

Managing through global uncertainty

Insights from Marsh McLennan Hong Kong Week 2022

Marsh McLennan Hong Kong Week

This event brings together stakeholders from Hong Kong to discuss issues across risk, strategy, and people during a week of senior leader roundtables and insight sessions. Our inaugural event helped clients think of ways to navigate current challenges and set the agenda for 2023, capturing the latest thinking from our four businesses.

Senior leadership roundtable

Our Senior Leadership Roundtable launches Marsh McLennan Hong Kong Week. We bring together senior leaders from various sectors to discuss shared concerns and challenges for a dialogue hosted by senior leaders from Marsh, Mercer, Guy Carpenter, and Oliver Wyman. From workforce change, cybersecurity threats, and climate disruption, to inflation, and recession risks, the roundtable offers an opportunity to hear from peers.

Hong Kong Week insight sessions

Marsh, Mercer, Guy Carpenter, and Oliver Wyman host a series of insight sessions, from in-person events to webinars, exploring critical issues, including how businesses can prepare for cyberattacks; why it is imperative for businesses to listen to their workforces to remain competitive; how insurance-linked securities are growing in popularity; and how to navigate inflation and economic risks.

Senior leadership roundtable

Growth amid high market volatility top of mind for businesses in Hong Kong

Speakers

Vicki Fan

Chief Corporate Officer, Marsh McLennan Hong Kong, CEO, Mercer Hong Kong

Rohan Bhappu

CEO, Marsh Hong Kong

Peter Reynolds

Partner, Head of Greater China, Oliver Wyman

Henry To

Chairman, Guy Carpenter Hong Kong

Businesses are facing difficult times, their challenges exacerbated by the war in Ukraine that has intensified the divide between countries such as China and Russia in one faction, and many in the West on the other. The pandemic has already adversely impacted the functioning of seamless supply chains that had not only spelt success for many multinational houses but also boosted the global value chain.

But all of this seems uncertain at the moment. How can businesses, particularly those active in Asia, prepare for an uncertain future and plan their next move? At the senior leadership roundtable which was held as part of the **Marsh McLennan Hong Kong Week**, some key observations emerged in a discussion with key executives from banks, insurers, regulators, and conglomerates in Hong Kong.

Talent management is top of the agenda, according to most leaders. The Great Resignation has had an indelible impact

on how people choose to work. Hong Kong has always struggled with emigration, coupled with highest burnout rates in the region. Workers in Hong Kong are increasingly preferring to work with employers that offer hybrid or remote work options, complicating matters further.

Securing risks with insurance coverage, particularly credit and political risks, is becoming difficult in the face of evolving geopolitical tensions and high inflation. This is something the insurance industry needs to work on using emerging technologies such as risk prediction and data modelling to ensure correct pricing.

Mobility will be critical in ensuring the success of the Guangdong-Hong Kong-Macao Greater Bay Area — which will soon be one of the world's most important business hubs — after the pandemic. Business leaders in Hong Kong are considering ways in which they can benefit from the evolution of the megalopolis.

Insurance-linked securities: Fundamentals and market trends

Speaker

Hussain Ahmad

Head of Structured Solutions & Capital Advisory,
Asia Pacific, Guy Carpenter

Risks have heightened globally. Growing uncertainties emanating from geopolitical tensions, the health crisis, macroeconomic headwinds, and climate change impacts have made it difficult for businesses and governments to invest in growth. It is therefore critical to ensure emerging risks are understood and managed well.

Insurance-linked securities (ILS) have emerged as a viable option for alternative capital in the insurance industry. They allow insurers to transfer (re)insurance risks to capital markets or investors that are willing to share risk. They also allow investors to earn risk premiums, while ensuring that risks are covered.

Investors from North America comprise about half of all investors investing in ILS, while 40% are in Europe. Catastrophe bonds (cat bonds) are emerging as the most preferred instrument among investors. This will certainly drive the investment focus in covering risks that were previously overlooked.

In Asia, markets such as Singapore and Hong Kong have introduced grant schemes to attract investors, insurers, and reinsurers

in developing the cat bonds market. This has attracted the interest of market players and there have been several issuances of Asia-based cat bonds in Singapore and Hong Kong.

ILS returns have increased significantly, and we anticipate an inflow of new capital to take advantage of this. However, the current macroeconomic headwinds have delayed that process.

To ensure progress in the continuing emergence of ILS as a strong candidate for alternative capital, investor education is required to grow interest in ILS investment opportunities, while significant data modelling is necessary to analyze protection gaps and the use of ILS to cover those underlying risks.

Catastrophe bonds are viewed favorably in the market because they provide post-disaster funding relief for national and community catastrophe events.

Hussain Ahmad

People risk: The future of work in Hong Kong

Speakers

Richard Roper

Health and Benefits Business Leader,
Mercer Hong Kong

Jacky Lam

Senior Talent Strategy Consultant,
Mercer Hong Kong

The pandemic has brought about several disruptions, especially for businesses that had to respond quickly to frequently changing rules around social distancing and uncertainty around the future of the workspace. The old models of work are being redefined in the present context, and the pandemic has driven most employees to rethink their priorities on what they want from work, life, and their organizations.

The business and people agenda have never been more intertwined. Senior HR professionals are making crucial design changes to their HR functions — the push to remote and hybrid working has provided flexibility to employees, but has certainly put added stress on employees as well. Eight of ten employees feel at risk of burnout this year, for instance.

Employees are increasingly choosing to not work with companies but to work with who they see as partners. Organizations, on their part, are acknowledging this and

implementing better ways to interact with their employees' needs — with better payouts and benefits.

In the meantime, chief executives have intensified their focus on employee reskilling, while HR is redesigning talent processes around skills. Employee benefits, competitive payouts, and flexible working arrangements are emerging as top reasons for employees to remain at a company.

Organizations can deliver on total employee well-being by developing programs that are sustainable, ensuring they span physical, mental, social, and financial well-being. Businesses should also drive healthy habits through a robust workplace culture and regular communication.

The old model of work, working and the workplace is no longer fit for purpose.

Richard Roper

Marsh insight session

Continuing your cyber risk management journey

Speakers

Alex Rosati

Senior Vice President, Head of Claims Solutions, Marsh Specialty, Asia

Rory Young

Vice President, Cyber Practice Leader, Marsh, Hong Kong and Macau

Grace Ibadlit

Senior Consultant, Cyber Risk Consulting, Marsh, Philippines

Cyber risk is a growing concern for businesses and governments. The risk of a cyberattack on critical infrastructure is no more a fantasy out of films, but a reality. There has been an uptick in the frequency and severity of cyber insurance claims, mainly emerging from ransomware and DDoS attacks. Growing geopolitical tensions and differences between states have resulted in an increase in state-sponsored cyber incidents.

Given this backdrop, businesses need to ask some crucial questions such as how can they build cyber resilience? Who are the right advisors to trust? What insurance do they need and what degree of coverage?

Regulators in the Asia-Pacific region are increasingly revamping their regulatory structures to accommodate cyber security as a growing risk that needs to be managed. Concerted efforts are required by both public and private players to mitigate and contend with rising cyber risks.

Asia is increasingly falling in the crosshairs of cyberattacks. This begs the question about whether businesses in Asia are prepared for large

cyber incidents. They can be better prepared by educating themselves and building awareness around cyber hygiene. This is of critical importance given the many instances of data breaches and theft in companies in the region over the past two years.

Businesses need to urgently assess their cyber risk posture and identify gaps. Consultations with cyber risk partners and the development of cyber strongholds will help cement the future-preparedness of Asian businesses. Marsh has launched the Cyber Self-Assessment, a new cybersecurity risk tool that enables organizations to identify and evaluate the cyber risk scenarios, and is free for all organizations. For more information, please visit our [website](#).

Nothing is fool proof in this world. The moment we create technology, there is someone working somewhere very diligently to crack that particular technology.

Alex Rosati

Managing through uncertainty: Higher interest rates are here, is global recession next?

Speakers

Ben Simpfendorfer

Partner, Oliver Wyman Forum

Louisa Li

Partner, Insurance, Oliver Wyman

Jasper Yip

Partner, Financial Services, Oliver Wyman

Imke Wouters

Partner, Retail and Consumer Goods,
Oliver Wyman

Amid the macroeconomic headwinds, Hong Kong finds itself in a rather unique situation — the city is experiencing higher interest rates, even as inflation rates remain low. The increase in the real interest rate is making it difficult for Hong Kong's businesses to pass on higher costs, greatly putting their growth prospects at risk.

What should businesses in financial services, retail, consumer products, insurance, and other industries be doing?

The insurance sector will need to brace for a bitter-sweet phase. An inflationary environment will result in rising claims and reinsurance costs. This will give rise to policyholders being at risk of being underinsured. Insurers can use certain levers to maximize this opportunity. They can start by evaluating potential targets that are more exposed to risks. They can utilize data and analytics to improve underwriting efficiency and develop better costs and pricing.

Meanwhile, banks should look at certain levers that can lead to savings of 5%-25% of addressable costs. This could be either by scaling back underperforming business units or regions, or

by completely exiting the region. Banks should also explore further centralization of their business units, while consolidating their data centers and simplifying their IT run costs.

Consumers from mainland China remain critical to Hong Kong retailers, although borders are yet to open completely. There is a dive in consumer confidence, resulting in a slowdown in retail spending. But our research shows that consumers from the mainland remain positive in the long term, and Hong Kong remains their top destination for traveling and shopping among other overseas markets.

Companies can use today's economic challenges to improve their efficiency and resilience. Now is not the time to stand still.

Ben Simpfendorfer

A vertical photograph of a city skyline at night, likely Hong Kong, with numerous illuminated skyscrapers and buildings. The lights are warm and yellow, contrasting with the dark night sky. The image is positioned on the left side of the page, partially overlapping the title.

Future thoughts

The immediate future remains uncertain, but there are ways to navigate it, and businesses in Hong Kong need to act. Hong Kong is faced with an unusual scenario of low inflation and high interest rates, making it difficult for businesses to plan strategies for the future. What is certain is that pressures emerging from cyber risks, geopolitical tensions, and climate change will continue to impact businesses.

At such times, increased efforts will need to be put towards building resilience. New age insurance products will need to include a combination of risk modeling and better pricing, and manageable costs to attract investors and fulfill the risk needs of changing market dynamics.

Employee well-being needs to cater to every aspect of employee life — including physical, social, mental, and financial needs. In this context, well-being programs need to ensure that benefits are fit-for-purpose in future-ready organizations.

For businesses to survive in the market, cyber risk resiliency is imperative. Businesses will be increasingly exposed to cyber incidents. Educating and building awareness among employees is the first shield of defense that businesses can invest in, even as they develop their strategies around cyber robustness.

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