



# Risks and changes in the digital era

Insurance Banana Skins 2019:  
A Singapore observation



# About the Insurance Banana Skins survey

Insurance Banana Skins 2019 surveys the risks facing the insurance industry in early 2019, and identifies those that appear most urgent to insurance practitioners and close observers of the insurance scene around the world.

The report, which updates previous surveys in 2007, 2009, 2011, 2013, 2015 and 2017, was conducted in March and April 2019, and is based on 927 responses from 53 territories, including 46 respondents from Singapore.

The questionnaire (reproduced in the Appendix) was in three parts. In the first, respondents were asked to describe, in their own words, their main concerns about the insurance industry over the next 2-3 years. In the second, they were asked to rate a list of potential “Banana Skins” or risks. In the third, they were asked to rate the preparedness of insurance institutions to handle the risks they saw. This report ranks and analyses each Banana Skin individually.

Replies were confidential, but respondents could choose to be identified.

The survey is the latest in the CSFI’s long-running Banana Skins series on financial risk. The report is prepared by the CSFI, which is solely responsible for the editorial content, with support from PwC.

For the global report, please visit [www.pwc.com/insurance](http://www.pwc.com/insurance)

# Anxiety level continues to rise, but the industry feels more prepared to handle the risks

The overall tone of the survey shows a rise in the anxiety level faced by the Singapore insurance industry players. Similar to the previous survey in 2017, Singapore's Banana Skins Index score – which implies the industry's level of anxiety in responding to risks – is above the global average (Figure 1). Meanwhile, the country showed an improvement in the Preparedness Index – which reflects how prepared the industry is in handling the risks identified – from below the global average in the 2017 survey to above it in 2019 (Figure 1).

**Figure 1:** The Banana Skins Indices, Singapore, 2017-2019 (scale of 1 to 5)

Banana Skins Index		Preparedness Index	
2017	2019	2017	2019
Singapore - 3.35	Singapore - 3.44 (▲ by 0.09 points)	Singapore - 2.77	Singapore - 3.14 (▲ by 0.37 points)
Global - 3.31	Global - 3.33 (▲ by 0.02 points)	Global - 3.02	Global - 3.11 (▲ by 0.09 points)

When compared to other global financial centres such as Germany, the USA, the UK, Japan and Hong Kong, Singapore scored the highest Banana Skins Index, and ranked second in the Preparedness Index (Figure 2). When compared to other Asia territories, Singapore ranked fourth in the Banana Skins Index, and ranked third in the Preparedness Index (Figure 3).

**Figure 2:** The Banana Skins Indices for selected global financial centres, 2019 (scale of 1 to 5)

Banana Skins Index		Preparedness Index	
<b>Singapore</b> (2017: 2 <sup>nd</sup> )	3.44	Germany	3.31
<b>Global</b> (2017: 3 <sup>rd</sup> )	3.33	<b>Singapore</b>	3.14
UK	3.31	USA (2017: 3 <sup>rd</sup> )	3.13
Japan (2017: 1 <sup>st</sup> )	3.31	Hong Kong	3.12
Hong Kong	3.30	<b>Global</b> (2017: 2 <sup>nd</sup> )	3.11
USA	3.23	UK	3.00
Germany	3.20	Japan (2017: 1 <sup>st</sup> )	2.68

**Figure 3:** The Banana Skins Indices for selected Asia territories, 2019 (scale of 1 to 5)

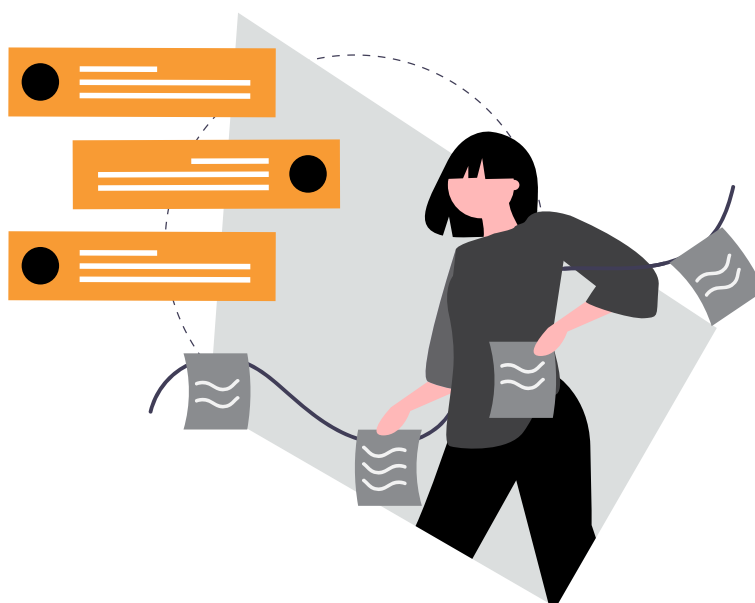
Banana Skins Index		Preparedness Index	
Malaysia	3.59	South Korea	3.33
Philippines	3.55	Malaysia (2017: 3rd)	3.29
Indonesia (2017: 3rd)	3.48	<b>Singapore</b>	3.14
<b>Singapore</b>	3.44	Hong Kong	3.12
Thailand	3.44	Taiwan	3.08
India (2017: 2nd)	3.37	Philippines	3.00
Taiwan (2017: 1st)	3.35	Thailand (2017: 2nd)	3.00
South Korea	3.32	China	2.95
Japan	3.31	Indonesia (2017: 1st)	2.89
Hong Kong	3.30	India	2.82
China	3.22	Japan	2.68

**Note:**

The Banana Skins Index measures the average score given by each country to the 21 risks listed in the questionnaire (Appendix E). The higher the score, the greater is the implied “anxiety level”.

The Preparedness Index measures the average response given to the question: “How well prepared do you think the insurance industry is to handle the risks you identified?” where 1=Poorly and 5=Well. The higher the score, the greater is the implied level of preparedness.

[Note that both indices are “self-scored”.]







## **Singapore shares the same top 3 risks as Global and Asia Pacific: Cyber risk, Technology and Change management.**

With the pace of change at an unprecedented level, insurance industry players are constantly being challenged on the status quo. In today's world, the transformation agenda is a priority for all industry players. The ability to manage and embed these changes throughout the organisation is crucial. For instance, technology has brought about opportunities for insurers to change the way they have been doing things – from the automation of business processes for better operational efficiencies to transforming the customer experience it provides.

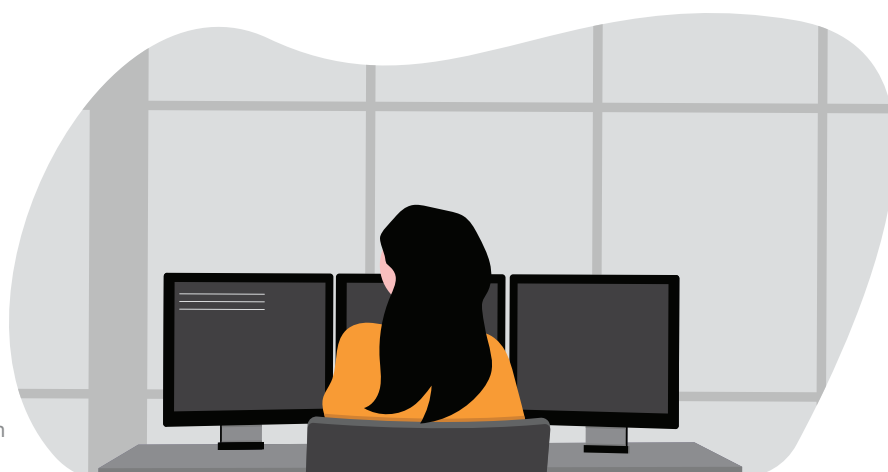
While many insurers are embracing the changes brought about by this digital era, it is imperative that emerging risks such as cyber risk, and related to that, the risk of data loss, are identified and closely managed. Additionally, insurers are increasingly recognising the importance of embedding individual accountability within the organisation as the underlying component in order to be successful in navigating the changes.

Based on the survey responses, PwC explores the top 10 insurance areas of risks, or “Banana Skins”, in Singapore in order to shed light on the key threats facing the local industry.

# 2019 Top 10 Insurance Banana Skins

Figure 4: Overview of Top 10 Banana Skins

	Global	Asia Pacific	Singapore	
	2019 threats	2019 threats	2019 threats	2017 ranking
#1	Technology	Technology	Cyber risk	#5 (Increase by 4)
#2	Cyber risk	Cyber risk	Technology	#2 (No change)
#3	Change management	Change management	Change management	#1 (Decrease by 2)
#4	Regulation	Regulation	Investment performance	#8 (Increase by 4)
#5	Investment performance	Investment performance	Quality of management	#3 (Decrease by 2)
#6	Climate change	Reputation	Macro-economy	#7 (Increase by 1)
#7	Competition	Quality of management	Competition	#4 (Decrease by 3)
#8	Human talent	Competition	Interest rates	#9 (Increase by 1)
#9	Macro-economy	Business practices	Human talent	#6 (Decrease by 3)
#10	Interest rates	Human talent	Guaranteed products	#14 (Increase by 4)



# Unravelling the top 3 risks

1

### Cyber risk

(ranked #1 in Singapore, #2 in Asia Pacific and #2 in Global)

Identified as the top Singapore risk in the 2019 survey, moving up four spots from the 2017 survey results.

Managing the risks of cyber attacks and data leakage by building a strong defence infrastructure is high up on the agenda as insurance industry players are often perceived as enticing targets due to the huge volume of valuable data in their possession. In recent years, we have seen cyber attacks increasing in frequency and ferocity. A well-known incident in Singapore is the cyber attack on Singapore Health Services Private Limited (SingHealth) in 2018 where hackers exfiltrated personal data and medical records of 1.5 million Singapore citizens.

While it is expected that the insurance industry players in Singapore have put in place a framework and process to manage and monitor cyber risks by now, the question is whether it is sufficient. The perpetrators are increasingly becoming more sophisticated and having to constantly keep up with them is not an easy feat. There is a great deal of uncertainty in managing this risk and some insurers find themselves not confident of knowing all the ‘unknowns’. The harm inflicted to insurers from a breach could include material losses from outages, loss of records, and the theft of intellectual property. An even bigger fear is the hefty fines, potential reputational damage and loss of trust which may follow a data breach.

There has been an increased focus by the Singapore regulators on cybersecurity. The Cybersecurity Act 2018 which was passed in 2018 establishes a legal framework for the oversight and maintenance of national cybersecurity in Singapore. The Monetary Authority of Singapore (MAS) has issued a recent consultation paper on technology risk management guidelines in 2019. This new consultation paper emphasises the role of the Board of Directors and Senior Management in technology risk management, including managing risks posed by cyber threats. To cope with the rising regulatory requirements, it becomes even more crucial for Singapore insurers to review their existing cyber security framework and measures to ensure that they are robust and effective.





## Technology

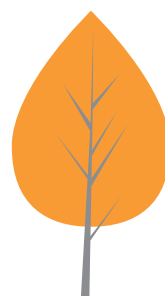
**(ranked #2 in Singapore, #1 in Asia Pacific and #1 in Global)**

Continues to be the second ranked risk in Singapore. It is also a pervasive theme underpinning other high-ranking risks like cyber risk (#1), change management (#3), and competition (#7).

According to our global report, at the heart of responses was the view that many insurers are encumbered with legacy business models and IT infrastructure that are poorly equipped to handle the changing demands of the industry. Furthermore, modernisation requires capital and skills that are in short supply, and an ability to forecast future needs that are far from certain.

The implementation of new technology has to start with identifying the target business process, which is often not an obvious decision. The entire process spans from planning and design to the testing phase to implementation and finally, post-implementation support and maintenance. It is a long process that takes time and resources from the organisation's routine business activities. As a result, there is often a challenge in balancing the resource needs between new technology innovation and managing existing business operations.

It is common for the multi-national insurers based in Singapore to have new major technology roll-outs managed centrally by their overseas or regional head offices. A common pitfall is that there is limited involvement by the local players, and the specific local requirements driven by regulatory or business needs are not being built into the design of the new technology. If these issues are discovered late in the implementation process, higher costs may be incurred to remediate or manual workaround has to be put in place locally which may outweigh the benefits of the new technology.







## Change management

**(ranked #3 in Singapore, #3 in Asia Pacific and #3 in Global)**

Consistently ranked as the #3 risk in Singapore, Asia Pacific and Global.

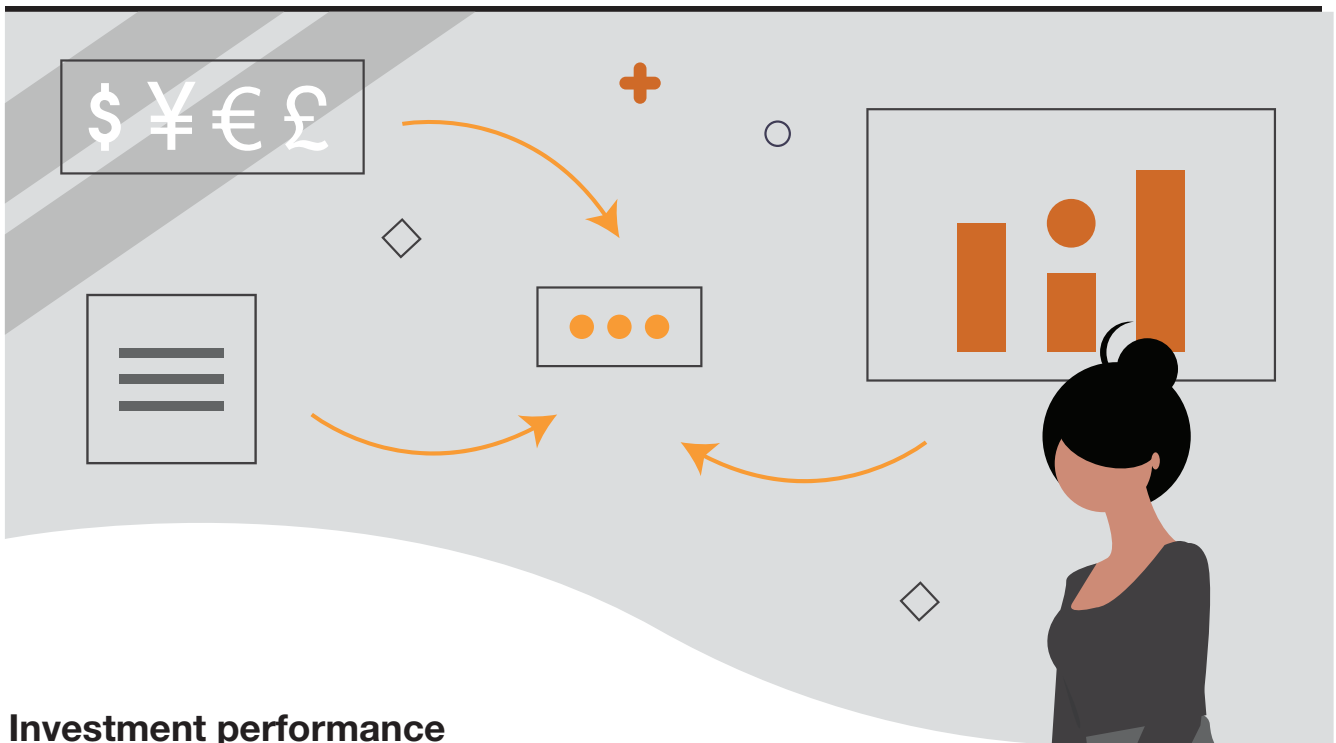
A respondent from Singapore said: “While the new business models cater to changing consumers’ behaviour and demand, they pose challenges to traditional players who may not be able to adapt or meet the competition quick enough, together with its attendant risks.” The insurance industry players find themselves under pressure to respond to change in a fast manner, and this brings about another cluster of risks on the ability to manage and embed these changes throughout the organisation effectively as they pursue their transformation agenda.

Other than technology-related transformation, another common transformation initiative seen is the offshoring of business processes to shared service centres. To remain competitive in the market, insurers are constantly reviewing its cost base and seeking opportunities to manage and reduce its costs. Similar to banks, a number of insurers are also shifting part of their business processes to shared service centres. To effectively manage this move, ample investment has to be made to ensure that the shared service teams have the right skillsets and training. It is also important to maintain adequate oversight by the Singapore management teams over the activities carried out at the shared service centres.

Other notable changes that the Singapore industry players are responding to relate to new regulatory requirements such as Risk Based Capital (RBC) 2 and International Financial Reporting Standards (IFRS) 17 insurance contracts. The impact arising from IFRS 17 extends beyond any changes in accounting standards seen previously, to having to build an information technology infrastructure to cater to the data needs required by this new standard. As IFRS 17 changes the way profitability is being measured over time, insurers will need to plan ahead to strategically review its product offerings to determine how its profitability will look under IFRS 17.

Dealing with change is inevitable but it is more than simply implementing the change itself. In reality, it is the effective management of the entire eco-system including its stakeholders that determines success.

# Notable risers on the list



## Investment performance (ranked #4, rose by four spots from 2017)

The risk in investment performance has leaped significantly from being ranked #14 in 2015, to #8 in 2017, and to #4 in 2019. This is a reflection of the low interest rate environment and the volatile equity markets that plague the investment scene in recent years. A respondent from Singapore had summed up the current investment outlook: “The insurance industry is facing macroeconomic headwinds, and the landscape has become more unpredictable, especially on interest rate movements and increase in market volatility.”

The challenging investment outlook has motivated Singapore insurers to review its investment strategy and to optimise the use of capital by considering alternative investment options with higher returns, which inevitably comes with higher risks. Examples of alternative investment options include private equity funds and infrastructure debt.

## Guaranteed products (ranked #10, rose by four spots from 2017)

This risk is interlinked to the risk in investment performance mentioned earlier. Declining interest rates in the market has undermined the overall profitability of insurance products with guaranteed returns. In Singapore, we continue to observe a shift away from guaranteed products to more protection products as industry players navigate the increasingly difficult investment climate.

# Concluding thoughts

---

Change - is the one main theme that cuts across a number of the Banana Skins topping this year's list. As the velocity and complexity of change increase, proper execution and change management have to become core competencies. Ultimately, the success of navigating through changes hinges on people.

Developing new business models and driving technology innovation requires specialised skill sets and competencies. The importance of people goes beyond recruiting individuals with the appropriate technical capabilities. It is the people who drive the change – therefore building a culture with people at the forefront embracing change is becoming a differentiator. The mindset towards change has to move away from being reactive, to being proactive.

For many insurance industry players in Singapore, staying ahead of the game is a continuous challenge. The market is evolving, and so are the risks that come with it. Dealing with tomorrow's world has been a journey so far, and will continue to be so.

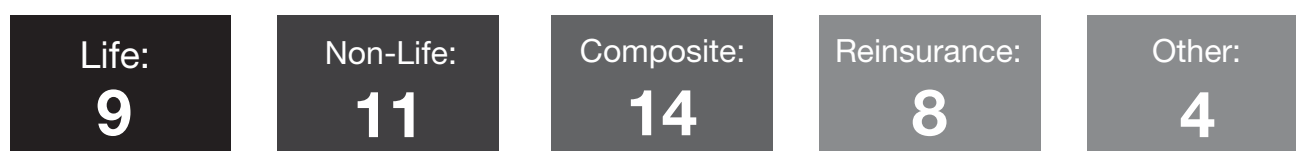






# Appendix A: Singapore participant profile

There are 46 responses from Singapore, as follows:



# Appendix B: Complete list of Insurance Banana Skins 2019

Insurance Banana Skins 2019			
World		Singapore	
1	Technology	1	Cyber risk
2	Cyber risk	2	Technology
3	Change management	3	Change management
4	Regulation	4	Investment performance
5	Investment performance	5	Quality of management
6	Climate change	6	Macro-economy
7	Competition	7	Competition
8	Human talent	8	Interest rates
9	Macro-economy	9	Human talent
10	Interest rates	10	Guaranteed products
11	Political risk	11	Cost reduction
12	Cost reduction	12	Business practices
13	Reputation	13	Reputation
14	Guaranteed products	14	Climate change
15	Business practices	15	Credit risk
16	Quality of management	16	Political risk
17	Credit risk	17	Regulation
18	Social change	18	Corporate governance
19	Corporate governance	19	Social change
20	Capital availability	20	Capital availability
21	Brexit	21	Brexit



## Appendix C: Main points of difference

Places higher or lower than the global ranking

<b>Quality of management</b>	+11
<b>Guaranteed products</b>	+4
<b>Macro-economy</b>	+3
<b>Business practices</b>	+3
<b>Political risk</b>	-5
<b>Climate change</b>	-8
<b>Regulation</b>	-12

# Appendix D: The Banana Skins Indices

Banana Skins Index	
Turkey	3.64
Malaysia	3.59
Philippines	3.55
Spain	3.51
Indonesia	3.48
<b>Singapore</b>	<b>3.44</b>
South Africa	3.44
Portugal	3.44
Thailand	3.44
Brazil	3.41
India	3.37
Taiwan	3.35
Australia	3.33
<b>Global</b>	<b>3.33</b>
South Korea	3.32
UK	3.31
Japan	3.31
Hong Kong	3.3
Austria	3.28
Argentina	3.28
Canada	3.26
Luxembourg	3.26
Netherlands	3.25
New Zealand	3.24
USA	3.23
Belgium	3.23
China	3.22
Switzerland	3.21
Germany	3.2
Greece	3.2
Bermuda	3.19
Denmark	3.15

Preparedness Index	
Spain	3.47
South Africa	3.46
Switzerland	3.40
Turkey	3.35
Portugal	3.33
South Korea	3.33
Germany	3.31
Malaysia	3.29
Bermuda	3.28
Denmark	3.20
<b>Singapore</b>	<b>3.14</b>
USA	3.13
New Zealand	3.12
Hong Kong	3.12
<b>Global</b>	<b>3.11</b>
Canada	3.10
Greece	3.09
Luxembourg	3.08
Taiwan	3.08
Netherlands	3.07
Belgium	3.06
Australia	3.03
UK	3.00
Philippines	3.00
Brazil	3.00
Thailand	3.00
China	2.95
Austria	2.93
Indonesia	2.89
India	2.82
Japan	2.68
Argentina	2.50

# Appendix E: The Questionnaire

## Insurance Banana Skins 2019

### A CSFI Survey

Biennially, we ask senior insurers and close observers of the financial scene to describe their main concerns about the insurance industry as they look ahead. We'd be very grateful if you would take a few minutes to complete this latest survey for us.

#### Question 1

Who you are:

- Name
- Position
- Institution
- Country
- Which part of the insurance market do you represent?
  - Broking/intermediary
  - Life
  - P&C/Non-life
  - Composite
  - Reinsurance
  - Other (please state)
- Are you willing to be quoted by name?

#### Question 2

Please describe what you see as the main risks facing the insurance industry over the next 2-3 years.

#### Question 3

Below are risks in the insurance industry that have been attracting attention. Please score them on a scale of 1 to 5 where, in your opinion, 1 is a low risk to insurers and 5 is a high risk. Use the column on the right to add comments. Add more risks at the bottom if you wish.

##### Economic environment

1. Macro-economy: To what extent does the current macro-economic environment present a threat to the insurance sector?
2. Interest rates: How large is the risk that insurers will be damaged by movements - or lack of movement - in interest rates?
3. Credit Risk: To what extent does the risk of credit deterioration present a threat to the insurance sector?

##### Public environment

4. Political risk: How great is the risk that political pressures will damage insurers, e.g. through protectionism, populism, interference in business practices?
5. Brexit: How great is the risk that the UK's decision to leave the EU will harm the international insurance market?



6. Regulation: To what extent could the current wave of new regulation on conduct of business and capital requirements have damaging effects on insurers?
7. Reputation: How severe is the risk that the industry will be damaged by poor reputation or by social media?
8. Social change: How great is the risk that insurers will fail to meet social pressures such as greater longevity and the demand for health care/ pensions products etc.?

### Operating risk

9. Capital availability: To what extent is the current surplus of capital a risk to insurance providers?
10. Investment performance: What is the risk that insurers will be harmed by poor investment performance?
11. Change management: How likely is it that insurers will be damaged by inadequate responses to change, e.g. in markets, products, customer demands, distribution?
12. Cost reduction: What is the risk that insurers will fail to achieve the necessary cost reductions to remain competitive?
13. Technology: What is the risk that the insurance industry will fail to address technology modernisation effectively?
14. Competition: What is the risk that the insurance industry will fail to meet the challenge from disruptive competitors such as the Insurtech industry?
15. Guaranteed products: With the low interest rate environment persisting, how much risk is there to insurers' capital and solvency from guarantees in products?
16. Human talent: How likely is it that insurers will have difficulty attracting and retaining talent in the present environment?
17. Cyber risk: How severe is the threat of cybercrime to the insurance industry?
18. Climate change. How severe a risk do you think climate change poses to the insurance industry?

### Governance

19. Corporate governance: How likely is it that weakness at board level will lead to poor oversight and control of insurance companies?
20. Quality of management: How likely is it that insurance companies will be harmed by poor business and risk management?
21. Business practices: How high is the risk that insurers will incur losses as a result of poor sales and other conduct of business practices?

Please add other risks that you feel are significant to the insurance industry.

## Question 4

How well prepared do you think insurers are to handle the main risks you identified in this survey, where 1 = poorly and 5 = well? Please add comments if you wish.

Thank you.

# Connect with our experts

---



## **Woo Shea Leen**

Insurance Leader  
PwC Singapore  
+65 6236 3908  
[shea.leen.woo@pwc.com](mailto:shea.leen.woo@pwc.com)



## **Sam Kok Weng**

Financial Services Leader  
PwC Singapore  
+65 6236 3268  
[kok.weng.sam@pwc.com](mailto:kok.weng.sam@pwc.com)