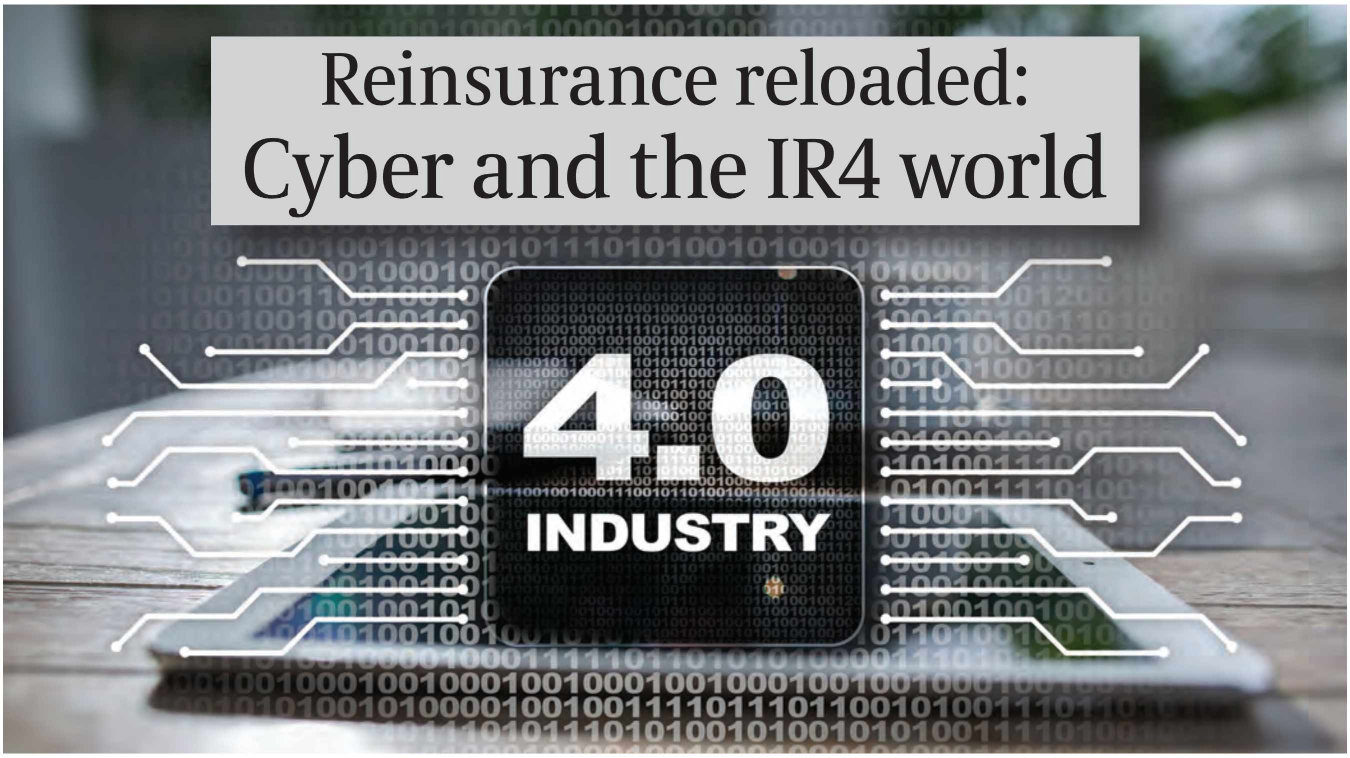
Reinsurance reloaded: Cyber and the IR4 world



The 15th Singapore International Reinsurance Conference, with the snappy theme of '*Reinsurance Reloaded*', saw much discussion on cyber, digitalisation and how the industrial revolution 4.0 environment will force the industry to adapt. Held over four days to allow for more bilateral meetings, the conference attracted a record-high number of over 1,000 registered delegates from 50 countries.

By Chia Wan Fen

"We are at the dawn of a new risk exposure area," said Distinction Global co-founder and partner Peter Hacker in his special keynote address on silent cyber risk. "There is a war happening: A cyber war among various countries." Non-affirmative cyber, already a concern for many in the industry, is here to stay and is going to grow and get worse.


Mr Peter Hacker

The future will see more cyber attacks – especially state-sponsored ones, said Mr Hacker. However, the good news is that data and modelling capabilities are improving. To limit silent cyber exposure, he advised insurers to develop central work assessment streams and look at PMLs and correlations between different lines of P&C businesses. He said that for affirmative cyber, the only difference in approach is the severity – a cyber attack on a pipelines that causes an explosion has the same PML as an explosion on a pipeline caused by a fire – thus, most importantly, correlating one's silent and affirmative cyber risks will enable good understanding of cyber exposure.

World's first commercial cyber risk pool

Asia seems to be the world's most targeted area for cyber attacks, with hackers 80% more likely to target regional organisations. Despite this, more than 60% of Asian companies do not have proper threat monitoring systems. Ground one breaking move to protect corporates in ASEAN against cyber losses is that Singapore is setting up the world's first commercial cyber risk insurance pool involving traditional and alternative capital, with up to $1bn in capacity already committed, announced the city state's finance minister Heng Swee Keat in his official opening keynote.


Mr Heng Swee Keat

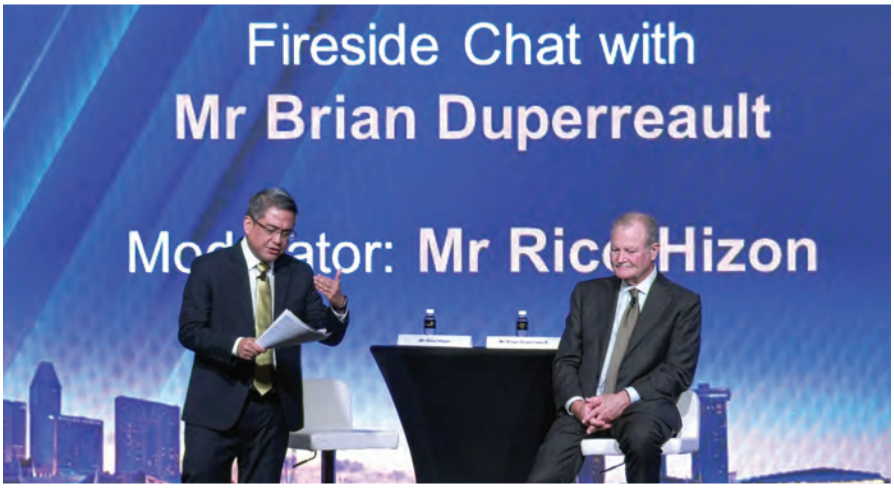
Initiated in collaboration with the Singapore Reinsurers' Association and Mr Hacker, the pool has already attracted interest from some 20 insurance companies. Mr Heng called on the SIRC participants to join this effort, and to work together to develop better risk models to price cyber risks appropriately.

"With proper pricing, more corporates will be encouraged to take up cyber risk protection," he said.

ILS and modelling for cyber resilience

Despite the difficulty in figuring out the global exposure of cyber and it being a risk that is 'beyond our capacity to handle', AIG president and CEO Brian Duperreault noted that it is a growth line; the largest growing in the industry.

Besides improving modelling, he described the ILS market as a “necessary ingredient to the solution” so that the risk can be spread over a broader base of capital, and he does not view ILS as a threat. “I hope we can really make it work in the cyber space as it’s needed there,” he said.



Ecosystems

Amid the discussion of cyber risks was also the rise of exciting tech-driven trends – digitalisation and the industrial revolution 4.0 (IR4). While speakers discussed the implications for business, they also acknowledged that at the centre of it all is still the customer, as did Munich Re global head of innovation Tom Van den Brulle during his address on digital platforms and ecosystems.

An ecosystem, he said, is an interconnected set of services that allows users to fulfil a variety of needs in one integrated experience, while a digital platform is essentially a business model that allows multiple participants to connect, interact with one another and create and exchange value.

But platform and ecosystem discussion are not only about technology. “You need to understand what the customers want. At the end of the day, it’s all about people coming together,” he said, highlighting the trend of partnership with tech providers in tech hubs worldwide, like Munich Re has done. And ecosystems will help bring together different insights and perspectives – all with the customer in mind, as efficiently structured ecosystems will allow the industry to gather more relevant data, he said.

Data, data, data

Discussing the importance of data was a panel examining the impact of IR4 associated changes on the industry. Swiss Re Institute managing director and head of insurance risk research Dan Ryan said data will help the (re)insurer develop a genuine partnership with the end customer, who provides data specific to himself, to offer him more relevant and appropriate products. And digitalisation will help to reduce the timescales in this process.

Mr Ryan said data is a valuable asset which is currently not used as well as it should be. He said a rallying call for the industry would be to show people the genuine value and rewards in sharing their data. “Very soon we’ll be at a point where a monetary value will be put on every single piece of data,” he said.

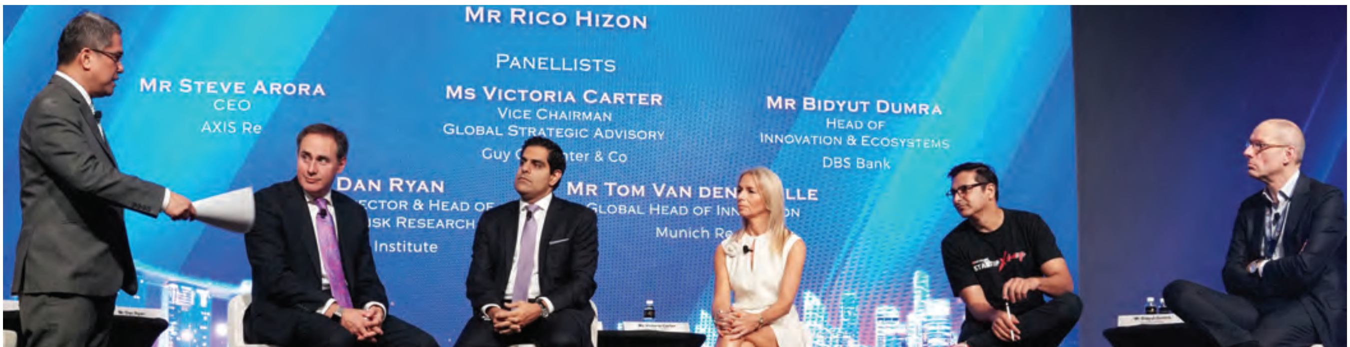
A means to customer-centricity – not an end in itself

In the ‘frenzy’ for data and analytics, Axis Re CEO Steve Arora said during the same panel that the industry should ensure that it is an enabler, not a blocker for tech change – especially for new risks where data is unavailable. Data and digitalisation should support business strategy, not the other way around, and should translate into better customer experience like speedier interactions and better pricing.

He added that the industry needs to invest in two parallel tracks – tech and human, because humans will never go away. Instead, the ‘new differentiator’ then would be the companies ‘best at being human’ now that tech is a ‘huge part of everyone’s stories going forward’. On broker disintermediation the prospect of, Guy Carpenter global strategic advisory vice chair Victoria Carter’s view was that it is ‘absolutely not’ a concern, as incumbents, with their deep understanding of clients, would be needed to help the latter navigate the current global complexity and volatility and develop tools for the future.

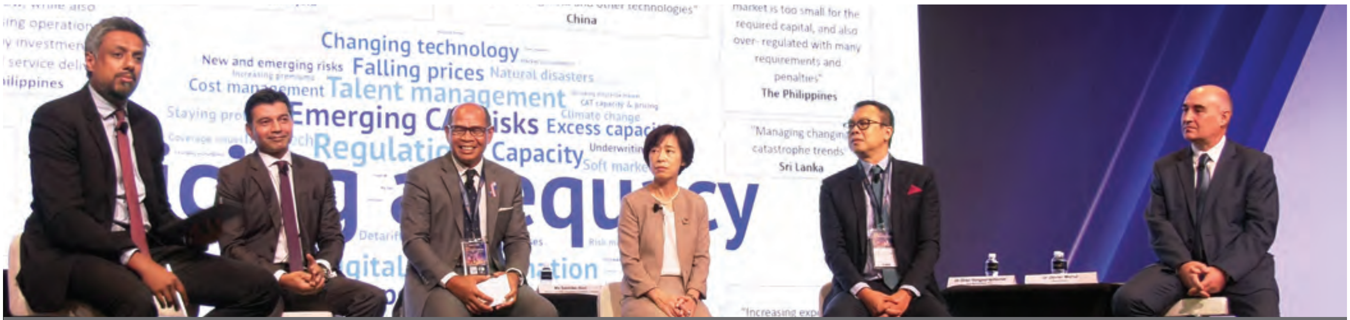
PPP and DRF

Nat CAT was also topical given the recent disasters in the region. World Bank global lead and programme manager for disaster risk financing and insurance Oliver Mahul spoke about how intergovernmental organisations and public-private partnerships are critical in providing disaster risk financing (DRF) to low-income countries and emerging markets, which are turning to entities



Panel discussion: “Reinsurance Reloaded – Industrial Revolution 4.0”
(L-R): Moderator Rico Hizon, Mr Dan Ryan, Mr Steve Arora, Ms Victoria Carter, Mr Bidyut Dumra and Mr Tom Van den Brulle.

REINSURANCE



Panel discussion: "Reinsurance Reloaded – Asian Reinsurer Response"
(L-R): Moderator Roshan Perera, Mr Bobby Heerasing, Mr Zainudin Ishak, Ms Sachiko Hori, Dr Oran Vongsuraphichet and Dr Olivier Mahul.

like the World Bank and Asian Development Bank for strategies to help them manage exposures. Such financing goes beyond insurance, and includes other complementary financial instruments such as CAT bonds to access international capacity, especially for severe disasters.

One example of a regional DRF effort is the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) endorsed by the ASEAN+3 member states, supported by the World Bank and Japan. This flood risk pool, to be set up by mid-2019 and hosted in Singapore, provides climate and disaster risk and insurance financing involving Laos, Myanmar and potentially Cambodia, said Mr Heng.

In another example of partnerships, a new industry alliance announced at the SIRC was the establishment of the Global-Asia Insurance Partnership, which aims to foster collaboration between the insurance industry, regulators and academia to deepen capabilities in risk management and insurance.

It consists of a three pronged approach: A living lab to develop solutions for new risks; a regulatory think-tank; and a talent development pillar, said Mr Heng. The Monetary Authority of Singapore will partner the Nanyang Technological University in this effort, which will also involve former IAIS secretary general Yoshihiro Kawai.

Regulation

To close the protection gap, a panel of Asian reinsurers discussed how regulation in the region could be improved to lubricate insurers' efforts for better customer protection. In PPP, deeper and more honest communication between companies and governments are necessary to put consumer priorities first, said Mitsui Sumitomo Insurance general manager and head of global PPP unit Sachiko Hori.

Malaysian Re president and CEO Zainudin Ishak said some legislation prohibitions could be removed, so as to enable insurers to provide some of the much-needed products at affordable premiums and via the most efficient distribution channels. Meanwhile, ACR Capital group CEO Bobby Heerasing said the power of social media and increasing individual access to information about Nat CAT mean that governments can no longer keep these incidents and their handling of disaster recovery under wraps for long.

"People now are demanding far more of their national, state and federal government in terms of how they react to disasters. This will, in turn, drive the demand for more forward-looking and risk managing solutions for disaster financing," he said.

With IFRS17 and RBC2 just around the corner, Thai Reinsurance CEO Dr Oran Vongsuraphichet called for a more careful adoption process as some factors around the industry cannot support what needs to be done according to the new standards or regulations.

Some other wishes expressed include regulators should address the industry with more consistency, especially for insurance firms operating across multiple jurisdictions, greater regional harmonisation and less protectionism in certain markets.

New growth opportunities

Overall, the 15th SIRC saw a mood of optimism despite the global turmoil in trade spats, M&As and terrorism, given that Asia seems well placed for 'Reinsurance reloaded'. As Mr Duperreault said, "It's the one place you can really point to in terms of growth … if you don't have a strategy around Asia, there's something wrong."

He highlighted China and India as engines of growth potential, though the former needs to open up to the innovation and competition that the global market could bring it. While AIG is on an acquisition hunt right now, with M&A the 'natural way of survival', Mr Duperreault also pointed to AI, data science and algorithmic decision-making as the InsurTech revolution that will have the biggest value for insurers seeking to facilitate the buying process.

Ms Carter shared her optimistic views. She noted that InsurTechs can be partners for incumbents and highlighted successful industry collaborations Guy Carpenter is involved in. She also pointed out opportunities in new product developments from new risks like cyber and autonomous vehicles.

Providing an outsider's perspective on sector democratisation and low barriers to entry allowing non-financial companies like Grab and AirAsia to enter the financial sector, DBS Bank head of innovation and ecosystems Bidyut Dumra said that given how "we don't even know which competitors may be around the corner", adaptability is the key to riding the digital transformation waves of change.

Mr Van den Brulle may have made the most damning remark when he said that Munich Re, and probably the rest of the industry would move from being capital providers to being tech companies too. "I don't think anyone in this industry can afford not to be a tech company anymore. And that's going to be the challenge. Now, it's about creating things and new customer journeys. That's going to be a tech play and we want to be part of it."

The 16th SIRC will take place from 29 October to 1 November 2019.