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Spring 2020

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Cultural and commercial imperatives must coincide to drive e-trading uptake

The isolation blues

As is often the danger with a features publication – especially a quarterly one – events can overtake you, making even the most zeitgeisty or forward-thinking article look a little stale.

Few could have predicted that the event which overtook this issue of *Insider Quarterly* was going to be a global pandemic. Certainly not the UK government, whose preparations for the Covid-19 coronavirus outbreak appear to be woefully out of step with some of the most successful attempts by administrations to limit the spread of the disease – particularly those in South Korea, Singapore, Taiwan and Hong Kong.

What is noticeable in all these cases is that they have already had a taste of dealing with a coronavirus epidemic, namely the Sars (severe acute respiratory syndrome) outbreak of 2003, and have therefore had the opportunity to refine their response to future outbreaks.

Meanwhile, other wealthy developed countries like the UK and the US appear to have lagged behind in their response times, and have struggled to meet the demands for critical equipment such as ventilators and personal protective equipment for frontline workers. This lack of preparation is puzzling at best in such countries, but this seems to be at heart a political issue.

This is a worrying time for many people whose livelihoods are severely compromised by the current lockdown, with those in the leisure and hospitality trades particularly badly affected.

It is heartening to see, therefore, that in the (re)insurance world a good deal of thought has been given to preparing for the extraordinary circumstances that we now find ourselves in and the sector as a whole appears to have swung into action with very little hesitation.

Lloyd's gave a public demonstration of what many firms (including our own) will have been doing in the period just before the UK government issued an injunction for the majority of the public to stay at home, enacting a one-day shutdown of the underwriting floor to test the market's resilience in the face of enforced home working.

Fast-forward a week and a half and virtually the entire market is working from home – and while it can hardly be called business as usual, it is continuing business.

However, while the (re)insurance market is to be congratulated for its own response to the global situation, there have already been dark mutterings from politicians and insureds – in addition to a number of court filings – about the extent to which the economic impact of Covid-19 is likely to be covered by insurance.

In many cases, it seem likely that pandemic cover will have been explicitly excluded or maybe offered as an affirmative cover for additional premium, but with some fairly strict terms and conditions.

What seems certain, however, is that this unsettling and, for some, tragic event will represent a complex and challenging, but very meaningful opportunity for the (re)insurance sector – with the ILS market set to play a significant part in bringing credible solutions for pandemic cover to market in future.

Stay safe!

Gavin Bradshaw
Editor, *Insider Quarterly*

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Spring 2020

MALWARE

Only connect

Anna Sagar ponders the need for cultural and commercial imperatives to coincide before e-trading can achieve greater prominence in the insurance sector

If you asked anyone in the London market what would cause the Lloyd's underwriting room or EC3 to close down you would either have been greeted with scoffs of incredulity or some description of an apocalyptic disaster.

However, it wasn't a war or some natural disaster but a global pandemic that forced the underwriting room to be shut for the first time in Lloyd's 334-year history.

Even before the closure the number of underwriters and brokers had been dwindling in the Square Mile as Covid-19 caused firms to take serious action and mandate home working.

However, this would not have been possible before the advent of the internet and desktop computers, which have allowed more and more risks to be transacted online.

E-trading, or electronic data interchange, is becoming more and more prevalent in the insurance industry. Whichever way you define it, whether it is submitting risks by emails, via an external platform or a company's own internal system, electronic trading has long been heralded as the future for the insurance market.

Both brokers and carriers can exchange more information and place more business digitally than they have ever have done previously, with the latest figures from Lloyd's PPL showing that up to 80 percent of risks are now placed electronically.

There is also a proliferation of platforms, with brokers and carriers creating their own internal platforms and technology companies or InsurTechs advocating for their own solutions.

More and more risks are being placed electronically than ever before, but will a future where all risks are placed digitally be a utopian or a dystopian one? Is such an outcome actually feasible and, even if it is, is it desirable? In addition, what is standing in the way of the market getting there?

Stumbling blocks

The most prevalent argument as to why progress on e-trading has been slow has been due to people and culture.

The maxim goes that the traditional insurance industry does not embrace change – or anything new – and older brokers and underwriters do not want to switch to a system that is not a classic binder of paper, and want to keep up the face-to-face ritual of going to a pub in EC3 to thrash out a deal.

According to Bronek Masojada, Hiscox CEO and chairman of PPL: "The challenge is not the technology capability but how to persuade people to implement and persuade people to change."

Louise Day, director of operations at the International Underwriting Association, adds: "Anything new has issues with acceptance and the London market has no single body to drive behaviour, no one organisation only paying bonuses to those that trade electronically and no CEO to tell everyone to 'play nicely'."

However, Lloyd's mandating electronic placement has created a "tipping point" as "no one can ignore" e-trading anymore, Day notes. "It has also proved it is possible to trade electronically and [has] spawned investment in alternative platforms. Competition will inevitably drive more innovation and better platforms."

While culture is an important factor, it is not fair to tar all underwriters and brokers with the same brush.

According to James Willison, managing director and executive vice president of Web Connectivity, which provides messaging services and structured data solutions to the London market: "Brokers and underwriters use tech in their day-to-day life. They are not against tech but the benefits have not been sold to them."

Willison adds that e-trading in its current form means that brokers and underwriters have to backfill information, so it has not actually made the process more streamlined.

"It is adding steps in to the process. That is the challenge, because it doesn't make your life easier [and] it should."

Marcus Broome, chief platform officer at PPL rival Whitespace, says: "I often hear people say that it is solely a technology problem or it is a culture problem but it is both."

One stumbling block cited is where the e-trading agenda is set. If it is set internally then it is seen as the responsibility of the IT department, which is likely to have many other responsibilities, but also may not want to look for external partners who they might feel are encroaching on their territory.

Simon Cooter, who is a strategic adviser at e-trading InsurTech Quotall, says: "Having people responsible for seeing that part of the marketplace is important. Innovation and digital transformation are left to IT teams, and IT teams aren't interested in funding partners, [because] they fear it will take [responsibility] away from them.

"It needs people in the business to say, 'What are we good at and how can we integrate components to make us better?' You can't do that sat at a desk – it needs real focus or we will be left behind."

It is not only a question of resistance to change on the part of individuals working in the insurance industry. The technology that is available and the way it interacts with current systems also presents a challenge to implementing wider e-trading.

Willison says the proliferation of e-trading systems is a positive in some ways, as it drives competition and spurs innovation. However, with Lloyd's alone involving around 17 different registered electronic trading partners, there is a growing issue of duplication. In order to do business electronically, an underwriter or broker has to remember 17 different logins and how to use 17 different systems.

The familiar problem of legacy

Continued on page 08

"The volume of risks that are end-to-end transacted through the risk life cycle, from quote to bind, via electronic platforms is still relatively low"

Lloyd's electronic placement partners

Company	System
Aegis	Opal
Connect UW	Connect Marketplace
Dotlabs	Dot Trade
Ebix	Marketplace
Ebix	PPL
Ed Broking	TradEd
Flovate	LEAP
Guy Carpenter	GCMP
Hiscox	MEL
Hiscox	Portal Plus
Insured Creativity	GLIDE
Moore Stephens	Rulebook
Stonehatch	Pebble (Markit Systems)
Whitespace	Whitespace
Willis Towers Watson	Mercury

Source: Lloyd's

Continued from page 07

technology also rears its head, as e-trading products have traditionally been built around companies' existing legacy systems.

Quotall's Cooter says: "The chance of doing it on legacy technology is practically zero. Either you invest in new technology or you work with a new InsurTech or FinTech – but you work with those who are really good at what they do."

Masojada adds that updates to systems also pose a challenge as with every update companies have "to go through stages of grief".

Another issue that is commonly cited is that e-trading initiatives are often overambitious and promise the moon when they should just be trying to get off the ground successfully. As Masojada says: "In London we gorge on ambition and then wonder why we have indigestion."

He says that timelines can also sometimes be overambitious, while underwriters would prefer that a project was delivered in 12 months and be on time, rather than being promised a six-month turnaround, only to have the delivery deadline repeatedly pushed back.

A final stumbling block is that e-trading has not been uniform across certain risks, meaning that certain syndicates and businesses that specialise in more complex risks are not able to electronically trade.

As Tom Clementi, CEO of MS Amlin Underwriting Limited, says: "The volume of risks that are end-to-end transacted through the risk life cycle, from quote to bind, via electronic platforms is still relatively low. The biggest challenge for the industry will be placing more complex risk types via electronic platforms."

Increasing the uptake

These issues have had their impact on the take-up and efficacy of e-trading, but they are increasingly being recognised and addressed by the insurance sector.

One factor that has been highly influential in increasing the flow of e-trading is Lloyd's mandating of increased electronic placements, in addition to the compulsory reporting on accepting in-scope risks, and the recently-added submission statistics.

Lloyd's targets, and the naming of the best and worst syndicates in this respect, has made e-trading a priority and put it firmly on the agenda for many firms.

The same kind of mandating and targets are being used in the London company market, but having the oversight and impartiality of an external body, such as the London Market Group (LMG), helps to make the process more transparent and independent.

Another driver is the growth in use of external InsurTech partners, with companies like Whitespace garnering support from the likes of the British Insurance Brokers' Association, MS Amlin and others. As such partnerships, which for many firms are still fairly new, start to bear fruit, the notion of an InsurTech-enabled transition to e-trading will get more buy-in from the market and encourage increased take-up.

InsurTech partners will also learn the intricacies of the insurance business and will be able to adapt their products for different clients, meaning that electronic trading should be possible across an increasing number of classes.

When talking about electronic trading it is inevitable that, sooner or later, one has to consider the potential impact of global technology giants such as Facebook, Amazon, Apple, Netflix, Google and Microsoft.

These companies are often regarded as the bogeymen of the insurance world, with opinions varying dramatically as to whether their input to the industry is desirable or beneficial.

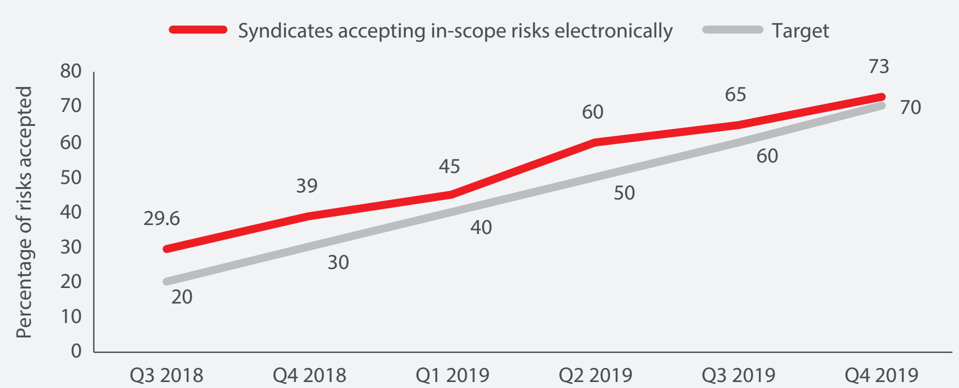
In a recent InsurTech impact report consultancy firm Oxbow Partners said the entry of these companies into the market would not "signal a death knell to incumbents", as non-insurance entities wouldn't necessarily want to carry insurance risk. The consultancy firm advised insurers to do their utmost to "connect to these super-gatekeepers and serve their needs effectively".

"Big technology firms will be profitable intermediaries for those carriers who can deploy capital efficiently," it noted.

Towards 100%

The overall sentiment among insurance market participants appears to be that 100 percent e-trading is not a desirable outcome, as it will fail to account

Percentage of risks accepted electronically versus target



Source: PPL, London Market Group

for the unique value-add of the human touch. The argument is that an underwriter or broker who has been working in their sector for years – decades, perhaps – can add something to a transaction or relationship that can only be learnt over time.

The most recent statistics from the LMG show that in the fourth quarter of 2019, Lloyd's syndicates accepted 73 percent of in-scope risks electronically, at the point when the risk was bound, beating its e-trading target by 3 percentage points.

Considering that in 2018, when the reporting mandate was introduced, the average number of risks accepted electronically was 29.6 percent, this is definitive progress. This is also partly due to the fact that more risks have been onboarded to the system.

The target for the next quarter is 80 percent, and while there has demonstratively been progress, increasing the amount e-trading remains desirable.

"We are miles away from where need to be with technical side, to remove inefficiencies and duplication. A huge increase is desirable," Cooter says.

Masojada says that 100 percent e-trading is not necessarily desirable, however, with 80 percent take-up set as the target for PPL.

He says more of the process could be done electronically and that there will come a time when the whole process is digitised to some extent.

"At the moment we are doing the core stages but not the entire process. We have digitised steps one and two of a four-step process because everyone was focused on that. Step one is quotes, step two is bind, step three is claims and step four is accounting and settlement."

There are also areas that could be done completely digitally, according to Web Connectivity's Willison.

However, even the complex risks should not be ruled out of e-trading completely and may just need a perception change.

Tom Squires, head of Aegis's online platform Opal, says that rather than thinking about what risks can be done electronically, insurers should think of what can't be done electronically and then work backwards.

Future initiatives, such as the risk exchange from Lloyd's, may also drive e-trading closer to 100 percent take-up, according to MS Amlin's Clementi.

Future of e-trading

Given the challenges – and perhaps the undesirability – of achieving 100 percent e-trading in the insurance market it seems unlikely that a totally electronic marketplace will be achieved in the short term, if at all. But that does not mean that e-trading will not become a ubiquitous part of life in the insurance market.

Events like the current coronavirus pandemic throw into sharp relief the need for more flexible working – not as an optional extra, but a must-have for the future of business.

The City has gone quiet, with the majority of brokers and underwriters mandating that employees work from home to curb the spread of the virus. Coronavirus has inadvertently shifted e-trading from a backburner issue to something that could make or break businesses.

According to Quotall's Cooter: "There has been a tendency to take existing product and build e-trading solutions around the front of that. Now businesses are actually designing propositions around digital. This is how customers are doing things and that is much more exciting than applying additional front end to something that isn't suitable."

A new generation of underwriters and brokers who have grown up in a digital age will increasingly embrace and rely on e-trading, according to Willison.

> *"The most recent statistics from the LMG show that in the fourth quarter of 2019, Lloyd's syndicates accepted 73 percent of in-scope risks electronically"*

Whitespace's Broome says that technology has increased expectations and the industry will similarly want more from e-trading platforms, with usability becoming an increasing focus.

The next big developments will be made around structured data, which in turn will allow more complex risks to be electronically placed.

Systems will also become application programming interface-enabled so that they can integrate seamlessly in to a broker's or underwriter's current workflow – taking the effort out of electronic trading.

More external partners will drive competition and innovation, potentially pushed by an influx of technology companies which are increasingly seeing opportunities in the insurance space.

"If I was working for any insurance company I would look at where the world is going to change. It is going to change faster – and in the next five years more than at any other time – and you either get that and get to front of the queue, or you don't," says Cooter.

There may come another time, like during the Covid-19 outbreak, where – even if they want to – people in the insurance industry are not physically able to meet face-to-face to transact business and build relationships. Increasingly, e-trading technology should be seen as the tool that can facilitate that human interaction.

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Great expectations

Charlie Thomas and **Rachel Dalton** speak to Steve McGill, the eponymous founder of the boutique broking world's rising star

These are strange times we find ourselves living in. Mere weeks ago, the biggest stories in our world of (re)insurance revolved around M&A – particularly within the broker sphere – and the question of whether the hardening market would continue.

At the time of writing, the world has drastically changed – all of us forced into remote working, all of us forced to watch and hear via 24-hour news about the horror of Covid-19 unfolding globally, and all of us wondering how long the new reality will last.

It's telling that the most-streamed films on various media outlets are all disaster movies – ranging from zombie classics to apocalyptic futures, with even James Cameron's Titanic making an appearance. The public finds comfort in convincing itself that things could be worse – the world could look like that.

I Am Legend, a novel by Richard Matheson later turned into a film starring Will Smith, is more nuanced than most horror schlock, being less about vampiric zombies and an apocalyptic world, and more about how the human being copes with isolation and loneliness.

Take these short quotes, all of which could apply to your more morose thoughts today:

"Outside, there were birds sometimes and, even lacking that, there seemed to be a sort of sound outside. Inexplicable, perhaps, but it never seemed deathly still in the open as it did inside a building."

"From that day on he learned to accept the dungeon he existed in, neither seeking to escape with sudden derring-do nor beating his pate bloody on its walls. And, thus resigned, he returned to work."

"Monotony was the greater obstacle, and he realised it now, understood it at long last."

Of course, this is overdramatising the situation today. These are challenging times for sure, but they're not without hope, without innovation. And true leaders will use this as an opportunity to shine.

Launch+1

A year ago, McGill and Partners announced its Warburg Pincus-backed launch to the market, amid much fanfare, huge amounts of anticipation and a hunger for a genuine specialty alternative to the big three broking houses.

But a number of questions hung around the neck of that launch: is hiring top talent enough to persuade carriers to junk their relationship with their incumbent brokers and come on board; could it compete with the lack of regional network and the data mines of its peers; and could it become a credible retail player without looking too much like a direct competitor to its wholesale peers?

Twelve months on, the big three is about to become the big two, the hardening marketplace has intensified and founder and CEO Steve McGill's eponymous broker has its first 1 January under its belt.

His take on Covid-19 is typically stoic. "Right now, we are 100 percent focused on maintaining professional levels of service for our clients and protecting our staff," McGill says.

"One lesson that can be learned from this is that it is essential for all parties to have the ability to operate remotely and digitally, and we see the event really accelerating the digitalisation of the insurance industry.

"With brokers and carrier partners forced to work remotely, this event could in fact revolutionise the way that business is conducted in the market, driving the need for greater efficiencies. In addition, this event will likely also lead to enhanced product innovation and differentiation to help address some of the risks of pandemics, and their impact on businesses."

McGill anticipates an increase in the demand for pandemic coverage, noting that the industry will have to work with governments and businesses to develop ways to deal with this type of crisis. An increase in the modelling of these events to enable insurers and companies make better decisions on risk financing is also likely, he adds.

And while today the insurance industry will, in the main, seek to exclude large, highly correlated events such as pandemic, carriers won't escape paying covered policies such as travel and credit insurance, the CEO continues. On top of that, it will be imperative for brokers and carriers to monitor global government mandates that might alter aspects of coverage.

"On a broader note, it is vital that companies maintain close contact with their brokers to understand coverage issues. It is also essential that they clearly communicate with their brokers and carriers on decisions they are making during this crisis that may impact coverage," McGill notes.

"Clients need a broker that fundamentally understands their business, has deep expertise in relation to the coverage under their policy and has excellent market contacts. Open communication remains absolutely key to building workable solutions. Brokers need to have empathy for the stress that people may be under from a professional and personal point of view. Long term, deep, trusting relationships have always been forged through delivering in difficult times."

New broker landscape

In more normal times, we might have focused on Aon's takeover of Willis, announced days before coronavirus started to dominate the airwaves, and arguably the biggest structural change in the history of insurance broking.

"It will have a huge impact for clients and colleagues, and significant implications for carriers," McGill agrees.

And while the deal creates a broker with an "impressive breadth of services and capabilities for clients", McGill believes the development is a further reinforcement of his firm's strategy, to build a highly specialist broker led by practitioners.

"Specifically for clients, the takeover limits [their] choice, which is not great for the industry and inevitably creates potential destabilisation of client service teams," McGill says. "For carriers, the concentration risk has increased very substantially, presenting obvious challenges.

"[And] for talent, a substantial number of employees will be in the category of synergies. From McGill and Partners' standpoint the assets of the firm are the talent within it...this opportunity has now been massively amplified."

On the question of whether McGill and Partners can compete

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"One lesson that can be learned from [the coronavirus outbreak] is that it is essential for all parties to have the ability to operate remotely and digitally, and we see the event really accelerating the digitalisation of the insurance industry"

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with its peers on specialty placements, there were some encouraging signs at 1 January. Although the company's treaty business wasn't up and running, the specialty business was, and the broker is now handling some $300mn-plus premium throughput.

"Q4 going into January exceeded our expectations," says McGill. "We now have – and bear in mind our business is building out at different paces, with reinsurance really [only coming] on stream this year – but as we sit here today, we have 104 BORs [Brokers of Record] from across a range of clients."

That's up significantly from the 55 McGill spoke about during *Insurance Insider*'s London Market Conference in November 2019.

"What I'd also say is that we focused on bringing in incredible talent that think innovatively, [and] have deal-making skills... and relationship skills," McGill continues.

"Quite often people underestimate the importance of relationships in the market. If you work closely as an intermediary, either with clients or with carriers, there's a lot of trust there. Those characteristics become even more important when you're dealing with a market that's changing, and both clients and carriers gravitate to practitioners who have that level of depth and experience."

Top talent is certainly something McGill can boast in spades. The broker launched with a management team that included former Hyperion executive Oliver Corbett (as the broker's CFO), former Tokio Marine Kiln COO Denise Garland (as COO) and former Aon chief innovation officer Stephen Cross (as head of strategy and innovation).

Additional senior broking expertise joined in the form of former Willis CEO Dominic Casserley – currently a senior advisor at Warburg Pincus – and Tim Wright, another Willis alumnus and director of much-fancied start-up Archipelago Analytics, taking up a non-executive directorship.

Between launch and October 2019, McGill's team managed to recruit and on-board 131 staff, as well as negotiating a progressive deal with Marsh & McLennan, which enabled the new broker to offer clients the opportunity to work with McGill and Partners, as well as taking a cross-section of JLT talent into the firm.

"As of today, we have 149 full-time colleagues in the firm from 28 different firms. So it's been a very broad cross-section of talent.

"We have another 67 colleagues who are serving their notices in the garden – when you bring those in you're getting nearly up to 220 professionals. And we're in active discussions with 26 other talented professionals," McGill says.

While the attraction of working with McGill – a 40-year veteran of the London market, having worked at Lloyd Thompson, JLT and Aon – is certainly a big draw, many of the recruits will have been impressed by McGill and Partners' progressive benefits package.

Employment contracts are considered "contracts of trust", McGill says, reflecting the broker's offer of limitless annual leave to staff, 12 months' maternity leave at full pay, six months' paternity leave at full pay, and carers' leave.

All staff also naturally receive competitive pay and bonuses, as well as equity in the business.

But McGill thinks it's the blueprint of the firm that attracts staff too. Right from the get-go, McGill and Partners decided it would not be a broad, full-service retail broker or a big London wholesaler. Instead, it would be a boutique, specialty firm – practitioner-led – that would "go narrow and deep in our capability", and focus on the design and structure of placements for clients with special or complex needs.

> *"For clients, the [Aon-Willis deal] limits [their] choice, which is not great for the industry and inevitably creates potential destabilisation of client service teams. For carriers, the concentration risk has increased very substantially, presenting obvious challenges"*

Expansion plans

The next phase is to establish a New York presence, focusing on working in partnership with strategic retail brokers to offer placement and specialty expertise, McGill explains.

"When I say in partnership, that's helping them build their business whilst using the expertise that we bring to the table. It's also the ability to connect with the larger corporate accounts with sophisticated risk membership and departments, and with captive insurance companies where we'd be providing reinsurance solutions."

McGill's reinsurance business will come onstream in earnest in 2020 too, with big-name hires in Guy Carpenter's Paul Summers and Aon's Angus Milgate coming on board.

"We are really excited to have Paul joining us in a few months' time to lead our facultative reinsurance capabilities. We see that as a core strength of the firm, both in terms of providing services to corporate clients and also services to cedants," McGill says.

"In addition, we have Angus joining who will be helping drive our treaty business. In the interim period, a number of colleagues, both on the facultative and the treaty side, will be joining us as well.

"We have an office that we've opened in Miami, just as a gateway to the Caribbean and Latin America reinsurance and that's specifically for facultative reinsurance. And then we're looking at similar capability in New York."

Asked whether its private equity backing means McGill and Partners is open to jumping into the M&A fray itself, McGill is cautious. His focus has always been on an aggressive acquisition of talent, rather than firms, and the present frothy multiples for those firms left on the shelf are doing nothing to change that strategy.

"I think there are many high-quality firms out there… [but] you can debate whether the multiples are at the right levels," he says.

And while M&A activity amongst brokers is likely to continue – including further large-scale M&A that redefines the landscape – McGill would rather sit on the outside and "take advantage of those situations" for now.

"We like the fact that Lloyd's is trying to separate out the more complex specialist insurance and reinsurance placements from the more standardised placements"

Technology as enabler

Returning to the topic of technology, McGill believes there's a happy medium to be struck between striving for efficiencies and preserving the best of our industry's practices.

"Face-to-face relationship skills and relationship building will never go away. Technology just amplifies everything and enables us to handle more business more efficiently [as well as enabling] us to accelerate our going-forward agenda over the long term," he says.

"We're not that phased about proprietary versus non-proprietary; it's actually just that technology is a great enabler to our business and should be fully embraced."

Embracing technology is central to Lloyd's of London's plans too – and McGill has been a vocal supporter of CEO John Neal and his Blueprint One vision.

While M&A activity amongst brokers is likely to continue – including further large-scale M&A that redefines the landscape – McGill would rather sit on the outside and 'take advantage of those situations', for now

"We like the fact that Lloyd's is trying to separate out the more complex specialist insurance and reinsurance placements from the more standardised placements. And as part of that process, they're wanting to maximise the use of technology and begin to challenge both underwriters and brokers in London to think differently about what the future holds and what the opportunities are ahead," McGill begins.

"That manifests itself in how to reinforce leadership in the Lloyd's market with Lloyd's leaders, high-quality underwriters that invest in underwriting skills and technical excellence. And how you think about follow capacity or support capacity.

"On the intermediary side, how does Lloyd's capture a bigger share of the global pie when it comes to insurance and reinsurance? And how does it do that efficiently using broker distribution, which is fundamental to Lloyd's success?"

What McGill likes most about Neal's approach is that he's trying to drive the growth agenda for Lloyd's and the London market for the long-term benefit of carriers and brokers – even if that means shaking up the model in the short term.

"The traditional wholesale model, where it has really high-quality specialist expertise, gets reinforced in this new environment. But actually just having brokers that have lifestyle businesses where business is coming into London and they're clipping the ticket by 5 or 10 points and just placing the business with Lloyd's underwriters – that is deteriorating the expense ratios and undermining the profitability of the business. I think that type of business is quite rightly going to be challenged."

For all this positivity, there is one area which wasn't discussed, and that was the impact of a global recession on a new broker.

Goldman Sachs issued among the most bearish of predictions on 20 March, as it projected a 24 percent fall in US GDP in Q2.

And while insurance – as a non-discretionary purchase in many verticals and classes of business – normally weathers fiscal downturns better than most areas of financial services, the reality is that many clients globally will have a reduced ability to pay for cover. The size of the client base will also fall due to insolvencies.

So here it is then, McGill's biggest test – not, can his company thrive in a transitioning market, but can it survive in a Covid-19 market?

Given his illustrious history, you'd be wise not to bet against him – but these are unprecedented times, and even the hardiest of individuals will be pushed to their limit.

New collateral solutions

The ILS market is seeking to avoid further high levels of collateral lock-up should a string of events similar to those in 2017-2018 happen again, writes **Lucy Jones**

In the wake of the catastrophes of 2017 and 2018, the ILS sector was presented with a new challenge – that of unprecedented levels of trapped capital.

As cedants elected to hold onto collateral as losses mounted, a large proportion of ILS capacity became simply no longer available.

As much as $20bn – or 20 percent of the ILS market – was tied up at the January 2019 renewals, JLT Re estimated, while Guy Carpenter calculated around 15 percent of third-party capital still remained trapped throughout last year.

The capital lock-up has had implications for the ILS sector and the reinsurance market at large. Deals have not been renewed, the drop in ILS capacity has contributed to reinsurance rate rises, and trapped capital has been a drag on investor returns.

But this new market stress has also led to innovation – new structures and relationships are emerging as old solutions are revamped in a bid to avoid such high levels of collateral lock-up if a series of events similar to those in 2017-2018 were to occur again.

In just one example, Markel recently offered investors in Nephila (which it bought in 2018) liquidity for their trapped capital investments, making hundreds of millions of dollars of capacity available.

Markel will offer investors liquidity at a material discount to their marked net asset value, only at specified trade takes and subject to capacity constraints, a regulatory filing notes.

"It's something we couldn't have done as a private firm and it's something investors have found helpful in navigating the side-pocket aspects of this asset class," says Nephila managing director Frank Majors.

The firm explored many options to address the trapped capital conundrum but felt that other solutions would be cumbersome.

"We can offer [investors] a better deal than external providers," Majors adds.

Rated platforms

Not all companies have the chequebook of a reinsurer behind them to pay back investors, but another solution available to some ILS managers to address the problem is a move to rated paper.

A number of ILS managers have already taken this step, with ILS Capital Management becoming the latest firm to get a rating – in this instance from Kroll Bond Rating Agency – for its Bermuda reinsurer Prospero Re, which writes collateralised business for the firm's 1609 Fund.

With its rating, the vehicle is now able to collateralise its cover up to the 1-in-500-year risk level instead of to the full limit it writes, while remaining investor funds will be used to support tail risk taken by Prospero to slightly more than a 1-in-1,000-year level.

ILS Capital has said it expects to move 100 percent of its business to a rated model in the next three years.

"It's a sign of the times," managing partner Tom Libassi says, adding that trapped capital was the biggest issue currently facing the collateralised ILS market.

Prospero Re is the fourth ILS-backed reinsurer to gain a rating, after Credit Suisse ILS set up two vehicles – Humboldt Re and Kelvin Re – and LGT ILS Partners obtained a rating for its Bermuda reinsurer Lumen Re in 2017.

LGT ILS Partners now transacts 70 percent of its reinsurance book on a rated basis through the A-rated platform.

Lumen Re's portfolio covers an estimated $3bn in reinsurance capacity backed by the vehicle's equity and collateral from the LGT ILS funds.

Credit Suisse's Kelvin Re was the first rated vehicle to be set up by an ILS team when it launched in 2014, with backing from the Abu Dhabi Investment Council. It takes a similar investment approach to a hedge fund reinsurer, with 50 percent of its investment portfolio allocated to blue-chip hedge funds.

Humboldt Re has a more traditional investment portfolio that focuses mainly on highly liquid, fixed income paper, which enables it to run a higher underwriting leverage ratio than Kelvin Re.

But both write similar risks, focusing on property catastrophe with some additional exposure to short-tail specialty lines.

Rated ILS launches

Vehicle	ILS manager sponsor	Investors if known	Rating	Rating agency	Rating date	Notes
Prospero Re	ILS Capital	1609 Fund	A	Kroll	2020	Regulatory approval pending
Lumen Re	LGT ILS Partners		A	AM Best	2017	$350mn equity at launch
Humboldt Re	Credit Suisse ILS		A-	AM Best	2015	$1bn capital at year-end 2018
Kelvin Re	Credit Suisse ILS	Abu Dhabi Investment Council	A-	AM Best	2014	Partial hedge fund investment model. $989mn capital at Sept 2019

Source: *Trading Risk*

Freeing up capital

The shift to rated platforms by ILS managers is likely to release large amounts of trapped capital as the rated entities take over cover.

LGT ILS Partners portfolio manager and partner Michael Stahel said the approach with Lumen Re mitigated the challenge of dealing with trapped capital for both cedants and investors alike.

LGT often encountered cedants that wanted access to capital market capacity but preferred a rated reinsurer to ease the transaction process as they deemed the operational tasks around managing collateral positions to be too cumbersome. Insurers which do not wish to manage the collateral process face Lumen Re as a rated reinsurer, which cedes the risk on to LGT's ILS funds.

ILS Capital estimates a rated balance sheet could free up at least half of its own trapped capital from the second year of operating with a rating. At that point, the issue of how much capital to trap becomes an "internal decision", adds managing partner Paul Nealon.

Libassi says the "internalising" of the company's fronting should enable the firm to cut costs going to third parties.

Some market participants, however, remain unconvinced rated platforms will fully resolve the trapped capital issue.

While rated paper and fronting solutions solve the problem of tail risk for cedants there will still be cash held back behind rated paper providers, according to Hudson Structured Capital Management (HSCM) Bermuda executive Edouard von Herberstein, speaking at the Sifma Insurance- & Risk-Linked Securities Conference in Miami in March.

This is because ILS managers will still create side pockets within their funds and trap capital to allocate losses to the capital providers on the underlying deals.

This viewpoint was echoed by Willkie Farr lawyer Michael Groll, who at the same conference said while rated paper mechanisms were "not as clumsy" as collateralised buffer loss tables, they still involved holding significant capital behind the scenes.

Jutta Kath, head of transaction management at Schroder Secquaero also notes that while rated vehicles present a solution on the face of the matter, they have material cost implications.

Collateral lock up – revised multiplier factors

Months after deal concludes	Buffer factor 2020	Buffer factor 2017
1-6 months	165-175%	200%
6-12 months	130%	130%
12-24 months	100-110%	110%

Source: *Trading Risk*, typical figures estimated by sources

"Investors need to be treated fairly"
Jutta Kath

Fronting agencies typically pitch their fees as offset by the impact of leverage they can offer ILS managers – which might apply in a no-loss year but in an active cat year the leverage could potentially boost the impact of losses.

There are also concerns about the possible conflicts of interest some see as inherent in the model of ILS platforms using rated paper from a parent (re)insurer, while others note these vehicles can take years to set up.

In terms of gaining investor support to participate in rated paper, these carriers are "a completely different proposal for investors", von Herberstein adds.

Buffer tables revamp

Instead of moving to rated platforms, several market participants argue that the existing buffer tables still widely used in the market can be adjusted to make capital more efficient.

According to sources, in buffer tables for 2020 the percentage of capital to be held at the time of loss has gone down from around 200 percent to the 165-175 percent range.

While the percentage held at the six- to 12-month mark remains at around 130 percent in the updated tables, after 12-24 months the buffer has reduced from 110 percent to 100-110 percent (see table).

"People have acknowledged that losses are unlikely to double," says a source.

"There are a few black swans where losses have doubled in the past but the modellers and the people who adjust for reserves are not wrong by 100 percent," the source adds.

Schroder Secquaero's Kath says she doesn't see any reason to move away from buffer loss tables and that they can continue work for cedants and investors so long as both parties have a constructive dialogue and behave transparently.

There are buffer loss tables in today's market that "work perfectly" in her opinion, although she criticises tables which have excessively long trapping periods.

Buffer loss periods in excess of 24 months are excessive as they don't reflect the short-tail nature of the risk, she adds.

"Investors need to be treated fairly."

When to start the clock

Horseshoe Group CEO Andre Perez says investors take issue with the way many cedants "start the clock" on the timeframes stipulated in the buffer loss tables.

While typically for buffer loss tables the timer begins at the date of loss occurrence, there have been some instances of confusion over whether it should start at the expiry date of the contract or at the date when the buffer computation is being done.

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Perez says that the latter is more appropriate as the computation often takes place several weeks after the expiry date.

But Willkie Farr partner Joe Ferraro says that some cedants prefer to begin the computation at the end of the year as opposed to immediately after the loss occurs.

"That's when they are able to sit down and look at events in the round in the annual reserving process," he says.

"There has been some investor push to have buffer loss tables start at time of loss. That has to be weighed against the complication of having to have different buffer losses concurrently," he adds.

To deter cedants breaching these agreements and not releasing capital as agreed, some ILS investors are now pushing for punitive measures, such as a penalty clause.

Buffer loss tables are "still very much under discussion at the moment", according to Ricky Spitzer, a partner at Mayer Brown.

"We won't know what, if anything, will change until later this year when companies are looking to renew their transactions that incept on 1 January," he says.

Legacy carriers

Some market participants have speculated over whether a legacy market might develop to provide an exit for trapped capital-lumbered investors.

However, as with rated platforms and fronting carries, this option comes at a cost.

The terms of such a solution would probably be quite poor and investors would be better off hanging on to their investment unless they needed liquidity, one source said.

Legacy carriers typically focus on long-tail lines and may not be the best home for relatively short-tail catastrophe loss reserves, says Perez.

The parent company of one ILS manager was prepared to offer a legacy solution but a more established market has failed to emerge, according to sources.

Relationships matter

In another twist in the trapped capital saga, the urgent need to come up with better solutions has forced cedants and investors to build greater trust with one another in the name of making capital more efficient.

"It's ultimately a relationship business", says Perez, adding that some cedants are very reasonable and sometimes release capital before they are required to do so when circumstances are permitting.

Libassi stresses that it's not a matter of investors not wanting to pay claims, but rather that they need an arrangement which doesn't excessively restrict their ability to deploy capital in other ILS investments.

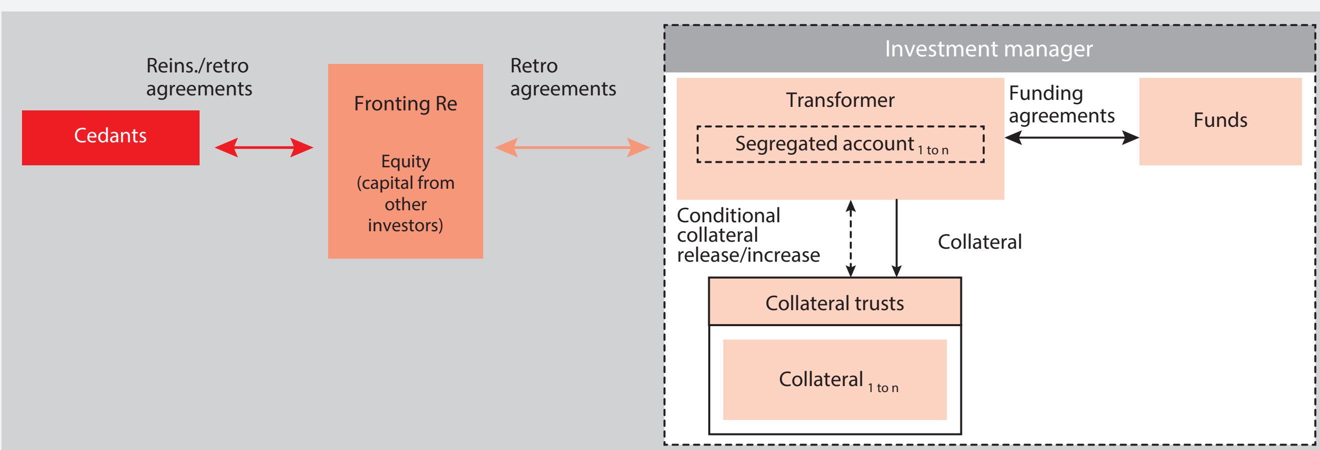
Although Kath says that investors must in turn be understanding of cedants' needs and top up collateral if necessary, so long as this need is substantiated by frequently updated loss figures.

Ferraro says he has noticed the close type of relationships seen much more in the traditional market start to play out in the ILS space which is ultimately resulting in less capital getting locked up.

"The investors, who are regular investors year in, year out... are engaged in direct dialogue with underwriters and in negotiating a relationship-based, partnership-based approach will allow for the buffer that is ultimately decided upon to be more efficient," he says.

"It's in no one's best interests to have money sitting where there is no reasonable prospect of that money ever having to be used."

Rated collateralised reinsurer business models



Source: AM Best

The silent enemy

Efforts to affirm or exclude cyber from non-specialist products are creating challenges for underwriters and brokers, writes **Laura Board**

It sounds obvious and the solution to it simple. As cyber risks mount, with the interconnectedness of devices and networks, the growth in cloud technology and the increased sophistication of criminal gangs, carriers are piling up exposures. That applies even if they don't protect the intangible assets associated with this specialist line and, unlike dedicated cyber underwriters, they are probably doing so unknowingly.

"Silent" cyber has been in the purview of regulators including the Prudential Regulation Authority (PRA), the European Insurance and Occupational Pensions Authority and quasi-supervisor Lloyd's for several years now.

But tackling silent cyber is complex. It raises questions about where the risk should have its home, and risks upending the original intention of policies. Many carriers complain they're being forced to act too fast, while insureds are finding themselves deprived of cover they thought was

included, and with no concomitant reduction in premium.

"You can't name a line of business where a cyber peril could not impact an underwriter's loss ratio," says Keoghs partner Andrew Schutte.

"But it's not a question of putting a badge on the front and saying cyber is excluded or included. We are beginning to unpack problems of detail that may not be the same in every policy you approach."

Brokers are concerned that UK property underwriters are erring on the side of broad-brush cyber exclusions, emboldened by the hardening market. They also worry that efforts to endorse or affirm cyber have sowed confusion and exposed grey areas in coverage.

As Marsh JLT Specialty head of cyber, international, Sarah Stephens says: "Clients absolutely are on the same page as regulators and Lloyd's about wanting clarity. There's a desire to have a simpler, clearer solution. The big area of debate is how we achieve that clarity."

"Brokers are concerned that UK property underwriters are erring on the side of broad-brush cyber exclusions, emboldened by the hardening market"

Mounting dangers

A PRA survey suggested that silent cyber exposure could lead to a loss on a par with a major US natural catastrophe.

The problem has evolved with the morphing nature of the cyber threat. It's well known now that a cyber incident can cause physical damage, implicating property policies that wouldn't have necessarily priced for the risk.

Though such incidents are still relatively rare, a notable example of a cyber event causing physical damage was the December 2015 malware attack on three power utilities in western Ukraine, which caused a supply shutdown affecting an estimated 230,000 people.

The NotPetya attack in 2017 was another landmark event in the industry's – and the regulators' – awakening to the silent cyber problem, with litigation between drugs giant Merck and its insurers, and between foodmaker Mondelez and Zurich, arising from coverage disputes.

Estimates of the (re)insurance industry's NotPetya losses put up to 90 percent of them as non-affirmative.

Industry response

In the power sector, an early response to the reality that cyber attacks can cause physical damage was full or partial write-backs of the standard CL380 cyber property policy exclusion for malicious events.

At carrier level, Allianz was early out of the blocks in 2018 when it embarked on a mammoth wordings review to tackle silent cyber. And AIG said last September it would affirmatively cover or explicitly exclude cyber exposures across virtually all of its global commercial P&C portfolio by this January.

On the regulatory side, last year the PRA ordered UK carriers to develop action plans to address silent, or non-affirmative, cyber exposure. Lloyd's went further in July and called on syndicates to either affirm or exclude cyber through a rolling programme of coverage changes starting with first-party property classes in January.

But confusion persists. As Marsh JLT's Stephens says: "We've ended up with 30-plus potential clauses – some gave clarity, many were exclusionary rather than affirmative and a lot ended up unfortunately removing coverage for technology that is inherent in any business."

Underwriters, meanwhile, have struggled with Lloyd's timetable. In response, the Corporation said in January that carriers writing third-party liability classes, including general liability and financial and

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professional risks, would have until 1 January next year to affirm or exclude cyber.

Lloyd's head of underwriting Caroline Dunn says: "One of the learnings of the process was to give time for the wordings to be developed and launched well in advance. Third-party lines of business have their unique challenges and whilst we want to achieve clarity we want to do it in a planned way."

Minding the language

The Lloyd's Market Association (LMA) has been working hard on cyber endorsement or exclusion language and within four months of Lloyd's July edict had produced wordings for property direct and facultative (5400 and 5401) and marine cyber (5402 and 5403).

But Lloyd's timetable for the roll-out remains challenging. According to the LMA's deputy director of underwriting, Patrick Davison: "The principle of what they are doing is absolutely right but based on the feedback that we've been providing them and that they've got directly from market, they've acknowledged that without very careful thought you might actually be muddying the waters."

Third-party casualty lines have historically tended to be silent on cyber. The policies insure against third-party damage to tangible property and third-party personal injury rather than computer data. And as there are so many other causes of third-party liability, suddenly affirming cyber risks limiting the cover if losses are caused by triggers that aren't expressly named.

The LMA's Davison says he hopes Lloyd's will adjust the roll-out once more if wordings for some of the most problematic lines aren't ready later this year.

"It's not to anyone's benefit to force the market to move if something isn't fit for purpose," he says.

The company market has been carrying out similar work to the LMA on changing wordings but without the same gun to its head.

The International Underwriting Association (IUA) has established a new non-affirmative cyber risks committee, which recently met for the first time.

The IUA's Tom Hughes, who is secretary of the committee, says: "Our work is doing far more than looking at wordings, it's about understanding. Every one of our underwriting companies is having very detailed conversations about the implications of silent cyber. Cyber risk itself has changed – technology has changed – it's about making sure the understanding is there."

Similarly to the LMA, affirming cyber cover on all risks policies is one of the challenges the IUA has encountered.

Other challenges underwriters have found include the fact that adding affirmative cyber language on all risks policies could negate deliberate exclusions, including

Lloyd's cyber affirmation/exclusion roll-out

By class of business

Phase 1 - January 2020
Energy construction
Energy offshore property
Energy onshore property
Nuclear
Power generation
Cargo
Fine art
Marine hull
Marine war
Specie
Yacht
Difference in conditions
Property D&F (US and non-US binder)
Property D&F (US and non-US open market)
Engineering
Livestock & bloodstock
Terrorism

Phase 2 - July 2020
Accident & health (direct)
Contingency
Space
Political risks, credit and financial guarantee
BBB/crime
Property cat XL
Property pro rata
Property risk XS
Agriculture & hail
Livestock excess of loss

Phase 3 - January 2021
Airline
Aviation products/airport liabilities
Aviation war
Aviation XL
Cargo
General aviation
Directors' & officers' (US and non-US)
Cyber (addressing clarity for any traditional coverage provided by extension to a cyber policy)
Employers' liability/WCA (non-US)
Energy offshore and onshore liability
Extended warranty
Financial institutions (US and non-US)
Legal expenses
Marine liability
Medical expenses
Medical malpractice
UK motor and overseas motor
NM general liability (US and non-US)
Pecuniary
Professional indemnity (US and non-US)
Personal accident XL
Motor XL
Nuclear
Cargo
Terrorism

Phase 4 - July 2021
Marine XL
Casualty treaty (US and non-US)
Medical malpractice
Employers' liability/WCA (US)
Marine war

war and terrorism cover. Placing of exclusions or affirmations in multi-line policies is also problematic.

Keoghs' Schutte also warns that in some regulated areas wordings can't be changed willy-nilly. That applies in certain US states and also to UK solicitors' professional indemnity insurance, where the wording is agreed with the Solicitors Regulation Authority.

Questions of intent

Both the PRA and Lloyd's have adopted the definition of cyber risk as being insurance contracts exposed to cyber-related losses resulting from malicious acts and non-malicious acts. But this is also an area of discord between brokers and underwriters.

Marsh says the distinction between malicious and non-malicious cyber damage introduced in the LMA's clause 5400 for direct property direct and facultative business is problematic since in the clause a non-malicious computer incident is covered only if fire and explosion results, whereas a "malicious" cyber event is always excluded. The definition of "malicious" is broad and includes any unauthorised use of a computer, the broker argues.

> *"Adding affirmative cyber language on all risks policies could negate deliberate exclusions, including war and terrorism cover"*

A thornier debate still is how non-malicious cyber should be covered. One high-profile example of a non-malicious cyber event was the IT failure at British Airways in August 2019, the second in little more than two years, which left tens of thousands of passengers stranded. Part of the problem is the Pandora's box of causes for a company's systems meltdown.

Keoghs' Schutte says: "An operator's error policy might cover a problem with an insured's own system, but will it cover problems with someone else's – like a cloud service provider? Some would, some wouldn't – and some would want an agreement with the cloud service provider in order to try to focus on the systemic risk."

But Marsh JLT's Stephens says the problem goes beyond underwriters' ability to evaluate the non-malicious cyber risk.

> *"One high-profile example of a non-malicious cyber event was the IT failure at British Airways in August 2019, the second in little more than two years, which left tens of thousands of passengers stranded"*

"Some underwriters do not appreciate how fundamental technology is to business operations of all types and therefore how integral a failure of technology could be to a subsequent property damage loss," she says.

"Our view is that underwriters should focus much more on the ensuing damage versus the underlying trigger; i.e. the property market should cover property damage however occasioned and the cyber market should cover the intangible consequences of a malicious or non-malicious cyber incident."

The future

A big question as underwriters affirm or exclude is whether their actions are being accompanied by appropriate adjustments to pricing.

Throwing affirmations in for free could be highly dangerous, but excluding without any rate concession is hardly a recipe for customer loyalty.

Some fear that Lloyd's hawkish stance on silent cyber could force insureds into other markets for their cyber needs as exclusions multiply, but Lloyd's head of underwriting Dunn says she's seen no evidence that that has happened.

What looks more likely is that the carrier clampdown will strengthen and vindicate the standalone cyber market.

There are, of course, specialist cyber products out there that expressly plug the property damage deficit. Brit Cyber Attack Plus is one example, and Tokio Marine Kiln's new Cyber Ctrl PD+ is another.

But some cyber specialists remain purists. CFC Underwriting cyber product leader James Burns says: "There's a difference between cyber as an asset-based policy and cyber as a trigger – it's not entirely clear that people are making the distinction."

He adds: "I'd like to think we will get to a stage where we've taken big steps forward as an industry at getting a handle on the nuances that exist and we'll be able to have insurance products with the right homes."

Keoghs' Schutte says that in addition to pursuing contract certainty and clarity through wordings overhauls, a massive education process is still required.

"The market needs to engage in the necessary detail and really understand what the product is there for," he says. "We need a general improvement and upskilling in the market among underwriters across different classes of business."

D&O divisions

An increase in the severity of securities class actions has seen D&O insurers present a united front against rising litigation, but divisions between carriers remain, writes **John Hewitt Jones**

It did not take long for the first coronavirus securities lawsuit to be filed, just a few weeks after initial Covid-19 jitters struck global markets in mid-February.

On 12 March plaintiff Eric Douglas submitted a class action against cruise operator Norwegian Line, alleging that he and other investors purchased shares at an "artificially inflated" price as the company claimed it had taken protective measures for its guests and crew.

The speed with which this lawsuit was brought demonstrates just how febrile and plaintiff-friendly the legal environment in the US has become – described as a "tax across society" by Travelers CEO Alan Schnitzer, late last year.

Epithets like "social inflation" and "outsized jury awards" are used interchangeably across the market to bemoan the changed nature of the legal environment and explain almost unilateral double-digit rate rises across most segments of the directors' and officers' (D&O) market over recent quarters.

However, the reality of loss development and the impact of surging claims on carriers' behaviour towards their peers in this segment of the liability market has escaped scrutiny.

> *"The reality of loss development and the impact of surging claims on carriers' behaviour towards their peers in this segment of the liability market has escaped scrutiny"*

Three-to-five-year tail

Since the third quarter of 2019, rates across virtually all ABC policies and side-A only cover in the US have surged as large corporate markets including AIG have cut limits and curtailed their appetite for these classes of business.

The increased volume of class action and derivative lawsuits being filed has widely been cited as the cause of this surge. However, multiple sources canvassed by *Insider Quarterly* suggest the reality is more complex – largely because the class of business has a three-to-five-year tail.

Figures collected by Cornerstone Research and Stanford Law School indicate that federal securities class action lawsuits in 2019 inched up 2 percent year on year to 428 – their highest level since 2011, which has fuelled uncertainty over the direction in which loss costs are moving.

Uncertainty over claims development has fuelled significant rate rises in sub-segments of the public D&O market, with sources writing niche business including pharma and US West Coast tech D&O accounts reporting rate rises in excess of 60 percent on some clean accounts renewing in the first quarter of 2020.

"In our segment of business we have seen rate rises way in excess of the low to mid-single digits being talked about publicly," one source tells *Insider Quarterly*.


Chubb D&O chief urges action on wave of securities litigation

John Hewitt Jones 25 February 2020

Chubb's head of public D&O business in North America has called on insurers to stand up to a rising tide of securities class action lawsuits and challenge litigation decisions that seem incorrect.

"As an industry we feel we need to stand up and do something [and] we can do this in a lot of different ways," executive vice president Jarrod Schlesinger

Speaking earlier this year at an Advisen D&O conference in New York, Goldman Sachs analyst Yaron Kinar – himself previously a D&O underwriter – warned that carriers have not yet felt the impact of surging litigation expenses.

"We've seen a massive spike in securities class actions, a big spike in defense costs...You're not even seeing that in the numbers yet – it takes three to five years for this book to really develop," the analyst said.

Furthermore, the impact of changes in legislation permitting new cases relating to historic sexual abuse and the rise in shareholder derivative actions has not yet hit the market.

"Figures collected by Cornerstone Research and Stanford Law School indicate that federal securities class action lawsuits in 2019 inched up 2 percent year on year to 428 – their highest level since 2011"

Lead-follow relationship

As the public D&O market strains under the weight of rising settlement costs, underwriters have sought ways to spread the cost burden. In some cases this has led to a significant shift in the relationship between lead insurers and following markets on liability programmes.

Multiple sources speaking to this publication described how, in recent months, it has become common practice for carriers underwriting excess layers of a liability insurance tower to contribute to claims that have hit only the primary and perhaps also the first or second excess layer.

Following markets are actually seeking to pre-empt the bad publicity accompanies disputes over high-profile claims, especially those involving financial institutions.

Major claims such as the action brought against former Deutsche Bank CEO Rolf Breuer over a TV interview given in 2002 can take years to settle, involving millions of dollars' worth of legal fees. Insurers on risk in that particular case, including Zurich, AGCS and Chubb, finally paid out EUR100.3mn, or $112.4mn, in 2016.

"In many cases it is easier to push for a quick settlement and make sure the client gets their money," says a legal source specialising in public D&O claims resolution. "One of the ways of doing this – and generating a huge amount of goodwill – is to contribute to the payment made by carriers lower down the policy."

The number of insurers seeking this form of claims resolution has increased in frequency since 2018.

Other notable D&O settlements that have pushed carriers to settle with insureds earlier and faster are understood to include a EUR19.5mn ($21.8mn) claim arising from shareholder litigation against German trucking conglomerate MAN SE and a $7.6mn loss sustained by European defence contractor Rheinmetall. Both claims were settled in 2019.

Standing up to litigation

The increasingly unforgiving judicial environment in the US has spurred greater collegiality between insurers seeking to challenge legal decisions that set similar, negative precedents for the industry.

Chubb has reiterated a call, first issued in a white paper published in 2019, for insurers to stand up to the rising tide of securities class action lawsuits and to challenge – in the courts and in the public domain – litigation decisions that seem incorrect.

The carrier's head of public D&O in North America Jarrod Schelsinger told a recent industry conference that insurers must present a more unified front and stand up to litigation that sets a negative legal precedent for the industry. "It's...really important that, as an industry when we see a litigation decision that doesn't smell right, we do something about it," he told attendees at an Advisen D&O conference in February.

While a surge in corporate liability claims has spurred markets

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to adopt a more unified front towards precedents set in the courtroom, it has in some areas provoked greater division.

One area in which this has become apparent is in mediation. As cost pressures intensify, some following markets in the US are questioning whether claims mediators – independent lawyers that are generally engaged by a lead insurer – are able to represent their interests.

The motives of parties involved in the robust negotiation process that typifies corporate liability claims adjustment are not always distinct and easy to discern, which in some circumstances may be deleterious to the interests of following markets.

After all, a contractor who receives repeat business from a major lead market may not always be incentivised to stop claims developing as swiftly as possible – after all, the client is unlikely to complain if the loss hurts their competition.

In recent months, these relationships have come under greater scrutiny, and an awareness has developed among underwriters.

> *"It has become common practice for carriers underwriting excess layers of a liability insurance tower to contribute to claims that have hit only the primary and perhaps also the first or second excess layer"*

"This is something we need to think about, maybe with intervention from an industry association," one source says.

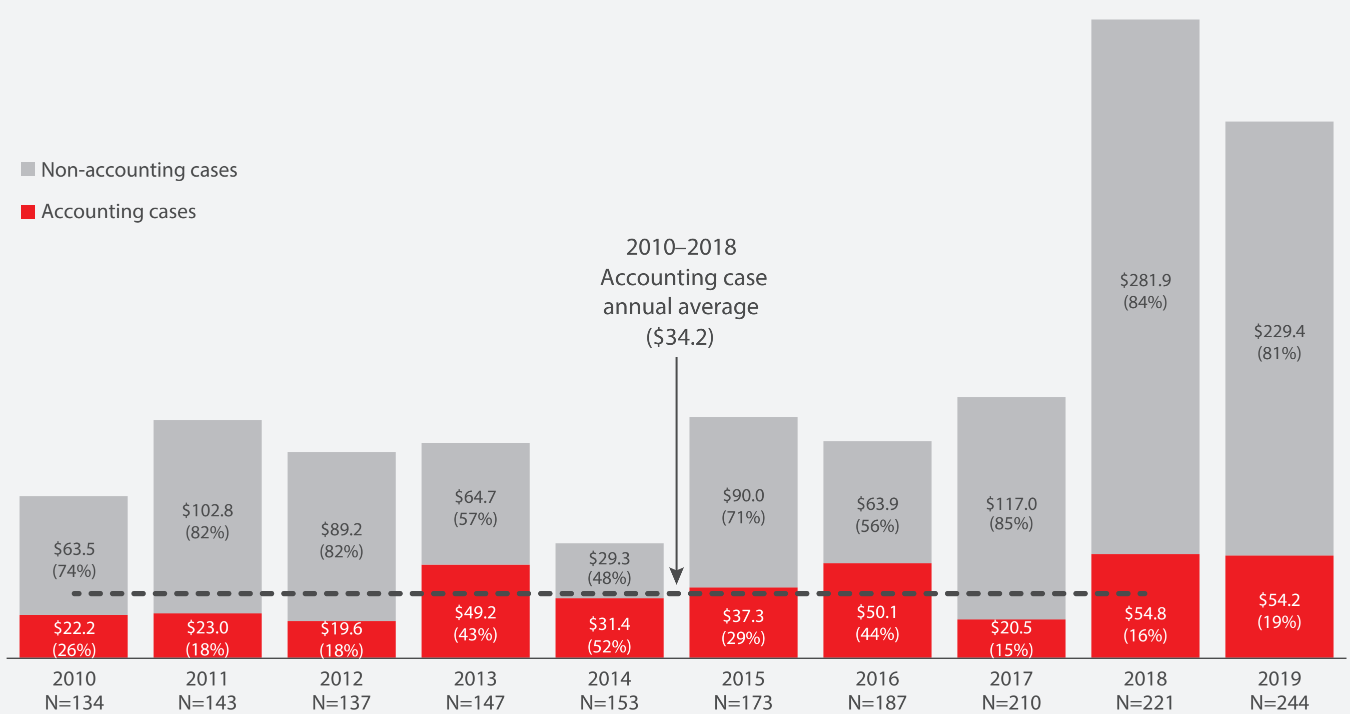
Other sources say they are aware of the issue and recount instances in which major claims have unexpectedly risen late in negotiations.

"This definitely needs looking at. If I'm a mediator and my fees are contingent on doing a satisfactory job then it may not always be in my interest to stop a loss from creeping up the [liability insurance] tower," another underwriting source says.

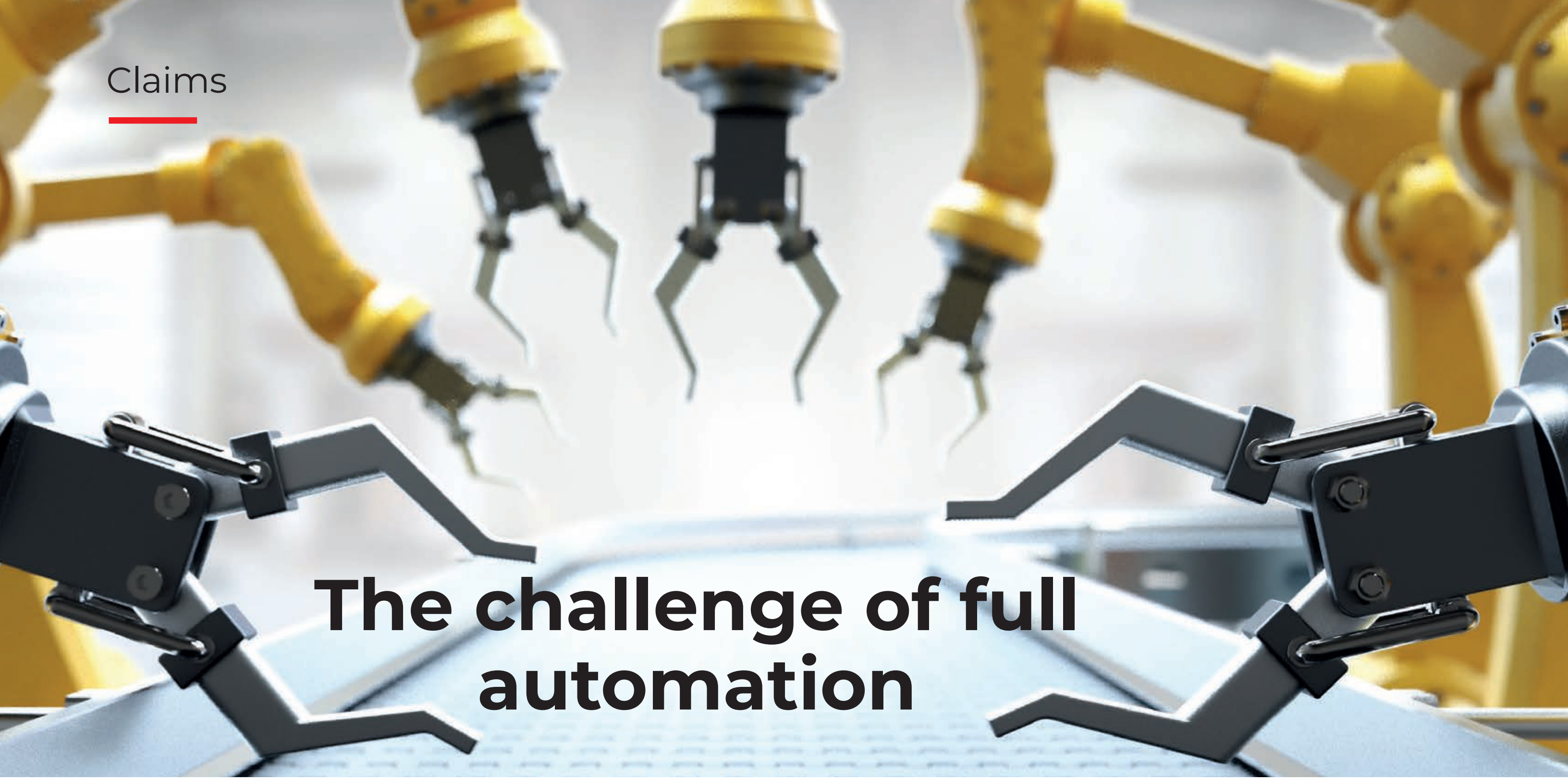
Rates in the D&O market continue to surge by double digits and, as the market prices for uncertainty and the slew of litigation likely to follow Covid-19 pandemic, this will likely continue.

But rather than just making cover more expensive for insureds, the prevailing legal environment has continued to increase both collaboration – and potentially also the number of disputes – in the US D&O market.

Core accounting case filings and disclosure dollar loss index 2010–19 ($bn)



Note: DDL dollars are adjusted for inflation; 2019 dollar-equivalent figures are used
Source: Cornerstone Research



The challenge of full automation

Tom Helm discusses how insurers can leverage advances in technology and analytics to inject automation into the claim process

Whether you envisage self-driving vehicles to be five or 25 years away, given the substantial investments and technological progress being made, it is hard to argue against the industry's narrative of inevitability.

Not to be outdone in this digital age, insurance claims is forging its own digital transformation path, leveraging advances in technology and analytics to inject automation into the claim process. So how far away are we from delivering claim processing that is automated end to end? Will this happen before driverless Ubers are roaming the streets?

The short answer is yes. But, no doubt like the first "driverless" cars that will come to market, there are caveats.

"Claim processing" covers a wide range of activities and claim types from the simple, like the loss of a low-value specified item, to the highly complex, like the evaluation of a business interruption event or assessing negligence in a professional indemnity claim.

As a result, the pace of digital transformation across the full claim spectrum will vary. But, ultimately, digitalisation will touch every corner of the claim world.

Historical automation

Automated claim processing is not new. Many insurers have been processing high-volume, low-cost, low-complexity claims – such as vehicle windshield claims – with very little, if any, human intervention for decades.

This is a great example of the simplest type of claim to automate, given that it is relatively low value and that fulfilment is being delivered by a trusted supplier partner within an automated solution and predefined parameters.

A natural quick-win expansion of this approach has been to target similar claim types – or individual losses or items that are part of a wider claim – that lend themselves well to automation. A good hunting ground is low-value, retail property and travel claims.

However, this does require expanding claim automation to cases where the settlement is going directly to the customer, and this means pushing the historical boundaries, particularly in relation to trust.

Given the historical level of fraud and other market dynamics that find customers increasingly switching providers, thus reducing their historical data footprint, implementation here needs to be executed expertly to mitigate against these risks.

The appetite to broaden this automation also highlights why behavioural analytics, which can support the assessment process, will play an increasing role in the future of claim processing.

Disrupting claims

Perhaps surprisingly, claim processing for one of insurance's highest claim volume products, auto insurance, falls into the more "complex to automate" category (for the non-windshield cases). One auto claim can often represent several mini-claims rolled into one, with multiple parties, suppliers and claim types (i.e. vehicle damage, car rental, injury) to be managed.

Claim InsurTech firms have recognised this challenge and have typically responded by focusing on disrupting distinct elements of the claim process, with a significant number targeting digitisation of the first notification of loss (FNOL) process.

For example, solutions include using AI to assess images to determine the extent of vehicle damage or developing an e-FNOL solution that enables the customer, or their broker, to self-serve this part of the process through a digital channel.

Of course, not all today's technological developments are shiny and overt. A good example of this in the wider technology landscape is the global positioning system (GPS).

While this operates primarily in the background of many of the devices, services and businesses we use, history will undoubtedly reflect that it has been one of the most transformational technological developments of our time, given its impact on our everyday lives.

A parallel can be drawn here with where a substantial element of the claim technological development is taking place.

A lot of claim processing, across all product lines, is carried out manually and somewhat "behind the scenes". Whether this is triaging, routing, validating, assessing liability, corresponding with third parties or evaluating an individual claim's cost, there are numerous activities that are performed during the claim life cycle that are vital but often not visible outside the claims function.

Insurers' increased focus on customer-centricity will lead to greater transparency, control and personalisation for the end consumer and inevitably push some of these customer-related activities more into the limelight.

For example, when their items have been lost or damaged, customers are likely to be given greater choice in whether they wish to opt for a cash settlement or a replacement, and in many cases this will be via a digital interaction.

This shift in experience will add to customers' growing demand for more immediacy and effectiveness in the processing of these activities, akin to their experiences with other digital services.

The technology opportunity

A common thread across these activities is decision-making, and this is where the technology opportunity kicks in. Computer science can play a role in this decision-making process, and progressive insurers are already active in leveraging its predictive power.

"Many insurers have been processing high-volume, low-cost, low-complexity claims with very little, if any, human intervention for decades"

Supported by advances in natural language processing (NLP), with its ability to tap into unstructured claim data, AI can help drive increased accuracy and speed of decision-making.

In turn, this can expedite proactivity in claim handling and thus help to deliver on traits synonymous with high-performing claims functions as they result in improved efficiency and significant financial savings, as well as delivering better outcomes for customers.

Like GPS, software solutions such as Radar, Willis Towers Watson's own analytical software suite and real-time decision engine technology, can work in the background to provide decision-making at key junctures in the claim life cycle.

This might be selecting which supplier is best suited for the claim, determining the appropriate case estimate or assessing if an invoice is suitable for payment. Models can also be continuously running on the engine, scanning to help alert the claims team for cases that are "at risk", for example, of issues such as fraud or litigation, or of delivering a poor customer experience.

The power of machine learning is being leveraged throughout, with the models trained to look across a vast array of structured and unstructured data to identify the characteristics of a claim and to assess the optimum response.

Tom Helm
is head of claim consulting, insurance consulting and technology at Willis Towers Watson

The human factor

The caveat to achieving full automation in claims is that certain aspects of the process or scenarios will require complex judgement, investigation or the human touch, such as the need to reassure and empathise with a customer who needs support during a significant event like a flood in their property.

This means that claim handlers will need to remain in the driver's seat to take control and handle these critical elements and, much like partial self-driving vehicles, it is critical that automated mechanisms are able to identify when the situation requires human intervention and can manage the interaction between handler and machine effectively.

The success of self-driving vehicles becoming mainstream is dependent on the experts achieving real-time orchestration of sensors, cameras, onboard computers and algorithms, interacting these technologies harmoniously with their external environment and determining whether there are certain scenarios in which driver control is necessary.

By comparison, the key task for claim leaders over the next few years will be mastering the effective integration of the multiple technologies and analytical advances at their disposal to deliver seamless automated claim processing and decision support for claim handlers in a way that improves the experience for customers and realises return on the investment for the business.

Closing the gap

Key technologies such as artificial intelligence and machine learning will help drive savings and benefits in insurance and improve the interface between customers and insurers, says **Shahid Safdar**

Insurance is an old and highly regulated industry. Perhaps because of this, insurance companies have been slower to innovate and embrace technological change compared to other industries – but change is coming, and to remain relevant, firms need to start moving.

Globally, more and more insurance companies are beginning to augment their technological capabilities so that they can do business faster, more cheaply and more securely.

A key technological trend currently in the limelight is the application and use of artificial intelligence (AI) and machine learning. There are multiple ways that these technologies can and will help drive savings and benefits.

Customer experience/ personalisation: AI can enable a seamless automated buying experience, leveraging social and geographical data points relevant to individual customers, supercharging the use of tools such as chat-bots and invigorating nascent product offerings such as insurance on demand.

Enhanced claims processing/settlement: AI can and is already being used by some firms to improve claims processing by progressing queries and claims, from initial reporting to ongoing communications with customers.

In some cases, claims do not require any human interaction at all and for the firms that have already begun to automate portions of their claims process, considerable time savings and increased quality of service benefits are being realised.

Online interfaces and virtual claims adjusters make it more efficient to settle and pay claims following an accident, while simultaneously decreasing the likelihood of fraud.

Behavioural pricing: Using the ever-increasing range of sensor-enabled (Internet of Things) devices to collect personal data, which is analysed via AI-enabled platforms, will help pricing models to be tailored to individual usage patterns and needs, i.e. usage-based insurance.

Trends are great, but in order to prevent them from turning into fads or resulting in failed (and possibly expensive) projects, the problem to be solved and the outcomes required – along with the technology itself – need to be clearly understood.

Shahid Safdar is managing director, Middle East, at Charles Taylor InsureTech

Generally speaking, when contemplating the application of AI, the better the data quality, the better the results will be (in broad terms). However, this is augmented by understanding data bias and then being able to understand how decisions and results have been derived (with the use of machine learning).

An example of data bias would be to build an AI that may not be a good representation of the environment it is running in. An AI for a self-driving car that is trained with data from the daytime will be biased towards working in the daytime. To remove data bias, data from night-time needs to be included also.

With the correct understanding and appropriate use of these new and powerful technologies, there is huge potential to transform the insurance experience for customers – from frustrating and bureaucratic to something fast, on-demand and more affordable.

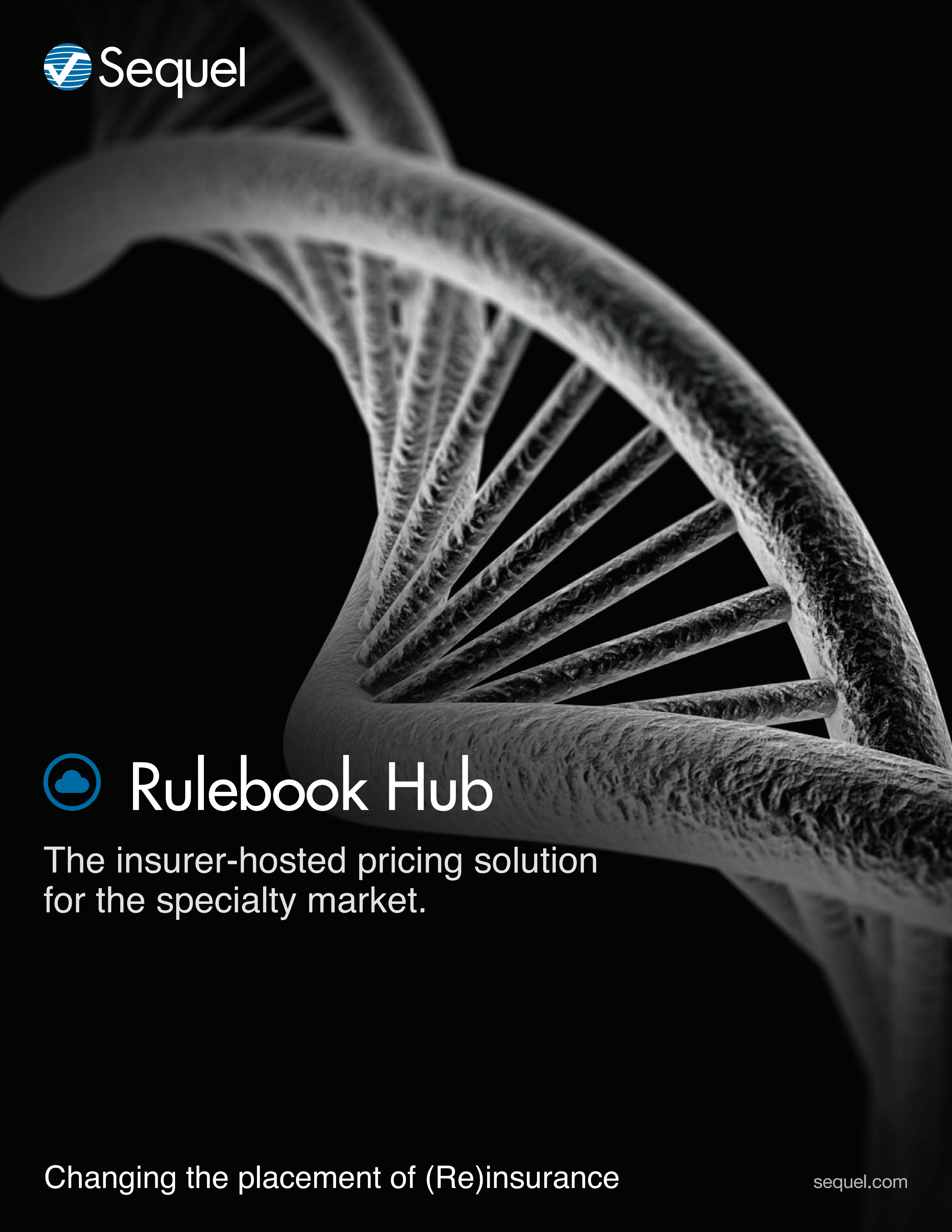
Tailor-made insurance products will attract more customers at fairer prices. If insurers apply AI tech to the mountain of data at their disposal, we will soon start to see more flexible insurance such as on-demand, pay-as-you-go insurance, and premiums that automatically adjust in response to accidents and customer health etc.

We will see insurance become more personalised, because insurers using AI tech will be able to understand better what their customers need.

Insurers will also be able to realise cost savings by speeding up workflows and will discover new revenue streams as AI-driven analysis opens up new business and cross-selling opportunities.

Most importantly, the best outcome for all concerned is the very real prospect of all this being able to make it much easier for customers to interact with insurance companies and people being more likely to purchase insurance.

Sequel



Rulebook Hub

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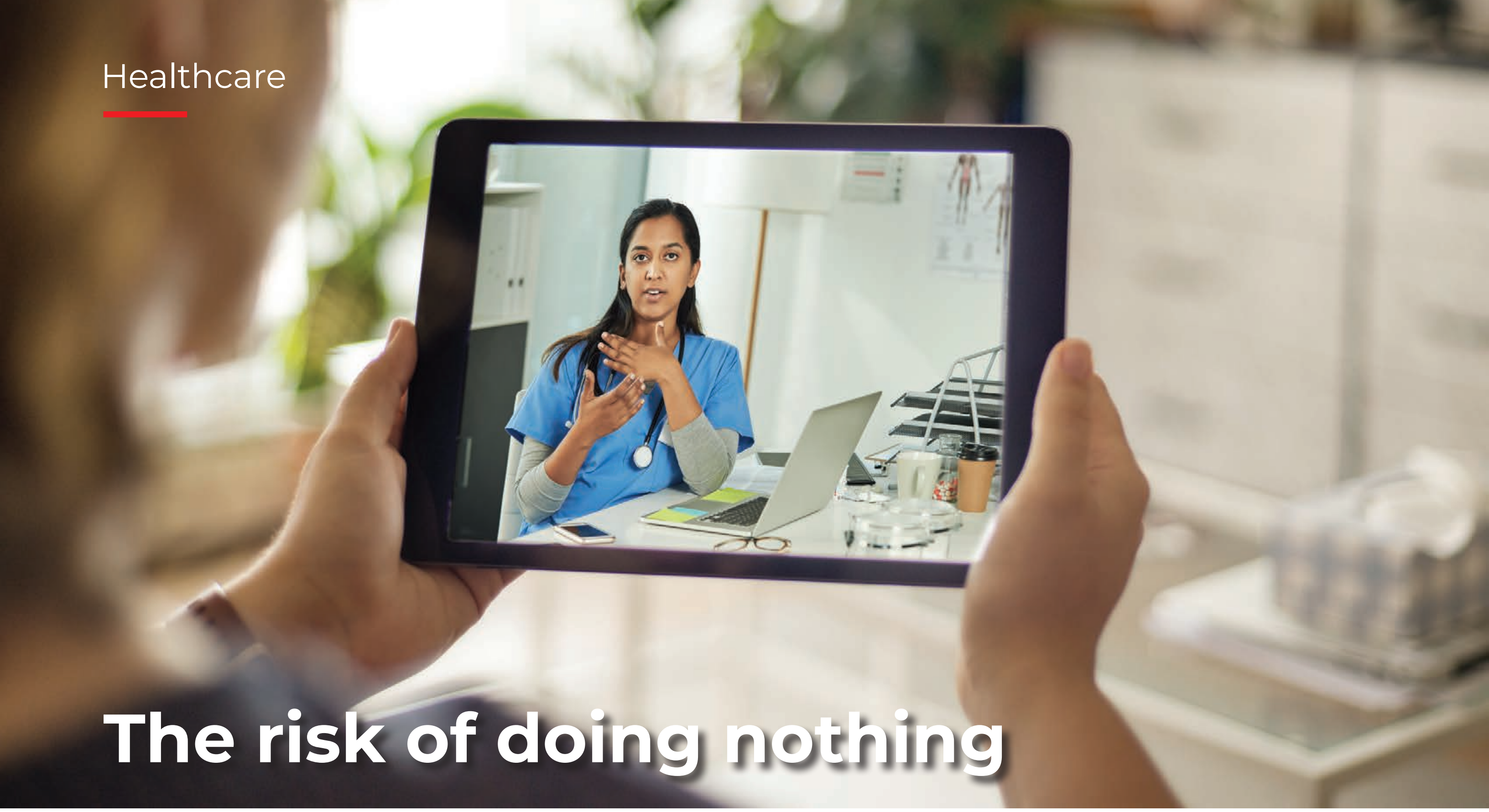


The risk of doing nothing

Although the benefits of adopting technology-led 'virtual care' services are clear, they are not without risk, says **Andrew Page**

The rapidly growing digital healthcare market is under the spotlight. With the world trying to tackle the surge of coronavirus cases, the UK government is looking to use more technology-led services to support patients (particularly those in isolation) and to help ease pressure on doctors' surgeries and hospitals.

We consider whether the insurance industry needs to reshape its product and service offering for a new risk environment created by greater use of technology in healthcare provision.

Phenomenal growth

Virtual care or digital health encompasses a broad range of new technology-led medical and lifestyle services, covering everything from medical diagnostics and remote monitoring, fitness trackers and apps that empower consumers to make better decisions about their health, right up to robotic surgery.

As technological capabilities explode, so the global digital health market is experiencing phenomenal growth, with the sector predicted to mushroom from $86bn in 2018 to over $500bn by 2025, of which 5 percent ($28.3bn) will be in the UK.

According to the Topol Report, an independent study produced last year on behalf of the UK's secretary of state for health and social care to look at the future of health in the UK, there will be an "inexorable increase" in demand for healthcare services as people live longer and do so with more chronic and long-term conditions.

The report also revealed UK government plans to deploy technology to relieve pressure on frontline medical practitioners – technology that is likely to now be fast-tracked as the Covid-19 pandemic ramps up and the government looks to relieve some of the pressure that the spread of the virus is having on the UK's already stretched healthcare system.

Inherent risk

But while the benefits of adopting technology-led services are clear, they are not without risk. Inserting technology between patient and medical provider adds a layer of complexity and can increase the risk of misdiagnosis, or compromised quality of care should something go wrong. A recent example showed the very real and significant risk posed when there is a glitch in the system.

"Inserting technology between patient and medical provider adds a layer of complexity and can increase the risk of misdiagnosis, or compromised quality of care should something go wrong"

Last November a device providing real-time blood glucose monitoring for people suffering from type 1 diabetes, which warns patients via an app when their blood sugar levels climb too high or drop too low, suffered an overnight service outage.

The incident meant the service stopped monitoring blood glucose levels or issuing warnings. Many patients only discovered the fault hours later when physical finger prick tests showed blood glucose had dropped to dangerously low levels, potentially causing seizures and loss of consciousness.

Had patients who are reliant on the app for self-management of their condition experienced bodily injury, the doctor who recommended its use and the device manufacturer and/or designer could have faced claims for clinical negligence compensation.

Such claims are a concern both for medical practitioners and virtual care tech firms. Traditional medical malpractice (medmal) and clinical negligence wordings do not generally cover claims for bodily injury arising from a failure relating to technology within a product that a healthcare professional has recommended to patients.

Likewise, tech liability policies do not routinely provide specific cover against claims for bodily injury.

Misdiagnosis concerns

There is also a concern that virtual diagnostics could heighten the risk that symptoms could be missed that would have been spotted in a traditional physical examination, or that insufficient or inaccurate information and data could be supplied, which could result in an increased risk of a misdiagnosis.

One trial conducted on tele-dermatology ("Choice, Transparency, Coordination, and Quality Among Direct-to-Consumer Telemedicine Websites and Apps Treating Skin Disease", by Jack S Resneck Jr, MD; Michael Abrouk; Meredith Steuer, MMS; et al, published in The Journal of the American Medical Association) revealed the extent of remote consultation misdiagnosis risks.

In the trial, researchers posed as patients with prepared medical histories and various skin conditions. Although a correct diagnosis was provided in 77 percent of the presented cases, the study was critical of the quality of care with many diagnoses being proffered "without reasonable attempts to ask basic medical history follow-up questions".

Often, consultation and diagnosis were conducted and given on the basis of a single photo shared by the patient. Worryingly, in three cases the doctors advised the patient that their nodular melanoma, an aggressive skin cancer, was benign.

"There is a concern that virtual diagnostics could heighten the risk that symptoms could be missed, or that insufficient or inaccurate information and data could be supplied, increasing the risk of a misdiagnosis"

While some of these problems are as much about process shortcomings as they are about technology, they highlight how lack of physical presence could increase the risk of error.

Clearly, misdiagnosis is not limited to virtual care, but if a diagnosis hinges on a photograph being uploaded or a patient supplying data such as their heart rate or blood glucose level, the medical professional needs to ensure that the readings are accurate, the technology is functioning properly and that they have sufficient evidence to work from.

Andrew Page is an international healthcare underwriter at Beazley

Re-thinking insurance

From an insurance market perspective, the challenge is that this new risk environment crosses many traditional insurance siloes – such as medmal, tech liability, errors and omissions, data privacy and cyber security risk.

Such complexity creates a danger that insurance programmes could be no more than a patchwork of policies underwritten by disparate insurance wording technicians.

The new medmal and tech liability risk landscape requires a depth of understanding of the scope of coverage required and the ability to identify coverage gaps, particularly when more than one policy is being purchased from different carriers to make up the programme.

If the insurance industry is to respond effectively to the challenges, it needs to get to grips with the plethora of new virtual care business models and risk profiles that are emerging.

With this in mind, Beazley chose to ditch the traditional siloed approach to underwriting and create a modular, but integrated, Virtual Care product package that provides cover for all medical professional and medical technology risks including cyber.

The modular approach enables the insured, guided by their broker, to pick and choose the coverages that they need now, and add other ones on as their business or service range develops. This approach offers greater certainty for underwriter, broker and insured that there are no hidden gaps in the coverage.

In addition, by tapping into our cyber experience, we are also able to offer a range of services to the insured as part of the Virtual Care package, including access to legal advice, IT forensics and crisis communications services to improve claim management and help reduce the risk of litigation.

The London insurance market is uniquely positioned to develop comprehensive and innovative products that support the medical practitioners and technology firms developing new e-healthcare solutions. But as the coronavirus pandemic builds, the time to act is certainly now.

As motivational speaker Denis Waitley once said: "There is only one risk you should avoid at all costs, and that is the risk of doing nothing."

Warning signs

Oliver Wing makes the case for revolutionising US flood risk management against a backdrop of accelerating climate change

Climate change presents a great and growing threat to lives and livelihoods the world over. Its impact on flood risk is notoriously difficult to quantify, and in many cases the projected indicators of change fall within the area of uncertainty inherent in modelling the risk under present-day conditions.

While we are pretty sure the intensity and magnitude of flooding will increase in more places than it will decrease, the overwhelming driver of both historic and expected future increases in flood losses relates to development patterns.

The US government's own models of future habitation suggest people will be living in "riskier" areas. This is a behaviour we see globally and is a consequence of urbanisation, with people being driven further into marginal areas as the higher areas – less exposed and less vulnerable to flooding – are already occupied.

As the trend of populations inhabiting flood-prone areas continues to grow – regardless of the impact of climate change – so too will flood losses.

Worsening flood risk

Using US government projections of development patterns, research by Fathom, published in 2018 in *Environmental Research Letters*, found US flood exposure could almost double by the end of the century. It also found population growth will not only increase in risky areas, but also significantly accelerate. These findings suggest the already crippling problem of flood risk will simply get worse.

With this in mind, research has shown the tools with which flood risk has historically been managed in the US substantially underestimate the scale of the problem.

Federal Emergency Management Agency (Fema) flood maps of the so-called 100-year floodplain – or put more simply, inhabitants of an area where there is a greater than 26 percent chance of being flooded during a 30-year mortgage – are the principal source of information for US flood risk.

These maps are generated using a patchwork of local-scale, engineering-grade flood inundation models which cover only ~60 percent of the land area of the lower 48 states. There is no more accurate a way to understand flood risk locally than with such a model, which incorporates granular, locally surveyed information related to channel bathymetry, floodplain topography and other important features such as levees.

However, this method's hunger for local data and requirement for manual operation by a skilled practitioner renders it financially (and practically) unsuitable for

"More than a quarter of all historic insurance claims have been made outside of Fema flood zones and, in hurricane-prone areas such as the Texas Gulf coast, this figure can be as high as three quarters"

A road near Houston, Texas is closed during Hurricane Harvey execution on every US river. A complete view of risk is sacrificed on the altar of local point-precision.

Thus, by virtue of their spatial paucity, particularly on smaller rivers (even in the ~60 percent of land area allegedly covered), Fema maps underestimate the number of people at risk of flooding by two thirds.

Top-down modelling

Fema estimates that 13 million people are potentially exposed to a 100-year flood, while a spatially complete flood model built using an alternative modelling philosophy suggests the real figure is closer to 41 million.

This philosophy can be conceptualised as "top-down" (in contrast to Fema's "bottom-up"), where seamless, remotely sensed information on land elevation, river location and other spatial and hydrologic data are integrated into an automated model-build routine which simulates flooding everywhere – with no gaps.

A study by Fathom in 2017 in *Water Resources Research* found that, where Fema maps do exist, they give similar realisations of flood risk to the "top-down" model developed by the authors. That is, a model built automatically with national-scale data can replicate locally built Fema maps within error. The caveat "where Fema maps do exist" is crucial, since two models which are locally similar transpire to produce estimates of aggregate risk that differ by over 300 percent.

More than a quarter of all historic insurance claims have been made outside of Fema flood zones and, in hurricane-prone areas such as the Texas Gulf coast, this figure can be as high as three quarters. Around 60,000 people are situated in Fema floodplains in the wider Houston area, yet hundreds of thousands were inundated there during Hurricane Harvey in 2017.

There is growing recognition, then, that traditional approaches to understanding flood risk at large spatial scales are not fit for the task of managing it appropriately.

Oliver Wing
is a flood risk scientist at Fathom

Exposure growth

The 2018 study further demonstrated that population and GDP growth alone are expected to lead to significant future increases in exposure, and this change may be exacerbated in the future by the impact of climate change.

However, recent scientific developments can ensure such a bleak outlook does not come to pass should such data be utilised appropriately. US flood exposure being triple that when calculated using outdated technologies means the potential for private flood insurance penetration is high.

Consistent and spatially comprehensive flood mapping not only fills in the considerable gaps in current flood data; the ability to rapidly re-run models as new information becomes available permits risk to be managed amidst data richness rather than data scarcity.

Further, the simulation of multiple return period floods – from frequent five-year events to rare 1,000-year events – allows a much more nuanced view of risk than with the traditional, arbitrary, in-or-out, single 100-year return period event simulated by Fema.

Large-scale model structures also allow "what if?" scenarios to be explored. How might flood risk change due to global warming, under changes to land use, with investment in flood protection?

This dense tapestry of flood modelling scenarios is permitted by fast and automated model simulations. This is not possible with laborious Fema-style models, which have cost tens of billions of dollars to produce and will cost millions of dollars simply to prevent decay of existing low-coverage data.

"Top-down" models cost only a fraction of this, yet provide a richer array of tools for managing risk at large spatial scales.

Quantifying flood risk

One such successful application of these large-scale model structures can be evidenced in the conservation of natural floodplain lands, which has multiple benefits in terms of ecosystem services, biodiversity and recreational purposes.

Not only can this data help answer "what is a floodplain?" across the US, it is now also possible to work out the potential damages from flooding should these natural lands ever be built upon.

Incorporating US government projections of land use throughout this century, research shows that there are vast swathes of land that are cheaper to purchase at market value to prevent development, rather than permitting risky developments to occur unabated and ultimately footing the inevitable bill for flood damages.

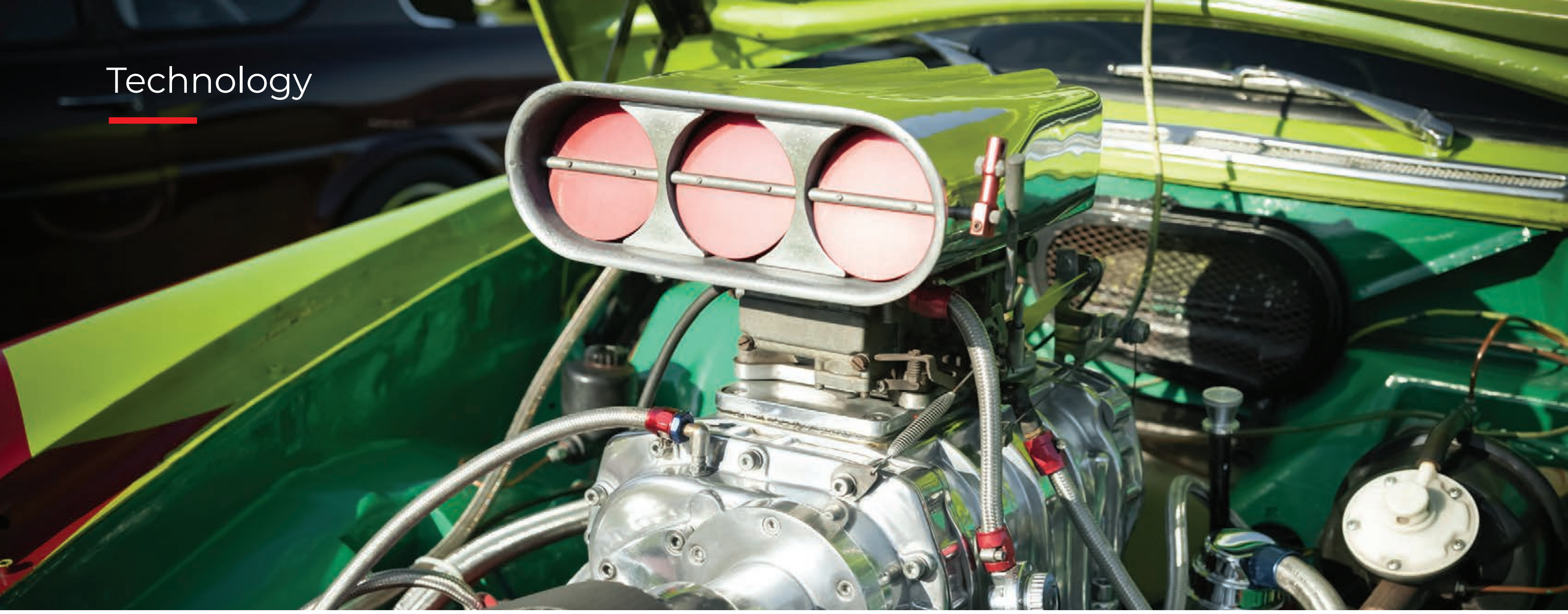
For an area twice the size of Massachusetts for example, spending $1 on land conservation results in $5 of avoided damage costs. This is just one example of how new data can be used to begin mitigating the expected spiralling of US flood losses.

With such comprehensive data informing our view of flood risk across the US now available, the way risk will be managed in the future will be revolutionised.

The changes in flooding induced by climate change can and are being quantified by cascading state-of-the-science climate model output through these "top-down" models.

Updating our current understanding of risk with these new technologies and refining this with scenarios of future climates will permit nuanced risk management with data from the forefront of scientific endeavour.

Action can be taken by risk managers now to ensure austere business-as-usual projections do not become reality.



Custom job

Aidan O'Neill advises on orchestrating a customisable claims ecosystem platform in the new future at Lloyd's

In today's fast-evolving Future at Lloyd's environment there is a major opportunity for claims departments to add value by creating new sources of revenue, re-imagining their traditional roles and adopting an ecosystem mind-set.

The London market's reliance on digital technologies not only reshapes customers' claims expectations, it also redefines boundaries within (re)insurers' internal silos and departments.

The market's underwriters, heads of claims, audit, compliance and modelling teams and actuaries cannot avoid this phenomenon. As the traditional industry way of doing things falls away, the future of insurance will be significantly influenced by platforms and ecosystems.

A claims platform today can already allow multiple participants to connect to it, interact with one another and create and exchange value.

Successful digital behemoths such as Alibaba, Amazon and Facebook were all created on platform business models. According to management consulting firm McKinsey, ecosystems will account for 30 percent of global revenues by 2025.

Customisable claims experience

An ecosystem is an interconnected set of services that allows users to fulfil a variety of needs in one integrated experience.

This offers a potential insight into a future for the subscription-led market model that operates today and the visions presented by Lloyd's Blueprint One document, which calls for a new claims orchestration, messaging and workflow platform to support streamlined processes.

The thing is, such a system is not some kind of newfangled technology that will be developed two or three years down the line – it already exists as one of the market's best-kept secrets.

My colleagues Graham Sheppard and Anthony Freeman recently gave a presentation to International Underwriting Association (IUA) members where they showed that a customisable electronic claim files (ECF) platform – which can plug multiple application programming interfaces (APIs) into carriers' claims systems – is already in operation today through DOCOsoft's Claims Management System, processing millions of rich claims messages.

The presentation was partially inspired by the Future at Lloyd's report's exhortation to the market to embrace new opportunities by delivering a next-generation claims solution.

The aim is to embrace InsurTech that is powered by data and advanced analytics. We can transform the current claims service, allowing the market to differentiate itself from competitors and attract business as a result.

AI-powered triaging

Specifically, the report calls for a claims solution to deliver an interface for policyholders and all other market participants to improve communication and transparency.

It also promotes a new requirement for artificial intelligence (AI)-powered triaging and segmentation, routing claims to the right place throughout the claim lifecycle with full straight-through processing for certain non-complex claims.

The vision is of a "one-stop shop" claims service that handles non-complex claims on behalf of the market, using leading technology, analytics and centrally procured services.

So the attendees on the day of our IUA presentation – many of whom have yet to work with DOCOsoft – were likely surprised to learn that the Future at Lloyd's vision to build a new customisable claims system

Aidan O'Neill is CEO of DOCOsoft

version of ECF has, in fact, already been built.

As Graham Sheppard outlined, more flexible graphic systems like Write Back – which ought really to be renamed "customisable ECF claims" – should be playing a part in an integrated digital claims strategy today.

Sixteen of DOCOsoft's clients (and counting) already have such a system, enabling them to steal a significant march on their market peers and aligning them with the claims vision outlined in the Future at Lloyd's.

The London market needs modern claims technology to introduce data insights, while better management oversight can be achieved with a new analytics capability. The market has certainly moved on from the days of ECF.

Outdated systems

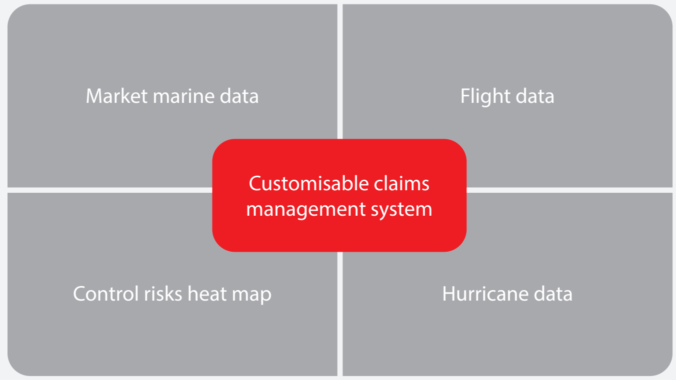
However, outdated market-wide systems continue to hold back those London carriers that have not embraced the high-tech, smart colour approach offered by InsurTech innovators such as DOCOsoft.

Market pressures dictate we need more. Many claims teams are therefore turning to technology solutions that can plug in multiple external APIs, exchange rich claims messages, gain insights, remove duplication, automate processes and enhance performance.

A modern claims management system can help with cradle-to-grave claims – all in one place, providing customer satisfaction and a competitive edge of bureau, non-bureau and email notifications.

In addition to non-complex claims handling, the Lloyd's blueprint says that the Market Claims Service will partner with data and technology experts to form an innovation hub for data science and AI. It will provide improved claims insights derived from multiple data and analysis sources. And it will benefit from a larger, aggregated pool of data available at Lloyd's.

Example of a customisable claims platform



The claims solution will use external data from a range of sources, which could include Internet of Things-enabled devices and satellite imagery.

These will provide early warnings of loss events, thereby increasing opportunities to mitigate the risks. The event observer will lead to automatic generation of event-driven claims, based on triggers written into the contract (particularly for parametric policies).

In addition, it will provide cost-effective and trusted information sources that can be used to remotely investigate and assess existing claims.

Driving efficiencies

New technology can integrate with underwriting systems, document management services, sanctions and third-party systems – a complete, customisable, lifecycle claims solution, driving efficiencies and speed of claims.

It can plug in natural catastrophe models, aviation flight data, shipping fleet movements, war and terror heat maps, claims reserving analysis, cyber risk perils and a whole host of other external APIs with cross-functional utility that can help to integrate an insurer's internal and external data.

Why not include an API plug-in to an *Insurance Insider* news feed? All this is possible to achieve today.

Claims are the largest spend of insurance companies, with around 20 percent of claims driving 80 percent of losses. A 1 percent reduction, which can be achieved by leveraging advanced analytics, will achieve substantial savings. Machine learning can also bring unrelated claims and policies together to bring fresh insights.

Utilising robotic process automation where possible will speed up processing, reduce cost and enable a better customer experience.

Claims predictive analysis, using advanced algorithms, can determine the length of the claim lifecycle, loss development, ultimate value and fraud.

Claims triage and proactive settle models are able to predict which claims should be quickly settled and which should be handled by senior claims professionals.

Meanwhile, claims leakage analysis could highlight inefficient claims processing practices, which lead to unproductive costs.

Insurance claims teams can leverage modern claims systems to improve their customer satisfaction, reduce costs and create a more efficient claims process while having more information at their fingertips.

Customisable claims technology is already waiting for you. It's in your hands. Stay ahead of the game.

Navigating programmes

With increased M&A activity adding to the complexity of group-wide programmes, **David Rogers** says better planning and communications are at the heart of outwards reinsurance solutions

In the reinsurance sector, M&A has created ever-larger organisations, often with different cultures and approaches to risk, which in turn makes group-wide programmes more challenging – especially around the issue of premium allocation.

It is no longer uncommon to have four or five legal entities within a group sharing reinsurance programmes, which can create a constant battle around premium allocation.

Those difficulties can be compounded in some organisations where individual underwriters have control of their own reinsurance provision, leaving those in charge of outwards reinsurance programmes struggling to come up with a formula on a quarterly or annual basis.

It can all too often lead to internal discussions between different entities and underwriters as to how the premiums will be split – a situation which can be further complicated if the programme is multi-class.

For those responsible for outwards reinsurance there is frustration that, more often than not, then becomes a compromise agreement that gets undone at the point of premium adjustment, leading to further complexity.

In the past there have been those who have based their premium allocation on premium forecasts at the end of the year and then revised the figures dependent on performance. The situation becomes more complex once you factor in recoveries.

Challenges can arise between those parts of the group that have been loss free and those that have suffered losses which resulted in a claim. This can leave those responsible for calculating and allocating premiums with a further headache, as some underwriters believe the premium costs should lie only with those parts of the group that have benefited from using the programme.

In effect, the outwards reinsurance team are faced with calls for "no-claims discounts" for classes that have been claim free. It also leaves the outwards reinsurance team facing questions as to when to implement any allocations in respect of premium adjustments, together with additional internal statistical reallocations over time.

There is then the issue that the first recoverable event on the programme may trigger the aggregate retention, leaving the first event absorbing that excess with any following events benefiting from full recoveries.

The outwards reinsurance team then have to look at whether they aggregate the recoveries across all the claims made throughout the life of the programme and carry out a fair apportionment for statistical purposes.

Our experience with Sequel Re clients is that such shared programmes should be preceded by a clear set of principles that all the participants in the reinsurance programmes are aware of and agree to. This delivers greater clarity and removes the potential for internal disputes over premium and claims payments and adjustments.

A number have an agreement between senior management across the business as to what the aim of the programme should be and how areas such as premiums and claims adjustments will be calculated before the process begins.

The challenge of how to manage the programme if it involves underwriting operations of drastically different sizes is increasing. Such agreements assist smaller entities within the shared programmes that face the problem of ensuring their concerns about the suitability of the cover for their needs are heard.

Apart from technological assistance for outwards teams we are now starting to see greater transparency as to the lines of communication between the operational and placement teams.

In the past, strategic decisions to pursue shared reinsurance often ignored the complexity involved in such a programme.

Whether it is ensuring that there is a clear agreement as to how the programme will be operated and how premium allocation and adjustments will operate, or establishing clearer lines of communication to enable issues to be highlighted and addressed more efficiently, it is clear there needs to be a discussion and process on how changes can be implemented.

David Rogers
is head of
Sequel Re

Good in a crisis

The insurance world will rise to the challenge of developing solutions to help individuals and companies protect themselves against the risks exposed by Covid-19, writes **David Haynes**

If ever proof were needed that necessity is the mother of invention, the current global pandemic offers plenty.

At the sharp end, researchers are already on the way to developing a vaccine for Covid-19, and those responsible for testing, trialling and manufacturing it will have to be equally inventive to get it mass-produced on an unprecedented scale and in record time.

But the wider social and economic impacts of the crisis have also sparked a wealth of innovation that will change the ways we live and work, forever.

Neither home working nor virtual meetings are particularly new, but businesses of all sizes have been forced to make use of them, and many other relatively recent innovations, on an unprecedented scale, creating new demands for both the technology and working methods that will inspire the next version of the commercial world we all inhabit.

Some sectors of the economy have obviously been affected more than others, and those businesses that survive will not do so without embracing huge transformation.

We often talk about “vulnerable customers” but, until now, the phrase has almost exclusively referred to personal clients rather than commercial ones.

It may not be the right term to use, but Covid-19 has shown that there are swathes of businesses and even entire sectors that are peculiarly vulnerable to an event like this, and it is incumbent upon us to help build the solutions that will protect them for the future.

None of us wants to live in a world without restaurants and pubs, for example.

As much as almost any other, the insurance industry was built on responding to crises, whether individual, commercial, national or even, like this one, global. Insurance businesses are already looking at ways our products can be more responsive to events like these, how the risks can be managed and the consequences mitigated.

The novel coronavirus pandemic has collided with our commercial world at a time when working practices and patterns were already undergoing huge transitions.

The growth of the gig economy, increases in home and flexible working, ageing workforces and AI have all been transforming the world of work and were looking to be gathering pace. Whether this global crisis will slow or accelerate each of those changes remains to be seen.

It seems perverse to use the word “opportunity” at a time like this, but there is an opportunity for us to support our customers and communities through this difficult period and to design the products, services and ways of working that will make us more resilient.

The legal world too was already being transformed by these global developments as well as national, technological and sector-specific ones. The trajectories of these changes will be radically reset in the wake of Covid-19.

ARAG has built a business and our place in the market out of being adaptable in the face of sometimes sweeping legislative changes, so there is something familiar about the rapidly and radically changing legal environment.

But the present challenges stretch far beyond anything any of us have experienced before. and will transform the commercial world in ways we’re not yet able to see.

Whatever the economic, legal and employment landscapes may look like once the pandemic tide has ebbed and a “new normal” has been reached, later this year solutions will be developed to protect individuals and companies against whatever legal and other risks they may face.

Our industry is not in the business of making vaccines, but we can help the global economy to build up greater resistance to the consequences of a pandemic, before the next one strikes.

David Haynes is underwriting and marketing director of ARAG

Telling our own stories

As we look back on the celebration of another International Women's Day, **Anthony Baldwin** considers whether intersectionality could be the key to unlocking the diversity conundrum

Despite greater awareness of the benefits of embracing diversity, a typical workforce in the insurance industry remains somewhat one-dimensional. Encouraging greater appreciation of our diverse stories, and standing up as an ally, can accelerate the pace of change.

The business case – and the moral case – for diversity seem to have been broadly accepted by companies across many sectors. This shouldn't really come as a surprise. A raft of studies in the last few decades have highlighted how businesses that employ diverse workforces benefit from a breadth of knowledge, perspective and experience that has a positive impact on the bottom line.

The insurance industry, still dominated by white, middle-aged men, has woken up to the fact that it needs to change if it is going to win the war for talent and attract the best and the brightest young graduates, who are so vital for its future.

In 2019, we saw Lloyd's focus on diversity by launching a campaign to drive cultural change. Meanwhile the industry's Dive In festival has expanded into an annual global phenomenon.

The introduction of diversity and inclusion frameworks has helped bring more diverse talent into organisations but hasn't fully achieved the desired results. The number of women and non-white leaders in the boardroom and senior positions in many organisations remains low.

A root-and-branch rethink of the approach to the talent and diversity conundrum is needed. The answer could lie in a concept known as intersectionality.

A new approach

Intersectionality is the idea that social identities such as race, gender, sexuality, class, marital status and age overlap and intersect in different ways to shape each individual person.

Our stories are unique, complex and multi-layered. No one person is simply male or female, or black or white. People have multiple characteristics that overlap. You might be an Asian, heterosexual, single working mother, or a white, bisexual, middle-aged man.

As a generation, millennials are rejecting the idea of being identified by any one dimension, especially race, gender or sexual orientation. They are less willing to use traditional categories of diversity to label themselves in favour of a broader notion of self and authenticity.

As a concept then, intersectionality is relatively simple. But how can it be applied in the workplace?

According to research by academics Kenji Yoshino and Christie Smith, among others, corporations are stalling in their efforts to become more inclusive because of the perceived demand for individuals to "cover" certain aspects of their identities in order to conform with the organisational culture.

Furthermore, a lack of professional opportunity and advancement are directly related to the implicit demand to conform at work.

The result is that if people can't be their authentic selves in the workplace they will not be as engaged, they will not thrive, and they may in fact leave the organisation altogether.

Put simply, trying to cover up an aspect of your personality can be exhausting.

Change starts at the top

So, a lack of diversity in a working environment can

result from an inconsistency between an organisation's values and its stated position on equality, and a perceived demand to conform with its culture.

But addressing this conundrum is not simple. The solution demands a culture change – something that won't happen overnight.

It starts with a shift in mindset. Intersectionality is about taking a broader view of people as individuals and understanding more accurately the complexity of human experience.

This is in stark contrast to the one-dimensional nature of many existing diversity initiatives, which can even exacerbate the problem as they serve to categorise and segment the identities of employees in the workplace.

This is where leaders have a role to play, not just in dictating policy, but as storytellers and allies. As allies we can enable everyone in the workplace to recognise intersectionality and change their own expectations. Leaders need to recognise and overcome their own biases and learn how to engage the multidimensional employee. They need to be able to develop alliances across difference and build intersectionality into every facet of the organisation.

The approach even involves challenging the stereotype of the white, middle-aged man – referenced at the top of this article. This is as stale a stereotype as any other. Everyone should be able to come to work and feel they can be their authentic self, and this goes for the white men just as much as everyone else.

As a middle-aged, white man myself, I know that the assumption is that we like to socialise over drinks, play golf, work late and avoid family responsibilities.

But the truth is that while some of us may enjoy some of those things, there are plenty of men I know who would love to leave work at a decent hour to read stories to their children, and many who would rather do anything than stay late for after-work drinks.

"Corporations are stalling in their efforts to become more inclusive because of the perceived demand for individuals to 'cover' certain aspects of their identities in order to conform with the organisational culture"

Common experience

As leaders, we need to stand up and tell our own stories that demonstrate our different layers and characteristics. By telling our stories, we can be allies to others and allow others to live out their own stories, without the need to self-edit.

We need to develop a workplace culture that allows everyone to be themselves, to feel comfortable enough to be open about who they are, and even better, to see that these diverse characteristics give them a richer insight from which everyone can benefit.

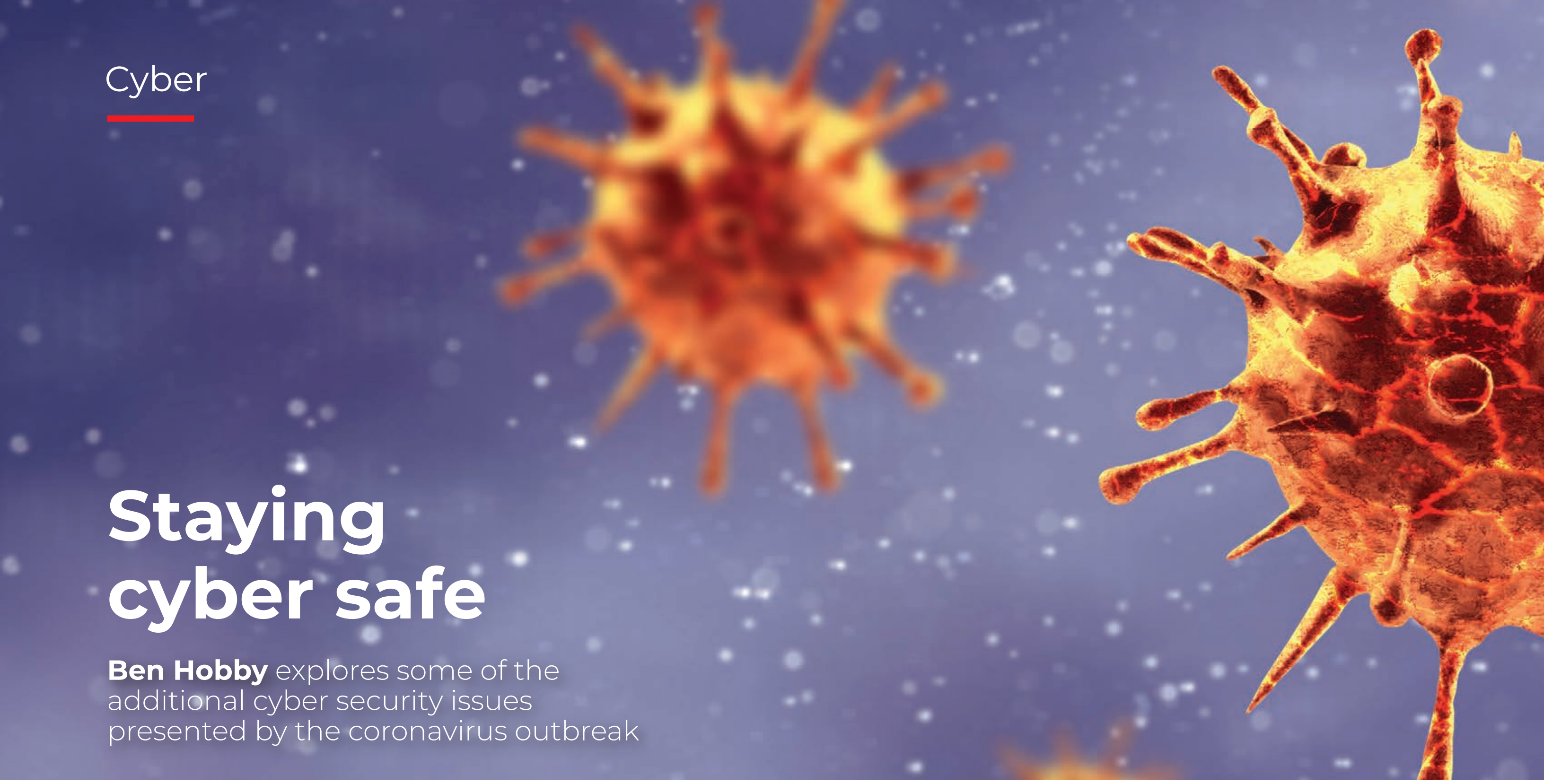
At AIG we take intersectionality seriously. Through our BeingYou@AIG framework we have introduced inclusive behaviour training sessions for managers and inclusion goals for all employees.

We are looking at the role analytics and metrics can play in helping to support the creation of a genuinely inclusive culture and we are collaborating with our industry peers to share best practice. And we're also telling our own stories. By treating people as individuals, rather than as part of a group, our aim is to make them feel comfortable to be themselves at work, and to move our organisation closer towards being a genuinely inclusive workplace.

As I said before, it's exhausting pretending to be something you're not. And assumptions based on stereotypes help no one.

So, by standing up as allies for our colleagues we can shed unhelpful labels and just show up as ourselves. We may be surprised by much our stories have in common.

Anthony Baldwin is CEO of AIG UK



Staying cyber safe

Ben Hobby explores some of the additional cyber security issues presented by the coronavirus outbreak

Over my 15 and a bit years of working in London, I have been fortunate to have: a) never needed to compete with fellow commuters on the Tube each morning, and b) always had a short walk of less than five minutes from the station to the office.

While we have recently moved offices to London Wall Place (very nice they are too), this has not resulted in any substantial change to my commute. The downside, though, is that with the coronavirus crisis, I have only spent a single day in them! When I will get to see the office and my colleagues again is anyone's guess.

As of now, like so many people, I am working from home, my commute being the lengthy stroll from the kitchen, up the stairs, to the study.

For those clients who I will be speaking to by phone in the coming days and weeks, do not worry, I am properly dressed and not just sitting in my pyjamas...

The impact of coronavirus on the world economy has already produced extensive comment. For those of us who work in business interruption (BI) insurance, there has been a great deal of analysis on whether property insurance policies will actually pay out and how specific policy extensions and wordings will apply. While not discussed to the same extent, the issues for cyber policies are just as significant.

Secure home working

For those employees who do not have a company laptop, it is likely that they are using their own computer and an open internet gateway to access their emails to allow them to work from home. These types of machines will potentially have access to sensitive corporate data, but are often without the protections that the corporate IT network provides.

While many companies operate mobile device management (MDM) tools as a matter of course, it is unclear if every company will have had time to install these onto every personal machine that is now being used for work.

As for those companies that don't have MDM tools, there is a strong possibility that the window of opportunity for installing this has closed.

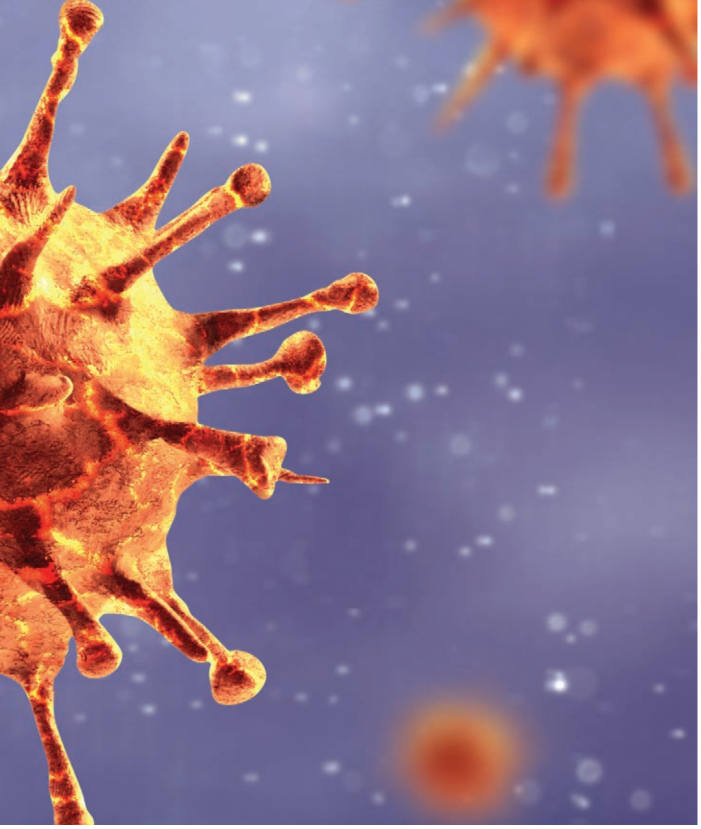
Most companies nowadays use a virtual private network (VPN) to ensure that employees can securely log in to the company network from remote locations, with any traffic between the employee and the network being encrypted. However, if all employees are trying to login through the VPN, there is a potential impact on traffic speed.

This issue has already been seen by Netflix, which has lowered streaming quality in Europe to reduce strain on internet service providers. The temptation for companies may be to alter the VPN and firewall rules to counter this issue, but the risk of doing so is that this makes it easier for hackers to gain access to the network.

Not everybody has a Wi-Fi connection at home and there have consequently been instances of people utilising public internet connections. Putting to one side for the moment the question of how consistent this is with self-isolation, the security of these networks is not always guaranteed.

In addition, it is then easy to forget a computer, phone, USB stick or physical documents when leaving the public space where you have been using the available internet connection. If the left-behind laptop is a personal device that has been used for work, then this machine may not be appropriately encrypted, meaning the company is left exposed to a data breach risk.

One certain thing with hackers is that there is no limit to their



"The premium that cyber insurers will have quoted will be based on what constitutes business as usual. However, cyber insurers now face an increased risk of claims occurring, albeit with no associated increase in premiums"

ingenuity. Any news item can be turned into a phishing opportunity. Emails may be sent to unsuspecting individuals with a link to access, say, new information, never before published, or just a really good deal on hand sanitiser gel.

The coronavirus crisis is no different – there have been numerous comments on LinkedIn warning of the various scams that are currently out there.

Cyber response

All these issues are clearly a million miles away from what counts as normal. However, the premium that cyber insurers will have quoted and then received will be based on what constitutes business as usual. However, cyber insurers now face an increased risk of claims occurring, albeit with no associated increase in premiums.

As we know from claims experience, it only takes one person in a company – even if they are working from home – to click on an inappropriate link for hackers to get access to a company's network, thereby enabling them to employ ransomware, bringing the company to its knees.

However, in an environment where people are locked down, either by government recommendation or by police and military "encouragement", what would a cyber incident response look like?

For those businesses that operate on a single site over a small, uncomplicated network with a couple of servers, I suspect that the incident response will look pretty much like it did before coronavirus. The teams that respond to these incidents are generally small in number, making it easier for the team to keep the required distance from each other. These consultants will also usually be based near the company's location, meaning that any travel is limited.

Furthermore, the time taken to rebuild an active directory and restore applications is usually a couple of weeks. This period may be extended by a few days if certain key personnel are working from home or self-isolating, but this should not cause significant delay.

The bigger picture

However, life gets more complicated for companies at the other end of the scale. Many multinationals operate networks where there is minimal segregation between countries and business units. This is because of the need for plants in Germany, say, to talk to plants in France – either because they make the same products and are looking at the allocation of production capacity, or because Germany supplies France with product for further processing.

In our experience, losses of this type require a significant number of external consultants to assist with the investigation itself and the subsequent network rebuild. Many of the company's own staff will also be involved.

These consultants and employees are often based in different countries, increasing the need for travel between multiple locations in multiple countries. However, in an environment where international and domestic travel has been severely curtailed, this is simply not going to be possible.

The consequences may be that the time taken to restore the network, and therefore allow the company to return to business as usual, will increase, as will the extent of any BI loss. By how much though is really up in the air.

Stronger cyber security

While this article is not meant to offer any policy advice, providing that companies employ their best endeavours to restore the network as fast as possible, as far as circumstances allow, then it seems unlikely that the increased BI loss would not be covered.

However, given that the sums insured under cyber policies often bear no resemblance to the actual underlying financial exposure, there is a question as to whether this increased loss would be insured in any event.

Ultimately, no company wants to be the victim of a cyber attack, but this is doubly the case at present. What this highlights is the increased need for strong cyber security, heightened awareness of the current cyber threat and extra vigilance by all employees.

During these uncertain times, may you all stay (cyber) safe.

Ben Hobby is a forensic accountant and partner in the London office of Baker Tilly

Keep the customer satisfied

Digital transformation is as much about having the right culture and partnerships as it is about tech itself, according to **Adrian Blidarus**, co-founder and CEO of Softelligence

What matters most for successful digital transformation is often not the technology itself, but rather how people react to it.

Successful businesses aim to please the customer, and any technology initiative should have the same objective in mind, with the appropriate culture within to achieve the aim.

"The most important message is about culture and having the right people and the right partners in the journey," says Adrian Blidarus, co-founder and CEO of InsurTech and technology services provider Softelligence.

"Most of the time, innovation is not about investing in some cool new technology but using technology to contribute value. Digital transformation means knowing your customer deeply, personalising interactions, understanding what a client wants, knowing what they expect, and when they expect it."

Not all companies feel comfortable when they hear the word disruption, he admits. However, when innovation happens elsewhere, if you can't innovate in reply, the best strategy is often to follow where it leads. "It's important to take steps – maybe baby steps, maybe larger steps. If you can't innovate at that level, then adopt a strategy to follow it. Go as fast as you can, but don't sit and wait," he emphasises.

The exponential strides being made by technology form part of the argument for digital change. The risks of being left behind are greater today than previously, as the tech grows more powerful, more quickly. Blidarus warns that innovation is not a probability or a possibility anymore, but something expected to happen on a very frequent basis.

"It's important for companies to experiment and to start doing things now rather than to over-plan or over-strategise. The more you postpone a decision, the wider the chasm between the status quo and the desired target state becomes," he says.

"The risk of getting left behind is more important than ever. You can get so far behind, so quickly, that you can't make it back to the front of the line. Things are moving so fast that if your competition gets ahead and innovates, and innovates again, it's much harder to get back to the front."

Blidarus began coding at 16 to become a developer and programmer. After studying computer science in his native Romania, he co-founded Softelligence with his brother in 2006. The company initially set about digitalising customer interactions for lenders and banks that were expanding fast but unable to serve customers via non-digital means or with web portals that were struggling to cope.

The first insurance clients – brokers and carriers – followed from 2010. London market business is now a real priority for Softelligence and it's also at the forefront of innovation, says Blidarus. The niche, bespoke and specialty lines that form the core of the London market are better sources of innovation than commoditised lines of insurance elsewhere around the globe.

"London is the capital of the world in specialty insurance and it's the place to be if you want to do innovative insurance business," Blidarus says. "I don't think you can find the same level of understanding and sophistication concentrated on this scale

"Blidarus warns that innovation is not a probability or a possibility anymore, but something expected to happen on a very frequent basis"

anywhere else in the world."

Although individual client priorities can differ, with some firms identifying claims or underwriting as their first focus, the high-level approach is simple, he says. This is focused on optimising customer interaction and experience, whether that's for an insurer or any other type of financial services business.

"We help them create customer journeys, and most of all data-driven journeys. The idea is the same at a high level: digitalising the business, understanding and predicting customer behaviour," Blidarus says.

Comparisons with banking are positive for insurers, he suggests. "Insurance is now moving at a faster pace. The culture has proved to be more open than banking, the working environment is more flexible and insurance is less tightly regulated so it's easier to innovate. It is a good thing if you are willing to drive changes, to think differently, and to accept different ideas," he says.

Insurers must also be more proactive, he emphasises. Banks are more reactive because customers come to them. Billions have been spent on financial technology, and the fintech space has become crowded – yet the sector still shows inertia, he suggests.

"Compared to banking, insurance has a harder time trying to sell its products. For example, think of when the typical consumer is legally compelled to buy an unsophisticated product such as motor insurance. But once you understand the concept of risk, you understand why insurance is so useful, and essential to sustainable growth," Blidarus says.

No matter how open an organisation is culturally, there is always resistance to change, so despite the optimism, digital transformation can still be a trying experience. "Society is changing, and players need to adapt to reflect those changes," he says. "Nobody is doing change for the sake of change: the only person that welcomes change is a baby waiting for a new diaper; for the rest of us it requires work and discomfort."

Blidarus compares digital journeys, for commercial lines customers as well as SMEs and personal lines, to the experience of a customer entering a four-star or five-star hotel. "At first glance things don't seem much different, but once you start interacting with people it is the quality of the service that's the differentiator, and that's vital for any insurance business," he says.

"The costs of keeping up and regaining what was lost due to reluctance to transform a business can greatly outweigh those of piloting and incubating innovation and not getting it right every time"

The costs of keeping up and regaining what was lost due to reluctance to transform a business can greatly outweigh those of piloting and incubating innovation and not getting it right every time – of iterating towards digital transformation today, not tomorrow, he stresses.

"In our experience, most organisations have pockets of innovation, but as long as the process of digital transformation is seen as 'too technical', the business misses out on the larger point, that technology is just a tool to help them achieve their goals more efficiently," Blidarus adds.

For a technologist, he is surprisingly interested in company culture. It is impossible to drive change without people's buy-in, he stresses. Seeing as it is impractical to imagine changing people, the challenge is to still be successful in driving change to achieve meaningful results.

"We should never talk about technology in isolation, but about people's willingness to embrace it," says Blidarus.

The answer, he explains, involves changing the way people perceive themselves and interact to create a data-driven culture. "Culture manifests itself through symbols, heroes, stories and rituals. All in all, cultural change and digital transformation need to form a cohesive programme where people's willingness to change things ends up delivering on digitalisation," he says.

He is keen to underline the serving role of artificial intelligence (AI) – a buzzword but also a source of misunderstanding – with many people fearing machines are out to take their jobs. What AI does spell the end of is decisions about complex matters made on intuition alone, he points out.

"We're hard-wired to use intuition to solve problems rather than data," Blidarus warns. "The problem is that the environment is changing so quickly, it makes intuition and experience irrelevant. Increasingly, the only things that you can actually count on are the data."

"It's important for everybody to understand that nobody is trying to replace people," he continues. "While achieving digitalisation, some degree of automation or a machine learning algorithm will be introduced that will replace or improve previous work, meaning those human resources are freed up to focus on the tasks that only humans can do best – to be more creative and to be more innovative.

"Ultimately all these automated processes for digital transformation should help us regain the time to focus on interacting with our fellow humans while everything else is automated."

Executive moves

The ins and outs of the executive job market

Christopher Donelan

Christopher Donelan has been promoted to lead Sompo International's reinsurance business, replacing Stephen Young, who has resigned from the role. He will report to Christopher Gallagher, CEO of Sompo International's commercial property and casualty unit. Donelan was involved in building out Axis Re's reinsurance business in the 2000s before moving to Endurance in 2013, ahead of Sompo Group's purchase of the carrier in 2016.

Dan Moore

QBE has confirmed Dan Moore as permanent COO for North America after the executive took up the role on an interim basis in January. He will report to North America CEO Todd Jones. Moore joined QBE in 2013 as a senior vice president within claims. He previously worked in various operational roles at Fireman's Fund.

Ross Howard

Lockton Re has appointed former JLT Re chairman Ross Howard as global chairman. In his new role Howard will work alongside global CEO Tim Gardner, a former Guy Carpenter North America CEO, and former senior JLT colleague Keith Harrison, who is now CEO of Lockton Re International. Howard stood down from JLT last year following Marsh & McLennan's takeover of the business.

Sergio Ermotti

Swiss Re has named UBS CEO Sergio Ermotti as successor to Walter Kielholz as chairman of the board, when the latter retires. Ermotti, who is due to step down from UBS in November, will join the Swiss Re board as a non-executive director later this year, subject to shareholder approval. In 2021 he will be nominated to succeed Kielholz, who has been chairman since 2009.

Wes Dupont

Allied World has announced that former global legal and strategy CEO Wes Dupont has been appointed group COO. Dupont, who has worked for Allied World for 17 years, will continue to oversee the carrier's legal, compliance, claims, HR, internal audit and procurement functions, and will retain his seat on the executive board.

John Neal

Lloyd's CEO John Neal is to step into the role of interim performance management director (PMD) as Jon Hancock goes on gardening leave before joining AIG later in the spring, as CEO of the carrier's international general insurance operations. While the search for Hancock's successor is underway, Neal will oversee the tricky three-to-six-month period which kicks off 2021 business planning.

John Rathgeber

Watford Holdings CEO John Rathgeber stepped down as CEO on 31 March to make way for Jonathan Levy, who is being promoted from his current role as company president. Rathgeber will remain involved as a non-executive director and adviser at Watford. Levy joined Watford on its founding in 2014 as chief risk officer.

Michael Butt

Axis Capital Holdings chairman Michael Butt will retire in September to be succeeded by current director Henry Smith. Butt, who was appointed Axis chair in September 2002, has held various senior roles including chairman of Sedgwick, CEO of Eagle Star Holdings, director of XL Capital and director of Farmers.

Michael van der Straaten

QIC Global has named Michael van der Straaten as leader in addition to his role as Qatar Re CEO. Van der Straaten became CEO of QIC Global (International) on 1 March, taking over from Sunil Talwar, who remains QIC Global chairman. Van der Straaten became CEO of Qatar Re in January 2019.

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SCOR is pursuing its "Quantum Leap" strategic plan with determination. The Group is actively integrating environmental, social and governance issues into all its activities, and is accelerating its use of new technologies throughout the company to innovate, expand its product and services offering, and increase efficiency.

SCOR – a Tier 1 global reinsurer – is proud to contribute to the welfare and resilience of societies by helping to protect insureds against the risks they face."

Denis KESSLER, Chairman & CEO

CONTINUED PREMIUM GROWTH
16.3 billion euros in 2019
+ 7.1% compared to 2018 at current exchange rates

STRONG NET INCOME GROWTH
422 million euros in 2019
+ 31.1% compared to 2018

ROBUST RETURN ON EQUITY
7.0% in 2019
+ 1.5 pts compared to 2018

EVEN STRONGER SOLVENCY
226%[1] solvency ratio at 31/12/2019
+ 11 pts compared to 31/12/2018

INCREASED SHAREHOLDERS' EQUITY
6.4 billion euros at 31/12/2019
+ 9.4% compared to 31/12/2018

EXPANDING BALANCE SHEET
46.9 billion euros at 31/12/2019
+ 5.6% compared to 31/12/2018

SIGNIFICANT NET OPERATING CASH FLOW
841 million euros in 2019

TOP-TIER FINANCIAL STRENGTH
AA-
S&P: AA- Stable Outlook
Moody's: Aa3 Stable Outlook
Fitch: AA- Stable Outlook
AM Best: A+ Stable Outlook

INCREASED RETURN ON INVESTED ASSETS
3.0% in 2019
+ 0.2 pts compared to 2018

SUSTAINABLE INVESTMENTS
6.9% green bucket of invested assets at 31/12/2019*
*including real estate for own use

STRONG VALUE CREATION
1.0 billion euros of operating capital generation* in 2019
* Under Solvency 2

ATTRACTIVE DIVIDEND
1.80[2] euros per share for 2019
representing a total payment of 335 million euros

[1] The Group solvency final results are to be filed to supervisory authorities by May 2020, and may differ from the estimates expressed or implied.
[2] Dividend subject to approval of the 2020 shareholders' Annual General Meeting.