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Cyber risk climbs to the top risk for Singapore insurers

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30 October 2019, Singapore – Technology risk, cyber risk and change management have been pinpointed as the three biggest concerns for insurers across the globe. This is largely similar to the sentiments of industry players in Singapore who reflected the same top three risks, but in a different order -

cyber risk ranked first, just ahead of technology risk placed second and change management coming in third.

These were the findings of the **Insurance Banana Skins report 2019: A Singapore Observation**, launched today. The 2019 report follows on from previous Insurance Banana Skins surveys issued biennially since 2007 by the Centre for the Study of Financial Innovation (CSFI) in association with PwC. This year's analysis was based on 927 responses from 53 territories, including 46 Singapore respondents.

Firstly, cyber risk had climbed four places to become the top risk amongst industry players in Singapore. 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.

The insurance industry is an enticing target because of the volume of valuable data it holds and, consequently, they are at risk of attacks from criminals and state-actors. Though it is expected that the insurance industry players in Singapore have put in place a framework and process to manage and monitor cyber risk 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'. With these uncertainties in mind, it's then no surprise that cyber risk ranked first in this year's study.

Related to cyber risk, technology emerged as the second highest risk in the ranking. Across the responses, many held the view that insurers are encumbered with legacy business models and IT infrastructure that are poorly equipped to handle the changing demands of the industry.

Technological transformation 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 technological innovations and managing existing business operations.

Third comes change management. 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.

In addition to technology-related transformation, another common initiative which requires change management is the offshoring of business processes to shared service centres. This requires investment from the insurer to ensure that the shared service teams have the right skillsets and that the Singapore management teams have adequate oversight on the activities carried out at the shared service centres.

Singapore industry players are also responding to changes such as new regulatory requirements such as Risk Based Capital (RBC) 2 and International Financial Reporting Standard (IFRS) 17 Insurance Contracts. For example, 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.

Woo Shea Leen, Insurance Leader, PwC Singapore concludes:

“Change is the 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. It is the people who drive the change – therefore building a culture with people at the forefront embracing change is becoming a differentiator.

“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.”

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Notes to editor

About Insurance Banana Skins

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 is based on a survey conducted in March and April 2019, and is based on 927 responses from 53 territories, including 46 respondents from Singapore. Read **Insurance Banana Skins 2019: A Singapore observation** at <https://www.pwc.com/sg/en/publications/insurance-banana-skins-2019.html>

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)

About CSFI

The Centre for the Study of Financial Innovation is a non-profit think-tank, established in 1993 to look at future developments in the international financial field – particularly from the point of view of practitioners. Its goals include identifying new areas of business, flagging areas of danger and provoking a debate about key financial issues. The Centre has no ideological brief, beyond a belief in open markets.

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