

INSIGHTS

AUGUST 2024



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Editor's Note



Dear Readers,

August is a month of celebration for us at Brighton. Not only do we honour Malaysia's Independence Day, but we also commemorate two significant milestones in our company's history.

This year, we celebrated our 19th anniversary on August 1, marking nearly two decades of growth, dedication, and success since our establishment in 2005.

Adding to the excitement, August 1, 2024, also marks the day we moved into our very own office. After 18 years of working from a rented space, we have officially relocated to a state-of-the-art office that truly embodies our vision.

With nearly two decades of experience, we've learned that resilience comes from embracing change and driving innovation. This mindset has guided us through the years, enabling us to grow and adapt in an ever-evolving industry.

It is also the theme of this issue, where we delve into crucial topics such as managing the evolving urban risks, building cyber resilience, and adopting innovative approaches to modern risks. We also explore how GenAI is transforming the insurance industry, pushing the boundaries of what's possible.

Here's to new beginnings, continued growth, and the exciting journey ahead. Thank you for being a part of our story.

Annie Undikai
Annie Undikai
Managing Editor

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Empowering Your Insurance Journey

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At Brighton, we don't just provide solutions — we empower your journey to excellence. Our cutting-edge software, business solutions and dedicated technical support are crafted to propel your business forward in the competitive insurance industry.

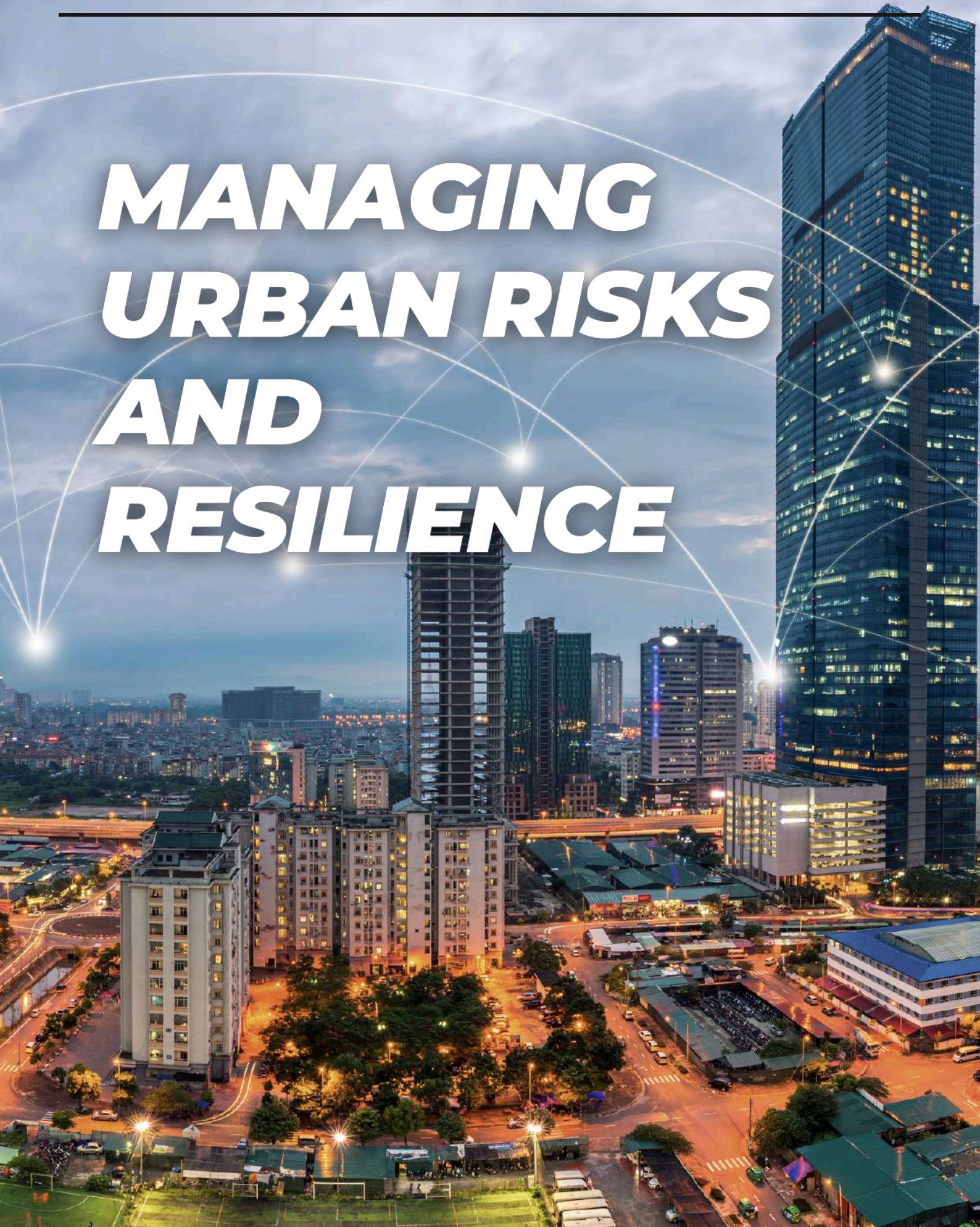
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MANAGING URBAN RISKS AND RESILIENCE



Rapid urbanisation is transforming our cities. As urban environments continue to expand and evolve, the associated risks are becoming increasingly complex. To effectively mitigate these risks and enhance urban resilience, it is crucial to understand the interplay between climate change, smart urbanisation, and socio-demographic shifts. For insurers, incorporating data and statistics into risk assessments and policy development is essential to tackle these evolving challenges.

Climate Change and Extreme Weather Events

Climate change has a profound impact on urban risks, altering the way cities must plan, develop, and respond to emerging threats. With rising global temperatures and increasingly erratic weather patterns, urban areas are vulnerable to various climate-related risks.

The Intergovernmental Panel on Climate Change (IPCC) reported that global temperatures have increased by 1.1°C since pre-industrial times, contributing to the rise in heatwaves, heavy rainfall, and intense storms¹. Urban areas, with their dense populations and infrastructure, are particularly susceptible to these events. For example, coastal cities are more

vulnerable to flooding from rising sea levels, while inland cities may experience more intense heatwaves and droughts. These events can cause significant damage to infrastructure, disrupt essential services, and result in loss of life. The World Meteorological Organization (WMO) notes that the number of weather-related disasters has doubled over the past 50 years.²

Extreme weather events such as floods and storms cause extensive damage to critical infrastructure, including transportation systems, utilities and buildings. Flooding can overwhelm drainage systems, damage roads and bridges, and inundate homes and businesses. Meanwhile, heatwaves can strain energy supplies, causing blackouts, and deteriorate road surfaces.

Aging infrastructure in many cities is not designed to withstand the increased stress from these extreme events, leading to higher maintenance and repair costs. Globally, economic losses from natural disasters are estimated at \$280 billion in 2023, with significant portions attributed to infrastructure damage.

¹ <https://www.wri.org/insights/2023-ipcc-ar6-synthesis-report-climate-change-findings>

² <https://www.wmo.int/topics/extreme-weather>

³ <https://www.www.swissre.com/%2Fdam/%2Fjcr/%3Ac9385357-6b86-486a-9ad8-78679037c10e/%2F2024-03-sigma1-natural-catastrophes.pdf>



As cities grapple with the impacts of climate change, urban planning must evolve to incorporate climate resilience.

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As cities grapple with the impacts of climate change, urban planning must evolve to incorporate climate resilience. This includes designing infrastructure that can withstand extreme weather, implementing green spaces to manage stormwater, and developing emergency response plans tailored to climate-related events. However, the scale and speed of urbanisation often outpace the implementation of these resilience measures, leaving cities vulnerable to climate risks.

Sustainable and Green Cities

Smart cities, characterised by the integration of technology into urban planning and management, present both opportunities and challenges. While it offers significant opportunities to improve efficiency, sustainability, and quality of life, it also introduces new urban risks that must be carefully managed. From intelligent transportation systems to connected buildings and advanced energy grids, these cities are paving the way for a more sustainable future.

The integration of smart grids, surveillance systems, and Internet of Things (IoT) devices with urban infrastructure has heightened cybersecurity risks for cities. Any breach in these systems could lead to widespread disruptions in essential services, such as power outages, traffic management failures, or compromised emergency response systems.

The complexity and interconnectivity of smart city technologies create a scenario where a single vulnerability can trigger cascading effects, elevating cybersecurity to a critical concern.

The Cybersecurity & Infrastructure Security Agency (CISA) reported that in 2023 nearly 40% of municipalities experienced at least one significant cyber incident in the past year, underscoring the vulnerability of smart cities to cyberattacks. In June 2023, a cyberattack crippled the transport system in Olsztyn, Poland, a city known for its smart city features.

The attack disrupted traffic lights at nearly a hundred intersections, causing major traffic jams and issues with purchasing public transport tickets. To contain the damage, the city's transport authority had to physically disconnect the servers from the network.

Earlier this year, a large-scale cyberattack hit five municipalities along the west coast of France near the River Loire, crippling their shared computer servers. Staff could not access documents or perform their duties, exposing the urgent need for improved cybersecurity measures to protect local government systems and ensure operational continuity.



Data privacy concerns are also prominent. Smart cities rely heavily on the collection and analysis of vast amounts of data from citizens, infrastructure, and services. While this data is essential for optimising urban operations and improving services, it also raises significant privacy and security concerns.

In a survey by the Ponemon Institute, 63% of consumers said they are worried about how their data is used by smart city technologies⁴. The increase in municipal cyber-attacks has heightened concerns among citizens about the government's technological capabilities and the security of the vast amounts of information it stores.

Improper handling or breaches of this data can lead to identity theft, surveillance abuses, or unauthorised access to sensitive information. Ensuring robust data protection and privacy measures is vital to maintaining public trust in smart city initiatives. Recent data breaches in cities highlight escalating risks in urban environments.

In March this year, France's Employment Agency or France Travail, suffered a breach that potentially exposed the personal data of 43 million individuals. Similarly, in April, the City of Helsinki experienced a major data breach that compromised the personal information of tens of thousands of students, guardians, and school personnel. Hackers exploited vulnerabilities in the city's educational IT systems, which were part of Helsinki's smart city initiatives, exposing sensitive data such as names, addresses, and contact details.

Furthermore, over-reliance on technology can create vulnerabilities if systems fail. The Smart Cities Council's 2023 report highlighted that 35% of smart city initiatives experienced technology failures or disruptions, emphasising the need for robust contingency plans to manage these failures and maintain essential services. Insurers, on the other hand, must consider these factors when developing policies and risk assessments related to smart urbanisation.

Smart cities rely heavily on the collection and analysis of vast amounts of data from citizens, infrastructure, and services.

⁴ <https://www.ponemon.org/focal/fupload/ffile/fConsumer%2520Study%2520on%2520Aftermath%2520of%2520a%2520Breach%2520FINAL%25202.pdf>

Smart Cities

Urban areas are experiencing significant socio-demographic shifts, including population growth, changing demographics, and evolving social dynamics. The United Nations projects that by 2050, about 68% of the global population will live in urban areas, up from 56% in 2020.

This rapid urbanisation places strain on existing infrastructure and services, impacting housing, transportation, and public services. These shifts impact various aspects of urban risk. Rapid population growth, for example, can strain existing infrastructure and services, leading to challenges in housing, transportation, and public services.

Insurers must integrate these increased urban risks into their coverage options and pricing. Advocating for sustainable urban planning and resilient infrastructure is essential, as it helps mitigate potential losses and enhances long-term urban stability.

Changing demographics, such as aging populations and increased diversity, are reshaping urban risks by placing greater demands on healthcare, accessible infrastructure, and social support systems. Aging populations require more medical services and age-friendly environments, while diverse communities may face challenges related to social integration and access to services.



Cities adapting to these changes face rising risks related to overburdened healthcare systems, social unrest, and the need for tailored services. However, addressing these complexities in a diverse and aging urban population requires more nuanced urban planning and insurance solutions.

Additionally, evolving social dynamics, including changes in employment patterns and community structures, affect urban risk. A 2023 McKinsey report reveals that 56% of workers have adopted a hybrid work model, splitting their time between the office and remote locations. This shift is significantly altering urban transportation patterns and impacting economic stability.

With employees spending less time commuting, cities are seeing changes in traffic flow, public transport usage, and even local business dynamics, all of which influence the broader urban economic landscape. As cities adapt to these changes, they must implement flexible strategies to address these socio-demographic shifts. Likewise, insurance products must evolve in response, addressing the new risks that emerge from these changing social dynamics.

Resilience Smart Cities

The evolving urban risks, driven by environmental changes, urbanisation, and shifting societal dynamics, demand a comprehensive and adaptive approach. By incorporating data and statistics into risk assessments, insurers can better understand and address these evolving risks. Enhancing infrastructure resilience, safeguarding against cyber threats, and adapting to changing social dynamics are essential for building urban resilience and ensuring a safer, more sustainable future for city inhabitants.

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CROWDSTRIKE OUTAGE: LESSONS IN CYBER RESILIENCE

As organisations become more dependent on technology to drive their operations, the associated cyber risks have escalated significantly. The recent CrowdStrike outage, which impacted 8.5 million computers running Microsoft Windows to crash, has underscored the vulnerability embedded in our interconnected digital economy. This incident serves as a stark reminder that cyber disruptions, even in the absence of malicious actors, can have far-reaching consequences, including financial losses, reputational damage, and legal liabilities.

The CrowdStrike Outage: An Overview

On July 19, one of the massive IT failures in history occurred due to a faulty software update from CrowdStrike, a leading cybersecurity firm known for its endpoint protection. The update, intended to enhance system performance and security, instead triggered widespread technical issues, including the infamous Blue Screen of Death (BSOD) on numerous devices.

This error screen appears when Windows encounters a critical issue it cannot recover from, leading to severe operational disruptions across businesses, hospitals, and personal computers worldwide. Over 5,000 flights were canceled, surgeries were delayed, and critical services were disrupted. Insurers estimate the financial impact on Fortune 500 companies alone at \$5.4 billion.

A Grey Swan Event

The CrowdStrike outage is a classic example of a "grey swan" event—an incident that, while not entirely predictable, is known to be possible and carries the potential for substantial impact. In this case, the failure of a critical cybersecurity provider's software update, though not anticipated, reveals the fragile nature of our digital systems and their dependence on single vendors.

This IT outage echoes a recent incident involving major websites such as The New York Times, Amazon, and The Guardian. These disruptions were also caused by a bug, this time originating from the cloud computing company Fastly.

The extensive fallout from the outage underscores how interconnected digital systems can amplify the effects of disruptions. When one critical component fails, the ripple effects can be profound, affecting numerous organisations and their operations across various sectors.

This event demonstrated that grey swans, while not easily predicted, can trigger widespread operational, financial, and reputational damage, revealing the complex and often vulnerable nature of modern digital ecosystems.

Key Lessons in Risk Management

The CrowdStrike outage provides key insights for the insurance industry, particularly in the realm of cyber risk management. This incident also highlights key valuable lessons for organisations, emphasising the importance of operational continuity, crisis management, and cyber resilience.

Robust Cyber Resilience Strategies

The financial fallout from the CrowdStrike outage underscores the critical need for robust cyber insurance policies, given the potential for substantial losses from operational disruptions.

Insurers must ensure their policies offer comprehensive coverage that addresses a range of cyber risks, including business interruption, data breaches, and operational disruptions. For organisations, it is crucial for them to regularly review and update policies to keep pace with evolving threats and changing business needs.

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Enhance Business Continuity Planning

The widespread impact of the outage highlights the critical importance of effective business continuity planning, as organizations must be ready for scenarios where critical systems may fail. Insurers should collaborate with clients to develop and refine their business continuity and disaster recovery plans. By providing resources and guidance on best practices, insurers can help clients better prepare for and respond to cyber incidents.



Incident Response Capabilities

The speed and effectiveness of incident response were crucial in mitigating the impact of the CrowdStrike outage, demonstrating that prompt identification and resolution of issues are essential to minimising damage. To support this, insurance policies should be designed to incentivise and aid clients in developing robust incident response plans.

With access to resources like cybersecurity experts and advanced response tools, insurers can significantly enhance their clients' ability to manage and recover from cyber incidents, ensuring a more resilient response to future challenges

Having a well-prepared incident response plan is essential for mitigating the impacts of IT disruptions and cyber attacks, but its true effectiveness is only revealed when tested in real-world scenarios. The CrowdStrike outage offered an opportunity for businesses to evaluate their plans and identify areas for improvement.

This is particularly crucial in establishing clear activation thresholds that decision-makers can use to trigger the plan appropriately. Conducting a thorough risk assessment to review how operations responded to the outage can strengthen a business's preparedness for future incidents.

Crisis Management

To ensure the effectiveness of their response strategies, organisations should implement regular crisis management testing. These tests should simulate various scenarios to uncover and address potential vulnerabilities before they can impact operations.

Systematically identifying weaknesses and refining their frameworks, enable organisations to enhance their resilience and ensure a more effective response when actual crises arise. This proactive approach helps organisations prepare for and mitigate the impacts of future disruptions, ultimately safeguarding their operations and reputation.

Resilient Future

As cyber threats continue to evolve, organisations must prioritise the development of comprehensive insurance policies and effective crisis response plans to safeguard against potential disruptions and ensure resilience in the face of unforeseen cyber incidents. The nature of the CrowdStrike incident as a grey swan event underscores the need for vigilance and preparedness in an increasingly complex and interconnected digital landscape.

Parametric Insurance:

Meeting Modern Risk Demands



In an era of rapidly changing climate conditions and increasing political instability, the insurance industry is confronted with significant challenges. Traditional insurance models are increasingly inadequate to meet the demands of today's risk landscape.

This inadequacy is particularly evident in the widening global coverage gap — where the risks insured fall short of the actual risks faced by businesses and communities. In response, parametric insurance is emerging as a transformative approach, offering innovative solutions to bridge this gap.

Growing Coverage Gap

The frequency and severity of natural disasters have surged, largely due to climate change. The Swiss Re Institute reports that natural catastrophes caused \$280 billion in economic losses in 2023, while global insured losses amounted to \$60 billion in the first half of 2024.

Despite this significant coverage, the protection gap — the difference between insured losses and actual economic damage, remains substantial. Only 38% of the global economic losses in 2023, equating to \$108 billion, were insured. This gap is even more pronounced in developing countries, where foreign aid has become increasingly unreliable due to political volatility in donor states, further

complicating the flow of assistance to areas in need. While it won't replace traditional aid, parametric insurance can provide immediate relief capital as larger aid packages are negotiated. As economies grow and assets concentrate in high-risk areas, this disparity is expected to widen further.

Traditional insurance models, which rely on extensive data collection, loss assessments, and lengthy claims processes, are often ill-suited to address fast-evolving risks such as climate-induced natural disasters, emerging cyber threats, or sudden geopolitical shifts.

These models typically require on-the-ground assessments to verify claims, which often lead to delays in payouts and higher administrative costs. Moreover, in regions where insurance penetration is low, the lack of immediate financial relief can exacerbate the impacts of disasters, hindering recovery efforts.

Natural catastrophes caused \$280 billion in economic losses in 2023, while global insured losses amounted to \$60 billion in the first half of 2024.

Game-Changer in Risk Management

Parametric insurance represents a significant departure from traditional models. Unlike conventional insurance, which compensates based on the assessed loss, parametric insurance provides a pre-agreed payout upon the occurrence of a specific trigger event. These triggers are often quantifiable and measurable parameters, such as wind speed, rainfall levels, or earthquake magnitude.

By eliminating the need for a claims adjustment process, parametric insurance can provide quicker, more efficient payouts, significantly reducing the time it takes for policyholders to receive relief.

For example, consider a parametric insurance policy designed for flood risks. Payouts are triggered based on specific river water levels or rainfall amounts. This allows for quick financial support to those affected by floods, helping to cover immediate needs and facilitate recovery.

This model offers several key advantages:

Speed of Payouts

Parametric insurance provides near-instant payouts, a crucial benefit in the aftermath of a disaster when immediate financial resources are needed to kickstart recovery.





Tailored Triggers

This type of insurance allows risk managers to design tailored triggers that match their clients' specific needs, providing enhanced protection and flexibility.

Transparency

Since the payout is based on predefined triggers, there is no ambiguity or room for dispute. Policyholders know exactly what to expect, and insurers can avoid protracted claims disputes.

Cost Efficiency

Without the need for loss adjusters and extensive assessments, parametric insurance can reduce administrative costs, making it a more cost-effective option for both insurers and policyholders.

Scalability

Parametric insurance can be applied across various risks and regions, particularly where traditional insurance is unavailable or too expensive. This makes it an attractive option for developing countries and regions vulnerable to climate change.

Addressing Global Coverage Gap

One of the most significant challenges facing the global insurance industry is the coverage gap, particularly climate change. As extreme weather events become more frequent and severe, the financial impact of these events is growing, yet many regions remain underinsured or uninsured.

Parametric insurance is uniquely positioned to address this gap. Because it relies on measurable data rather than subjective loss assessments, it can be deployed in regions where traditional insurance has struggled to gain a foothold.

In the Caribbean, where hurricanes are a persistent threat, parametric insurance provides governments with rapid-access funds for disaster response. The Caribbean Catastrophe Risk Insurance Facility (CCRIF) exemplifies this approach, offering parametric policies that deliver immediate financial liquidity following a catastrophic event.

The effectiveness of parametric coverage was demonstrated in July when Hurricane Beryl hit the Caribbean. The CCRIF made record payouts under its parametric policies, including a \$42 million payment to Grenada.

The clear, predefined triggers of these policies enabled CCRIF to process payments within just 14 days of the event, providing crucial support when it was needed most.

The transparent and predictable nature of parametric triggers appeals to both capacity providers and cedents, as it reduces uncertainty and may encourage providers to extend coverage to additional risks and regions.

AM Best reports that in the first half of 2024, six natural disaster bonds with parametric triggers were issued, accounting for approximately 7% of the total issuance volume, an increase from 6.2% during the same period in 2023.

Furthermore, parametric insurance can help mitigate the financial risks associated with climate change by offering coverage for new and emerging risks. For example, policies can be structured to cover extreme temperature variations, sea-level rise, or even the risk of drought. Utilising data platforms and advanced technologies to monitor risks in real time, parametric insurance delivers precision and responsiveness that traditional models cannot match.

Role of Data and Technology

At the heart of parametric insurance is data; specifically, the ability to collect, process, and analyse large volumes of data in real time. Technological advancements, particularly in satellite imagery, IoT sensors, and machine learning, have made it possible to monitor and measure environmental conditions with unprecedented accuracy.

For instance, IoT devices can be deployed to monitor weather conditions, soil moisture levels, or seismic activity. This data is then fed into algorithms that trigger a parametric policy when certain thresholds are met. Satellite imagery, on the other hand, can provide real-time monitoring of large geographical areas, enabling insurers to assess risks and verify triggers remotely.

These technological advancements have also made parametric insurance more accessible. Insurtech companies are developing platforms that allow insurers to offer parametric policies to a broader range of customers, including small businesses and individuals.

Blink Parametric, a pioneering provider of parametric insurance solutions, has partnered with several travel insurance specialists to offer a new app-based travel assistance bundle such as automatic Flight Delay benefits for delays over three hours, with options for access to executive lounges or cash payouts.



Additionally, the Blink Lost Luggage solution provides immediate payment for confirmed luggage delays. Both benefits are data-driven and fully automated, enhancing customer experience.

The Future of Parametric Insurance

As the insurance industry confronts the growing challenges of climate change and global expansion, parametric insurance is poised to become increasingly vital. With the global coverage gap widening and traditional models lagging behind the evolving risk landscape, parametric insurance presents a compelling solution. By closing the coverage gap and providing swift, reliable payouts, parametric insurance is revolutionising our approach to managing and understanding risk.

GenAI

GENESIS OF THE
ALGORITHMIC ECONOMY



The insurance industry is rapidly transforming under the influence of the Algorithmic Economy. This shift is fuelled by the convergence of data science, machine learning, and more recently, Generative Artificial Intelligence (GenAI).

In an Algorithmic Economy, algorithms driven by data and AI form the backbone of decision-making, business operations, and value creation within the economic system. For industries like insurance, this transformation reshapes risk assessment, policy pricing, and claims management, creating a more efficient and responsive sector.

A Deloitte survey revealed that 85% of insurance companies are investing in AI technologies, with 65% focusing on GenAI to enhance their operational capabilities. This shift underscores the growing recognition of algorithms as a key driver of efficiency and innovation within the industry.

Path to the Algorithmic Economy

The journey to the Algorithmic Economy began with the advent of big data and the increasing ability to process and analyse vast amounts of information. Early applications of algorithms in insurance focused on risk assessment and underwriting, using statistical models to predict outcomes based on historical data. Over time, these algorithms became more sophisticated, incorporating machine learning techniques that enabled systems to learn and adapt without explicit programming.

According to Deloitte's 2024 global insurance outlook, the industry is now at a point where customer-centric, data-driven strategies are paramount for growth and sustainability. GenAI represents the next stage in this evolution.



85% of insurance companies are investing in AI technologies, with 65% focusing on GenAI to enhance their operational capabilities.

Unlike traditional AI, which relies heavily on structured data and predefined rules, GenAI can generate new data, models, and insights from vast amounts of unstructured information. This capability is a game-changer for insurers, enabling them to create more personalised products, enhance customer engagement, and improve operational efficiencies.

Practical Applications of GenAI

GenAI's potential in the insurance industry is vast, and we are already seeing practical applications that are revolutionising traditional processes.

GenAI models are enhancing automated underwriting by generating highly accurate risk profiles. By utilising advanced algorithms and machine learning techniques, GenAI can analyse intricate datasets—including historical claims, customer profiles, and diverse unstructured data sources like social media, customer reviews, and satellite imagery; to detect patterns and trends with the precision that surpasses traditional models. This not only speeds up the underwriting process but also allows for more personalised pricing strategies.

One of the most significant challenges in insurance is the time-consuming claims handling. GenAI is streamlining this process by automating the initial claims

assessment. For example, AI-powered chatbots can collect necessary information from claimants, while GenAI algorithms analyse the data to determine claim and the appropriate payout. This cuts processing time from weeks to hours, significantly boosting customer satisfaction and reducing operational expenses.

Insurance fraud represents a multi-billion-dollar challenge for the industry, with traditional detection methods often proving to be reactive, inefficient, and limited in scope. These conventional approaches typically rely on historical data and manual reviews, which can result in delayed responses and incomplete detection of fraudulent activities.



In contrast, GenAI significantly enhances fraud detection by leveraging its advanced capabilities to analyse vast amounts of data in real-time. Unlike traditional methods, GenAI is not restricted to pre-defined rules or static patterns. Instead, it employs sophisticated machine learning algorithms to identify subtle and complex patterns and anomalies that might otherwise go unnoticed.

GenAI can analyse a diverse range of data sources including historical claims, social media activities, transaction records, and even unstructured data such as customer reviews and email communications.

Integrating these varied data streams allows GenAI to uncover hidden correlations and irregularities that traditional systems might miss. This enhanced capability enables insurers to detect potential fraud more efficiently, reduce false positives, and minimise financial losses associated with fraudulent claims.

In today's digital age, personalised customer engagement is crucial for retaining clients. GenAI can analyse extensive customer data, including past interactions, preferences, and behaviour patterns, to generate highly personalised policy recommendations.

For instance, if a customer frequently engages with content related to health and wellness, GenAI can suggest health insurance policies that align with their specific needs and preferences. This tailored approach ensures that customers receive offers that are most relevant to them, increasing the likelihood of conversion and satisfaction.

Beyond policy recommendations, GenAI can provide bespoke risk management advice based on individual customer profiles. By examining data such as lifestyle choices, geographic location, and previous claims, GenAI can offer personalised tips to mitigate risks. For example, a customer living in a flood-prone area might receive tailored advice on home safety measures and flood insurance options, helping them better manage their risks.

The Future of GenAI

The future of GenAI in the insurance industry will be marked by its growing influence, particularly in hyper-personalisation and predictive analytics. Insurers will leverage GenAI to create dynamic, personalised policies that adapt to individual risk profiles and life changes in real-time. Additionally, GenAI will enhance predictive analytics, enabling insurers to anticipate and respond to emerging risks like climate change and cyber threats.

Our Kuala Lumpur Office Has Relocated

to a new office space,
effective August 1, 2024



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Annie Undikai

Congratulations to Annie Undikai
for being named one of Captive International's
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