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INSIDER QUARTERLY

WINTER 2019 ISSUE 72

BLUEPRINT FOR SUCCESS?

LLOYD'S AMBITIOUS REBUILDING PLANS REVIEWED

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RING THE CHANGES

Despite this being the Winter issue of *Insider Quarterly* it feels altogether too early to be striking a Christmas, let alone a New Year, note.

However, while the bells won't be ringing out for Christmas Day any time soon, the pending conclusion of another year in the (re)insurance sector will herald a ringing of the changes in some quarters.

The biggest of these, for participants at Lloyd's of London, is undoubtedly the announcement of John Neal's Blueprint One plan for the market.

In outline at least, the proposals for Lloyd's promise to be as transformative for the market as the now-legendary Reconstruction and Renewal plan of the mid-1990s, implemented by then chairman Sir David Rowland and CEO Peter Middleton.

Having addressed the thorny issue of unprofitable underwriting, via performance management director Jon Hancock's brutal cull of Decile 10 business last year, Lloyd's has turned its sights in 2019 on one of the other major criticisms of the market – the excessively high cost of conducting business.

Starting next year, Neal and Co are aiming to bring the expense ratio of Lloyd's syndicates below the average of nearly 40 percent to nearer 30 percent – with a longer-term goal of 25 percent.

While as Christmas presents these are more akin to receiving a sensible jumper, or perhaps an exercise bike, they are likely to be the cause of New Year celebrations for many.

Business plan submissions for 2020 indicate that many syndicates are aiming to expand the volume of business they write next year. And the Lloyd's syndicate in a box initiative has had more applicants than a Boxing Day queue for the Harrods sale.

However, Lloyd's, the London (re)insurance market and the global industry have more to do next year than just promising to be leaner, fitter and more goal-oriented.

Let's not forget the gender pay gap. The continuing lack of diversity. The bullying, sexual and racial discrimination, and sexual assault. The persistent and excessive lunchtime drinking culture.

As at least one commentator has noted within these pages, while well-established and laudable diversity and inclusion initiatives have been underway in the market for some time, there is an extent to which many companies and individuals are simply paying lip service to the ideals expressed and doing little in reality to effect real change.

It is hoped that the run of high-profile stories about shocking behaviour in the industry in recent months will shame more senior executives into reforming the cultures over which they preside.

And then there is climate change. A constant topic of international news, the subject of widespread protest and now frantic electioneering, the issue is now very much on the (re)insurance industry's agenda.

It's not simply the hefty losses on carriers' balance sheets this year stemming from natural catastrophes which appear to be linked to climate change. It is also the subject of robust debate about how to model, price and mitigate against the insurable losses that result from such events.

2020 might not be the year when all your wishes come true – but it promises to be an interesting one for this industry!

GAVIN BRADSHAW
Editor, *Insider Quarterly*

CONTENTS

PUBLISHING Insider

EDITOR-IN-CHIEF
Adam McNestrie adam@insuranceinsider.com

IQ/FEATURES EDITOR
Gavin Bradshaw gavin.bradshaw@insuranceinsider.com

ACTING MANAGING EDITOR
Catrin Shi catrin.shi@insuranceinsider.com

EDITOR
Laura Board laura.board@insuranceinsider.com

DIRECTOR OF RESEARCH/HEAD OF AMERICAS
Gavin Davis gavin.davis@insuranceinsider.com

ASSOCIATE EDITOR
Christie Smythe christie.smythe@insuranceinsider.com

SENIOR REPORTERS
Fiona Robertson fiona@insuranceinsider.com
Rachel Dalton rachel.dalton@insuranceinsider.com
Lucy Jones lucy.jones@insuranceinsider.com
Bernard Goyder bernard.goyder@insuranceinsider.com
John Hewitt Jones john.hewittjones@insuranceinsider.com

REPORTERS
Sofia Geraghty sofia.geraghty@insuranceinsider.com
Anna Sagar anna.sagar@insuranceinsider.com
Samuel Casey sam.casey@insuranceinsider.com

COMMERCIAL DIRECTOR
Sajeeda Merali sajeeda.merali@insuranceinsider.com

HEAD OF MARKETING SERVICES
Benjamin Bracken ben.bracken@insuranceinsider.com

HEAD OF STRATEGIC PARTNERSHIPS
Oliver Nevill oliver.nevill@insuranceinsider.com

SENIOR BUSINESS DEVELOPMENT MANAGER
Baker Jaggwe baker.jaggwe@insuranceinsider.com

HEAD OF MARKETING & ANALYTICS
Lynette Stewart lynette.stewart@insuranceinsider.com

BRAND MARKETING & ANALYTICS MANAGER
Aimee Fuller aimee@insuranceinsider.com

SUBSCRIPTIONS DIRECTOR
Tom Fletcher tom.fletcher@insuranceinsider.com

PARTNERSHIPS MANAGER
Joel Lagan joel.lagan@insuranceinsider.com

SENIOR ACCOUNT MANAGER
Georgia Macnamara
georgia.macnamara@insuranceinsider.com

SUBSCRIPTIONS ACCOUNT MANAGER
Luis Ciriaco luis.ciriaco@insuranceinsider.com

STRATEGIC ACCOUNT MANAGER
Tom Lovell thomas.lovell@insuranceinsider.com

ACCOUNT EXECUTIVE
Manuel Ortega manny.ortega@insuranceinsider.com

SUBSCRIPTION SALES SUPPORT
Paul Mansfield paul.mansfield@insuranceinsider.com

EVENTS OPERATIONS MANAGER
Holly Dudden holly.dudden@insuranceinsider.com

CONFERENCE PRODUCTION MANAGER
Matthew Sime matthew.sime@insuranceinsider.com

PRODUCTION EDITOR
Ewan Harwood ewan@insuranceinsider.com

SUB-EDITOR
Steve Godson steve.godson@insuranceinsider.com

JUNIOR SUB-EDITOR
Simeon Pickup simeon.pickup@insuranceinsider.com

SENIOR DESIGNER
Mike Orodan mike.orodan@insuranceinsider.com

Level 1, 29 Ludgate Hill, London, EC4M 7NX, UK
Tel main: +44 (0)20 7397 0615
Editorial: +44 (0)20 7397 0618
Subscriptions: +44 (0)20 7397 0619
Annual subscription to *The Insurance Insider* – £2,995 + VAT/ $4,695
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BLUEPRINT FOR SUCCESS?

Helen Yates reviews the key components of the Blueprint One initiative and considers whether Lloyd's is showing true leadership for the wider (re)insurance markets

After months of consultation, Lloyd's launched its first blueprint document on 30 September to great fanfare, setting out six ideas of how the market needs to change in order to remain relevant in the future.

The so-called Blueprint One plan squares up to the challenges the market has faced for some time but has failed to address, and offers a detailed roadmap for how the changes will be delivered within an ambitious timeframe.

The initial response from the market was enthusiastic, albeit with a recognition that what lies ahead will not be an easy process. Having failed on execution in the past, there is also a realisation from the Corporation that it will be impossible to please all of the people all of the time, and that some elements of the market's future-proofing may need to be mandated.

Two months on from the blueprint's publication, *Insider Quarterly* tested the waters to see how the market now feels about the need for some quick wins on the technology front, the impact of a risk exchange on wholesale brokers and whether the models predicated in the syndicate in a box (SIAB) and lead/follow proposals are considered workable by managing agents.

Efficiency and cost

The high cost of operating within Lloyd's has long been an issue for the market, and one that increasingly threatens its ability to compete on a global stage.

Lloyd's five-year weighted average expense ratio is 7.7 points higher than that of the European "Big Four" reinsurers and 6.7 points higher than that of US and Bermudian reinsurers, according to figures from AM Best.

The rating agency cites inefficiencies, the length of the distribution chain and growing acquisition costs as key drivers of the market's excessive expense.

At the heart of the 'Future at Lloyd's' strategy is a bid to improve efficiency and bring down the cost of placing business in the market.

CEO John Neal has the ambitious target of reducing the market's current expense ratio of 39.2 percent to 30 percent by 2025, bringing it into line with other leading global carriers.

By fully leveraging digitisation and automation while simplifying processes, he believes Lloyd's could ultimately bring the expense ratio down even further, to 25 percent.

"The high cost of operating within Lloyd's has long been an issue for the market, and one that increasingly threatens its ability to compete on a global stage"

The market reaction to the efficiency drive laid out under the blueprint has been widely positive. The overhead of administering the whole process end to end needs to be addressed as a matter of urgency, according to Ian Fantozzi, chief operating officer at Beazley.

"The number of times an insured's data is keyed, rekeyed, scanned and moved about the market creates inefficiencies that must be addressed," he says.

"The simplification of how we settle premium and claims payments is where the most potential lies," agrees Christopher Croft, chief executive of the London & International Insurance Brokers' Association (Liiba).

"The current process relies on brokers doing far more on behalf of carriers than we do in any other market. It is a significant disincentive to bringing business here."

For some, these measures cannot come quickly enough. In November, Hamilton, Pioneer and Vibe announced they were placing syndicates into run-off, three relatively new entrants to have made such a decision in recent months.

Syndicate 1980 was launched as recently as 1 January 2018, with Asta as its managing agent, and Vibe Syndicate began underwriting on 1 July 2014. Acappella started life as Special Purpose Syndicate 6110 in 2012.

All have cited high operating costs as reasons behind the exits, with Pioneer stating that the syndicate structure was no longer "economically efficient compared with its other capital arrangements". Hamilton took on Acappella as part of its acquisition of Pembroke Managing Agency, with group CEO Pina Albo concluding that the syndicate was "unlikely to produce an adequate return on capital".

Big box, little box

Through its SIAB framework, Blueprint One aims to tackle the prohibitive set-up and operating costs and encourage new, innovative business to come into the market. Munich Re was first to announce it would launch the first SIAB, called the Munich Re Innovation Syndicate, to underwrite a range of business including renewable energy and parametric weather risks.

As reported in sister publication *The Insurance Insider*, Lloyd's has since received around 40 other applications.

Asta chief operating officer Lorraine Harfitt welcomes the market's efforts to make it less expensive for new entrants and

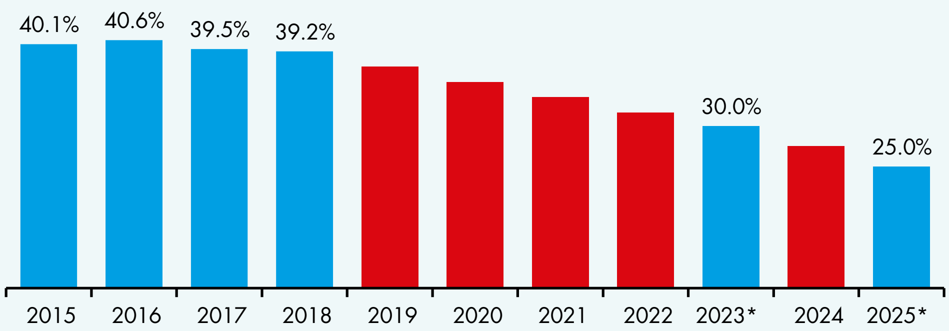
Continued on page **08**

Global reinsurance expense ratios (%)

	Five-year average	2013	2014	2015	2016	2017	2018
Global reinsurance market	34	31.9	33.5	34.2	34.7	33.6	34
Lloyd's	39.7	38.2	39.1	39.1	40.6	39.5	39.2
US and Bermuda market	33	31.3	33.6	33.6	33.5	31.7	33
European big four market	32	29.1	30.7	30.7	32.8	32.2	32.4

Source: AM Best data and research

Lloyd's projected expense ratio



Source: Lloyd's, *The Insurance Insider*
*Target expense ratio. 2019-2025 timeline for illustrative purposes only

identifies SIAB as one of the blueprint's most critical strategies.

"The syndicate-in-a-box initiative has created unprecedented interest in Lloyd's as an operating environment, and we're already worked on bring some exciting new entrants to the market," she says.

"Clearly, the lean cost model of SIAB makes [technology] a top priority if new entrants of smaller size and scale are not to be burdened by cost, but are instead to focus on maximising the qualities they bring to Lloyd's."

Harfitt acknowledges that, while painful, the market's ongoing Decile 10 review, which is being led by Lloyd's director of performance management Jon Hancock, has been necessary.

"As with the wider issues that the blueprint is seeking to address, habitual loss-making and poor underwriting performance had to be dealt with head-on," she says. "The review sent a clear message to underwriters about what is expected of them and the steps they need to take – not just to improve, but to outperform their non-Lloyd's peers for the long term."

"Having taken ten syndicates through the process this year and last, our impression overall is that the review has had a positive impact on the market," she continues.

"That said, care should be taken to avoid a blanket approach, and successful remediation must be recognised, to ensure syndicates aren't unfairly disadvantaged, or innovation stifled, and business lost to other markets."

Technology and automation

Key to achieving efficiency in the market is the need to embrace digitisation and automation.

The blueprint sets out a number of projects aimed at achieving this aim, including a risk exchange, for streamlining the placement of high-volume, low-premium risks, and a complex risk platform for open-market and reinsurance business.

> "The technological drive that will change how the marketplace functions is critical. The connectivity of the market needs to improve significantly to enable all the proposed initiatives to succeed, given the scale and quality of data that is required"
> *Dominic Kirby, ArgoGlobal*

"The creation of a complex risk platform leveraging data and technology, plus the fast-track SIAB for the outperformers, will help catapult Lloyd's back to where it belongs – a home for the best talent at the forefront of risk transfer," says Jennette Newman, partner at Clyde & Co and vice president of the UK Forum of Insurance Lawyers (Foil).

"Combining this with an automated low-complexity exchange will help address the cost issues which have seen more commoditised risk classes fail to meet the new performance standards."

"The speed of adoption of PPL [Placing Platform Limited] demonstrates the market is capable of rising to the challenge, on a technology level at least, despite all the naysayers," she continues. "We need to travel a middle path – no-one is going to sign up for a Big Bang transformation but we do have to make steady progress at a reasonable pace in order to remain competitive on the world stage."

On the claims side, the market's electronic claims file will be phased out and replaced by a multi-channel claims solution, with the straight-through processing of non-complex claims.

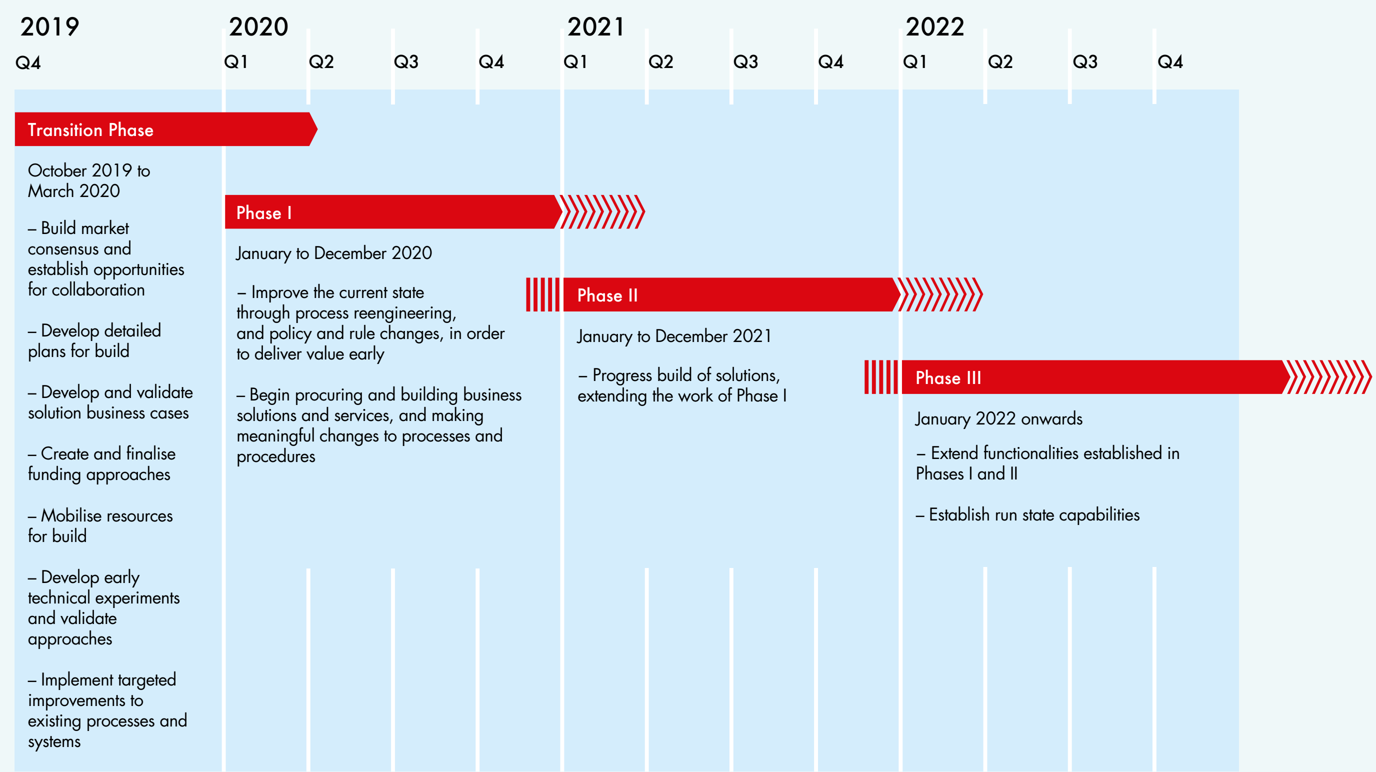
"We need to be able to give our customers a market-leading claims service," says Fantozzi. "What's important is that the overall Future at Lloyd's package makes the market a better place to do business and gives the customer a better overall experience."

AM Best notes that Lloyd's is still behind its peers in technology adoption, despite initiatives such as the London market target operating model, which is being wound down to make way for solutions outlined within the Future of Lloyd's blueprint.

While there is potential to create "meaningful cost efficiencies" and improve the overall process of placing business in the market, there is "a high degree of execution risk due to the level of investment and cultural change required," according to the rating agency.

For his part, Lloyd's chief executive John Neal argues that there has never been a better time for an ambitious roll-out of technology solutions.

Phased delivery timings



Source: Lloyd's

The development of cloud technology and the market's ability to interact with and interrogate legacy data means that conditions for change are more positive now than they were five or ten years ago.

As Neal told the audience at AM Best's 2019 Market Briefing in London: "Then we were all doing big-data management programmes to try and deal with the transition from legacy to new. We don't need to do that anymore."

While the market needs some quick wins, this should not be at the expense of getting it right, thinks Dominic Kirby, managing director, ArgoGlobal.

"The technological drive that will change how the marketplace functions is critical," he says. "The connectivity of the market needs to improve significantly to enable all the proposed initiatives to succeed, given the scale and quality of data that is required.

"This doesn't simply apply to the risk exchange and complex risk platform, but also the claims service and other proposals. A tech revolution across the board is absolutely fundamental."

"The blueprint proposals and timetable have ambitious reach," he continues. "Some may stretch the boundaries of possibility.

"In its efforts to revolutionise the market – and to win over the naysayers – it would undeniably be helpful for Lloyd's to demonstrate some quick, effective change.

However, given the scale of change needed, it is imperative to get these changes right and to ensure they are future-proofed. Acting hastily to achieve quick wins could be counter-productive in the long term."

The overwhelming feeling is that Lloyd's has a one-time opportunity to deliver technology solutions that take the market to where it needs to be.

> "The overwhelming feeling is that Lloyd's has a one-time opportunity to deliver technology solutions that take the market to where it needs to be"

Central to the risk exchange and other initiatives is ensuring market participants can plug and play and that standards are consistent across the market.

Beazley's Fantozzi thinks Lloyd's should be wary of quick technology wins that are difficult to scale-up or which don't effectively replace legacy platforms.

"It's not necessarily technology that can provide the biggest bang for our buck," Fantozzi explains.

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Possible operating models under lead-follow 2.0

The leader	The niche leader	The leader with follow sidecar	The follower
Managing agent	Managing agent	Managing agent	Managing agent
Lead market on 100% of classes	Lead market on select classes	Lead market on select, or even 100% of actively underwritten classes	Follow-only syndicate to participate on all chosen classes
	Follow-only syndicate to participate in other select classes	Follow-only syndicate for broker facilities and/or portfolio underwriting	and/or Follow-only syndicate for broker facilities and/or portfolio underwriting

Source: *The Insurance Insider*

"Agreeing data and processing standards for APIs in the market would make a significant difference – then market participants and technology vendors can be free to innovate with technology solutions safe in the knowledge that they are able to integrate and transact business against the same standards."

"Our future is API-shaped," he continues. "I could see all risks being placed via APIs within the next 10 years.

"I don't think Lloyd's has much choice but to develop some kind of exchange that enables its market participants to connect via APIs. The key is to focus on building against data standards that lead to consistency and quality of information flow, via a highly resilient infrastructure."

"You have to set out a credible plan for dealing with the legacy of the existing infrastructure and process, otherwise people will keep using the old processes and infrastructure," he adds. "We shouldn't have to use mandates to get people using new platforms; we should set deadlines for the decommissioning of the old process and then support market participants in their plans to meet those deadlines."

Brokers on board

Lloyd's has had a mixed history delivering on technology initiatives. From Kinnect through to Project Darwin, a common thread uniting the failure of previous attempts to automate market processes is a lack of buy-in from brokers and other key stakeholders, such as the London company market.

The challenge of managing the needs and expectations of so many difficult stakeholders across the Lloyd's market has always challenged past initiatives, according to Asta's Harfitt.

> "History has made many sceptical that Lloyd's will be able to deliver on its plans. Early delivery of new capability will help dispel this fear"
> *Christopher Croft, Liiba*

"Engaging with the market early and getting buy-in is critical," she explains.

Without that, conflicts can arise, and unnecessary delays in decision-making can hamper efforts to implement change.

This is perhaps why the competitive threat from those markets and players unencumbered by legacy problems has become more apparent."

A risk exchange will require buy-in from the broking community. There are rumblings in the market that wholesale brokers are concerned about the potential for disintermediation the exchange poses and are also unhappy with the push to reduce the market's expense ratio, which they believe can only be achieved through significant cuts to acquisition costs.

Neal is adamant that the role of the broker is intrinsic to Lloyd's future, but acknowledges that not every element of the strategy as set out under Blueprint One is going to be welcomed by all stakeholders.

"Each of the solutions that we put forward is mildly offensive to one of our constituents," he said at the recent AM Best briefing. "When you put the risk exchange forward, the wholesale broking market says, 'You're completely undermining our future'. When you put forward SIAB, the existing capital would say, 'Why on earth would we let anybody else in?'"

Liiba has cautioned that any changes to the marketplace should not be used to undermine the role of the broker in the insurance distribution chain.

"London is an almost wholly intermediated market," says Croft. "That is because our sophisticated customers recognise the enormous value and expertise brokers deliver in getting them the outcomes they need. That is not an offering easily sidelined by anything.

"History has made many sceptical that Lloyd's will be able to deliver on its plans," he acknowledges. "Early delivery of new capability will help dispel this fear. But it needs to be something genuine – a comprehensive new service that firms can actually adopt."

Croft welcomes the creation of a risk exchange but adds that broker adoption of new services is essential in determining their future success.

"It is vital that broker input is sought and heeded in the design and delivery of the services," he warns. "Take PPL as an example. It has worked because the entire broking community has got behind it and driven use. That is the key feature that Lloyd's needs to ensure in all its initiatives."

Follow the leader

On the underwriting side, the proposed lead-follow model is likely to force the most change upon syndicates, although it is not yet completely clear how this would work in practice.

At a high level the intention is for flexible structures to be developed that will allow capital to follow expertise, with significant cost benefits for the market as a whole.

Leaders will be remunerated for the expertise and services they provide to following markets, while followers will focus on portfolio underwriting and enjoy lower operating cost structures. Beazley's tracker syndicate is one example of how this type of concept could be employed.

However, a greater distinction between leaders and followers could leave some syndicates struggling for relevance as the market bifurcates. AM Best notes there is some concern in the market that a lead/follow model will diminish "the important contribution that an influential and informed follower can make in the analysis and pricing of the risk".

"You cannot underestimate the amount of change management effort required when delivering large initiatives to the market," says Beazley's Fantozzi.

"What's important is to have a vision that recognises there isn't just one defence against disruption – there will need to be several, and these will need to evolve as time goes on. It is encouraging to see that the Future at Lloyd's is taking this approach."

There is a recognition that the Corporation must win hearts and minds and bring the market with it as it embarks on the most critical Future at Lloyd's projects. The fact that Lloyd's chief executive Neal is a well-respected veteran with strong industry credentials has struck the right tone with many market traditionalists, resulting in an "outstanding level of support" during the blueprint consultation.

Whether this support can be sustained as the Corporation moves from the idea stage towards implementation is another thing. Effective change management will be required at every step, according to Harfitt.

"Long-lasting change must be led from the top, and we're pleased to see the Corporation taking more control over future direction," she says. "However, change is also about behaviours and mindsets rather than just simply transforming systems and processes. This will be critical if the blueprint is to succeed."

The Corporation does not need full buy-in to push through change, having shown it has the power to enforce change even when faced with resistance, including its tough stance on underperforming business and mandates previously issued on PPL, silent-cyber wordings and participation in the market culture survey. But clearly support from the market's main stakeholders will make the journey a much smoother one.

"The Lloyd's of the future needs to be bold in its vision and nimble in its execution if it is going to be able to compete with many low-cost competitors in other territories," says Foil's Newman.

"History shows us that Lloyd's does not have a strong track record in terms of implementing change, so how the Corporation manages that process will be critical for the market's future."

"The Lloyd's of the future needs to be bold in its vision and nimble in its execution if it is going to be able to compete with many low-cost competitors in other territories"
Jennette Newman, Foil

Blueprint One: The central six

Complex risk platform:
A platform that enables risks to be bought and placed using standardised data, securing "Lloyd's reputation as the go-to global marketplace for complex risks"

Lloyd's risk exchange:
An exchange for underwriting relatively non-complex, high-volume, low-value risks, providing "brokers and coverholders with an easy-to-use, end-to-end way of accessing Lloyd's products and services"

Claims solution:
A solution to automate simple claims, using straight-through processing, to "deliver a better experience, make it easier for customers to track their claims and speed up payments"

Capital solution:
A solution that offers capital providers more options to attach to risk more flexibly, "for the benefit of all participants"

Syndicate in a box:
SIAB sets out a new way of attracting and onboarding innovative and profitable business into the market "without the need for a physical presence"

Services hub:
The Corporation will ensure quality by defining a set of common standards "which all participants will have to meet"

TAKE ME TO YOUR LEADER

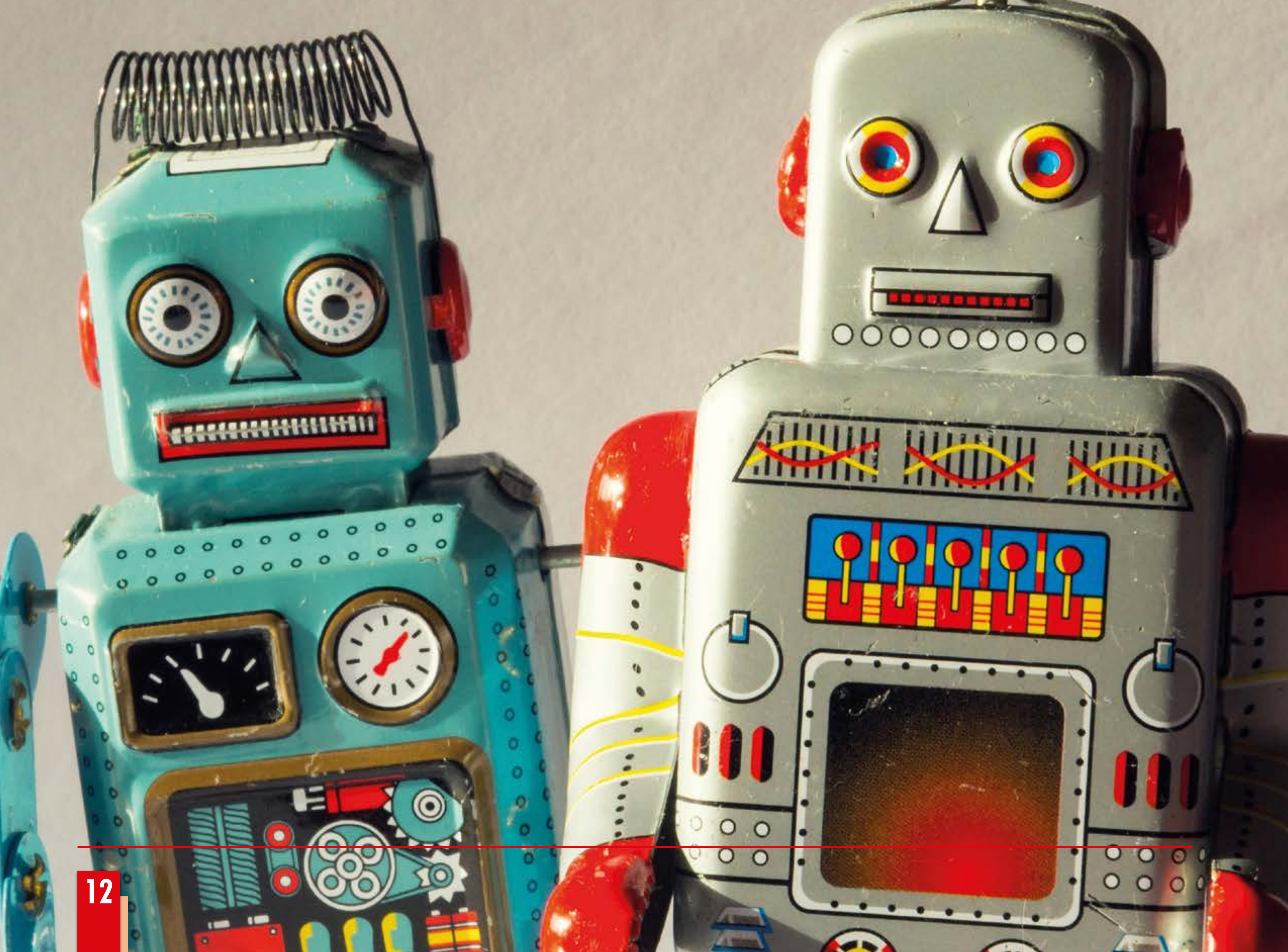
With AI and automation driving fundamental change in (re)insurance, the leaders of tomorrow will need a more diverse skillset and wider talent pool to keep pace, finds **Sofia Geraghty**

Disruption is probably one of the most overused terms in the insurance industry today. I remember hearing the term 'disruptor' during my first few weeks as an insurance journalist and getting really excited, only for my more seasoned colleagues to roll their eyes and reference an email inbox full of 'disruptor' press releases.

If we ever decide to produce an 'overused insurance terms' bingo card, then 'disruption' would be on there, along with 'innovation' and 'we need to close the protection gap'.

Seriously, someone needs to close that gap just so we can all stop having to hear about it.

That being said, while it seems unlikely that the insurance industry is going to be disrupted by one meteoric disruptor (in the manner of the dinosaurs), it cannot be denied that there is a palpable feeling of change in the air.



As Matthew Wilson, group CEO at Brit Insurance, says: "It is universally acknowledged that our market is set to shift in fundamental ways.

"The risks we are underwriting, the companies we are insuring and the ways we transact are all changing. This is without mentioning the different mindsets from newer generations, rapidly evolving ways of working and an ever-increasing focus on the role of business in society."

The shifts in the market reflect broader societal changes, according to 'The future of skills in the London market' report produced by the London Market Group (LMG) and professional services firm KPMG.

"A range of political, economic, social and technological macro trends are dramatically re-shaping society. These include persistently low interest rates, the growth of emerging markets, generations Y and Z joining the workforce, and advances in artificial intelligence (AI)," the report says.

These fundamental shifts mean that attitudes to leadership have changed, with the new generation needing a mixture of hard and soft skills, the LMG/KPMG report continues.

While leadership in the market has begun to shift, there hasn't been a notable change to date, according to Dave Matcham, chief executive of the International Underwriting Association.

"There has been cultural change due to greater diversity of senior management and more awareness of the key issues," he says.

"This change has been slow with no discernible shift in leader profiles. There are more gay men in senior positions but it may be another decade before a transgender leader appears."

Change leadership was noted as being particularly vital for senior leaders in the future, particularly in implementing appropriate operating models and ways of working, the LMG/KPMG report states.

Leaders of the future

One of the issues that the market faces in attracting suitable leaders of the future is that the overly hierarchical structure means that new talent can miss out on leadership opportunities, according to Peter Clarke, founder and managing director of digital insurance market directory Insurercore.

> "The range of political, economic, social and technological macro trends that are dramatically re-shaping society mean that attitudes to leadership have changed, with the new generation needing a mixture of hard and soft skills"

Having the wrong type of leader in place can impact an organisation financially and culturally, says the Lloyd's Market Association's (LMA's) Fiona Temple.

Temple, who is LMA academy director, cites a 2016 Deloitte report, 'Human Capital Trends', saying: "Conversely, organisations that are perceived to have ineffective leadership suffer a 19.8 percent equity value discount.

"Because of this differential, organisations see tangible business benefits from investing in their current and future leaders. Investors will notice."

Clarke began his insurance career as a graduate in 2012, before leaving his job to found Insurercore whilst he was still in his mid-20s.

"Opportunities for promotion within the industry can be limited for young people. Senior teams are staying in their jobs longer and longer and end up retiring later and later, which has led to a trend of stagnation and lack of change within the leadership of the industry over the past decade," he says.

The inability to shift incumbent leaders means younger staff lose the ability to test out their own leadership skills, Clarke adds.

> "Senior teams are staying in their jobs longer and longer and end up retiring later and later… which means younger staff lose the ability to test out their own leadership skills"

This lack of opportunity could lead to youthful talent opting to work in emerging and under-developed markets, such as Singapore or Latin America, where a skills gap in the older generation of (re)insurance professionals means there is more opportunity for young people.

Wilson suggests that another barrier to attracting new leaders into the industry is a hesitancy to recruit leaders from other industries. While there are more leaders coming into the industry from other areas than ever before, the market still has a way to go, he explains.

"Historically, our industry has been guilty of being too insular and a look around the market shows this. We have much more to do, and have much further to go, if we want to foster the right talent for the next decade and beyond."

In some cases, participants that have entered (re)insurance from other sectors have faced obstacles, says Sofie Quidenus-Wahlforss, chief executive officer of AI-driven claims platform omni:us.

"I would talk about some replacements of CIOs we have observed. It is a difficult role. If they are brand new to the insurance industry, it can be a culture clash."

"If it is the opposite, however, it is difficult for them to really rethink the journey, which is necessary in many cases for genuine innovation."

Market initiatives

While the (re)insurance market has certainly not been the most

Continued on page 14

innovative of industries to date, it has acknowledged the potential skills gap in recent years and a flurry of diversity and inclusion initiatives have been set up.

Lloyd's Dive In festival, set up to champion diversity, has been running for five years now and the LMG has also launched its #londoninsurancelife campaign, which showcases different career opportunities within the industry.

The new D&I initiatives are helping to open up the market to new leaders, Quidenus-Wahlforss says.

"The industry is getting more and more attractive for young talent, because decision makers are open [to] change, disruptive technologies and fresh air," she explains.

"The longer we are part of this early transformation, the more tangible and exciting it gets. You can definitely see an acceleration of the relevant steps of the big players driving this change overall."

As Brit's Wilson notes, however, it is important that organisations are genuinely committed to improving diversity and inclusion.

"At Brit, for example, it is a major priority for me and the management team. While the industry as a whole has a role to play, real change has to happen at an organisational level," he says.

One way industry initiatives could have more of an impact is by uniting rather than acting separately, says Karen Graves, senior independent non-executive director at USAA Ltd and USAA SA and chair of the Independent Women in Insurance Committee.

"There are a number of great market initiatives that are developing and iCAN (Insurance Cultural Awareness Network) is something that I admire very much – BAME initiatives need to be supported."

"Back to my point of not operating in a silo – we need to embrace gender, age, educational, LGBT, BAME etc initiatives collectively and then we will see positive change."

However, while such diversity initiatives are a good idea there is still a long way to go, Temple says.

"They are definitely helping, but sadly they have not yet been sufficient. In terms of gender diversity, for example, only two managing agents are led by women."

"It is important that organisations are genuinely committed to improving diversity and inclusion"

Skills blend

The increasing use of technology means new leaders will need to understand it, but the greatest skill the next generation of leaders will require is understanding how to utilise their workforce to their fullest potential, says Insurercore's Clarke.

"There will clearly need to be an understanding of technology and how it can be used to drive efficiency, however, their greatest challenge will be whether they can manage the shift from manual repetitive tasks that require human labour and reallocate this labour into roles that maximise humans as a resource."

Leaders who create a culture that allows people to focus on creativity and networking will get more out of their employees than those who look at technology as an excuse to replace humans and save money, he adds.

Quidenus-Wahlforss agrees that people skills are still key to the next generation of leaders, who require "an ability to embrace vulnerability and an openness to healthy conflicts".

"I would also say leaders need to be comfortable about being challenged by their team," she says.

A blend of hard and soft skills is key to the change, Brit's Wilson adds.

"In practical terms this means skills in areas like data analytics and technology, innovative and flexible mindsets, a desire to collaborate and communicate openly and a broad world-view are just some of the things our future leaders will need to demonstrate."

With so much set to change in the market, communication and the ability to communicate with people across different ages is key, Graves says.

"We now have five generations in the work place and leaders will need to be able to motivate all colleagues."

Work in progress

Attracting future talent will also be dependent on creating a suitable working environment, says Clarke.

"The most important change that needs to be made in the industry to attract young talent is workplace culture," he claims.

A 2018 Bright Network report found that a firm's people and culture was the most important factor for choosing a graduate role for 39 percent of respondents.

Clarke says it is important for the industry to embrace flexible working hours.

"As an industry we need to replace the old ways of thinking – for example, people do not need to be in the office Monday to Friday, 9am to 5pm, to be effective."

The market could also do better at marketing the good it does, in order to attract a broader range of talent, adds Matcham.

"It is important to stress the positives of working in our industry, i.e. the contribution it makes to individual lives and national economies. We can be too negative about ourselves and forget to accentuate the many positives."

And in keeping with embracing the millennial generation, as well as finding more novel ways to work with younger staff, the industry needs to also embrace technology when it comes to recruiting younger employees, Temple concludes.

"The ongoing shift in potential candidates' behaviour means that the techniques many firms use to recruit individuals may need to be reviewed.

"An online chat is much easier for a potential employee than the time, effort, and expense required to attend an exploratory meeting, for example. Similarly, an electronic message can be answered 24/7, and is very straightforward for everyone."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GRAFT AND GROWTH

Catrin Shi sat down with CFC's CEO David Walsh to discuss how the combination of patience, failure and being "unashamedly nerdy" built the biggest independent MGA in the UK

"We were probably about 15 years too early in the cyber market," muses David Walsh, as we sit in his office at the CFC headquarters on Gracechurch Street in the City of London.

It's a frank admission from the CEO of one of the most prominent and respected cyber writers in the London market. In recent years, the name CFC has become virtually synonymous with London market cyber – even though its specialty product suite is much broader.

"In 2000 we thought by 2002 everyone would be buying cyber," Walsh says. "And in 2015, people in America started buying cyber; in the masses, not the original early adopters.

"And whilst we managed to get into other lines of business, clearly that was not the original business plan for CFC."

Next year, CFC will celebrate its 20th birthday. In those two decades it has grown to a £330mn premium business. Earlier this year it brought in additional capacity providers in an extensive binders overhaul, giving it more headroom for growth. Walsh tells me that next year CFC is budgeting to write £400mn of business.

But financials aside, CFC's image is remarkably un-insurance. It has a reputation for fun.

Its Halloween parties are infamous (if you don't make an effort with the costume, don't even bother turning up) and CFC-branded socks have turned out to be an unexpected social media hit. On its website, CFC proudly states that insurance is a serious business, but it doesn't want to be too corporate or take itself too seriously.

So when I sit down with Walsh, I am keen to hear where it all began.

Walsh tells me he is in fact a broker by background. His first job was a UK professional indemnity broker at Marsh, before he went to work for David Howden who, at the time, was setting up a brokerage. Walsh was Howden's 12th hire for the business.

But it wasn't until Walsh took a work trip to Israel to set up an in-house underwriting arm for Howden that the concept for CFC was born.

"It was really when I was over in Israel that I got the technology bug," Walsh says. "This was coming into the dotcom period and the Israelis were fantastically entrepreneurial as a nation. You had all this technology coming out of the army, particularly for internet security and IT security.

"So suddenly that was becoming a really interesting insurance challenge. I got the idea for coming back and setting up a cyber MGA."

He came back the UK and – in his words – "tried" to resign from David Howden.

"He's such an entrepreneur that he wasn't having it and he said he'd invest in my new business," explains Walsh. "Again, I had a lot of good luck because in the dotcom period young men like me – I was 29 at the time – could actually get wiser, older men to back them, to invest in their dotcom idea. InsurTech wasn't a term [then] – we were a dotcom."

ClickForCover.com was born but it wasn't an easy ride from there.

Walsh says his downfall was trying to do three new things at once – and ultimately, nobody wanted to buy cyber, no-one wanted to buy it through the internet (not a trustworthy enough medium) and no-one wanted to buy from an internet service provider rather than a good old-fashioned broker.

"That idea failed and I think any wise person would probably tell you trying to change three things at the same time was probably a mistake," Walsh continues.

"But of course what we learnt along the way was that the one bit of the three that was working was that actually customers – some customers, not that many at the time – wanted to buy cyber.

"So we repositioned ourselves, tried to think of a really boring name instead of ClickForCover – so we went to CFC, repositioned ourselves as an MGA and started selling cyber."

CFC had moderate success under its relaunch, selling cyber to the first wave of dotcoms in the early noughties. At the time, there were only a handful of competitors in the space, such as AIG and Hiscox.

The firm has since diversified into 22 business lines including directors' and officers' liability, transactional liability and life sciences, but the commonality is that they all handle emerging risk.

"What we specialise in now is emerging risk and specialty," Walsh says. "The fact that we were originally a technology company ourselves – we were a dotcom – [means] we've always had technology and innovation in our genes, and the areas where technology has affected society most is what we're really interested in."

Cyber boom

The cyber business has also come a long way since the relaunch. Cyber accounts for around a third of CFC's total premium, of which nearly 60 percent originates from the US. It is the market leader in cyber for Canada and Australia, and is in the top three both in the UK for cyber overall, and in the US for SME business.

> "I had a lot of good luck because in the dotcom period young men like me – I was 29 at the time – could actually get wiser, older men to back them, to invest in their dotcom idea. InsurTech wasn't a term [then] – we were a dotcom"

It has more than 50 cyber underwriters and has built bespoke software for the cyber business – including a pioneering platform that can provide a quote for a cyber risk from a single piece of data.

CFC has just completed the first

Continued on page 18

piece of M&A in its history, and this is again focused on building out its value proposition in cyber.

The acquisition of Texas-based cyber incident response company Solis Security is aimed at bolstering CFC's large in-house cyber claims and incidence response teams.

"Both the frequency and the severity of cyber claims is growing, and cyber is a really competitive, really crowded market with new competitors still joining. It's seen as a sexy place within insurance so of course competition is going to be tough," explains Walsh.

"It felt to us that the endgame is simply that we've got to be the best at handling claims. We've got to be able to get our customers back up and running faster than any of our competitors. And we've got to be able to do that cheaper than any of our competitors."

Solis was previously an outsource partner for CFC but bringing them in-house means all interests are aligned, Walsh says.

"We still grow organically, more than 20 percent a year, which is great," Walsh says. "[For] any business that can grow at 20 percent or 30 percent a year organically, why would we waste our time looking at M&A which drains you of cash and brings on loads of risk, when we can just grow in a much more low-risk, thoughtful and methodical way – but growing out of our current business lines?"

Private equity perks

The deal with Vitruvian was not to build a war chest for acquisitions, therefore, and in fact Solis was acquired out of less than one year's cash flow, according to Walsh.

"You can never say never to anything in life, of course, but right now we're still not in the business of wanting to do the sort of M&A that our industry does," the executive says.

Walsh says that CFC was careful in its choice of private equity partner for this reason.

> "Both the frequency and the severity of cyber claims is growing, and cyber is a really competitive, really crowded market with new competitors still joining. It's seen as a sexy place within insurance so of course competition is going to be tough"

"You might face 100 claims that are actually quite similar," he explains. "If the business that's handling those claims is in the house, we can build a tool to automate that process and handle it at literally a tenth of the cost of one of our competitors. We've had over 1,500 cyber claims in the last 12 months. So we've got scale in the claims process now and we can really invest in it."

I ask Walsh why he doesn't use the money to scale up CFC, broaden out into new lines or acquire fresh talent – a route many MGAs take when they reach a certain stage of maturity. CFC also has private equity backing from Vitruvian, which bought into the firm in 2017, valuing it at a bar-raising 15x forward Ebitda.

"There were some – and we spoke to a lot – who came and said 'we've got a great vision for CFC. We see this as being the platform that we could take on the world; you should buy the biggest MGA in America, the biggest in Europe the biggest in Australia, smash it all together and be the global super-MGA'," he says.

"We felt there was just a whole load of risk around that and, ultimately, [in] buying MGAs – the quality of whose books we wouldn't really know, even after whatever level of due diligence. So we weren't interested in that model."

Vitruvian, in contrast, is happy to stand back and just be an investor, with available capital should CFC need it. And Walsh explains that growth is not the sole reason CFC looks to change backers every five years.

"We do deals every five years because we really like re-cutting our equity every five years. We provide an exit for our investors, find a mini-exit for our staff, and we can re-cut the equity so we get more staff shareholders," he explains.

Staff ownership at CFC has grown from 16 percent originally to 60 percent today, with over 140 staff shareholders with minimum of £100,000-worth of equity in the business.

The ability to offer equity ownership is really powerful tool in creating culture and momentum in a business, Walsh explains.

He adds: "One thing I unashamedly copied from the Hyperion business model was that you've always got to try and employ cleverer people than yourself, who can do the job better than yourself. And then really reward them properly with shares because that's the only way to get people's hearts and minds, properly long term."

Growth brings excitement to the business and to people's jobs, he says. In stagnant businesses, people's jobs also become stagnant.

"But growth for us always been a self-generated desire. We've had three sets of investors, they've all enjoyed the growth as well but we do it for ourselves. And we're shareholders as well, we do it for ourselves."

But how do you continue growth and maintain that fast-paced, start-up feel in a business? (As a side note, you walk into CFC's offices and they feel impossibly tech – think soft-furnished breakout booths, expansive LED flatscreens on the wall, wood-panelled roof terrace and impressive coffee-making facilities.)

"We got to a stage in our evolution, [where] we found ourselves slowing down in the same way large insurers tend to slow down," Walsh says.

"And we took a step back and said 'we're becoming like one of those large insurers, we're getting slower at delivering product, what the hell can we do about that? Do we just chuck another 10 or 20 people into the

products team?' That didn't feel like the right answer."

The CFC head says the focus on technology keeps the company nimble – whether it is for customer information, interface or efficiency, or the speed with which CFC can bring products to market. Walsh admits the firm is "unashamedly nerdy" about finding efficiencies.

"We've got to be quicker than all of our peers ultimately, all of our competitors. I don't think we need to necessarily be disrupters, we just need to be quicker than everyone else, always be a smoother wheel," he adds.

"I suppose we put a lot of energy into trying not to fall into the same traps that some people have fallen into. But that doesn't mean I can tell you we'll be 10 times the size we are now and what we're going to look like. We're all human beings here just like everyone else."

> "For any business that can grow at 20 percent or 30 percent a year organically, why would we waste our time looking at M&A, which drains you of cash and brings on loads of risk?"

The MGA market

The discussion moves to the MGA market and the recent trend among paper providers – particularly in Lloyd's – to be more savvy and scrupulous about who they give away their pen to. Alignment of interests has become a more pressing subject than ever between MGAs and traditional carriers.

We delve into the topic of what the MGA of the future might look like and Walsh believes that ultimately, an MGA has to tick all the boxes.

Underwriting, clearly, is a major part of this discussion and Walsh tells me that CFC has declined nearly 100,000 risks in the past 12 months.

"I'm sure the marketing and business development teams don't particularly like that stat," he grins. "But I like it. We've chosen to decline those risks for good reasons."

Consistency is also key, and CFC tries to keep its product offering stable, Walsh goes on to explain.

"We try not to enter and exit classes left, right and centre, willy-nilly; what we're trying to do is always be really critical of each book of business we write and to permanently change the weighting. Looking deeper into the data and

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working out we want to actually withdraw from that portion of the book and growing into that portion of the book. That's a constant job here."

Distribution, again, is a big box tick – and Walsh explains that around 90 percent of the business his firm writes would not otherwise find its way to London.

"So we're not competing with our own carriers on their doorstep like some people do. We compete locally."

It's all well and good, I challenge, for CFC to be saying when it has the scale, capital backing and capabilities it will execute on all of these, as well as design new products and build new tech platforms. What about those outfits that are just two men and a spreadsheet?

"There is still a market for two people and a spreadsheet," Walsh counters. "As long as you've got a real deep-seated specialism, you've both got 20 years' expertise in your class or sub-class, you're bringing something to the party."

> "You have got to graft. Between 2000 and 2010, for us to stay alive and grow we had to get out there. So we went out there and we trade directly with 2,800 broker offices round the world now"

The tough job is to grow from a monoline MGA to the next level, he continues.

"At the end of the day, if you're two people and a spreadsheet, it's a pretty volatile business model. The law of small numbers is you can have a very volatile book and suddenly it doesn't look too rosy.

"So you've got the volatility of the start-up phase and then you've got the complexities of trying to build out, and I think most people completely underestimate the complexities of building it out. It took us 20 years, let's be honest."

The interview is drawing to a close, so it feels like a good time to ask – what's the one piece of advice you would give to those two ambitious people with their spreadsheet?

"You've got to be patient," Walsh says. "And you have got to graft. Between 2000 and 2010, for us to stay alive and grow we had to get out there. So we went out there and we have 2,800 broker offices round the world who we trade directly with from here right now."

He laughs: "I think we thought we were all meant to be billionaires by about 2003. The reality is Marsh, Aon and Willis – quite rightly, they've got their customers' fortunes at heart – are not falling over themselves to do business with you.

"It's been hard work and it's been a long journey. And we've had all the luck we could have along the way."

> "We got to a certain stage in our evolution, [where] we found ourselves slowing down in the same way large insurers tend to slow down. And we took a step back and said 'what the hell can we do about that?'"

ON THE ROAD

Christopher Munro gets a coast-to-coast perspective from conference delegates across the US about the significant changes transforming the domestic market

Disruption is a term that has been repeatedly used to describe the US (re)insurance industry in recent years – as well as to delineate a multitude of trends impacting the market.

In some instances, it has been used in reference to the rising influence of technology in the marketplace – through InsurTechs and internet-based carriers, revolutionary back-office applications, or new ways of dissecting data and using it to enhance underwriting.

At other times, disruption has been used to describe the evolving workplace – one where minority groups and women are increasingly, and belatedly, coming to the fore.

It also refers to the changes in the workplace dynamics demanded by those taking first steps in their careers, with historical practices such as working nine to five in an office, five days a week, being consigned to the past.

Disruption has also been used to describe the changing nature of the risks facing the (re)insurance industry, such as the impact of climate change on windstorms and wildfires.

And it has also been used when discussing the considerable amount of M&A activity that has taken place which, in many instances, has concentrated the market into the hands of several key players.

However, this year there has been another form of disruption impacting the wider (re)insurance industry, and arguably it has been more prevalent in the US than anywhere else.

The US (re)insurance industry has just consigned another busy conference season to the past. What began with the Wholesale & Specialty Insurance Association (WSIA) annual get-together in San Diego then moved onto the Council of Insurance Agents & Brokers' Insurance Leadership Forum in Colorado Springs, before ending up in Boston for the American Property Casualty Insurance Association (APCIA) conference.

At each of these major industry gatherings, delegates' conversations were dominated by the talk of disruption and dislocation in the marketplace, with myriad factors combining to produce a significant shift in pricing across many lines of business and from the top to the bottom of the commercial (re)insurance industry food chain.

Primary market

It all began last year, when moves by some of the largest players in the US commercial insurance market such as Lloyd's of London and AIG, as well as the latter's excess and surplus lines (E&S) offshoot Lexington, began taking a closer look at the business they write.

Since then, others such as FM Global and Swiss Re Corporate Solutions have also looked to shed underperforming business in an effort to improve profitability.

Lines of business have been cut – either wholly or partially – while on the broking side of the business, the considerable M&A activity that has occurred has led to individuals, teams and accounts moving to new homes.

Pricing pressure remains intense across many classes of business in the insurance, reinsurance and retrocession markets, and there is little to suggest that this dynamic will change anytime soon, delegates at the various conferences suggested.

Rates will continue to rise for the bulk of business in the next 12 to 18 months, according to numerous executives, with even brokers believing further pricing increases are needed in order for the market to remain sustainable.

There will continue to be rate rises for catastrophe-exposed property business, while other niche segments such as real estate are expected to now come into focus due to that market's poor performance.

Construction, commercial auto, general liability and medical malpractice are other market segments that need further remediation, sources say.

Commercial auto remains in dire need of further corrective action, with claims continuing to take their toll on underwriters. A lack of skilled drivers and higher jury awards are just two of the issues cited by various market participants when asked what was behind the increased frequency and severity of claims.

Data published in August from the Council of Insurance Agents and Brokers (CIAB) showed that commercial insurance price growth slowed to 8.4 percent in the second quarter, from 8.8 percent in the first quarter, although the line achieved the second-fastest rate growth after commercial property, which rose 8.5 percent in the three months ending 30 June.

> “Pricing pressure remains intense across many classes of business in the insurance, reinsurance and retrocession markets, and there is little to suggest that this dynamic will change anytime soon”

CIAB data in August showed that the average rate increase across all lines was 4.6 percent, up from 3.4 percent in the previous quarter.

On the casualty side of the market, pricing continues to show little sign of hardening further. Carriers remain intent on pushing for improved terms, even on accounts that are loss free. Some of the largest players in the market, both in the admitted and E&S sectors, have drawn back the size of the lines they are prepared to put down. In some cases, that means they are putting down smaller lines, while in others they are "ventilating" their participation – rather than putting down a $25mn or $50mn line, they are providing $5mn, $10mn or $15mn lines at various points throughout a tower.

In some instances, this is causing a capacity crunch and brokers are having to work harder in order to complete placements. Pricing between the primary and excess layers has become increasingly narrow.

Some larger programmes are finding it hard to be completed, with gaps appearing in towers where protection cannot be procured. This is not prevalent, according to sources, but has become an issue for some insureds unable to find capacity at certain points in their programme.

At the same time, insureds are themselves retaining more of the risk. This, executives explained, means insureds have "skin in the game" and should, theoretically, be more risk averse and prudent as a result.

Adding further fuel to underwriters fired up to push for improved pricing are concerns on reserve adequacy. Insurers across the market are growing increasingly fearful that their prior-year reserves are woefully deficient, with the three most recent accident years a particular worry.

The opioids crisis is yet to make its presence truly felt in the casualty insurance market, but many experts feel it is only a matter of time before claims are filed. The major pharmaceutical firms are one potential source of losses, but underwriters have expressed their concern that pharmacies distributing such painkillers will also generate liability claims.

Social inflation is another significant concern for the market at present, with an increase in claims exacerbated by soaring liability awards and jury verdicts. A desire to "stick it to the man" means juries' sentiment to push for ever-higher awards has shocked underwriters.

There is also a worry that the rise of social media is playing a role in the increasing awards. Various executives expressed their concern that platforms such as Twitter and Facebook promote adverts for plaintiff lawyers that encourage

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individuals to make claims, as well as highlighting stories of injured parties that have won substantial awards.

Litigation financing is on the rise, with the growing trend of private-equity firms buying into law firms, turbo-charging what was already a highly litigious environment in the US.

Elsewhere, with the statute of limitations being lifted in states such as New York, there is unease that (re)insurers will face a wave of sexual harassment claims dating back decades.

One notable example is the Child Victims Act and the so-called look-back window. Survivors of childhood sexual abuse are now able to seek justice on allegations that had previously been time-locked in the past.

Policies written in the 1960s, 1970s and 1980s in particular for organisations such as church groups, foster homes, schools and scout groups could now come into play, prompting a possible surge in losses.

More generally, the pushback from admitted carriers in some segments is resulting in an ever-increasing amount of business making its way into the US E&S market. The various moves made by the Corporation of Lloyd's to drop underpriced business is also fuelling this shift.

A veteran of the wholesale broking market at the WSIA conference explained that, when it comes to casualty, "more and more companies aren't putting out the line sizes they used to".

Reinsurance

During the APCIA conference in late October, reinsurers from both the P&C markets expressed their concern at the continued impact of further loss creep from prior-year events such as hurricanes Irma and Michael.

Various market executives pointed to a slew of claims being filed right before Florida's Assignment of Benefits (AoB) Reform Bill was passed on 1 July as one of the reasons behind the renewed round of adverse development on claims totals arising from Irma and Michael.

> "There are continued concerns about providing coverage for property in wildfire-exposed regions of the country. While much of the market's attention has been focused on Californian utilities' liability protection, there are also concerns about reinsurance protection for homeowners' writers"

The recent publication of third-quarter results by many of the major Florida players have highlighted this issue, with companies such as Universal Insurance Holdings and United Insurance Holdings both revealing further deterioration in their loss picks.

At the end of September, Universal's 2019 year-to-date gross prior-year loss development stood at $305.3mn, $3.7mn of which was retained by the business. At United, net-prior-year development stood at $12.3mn in the third quarter.

Elsewhere, there are continued concerns about providing coverage for property in wildfire-exposed regions of the country. While much of the market's attention has been focused on various Californian utilities' ability to secure liability protection, there are also concerns about reinsurance protection for homeowners' writers and the possible accumulations and aggregate exposure being taken on.

The heavy losses sustained by the property catastrophe market in Japan from typhoons Jebi, Faxai, Trami and Hagibis will cause pricing to increase once again come 1 April 2020. But the degree to which reinsurers have been impacted by those events means property catastrophe exposures in the US may also be indirectly affected, said several sources during the APCIA event.

These issues are expected to lead to another round of rate rises at the mid-year property catastrophe renewals.

Further rate firming is also expected for 1 January casualty reinsurance renewals. The growth in primary casualty claims is impacting those reinsurers that write quota-share business. And while quota-share reinsurers are benefitting from the increases in primary pricing, they too are also facing the claims that cedants are being tagged with.

As such, there is pressure for continued reductions on ceding commissions, from the mid-to-high 30s, where many currently reside, to a range in the high-20s to mid-30s.

Brokers are pushing back though, and there is an acceptance that reductions in ceding commissions will likely be just one, two or maybe three points at most, putting the bulk in the range of low-to-mid-30s.

Another pressing concern for reinsurers is the availability, or lack thereof, of retrocession capacity at 1 January.

Retrocession

While much of the US property catastrophe market renews mid-year, retrocession programmes return to market at 1 January.

With so much capital tied up in claims relating to previous events, there is a concern that there will not be enough retro capacity at the upcoming renewal to go around. That has led to various parties seeking to raise new retro-focused funds, but these have so far struggled to get off the ground.

A lack of retro capacity at 1 January will have a major impact on those cat reinsurers reliant on the product, and could have knock-on repercussions for those companies around the world looking to renew their reinsurance at 1 January. Those writing the peak US cat renewal programmes at mid-year will also be affected.

Should there be a dearth of retro capacity, however, reinsurers will have more ammunition with which to drive through improved pricing for catastrophe business at the mid-year renewals.

ON COURSE FOR PROFIT

After years of falling rates and rising claims, the venerable marine sector is moving onto a more sustainable footing, finds Samuel Casey

The marine market forms the bedrock of what has become the global specialty insurance sector. Its roots twist back to the earliest days of Edward Lloyd's eponymous coffee house, and its development is intertwined with the growth of the international insurance business, inextricably connected like the collection of pipes and guttering that spirals around the modern Lloyd's building.

It underpins the system of international trade – and the Lutine Bell, which still stands in the centre of the Lloyd's underwriting room, symbolises that market's proud history of paying all valid claims, thus allowing entrepreneurs to innovate and take risks.

But of late the marine market has been beset by a series of challenges that have led to sustained losses, and raised questions about the viability of the products it offers. The numbers speak for themselves: £129mn ($166mn) lost in Lloyd's in 2016, £469mn in 2017, £343mn in 2018 and £99mn already lost this year.

However, there are signs that things are finally beginning to change. As the wider non-life (re)insurance market starts to regroup after a bruising run of catastrophe years, the marine sector is working towards a more sustainable future.

There seems to be a cautious optimism in the market about what lies ahead. Hiscox said in its latest quarterly earnings release that marine hull, cargo and liability were among the classes experiencing the most significant rate increases in a generally hardening London market.

The process, however, has been painful. Since Lloyd's announced its Decile 10 remediation plans, there has been a spate of withdrawals from marine classes – not just in Lloyd's – as carriers seek to erase their least profitable lines of business. The International Union of Marine Insurance (IUMI) has said that approximately 20 entities either ceased or seriously restricted writing hull and cargo business in the last year.

Hull and machinery

Hull business has only made a technical profit for three years since 2005, according to IUMI, and carriers have exited the line in their droves.

The exodus in hull this year has meant whole or partial retreats from Axis, ArgoGlobal and Navigators, with Swiss Re pulling out of London and moving its European hull operations to Genoa.

There was no change in the value of global hull premiums in 2018, according to IUMI, but rates in the class are starting to see material improvement.

"In terms of the marine hull offering, it's certainly uneconomic and an adjustment was long overdue," says Iain Henstridge, head of hull at Apollo Syndicate 1969. "We have had a softening hull market, with one or two upticks, for the last 20 years."

Henstridge adds that while total losses have fallen due to technological advance and tighter shipping regulations, there has been a surge in attritional claims.

"Hull insurance has suffered from death by a thousand cuts rather than a hammer blow," he says.

Key to this has been the lack of movement of deductibles, which Henstridge describes as "inadequate".

Head of marine and aviation at Antares Nick Lewis states that hull insurance has suffered from "an unholy cocktail of falling prices, rising acquisition costs, a certain amount of coverage creep and some large risk-specific losses".

The most significant individual loss resulted from the Lürssen shipyard fire in September 2018, where a floating dock and building shed erupted in flames whilst a luxury superyacht was under construction. The loss cost the commercial hull market some $700mn, with London market insurers bearing an overwhelming majority of the expense.

"That was a major turning point," according to Gallagher's executive director of marine Andrew James. "Normally on these huge losses they are scatter-gunned around the marketplace. You might have some in London, some in Norway, some in Asia. The peculiarity of the Lürssen loss was that most of it was in London and that really focuses the mind."

Many hull underwriters write an additional book of marine war risks,

> "Hiscox said in its latest quarterly earnings release that marine hull, cargo and liability were among the classes experiencing the most significant rate increases in a generally hardening London market"

and that market has been galvanised by an eruption of violence in the Middle East, with six ships having been subject to mysterious attacks since June, which will cost the market in the region of $100mn.

As a consequence, underwriters are able to collect substantial breach premiums from tankers continuing to operate in and around the Gulf of Hormuz, although this stream of income is balanced by paying out for losses, as well as the elevated risk in the area.

In general, there seems to be optimism about the trajectory of the market, although there is consensus that this is only the beginning of what will need to be a considerable transformation before rating adequacy is achieved.

As Skuld CEO Ståle Hansen says: "We obviously welcome the rating improvements which have been achieved but see the need for the rising trend to continue if pricing is to become sustainable for the longer term."

"I think it's challenging but I think it's also exciting," declares Gallagher's James. "In a soft market when everything gets dumbed down a little bit perhaps it's hard for good, experienced brokers and underwriters to really shine because there's not necessarily the competition out there."

Cargo and liability

The story has been remarkably similar in the cargo market, although the hardening started some time before hull.

Multiple carriers have pulled out of the class, including Swiss Re Corporate Solutions in August.

IUMI reported in September that global premium increased by 2.5 percent in 2018 to $16.6bn, largely as a result of an increase in global trade.

However, the loss environment has been seriously challenging. There have been at least nine major cargo vessel fires in 2019, with mis-declaration of cargo causing most of the problems.

Steve O'Gorman, head of marine and energy at ArgoGlobal, says: "Often caused by hazardous cargo that has been mis-declared and therefore incorrectly packaged and stowed, the fires are exacerbated by larger vessels and shrinking crew numbers, which makes them harder to locate and extinguish."

Meanwhile, the onshore market has seen a growth in warehouse fires, which has impacted stock throughput policies. A recent example was the fire at a Jim Beam storage facility in Kentucky, where a warehouse storing 45,000 barrels of

Continued on page 28

whisky burst into flames following a suspected lightning strike. The blaze is expected to have cost the market up to $150mn.

Natural catastrophes have also caused damage to storage facilities, resulting in losses.

At IUMI's annual conference in September, the cargo committee's chairman Sean Dalton said underwriters were "addressing their portfolios with urgency".

He went on: "It is certain that exposures will continue to increase in size and complexity for the cargo underwriter and this will require a sustainable approach to the business to meet the demands of the present and the future."

Similarly, the trading environment is improving in the liability market, although the hardening is less pronounced.

Pricing fell during the soft market years, but not to the same extent as in hull and cargo. On top of that, there is the claims inflation affecting the wider casualty market, which impacts marine liability. Pricing has not kept pace.

"There are emerging issues as well; for example we have heard about a notification for a sexual harassment claim within a marine policy," says Nick Lewis of Antares. "That is something we have not previously seen in our market."

But he emphasises that is was "more optimistic about the liability market in general" than he has been for a number of years.

Protection and indemnity

In the protection and indemnity (P&I) market, which is dominated by the 13 mutual clubs that make up the International Group, premiums have also been eroded to an inadequate level, although the sector has large reserves and ample capital.

There is a trend of increasingly frequent large claims which has led to a number of clubs, including Standard Club and Steamship Mutual, calling for general rate increases of up to 7.5 percent this year.

The latest significant loss, the *Golden Ray* car carrier, which capsized off the coast of Georgia, USA, in September, is expected to erode the first layer of the International Group's insurance programme, which attaches at excess of $100mn.

As with hull and cargo lines, the increasing prevalence of fires on board ships is something that worries the market.

Liquefaction of cargo is also an issue, highlighted by the death of 25 crew on the *Nur Allya* ship in August, which sank loaded with nickel ore.

Only Japan Club, Swedish Club and Skuld made an underwriting profit last year, whilst the London Club reported a combined ratio of 140 percent.

Hansen says P&I clubs were "coping well" with the rising claims severity.

"In general we believe that the rising trend in P&I pricing needs to continue if sustainable overall profitability for the sector is to be achieved," he adds.

> "Key to developing marine insurance products fit for the future is the embrace of technological solutions in what has traditionally been a conservative market"

A technological future

Key to developing marine insurance products fit for the future is the embrace of technological solutions in what has traditionally been a conservative market.

A host of InsurTechs have sprung up, offering underwriters opportunities to price their risks with more speed and sophistication.

One of these is Windward, a maritime data company that started out with a focus on finding ships involved in piracy, but has subsequently expanded into the insurance market, providing data insights for underwriters.

"We have seen a significant acceleration in the market's acceptance of analytics," says Nick Maddalena, head of insurance business at Windward.

He emphasises that in the last 18 months the growing uptake of technology has been "exponential".

"It's not a question of whether digitisation will change this market," maintains Windward CEO Ami Daniel, "but a question of how fast it will grow into this market."

According to Hansen, embracing technological change was one of the biggest challenges facing the P&I sector, but also one of the greatest opportunities.

"Successful management of the change to a more technologically supported P&I environment has the potential to deliver genuine positive service and cost-benefits for clubs and their members," he says.

However, new technology can be accompanied by new risk. In 2020 the International Maritime Organization, a UN agency, is introducing a cap that will reduce the sulphur shipping fuel can contain.

As a result, many ships are being fitted with scrubbers – devices which extract sulphur from exhaust fumes. Hull underwriters are concerned, due to reports of scrubbers causing engine malfunctions.

"I think we will face an uptick in claims from the sulphur cap," says Apollo's Iain Henstridge.

The threat posed by cyber attack is likewise a serious issue, and it is widely believed that the current policy wording exclusion is no longer fit for purpose.

The increased automation of vessels and the reduction of crew has heightened the risk of a cyber breach.

"Marine cyber standalone products are the best place for those risks," adds Henstridge. "That gives clear and definitive cover and that's a good thing."

But, notwithstanding these emerging risks, the remedial action taken by the market suggests the marine sector is on course for a more prosperous and sustainable future.

Winter 2019

THE INSURANCE Insider

LONDON MARKET ROUNDTABLE 2019

Towards modernisation

London must find a technological solution that will unite the market and bring it up to date

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All the world's a stage

In Lloyd's much-discussed Blueprint One document – its plan for the future of the market – technology and updated processes were very much at the forefront.

The Corporation rests a large part of its future vision on two platforms – one for complex risk and one for more straightforward business – powered by data and connected with the existing systems of brokers and carriers.

It is clear that technology is the key to the market's survival. At a roundtable convened at the *The Insurance Insider*'s London Market Conference in November, and supported by DXC, data and technology experts from the market came together to discuss the London market's progress in modernisation so far.

The compulsory nature of various systems and technologies was brought into focus. While participants said that five years ago making technologies mandatory was highly unpopular, the market will not move as one and adopt technology quickly unless it is mandated. This was the case for DA Sats and PPL, they agreed.

InsurTechs, while generating a great deal of noise in the market, were not expected to make an overwhelming impact. One participant remarked that InsurTechs tended to focus on a single idea or function, making them less attractive to insurance investors, and that the barriers to entry for such companies into the London market remain high.

Further, the best technology money can buy could not solve the London market's problems on its own. Participants agreed that, as sophisticated as it is, blockchain can do little to streamline processes in the Lloyd's market because cover is not priced at the point of trade. It is processes that must change first, before technology can have much impact, they said.

Parallels were drawn with the wealth management sector, where companies had worked out how to price complex assets at the point of trade and improve the process, for instance.

Regardless of the imperfections of tools such as PPL, participants agreed the platform had successfully convinced a generation of underwriters and brokers that the future was digital, instilling the use of technology as second nature in preparation for more sophisticated technologies and processes.

Participants also said that Brexit had been a catalyst that pulled the market together to adopt technologies and data practices that they would otherwise not have done so urgently. For instance, Lloyd's Brussels, created to help London carriers to continue writing European business post-Brexit, requires all carriers to provide data in electronic form, thus providing an impetus for companies to update their processes.

It is clear that Lloyd's will face a major challenge in proposing technology and data solutions that will unite the market, which comprises many players with competing interests. The adoption of that technology, however, is the only way to bring the market up to date and allow it to continue competing on the world stage.

Read on to learn more.

Rachel Dalton
Senior reporter,
The Insurance Insider

Participants

Chris Coyne
Head of Operational Excellence, Canopius

Dave Matcham
Chief Executive, IUA

Chris Newman
Managing Director, ACORD

Kerry Rainer
Director of Claims Services, London Market, DXC Technology

Nathan Shanaghy
COO, UK, Aon

John Taylor
AGM London Market, Insurance, DXC Technology

Jason Townshend
Head of Operations, Atrium Underwriters Ltd

EDITOR-IN-CHIEF
Adam McNestrie adam@insuranceinsider.com

ACTING MANAGING EDITOR
Catrin Shi catrin.shi@insuranceinsider.com

EDITOR
Laura Board laura.board@insuranceinsider.com

FEATURES EDITOR
Gavin Bradshaw gavin.bradshaw@insuranceinsider.com

COMMERCIAL DIRECTOR
Sajeeda Merali sajeeda.merali@insuranceinsider.com

HEAD OF MARKETING SERVICES
Benjamin Bracken ben.bracken@insuranceinsider.com

HEAD OF STRATEGIC PARTNERSHIPS
Oliver Nevill oliver.nevill@insuranceinsider.com

SENIOR BUSINESS DEVELOPMENT MANAGER
Baker Jaggwe baker.jaggwe@insuranceinsider.com

SUBSCRIPTIONS DIRECTOR
Tom Fletcher tom.fletcher@insuranceinsider.com

SENIOR ACCOUNT MANAGER
Georgia Macnamara georgia.macnamara@insuranceinsider.com

STRATEGIC ACCOUNT MANAGER
Tom Lovell thomas.lovell@insuranceinsider.com

SUBSCRIPTIONS ACCOUNT MANAGER
Luis Ciriaco luis.ciriaco@insuranceinsider.com

HEAD OF MARKETING & ANALYTICS
Lynette Stewart lynette.stewart@insuranceinsider.com

BRAND MARKETING & ANALYTICS MANAGER
Aimee Fuller aimee@insuranceinsider.com

EVENTS DIRECTOR
Sara Donaldson sara.donaldson@insuranceinsider.com

CONFERENCE PRODUCTION MANAGER
Matthew Sime matthew.sime@insuranceinsider.com

CONFERENCE PRODUCER
Miraal Mayet miraal.mayet@insuranceinsider.com

EVENTS OPERATIONS MANAGER
Holly Dudden holly.dudden@insuranceinsider.com

MARKETING EXECUTIVE
Luke Kavanagh luke.kavanagh@insuranceinsider.com

PRODUCTION EDITOR
Ewan Harwood ewan@insuranceinsider.com

SUB-EDITOR
Steve Godson steve.godson@insuranceinsider.com

JUNIOR SUB-EDITOR
Simeon Pickup simeon.pickup@insuranceinsider.com

SENIOR DESIGNER
Mike Orodan mike.orodan@insuranceinsider.com

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Subscriptions: +44 (0)20 7397 0619 **e-mail:** info@insuranceinsider.com.

London market
Roundtable 2019

Rachel Dalton
This roundtable is all about change within the London market and we've got a lot of change coming up. Let's dive straight in with the first question: which market-sponsored initiative has had the most impact on your operations and why?

Chris Coyne
DA Sats [Delegated Authority Submission, Access and Transformation Services], because it's been mandated. Things that aren't mandated in the market have had little take-up. And those that have been mandated have had a lot of take-up. So we use DA Sats. I don't think it's that great but it's an example of what the market can do if you push people in the right direction, rather than just expecting everyone to follow along.

"The standout [market-sponsored initiative] for me statistically is PPL, just in terms of the numbers that are going through it"

Chris Newman

Jason Townshend
I'd second that – DA Sats is definitely one. As a business we write over 50 percent delegated authority business and to be able to switch off collecting bordereaux from brokers or coverholders is paramount. If we can get the brokers and coverholders to put the bordereaux onto the system themselves, that would be great. And there's the fact that we would get follow data as, at the moment, generally if you're a leader, you're the only one that gets the data.

Dave Matcham
You've got to throw in PPL then haven't you? From an IUA perspective, DA Sats has had minimal impact because it's pretty much a Lloyd's solution.

If you're a joint platform, it is available to be used. PPL has had the biggest impact within the company market, partly as Chris said, because it was mandated by Lloyd's – or the trading was mandated by Lloyd's. And that, by definition, meant that it was going to be mandated in the company market, which was fantastic because we – at the IUA and other associations – were effectively paying for it on behalf of the market, and suddenly it became theirs to own, so we could move to a user-pays model and that then gained more momentum.

The things that are successful have to be truly cross-market. The Market Reform Contract (MRC) was an example of that. The repository that went through the bureau was truly cross-market and electronic trading is truly cross-market. So that's a measure of success, if it affects all parts of the market.

Kerry Rainer
Chris, you started off saying it was successful because it was mandated. Would you have used it if it wasn't mandated?

Chris Coyne
No, I don't think so. The Vipr product is a better product for bordereau processing. It's like a number of things that we've done through the Target Operating Model (Tom) programme. None of them feel like game changers but they're all a stepping stone, which is what Jason said. It's like Tom was a really expensive proof of concept for some of the things that we need to do in the market.

Dave Matcham
I checked the stats: well over 300,000 firm orders, this year 93,000 risks on PPL.

Chris Newman
Obviously from a standards point of view, Acord is involved in both of those initiatives, producing the standards in conjunction with the market. For instance, the Global

Placement Message for PPL and P&C, AML for delegated authority standards and also the CSRP initiative in terms of EBOT and ECOT Acord standards. But the standout one for me statistically is probably PPL just in terms of the numbers that are going through it. Some of the larger broking houses have been putting the majority of their business through it. It's also managed to get people thinking about the actual data in the business process which is key.

Rachel Dalton
InsurTech has been signalled as a solution to the market's operational challenges. Have you seen it make a difference?

John Taylor
It's more about emerging technologies. What's going to be the one thing that's going to disrupt you? Or be the best tool that you can leverage? InsurTechs tend to have one idea, don't they? They're very narrow in the opportunity and therefore it's difficult when you've got a broad operation to see the value of investing just in that InsurTech.

Chris Coyne
Yes, and there's been some impressive stuff. I saw a demo of ChainThat and I thought it was impressive – the way the whole thing is done on a blockchain. The question is, has anything changed, and the answer is no. It looks great and I can see that's a vision for the future, but none of us are using it.

Nathan Shanaghy
Process change will enable the use of new technologies to come to fruition. Blockchain (dual ledger) can't work because we don't price our product at the point of trade. So where you've got a marketplace that does lead-based pricing and then much later calculates the taxes etc, it is difficult to leverage technologies developed for other segments or industries.

We have to make sure it isn't just technology-enabled, we've got to look at our processes and make sure they are modernised to enable the technology to work in the way it's meant to work.

We have RPA processing about 60 percent of our straightforward London market slips at the moment. It is unlikely to find an InsurTech that's going to have enough influence to be able to change the market.

Chris Newman
Probably because many InsurTech solutions tend to be more component-based and focused on specific business functionality and not the end-to-end solution. Therefore it's harder for them to be adopted in isolation. So the barrier to entry is quite high for some to compete in replacing existing systems in isolation.

Nathan Shanaghy
The market is specialist by nature. The opposite of mandating is consensus. Unfortunately, consensus doesn't move quick enough. By the time you've decided, you're out of date. So somewhere in the middle is engagement and that's probably what's going to change the market – getting the right people to engage on the right things will make the market more effective.

"If we can get the brokers and coverholders to put the bordereaux onto the system themselves, that would be great"

Jason Townshend

Dave Matcham
It's one of the issues we have when talking to members who are global and where London is just part of their book. Often other parts of their organisation are ahead of their London part because the London part goes with the consensus, or goes with the flow. It can be a bit frustrating. Do you not think some InsurTechs have been very successful in the client space though?

Nathan Shanaghy
Some InsurTechs have been very successful in personal lines, SME and claims management.

We internally promote our own disintermediation for some services because there are certain activities where we don't add value. Aon Carrier Link is an example where clients or producing offices can place directly with insurers. They are things where by process and by technology you can touch the retail world significantly more with some of the InsurTechs. And some have been very successful. They will be even more successful in the claims space. A lot of the technology that is being developed at this moment in time will capture content or events as they happen improving the claims service. We see that area evolving very significantly over the next five years.

Chris Newman
In terms of does it makes a difference, Acord carried out a global study recently involving 125 of the world's largest carriers and effectively that looked at the last eight years of

"I don't think PPL is seen as the answer necessarily for the future, but it is seen as the structure because it's a good way to involve the whole market in governing it"

Dave Matcham

each carrier's performance versus their digital maturity. As you can imagine, it was a huge study with lots of analysis and interesting outcomes, and the overriding driver showed that there was a direct correlation between organisations that actively invested in and executed digitisation strategies and their total shareholder returns, where they outperformed the industry by 1.4x. So it shows if organisations actively engage in it, there is an upside ultimately.

Chris Coyne

Why is it that you don't have your data digitally anyway, Nathan? You talk about optical character recognition and robots, but why not just present the data digitally in the first place? Is that a feature of the legacy systems that you've got?

Nathan Shanaghy

Clients do not have all their assets digitally collated and packaged in a way that meets the needs of brokers or carriers. Clients are collating data for their needs, therefore the data has already been touched once or twice before it gets to us and needs to be reformatted to complete the transaction in the London market (e.g. split by line of business, taxes etc).

We're looking at lots of technologies to see if we can improve data ingestion. It's important that as we digitise more processes, we are realistic about what information we need at what point to make decisions. A lot of the time when we're placing business, the client themselves might not even have collated all of the assets, therefore, we must be realistic about what is possible.

Wealth management companies have worked out how to trade complex assets efficiently by pricing the product at the point of trade, therefore, it is important to improve the process. They trade complex assets but they don't have the downstream burden, which is driven by a small number of process issues. Technology may make the process go quicker when the information is available but we need to remove unnecessary complexity from the process to build an effective marketplace.

Rachel Dalton

That leads me on to the Lloyd's blueprint, which put electronic placement pretty much at the heart of the initiative. Have the current placing initiatives had positive effects on your operations and, if not, what additional functionality is required?

Jason Townshend

Our underwriters have not seen any real benefit from using PPL. However, we've definitely seen a change of culture and the acceptance that the digital future is ahead. I was speaking to a couple of underwriters last week, and one said he hasn't put a physical stamp down in months. Another one said that he can now triage risks before underwriting them.

There is an acceptance that the product isn't perfect as it sometimes feels like it's just a glorified workflow for documents. To get the benefit, we need to start doing some sort of data-driven, straight-through processing. We're using PPL and I'm still using a third party in India to enter my risks onto my underwriting system. That can't be right. At the moment all of the Tom initiatives are additive costs to the business when we were told three or four years ago that the benefits of Tom would far outweigh the costs.

Chris Coyne

We made a mistake with PPL in not putting data at the heart of it. What is interesting are companies like WhiteSpace, which is looking towards what a future might look like in electronic placing. It's working with the brokers trying to get that data digitally at the point of it coming into a carrier. The whole process just ends up being a bit slicker in terms of the way that data then passes through. It has some quite neat technology that gets around some of the things that Nathan talked about in terms of how the MRC is presented. So that's probably what for me an electronic placing future looks like.

Chris Newman

You're probably aware from recent articles that WhiteSpace donated its digital MRC and APIs into Acord. So those assets will be evaluated and integrated into the GRLC standards to be available for the industry to be used as an enabler. The Lloyd's blueprint talks about using documentation and data initially and then ultimately looking at a full digital record in the future. So the vision is all within the very near future to be leveraged as an accelerator for the entire market.

Dave Matcham

I don't think PPL is seen as the answer necessarily for the future, but it is seen as the structure because it's a good way to involve the whole market in governing it. People can get confused with the term PPL meaning a product versus a structure. There is an idea to look at other products now within the structure such that they are better for the market, to start driving those benefits. Our members saw PPL as not transformational – it didn't save them money – but we've got to start somewhere. What else was available four years ago?

Jason Townshend

The "M" word was a swear word, but if it hadn't been mandated, we would still be sitting here talking about where we are going with the trade. So we can't underestimate that. And for the future, which parts of the blueprint are we going to mandate and which ones are we not going to mandate?

Dave Matcham

It was seen as the single placing utility for the market. Go back to some of the principles of PPL – the big brokers drove that, didn't they? There were lots of different views and ways of doing things; it needed one way to do it to be more efficient.

Nathan Shanaghy

It's about momentum. Have we seen some efficiencies? Yes – PPL is a legal way of exchanging endorsements. There's significant benefit to be had. We need to work out how to articulate the benefits so the London market does not see electronic trading as a threat but as an enabler.

Hopefully it will continue to gather more pace and momentum. It's about shaping something for the market. If the market can unify around a set of capabilities and a set of standards to execute the trade, then it will have been successful.

It is about moving from a document exchange to trading and from trading to digitisation. The power of PPL is the community of like-minded people who try to drive electronic trading forward in the market and we need to continue to keep that in the market and move it much quicker.

Rachel Dalton

Much is being made of the need to improve the client experience in terms of claims payment. How can the carriers' experience of timely premium payment be realised in the future?

Kerry Rainer

In the claims area, we're doing a lot of work to speed up payment and settlement, including options for taking it out of central settlement and introducing direct payments. But a potential issue we're going to come up against is that premiums haven't been paid. Now that's fine if you're six months, nine months into a policy period. But what if you're on day one of a policy period and a claim occurs and you want to go to a direct settlement to reimburse your client but the premium hasn't been paid? What initiatives are there from the underwriting premium side in terms of premium collection to support the payment of quick claims?

John Taylor

The tools and the technology already exist. They are used in other industries, other ways of working, and it can be delivered. The hurdles to it are culture and within that culture, processes. And you need willpower to get it over, even if it's mandated. Everything that we've shown in that vision we use elsewhere. All we're doing is slicing a different kind of loaf, if you like. We're bringing it together differently for the benefit of the London market. It's about how do we make that work and what's the will of the market to adopt that transformation.

It's not just premium payments. Regulation is the other area that we're worried about. If you're making a direct settlement on a fairly big claim and you're professing to do that within a couple of hours, how do you cope with making sure you've not paid someone who is a Specially Designated National? What are you doing about sanctions for instance? So there are hurdles there in terms of process and regulation that will be bigger challenges than just the tool kit that's available.

Jason Townshend

With the fear of sounding boring, it's all about the data. I can give you a real-life example. We've got a quote and bind system used by coverholders in the US and back in November 2018, with the wildfires in California, we started self-adjusting risks before any notification of loss from the insureds because we had all the assureds' data from that system. We had satellite images of where the fires were, we knew which ones were total losses etc. So even before the claimant was putting claims in, we were adjusting them.

"We made a mistake with PPL in not putting data at the heart of it"

Chris Coyne

“The technology we have centrally is a monolithic process. It’s not the technology’s fault, it’s the process and the serial nature of dealing with it”

John Taylor

Chris Coyne
As soon as humanly possible, DXC needs to stand something up. While we’ve got a bit of momentum, while we’ve got people enthused about the blueprint; if you can, stand up with proof of concept that demonstrates this working. Do it in Singapore, productionise it in Singapore, let’s all see it happening. You’ll get a real enthusiasm from people: for once DXC isn’t just talking about stuff, it’s delivering something.

Jason Townshend
Just finishing that story off, within two months, 40 percent of the claims have been paid and we’ve halved the payment time of a claim by just having the data. So it can be done – these aren’t fairytales.

John Taylor
The technology we have centrally is a monolithic process. It’s not the technology’s fault, it’s the process and the serial nature of dealing with it – the fact that you can only have one participant and one party really looking a claim at any one time. If you get the technology and you have participants collaborating and moving quicker, then guess what, you get the claim paid.

Dave Matcham
So have you seen the Single Claims Agreement Party (SCAP) helping this? Less people to agree.

Kerry Rainer
In terms of paying claims quicker, I’d say it’s marginal. It’s been encouraged and brokers have been told that they need to write it into the slips but it’s not been formally mandated. So the volumes aren’t enough to see a significant difference. But also, the single agreement process is only catering for a very small part of the end-to-end cycle time of the claims agreement.

So if you’re shaving off three, four, five days in a nine-month process, don’t get me wrong, it all counts. But we’ve got to address all of these things like how we tackle the unique processes of the London market. SCAP is one of those initiatives that needed to happen, same as SCAS, which is the auto agreement. So it’s taking SCAP one step further so you get it down to a single agreement party and then we’re going to automate that.

Dave Matcham
So what’s the majority of the time spent on – the adjusting or the gathering of evidence?

Kerry Rainer
It’s gathering of evidence; it’s when you’ve got multiple parties involved – the retail broker, local broker, carriers, experts – all these different participants. When it comes back and then sits within a broker or carrier or DXC, it’s sitting there for three to five days in each of those.

Dave Matcham
I’ve often thought we get unfairly criticised for this. I don’t think it’s all down to us; we can’t control a lot of these actions.

Kerry Rainer
But it’s the aggregate of all those days that doesn’t help. Because everybody is having to re-key the same set of data into multiple different systems, rather than having single source of data that everyone can utilise.

Even if we get to that straight-through process of data, you’re not going to flick a switch overnight because you’ve still got other participants. But it’s about, as soon as you’ve got that data flow, you can move away from a linear process so you can start working in a collaborative way because by using technology, you’re opening up those communication methods.

Chris Newman
From a global perspective, the Ruschlikon community (global reinsurers and brokers) proudly share statistics that indicate that not only can carriers realise premium much earlier using digital technology than the traditional paper-based equivalent, but also that the time-consuming practice of reconciling money is handled better as a result of using Acord data and messaging standards.

On average they report benefits have amounted to 30 percent less administrative costs, 30 percent faster premium settlement and 40 percent faster claims settlements.

Rachel Dalton
If we’re thinking about cutting expense ratios, what would you say is the initiative that’s going to be the most effective or that you’d prioritise?

Chris Coyne
That's data again, isn't it? Because we're all doing what Jason talked about before, sending stuff to India for people to input data and it's costing us a fortune, even if it's in India with cheap employees.

Brexit has been interesting because Lloyd's Brussels sits outside our normal regulatory framework. Brussels has said, "we're mandating that, we need this data". So structured data capture (SDC) is a good example; we've been scraping data off slips and finding too late that the data is not that great because all the slips are a bit different. And suddenly Brussels coming in and saying we need that data electronically because we're not going to have an army of people sitting there scraping stuff off slips has been a bit of a game changer.

So there's an initiative, not before time, to try and help standardise the way that data is presented on an MRC across the broker community. Brexit is helping us do some of the things that probably should have been done to put our house in order.

Jason Townshend
A point I made earlier is that all of the four pillars of Tom have been additive costs to us. If all those four pillars within Tom – so PPL, SDC, DA Sats and CSRP – come to fruition over the next two years, I can switch off a lot of other expenses. It's a massive win-win. As I said earlier, we're using third parties for pretty much all of those pillars and to switch them off tomorrow would be great.

Rachel Dalton
When Lloyd's says it wants to reduce the expense ratio to 25 percent within five years, do you think that is realistic?

Nathan Shanaghy
One of the best ways to improve the expense ratio is to efficiently grow, which is constantly missed from the conversation. This market has got some of the smartest insurance minds in the world, delivering differentiating capability to clients. London continues to be place of choice for many of our clients. We should continue to make the market effective and accessible across the globe so that we can spend more time with clients to understand their strategies and genuinely grow the marketplace.

Jason Townshend
Be careful what you wish for when you talk about the growth rate.

Nathan Shanaghy
We cannot develop the marketplace by just cutting costs. If we are to be successful we need to grow, while reducing costs.

Rachel Dalton
Does the underwriting and broking action on Brexit so far in 2019 mean that when we eventually leave in 2020, the market will be in a good position? Assuming that that is going to happen?

Dave Matcham
All of our member companies have assumed that we're leaving. And they've also assumed we are leaving with no deal. So they are well geared up and even fully operating in many of these new subsidiaries. I don't see many of those necessarily being reversed back into London, even if there's a wonderful deal.

Chris Coyne
Or even if we don't Brexit, if we revoke it, we'll probably carry on as we are.

Dave Matcham
The Part VIIs have happened, that's right. Some of our bigger members are using their subsidiary as a key part of their growth strategy within Europe – they're not going to do that business within London now. Look at Luxembourg. I had to smile when the trade association published its first-quarter premium number with a 300 percent increase. It wasn't a 300 percent increase in underwriters in Luxembourg, it was just booked premium. They're running it through there.

So the effect on London, so far, because of outsourcing arrangements and branches that have been formed in the UK by the subsidiaries, seems minimal. I don't see a material impact.

John Taylor
We're normally very accurate on what we see in terms of growth in transactions, and we forecast this year at around about 8 percent growth in overall volumes. We're seeing that

"We cannot develop the marketplace by just cutting costs. If we are to be successful we need to grow, while reducing costs"

Nathan Shanaghy

"The single agreement process is only catering for a very small part of the end-to-end cycle time of the claims agreement"

Kerry Rainer

drop down to around 2-3 percent, so we're seeing a drop of 5 points on that forecast, which is fairly significant.

Kerry Rainer
But interestingly, an increase in claims – an increase over forecast as well – on less policies.

Dave Matcham
There's much more premium now which is controlled by London but booked somewhere else. It's gone up to £7.5bn now of our £28.5bn. And we know business is moving between groups as well. Some joint platforms have chosen to use their new EU subsidiaries for the EU business rather than Lloyd's Brussels, and vice versa. We've got two members which haven't formed a subsidiary, they're just using Lloyd's Brussels. So everyone is responding differently.

Chris Coyne
Lloyd's did a good job with Lloyd's Brussels. I feel like we've beat ourselves up a little bit in some of what we've said today but the Brexit stuff has been quite a success.

Jason Townshend
We are purely LMA so we don't have a company, and Lloyd's, to its credit, even back in June/July 2016, got on the front foot and within three or four weeks decided the answer was, even with a hard Brexit, to have an insurance company wherever. Obviously it chose Brussels in the end. I agree with Chris, it's done a fantastic job. Operationally it's not quite there, but conceptually Lloyd's did all the right things.

We do beat ourselves up sometimes and it's not often that I will compliment a regulator but they did a fantastic job. They took the market with them rather than implement something and spent 18 months colluding with the market to come up with a very good solution.

Dave Matcham
Our regulator has done well, the UK regulator. It has been very responsive, wanting to keep the integrity of the London market, recognising its global strength. So the associations and London Market Group itself have worked with the government directly to ensure that those messages are clear. It's a big renewal season at the moment for airlines, and the EU airlines come to London. The Paris Olympics is another good one that has come to London. So there's been a story to tell there.

Nathan Shanaghy
There has been a significant amount of financial, emotional and human capital investment to date, as well as true collaboration. The engagement with clients, carriers and regulators has been great when you consider the constantly moving target we have all been shooting for. I think the market has done a huge amount to get ready. And it's been consistently working on the basis that there would be a no deal so we're ready for the worst outcome and have prepared clients for the same, to make sure they understand what they need to be ready and what they can expect from us. I believe the significant collaboration and investment that has gone on has helped us all be well prepared.

Dave Matcham
There are still some threats. The lack of a transition period was always a threat. If there's no free trade agreement by the end of next year, it's a cliff edge again. I was at a meeting yesterday where the EU and UK have got to agree by 1 July whether their transition period needs to be extended. So it's only six months to see good progress with a free trade deal.

If there was a cliff edge the equivalence regime would fall away. And that is quite a benefit for London reinsurance. So if an EU cedant uses the UK as a reinsurer, they're not deemed equivalent and I've had some members say to me that they'll put that in Bermuda because that is still equivalent with the EU. We may get equivalence quite quickly but it's not in our control necessarily.

Nathan Shanaghy
There has been a lot of legal analysis, process and system change to make sure that we can deal with all of the new and emerging risks Brexit may bring. We're at our best when we work together to build solutions for clients, so I've got confidence we are ready.

Rachel Dalton
That's a nice point to end on. Thanks everybody.

BURNING OPPORTUNITY

Matthew Swann and **Daniel Vestergren** believe the reinsurance business is well placed to turn the threat of climate change into an opportunity, but it will need all stakeholders to pull together

As a candidate for one of the clearest, nailed-on symptoms of climate change, wildfire is doing a convincing job. According to the Insurance Information Institute, the top five costliest US wildland fires in terms of insured loss took place in 2017 and 2018.

For the reinsurance industry, wildfire and the wider consequences of climate change pose a tricky problem but one that represents as much an opportunity as it does a threat. Take a step back for a moment to assess the industry's position.

As a provider of capital relief for tail risk scenarios, reinsurers are already well equipped to consider climate change, drawing on a set of tools based on physical modelling that are unlike just about every other part of financial services, where models tend to be rooted in statistics. That is a crucial difference.

Added to that, there are plenty of people in the reinsurance world already thinking about how to respond to the impact of climate change.

No one is in denial

You rarely find people in the reinsurance industry who are either ignorant of the climate change problem or in denial. Reinsurers sell a product that responds to extreme events and so even slow underlying climate trends can amplify the expected loss cost of those tail risks. This makes climate change a more immediate concern for the industry, and making sure the sector is up to date in its assessment of the climate risk is critical.

"As a provider of capital relief for tail risk scenarios, reinsurers are already well equipped to consider climate change, drawing on a set of tools based on physical modelling that are unlike just about every other part of financial services"

For some catastrophe perils, like earthquake, climate change has no bearing, while for others such as wildfire and flooding it has an increasingly significant part to play. Other atmospheric perils, like hurricanes and windstorms, sit somewhere in between those two extremes and it’s not yet known how climate change will affect them.

That said, scientists can ask questions like: “Was 2017’s Hurricane Harvey made worse by climate change?” They see evidence that climate change is having an impact on translation speeds of hurricanes, and therefore the amount of water they can hold and the amount of rain they can dump on any one area. In the case of Harvey, the flooding was exacerbated further by the concrete sprawl of Houston.

What is certain, however, is that while climate models might predict a range of different outcomes, they are starting to agree on certain trends and, on balance, the reinsurance industry should accept that the climate risk is going to be elevated.

A model answer

The good news is, when it comes to underwriting and pricing climate change risk, the reinsurance industry has developed a sophisticated way of thinking about tail risk, particularly through the use of catastrophe models from external vendors.

Though often maligned, these models have a key role to play, but there is still room for them to evolve. For example, could the models develop the capability to say this is current climatology, this is historic climatology, this is the forward projection and this is the difference in the answer? The improved visibility would give the underwriter more scope to engage with their broker and client to say: “We think this baseline risk is changing and we need to prepare for it, as do you.”

The vendor cat models are the accepted currency for the reinsurance industry and if they can reflect changes to the baseline risk, then they will help drive a sustained industry-wide increase in pricing that more accurately captures the changing climate change risk.

Wildfire pricing has shifted upwards by significant percentages in the last few years for some risks, but that’s reactive and the “out of the box” models are not necessarily capturing all the things underwriters need to help them be more proactive.

MATTHEW SWANN is principal at Hiscox ILS

DANIEL VESTERGREN is chair of international at Hiscox Re

Of course, most carriers will overlay their own view of risk on the third-party models, but the industry shouldn’t simply be relying on reinsurers to do this. Climate change is creating a greater risk of catastrophic weather events in both frequency and severity, and the vendor models must reflect that to both deliver the long-term pricing the reinsurance industry needs and also help drive up demand for the reinsurance product.

> “Climate change is creating a greater risk of catastrophic weather events in both frequency and severity, and the vendor models must reflect that to deliver the long-term pricing the reinsurance industry needs”

Uninsurable

What if it transpires that all the modelled projections say that in 10 years from now a climate-related risk like wildfire is going to be uninsurable?

It could be argued that this in itself is a valuable insight to take to the wider community to help stop inappropriate development in areas of brushland, for example, or to drive better forestry management or better control of the power grid.

Everyone sees it as a threat but there is an extraordinary opportunity for the industry to help build in better resilience to climate change risks by forcing people, businesses and government to acknowledge that there is a cost.

This work can highlight how these risks will change, what they will cost and either bring in new forms of capital to harness that volatility – which of course is what ILS is all about – or mitigate the risk, reprice, or do all three. Reinsurers must be explicit with stakeholders about understanding the threat, which is where the model vendors play a really important role.

Other industry stakeholders can also help drive that transparency. Take ILS investors – they want to see complete disclosure in any risk they back, they want good governance, and they want insight into the pricing and to know that the models aren’t broken.

The industry should welcome that forensic examination of risk. ILS investors control trillions of dollars of assets under management and their sole focus is generating a return far into the future – a much longer-term horizon than corporates, governments and individuals. They ask the big questions and are well placed to push the industry to do better. It’s a potentially exciting partnership.

Rising to the challenge

Climate change is not an insurmountable challenge for the reinsurance industry. With access to insightful tools to understand and unpick climate risk, reinsurance has both the means and the motive to build a sustainable view of risk into the future.

A changing baseline risk also represents opportunity, and we should prepare for greater demand for our products. The industry must work more closely with primary insurers to develop new solutions such as parametric covers that can respond to climate change-related risk, drawing on insurers’ client knowledge to build up a close understanding of clients’ needs.

Can the industry also come up with products that are cheaper to manage and buy, while also being quicker to respond? Get these relationships and products right and – together with help from the cat modelling industry – reinsurance has both the means and the motive to step up to the challenge.

TAKING D&I TO THE NEXT LEVEL

Diversity and inclusion walks a line between relevance and keeping people on board, says Erik Johnson, and the (re)insurance industry needs to push harder to maintain progress

This year the London market has had to face up to a harsh reality in its diversity and inclusion (D&I) efforts. Despite all the fine words and noble sentiments shared through initiatives like Dive In, life on the underwriting floor can still be challenging.

Lloyd's commissioned the largest ever culture survey undertaken by the insurance sector this year. The survey revealed several things. We do not yet work in a market where everyone can feel safe, valued and respected. Too few people are willing to speak up about harassment. Too many feel their wellbeing is under pressure at work. And a worryingly high number of people seem willing to turn a blind eye rather than report bad behaviour.

There is plenty of emphasis on encouraging the right behaviours, but maybe not enough focus on discouraging or punishing the negative ones.

We have a situation in which the perpetrators as well as victims are being paid to keep quiet and move on. That attitude needs to change, with real consequences for unacceptable behaviour, such as sexual harassment and bullying in the workplace. Only by demonstrating there are real sanctions will people change the way they behave.

The Financial Conduct Authority's Senior Managers and Certification Regime, extended to include insurers from December 2018 and brokers from December 2019, will hopefully be a driver of change in the industry.

At the same time, the Prudential Regulation Authority is also taking a tougher stance, with acting director of insurance supervision Gareth Truran's recent letter to insurer CEOs urging them to ensure "firms develop and maintain a culture where staff feel able to speak up and raise concerns".

Regulatory change like this should

> "We have a situation in which the perpetrators as well as victims are being paid to keep quiet and move on. That attitude needs to change, with real consequences for unacceptable behaviour"

make it harder for people paid off for previous bad behaviour to simply walk into their next job. However, it is too early to tell what impact it will have.

Preaching to the choir

It would be a mistake for the London market to wish negative news stories away or to compartmentalise them from all the hard work that goes on in parallel towards improving D&I within our market. There is a risk that the two become separated.

There's often a distinct feeling that D&I events are simply preaching to the choir. A lot of people at the companies involved believe that because they've hosted an event or become a sponsor, they've tackled D&I. In reality they are just getting started.

It's important that D&I actions do not become "too niche" so that they have little effect outside of the community of individuals already working towards best practice.

Commonly heard refrains, such as calling an industry demographic "pale, male and stale", need to be banished along with other offensive stereotypes D&I has worked hard to overcome.

The aim should rather be to use groups such as Inclusion@Lloyd's to get the many different and diverse groups within the market to engage with each other. The question is how do we take that to the next level?

The Inclusion@Lloyd's Partner Network initiative is one way the market is moving the dial. It brings together different D&I networks, such as the Gender Inclusion Network and the Insurance Disability, Ability & Wellbeing Network, to work towards breaking down barriers between different diverse groups, while amplifying the work that they all do. By working together and recognising a shared humanity it's hoped that lasting progress can be achieved.

One place where these changes can be made a reality is outside of the workplace and across the thriving collection of sports clubs in Lloyd's and the company market that cover everything from football and tennis to shooting and skiing. Many of these clubs reflect the market's traditional conservative leanings.

In a personal example of how we can learn by stepping outside of our own comfort zone, I went on a sailing trip through work – not the sort of thing I'd usually do. I actually really enjoyed the trip as well as meeting a new group of people. Reaching out to new groups of people in a less formal setting is a good way to improve D&I.

> "D&I initiatives such as Dive In have been vital in the past decade. However, what's needed now is to move away from high-profile events and public pledges and towards practical actions"

Practical measures

D&I initiatives such as Dive In have been vital in the past decade. However, what's needed now is to move away from high-profile events and public pledges and towards practical actions.

The list includes focusing on bias within recruitment processes and job descriptions, insisting on diverse slates of candidates, as well as checking that some candidates are not included on a D&I long-list only to be cut down before a final homogenous shortlist.

Companies could benefit broadly from staff training focused on empathy, avoiding bias and encouraging good behaviour and dealing with bad.

What is also needed is a focus on practical measures for success, without falling into common traps of shallow tokenism. This is the real challenge the market faces, to see through an outwardly visible, tick-box approach to D&I.

ERIK JOHNSON is head of syndicate management and European distribution at Pioneer Underwriting and a member of the Inclusion@Lloyd's committee

The industry should develop measures to better assess the business impact of investing in D&I. Inclusion@Lloyd's is playing its part by releasing a guide on D&I data collection that firms can use to measure D&I. This is part of Inclusion@Lloyd's wider programme of practical guidance to firms on becoming more diverse and inclusive.

We should be focusing not only on tracking staff diversity but also on developing measures of inclusiveness, most likely as part of existing employee engagement surveys. We need to ensure that our cultures are inclusive, or we won't retain the diverse staff that we aim to recruit.

Companies also need to work on measuring the return on investment of their D&I spend to ensure that it is targeting the right activities and having a meaningful impact.

Companies and the industry need to collect better D&I data. There is a lack of credible data on the diversity of employees working in the insurance industry and even within firms, and there may be a role for regulators to encourage firms to collect staff D&I data and to measure how "included" employees feel.

When tracking recruitment and retention data, we may have to accept that some major D&I issues, such as closing the gaps on women or black and minority ethnic representatives at senior management levels, will take a generation or more to solve. What shouldn't take years is the cultural part of how people feel included.

Lloyd's annual culture survey should help track progress around inclusion, but more people in the market need to complete the survey next year for it to be a useful measure of inclusion. The findings of the survey should help inform the work of Inclusion@Lloyd's and others in the market who are working to make it more diverse and inclusive.

While this year has been a challenging one for the market's reputation, we can all be confident that good things will come out of it.

HEAVY WEATHER

In an era of 'constant catastrophes', **Callum Higgins** ponders whether risk models can help to get climate change risk in context

Did the US hurricane season of 2017, the California wildfires in both 2017 and 2018 and the Pacific typhoon season of 2018 accelerate the debate on climate change within the insurance industry?

With records being broken across the globe, climate change has emerged as the villain driving many different risk factors – from the intensity and distinct event characteristics for hurricanes and typhoons, through to creating the conditions for two consecutive ferocious California wildfire seasons.

Although the 2019 hurricane season has provided a period of respite for the industry, the continual stream of events in 2017 and 2018 remains in the collective memory – a feeling that we have entered a "new normal" or, as RMS outlined, an era of constant catastrophes.

The media, and to a certain extent the industry, seem quick to draw a "climate change" conclusion after any recent event. From the floods in northern England to the bushfires in Australia, there is a suggestion that in some way these events "must" have been made worse because of climate change.

As an issue, climate change has rocketed up the insurance agenda, ranking sixth in the 2019 PwC Insurance Banana Skins report, even reaching the top spot in the 12th Annual Survey of Emerging Risks.

This is compelling the insurance industry to act, and there are now many reasons to drive forward with climate change action. In light of events over the last few years, there is a need to understand how climate change is affecting cat perils, regions, types of exposure – and its subsequent impact on portfolios, pricing and future strategy.

> "In developed countries, the value of exposure is rising and, as countries become wealthier, both property values and the size of property being built have increased"

A second driver is the increased push from regulators to quantify climate change risk on both sides of an insurer's balance sheet – for the likelihood of excessive losses on the liabilities side, and asset value wobbles on the other.

Also, many insurers, similar to other businesses, want to take action on climate change, from becoming climate neutral themselves, to developing products to support the green economy or divesting from carbon-intensive investments.

Climate change blame game

There is a need to unpick what changes in risk can be attributed to climate change. There are many other risk trends that also need to be considered, and many of these trends have also been building up for years.

In developed countries, the value of exposure is rising and, as countries become wealthier, both property values and the size of property being built have increased. As this wealth builds, homeowners move to areas deemed desirable for their high standard of living, whether it is being close to the coast, a warmer climate or closer to nature. Attractive areas are also areas where risk can be much higher; maybe unconsciously, people are moving towards more risk.

Pressure on land availability in desirable areas results in development on land that may have previously been deemed unsuitable or not prime. For wildfire, if the peril has become more pervasive, it is being matched by the growth of exposure. Across the US, it is what might have previously been deemed as marginal land – the so-called wildland-urban interface (WUI) – where construction has increased, and this WUI land has absorbed the recent growth in housebuilding activity.

The migration from rural areas to cities continues around the globe. Many of these cities are threatened by multiple perils – in the Bay Area in Northern California, for instance, cities such as San Francisco have to contend with sea-level rise, seismic risk and are surrounded by wildfire-prone areas. But the construction of high-value real estate, with the expansion of Silicon Valley businesses into prestigious buildings, continues apace. Google spent $1.3bn on Bay Area properties in 2019 alone.

Mitigation has not moved fast enough. Residents in regularly impacted regions, such as Florida, have adhered to increased building regulations to help become more resilient, but if events become more widespread, frequent and intense, resilience measures might not be able to outpace the peril.

Adaptation – even in regions that are regularly flooded, for instance – has been slow, and not many cities are gearing up for drastic action when confronted with the facts about the risks they face.

> “Attribution studies point to greater extremes in events, with one such analysis showing that Hurricane Harvey rainfall was 15 percent heavier and three times more likely because of climate change”

Indonesia is looking to move its capital from Jakarta to the island of Borneo, after a decade of floods and rising sea levels. So exposure is growing. Whatever effects that climate change will have will affect a bigger pool of exposure.

More extreme, more volatile

Attribution studies point to greater extremes in events, with one such analysis showing that Hurricane Harvey rainfall was 15 percent heavier and three times more likely because of climate change (Source: World Weather Attribution).

For California wildfires, a fire season has turned into a “fire year”, and since the 1970s, wildfires in the state have increased in size eightfold, according to a report from CNN. Climate change made the heatwave in Northern Europe during 2018 more than twice as likely to occur, a report in the journal Nature Research concluded.

However, these attribution studies quantify the impact of climate change relative to pre-industrial climate. This is not a relevant baseline for catastrophe models that are calibrated against recent history, implicitly capturing the vast majority of climate change so far. Instead the risk modelling challenge comes when trying to isolate the recent impact that climate change has had, if any, and incorporating this appropriately.

CALLUM HIGGINS
is product manager at RMS

Risk models reflect the best available view of the current risk. Where there are clear recent trends corroborated by physical arguments and climate models, and there is consensus around the direction and magnitude of these changes, they are explicitly captured within the models.

For example, the impact of increasing temperatures is accounted for in the US wildfire model. Where there is not this strong scientific evidence it is better to not try to incorporate a highly uncertain and likely incorrect view of the changing climate within risk models.

While risk models are developed to reflect the best available view of the current risk, they also offer the flexibility to be adapted to reflect the potential future risk under different climate scenarios.

For RMS clients that are regulated by the UK Prudential Regulation Authority (PRA), we were able to help them complete their biennial General Insurance Stress Test, which, in addition to the usual stress test scenarios, included three climate change scenarios for the first time.

Though the PRA emphasised that the climate change submissions were to be completed on a best-endeavours basis, the regulator was interested in exploring the extent of potential future losses.

The section focusing on the physical impact to liabilities centred on US hurricane and the associated inland and coastal flooding, together with UK flood.

RMS modelling was adjusted to reflect the three scenarios to help our clients with their submissions. Some clients used standardised multiplying factors to reflect the various scenarios in their projected losses across their exposure. For other clients, their exposure was analysed, and tailored results provided.

As a business, we have noticed a marked increase in the level of interest from clients in understanding how climate change will affect portfolios, assets and future business strategy. With risk models at the heart of this, we are confident we can work together on quantifying what climate change will mean to clients and the wider risk industry.

A view of the email sent to British Airways customers in 2018 after a company data breach

DEALING WITH DISTRESS

Christopher Stanton considers the implications for insurers of data breaches leading to distress claims

Businesses hold more information on their customers and their employees than ever before. Data provides businesses with important insights about their customers, helping them to tailor their products and services more effectively.

However, holding data comes with risk. No business is immune to the risk of a data breach or loss of information through human error, theft, hacking, a rogue employee, physical loss or failures in the security system. These breaches can have serious consequences for the data controllers that lose the data and the people whose data is compromised.

Although the threat of a data loss is not new to organisations, we are seeing a significant rise in the number of claims brought by individuals who allege they have suffered anxiety and distress as a result of data breaches.

What is causing the claims and what are the implications?

GDPR obligations

Businesses have a number of obligations under the General Data Protection Regulation (GDPR) for how they hold and process data. They must ensure appropriate security against accidental loss or destruction and implement appropriate technical and organisational measures to ensure compliance. They must demonstrate compliance by design and default.

There have been a number of recent high-profile data breaches involving British Airways, Morrisons, Adidas, Facebook and others. Two key cases involving pre-GDPR breaches by Google have paved the way for potential group claims for distress arising from a data breach.

Article 82(1) of GDPR gives a person who has suffered material or non-material damage as a result of a data breach a right to compensation from the data controller for the damage suffered. The case of *Google v Vidal-Hall* established a data subject's right to damages for distress caused by a data breach even though no financial loss or material damage was caused.

In the past, a claimant would have had to prove they suffered distress as result of a breach. However, the Court of Appeal recently held, in the case of *Lloyd v Google*, that where data subjects lose control or autonomy over their personal data, they are entitled to be compensated. They do not need to prove distress.

The Court of Appeal also held that a collective lawsuit against Google for allegedly tracking and monitoring the personal data of four million iPhone users without their knowledge or consent can proceed in the UK courts.

Richard Lloyd, a former director of the consumer rights group Which?, had brought the group action, claiming that Google had deliberately misused personal data with a view to commercial profit, "in what appear to be clear, repeated and widespread breaches of Google's data processing obligations".

The case was initially dismissed because the judge said it was difficult to calculate exactly how many people had been affected and claims they had suffered damage were not supported by the group bringing the case.

However, the Court of Appeal overturned this decision. It ruled that all the potential claimants' browser-generated information had been taken without consent in the same circumstances and during the same period. None of the potential claimants sought to rely upon personal circumstances. The group action could proceed.

> "Although the threat of a data loss is not new to organisations, we are seeing a significant rise in the number of claims brought by individuals who allege they have suffered anxiety and distress as a result of data breaches"

The *Lloyd v Google* decision makes it easier to identify a large enough group with the same grievance to pursue a class action, and established that individuals do not need to prove that losing control of their data led to financial loss or distress to be compensated after a data breach.

The impact on insurers

As a result of the *Lloyd v Google* decision, individuals will assert that they have an automatic right to compensation for distress as a result of a data breach. We expect to see a significant rise in group actions and individual claims against businesses and other data controllers arising from data breaches.

The challenge for businesses is to secure and protect any personal data they hold, and to have robust systems in place to prevent any breaches, whether deliberate or accidental.

The new risks in this field also mean there is a greater need for insurance that covers this type of claim. Various policies could respond. A cyber policy or a public liability policy will typically respond to a data breach. Damages for personal injury claims are usually excluded from a cyber policy, but the policy will normally include cover for a distress claim arising from a data breach.

Employers' liability policies may also be relevant. In *Various v Morrisons*, a rogue employee of the UK supermarket chain deliberately released the personal data, including financial records, of all Morrisons' staff. The Court of Appeal held that Morrisons was vicariously liable for the employee's actions.

Morrisons has appealed to the Supreme Court on various grounds, including whether vicarious liability is excluded from data protection legislation. As things stand, Morrisons' rogue employee has achieved his stated aim of causing harm to the company. Judgment is awaited with trepidation by insurers and corporates alike because about 110,000 employees of Morrisons may have claims for compensation as a result of the data breach.

A claim by Morrisons' staff is potentially huge. But what if the data released had been that of Morrisons' customers? That would be of a far greater magnitude.

Given the volume of personal data held by some businesses and the risk of group actions, insurers will want to consider capping their liability.

> "As a result of the *Lloyd v Google* decision, individuals will assert that they have an automatic right to compensation for distress as a result of a data breach"

Insurers, brokers and businesses need to be confident that the suite of insurance cover is fit for purpose, given the changing landscape. Insurers, brokers and policyholders need to carefully review wording, terms, conditions and extensions to make sure they understand what is covered and the limitations to cover.

Dealing with data breach

The number of businesses suffering data breaches is rising. Most of the data breaches are accidental. However, some, such as the recent cases involving Google and Morrisons, are deliberate. In the case of Google, it was for commercial profit and an analogy was drawn between Google's conduct and recent phone hacking cases, which can attract very significant damages.

The court has established an automatic right to compensation for a data subject impacted by a data breach. This is causing concern to insurers and policyholders alike. Some law firms are actively looking to pursue group litigation arising from data breaches.

GDPR will not disappear, even post-Brexit. Businesses holding personal data must do everything they can to protect that data. Insurers need to be confident that the policies they write are fit for purpose, with appropriate caps and that they fully understand the risks that they are writing.

CHRISTOPHER STANTON is a partner in Keoghs' professional and financial risk team

AVOIDING THE MINSKY MOMENT

Ahead of some pressing regulatory challenges, it is time for insurers to take action on climate change, says **Nigel Brook**

Climate change is one of the defining issues of our time. According to an article published by Oxford University Press on behalf of the American Institute of Biological Sciences, 11,000 scientists have said we are facing a clear and unequivocal emergency that will cause "untold human suffering" (World Scientists' Warning of a Climate Emergency, November 2019).

This October was the hottest on record (Source: The Copernicus Climate Change Service). Wildfires have raged in many regions of the world and devastating storms have hit the headlines. The actions of climate change activist Greta Thunberg, the Extinction Rebellion protests, David Attenborough's television programmes and the UN Climate Action Summit in New York have all combined to push the issue further into the public consciousness and onto incumbent and aspiring governments' policy agendas.

One development that has not generated as many headlines but will have a profound impact in the UK is the Prudential Regulation Authority (PRA)'s Supervisory Statement SS3/19 on "Enhancing banks' and insurers' approaches to managing the financial risks from climate change", the governance and planning requirements of which came into force on 15 October 2019.

The PRA statement raises the bar for the UK industry by setting out its expectations for firms to follow a strategic approach which considers how actions today affect future financial risks. It is part of a growing global effort to manage the transition to a low-carbon economy and avoid what Bank of England governor Mark Carney, in his "Open letter on climate-related financial risks", termed a climate "Minsky moment" – a sudden collapse in asset prices due to a disorderly transition, which would send shockwaves through the financial system.

Three categories of risk

Climate change risks to business fall into three broad categories – physical, transition and liability risks.

Physical risks exacerbated by climate change, such as storms, floods, heatwaves and droughts, can damage companies' assets and disrupt their operations and supply chains, resulting in increased insurance claims.

Transition risks are those financial risks which could arise from the shift to a lower-carbon economy, with carbon-intensive assets being stranded or devalued, perhaps rapidly, potentially causing shocks to share prices.

Liability risks can arise in a variety of ways. For example, companies responsible for greenhouse gas emissions could face lawsuits from those who incur loss or damage from climate change. Claims may also arise for loss or damage caused by failure to adapt to, account for, mitigate or disclose physical or transition risks.

PRA's great expectations

The PRA expects that regulated firms' approach should focus on four key areas.

Firstly, embedding the consideration of the financial risks from climate change in their governance arrangements.

Secondly, incorporating the

financial risks from climate change into existing financial risk management practice.

Thirdly, using (long-term) scenario analysis to inform strategy setting and risk assessment and identification.

And lastly, developing an approach to disclosure on the financial risks from climate change.

The area that stands out most clearly is around governance. The PRA expects every UK-regulated insurer and bank to nominate a senior manager to be responsible for identifying and managing financial risks from climate change.

Although there are tools and metrics available, climate risk is multi-faceted and impacts a wide range of processes and investments. There is no one-size-fits-all solution, and firms will have to adopt a tailored approach, adapted to their own unique business, governance structure and exposures.

Insurers will not only need to demonstrate a clear understanding of what the underwriting exposures might be, but also the liability exposures that may arise as a result of an increase in third-party claims.

These could affect general liability, directors' and officers', professional indemnity and environmental policies. Insurers will need to understand which contracts are exposed and how terms and conditions operate in view of the growing number of climate change-related claims.

Insurers are also considering their role as asset owners and (in some cases) managers.

Daunting task

Alongside the supervisory statement, the PRA itself has issued guidance under which it sets out a six-stage framework for regulated firms to follow, by using existing tools and metrics to better assess, manage and report exposures to physical climate risks.

The framework includes a number of case studies that illustrate how considering financial impacts from physical climate change can better inform insurers' risk management decisions.

NIGEL BROOK is a partner at Clyde & Co

Nonetheless, meeting the PRA's immediate and longer-term expectations is a daunting task. Firms were required to have initial plans in place and to submit updated senior management function forms within a six-month timeframe.

Helpfully, there is a range of support and guidance available in relation to climate risk disclosure, most prominently from the Task Force on Climate-related Financial Disclosures, the Climate Disclosure Standards Board and the United Nations Environment Programme Finance Initiative.

Insurers will appreciate that this is not a superficial, box-ticking exercise. The PRA is expecting that insurers' approach to climate change risk is fully integrated in governance and risk management from the board down. The PRA has said it will develop more granular requirements and the direction of travel is undeniably towards more stringent regulation.

Other parts of the economy will follow as insurers and banks ask more questions of their clients related to their own climate risk exposures and transition pathways. There is also increasing pressure from investors to provide more climate-relevant disclosure.

The UK government has said that it expects all issuers of securities and large asset owners to start disclosing climate risks by 2022. And the Financial Conduct Authority has indicated that it might expect UK-listed companies to provide such disclosures as early as next year.

With societal, market and regulatory pressure building, other developments will follow. COP26 (the 26th Conference of the Parties – a UN climate change conference) in 2020 will be a key moment. States will submit their first round of five-year revised commitments since the Paris Agreement in 2015.

Widespread and concerted efforts are being made by states, international organisations, development banks, central banks and regulators towards weaving climate resilience into the fabric of the international financial system.

Green finance and Solvency II

There have been suggestions that Solvency II capital requirements could be modified to drive green finance. If a proportion of insurers' assets were redirected towards climate-resilient infrastructure investment this could make a significant difference.

As investors, insurers can contribute to mitigating the worst effects of climate change and reduce losses on the underwriting side, a virtuous circle that would be in the long-term interests of the global insurance industry and the climate.

In September this year, the Coalition for Climate Resilient Investment was launched at the UN Climate Action Summit. The coalition brings together companies across the infrastructure investment value chain to develop practical solutions to advance climate change resilience.

Work is underway on identifying the critical enabling environments for climate-resilient infrastructure investment, including development of new sources of data and analytical tools.

By COP26, this time next year, analytical tools including a physical risk pricing framework and methodology to prioritise national resilient investment needs will be developed alongside a range of instruments to prevent capital flight from the most vulnerable regions.

Going forward, the framework can be implemented across infrastructure investment funds and will enable innovative capital market instruments, such as resilience bonds, to be structured.

There can be no doubt about the urgency of curbing carbon emissions and adapting to a changing climate. The impacts upon the global economy, if not carefully managed, could be profound. The physical, transition and liability risks to the financial services sector are significant.

For insurers, the focus is clear: build deep knowledge, fast, and translate that awareness into action.

ENDING THE 'PORTAL WARS'

Tim Rayner says the market needs to adopt a unified approach for MGAs to harness the power of real-time product distribution

The ability of insurers, brokers and coverholders to streamline their business processes is being hampered by the insistence of brokers and underwriters on using their own proprietary portals.

This continuing demand has been dubbed the "portal wars" and the market has to call a truce if it is to successfully deliver enhanced efficiencies in the transactional process.

This conflict represents a major obstacle to the market's ongoing efforts to reduce the much talked about acquisition costs in the delegated authority sector.

The sector's continued reliance on the use of spreadsheet-based bordereaux further impairs its ability to not only deliver operational efficiencies and reduce acquisition costs, but also to deploy and manage capacity more effectively.

There is also no such thing today as a "quote bordereau", as a result of which brokers and underwriters remain blind to what is being quoted against delegated authority facilities, what the hit rates are, and where potential coverage extensions could benefit their clients.

What is clearly required is a platform that enables all participants in the distribution chain to see a real-time view of what is being quoted, referred, declined, bound and the reasons for each occurrence from the underlying enterprise rules engine.

The use of a hub such as Sequel RuleBook has been proven to shorten the process from coverholder, broker and underwriter, and enable the insurance product owner to better manage the capacity available within the underwriting limits and layers.

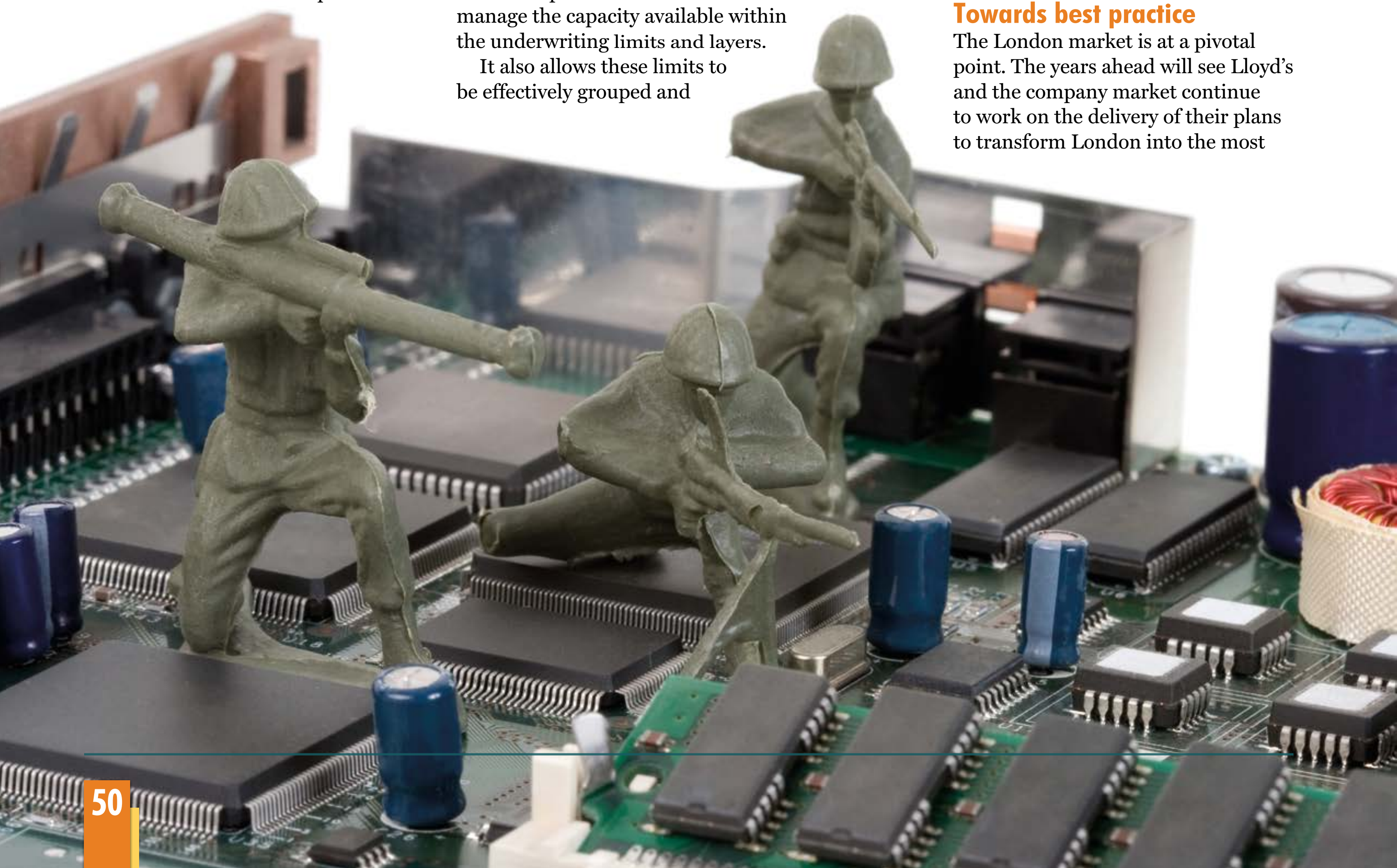
It also allows these limits to be effectively grouped and managed collectively under a portfolio spanning multiple binders or facilities in today's market.

> "The market has to call a truce in the 'portal wars' if it is to successfully deliver enhanced efficiencies in the transactional process"

As a market we have the ability to utilise more of the capacity available with lower administrative and market overheads. This will drive greater operational agility and efficiency and provide greater opportunities for coverholders and MGAs to utilise the capacity they have been allocated by their providers.

Towards best practice

The London market is at a pivotal point. The years ahead will see Lloyd's and the company market continue to work on the delivery of their plans to transform London into the most



technologically advanced insurance and reinsurance market in the world.

What is clear is that any initiatives that the market looks to roll out to achieve those aims need to be created on an API-first basis. Sequel believes that the ability for users to access any hub, platform, or exchange via existing systems remains highly important.

Our hub has proved its ability to deal with complex and speciality risks, and as such, the transaction of simple and commoditised risks can very quickly and easily be configured on the platform.

Having started with complex business the move towards the processing of more simple transactions has naturally been a more simplified process. The lessons we have learned need to be adopted, as all too often solutions which have started with the simple risks have generally encountered difficulties when looking at more complex risks.

There can be little doubt that the risks that are placed into the London market are mainly highly specialised, complex and bespoke. At Sequel we can only speak from our own experience and the extensive expertise of our staff. This has seen real benefits delivered to our users, which include many leading brokers and underwriters.

One of the most tangible benefits to emerge from the hub is the creation and encouragement of better practices and adherence to underwriting guidelines, with all data validated at source.

It has also driven operational efficiencies and allows enhanced reporting, which enables brokers and underwriters to more effectively manage their production sources.

We are now seeing the benefits of technology assisting the underwriting process rather than retrospectively, after business has been bound.

Changing landscape

We are now at a point where underwriters face additional challenges. The market is beginning to harden but the risk landscape is changing. There are risks that are drastically different to those of the past.

In recent weeks the Prudential Regulation Authority has outlined its priorities for 2020, and that focus will include the insurance industry's approach to these new risks and the rising severity and frequency of natural catastrophes.

The regulator wants to be satisfied that underwriters are aware of the exposures they are assuming. In turn MGAs are set to be pressed to provide more granular information on their underwriting activities and the risks they have assumed on their capacity provider's behalf.

Without doubt, this will place additional pressure on all in the chain. Underwriters and MGAs will be required to ask themselves a simple question, "What is the impact on the business, and my exposure, if I write this risk?"

It is clear that the market will need to embed technology if it is to not only meet the challenges that it faces with the drive for efficiency and speed of placement but also look to reduce the frictional costs that have long been seen as an obstacle to the market's efforts to drive new business. What we saw with the hub was that whilst the initial uptake allowed the London market underwriting community to distribute their insurance products and capacity, increasingly, we are now seeing broker and coverholder implementations.

Once on such platforms those in the market want more and will seek to push the limits to understand exactly how such a platform can deliver maximum benefit. We find clients are now looking beyond data capture to managing and utilising the data to improve underwriting and how they run their business.

> "The market will need to embed technology if it is to not only meet the challenges that it faces with the drive for efficiency and speed of placement but also to look to reduce frictional costs"

TIM RAYNER is business development director of Sequel Business Solutions

Enhancing performance

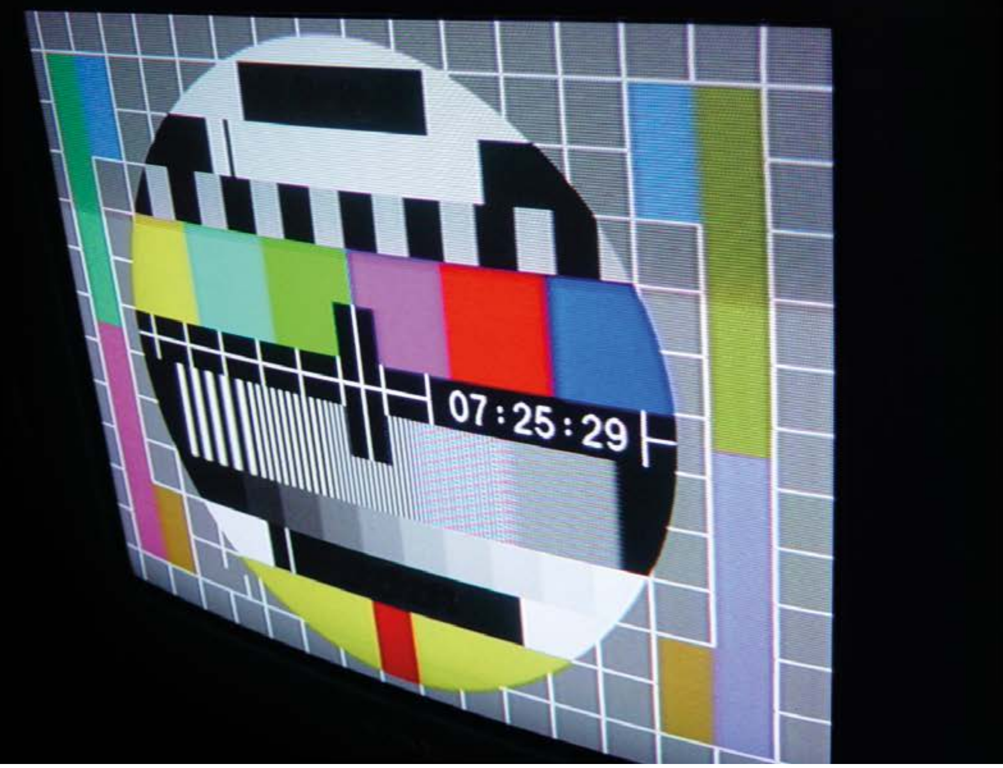
What has been a plus for the system, and it returns to the core issue of the portal wars which are still being fought across the London market, is that it has the ability to build the front end for the broker or coverholder user.

It is a plus given that, for many coverholders, the insured will often fill in the required details. Systems need to enable the user to choose the option best for them be it integrating the hub with their own front end or utilising other technology offerings to create a bespoke front end.

When Lloyd's unveiled its Blueprint One document, it came with some ambitious targets, but also a recognition that while there may well be some quick wins, the bulk of the benefits will take time and a market consensus to deliver.

Two of the most talked about schemes within the Lloyd's blueprint are the complex and standard risk exchanges. We believe the hub is a very good fit with the Lloyd's risk exchange initiative. The delegated authority sector is ripe for the introduction of a standardised risk exchange as outlined by Lloyd's. The technology to create the solutions is already available and while the nature of the London market is such that there needs to be systems which are designed for the specific differences that a subscription market involves, these solutions can be established.

However, to do so firms need to recognise the solution cannot be a proprietary one. Platforms that allow all in the market, from MGAs to reinsurers, to access and transact business in a way which meets their own internal systems requirements and provides the ability to access and utilise the data will enhance their and the market's performance overall.



IN FULL COLOUR

Aidan O'Neill details how the industry is transforming claims from black and white to glorious Technicolor

BBC2 broadcast its first colour pictures from Wimbledon in 1967. By mid-1968, nearly every BBC2 programme was in colour. Six months later, colour came to BBC1.

Anyone of a certain vintage will remember the days of small screen, grainy black and white TV coverage. It was good for its time, but technology moved on to where we are today, with 3D smart colour TVs virtually the size of an entire wall.

The world of claims has moved on considerably in that time too. From the late 1950s, technological change accelerated, bringing new hazards with the growth of industries such as petrochemicals, plastics and electronics.

According to Swiss Re's 'A history of UK insurance', new technologies led to increasing losses for insurers, with annual claims in the UK rising from £24mn in 1958 to £100mn in 1968 – the dawn of the colour TV era!

Yet, as technology plugs policyholders into new types of threats, ranging from whiplash claims to supply chain risks, PPI and emerging cyber perils, UK insurers now pay out more than £160mn every day to UK customers!

Glorious Technicolor

Some of today's complex claims – even outside the natural catastrophe property arena – are huge. Take the US, for example. Who would have thought MGM would have suffered an $800mn claim for one of its resorts after the Las Vegas shooting?

Claims are becoming bigger, more complex – more colourful, you might say. We are no longer in the black and white analogue (Electronic Claim File) age, we have moved into a digital epoch that requires a fresh palette of colours to connect the increasingly granular, pixellated dots of exposures that claims handlers adjust every day.

This is where modern, more granular claims management systems – post-WriteBack – can play their part in a digital claims strategy with built-in execution.

Lloyd's CEO John Neal recently outlined strategy lessons from South Africa's Rugby World Cup win against England, which the London market should note.

Built-in execution

Lesson one is to create a strategy that has execution built in. Lloyd's, for example, needs to be clear about its plan to be the world's most advanced insurance market.

Lesson two is to use data analytics to inform change. Lloyd's is making more use of data to enhance performance. For example, the data shows that the top quartile of syndicates have 92.8 percent combined ratios, the bottom quartiles are 133.6 percent. This insight will help to inform the Corporation's approach to the worst performers.

The last lesson is to ensure that flexibility and adaptability are baked into the culture. The Lloyd's team was able to think on its feet and had the agility to execute effectively during a critical phase of play.

What do these lessons mean for the future of claims at Lloyd's? Approximately 48 percent of open market and reinsurance claims closed between 2016 and 2018 were £5,000 or below, accounting collectively for less than 1 percent of total indemnity value. Conversely, the top 3 percent of claims represent 66 percent of total incurred claims costs.

Managing agents therefore need a platform to automate high-volume, low-value transactional claims efficiently while also having technology in place that adds value to complex claims adjuster requirements.

This technology already exists for at least 16 managing agents at Lloyd's that use the DOCOsoft claims management system.

Claims performance

As Lloyd's Blueprint One suggests, solutions will include application programming interfaces (APIs) and open architecture, and will build on existing technology within the London market.

Digitisation, automation and simplification could reduce the cost of doing business from 40 percent to 30 percent. Moving to lower cost channels could cut that to 25 percent.

Initial analysis from the design labs suggests up to 40 percent of volume will eventually be traded on the risk exchange and 15-30 percent of claims would be straight-through processed.

The Lloyd's mission is a "one-stop shop" market claims service that handles non-complex claims using technology, analytics and centrally procured services.

The good news is, however, that DOCOsoft's existing platform already provides this functionality at individual syndicate level and has now been rolled out across nearly a third of the market.

Managing agents also tell me that they prize the ability to integrate claims data with internal underwriting systems, data warehouses, full Peer Review modules and third-party systems. Integration across possible multiple platforms for Lloyd's non-bureau claims management and processing is a must-have.

Existing technology can now provide a complete lifecycle claims solution, driving efficiencies and the speed of handling claims. Claims technology can guide adjusters through the complex process of dealing with the progress of a transaction through the entire claims process.

Expert handling

Phase 2 of the Gemini Expert Management platform will deliver the enhanced data capture of expert spend. Phase 2 delivery will include claims expense and expert spend, with structured data delivered within a self-service reporting tool that provides insight and intelligence on data, experts, spend and performance.

It will also deliver reporting/analytics to allow the market to benchmark, assess usage against performance and make informed decisions on whom they use and the value of the service they receive.

We are now educating claims users on the benefits that Gemini will offer and how it aligns with integrated claims management. DOCOsoft is working to have a Gemini-supported solution in Q1 2020.

The next steps will be to offer enhanced peer-to-peer messaging, allowing broker global reinsurance and large commercial enabled systems to talk directly to carriers. If we can easily automate processes, structure data more effectively, achieve straight-through processing and reduce paper-based transactions we will increase efficiency and market reach.

> "Technology can guide adjusters through the process of dealing with a transaction through the entire claims process"

DOCOsoft is already working to improve the flow of insurance information between systems through Acord messaging over electronic data interchange, so enhancing data quality, transparency and supporting file conversions to and from individual Acord certified messages.

Carriers are looking for a complete lifecycle claims solution, driving efficiencies and speed of handling claims. They need technology service providers to guide claims handlers through the complex process of dealing with the progress of a transaction through the entire claims process.

The question is: can technology inform and alert claims managers and senior executives by providing vital claim operating information through real-time dashboards and regular information reports?

The future of data

According to the Lloyd's blueprint, a highly skilled workforce will comprise a combination of traditional skills (such as underwriting and claims) with newer skills (such as data science and technology engineering).

The London market needs to leverage data science as a tool on both sides of the balance sheet. That will be enabled by faster decision making through data science and analytics.

The future is not so far off. DOCOsoft's reserves modelling analytics module, which is underpinned by machine learning technology, allows carriers to assess how well their reserving philosophy is working in practice.

It calculates difference between first non-zero outstanding and latest or final incurred and can see the number of under- or over-reserved claims where the under/over reserving is at least $50,000.

Furthermore, the module can aid the discovery of reasons behind the inaccurate reserving. Does the appointment of particular experts play a role? Our data tells us that it does.

Syndicate in a box

Munich Re launched its syndicate in a box (SIAB) almost before the market had time to digest the news of Lloyd's SIAB concept.

Soon after, AIG announced a proposal to launch a Lloyd's syndicate serving the specialist US high-net-worth market.

Other composite insurers and even MGAs will likely move into this space soon. Existing claims technology can help syndicates to conform to requirements that mandate using current market platforms such as WriteBack.

It is imperative that the market continues to innovate but needs to do it faster. The reason insurers are here is to serve their clients. The customer experience should be number one priority and an area of strength for existing and future London market expertise.

Much London market infrastructure is stuck in a black and white analogue past. It is surely time to move forward to a bold Technicolor future.

AIDAN O'NEILL is CEO of DOCOsoft

ACCESS TO JUSTICE IN RETREAT

The difficulty and cost of accessing justice in the UK and other wealthy countries is driving a boom in legal expenses insurance, says **David Haynes**

According to American civil rights leader Dr Martin Luther King Jr: "Human progress is neither automatic nor inevitable... Every step towards the goal of justice requires sacrifice, suffering, and struggle..."

Whether technological, medical or economic, the myriad advances made during our lifetimes have been so great that it's easy to take human progress for granted, even in areas as mercurial as access to justice.

While regressive regimes may still exist around the world and occasional injustices occur in even the most advanced and liberal democracies, it is easy to assume that justice is broadly advancing on the illusory "wheels of inevitability" against which Dr King cautioned.

Quantifying justice globally is a difficult exercise, but it's something that the World Justice Project has attempted for the past decade with its Rule of Law Index. As well as open, accountable government and just laws, its near-200-page annual report recognises access to justice that is affordable, timely and delivered by competent, ethical and impartial representatives, with adequate resources.

For the second year in succession, the index has recorded an overall decline in more countries than ones that have improved. While scores for top-ranked Denmark and runner-up Norway both crept up fractionally, this was not the story in most of the 126 countries indexed.

Dr King, it seems, was right. Advances towards more just societies are neither automatic nor inevitable.

Looking closer to home, the UK is one of those countries with both a reduced score and lower ranking, having been leapfrogged by Estonia which also stole Australia's spot in the top 10.

This won't come as a great surprise to people working in any part of the UK justice system. A decade of cuts to the Ministry of Justice budget have brought dilapidation, disorder and delay to UK courtrooms, while legislation and court fees have made accessing justice increasingly difficult and expensive.

The breakdown in the UK's criminal justice system is so pronounced that it is has even been documented in popular culture such as the bestseller and blog by The Secret Barrister and TV comedy *Defending the Guilty*.

The picture for civil justice in the UK is, according to the 2019 Rule of Law Index at least, even worse. Despite its current decline, criminal justice in the UK is still ranked ninth in the world, scoring highly for freedom from corruption and undue government influence. For civil justice, on the other hand, the UK ranked 18th globally, with "accessibility and affordability" far and away its lowest score and rank, in any category.

DAVID HAYNES is underwriting and marketing director of ARAG

The difficulty and cost of accessing justice in the UK and some other relatively wealthy countries, with otherwise well-functioning democracies and justice systems, is partly responsible for the global boom in legal expenses insurance.

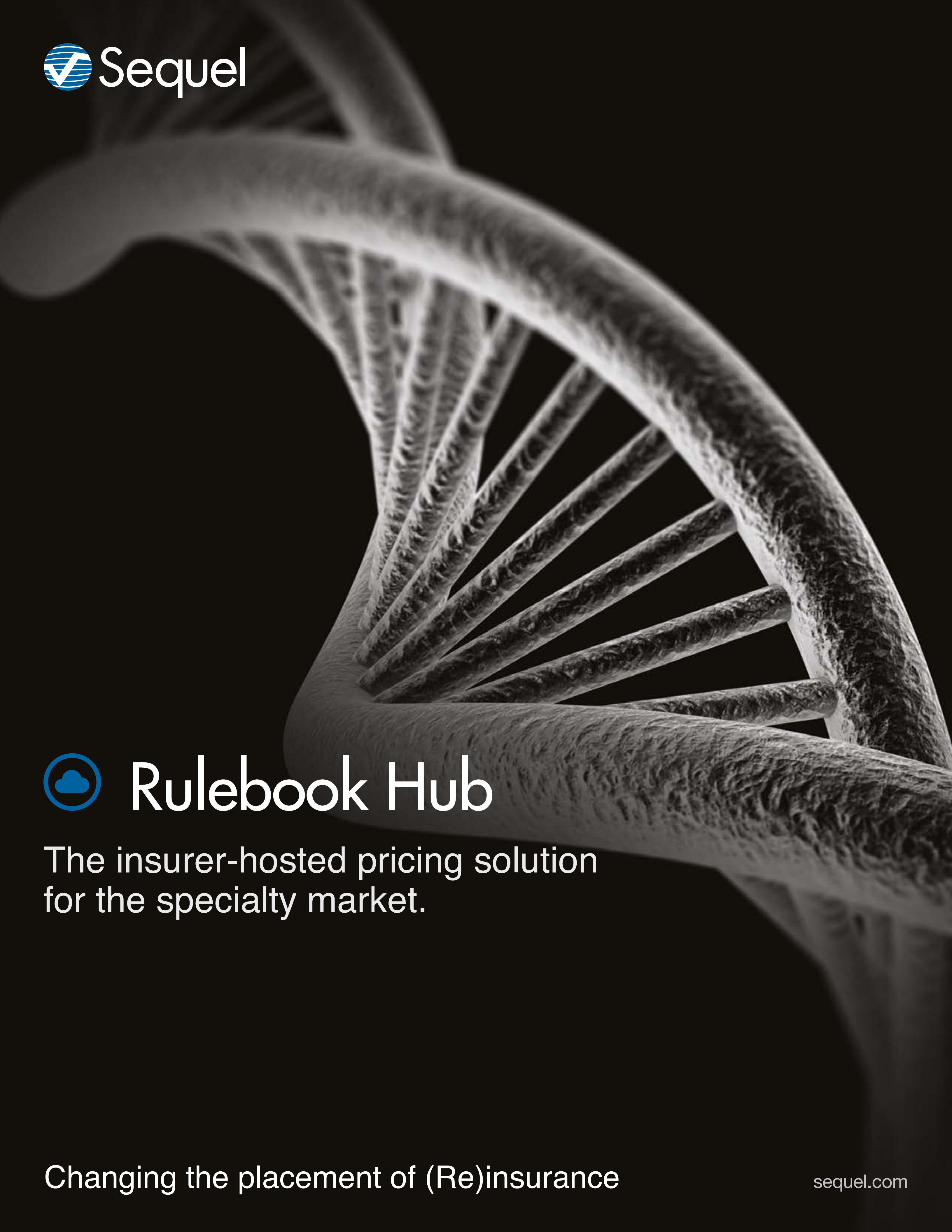
The most recent figures from legal protection companies around the world date back to 2016 and showed a market that was producing more than EUR10bn ($11.01bn) in premium income, annually.

The jurisdictions in which legal expenses insurance is available to improve access to justice is also growing. Recent ARAG launches added Australia and Ireland to our portfolio in 2019 and the total number of countries where some form of insurance against legal costs is available now totals more than thirty.

It seems no coincidence that the countries where legal protection is emerging or growing quickly, like Australia and Canada, have justice systems that share those characteristics with the UK of scoring and ranking highly in most areas, but significantly underperforming in accessibility and affordability.

Like education and health, justice is an expensive but vital benefit for governments to bestow upon their citizens. Underinvestment will quickly reverse advances that have been made over previous decades.

Legal expenses insurance is far from a panacea, but to those that face potential ruin through the simple misfortune of a costly legal dispute it can prove to be as important as insuring against fire, theft or flood.



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A LESS RISKY BUSINESS

James Banasik explains why it is innovative weather risk analysis that will drive the insurance sector's adaptability in a rapidly changing climate

This article is an example of a tipping point. How so? Sociologists describe this as the point at which incidental change has just tipped, via collective communication and acknowledgement, into "radical" or "epidemic" change.

As climate-related changes – both awareness and impact – proliferate at speed, now is the time to quantify future weather risk. Risk directors, underwriters and brokers are asking how the most perilous global crisis of our age will impact business, and how they can navigate this existential threat.

However, there's an underlying story here that offers insights that are more nuanced and real in relation to what is occurring and its implications.

Behind current weather events, weather patterns (or teleconnections) are changing. You will doubtless have seen arresting images of Australia's wildfire plumes taken from space, and heard about the heightened risks to a flooded Venice – a city already frequently submerged. But did you know the very terms that define some natural cycles, which drive perilous events, are no longer applicable?

For example, the quasi-biennial oscillation was named "biennial" in 1948 as it demonstrated a cycle of 28 to 29 months. In 2015, the cycle started heading westwards as normal. In winter 2016 the oscillation broke down, not entering its easterly phase as it had done for the previous 70 years.

To those in insurance accustomed to shrewdly quantifying risk, assessing weather risk is becoming a more prominent and challenging issue.

It is time for the meteorologists, climatologists and data scientists to step in. It is essential to have the ability – and analytic acuity of AI and data science – to analyse past weather before making efforts to predict the future.

In an increasingly risky climate requiring improved and more frequent policy making, worldwide financial systems will have to adapt. In the UK, 2018's "Beast from the East" cost the construction industry £2bn ($2.6bn).

Midwest US flooding and storm costs this spring were estimated to exceed $3bn.

On a global scale, floods have become the most deadly and common natural disaster, affecting 250 million people every year.

All those with exposed assets will be impacted; and the insurance industry – already exposed itself – will be held responsible for the policy making, accurate premiums and prediction that these pressured operators request.

The new weather

Meet the "new weather"; via AI, advanced statistical analysis and the integration of long-term historic trends, weather and natural catastrophe insight has already been transformed.

The insurance industry must note the meteorological intelligence now at its fingertips; global, hyperlocal, cleansed data sets that draw on big data, followed by swift analysis powered by machine-learning.

The application of AI enables longer term forecasting than ever before. High-definition forecasting sees a greater number of analytic grid cells in a forecast model, including incorporation of the effects of local air currents, topography and soil cover.

JAMES BANASIK is founder and CEO of MetSwift

What can now be accessed – should insurance firms act based on the aspirational or nominal embrace of innovation – is increased precision, speed and coverage for future weather risk calculations.

Data scientists, meteorologists and pure mathematicians are the industry's new allies – the cool new kids on the block. Gone are the days of the dismissed weather geek.

As founding editor of *Monocle* Ann Marie Gardner recently stated in her article 'Over the Rainbow' (*Monocle*, No.127): "A combination of catastrophic weather and seismic advances in technology has catapulted the industry's ability to analyse and collect data in new ways from every corner of the world... Data scientists now hold the keys to the kingdom because they actually know and control what's behind the curtain."

Finance needs people with meteorological and climatological knowledge, data mining experience, and industry insight. We are heralding the world's local weather.

Climate myth and reality

The reality of climate change is that its implications are neither uniform nor consistent. Of a random sample (2,202 stations) of cleansed and analysed data from 100,000 weather stations, 25 percent showed a net cooling since 2000.

While it shouldn't be overlooked that 75 percent of stations showed a warming trend (notably around the Black Sea) the proportion of localised cooling trends is prominent.

In November, this cooling occurred in a remarkable 52.7 percent of these stations, demonstrating a global net cooling. The perception of climate change is that risk is increasing. In cooling areas, could it be decreasing?

A perceived uniformity in climate changes belies the reality. Understanding this diversity is the insight that insurance needs to access when quantifying each risk.

In the past, weather data provision has been government-dominated, rather than occupying an innovative white space. The interrelation of climate change, globalisation and disruptive technology has compelled a reversal of roles.

In an erratic climate, it is ambitious and passionate individuals (often cited as those who propel socio-economic tipping points) and the private sector who are stepping up in terms of intelligent, mitigating and adaptive solutions.

As Sella Nevo, senior software engineer with Google Research in Tel Aviv, said in a September blog posting 'An Inside look at Flood Forecasting', "It's an exciting time to use technology to make a difference. It's equally critical we provide that value for free to any government in the world."

At the Penn State Department of Meteorology and Atmospheric Science – one of the top-ranked schools for meteorology in the US – 40 percent of 2019 graduates went into private sector jobs; including areas such as data mining, risk management and geospatial intelligence.

Weather-tech overlap is projected to be worth $4.6bn by 2025.

Innovative provision is creating need. Within the insurance industry, what is being looked for goes beyond accuracy of prediction. The demand is there for the automation of triggers; the ability for underwriters to streamline the brokerage process through speed and accuracy; and progressively appealing costs to clients, commerce, and insurers alike.

Contemporary insurance and the "new weather" can work hand in hand to create systematic change.

Essential human value

Newly intelligent weather risk is evidently up for grabs in economic terms. In the current market, the competitive pricing of premiums is attractive. An underwriter's ability to utilise the disruptive technology of statistical and predictive weather modelling – providing probabilistic, highly accurate and automated results – means substantial losses can be minimised.

A space has opened up for the efficacy that only adaptive human skills can bring.

David Howden, CEO of Hyperion Group, recently asserted the essential nature of human value, citing the cultivation of "people and culture" as an impressive 40 percent of the inherent value within Lloyd's.

Andrew Dunkley, head of analytics at BLM, echoed this in the autumn 2019 issue of *Insider Quarterly*, saying: "Insurers will have to find the right balance between humans and automation. Commercial and speciality insurance is a relationship business, where intuition, judgement and relationship play an important role."

In terms of preparation for, and adaptivity to, climate impact upon insurance processes, individuals possess certain essential skills. These include complex social interactivity, creative and critical thinking, emotive communication and the ability to make radically innovative choices.

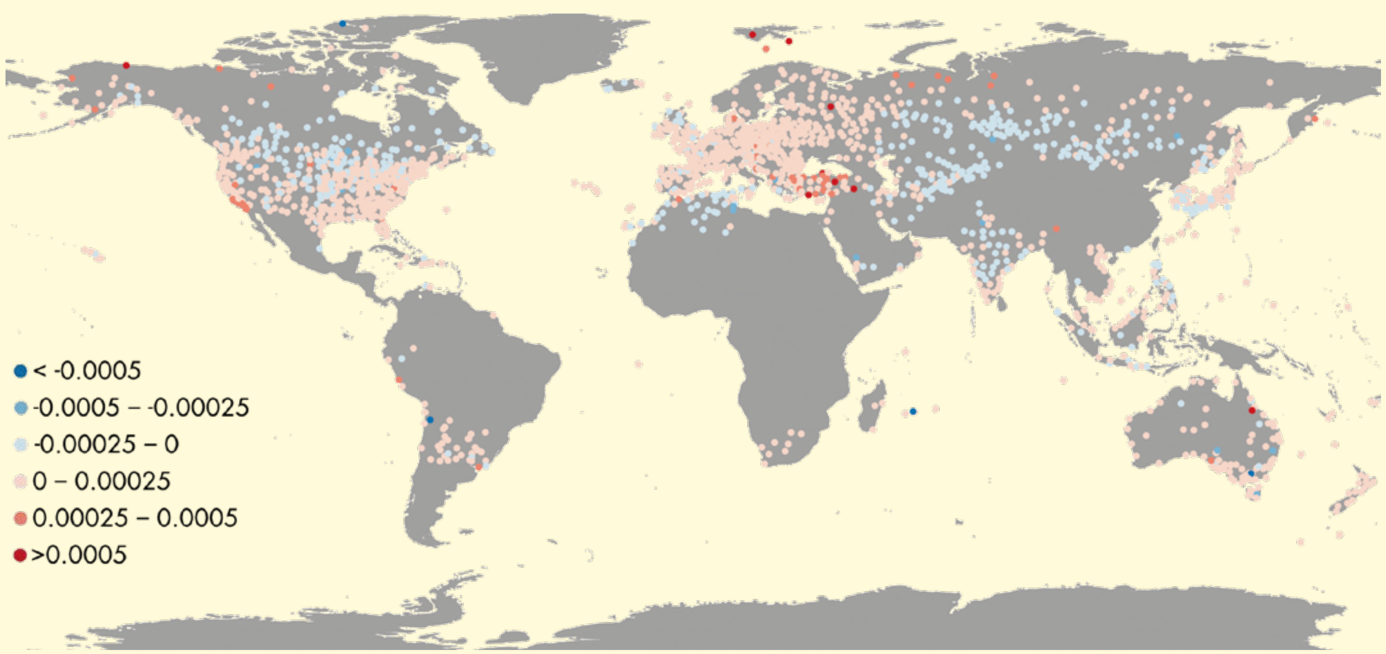
Painfully and ironically for the planet, we are about to enter a new age of meteorological application – a form of digital enlightenment where environment meets data.

Clearly, this could also herald a new age for parametric risk, the quality of insurance decision-making and responsiveness, which could encourage profitability.

The question is, following the tipping point – will you be ready?

Temperature trend since 2000 (°C/day)

Stations recording either increased or decreased net temperature change



Source: MetSwift

RAISING THE BAR

The year ahead will be a pivotal one for Lloyd's and the London market. **Rob Murray** says actuaries will have a major role to play in shaping that future

The London market is set to undergo a period of significant change and nowhere more so than at Lloyd's with the delivery of its blueprint for the future.

Indeed, for the world's oldest insurance market, this will be the biggest shift since its work in the 1990s on reconstruction and renewal, to ring fence past liabilities.

As an industry, we must accept that the current marketplace is one in which it remains costly to do business and where cultural failings have been a barrier to attracting and developing a diverse, talented workforce with high levels of integrity and skill.

We have also seen increasing pressure placed on the businesses within Lloyd's and the wider market to improve planning and actuarial performance. That pressure has not only come from the Corporation of Lloyd's but also from the Prudential Regulation Authority in its recent letters to UK CEOs and chief actuaries, which outline its key areas of concern and will form the basis of its scrutiny of firms in the months ahead.

In terms of the culture, the actuarial profession is making significant efforts to attract people from diverse backgrounds and has been delivering on initiatives to address the skewed gender balance at senior levels of the profession.

It is great to see that these activities are being supported by some of the biggest employers of actuaries in the UK, and any firms not embracing the opportunities will miss out on some of the most motivated and energised talent available – people who will be highly effective in their jobs.

> "There are concerns that the industry has not been adequately reserving for the claims they may be liable to pay, and that there is too much optimism and a lack of transparency in the judgements and assumptions being made"

Reserving issues

The most pressing technical challenge from the regulator is around the quality of the reserving process that is currently being undertaken.

There are concerns that the industry has not been adequately reserving for the claims they may be liable to pay, and that there is too much optimism and a lack of transparency in the judgements and assumptions being made.

This is worrying, and could undermine the trust that businesses and the public place in actuaries. If key judgements and assumptions are not robust and not being communicated clearly, then any failings will lay squarely at the door of the actuaries involved.

We are now seeing prior-year reserve deteriorations on some lines of business, with previous actuarial assumptions proving to have been overly optimistic.

Many have been slow to recognise the impact of claims inflation on pricing and reserving decisions, and this recognition is coming at a time when cupboards may be bare following a long period of poorer underwriting conditions.

The world is changing and, as an industry and as an actuarial profession, we need to change with it.

Many of the most widely used actuarial techniques and approaches are still stuck in the 20th century, developed when the only tools available were a pencil and paper. But the work we do today needs to be fit for the 21st century.

We must be more focused on the back-testing of our models and estimates. When the estimates do not reflect reality we need to go back and ask ourselves not only where we went wrong but also why we have got it wrong.

In addition, we have to recognise that times are changing, and we face a new and ever-evolving risk environment. The losses and trends of the past might no longer be an adequate guide to the exposures of the future.

ROB MURRAY
is a partner and head of the actuarial practice at BDO

Changing assumptions

To adapt to this, we need to be in a position where we can make more explicit and transparent assumptions rather than relying on models with implicit assumptions predicated on the traditional view that past trends will persist in the future.

Making these assumptions explicit will enable greater back-testing to refine model performance and stress-testing to understand and communicate the risks and uncertainties.

Actuaries can no longer undertake their projections in an ivory tower, an impenetrable black box where key methods and assumptions are not clearly communicated, or tucked away in the corner of the office with limited regard for the wider world around them.

You only have to read statistician Hans Rosling's excellent book *Factfulness* to gain an appreciation for how poorly calibrated our understanding of the world really is!

Technology can help in the development of actuarial methods and models, but only if we stand back and take a fresh and objective look at how well our existing models have performed, whether they are truly fit for purpose, and what modelling approaches we should adopt to harness the latest statistical knowledge and technological knowhow.

This comes with a need to improve both the capture and organisation of data we work with if we are to improve performance and enhance value.

Raising the bar

With the increased reporting requirements placed upon today's actuaries, it can be easy to find situations where the majority of the reserving actuary's time is spent on activities which are one step removed from the projection work and deep actuarial analysis, and focused instead on activities like data processing, documentation and cumbersome manual processes.

To redress the balance, it is becoming increasingly important to consider which parts of the overall reserving process can be automated and/or made more efficient. This will enable the actuary to spend more time on those parts of the work where they can add real value.

Actuaries should be considering not just what they are communicating, but how. Is a report with a 100+ page count really the best form of communication, even there is a need for it in order to ensure compliance with actuarial standards and to document the full process?

Are a written report and a one-off boardroom presentation the only and best forms of communication?

How clearly are the most significant issues highlighted and is there a risk that these will be missed or misinterpreted?

Technology is enabling many forms of communication such as videos, audio recordings, dynamic graphical illustrations and more, but many actuaries are not finding or taking the time to consider how these can be harnessed to give life to their communications and achieve maximum impact in getting their key messages across clearly and unambiguously.

> "We need to be in a position where we can make more explicit and transparent assumptions rather than relying on models with implicit assumptions predicated on the traditional view that past trends will persist in the future"

Culture, an improved understanding of the changing world around us, new and updated actuarial methods, improved communications and technical innovations – these are all important issues for the insurance industry and the actuarial profession.

BUILDING ON THE MGU

Insurers increasingly see the value of the MGU as an efficient alternative for building out new business classes, **Dawn D'Onofrio** tells *Insider Quarterly*

The rationale behind the managing general underwriter (MGU) business has become increasingly clear as the model enjoys a boom period. But the recipe for creating real value for clients is not a simple exercise.

It takes a mix of specialised underwriting expertise and economies of scale to take the friction out of expanding into new lines of business.

RSG Underwriting Managers (RSGUM) has carved out a big share of this business in North America, and increasingly the UK and Europe, offering capacity providers a mix of efficiency savings and specialised underwriting.

Industry veteran Pat Ryan's booming MGU business has grown through a mix of organic growth and acquisitions, investing in teams as well as technology, to provide services to match those of any fully grown insurer.

Dawn D'Onofrio, president and CEO of WKFC Underwriting Managers (WKFC) and CorRisk Solutions (CorRisk), is entrusted with running two of the leading MGUs within RSGUM's stable.

Underwriting in all 50 US states, across wholesale (via WKFC) and open market (via CorRisk), her MGUs have a nationwide footprint to unlock client value. She explains why an insurance carrier would hire an MGU.

"Specialised underwriting is something we do well," she says. "We just onboarded a new product line for a large insurer because it's something they couldn't cost effectively do themselves. They didn't have that ability to do it quickly and efficiently."

This is because of the suite of services offered, providing a reduced cost structure and accelerated time to market. Not all MGUs are able to offer this full package, she explains – including everything from marketing, claims, risk modelling, audit and compliance teams to underwriting talent and underlying data and technology.

"The ability to offer all those services is a huge differentiator," she says. "We're nimble enough to get things to market faster and less expensively – with a speed to market of launch within five months. By hiring us, we bring all that added value."

Tech complements talent

D'Onofrio has been in the business for more than 25 years, long enough to understand the changing relationship between technology and talent within underwriting. WKFC also recently celebrated its 25th anniversary.

Technology investment was one of the primary benefits of Ryan Specialty Group's acquisition of WKFC in 2012, D'Onofrio suggests, providing that nimbleness for clients. Bifurcation means she can call on her own resources as well as shared services within the wider group, particularly when it comes to technology and data.

D'Onofrio says that any competitor lagging behind in its own use of data now risks falling further behind the pack in 2020 and 2021.

"I love the data and technological aspect to our business," she says. "Underwriting has changed, and technology is a huge part of what we do. Tech dollars have ramped up substantially within WKFC since being acquired in 2012. Our job is to make the best underwriting decisions by embracing the data. Underwriters need the data to drive better underwriting decisions."

One thing that hasn't changed in the past 25 years is the importance of underwriting talent; except now data and technology are providing the sharpest tools at the underwriter's fingertips. That's why D'Onofrio has made strengthening her management team a focus in the last three years.

"The technology complements the talent. It's all about building the team," she says. "I've been adding bench strength to our underwriting staff and levels of management. We've been working to get great senior management and underwriters in the door, because in our business it's all about the talent."

This means a mix of accomplished and seasoned staff and the right training in place, not just to get best use of systems and technology for technical pricing, but to know how to respond to changing conditions in market pricing.

D'Onofrio has been adding underwriting and management expertise during the soft market years to prepare for the turn in pricing that is increasingly in evidence.

"We are starting to see that happening, and as the market changes we can take advantage of it. Some of the individuals recruited into our industry have no prior experience of going into a firming market.

"It's a struggle to get the rate you need, and retailers and wholesalers on both sides of the transaction probably haven't been through a hard market, either."

Keep the customer happy

Some of the focused lines of business for WKFC and CorRisk are aimed at small and medium-sized enterprises (SMEs).

Technology is perhaps more of a differentiator for small business owner policies than it is for big-ticket commercial lines insurance. Premiums can be as small as $2,500 at WKFC, and as low as $1,000 for such business at CorRisk. Customer experience is vital, D'Onofrio suggests, with the emphasis on speed and ease.

"Customers are demanding we take the friction out of doing business," she says. "These are lines of business we used to classify as SME business but now are described more as micro business.

"You have to get closer to the customer, and those customers are increasingly of a younger generation – they tend to like technology. There may be 20 competitors offering a professional liability quotation for such micro business, for example. Coverage can be a differentiator, of course, but who gets there first is also vital."

Insurance buyers are not the only ones with raised expectations. There is also a trend of carriers increasing their demands for the data they want their MGU partner to provide them.

"The carriers are raising the bar in the sense that they want to see more data. We need to meet those requests, and we've been able to rise to the occasion," D'Onofrio says. "A good example is in catastrophe risk modelling, which we did not do three years ago. Today we do that ourselves. That was a carrier partner request and we're better for it."

The bar for data needs to be continually raised, she says, and is now a much bigger part of the MGU value proposition. Discovering those needs is part of the onboarding process, D'Onofrio explains.

"For the most part the data is there, and we're just packaging it up," she says. "I think everybody has a heightened awareness."

Building out

Recent years have seen RSGUM's business expand into new business classes. WKFC originally began in property business, and has since expanded into casualty lines.

Based in Long Island, D'Onofrio presides over a business spanning 50 US states and with offices in Chicago, New York and Atlanta.

"We just signed a contract to underwrite a professional liability product from January 2020," she reveals. "We've gone from a single product line to multi product lines business. Property is still our largest line of business, but 15 years ago we started to integrate other lines, including general casualty, professional liability, contractors and business owners' policies."

Data is an enabler across the business, she emphasises, underpinning the value of the MGU to clients and customers.

"We invest in data and technology across all lines to improve underwriting profitability," D'Onofrio concludes.

Dawn D'Onofrio is president and CEO of WKFC Underwriting Managers and CorRisk Solutions

THE VISION THING

Frank Murphy, CEO of specialist Lloyd's (re)insurance broker THB, details the firm's strategy going into 2020

***Insider Quarterly*: How is THB progressing with its objective of becoming binding authority market leader?**

Frank Murphy: My vision for THB is to be known as the best, the market leader, on binding authority business, but not necessarily the biggest. Having said that, THB places over $800mn of binding authority business across all lines and we think this makes us the largest binding authority broker in London.

We're keen to attract and retain the best brokers in the market, our data and analytics capabilities are expanding, and we're making it easier for our clients and markets to do business with us.

As well as the hire last year of five senior, dedicated binding authority brokers – all with lengthy experience in this area and who have either built or run successful teams – we've also recruited a head of binder data and analytics.

We're also investing heavily in technology to enhance our proposition. And we're being innovative in other ways too – we're building exclusive and proprietary products, accessing alternative capital and building reinsurance behind our market partners.

***Insider Quarterly*: What aspirations do you have in 2020 for expanding specific classes of business?**

Frank Murphy: We're planning to grow all of our lines of business and build on the 12 percent organic growth we've achieved so far in 2019. In the London market, THB is now the largest wholesale broker (not retailer-owned) and our ambition is to continue on this trajectory by providing a stable platform, attractive compensation and equity structure, the best technology and, most importantly, a unique entrepreneurial culture for our teams. We're in a really good position to be able to achieve all this in 2020.

***Insider Quarterly*: How important is technology to the future success of your business?**

Frank Murphy: We're investing heavily in technology, which we see as a game changer that will continue to empower our brokers and underwriters to better serve their clients and markets. In 2019 we hired a new IT director, expanded our in-house modelling capabilities, started building a new robust binder analytics tool and have been leveraging robotics to help us improve processes.

As part of AmWins, we have the resources of a top global insurance distributor with more than 200 technology specialists around the world to help us stay ahead of the curve when it comes to technology.

Our MGA in London, Unicorn Underwriting, has also built a rate, quote, bind and issue underwriting platform, which complements our investment in underwriting expertise and enhances – not replaces – those all-important brokers and underwriter relationships.

***Insider Quarterly*: You've seen significant revenue growth in your global property book, primarily from the US. What are your predictions for further development in this book – and the wider property market – in 2020?**

Frank Murphy: We're still seeing an increase in submissions for our global property book and are expecting rates to continue to increase through 2020. Personally, I hope Lloyd's makes the most of these market dynamics and doesn't miss out on the opportunity to grow in a hardening market, which has been the case in the past.

***Insider Quarterly*: What else is likely to happen in 2020 in terms of your growth aspirations and the market dynamics that might help to drive that growth?**

Frank Murphy: Our core vision will not change in 2020: we want to be the best wholesale broker in the London market with a culture that attracts and retains the market's best brokers. We're heavily investing in that vision, as I've outlined above, and we're also moving into a brand new, state-of-the-art office at 22 Bishopsgate.

Not only will this totally transform how we work, it also demonstrates our commitment to this marketplace. I'm extremely proud that we won the Broker of the Year award at *The Insurance Insider Honours* this year. In 2020, we have everything in place to build on that success.

Frank Murphy is CEO of THB

CHANGING OF THE GUARD

Pressure in the London market means opportunities in 2020 for AM RE Syndicate, according to the specialty reinsurance MGA's chief executive **Shevawn Barder**

Improving pricing and some notable exits of capacity providers from the US specialty market spell opportunity in 2020, particularly if the US economy remains strong.

That's according to Shevawn Barder, CEO and principal of AM RE Syndicate, a managing general agent (MGA) and Lloyd's coverholder focused on US specialty quota share reinsurance business.

"We're at the time of the year where we look to wrap up existing contracts as well as new ones, and we see the market is improving in the space where we operate. Rates are beginning to harden, conditions are improving and the pain experienced elsewhere is good for our business model," she says.

Rising retrocessional costs are expected to drive a tightening of capacity, leading to increasing pricing pressure on the primary market, she thinks, adding to the opportunities next year.

"With underwriting discipline and a structured approach, we will look at 2020 with a positive perspective," she adds.

These good vibes are underpinned by faith in the resilience of the US economy remaining strong relative to those of other countries.

"We have a purely US domestic market book and we see the market continuing to strengthen in 2020. Things in Europe may be challenging, but we think the US economy is going to hold, and we see positivity about interest rates and consumer attitudes. We might not have the same growth as previously, but the economy remains strong, and that means our trading position continuing to improve as 2020 unfolds," Barder continues.

She backs up this optimism by underlining the boutique MGA's growing product mix. Cyber business is the next area for expansion for AM RE, which sells quota share reinsurance exclusively to the US market on behalf of its international panel of capacity providers.

"We're dedicated to underwriting discipline and looking for opportunities to expand in a controlled way. We've added commercial auto, general liability in past year and in 2020 we want to add cyber business," she says.

"We're focused on providing cyber coverage for the SME market. We're investing time and effort to work with our securities to create the right comfort level on this class of business. That means $1mn limit, grass roots, low-level, standalone SME cyber business, with the emphasis on keeping cyber exposures and accumulation risks firmly in a box."

> "A coverholder at Lloyd's, AM RE mulled over launching its own Lloyd's syndicate, but amid a review of businesses classes ultimately decided to go its own way"

Go your own way

In 2019, AM RE underwrote more than $250mn of business on behalf of its global capacity providers, a sharp rise from just $12mn back in 2014, when Barder formed the business with her husband, CUO and fellow principal Simon Barder.

Before launching AM RE, she was president of Ironshore Marine Re, having held senior roles at Marine Re, Sedgwick, Alexander & Alexander and Willis.

A coverholder at Lloyd's, AM RE also pondered launching its own Lloyd's syndicate, but amid a review of businesses classes decided to go its own way.

Barder says the US quota share portfolio built up from its New York and Florida headquarters allows "considerable volume, as well as spreads in risk and geography". AM RE's existing specialty book encompasses inland and ocean marine classes, commercial auto and transportation risks, niche property and general liability business.

The US market MGA's expansion has been in parallel to withdrawals from specialty business elsewhere in the market – particularly among Lloyd's and London market carriers. Keeping a disciplined approach and objectives in mind leads to niche opportunities in an environment where rivals are pulling out of entire classes, she thinks.

"We operate in a niche within the specialty programme space, and what we've seen in the course of 2019 is a changing of the guard or retrenchment of the Lloyd's market from the excess and surplus (E&S) space," she says.

There has been confusion among cedants, particularly around the exits from the marine market and US casualty business, she suggests, adding that AM RE is well placed to capitalise on the situation.

"We're poised to take advantage of that. We support the integrity of the primary market and we don't seek to compete with it. We specialise in quota share reinsurance and by partnering with the best in class among the primary market, we want to enhance their position," she says.

Partnership approach

These partnerships with clients are a big part of AM RE's business proposition, which goes beyond what is typically offered by an MGA, Barder explains, working with cedants to improve their positions.

"We're able to critique the accounts we write. We have a database built up over the past 20 years to benchmark rates and conditions against that database. That helps us communicate with the ceding companies.

"At a technical pricing level, we have the data to understand the rates they should be charging. We also have the experience and expertise to advise how their reinsurance programme should be structured so they can get the most out of the market."

Location is key to her plans.

"It's about geographic distribution. We want to get into an area and dominate that area," she says. "As an MGA underwriting distinctive geographic areas, each class of business is hedged against the other class and gives balance to the portfolio."

Closeness to the market is also important to Barder.

"A lot of these classes are difficult to write successfully at a distance, if you don't have that mix of primary market expertise and sophistication. What's needed, at times, is a hands-on approach, to know the right rates, and to know who the local brokers are, for example," she explains.

"You need a disciplined approach, and you can't just sit back in an underwriting box and wait for the income. We go out to see clients and brokers to better understand them, their situation, and their needs."

> "We operate in a niche within the specialty programme space, and in 2019 we've seen a changing of the guard or retrenchment of the Lloyd's market from the E&S space"

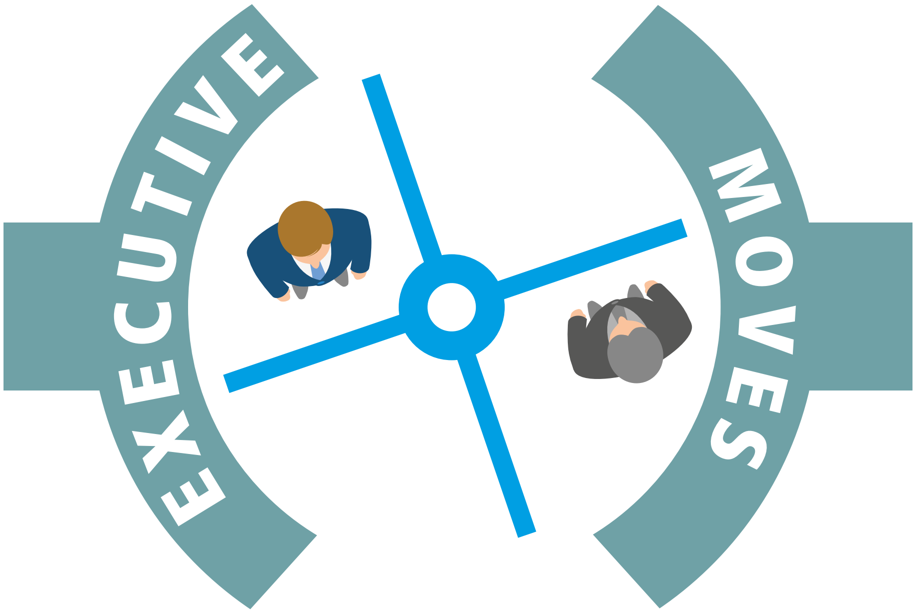
Looking ahead to 2020, Barder expects some London market players to continue to struggle.

"We're in an interesting place," she says. "There are going to be people that do well and people that don't do well. I foresee more pain for Lloyd's carriers in 2020 because they have moved into severity classes of business and because of their ongoing expense issues. We're poised to take advantage of that."

Not counting AM RE's planned expansion into SME cyber business, she expects her own MGA portfolio to grow across existing lines of business, for her panel of capacity-providing securities.

"We're uniquely positioned in the US market to understand the players on the ground. We're going to continue to invest in the right opportunities while keeping commissions and costs down," she says. "Our books of business are going up, in part due to primary rate increase and also because as we become better known we're approached with additional opportunities. We're going to capitalise on that in 2020."

Shevawn Barder is CEO of AM RE Syndicate



The ins and outs of the executive job market

Mark Watson III

Argo CEO Mark Watson III has stepped down from his post with immediate effect, but will stay with the business as a director until the end of the year. Kevin Rehnberg, president of Americas and chief administrative officer, has taken up the CEO role on an interim basis. Watson had been CEO of Argo and its predecessor company since 2000.

Matthew Fosh

Axis Capital executive chair for Europe Matthew Fosh is to leave the company at the end of the year. The former Novae CEO has overseen its integration after it was acquired by Axis in 2017. Fosh's next destination is not known but he will continue as chairman of Axis' Irish subsidiaries in the short term.

Kevin Kelly

Liberty Mutual Global Risk Solutions (GRS) vice chairman Kevin Kelley is to retire from the company at the end of 2019. Kelley was CEO of Ironshore from 2008 to 2018, and took a leadership role at the new GRS unit after Ironshore was purchased by Liberty in May 2017. Prior to Ironshore, Kelley was CEO of Lexington Insurance.

Andrew Behrends

Andrew Behrends, CEO of Integro Group Holdings, is to step down from his role on 31 December for "personal and family reasons", but will remain as an adviser to the board. The company will seek to hire a UK-based CEO to replace New York-based Behrends, and will be run in the interim by a committee comprising heads of global broking Jason Collins and David Abraham and CFO Andy Westenberger.

Nigel Frudd

Sompo International CEO Nigel Frudd is to move into a new position and will be replaced by Sompo Holdings chief strategy officer Mikio Okumura, with effect from 1 January. Frudd replaced John Charman as CEO last December, after the latter became head of group overseas operations. Frudd will still be responsible for overseas M&A and will act as special adviser to group CEO Kengo Sakurada.

Chris Fischer Hirs

Allianz Global Corporate & Specialty (AGCS) CEO Chris Fischer Hirs stood down at the end of November, to be replaced by Joachim Müller, who previously led the P&C division of Allianz's domestic German operation. Fischer Hirs joined Allianz in 1999 as CFO of Allianz Risk Transfer, before joining the AGCS board in 2007 and assuming the position of CEO in 2015.

John Turner

Ed has appointed John Turner as chairman of its recently launched Bermudian operation, reporting to Ed Bermuda CEO Chris Bonard. He joins the broker from Aon, where he was chairman of the commercial risk solutions arm for the UK and the Americas. Prior to joining Aon Turner held the positions of deputy chairman and managing director at Alexander Howden.

Peter Clune

Lockton has picked Peter Clune as its next CEO, as of 1 May 2020, replacing Ron Lockton, who is stepping into the chairman's role. Clune became US president and chief operating officer of the firm in May 2017, having first joined the business in 2006 from Zurich. At the same time, David Lockton will step down as Lockton chairman, to make way for his nephew Ron.

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