



Resilience in a new era of risk

Insurance Banana Skins 2023: A Singapore observation

About the Insurance Banana Skins survey

Insurance Banana Skins 2023 surveyed the risks facing the insurance industry in the second half of 2023, and identified risks that appear most urgent to insurance practitioners and close observers of the insurance scene around the world.

The report, which updates previous surveys held once every two years since 2007 was conducted from May-August 2023, and is based on 589 responses from 39 territories.

The questionnaire was in three parts. In the first, respondents were asked to describe, in their own words, their main concerns about the insurance sector 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 long-running Banana Skins series of the Centre for the Study of Financial Innovation’s (CSFI) on financial risk. The global 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.

Introduction

Anxiety level in Singapore’s insurance industry above global average. Local industry players feels less prepared to handle risks.

The Banana Skins Index score implies the industry’s level of anxiety in responding to risks. The survey shows a heightened level of anxiety faced by the Singapore insurance industry players this year as compared to the previous survey in 2021 and above the global average (Figure 1).

On the other hand, the country showed a rise in the Preparedness Index – which reflects how prepared the industry is in handling the risks identified (Figure 1), compared to the 2021 survey. The Singapore insurance industry this year reflects its preparedness at par with the global average in the Index.

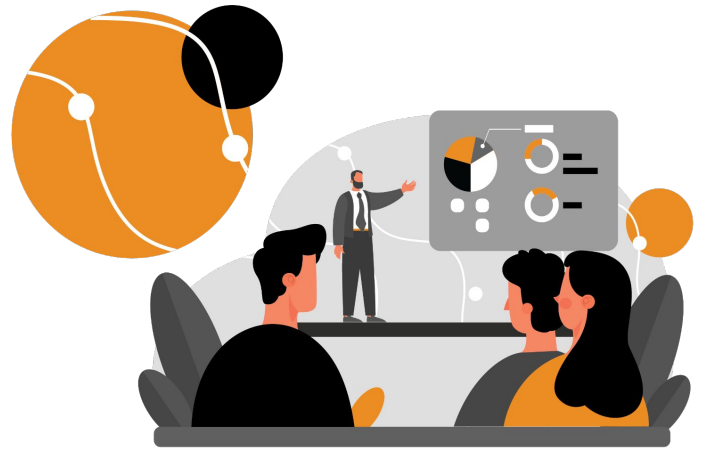
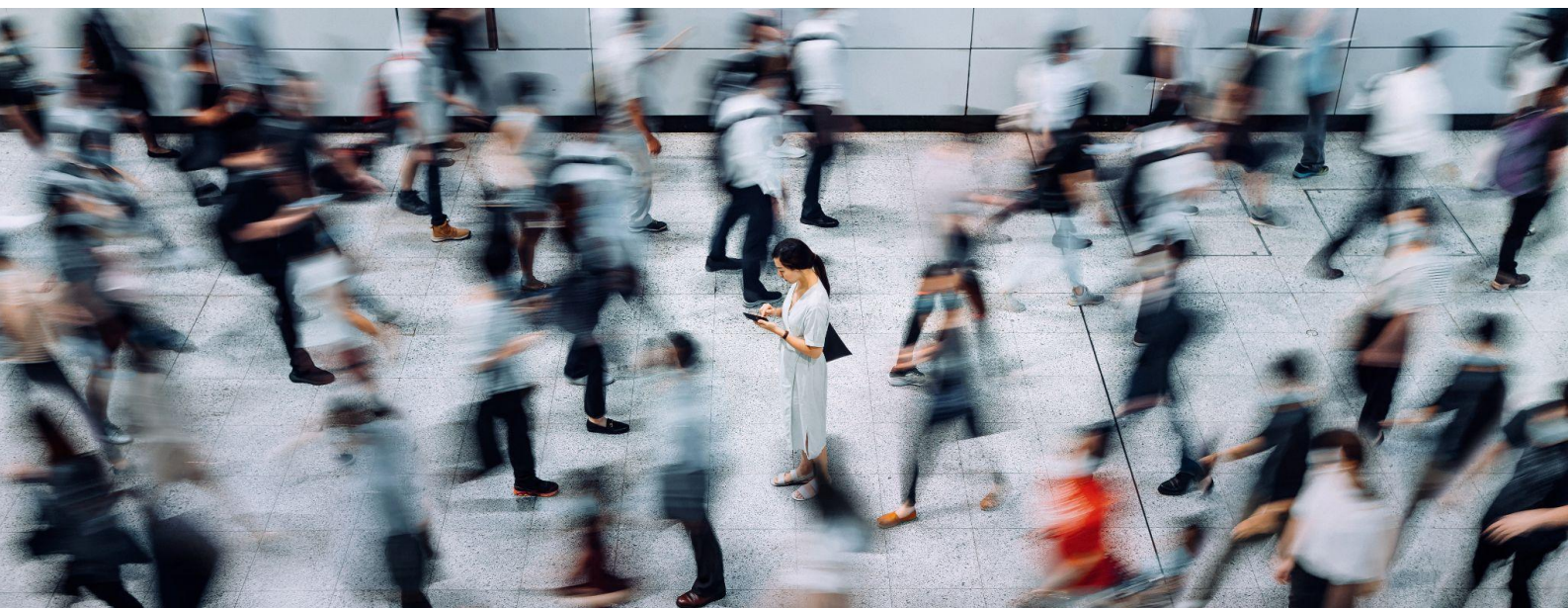


Figure 1: The Banana Skins Indices, Singapore, 2021 - 2023 (scale of 1 to 5)

Banana Skins index		Preparedness index	
2021	2023	2021	2023
Singapore – 3.37	Singapore – 3.59 (▲ by 0.22 points)	Singapore – 3.10	Singapore – 3.20 (▲ by 0.10 points)
Global – 3.19	Global – 3.21 (▲ by 0.02 points)	Global – 3.22	Global – 3.20 (▼ by 0.02 points)

Source: Insurance Banana Skins 2023





Singapore shares similar risks as Global and Asia Pacific. In particular, cyber risk is amongst the top 3 in all three markets. At the same time, locally, human talent, technology and climate change remained of high concern.

Losses within Asia have remained modest. Meanwhile, the insurance gap in Asia still remains extremely high. Insurers are facing market saturation in Singapore. As a result, insurers are finding ways and means to penetrate markets in search for growth. Be it through new channels, products or markets.

With this aspiration for growth, operational sophistication of insurers, coupled with the growing regulatory scrutiny and increasing reporting requirements (e.g. IFRS 17 and climate-related disclosures), attracting and retaining talent has leapfrogged its way to become the top risk in Singapore. Consequently, having a common language in managing workforce risk is now becoming an imperative.

With increasing reports of digital disruption affecting businesses and an increasing number of cyber related incidents affecting the insurance industry, it is to no surprise that this is garnering attention from both the regulator and parliament.

Climate change is also fast attracting the attention of the industry with its impact on general insurance losses in an already challenging pricing environment. Margins have to be actively driven to prevent this from becoming an issue in the coming years.

Consequently, having a resilient operational architecture becomes essential in maintaining a strong “first-line” against such impending threats.



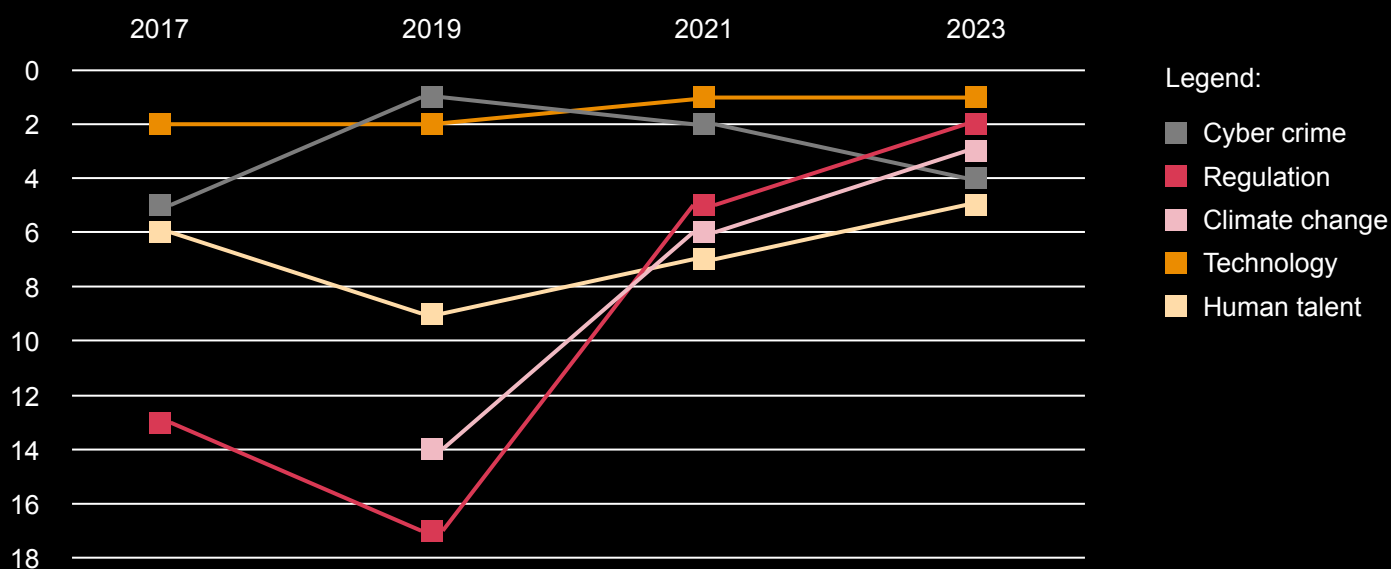
2023 top 10 Insurance Banana Skins

Figure 2: Overview of top 10 Banana Skins

Singapore			Asia Pacific	Global
2023	2021		2023	2023
1	Human talent	#7 (Increase by 6)	Cyber crime	Cyber crime
2	Technology	#1 (Decrease by 1)	Technology	Regulation
3	Cyber crime	#2 (Decrease by 1)	Human talent	Climate change
4	Interest rates	#8 (Increase by 4)	Regulation	Technology
5	Climate change	#6 (Increase by 1)	Climate change	Human talent
6	Investment performance	#9 (Increase by 3)	Macro-economy	Macro-economy
7	Cost reduction	#10 (Increase by 3)	Interest rates	Artificial intelligence
8	Change management	#3 (Decrease by 5)	Artificial Intelligence	Interest rates
9	Macro-economy	#18 (Increase by 9)	Cost reduction	Cost reduction
10	Security risk	#12 (Increase by 2)	Change management	Change management

Source: Insurance Banana Skins 2023

Figure 3: Top 5 risks in 2023



Peeling Singapore's top 3 banana skins

I. Human talent

The insurance industry is facing an unprecedented amount of change. With this bringing about increasing complexities in an already specialised industry, insurers are finding it challenging to attract and retain talent in the face of competition within, and even beyond the industry. In addition to salary pressure, the traditionally “sexier” industries (such as banks or tech companies with the likes of google) provide the impression of innovation and consequently, the development of more relevant skill sets that promises greater opportunities for progression in the longer-term. Meanwhile, it is also becoming harder to appeal and earn the loyalty of a younger generation in the workforce whose motivations are becoming increasingly ambiguous.

In view of this, it has now become an imperative for businesses to acquire the know-how to manage the potential adverse effects of workforce risk, which can be defined as the negative impact to an organisation such as financial loss, legal suits, reputational damage, regulatory actions, operational loss and business disruptions arising from an organisation's workforce.



Post-pandemic, the industry has seen an uptick in attrition/turnover. Whilst it is less visible in terms of immediate impact, losing key people with the right knowledge/skill set is still a major risks for companies and the industry as a whole.

— A Singapore respondent

Proactive management of workforce risk through a coherent framework can bring about the following benefits:

- **Brand and reputation** - Your brand and reputation is a valuable commodity so understanding the impact on your workforce is critical. Proactively identifying risks, and opportunities to improve your brand and reputation means you are better positioned to compete for talent and people.
- **Talent and people** - Talent and people are at the heart of any organisation, understanding how your people are managed, rewarded and their lived experience of your organisation will be key to unlocking their true potential. The ability to have a coherent and fully integrated talent management framework from talent attraction, through to development, retention and eventual deployment of talents to mission critical roles and leadership succession will be critical to success.
- **Organisation** - Your structure, operating model, culture and functional relationships are the foundation to successfully managing your workforce risk landscape. This includes identifying alternative sources of resource and the agility to leverage them when needed. Unlocking the full potential of your workforce through organisation design will drive efficiencies, value, foster greater collaboration and build a resilient business.
- **Regulatory and compliance** - Understanding your workforce related regulatory and compliance landscape with a forward-looking, proactive approach will create financial and reputational value and competitive advantage.

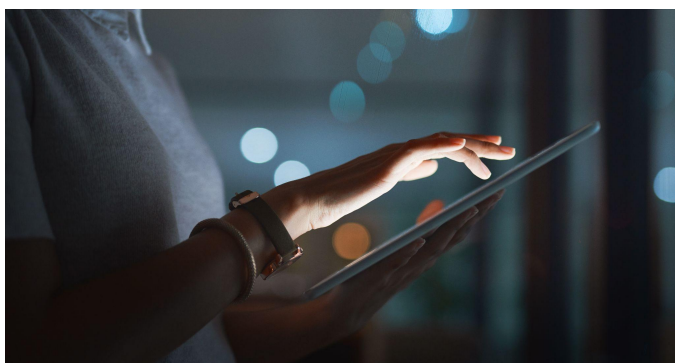
As workforce risk becomes an increasingly dominant enterprise risk, we believe that there is an increasing need for Chief Risk Officers (CROs) and Chief Human Resources Officers (CHROs) to develop a common language to navigate the growing challenges of this business imperative.

Peeling Singapore's top 3 banana skins

II. Technology

Over the past few years, digital efforts have been proliferating greatly as companies work to catch up with technological innovation—and COVID-19 massively accelerated the pace. Keeping up with consumer expectations that are now digital first have also forced many companies to rethink their digital strategies. The pace of change over the last few years also means that most companies are also operating in a new / old world technology conundrum introducing new technology in front end digital applications patchworked to legacy back-end systems. Yet companies relentlessly try to keep up or risk getting left behind.

Against this backdrop, we have seen the number of system issues (e.g. duplicate transactions) or outages increase in line with the pace of change in technology. Since 2018, the seven domestic systemically important banks (D-SIBS) reported a total of 17 disruptions to their digital banking services that lasted more than one hour. The disruptions were mostly resolved within two to four hours. The root causes of these service disruptions are varied, ranging from lapses in managing system upgrades, to software bugs and misconfigurations, and lapses in procedures both in-house and third party related.



Old insurance companies are having a hard time to switch to new agile technologies. They are at risk of perishing in the long run.

- A Singapore respondent

Whilst service outages may not be as critical to most insurers in comparison to banking or payment services, insurers also need to be mindful of customer preferences and expectations that they currently uphold from these other sectors. Consumer behavior does not discriminate. Nonetheless, problems caused by erroneous transaction processing should be of concern.

Organisations should focus on a few things:

01



Prioritising its time-sensitive and critical business services to customers, as well as aligning operational and technology resilience strategy

02

Effective approach (including 1st to 3rd lines) to technology risk management including (but not limited to) software development, change management, system testing, incident and problem management, disaster recovery plans and testing, etc



03



Effectively manage third party dependencies and risk, through contracts, clarity on roles and responsibilities, effective due diligence/assessments, standard operating procedures, etc

III. Cyber crime

The year 2022 was marked by a confluence of attack types and motives in the growing pool of sabotage, espionage and hacktivism, motivated increasingly by geopolitics.

Private enterprises and public organisations alike find themselves intertwined in a risk nexus of geopolitics, cybersecurity, and supply chains. Not surprisingly, cyber crime is listed as one of the key concern of top management executives in the PwC Insurance Banana Skins 2023 survey.

The following are some of the cyber trends that cyber criminals may take advantage of:



01 Ransomware:

Ransomware will prevail as long as lucrative (and unprepared) targets exist. Ransomware groups are beginning to be “professionalised” and aggressive, often exposing data as a “proof of ransom”.

02 Geo-politics:

Tensions between nations and wars also saw cyberwars increase in tandem. Organisations fall victim to cyberwars as hackers test their attack techniques and malware on commercial organisations. Some nation state actor groups hold commercial organisations ransom to fund their cyber-wars.



03 Post Covid era:

COVID-19 has changed the digital ecosystem for many organisations, making the network and data flow more porous. The speed of transformation during the Covid period increased cyber attack surfaces and increased vulnerabilities. Some of these risks are still present as many organisations are still operating in a hybrid mode.



04 Longer term risks:

Two developing technologies also pose risks to organisations – Generative AI and quantum computing. Both these technologies could be used by cyber criminals to defeat and bypass existing cyber defence capabilities of organisations.

While the cyber trends are ubiquitous across all industries, Insurance companies face a heightened risks as it is a target for cyber-criminals – due to the fact that it holds vast amount of data (PII, health records, financial records). Insurance companies need to constantly enhance their cybersecurity strategy, defence mechanism and governance regime to be cyber-resilient.



Other notable risks gathering momentum in Singapore

I. Climate change

Climate change is now one of the top three most urgent risks ranked in the 2023 Insurance Banana Skins - global report. This is up one position from the prior survey, where it was ranked fourth in 2021 Insurance Banana Skins. For Singapore, climate change is ranked among the top five risks. This comes as no surprise, considering July 2023 was the hottest month globally since records began. Climate change is no longer seen as just a longer term risk – instead it is one whose impacts and effects are already being felt. There are also heightened regulatory requirements incoming, with the Monetary Authority of Singapore recently issuing draft guidelines on climate transition plans for insurers. This latest work from the regulator reflects the growing significance of Climate Change as a key business risk for insurers, as confirmed in the 2023 Insurance Banana Skins report.

The following are some of the key takeaways from the latest report:

- **There are diverging anxiety levels around climate change between the non-life/re-insurance sectors and life insurers:** Both the non-life and reinsurance sectors ranked climate change as their top risk. The potential impact of catastrophic risks arising from climate change is far more pronounced in these two sectors as compared to the impact on the life players.
- **Climate change is manifesting itself in different, challenging, ways across insurers' business models:** Insurers are facing tougher times in their business, juggling meeting the needs of their policyholders while managing policy pricing. An associated concern for the industry is the growing reputational risk arising from how climate change is being handled, both the perception and reality.
- **The challenges affecting insurers' business models may put increased pressures on public balance sheets, to insure the otherwise uninsurable:** One respondent to the survey said: 'Moves to exit higher risk markets will reduce capacity and put more pressure on governments to insure losses in their geographies'. The Chief Executive Officer (CEO) of a Singaporean reinsurer warned: "If the loss cost continues to rise and insurance pricing cannot keep pace then this will be a huge issue in the coming years".

- **Awareness levels of the risks posed by climate change for insurers are growing across all geographies:** In Asia Pacific, climate change ranks as a top five risk – with Singapore in line with general sentiment within the region here.
- **Life insurers are increasingly reviewing how rising global temperatures may affect mortality rates:** For life insurers, they are exposed to climate-related risks from an asset owner perspective. Some insurers have also begun actuarial research to assess mortality and morbidity differentials of a specific population to environmental risk.

Climate change introduces uncertainty and volatility into the insurance industry, affecting pricing and profitability. Insurers will need to develop the ability to navigate and adapt to these challenges to ensure sustainability in the insurance industry.

The UN COP28 conference set to conclude in December 2023 will show that the world is not on track to meet its emissions reduction targets as laid down in the 2015 Paris Agreement. This will likely mean sharper reduction in emissions will be needed in the short to medium term, to keep long-term climate goals within reach. This reality will likely increase short term policy or 'transition' risks for the insurance industry, alongside the increasing physical risks as highlighted in the 2023 Insurance Banana Skins.



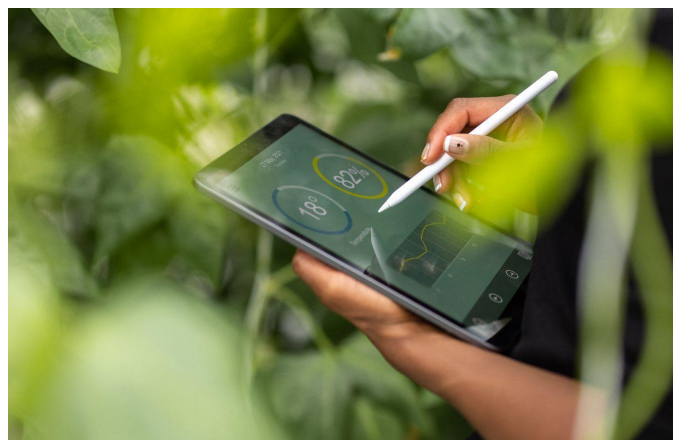
Other notable risks gathering momentum in Singapore

II. Interest rate

Interest rates consistently rank among the most critical risks for life insurers, albeit slipping from No. 2 to No. 4 globally. The risk to insurance companies from the movement in interest rates presents itself in the following dimensions:

1. Sales of single premium endowment and whole life contracts

Under an increasing interest rate environment, these products have lost their appeal, as policyholders are shifting to alternative financial instruments offering higher yields. Consequently, life insurers have to accelerate the shift in new business sales to regular premium products with higher margin. To stay relevant, insurers would also need to accelerate their product development to introduce product features that meet the protection needs of policyholders. Meanwhile, life insurers can consider shortening the policy term to match the guaranteed rates to the prevailing rates provided by alternative financial instruments or performing frequent repricing to compete with the yield provided by other financial instruments.



2. Sustainability and relevance of existing product strategy

Over the past years, life insurers have been offering products with certain guarantees with “locked-in” features that may seem sustainable at the point of pricing when interest rates were low. However, with the increase in yield of bonds backing these products, these guarantees are “locked-in” at higher yields. As a result, these products may face sustainability challenges when there is an economic downturn.

Life insurers should critically assess product features of existing offerings if they are still relevant and sustainable, and take the appropriate management actions (e.g. limiting tranches, repricing or ceding out the guarantee to a third party) before these guarantees go out of hand.

Conclusion - A parting note on the topic of interest rate

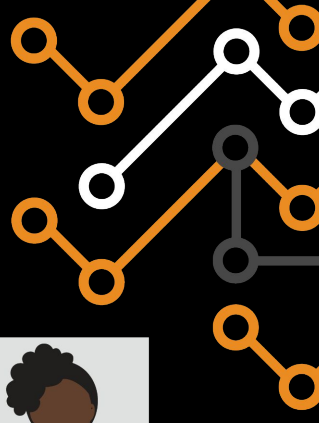
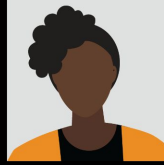
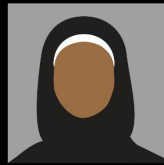
While many of our respondents have indicated that the interest rate is reaching its peak, life insurers should not throw caution to the wind.

Relating to the topic on interest rate, asset-liability management (ALM) mismatch is inevitable for life insurers, whether in a high or low interest rate environment. With the transition to IFRS 17, life insurers in Singapore will operate in both of the following frameworks: local RBC regulation and IFRS 17. In this context, it is not possible to optimise ALM under both frameworks due to the distinct reserving approaches, and each framework serves different purposes. This has prompted life insurers to relook at which metrics to optimise. Thus, a clear hedging objective including restrictions on all of the frameworks relevant to the insurer, is required to manage this situation.



Insurance companies are facing headwinds in terms of reduced top line as more customers put their money in higher return investment products.

- A Singapore respondent



Concluding thoughts

With aspirations for growth, it is inevitable that an insurer's operations is pressured with the constant need for progress, enhancement and innovation; including enhancements to distribution channels and creating a modular technology and data backbone. Alongside increasing regulatory pressures, it is becoming increasingly clear that managing the effect of the risk arising from progress is becoming an imperative.

In view of these challenges, beyond the newcomer around attracting and retaining talent becoming a top risk, technology and cyber risk remains firmly entrenched in the top 3 risk as insurers keep pace and move quickly to stay relevant with stakeholders.

Insurers would need to:

- **Prioritise:** Recognising the business drivers compelling insurers to change, a strategic roadmap with clear priority areas should be mapped out.

- **Identify:** Successful risk management starts with the ability to identify these risks. Therefore, an integrated operations and risk management team speaking a common "risk" language is becoming a reality.
- **Prepare:** Despite constant disruptions, insurers have reacted swiftly and remained resilient in light of these challenges. Unfortunately, this will not change and instead of reacting, preparing and having resilient operations will help business strategies to succeed.

As insurers continue to progress, transform and innovate, management should be reminded that the industry can benefit by learning from other sectors (e.g. banks) that have innovated and digitalised their operational ecosystem.

Concurrently, insurers should also take a more measured approach to their transformation by building in appropriate and fit-for-purpose risk management activities aligned to the insurer's overall operational resilience needs.



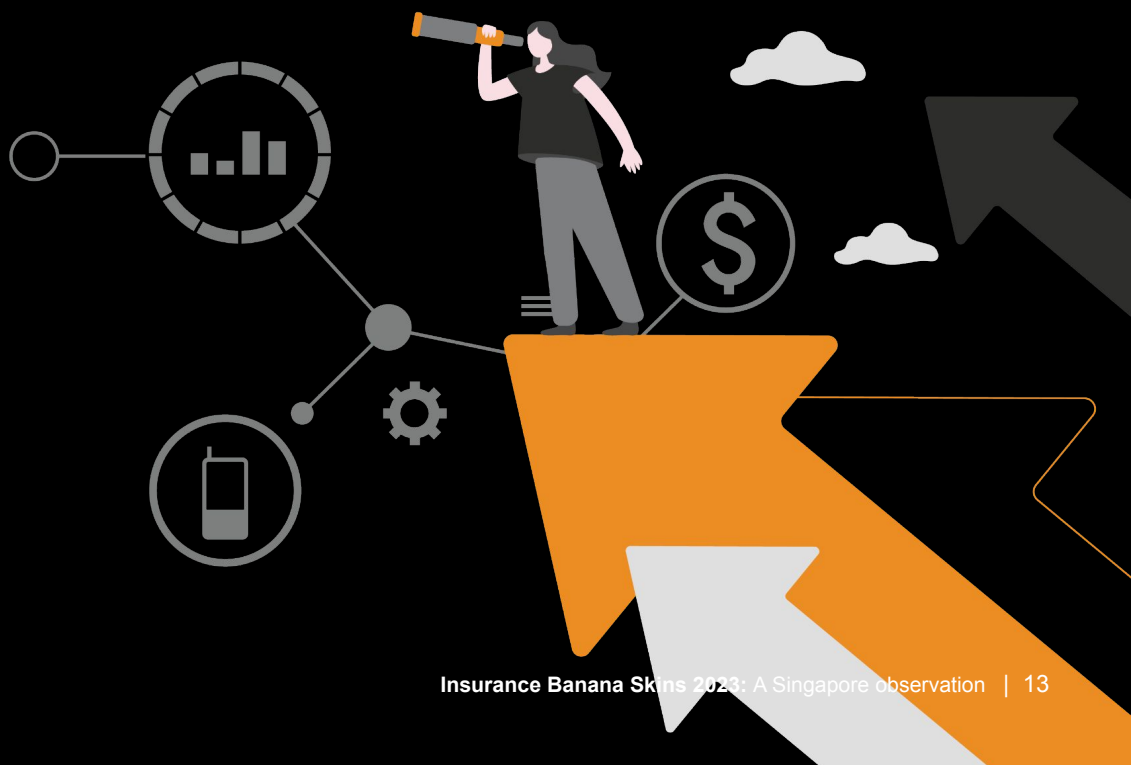
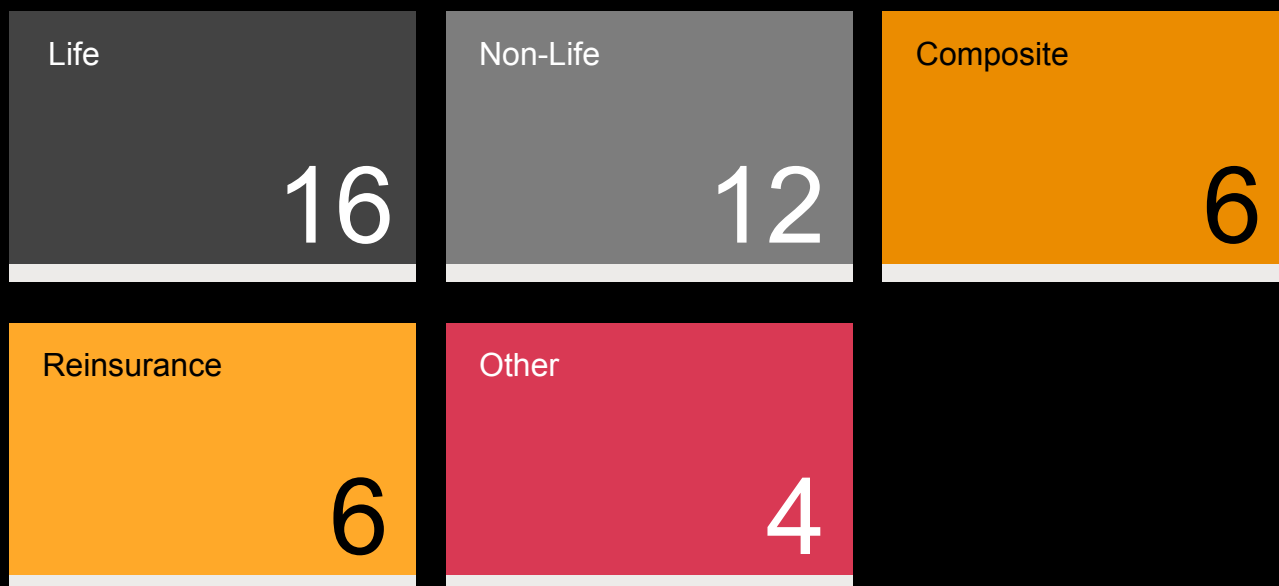


Appendices

Appendix A: Singapore participant profile



There are 44 responses from Singapore, as follows:



Appendix B: Complete list of Insurance Banana Skins 2023

Insurance Banana Skins 2023	
World	Singapore
Cyber crime	Human talent
Regulation	Technology
Climate change	Cyber crime
Technology	Interest rates
Human talent	Climate change
Macro-economy	Investment performance
Artificial Intelligence	Cost reduction
Interest rates	Change management
Cost reductions	Macro-economy
Change management	Security risk
Political risk	Artificial Intelligence (AI)
Security risk	Regulation
Reputation	Business conduct
Investment performance	Products
Social change	Quality of management
Competition	Capital availability
Products	De-globalisation
Credit risk	Credit risk
De-globalisation	Competition
Capital availability	Reputation
Quality of management	Social change
Business conduct	Political risk
Corporate governance	Corporate governance



Appendix C: Main points of difference

Places higher or lower than the global ranking	
Business conduct	+9
Investment performance	+8
Quality of management	+7
Reputation	-7
Regulation	-10
Political risk	-11



Appendix D: The Banana Skins Indices

Banana Skins Index	
Nigeria	4.33
South Africa	4.17
Austria	3.91
United Kingdom	3.84
Canada	3.81
Japan	3.71
Hong Kong	3.69
Belgium	3.67
Singapore	3.59
Spain	3.50
USA	3.50
Australia	3.41
Italy	3.30
Luxembourg	3.22
Global	3.21
Netherlands	3.21
New Zealand	3.20
Taiwan	3.11
India	3.07
Germany	3.00
Denmark	2.88
Bermuda	2.77

Preparedness Index	
Spain	3.70
Austria	3.64
Denmark	3.44
Italy	3.40
Netherlands	3.36
USA	3.33
Canda	3.31
New Zealand	3.30
Hong Kong	3.21
Global	3.20
Singapore	3.20
Germany	3.20
Australia	3.10
Luxembourg	3.10
United Kingdom	3.09
Bermuda	3.08
Belgium	3.07
South Africa	3.06
Nigeria	2.90
Taiwan	2.89
India	2.87
Japan	2.79

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