JOURNAL

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COME WIND OR WEATHER

The rapid rise of renewable energy is exposing new risks

Shoring up the supply chain

Cybercriminals cash in on COVID-19

Get ahead of sports concussion claims

EDUCATION | LEADERSHIP | TECHNICAL EXPERTISE | INSIGHTS | INNOVATION | COMMUNITY

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AWARDS

Insurance Industry Awards in Australia and New Zealand

The annual ANZIIF Insurance Industry Awards in Australia and New Zealand unite all sectors of insurance to celebrate excellence, professionalism and community.

The ANZIIF Insurance Industry Awards provide a platform for us to recognise the achievements and positive impact the industry has on our people and community in Australia and New Zealand. Thank you to everyone who created a submission and congratulations to the finalists — we wish you all the best of luck!

AUSTRALIA:

26 October 2021

The Australian Insurance Industry Awards will be brought to you as a movie that you can watch from your home or office.

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Save the date to join ANZIIF online and watch the awards movie premiere

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New Zealand 2021 finalists

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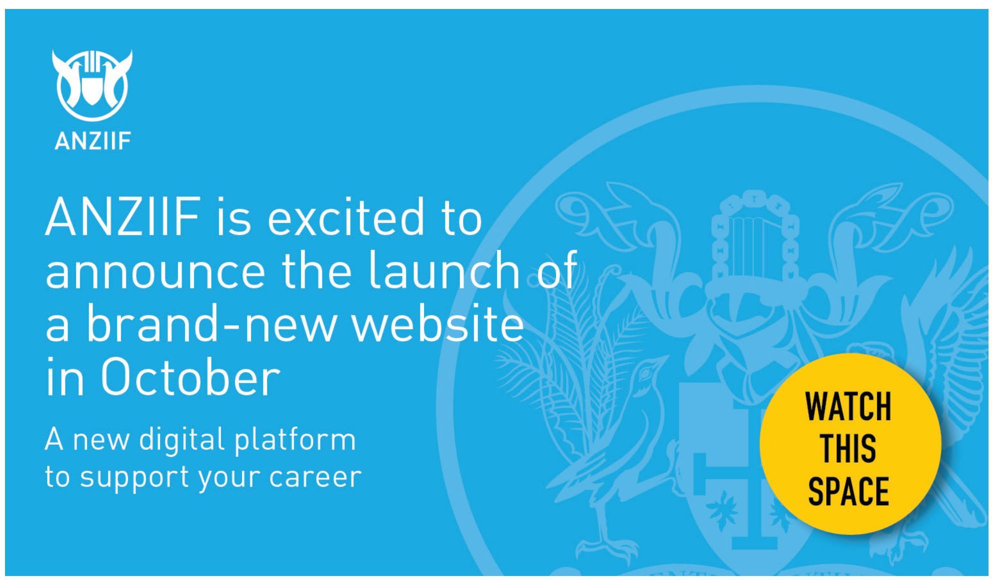


EVENT

General Insurance Breakfast

1 December 2021

ANZIIF's General Insurance Breakfast is back for its 33rd year.

ANZIIF's annual General Insurance Breakfast is a must-attend event for insurance professionals who are eager to learn about the critical and current issues that are shaping the industry.

We will be joined by a panel of insurance experts, who will reflect on the current market, explore challenges and opportunities, and discuss what the future holds.

In 2021, this event will be adapted to a hybrid format. Tickets to attend virtually are available now. For information regarding in-person offerings, please stay tuned and check the ANZIIF website closer to the event.

WHY ATTEND?

+ Listen to an expert panel discuss issues and challenges impacting the industry.
+ Find out how the industry has been responding to COVID-19.
+ Attain further insights about the current market, the future of the industry and areas of change and opportunity.
+ Develop an understanding of how these elements shape the industry's dynamics and relationships.
+ Interact with experienced industry leaders.

➔ **Register today to attend virtually**

by Zilla Efrat

Come wind or weather

As countries strive to become carbon-neutral, investment in renewable energy is growing, exposing insurers to old and new risks. Specialist skills and in-depth knowledge will be needed to support the transition.

IN SHORT

- The rapid growth of the renewable energy industry has created a host of unique risks.
- Some relate to new technology; others, like natural catastrophes and poor workmanship, will be familiar territory for insurers.
- Despite these exposures, the appetite to insure renewable energy projects is likely to remain strong.

Investment in renewable energy is growing across the globe as countries seek to reduce their greenhouse gas emissions to combat climate change and switch to sustainable, low-carbon sources of energy.

In Asia Pacific, countries such as Japan, Malaysia, New Zealand and South Korea have set 2050 as their carbon-neutral targets, according to a report by Swiss Re. Japan has also announced a green-growth strategy that aims to not only triple the share of renewable energy from the current level of 20 per cent by 2050, but also install up to 45GW of offshore wind power by 2040 to make it the main contributor of renewable energy.

In September 2020, China's president Xi Jinping committed his country — the world's biggest user of energy and emitter of greenhouse gases — to being 'carbon neutral' by 2060. China's investments in renewable energy have now overtaken investments in traditional energy.

In Australia, the federal government's stated policy is to reach net zero emissions 'preferably' by 2050. For the first time, the country had more than a quarter of its total electricity generation coming from renewable sources in 2020.

Across the ditch, New Zealand passed legislation in 2019 setting a net zero by 2050 target for carbon emissions and established the Climate Change Commission to map out a pathway there.

The risks of new technologies

Insurers in the renewable energy sector face significant risks as this market grows, in particular the use of new technologies.

'The impact of technology risk will differ between the various forms of renewable energy — for example, wind, solar, battery storage or green hydrogen production — and a good understanding of these is vital for insurers,' says Richard Nunny, head of power and energy — Australia at BMS Risk Solutions.

'Most notably, the wind industry has seen the greatest advances in technology with the size of the wind turbine generators [WTGs] pushing the boundaries of product evolution.

'In Australia, this has been a major point of focus as equipment manufacturers continue to roll out their latest WTGs, which are often both unproven and uncertified. Insurers are increasingly wary of prototypical or unproven technology, especially in this hardening insurance market where they are looking to derisk their portfolios.'

Nunny says that until different WTGs are deemed proven and have achieved type certification, insurers will impose more restrictive defects exclusion clauses.

He adds that the risk of unresolved defects manifesting from construction could also result in further cover restrictions, including increased deductibles or exclusions.

Sara Sampaio-Soares, national manager, energy and power at Liberty Specialty Markets Asia Pacific, points to the risks of deploying the latest technology or largest equipment for wind and solar photovoltaic farms. She says the industry has sustained a significant number of losses due to machinery breakdowns.

LOSS MAKERS

In a new report, Willis Towers Watson identifies some common areas where insurers around the world are making losses in the renewable energy space.

These can be caused by a variety of factors, including heat or humidity-induced corrosion, metal fatigue, animals gnawing wiring, poor maintenance and operational human error.

'From an insurance perspective, we need to ensure that we are abreast and comfortable with the latest technological developments and the added complexities these bring — for example, the availability of specialist cranes for erecting or repairing wind turbines,' she says.

'We've had to adapt as an industry and become even more flexible in our information requirements, compared to our assessment of traditional or conventional energy and power generation assets.'

Swiss Re's report on renewable energy in Asia Pacific also points out the risks of human error when using new technology. 'This might result in the wrong cabling of solar panels, incorrect installation of hail-resistant glass panes for solar panels, not following the process when erecting wind turbines, and more,' it says.

The fast-paced innovation in the industry also increases the challenge, says Swiss Re. 'This is why it is key to have [insurance] specialists who are in regular contact with primary players in this perpetually evolving industry — manufacturers, erection companies, certification bodies, administrations etc.'

Contractor expertise

Sampaio-Soares confirms the risk of subpar contractors in the renewable energy sector. 'Industry losses due to contractor error or poor workmanship have increased our scrutiny of contractor and subcontractor experience,' she says.

SOLAR PANEL MICROCRACKING

These small cracks in solar cells are impossible to see with the naked eye but really impact the performance of a solar energy system.

They may be the result of manufacturing defects or damage during transport, but they mostly happen after installation of the panels and during their operational lifetime when they are exposed to external environmental factors. These factors include fluctuations of temperature between day and night, constant wind fatigue stresses, heavy snowfall creating weight pressures and, of greatest concern, hailstorms. Sometimes the cost to test the panels can exceed the cost of replacing them.

WIND TURBINE PITCH BEARINGS

Some models of wind turbines are susceptible to insurance losses from premature component failures. One issue that has caused serial losses to occur relates to the blade pitch bearings. These are used to rotate the blades of wind turbines about their central axis, providing a way to optimally adjust the blade angle for wind conditions.

The frequency of failure is low. However, once a serial loss occurs it can affect every wind turbine in the wind farm. Assuming the availability of spare parts, specialist crane hire and suitable weather conditions, replacing the pitch bearings on a wind turbine onshore can take four days at a huge cost.

VEGETATION MANAGEMENT

This is a risk when vegetation is not being maintained sufficiently on solar photovoltaic projects. In hot, arid locations, the grass underneath the panels and on site can become extremely dry and overgrown, leading to fire spreading easily if the vegetation is ignited.

Source: Willis Towers Watson, *Renewable Energy Market Review*, January 2021

'… even relatively straightforward incidents, replicated across multiple sites and at scale, are generating very high-value losses for the industry …'

Sara Sampaio-Soares / Liberty Specialty Markets

'While we've not necessarily been hit with highly technical workmanship claims, even relatively straightforward incidents, replicated across multiple sites and at scale, are generating very high-value losses for the industry.'

Similarly, Nunny notes the renewable energy market in Australia has been plagued by both contractor insolvencies and major players exiting from the sector altogether. In 2018, for example, engineering group RCR Tomlinson went into voluntary administration. Twelve of the 15 solar projects the company was involved in were either delayed or incurred significant cost overruns.

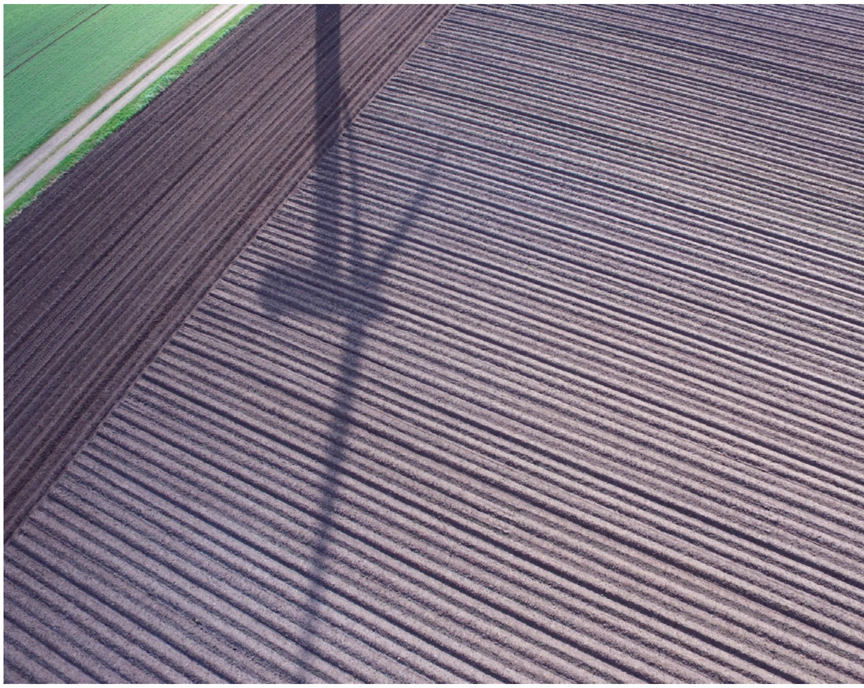
'Other contractors have left the industry altogether, including Downer and Biosar, and some have chosen to take on less risky "balance of plant" projects [the various supporting components of a power plant system],' says Nunny.

'This has left a smaller pool of experienced contractors able to successfully deliver renewable energy projects. Australia has also seen a growth in international contractors entering the sector to take a share of the potential sector growth — which comes with its own set of issues to consider.'

With their entry, Nunny says insurers have raised concerns about local experience or qualifications to deliver projects. Indeed, he notes that data from a leading United Kingdom renewable energy insurer recently showed that contractor error accounted for nearly 50 per cent of its claim quantum in Australia.

'As the Australian renewable energy sector continues to grow into the future, this risk will remain as there will be a continued demand for contractors to keep up with the work required to deliver these projects,' says Nunny.

Willis Towers Watson New Zealand national construction manager Tony Seto says the issue of inexperienced contractors is particularly prevalent in New Zealand, although the reason for this is simply that demand is not high — more than 80 per cent of New Zealand's electricity already comes from renewable energy sources.



Grid connection

According to Nunny, connecting projects into the National Electricity Market (or Western Australia's Wholesale Electricity Market) is just one of many challenges that developers, owners and operators face in the successful delivery of renewable energy projects.

In addition to uninsurable grid constraints that have seen many projects curtailed and marginal loss factors downgraded across Australia, he says there are diverse grid connection risks that will affect insurers' appetite to provide broad coverage for new projects, especially in the current challenging insurance market.

Other countries in the region face similar difficulties in transporting peaks of electricity production. For example, a few years ago in Xinjiang, China, more than 10 per cent (and this went up to 18 per cent) of produced electricity by solar plants was not absorbed by the electricity grid. Electricity produced in the west of China could not be consumed in other parts of China.

But things could be changing. The Asia Super Grid initiative aims to interconnect the electric power systems of six countries — China, South Korea, Taiwan, Mongolia, Russia and Japan — so that renewable energy resources such as wind, solar and hydropower can be exchanged.

'From an insurance perspective, grid connection risks are unique to each project,' observes Nunny.

PICTURED

(Above, left to right) Solar and wind projects are increasingly exposed to natural catastrophe losses; the shadow flicker effect cast by the blades of wind turbines is a potential health concern.

'However, these typically arise from where and how a project is connected to the grid. Some projects sit adjacent to existing grid infrastructure, some are part of multiple project stages and others are built in locations far away from grid infrastructure, necessitating dedicated high-voltage transmission.

'In providing appropriate coverage for grid connection assets, insurers will want to understand the specific risks for each and what insureds are doing to mitigate these risks.'

Potential liability risks

Another potential issue on the liability landscape is 'wind turbine syndrome' — the term given to a group of health problems reportedly triggered by exposure to the continuous low-level hum of wind turbines.

'... insurers are facing greater pressure from external shareholders to better manage their exposures to environmental risks.'

Richard Nunny / BMS Risk Solutions

People living close to wind farms have reported a range of health problems, including sleep disturbance, headaches, tinnitus, dizziness and vertigo, although the scientific consensus is that the noise causes no adverse effects on human health.

Another health concern involves the strobe-like flicker effect or a change in brightness that can be caused by the shadows and reflections cast by the whirling blades of wind turbines. It is thought these may trigger seizures in some individuals.

And with any scheme involving large machinery and electricity, construction and operation of plant and equipment present risks of serious personal injury and property damage.

Stormy weather

Weather and natural catastrophes are, of course, further sources of risk for the renewable energy sector. For example, when it comes to wind turbines, typhoons are a big risk in Asia. According to Swiss Re, super typhoons Usagi (2013) and Soudelor (2015) both caused severe damage to onshore wind turbines in China and Taiwan, while 2018 saw several turbines toppling over in Japan during typhoons Jebi and Cimaron.

'Given the physical nature and characteristics of solar and wind projects, these assets can be very exposed to such perils,' says Sampaio-Soares.

'In Australia, we are predominantly affected by flooding and windstorm, and the so-called secondary perils of lightning, hail and bushfire. Global claims experience has shown that the frequency of natural catastrophe losses affecting the renewable energy sector is on the rise, and Australia has been no exception.'

Natural catastrophes not only destroy or disrupt up-and-running renewable energy projects, they can also affect the development of projects. China, for example, is at risk of natural catastrophes — particularly typhoons — between May and November. Because of this, it has a short window for undertaking the development of offshore wind energy projects, especially in the southern and eastern coastal regions.

And, as Nunny notes, 'globally, there is a growing trend of natural catastrophe events occurring more frequently and with increased severity'.

In response, he says, insurers are increasingly investing to better understand their exposure to natural perils and ensure they are adequately provisioning capital for these events.

Strong appetites

Nunny says insurers who underwrite renewable energy risks, especially in Australia, have faced another dynamic — their broader book performance and exposure to other 'power generation' risks, including thermal (coal and gas-fired) generation.

'Over the past five years, Australia has suffered several major power claims, including at Loy Yang A Power Station and Mortlake Power Station, and the recent catastrophic steam turbine failure at Callide C Power Station,' he says.

Despite the risks in the market, Nunny believes the appetite to insure renewable projects is likely to remain strong as many global insurance companies seek to re-position themselves in the current economic climate, driven by environmental, social and governance (ESG) compliance.

'Insurance and finance organisations worldwide are becoming increasingly aware of ESG risk factors and their potential impacts on their investment portfolios and lending policies,' he says.

'In particular, insurers are facing greater pressure from external shareholders to better manage their exposures to environmental risks. As a result, many insurers are seeking to mitigate their exposure to thermal coal risks and diversifying their portfolio to focus on clean or green energy. This is especially evident in the London market, where several companies are setting up dedicated renewable energy divisions.

'This will ensure that capacity and competition remain strong for the sector, but it does raise a concern of new or naive capacity seeking to gain market share without an in-depth understanding of the unique risk exposures of the sector.' //

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ZILLA EFRAT

The Journal editor

'This is only the beginning. As countries try to become carbon-neutral, renewable energy will become big business and the technology will keep evolving, creating new risks for insurers to understand.'

Before & after

by Jessica Mudditt

IN SHORT

- COVID-19 has caused major disruptions to global supply chains.
- Other emerging supply-chain risks are not usually predictable.
- Insurers have been stepping in to help with advice, new products and new technologies.

Mandarin feature

A-z 中文

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Shoring up the **supply chain**

With COVID-19 continuing to wreak havoc on global supply chains, we look at how some insurers are providing their clients with more support, new products and better tools to boost their resilience.

When container ship Ever Given ran aground and blocked the Suez Canal for six days earlier this year, the world became acutely aware of how quickly global supply chains can be disrupted.

Recent COVID-19 outbreaks in southern China, South-East Asia and Taiwan have reinforced that message and caused further pain. One of those outbreaks, at the end of May, led to a five-day traffic halt for inbound container deliveries to the Yantian International Container Terminal in Shenzhen. In July, a massive backlog of appliances, commodities and toys was still sitting in storage, waiting to be exported.

The past 18 months have been highly stressful for those relying on international ports to conduct business. The COVID-19 pandemic has caused massive disruption on a global scale, and Australian ports have been further challenged by bouts of poor weather, infrastructure upgrades and union disputes. Shipping schedules have been thrown into chaos, resulting in heavy surcharges and rate increases with little or no notice.

'The very nature of emerging supply-chain risks is that they aren't usually predictable,' says Neil Hiller, managing director of Hiller Marine. 'Known risks tend to be eclipsed by new types of exposures — unanticipated "black swan" events. The paradox can sometimes be that as new forms of supply-chain risk emerge, some insurers' first reaction is to exclude cover for it, COVID-19 being the most obvious example.'

Support for clients

Hiller notes that, in response to the outbreak of the COVID-19 pandemic, most insurers excluded losses arising from an infectious disease. His company took a different approach. Hiller recognised that clients were incurring extra costs as shipping lines exercised their right to pass on to importers additional freight charges caused by delays or by having to divert cargoes to other ports. He devised a new product called supply chain risk cover, which is specifically aimed at providing coverage when disruptions occur across international supply chains.

The policy includes elements of property, stock throughput, business interruption, trade disruption, liability and legal dispute expense coverage. Hiller says the advantage of this approach is that they can identify the particular types of risks that an extended supply chain presents and then deliver a combination of covers that are specifically designed to address these exposures.

Frederick Gentile, director of risk engagement at Willis Towers Watson in the United Kingdom, also offered increased support to his clients. He hosted conversations with experts such as business continuity professionals and loss management specialists. His team also penned a series of thought leadership articles and delivered webinars to help educate clients about various supply-chain challenges.

TECHNOLOGIES TRANSFORMING GLOBAL SUPPLY CHAINS

Before COVID-19, these key technology trends were already helping to transform global supply chains:

Internet of Things devices and **machine intelligence** drive new insights towards end-to-end visibility.

Digital ecosystems facilitate access to digital twins (virtual models of a process, product or service) at points of need.

Distributed ledger technology and **confidential computing** enable trust among layers of counterparties.

Parametric insurance and resilience / risk management as a service create new ways to close the insurance protection gap.

Source: Swiss Re Institute

Severe legal liabilities

It's not only physical disruptions that can wreak havoc on supply chains. Other forms of risk exposure include legal and contractual liabilities, fines and penalties, financial loss and cyber attacks. Various insurance policies — such as trade credit, product liability, management liability and cyber risk — offer protection against these exposures.

However, says Hiller, company directors are often oblivious to the potential seriousness of their supply-chain legal liability exposures. For example, recent changes to Australian heavy vehicle laws mean that executives could face hefty fines and other penalties if imported goods cause injury or death due to not being packed properly overseas or locally. It is imperative for brokers to tell clients about these new obligations.

'The underwriters of these products usually engage with their policyholders via the clients' brokers,' says Hiller. 'Brokers are best placed to assess their clients' evolving supply-chain risk profile and work with insurers to ensure that a holistic perspective is taken when matching risk exposures with the appropriate coverage.'

Gentile points out that many insurers already include supplier failure coverage as a clause within their property damage and business interruption policies, and that it often extends to customer failure.

'However, the coverage limits are generally limited, with larger suppliers requiring identification and in some cases risk profiling,' he adds. 'Some insurers offer specialised supply-chain policies covering some of the gaps not included in contingent business interruption.'

The case for an overarching program

Hiller believes it would be more effective if certain insurance products were combined to form a supply-chain risk insurance program. He says relevant insurance products could include elements of property, marine, trade credit, general liability, management liability, product liability, business interruption, contingent business interruption, trade disruption and legal expense covers, as well as alternative risk transfer solutions.

Another emerging supply-chain risk that could be included in such a program is the permanent loss of key suppliers. This may arise simply due to the economic impact of COVID-19.

'As various government economic responses to COVID-19 begin to wind down, it is very possible that we will see smaller suppliers and companies struggle to survive, which, in turn, may mean reductions in supplier alternatives and higher costs as markets regain their equilibriums,' explains Gentile.

He adds that supplier failures may also be caused by the loss of skilled employees, an inability to recruit new employees at competitive costs or when customers themselves are forced to find alternative supply solutions.

Gentile suggests that insurers work with customers to manage their risks by holding joint workshops that focus on supply interruption scenarios and offering more flexibility over policies by extending the clauses within a business interruption policy. He also thinks it worthwhile to reward and recognise the advantages of effective risk management by clients and the steps taken to boost resilience, such as developing business or supplier continuity plans.

GROWTH OPPORTUNITIES FOR INSURERS

COVID-19 has been a wake-up call to many companies, which are now more aware of the risks inherent in complex global supply chains. Looking ahead, Swiss Re expects many to step up their efforts to reshape their supply-chain networks.

'Restructuring of supply chains has become a key global macro-economic trend, which will present opportunities for innovation in new insurance solutions,' says Jerome Jean Haegeli, group chief economist at Swiss Re

He expects more parallel supply chains to develop as companies diversify and develop new manufacturing locations alongside existing operations. Markets in South-East Asia will be among the preferred destinations as new host locations. There will also be some reshoring back to advanced markets, says Haegeli.

In the wake of COVID-19, Swiss Re believes the healthcare sector will be one of the main areas of supply-chain reform. The motivation is in large part political, as governments seek to safeguard national supplies of critical medical equipment and drugs. Other sectors at the forefront of restructuring will include technology, consumer staples, textiles and electronics, Swiss Re says in a recent Sigma report.

The report expects supply-chain changes to generate about US$63 billion in additional global insurance premiums over a five-year period.

'As they continue to upscale their capabilities in digital technology and data analytics, insurers will be able to better understand supply-chain risks and design innovative covers, particularly in the realms of contingent business interruption and non-physical damage solutions,' it says.

'The construction of manufacturing facilities and infrastructure in alternative production locations will also yield additional premium opportunities in commercial insurance.'

'The very nature of emerging supply chain risks is that they aren't usually predictable. Known risks tend to be eclipsed by new types of exposures ...'

Neil Hiller / Hiller Marine

Leveraging tech to manage risks

New technologies are being used at Willis Towers Watson to monitor supply-chain risks. Its research and analytics team recently developed a supply-chain modelling tool that is linked to its global peril diagnostic modelling tool.

'The tool will enable our clients to assess natural catastrophe, terrorism and pandemic risks across the internal and external network, at both an individual third-party level and aggregate level, in addition to other features,' says Gentile.

Further, Willis Towers Watson's Acclimatise company uses software and big data to help clients manage climate risks and build resilience. Its climate change modelling also provides information on the longer-term implications for regions and their supply routes. Among the many projects benefiting from this modelling and analysis is Cotton 2040, an international collaboration working towards a more sustainable global cotton industry.

Whatever the sector or business, resilience and sustainability will be key as the risks posed to global supply chains become more complex and numerous — and clients will increasingly look to their insurers for help in meeting the challenges.

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JESSICA MUDDITT
Freelance journalist

''It's hard to overestimate the impact of COVID-19 on supply chains, and that is not only from the effect of prolonged lockdowns. The economic downturn caused by the pandemic has resulted in many suppliers going under, which has a ripple effect across the entire supply chain. A comprehensive supply-chain risk product, as suggested by Neil Hiller, seems like a fantastic idea.'

Story Anna Game-Lopata
Photography Richard Whitfield

Looking forward

As the new CEO of Allianz Partners Australia, Chris McHugh is gearing up to manage the immediate challenges of COVID-19 while embedding strategies to realise the organisation's true potential.

Very early in his career, Chris McHugh discovered the inspiration that comes from making things work better as part of a team, and he has been drawn to leadership roles ever since.

Recently appointed as CEO of Allianz Partners Australia, McHugh says he's looking forward to working with his new team to develop aspirations around what is possible when people learn how to motivate themselves and others.

'I'm also excited about creating work experiences that build personal and organisational legacies,' he says. 'That is the leadership impact I seek to achieve.'

While he perceives each leader's style as a 'very personal construct', McHugh says there are particular nuances of critical importance within the insurance sector. 'Insurance makes a meaningful difference to people's lives every day — it is a highly authentic, empathetic and individualised business,' he asserts.

'As such, characteristics I believe are essential for insurance leaders to have today are empathy, care, adaptability, relentless clarity, purpose and resilience.'

Surrounded by great people

Although he has never had a traditional mentor, McHugh says a vast array of people have been influencers, demonstrating great humanity, courage, energy and drive, intellect, selflessness, resilience and commitment.

'I have drawn learnings and inspiration from all of them, which has shaped me both professionally and personally,' he says.

'Insurance is an admirable and crucial industry offering a marked blend of commercial and positive social impacts. Every day I am surrounded by great people whose commitment to serving and supporting others is immense.'

McHugh's move to Allianz Partners in Brisbane is the first role he has taken outside Sydney, where he was born and educated. He started his career in the New South Wales Police Force, gradually working his way to the rank of detective inspector while studying his Bachelor of Commerce part-time at Western Sydney University.

His first foray into insurance was as a risk management consultant at GIO. That experience gave him a 'great insight' into the challenges clients face both operationally and strategically.

'The role also gave me an understanding of the full gamut of risk mitigation strategies organisations need to deploy, as well as a real appreciation for the breadth of service and support that insurance professionals provide,' says McHugh.

TWO-MINUTE BIO

Chris McHugh

COMPANY // Allianz Partners Australia

TITLE // CEO

BACKGROUND

Born and educated in Sydney, Chris McHugh joined the New South Wales Police Force before making a career change. He entered the insurance industry as a risk management consultant for GIO and then spent almost 20 years with Suncorp, leading multifunctional teams in a strategy of targeted growth and performance improvement. He established networks across state and federal regulators and government and industry bodies to shape industry-leading change in workers compensation, compulsory third party insurance and the National Disability Insurance Scheme.

EDUCATION

Western Sydney University (Bachelor of Commerce); Macquarie Graduate School of Management; INSEAD Avira.

OUTSIDE THE DAY JOB

First and foremost, McHugh is a family man, with three teenagers providing a pleasant distraction from work. Having recently fulfilled a lifelong dream to build a beach house, he is looking forward to rekindling his love of all things water with family and friends.

PHILOSOPHY

McHugh believes that when you work with talented people who challenge and inspire you to do better, amazing things can happen. 'I always look for how I can make a difference and whether I am going to be working with great people. If I can tick those two off, I am never short on motivation.'

TOP TIP

McHugh's advice to others is to always look forward. 'I live for achieving big, audacious goals — that's what gets me excited and jumping out of bed.'

Shaping industry change

The ensuing exposure to many lines of insurance prompted McHugh's long-running involvement in workers compensation and nurtured his appreciation for the role insurance plays in supporting people at critical times in their lives.

'I was very drawn by the complexity and purpose of workers compensation,' says McHugh. 'That's why I developed the genuine passion for the personal injury sector that led me to run workers compensation, CTP, life insurance and travel portfolios at Suncorp for the last 15 years of my insurance career.'

He says one of the highlights of his career was creating Australia's largest personal injury insurer with the help of a great team over a decade. 'I'm enormously proud of the progressive approach we took to personal injury. We adopted industry-first operating models and new approaches to shaping and building markets that saw us develop a sustained market leadership.

'This, coupled with my contribution to national and state reform to improve customer outcomes and a comprehensive leadership role in community and disability sector support, have been great achievements.'

'Insurance makes a meaningful difference to people's lives every day — it is a highly authentic, empathetic and individualised business.'

'The players that can manage distractions and industry pain points, such as affordability and alternative risk solutions ... stand to capitalise.'

Navigating pandemic impacts

As CEO of Allianz Partners Australia, McHugh is mindful of the current challenges brought about by COVID-19 and says he will navigate them in a way that's 'both opportunistic and steadfast'.

His first priority is to manage the immediate impacts of the pandemic while working towards a post-COVID environment to ensure the organisation is well placed to respond to new opportunities.

'My aim is to realise our company's true potential as a global leader in travel, international health and assistance markets,' says McHugh.

'My approach includes leading the growth of our core lines of business in the Australian market and the development of new market opportunities to diversify our revenue profile. Critical outcomes will be an increasing market presence in both B2B and B2C, as well as playing an active role in building high-value, sustainable industry sectors.'

Relevance and agility

Another key focus is the ongoing integration with the broader Allianz Partners organisation, ensuring that local stakeholders can cost effectively capitalise on the global scale and capabilities that are fit for purpose in the Australian market.

'Ultimately, my agenda is the development of our people to be leaders in their field, embodying the highest levels of customer centricity and technical excellence,' says McHugh.

Along with the impacts of COVID-19, he points to climate change, digitisation and regulatory reform as examples of key risks and opportunities in the insurance sector.

But two key strategic themes that particularly jump out for him are relevance and agility.

'Responses to climate change, for example, are promoting greater consideration of alternate risk strategies such as mitigation to reduce the cost of insurance,' he says. 'The government is stepping into and influencing markets where there are affordability challenges.

'There are genuine and accessible alternatives to our traditional insurance market, and, as such, the sector needs to ensure it remains relevant by providing sustainable and valued products and services that reflect the needs of the community. Strategically, this is a risk.'

Open to disruption

For McHugh, relevance leads to agility where, structurally, the Australian insurance market is open to disruption.

'Off the back of significant regulatory reform, ongoing implementation and material change within the sector, there is a level of introspection as organisations grapple with the new expectations and requirements,' he says. 'Diversification is consistently reducing and there has been an over reliance on hardening prices in a market dominated by traditional insurance providers, products and platforms.'

While these very broad issues present immense risk to traditional markets, McHugh argues they also present great opportunity for current and future industry participants that can outmanoeuvre their competitors.

'The players that can manage distractions and industry pain points, such as affordability and alternative risk solutions within the Australian landscape, stand to capitalise in the short and long term,' he predicts.

'Managing the delicate balance of immediate and strategic needs of the Allianz Partners Australia business is a key focus for myself and the leadership team. This will see the organisation grow its core lines of business in travel, assistance and health, but, within those, grow alternative propositions that further diversify and redistribute our business across domestic and cross-border revenue.'

by Jane Southward

A new blueprint for aged care

Insurers are preparing for sweeping changes, higher premiums and increased compliance requirements based on the recommendations of the Royal Commission into Aged Care Quality and Safety.

In February this year, the Royal Commission into Aged Care Quality and Safety delivered its 2,000-page final report — and the sweeping changes it recommended sent a strong signal to all those involved in the aged-care sector, including insurers.

Increased premiums and exclusions in new policies are two of the biggest impacts for insurers, according to Chris Spain, partner and health law specialist at Wotton + Kearney.

'There has been a contraction in the market for aged-care providers and fewer insurers are offering terms to aged-care providers to cover them,' says Spain.

'There have been premium increases and any aged-care provider looking to change insurer may find they've got an exclusion in their policy for any matter arising out of the royal commission.'

The royal commission's final report contained 148 recommendations for a complete overhaul of the sector, including improvements to the workforce, greater and stronger independent oversight and a focus on the human rights of the elderly. The royal commission also recommended a new Aged Care Act focusing on residents and their rights and needs, expected to be introduced in 2023.

Spain says the final report requires aged-care providers to review and adjust many work practices, including a huge increase in compliance requirements and required documentation, as well as more compliance audits.

For example, insurers will expect providers to meet and document the benchmarked minimum care minutes — increased to 200 minutes per resident per day and including 40 minutes of time with a registered nurse from 2022 and enforced from 2023.

IN SHORT

- **The royal commission into aged care has paved the way for a complete overhaul of the sector.**
- **The risk of large-scale liability claims against aged-care providers is increasing.**
- **Legislative changes are being closely watched by other countries in the region.**

Litigation risks set to rise

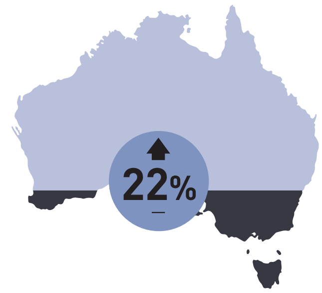
In response, the federal government has accepted 126 of the recommendations, with a further 12 still being considered, and has outlined a number of initiatives that will be introduced through a five-year plan.

Once the measures are implemented, aged-care providers are going to have benchmarks that they have to meet, says Spain. If they don't meet those benchmarks, they are going to be exposed to a litigation risk.

He says significant restrictions on the use of restraints and new rules on the prescription of sedatives and anti-psychotic medications for aged-care residents will create 'a pretty significant compliance consideration'. Breaches may lead to claims.

> **'There has been a contraction in the market for aged-care providers and fewer insurers are offering terms to aged-care providers to cover them.'**
>
> **Chris Spain** / Wotton + Kearney

AGEING POPULATIONS



The percentage of Australians aged 65 and over will rise to about **22 per cent** in 2057, up from **15 per cent** of the total population in 2017.

New Zealand is projected to have an even faster growth, with the number of people aged 65 and over expected to **double** between 2020 and 2056.

Marsh's Pacific Care Solutions practice leader Lyle Steffensen agrees, warning that the risk of large-scale liability claims against providers is increasing.

She says two class actions have been filed in Australia and one investigation against aged-care providers has begun (see breakout).

Steffensen predicts an increased risk of class actions against providers due to the findings of the royal commission, negative media coverage, societal expectations, increased litigation funding, vulnerability of older people to COVID-19 and the limitations on family members to see their loved ones in aged care.

She says the main policy that could respond to a class action against an aged-care provider is general (public) liability cover for the provider's or its employees' liability at common law for causing or contributing to injury to third parties. But there could also be claims on the medical malpractice / professional indemnity policy and on the directors and officers (D&O) liability policy.

LEGAL ACTION TAKES OFF

There are currently two filed class actions and one investigation against aged-care providers in Australia, according to Marsh's Lyle Steffensen.

Anglicare's Newmarch House, in New South Wales, was the first facility to present a case for a potential class action related to a COVID-19 outbreak. Shine Lawyers began to investigate after 37 residents and 34 staff became infected with the virus, resulting in 19 resident deaths during the 65-day outbreak. It is alleged that the provider was negligent in its handling of the crisis and breached its duty of care towards the residents.

Steffensen adds that Epping Gardens, a facility owned by Heritage Care, was the first facility to have a class action filed against it in the Supreme Court of Victoria. At Epping Gardens, 86 staff and 103 residents were infected and 38 residents died from the COVID-19 virus.

Carbone Lawyers officially filed the action in August 2020 and since then 30 families have joined. They are alleging that as a result of their loved ones' preventable deaths, families have suffered from psychological reactions such as depression and anxiety.

The lawyers claim that this is a direct result of the operator's mismanagement and dereliction of duties. This mismanagement concerns the inadequate use of personal protective equipment, workers entering from other facilities and failing to self-isolate, and a staff gathering occurring during the period when entry to the facility was meant to be restricted.

Carbone Lawyers also filed another class action in August 2020 against St Basil's Homes for the Aged in Victoria. The Fawkner home had 94 staff and 94 resident COVID-19 cases, resulting in 45 deaths. St Basil's is accused of breaching its duty of care to residents, which was allegedly a contributing factor in the spread of the virus throughout the facility. It is also alleged that the facility breached both state and federal regulations as it continued to operate the facility when lives were in danger. Fifteen families have now joined the class action, stating they have suffered psychological reactions from the outbreak.

Steffensen says the rising risk for boards and executives of aged-care providers 'requires meticulous attention'. Attracting directors to these boards, particularly as D&O insurance premiums increase, is key as aged-care providers meet higher legislative and financial hurdles to remain viable.

'Many directors will not participate on a board without adequate insurance or watertight deeds of indemnity,' she says. 'Maintaining D&O insurance is a critical risk management tool. Some insurers are declining to quote, while others are exiting the market altogether.'

Major changes on the way

Spain says that as the population ages in Australia and New Zealand, the implications of the royal commission on the sector will become an increasing priority.

'We are going to have triple the number of Australians over 85 by 2060, and we're going to go from having four working-age Australians for every person over 65 to only three working-age Australians for that same bracket,' he says.

'It's a sector that's going to experience an enormous increase in demand by necessity, as well as increased staff numbers. When you are starting with a system that already has issues and it's going to expand significantly, the question is how do you manage that process?

'This royal commission is a really important step in establishing the framework for how that happens and what happens next for aged care.'

Steffensen says not only is New Zealand closely watching the outcomes of the royal commission, but so too are Singapore, Hong Kong and China, where the sector is underdeveloped and the demand for aged-care services is growing rapidly.

'There is strong demand for a structured aged-care alternative in these countries due to the rise of affluence and because the traditional culture of the family supporting its elders "in home" is no longer possible due to smaller family units in younger generations,' she says.

Steffensen notes that a number of aged-care providers in New Zealand either already operate in the Australian market or are planning to expand into Australia 'to take advantage of an ageing population with increased government funding'.

'The development of the sector in Australia will set the benchmark for aged-care standards throughout the region.'

JANE SOUTHWARD
Freelance writer

'As the population ages in Australia and New Zealand, the implications of the reforms for aged-care residents, providers and insurers will become increasingly important.'

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Steadfast STRENGTH WHEN YOU NEED IT

Story *Anna Game-Lopata*

A breadth of experience has equipped Swiss Re's **Aisyah Muhammad Fuad** to navigate the challenges of a diverse South-East Asian insurance market and champion diversity from within.

A positive outlook

For some time now, the growth trajectory of South-East Asian insurance markets has been characterised by low penetration, a burgeoning young population and an expanding middle class.

Aisyah Muhammad Fuad, senior client manager and team lead at Swiss Re Asia, believes the reinsurer will play an integral role in the region's insurance growth story over the next few years.

Operating out of Singapore, Aisyah predominantly serves the markets of Indonesia and the Indian subcontinent. She describes the two regions as 'very special, with clients that value long-term relationships'.

'Swiss Re aspires to be the go-to partner for insurers in these markets, whether their needs are traditional or bespoke, and for new product innovations suited for digital insurance opportunities,' she says.

'Our vision is to work with leading insurers to increase insurance protection and access.'

She adds that the diversity of the people and business environments of the South-East Asian markets is exciting to navigate. 'I consider the work meaningful, and I am proud to be doing it.'

Risks and opportunities

Aisyah points to digital and embedded insurance as the main opportunities for early movers trialling options for improved customer experience and access to insurance in the region.

Key risks include changing climate patterns and how they present in the frequency and severity of weather-related claims.

'Modelling these changes in the South-East Asian markets is not straightforward, thus pricing adequacy is always an interesting discussion as there are varying views between industry players,' she says.

'It is an opportunity, though, to make a case for higher reinsurance protection and explore alternatives such as parametric-based risk-transfer mechanisms working with both the private and public sector.'

Learning to lead

Aisyah has always aspired to learn the elements of strong leadership and admires people who can bring others together to work towards an objective, irrespective of title or position.

'When done well, leadership usually means bringing the best out of people to do good work together,' she says.

'In the context of reinsurance, as capital has poured in over the last few years and there are increasingly varied players entering or complementing the industry [such as insurtechs], the ability to harness skills, motivations and backgrounds will become more pertinent for business success.'

As a leader herself, Aisyah says she naturally gravitates towards 'coaching and motivating by understanding people's goals and values'.

'But leadership is much more than that, and different styles may be more appropriate for different situations,' she adds.

'By many measures, I am learning to be one, and I am not sure there will ever be an end to this learning.'

'You cannot be what you cannot imagine ... it is imperative that the industry promotes more women into senior positions to nurture a pipeline of female talent.'

TWO-MINUTE BIO

Aisyah Muhammad Fuad

COMPANY // Swiss Re Asia

TITLE // Senior client manager and team lead for Indonesia and India-Sub

EDUCATION

BBA (Honours) Finance, Operations and Supply Chain Management, National University of Singapore.

BACKGROUND

Aisyah Muhammad Fuad grew up and was educated in Singapore. She credits her parents, teachers, coaches and friends for playing a pivotal role in shaping her attitudes and fostering her career path.

CAREER

Aisyah got her start in reinsurance in 2011 through Swiss Re's graduate program, which offered her a position in Kuala Lumpur with the retakaful team. Since then, she has held a wide variety of roles in client management, treaty underwriting and structuring. In 2018, she moved to the risk management function as operational risk lead for Asia before taking on her current role in October 2020.

OUTSIDE THE DAY JOB

A mother of two young children, Aisyah enjoys long early-morning walks on weekends — her downtime to recharge mentally and emotionally. She also enjoys her participation with Women in Reinsurance (WiRE), a group run by volunteer reinsurance professionals in Singapore whose mission is to support women in the reinsurance industry through networking, knowledge sharing and mentoring activities. Aisyah joined in 2019 and was immediately inspired by the dedication of fellow WiRE members doing their part to effect change. She is now president of the executive committee.

TOP TIP

Aisyah believes in practising gratitude. 'This can mean daily written reflections or a walk in nature — different methods work for different people. What such a practice does is to remind me of the most important things in life and navigate each day with perspective.'

Early influences

Aisyah's positive outlook and her belief in the importance of a good work ethic were shaped by growing up in Singapore, a young nation even today.

'The schools that I attended were central to this, and I am very thankful to have had the opportunity to learn from teachers, coaches and friends,' she says. 'They planted seeds of curiosity, adventure and hope that would go on to influence many of my career choices.

'Not to forget my parents, who by dedication and hard work gave me the best they knew. From them, I learnt gratitude.'

In the last year of her undergraduate studies, Aisyah chanced upon Swiss Re's graduate program, which offered a role in Kuala Lumpur with the retakaful team.

'I knew nothing about reinsurance, Swiss Re or retakaful,' she recalls, 'but I applied, went to the interviews and was successful in landing the role.'

While she received other offers for roles in finance, Aisyah says the graduate program appealed more because it offered a holistic start in reinsurance.

'For the undecided me, it was great, and making an "unconventional" move to Kuala Lumpur was a chance for me to leave the familiarity of home. I wanted to see how I would do on my own.'

Career highlights

She now counts the graduate program experience as one of the highlights of her career. 'It ticked many firsts for me — my first job, first foray into reinsurance and first time living outside Singapore. I had the chance to work in Zurich, Kuala Lumpur and, for a short rotation, in Beijing — significant for someone who had mostly lived in Singapore.'

For Aisyah, these formative years were both personally and professionally challenging and exciting, and therefore memorable and defining.

'The retakaful unit was fairly new, and being part of the graduate program meant I was able to get involved in many parts of the business, which was rather niche even for the reinsurance industry,' she says. 'I worked hard but also benefited from many kind and brilliant colleagues.'

The decision to take the leap from 'first line' client markets and underwriting to 'second line' risk management as senior operational risk manager (ORM) for Asia is another highlight she is extremely proud of.

'In this role, I had many steep learning curves wearing several hats — the ORM Asia role, the risk manager role for Singapore, as well as the risk partner for the finance team,' she says.

'The subject matter and stakeholders were all quite different and, though challenging, pushed me professionally. I gained a much broader understanding of the reinsurance business, which I bring into my current work.'

Respected as an individual

In the past decade, Aisyah has worked in several markets and functions, including risk management.

'I did well at some and had to get up to speed in others, but I always learned,' she says. 'It is this constant growth, learning and great environment that keeps me in the industry, which of course is a compelling one. Insurance touches so many facets of life, supporting economic growth and resilience.'

Aisyah feels fortunate to work with both men and women at Swiss Re who respect her as a colleague and individual. Looking back, she says that having women in leadership positions helped, given there are still many more males than females in executive roles in the industry overall.

'In addition, navigating the industry with a lens of positivity and possibility meant I never saw myself as lesser by virtue of my gender or race,' she says. 'I feel that I have had fair access to professional opportunities. But that doesn't mean I haven't been stereotyped or received an odd comment.

'You cannot be what you cannot imagine. Thus, it is imperative that the industry promotes more women into senior positions to nurture a pipeline of female talent.'

Addressing bias proactively

To do this, Aisyah suggests recognising and addressing gender bias proactively in the workplace through awareness programs, dialogues and creating a culture that supports women and ensures that women and men are treated and appraised equally.

She adds that companies offering flexible working arrangements can retain more women, who in general still face a greater burden of household duties than men.

'Failing to offer flexibility may mean women continue to drop off the talent pipeline,' she says.

'And why should companies consider these kinds of actions? Because research supports the business case for more women in senior leadership roles. The resulting diversity increases profitability and creates better workplace cultures.'

Networking for support

Keen to contribute to this cause, Aisyah joined Women in Reinsurance (WiRE), a subcommittee of the Singapore Reinsurers' Association.

WiRE is run by volunteer reinsurance professionals with the mission of providing networking, knowledge sharing and mentoring activities.

'Starting as a deputy member in 2019 and currently president, I am inspired by the dedication of my fellow committee members doing their part to effect change, all on their own time,' she says. 'Through WiRE's work, I hope women in our industry are supported and recognised.'

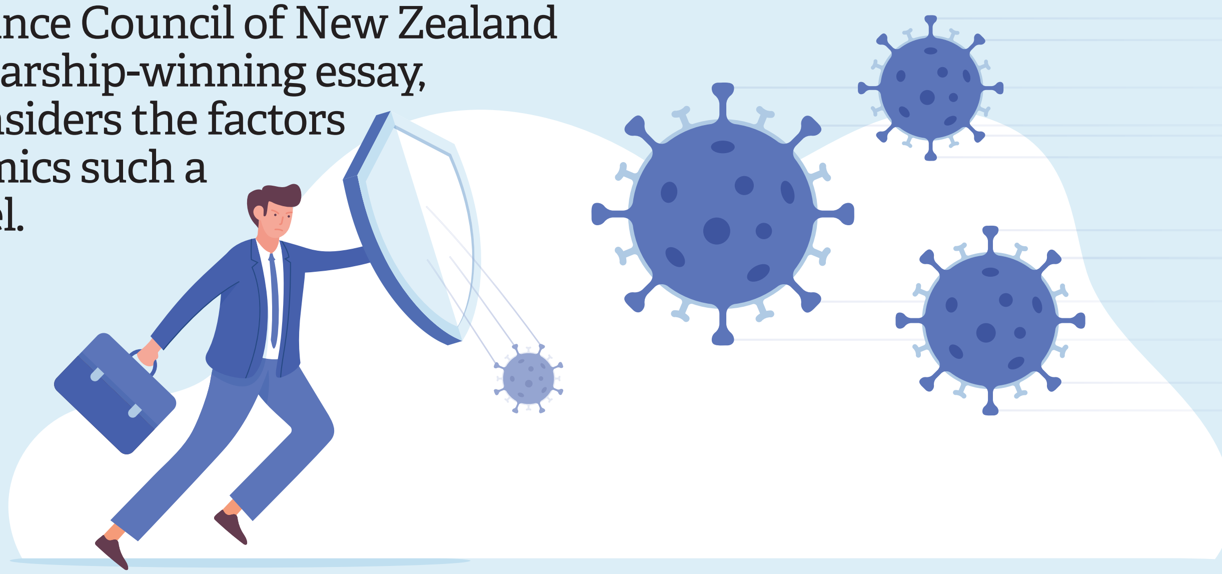
ICNZ/ANZIIF SCHOLARSHIP

Pandemic modelling

by Anna Graham

Are pandemics really uninsurable?

In her 2020 Insurance Council of New Zealand and ANZIIF Scholarship-winning essay, Anna Graham considers the factors that make pandemics such a challenge to model.



'Pandemics simply are not insurable risks; they are too widespread, too severe and too unpredictable for the insurance industry to underwrite,' said Charles Chamness, then president and CEO of the National Association of Mutual Insurance Companies, in 2020. A phrase heard all over the world with very few solutions being discussed.

According to the key principles of insurability, it would appear a pandemic meets the definition of uninsurable as it is indeed a systemic risk. But with the world continuously evolving, population growth and global travel more common, the risk of another pandemic is increasingly likely.

This begs the question, does there need to be a form of insurance against a pandemic if it is virtually unavoidable?

Principles of insurability

In order to analyse whether a pandemic can be insured, it's important to first look at the key principles of insurability (see breakout pg. 31). These criteria are universal and apply to any type of insurance or reinsurance globally.

IN SHORT

› According to the key principles of insurability, a pandemic meets the definition of uninsurable; however, the risk of another occurrence is increasingly likely.

› Modelling pandemics is a challenge because of their low frequency — historic outbreaks have been unique in terms of their rates of transmission, mortality and duration.

› There are a number of unknown risks, which would need to be countered by high premiums.

Firstly, and most importantly, the event must be unforeseeable. Furthermore, the probability of occurrence cannot be influenced, and the loss must be quantifiable. This is why mandatory questions are asked at policy inception to obtain any material information that could influence the likelihood of a claim being made.

Secondly, the loss frequency must be high enough that the extent of the loss can be modelled — that is, there is a record of historic occurrences from which to extract data. Additionally, the extent of the loss must be manageable. In some cases, policies may include limited cover if the frequency is high enough to model but the extent of the full loss is unmanageable.

Thirdly, premiums and contracts are fair and reasonable. The purpose of insurance is to hedge the policyholder's risk, so the product needs to remain attractive and affordable for the insured.

A fourth key principle is that obligations can be realistically met by both the insured and the insurer. Part of these obligations form the insurance contract. For the insured, these include the mitigation of any loss, or further losses, once an event has occurred. The insurer's obligation in return is to meet the contractual agreement by way of settling claims. Other obligations for the insurer are instructed by regulatory bodies and reinsurers. To meet these requirements, the insurer must have adequate capital and provide evidence of appropriate risk management.

The final key principle is that the risk must be independent and, therefore, diversifiable.

Epidemics vs pandemics

Why are epidemics currently insurable but not pandemics? The characteristics of an epidemic mean it is more easily modelled and diversified than a global pandemic so is therefore more easily insurable.

This can be illustrated by comparing the two events against the key principles of insurability. Firstly, an epidemic and pandemic are both unforeseeable; however, the impact of these not being well mitigated is varied. A pandemic is likely to trigger and require more government intervention and regulation.

How a government will respond is difficult to predict as countries will take different approaches. This response will therefore impact the probability of any cumulative losses. In contrast, the existence of further controls (if implemented) by government in response to an epidemic will have less impact, as an epidemic is typically limited in terms of breadth and time.

The frequency of epidemics is high enough that these can be comprehensively modelled and tracked. While the likelihood is much higher for an epidemic over a pandemic, the impact is significantly smaller. A global pandemic triggers simultaneous lines of insurance markets, such as travel, business interruption, event cancellation and loss of income across many industries. The frequency of pandemics is rare. Historic outbreaks have been unique in terms of their rates of transmission, mortality and duration. These were largely influenced by the technology and medicine at the time, as well as the country of origin, where each government implemented a different response.

Unknown risks

In order to consider pandemic insurance cover, the industry would need to model a wide range of risks associated and price their premiums accordingly. The challenging task of modelling a risk with very few historic occurrences means there are a number of unknowns, and therefore uncalculated risks that would need to be countered by high premiums.

Insurance is purchasing the transfer of risk, which in simple terms suggests that more risky perils require higher premiums for both parties to benefit. It is largely the unknown risks that make pandemic premiums so difficult to price. On the contrary, epidemics are contained within a region and time, often displaying as seasonable — therefore they are easier to model, calculate risk and price.

As for risk management requirements for a policyholder to be eligible to claim associated losses from a pandemic or epidemic, these would also be different. The biggest difference would result from recommendations made by the World Health Organization and governments in the event of a pandemic, as these could trigger an exclusion for some insurance products. Swiss Re's Ivo Menzinger stated in 2020: 'Since the economic damage is ultimately caused by mandatory closures imposed by the authorities, the ability to estimate its scale is also severely restricted.'

In the event of a regional or countrywide catastrophe, insurers can claim catastrophe insurance and recoup a significant portion of their losses through reinsurance. Similarly, epidemics can be diversified by reinsurers as they will be responding to claims in a limited region. Private insurers can still rely on the stability of their international investments.

In contrast, because a pandemic is felt worldwide, this would affect insurers' and reinsurers' capital, investments and more. A reinsurer's capacity to settle claims globally would be uncertain, and, therefore, pandemic insurance is especially difficult to reinsure.

The cumulative characteristic of a pandemic also breaches the need for an insurable risk to be independent. It impacts on travel, health, business interruption, event cancellation and investments. Central bank responses around the world can influence exchange rates and government capabilities, which is nearly impossible to model in lieu of such an event happening. The financial impact of COVID-19 won't be realised for some years as business losses relating to the pandemic are ongoing, and some are not yet known.

KEY PRINCIPLES OF INSURABILITY

1. **The event must be unforeseeable, the probability of occurrence cannot be influenced and the loss must be quantifiable.**
2. **Loss frequency must be high enough to model and the extent must be manageable.**
3. **Premiums and contracts must be fair and reasonable.**
4. **Obligations can be realistically met by both insured and insurer.**
5. **The risk must be independent and diversifiable.**

This is an extract of Anna Graham's 2020 ICNZ and ANZIIF Scholarship-winning essay. Visit the Members' Centre to read the full version.

ANNA GRAHAM

Anna Graham is a risk analyst in the enterprise risk and assurance team at IAG, providing oversight to incidents, risk in change assessments, divisional risk and control profiles, project operations and reporting to regulators. She lives in Christchurch, New Zealand.

by Anna Game-Lopata

Celebrating women in insurance

As part of ANZIIF's Year of the Insurance Professional, we're recognising women who are championing diversity, leadership and innovation within the insurance industry.

CALCULATED RISKS

For VMIA's Angela Kelly, the challenges of COVID-19 have brought exciting opportunities for innovation.

ONE YEAR INTO her role as chief insurance officer for the Victorian Managed Insurance Authority (VMIA), Angela Kelly says she is looking to build a culture of calculated risk-taking and learning from things that don't go according to plan.

The former CEO of Lloyd's of London in Singapore, who has also held senior roles at Swiss Re in Australia, Singapore and Hong Kong, says she draws inspiration from a culture of innovation in the Asia-Pacific region.

'There is so much going on — from new products to technology-driven innovation,' she says. 'The result is an environment where organisations can respond quickly when things change.'

As the Victorian Government's insurer and risk adviser, VMIA insures more than A$220 billion of public assets and invests in harm-prevention initiatives to improve outcomes for the broader Victorian community.

It has more than 4,600 clients, including government departments and agencies, schools, hospitals, public transport operators, cultural institutions, community service organisations, builders and medical research bodies.

The impact of COVID-19 lockdowns on the state has been significant; however, Kelly sees the pandemic as an exciting opportunity for VMIA to provide support through new insurance solutions.

She says that one of the benefits of being a captive insurer is being able to innovate in areas where commercial markets feel uncomfortable or can't respond to unique risks.

'It's a fantastic example of delivering contemporary protection in an agile way,' says Kelly. 'The major infrastructure projects underway in Victoria are shaping different ways of working together in public–private partnerships, with new thinking on how risk is transferred via insurance.

'I'm looking forward to leveraging our data for deeper insights and innovation, so Victoria can go about its business with confidence, knowing it's protected if something goes wrong.'

Kelly is also the executive sponsor and chair of VMIA's employee gender reference group. In this role, she is aiming to create more space for gender diversity in the insurance industry.

She has seen firsthand how encouraging diversity in the industry contributes to positive client outcomes but warns that breaking down gender bias is more complicated than ticking actions off a list.

'It will take a holistic approach, with social structures to support the behaviours that create equality, all working together as one,' she says. 'Pay parity is a start, together with considering frameworks for contributions to superannuation for periods of time when women are not in the paid workforce. There's still so much more to be done, and this is my way of paying it forward.'

Stories of leadership

September was ANZIIF's Women in Insurance month. We asked women working in insurance throughout the Asia-Pacific region and beyond to reflect on their careers and what motivates them to succeed. Visit the Members' Centre for more inspirational stories.

VUONG THI MINH AN

Aon Reinsurance Solutions, Vietnam

For Vuong Thi Minh An, head of Aon Reinsurance Solutions in Vietnam, strong leadership is less about power and position and more about the value you can create for others.

'The insurance industry commonly uses the term "value add" when it comes to products, services or experiences,' she says. 'But if you are trying to add value to a person or business that does not feel valued in the first place, there is little you can do to make an impact.'

As Aon Reinsurance Solutions' first local employee in Vietnam, Minh An says she is proud to have built a successful team from the ground up but admits it hasn't always been easy achieving work / life balance as a woman in a leadership position.

'I live in a traditional family with an institutional bias — "men make house, women make home" — which implies my responsibilities are with housework,' she says. 'I have no other option but to work more efficiently to free up time for myself and my family.'

Read our interview with Vuong Thi Minh An ***here***

JULIE GAITHO-GITAU

Resolution Insurance, Kenya

The insurance market in Africa is still 'greatly untapped', says Julie Gaitho-Gitau, regional manager of Kenya's Resolution Insurance. Gaitho-Gitau, who has worked at the general insurer for more than 17 years, points to 'enormous opportunities and prospects for growth' in a continent where just seven of its 54 countries generate more than 80 per cent of its US$68.15 billion insurance industry.

Non-life premiums dominate the insurance landscape in Kenya, Egypt, Nigeria and Tunisia, says Gaitho-Gitau, adding that Kenya's insurance penetration sits at around 2.4 per cent. She believes this is due to a lack of awareness around the insurance products available and says that insurance professionals should 'diagnose, diagnose and diagnose then provide a solution' for customers.

'Needs-based selling is the foundation of customer-centricity and demonstrates that an insurance professional always has the customer's interest at the fore of their thinking.'

Read our interview with Julie Gaitho-Gitau ***here***

YOLANDA WIDJAJA

PT Sompo Insurance, Indonesia

Yolanda Widjaja believes insurance companies should utilise their data and risk management expertise to analyse and predict the likelihood of disasters and minimise the associated risks, to change society for the better.

The chief sales officer at PT Sompo Insurance Indonesia says she was attracted to a career in insurance because it aligns with her purpose 'to bring people happiness and improve their lives'. She says prioritising customers is key to her aims of achieving growth for the property and casualty insurer and promoting Indonesia's insurance industry on the world's stage.

'This way, more innovation can be implemented to promote more suitable products and services that prioritise the wellbeing of customers,' she says. 'In the long run, I believe we can combine our risk management expertise and experience with data analytics to address social challenges.'

Read our interview with Yolanda Widjaja ***here***

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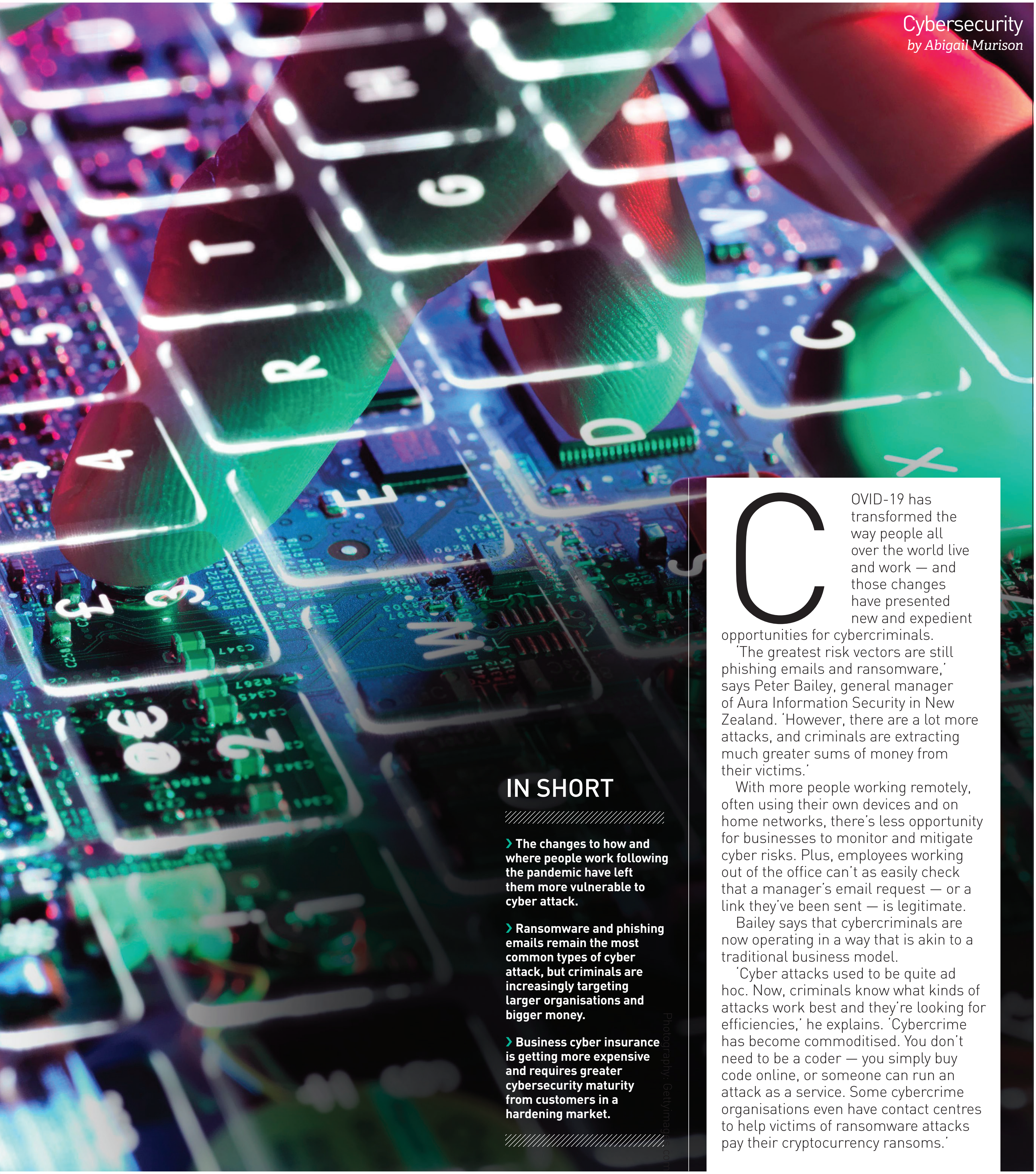
Keep up to date with the latest research, market trends and big issues facing the industry.

CYBERCRIME: A GROWING BUSINESS DURING COVID-19

While the world was in lockdown, cybercriminals were hard at work, finding more efficient ways to extract money from hacking into computer systems — and Asia Pacific is firmly in their sights.

by Abigail Murison



Photography: Gettyimages.com

IN SHORT

- **The changes to how and where people work following the pandemic have left them more vulnerable to cyber attack.**
- **Ransomware and phishing emails remain the most common types of cyber attack, but criminals are increasingly targeting larger organisations and bigger money.**
- **Business cyber insurance is getting more expensive and requires greater cybersecurity maturity from customers in a hardening market.**

COVID-19 has transformed the way people all over the world live and work — and those changes have presented new and expedient opportunities for cybercriminals.

'The greatest risk vectors are still phishing emails and ransomware,' says Peter Bailey, general manager of Aura Information Security in New Zealand. 'However, there are a lot more attacks, and criminals are extracting much greater sums of money from their victims.'

With more people working remotely, often using their own devices and on home networks, there's less opportunity for businesses to monitor and mitigate cyber risks. Plus, employees working out of the office can't as easily check that a manager's email request — or a link they've been sent — is legitimate.

Bailey says that cybercriminals are now operating in a way that is akin to a traditional business model.

'Cyber attacks used to be quite ad hoc. Now, criminals know what kinds of attacks work best and they're looking for efficiencies,' he explains. 'Cybercrime has become commoditised. You don't need to be a coder — you simply buy code online, or someone can run an attack as a service. Some cybercrime organisations even have contact centres to help victims of ransomware attacks pay their cryptocurrency ransoms.'

UNDER ATTACK

The top three industries that have seen the largest increases in cyber attacks this year are:

UTILITIES
↑ 39%

INTERNET SERVICE PROVIDERS / MANAGED SERVICE PROVIDERS
↑ 12%

SOFTWARE VENDORS
↑ 6%

Source: Check Point Research, May 2021

A particularly high-profile example of ransomware as a service (RaaS) was the hacking of United States oil pipeline company Colonial Pipeline, in May 2021. Criminal hacking group DarkSide gained entry into the networks of the nation's largest fuel pipeline, causing major disruptions and fuel shortages for several days until the company paid the ransom of US$4.4 million in bitcoin. US authorities have since recovered more than half of the ransom.

Singapore-based Jennifer Tiang, Willis Towers Watson's regional cyber leader in Asia, says companies also continue to be targeted by ransomware attacks through their supply chains — that's when a threat actor infiltrates the system through an outside partner or provider that has access to the organisation's systems or data.

'This was the case with SolarWinds, a company that produces a network and applications monitoring platform called Orion,' says Tiang. 'A sophisticated hacker group produced and distributed trojanised updates to the software's users, affecting upwards of 300,000 users.'

The SolarWinds incident, which began in early 2020 and went undetected for months, could cost insurers an estimated A$116 million in forensic and response costs alone, and many organisations affected by the attack did not have cyber insurance in place.

Marsh New Zealand's head of cyber specialty, Jono Soo, points to new vulnerabilities via the Internet of Things (IoT) as a growing risk. 'Cyber-physical risks are on the rise — in other words, the ability for a cyber incident to have physical, real-world consequences, such as property damage or bodily injury.'

Such was the case in February this year, when hackers attempted to poison the water supply of a city in Florida by remotely accessing a computer controlling the water treatment system and increasing the amount of sodium hydroxide.

The prevalence of cryptomining malware has also been on the rise for some time. In 2018, a number of government websites in Australia, including the Victorian Parliament site, were the target of a hidden cryptojacking attack — and it's a format that's been increasing even more in COVID-19 times.

'Cybercriminals access devices and mine for cryptocurrency,' explains Susie Amos, a principal at Finity. 'The motive is profit, but unlike many cyberthreats, cryptojacking is designed to stay completely hidden from the victim.'

Asia Pacific in the hot seat

According to Check Point Research, Asia Pacific experienced a 168 per cent year-on-year increase in cyber attacks in May 2021, with ransomware attacks alone increasing by 26 per cent in the first few months of this year.

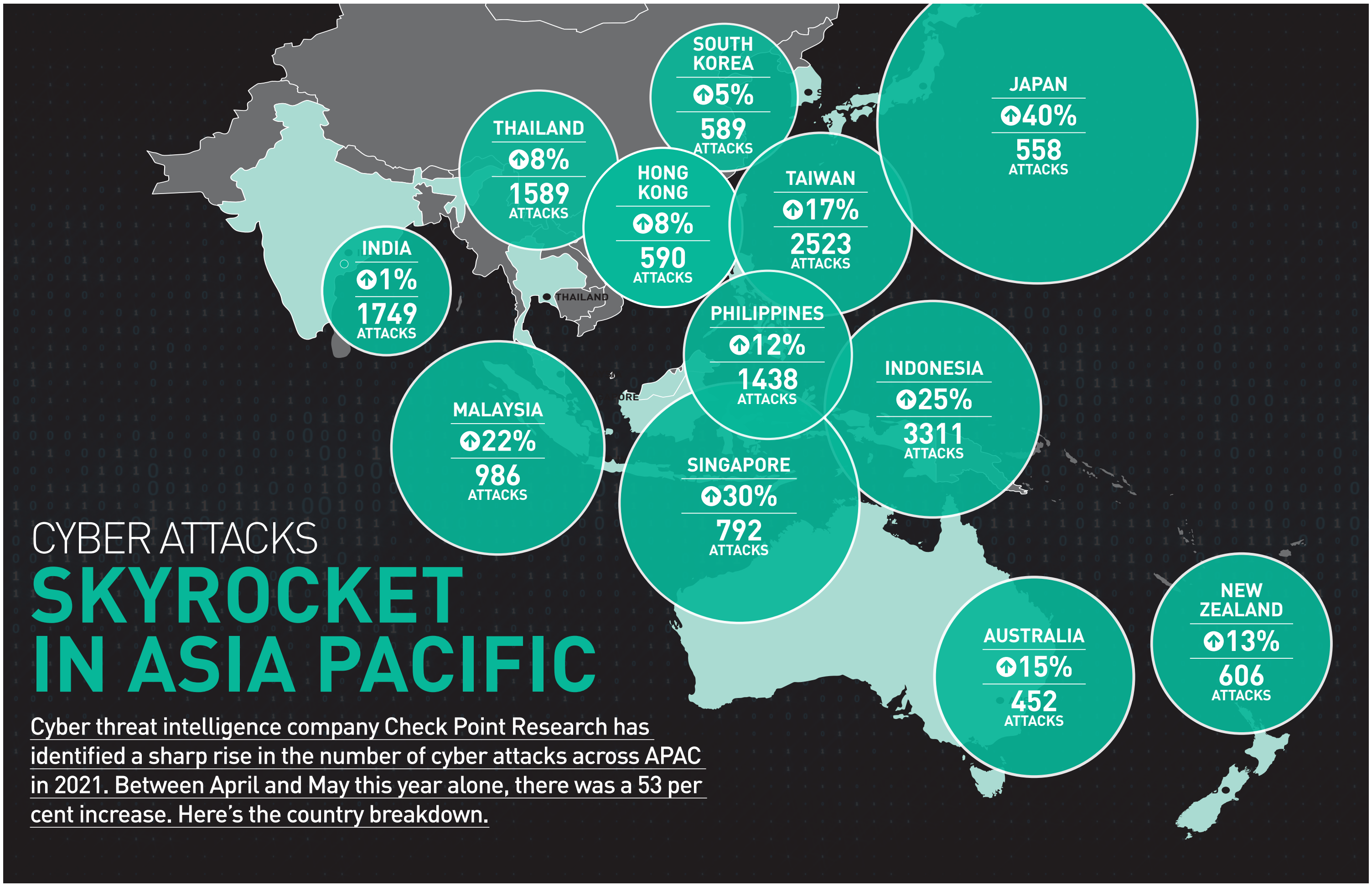
Tiang says: 'We're a highly digitised economy, a manufacturing hub and centre of innovation. The APAC region leads in the IoT market and has pioneered the way for machine-to-machine technology. However, cybersecurity [in all senses of the word: people, processes and technology] is struggling to keep pace with these rapid developments.'

Tiang says a complicating factor is the risk culture in Asia, which generally veers away from disclosure and transparency. 'Instead, the reported trend has been for organisations to keep issues in house and, for example, simply pay the ransom to avoid letting the problem become public knowledge. Having experienced a positive hit rate in Asia, hacker groups are increasingly targeting the region.'

Bailey points to a similar increase in cyber attacks on Australian and New Zealand businesses. 'We believe it's because both countries have been in the global news, talking about how well we've done during the pandemic,' he says. 'That's brought us to the notice of cyber attackers, who say: "Their economies are doing well; let's have a poke at them and see what happens."

'New Zealand businesses have started to realise that our geographical isolation

> 'Premiums have increased by 20 to 40 per cent in Australia, with even higher increases globally … Next year, I expect that some players will struggle to get cyber cover.'
>
> **Susie Amos** / Finity



CYBER ATTACKS SKYROCKET IN ASIA PACIFIC

Cyber threat intelligence company Check Point Research has identified a sharp rise in the number of cyber attacks across APAC in 2021. Between April and May this year alone, there was a 53 per cent increase. Here's the country breakdown.

Source: Check Point Research, May 2021

makes no difference online. We are as vulnerable as any other organisation when we are on the internet.'

Bailey adds that while in 2016/17 the main targets of cybercrime were small businesses, criminals are now targeting larger organisations.

When it comes to the industries or sectors seeing the most attacks, Amos says: 'The three industries that were targeted pre-COVID continue to be the prime targets now — health care, finance and education.'

'Healthcare organisations have been a target for a long time,' agrees Bailey. 'They store personal data that's interesting and valuable to cybercriminals because it can be sold on the dark web. By attacking healthcare organisations like the Waikato District Health Board in New Zealand and the Health Service Executive in Ireland, attackers stand to make a lot of money.'

Insurers step up

In response, cyber insurers are reviewing existing policies, repricing risk and offering new types of cover.

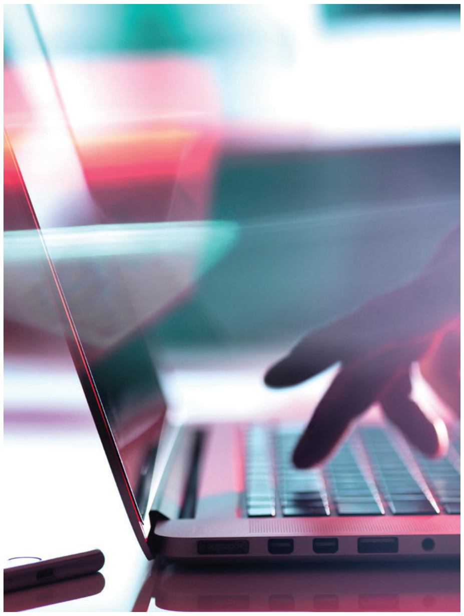
Soo says: 'Cyber insurers are urgently managing their capacity, appetite and premiums with a goal to achieve a more sustainable cyber market in the long term. What was a buyer's market for a long while has quickly contracted.'

For insureds, that's led to greater scrutiny around cybersecurity and bigger costs. 'Premiums have increased by 20 to 40 per cent in Australia, with even higher increases globally,' says Amos. 'Next year, I expect that some players will struggle to get cyber cover.'

Tiang says insurers are approaching risks with far more due diligence in their underwriting, and are operating with stricter pricing and retention guidelines.

'Insurers will now avoid risks if poor cybersecurity maturity is evident — that is, where it is perceived that a baseline of cybersecurity is not being achieved,' she says. 'For example, we are now seeing insurers decline cover if a company cannot confirm there is multifactor authentication for all remote access to corporate resources. This is due to the high claims

> 'Insurers will now avoid risks if poor cybersecurity maturity is evident — that is, where it is perceived that a baseline of cybersecurity is not being achieved.'
>
> **Jennifer Tiang** / Willis Towers Watson



STAND AND DELIVER?

In May 2021, AXA said it would stop writing cyber insurance policies in France that reimbursed customers for extortion payments made to ransomware criminals. Will this dissuade cybercriminals or just add insult to injury for the ransomware victims?

'No-one wants to encourage or reward criminal behaviour, but we also need to consider the practicalities,' says Susie Amos, a principal at Finity.

'The aim of insurance is to prevent businesses from collapsing in the event of an incident. That could occur if there is a ransomware attack and the organisation isn't set up to run from its back-up systems, or it can't risk data being published or sold.

'However, if ransomware attacks are frequent and severe, ultimately insurers are within their rights not to offer coverage.'

Jono Soo, Marsh New Zealand's head of cyber specialty, says: 'The fight against ransomware could be reaching a tipping point. The US Government has been considering both military and diplomatic options to respond to the problem and to seek out those behind the attacks.

'It will require a co-ordinated, government-led approach in conjunction with the private sector to potentially turn the tide against ransomware attacks.'

frequency they're witnessing due to weak authentication protocols.

'It is also now commonplace for an insurer to decline providing terms if there is an insufficient amount of underwriting information put forward.'

Further, Soo says 'insurers require comprehensive detail around cyber risk management controls, in particular incident response plans and overall business continuity, before agreeing to provide or renew cover, especially for high-risk industries and sectors'.

Insurers may also be in a position to help clients mitigate cyber risk.

'We are aware that some insurers are using ongoing scanning technology that can proactively detect issues in an insured's network,' says Soo. If insurers pick up early warning signals, they can notify the policyholders so they have the chance to stop a potential cyber incident in its tracks.

Separating cyber cover

Amos says many insurance policies that businesses take out have traditionally provided some 'silent' cyber coverage, so there has been a lot of cyber risk sitting in existing cover.

'Insurers in Australia and New Zealand have been slow to separate out cyber cover as an explicit policy, but they are starting to do that now,' she says.

'They have been making clear changes in the most recent renewal period, with lots of thought going into policy wording and containing risk.

'Cybercrime is constantly evolving. But while the risk vectors may change, insurers can focus on mitigating the outcomes of a cyber attack, such as business interruption. Changes in the frequency and severity of cyber incidents should flow through to the pricing and underwriting responses.'

Apart from the familiar cyber insurance policies for businesses, Amos says a number of insurers have launched personal cyber insurance products, including cover for cyberbullying (for instance, to pay for therapy and economic losses). Other insurers have included cyber cover in their home insurance policies, largely because of the interconnectivity of IoT devices.

With the Asia Pacific still firmly in cyber attackers' sights, 2021 is not the time to be complacent about your cybersecurity, warns Bailey.

'Many organisations moved to a mixed-model workforce as a result of COVID-19, with some employees in the office and some working remotely,' he says. 'If you didn't have time to assess your cybersecurity at the start of the pandemic, go back and do it now. Then, revisit it at least every 12 months, looking at your tools, your patches, your staff education — and identify the gaps. Cybersecurity can never be a set-and-forget.' //

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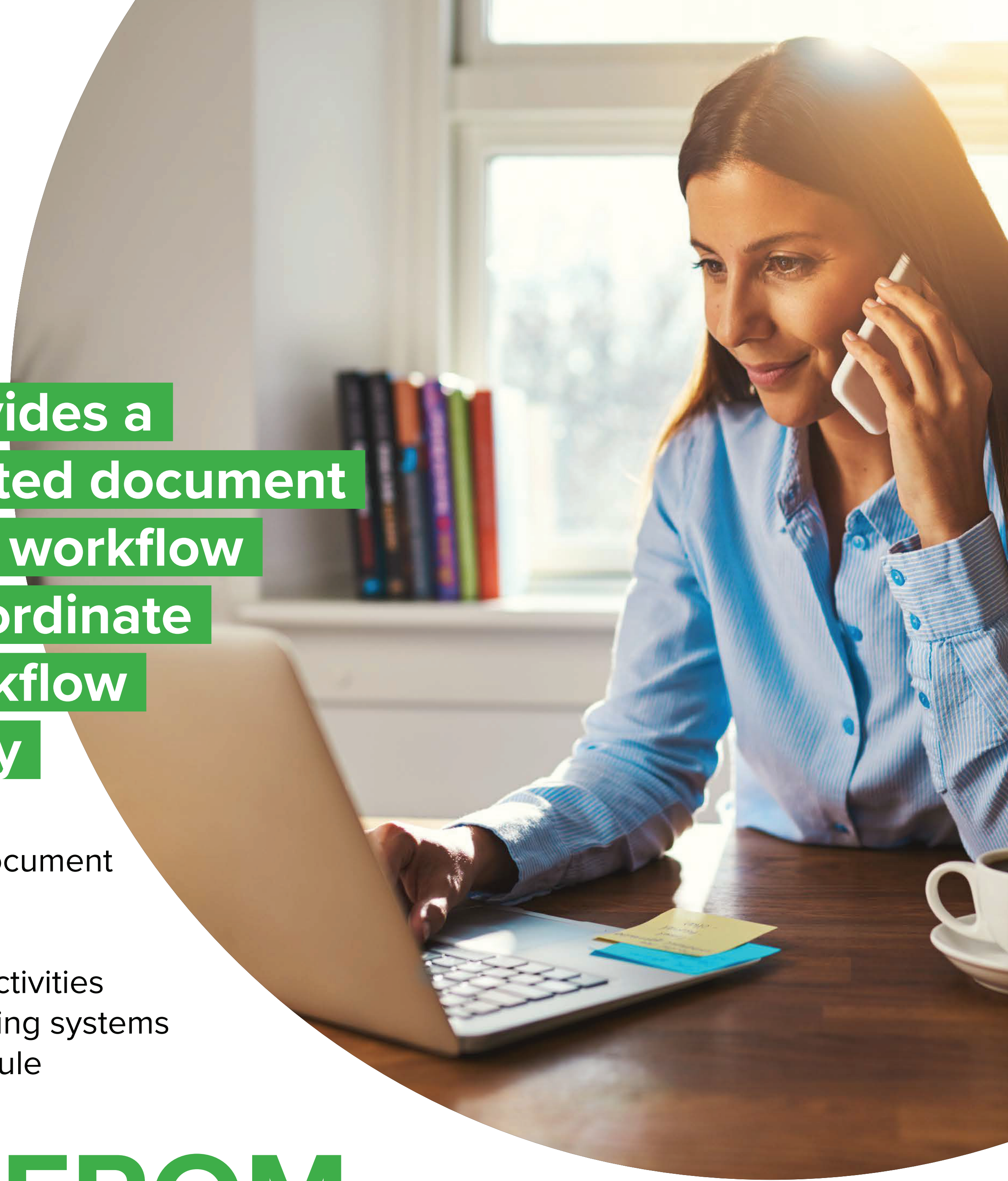
'It seems remarkable that cybercrime — which I used to associate with hacking into sites sometimes just to prove you could do it rather than for any real monetary gain — should have morphed so quickly into a big-money industry. Time to check my own cybersecurity and cover.'



Head in the game

Sports-related concussion lawsuits are looming large internationally, putting insurers on edge. But the evolving medical science and insurance law around head trauma mean there is no clear game plan.

IN SHORT

- In Australia, very few claims have been made in relation to concussion in sport and a class action appears unlikely at this stage.
- The medical science around head knocks is still evolving, and challenges for plaintiffs include medical causation, state of knowledge and statutory defence thresholds.
- Insurers need to be prepared for potential claims in this space.

Concussion gets a lot of airtime during the football season — and deservedly so. This is a critical issue, not only for the sporting fraternity but for the claims landscape as well. It is also a vexed and nuanced area, with claims so far largely settled behind closed doors and an unsuccessful move to bring a class action in Australia.

The media is replete with tragic stories of former players who have allegedly suffered a brain injury due to head knocks and concussion incurred while engaged in contact sports such as Australian Rules football (AFL), rugby and soccer.

Of particular concern is chronic traumatic encephalopathy (CTE), a degenerative neurological disease that may be associated with a history of repeated traumatic brain injuries, including concussions and blows to the head.

Proving medical causation

From an insurance perspective, one of the issues preventing more claims from going ahead at the moment is medical causation.

Currently, there is no way of diagnosing CTE without a post-mortem. Technology is being developed that would allow the condition to be diagnosed while the patient is still alive, but we're not there yet.

Additionally, as the Australian Institute of Sport states, 'there is no reliable evidence clearly linking sport-related concussion with CTE'.

William Robinson, a partner and insurance law specialist at Wotton + Kearney, believes the next five years will be key. 'But for the present time, it is simply a case of insurers being prepared but not alarmed.'

Robinson notes there have been several total and permanent disability claims submitted for career-ending injuries.

'However, from a common-law perspective, the one or two early claims we have seen are from ex-professional athletes who have retired and sustained concussions during their historical playing days, and [they] maintain these were mismanaged by their respective clubs,' he says.

'Insurers have not yet seen an influx of concussion claims — which, again, we suspect is due to the considerable difficulties faced by potential concussion plaintiffs in overcoming causation, state of knowledge and statutory defence thresholds to successfully bring a claim in Australia. We may see some speculative claims brought in the future, but for now it is again a case of "watch this space".'

Which policies would respond?

Aside from causation, there are many other challenges to be negotiated when it comes to the insurance minefield around concussion in sport.

The legacy factor is a major added complication. 'Insurers will see claims, but probably very old claims rather than newer ones,' says Richard Johnson, a principal at McCabe Curwood. 'Everyone is aware of this issue now. So, whether a player at any level that develops long-term brain trauma is going to be able to succeed in a claim alleging concussion-related injuries in sport is going to depend on the specific circumstances of their case.'

Another issue is clubs' ownership structure, especially when the club has changed hands and the former entity that players represented no longer exists. If the club no longer exists, how can it be sued?

This is a particular issue for Australia's National Rugby League (NRL), where clubs are often privately owned, rather than for the AFL, where all clubs are longstanding entities and public companies limited by guarantee.

'... early claims we have seen are from ex-professional athletes who have retired and sustained concussions during their historical playing days ... [they] maintain these were mismanaged by their respective clubs.'

William Robinson / Wotton + Kearney

PICTURED *(Top to bottom)*

The NRL recently won a four-year legal battle over alleged concussion injuries; reports of a looming class action could see the AFL in a similar spotlight.

Photography: Getty Images, iStockphoto

GAME-CHANGING CLASS ACTION LOOMS FOR NZ RUGBY

A GROWING LIST of ex-rugby union internationals, including a group of former New Zealand players, plans to launch a class action against World Rugby, alleging a failure to look after player welfare.

Claims are also being made against England's Rugby Football Union (RFU) and the Welsh Rugby Union (WRU).

'For the New Zealand players, this has meant they have had to join the class action launched from the United Kingdom,' says Michelle Igasan, an associate at New Zealand law firm Harris Tate.

Igasan notes that the position in New Zealand in respect of class actions relating to claims of this nature is very different to other countries. This is because the *Accident Compensation Act 2001* provides a legislative framework that precludes people from suing for damages over personal injury, 'which in some ways is unfortunate as it limits the extent to which a person may be compensated to the fullest extent'.

Igasan says the Accident Compensation Corporation (ACC) no-fault scheme means that as long as the injury falls within the legislation, citizens, residents and temporary visitors are covered for financial compensation and support, regardless of what they were doing or who was at fault.

The cover provided by the ACC scheme is designed to assist with medical costs, treatment and rehabilitation, and it also assists in covering a portion of lost income (up to 80 per cent).

Igasan adds that concussion-related ACC claims in 2020 alone amounted to NZ$33.3 million, including NZ$4.4 million for rugby union claims and NZ$1.8 million for rugby league. With rugby union being the country's most popular sport, it also has the highest claim rate in this area. In 2020, the ACC scheme received 1,662 new claims related to concussion or brain injuries from this sport.

The rugby class action in the UK is based on the tort of negligence, explains Igasan. 'The claim alleges that reasonable care was not taken by the responsible governing bodies to protect players from reasonably preventable brain injuries sustained as a result of concussion,' she says.

'The action will look at whether rules and strategies imposed were sufficient to protect players against concussion incidents and whether those same rules and strategies were also implemented to allow players the time needed to recover from concussion incidents, particularly repeated concussions.

'This might sound like a fairly straightforward analysis. However, there are elements and thresholds to be met and consequently satisfied in order to successfully convince a court the claim has merit.'

If successful, class actions related to rugby injuries will have a profound effect on their respective codes, adds Igasan. '[They] could potentially open the floodgates for other codes to follow suit, which could ultimately cost the various governing bodies millions of dollars in compensation payouts.'

Exploring the labyrinth

Despite all these nuances, risks around concussion in sport are now much better understood, prompting insurers to change their approach.

Johnson says there will be insurance books that have been closed off years ago because no-one thought this would be an issue. 'This may cause conjecture about limitation periods given how long it could take for alleged injuries to manifest. The extent to which sports and their brokers have maintained records will also be critical, because it is possible that a number of underwriters could have provided cover to a specific sport over an extended playing career.'

A claim by former NRL player James McManus against the Newcastle Knights was recently settled without compensation just days before it reached the NSW Supreme Court, ending four years of litigation proceedings. McManus was suing the Knights for A$1 million in relation to alleged concussion injuries at a time when Newcastle's liability insurance policy contained an exclusion relating to employees, and cover had been denied.

It's also important to note that, historically, professional sportspeople — aside from jockeys — are not covered by WorkCover, so it is entirely possible that a professional athlete has an employer with no applicable insurance.

There have been reports of a looming class action after claims that AFL players were not properly insured for heavy head knocks during their time in the game. But any similar class action moves involving sportspeople with brain injuries have so far been unsuccessful — for a number of reasons.

In Australia, you need seven or more potential claimants to bring a class action. Any class action could also involve incidents across all states and territories, with different negligence regimes and different defences available in each jurisdiction.

'I think players are going to have real difficulty getting a class action together, because the regimes across Australia are so different depending on where the players play,' says Johnson.

Nick Sordon, head of casualty underwriting Australia and New Zealand at Swiss Re, says that overall it's a challenge to quantify exposure and the potential for claims when it comes to emerging risks, such as the long-term effects of concussion.

'This is because there's no historic information to support assessment of the future claims burden,' he says. 'This is especially the case when an emerging risk like concussion has significant latency and impacts long-tail classes such as public and products liability.'

> 'I think players are going to have real difficulty getting a class action together, because the regimes across Australia are so different depending on where the players play.'
>
> **Richard Johnson** / McCabe Curwood

It is also very hard to assess and forecast when claims will peak. However, Sordon says there is often a rapid increase in claims when there is a broader awareness from a potential claimant's cohort. 'For example, there's often an increase in claims after significant moments such as royal commissions, or when media attention is focused on a particular sector.'

In terms of risk mitigation, it's worth noting that many sporting codes and clubs have put competition rules in place that have been designed to appropriately respond to head knocks. For instance, in 2018, Rugby Australia recommended the mandatory use of blue cards in all club, school and domestic representative rugby union games. The card is a trigger for medical treatment to begin after an incident on the field.

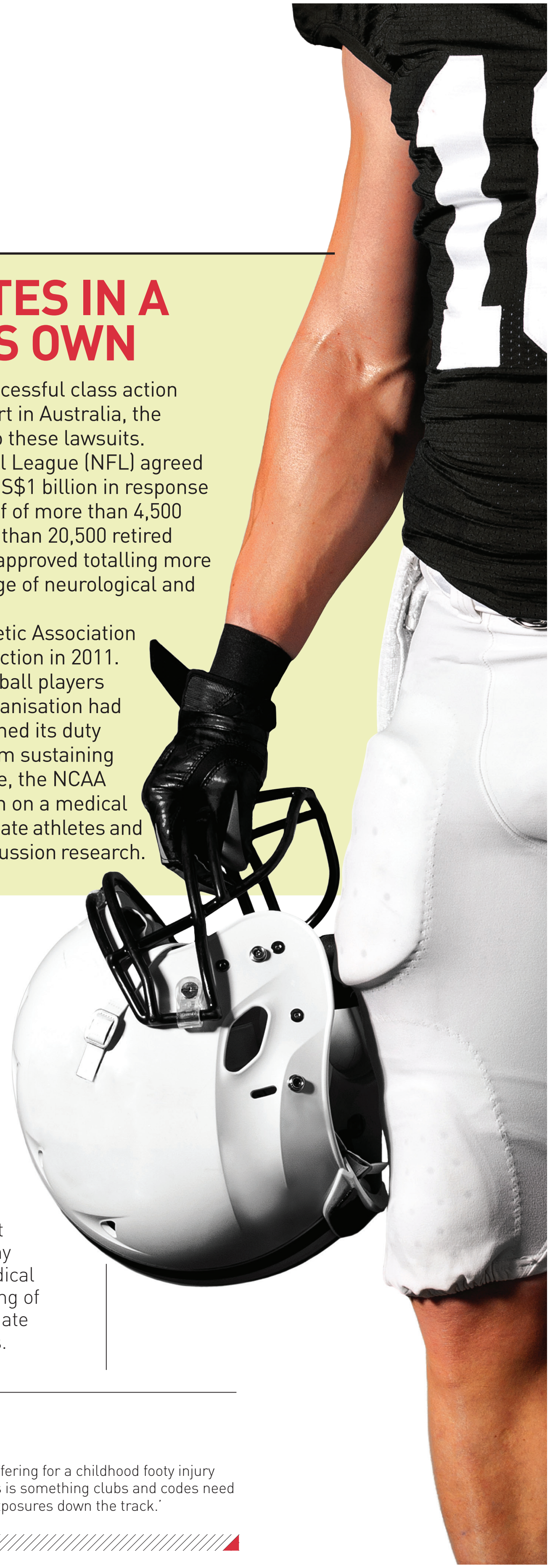
And in NRL competition, says Robinson, players who have sustained any contact with the head on match day or at training must undergo a head injury assessment test conducted by a medical professional before they are permitted to return to the field.

'Rule changes have also been brought into football codes to prevent dangerous tackles, on top of increased penalties for careless or intentional contact with the head,' he adds. 'In soccer, many junior clubs have banned the use of the header during training, given the increased susceptibility of head trauma to younger participants in sport.'

The bottom line for insurers is that they need to be ready for this. But any real movement will require the medical science to be settled and the jumping of other hurdles, such as how to navigate multi-jurisdictional insurance rules. There is still much to play out.

ALEXANDRA CAIN
Freelance journalist

'No-one expects they will be suffering for a childhood footy injury decades into the future. But this is something clubs and codes need to take seriously or risk large exposures down the track.'



UNITED STATES IN A CLASS OF ITS OWN

WHILE THERE IS yet to be a successful class action related to concussion and sport in Australia, the United States is no stranger to these lawsuits.

In 2015, the National Football League (NFL) agreed to a final settlement of up to US$1 billion in response to a class action filed on behalf of more than 4,500 former players. To date, more than 20,500 retired NFL players have had claims approved totalling more than US$870 million for a range of neurological and cognitive diseases.

The National Collegiate Athletic Association (NCAA) faced a similar class action in 2011. A group of former college football players filed a lawsuit alleging the organisation had been negligent and had breached its duty to protect student athletes from sustaining concussions. To settle the case, the NCAA agreed to spend US$70 million on a medical monitoring program for collegiate athletes and a further US$5 million on concussion research.

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by Domini Stuart

RISKING YOUR LIFE

From ageing populations and medical advancements to low interest rates and rising regulation, there is a raft of emerging risks putting the sustainability of life insurance under threat.

IN SHORT

- **Across the Asia Pacific, there is a broad range of risks that threatens the sustainability of insurance related to disability and critical illness.**
- **One of the biggest challenges is keeping pace with the medical advances that are changing the diagnosis and outcomes of conditions such as heart disease, cancer and dementia.**
- **While many countries are attempting to manage risk with new risk-based capital regimes and more consistent reporting, they need to be conscious of the broader threats.**

The biggest emerging risk in life insurance is that it has no future. In 2019, the Australian Prudential Regulation Authority called for urgent action regarding the sustainability of individual disability income insurance, citing a collective loss of A$2.5 billion to the industry over the past five years. The following year, the Reserve Bank of New Zealand reported that 'some life insurers have low solvency margins over the regulatory minimum, which raises questions about their ability to comfortably meet the minimum requirements in the event of an adverse shock or a major loss event'.

In the worst-case scenario, reinsurers leave, insurers end up losing so much money that the system goes into default and consumers are left without cover. So, what are the forces putting the sector under threat?

Ageing populations

Mark Judah, APAC insurance lead and partner at Bain & Company, believes that improving living standards across the Asia Pacific and increasing access to medical care are spurring demand for health insurance. 'In many areas, people are living longer and the population is ageing, fuelling a need for life insurance and related products to help protect family living standards for the next generation.'

A potential increase in business may sound like a benefit but, in fact, it comes with a serious risk, according to one chief medical officer (CMO) at a major reinsurer, who spoke to the *Journal* on the condition of anonymity.

'In Australia and New Zealand, life policies often terminate automatically at age 65 or 70, so the ageing population has limited impact,' the CMO explains. 'However, in many South-East Asian countries, life policies tend to be "whole of life", so a longer life means a more costly claim.'

Medical advancements

In recent years, advances in screening, diagnosis and treatment have improved the outcomes of medical conditions such as heart disease and cancer. On the face of it, this seems like another positive, but rapid advancements can render underwriting practices out of date.

> 'The emerging risks we're seeing are mainly related to health cost inflation, and any indemnity-based covers need continual adjustment in products and pricing.'
>
> **Bernhard Kotanko** / McKinsey & Company

'I'm not sure the industry is keeping up with these changes and their impact on definitions and cover,' says the CMO. 'We're also seeing an increase in disability claims resulting from mental illness, and dementia is another major emerging risk. At the moment, there are no impartial tests for these conditions. This is a huge risk for insurers, because they must trust doctors to make the right clinical diagnosis decisions in what are often very grey areas.'

Poor definitions

The CMO also sees insurers veering away from the principles that underpin a good definition of cover.

'The industry needs to find a balance between being medically precise with good data to support pricing and communicating in consumer-friendly language,' he says.

'When consumers are clear about what

they have covered and exactly when they're entitled to make a claim, there's little room for dispute. When they aren't clear, we see rising disputes, a resultant increase in prices and more unhappy customers. Add high sums insured and critical attention from the media, governments and regulators and you have a recipe for disaster.'

Low interest rates

As they struggled to manage the economic impact of the COVID-19 pandemic, governments and central banks around the world cut interest rates — many to record-low levels.

'This is significant because, in most markets, life insurance still bears financial guarantees and therefore financial risks — especially interest rate risks — that are sensitive to market fluctuations,' says Bernhard Kotanko, a senior partner at McKinsey & Company, Hong Kong. 'The emerging risks we're seeing are mainly related to health cost inflation, and any indemnity-based covers need continual adjustment in products and pricing.'

He adds that, other than in Australia, non-financial risks have been less critical in most markets. However, they're becoming more relevant, with a need for more prudent management of operations, private data security and sales conduct, including anti-money laundering and 'know your customer' processes.

'With the shift towards digital hybrid sales models, there is also a need to enhance processes related to operational and risk management,' says Kotanko.

Rising regulation

Since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Australia and New Zealand have both seen a steady increase in regulation, oversight and self-regulation. These can bring higher costs of compliance as they increase the risk of non-compliance and subsequent reputational damage.

'In New Zealand, there's also a potential reduction in the number of professional advisers [due to a new regulatory regime that requires advisers to be licensed],' says Richard Klipin, CEO of New Zealand's Financial Services Council. 'And, as most

WORKING TO REDUCE RISK AROUND THE APAC REGION

Many markets in the region are introducing new risk-based capital (RBC) regimes and building consistency by adopting the new International Financial Reporting Standard 17 (IFRS 17).

Australia

The Australian Prudential Regulation Authority determines how much capital an insurer must hold in reserve to pay claims. IFRS 17 becomes effective in 2023 but may be adopted earlier.

New Zealand

New Zealand is finalising the principles for the review of insurance solvency standards. IFRS 17 is also under review.

Hong Kong

Hong Kong has a target of 2024 for the introduction of an RBC framework.

India

India is contemplating the introduction of an RBC regime, but the framework and timing remain uncertain.

Indonesia

Since April 2020, non-bank financial institutions in Indonesia have been required to rank their business based on corporate governance, risk profile, profitability and capital.

Malaysia

Since 2018, Malaysia has been reviewing its RBC framework. The timing of updated rules remains uncertain at this stage.

Philippines

No material development is expected in the short term.

Singapore

RBC 2 has recently been finalised.

of the life insurance in New Zealand is distributed through this channel, it's easy to see how the market in aggregate would remain flat or decrease.'

Across Asia Pacific, Judah believes that regulators are walking a tightrope between supporting and cultivating innovation on one hand and providing settings that deliver fair outcomes for consumers, companies and other stakeholders on the other.

'Each market is different, but we've generally seen regulators do a good job of this across the region,' he says. 'Countries like China and Singapore have really supported innovation — you can see that from the investment going into insurtech there — while Australia is leading the way on customer outcomes, with strong regulation around the design and distribution of insurance products.'

> 'China and Singapore have really supported innovation ... while Australia is leading the way on customer outcomes.'
>
> **Mark Judah** / Bain & Company

New technologies

Technology continues to change the way all insurance markets operate.

'In New Zealand, we've seen a sharp rise in the use of digital products in investments, and we're expecting insurance to follow closely behind,' says Klipin. 'Indeed, 38.2 per cent of New Zealanders have either invested, or are likely to invest, through a digital platform. That's 1.5 million people who are choosing technology over personal contact — a material number.'

Kotanko sees technology, data and analytics rapidly transforming insurance all along the value chain.

'Distribution is becoming a digital hybrid with customer engagement based on digital service platforms, and data and analytics allowing better personalisation and underlying insurance management,' he says. 'All markets are following similar patterns, with China, India and South-East Asia currently evolving the most rapidly.'

Digital transformation clearly offers tremendous new opportunities. However, it is also heightening the risks around data privacy and security, cybercrime and the connection between digital and traditional insurance distribution and service models.

'From a risk management perspective, it's critical that insurers keep pace with all aspects of non-financial risks,' says Kotanko. 'This is most important when it comes to the protection of data and risk management for new, digital ways of working.'

This is complicated by the fact that the Asia-Pacific region is diverse, with distinct market characteristics and maturity levels as well as specific product profiles and channel structures.

'While the broader concepts of risk in life insurance apply, specific priorities differ widely from country to country,' says Kotanko.

'Insurers must have a granular understanding of the various markets, segments, channels and product lines. A deep understanding of the needs and preferences of markets and stakeholders will equip them to tailor their strategy to local requirements and to manage specific risks.'

DIFFERENT RISKS ACROSS ASIA PACIFIC

According to Ernst & Young's *2020 Asia-Pacific Insurance Outlook* report, life insurers across Asia Pacific have several common challenges, but local conditions differentiate individual markets. For example:

- In Australia, more stringent regulation is the main challenge.
- In Hong Kong, unprecedented social unrest is making this market less attractive for customers from mainland China, a key target for insurers historically.
- Japan is stuck in a low-growth environment, with sub-zero interest rates.
- Ageing populations are a top concern for insurers in Japan, South Korea and Thailand, among other markets.

DOMINI STUART
Freelance journalist

'The life insurance sector could be heading towards a crisis of rising costs and increasing claims. For the sake of both insurers and their customers, the industry needs to act quickly to ensure a sustainable future.'


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Story *Domini Stuart*
Illustration *Cami Dobrin*

INSURING THE **GIG ECONOMY**

The thriving economy of gig workers is delivering new opportunities — and new challenges — for insurers.

IN SHORT

- **Globally, the gig economy is expected to grow to a US$455 billion industry by 2023.**
- **Gig workers tend to be financially vulnerable.**
- **There are huge opportunities for insurers who can provide tailored, simple, flexible products.**

Mandarin feature

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When Skye Theodorou was building an insurance product for delivery drivers and other gig workers, her team talked to 1,500 people about their experiences.

'A scooter rider in New South Wales told us that when she had an accident, she was able to claim from Uber Eats, Deliveroo and her own CTP insurance,' says Theodorou, co-founder and CEO of insurtech upcover. 'At the other end of the scale were people in other states and on different platforms who had no protection whatsoever. This lack of consistency is very worrying given the number of people who are taking on this kind of work.'

Broadly, as most Australian gig workers are classified as independent contractors and not employees, the *Fair Work Act 2009* doesn't apply. That means they have no insurance protection. For example, between September and November 2020, five bicycle delivery drivers died while they were working, but their dependents were not entitled to any workers compensation.

In New Zealand, it's been almost two years since the Ministry of Business, Innovation and Employment began consultation on improving protections for contractors, but, so far, there have been no legislative changes. Like their Australian counterparts, they are not entitled to the rights and benefits associated with formal employment. Meanwhile, the gig economy is booming worldwide. Research by Mastercard and Kaiser Associates predicts it will generate US$455 billion globally by 2023. Stats NZ reports that just over 5 per cent of all employed New Zealanders work as self-employed contractors, while in Australia, the gig economy is already one the country's largest industries.

'Between 2015 and 2019, [the Australian gig economy] more than tripled in size to an estimated 250,000 people,' says Pieter Koene, principal, Digital Strategy and Transformation, at PwC Australia.

COVID-19 certainly played a role, with lockdowns creating a surge in home deliveries.

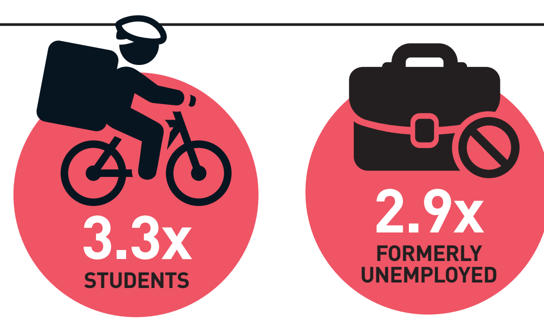
'Platform providers can also enjoy more flexible access to workers and lower costs relative to traditional employment,' says Koene. 'For workers, there's a low barrier to entry. And many either prefer, or need, this level of flexibility and autonomy.'

The term 'gig economy' has been attributed to former *New Yorker* editor-in-chief Tina Brown. She coined it in 2009 to describe how many workers were pursuing 'a bunch of free-floating projects, consultancies and part-time bits and pieces while they transacted in a digital marketplace'.

Freelancers and contractors have been part of the workforce for some

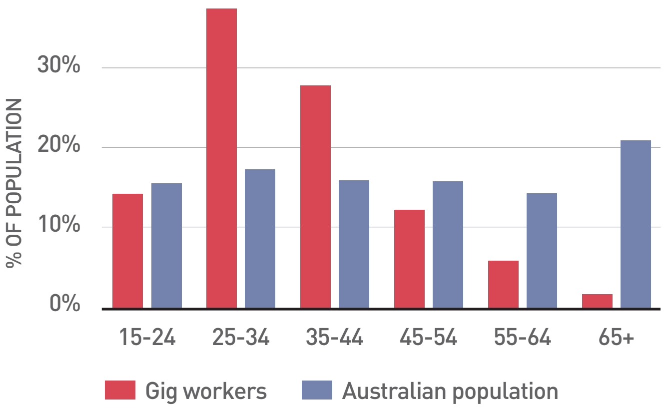
WORKFORCE BACKGROUND

Research from the Actuaries Institute found gig workers are 3.3 times more likely to be students and 2.9 times more likely to be formerly unemployed, relative to the average Australian.



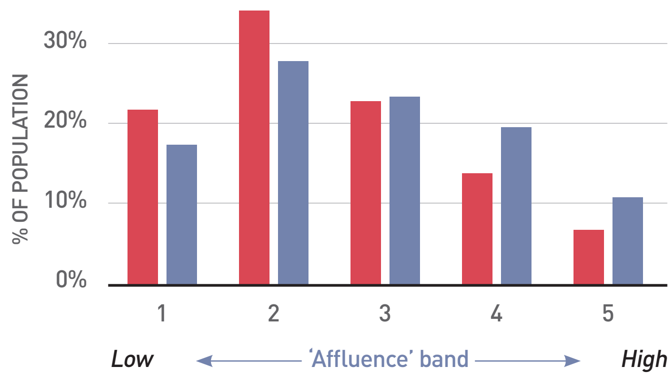
Gig workers are heavily skewed towards

YOUNGER AGE GROUPS



LOWER AFFLUENCE

amongst gig workers compared to the average Australian



Source: The Actuaries Institute, *The Rise of the Gig Economy and its Impact on the Australian Workforce*, 2020

time. However, according to Anthony Joseph, PwC's Financial Services Digital Operations and Automation practice leader, those described as 'gig workers' tend to be financially vulnerable — younger, less affluent, students or formerly unemployed.

'When it comes to insurance, this is the cohort least likely to be aware of their needs, their cover and any gaps,' he says.

Challenges for insurers

This is clearly a growing — and challenging — opportunity for insurers.

'It's a new economy, so some of the risks are unknown,' says Chris Bayley, co-founder and chief innovation officer at Cover Genius. 'Traditional insurers base their pricing on historical claims history and predictable insured behaviour, so they may be reluctant to write some of this business.'

Traditional products such as personal accident and workers compensation were designed for workers who have one job, but many gig workers have multiple part-time jobs with multiple employers.

'There are some traditional insurers in this space, mainly partnering with platforms to offer group insurance coverage — for example, CGU provides liability insurance for [online services platform] Airtasker,' says Bayley.

IAG offers Airtasker Insurance through its CGU brand in Australia, New Zealand and the United Kingdom. It provides up to A$10 million cover for workers registered with the Airtasker marketplace for their liability to third parties, personal injury or property damage when performing a task.

Meanwhile, a new breed of insurer is leveraging technology, such as embedded insurance, to tap into the digital platforms of the gig economy players.

'As an example, we've teamed up with rideshare company Ola to provide a range of protection products,' says Bayley. 'Ola has invaluable data for insurers like travel times, travel distance, traffic data, driver history and passenger numbers. We're using this to tailor our products and end-to-end claim servicing for every ride in real time, automatically.'

Theodorou initially built upcover's product as a pay-as-you-go insurance model, blending personal and commercial insurance policies and per delivery prices. The team then found that legislation, regulation and administration through bordereaux and manual processes made this difficult to implement.

'We have now decided to go with more traditional annual insurance policies for small business, whether gig worker or small to medium-sized enterprise [SME],' she says.

Different approaches

While take up of upcover's product was initially quite strong, Theodorou predicts that penetration will remain relatively low until gig insurance is compulsory.

'This is something the government is currently considering as part of its inquiry into on-demand platform work in Australia,' she says. 'For the moment, we're focusing on business insurance products that are mandatory for gig workers and SMEs in Australia.'

Zurich's recent report *Shaping a Brighter Future of Work* found a range of approaches to gig insurance across the Asia-Pacific region. For example, in Malaysia, the food delivery, ride-hailing and payment superapp Grab has an insurance arm offering usage-based motor insurance for drivers and delivery riders, with premiums starting at approximately 25 US cents. Grab has also partnered with NTUC Income, an insurance co-operative in Singapore, to cover critical illness for its drivers and delivery riders. Premiums start at about 10 US cents per trip.

In Hong Kong, self-employed workers are required to contribute 5 per cent of their earnings to the Mandatory Provident Fund — a compulsory pension scheme. While workers compensation benefits are under review, the Zurich report suggests the Hong Kong Government's free-market approach means it is unlikely to impose regulatory constraints, such as mandatory insurance, for gig workers.

'The gig economy is creating enormous opportunities for insurers, but, as yet, there's no simple solution,' says Theodorou. 'At upcover, we're very passionate about providing adequate insurance protection and even making benefits products available to gig workers. But we're also conscious that many value having the freedom to work at times that suit them and as many hours as they want, so we need to find a balance between the two.' //

DOMINI STUART
Freelance journalist

'The pandemic shone a light on just how perilous a gig worker's finances can be. If we're going to continue using their services, we need to be sure they have the protection they deserve.'

NARROWING THE PROTECTION GAP

Natural disasters are on the rise in Asia Pacific, making insurance unaffordable in some areas. Here, we examine some of the strategies (re)insurers can use to help communities get the cover they need.

IN SHORT

- An increase in the number and severity of natural disasters is making insurance unaffordable in some areas of the Asia-Pacific region.
- There are various solutions to the problem, including reinsurance pools, parametric products, big data, reducing transaction costs and mitigation strategies.
- Most involve some level of cross-subsidy, and there's no one-size-fits-all solution. Experts say a combination of risk mitigation and management will build resilience.

Photography: iStockphoto

One of the most insidious impacts of climate change-related catastrophes in the modern era is the escalating problem of insurance unaffordability, especially for those in high-risk areas.

'The rise in natural disasters linked to changing temperatures makes it imperative for us to narrow the region's protection gap — the difference between total economic losses from catastrophes and insured losses,' says Russell Higginbotham, CEO and regional president Asia at Swiss Re.

He says the Swiss Re Institute estimates this gap at US$60 billion in Asia, pointing to many businesses and households that could be financially devastated by natural disasters. 'Insuring against these risks would ensure that when shock events strike, communities are able to bounce back and focus on rebuilding.'

New Zealand-based underwriter Euan Osborne agrees. 'Generally speaking, any risk that poses a large systemic issue and leads to claims exceeding the premium pool can lead to insurance becoming unaffordable, as it can force insurers and reinsurers to pull back capacity and increase their rates in order to remain sustainable,' he says.

'For example, earthquakes have led to property insurance premiums significantly increasing in certain parts of New Zealand, and there is a similar effect as a result of storms, flooding and bushfires across Australia and Asia Pacific.'

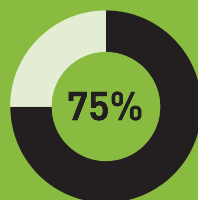
In Australia, some parts of the country are more prone to cyclones, floods, bushfires or hailstorms than others, and buildings at those locations are often not mitigated sufficiently to keep premiums affordable.

Other countries in the region have their own issues that can lead to insurance unaffordability. Japan, for example, has to contend with tsunamis, floods, typhoons, earthquakes, cyclones and even volcanic eruptions. And India is exposed to earthquakes, tropical cyclones, floods and droughts.

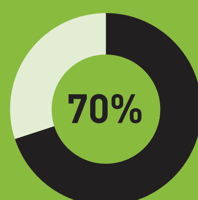
RISK INSURANCE LANDSCAPE IN ASIA PACIFIC

The Asia-Pacific region has a total of 53 risk insurance schemes, of which 24 are in South Asia, 18 in South-East Asia, 8 in East Asia, 2 in Pacific Island countries and 1 in Central Asia.

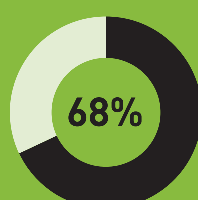
More than



are micro-insurance* schemes for rural poor, 14% are sovereign schemes and the remaining are meso-level and other schemes.**



of these schemes are supported by either a partial or full subsidy from national or provincial governments.



of the schemes count for agricultural insurance.

** Micro-insurance schemes facilitate access to disaster insurance products to protect livelihoods of the poor against extreme events*
*** Meso-level schemes provide cover for 'risk aggregators' such as banks, insurance, microfinance institutions or municipal-level actors (e.g. water authorities)*

Source: Database of Grantham Research Institute

Diving into the pool

'Generally, private insurance markets price risk at expected cost and cannot subsidise premiums for high-risk policyholders to promote affordability,' observes one actuary, who preferred to remain anonymous.

'Because of this, governments across the world have employed a variety of approaches to promote affordability, including forming pools. Pool design can be tailored to the local drivers of affordability pressure.'

Some pools are designed to address a capital shortage due to the size of extreme loss, such as in Japan, California or Florida. In other cases, pools target high premiums resulting from the risk at a location such as a riverbank — for example, Flood Re in the United Kingdom.

Government-established pools in the Asia-Pacific region include the Earthquake Commission in New Zealand, China Residential Earthquake Insurance Pool, Japan Earthquake Reinsurance, Thailand National Catastrophic Insurance Fund, Taiwan Residential Earthquake Insurance Fund and Southeast Asia Disaster Risk Insurance Facility.

In Australia, the Australian Reinsurance Pool (ARPC) was established by the *Terrorism Insurance Act 2003* to correct a market failure in commercial property insurance, which occurred in the wake of the 11 September 2001 terror attacks in the United States. At the time, portfolio managers and building owners were struggling to obtain cover for high-value properties because of the risk of terrorism. This threatened to stifle commercial property and infrastructure development and distort investment and portfolio allocation decisions.

More recently, the Australian Government has also established a Cyclone Reinsurance Pool Taskforce to consult on and develop a final design for a reinsurance pool for cyclones and related flood damage (see breakout pg. 58).

'The common theme across insurance pools is that they were often established after a major loss event,' says Win-Li Toh, a principal and actuary at Taylor Fry.

'They are intended to address availability issues where retail policyholders are heavily exposed to a peril. But they have evolved over time to address affordability in some cases and enable access to people who may otherwise not have had cover.'

Using big data

Christian Mumenthaler, group CEO of Swiss Re, argues in a blog that digitalisation can be a great lever for (re)insurance to reduce the protection gap.

'First, it opens a whole new spectrum for insurers to collectively cover risk, including those that are currently uninsurable,' he says.

'Second, digital technology can help to overcome the major obstacles for people and businesses to buy insurance: affordability, ease of access, attractiveness of the product and transaction costs.'

Mumenthaler says the modelling of risk with more granular data and analytics provides exceptional risk information, allowing the insurer to rate a risk based on individual exposure and propose tailored solutions. At the same time, big data and cloud computing enable new insurance models that were previously not possible due to lack of real-time connectivity and access to vast amounts of data.

> 'The New Zealand market has recently seen the launch of … a parametric product … that provides a prompt payout after an earthquake's peak ground velocity reaches 20 centimetres per second and above.'
>
> **Euan Osborne** / New Zealand underwriter

'With more risk knowledge, insurers can offer more affordable coverage for behaviours that help mitigate risks. Accordingly, they can provide protection for risks they couldn't cover before,' he says.

'In essence, I see big data as the fertile ground to create new markets and to diversify risks that, up to now, were considered uninsurable. I think it's no surprise that data is sometimes referred to as the new gold.'

To diminish the uninsurability of risks, Mumenthaler believes (re)insurers must also tackle high transaction costs. 'The costs of distribution, administration and claims settlement swallow up a third of insurance premiums,' he says. 'The digitalisation of the value chain will eliminate many inefficiencies in the insurance market.

'Faster and real-time assessment of policyholders' risks, taking out policies

Photography: iStockphoto & Getty Images

online and automated claims settlement drastically reduce the costs of insurance. Artificial intelligence and machine learning are bound to further accelerate processes. Affordability and effortless customer journeys pave the way to higher insurance penetration in the future.'

Parametrics to the rescue

Parametric solutions can be helpful in some situations where governments require quick assistance to promote post-disaster recovery, such as the Caribbean Catastrophe Risk Insurance Facility, or in jurisdictions where insurance systems are immature or the built environments have limitations.

Parametric insurance sets predetermined parameters and payments for risks that can be objectively measured and verified by a respected third-party authority.

'This is a relatively new concept in insurance and works by providing a defined payment following an agreed trigger event,' says Osborne.

'The New Zealand market has recently seen the launch of Bounce, a parametric product supported by Lloyd's that provides a prompt payout after an earthquake's peak ground velocity reaches 20 centimetres per second and above. This is measured by real-time data provided by GeoNet. Although it does not provide the same level of cover as a traditional property policy, it does provide emergency cash flow immediately after the event.'

One of the latest parametric solutions is a new partnership, co-funded by the InsuResilience Solutions Fund, which aims to help protect climate-vulnerable smallholder farmers and marginalised people in Western Nepal against floods.

Nepal is highly prone to multiple natural hazards, yet agriculture is the main source of income for more than 65 per cent of the country's population, contributing 27 per cent to the national GDP.

The parametric risk transfer mechanism, managed by Frankfurt School of Finance and Management and funded by KfW Development Bank, measures flood flows and rainfall levels via hydrometric gauging stations.

The premiums will be subsidised by the Nepalese Government. Community co-operatives and microfinance institutions will act as insurance policyholders as well as distribution partners.

Another well-known example is the customised parametric catastrophe risk insurance product the World Bank designed for the Philippines, one of the most disaster-prone countries on earth with high exposure to tropical cyclones, earthquakes and other natural hazards.

PICTURED

Parametric insurance products have emerged as one solution to promote recovery in earthquake-prone areas such as Christchurch, New Zealand.

In recent years, the government of the Philippines has improved its financing capacity to respond to disasters by establishing national- and local-level funds as well as contingent credit lines. However, higher-impact disasters would exceed these resources and leave the country vulnerable during the critical emergency response phase.

The solution gives the country access to international reinsurance markets to transfer risk and creates a policy for quick post-disaster payouts once an event is triggered.

Since the payment of claims depends on parametric triggers and not on actual losses, which would take time to assess in the field, claims can be paid much faster.

Seeking other solutions

'To enable affordable (re)insurance in an environment where catastrophe losses are steeply on the rise, and for a region which is vulnerable to the impacts of climate change, we need to build our future resilience through a combination of mitigation, smart planning and financial risk management,' says David Sinai, head of property underwriting Australia and New Zealand at Swiss Re.

'Risk is reduced, risk transfer becomes more affordable and insurance penetration increases, lessening the economic impact of disasters,' he says. 'Raising awareness on the benefits of pre- rather than post-disaster financing is key.'

Sinai believes the floods in March this year in New South Wales are likely to become a case study around these issues. 'Here, we expect that affordability issues for those with high-risk flood-prone properties will result in a significant non-insured portion of the economic loss for this event, highlighting that stakeholders beyond the insurance industry need to contribute to solving this problem.'

Sinai says it's important that governments play a role in mitigating the impact of extreme weather events to enable more affordable risk transfer in high-risk areas — for example, ensuring new developments are situated in locations that are not highly exposed to these inevitable risks.

'Aside from risk avoidance, risk mitigation for existing assets is also important,' he says, pointing to a successful case study in the Queensland town of Roma, where the flood risk was downgraded for more than 500 properties following the completion of an A$8.3 million mitigation project. '[Roma] is one example where flood levees have proven to be an effective mitigant, helping to improve insurance affordability.'

Sinai says the insurability of climate risks will require adaptation and mitigation measures through socioeconomic policies, zoning laws and geographic planning. 'We expect considerable development in regulatory requirements and guidance to emerge over the next few years on this topic.'

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ZILLA EFRAT

The Journal editor

'On one hand, new technologies and better data collection will mean cover continues to become unaffordable as insurers more accurately price risks. On the other, they will spur on much better solutions to affordability.'

by Domini Stuart

IN SHORT

- The COVID-19 pandemic has tightened margins, sharpening SMEs' focus on costs when considering insurance.
- The past decade has seen an increase in collaboration between brokers and SMEs, as well as more weight given to service.
- There are opportunities for relationship-orientated brokers to help their clients achieve the best outcomes.

Rethinking the SME segment

Small to medium-sized enterprises are getting more involved in their insurance choices, despite the risks posed by COVID-19. What role do brokers have to play?

In his introduction to Vero's *2021 SME Insurance Index*, the company's head of commercial intermediaries, Anthony Pagano, pondered some of the major changes he's seen since the first edition of the index was published 10 years ago.

'We have seen digital technology evolve from cutting-edge to mainstream, experienced an increasing number of natural disasters and, in the last year, lived through the impacts of an extreme bushfire season and a global pandemic, as well as our first recession in more than two decades,' he wrote.

The pace of change is a challenge for any business to navigate, and Pagano believes brokers will continue to play an important role here in helping small to medium-sized enterprises (SMEs) manage emerging risks.

The index, which polls more than 1,500 business owners and decision-makers from around Australia each year, also identified a swing to more client involvement in insurance choices.

'In the past, many SMEs preferred to "set and forget" their insurance and to delegate to experts,' the report says. 'However, in the past 10 years we have seen an increase in the number of SMEs who say they want to be involved in their insurance.'

This year, 60 per cent of SMEs said they personally researched the insurance needs of their business, aided, in part, by improved access to information online.

Compared with 2014, in 2021 there has been a significant increase in broker clients who claim to do most of the work themselves, or to have little to do with their brokers.

At the same time, there has been a corresponding decrease in the number of broker clients who say they work collaboratively with their broker or rely on their broker's recommendation.

While many brokers consider their expertise to be the major benefit they deliver to their clients, a decreasing number of SMEs highlight this as the reason they work with a broker. In 2015, 50 per cent cited expert knowledge and advice as a reason to use a broker; in 2021, this figure was down to 40 per cent.

Instead, Vero has seen 'providing great service' rise over the past few years as the most common reason many clients work with their current broker. There has also been an increase in reliance on informal advice about business risks, with over half of broker clients saying they turn to family, friends, colleagues or peers for advice. This increased from 39 per cent in 2016 to 54 per cent in 2019.

Photography: iStockphoto

In its 2021 index, Vero points to some significant shifts in SMEs' attitudes towards insurance in recent years.

'Most notably, there has been a considerable increase in the number of SMEs who view insurance as a grudge purchase, who are price-driven and who feel wary about the industry,' the report states (see breakout).

'This has critical implications for brokers and for the insurance industry, highlighting the need to demonstrate the value and importance of insurance as an essential to business, rather than a resented cost.'

SMEs respond to COVID-19

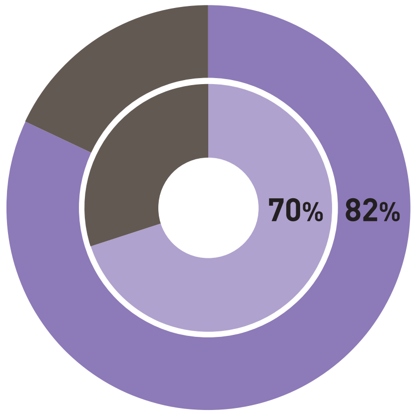
New waves of COVID-19 continue to hurt SMEs in the Asia-Pacific region.

'Margins are probably even thinner now than they were two years ago,' says Mark Johnson, CEO of Howden Insurance

SHIFTING ATTITUDES

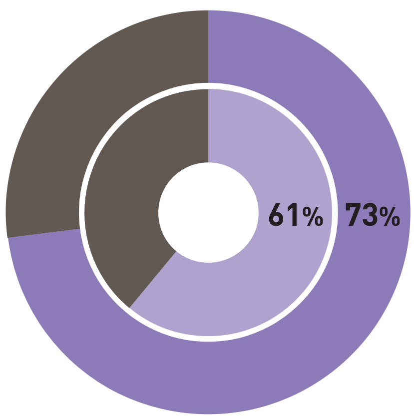
According to Vero, there has been a considerable increase in the number of SMEs who view insurance as a grudge purchase, highlighting the need for brokers to demonstrate the value of insurance as an essential to business, rather than a resented cost.

2015 2021



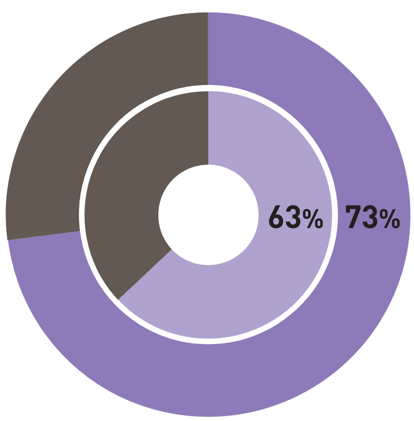
Grudge

- I have to be insured, but I don't get value for money out of it
- I only take out some insurance because I'm legally obligated to
- I buy the minimum cover I need



Price driven

- I'm willing to forego personal contact with a broker or insurance company if it means I can get it a bit cheaper
- Price is the most important concern when it comes to making decisions about insurance



Wariness

- Recent events have made me more wary of the insurance industry
- Recent events have made me question my cover
- I want my insurance to be with a large insurance company

Source: Vero *2021 SME Insurance Index*

Brokers in Hong Kong. 'Many of our clients have either had to put their people on reduced hours, cut their headcount or make savings in other ways. Some businesses continued to thrive during the pandemic, but most of our clients are having a pretty hard time.'

Wibi Wibowo, head of Corporate Risk Services at Aon Indonesia, has witnessed how conditions have affected his clients' insurance choices.

'Price has increasingly become the number one focus of SMEs, because many of them have been struggling financially since the pandemic started 18 months ago,' he says. 'Some are hunting for discounts, but, since the sums insured for SMEs are typically small, discounts are not available. Others have even foregone insurance protection, because they simply cannot afford to pay the premium.'

Indeed, two SME insurance surveys conducted by Vero in 2020 show that while many SMEs left their insurance in place, around a third claim to have made at least moderate reductions.

Cost vs quality

In or out of a pandemic, cost is bound to be a significant factor for SMEs. It could also be a default position for clients with little experience in the area.

'Few SMEs have dedicated insurance specialists on the payroll,' says Johnson. 'That means insurance is usually organised by someone with a "day job", such as the business owner or the person in charge of administration, finance or operations. If they lack the knowledge of the technical aspects and nuances of insurance, it's natural for them to focus on price.'

This could encourage them to search for insurance online.

'There's a misconception that buying online insurance saves money,' says Johnson. 'In fact, the insurer has to do a lot of the servicing a broker takes care of, and they factor that into the price.'

According to Auckland-based Steve Lockwood, managing director of Gallagher Australia and New Zealand, a broker might actually cost less than a direct alternative.

'Larger brokers have strong buying power and pass those savings on to their customers,' he says. 'They can also provide more comprehensive cover. Most online offerings are single policies. If they do offer a complete solution, the wordings are often very generic and they're quite vanilla in the protection they offer. We've seen very few customers transferring to online solutions, and I'm sure the main reason is that they prefer to have a personal relationship with their provider.'

> 'Few SMEs have dedicated insurance specialists ... If they lack the knowledge of the technical aspects and nuances of insurance, it's natural for them to focus on price.'
>
> **Mark Johnson** / Howden Insurance Brokers

As Wibowo points out, there are SMEs with needs so simple that a broker adds very little value. Others acknowledge that a broker can advise them on the appropriate policy cover and interpretation of the policy wordings.

'Even with smaller companies, we've found this is usually the case for first-time buyers of insurance,' he says.

How brokers can help

Owners of a smaller business have good reasons to feel passionate about its future.

'Many have most of their wealth embedded in the business,' says Lockwood. 'It's their livelihood and often their life's work. They need quality insurance to protect all of that, and, in my experience, they're deeply aware of the risk to them in getting it wrong.'

Their insurance needs can also be as complex as much larger organisations. And brokers are often well placed to get the best insurance package outcomes for them, whether they are struggling with the impact of COVID-19 or any other recent catastrophes.

'Policy wordings and protection need to be tailored to the business,' says Lockwood. 'That requires a lot of information and discussion. The business world is changing and businesses are continually being exposed to more risk, particularly in the areas of potential liabilities, regulatory risk and evolving risks such as privacy breaches and cyber attacks. In my opinion, one-on-one advice is more important than ever when it comes to gaining adequate protection.'

Collaboration also helps to keep the total cost of risk to a minimum.

'SMEs need to consider their ability to accept risk, how big a deductible they want, which aspects of risk they can afford to self-insure and which bits could really hurt without cover,' says Johnson. 'This is where a broker can bring their expertise to bear by really listening to each client and then putting together a cost-effective portfolio which takes their specific needs and preferences into account.'

It can also help to have a broker as an advocate. According to Vero's index, recent involvement with the insurance process, such as reducing cover or making a claim, is one of the strongest reasons for SMEs to consider engaging a broker. When brokers were part of the claims process, respondents reported considerably higher levels of satisfaction.

In addition, brokers can also alert SMEs to risks that are not on their radar — for example, cybercrime. Indeed, Cameron Research has been monitoring cybersecurity for years and says COVID-19 and the work-from-home implications of that have had virtually no impact on SME attitudes or behaviour towards this risk.

So what does this mean for brokers?

'With change also comes opportunity,' says Vero's Pagano. 'The brokers who can understand the risks, develop appropriate strategies and embrace the prospect of change will be those who will succeed in years to come.'

DOMINI STUART
Freelance journalist

'It seems that many SMEs assume they'll pay more for their insurance if they use a broker. Where possible, brokers should be educating them on the true value and benefits of their service, including advocacy at the time of a claim.'

NEW ANZIIF MEMBERS

ANZIIF would like to extend a warm welcome to its newest members.

*For the period 12 June to 17 September 2021.

FELLOW

Cassandra Kemsley	Australia
Fiona Wong Mun Wai	Singapore
Hien Duong	Vietnam
Man Kit Arthur Ho	China (Hong Kong)
Stephen Macdermott	Australia
Swee Kong Wang	Malaysia
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by Domini Stuart

5 skills for **leaders of the future**

As technology and work practices continue to transform the insurance industry, effective leaders will require a different set of skills. Three experts share their thoughts.

01 // Broad approach to management

Great leaders will need to be good at managing process and technology as well as people.

'In 10 years' time, the insurance industry will look very different from now,' says Morris Misel (Miselowski), acclaimed global business futurist. 'Much of the work employees do today, such as processing claims and analysing numbers, will be handled by technology.

'Leaders will need to manage the changing relationship between technology and people, and ensure they have employees who can excel at emerging tasks.'

02 // A new toolkit

Kim Seeling Smith, founder and CEO of workforce consultancy Ignite Global, sees traditional management tools like annual performance reviews, task-based job descriptions and hiring for a particular role as things of the past.

'These were designed for a very different workforce,' she says. 'Modern leaders need to connect with staff as individuals, understand what they want and either meet those expectations or manage them when they can't.

'No-one can be all things to all people, and maintaining a balance between the needs of the organisation and the needs of the individual could prove challenging.'

03 // Confidence in a virtual environment

Lack of flexibility is already driving some people to leave their current job or think twice about accepting a new role.

'Working remotely or in a hybrid way is here to stay, and leaders need to offer that flexibility,' says Seeling Smith. 'They must also be prepared to do things differently, not simply attempt to transport a live office into a virtual environment.'

According to Carl Piesse, regional director at recruitment agency Hays, leaders must also consider appropriate coaching and training strategies for a remote workforce.

'As competition for talent increases and salaries reach new highs, helping staff to achieve their full potential is a cost-effective way to keep a strong team,' he says.

04 // Breadth of experience

A wide range of experience is fundamental to strategic and innovative thinking, so instead of focusing solely on moving up the career ladder, a future leader may want to consider how a sideways career move could expand their skillset.

'Moving horizontally provides an opportunity for potential leaders to use their knowledge in a different capacity and support their pathway to a leadership position,' says Piesse.

05 // An appetite for information

Piesse says that with the insurance industry in the midst of significant transformation, successful leaders will have a genuine hunger for the latest information and the ability to disseminate it effectively.

'Leaders will need to stay fully informed about market, economic and regulatory changes,' says Piesse. 'Communication and interpersonal skills will help them to keep staff informed and engaged.' //

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