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The era of structural disinflation is definitely over

The second day of the conference kicked off with a plenary session focused on 'Global inflation – implications for the (re)insurance industry'.

Moderated by The Geneva Association deputy managing director, head of research and foresight Kai-Uwe Schanz, the session included a panel with Beazley group head of strategy Rachel Turk, Swiss Re Institute chief economist Asia John Zhu, Guy Carpenter head of capital solutions and life, Asia Matthew Rose and Munich Re global chief economist Michael Menhart.

Dr Schanz began by offering an overview that framed "the shock-like return of inflation" for the sector.

Macro view

From a macroeconomic perspective, asked Dr Schanz, how long would inflation last - before going on to highlight the cyclical drivers of inflation that ranged from the aftermath of the pandemic to current dislocations in global energy and food markets.

These pressures need to be contrasted with the structural drivers of inflation that include deglobalisation, decarbonisation and demographic shifts, he said.

Dr Schanz made it clear that we must consider the effects of inflation and rising interest rates as being two quite separate drivers – and emphasised that the effects of each will be very different on both the life and the non-life sectors. The core areas of focus are claims, reserves and expenses on one hand and lapses, margins and sales on the other.

Dr Schanz then turned his attention to focus on how the insurance value chain should respond to these pressures and identified the areas to be addressed as product design, marketing, underwriting/pricing/reserving, distribution, claims, customer service and investments.

The potential levers that could be used to influence these were identified as being cost-benefit features of propositions, administrative expenses, repricing, acquisition expenses, supply-chain management and tactical asset allocation.

Finally, Dr Schanz framed the discussion in terms of the insurance demand and supply perspective. Here, he looked at demand-side factors including affordability, risk perception and awareness and the perceived value of insurance products. On the supply side he identified mark-to-market losses, risk appetite and the scope for repricing.

Real-time audience poll

The first in a series of audience polls then indicated that 65% of the audience felt that inflation in APAC would continue to rise for the next 12 months.

Mr Zhu said, "The costs that would be of interest to insurers in APAC would continue to rise" for the year ahead.

Dr Menhart said, "It will be necessary to raise rates. There is no room for complacency on inflation. The era of structural inflation is definitely over."

He said that inflationary pressures in the US and Europe were different from those at play in APAC but that there was a "high degree of uncertainty" in both US and Europe. He indicated that the markets were forecasting a decline in economic growth – with "stagnation in the US and recession in Europe".

Inflation in Europe, he said, was being driven by energy prices whereas inflation in the US was more about wage inflation and supply-chain disruptions.

APAC

In Asia, the focus would be more on interest rates and exchange rates where, according to Mr Zhu, "central banks will be very active". There is an expectation

(continued on page 2)

L-R: Messrs Matthew Rose and John Zhu, Dr Michael Menhart, Ms Rachel Turk and Dr Kai-Uwe Schanz

(continued from page 1)

that rate hikes will continue into the middle of 2023 and probably beyond.

Mr Zhu's view was that "China is a very special and interesting case" because weakness in consumer demand has stifled inflation but when demand picks up, the result will be inflation that will peak in mid-2023.

Technology

Inflation is causing insurers to focus more on technology adoption to reduce costs. Ms Turk said, "We are real laggards in financial services in terms of being efficient," and so greater technology adoption was now critical for the insurance sector since there is little scope to raise rates.

"Can we raise rates? Maybe on some products – but on most, probably not," she said.

Mr Rose concurred. "On the life side, things are very similar. Companies that have already digitalised will be much better off than those that have not yet done so," he said.

Reinsurers: Concrete steps to achieve gender equity

While the industry has made progress in improving the representation of women in leadership roles, the sector will need to increase awareness of issues such as unconscious bias and tokenism. Speakers at the roundtable 'Who's onboard? Bridging the gender equity gap in (re) insurance' shared thoughts on what steps the industry needs to take to address gender inequality.

"I think the situation has massively improved in the last 10 years. They are taking steps but maybe not enough as we're still talking about it. The important point is to recognise that (discrimination) is not as overt these days. I think people will call it out as it's not acceptable behaviour," said AXA XL head of claims Robert Riha.

"People are a lot more conscious. The conversations over the years have made people realise what needs to be corrected. They're aware of where the gaps lie," said Guy Carpenter APAC head of agriculture Shilpa Pankaj.

Ms Pankaj is also a member of WiRE, an industry resource group for women in reinsurance. She said she has heard of instances where a woman was excluded from a discussion in closing a deal during a presentation as she did not join her male colleague in a smoking session with a client.

"It's exclusive because you're undermining the credibility of the deal in a formal environment and there's no requirement for you to do it over a smoke break. These are small anecdotes but it's worth keeping in mind that they do happen," she said.

Companies like Sompo Japan have appointed more women as directors and hopes to achieve more in the coming years. This sparked a question of how the industry can appoint more women to leadership roles but avoid tokenism in such appointments. Ms Pankaj said the industry needs to perceive work and efforts the same way regardless of gender and try to be conscious of bias.

"It is still not a level playing field. The traditional gender roles of males being providers and females being homemakers and caregivers are deeply embedded in our societies, cultures, histories and legacies. That has essentially created workplaces that are better suited to one gender over the other and it caters for their needs or preferences. And we're in a situation now if you want to work towards more equality, we will have to better understand where the gaps and needs are and address them" said Gallagher Re head of analytics and regional director Hui Yen Tai.

"Some people assume that you have to be superwoman to stand up in a room full of men. And to that, I would say that we don't need to. Women can just be themselves with a bit more confidence. We don't need to live up to expectations to be the best at home and at work. We can try to find a balance," said Ms Pankaj.

Strength in diversity

Diversity has also become linked to better productivity. A report by McKinsey found that companies with more gender diversity in their executive teams were 15% more likely to experience above-average profitability. Panellists speaking at the roundtable agreed that more needs to be done to improve employee benefits for both genders as roles in the household evolve.

"Companies are more profitable with a diverse workforce. It's always beneficial to be able to attract and retain talent. There's a real struggle to attract talent and I think we must incorporate some measures for work-life balance and mental wellbeing," said Mr Riha.

L-R: Ms Aisyah Fuad, Ms Shilpa Pankaj, Ms Hui Yen Tai, Mr Robert Riha, Ms Emiko Maki and Ms Melissa Hyak

Addressing elevated climate and cyber risks

By National Reinsurance Corporation of the Philippines' Mr Allan Santos

The adverse effects of climate change and their impact on the insurance industry are evident as climate-related insured losses globally have more than doubled in the period 2017-2021 compared to the previous five-year period.

The Philippines is no exception, especially as it suffered from the enormous damage inflicted by typhoon Rai (Odette locally) in December last year. Insured losses from this event are estimated to be at least PHP20bn ($340m).

With increasing climate-related claims costs and reinsurance costs, the Philippine non-life insurance industry, in collaboration with the Philippine Insurance Commission (IC), is adjusting catastrophe premiums.

In a recent circular, the IC published a new schedule of minimum property tariffs for earthquake, typhoon and flood risks which will be effective by 1 January 2023. The tariffs were developed with technical support from catastrophe-modelling experts of global reinsurance brokers and the National Reinsurance Corporation of the Philippines (Nat Re), the country's national reinsurer.

The tariffs, which vary by the property's risk attributes such as location, construction type, and occupancy, are on average about 18% higher than the previous single-rate tariffs for earthquake and typhoon risks. The IC circular stipulates further upward adjustments to the tariffs in subsequent years until the desired ultimate schedule derived in the tariff study is reached.

The Philippine Catastrophe Insurance Facility (PCIF), which was initially conceptualised a couple of years ago, is also coming to fruition by the end of this year. To demonstrate a proof of concept, 17 companies have signed up to automatically cede to the facility 25% of their earthquake, typhoon and flood risks at reinsurance premium rates that are equivalent to the new minimum tariff schedule.

Under the programme, companies who cede to the PCIF may take a quota share of the pooled risks in the facility, which will be protected by a common account excess of loss cover from foreign reinsurers. The PCIF therefore provides an avenue for insurers to avail of ready proportional capacity and potentially to diversify their catastrophe exposures geographically.

In addition to right-pricing and pooling catastrophe risks, Philippine insurers are also looking to diversify products to create stability in their portfolios. And with cyber security looming as a serious threat confronting consumers, insurers have started to develop cyber insurance to address this need.

In this regard, Nat Re recently launched its Personal Cyber Reinsurance Program for Philippine Insurers. Nat Re has partnered with Arthur J Gallagher and CyberScout.

Through this programme, insurers are provided a comprehensive platform for offering their customers affordable and sound financial protection against ever-evolving cyber risks, as well as valuable and on-demand 24/7 access to experts in the event of cyber incidents.

Philippine non-life insurers are facing multiple hurdles in the road ahead - climate change, rising inflation and loss costs, a hardening reinsurance market, geopolitical upheaval and competition from InsurTechs among others.

Elevated risks demand innovative and collaborative solutions. Initiatives such as these are a step in the right direction to overcome these challenges. With this mindset and approach, we can remain confident of a robust insurance industry attentive to its customers' needs.

Mr Alan Santos is president and CEO of National Reinsurance Corporation of the Philippines.

TIMELINE OF NATURAL DISASTERS IN ASIA, 2022

JANUARY

CHINA FLOODS

Economic Losses	Insured Losses	Casualties
$3.9bn	$0.2bn	178 deaths 1.28m relocated

FEBRUARY

AUSTRALIA FLOODS

Economic Losses	Insured Losses
$5.9bn	$4.3bn

MARCH

JAPAN EARTHQUAKE

Economic Losses	Insured Losses
$8.8bn	$2.8bn

APRIL

BANGLADESH FLOODS

Economic Losses	Casualties
$3.9bn	7.2m Impacted

MAY

INDIA FLOODS

Economic Losses
$1bn+

JUNE

AFGHANISTAN EARTHQUAKE

Casualties
1200 deaths 350,000 Impacted

JULY

PAKISTAN FLOODS

Economic Losses	Casualties
$18bn+	33m Displaced

Pandemic: A look under the hood

By Amir Sadiq

COVID-19 seemingly came out of left field and caught almost everyone off guard. The world is now more cognizant of the threat a global pandemic poses than ever before and is looking at ways to prepare for, and possibly mitigate the effects of, future pandemics.

Human nature

Ultimately, one of the biggest factors that could affect future pandemic risk is how the world responds to COVID-19.

During a panel discussion at the World Economic Forum's Davos Agenda 2022, Swiss Re group CEO Christian Mumenthaler brought up how experts have flagged infectious disease as a major risk for years.

"Experts generally know the risks. I've never seen anything materialise that no expert in the world had ever conceived. The issue is this doesn't get transformed into actions," he said. "In western democracies, most of the funds available to states are steered not according to risk, they're steered according to perceived risks – and that's a huge difference."

Risk perception changes massively over time and is influenced by events that have happened – just as how pandemic risk awareness among the general public was low before COVID-19 but has now moved to top-of-mind.

Mr Mumenthaler said he is not too worried at what the world does to prepare for a pandemic over the next five years but is more concerned with the longer-term and whether it can maintain its attention long enough to prepare for when the next pandemic eventually hits.

When will the next pandemic occur?

When COVID-19 first swept across the world it was widely referred to as a black swan event. The general consensus among epidemiologists and health experts, however, is that pandemics of such scale will occur much more frequently.

During a discussion organised by the Center for Global Development in July last year, Metabiota senior director of data science and modelling Nicole Stephenson presented simulation data for pandemics that would cause at least 3.5m deaths, equivalent to the COVID-19 death toll as of May 2021.

The data showed that there is a 2.5-3.3% chance for an event of similar or larger magnitude occurring in any given year, 22-28% chance in the next 10 years and 47-57% chance in the next 25 years.

The simulations considered wildlife-to-human spillover, disease-spread stochastic models, mobility networks to account for spread between and within populations and epidemic risk preparedness of different countries.

Pathogen spillover risk

Most of the research into pandemics points to human-animal interaction as the main source of viral pandemic risk.

An article posted on international think tank Chatham House's website in February said that "a new pandemic could begin anywhere where there is close interaction of people and either domesticated or wild animals."

"Spillover has likely caused every viral pandemic over the last century and its potential to trigger new pandemics is only growing," said Conservation International pandemic prevention fellow, public health physician and lead author Neil Vora in a statement.

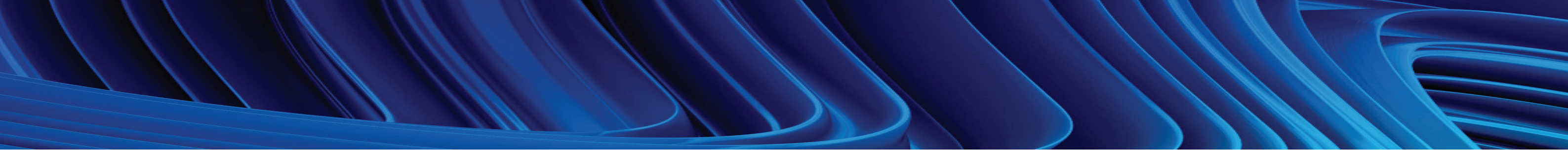
Climate change increasing spillover risk

The risk of future pandemics is also heavily linked to climate change in a number of ways. The Chatham House article, referencing an August 2021 analysis of disease outbreaks over the past four centuries, said that the yearly probability of pandemics could increase several-fold in the coming decades, largely because of human-induced environmental changes.

In April this year, the results of a study by an international research team led by scientists at Georgetown University, published in Nature, suggested that climate change will become the biggest upstream risk factor for disease emergence – exceeding higher-profile issues like deforestation, wildlife trade and industrial agriculture.

The study focused on geographic range shifts – the journeys that species will undertake as they follow their habitats into new areas.

The scientists said these shifts bring greater opportunities for viruses like Ebola or coronaviruses to emerge in new areas, making them harder to track, and into new types of animals, making it easier for viruses to jump across a 'stepping stone' species into humans.



Diabetics can be insured too

By leveraging technology and enhancing consumer trust, insurers can help the increasing number of diabetics to lead a better life with better insurance protection.

By Anoop Khanna

In 2021 India and China were among the top 10 countries with highest prevalence of type 1 diabetes (T1D) across the globe. Globally there were an estimated 8.4m T1D diabetics in 2021. This is predicted to reach 17.4m by 2040.

Historically, it has not been easy for diabetics to obtain insurance coverage at affordable rates due to the additional risks they face. For many people, access to insurance coverage is critical to receiving long-term medical treatment, but because there are different causes, treatments, and risks depending on the type of diabetes, insurance solutions can't be one-size-fits-all.

T1D diabetics have been declined for disability coverage or, if they were approved, the high premiums made insurance unaffordable.

Insurers have a unique opportunity to address this coverage gap and influence access to medical coverage and treatment options for those facing diabetes and other chronic medical conditions.

It is important for the insurance industry to build trust with its customers so that they, in turn, will be more willing to share personal data, thus allowing insurers to identify and predict the health status of their consumers better.

A SCOR research paper *Toward a better future for diabetics* published in November 2021 said that as a global reinsurer it is their responsibility to help people live longer, healthier lives, and push back the frontiers of insurability.

Leveraging technology

The research paper said, "To this end, we leverage expertise across fields ranging from medicine to technology and data, allowing us to offer new insights and better address the needs of patients managing a diverse array of medical conditions. We have moved beyond our traditional role of providing financial protection and are now engaged in partnerships and projects to provide innovative solutions."

SCOR life and health head of underwriting and claims Sonal Bagul said, "With advancements in data analytics, cloud computing and automation, there are now numerous diabetes management platforms accessible for the insurance industry to develop robust product propositions for people living with diabetes in order to improve their general health and quality of life.

The research paper said the goal of the insurers should be to apply the fairest terms possible in the interest of the policyholder. This approach will in turn help to close the protection gap and ensure that underinsured and uninsured populations have access to the protection they need.

"To accomplish this, SCOR is pioneering a new approach to more accurate risk calculation with its line of Vitae risk calculators. Harnessing the most recent data and medical insights and using an algorithm that better correlates the impact of multiple risks. SCOR's cardio risk calculator can offer new precision when an applicant has several identified risk factors or comorbidities."

Predictive management

The reinsurer, in relationship with pharmaceutical company Bayer and in collaboration with OneDrop, the diabetes management platform, is working on new solutions for diabetics. The research said we are now ready to offer a next-generation diabetes management solution to policyholders.

The OneDrop app helps individuals track their blood sugar, physical activity and diet with game-changing predictive analytics. Thanks to a sophisticated machine learning algorithm, the app is able to detect the unique patterns that drive an individual's diabetes and can help them anticipate future blood sugar levels in order to make proactive and informed decisions to manage the condition.

This additional benefit to policyholders would empower the policyholders to not only better manage their diabetes, but also to better understand how their body will react to certain foods, stressors, and other external factors.

Insurers will need to innovate and view the risks of non-communicable diseases like diabetes in a new light to provide better coverage to the diabetics and those suffering from other chronic diseases.

Taking the pulse of SIRC

We spoke to delegates from all over the world to get their thoughts on what SIRC means to them and the importance of having it as an in-person event.

The energy of the reinsurance industry from participants is very much required after two years. This year we are expecting more than 2,000 people coming in and the person who takes the most cards gets the most business. In modern business you need to connect in person. It is much more important because, back when we were meeting on Zoom, we didn't remember the faces we have seen. SIRC is meant to be an in-person event.

– India International Insurance head of department, marine hull, cargo and energy Ajay Sadana (Singapore)

When people weren't able to travel due to the pandemic, meeting people virtually was not exactly in line with the kind of industry we're in, as we are in a business of human relationships. This SIRC has been very interesting – getting back into the groove, putting the wheels back into motion and meeting people – and it gives a much more interesting forum to understand what they have been through and is surely an enrichment for the overall business. So, it's been quite a nice experience. Meeting in-person is something which has been required in the reinsurance market and that's what's good about SIRC this year.

– Marsh Asia Affinity senior vice president Ankur Gupta (Hong Kong)

It's very important for SIRC to be in-person again after two years of it being online only. It's nice to have in-person meetings with a lot of the brokers and clients here in Singapore.

– Sutton Reinsurance AVP Doris Lai (Canada)

SIRC is a wonderful opportunity for our peers in the industry to get together for this big international event in Singapore. I think it's a wonderful opportunity for networking, but also to catch up with people we haven't seen in a good couple of years now that it's in person again. So, I'm very excited to be here this week and represent Lloyd's."

– Lloyd's (Asia) senior business partner, communications and engagement, Asia Pacific, Middle East and Africa Suganthy Selva (Singapore)

"We come from the small island of Guam, a US territory, so this is a great place for us to network with big players of the world and connect with the big markets. And because we're so closed off as a little island, we never have the chance to mingle and network with these players. So, this is a great venue to attend and network with these people and have meetings with our existing partners."

– StayWell Insurance property and casualty insurance manager Yuka Artero (Guam)

"I think it is a good time for people just to be back and meeting in person. We have this atmosphere where we can meet people face-to-face and have a chance to talk in person. This is great timing for us to be back. It is a very interesting and very challenging time and we are very excited to meet our good friends after the three years that we have been apart because of COVID-19."

– Bangkok Insurance treaty management office vice president Sithikul Arayavechakit (Thailand)

"This is I believe my fifth or sixth time attending SIRC. It is very useful, especially for meeting with Asian clients and reinsurers. It will always be helpful to meet people face-to-face and discuss all the hot topics during SIRC."

– Milli Re FAIR reinsurance pool manager Aylin Kocatürk (Türkiye)

"SIRC has given us an in-person event after two years, giving us a place to meet reinsurers. It brings a lot of new concepts to the reinsurance world. It's more concentrated in Asia and maybe you can bring in more reinsurers from the European side – that will really help. But SIRC is doing good, and I really look forward to having a good conference."

– Gallagher Insurance Brokers associate director Krishna Kumar V (India)

Having a solid view of risk

Aon's Reinsurance Solution's head of analytics Brad Weir and Aon's head of Singapore treaty Katy Fairweather spoke about how insurers could better analyse and manage their risks.

Watch the full video here:

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