

Emerging Risks

This document contains the a.s.r. emerging risks for 2023 which are derived from the outcome of the strategic risk analysis 2023. The full outcome of the strategic risk analysis 2023 will be published in the Annual Report 2023.

Emerging risk - Changes in society

Changes in society are intensifying, the long-term consequences are inherently uncertain and potentially large.

Society in the Netherlands has become more fragmented, polarised, and individualised. Social dynamics of the changing welfare state (social system) also play a role. These circumstances divide society in people who can adapt to these changes and those who can't adapt. Causes include:

- demographic developments including urbanisation, ageing, more singles and single-parent families and an increase in immigration. Moreover, inequality can be triggered by government intervention;
- financial developments including increasing disparities between rich and poor resulting in greater political uncertainty, i.e. populism. An increase in financial risks could fuel social tensions;
- social developments including increasing differences between the theoretically educated and the more practically educated and changes in livelihood security through contract forms and jobs. In addition, conspiracy thinking and anti-government thinking are on the rise;
- technological developments including automation, digitisation, big data (including artificial intelligence and machine learning), Internet of Things (IoT), new forms of mobility such as (shared) electric cars and 'pay for use' propositions.

The role insurers have in society is changing as these new developments impact the way an insurer invests, markets its products, and delivers its services. Supporting processes and technology also need adaptation to align with new demands, as well as implementing data-driven requirements needed by customers and regulators in light of this changing society. The course of developments and the (long-term) consequences on society, the economy and a.s.r. are inherently uncertain and potentially large.

Potential impact a.s.r.

Key risks for a.s.r. with a potentially high impact are:

- the risk that investments, products and services do not meet changing customer, investor, employee and societal needs in a timely manner;
- the risk of not responding in a timely manner to technological developments, ranging from adaptations of the operational and distribution model to adopting new (IT) solutions;
- the risk that financial institutions focus on markets with the highest margins and lowest barrier to entry, leading to differentiation. The core principle of insurance is no longer feasible as solidarity is declining. Moreover, insurers are contributing to the polarisation.

a.s.r. is most affected by financial developments from a disposable income perspective. a.s.r. Mortgages, Disability, Real Estate, Asset Management and Health are most affected by social and/or demographic developments. Related developments in this context are funding for other forms of housing for Mortgages and Real Estate, a change in the investment portfolio of Asset Management and a portfolio change for Disability and Health straining higher pricing and lower results. Property and Casualty (P&C) and Distribution & Services (D&S) are most affected by technological developments with potential impact on higher claims and insurability for customers.

Mitigating measures and actions

a.s.r. monitors and assesses relevant developments for possible risks and implements appropriate control measures. In doing so, a.s.r. periodically monitors the progress of claims and determines what impact a.s.r. has on the changing society through its investments, products and services. To identify developments and anticipate them in a timely manner, business units of a.s.r. have formulated responsibilities in governance and participate in various (Alliance) collaborations.

Measures taken by a.s.r. are the continuous improvement of processes, systems, products, services - including insurability and insurance rate - and data quality for data-driven applications as well as implementing technological developments including learning to use algorithms and understanding their capabilities and potential risks.

Emerging risk - New pandemics

Future pandemics are inevitable, the long-term consequences are inherently uncertain and potentially large.

The impact of the corona pandemic on a.s.r.'s strategic objectives, operational processes and financial performance has proved to be limited. The course of a pandemic and the (long-term) consequences on society, the economy and a.s.r. are inherently uncertain and potentially large.

There is a risk that society will face new impactful global infectious diseases in the future. Possible causes include population growth, changes in food systems, environmental degradation and increasingly frequent contact between humans and disease-carrying animals. The course of a disease and government measures can affect a.s.r.'s strategic objectives and operational processes. The potential impact on financial markets may affect a.s.r.'s financial performance.

Potential impact a.s.r.

Key risks for a.s.r. with a potentially high impact are:

- the risk of a high number of infections, absenteeism notifications, disability notifications, patient admissions to hospital or deaths;
- the risk of incorrect premium setting; delayed, stripped down or extra care; inability to meet duty of care;
- the risk that models are no longer valid and/or that healthcare providers experience financial or operational problems;
- the risk that part of the workforce will drop out over a protracted period of time and/or growth and profitability targets cannot be (fully) realized.

a.s.r. Disability, Health, Life & Funeral are most affected by potentially more and/or higher than anticipated claims. Property and Casualty (P&C), Corins and Distribution & Services (D&S) can be affected as well.

Mitigating measures and actions

a.s.r. monitors and assesses relevant developments for possible risks and implements appropriate control measures.

Key control measures in place at a.s.r. to mitigate risks are:

- a.s.r. has developed policies and procedures, measures and steering information to manage the impact of the corona crisis and is closely monitoring the development of the current pandemic. These resources and the lessons learned from the corona crisis at a.s.r. provide input for managing the impact of any new pandemic. A central crisis organisation has been set up within a.s.r. which will be activated when necessary;
- a.s.r. contributes to the government's approach by following basic measures to prevent any spreading of pandemics. In a broader sense, strategic developments such as continuously strengthening the physical and mental fitness of employees and encouraging exercise and a healthy lifestyle among customers/employees (a.s.r. Vitality) contribute to increasing the resilience of a.s.r. and its environment;
- the pandemic event is reflected in the Solvency SCR for Catastrophe risk;
- potentially more and/or higher than anticipated claims can be mitigated by - if possible - increasing premiums and/or changing the insurance policies or products.

Emerging risk - Quantum computing

Quantum computing is at an experimental stage, the long-term consequences are inherently uncertain and potentially large.

Quantum computing is changing the way scenario analyses and cryptographic encryption, among other things, work. Parts of the cybersecurity/information security of a.s.r. rely on cryptographic encryption of data and passwords.

The General Intelligence and Security Service (Algemene Inlichtingen- en Veiligheidsdienst; AIVD) released a handbook on 4 April 2023 that supports organisations with concrete steps and advice to mitigate the threat of quantum computing to cryptography. At which moment quantum computing will pose a threat to currently used cryptography, is unpredictable. The AIVD warns that regardless of this uncertainty, organisations will still need to work on solutions now because of the risk posed by quantum computing. In this context the AIVD proposes advice to organisations processing data that should remain confidential even as long as 20 years from now, and specifically mentions insurers. In addition, the AIVD indicates that the most promising solution is so-called post-quantum cryptography (PQC). PQC are algorithms that are also secure against quantum attackers.

Potential impact a.s.r.

Key risks for a.s.r. with a potentially high impact are:

- a.s.r. can simulate calculations for (non-)financial models thanks to this technology. This makes it possible to discover optimal scenarios in a (cost-)efficient way, including in the context of improving products and services;
- the risk of (confidential) information becoming available to unauthorised persons and/or the continuity of (automated) data processing being disrupted, resulting in non-compliance with legislation and regulations, financial loss and/or reputational damage.

Quantum computing risk applies to all business lines of a.s.r.

Mitigating measures and actions

a.s.r. monitors developments and is making preparations where possible.

α.s.r.

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