Brighton NEWSLETTER
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Editor's Note

Although the world is emerging from the global pandemic crisis, two major crises loom on the horizon – biodiversity loss and climate change. Both are interrelated and mutually reinforcing problems as highlighted in the article on "Biodiversity Risk Is The New ESG". A transformative change in the way we relate to nature to address these dual crises has been put forth by policymakers and scientists.

In this regard, the insurance industry has a major role in the fight against climate change and biodiversity loss, both through mitigation and adaptation. These two approaches need to go hand in hand as both actions contribute to a more resilient, competitive and innovative.

Climate change is increasing the intensity, duration, and frequency of extreme climate events. This has created a wide range of risks for businesses, from disrupted supply chains to rising insurance costs. One solution that has gained interest is the use of parametric insurance to mitigate the effects of climate change. To know more about the benefits of applying parametric policies within a captive, read our article on "The Case For Parametric Solutions In Captive Insurance".

From all of us at Brighton, we wish all our Muslim readers Eid Mubarak and Selamat Hari Raya Aidilfitri!

Annie Undikai,
Managing Director

Biodiversity Risk Is The New ESG

Biodiversity underpins the health of the planet. As such the loss of biodiversity not only poses a risk to humanity and threatens the health of the ecosystem, but has a great impact on the economy. For example, deforestation, which is a key driver of biodiversity loss worldwide, leads to the erosion of fertile soils on agricultural land. This subsequently results in lower yields and renders the land unusable for agricultural purposes in the long run.

The loss of biodiversity has contributed to the unprecedented acceleration of climate change over the last decade. Thus, resulting in widespread adverse social and economic impact. Increase in frequencies of hurricanes, tropical storms and wild fire, and longer spells of drought have devastated millions of people. Many were left in absolute poverty, with food security becoming an increasing concern globally.

In a study by Swiss Re, it was reported that the effects of climate change can be expected to shave 11% to 14% off global economic output by 2050, which amounts to about US$23 trillion in reduced annual global economic output worldwide.[1] The World Economic Forum, on the other hand, estimates that more than half of the world's economic output (amounting to about US$44 trillion) is at least moderately or highly dependent on nature, implying a positive correlation between nature and the global economy.[2] Hence, if nature continues to degrade, the world's economic output also suffers.

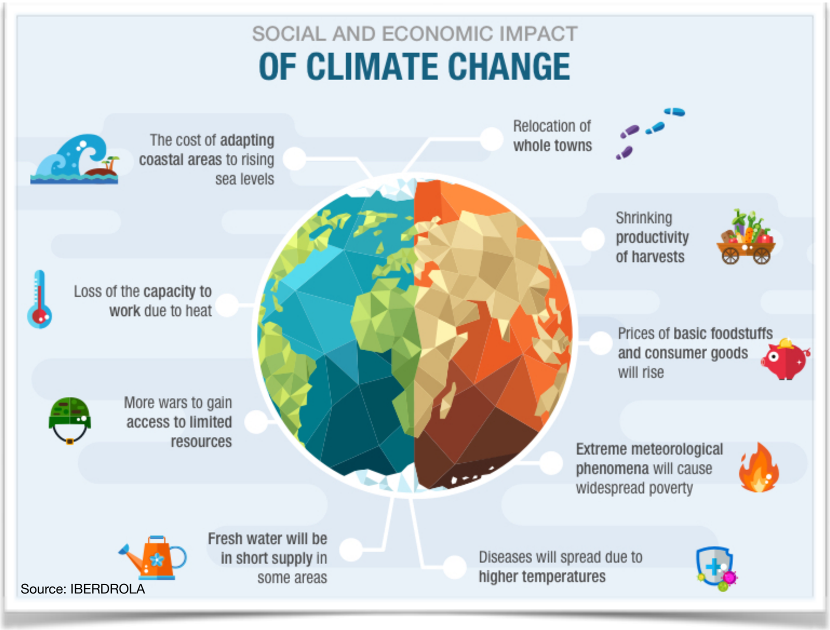
Given the scale and pace of the decline in biodiversity, the World Economic Forum's Global Risks Report listed "danger to biodiversity from human activity" as the top three most severe risks over the next 10 years.[3]

As with climate change, biodiversity impact disclosures may soon became part of corporate reporting. Towards this end, a new global initiative known as the Taskforce on Nature-related Financial Disclosures (TNFD) was established with the aim of developing a framework for organisations to report on risks from biodiversity loss and ecosystem degradation. This in turn, is envisaged to improve the availability of data and information that would ultimately enable organisations to integrate nature-related risks more accurately and reliably into their decision making.

As more nuance and detailed understanding of biodiversity issues take place in sustainability discussions, biodiversity will be the new frontier in ESG investing and transparency.

The insurance industry has an important role to play in addressing the emerging risk of biodiversity loss and demonstrating its commitment to biodiversity conservation. If not properly managed, biodiversity loss may lead to write-downs and write-offs in affected business lines as well as increasing claims and rising premiums. Such loss would potentially impact multiple classes of insurance including directors' and officers' (D&O) and financial lines.

As an industry, insurers should be on the frontline of biodiversity loss. They can respond through several ways such as incorporating biodiversity and ecosystem strengths and weaknesses into their risk selection and ultimately pricing in the future.



[1] https://www.swissre.com/institute/research/topics-and-risk-dialogues/climate-and-natural-catastrophe-risk/expertise-publication-economics-of-climate-change.html
[2] https://www.weforum.org/reports/nature-risk-rising-why-the-crisis-engulfing-nature-matters-for-business-and-the-economy
[3] https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf

The Rise Of The Attention Economy: What It Means & How To Thrive In It

The term attention economy was coined by Nobel Laureate Herbert A. Simon, who framed attention as the "bottleneck to human thought" in which he stressed that in an information-rich world, the wealth of information creates a deficit in attention. Some 50 years later and with the dawn of the digital age, this concept has become the central facet of modern life today where attention takes on two important characteristics – it is limited and valuable. Since there is so much competition for our attention, we can only devote a limited amount of time to each new information. In short, attention economics refers to treating consumer attention as a rare valuable commodity.

The COVID-19 pandemic has forever reshaped consumer behaviour and with it business dynamics. With mobility restrained due to enforced lockdowns, consumers embraced the digital lifestyle for their dose of social contact, alternative forms of home entertainment, and shopping. This has speeded up the development of various social commerce features in major platforms and shifts in the social media landscape within a short period.[1]

Businesses, on the other hand, were pushed to increase their virtual communication and online offerings. Hence, much of the business focus during the pandemic pivoted from innovation of products and services, to capturing and keeping customers' attention with the ultimate aim of converting them into paying customers.

Technological advances have made an overwhelming amount of information available, strategically aimed at capturing our attention.

[1] https://digital-business-lab.com/2021/01/top-social-media-trends-that-you-need-to-know-in-2021/

As companies begin to fully understand the psychology behind the scarcity of attention, they are now adapting their business models to capitalise on it. As a result, consumers are constantly flooded with information and content across multiple platforms, thus making it increasingly difficult for companies to capture their attention. It has been suggested that the average consumer is exposed up to 10,000 brand messages a day, and that number is only likely to rise.[2] However, according to a study, humans now have a shorter attention span than goldfish, which is about 8 seconds to be exact.[3]

So, how do companies compete and thrive in this new era of attention economy, especially with so much noise? How can companies market their business, service or products to the ever increasingly distracted customer base? Competing on content and price point alone won't be enough. Instead, the key to gaining the upper hand in the new attention economy is for companies to focus on designing differentiated experience that is build on consumers' individual needs.

Researches have shown that utilising personalised content establishes emotional connections with customers, which subsequently, leads to brand loyalty and equity. Many companies are already harnessing the power of AI to gain customer insights to deliver personalised content.

In the attention economy, trust is vital. As consumers are bombarded with information overload, they tend to pay attention to those they trust and ignore the rest. This has in turned given rise to the power of influencers. The unique power of Influencers lies in their direct access and engagement with followers.

Correlated to the attention economy is the emergence of social proof, which is a psychological and social phenomenon where people mirror the actions of others to feel like they belong. Evidence of social proof is in the large number of followers, shares, and likes of an influencer. For this reason, companies should focus on measuring Return on Influence (ROI) in order to asses the impact of influencer marketing on their business.

[2] https://eventeem.co.uk/attention-economy-2019/

[3] https://www.csoonline.com/article/2922807/microsoft-goldfish-have-higher-attention-spans-than-we-do-thanks-to-digital-lifestyles.html

The Case For Parametric Solutions In Captive Insurance

Parametric insurance has gained much interest in recent years as a viable alternative to traditional insurance, particularly for risks that are considered uninsurable or where coverage is inaccessible such as natural catastrophes and weather risks.

The basic concept of parametric solutions is quite simple – it is a coverage that pays the insured a pre-determined amount when the pre-defined trigger event happens, such as earthquake or hurricane. However, the payout is not simply linked to physical damage only, but can offer coverage for non-physical damage including business interruption losses.

One of the main benefits of parametric insurance is that coverage can be tailored to specific exposure. It also provides for transparent and efficient claims process. Since parametric insurance relies on a pre-agreed payout, claims are processed faster and efficiently.

While parametric insurance is not new, renewed interest in this alternative form of risk transfer is attributed to advances in data science, blockchain technology and artificial intelligence, which have enabled superior data collection and better access to real time data.

These advancements in technology have enabled insurers to evolve the modelling of data and indexes that are used to determine the triggering parameter of the insurance pay-out, price cover more accurately and provide a more bespoke selection of cover across a variety of industries.

Embedding parametric coverages into captives offer a number of benefits for captive owners. Having access to parametric expertise would enable captives to accept risks that they would otherwise not be able to underwrite, which in turn will help build more data on risks and enhance their risk management strategy.

Growth of the parametric risk transfer market has stimulated ideas around how parametric structures can be utilised to fund risk retention in a captive. For example, captives can be used to structure protection for operational risks via parametric coverage, where coverage is triggered by various indices, such as wind speed for storm coverage.

With weather-related exposure on the rise, in part due to climate change and biodiversity loss, there is already an uptick in interest around applying parametric policies within a captive.

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Wishing Our Muslim
Clients & Friends
A Joyful Eid

Selamat
Hari Raya
Aidilfitri

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Brighton International Group