

Defining the Next Wave of Insurance

Global insurance trends in 2024 and beyond

The insurance industry is growing, but near-future growth will be moderate

Driven by Asia's activity and easing inflation, the industry is forecasted to grow 2.1% annually. Key concerns remain in¹:



Technology



Climate



Risk Management

Key Insurance Trends

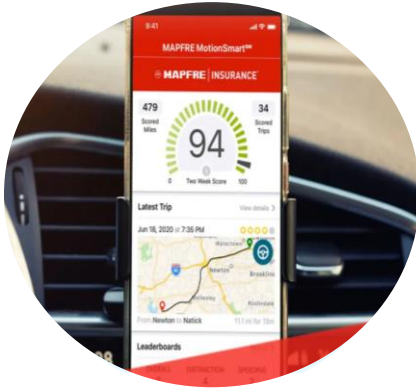
Digital Transformation	Environmental, Social & Governance (ESG)	Risk Management
Adopting advanced technologies to streamline operations and offer hyper-personalized insurance.	Integrating ESG into operations due to frequent natural disasters.	Shifting to proactive risk management through advanced risk modeling.

Source:

[1] KPMG: <https://kpmg.com/ca/en/home/insights/2024/04/nine-key-trends-shaping-the-future-of-insurance.html>

Innovative insurance products and trends globally

Increasingly innovative insurance products are emerging as a result of the trends



Telematics

Product: Usage-Based Insurance (UBI)¹

- Types of usage:
 1. Pay-as-You-Drive
 2. Pay-How-You-Drive
 3. Pay-as-You-Go



Parametric Weather

Product: Rain Insurance²

- Protects consumers against surge pricing on ride-hailing platforms during rain.
- Receive up to 60% of their trip fare or cancellation fee.



Parametric “Exotic”

Product: Moon Insurance³

- Obstructed view of full moon during Mid-Autumn Festival would pay out policyholders.
- China Meteorological Administration determined visibility.

Advancing trends call for innovation, with a strong focus on **parametric insurance solutions in risk management.**

Source:

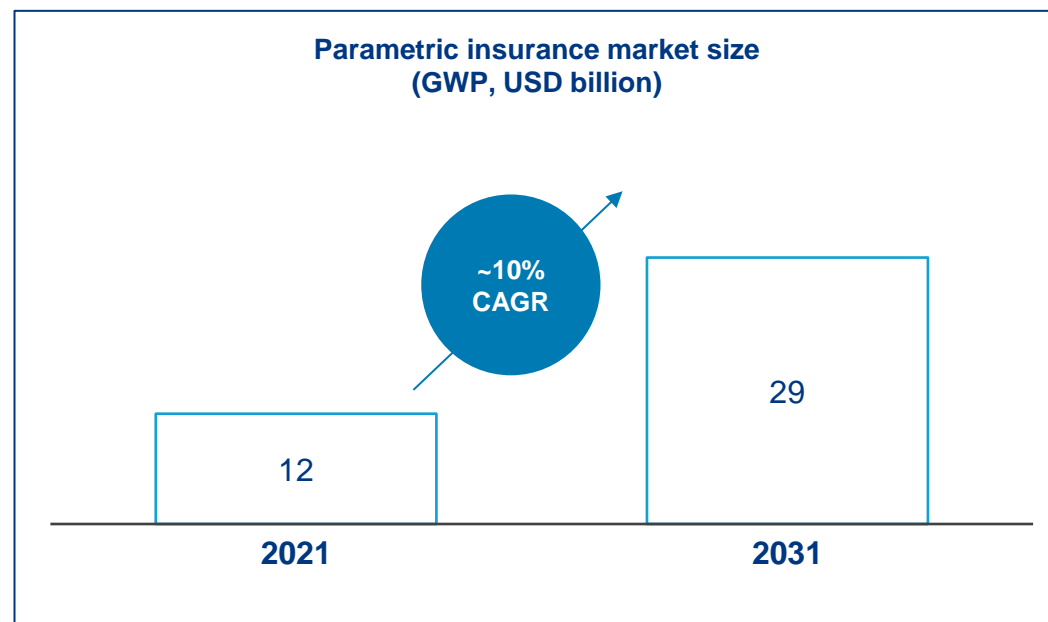
[1] Kotak General Insurance: <https://www.kotakgeneral.com/blog/motor-insurance/a-guide-to-usage-based-insurance-ubi-and-types>

[2] The Straits Times: <https://www.straitstimes.com/business/banking/ntuc-income-launches-droplet-insurance-plan-to-shield-grab-customers-from-surge>

[3] Allianz: <https://www.allianz.com/en/press/news/business/insurance/news-2013-09-12.html>

An overview of parametric insurance globally

The parametric insurance market is projected to grow to USD \$29 billion by 2031, with a 10% CAGR



Source: Allied Market Research¹

	Largest share	Fastest growth
Sector	Agriculture	Construction
Geographic Region	North America	Asia Pacific (APAC)

Source:

[1] PWC: https://www.pwc.ch/en/publications/2024/Basis_risk_in_parametric_insurance_challenges_and_mitigation_strategies.pdf

Understanding the mechanics of parametric insurance

The parametric methodology enables the creation of very transparent and automated products

If you pay me



Premium

Personalized and
automated underwriting.

In the case event Y happens



Trigger event

Fully transparent and
undisputable by everyone.

I pay you



Compensation

Pre-determined and
automated.

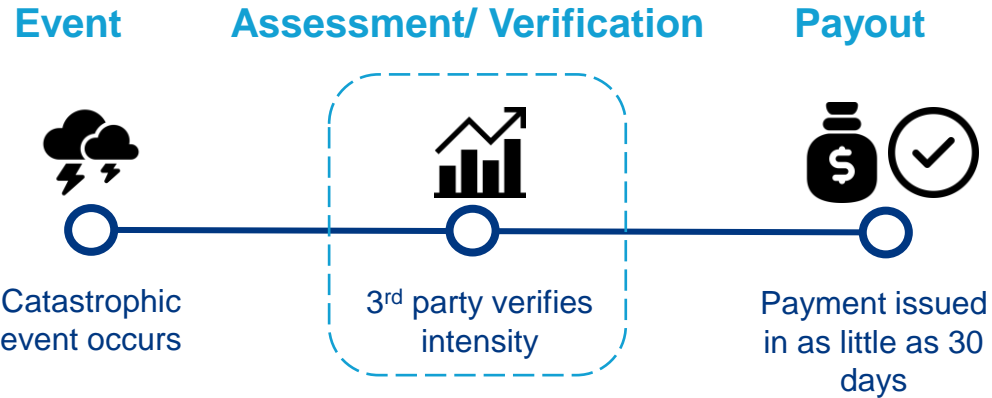
Allianz Flight Care

- Insured pays a premium of RM10.00.
- If a domestic flight is delayed by more than 30 minutes, the insured will receive a claim payout of RM50.

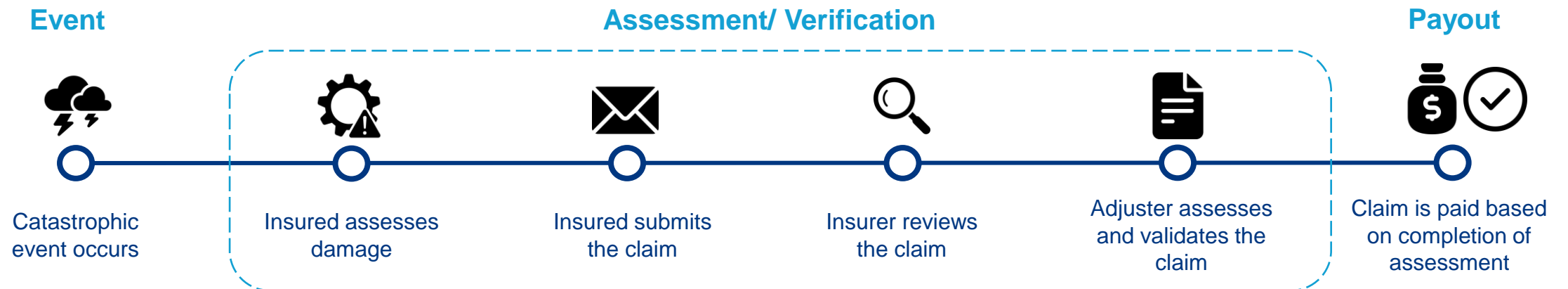
Parametric insurance versus traditional insurance

Parametric insurance: transparent, fast, and ready for digital markets

Parametric Insurance



Indemnity-based Insurance



Advantages and challenges of parametric insurance

Fast and flexible payouts but increased basis risk



1. **Fast claim payout:** No claims process required.
2. **Wide coverage extension:** Extends traditional coverage using data for difficult-to-insure losses.
3. **Flexible use of funds:** Recipients direct funds where needed most.
4. **High transparency:** Policyholder knows the exact payout and conditions in advance.



1. **Basis risk:** Payout may not commensurate actual loss.
2. **Accurate data:** Gaps in historical data may over/under compensate.
3. **Multiple trigger:** Ensures appropriate payout.
 - **Example: Flood**
 - Trigger 1: Water level
 - Trigger 2: Duration
 - Trigger 3: Severity
4. **Regulatory:** Requires approval from regulator and government.
5. **Strong distribution channel:** For intended product reach.

Case Study 1 | Solar Energy Shortfall

Parametric insurance success hinges on data quality, accuracy, and advanced analytics



Year	2023
Location	Malaysia
Insurer	Etiqua General Insurance Berhad
Coverage	Covers financial losses from reduced solar irradiation excluding shortfalls due to non-irradiation factors ¹ .
Trigger Metric	Solar irradiation and energy generated production

Advantages

- Flexible use of the funds
- Wide coverage extension

Risk Management Challenges

- Basis risk
- Need for accurately measured data

Source:
[1] Etiqua: <https://etiqua.com/newsroom/etiqua-launches-solar-energy-shortfall-insurance-sesi/>

Case Study 2 | Drought Resilience in Zambia

Establishing precise trigger metrics is crucial for the effectiveness of parametric insurance



Year	2019
Location	Zambia, Africa
Insurer	African Risk Capacity Limited (ARC)
Coverage	Provides timely funds to help mitigate the effects of the drought on agriculture and food security ¹ .
Trigger Metric	The amount of rainfall

Advantages

- Fast claim payout
- High transparency

Risk Management Challenges

- Basis risk
- Multiple trigger metrics needed

Source:
[1] PWC: https://www.pwc.ch/en/publications/2024/Basis_risk_in_parametric_insurance_challenges_and_mitigation_strategies.pdf

Key strategies in addressing parametric insurance

Unlocking greater precision through enhanced strategies to strengthen parametric insurance

1

Enhance Data Quality & Analytics

- **Upgrade IoT sensors** to improve data accuracy.
- **Collect data with precise timing and location** to better match the actual risks and times of loss.

2

Dynamic Modeling & Triggers

- **Use live data and continuously adjust parameters** to reflect real-time conditions.
- **Use multiple trigger metrics** to reduce basis risk.

3

Combine Solutions

- **Integrate** parametric with traditional insurance products to cover gaps.
- **Possible to co-exist.**

Where are we headed?

Parametric insurance is a practical solution, not just a “trend”



Key Takeaways

- 1 **Growth potential** exists for parametric insurance.
- 2 **Advancements in data and technology** essential for accurate measurements and payouts.
- 3 **Dynamic modeling and multiple triggers** are key to managing basis risk.
- 4 **Approach to combined solutions should be complementary**, not competitive.

Thank you!

