



TRUST RE

EMERGING RISKS



**ASIAN INSURANCE AND REINSURANCE  
SURVEY RESULTS 2018,  
PART 2: EMERGING RISKS**

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# EMERGING RISKS

## Asian Insurance and Reinsurance Survey Results 2018, Part 2: Emerging Risks

This year Trust Re commissioned the 3<sup>rd</sup> edition of its market research report on trends and developments in insurance and reinsurance in Asia. In the second of this four-part series, we will take a closer look at the growth of new risks emerging in Asia; there are a number of mega trends at play which will continue to transform the insurance markets in the region.

Firstly, due to its integration into the global production chains, the region's exposure to risks which are transmitted through international information systems such as cyber risks, are spreading rapidly.

Secondly, political stability and security remain an issue as economic inequalities, as well as ethnic and religious conflicts, may cause unrest.

Thirdly, Asia demands ongoing investments into its infrastructure to strengthen access to resources and energy, improve connectivity and transport and to develop manufacturing facilities. While these needs will translate into demand for insurance cover in terms of construction and power, they also require insurance policies to finance and secure these investments, as provided by credit and surety insurance.

Fourthly, as the region matures, assets have to be protected and insured against harm caused by third parties. Policymakers should recognize this necessity and adapt their legal systems to these requirements. Accordingly, the importance of product liability insurance increases across most markets.

Furthermore, with rising affordable income, society also becomes more health conscious, demanding access to adequate medical treatment and to health insurance systems which help to address the related cost.

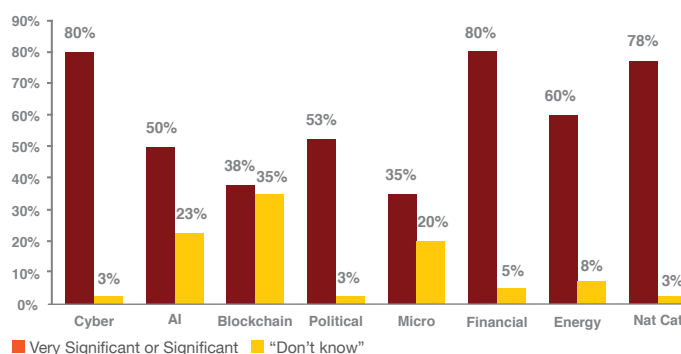
Finally, large parts of society in Asia still live in rural areas and are dependent upon income from agricultural production. In addition, food security is of paramount importance. In key markets such as China and India, agricultural insurance is recognized as a means to protect farmers' cash flow against the impact of natural catastrophes while helping to stabilize and increase agricultural productivity through access to better funding.

Trust Re's survey "The Outlook for Insurance and Reinsurance in Asia" reflects these trends. According to the study, the majority of the interviewees who operate in these markets, see cyber risks as by far the most prominent risk for these markets, followed by financial risks, product liability, health and agriculture.

### Expected significance of risks

Part of the Trust Re-commissioned survey aimed to evaluate the significance of emerging or expanding risks for the region's insurance markets and to determine the preparedness of the market to underwrite these risks by dedicating sufficient capacity to their coverage. Survey findings rated the potential size of the risks within the next three years, based on the assessment of the executives polled and compared it to the confidence of interviewees that the risks will eventually gather the predicted relevance.

### Expected significance of risks



\* New emerging risks insights – Swiss Re Sonar; Swiss Re Institute; May 2018 Emerging Risks: What are the main risks for 2025, Emerging risk survey 2017, AXA Allianz Risk Barometer, Top Business Risks for 2018; Allianz Global Corporate & Specialty; Allianz

For cyber, financial and natural catastrophe risks and, to a lesser degree, political risks, interviewees were certain of their pronounced significance for the region. In other cases, such as artificial intelligence, blockchain or microinsurance the

executives polled generally agreed that these risks pose a smaller threat to the markets, although the variance of that certainty was also greater

The findings of Trust Re's survey resonate well with other research conducted by leading insurers\*, which aims to determine recurrently the largest risks on a global scale. In comparing their studies to Trust Re's survey, it becomes apparent that risks emerging in Asia risks hardly differ from the global risks which also evolve around the impact from natural catastrophes and climate change, the effects and implications that arise from digitization and an interconnected global society ('digital ecosystems') and finally conflict driven political instability and how these uncertainties will manifest.

### Cyber risk is perceived as the most significant risk

Cyber risks have rapidly risen to the top rank due to its accumulation risk. A malicious attack can potentially affect and disrupt hundreds of otherwise unrelated companies, users or even States. The risk is considered as very complex because it can originate from criminal intent, to information wars as well as simple malware or maintenance problems corrupting the system. With the introduction of the General Data Protection Regulation (GDPR) by the European Union, which applies to all companies collecting data from European subjects irrespective of their location, losses or breaches of data have to be reported to a regulator and to the end-user and transgressors may be fined, adding further reputational risks to the cyber threat.

*"Whilst the cyber (re)insurance market seems preoccupied with the US market, increased awareness and transparency will quickly illuminate the true scale of cyber risk in the tech reliant Asian markets".*

Wayne Murphy  
Head of Aviation, Trust Re

### Emerging Asia's particular exposure to Natural catastrophe losses

According to the executives polled for Trust Re's survey, emerging Asia's natural catastrophe exposure is one of the region's most significant risks. Current reality is testimony to that assessment. In 2017, Asia accounted for roughly 34% of the global natural catastrophe events\*. Economic losses from NatCat events accounted for US\$ 31 billion, which was below the annual average of US\$ 72 billion for the years 2009 – 2017. Despite the well known NatCat exposure, there still exists a significant protection gap as exemplified by 2017 figures which show non-life insurance premiums in emerging Asia accounting for 1.5% of GDP compared to the global average of 2.8%. Moreover, for the same year, only about 20% of Asia's economic losses caused by NatCat events were insured compared to almost 50% in the US.

### Financial risks to remain significant while the region invests in its transformation

The interviewees of the Trust Re survey also expect significant financial risks for the next three years in Asia. The World Bank predicts China's economy to grow at about 6.4% annually. Malaysia is expected to accelerate its growth while the Philippines and Indonesia will continue to remain the fastest growing markets in the ASEAN region. While China is rebalancing its economy from investment and external demand towards a greater share of domestic consumption, the country's "One Belt, One Road" mega infrastructure and construction project will continue to drive demand for financial protection, in particular for surety cover. Trade credit will remain in strong demand too. While China is shifting its economy from export driven manufacturing to a more service-oriented approach, India is expected to fill the gap and strengthen its exports of manufactured goods.

The Changing Landscape of Insurance, Part 3, JLT, June 2018

*“The gap between the nature of the exposure towards (corporates and individuals) financial risks for the insurance sector and that for the banking sector keeps narrowing. In fact, the growing demand for financial guarantees confirms a “shift” of these exposures from the latter to the former. Insurance companies are now called to bear risks that used to be an exclusive domain for banks: whether they (and their reinsurers) are ready for that, remains an open question”.*

*Domenico Esposito  
Head of Surety Underwriting Trust Re.*

## Political and terrorism risks regarded as increasing

Political risks are considered to be significant too in the Asian markets under review in the Trust Re research. Firstly, there is the still unresolved conflict with North Korea which remains a concern to insurers in the region. Secondly, unsettled disputes about territorial claims in the South China Sea are also still a source of uncertainty in the world’s busiest sea strait through which most of Asia’s trade is shipped. Thirdly, the terrorism threat is still considered substantial as evidenced by several attacks which sadly happened in Indonesia, the Philippines and Bangladesh in 2017. Further, the Rohyinga crisis in Myanmar may still spark some unrest.

## Uncertainty around the magnitude of Artificial Intelligence (AI) and Internet of Things (IoT) risks

There is not much clarity pronounced for the significance of risks related to artificial intelligence (AI), blockchain and micro-insurance. With regard to the technological revolution in the digital age, insurers ponder if the changes at hand are not foremost measures to improve their own

efficiency in terms of data gathering and processing. Asia is at the forefront of insurers automating even their interaction with clients, such as claims payment or policy underwriting.

*“Global geo-political tensions are causing heightened political instability and a terrorism threat in Asia. There are concerns about the Islamic State (IS) growing in certain Asian countries although the impact has been slight so far. Perpetrators of terrorism are also changing from an organized group to a lone person using improvised devices. Hotels, malls, commercial complexes and places of worship are all at a high risk of terrorism in Asia”.*

*Thiagarajan Natarajan  
Senior Underwriter – Specialty Lines,  
Trust Re*

The risks related to digitization and new digital processes are still very fluid and can be summarized as follows:

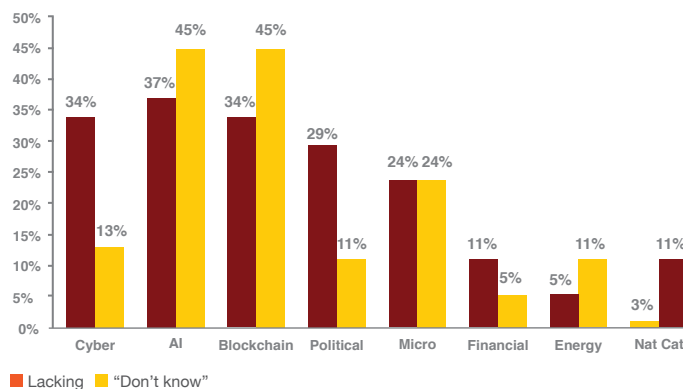
- Insurers will have to determine if, and for how long, they prefer to stay on the sidelines and wait for some of the innovations to mature and to turn into quantifiable underwriting opportunities.
- Many of these risks might actually fall under cyber insurance, at least when it comes to instances of connectivity and disruptions thereof (malicious or otherwise) as well as data loss or breaches, corruption, malfunctioning and the associated liabilities.

## Micro-insurance

The case is more clear-cut for micro-insurance. Agricultural insurance solutions implemented in India or China are forms of micro-insurance that have been in the market for more than ten years. As both governments strengthened their effort to protect, in particular, smallholder farmers from the impact of natural disasters, such as flooding or drought, the importance of the lines has been

mounting in recent years. First launched in 2006, China's government subsidized agricultural insurance schemes for close to US\$ 7 billion in 2017, according to the Chinese Banking and Insurance Regulatory Commission (CBIRC), making the Chinese agricultural insurance sector the second largest in the world after the US. Similarly, India significantly revamped its government-subsidized agricultural insurance scheme in 2016.

### Availability of reinsurance capacity



### Availability of capacity

The Trust Re survey also aimed to determine the availability of reinsurance capacity to cover the aforementioned risks – as this provides additional evidence to specify the relevance and magnitude of a certain risk. For the more established risks, such as energy, natural catastrophe and largely the financial risks as well, the executives polled were confident that reinsurance capacity is sufficiently available to meet insurers' demand.

Where there was less certainty about the significance of the risks, such as AI and micro-insurance, it was also unclear if reinsurers dedicate sufficient capacity to the risk. However, some markets depend on access to reinsurance capacity. In India for instance, the agricultural insurance market relies heavily on reinsurance capacity, because primary insurers' balance sheets often lack the strength to underwrite the highly volatile agricultural risks.

Where insurers are convinced that the magnitude of risk is large, there are still doubts expressed about the sufficiency of capital, especially for political and for cyber risk. Here capacity relates both to the size of designated funds to cover these risks and also to the intellectual capability in the region to assess, judge and appropriately underwrite the risks. In the case of cyber, the challenge is even more complex, as insurers agree that the potential accumulation risks are enormous. Reinsurers are only prepared to dedicate limited funds to these risks because experience and data regarding their frequency and severity is limited. It is expected that capacity will only increase as the risks mature and more data becomes available.

In sum, Asia's insurance markets are expected to remain highly dynamic. In fact, their expansion may well exceed the economic growth of the region. As new values are being created, insurance demand will expand in tandem. In addition, new risks such as artificial intelligence or Blockchain emerge, driven by technological innovation or its proliferation. Further, connectivity and Asia's integration into the global value chain augments risks such as cyber.

Finally, advancing insurance technology enables coverage for risks that previously were regarded as uninsurable, or at least as too inefficient to be commercially insurable – such as micro-insurance, in particular in agriculture. Due to a lack of historical data in Asia, the magnitude of these risks is still difficult to gauge. Insurers and reinsurers are thus cautious and only commit capacity in accordance with their risk appetite, which will change as more information and experience about these risks becomes available.

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