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Singapore: Trends & Developments

Carmel Green and Sumyutha Sivamani
RPC Premier Law

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Trends and Developments

Contributed by:
Carmel Green and Sumyutha Sivamani
RPC Premier Law ***see p.8***

Introduction

The COVID-19 pandemic has had a major impact on almost all economic sectors, and the insurance industry in Singapore is no exception. While it has been two years since the first outbreak of COVID-19 was reported in Wuhan, China, nearly every country around the world, including Singapore, has struggled to contain the virus, resulting in ongoing economic, health and social displacement issues.

While these issues have posed challenges for local insurers, they have also presented insurers with new business opportunities, and accelerated insurers' adoption of technology to drive efficiencies and expand capabilities across their organisations. This period has also seen a range of significant legal and regulatory developments that stand to impact the local market.

This article will consider some of the main commercial and growth factors, and legal and regulatory developments, impacting the Singapore insurance industry, and likely trends to follow in the short-term future.

Commercial/Growth Factors

Expansion of insurtech

The COVID-19 pandemic has impacted nearly every aspect of daily life, and sped up pre-existing trends in how people consume, work and travel. For insurers, these rapid changes have triggered increased take-up in, or (for those slightly behind the curve) a strong move towards the adoption of, insurtech across all aspects of insurance business, so as to enable it to keep up with a rapidly evolving and increasingly technological society.

Insurtech is an elastic term, essentially referring to technological innovations that are created and implemented to improve the efficiency of the insurance industry.

The following are just a few examples of how insurtech has been deployed within the Singapore insurance industry in the past two years.

1. New usage-based insurance (UBI) offerings for consumers

UBI, also known as pay-per-mile, is a personalised auto insurance product. Powered by telematics technology, personalisation is achieved by the use of algorithms to analyse the insured's driving data, together with external information from a broad range of sources. For instance, in July 2021, NTUC Income Insurance expanded its coverage for electric vehicles (EVs) by offering UBI to EV owners. Drivers need only pay the insurance premium pegged to the mileage of their EVs. To calculate insurance premiums, the insurer has partnered with automotive marketplace Carro to integrate its artificial intelligence-enabled pricing system with Carro's in-vehicle telematics technology.

UBI offerings are a welcome development in circumstances where COVID-19-related restrictions, combined with increased demand for ride-share services, have reduced the total number of vehicles on the road. Consumers are therefore challenging the notion of paying flat rates for their auto insurance and are looking for insurers that can be competitive and provide personalised offerings.

However, these changes do not come without significant challenges for insurers. A key issue will be how to convince consumers to capture and share their driving data to enable premiums to be calculated. A monitoring device in the vehicle may be considered an intrusion of privacy and raises concerns of data ownership and misuse. Accurate underwriting may be another challenge, especially in the early stages. Critical mass data will have to be gathered over a period of time in order to support data analytics and create an effective underwriting model.

2. Subscription-based "Netflix-style" insurance offering

In July 2021, NTUC Income Insurance also launched Singapore's first subscription-based and customisable insurance offering. Customers can subscribe to any of its three modular insurance packs, offering a combination of life, health and accident products, including mixing and matching, or upgrading and downgrading, the packs at any time, depending on their individual financial demands and changing ability to afford different premiums.

This offering is, again, in keeping with a growing consumer demand for personalised insurance products. Increased affordability means increased access for a wider consumer base. This is especially relevant after the pandemic has impacted virtually every sector industry and, for many, job security is an ongoing concern. Consumers who are concerned that they may not be able to pay for conventional fixed plans, or who have generally had to change their spending habits to make ends meet, stand to benefit, in particular.

3. Deployment of machine learning/artificial intelligence (AI) applications

Machine learning enables computers to learn from data through techniques that are not explicitly programmed and has been utilised widely by insurers in recent years to assist with rendering insurance advice, claims processing and risk management. Machine learning has also been deployed to study historical claims data and help prevent fraud by identifying markers of fraudulent claims.

A number of Singapore-based insurers have invested in technologies such as chatbots to promote better and effective customer service. These chatbots provide 24/7 assistance, check billing information and answer common questions, helping insurers to communicate effectively with potential clients. Prudential Singapore is also trialling machine learning-based solutions to automate claim approvals. The algorithm will be able to assess the validity of claims and recommend decisions and payment amounts quickly. These applications will not only enable insurers to save significantly on costs associated with claims handling/processing, but will also help to improve the customer experience through fast claim settlement, effective and structured probing, and efficient administration.

While such applications look to improve internal processes for insurers and customer service for consumers, the use of AI raises a myriad of issues. In particular, the matter of where liability rests for damage caused by malfunctioning AI and/or by decisions taken by AI is largely undeveloped at present, and insurers will need to analyse their own exposure to these risks when utilising AI applications across their processes. The application of AI for health insurance underwriting, whereby AI is used to assess likelihood of risk of genetic disorders/diseases in order to price health insurance, also raises ethical concerns of potentially significant increases in costs of insurance for unhealthy individuals. This may also run into problems with laws protecting against discrimination.

In summary, insurtech is fast looking to revolutionise all aspects of insurance in Singapore. Traditional insurance models face fundamental challenges and insurers slow to embrace new technology will struggle to compete and retain their positions in the industry moving forward.

Rise in cybercrime

The COVID-19 pandemic has required most businesses to migrate to working from home and, as a result, corporates have adopted a range of new technologies to facilitate this and maintain business continuity. This has, unfortunately but inevitably, led to a rapid rise in malicious cyber activities as weakened IT infrastructures have given rise to increased opportunities to exploit system vulnerabilities.

The Cyber Security Agency of Singapore (CSA) has reported that cybercrime accounted for 43% of all crime in Singapore in 2020, with the COVID-19 pandemic being a key factor in online threats and a primary source of cyber scams; in particular, phishing scams. The CSA has attributed this trend, at least in part, to the rapid growth of e-commerce and the proliferation of community marketplace and social media platforms, as Singaporeans are carrying out more online transactions during the COVID-19 pandemic than ever before. The CSA has also reported that local ransomware cases have increased by 154% since 2019, in line with global trends, as ransomware operators are deploying increasingly sophisticated tactics. The CSA has warned that these trends are likely to continue and has warned businesses to keep their cybersecurity infrastructure under constant review and to build and develop systems to be resilient to (or, if not resistant, capable of promptly recovering from) cyber-attacks.

This growing threat of cyber-attacks has fuelled a demand for cyber insurance policies, particularly among small and mid-size businesses that typically have limited resources to invest in their IT security infrastructure. This demand has been further fuelled by recent amendments to the Personal Data Protection Act (PDPA) in February 2021, which include harsher penalties for breaches of the PDPA. Companies are therefore now increasingly concerned with data breaches and look to cyber insurance policies to mitigate the high reputational and financial risks associated with such breaches.

While these trends have led to an increasing number of products in the market to cater for different companies and risks, at the same time, insurers have been tightening capacity for cyber cover in Singapore, in line with broader global trends. The increase in the volume and value of claims being submitted under these policies, combined with the data that has been gathered as a result, has led insurers to raise premiums significantly and stipulate tighter underwriting requirements. The cyber insurance market shows no signs of easing in this regard and, if anything, is expected to harden further in the coming months.

Anticipated boost to the maritime sector

In a debate over the Ministry of Transport's budget, the Senior Minister of State for Transport, Chee Hong Tat, announced that the maritime sector can expect to receive SGD20 billion in investments from industry players by 2024, with the objective being to grow Singapore as a global maritime hub. Mr Chee has indicated that these investments will create more jobs and opportunities, particularly in areas including maritime law and arbitration, ship management and marine insurance.

In view of these projected investments, and with infrastructural investments such as the Tuas Mega Port under way, it is crucial that marine insurers stay nimble by leveraging the growth areas that these rapid developments will create. It is also vital that marine insurers continue to invest in talent development and training, ensuring a future-ready workforce to capitalise on these new opportunities.

Increased demand for general and life insurance products

Singapore's life insurance industry saw a significant increase in weighted new business premiums for the first six months of 2021, surpassing the same period in 2019 before the onset of COVID-19. This increased uptake in life insurance suggests, perhaps unsurprisingly, that more people are placing greater importance on providing for their long-term financial and healthcare needs amid the pandemic and beyond.

Economic recovery and the gradual reopening of international travel are also expected to revive the demand for general insurance in Singapore. The industry's growth momentum is forecasted to pick up consistently over the next five years, aided by product innovation, digitalisation and infrastructure development projects.

Legal and Regulatory Developments

Report on reforming insurance law

The Law Reform Committee of the Singapore Academy of Law (LRC) has conducted a detailed study of the current deficiencies in the state of insurance law in Singapore and considered the extent to which the industry would benefit from reform. On 28 February 2020, the LRC published its findings and recommendations in a report titled "Reforming Insurance Law in Singapore".

The key areas of focus of the report included the duty of utmost good faith, the duty of disclosure and misrepresentation, warranties, remedies for fraudulent claims, insurable interest, late payment of claims, and select aspects of an intermediary's role.

The key recommendations set out in the report include:

- for the duty of utmost good faith (and related areas), adopting the broad framework and provisions of the UK's Insurance Act 2015 (save for the bifurcated approach to consumer and business insurance in the UK), along with certain desirable features of Australian insurance law;
- repealing Section 62 of Singapore's Insurance Act (IA) (which requires an insurable interest in life-related polices), and amending Section 57 of the IA to provide that an insured has an insurable interest in the life of another person if there is a reasonable prospect that they will suffer economic loss if the insured event occurs;
- removing the requirement for an insurable interest in non-life policies;
- amending Section 53(1) of the Marine Insurance Act to make policyholders liable for the premium payments due under their insurance policies; and
- enacting a specific provision to require insurers to make payment within a "reasonable time".

The authors understand that the report has been submitted to the Monetary Authority of Singapore (MAS), the regulatory authority of insurers, for its consideration. However, given that the report was published just as COVID-19 hit, perhaps unsurprisingly, its findings and recommendations have been de-prioritised for now.

The next stage in the process is to undertake a public consultation exercise, in which the insurance industry will have the opportunity to provide feedback on the foregoing recommendations. While no timeframe is currently in place, when these recommendations eventually fall to be considered, we can expect a series of significant changes in Singapore insurance law.

Online dispute resolution platform for resolving motor accident claims

Motor insurance policies typically see a high volume of claims arising from legal actions brought pursuant to accidents, making up 37% of all civil cases filed annually in the State Courts of Singapore. This means a significant spend on legal defence costs for motor insurers in addition to protracted resolution of claims.

In order to save on judicial resources, in late 2020, the State Courts launched an online dispute resolution platform exclusively for motor accident claims. This platform is designed to assist parties in resolving their cases without having to commence formal legal action. The platform presents users with a likely apportionment of liability and/or award of damages based on the documents and information submitted by users. It also allows parties to exchange documents and other evidence, and trade offers and record settlement.

This is a welcome development for insurers with significant motor insurance portfolios in circumstances where this platform is set to have a significant impact in terms of reducing defence costs and simplifying claims processing for third-party claims arising from motor insurance policies. Motor insurers should take note, however, that the platform is not immune to exploitation by fraudsters seeking a quick resolution of fraudulent motor accident claims via this platform, where such claims (particularly the low quantum ones) are likely to escape close scrutiny by claims handlers.

Amendments to the Work Injury Compensation Act 2019

Broad amendments have been made to the Work Injury Compensation Act 2019 (the "WICA 2019") that came into effect on 1 September 2020, while the new regulatory regime for work injury compensation (WIC) insurers was implemented on 1 January 2021.

Pursuant to the amendments, only insurers designated by the Ministry of Manpower (MOM) are now permitted to issue WIC insurance policies, which must be in accordance with MOM's mandated policy terms and conditions. The legislation also saw the expansion of mandatory insurance coverage limits and of the scope of compensation for employees. WIC claims will also no longer be processed by MOM and will instead be insurer-driven under the new regime. In addition, all employers' past claims data will be made available to all designated WIC insurers. With greater information transparency, employers with good safety records will, in due course, be able to enjoy lower premiums and vice versa.

For now, however, these significant changes have led to increased premiums across the market, especially given the expanded compensation limits. This – in combination with the suspension of most workplace activities during the first half of 2020, which resulted in a reduction in the number of workplace accidents – is likely to have given rise to improved loss ratios for WIC insurers. However, the spike is likely temporary. Claim volumes are rising again after workplace activities were allowed to resume (albeit in limited capacities) in 2021. Furthermore, in light of the newly introduced insurer-driven WIC claim processing regime, designated WIC insurers must be ready to take on the increased administration in (and associated costs of) the processing of WIC claims.

MAS Guidelines

On 9 November 2021, MAS published revised Guidelines on Corporate Governance (the "Guidelines") for all financial holding companies, banks and insurers incorporated in Singapore, providing updated best practice guidance for financial institutions to observe. Key revisions to the Guidelines include:

- incorporation of the 2018 Code of Corporate Governance (in place of the 2012 version);
- revisions to the Additional Guidelines within the Guidelines to align with international standards and industry good practices;
- refinements to the recommended approach to compliance for different categories of financial institutions subject to the Guidelines; and
- the introduction of a new Additional Guideline on the appointment of non-directors to the Board Risk Committee.

MAS also issued the Individual Accountability and Conduct Guidelines (the "IAC Guidelines"), which came into effect on 10 September 2021. The aim of this move – which follows similar regulatory changes made recently in the UK, Australia and Hong Kong – is to embed a strong culture of responsible and ethical behaviour in all financial institutions, including insurers. The IAC Guidelines cover three key areas, with an outcomes-based, rather than a prescriptive, approach in the methodology to be adopted by financial institutions:

- promoting individual accountability of senior managers;
- strengthening oversight over material risk personnel; and
- reinforcing standards of proper conduct amongst all employees.

Insurers with global group policies and procedures should take steps to review their arrangements and risk management practices to ensure that they are in line with the Guidelines and the IAC Guidelines. This might include reviewing policy provisions that undermine the accountability of senior managers, such as the availability of indemnity for managers and employees against financial penalties for misconduct or other offences.

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AUTHORS

Carmel Green is a partner of RPC's Hong Kong and Singapore offices, specialising in insurance-related dispute resolution and advisory work. Her practice covers Hong Kong, Singapore and the wider South-East Asia region. Carmel has extensive experience in handling a wide range of insurance matters (both contentious and non-contentious) on behalf of all major international insurers and reinsurers, with a specialist focus on complex financial lines, professional indemnity and cyber insurance matters. Carmel advises (re) insurers on policy coverage issues arising under the full range of insurance products designed to address the liabilities of companies, managers and professionals. She acts as monitoring counsel on behalf of insurers for claims brought against their insureds all over the world and has extensive experience in defending large-scale insurance disputes.

Sumyutha Sivamani is a senior associate and an experienced commercial litigation and dispute resolution lawyer specialising in insurance and reinsurance. She has extensive experience in advising insurers and reinsurers on a wide spectrum of contentious and non-contentious matters across all commercial lines, with a particular focus on property, construction, general liability, professional indemnity and financial lines. Sumyutha advises on all aspects of claims, coverage issues and subrogated recoveries. Although her focus is on insurance and reinsurance work, Sumyutha also has significant experience in handling complex domestic and cross-border commercial disputes and investigations, with a focus on contract law, company law and tort law.

RPC Premier Law

12 Marina Boulevard
#38-04 Marina Bay Financial Centre
Tower 3
Singapore
018982

Tel: +65 6422 3000
Fax: +65 6422 3099
Email: karina.wong@rpc.com.sg
Web: www.rpc.asia