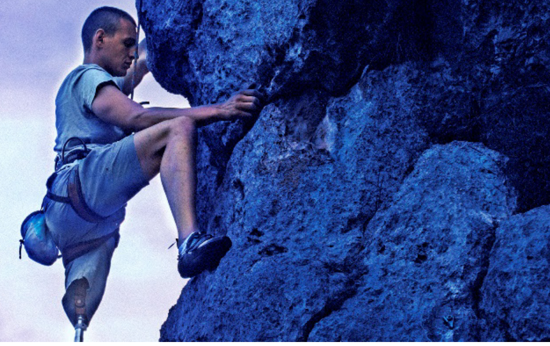
KPMG

2024 Risk Radar: Insurance Sector

March 2024



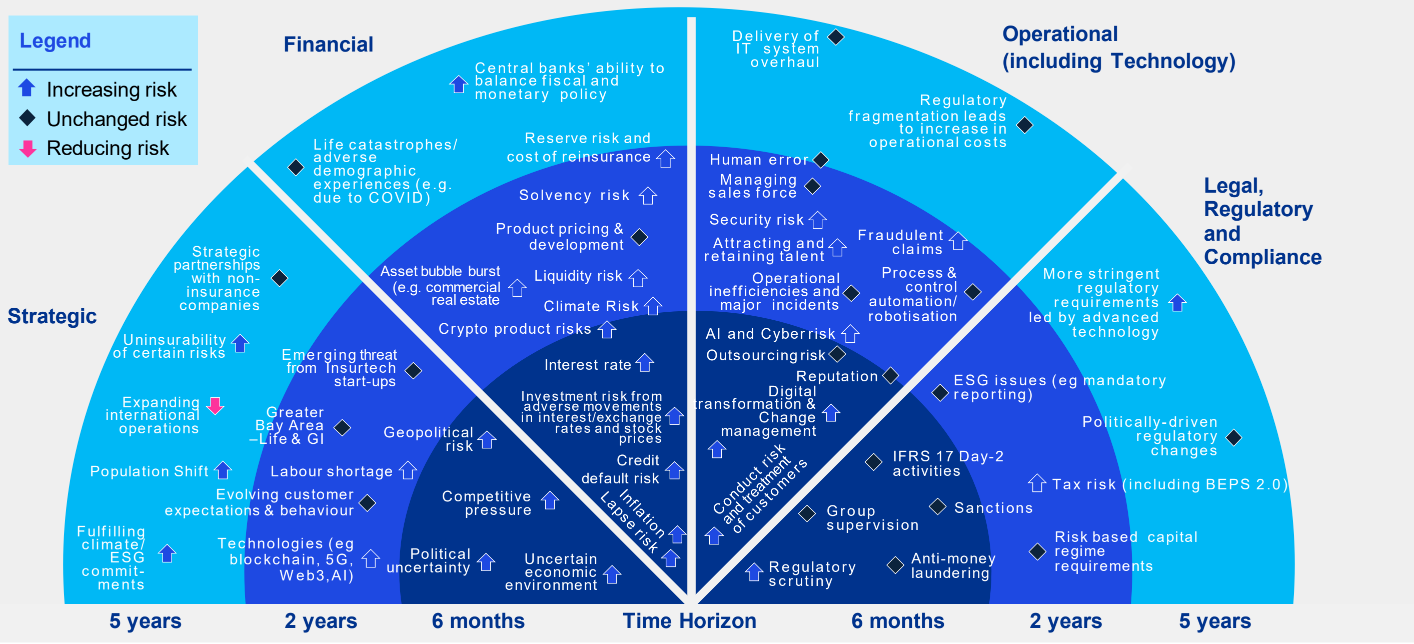
2024 has been labeled a Super Election Year with more than 60 countries' national elections taking place. This unpredictable geopolitical environment will further compound the array of challenges the insurance sector continues to face, like high inflation, higher interest rates and rapid AI development.

At the recent Asian Insurance Forum hosted by the Hong Kong Insurance Authority (HKIA), topics discussed included global economic risk, societal trends and Web3 developments, and their impacts on the Hong Kong insurance sector.

Firms that will achieve success in these challenging times will be those that embrace change and effectively manage new risk exposures that arise, recognising that these are becoming more and more interconnected.

Key trends affecting the insurance sector in Hong Kong and the Chinese Mainland

Interest rate risk	The current macroeconomic environment is characterised by tighter monetary policy and increased interest rates across many regions, with high degrees of volatility and uncertainty. Investment values and their returns are heavily impacted by higher interest rates while banking products may become increasingly attractive, leading to a risk of increased lapse rates. Insurers should further assess and monitor the potential impacts on their business under higher interest rates.
AI and Cyber Risk	While AI and Web3 development presents huge potential for insurers, there are also concerns including increasing cyber security risk and sophistication of cyber threats, such as misinformation and disinformation. Sensitive data, privacy and reliability of AI responses are common concerns when adopting AI. Insurers should expect various guidelines and legislation on AI adoption to be established by regulators worldwide. Already, sufficient governance and assessments should be established by insurers to monitor the AI and IT ecosystem, such as assigning committee members and senior management to monitor AI development and resulting risks to the organisation.
Geopolitical, Operational resilience	Political uncertainty due to ongoing geopolitical tensions will continue in the coming year. Insurers should assess and plan for the possible impacts on key operations and business activities.
Regulatory Risk	HKIA has continued to issued consultation papers on the Risk-based Capital Regime (RBC), under which the capital requirements of insurers will be determined based on the level of risk. Furthermore, the HKIA is consulting with the industry on an updated framework for the Guideline on Cybersecurity (GL20), which regulates and supervises the cyber risk management of local insurers, and aims to finalise the revision of GL20 by this year. Insurers should prepare their risk management and controls function to face the new regulatory challenges together with the IFRS-17 Day-2 activities, such as control optimisation, automation and process streamlining.
ESG	In recent years, consumers are increasingly expecting companies to enhance their ESG response, which also represents an opportunity for insurance businesses to differentiate themselves. In addition, Hong Kong regulators are expected to continue developing ESG guidance and disclosure policies. Insurers should integrate ESG into their firm's strategy and embed it within existing operations.
Climate Risk	Climate risk for the insurance sector has increasingly manifested in recent years, as the frequency and severity of extreme weather events and natural catastrophes have increased. Insurers should take steps to improve risk modeling and climate resilience.



Contact us

Frank Mei
Partner
Head of Risk Consulting
KPMG China
T: +86 10 8508 7188
E: frank.mei@kpmg.com

Erik Bleekrode
Partner
Head of Insurance,
KPMG China & Asia Pacific
T: +852 2826 7218
E: erik.bleekrode@kpmg.com

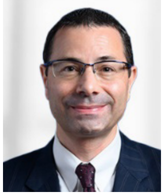
Walkman Lee
Partner, Head of Insurance,
Chinese Mainland
T: +852 2140 2282/
+86 10 8508 7043
E: walkman.lee@kpmg.com

Abhishek Kumar
Partner
Head of Insurance, Hong Kong
T: +852 2847 5120
E: abhishek.kumar@kpmg.com

Paul Melody
Partner
Head of Actuarial
KPMG China
T: +852 2685 7978
E: paul.melody@kpmg.com

Arash Ghassemian
Partner
Strategy & Operations
KPMG China
T: +852 2143 8665
E: arash.ghassemian@kpmg.com

Jonathon Ko
Partner
Actuarial & ESG
KPMG China
T: +852 2685 7491
E: jonathon.ko@kpmg.com



Jens Kessler
Partner
Governance & Risk Compliance Services
KPMG China
T: +852 2143 8584
E: jens.kessler@kpmg.com

kpmg.com/cn/socialmedia