EMERGING INSURANCE RISKS

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EMERGING RISK DEFINITIONS

- Lloyds: An issue that is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting.
- PWC: Those large scale events or circumstances beyond one's direct capacity to control, that impact in ways difficult to imagine today.
- S&P: Risks that do not currently exist.
- Willis re: are risks which may develop or which already exist that are difficult to quantify and may have a high loss potential. Further, emerging risks are marked by a high degree of uncertainty; even basic information, which would help adequately assess the frequency and severity of a given risk, is often lacking

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Emerging Risk Characteristics

- Significance may be uncertain, not well understood.
- Difficult to quantify due to lack of data and/or volatility.
- Consequences and implications can be ambiguous.
- Interactions and interconnectedness with other risks can be complex.
- May be systemic, outside of organizational control

Core Global Emerging Risk Categories

- Geopolitical
- Societal
- Economic
- Technological
- Environmental

Emerging Global Geopolitical Risks

- Increased international terrorism.
- Proliferation of weapons of mass destruction.
- Wars between nations and civil wars.
- Failed and failing states.
- Transnational crime and corruption.
- Failure of democratic institutions.
- Instability in the Middle East.

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Emerging Global Societal Risks

- Pandemics and infectious diseases.
- Microbial resistance to antibiotics
- Chronic diseases.
- Greater economic inequality.
- Breakdown of critical infrastructure.
- Rapid shifts in demographic patterns.
- Unsustainable world population growth.

Emerging Global Economic Risks

- Oil price shock/energy supply interruptions.
- Unsustainable national deficit levels.
- Global economic instability.
- Fiscal crises caused by demographic shifts.
- Asset price/commodity market volatility.
- Currency fluctuations
- Inflation rates

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Emerging Global Technological Risks

- Disruptions in technology and business systems.
- Breakdown in communications infrastructure and Internet blackouts.
- Cloud computing vulnerabilities.
- Cyber wars and business espionage.
- Emergence of risks associated with new technologies.
- The internet of things

Emerging Environmental Risks

- Climate change and extreme weather.
- Loss of freshwater services.
- Natural and man-made catastrophes.
- Depletion of oil reserves.
- Depletion of key raw materials.
- Increased industrial pollution.
- Loss of biodiversity.

EMERGING INSURANCE RISKS

- INTERNAL RISKS
- EXTERNAL RISK

INTERNAL RISKS

- Cybersecurity and Cybercrime
- IT/Systems and Tech Gap
- Strategic Direction and Opportunity
- Pricing and Product Line Profit
- Liquidity and claims payment ability
- Runaway frequency or severity of claims
- Disruptive Technology
- Underwriting
- Big data
- Reputation
- Business continuity

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EXTERNAL RISK

- Customer needs not served by traditional approaches
- Competition
- Legislative and Regulatory
- Natural Catastrophe
- Investment Market Risk
- Technological advancement- A.I, drone Technology, Internet of things
- Industry Reputation
- Currency fluctuations
- Fake news
- Cryptocurrency

FIVE STEPS IN EMERGING RISKS MANAGEMENT PROCESS

1. Find Emerging Risks
2. Evaluating Emerging Risks
3. Monitoring Emerging Risks
4. Planning Actions
5. Taking Actions when needed

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Monitoring and Communication of Emerging Risks

Continuous Monitoring

- Selecting risks to monitor
  - Identifying leading key risk indicators
  - Link emerging risks to strategic business drivers
- Effective allocations of resources
  - Listen to "whispers" in the market
  - Ownership

SMART KRIs
- Strategic
- Measurable
- Actionable
- Reliable
- Timely

Risk registers and dashboards

Scenario analysis and stress testing

On going experience reporting

Monitoring Tools

Communicate to management with clear, regularly updated MI

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MANAGEMENT OF EMERGING RISKS

- Global Emerging risks
- Internal and external emerging risks

Addressing Global Emerging Risk

- Movement towards sustainable development goals
- Involvement of International monetary fund to check on currency fluctuation
- Movement towards corporations in antiterror measures

MOVEMENT TOWARDS SUSTAINABLE INSURANCE

- in its role as risk manager, risk carrier and investor, insurance is at the heart of a sustainable financial system.
- the sustainable development goals were set up to replace the millennium development goals development and were adopted by the 193 member countries of the united nations general assembly on 25 september 2015
- the sdg's set out 17 goals with 169 targets
- sdg's offer both a challenge and opportunity for the insurance industry
- the 17 sustainable development goals (sdgs) and targets are "global" in nature taking into account different national realities, capacities and levels of development and respecting national policies and priorities.
- the goals and targets will stimulate action over the next 15 years in areas of critical importance: people, planet, prosperity, peace and partnership.

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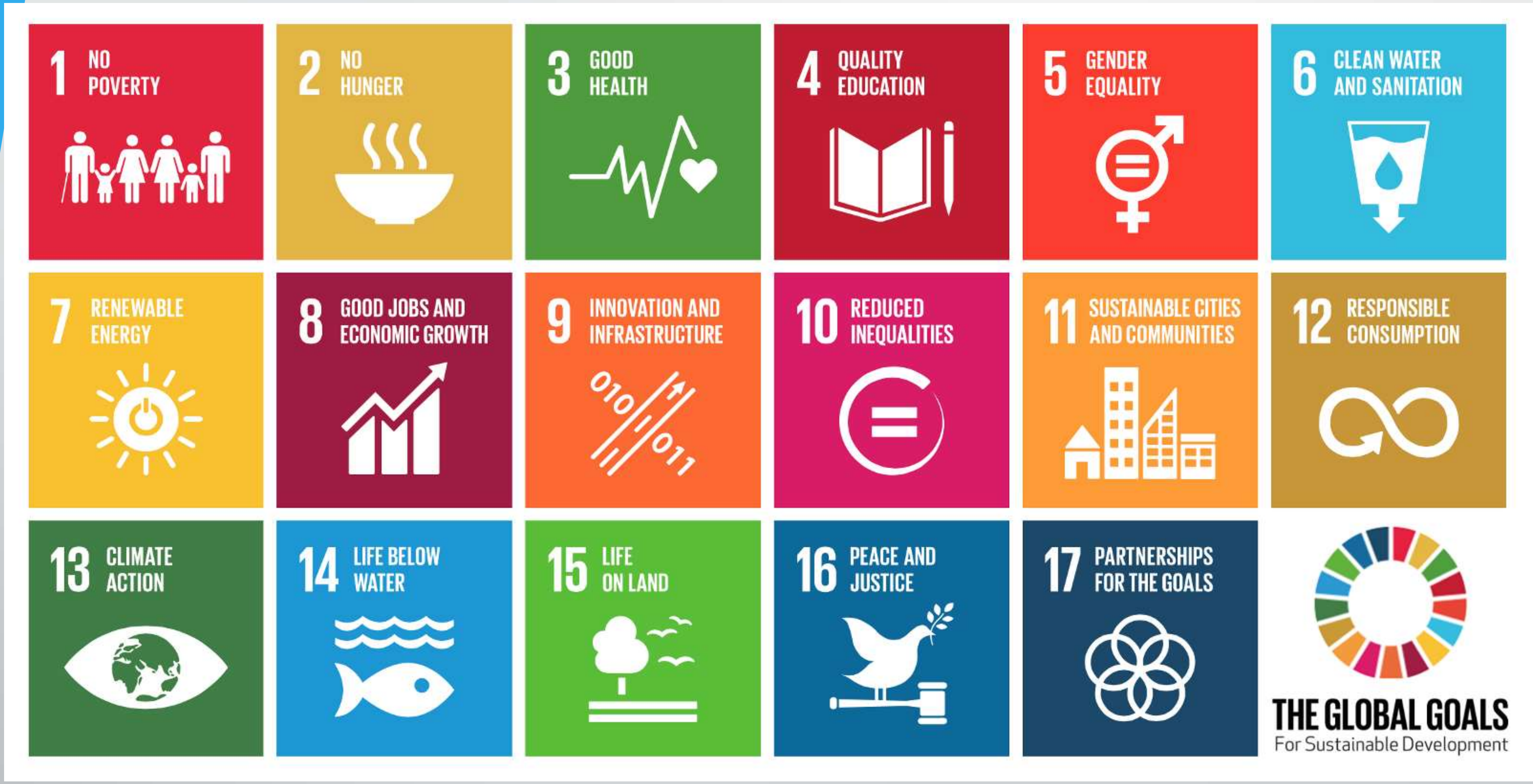
SDG'S GOALS



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THE PRINCIPLES FOR SUSTAINABLE INSURANCE

- unep in collaboration with international labor organization (I.L.O) set out guidelines to effect change in corporate governance of the insurance industry towards sustainability.
- the principles for sustainable insurance (P.S.I) were set up

<u>the principles</u>

1. inclusion of environmental, social and governance (E.S.G) issues in decision making

2. involving clients and business partners in raising awareness of E.S.G issues

3. work together with government, regulators and key stakeholders to promote widespread action across society on E.S.G issues

4. accountability and transparency on progress in implementation of the principles by subscribing companies

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INTERNAL MANAGEMENT OF EMERGING RISK

- adjustment of product strategy, -Bank assurance, mobile platform
- adjustment of underwriting strategy- Microinsurance
- identification of improved investment possibilities
- strengthening of know-how in product, underwriting, investment, etc. areas by bringing in new staff,
- additional capital resources for higher and riskier business volume,
- increased peer review

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EXTERNAL MANAGEMENT OF EMERGING RISK

- using consultants to increase knowhow in certain areas including pricing of new coverages,
- reinsurance for difficult to assess, rare or new, "unknown" and "difficult to quantify risk",
- alternative risk transfer solutions such as catastrophe bonds, market wide pooling of otherwise uninsurable risks,
- joint ventures to leverage common resources,
- joint market effort and/or regulatory effort to bring down systemic market risks

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