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# INSIGHTS

MARCH 2023



## THE 'S' IN ESG

Insurance Paving The Way For Social And Environmental Change

## BACK TO THE FUTURE

Rethinking Our Approach To Climate Change

## EMBEDDED INSURANCE

A Game Changer For The Insurance Industry

## Editor's Note



Welcome to the March issue of INSIGHTS, where we delve into the latest trends and innovations in the insurance industry. In this issue, we examine the impact of technology on claims trends, highlighting advancements that have revolutionised the claims process, making it faster and more efficient than ever before. We also explore the rise of social factors in ESG, with insurers having the potential to drive social and environmental change, emphasising the critical role of ESG factors in a company's long-term success.

Our editorial team takes a unique perspective on climate change, encouraging readers to learn from the past but also to rethink our approach. While past solutions have been valuable, it is crucial to understand that the solutions to climate risk are not in the past.

Lastly, we highlight how embedded insurance is driving growth and providing greater accessibility and convenience to consumers through technology and collaborations, leading to new product offerings.

We hope you enjoy reading this issue of INSIGHTS and find the content both informative and thought-provoking. As always, we welcome your feedback and encourage you to share your insights with us.

*Annie Undikai*  
**Annie Undikai**  
**Managing Editor**

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# **CLAIMS TRENDS**

**How Insurance Companies  
are Adapting to Change**



The insurance industry is a vital aspect of modern society, providing individuals and businesses with a safety net against unforeseen losses and damages. At the heart of this industry is claims activity, which serves as the primary mechanism through which insurance companies help policyholders recover from losses.

As society and the business environment continue to change and evolve, so too does the landscape of claims activity. With advancements in technology, insurance companies are now able to handle claims faster and more efficiently than ever before. From mobile apps that allow policyholders to file claims from anywhere to sophisticated algorithms that help adjusters process claims more accurately, technology is revolutionising the claims process.

Societal trends are also influencing claims activity. With an increasing focus on social responsibility and environmental sustainability, insurance companies are paying closer attention to the impact of claims on the environment as well as communities. Consequently, many are adopting claims practices that are sustainable and responsible, with an emphasis on prioritising the welfare of policyholders and the wider world.

Emerging trends in claims activity in 2023 are being influenced by a number of events as well as the state of the global economic conditions. Claims across all business lines are expected to escalate in frequency and severity due to the convergence of various macro factors, including recessionary pressures such as double-digit inflation and high-interest rates, together with growing geopolitical instability. In this article, we will explore key trends driving claims activity across different lines of business.

### **Cyber Claims**

The trend in cyber claims has been steadily increasing over the years, as the frequency and severity of cyber attacks have become more prevalent. The insurance industry has responded to this demand by expanding its cyber insurance offerings. But as the risks continue to evolve and become more complex, the insurance market is also becoming more specialised and selective in the coverage they offer.

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In recent years, supply chain issues have dominated the business landscape, and this trend is mirrored in the cybersecurity sector. According to a report by Verizon, over 60% of system intrusion incidents occur through an organisation's partner.<sup>1</sup> Despite this, many firms focus on their own cybersecurity measures and overlook their vendors or digital supply chains.

Marsh and Microsoft's latest annual global cyber risk survey, which surveyed over 1,000 respondents, found that only 43% of businesses had conducted a risk assessment of their vendor or supply chain.<sup>2</sup> This oversight can lead to increased business interruption losses, particularly when larger companies and their digital supply chains are targeted.

The risk of cyber attacks is increasing rapidly, and so are the costs associated with such attacks. In recent years, there have been several high-profile data breaches that have resulted in millions of dollars in losses. In 2019, a hacker gained access to the personal information of over 100 million Capital One customers and credit card applicants, including names, addresses, credit scores, and Social Security numbers. The breach cost Capital One over \$300 million in settlements and other expenses. As organisations become increasingly reliant on technology to conduct their business, the cyber claims trend is expected to continue rising alongside growing risks.

<sup>1</sup>Verizon, Ransomware threat rises: Verizon 2022 Data Breach Investigations Report, May 24, 2022

<sup>2</sup>Marsh and Microsoft (2022). The State of Cyber Resilience Report. Retrieved from <https://www.marsh.com/us/services/cyber-risk/insights/the-state-of-cyber-resilience.html>

### Climate Change Claims

Climate change is no longer a distant threat but a present-day reality, with the impacts being felt around the world. Extreme weather events such as hurricanes, floods, and wildfires are becoming more frequent and severe, leading to an increase in claims.

According to the Intergovernmental Panel on Climate Change (IPCC), the number of weather-related loss events has tripled since the 1980s. The economic losses from these events have also increased, from an average of \$50 billion per year in the 1980s to over \$200 billion per year in the last decade.

Insurers are responding to this challenge by reviewing their underwriting practices and developing new products to help policyholders manage the risks associated with climate change. One approach is to introduce climate risk assessments to evaluate their exposure to weather-related risks. Several factors are included in the assessment to determine the level of risk, such as location, weather patterns and building materials.

The insurance industry is also exploring ways to incentivise policyholders to take measures to mitigate the risks associated with climate change. Some insurers are offering discounts to policyholders who implement

measures such as installing energy-efficient heating and cooling systems or using sustainable building materials. However, addressing the challenges of climate change will require a collaborative effort between insurers, policymakers, and other stakeholders, to promote a more sustainable and resilient future.

### Data Analytics

The integration of data analytics into the insurance industry has revolutionised the way insurers approach the claims process. With the power of advanced data analysis techniques, insurance companies can now gain deeper insights into the claims they receive, enabling them to make more informed decisions.

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By tapping into data from a diverse range of sources such as customer demographics, historical claims data, and even external data like weather patterns and economic indicators, insurers can identify patterns and trends that may have previously gone unnoticed. These insights enable them to improve their risk assessments, expedite claims processing, and ultimately enhance customer satisfaction.

Through the use of data analytics, insurers can quickly identify fraudulent claims, reducing costs for both the insurer and policyholders. The ability to quickly detect fraudulent claims not only results in cost savings but also ensures that legitimate claims are processed faster, leading to increased customer loyalty and satisfaction.

As customers demand faster and more responsive claims handling, insurers are investing in technologies that enable them to deliver a more personalised and streamlined claims experience. This includes everything from mobile apps that enable customers to report and track claims in real-time, to predictive analytics tools that help claims adjusters anticipate customer needs and deliver more targeted support. In the coming years, we can expect to see even more exciting advancements in the field of claims management, as the utilisation of data analytics continues to evolve and expand.







### **Customer-centric Claims Service**

In today's highly competitive landscape, insurers recognise the importance of delivering a customer centric claims service. With customers expecting fast, efficient, and personalised service, insurers are focusing on improving the claims process to ensure a positive customer experience. This includes offering multiple channels for claims submission and status updates, providing more personalised and transparent communication, and providing faster claims resolutions.

For example, by providing various claim submission channels such as online portals, mobile apps, and phones, customers are able to choose to the most suitable channel and thus, easing the claim submission process. Similarly, by focusing on the needs of the customer, insurers can streamline the claims process and reduce the time it takes to settle a claim.

AXA introduced a mobile app that allows customers to report a claim and upload photos and videos of the damage. The app also provides customers with regular updates on the status of their claim. This has helped to streamline the claims process and reduce settlement times.

As insurance companies strive to meet the needs of policyholders and society as a whole, the future of claims activity is sure to be shaped by continued innovation and progress.

# THE S IN ESG:

## INSURANCE PAVING THE WAY FOR SOCIAL AND ENVIRONMENTAL CHANGE


**Insurers have the potential to drive social and environmental change by integrating sustainability considerations into their underwriting practices and investment strategies.**

Environmental, social, and governance (ESG) factors have long been recognised as critical indicators of a company's long-term sustainability and success. However, the social elements of ESG have historically played a secondary role, taking a backseat to environmental and governance factors. This lack of focus is partly due to the fact that environmental and governance issues are more clearly defined, and regulations in these areas are better developed, making data easier to measure and quantify. However, in recent years, the social elements of ESG are rising in prominence, becoming just as important as environmental and governance factors.





The 'S' in ESG represents social factors, which include human rights, labour practices, and community development. For the insurance industry, social factors are crucial as they can significantly impact business operations, investment decisions, and reputational risk. Insurers that incorporate social considerations into their ESG framework can enhance their ability to identify and manage risks and opportunities associated with social factors.

A close-up photograph of a person's hand holding a large, vibrant green leaf. The hand is wearing a light brown, ribbed sweater. In the foreground, a brown paper cutout of a house with a chimney is partially visible, overlapping the leaf. The background is a solid, light teal color.

The social element of ESG is particularly important for insurers when evaluating investments because social factors can have a significant impact on the financial performance of companies. Social factors, such as labour practices, employee engagement, and community relations, can affect a company's reputation, brand value, as well as customer loyalty. For example, if a company has a poor record of employee safety, it may be subject to costly lawsuits, fines, and reputational damage.

When evaluating investments, insurance companies must consider both financial and non-financial factors. By taking into account social factors, they can better understand the risks associated with a particular investment and make more informed decisions. So if an insurer is considering investing in a company with a history of poor labour practices, they may decide that the investment carries too much risk and choose to invest elsewhere.

Furthermore, insurers that prioritise the social factors may be better equipped to identify investment opportunities that align with their values and those of their customers. This can lead to investments in companies that have strong social and ethical practices, which in turn enable insurers to attract socially responsible customers and generate positive publicity. Thus, it is important for insurers to evaluate the social performance of companies they are considering investing in to determine the potential risks and opportunities associated with social factors.



In addition to evaluating investments, insurers can also use social factors to assess the risk associated with their underwriting decisions. Social factors such as labor practices, employee engagement, and community relations can help insurers better understand the potential risks and liabilities associated with insuring a particular company or industry.

If an insurer is considering underwriting a policy for a company with a history of poor labour practices, they may assess the risk of employee strikes, boycotts, or other labour-related issues that could result in a loss of revenue or reputational damage. By taking into account these social factors, insurers can make more informed decisions about underwriting risks, and prevent expensive claims and losses.

Insurers that give priority to the 'S' in ESG can more effectively recognise emerging risks linked to social factors. For instance, if an insurer is knowledgeable about emerging social issues such as the

#MeToo movement or increasing concerns regarding data privacy, they can modify their underwriting practices to address these risks and prevent potential liabilities.

In addition, by utilising social factors to evaluate underwriting risks, insurers can attract socially responsible clients and customers who prioritise transparency and ethical business practices. This is especially important in a world where customers are increasingly aware of the impact that their choices have on society and the environment.

By emphasising social factors in their underwriting decisions, insurers can demonstrate their commitment to social responsibility and ethical business practices. This can help them establish a favourable reputation and enhance customer loyalty in the long run, especially among younger consumers who are more inclined to select companies that align with their values.

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Insurers can also mitigate their exposure to reputational risks associated with unethical business practices by attracting socially responsible customers. When aligning their underwriting practices with social factors, insurers can avoid negative publicity and potential reputational damage that can result from insuring companies with poor social practices.

Moreover, insurers can leverage their resources and expertise by collaborating with NGOs and government agencies to develop various innovative policies and programmes that promote positive social change. This includes working with governments to promote environmental sustainability such as advocating for policies that incentivise the adoption of renewable energy and support the transition to a low-carbon economy.

The "Insurance & Climate Risk" programme was developed by AXA in partnership with the UNDP, to aid vulnerable communities in adapting to climate change and reducing their exposure to risk. This is part of their collaborative efforts to address the worldwide challenge of climate change.

**Through the promotion of positive social change, insurers not only show their support for the broader societal good but also enhance their own reputation and brand value.**

Through the promotion of positive social change, insurers not only show their support for the broader societal good but also enhance their own reputation and brand value. Customers are increasingly conscious of the social impact of their choices, and insurers that demonstrate a commitment to social responsibility and ethical practices can appeal to a broader audience and enhance their long-term profitability.



# BACK TO THE FUTURE

## RETHINKING OUR APPROACH TO CLIMATE CHANGE

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**While the idea of learning from the past to address current challenges is not new, it is crucial to understand that the solutions to climate risk are not in the past.**

Humanity is currently facing one of its most significant challenges in the form of climate change. Human activities such as burning fossil fuels, deforestation, and industrial processes have led to an increase in greenhouse gases in the atmosphere, resulting in global warming and severe consequences like sea level rise, extreme weather events, and ecosystem disruptions.

There has never been a more urgent need for solutions to mitigate climate change. However, it is essential to recognise that the solutions to climate change do not lie in the past. Rather, we should look into the future.

While looking at the past can certainly provide us with valuable insights into climate change, solely relying on historical





data and patterns is not sufficient for solving contemporary climate change issues. This is largely due to the fact that climate change is a multifaceted and dynamic phenomenon that is impacted by a variety of factors, such as human activities and feedback loops that were not present in the past.

The current state of the climate has undergone significant changes, and the associated risks have intensified beyond historical levels. It's imperative to acknowledge that seeking solutions for climate change by looking to the past is not viable. We cannot revert to past practices to address the current challenges presented by climate change.

#### **Forward Solutions, Sustainable Future**

Despite the urgent need to reduce greenhouse gas (GHG) emissions to address climate change, some may argue that we should return to pre-industrial practices to achieve a net-zero GHG target by 2050.

However, this approach is impractical and unfeasible given the significant growth of the global population from one billion in the 1800s to over seven billion today, and the corresponding increase in demand for energy, food, and other resources. Given this reality, it is simply not possible to rely solely on pre-industrial practices to meet the needs of the current global population.

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Moreover, even assuming the feasibility of reverting to pre-industrial methods, there is no assurance that it would yield a noteworthy decrease in GHG emissions. Modern technologies and practices are efficient because they have been designed to maximize productivity. Relinquishing these innovations in favor of pre-industrial approaches could lead to increased emissions, as substantial resources and energy would be necessary to meet the demands of a growing populace.

### **Investing in Climate Innovations**

To tackle the urgent issue of climate change, we must focus on technological advancements and innovation. Investing in research and development is crucial to create new technologies that can help us effectively mitigate climate risks and adapt to the changing environment.

Renewable energy technologies, such as solar and wind power, offer a promising solution to reducing our reliance on fossil fuels and decreasing greenhouse gas emissions. Scaling up the use of these technologies can help us achieve a cleaner and more sustainable energy system, powering our world with reliable and low-carbon energy.

Focusing on renewable energy investment not only helps mitigate climate risks but also accelerates the shift towards a low-carbon economy. This shift creates new avenues for sustainable growth and development, offering opportunities for both present and future generations.

The transition to a low-carbon economy is not just a moral imperative, but also an economic opportunity. It opens doors to the job creation and industries, while reducing the risk of stranded assets and market disruption. Therefore, investing in renewable energy is a strategic and responsible choice that can lead us to a more prosperous and sustainable future.



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## As climate change is a global problem, addressing this phenomenon necessitates a collaborative effort from all nations.

### Resilience Through Innovation

In the fight against climate change, adaptation is as important as mitigation. The impacts of climate change are already being felt around the world, and we need to take action to adapt to these changes. Investing in infrastructure, agriculture, and water management systems is crucial to ensure that communities are prepared for the inevitable effects of climate change.

Infrastructure investments including sea walls, flood barriers, as well as water management systems can provide the much-needed protection and enhance resilience to the impacts of climate change. Moreover, innovative agricultural practices can help mitigate the impact of climate change on food security. Developing drought-resistant crops, for example, can help ensure that farmers have a stable and secure source of income, even in times of environmental stress.

Through the adoption of innovative water management systems, such as rainwater harvesting, wastewater treatment, and water-efficient irrigation, water can be used more efficiently and sustainably. These systems can effectively reduce the risk of water scarcity.

As climate change is a global problem, addressing this phenomenon necessitates a collaborative effort from all nations. The Paris Agreement is an example of such cooperation, with countries committing to reducing their GHG emissions and keeping the global temperature rise below 2°C. However, much more needs to be done to ensure that these commitments are met, and that the world is on a path to a sustainable and climate-resilient future.





# EMBEDDED INSURANCE: A GAME-CHANGER FOR THE INSURANCE INDUSTRY

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The insurance industry has undergone a digital revolution, with insurers increasingly relying on technology to enhance their services. One of the most significant developments in this area is the emergence of embedded insurance, a new business model that is quickly becoming a game changer for the industry.

Embedded insurance is the integration of insurance products and services into non-insurance products, such as retail purchases or financial transactions. While this is not a new concept in insurance, technological advancements have enabled the industry to leverage it more effectively.

Traditional insurance processes are often complex, time-consuming, and require extensive paperwork. This has been a major pain point for customers, who often find it difficult to navigate the various products and services offered by insurance companies.

Embedded insurance is designed to solve this problem by providing a simple and streamlined customer experience. In embedded insurance, insurance products and services are integrated into other products or services that customers use daily. This means that customers can purchase insurance with just a few clicks or taps,



without the need for extensive paperwork or complicated processes. It also involves moving away from the idea of a "one size fits all" solution and empowering customers to create customised packages that meet their specific needs.

One of the most compelling benefits of embedded insurance is its ability to improve customer experience. By offering insurance as part of a product or service, insurers can streamline the purchasing process and eliminate the need for customers to shop around for coverage separately. For example, car buyers can now purchase insurance from the dealer when they buy a car, reducing the time and hassle of finding an insurance policy.

Embedded insurance is already making waves in several industries. For example, Airbnb has partnered with insurance companies to offer hosts insurance coverage for damages caused by guests, while Amazon offers product insurance for purchases made through its website. Similarly, both Lazada and Shopee also offer embedded shipment insurance to protect buyers against lost or damaged packages during delivery.

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Embedded extended warranties are now being offered by e-commerce platforms to provide customers with additional coverage beyond the manufacturer's warranty. One such example is Lazada's 'Lazada Care Plus' programme, which covers eligible products for up to 2 years after the manufacturer's warranty has ended. Customers have the option to purchase the extended warranty during checkout or within 14 days of receiving the product.

Banks are leveraging the popularity of credit cards to offer embedded insurance products to their customers and creating a new revenue stream. By incorporating insurance coverage into credit cards, banks are providing an added layer of protection to their customers, which can help them feel more secure and confident when using their credit cards.

Without a doubt, embedded insurance is spurring innovation in the insurance industry by providing consumers with greater accessibility, customisation, and convenience. Insurance companies are utilising technology and collaborating with other businesses to offer new products and services, leading to opportunities for growth and expansion. As embedded insurance advances, its impact on the industry and benefits to consumers will be fascinating to observe.