Brighton NEWSLETTER

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Editor's Note

It's nearly impossible to go online these days without coming across the term metaverse. Ever since Facebook announced its metaverse plans, the internet has been abuzz with theories and predictions about what the metaverse will contain and how it will work.

Our first article in this issue looks at the rapid growth of the metaverse market and the potential it holds in creating opportunities for innovation within the insurance industry.

With stagflation on the horizon, the World Bank warned that many countries could fall into deep recession reminiscent of the 1970s. But is this economic condition permanent or just short-lived? The article on "Is Stagflation Making A Comeback?" delves into the issue.

Our final article discusses the growing popularity of medical stop loss captive as an option to fund employee medical benefit plans against the backdrop of escalating healthcare costs.

June was a busy month for the Labuan insurance fraternity. Several events were organised on the side line of the 25th LIIA Annual General Meeting. Thank you to those who attended and made these events a success! A huge congratulation goes to the newly elected council members for the term 2022 - 2024.

Annie Undikai,
Managing Director

Is Metaverse The Next Frontier For The Insurance Industry?

The term 'metaverse' refers to the combination of 2 worlds – meta and universe; and is used to describe a combination of the virtual reality and mixed reality worlds accessed through a browser or headset. Unlike the internet where it is used to search, browse, share or retrieve information; users in a metaverse interact with the internet inside a computer-generated world via an avatar (virtual version) of themselves.

Considered as the next evolution of the internet, the metaverse platform elevates the internet experience of users by establishing a virtual world in which they can conduct business, engage in gaming, socialise, enjoy entertainment, or even buy and sell virtual land and buildings. All these experience are obtained through the use of a mixture of technologies such as augmented reality (AR), virtual reality (VR), and mixed reality (MR).

Although metaverse is still in its infancy, it is rapidly evolving and attracting investment and business commitment. In October last year, Facebook announced that it was changing its name to Meta to reflect the company's new focus on building the metaverse.

Since then, the metaverse has experienced massive growth. The global metaverse market was reported at US$63 billion in 2021 and is expected to reach US$1,607 billion in 2030.[1]

Characterised as a new economy, metaverse is expected to transform and disrupt many industries, including insurance. In a recent report published by Long Finance titled 'The Metaverse & Insurance – Pixel Perfect?, several risks concerns were highlighted.[2]

Firstly, risks to users of metaverse have yet to be fully understood. Risk includes long term health as well as mental health issues as metaverse gets seamlessly integrated into our lives. The overuse of digital technology has been linked to several mental health issues, such as depression, psychoticism, and paranoid ideation.[3]

Spending too much time on a digital environment could negatively impact our ability to engage in non-virtual life and lead to social anxiety.[4] Hence, the report suggested that the insurance industry develop specific insurance products related to metaverse applications, such as insuring users against long-term physical or mental harm and protection of virtual assets. It further recommended that insurers explore offering risk control and mitigation insurance coverage, rather than just compensation for loss suffered.

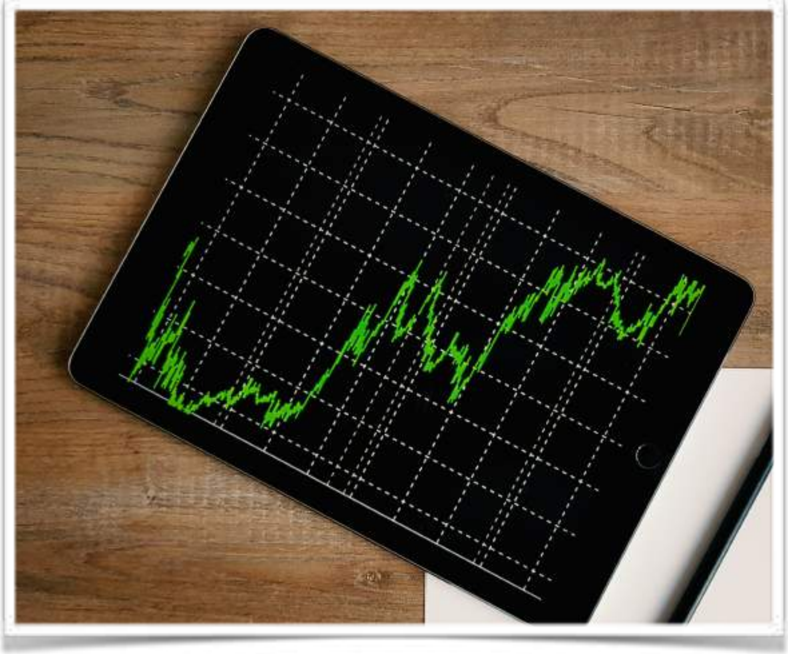
In the meta world, users are expected own digital assets such as cryptocurrencies, non-fungible tokens or NFTs, or even digital land, building and art. For example, metaverse platforms such as Sandbox, Decentraland and NFT Worlds allow users to use cryptocurrency or NFTs to buy digital clothes and accessories for their avatars as well as tickets to virtual events. Users can also purchase digital land or real estate properties, which can then be used for renting or reselling.

As a result, the protection of these digital assets presents an untapped opportunity for the insurance industry to offer coverage for land and property in the metaverse. Estimates from MetaMetriks, a metaverse land analytics provider, suggested that virtual real estate could grow to over US$1.9 billion in sales in 2022.[5]

With the growing adoption of metaverse-based platforms, security risks related to digital identities of users (both individuals and corporations) are also expected to increase.[6] Protection against digital fraud, theft, ransomware, privacy breaches, and business interruption will create huge opportunity for innovation within the insurance industry.

1 https://www.grandviewresearch.com/industry-analysis/metaverse-market-report
2 file:///Users/sofizaazmi/Downloads/The_Metaverse__Insurance_-_Pixel_Perfect_2022.01_v3.2.pdf
3 https://www.psychologytoday.com/us/blog/digital-world-real-world/202110/will-the-metaverse-impact-mental-health
4 https://nypost.com/2022/04/03/experts-predict-how-the-metaverse-will-change-our-mental-health/
5 https://www.vertafore.com/resources/blog/insurance-metaverse
6 https://www.reuters.com/article/bc-finreg-metaverse-insurers-opportunity-idUSKCN2MQ1D3

Is Stagflation Making A Comeback?



In the recent World Bank's Global Economic Prospects report, the bank warned that the global economy could slip into a period of stagflation, reminiscent of the 1970s.[1] This comes following the lingering effect of the COVID-19 pandemic and soaring food and energy prices as a result of the war in Ukraine. A survey by the Securities Industry and Financial Markets Association reported that 80% of economists see stagflation as a long-term risk to the economy.[2]

So what is stagflation? Stagflation refers to an economic situation in which inflation is high, economic growth rate is either slow or stagnant and unemployment remains steadily high. According the World Bank, the current global economic condition is said to resemble the 1970s-style of stagflation in at least 3 key aspects: "persistent supply-side disturbances fuelling inflation, preceded by a protracted period of highly accommodative monetary policy in major advanced economies, prospects for weakening growth, and vulnerabilities that emerging markets and developing economies face with respect to the monetary policy tightening that will be needed to rein in inflation."

However, the Bank of International Settlements (BIS) argued that a repeat of the 1970s stagflation is unlikely due to improved monetary policy and macro prudential frameworks, and less vulnerability to energy shocks.[3] BIS, nonetheless, urged central banks to act decisively to rein on inflation with priority in restoring low and stable inflation.

Swiss Re, in its latest report, cautioned that severe stagflation would be challenging for the insurance industry for several reasons – premium revenues would weaken and persistently high inflation would be passed through insurers as claims inflation.[4] Despite the stagflation-like conditions the world economies are experiencing, it argued that they are cyclical and short-lived. In order to mitigate these downside risks, Swiss Re advised insurers and reinsurers to maintain strong capital and risk management practices, repricing of insurance risks to account for higher claims costs, reinsurance transactions, asset reallocation in investment portfolios and hedging against inflation.

1 https://www.worldbank.org/en/news/press-release/2022/06/07/stagflation-risk-rises-amid-sharp-slowdown-in-growth-energy-markets
2 https://www.cnbc.com/2022/06/21/what-stagflation-is-and-how-to-prepare-for-it.html
3 https://www.bis.org/press/p220626.htm#:~:text=Stagflation%20dangers%20loom%20large%2C%20as,restore%20low%20and%20stable%20inflation
4 https://www.swissre.com/dam/jcr:aa523012-3a22-4ea3-90f5-c3dfaca3e695/sigma-02-2022-en.pdf

The Growing Popularity Of Medical Stop Loss Captives

With medical costs continue to escalate, captives have gained popularity as the go-to solution for employers seeking cost-effective solution to optimise their benefit plans while addressing the needs of their workforce. According to Willis Towers Watson's 2022 Global Medical Trend Survey, employer-sponsored healthcare benefit costs are expected to increase by 7.6% on average in Asia Pacific in 2022.[1] This trend is expected to continue beyond 2022, with over three-quarters of health insurers anticipating higher or significantly higher medical trend over the next three years.

The report claimed that the overuse of care due to medical professionals recommending too many services and excess of care by insured members are the top two factors driving medical costs. Contributing to the rising medical costs is the high cost of new medical technologies. All these factors combined are driving growth in the medical stop loss market.

Self-funding employee healthcare coverage has seen a tick in demand in recent years as a viable alternative risk transfer solution for many businesses as it allows them to pool their resources and risks.

A key component for self-funded plans is medical stop loss coverage. Funding medical stop loss in a captive allows companies to add a layer of protection from catastrophic healthcare costs, such as excessively high individual or aggregate health claims.

[1] https://www.wtwco.com/en-SG/Insights/2021/11/2022-global-medical-trends-survey-report

How does medical stop loss captive work? Each participating employer has their own aggregate stop loss coverage to pay for claims up to a specific amount. In the event that one employer exceeds their individual stop loss, the remainder of the group will share in the loss up to a certain amount. Meanwhile, the stop-loss carrier will pay for large catastrophic claims.

Medical stop loss captive offers several benefits to companies looking to gain control over their escalating healthcare. Firstly, it enables employers to capture underwriting profit when losses are less than projected as well as accrue investment income on premium reserves. Hence, surplus derived from the captive's underwriting and investment return can be invested, returned to the shareholders as dividends or used to reduce future premiums. The flexibility afforded by accumulated captive surplus can help the employers manage their future insurance costs.

Medical stop loss captives can also be used to improve access to claims data as well as financial performance through data analytics. The increased ability to identify specific cost drivers can help employer to effectively control the cost of risk and more appropriately adjust risk management, claims and funding.[2]

Other benefits include less volatility than traditional self-funded programme, provides companies the ability to stabilise their health insurance costs, affords companies opportunities to improve their health management strategies, and allows small- to mid-sized companies to enjoy many of the perks of self-funding while also minimising exposure to larger claims.

When choosing which captive structure to adopt, employers have a number of options based on the size of the business and risk appetite. Single parent captives are suitable if the company wishes to have complete control over the programme and is typically for large companies; whilst group captives are suitable for employers with smaller populations.

However, if the company is looking to share the risk but prefer to use an existing captive facility rather than form their own, a rent-a-captive solution using a protected cell captive is beneficial.

Interest in medical stop loss captive will continue to grow as medical costs continue to soar. If properly structured, captives can stabilise and even lower the cost of medical stop loss coverage.

[2] https://www.wtwco.com/en-SG/Insights/2021/11/2022-global-medical-trends-survey-report

Congratulations

BRIGHTON INTERNATIONAL GROUP EXTENDS A HEARTIEST CONGRATULATION TO ALL NEWLY APPOINTED LIIA COUNCIL MEMBERS (2022 -2024)

<u>Chairman:</u> Mr Gerard Roy Suresh Sharma
<u>Deputy Chairman</u>: Ms Annie Undikai

<u>Council Members:</u>

Mr Faris Salim Davidson
Ms Jocelyn Yeo Lee Choo
Mr David Yeah Eng Hock
Mr James Ng Kai Hung
Mr Anthony Ramesh Sivanathan
Mr Abdallah Badaoui
Ms Rosfadzilani Ghani
Mr Nicholas Julian Garrity
Mr Ahmed Farouk Aripen
Mr Lee Jeffrey Warner
Mr Haruhito Imakoji
Ms Helen Barbara Smith
Ms Pua Boon Leng

LIIA Annual Events — June 2022

June was a busy month for members of the Labuan International Insurance Association (LIIA). A string of events was planned on the side line of the 25th LIIA Annual General Meeting that took place on 24th of June at Tiara Hotel Labuan.

The event kicked off on the 23rd of June with luncheon hosted at Brighton Office, followed by dinner at the famous Mawilla Yacht Club Restaurant where guests were treated to some amazing mouth watering seafood dishes. The next day was a full-day programme for LIIA members. The day started with the Labuan FSA - LIIA Bilateral Meeting. In attendance were the Director General of Labuan FSA, Mr Nik Mohamed Din Nik Musa, and several senior directors of Labuan FSA. Meanwhile, LIIA was represented by its Council Members, headed by Mr Gerard Roy Suresh Sharma as Chairman. The bilateral meeting serves as an effective platform for greater collaboration between Labuan FSA and the industry players. Amongst others, attendees were updated with the overall performance of the industry as well as latest developments by both Labuan FSA and LIIA.

Director General of Labuan FSA, Nik Mohamed Din Nik Musa, with LIIA Council Members at the Labuan FSA - LIIA Bilateral Meeting.

Representatives from Labuan FSA

Representatives from LIIA

In the afternoon, guests were served a lavish luncheon hosted by Brighton. Everyone took the opportunity to catch up and reconnect after more than 2 years of pandemic disruptions.

Luncheon was followed by a presentation on the development of Labuan Island by Perbadanan Labuan and a briefing on the Labuan Entity Corporate Assessment (LECA) rating services by RAM Ratings.

In the afternoon, the 25th LIIA Annual General Meeting was held, which saw the appointment of council members for the new term of 2022 - 2024. Mr Gerard Roy Suresh Sharma and Ms Annie Undikai retained their respective positions as Chairman and Deputy Chairman.

Other council members include Mr Faris Salim Davidson, Ms Jocelyn Yeo Lee Choo, Mr David Yeah Eng Hock, Mr James Ng Kai Hung, Mr Anthony Ramesh Sivanathan, Mr Abdallah Badaoui, Ms Rosfadzilani Ghani, Mr Nicholas Julian Garrity. Mr Ahmed Farouk Aripen, Mr Lee Jeffrey Warner, Mr Haruhito Imakoji, Ms Helen Barbara Smith and Ms Pua Boon Leng. Heartiest congratulations to all newly appointed council members!

LIIA Council Members 2022 - 2024

The day continued with a night of glitz and glamour at the LIIA Annual Dinner. In keeping up with the theme "Silver", guests were all dressed up ready to party and enjoyed a night of dancing, music and entertainment.


The LIIA 2022
Annual Events


The LIIA 2022
Annual Events


Annual