Brighton NEWSLETTER

You insure, We ensure

Editor's Note

Like so many other industries, the rapid advancement of technology is changing how insurance businesses operate and interact with customers. Despite disruptions that it has brought, technology has also created new opportunities for the industry.

This month we feature an article that discusses the future for insurance and NFTs. As the use of NFTs and blockchain technology expands, so will the need to manage risks associated with them.

Global digital transformation of insurance has seen insurtech grow in importance. Demand for insurtech is driven primarily due to the paradigm shifts of insurance companies toward integrating cloud computing, adoption of predictive analytics, and augmenting demand for improved customer services. Read more on insurtech trends and innovation in page 5.

Our article on sustainability of the insurance industry discusses how the industry lags behind in embracing ESG in its underwriting and investment decisions. Quoting Aviva's Chief Executive, Amanda Blanc, "the industry cannot speak with a forked tongue on global warming".

On another note, I am delighted to share that Brighton is the proud sponsor of the Asian Captive Conference 2022, that is happening on August 18. Do join us as together we explore insights and emerging trends in self-insurance.

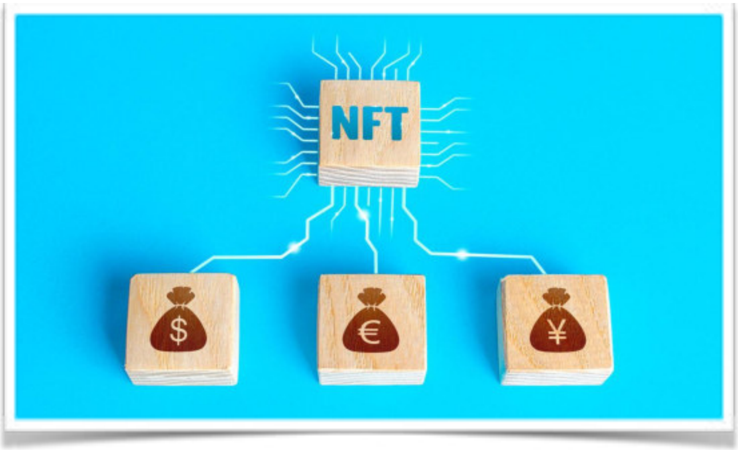
Annie Undikai,
Managing Director

Non-Fungible Tokens (NFTs) & Insurance: Is There A Future?

Non-fungible tokens or NFTs, which have taken the world by storm, have fundamentally changed the market for digital assets as we know it. Given the extraordinary impact of NFTs, the term itself has been selected as word of the year by Collins Dictionary.

What are NFTs? Essentially, NFTs are essentially digital tokens that carry data and are stored in a blockchain ledger. The non-fungible property of the token means that every token is unique and cannot be replicated. But the most innovative part of NFT is that it enables digital creations or assets to be authenticated.

The current enthusiasm over NFTs is driving a digital art revolution that is radically changing how art and collectibles are bought, sold, tracked, and verified. Within the digital art space, NFTs serve as a digital certificate of authenticity that can be assigned to anything in the crypto art world. With an NFT, a digital image is assigned a unique



string of numbers, allowing for collectors to distinguish between the original and any copies. It is important to note that an NFT is just a record of ownership for the digital object – not the object itself.

However, there has been a shift towards the use of NFTs for physical assets or real estates. In real estates, for instance, NFTs can be used to sell fractional ownership on a property. In this case, homeowners could sell part of their property to a large number of small investors by issuing tokens on the blockchain. Investors, in return, will receive rental income.

With NFTs becoming the latest hot digital trend, what does this mean for the insurance industry? Although the NFTs market has grown significantly – valued at $15.70 Billion in 2021[1], insurance policy covering NFTs is still in its infancy.

Although it is exciting to see how NFT insurance pans out, few issues associated with insurance coverage of NFTs must be resolved, such as figuring out how to value NFTs and deciding what factors to include in the risk analysis of an NFT. But setting valuation of an NFT is difficult. Since the assets that NFTs represent are not fungible, there is no market price to establish valuation the way a cryptocurrency can be valued. Lack of data is another problem facing NFT insurance. Since the NFT market is at an early stage, many insurers are reluctant to insure digital assets due to lack of data availability.

When it comes to protecting NFTs and other digital assets, developing new forms of coverage that is specifically designed around risks inherent in NFTs is the key. For example, the digital NFT – the computer code, could be insured in case the URL or the metadata is somehow corrupted.[2]

Insurers could also offer protection for smart contracts, which are used to buy and sell NFTs. In the case that something goes wrong with the smart contract resulting in a loss, a claim can then be made on the loss.

Given the unique nature of NFTs and their associated risks, there is a need for bespoke insurance products that can provide solutions to mitigate risks that are unique to the nature of NFTs.

[1] https://www.globenewswire.com/en/news-release/2022/05/26/2451426/0/en/The-Global-Non-Fungible-Tokens-NFTs-Market-is-expected-to-reach-a-value-of-USD-122-43-Billion-by-2028-at-a-CAGR-of-34-10-over-the-forecast-period-2022-2028-SkyQuest-Technology.html

[2] https://www.insurancethoughtleadership.com/emerging-technologies/nfts-are-hot-where-insurance

Towards A More Sustainable Insurance Industry

The world is facing a sustainability crisis. Climate change, loss of biodiversity and deforestation are some of the sustainability issues that need to be addressed urgently. These issues have gained more prominent attention from the insurance industry given their systemic effects. For instance, climate change exposes insurers to heightened financial risks as frequent and intense weather events can lead to higher claims and reduce the value of property investments. When addressing sustainability issues, the insurance industry can drive sustainability agendas through their underwriting decisions, investment choices, how their insurance products are structured and by engaging with clients on environmental, social, and governance (ESG) issues.

However, insurance companies are lagging behind the finance sector's push to embrace ESG, with only few of the world's largest insurers considering climate change and biodiversity loss in their underwriting decisions. A new ranking by ShareAction gives the lowest ranking – an E – to almost half (46%) of the world's 70 largest insurers for their sustainability practices.[1] When it comes to ESG performance on underwriting and investment, ShareAction reported that underwriting lags behind investment. It reported that only 11 insurers have net zero targets for their investment activity, whilst merely two have actually set net-zero targets for their underwriting activities.

1 https://shareaction.org/news/new-data-shows-insurance-giants-driving-climate-change-biodiversity-loss-and-human-rights-violations

The report by ShareAction further suggested that one reason as to why insurers' approach to incorporating ESG in their investment decisions is more advanced is because insurers have been able to learn from other asset managers on how to incorporate ESG issues into investment decisions. As for the underwriting side, the report cited that a much more insurance-centric approach is required.

In an interview with the Financial Times, Aviva's Chief Executive, Amanda Blanc, said that underwriting needs to catch up with investments and warned that the insurance industry cannot "speak with a forked tongue" on global warming as the industry's efforts in sustainability needed to be reflected in how it sells its products.[2] She further added that it is imperative for the industry to have conversations with corporates with regard to the industry's ability to underwrite something which is no longer considered as sustainable.

In the realm of sustainable investments, the industry has made significant progress with sustainability becoming an integral part of the industry's risk management activities. Insurers can influence sustainability through their investment strategies as we have seen in recent years. Many insurers have increased their asset allocation to green or impact bonds, representing growing interest in sustainable investment practices.[3]

The growing momentum in sustainable investment among insurers is also evident in the introduction of strict new standards around what businesses, from an ESG standpoint, must achieve to be considered for investment.

[2] https://www.ft.com/content/d28bc40e-ce61-470a-8ab5-281b32b8ae09

[3] https://www.insurancebusinessmag.com/ca/news/environmental/insurers-and-esg--what-difference-can-they-make-in-canada-406661.aspx

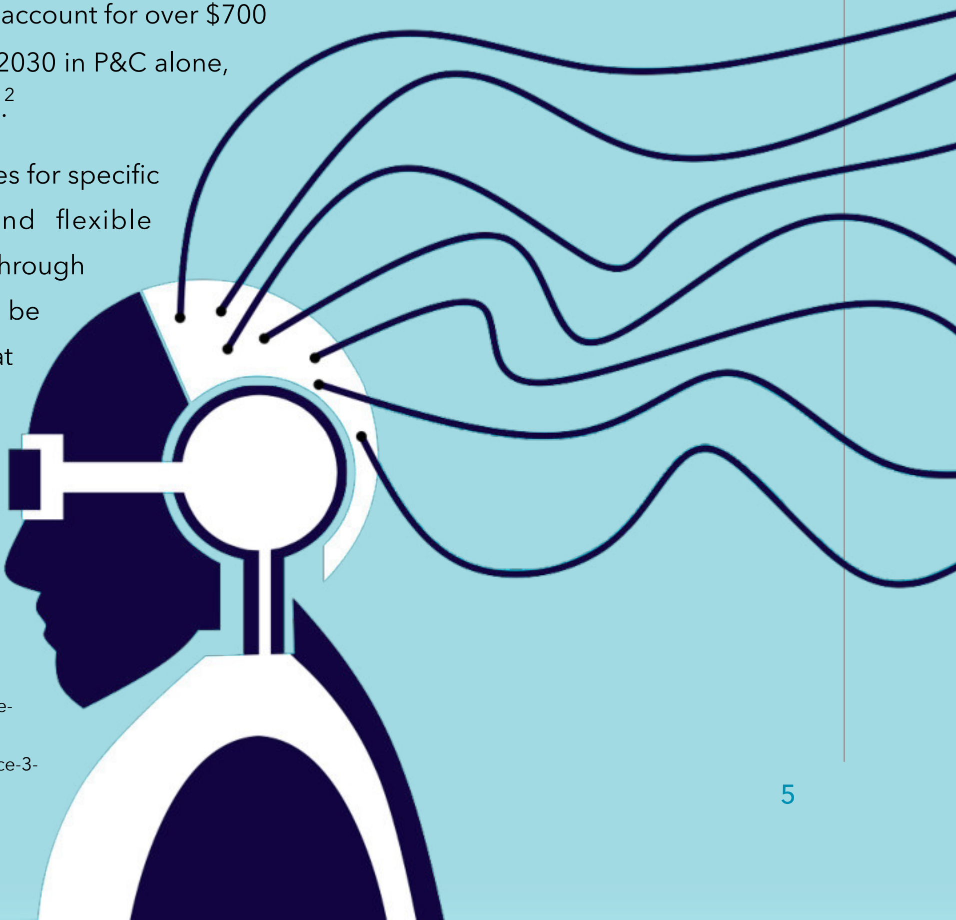
Insurtech Trends & Innovation

There are many innovations and trends that are currently shaping the insurtech landscape. As insurtech gains momentum across the insurance industry, we look at key trends and innovation that are driving the sector. The most obvious trend in the insurtech space involves artificial intelligence (AI). The application of AI in insurance policies is becoming more common and widely accepted. With the power of AI, insurers can deploy bots that would review claims autonomously and provide automation in underwriting process. In a survey by LIMRA, it was reported that 74% of insurance companies who benefited from accelerated underwriting have seen a reduced wait time for policies, 59% have realised a reduction in policy cost while 37% have seen a gain in their sales.[1]

With the advent of smartphones, where everything and anything is just a click away, consumers have come to expect and demand connectivity 24/7. This has been translated into demand for seamless digital insurance experience. Through app technology, insurers can easily connect with tech-savvy customers and provide on-demand usage-based cover for a wide variety of things. We expect to see upward trends in the development of insurance mobile app development as well as higher adoption by the policyholders. An innovation in insurtech is the application of telematics technology to analyse driving patterns via smartphones, and thus better able to provide customers with fairer insurance policies.

Another trend is the increase in embedded insurance enabled by the use of application programming interfaces (APIs). With embedded insurance, third-party provider/developer can now integrate innovative insurance products into customers' purchase journeys seamlessly, rapidly and at a low cost. An example is Ant's insurtech solutions. Embedded in Alibaba's Taobao product market place, this insurtech solution provides shipping returns protection to small businesses. Embedded insurance is projected to account for over $700 billion in gross written premiums by 2030 in P&C alone, or 25% of the total market worldwide.[2]

Insurtech has enabled tailored policies for specific situations such as short-term and flexible coverages, which are optimised through data analytics. An example would be pay as you go insurance service that activates automatically when customers connect to a foreign mobile network.



[1] https://www.botreetechnologies.com/blog/insurance-technology-trends/

[2] https://www.linkedin.com/pulse/embedded-insurance-3-trillion-market-opportunity-could-simon-torrance/

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18 AUGUST 2022

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