacting the industry. Our article on "Underwriting Risks In A Digital Era", highlights the changing nature of risk and how underwriters need to adapt to this risks evolution.

Another key development is the rising importance of ESG in the insurance industry. The second article discusses the real impact of ESG on insurers as well as their future strategy and business model. Regulatory pressure and changing business environment are key drivers shaping the industry in the ESG space.

But for every challenge encountered there is opportunity for growth. The growth of the gig economy presents an interesting opportunity for the insurance industry as the industry rebounds post-pandemic.

On behalf of Brighton International Group, I am delighted to welcome the newly appointed Authority Members of Labuan FSA. We look forward to their contribution of ideas and insights.

Annie Undikai,
Managing Director

Underwriting Risks In A Digital Era

The need for efficiency and evolving customer expectations are some of the forces underpinning the movement towards greater digitisation in the insurance industry. With the insurance industry increasingly dependent on data, statistical analysis and catastrophe modelling; digital transformation is no longer just a competitive edge, but critical for business resilience.

Underwriting has been a key focus area as insurers elevate their digital capabilities. Most insurers have actively been upgrading their underwriting capabilities with advanced technology and expanded data sources.

The case for modernising underwriting comes after greater pressure for underwriters to bring more science to the art of underwriting in order to take advantage of the proliferation of available data. But this is not just about technological automation; it also encompasses making more precise underwriting decisions.

A report by Deloitte Insights outlined three trends that are expected to drive digitisation in underwriting:[1]

- Need to more actively evaluate clients' risk factors rather than relying on historical data.
- Shift from judgement-driven decision making to employing some degree of science.
- Understand the effects of risk mitigation and management strategies on the underwriting process.

The report highlighted that automation, alternative data, and artificial intelligence make up the "foundational elements" of a shift to digital underwriting. By leveraging real-time data, industry insights, and market-sensing capabilities; underwriters are better equipped to not just help customers manage risk, but also provide insights on how to avoid and prevent exposures.

Advancement in technologies like AI, big data analytics and automation have significantly improved the sophistication and capability of the underwriting process.

The nature of risks that insurers have to underwrite has changed considerably over the years. Risks have become bigger, far more complicated and in some cases have expanded into new areas. The pandemic has highlighted that risks are now global, systemic and interconnected. For instance, the dynamics of climate change will influence the nature of risks across the globe and will inevitably affect the insurance industry.

Similarly, the emerging systemic risks related to cyber threats, data protection, and new privacy laws are driving the digitalisation of the underwriting process.

By digitising underwriting processes, underwriters are able to analyse raw data in near-real-time to determine if risk conditions have changed beyond an accepted tolerance and if pricing is accurate for a given risk tier.

Emerging technologies such as AI and machine learning are transforming underwriting process by making it much more streamlined, accurate, and consistent. Through artificially intelligent systems that can assess an application profile against billions of data points accrued from 3rd party sources, underwriters can now gain visibility into the most relevant risk factors associated with a client profile.[2]

Similarly, AI can be used to process vast repositories of data and create visualisations to help underwriters understand potential threats that may be difficult to detect via manual data analysis. As the nature of risk itself is changing, underwriters will need to adapt to the evolution of risk to remain relevant and stay competitive.

[1] https://www2.deloitte.com/us/en/insights/industry/financial-services/future-of-insurance-underwriting.html

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

The Growing Impact of ESG On The Insurance Industry

Over the last several years; environmental, social and governance (ESG) factors have taken on a greater importance for industries worldwide and the insurance industry is not excluded. How companies decide to integrate ESG factors into their decision making not only impacts stakeholders and their interests, but carries sizeable ethical outcomes as well. These various implications have resulted in increased pressure for the insurance industry to focus on ESG and determine appropriate ways to integrate these vital factors into business strategies.

According to BlackRock, 78% of insurers believed that COVID-19 has accelerated their focus on ESG.[1] The study also showed that insurers are increasingly investing in specific ESG strategies and consider ESG risk to be a key factor when assessing new investment opportunities. The launch of the ESG guide by the Principles for Sustainable Insurance initiative in 2020, has further highlighted the growing importance of integrating sustainability practices into global insurance.

Needless to say, the COVID-19 pandemic has underscored the relevance of ESG considerations to company's performance as well as investment returns. But what is the real impact of ESG on insurers and their future strategy and business model? What are the key aspects that insurers need to address to create executable and informed ESG strategies ?

As the industry enters 2022 against the backdrop of COP26, and the various commitments made on decarbonisation and net zero; it's clear that ESG principles have risen to the top of the agenda for insurers. It also presents the opportunity for the industry to contribute to the reshaping of the financial system, either through mobilising capital for decarbonisation, helping to facilitate the transition of carbon intensive industries or helping to drive credible adaptation and transition strategies for their clients.

With regard to the impact of ESG on the insurance industry, there are several drivers that will shape the industry in the next 2 to 3 years. The first will be increased regulatory pressures. Although Principles for Sustainable Insurance (PSI) focuses on providing guidance rather than 'hard' regulation, the introduction of the EU's Sustainable Finance Disclosure Regulation (SFDR) is likely a taste of further regulation to come.[2] Under the SFDR, financial market participants are required to

[1] https://www.blackrock.com/sg/en/institutional-investors/insights/global-insurance-report-2020#Prioritising
[2] https://oxbowpartners.com/blog/risks-and-opportunities-for-insurers-from-the-esg-wave/

report how they consider sustainability risks in their investment processes and products and how they deal with principal adverse impacts of their investment decisions on sustainability factors. According to a survey by DWF, 55% of senior executives in the insurance industry said they have experienced increased pressure on ESG matters from stakeholders such as regulators, customers and employees.[3]

ESG criteria will also have an impact on product development. Insurers are expected to integrate ESG into their product development strategy such as developing products and services that advance the transition towards a decarbonised society. With climate change high on the agenda of many companies, insurance industry can support the sustainable development agenda by providing insurance products that are designed to reduce damage and loss incurred from extreme weather events caused by climate change.

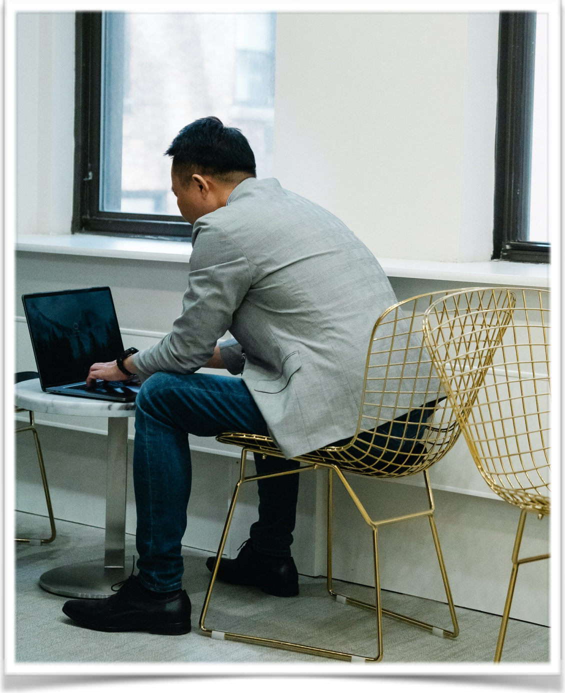
The changing business environment will affect underwriting exposures, both in terms of physical risks and liability risks, as litigation becomes more targeted at corporations that fail to adhere to ESG requirements. This will likely impact insurers' decisions around risk selection, underwriting and pricing.

A growing number of insurers are now responding to these increased concerns with insurance coverages, risk management, technologies and practices that are intended to transfer or manage ESG exposures.[4]

[3] https://dwfgroup.com/en/news-and-insights/reports-and-publications/making-esg-an-integral-part-of-the-business

[4] https://riskonnect.com/uk/press/esg-issues-bring-greater-risks-more-scrutiny/

Insurance Gaps In The Gig Economy



The emergence and rise of the gig economy is one of the hallmarks of the digital disruption era. What started as secondary revenue streams have now become a primary source of income for many since the onset of the pandemic. Today, the economy has extended beyond ride sharing and food delivery to include grocery shopping, tutoring, personal shopper, software developer/ consultant, fitness training, craft making, and even dog walking.

Research by Mastercard and Kaiser Associates predicts that the gig economy will be worth some US$455 billion globally by 2023.[1] With the gig economy growing exponentially, this has created an opportunity for insurance and insurtech products that can address the needs of workers and the platform businesses that employ them. However, insurers must be willing to adapt and innovate their product offerings to appeal to the needs of these gig workers. With technology now being an integral part of everyday life, it is important that the insurance industry follows suit to adapt to a more on-demand and user-accessible consumer behaviour.

In designing products that are suitable to gig workers, it's important to firstly understand their demographics. People involved in the gig economy are generally younger, with 91% of gig workers aged under 55. About 56% of gig workers are between 18-34, the age bracket where savings are relatively low, but where protection is needed most.[2] Furthermore, gig workers are naturally tech savvy and self-directed consumers who don't necessarily want to speak to an insurance broker or agent. Hence, selling of insurance products should be more automated and user-friendly,

In terms of product innovation, a simple pay-as-you-go product with short term cover could be more suitable for gig workers than traditional long-term protection products. Flexibility is also important as not all gig workers are the same. Given that the risks and needs of these gig workers vary greatly and change constantly, it is important for insurance coverage to reflect this. Added features such as the ability to vary the income level to be covered without further underwriting when customers change jobs or when multiple gigs are performed could bring a huge shift in the number of gig workers protecting themselves. Thus, changing underwriting criteria and distribution channels would help close the protection gap for this growing section of workers.

1 https://anziif.com/professional-development/the-journal/volume-44/issue-3/insurance-for-the-gig-economy

2 https://www.hymans.co.uk/insights/research-and-publications/publication/protecting-the-gig-economy-an-opportunity-for-insurers-to-do-more/

Labuan FSA Announces The Appointment of New Authority Members

Labuan FSA recently issued a press release to announce the appointment of four new Authority Members of Labuan FSA, with effect from 1 January 2022. They are as below:

YBhg. Datuk Nor Azimah Abdul Aziz

Chief Executive Officer, Companies Commission of Malaysia

Mr. Aznan Abdul Aziz

Assistant Governor, Bank Negara Malaysia

Mr. Abu Tariq Jamaluddin

Deputy Chief Executive Officer, Inland Revenue Board of Malaysia

Dr. Aida Othman

Partner, Zaid Ibrahim & Co.

The press release issued by the authority also stated that the new composition of the Authority Members represents the synergy of representatives from multiple regulatory agencies and private sectors providing expertise in relevant subject matters including finance, tax, legal, governance, Islamic finance and digitalisation that can strengthen the overall governance framework of Labuan FSA. The new composition is said to also combine the essential knowledge and experience for Labuan FSA to plan and prepare for the next chapter of its journey in developing and modernising Labuan IBFC further.

In the same press release, the authority also announced the re-appointed Dr. Wong Huei Ching, Director of Corporate Planning & Strategy, Securities Commission Malaysia as an Authority Member with effect from 1 January 2022.

Source: Labuan FSA press release. Retrieved at https://www.labuanfsa.gov.my/clients/asset_120A5FB8-61B6-45E8-93F0-3F79F86455C8/contentms/img/documents/general_info/general-announcement/2021/Appointment%20of%20new%20Authority%20members_2022_FINAL_01012022.pdf?1648212878