insider quarterly

Summer 2020

Take cover

Insurers seek constitutional shelter against the Covid BI rain

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New tricks

Insider Quarterly is still a teenager. It may be mature, but the publication that began life in 2001 as the features offshoot of *Insurance Insider* has yet to reach its 20th anniversary.

The precise transition point from teenage to adulthood is a difficult one to pinpoint. Many teenagers (and children also) display more adult sensibilities than many so-called adults.

And yet, if I recall my twenties, I can't necessarily claim to have thought of myself as a 'grown up' at that age – even if I was officially an adult.

Equally, plenty of adults (including pensioners) can behave in a childlike fashion at times.

There is something joyful, however, in knowing that the child we once were lives on in all of us – just as an adult dog, with its puppyish exuberance behind it, can still be tempted to chase after a thrown stick.

I would like to think, therefore, that *IQ* has not only 'come of age' but has also matured beyond its years. In the relatively young world of business-to-business publications, it may appear to be a venerable institution, but it is a mere stripling alongside some of the world's longest-established news organisations and features publications.

In this relatively short time, it has evolved from a slightly disorderly catch-all for all of Insider Publishing Group's long-form journalism and sponsored content into a respected forum for thought leadership, strategic and historical perspectives, and a more considered view on the (re)insurance world.

However, having entered its 20th year, *IQ* is about to undergo a further transformation – one that preserves our commitment to providing you with engaging features content and that we trust will also reaffirm your commitment to reading.

The core proposition of *IQ* remains strong. There is both an appetite and a need for thoughtful, long-form editorial in the insurance B2B space and we intend to continue delivering that to our readers.

However, having listened to you, we have come to understand that a quarterly print title is not necessarily the format and the frequency that best serves your needs – and that a digital product is more in line with how you prefer to consume media.

We also heard you when said you wanted us to expand the breadth of our coverage – as well as covering existing topics in greater depth.

In line with Insider Publishing Group's other print titles, the move towards a digital platform seems inevitable, therefore.

IQ has always been a print publication at heart, but as we transition away from traditional print media towards a more compelling digital offering, *IQ* will also have to change.

From September we will be evolving the publication into a more interactive and comprehensive digital solution. It won't be quite the same as the *IQ* of old, but we are confident that it will continue to satisfy your interest in long-form content and that, at the same time, you will find it an exciting and engaging alternative.

We're looking forward to telling you more about these changes in the coming weeks.

Until then, enjoy the read and see you in the digital future!

Gavin Bradshaw
Editor, *Insider Quarterly*

insider publishing group

MANAGING DIRECTOR
Tim Wakefield twakefield@euromoneyplc.com

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

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

CONTENT DIRECTOR
Charlie Thomas charlie.thomas@insuranceinsider.com

MANAGING EDITOR
Catrin Shi catrin.shi@insuranceinsider.com

EDITOR
Laura Board laura.board@insuranceinsider.com

DIRECTOR OF RESEARCH
Gavin Davis gavin.davis@insuranceinsider.com

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

REPORTERS
Anna Sagar anna.sagar@insuranceinsider.com
Samuel Casey sam.casey@insuranceinsider.com
Suliman Mulhem suliman.mulhem@insuranceinsider.com

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

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

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

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

SUBSCRIPTIONS DIRECTOR
Tom Fletcher tom.fletcher@insuranceinsider.com

EVENTS DIRECTOR
Sara Donaldson sara.donaldson@insuranceinsider.com

PRODUCTION EDITOR
Ewan Harwood ewan@insuranceinsider.com

SUB-EDITORS
Steve Godson steve.godson@insuranceinsider.com
Simeon Pickup simeon.pickup@insuranceinsider.com

COPY EDITOR
Jamie Gallagher jamie.gallagher@insuranceinsider.com

SENIOR DESIGNER
Mike Orodan mike.orodan@insuranceinsider.com

Level 1, 29 Ludgate Hill, London, EC4M 7NX, UK
Tel main: +44 (0)20 7397 0615
Editorial: +44 (0)20 7397 0618
Subscriptions: +44 (0)20 7397 0619
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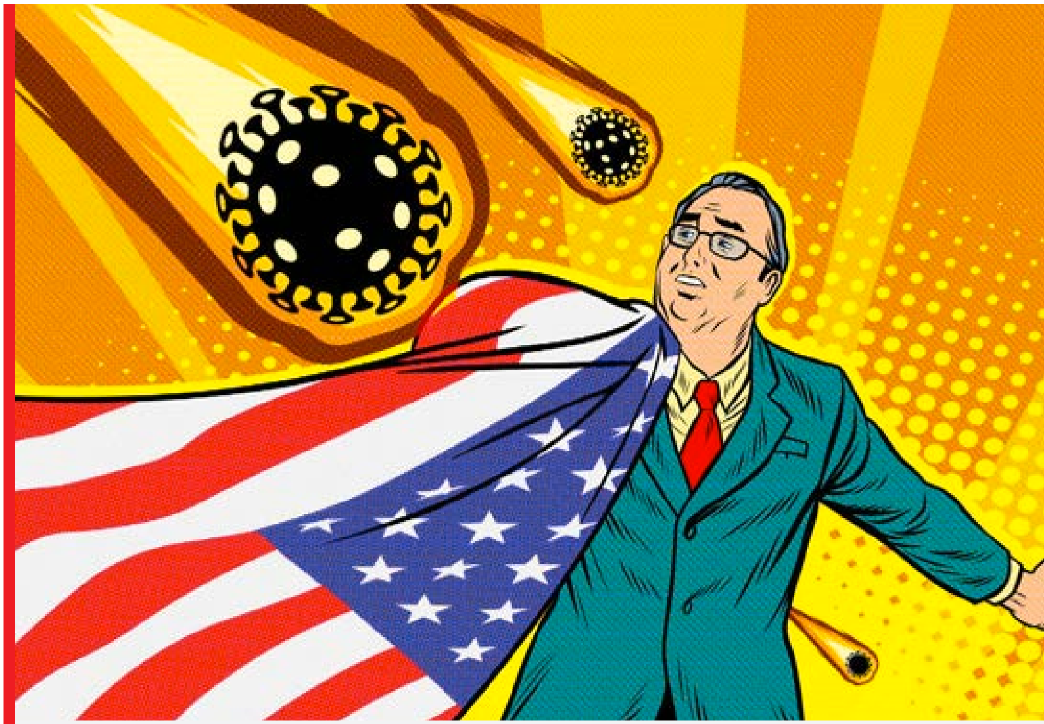


Take cover

As lawmakers propose sweeping measures to rewrite pandemic exclusions, insurers are relying on protections enshrined in the US Constitution to resist an onslaught of BI claims, writes John Hewitt Jones

Chris Alviggi, an environmental liability broker at NFP in New Jersey, began receiving calls from concerned clients in late April, as the daily coronavirus death toll in the state breached the 350 mark.

"They wanted to know how exposed they would be to liability lawsuits, and how they might need to adjust their coverage," he tells *Insider Quarterly*. "They were really nervous about the legislation being proposed by state officials."

New Jersey was the first US state to introduce business interruption (BI) legislation for consideration by the state's assembly. The proposed law, Bill 3844, has since been withdrawn, but if passed it would have retrospectively

compelled insurers to pay all claims arising from the virus – even where a policy contains pandemic exclusions.

Some policyholders, notably small business owners whose livelihoods have been destroyed by the pandemic, regard such legislation as a potential saving grace. Others are frustrated because it will take time for state legislation to pass, and funds are needed right now.

BI insurance – and the question of whether or not such cover is explicitly excluded from all-risks property policies – has received widespread attention from the mainstream American media, spurred by support from celebrities including triple-Michelin-starred chef Thomas Keller, of the French Laundry fame, and highlighting the desperate plight of small businesses across the United States.

Museums, charities and arts organisations are among the entities fighting for survival as the real economic fallout of the pandemic becomes apparent. New projections from the US Congressional Budget Office in early June suggest Covid-19 will reduce economic input across the country by 3 percent through to 2030, which equates to a loss of about $7.9tn.

The insurance industry is caught in a double bind; it's in a difficult spot that has strained relationships with a range of stakeholders. Either markets pay up and pay now – and face the shareholder wrath that will accompany a sudden, titanic hit to the balance sheet – or they will have to challenge lawmakers head-on and, in doing so, face the potentially disastrous public policy consequences.

It is generally the impulse of the (re)insurer to offer support from behind the scenes. But as the events of this year have unfolded, the market finds itself at the center of a conflict that strikes at the heart of the American political project.

The Thompson bill

On 14 March, politicians in Washington DC introduced legislation in the House of Representatives, Bill 6494, which if passed would compel (re)insurance companies to retrospectively rewrite pandemic exclusion within in-force policies, to ensure that they pay out.

The bill, sponsored by Mike Thompson, a Democrat from California, has been assigned to the US House Committee on Financial Services, where sources tell *Insider Quarterly* it is likely to remain.

"It is essentially dead," a Washington source tells this publication.

The legislative proposal did, however, spark a debate about whether or not such a move would violate the US Constitution, and also spurred the insurance industry into action.

One after another, senior executives lined up to challenge the legitimacy of such a bill and to defend the industry.

In a statement at the time, five US insurance trade bodies, including the American Property and Casualty Insurance Association and the National Association of Mutual Insurance Companies, slammed the proposed bill as "unconstitutional".

The bipartisan bill

Subsequently, in late April, a bipartisan BI bill was introduced in Congress that has a higher likelihood of passing into law.

The legislation, which is known as the Never Again Small Business Protection Act 2020, was introduced by Republican Congressman Brian Fitzpatrick of Pennsylvania, and has since been referred to the Committee on Financial Services for consideration.

If passed, it would mandate insurers to provide BI cover for businesses and nonprofits for future losses arising from any federal, state, or local government-ordered shutdown during a national emergency. It would also require the government to establish a backstop scheme that has since been formally proposed as the Pandemic Risk Insurance Act (Pria).

In an attempt at compromise, the Fitzpatrick bill stops short

Continued on page 08

of requiring coverage of historic losses, but would effectively neuter the ability of insurers to deny claims unless they have a written statement from a policyholder that authorises the exclusion of national emergencies. Insurers would also be able to avert a payout if an insured stops paying premiums.

It will be several months before a decision becomes clear on whether the bill will be taken forward – or if it will be left to gather dust at the committee stage. In the meantime, industry representatives on Capitol Hill work around the clock, lobbying for the introduction of amendments that would water down the bill and reduce current demands.

As the devastating economic effects of Covid-19 have unfurled amid rising BI claims, the concerns of the insurance industry have become inextricably intertwined with the response of lawmakers to the pandemic.

State legislature scramble

While the fight between the industry and lawmakers has so far been most pronounced at the federal level, insurers face an increasingly torrid fight outside the confines of the Washington DC policymaking bubble.

Nine states have so far proposed their own measures to curtail the ability of insurers to adjudicate claims arising from the pandemic.

A common refrain among coverage lawyers working to defend the industry in BI cases is that such laws "will never survive the Supreme Court".

However, if, or when, such legislation does pass and a case is filed at the Supreme Court, the judicial decision-making process is more complex, and it is as yet impossible to determine what conclusion will be reached.

As well as navigating a strong legislative response to Covid-19 claims at the federal level, insurers have been forced to confront BI legislation proposed in states – leading the market into new territory.

New Jersey was the first to put forward such a bill, on 16 March, followed by Louisiana, Massachusetts, New York, Ohio, Pennsylvania, South Carolina, Michigan and Rhode Island.

The bill filed in New Jersey has since been withdrawn. However, legislation continues to progress in the eight remaining states.

While procedural details – and the scope of legislation – differ between the bills, they broadly replicate the effects of federal legislation, compelling insurers to pay all pandemic BI claims, regardless of whether or not insurance contracts specifically exclude the peril.

In addition, the proposed bills give insurance regulators sweeping new powers that would allow them to impose an additional levy on carriers operating within their jurisdiction and redistribute funds collected to pay claims.

Multiple legal sources speaking to *Insider Quarterly* raised concerns about the implementation of such a scheme, warning that it could seriously distort the market.

"If you are a life insurer, for example, with no exposure to BI claims, it's possible to imagine a situation where you're being forced to contribute to claims that you didn't write," says one source.

Sources described this as particularly problematic for US auto insurers, which could be compelled to contribute to property and casualty claims – classes of business they have never intended to write.

The risk of moral hazard in this scenario seems high, because a company with a poorly underwritten BI portfolio could stand to benefit from contributions made by other carriers.

(Re)insurance resistance

(Re)insurers have pushed back hard in response, but it remains uncertain, if a law passes in one state, whether a verdict from the US Supreme Court would be likely to overturn it.

Industry leaders, notably Chubb CEO Evan Greenberg, have been clear that the industry must resist attempts to push through state legislation wholesale, which would essentially rewrite contracts.

Carriers have the US Constitution on their side – specifically, Article I, Section 10, which makes it very clear that no state should be able to pass a law that impairs contractual obligations between two parties.

"No state shall enter into any treaty, alliance, or confederation... [or] pass any bill of attainder, ex post facto law, or law impairing the obligation of contracts," the Constitution states.

However, any such legislation would undoubtedly be challenged by insurers in the US Supreme Court, and according to constitutional law experts, the outcome is far from certain.

Continued on page 10

BI bills proposed at state legislatures

State	Bill Number	Chamber
Michigan	5739	House
Louisiana	477	Senate
Massachusetts	2888	Senate
New Jersey	3844	Assembly
New York	10226	Assembly
Ohio	589	House
Pennsylvania	1114	Senate
South Carolina	1188	Senate
Rhode Island	8064	House

Speaking to *Insider Quarterly*, Daniel Schwarcz, a professor of constitutional law at the University of Minnesota, says any such decision to reverse this protection would involve a high degree of nuance, and involve a three-pronged test previously established in a 1983 case – *Energy Reserves Group, Inc v Kansas Power & Light Co*.

"The Supreme Court has adopted a broad-ranging test, which will seek to determine whether or not state law has substantially impaired a commercial relationship, but also whether or not the law is supported by a public purpose," Schwarcz says.

In assessing the legality of such laws, judges will make an assessment of three elements. Firstly, whether the state legislation has substantially impaired a contractual relationship. Secondly, whether the law is supported by a "significant and legitimate public purpose". And finally, whether the adjustment of the rights and responsibilities of contracting parties is based upon reasonable conditions and is of a character appropriate to the public purpose justifying its adoption.

Industry executives like Greenberg are right to highlight the challenges such laws pose to the sanctity of commercial contracts enshrined in the Constitution, but this also discounts the public policy concerns that judges and legal scholars will weigh as they reach a verdict on such measures.

Insurers are in the unusual position of relying on the American Constitution to protect the enforceability of contracts.

Pria: A necessary compromise

In early April, US lawmakers began to circulate legislative proposals for a pandemic risk backstop scheme that would function akin to the Terrorism Risk Insurance Act (Tria).

BI bills under consideration in US Congress

Bill	Sponsor	Effect
Business Interruption Insurance Coverage Act 2020	Mike Thompson (D)	Wide-ranging bill that would compel insurers to make retrospective and prospective payments. It would also nullify contracts beginning on the date the bill is enacted
Never Again Small Business Act 2020	Brian Fitzpatrick (R)	Legislation is prospective, but would mandate insurers to provide BI cover for future losses. It also establishes Pandemic Risk Insurance Act

Marsh CEO John Doyle sent a letter to congressional leaders and the Trump administration in support of the legislation, which has divided opinion in the market.

In early June, CEO of The Hartford, Christopher Swift, said plans to force the insurance market to accept pandemic risk "wouldn't be prudent in any way, shape or form".

"Insurers are in the unusual position of relying on the American Constitution to protect the enforceability of contracts"

Speaking alongside him on a panel, Rob Berkley, president and CEO of WR Berkley, agreed, saying: "It would be acting in an unjustifiable way if we were to take a risk that would be unquantifiable."

The proposal, which was introduced on 26 May by Representative Carolyn Maloney, is a partisan bill. It has been supported by over 30 companies and trade organisations from across different sectors of the US economy.

The Pandemic Risk Insurance Act is controversial because it would have a significant impact on the private market for pandemic risk – incentivising carriers to write policies for risks that were previously deemed to be uninsurable.

The current structure of the bill would create a federal backstop with a trigger of $250mn and an annual cap of $750bn.

Following this, three industry trade groups have put forward an alternative proposal in the form of the Business Continuity Protection Program – essentially a government stimulus scheme that would create a legal requirement for federal government to replace companies' revenue for three months, with up to 80 percent of payroll, benefits and expenses.

Chubb is understood also to have put forward a third proposal, which would provide a "middle ground" alternative to the two schemes.

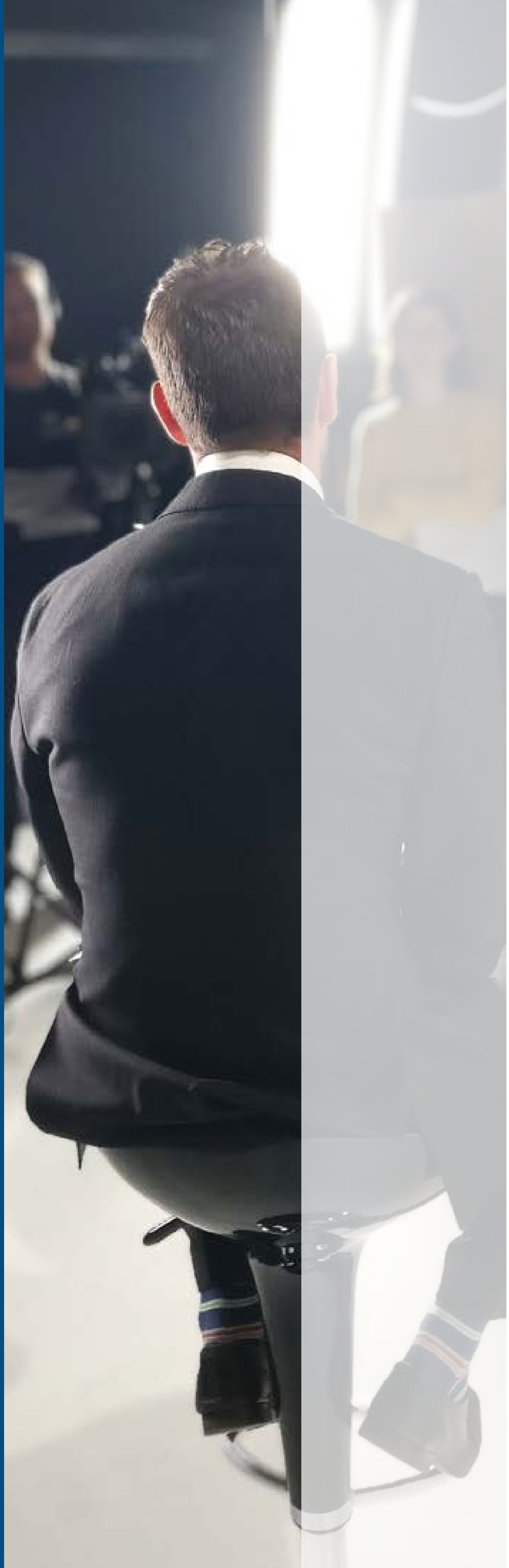
However, Pria has served a dual purpose in also giving the insurance industry access to the ears of the political establishment – to show it can and will work closely with governments in a time of international crisis.

Marsh & McLennan Companies CEO Dan Glaser and Amerisure CEO Greg Crabb have established a workstream to examine how public-private partnerships like Pria could be used to close the protection gap. Working with the US Treasury, this will generate goodwill on behalf of the industry and demonstrate it is serious about contributing to a response to the economic crisis that has accompanied Covid-19.

It remains uncertain whether or not Pria will be implemented, but in getting there it represents an opportunity for the industry to boost its political capital.

The industry has made significant progress in making its voice heard as governments respond to Covid-19 – ensuring it walks the tightrope between inspiring loyalty from policyholders and paying only the claims for which it is liable.

There remains, however, a long road ahead, and more than ever the fortunes of (re)insurers are yoked to the fast-changing US political landscape.



Sellers' market

Jean-Paul Conoscente says Scor's capital strength and flexibility put it in a good position to take advantage of further reinsurance price rises and increased M&A activity next year. **Rachel Dalton** reports

There are a number of uncertainties around the Covid-19 pandemic for the reinsurance industry. One key unknown is how long the crisis will last, with individual states moving towards recovery at different rates and imposing varying restrictions on movement.

Another uncertainty is around the scale of potential business interruption claims, with several lawsuits underway in the UK and US over whether policies respond to pandemic or not.

All of this is overshadowed by the potential for governments to intervene in disputes and demand that carriers pay out or at least compromise on claims for Covid-19 losses they would otherwise reject.

For Scor Global P&C CEO Jean-Paul Conoscente, however, there is one certainty: that the rate momentum that has been building since 1 January will continue throughout the year, rather than fizzling out once the immediate crisis has passed.

"We think this hard market is going to carry on into 1.1 for several reasons," says Conoscente. "First of all, the world economy is likely entering into a global recession, with financial income severely depressed.

"Insurers and reinsurers need more technical margin, and that will drive longer-term improvements. We've also had a capital depletion, both on the (re)insurance side and the retro side, and that's going to be a driver for improvements."

Gathering momentum

Conoscente says there were rate improvements at 1 January, but because this renewal is dominated by European treaty business – where prices have not hardened as much as in parts of the US – the impact was muted.

However, Covid-19 has so far revealed "lots of issues with wordings" in (re)insurance, and losses on European accounts are expected, meaning there is likely to be a push for tighter terms and conditions as well as price hikes at the end of this year, he adds.

The 1 April renewals had already been underway for a number of weeks before Covid-19 lockdowns were ordered in several major economies in late March, and for this reason the pandemic had a limited impact on the negotiations, Conoscente says. Rate hardening at this date was primarily driven by the loss experience of Japanese cedants, which had booked tens of billions of typhoon losses in 2018 and 2019.

"We saw an acceleration of the hardening at 1 May, which is a small US renewal, with a big difference between 1 April and 1 May; and June confirmed that this is now a hard market," he adds.

At the 1 June renewal Floridian carriers paid aggregate price increases of 30 percent, although with some significant outliers.

Conoscente also describes a squeeze on terms and conditions: "At 1 June we saw differential terms, the removal of cascading structures and, on loss-free programmes, a drop in commissions on property and casualty proportional treaties, whereas in the past renewals, we saw improvements on proportional casualty treaties and less so on property. Now, it's across both."

Power shifts to sellers

From this point onwards, in Conoscente's view, the market will favour sellers rather than buyers of reinsurance, exemplified in the widespread imposition of contagious disease exclusions on property treaties.

"The June and July 2020 renewals have confronted client expectations with the realities of the market, and not all clients and brokers have accepted the fact that we're in a hard market now," says Conoscente.

"So we're seeing different behaviours from different brokers and clients who are still trying to push aggressive terms relative to what the market is now willing to accept. Those are the programmes that are really struggling."

Rate rises aside, there is the potential for carriers to see demand for certain (re)insurance lines drop while businesses are in lockdown, or as businesses in financial distress have a reduced ability to pay premiums.

"I think you'll see reductions in premium levels in certain lines of business that are driven by economic activity," Conoscente concedes.

However, he adds: "Business segments with a high cost of reinsurance as a percentage of their total premium income are very limited."

Overall, the executive believes most cedants will be able to absorb an increase in the cost of their reinsurance. One exception is the Floridian carriers, which will be unable to pass on the increased cost of the reinsurance to consumers, putting additional strain on their financials.

More M&A ahead

Conoscente believes that the pandemic and the market conditions resulting from it will lead to more consolidation in the insurance sector next year.

"The industry is still overcapitalised and stakeholder requirements, for example, from rating agencies or regulators, are getting higher and higher, which drives the need for scale," he says.

"In addition, as we enter a hard market, M&A becomes more attractive. There are opportunities to draw the most from the hardening market, by providing larger capacities and [an] increasing global footprint," he adds.

On the flipside, companies hit by Covid-19 on the loss or liability side (or both) may need to sell to a larger entity to survive.

The crisis has led ratings agencies to put reinsurers under increased scrutiny as they assess carriers' vulnerability to losses. In May, Moody's downgraded Scor's outlook from stable to negative, noting the reinsurer's vulnerability to higher mortality claims arising from the pandemic.

"Rating agencies and regulators are putting a lot of pressure on individual companies, demanding more information and more clarity on what the crisis means for them," says Conoscente.

"But we're all going through this at the same pace and trying to better understand the implications across different lines of business and geographies as we gradually collect additional information."

He adds: "From Scor's perspective, based on the information we have today, we are comfortable with the measures we have taken to date.

"We believe our capital shield and flexibility put us in a good position to meet our client obligations and maintain our ratings."

Japan – key points

- Deals get home on initial firm-order terms, as continental reinsurers led by Munich Re increase share
- Reinsurers achieved mixed success on inserting eleventh-hour Covid-19 exclusions
- Some reinsurers have kept shares based on the assumption that re-rating wind exposures is a "multi-year journey"
- Wind occurrence layers renewed with increases of 35-55 percent, with quake effectively flat, in the last round of "pre-coronavirus" pricing
- Aggregate cat deals have paid 60-70 percent increases to get home

Florida – key points

- In aggregate, Florida carriers paid rate increases of around 30 percent, although with some significant outliers
- Majority of programmes placed successfully, despite some last-minute negotiations, and with some small gaps
- Reinstatement premium protections rates on line reached a loading of 1.3x to 1.5x the premium on the underlying layer in some cases, above previous estimates of a 1.2x loading
- Hardening market conditions forced many Floridian carriers to seek private deals and shortfall covers to secure maximum possible protection
- Cascading features on programmes all but vanished

Smooth sailing?

In an environment of global financial volatility, the coronavirus has brought both opportunities and challenges to the ILS market, writes **Fiona Robertson**

The 2008 global financial market crisis was a turning point for the ILS industry. Initially it resulted in a sweeping cut to capacity as investors used ILS funds like ATMs to withdraw cash.

But over the long term, the crisis drove more investors into adopting a sector that had shown its diversification power by holding its value as mortgage-backed securities and other structured finance deals plummeted in value.

Fast forward 12 years and the markets are again being roiled by events that we thought had been consigned to the history books.

Will this crisis be another turning point for the industry – and can it turn the situation to its advantage again?

In some ways, this crisis looks to have been much smoother sailing for the ILS sector, but in others the pandemic has stirred up difficult undercurrents. *IQ* looks at how the alternative reinsurance market has navigated the coronavirus challenge so far.

Calm after the storm

As the pandemic's spread became apparent in March and as countries began locking down their borders and streets, an initial panic hit the markets as investors fled to the security of cash.

This "flight to cash" showed up to some extent on the liquid side of the ILS market – the cat bond sector – although the impact on pricing was subdued compared with the kind of writedowns being recorded in traditional markets.

As sister publication *Trading Risk* reported at the time, around $400mn of cat bond holdings were offered in bulk auctions on the secondary market in March. This was said to be largely driven by multi-strategy fund investors facing cash calls from their management, or demands from retail investors to cash out.

However, the resulting price hit to the outstanding bond market was 1.09 percent in the steepest loss week from 20 to 27 March. And in the first quarter, ILS returns remained positive while other benchmarks experienced losses of up to 20 percent (see chart opposite).

And in terms of the demands on liquidity at the specialist ILS managers, the experience was much more manageable than the "ATM effect" they had suffered back in 2008.

Fermat Capital co-founder John Seo recalled that, back then, the US cat bond specialist had to sell off a quarter of its assets to meet redemptions, but only had to sell off around 2 percent in the worst month this time around.

Meanwhile, another leading ILS pioneer, Nephila Capital, also testified to the relatively modest impact on its capacity in the first half of 2020. Co-CEO Greg Hagood said the $10.4bn firm expected a 7 percent drop in its asset base after receiving $400mn of last-minute Covid-related redemptions in late March.

Though the Covid-related shrinkage compounded a year of retractions for ILS capacity as a whole, following the major loss years of 2017-2018, the direct impact was minor compared to the scale of investment markdowns at rated carriers.

Steadier hands at the tiller

Why has the ILS industry responded so differently and avoided the ATM effect this time around?

Hudson Structured Capital Management (HSCM) co-founder Michael Millette argues that the shift in the ILS investor base since 2008 has been one decisive factor in the differing reactions.

Back in 2008, more of the market was supported by funds of funds investors and hedge funds seeking the higher-return strategies that were available at that time. But after that crisis, those investors did not return in the same way and were replaced with more institutional investors and pension funds, which saw the sector as a long-term bet (see chart on page 16).

Institutional investors that now back ILS managers have made strategic allocations to the sector to diversify and are unlikely to "bolt fast", Millette remarked earlier this year.

However, most pension funds will not face an immediate pressure to realise cash and could find the diversification provided by ILS reassuring.

"The terrifying correlation of every other market on earth that we witnessed unfold quickly as the virus spread is a lesson that allocators won't forget," Millette said.

Meanwhile, the fact that the ILS market held value throughout the initial crisis will be used as further proof of its non-correlating or diversifying performance, and could lay the grounds for future growth to help rebuild from the losses of 2017-2018.

Charting a new course

However, there are still choppy waters ahead for the ILS market – and the first challenge is proving that it can steer clear of the threat of pandemic-related business interruption (BI) claims.

The main exposure here is from commercial property insurance and reinsurance risks, since there is little ILS participation in event cancellation, trade credit, workers' compensation or any of the other lines of business that are expected to take a hit from Covid-19 claims.

The BI issue has a far-reaching scope, beyond the ILS market's involvement. Underwriting companies have insisted that their policies do not cover the systemic threat of viral pandemics, but business owners struggling to make it through lockdowns have taken cases to the courts, where the industry is anxiously awaiting the outcome of the first set of precedent cases.

If judges rule against insurers and unleash a torrent of claims, many fear that losses from this unmodelled, highly correlated peril could push investors out of the ILS market as the unexpected loss follows back-to-back losses in 2017 and 2018, including significant model miss events.

However, other experts emphasise that the huge Covid-19 insured loss numbers being projected by some in the market incorporate large claims from segments with no ILS involvement at all.

HSCM's Millette suggested during a recent *Trading Risk* webinar that trade credit losses could represent around $20bn, with a further $10bn-$15bn from liability lines, $10bn from the contingency market, and additional workers' compensation losses.

"Those numbers are not really part of the capital market segment of reinsurance," he pointed out. "For the sector to see losses creep up into cat towers, we would have to see a thoroughgoing judicial refutation of language, which I do not expect."

In the US, many property insurance policies have standard ISO wordings including virus

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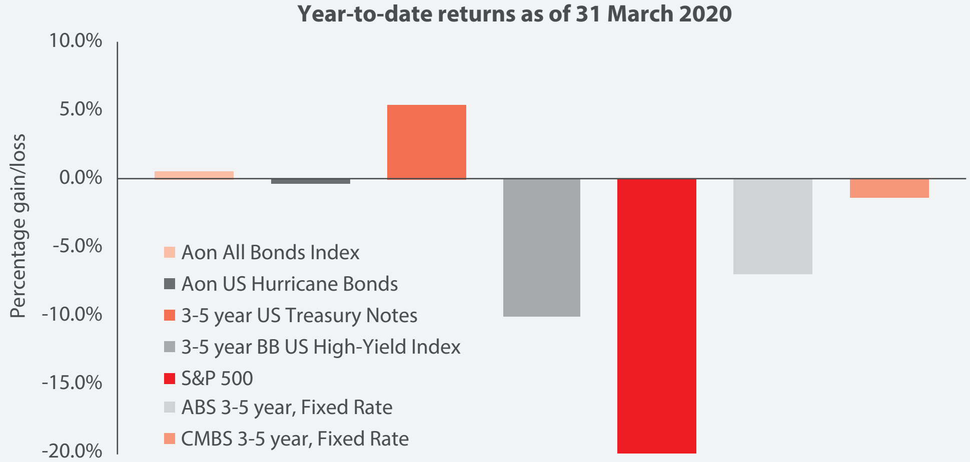
ILS returns vs traditional benchmarks

Year-to-date returns as of 31 March 2020



Source: Aon Securities

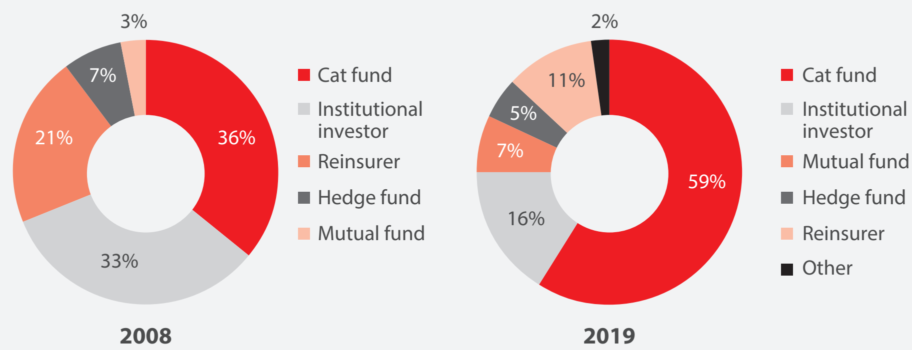
exclusions alongside physical damage requirements to trigger BI losses.

"This [wording] isn't as dubious as some lawyers would want you to believe," said Millette.

Certain segments of the ILS market are better reinforced than others against BI claims "leakage", as it is known in industry jargon. Cat bonds, for example, employ named peril coverages rather than all-peril language, and most also cover residential exposures rather than commercial lines.

Cat bond investor base shifts towards ILS specialists

Investor by category (year ending 30 June)



Source: Aon Benfield Securities, Inc.

Rebuilding and repricing

Regardless of the ultimate level of Covid-19 losses, the ILS industry will undoubtedly see further change and evolution in the wake of the pandemic.

After all, even if claims are overturned, there could be disruption from trapped capital if cedants are able to lock collateral at the end of a contract while they allow time for losses to evolve. This is a source of frustration for investors as in some segments, such as retro, this will be the fourth year impacted by some degree of trapped capital.

This "investor fatigue" as a result of trapped capital is also matched by caution from cedants dealing with a long-tailed catastrophe event, wary of whether property BI losses could pop up in future years after they have released ILS reinsurance capital.

Taken in tandem, these issues are likely to drive further evolution in the ILS market's use of rated paper, whether from fronting providers or in-house, as well as contract negotiations on commutation and clawback terms.

Terms and conditions are also increasingly under the spotlight in the ILS and broader markets as underwriters seek to capitalise on the hardening market to tighten up coverage. Within the alternative reinsurance sector, it remains to be seen how far underwriters will move towards use of named perils beyond the cat bond space – with sources suggesting this shift is occurring in retro as well.

For reinsurers and ILS writers, one positive side-effect of the concern over pandemic losses is that it has amplified property catastrophe rate increases – a trend which was particularly evident at the Florida June renewals.

Capital has already started flowing back in to the market, with $4bn to $5bn raised through major equity issuances from Bermuda and London players such as RenaissanceRe, Fidelis and Lancashire.

New start-ups are also on the horizon – but while there are some signs of green shoots in the ILS market as well, the industry has had little success in mid-year fundraising overall.

A major obstacle has been the difficulty in bringing on new investors without being able to do in-person due diligence – while existing investors are also distracted by more immediate opportunistic plays elsewhere.

But with rate momentum building, the ILS sector will be pushing the potential growth story out to investors ahead of the next major pre-January fundraising round.

And just as it is expected to take months and years for (re)insurers to get a clear grasp on their Covid-19 losses, so too it will take time to understand how the ILS market will be changed and reshaped by the pandemic.

World Bank bond pays out but critics remain

The World Bank will receive $132.5mn from cat bond investors after a pandemic transaction that it sponsored in 2017 was triggered by the coronavirus epidemic.

This represented a 41 percent loss of the $320mn cat bond – the maximum recovery possible for a coronavirus event, as some parts of the transaction did not cover or had limits on coverage for this kind of virus.

The bank will also recover another significant but undisclosed sum on top of this from private reinsurance swaps that were signed at the same time as the pandemic bond and provide similar coverage.

The payout triggered in mid-April.

The earliest the bond could have paid out was 9 April, as the deal specifies that an 84-day minimum period has to pass from the start of a pandemic, plus a fortnight for the modelling agent to be able to calculate the growth rate.

However, the growth rate wasn't high enough for a payout on 9 April, as countries that have been hit hardest by the pandemic, such as the US and a handful of Western European nations, aren't on the covered territories list.

The structural protections built into the deal meant that the bond drew flak from some critics for not paying out sooner.

Behind the mask

Anna Sagar and **Samuel Casey** assess whether expectations of coronavirus-related losses are likely to match outcomes in what were tipped to be some of the most exposed classes

With claims related to the coronavirus pandemic widely expected to represent the biggest industry insured loss of all time, the focus in coming quarters is likely to be on how closely the impact on (re)insurers' 2020 annual results – and any resulting loss creep into 2021 – matches the range of loss estimates made to date.

Back in May, Lloyd's estimated industry-wide 2020 underwriting losses from Covid-19 at $107bn, with the Lloyd's market itself set to absorb $3bn-$4.3bn of the total. Lloyd's also predicted an industry combined investment loss of $96bn, bringing the total projected loss to the (re)insurance industry to $203bn.

As sister publication *Insurance Insider* reflected in April in the article 'Coronavirus: The biggest insured loss in history?', the pandemic is a highly complex event, which is playing out across multiple lines of business and many countries, is poorly modelled, and has impacted insurance coverage with myriad different wordings and regulatory and judicial approaches.

However, some industry sectors particularly affected by the outbreak have had the dubious distinction of being able to estimate the magnitude of their exposure relatively quickly. We cover the likely impact on some of the key lines affected by major Covid-19 claims below.

Contingency

In the middle of February, weeks before the sheer scale of Covid-19's impact had been realised, contingency market practitioners warned *Insurance Insider* that the pandemic could be "catastrophic" for the sector if event cancellations spread beyond China to affect the wider Asian continent.

Since then, coronavirus has caused a near total cessation of mass gatherings across the globe, including sporting fixtures, music festivals and business conferences.

The word has become a cliché, but for the contingency market, perhaps more than any other line of insurance business, the impact of Covid-19 has been unprecedented.

It is impossible to put a precise figure on the scale of the losses, but extrapolation from a Swiss Re disclosure in March suggests the potential industry-wide event cancellation loss could stretch to as much as $6.3bn.

The reinsurer said on an analyst call that it had a 15 percent market share in the global event cancellation market and that its losses could come in at between $550mn and $950mn, suggesting an industry-wide loss of between $3.7bn and $6.3bn.

Lloyd's has said that event cancellation losses are expected to be the biggest source of claims for

the marketplace, accounting for 31 percent of its total loss estimate.

All this, despite the fact that the contingency market has a relatively small level of premium income compared to classes such as property, which are also expected to suffer significant payouts.

The extent of the market's woes stems from the fact that it has offered pandemic cover as a buyback for a number of years, meaning the sort of cancellations that have occurred due to Covid-19 have been specifically covered.

Cancellation as a result of communicable diseases is a standard exclusion on contingency contracts, but it was possible to purchase the cover for an additional premium.

The market had a heightened awareness of the threats potentially posed by pandemics after the outbreaks of Sars in 2003, swine flu in 2009 and the Zika virus in 2015.

Underwriters escaped damaging losses amid the previous outbreaks, which provoked little in the way of government response compared with Covid-19.

To trigger a payout under a policy covered for communicable disease, an insured typically needs to prove that it was necessary to cancel the event and it had not been called off due to disinclination or a possible lack of attendees.

Since governments across the globe implemented the widespread cancellation of mass gatherings, there has been a slew of claims.

AmWins said at the beginning of April that contingency claims were flooding into the London market at an "alarming rate".

One of the most damaging losses is believed to be the Tokyo Olympics, one of the biggest insured events for the market.

It was announced in March that the games had been postponed until 2021, which will still trigger a large loss, albeit a less significant one than from an outright cancellation.

The International Olympic Committee is believed to buy around $800mn of cover, and there are other policies connected with the event, such as those for broadcasters and contractors working on the Olympics.

Some insurers have detailed their potential exposure to the cancellation, including Allianz, which said that its postponement exposure was $40mn, and Munich Re, which has said it has an exposure in the triple-digit millions of euros.

The Wimbledon tennis tournament also had pandemic cover in place, and is reportedly expecting a payout of £100mn ($125mn).

Its policy is believed to have cost £1.5mn per year, with the All England Club, which hosts the tournament, having opted to take out pandemic cover after the outbreak of Sars in 2003.

Less high profile events such as business conferences have also been cancelled in their thousands, and the aggregation of costs is expected to be significant.

The impact for the contingency sector has been twofold. Not only has it suffered devastating losses, but there is now a drought of premium as the volume of business has reduced. With little clear guidance from legislators on when mass gatherings will be able to take place again and the added fact that much of the contingency market's business tends to be written around six months before an event takes place, the outlook for the sector is uncertain at present.

For business passing through the market, pandemic exclusions have become the norm, despite it now being one of the most concerning risks for clients.

All indications suggest that the market will undergo a significant hardening once business picks up, as underwriters attempt to recoup some of their losses.

A report from Miller in April said that contingency rates had increased by up to 50 percent on stressed business, whilst market insiders have reported privately that the rises can be above 100 percent.

Meanwhile, carriers not currently participating in the small market are weighing up the potential opportunities.

Stephen Catlin and Paul Brand's start-up (re)insurer Convex has been the first to act, hiring Axa XL underwriter Luke Killeya to build a book of business.

A&H and travel

By contrast, the London accident and health (A&H) market is not expected to be impacted as dramatically as the contingency sector.

The majority of personal accident contracts written in the London market are unlikely to be affected, as it does not appear that Covid-19 causes permanent or temporary disability.

The lack of exposure relates both to the nature of the contract that the market typically writes and the demographic of those insured.

The market typically provides insurance for either temporary or total disablement, with a schedule of benefits paid out once the policy is triggered.

The medical impact of the disease does not appear to induce either form of disability, with patients either recovering or dying.

All evidence suggests that young people without underlying health conditions are at a comparatively low risk from the disease compared to the elderly.

That is not to say that the class of business will escape unscathed, however.

PwC said in a recent report that the A&H market is nonetheless expected to sustain a number of losses.

Carriers including Axis and Beazley have already flagged that they expect to suffer A&H losses from the pandemic.

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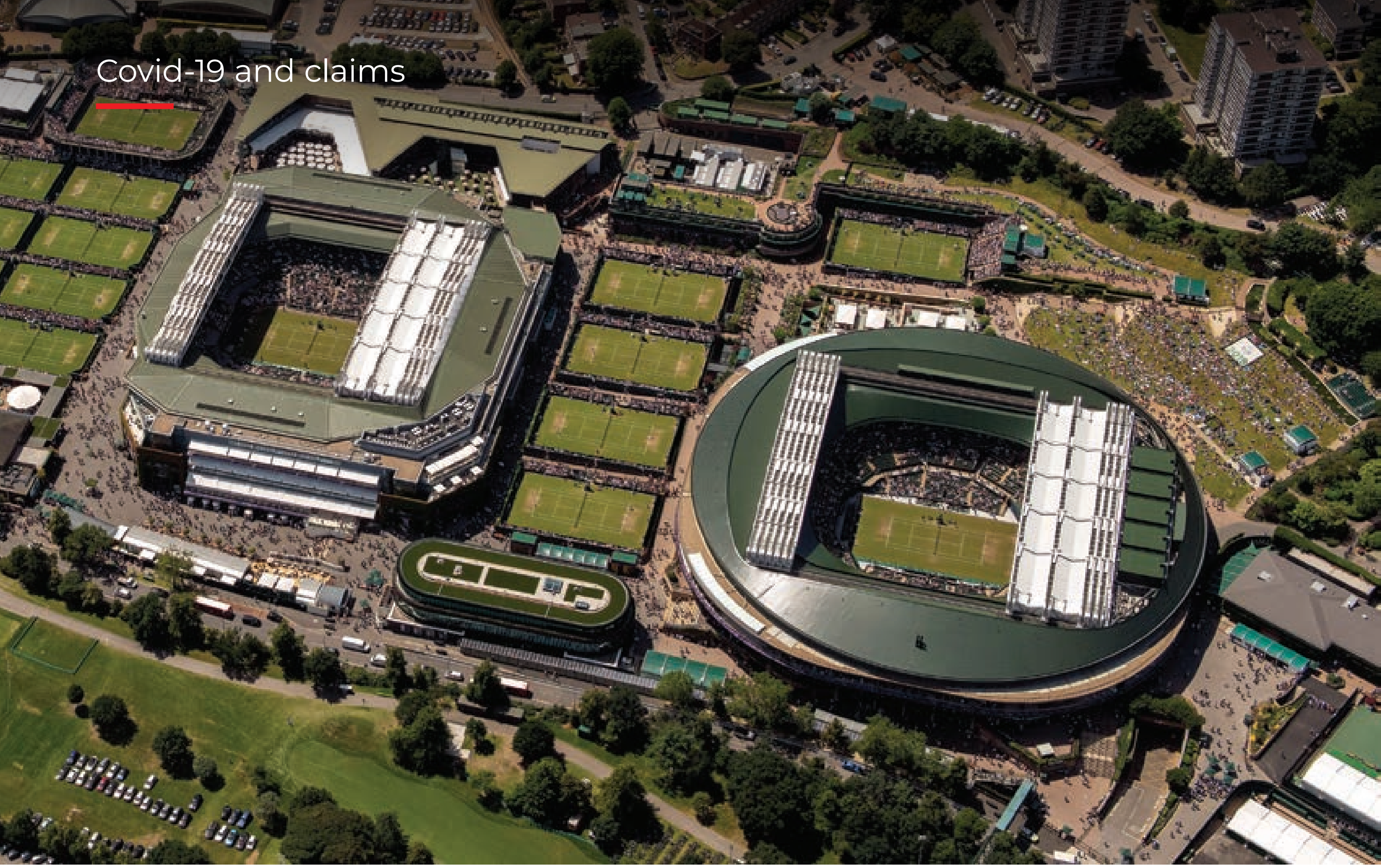

Wimbledon Tennis Championships 2019. The payout for this year's cancelled tournament is said to be around £100mn

However, a number of A&H underwriters also write books of travel insurance – especially for business travel – which could sustain large losses. The business tends to be written on behalf of MGAs.

On top of that, there is concern in the long term that a downturn in economic activity could lead to a reduction in premium income.

"I think we are all going to be facing the problem of people not working," said one market source. "We are in the business of insuring people. Business will dry up."

Business interruption

Business interruption (BI) insurance has become one of the most prominent battlegrounds to emerge from the pandemic, as coverage disputes have begun to mount.

The cover is typically triggered by property damage, but many insureds who have had to shutter businesses due to the pandemic and the associated lockdown measures had anticipated that certain policy wordings around denial of access and contagious diseases meant they would have grounds for a viable claim.

However, some insurers have disputed claims, citing that any ambiguity in the wordings around these areas of coverage were not intended to extend to a systemic risk like a pandemic.

Insurers have also noted that, in some cases, contagious diseases are specifically excluded from coverage, meaning that Covid-19-related BI claims are not valid.

In April, a BI coverage bill was circulated in the US Congress by California Democrat Congressman Mike Thompson that intended to compel insurers to make retrospective and prospective payments for BI. The bill was widely opposed by US insurance industry associations, which argued it would result in the "unconstitutional" violation of insurance contracts.

Separately, Chubb chairman and CEO Evan Greenberg suggested in April that the forced payment of BI from the pandemic would bankrupt the sector, adding that Covid-19 could be largest insured event in the industry's history.

A report by the American Property and Casualty Insurance Association said that losses to small businesses from BI caused by coronavirus could range from $255bn to $431bn per month, compared to annual insurance premiums of $71bn.

This was echoed in the UK by the Association of British Insurers (ABI), with director general Huw Evans saying in April that forcing insurers to pay Covid-19 BI cover was a "shortcut for insolvency".

He added that Covid-19 losses in the UK could exceed £1bn, with BI making up a significant portion of that.

Some companies have honoured claims, with Axa making payments to around 200 of its restaurant clients. Axa said it has identified 1,700 restaurant polices in which unclear wordings may make the carrier vulnerable to BI claims stemming from the lockdown, adding that there is "some debate" over BI coverage. The carrier has begun talks with the restaurant owners concerned.

Hiscox, meanwhile, is reported to have denied claims to many of its customers, having offered compensation to a selection of policyholders for making assurances about Covid-19-related BI claims that it later withdrew.

The company is also the subject of a lawsuit brought by Mishcon de Reya on behalf of the recently formed Hiscox Action Group, which is seeking £52mn in BI claims related to the Covid-19 lockdown.

Separately, Markel has stated that it will settle UK BI claims with $325mn of the net virus reserves it set aside in the first quarter, primarily for UK BI claims and global contingency losses.

There have been widespread calls for BI cover to be backed by the state in both the US and the UK – or for the coverage to be reformed so that it will respond better to pandemic risk.

In the UK in March, the ABI's Evans noted that any expansion of BI cover to encompass pandemics would need "very significant state support".

There have been suggestions, notably by the ABI, that UK terrorism mutual Pool Re could supply around £1bn of its £6.6bn reserves to create a relief fund for distressed SMEs that lack pandemic insurance cover.

The notion was rejected by the board of Pool Re, which is understood to have stressed that its first duty is to preserve its reserves to ensure resilience in the face of a major terrorist attack.

However, the creation of a steering committee to discuss proposals for a Pandemic Re solution, led by Stephen Catlin, has seen representatives from Pool Re come on board as the group works on an industry-led proposal to address future pandemic risk. Michael Dawson, active underwriter of specialist nuclear Syndicate 1176, will chair the initiative's project committee.

Meanwhile, in the US, a bill proposing a $750bn pandemic backstop was introduced in Congress in May. The Pandemic Risk Insurance Act would see the state act as insurer of last resort, paying a proportion of the losses from future pandemics.

An alternative bill, the Business Continuity Protection Program, previously put forward by three US (re)insurance trade bodies, was intended to create a legal obligation for the federal government to make direct payments to small businesses if another pandemic strikes.

In the UK, meanwhile, the Financial Conduct Authority is pursuing an expedited High Court test case to bring clarity to policyholders and insurers over BI insurance wordings.

Arch, Argenta, Ecclesiastical, Hiscox, MS Amlin, QBE, RSA and Zurich are all set to participate in the case, which has identified 17 policy wordings that could be in dispute.

Despite the hope that this will set a precedent both for settling claims and future policy wordings around pandemic-related BI claims, there are concerns that there will be prolonged legal battles over wordings as multiple individuals and groups bring legal actions aimed at getting a BI payout.

Sources also fear that the disputes over BI losses have done and will do untold reputational damage to insurers if they are viewed by insureds as having shirked their responsibilities – even where the coverage does not explicitly include pandemics.

Trade credit and surety

Trade credit insurance has been singled out as one of the lines most impacted by coronavirus. The coverage typically pays a percentage of a receivable or invoice that is unpaid due to insolvency, bankruptcy or defaulting by the buyer of the invoiced goods or services.

With a recent report from French trade credit insurer Coface suggesting that global business insolvencies could rise by 33 percent by the end of 2021, compared to 2019, it is clear just how big a problem pandemic-related losses could be for this class of business.

The highest increases are predicted in Hong Kong, Poland and Australia, where Coface estimated a business percentage change from 2019 to 2021 of 76 percent, 66 percent and 53 percent, respectively.

In addition, insolvencies in the US are expected to rise by 43 percent, with increases in UK insolvencies pegged at 37 percent.

The Coface report added that the worst affected sectors would be the energy, textile/clothing, retail, automotive, metals and transport sectors, as lockdown is expected to have impacted 50 percent or more of turnover in these industries.

With coronavirus having affected supply chains around the world and forced governments to enforce lockdown measures, multiple industry sectors have been simultaneously impacted, amplifying the potential for heavy losses.

It is also widely accepted that the disruption caused by coronavirus will trigger a recession, leading more businesses to become insolvent or bankrupt, and leading in turn to more trade credit insurance claims further down the line.

Potential losses are also very dependent on the occurrence of a "second wave" of Covid-19 infection, with the Coface report stating that global GDP could rebound by 5.1 percent – but only if there is no second wave.

Lloyd's coronavirus loss estimate from May said the proportion of losses likely to stem from credit lines was around 11 percent.

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The Corporation, which estimated that $28bn of its $107bn industry insured loss total would be paid out in 2020, said there would be further payouts across classes such as credit insurance.

Analysts at Morgan Stanley also released a report in May, which suggested an initial estimate for losses to primary credit insurers of between $15bn and $46bn over the next several years.

The analysts added that reinsurers could shoulder between 20 percent and 30 percent of this loss burden.

The biggest areas of exposure are in Europe, the report said, with the three big credit insurers – Allianz-backed Euler Hermes, Paris-based Coface and Dutch firm Atradius – taking the lion's share of losses.

However, the introduction of trade credit backstops in several countries is expected to have a mitigating effect on any potential losses.

In the UK, the government has introduced a £10bn backstop, available for nine months, whereby insurers share 90 percent of their premiums with the state in return for maintaining coverage.

Similar schemes have also been introduced in Canada, Germany, France and the Netherlands.

Trade credit insurers in the US are also understood to have started discussions with the Treasury and Federal Reserve about a possible backstop for claims payments.

Insurers are thought to be looking for around $60bn in government support, with Euler Hermes North America CEO James Daly spearheading discussions.

The schemes have been welcomed by the big three trade credit insurers, with broker sources in the UK telling this publication that insurers had warned that they would have to reduce or remove credit limits in the absence of backstop measures.

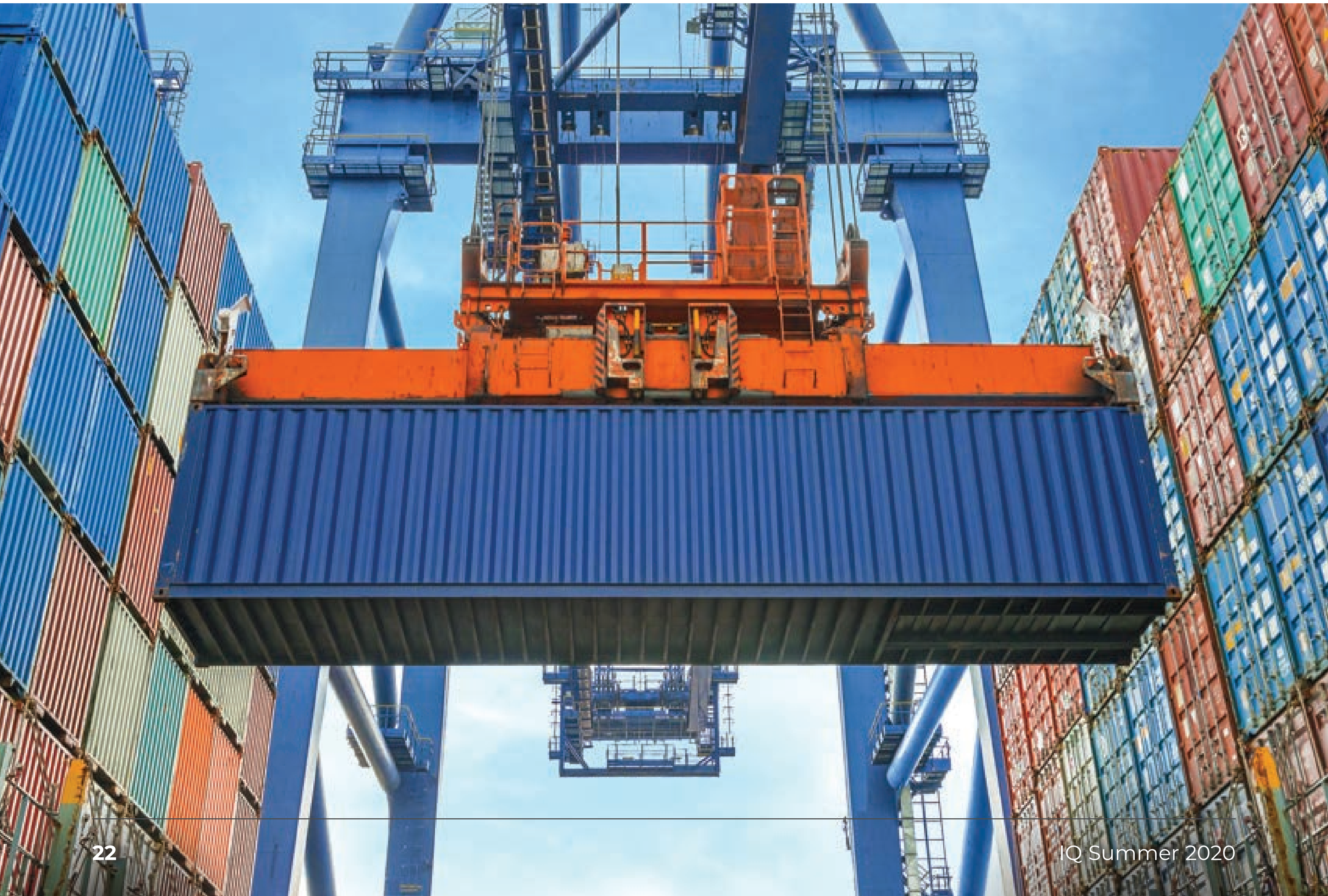
Some sources noted that the introduction of backstops in some countries could create an uneven loss picture.

However, others added that although the losses could be high, trade credit insurers increased their capitalisation following the financial crisis in 2009, and are now better prepared for paying claims.

They also argued that a crisis such as this could raise awareness of the cover, especially in countries where the penetration is low, ultimately driving uptake of trade credit insurance.

Morgan Stanley estimates trade credit losses stemming from the pandemic of $15bn-$46bn

Samuel Casey and Anna Sagar cover contingency and A&H and travel, and business interruption and trade credit and surety, respectively, for sister publication Insurance Insider.

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A remote possibility

Covid-19 has propelled the (re)insurance world into the 21st century, writes **Suliman Mulhem**, with remote working likely to persist for some and a five-day week becoming history for others

In addition to hitting several lines of (re)insurance business with varying degrees of severity, the Covid-19 pandemic has changed the way business is transacted in the market, with the vast majority of the workforce having moved to remote working since the advent of lockdown in March.

All players in the market – from cedants to brokers to (re)insurance underwriters to ILS funds – were quick to equip their workers with remote working capabilities, and industry leaders have been just as quick to praise their response and handling of the transition.

Business as usual

The insurance market knows it has a problem with technology. London market trading still involves brokers scurrying around Leadenhall Market and Lime Street with bulging manila folders, doing deals in pubs and in Lloyd's queues, while in the US, the issue might be less visible in the key (re)insurance centres, but ageing technology and labour-intensive processes are still de rigeur.

Confronted with the global coronavirus-induced lockdown, however, the market's working practices have been pushed into the 21st century, according to Fiona Temple, HR and Academy director of the Lloyd's Market Association (LMA).

"We have been forced to work in a virtual world, but our market's IT infrastructure has worked and proved its value. It is now the norm to say, 'I will Zoom you' or 'Let's catch up on Teams'; phrases seldom heard around Lloyd's six months ago," she says.

Rob Myers, the LMA's operations director, tells *Insider Quarterly* that it has been "business as usual" for the industry in London, highlighting that "organisations and service providers quickly demonstrated their operational resilience in response to the lockdown".

Meanwhile, Gary Grose, executive vice president of Argo Group US, describes it as a success story in what is otherwise a very tough time and says he is proud of both Argo and the industry as a whole.

He praises Argo's success at transitioning 1,400 employees to remote working almost instantly, and emphasises that this was largely aa result of prudent business continuity planning – something he expects to continue to be very important.

Challenging times

While the industry, on balance, handled the transition to remote working well and proved to be quite adaptable, the process was not without its challenges.

After the initial set-up phase, insurers were confronted with the problem of striking a balance between keeping information loops open and letting people get on with working flexibly according to their needs. Other areas of concern that arose included employee welfare and avoiding burnout, and exposure to increased cyber risks.

Patrick Davison, the LMA's deputy underwriting director, says management in a remote working world is a new skill set for many London market leaders, especially those who may have had little experience of it prior to lockdown.

Davison also says there have been suggestions that the absence of face-to-face meetings has introduced some small underwriting inefficiencies, due to carrier's inability to quickly address several risks at once with a group of underwriters who work in close physical proximity.

However, he expects these inefficiencies to dissipate over time as workers get used to this new approach and technology continues to improve. Similar issues have been created with regards to business development, but they are also likely to also become less significant over time, he adds.

Meanwhile, Kevin Cleary, chief commercial officer of Optio Group, says that although securing business without face-to-face meetings has been a challenge for some, the firm has continued to see "business coming in and opportunities being pursued".

"Confronted with the global coronavirus-induced lockdown, the market's working practices have been pushed into the 21st century, according to the LMA's Fiona Temple"

"Our underwriting teams are in constant communication with brokers and producers on a global scale," Clearly says.

Grose says there were some minor obstacles during the transitional phase – such as finding a way to electronically sign documents – but nothing the company couldn't easily overcome. He recalls some initial challenges when switching to video conferencing tools such as Webex and Teams, which resulted in a slight lag in how Argo conducted business,.

"Ours is still a customer relationship business, but the technology today means that there is no difference in our ability to look at each other face to face and have the conversations that we need," he says, noting that everyone is in the same boat and "are all absolutely motivated to make this work".

Grose also emphasises the importance of looking after employees' mental health when working from home.

"The biggest issue we have to focus on as an industry is the mental health of our colleagues," Grose says, pointing out that it can be hard to try to end your day and have a cut-off from work when you're still in the same location.

Temple agrees that the mental wellbeing of workers is "a challenge and must be a priority". She says some managers initially over-compensated – perhaps with too much micro-management or even forced team fun – as they looked to ensure team members weren't left feeling isolated.

She points out that people living alone are particularly vulnerable, and stresses the importance of maintaining a good work-life balance, through taking sufficient time off and finding ways to separate the two even when working and living in the same space.

"They've found the balance now. Most now understand that staff may no longer work nine-to-five, and instead will fit work around their home commitments like caring and home schooling," Temple adds.

Cleary says that while recruitment and onboarding new personnel have been challenging, they have successfully brought on three new recruits across different areas of the business – in underwriting, finance and claims.

He says platforms such as Monday.com and video conferencing services have made the process easier.

Another major challenge of remote working and the Covid-19 pandemic is the increased cyber risk to companies' networks and the confidential information they hold, says Scott Stransky, vice president and director of emerging risk modelling at AIR Worldwide.

"Remote working has made some people in the industry more relaxed and less vigilant – as they are more concerned about

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coronavirus than digital viruses – and cyber criminals have been trying to take advantage and profit off this. We've seen a sharp increase in phishing and other cyberattacks against firms in the (re)insurance sector," Stransky says.

Remote working perks

Now that firms have found solutions and systems to manage and mitigate these issues, industry leaders expressed optimism that remote working could have a net benefit for their operations.

Perhaps unsurprisingly, some clients have found many workers to be more accessible and reachable when working from home, as there are often fewer distractions at home than in a busy office filled with colleagues.

Grose agrees that Argo's clients have found the firm's executives easier to reach when working from home, as there has been no business travel or time lost commuting.

He also says that workers tend to be more focused and tuned into their work at home, which has resulted in higher productivity at Argo. However, he warns, it is easy for employees to overwork themselves, so it is important to ensure they are taking enough breaks and getting sufficient rest.

"The trick is to find that balance, that efficiency level between focused productivity and staff well-being," Grose says.

Cleary echoes this sentiment, saying he is confident that people are more productive working remotely, but that this hasn't happened by itself – it's about finding a balance, a supportive leadership team and utilising the tools available, he says.

Home working and reduced business travel is also resulting in sizeable cost savings for most businesses in the (re)insurance sector, as they don't have to pay for flights, hotels and other travel expenses, Temple notes.

Webinars and virtual social and industry events are being favoured over physical events, and this could continue even once travel bans are lifted as companies will still need to address issues and concerns surrounding employees when it comes to travelling, especially when the travel is not essential, Cleary says.

"I do expect to see the continued use of virtual events and webinars, even after social distancing measures are changed. Having 'attended' recent virtual *Insurance Insider* events, it is clear that the technology used is effective, and being able to simply click on a link to listen to top industry leaders, in between my own meetings, is very convenient."

"We will see a shift to rewards for performance, rather than for presenteeism, which sadly did still exist. The old approach valued you when you turned up in your suit, but now realises you can be equally or even more productive at home in your jeans"

Here to stay

Much of the industry has come to the realisation that remote working is here to stay and will continue in some form even once social distancing measures are relaxed to a point where all workers are allowed to return to the office.

Temple is enthusiastic about the development as a new way of working for everyone, not just the (re)insurance sector, and says she expects us to see much less commuting, post-lockdown.

"We will see more flexible and remote working than before the pandemic. Some people – and their managers – now realise their job can be done from home, and they may never return to EC3. From an employer's point of view, that will cut the cost of their expensive London real estate."

Grose echoes Temple's point about businesses reassessing their commercial property footprint and stresses that significant cost savings can be made by an increase in remote working.

Temple adds that the past few months have shown that the market can operate without visiting the underwriting room every day, and that employees can be trusted to get on with their work.

"We will see a shift to rewards for performance, rather than for presenteeism, which sadly did still exist. The old approach valued you when you turned up in your suit, but now realises you can be equally or even more productive at home in your jeans," she says

Office attendance is important for building relationships, Temple adds, but few people need to be there five days a week.

Cleary agrees that there has been a change in mindset – and he is certain that businesses won't look back.

"Business as usual will never be as it once was, nor would we want it to be. This has been a period of disruption and change but we are determined to incorporate and build upon what we have learned into how we operate going forward," he says.

Grose concludes that all businesses in the (re)insurance market should accept that things will never be the same, and suggests that failing to do so could see the companies fall behind.

"The sooner we think of this as a permanent change and adapt to new ways of working, the better off we will be."

London market modernisation gains pandemic fillip

E-placement platforms have allowed risks to be bound smoothly during the work-from-home era, writes **Laura Board**

The Covid-19 pandemic has proved the toughest test yet of London market modernisation efforts, which began in earnest half a decade ago.

It is a test that the market appears to have comfortably passed, judging by the events of the past few months.

A recent regulatory focus on operational resilience, as well as Brexit and concerns about a systemic cyber attack meant that most London market carriers and brokers were already primed for major upheaval.

And the growing use of e-placement platforms, most notably Placing Platform Limited (PPL), has addressed the issue of how to execute transactions remotely.

Practitioners working from home have the alternative of binding contracts over email – Lloyd's circulated emergency email trading protocols at the start of lockdown. But Lloyd's made it clear that e-placement should be used where possible, and data from PPL show a significant increase in the platform's usage. Numbers up to and including the week beginning 29 June show a steady upward trend over the past 17 months, with a huge spike at the end of March and an even bigger increase at the end of June reflecting the 1 April and 1 July renewals, respectively (see chart).

Indeed, 8,031 risks were bound in the week leading up to 1 July, up 43 percent from the final week of the previous quarter.

User log-ins during the 29 June week totalled almost 20,000, with page hits on 30 June reaching almost 2 million.

PPL itself began contingency planning for a pandemic-related lockdown in January this year and already had crisis management plans in place, centred on the likelihood of a cyber attack. The company worked with suppliers to ensure it could support the increased demand and moved training online.

PPL passed a major milestone in June when the e-placement platform and Lloyd's, now its 40 percent owner, introduced a new application programme interface designed to allow market protagonists to plug in their own systems, thereby reducing the need for the double entry of data.

PPL managing director Sue Jakobek says: "There were still practitioners who said the job cannot be done electronically. This experience has refuted that. It's clear that electronic placing is here to stay and people are starting to get excited about the opportunities it offers."

She notes that data on usage across the market also highlights a change in the working day.

"The day has smoothed. People are starting earlier and finishing later. We are no longer seeing spikiness around box hours."

She also has observed an uptick in team working over the platform.

Carriers and MGAs report good experiences with e-placing during the work-from-home era.

Aegis London was already a staunch supporter of modernisation in general, and of PPL specifically, with its Syndicate 1225 a regular in the top carrier cluster in the e-placement league tables.

Head of distribution Nigel Roberts says the workaday task of procuring hardware such as keyboards and extra monitors for staff was the focal point of preparation for home working, which began at the carrier before the 23 March lockdown,

However, Aegis London also bought licences for PPL rival Whitespace "to show versatility to our broker partners".

Roberts says that in April, 94 percent of Aegis' transactions were executed through e-placement, while in May, Aegis' own digital quote-and-blind platform Opal handled over $5mn of net premium, the most in a single month.

The London & International Brokers' Association (Liiba) was a key advocate of introducing mandatory e-placement targets for Lloyd's brokers. CEO Chris Croft says that during lockdown, e-placement has made compliance with regulations such as client money rules easier.

"The big advantage of electronic trading platforms is that there's an audit trail," he notes.

However, the lack of face-to-face contact – and with it, the knowledge and information exchange that feeds the EC3 ecosystem – is probably the element of "business as usual" that has been most sorely missed.

Related to that is the spontaneous networking that arises in the City of London. The opportunity to settle business via a five-minute word at the Lloyd's box, rather than a scheduled Zoom meeting.

Brokers appear to be feeling the lack of the human touch hardest. It's not just a question of clinging to tradition – risk is becoming more difficult to place in the hardening market.

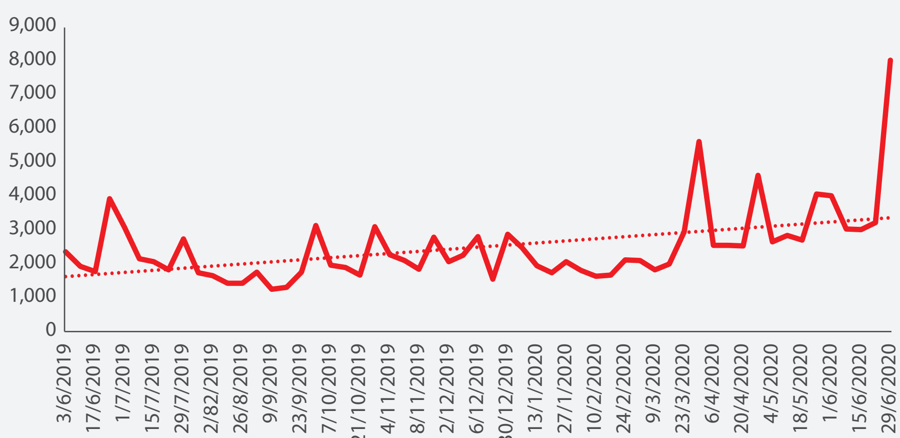
But Liiba chair Richard Dudley, who is also CEO of the Aon UK broking centre, believes that intermediaries and the wider market are adapting and will continue to adapt.

"We shouldn't waste this opportunity to advance quickly the modernisation agenda in London," he says.

"Not many people are advocating getting rid of face-to-face negotiations because you need that. But you don't need it on every single line on every single slip."

Online placement surge

Risks bound on PPL – June 2019 to June 2020



Source: Placement Platform Limited

On the front foot

The current coronavirus situation and the far-reaching economic impacts of Covid-19 suggest the benefits of being an 'analytical insurer' could become even more relevant and compelling, says **Dave Ovenden**

When talking about "analytical insurers", we are first referring to companies that have embedded three key characteristics in their business: a reliance on data and an intolerance of anecdotes in making decisions; the effective compilation of data to present a single source of the facts; and the ability of all decision makers to access granular insight when required.

From those foundations, it then refers to those that are moving on to invest in areas that we group under three umbrella sets of capabilities: active portfolio management, and specifically scenario modelling; intelligent intervention; and digital-enabled distribution.

The incentives for pursuing these attributes nearly always boil down to a handful of drivers – greater agility, rapid speed to market and accuracy of decision making – all delivered at lower cost.

They are reducing the analyse-decide-deploy cycle of decision making from weeks and months to days, or hours in some cases, resulting in stronger market positioning, more competitive pricing, slicker operations, increased confidence, cost reductions and a much-improved ability to adapt to changing markets.

As more companies have been persuaded to invest in the benefits over recent years, competition has continued to fuel an analytics arms race. The exceptional economic and market circumstances created by Covid-19 only seem likely to raise the stakes, given the likely continuing impact on premiums, business mix, profitability, resources and working practices, not to mention customer experiences that may never revert fully back to their pre-pandemic nature (see boxout).

That's not to say that Covid-19 is a signal for kneejerk reactions from insurers. Importantly, responding to the short-term pressures and realities that the virus brings to insurers can be compatible with longer-term ambitions linked to agility and pace of operations.

For example, enhancing understanding of your portfolio is going to be just as important to insurers' longer-term fortunes as it is in the short term, and the same applies to most aspects of capitalising on the opportunities to build from a stronger analytical base.

Here are a few thoughts on how stronger analytics can assist insurers through the Covid-19 crisis, but also create building blocks for longer-term business benefits.

The Covid-19 effect

Consider the dilemma facing hospitality or commercial property insurers right now.

An insurer's hospitality clients are essentially economically inactive with the prospect that some will never recover. Whilst, at the other extreme, some manufacturing plants are working flat out in ways that were never anticipated, potentially raising the risk of things like electrical fires or accidents involving tired employees.

Understanding the change in both exposure and underlying risk of a given risk is vital at both case and portfolio level.

Being able to scenario model differing lockdown and economic outcomes is key to successfully navigating the post-Covid risk landscape.

Active portfolio management and scenario modelling

Going back to our hospitality and manufacturing examples above, the uncertainty of Covid-19 and the potential "new normal" it will create could potentially decimate some portfolios and the basis on which they're priced.

More granular policy information makes ground-up scenario building possible, putting some meaningful number ranges on observed and anticipated trends, and teeing up a whole range of things, such as evaluating what portfolios will suffer most, or even disappear.

The recent work we've been doing with the Lloyd's and London market on active portfolio management demonstrates, however, that this is anything but a Covid-19-specific issue, but is instead one that is widely seen as critical to longer-term performance and profitability (Willis Towers Watson 2020 Survey Report, "Portfolio management in the London market: What separates the best from the rest?").

Equally, the Covid-19 outbreak has vividly highlighted the opportunity to derive benefits from modelling more widely – say moving from claims cost to more sector-based analysis using rich exposure data within pricing systems in order to look at what companies want to do and need to do in their portfolio mix.

The ability to rapidly test hypotheses and deliver against options, and then monitor and change tack if necessary, has already become a backbone of dynamic pricing in personal lines. Real-time scenario modelling can be a similar enabler for underwriting, pricing and claims professionals in the commercial, life and health sectors.

Intelligent intervention

Whether it's in underwriting or claims, the objective of intelligent intervention should be to deploy the right resources to the situation at hand. This could mean completely automating a process that is relatively straightforward or using experienced teams where complex judgement is needed.

Whether it is adopting a low-touch, volume approach driven from portfolio data or making sure subject matter experts have the right insight available at the right time to make an informed decision, it is the insurers' data asset that will make this possible.

The intelligence comes from deploying a more granular approach and, where appropriate, predictive models to support routing and evaluation decisions. Using large loss propensity models to optimise survey and risk appetite decisions and using conversion data insight to prioritise underwriting activity are simple examples of this.

From an automation point of view, it could be about adding granularity to feed a company's level of automatic underwriting appetite and claims handling.

Some insurers use relatively simple decision rules, such as automating a risk if it has less than 10 employees, or if a claim is of a certain value. Adding additional decision layers (e.g. trade, geography, portfolio context, trust indices etc) refines the decision process, allowing the safe expansion of automated approaches and reducing costs.

At the same time, it's about getting the most from your underwriters and claims experts, allowing them to use their expertise and add value in more complex, individual cases.

The ability to flex the mix between technology and human input is also highly desirable. For example, if a pandemic were to affect a significant proportion of the team, it would be possible to expand the automated or self-service footprint to bridge the gap.

Such flexibility can also provide short- or long-term help in areas such as product simplification and cost management.

Dave Ovenden is global pricing and underwriting leader at Willis Towers Watson

Digital-enabled distribution

One thing Covid-19 has done is shine a light on organisations that are relatively better or worse at interacting digitally with concerned customers. In the process, digital capability has become more a matter of reputation as well as a factor in the general cost of doing business and customer experience.

Yet the digital component is only the tip of iceberg. Below that there are a lot of hidden but hard-working data assets, supporting applications such as componentised products, the ability to manage channel conflict and active management of cross subsidies, not to mention addressing the widespread challenges of integrating legacy platforms.

The benefits of getting the "beneath the waterline" digital infrastructure right are already considerable, and are growing outside the personal lines market: when Lloyd's is creating its digital trading platform; when self-service claims operations are making steady in-roads; when initiatives are underway to allow brokers to simplify the binding process; and as new digital distribution opportunities increase (perhaps where insurance is part of something else).

Building for the future

At present, it is hard to understand the implications of the "new normal", but foundational analytics capabilities can help insurers to not only better navigate that uncertainty but also leave them better equipped for the longer-term fallout and continuing market transition.

As part of an insurance future that will inevitably demand more operational flexibility and nimbleness, with digital platforms coming more to the fore, data and analytics and the wherewithal to use them effectively will mark out analytical insurers from the crowd.

What's love got to do with it?

Andrew Schütte offers some relationship counselling for insurers and coverholders

Giving away the pen is an act of trust. An underwriter entrusts a coverholder to underwrite business on his or her behalf. The law of agency reflects that trust relationship. The coverholder acts as the insurer's agent and owes the insurer a fiduciary duty – the highest level of duty known to English law.

Put simply, the coverholder must act in the best interests of the insurer at all times. The insurer trusts the coverholder to do so.

If that trust is to last, both parties need to know where they stand and behave respectfully towards one another. If you're thinking this sounds more like a relationship advice column than an insurance law piece...you're right. Insurer/coverholder relationships are human relationships at heart. Whether it's insurance contract law or family law, it always comes down to people in the end.

A binding authority agreement serves two essential purposes in keeping the insurer/coverholder relationship healthy.

Firstly, the binding authority agreement sets out how a coverholder can earn and retain trust by detailing the insurer's requirements and expectations.

The agreement is the yardstick against which the coverholder's conduct will be judged. It pays for the insurer to be as clear and specific as possible in that agreement about what it needs from the coverholder. Otherwise the insurer risks the following scene in years to come:

Coverholder (aghast): What...what did I do?
Insurer (throwing plates): What did you do? Seriously? You ought to know!
[Exeunt, fighting]

Secondly, the binding authority agreement sets out how and when the arrangement will come to an end. This aspect is often overlooked in the early optimism of a new relationship. Once again, it pays to focus on the details of how an orderly exit would work to avoid painful scenes in the future:

Coverholder: It's not you, it's me. Come the New Year, I'm moving on.
Insurer: What?! No! How could you...? [Pause] I'm keeping the assets. [Longer pause] The client list is mine too.

So what should insurers and coverholders focus on in a binding authority agreement to maintain healthy boundaries – and a healthy relationship?

Firstly, be as specific as you can about who is responsible for what and, especially, what the coverholder is and is not authorised to do.

A properly completed LMA 3113 (other precedents are available) will go a long way to achieving this, but one frequently finds that the true scope of a coverholder's authority is set out in a "rating schedule" or "underwriting criteria" spreadsheet.

This may be adequate from a technical underwriting perspective, but it may not be clear about (a) what risks are in or out of scope, or (b) what risks should be referred to the insurer.

Ask yourself: does the agreement expressly say which risks are in scope and/or when referrals need to be made? Would this be clear to someone reading the agreement from cold? If the binder is renewed, does the scope of authority accurately reflect the reality of what has been happening on the account?

As in personal relationships, filthy lucre is at the root of many a break-up.

Andrew Schütte is a partner with law firm Keoghs

It is crucial to be clear about how the coverholder is paid. If the coverholder retains a percentage of premium income, when is it truly earned and, in the meantime, on what basis is it held? If there are producing brokers or sub-agents involved, how much are they paid, and on what basis?

If the coverholder has skin in the game and shares in any profit or loss, how this works should be crystal clear, preferably with worked examples and specified date(s) on which any assessment of profit and loss will be made.

It is always the insurer's responsibility to make sure regulations are properly complied with, but that is not to say the insurer and coverholder shouldn't lay ground rules about regulatory compliance from the outset. They

absolutely should.

Besides being clear about the product manufacturer (or co-manufacturers), standard points to check are that the coverholder will make its role expressly clear to customers, will issue correct and appropriate data protection notices and will carry out insurers' obligations to treat customers fairly.

Another matter to clarify at the outset, especially with large or broker coverholders, is how the coverholder will deal with conflicts of interest.

Not only does the insurer have a regulatory obligation to ensure conflicts of interest are properly managed but bodged conflicts of interest are a great way to lose your partner's trust. Just try committing to stay at your parents' house and at your partner's parents' house for Christmas and see what happens. The road to trouble can be paved with neglected conflicts of interest.

Relationship counsellors always emphasise the importance of communication, especially when things aren't going well. Similarly in insurer/coverholder relationships, having some clear rules about how issues will be ventilated and dealt with when they arise can help keep things on track – even if the parties don't always see eye to eye.

An important point to check at the outset, and at each renewal, is that the coverholder has adequate professional indemnity (PI) insurance in case it does breach its duty to the insurer and the insurer makes a claim. Such a claim will inevitably test the relationship, but it need not be fatal.

The chances of weathering the storm take a real knock, however, if the coverholder is underinsured. When assessing the adequacy of the coverholder's PI insurance, check if its errors and omissions limits are per claim or in the aggregate. A £5mn aggregate limit might be OK if the coverholder only handles your book. For an MGA with multiple binders, that cover might be exhausted by another insurer's claim.

Another point to consider is whether there is, or should be, any financial reason for coverholders to meet agreed service levels.

What happens if you started a relationship counting on birthday presents or holidays away with your partner but they just never seem to happen anymore?

Inserting a provision incentivising coverholders to provide timely and accurate bordereaux may keep the focus on maintaining the service levels – and help avoid a situation where sloppiness or poor housekeeping threatens to destroy an otherwise healthy situation.

Like many personal relationships, it is inevitable that, one day, the insurer/coverholder relationship will end. Like a family lawyer with a pre-nup, insurance contract lawyers have the sometimes uncomfortable job of trying to make sure that the parties agree suitable termination provisions at a time when splitting up is the last thing on their minds.

As noted above, making provisions for an orderly exit is the second essential function of the binding authority agreement.

Usually the binder will give the parties a right to termination without notice if there is fraud or dishonesty – similar standards hold in personal relationships – and it is normally a good idea also to include a right to terminate if the coverholder's ability to carry out its obligations is materially impaired, as this can lead to genuinely irreconcilable differences.

One area to consider carefully is how things will work between one party serving notice and actual termination. This is the insurer/coverholder equivalent of the period between break-up and the arrival of the removal van.

Often a coverholder's focus will no longer be on its duty to the insurer at this time. Insurers should consider whether to restrict a coverholder's authority during this period and how they would want to deal with claims. A thoughtful approach to termination provisions can pay dividends – ask any millionaire on marriage number three.

Working late? Disappearing to take personal calls? It's often possible with hindsight to spot coverholder relationships coming apart before it necessarily became obvious that something was amiss.

Late reporting is often a sign that all is not well. Failures to refer underwriting or claims decisions can equally be a tell. Addressing these issues openly at an early stage can help keep you on an even keel, or to get back on track.

As an insurer, spotting coverholder relationships that may be in trouble, and giving them proper attention, could avoid a messy situation later.

Relationships can be hard work, but it would be a poor sort of a life without them.

Insurer/coverholder relationships are one of the key institutions in the market. Hopefully by following some of these tips, you can keep the pep in yours.

Toxic torts

Adam Grossman offers an update and lessons for risk management from the glyphosate, opioid and talc litigations

Last year, Praedicat published several scenarios describing how three major litigations could unfold: glyphosate (Roundup), opioids and talc. These scenarios explored various legal theories and ways judges and juries could evaluate scientific evidence and apportion responsibility to the potentially responsible parties.

In all three mass litigations, today we have more information as to which scenarios have become more likely, and which less so.

Glyphosate

Early in the glyphosate litigation, it seemed as if the plaintiffs were going to have a nearly insurmountable hurdle to convince a judge that they could meet both their general causation and specific causation burdens. An even-handed look at the science then, as now, suggests a low likelihood of prevailing on the merits of the case, and Praedicat's probabilistic losses for glyphosate reflected this low likelihood of ultimate plaintiff success (after appeals).

However, litigation that has already begun can take unusual paths. To explore two paths we saw as being realistic, if unlikely, we released two additional scenarios exploring the litigation's outcome if, (a) science rapidly evolved to unequivocally confirm the link between glyphosate and non-Hodgkin lymphoma and, (b) juries focused solely on the scientific evidence that supports causation while discounting the evidence against it.

In any toxic tort trial, the plaintiffs must first establish "general causation" – that the alleged exposure could, in principle, cause the alleged harm suffered by the plaintiffs. To do this they need to marshal expert witnesses who can testify that the scientific literature, on balance, points to causation.

The defence, in turn, summons their own expert witnesses to testify that the science compels them to reject the causal harm hypothesis.

In some cases judges have found that either plaintiffs' or defence experts did not correctly apply the scientific method to reach their conclusions, leading to a summary judgment in favour of the side whose evidence is admitted.

In other cases, including glyphosate, judges have permitted experts on both sides to testify about causation (or lack thereof) and let the jury weigh the credibility of the experts and their interpretations of the underlying scientific causation evidence.

The glyphosate plaintiffs, however, used revelations like those in the "Monsanto papers" to convince juries that all the scientific evidence that rejects a link between glyphosate and non-Hodgkin lymphoma was tainted. Their success in obtaining large jury awards (including large punitive damage awards) in the glyphosate bellwether cases suggests that this strategy has worked for the time being. All the jury verdicts are under appeal, and arguments unrelated to the scientific evidence, including federal pre-emption of these lawsuits, may determine the final outcome, but so far juries have clearly told us that the "one-sided science" scenario (accepting plaintiff's evidence but discounting defence evidence) is now a much higher probability endpoint for the glyphosate litigation.

Talc

The talcum powder litigation began similarly to that for glyphosate: long-term users of talc-based body powders claimed that their ovarian cancer was caused by the talc they'd used for decades.

The objective picture from the scientific evidence was mixed, just as for glyphosate, with several studies showing a small increase in risk and several others showing no increased risk.

Similarly, Praedicat's probabilistic loss model showed a low likelihood of plaintiff success and modest indemnity payments. The unique characteristics of the talc litigation prompted us to create three scenarios, with the first two being similar in nature to those for glyphosate.

The third scenario posited that juries would be convinced that talc-based body powders were contaminated with asbestos and that the asbestos exposure caused ovarian cancer, essentially turning the talc litigation into another wave of asbestos litigation.

The early bellwether cases in the talc litigation demonstrated that juries were unconvinced that talc, by itself, could cause ovarian cancer. The defendants walked away with several wins.

In other cases the plaintiffs attempted the "asbestos contamination" approach and have thus far been successful, despite very thin evidence showing that the plaintiffs were actually exposed to asbestos.

The defendants also do not appear to have contested the proposition that asbestos could cause ovarian cancer. With the recent decision by Johnson & Johnson to remove talc-based body powders from the North American market it appears that we are on track to observe outcomes like the third scenario we built.

Opioids

The opioid litigation, while earlier in its proceedings than either glyphosate or talc, has proceeded to test new legal theories of liability for all businesses involved in the production, distribution and dispensing of opioids.

The opioid litigation is also different in kind from both the talc and glyphosate litigation in that it is fourth-party litigation; state and local governments are suing to recover their costs in addressing the epidemic rather than those directly injured by opioid addiction suing for their bodily injuries.

Praedicat's scenarios investigated several causes of action in this fourth-party litigation and what their effects would suggest for the distribution of responsibility among manufacturers, distributors and pharmacies. The causes of action were: failure to monitor drug shipments; fraudulent marketing; public nuisance; and even RICO-type conspiracy claims.

Adam Grossman is vice president of modelling, senior scientist and co-founder of Praedicat

We also modelled the varying severity we'd expect if different types of costs were included in the litigation: federal payments (shares of Medicare and Medicaid), state Medicaid expenditures, and local expenditures with or without criminal justice costs.

In all cases there appears to be substantial progress to holding all the types of businesses involved responsible in some way.

Distributors and manufacturers have thus far been held liable (notably, in Oklahoma) for public nuisance and fraudulent marketing while distributors and pharmacies are still in the midst of defending themselves from legal theories emanating from their responsibilities to monitor suspicious levels of drug shipments under the Controlled Substance Act.

The trend suggests that the combination of failure to monitor and public nuisance theories may carry the day.

Litigation lessons

Together, these three litigations highlight new trends in mass litigation that are critical for risk managers to understand.

First, judges are increasingly allowing expert witnesses on both sides of a scientific argument to lay out their cases and let the jury decide whether the plaintiffs make their case.

In addition, if a defendant can be alleged to have "tampered" with the science, defence evidence may be discounted.

Scientific literatures that have substantial weight both pointing to causation and away from it are at particularly high risk of allowing these "expert witness battles", and the consequent increased likelihood of drawn-out court proceedings.

Looking at the kinds of emerging technology that could generate this kind of expert battle risk, fifth generation wireless (5G) technologies come to mind.

Today the scientific literature investigating bodily injury harms from 5G is nascent, and our scientific literature projections do not suggest that 5G will turn into the next glyphosate or talc in the next seven years.

General suspicion that electromagnetic radiation can cause bodily injury all but assures that 5G will attract just as much scientific attention as other electromagnetic radiation exposures have before it. Despite the thin evidence that any sort of electromotive force can cause bodily injury, it remains possible that sufficient evidence on both sides, but equivocal in the aggregate, could eventually emerge to the point where creative plaintiffs attempt to make the "one-sided science" argument.

With 5G applications just starting to get to market, now is the best time to proactively manage its risk using lessons learned from today's ongoing glyphosate, talc and opioid litigation, perhaps along with indemnity-only, parametric products, or other novel insurance coverage for 5G.

For instance, it may be advisable for manufacturers of 5G products to avoid any appearance of "tampering" with scientific literatures so that the science can be allowed to drive judgments on their merits.

Second, politicians and governments are more willing than ever before to use the legal system to address public health problems. While this has happened only for tobacco and opioid addiction thus far, several other public health crises are ongoing and costly: Covid-19, obesity, diabetes, infertility and antibiotic resistance.

Forward-looking risk management requires finding the commercial activities that are linked to these public health threats – diesel exhaust, sugar and endocrine-disrupting chemicals for starters – long before scientific evidence can be argued to have proven they are harmful.

London Matters

The London Matters 2020 Report shows that the market's strong fundamentals have provided support in challenging times, writes **Clare Lebecq**

London Matters 2020 is the latest edition of the London Market Group's (LMG) influential report which tracks the growth and development of the London insurance market over time.

Since 2010, we have been tracking the key data on the market including its overall size, the breakdown by class of business, geographical sources of risks and capitalist economic contribution. The report analyses key trends and their implications for the insurance sector as it heads into a new technological era that will disrupt existing business models and redefine customer relationships.

What it does not do is include any impacts on the market and its clients from the Covid-19 pandemic. Drawing conclusions from that data now would be premature. The effects on market structure, products, processes and working practices caused by this crisis are likely to be profound and long-lasting, and the LMG Board will take the time required to think about what this means for the initiatives it has underway to support the market.

Clare Lebecq is CEO of the London Market Group

The market has, however, remained remarkably resilient through the pandemic, mainly thanks to the work undertaken over the past five years spearheaded by the LMG. Initiatives such as the implementation of electronic trading and other technology-led programmes have enabled the market to trade and legally bind business, despite the Lloyd's underwriting room and EC3 offices being closed since March.

PPL, the market's electronic placing platform, saw a sharp rise in unique users since the market went into lockdown, with over 1,000 new users set up and 420 users registered for training sessions. In comparison in 2019, the average was 336 new users per month and 136 users accessing training.

The current situation shows the importance of these initiatives, and it has changed the opinions of many who predicted electronic trading would never work.

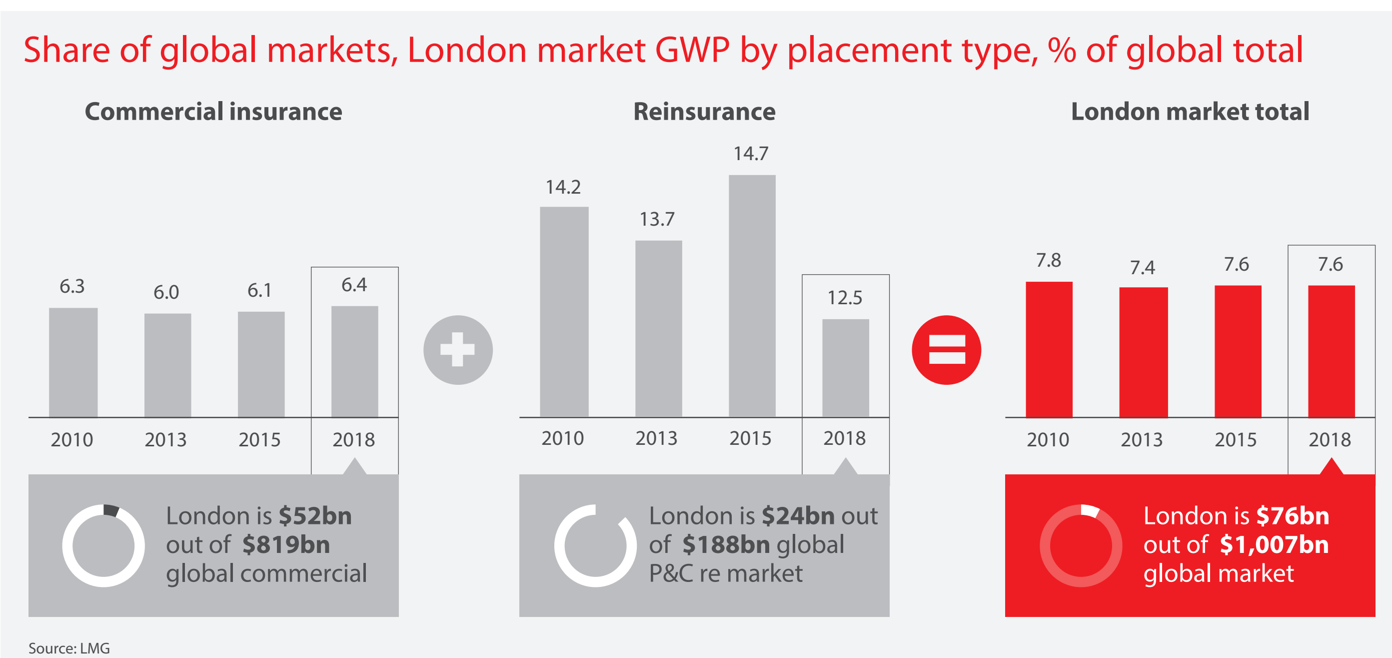
London's resilience

When the first London Matters report was published in 2014, it revealed worrying trends. London was losing market share and it was predicted that regional centres would "eat London's lunch".

This year's report has found the London market in good shape, however, with overall market share holding steady, a continuing dominance over other insurance centres, the attraction of more US business than ever before and an increased contribution to UK gross domestic product.

In fact, the gap between London's total written premium and that of Bermuda, Switzerland and Singapore combined widened from $16bn in 2015 to $23bn in 2018. This growth was achieved despite Bermuda growing its ILS sector and Singapore becoming South East Asia's (re)insurance hub.

The London market breaks down into the core London market (Lloyd's, the company market/



Overall GWP, split by market carrier, % CAGR

	London Matters 2014 CAGR 2010-13	London Matters 2017 CAGR 2013-15	London Matters 2020 CAGR 2015-18	
Lloyd's	4.7	0.9	5.1	
London company market (IUA)	-1.7	0.6	2.1	2.5% CAGR
P&I clubs	5.8	2.5	-4.1	
Managed business by London market*	N/A	-11.1	8.7	12% CAGR
Managed by LM brokers**	N/A	14.2	13.8	
Total growth	**N/A**	**1.3**	**6.0**	4.1% CAGR

*This represents premium that is written in overseas or regional UK offices, but subject to oversight and management by London operations
**This represents premium that is written overseas or in regional UK offices, but brokered by London-based broker teams
Source: LMG

International Underwriting Association and the protection and indemnity [P&I] clubs) and managed business written on paper outside of London but managed by London-based carriers or brokers. This year's report has seen a sharp increase in that managed business.

Describing the London market has become more nuanced. It is no longer just the place where difficult risks are underwritten. There is an important interplay between the London market's three main components: the capital to underwrite risk; advisory services that seek to mitigate client risk and provide support to overseas branches and subsidiaries; and risk acceptance and placement.

Over time the mix of these activities shifts depending on factors such as pricing and appetite. The report indicates that advisory services were the primary driver behind managed business growth between 2013 and 2018. For example, if you look at a broker's service level agreement (SLA), the emphasis is not on the transaction or collecting claims, but rather the modelling and advice.

On the underwriting side, whilst business may not be placed in London, local and regional offices look to their London colleagues for data, advice and expertise. In addition, some carriers with a global footprint have commented that while a different part of their business may take the risk, the underwriting is done in London.

Ensuring that London remains this key source of intellectual capital is important to attracting business and maintaining the market's position. Participants suggested the market hardening that has post-dated this report has seen a significant pick up in business coming in from retail brokers to London wholesale brokers.

US business boost

The market's premium income from North America increased by 6 percentage points, making it not only the fastest growing source of premium to London but also the largest, ahead of the UK and Ireland.

This growth has been driven largely by strong performance in the US excess and surplus lines sector, powered by the strong performance of the economy in North America, as well as by growth in the tech sector and weather-related catastrophe risk.

London continues to struggle to attract business from Asia and Africa, where growth is still driven by mainstream commercial business handled by the local retail market.

However, emerging markets are starting to seek cover for more complex risks, and this is likely to increase in the aftermath of Covid-19, which has highlighted the need for covers in which London specialises such as cyber and financial lines.

Delegated authority role

The 2020 report covers delegated authority (DA) business into London for the first time. It reveals that DA accounts for more than 27 percent of London's premium income in 2018. Almost half of this emanated from North America, and a third came from the UK.

Since 2015, much work has gone into improving efficiencies in the way that the market handles DA business. The cornerstone of this work was the launch of the Delegated Authority Submission Access Transformation Solution (DA SATS), a central service that enables standardised collection, validation, processing and supply of DA data across the market.

It changes the way bordereaux are shared and processed in the market by delivering standardised bordereaux data to all participants, transforming coverholder management.

No complacency

London Matters 2020 shows the market is going in the right direction in most areas, however, there is no room for complacency.

Some of the underlying challenges from the first London Matters report remain. We are still losing reinsurance business, our share in emerging markets remains small, we need to replace an ageing workforce and there is more work to do on closing the gender pay gap.

While the focus needs to be on serving our clients through these difficult times, plans to create more streamlined services and reduce the cost of doing business in London must also be pushed ahead.

Covid-19 clearly presents major challenges that will need to be carefully navigated. However, in times of crisis London has historically come into its own – and is in good shape to do so again.

Loose talk... can lead to litigation

The cost of straying into "greenwashing" could be very high for businesses that misrepresent their environmental credentials – as well as those who insure them, warns **Simon Konsta**

In the weeks and months that preceded the global Covid-19 lockdown, climate change and environmental, social and governance (ESG) factors were in the ascendant.

The Prudential Regulation Authority (PRA) had issued a statement (SS3/19) on "Enhancing banks' and insurers' approaches to managing financial risks from climate change". From 15 October 2019 onwards, the PRA prescribed that regulated entities embed the assessment of financial risk arising from climate change into their governance arrangements and financial risk management.

Some years before, the Financial Stability Board initiated the Task Force on Climate-related Financial Disclosures (TCFD). Over time, TCFD secured well over 800 signatories amongst the world's elite corporates and secured the official endorsement of governments of various leading economies.

The objective of creating a voluntary, climate-related set of financial disclosures to provide to investors, lenders and other stakeholders was being achieved, with a growing number of regulatory and prudential authorities pressing the case for mandatory disclosure regimes.

The Green Finance Strategy published in July 2019 stated that all listed companies and large asset owners should look to comply with TCFD by 2020. This was followed by the Financial Conduct Authority's proposals (CP20/3) in March 2020, in which it proposed a new rule that would require all commercial companies with a premium listing either to make a climate-related disclosure consistent with TCFD, or if they chose not to, to explain why.

At the same time, leading bodies had started the process of aligning reporting frameworks with the TCFD recommendations. The Climate Disclosure Standards Board and the Sustainability Accounting Standards Board combined to reconcile reporting regimes around TCFD, with a view to recommending disclosures and illustrative example metrics.

During this period, ESG was establishing itself in the boardroom. Respected bodies such as the UN-backed Principles for Responsible Investment were making the case that an economically efficient, sustainable global financial system was a necessity for long-term value creation and that responsible investment consistent with those goals would provide long-term rewards.

And in early 2020, BlackRock was one of a number of asset managers to throw its weight behind the gathering importance of ESG in the context of investment criteria. This was a very clear signal to the corporate community as to the growing importance of ESG.

Finally, we witnessed palpably shifting consumer and societal demands – purchasing decisions being influenced by stated ESG credentials and landmark breakthroughs in courts by activist groups.

The Urgenda decision before the Dutch Supreme Court successfully invoked the European Convention of Human Rights to achieve state adherence to the Paris Agreement defined climate goals. And the Heathrow third runway decision saw the UK government checked in its plans for expansion of Heathrow Airport, after the Court of Appeal said the government's decision to allow it was unlawful – although the UK's Supreme Court has since granted the airport's owners permission to appeal.

From almost every angle, boards were being driven to address ESG and climate risk factors. So where do ESG and climate-related disclosures sit in the aftermath of lockdown?

The answer seems to be more important than ever. Covid-19 has demonstrated that systemic risks to the established order of things are very real. Society and the financial community have witnessed first hand the need to build resilience into our systems and businesses. It is being argued that Covid-19 has also underscored the importance of ESG to corporate success.

According to research by HSBC, stock of companies with high ESG scores outperformed others by about 7 percent in the period between 10 December 2019 and 23 March 2020, including the first pandemic-stricken month of 24 February to 23 March 2020. Numerous commentators have linked ESG performance to a company's resilience in this most difficult of periods.

Boards will be alert to these

factors, and no doubt the overwhelming majority will address and adopt ESG in a way that enhances longer term shareholder value. But corporate history also tells us that the pressure to meet stakeholder expectations, particularly in an increasingly "comply or explain" environment, can lead to missteps or worse.

Against this background, it is perhaps unsurprising that in recent months there has been concern over the potential escalation of greenwashing. In January 2020, the European Commission instituted a consultation process (in the context of the development of sustainable finance) focussing on the consistency of companies' ESG ratings, with specific reference to the potential for greenwashing.

In May this year, Jay Clayton, chairman of the US Securities and Exchange Commission (SEC), questioned the fitness for purpose of ESG ratings across a broad range of companies. The SEC has asked for feedback from asset managers in order to address concerns about the spread of greenwashing.

What is greenwashing? There are various definitions, and the concept has expanded since it was first conceived in the 1980s. But in short, greenwashing is the practice of making an unsubstantiated or misleading claim about the environmental status of a business or the environmental benefits of a product, service, technology or company practice.

Greenwashing is a function of the increasing awareness of the importance of ESG in a world where there is a perception that better sustainability and climate-integrated businesses can provide enhanced risk adjusted returns and improve the competitiveness of a business and its products or services.

There are numerous examples of greenwashing. Activists and environmental bodies such as Greenpeace track what they perceive to be the hypocrisy of financial institutions that proclaim green or climate-related objectives, whilst also supporting the hydrocarbon sector.

Asset managers have been condemned by luminaries such as Al Gore for voting against climate friendly resolutions relating to companies in which they hold investments, whilst professing that climate change poses a material risk to investment returns. Those asset managers have been described as "full of greenwash".

In January 2020, the Italian Competition and Market Authority imposed the country's first fine for greenwashing against Eni, a state-backed energy company. The fine of EUR5mn was brought for claiming its palm oil-based diesel was "green" when the production of palm oil drives deforestation.

And in 2015, the Environmental Protection Agency in the US issued a notice of violation of the Clean Air Act to Volkswagen, on the basis that the company had been found to programme its diesel engines to activate emission controls only during its laboratory emission testing to allow the nitrous oxide output to fall within permitted US guidelines.

There is a further chapter to the so-called "Dieselgate" scandal. In late May 2020, the first diesel claim was heard in the German Federal Court of Justice in Karlsruhe, leading to an order that Volkswagen pay more than EUR28,000 to the owner of a diesel minivan in a judgement that opened the gates to further claims and awards.

Finally, in December 2019, a complaint against energy giant BP was made under OECD guidelines concerning the misleading advertising about its focus on low carbon energy.

One of the most acute areas of legal exposure for any listed entity derives from its public disclosures, either in its annual reports or at the time of capital raising. And at a time of mounting consumer expectation (and protection), ESG misstatements will constitute a real legal and reputational vulnerability.

The Dieselgate scandal may be an extreme example – both of greenwashing and the financial impact it can lead to – but the examples above point to the very substantial exposures for the corporates that engage in it and for their boards and those who insure them.

Building a competitive business strategy around ESG is not straightforward. Nor is concurrent compliance with TCFD reporting in what is still very much an emerging discipline. The margin for innocent misstatement is wide.

The Covid-19 environment will be challenging on any number of levels. The case for ESG will have to be made alongside many other competing business priorities. The risk of "over-promising" will be material. And all of this will be happening when corporate behaviours are under scrutiny like they have never been before.

As businesses (particularly issuers and those in regulated sectors) move towards more consistent and accurate disclosures, the sustainability and ESG promises that they make will be monitored by increasingly sophisticated investors, and the self-same activist and pressure groups that were mounting successful legal campaigns before the Covid-19 lockdown hit.

Finally, this will play out in a world of increasingly accessible litigation funding and an ever more sophisticated claimant bar with access to collective consumer redress remedies and class actions.

The path to better sustainability and ESG in the way businesses are run is unequivocally in society's immediate and longer-term interests. Those businesses that get it right will prosper and constitute better insured risks. But caution is needed to identify those that stray into greenwashing. The cost of association with those businesses could be very high.

Simon Konsta is a partner at law firm Clyde & Co

Building resilience

The construction markets are adapting to emerging risks and new needs, according to Travelers

Amid the uncertainty about how countries around the world will recover from Covid-19, many governments are looking to the construction industry to mitigate the economic impacts of the pandemic.

As a contributor of jobs and critical infrastructure, the industry is vital to reopening and jumpstarting world economies. Recent research from the Swiss Re Institute forecast that investment in infrastructure development will be a main contributor to sustainable growth in emerging markets after the pandemic – and that these markets will invest $2.2tn in infrastructure each year over the next 20 years.

Still, the industry faces strong headwinds. Covid-19 is straining building design requirements, labour and supply chain management, subcontractor networks, project timelines and risk management protocols.

While there is cause for optimism in a few areas, uncertainty abounds in a number of sectors and industry analysts expect key construction markets around the world to contract during the remainder of the year.

Nigel Cooper, senior underwriter for global construction at Travelers Europe, has been seeing a reduction in activity in sectors ranging from oil and gas to office space.

"The drop in oil and gas prices means we'll see less major investment in that area," he says. "Before the pandemic, most insurers and brokers would see multibillion-pound oil and gas projects coming through, and I can't see any happening this year, except in countries where their economies rely on them."

Construction of shopping centres and office schemes appears to be declining as well – or at least plateauing as people hold off on making decisions while they wait to see what happens with Covid-19. In commercial spaces, many shopping centres around the world had been moving toward incorporating theatres and leisure activities to take the spaces occupied by department stores. Those spaces may need yet another revision due to Covid-19.

Office spaces – and the way companies think about getting work done – will also need an overhaul if the virus continues to be a threat. Businesses will have to adapt to having employees work from home long term – or redesign office space to somehow accommodate employees safely. In the meantime, projects are stalling as developers monitor the pandemic.

Where Cooper is seeing some activity is in student accommodation and residential developments. Such projects may not be complete for another two or three years, at which point the world may look different.

Infrastructure potential

There is potential for infrastructure development, too. A country's ability to invest in infrastructure projects to accelerate economic recovery will most likely reflect how well its government has contained the virus to date – and if it is able to manage future outbreaks.

In New Zealand, for instance, where Covid-19 infections have been hovering around zero recently, the government is reportedly fast-tracking consents for 11 infrastructure jobs. The projects, which include roads, cycling paths, rail upgrades, water storage and housing developments, could provide more than 1,250 jobs, according to the Construction Index.

Other countries may struggle to start such projects if government spending is needed to contain the pandemic and provide economic relief. A region's pre-outbreak economic strength will affect the

likelihood of investment, along with how well it kept business moving in the first half of the year despite lockdowns.

While key markets in Asia, Europe and North America will be in a position to bring their economies back more quickly because people have been able to work from home in recent months, growth is less likely in South American regions like Brazil.

"We're seeing more inquiries about infrastructure projects and there is a lot of potential there, but when governments are pumping money into furlough schemes, they may not have money to pump into construction projects," Cooper says.

Indeed, a recent Fitch Solutions forecast indicated that while economic stimulus provided to protect jobs and businesses during lockdown could speed economic recovery, it may leave governments unable or unwilling to spend on infrastructure – at least in the short term.

A new risk model

In the meantime, the pandemic is challenging insurers to rework how they assess potential construction risks.

Before the pandemic, onsite inspections and face-to-face meetings had been central to construction risk management. Now, tech-enabled modifications ranging from virtual surveys to web meetings are taking their place and may become more widespread in the coming months.

"Risk engineers are grappling with travel – especially international travel – and how to meet the demands of underwriters when they can't easily get on a plane," says Ashley Stewart, senior risk control consultant at Travelers Europe.

"Luckily, we have been able to use Zoom calls and webinars to talk to teams and deliver risk presentations. It's not the same as being in the same room together but I can see people presenting risks to the market in this way more regularly going forward."

Beyond the logistics of assessing construction projects, the pandemic has created a confluence of challenges that insurers must consider: Local suppliers may be operating at a reduced capacity or not at all. Key parts that would have taken six months to arrive from China under normal conditions may now take nine, due to distancing requirements in factories or virus flareups over a period of months. Transit interruptions may cause additional delays. Multinational firms will need pandemic plans for shutting down sites and starting them again.

All these factors impact insurance cover. Projects stalled by the pandemic could generate delay-in-start-up claims and require extensions for additional premium. Smaller policy wording changes are likely too. Even existing policies with cessation-of-work clauses may not necessarily consider the possibility of all sites needing to close at once. In more litigious countries, the culture on insurance claims may call for exclusions on policies.

An evolving industry

As the construction industry operates in this unstable environment, it will have to adapt to its new risks.

There will likely be changes in the size and design of future projects. Stewart says designers may develop projects on a more modular basis, constructing modules or pods in factories, then transporting them to a site where there is less labour needed to assemble the complete project. Office space design may shift away from open-concept layouts toward spaces that allow for greater separation of employees.

Technology will continue to change how people collaborate and manage work and resources. The desire to build a project with less people and allow for social distancing might also drive an increase in automation for larger projects.

As construction businesses prepare to resume projects, insurers can help them weather the coming months and the economic and safety challenges they may bring.

"From the broker's side, retail clients in the construction market need to understand their infectious disease cover and determine what's going to happen with claims," Cooper says.

"The pandemic could be one of the biggest insurance losses ever. Long-term increased rate pricing could be one result of that, and policy wording is going to get tighter – we're already seeing that."

Risk management will also need to change as it becomes more difficult to have in-person contact. It will be all the more critical for brokers to better understand how a business is managing its exposures.

"It's important to ask about business continuity plans," Stewart says. "We need to ask customers, 'What are your plans in the event of a Covid flareup in your factory? Have you got plans for your workforce? Do your suppliers have plans in place?' At such a challenging time, having a clear strategy can provide an extra measure of protection."

No market is an island

The London market risks isolation and irrelevance if it doesn't keep pace with industry-wide innovations, says Guidewire Software's **Ian Gibbard**

The London market provides a unique service to global trade and attracts the best talent and capital from all over the world.

It has embarked on a challenging and expensive transformation programme to ensure it remains viable and increases its share of global insurance spend. An important aspect of this is realising when we are doing something that adds no value, or when we do something in a way that is different to – and typically more complex than – the rest of the insurance industry.

These are what I perceive to be the most burning issues confronting London and how we may overcome them. It is my personal view based on my experience and observation.

Cutting costs

Reducing the cost of doing business in London has long been a goal of those with genuine concerns over the future of our market. A 40 percent expense ratio is too high even for specialty carriers.

Rather than discuss individual solutions such as PPL or the Single Claims Agreement Party, I would like to suggest an analogy to explain how the market can adopt an approach to processes and systems that will ensure that costs are always driven down.

As I sit writing this article on a sunny day, still locked down at home, SpaceX, the company founded by Elon Musk, is preparing to launch the first people into space from the USA since 2011, when Nasa's Space Shuttles were retired.

Nasa, Musk's customer, decided that it would rather focus its own creative energy on doing the things it does better than anyone else: exploring the moon, our solar system and beyond. It recognised that run-of-the-mill low-Earth taxi journeys to the International Space Station (ISS) could be more efficiently and economically operated by commercial organisations on the back of readily available and proven commodity rockets.

The London market, and Lloyd's specifically, should recognise where its unique value lies – in its ability to underwrite complex risks and to attract global capital – rather than in developing and running its own unique IT systems and processes.

We need to adopt industry standards, practices and IT platforms – in the cloud, of course – to support the management of placing, underwriting, claims and accounting.

The Space Shuttle was a wondrous achievement – a reusable space plane that could glide back to Earth, but was ultimately very expensive and prone to catastrophic failure.

According to Wendy Whitman Cobb, associate professor of political science at Cameron University in Oklahoma ("How SpaceX lowered costs and reduced barriers to space"), the cost of putting 1 kg into space was $18,500 from 1970 to 2000, with the Space Shuttle cost rising to $54,500 per kilogram, almost three times as much.

SpaceX can do this for $2,720, which is 14.7 percent of the long-term 1970-2000 cost, and a staggering 5 percent of the cost of using a Space Shuttle.

Does the London market need a Space Shuttle or SpaceX?

Long-term profitable underwriting

There used to be a seven-year underwriting cycle. After significant market loss or crisis, rates would harden, profits would be made to replenish the reserve coffers and so new capital would be attracted, in turn lowering rates until the next catastrophe.

A combination of excess capital with no other home to go to – a result of the 2008 financial crisis – and concentration of access to the market amongst a few mega brokers has levelled off the cycle and reduced long-term profitability.

The effective use of data, with the ability to change underwriting course mid-year, is needed to provide underwriters with the clarity and ability to decide what risks to write and the knowledge to adjust portfolios, rates and risk appetite mid-term.

I would like to applaud Convex's data-driven approach to selection and Brit's introduction of parametric-based follow lines.

But this approach needs to be the norm and available to all using commodity tools and platforms. Just as SpaceX (and soon Boeing) are not only set to revolutionise the day-to-day launching of people and things to the ISS, but on a more selective basis will also provide parts of more complex missions, so too must the London market look to the outside world.

Data-based decision making and no-touch straight-through processing are a reality now. Rather than use the somewhat menacing term of artificial intelligence (AI), a more prosaic technology called predictive analytics infers outcomes for risk portfolios and claims that can be operationalised within underwriting and claims management platforms.

It is not magic, but rather the appliance of modelling to homogenous historical data owned by the carrier, or perhaps the entire market in our case.

And we must not forget the value of InsurTechs in providing knowledge and data across a bewildering range of activities and lines of business, from claims fraud propensity to detailed analysis of specific industries and insureds.

"A combination of excess capital with no other home to go to and concentration of access to the market amongst a few mega brokers has levelled off the cycle and reduced long-term profitability"

None of this will be of any use unless carriers have the means to embed these analytics into their daily activities and core systems through industry-wide ecosystems, and the acknowledgement from investors and regulators that underwriting plans have to change at short notice.

Full transparency

The London market must also meet the expectations of brokers and customers for full transparency from submission to settlement – or, as my US colleagues say, from "soup to nuts".

Without the cleansing balm of transparency, our partners – customers, brokers and cover holders – can never really be sure that we have their best interests at heart and have done all in our power to offer the best rate or settle a claim in the shortest possible time.

Part of the answer to this is broker empowerment. Brokers don't want to act as go-betweens finding out what happened to that settlement or this survey on behalf of their customers.

The Future at Lloyd's programme – postponed but not forgotten – introduces the concept of portals. But these will need to have up-to-date and consistent information provided by carriers' platforms in real time, and it's not going to work if we decide to develop this technology ourselves.

We have seen where that approach ends up. We also know that this exists already – Amazon, eBay and our own banks prove this. In our industry, insurers around the world have used integrated portals provided by global vendors for a long time.

Where data needs to be exchanged electronically to support business-to-business information and settlement exchange let's use standards that are already there. The wheel has already been invented – Acord, Ruschlikon and XBRL are already there, proven and in use.

It's far better for maximum interoperability, lower risk and cost efficiency to use data standards that are already adopted. They may not have the stamp of London and include every London-ism, but their adoption would be pragmatic – the much larger global non-life/P&C market is never going to adopt the standards of our relatively small and specialist market.

There are so many things that are so good and unique about the London market. However, exceptionalism isn't one of them.

We all know in our hearts that we don't have a right to exist as a market. We must earn that right by doing things better than other carriers, and not just be different for the sake of it. No insurance market is an island, and all are part of the global continuum of trade and commerce that continues to thrive despite Covid-19.

Ian Gibbard is Senior Sales Executive at Guidewire Software

Written in the stars

The delayed delivery of Phase II of the Gemini platform comes at a serendipitous time for the (re)insurance sector, says **Anthony Freeman**, as firms seek to track expert usage and spend

As the T-shirt slogan goes, an expert can be defined as follows: an ex is a has-been, a spurt is a drip under pressure!

What is for sure is that the Lloyd's market has long been under pressure to introduce a functioning system to help better manage its growing expert spend.

Market systems to date have had little to no functionality to allow a managing agency to accurately record or analyse expert usage and the related spend.

This has challenged carriers when attempting to make informed decisions on expert appointment, usage and performance due to:

- Lack of data on fee spend (in a lead and follow capacity)
- Lack of data on expert usage (in a lead and follow capacity)
- No consistency in on-boarding claims experts
- Lack of management and oversight of appointed experts

An opportunity was identified to address the above, and at the same time, create a solution that allows a carrier to manage their relationships, the associated performance and customer outcomes with key claims experts, for the benefit of carriers and customers alike. The answer was to build a market solution called Gemini, initially for open market business.

The news in April that delivery of Phase II of the Gemini Claims Expert Management platform would be delayed by the impact of Covid-19 and the phasing in of Write-Back vendor integration was no real surprise. The delivery is now being re-planned and scheduled for August 2020, according to the Lloyd's Market Association (LMA).

Twin benefits

As everyone knows, Gemini is also the third astrological sign in the zodiac, originating from the constellation of Gemini. It is, apparently, a positive mutable sign. Under the tropical zodiac, the sun transits this sign between about 21 May and 21 June. Gemini is represented by the twins Castor and Pollux, known as the Dioscuri.

On the day of writing this article I checked whether the stars were aligned for those of a Gemini disposition. The answer was that Geminis "face a day of some conflict. Nevertheless, the discord will prove quite useful".

Before anyone says "What a load of Pollux!", that horoscope was quite serendipitous because Gemini will be the single platform that removes the complexity, delay and cost to experts submitting their fees to Lloyd's carriers.

It will deliver an efficient, straight-through fee agreement and payment process, whilst capturing granular structured data on expert spend that will allow Lloyd's carriers to have true visibility of expert spend, usage and performance.

The LMA says the solution will allow carriers to achieve management efficiencies, reduce claims costs and improve the performance of experts. The platform enables a greater understanding of expert spend and will allow Lloyd's carriers to make informed decisions around that spend.

The LMA believes the development of a searchable database of regularly used experts, supported by the on-boarding process and performance oversight, will allow carriers to manage effectively the delivery of claims services for the benefit of carriers and policyholders alike.

More than 650 experts have reportedly been pre-registered for access to Gemini with the support of Lloyd's carriers. The total claims expert spend in the Lloyd's market is around £500mn a year, according to previous estimates from the LMA.

Future at Lloyd's

The design of Gemini remains aligned to the principles defined within the Future at Lloyd's. Gemini has been designed for the wider London market although initial delivery will be limited to Lloyd's carriers, with expansion to the Institute of London Underwriters and the London International Insurance and Reinsurance Market Association to be phased after the initial August delivery.

Developed by the LMA, and driven by claims professionals from the Lloyd's market, Gemini enables carriers to understand their true spend on claims experts, manage the relationships and monitor their performance.

Lloyd's syndicates write a diverse range of policies, both direct insurance and reinsurance, covering property, casualty, marine, energy, motor, aviation and many other types of risk. Lloyd's also has a unique niche in unusual, specialist business such as kidnap and ransom, fine art, specie, aviation war, satellites, personal accident, bloodstock and other classes, which means that experts are frequently called in to give a range of advice.

Smart, automating technology can certainly play its part here. Modern claims management systems can provide fast and reliable settlement of claims experts' fees, reduce supply chain risk and improve performance management.

Existing technology can have a visible directory of the experts available to the market, significantly reduce the cost of processing expert fees and bring operational savings and efficiencies while enhancing management information that provides intelligent insight

Experts can interact directly with Gemini as a portal, recording their fees, the related splits and providing the supporting invoice. Expert registration (full or light touch with bank details) will be required – 35+ carriers are already registered within Gemini.

Creating a link between the expert fee data and the claim, Gemini will integrate with carriers via Write-Back messaging, allowing carriers to manage the expert appointment on the claim as part of their own claims management process.

Anthony Freeman is head of development at DOCOsoft

Tracking costs

DOCOsoft was active in assisting with Phase II of Gemini, helping with the design of the application programming interface (API). From this experience and other software development projects I can attest to the important role that APIs will have in the Future at Lloyd's.

Some features of the DOCOsoft Expert Module that could be used to enhance this area of the market include the ability for insurance companies to conduct expert smart searches, source expert company and contact appointments and provide assistance with indemnity and parallel UCR linking and financial tracking.

During this pandemic period – a time when experts appear to have come back into fashion – there is an even greater need for expert reports, expert management and manager approval on experts.

Tracking expert witness expenses can provide an abundance of data and insights about the effectiveness of experts as each case progresses. However, this data can only help you if you track it.

Clear communication is a core competency for lawyers, for example, and it is also vital during every part of the journey of working with an expert witness. Communication about expert witness-related fees and expenses is no exception.

According to the Expert Institute, expert witness costs remain high. The American Bar Association relates that in some cases, the right expert may cost more per hour than the attorneys themselves.

In an effort to control costs, many law firms and legal departments have turned to tracking expert witness expense data. However, not all are using the most efficient tools to do so. Simply using a spreadsheet or similar tool can add dozens or hundreds of hours to an attorney or paralegal's workload simply in data management.

In the post Covid-19 era it is likely that experts will assume even greater importance as the insurance market places a greater premium on specialist knowledge.

Whether you are a Gemini or a Scorpio, however, it doesn't take an astrologer to tell you that new forms of automation and technology will play an essential role in efficiently managing future spend on experts that are drafted in to give advice on complex risks.

The new normal

If London wants to compete for high volume business, especially from untapped segments and geographies, it must embrace technology that puts its capacity at the distribution network's fingertips, says **Tim Rayner**

London may be a world leader in large and complex business, but the market needs to widen its audience and rebuild its footprint in the high volume space – and this is only possible by embracing new ways of trading.

There remains huge appetite for Lloyd's and London capacity from brokers and clients around the world who crave a wider choice than is often available in their local territories.

However, the traditional London approach of face-to-face meetings is not economically viable on low premium business, and the market has to move with the times. London must instead take its capacity directly to the desktops of participants in the distribution chain, wherever they may be in the world.

The race to trade online has seen brokers and insurers invest heavily in developing their own portals over the past 18 months. However, these "portal wars" have resulted in a proliferation of platforms, each with their own logins. Navigating sometimes dozens of systems for any given line of business can quickly lead to portal fatigue for users.

This issue is being addressed by tools such as Sequel's Rulebook Hub that harnesses application programming interface and Cloud technology to allow users to request and receive quotes from multiple capacity providers in real time within one central platform.

Real-time access to Lloyd's capacity brings underwriters closer to the risk while giving local brokers greater choice and a sense of ownership.

Most importantly, it brings huge benefits to clients who gain access to competitive, tailored coverage from markets that may have historically been out of reach. In the past, these clients would have waited weeks or months while their risk sat at the bottom of a pile on a desk at Lloyd's – if it made it to London at all.

Suddenly, clients on the other side of the world can view multiple London quotes within a couple of hours of engaging their local retail broker. This gives them access to high quality coverage, while visibility of market-wide quote and bind data also offers powerful benchmarking insights.

Improving efficiency

Automation of documentation and real-time data sharing bring huge efficiencies by removing double-keying from the paper chain, reducing human error and speeding up payment – all vital

steps as London strives to improve efficiency and reduce its cost base.

Some brokers believe the move to algorithmic, online quote and bind means they will have less to do. In fact, the opposite is true. Automating a large portion of high volume placement, which may account for 80 percent of volume but only 20 percent of revenue, for example, frees up brokers' time to focus and add value on large, complex, high margin business, to travel more and engage with clients more, improving client outcomes.

The same can be said on the underwriting side, where Lloyd's players are under continued pressure to improve efficiency and reduce their 40 percent cost base.

It is estimated that underwriting expenses could be reduced by up to 25 percent by reducing physical underwriting to just referrals on 10-15 percent of the portfolio, freeing underwriters to focus their expertise on the most challenging risks and even target more marginal lines of business that may not previously have been economically viable.

Most insurer CEOs and CUOs now see embracing technology, including algorithmic underwriting, as a necessity going forward, particularly as the market evolves – and they are right. If London fails to adopt a new approach it will be very quickly left behind.

Algorithmic syndicates launched by the likes of Brit and Beazley with support from Google are exciting initiatives. Combined with Lloyd's lead and follow strategy, this is how we should be trading in the medium term rather than waiting for the long term.

The power of data

Data enrichment is also key because enabling better decision-making improves efficiency at every step of the chain.

Brokers and underwriters have access to vast quantities of data, and it is incumbent on them to use data more efficiently. That includes taking advantage of the vast datasets and modelling capabilities available from third-party providers like Verisk which, in combination with portal technology, can be structured, overlaid and integrated to provide a powerful, holistic view of risk and exposure data in real time.

Rather than making decisions weeks or months behind the risk curve, capacity providers can now monitor and adapt to exposures as they develop, view risks within the context of their portfolios and ensure alignment with group risk appetite.

Meanwhile, live quote feeds allow them to monitor hit ratios and gauge traction in various product lines, segments or geographies, empowering them to fine tune coverage, pricing and risk selection in accordance with performance and risk appetite in close to real time. In the past, these decisions would have been made long after the horse had bolted.

Bringing this all together should improve efficiency and reduce costs across the market and help London differentiate itself from local markets. Most importantly, this all benefits clients, who welcome the improved choice, speed and efficiency now on offer.

New era, new culture

We are, indeed, on the cusp of a new and exciting era for the insurance market, and the Covid-19 lockdown has undoubtedly brought some of these outcomes to the table quicker. It has been suggested that London's evolution may have been hastened by as much as three years as a result of the market being forced to adopt agile working and online placement.

The market was by no means prepared for such an abrupt change in how business is done, but after an initial period of uncertainty, it transitioned from physical to online transacting quickly and smoothly. It was, in essence, business as usual at 1 June renewals, with the use of PPL increasing significantly during lockdown.

London must adapt and evolve with these changes, not fear them.

"The market was by no means prepared for such an abrupt change in how business is done, but after an initial period of uncertainty it transitioned from physical to online transacting quickly and smoothly"

Some insurers are attempting to differentiate themselves on their tech, particularly in the MGA space, so it is only natural that they may see the portal approach as something of a threat to their USPs.

However, when they begin to understand the benefits this new way of working can bring to their distribution, in particular the opportunity to target untapped segments or geographies, they too get excited.

When normality returns, London cannot afford to return to its old ways. Blue sky conversations – from opportunities to target untapped segments or geographies three months ago to agile working, technology and the use of big data – are now real discussions about implementation. We should feel empowered to push the foot to the floor and drive these changes through.

The new normal is, after all, a more modern and dynamic London market that serves the distribution chain and clients much more efficiently – and technology has already proven to be at the heart of our new and improved way of doing business.

Tim Rayner is head of business development at Sequel

Storm warning

Businesses need to anticipate crises beyond the current economic situation, as Covid-19 places additional stress on other underlying issues, creating potential exposures to unforeseen risks, says Travelers

Covid-19 is posing new, unforeseen challenges to businesses. It is impacting all sectors, crossing geographical lines, endangering the health of employees and customers, and threatening organisations' survival.

It is also a distraction.

"For businesses, the challenge of the pandemic is that everyone is focused on the economic effects," says Chloe Brindley, senior underwriter in crisis management for Travelers Europe.

"But on the back of it, there is an increase in fraud and other crime that people should be aware of as they get back on their feet."

Beyond business, the virus is providing an opening for activities that observers would normally work to prevent – but will not because of the challenges they are experiencing themselves.

"The virus can serve as cover for state actors to do things with less criticism from the international community," says Ed Zambellas, senior underwriter in crisis management for Travelers Europe. "China's recent actions in Hong Kong to bring in a new terrorism law and suppress dissent would have normally garnered much more condemnation from other countries, but other states do not have the bandwidth to deal with a serious internal challenge like Covid-19 and simultaneously focus on an international crisis that may not affect them directly."

"Arguably, Beijing's actions are the culmination of years of increasingly strident and confident actions, but it's really managed to turn a crisis that originated within its own borders into a potential strategic opportunity," Zambellas continues.

"The recent US application of sanctions suits the Trump administration in looking tough during an election year, especially given the president's own rhetoric around blaming China for the coronavirus outbreak, but ultimately there is a question mark over how far the US will go, bearing in mind the challenge in managing its own recent surge in Covid cases, not to mention the trade relationship between the two countries."

All told, at a time when organisations are eager to resume pre-pandemic operations and focus on recovery, it's important for them to step back. Understanding how the stresses of the pandemic may directly or indirectly set them on a course to meet other risks coming down the pipeline can help them best prepare.

"A virtual structure can strain a crisis management team both organisationally and technically. A virtual team can quickly become a busy, stretched, unfocused group because it's easier for more people to get involved"

Emerging challenges

Constellis, which provides risk management and mission support services to government and commercial customers worldwide, sees a few key risks either persisting or rising to the surface in the pandemic recovery period.

"Worldwide, it remains the case that the number one risk arising from the post-Covid environment is cyber resilience issues," says Nick Powis, crisis management consultant for Constellis.

"Crisis management teams have to respond virtually, and while that's working reasonably well for some, others will struggle as they haven't trained for it or their infrastructure isn't strong enough."

A virtual structure can strain a crisis management team both organisationally and technically. For instance, a virtual team can quickly become a busy, stretched, unfocused group because it's easier for more people to get involved. Or, consider another organisation trying to manage a cyber ransomware incident in which their digital architecture is locked and they cannot meet virtually or in person to address it.

"At a time when organisations are already stretched in terms of infrastructure and energy, it's natural for them to want to pull away and refocus on business recovery. But being mindful of the exposures brewing behind the scenes is crucial"

In the coming months, as organisations feel squeezed by the cumulative stresses of the pandemic, Powis expects to see an uptick in other risks.

"As restructuring and redundancy starts to bite, we'll see a rise in workplace violence, insider threat issues including blackmail, stalking and other threatening behavior, and almost certainly product tampering," he says. "The corollary to that is industrial espionage, with people taking information with them as they man the lifeboats."

Finally, pandemics can lead to periods of widespread disorder. It was true after the 1918 Spanish flu and appears to be happening now as people around the world react to several months of lockdown, restrictions on their movement and freedoms, and financial and health-related stresses.

If there happens to be a lightning-conductor incident during a pandemic – as there was in the US with the killing of George Floyd and subsequent widespread sharing of the video on social media – large groups are more likely to coalesce around it.

In the case of the Black Lives Matter movement, the passion driving the worldwide protests is compounded by the reality that predominantly, people of colour have been the ones experiencing the most severe consequences of Covid-19.

"I think Covid will stress and stretch a number of the big issues that have been out there for some time that will get exposed now," Powis says. "Businesses will have to figure out what to say and how to relate to these flashpoint issues, how to protect facilities at a basic security level, and how to influence and control their narratives through social media and their staff. I think we're going to see a number of those issues fizzing which people haven't necessarily anticipated."

Understanding potential risks

To help monitor and manage emerging risks globally, Travelers has an exclusive partnership with Constellis. As a complement to Travelers special risks cover, policyholders can access Constellis support to help anticipate potential fallout from the pandemic.

"What we're trying to do is be proactive in getting our clients to have a free, one-hour conversation with Constellis to talk about the issues in front of their minds and better manage the risks," Travelers' Brindley says.

At a time when organisations are already stretched in terms of infrastructure and energy, and they have had to take shortcuts just to keep operations afloat, it's natural for them to want to pull away and refocus on business recovery. But being mindful of the exposures brewing behind the scenes is crucial to protecting business.

"We encourage our clients to reflect on everything they have done to get through this situation so far and do a proper threat vulnerability and risk assessment (TVRA)," Powis says. "It doesn't have to be a 300-page document, and you can do it in a couple of days with the right people. If you've done a half-decent TVRA, the priorities will set themselves."

Sparking growth post-Covid-19

Simon Burtwell assesses what insurers can do across the business to seize the transformational opportunity as they plan to emerge from the Covid-19 crisis

In the latest EY NextWave Insurance report, the insurance team made a bold prediction – that the large commercial and reinsurance sector will experience $600bn in revenue growth and 25-35 percent improvements in combined operating ratios by 2030, despite the Covid-19 pandemic.

Those projections were based on our extensive dialogue with clients and industry stakeholders, as well as deep research into the current state of the market and likely future trends. Despite the crisis, we remain bullish on the large commercial and reinsurance sectors.

The growth forecasts come with a few caveats. For one, results are likely to be depressed for the next year or two. For another, insurers have a lot of work to do if they are to seize the opportunity. For instance, they must move urgently and ambitiously to develop new business models and new product offerings, in addition to upgrading their technology and retooling their workforces. It's worth noting that many of these actions were necessary even before the crisis hit.

Not all market players will benefit equally; those firms that establish a clear vision for their future and then drive near-term change while simultaneously placing intelligent, long-term bets for what's next and beyond, should emerge as leaders. Those that double-down on in-flight transformation initiatives are likely to have an edge in returning to profitability.

Specifically, EY teams believe the following six imperatives hold the key to unlocking such dramatic future growth.

Define your purpose to dramatically increase relevance

The world has never needed the insurance industry more than it does today. Cybercrime, climate change, geopolitical uncertainty and pandemics are all serious risks that call for leadership and new forms of collaboration among businesses, communities and governments.

Thanks to their ability to assess risk and provide protection, insurers are uniquely positioned to provide such leadership and help deliver the protection society so clearly needs.

However, the industry must change current perceptions, particularly in light of negative press surrounding pandemic exceptions to business interruption policies. It must articulate its social purpose and importance more clearly and forcefully. That will help differentiate the industry in the minds of customers and employees eager to engage with companies that share their values. Strategically, it can help insurers and distribution partners confirm their relevance to companies considering self-insurance or relationships with new market entrants. Premium holidays and discounts during the crisis are a good place to start, but ongoing engagement with regulators and authorities will help demonstrate the industry's commitment to restoring the economy.

Enhance client value through bespoke products

New products and services should reflect how companies are structured and operate today. They should also be designed to address a shifting risk landscape. Flexible and bespoke products that cater to the unique risks, exposures and asset bases of individual customers will become the rule during the next decade. In this sense, product innovation starts with a clear understanding of customer needs. Appropriate coverages for intangible assets (which represent the majority of business value today) will be at the top of the priority list. In the wake of the Covid-19 pandemic, leading insurers and reinsurers can, and should, expand specific coverage for pandemics; they should also enhance the loss prevention and risk advisory services that will allow them to significantly upgrade their core value propositions.

New services are also essential, especially as cost pressures intensify and customers demand to know what value they will receive for their premiums. That value can be demonstrated by effective loss prevention and risk advisory services.

It's important to note that the tailoring of products becomes practical and cost-effective only if insurers have lean back-office operations.

Insurers need advanced data management and analytics capabilities if they are to successfully target offerings to the unique needs of individual customers.

Deploy technology to drive operational agility – especially in underwriting and claims

While technology alone won't drive

the transformation required to seize the growth opportunity, there is no doubt that significant technology investments will be necessary.

The Covid-19 situation has made stronger infrastructure and more flexible toolsets an operational imperative, given the likelihood that remote working becomes the norm and more interactions become digital.

There are many technologies to evaluate, from artificial intelligence, robotic process automation and blockchain, to customer relationship management tools, rules-based underwriting workstations and rate-quote-bind systems. Internet of Things-enabled sensors, the cloud and big data are among the others that must be taken into account.

All technologies must be considered in terms of their ability to drive top-line growth, increase profitability and reduce expenses.

The top-priority investments will be in platforms and toolsets that directly link to customers, partners and other market participants. Such technology will pay off in the form of enhanced digital experiences, streamlined data sharing and faster and more accurate interactions.

This sort of pervasive connectivity across the industry forms the heart of the dynamic value exchange and evolving business models that are likely to emerge in the wake of the crisis.

Initiate the shift from claims management to loss prevention

As long as there is insurance, there will be claims. However, in the future, the volume of claims will fall to a fraction of what it is today, thanks to continual loss prevention driven by timely insights.

That's an enormously positive development for the industry, because insurers and customers alike would rather prevent losses than submit claims.

To be clear, the shift to active loss prevention requires fundamental adjustments to operating models, technology and talent. The Covid-19 pandemic will certainly accelerate the shift to loss prevention, risk advisory services and usage-based products.

Enacting this transition will take a great deal of work, but it will pay off handsomely for insurers that get it right.

Simon Burtwell is UK insurance consulting leader for Ernst & Young LLP

Get completely connected and fully digital

The future of large commercial insurance and reinsurance will be vastly more open, transparent and collaborative than it is at present.

The digital exchanges and rich ecosystems that are now emerging will work in real time and connect buyers and sellers to products and services that transcend traditional boundaries. The economic lockdown from Covid-19 has only confirmed that digitisation must be an absolute priority.

In forming their own ecosystems or joining those developed by others, insurers must find a role that is unique, value-adding and differentiating. Such strategic focus is critical because no one company will be able to be all things to its customers. Nor should it try.

Even as interactions across the industry shift to digital, human talent will be more important than ever. Taking action based on insights, managing customer and supplier relationships and envisioning new products and services – these are the areas where insurers, reinsurers and brokers need great talent, not just advanced technology and rich data.

Create the workforce of the future

Tomorrow's workforce will look radically different to today's. The skills and roles at the heart of operations will be reshuffled. The goal should be to create and nurture a diverse, inclusive workforce infused with digital skills and innovative thinking. Diversity of skills, thinking and experience are especially important.

To compete for scarce talent, insurers must provide an attractive work environment, appealing compensation, clear career paths and a larger purpose.

Culturally, employees must be empowered to embrace risk, try new ideas and fail faster. That will require a mindset shift for many industry veterans. The ability of teams to collaborate effectively – including under remote working conditions – will become a cultural hallmark of commercial insurance leaders.

No discussion of tomorrow's workforce is complete without mentioning technology and automation. Along with cloud technologies and managed services, these will help reduce the cost to serve within traditional business support services. They will also free human talent to focus on more valuable and more meaningful work.

During the next decade, EY teams believe fundamental change will deliver extraordinary growth for large commercial carriers and reinsurers. We also believe that the Covid-19 pandemic will accelerate many of the trends and developments we have outlined here.

Though there will be fewer losses, customers will receive more value. The frequency of customer engagement will increase (including through digital channels), even as claims interactions and annual renewals – long the primary customer interactions – fall away.

Though the workforce will be smaller, talent will be more important than ever before.

These changes may seem counterintuitive, but we see power in the paradoxes. After all, a 350-year-old industry doesn't have to be old-fashioned. Indeed, it can – and must – be made new again.

Disclaimer: The views reflected in this article are the views of the author and do not necessarily reflect the views of the global EY organisation or its member firms.

Executive moves

The ins and outs of the executive job market

Peter Zaffino

AIG's CEO of general insurance Peter Zaffino, who also serves as group president and COO, is to take over the management of the company's life and retirement, IT and enterprise risk functions alongside his existing responsibilities. Life and retirement CEO Kevin Hogan, chief information officer John Repko and chief risk officer Alessa Quane will now report to Zaffino, rather than group CEO Brian Duperreault.

Rupert Atkin

Talbot founder and chairman Rupert Atkin is set to become chairman of Ark's managing agency on the retirement of the latter's co-founder David Foreman at the end of the year. Atkin left Talbot last May, 28 years after founding the Lloyd's business, and following the acquisition of its parent company Validus by AIG the year before.

Barnaby Rugge-Price

Barnaby Rugge-Price has been appointed chair of Howden Broking Group while José Manuel González takes up his role as CEO of the unit. Rugge-Price was previously CEO of the group's technology, data and analytics arm Hyperion X and, before that, CEO of RKH from 2005 to 2019. Hyperion X will now be led by Paul Johnston.

Gérald Harlin

Axa's deputy CEO Gérald Harlin is to retire at the end of September. The company initially announced his retirement last June, but delayed his planned departure in January so he could lead the group's asset management division. Harlin will remain a member of the Axa Investment Managers board following his retirement, with Marco Morelli replacing him as executive chairman.

Russell Coward

Pioneer Underwriters' head of risk and compliance Russell Coward is to become CEO as the firm moves towards an advisory model following the sale of its four remaining portfolios to K2 Insurance Services. Coward joined Pioneer in May 2014 from Hiscox, where he was head of group compliance. Pioneer now plans to become a fee-for-service company advising start-up MGAs.

Aditya Dutt

Former RenaissanceRe senior vice president (SVP) Aditya Dutt, who left the carrier in early July, has been appointed president of ILS firm Aeolus Capital Management. Dutt was formerly SVP of RenRe's ILS and third-party capital unit Ventures, having led the division for 10 of his 12 years at RenRe. Prior to this, he worked at Morgan Stanley.

Ken Randall

Randall & Quilter (R&Q) has announced that co-founder and executive chairman Ken Randall will retire at the end of March 2021, passing the leadership of the company to Pine Brook founder William Spiegel as part of an established succession plan. Randall co-founded R&Q with Alan Quilter in 1991 during the early development of the legacy market.

Raja Balasuriya

Capsicum Re has appointed co-founder Raja Balasuriya as chairman, succeeding fellow co-founder Grahame Chilton who is re-joining the wider Gallagher business as chairman of the global property and broking operation. Balasuriya was the first ever managing partner of Capsicum Re in 2014 and has led and grown the UK motor and liability division since its founding.

Amanda Blanc

Aviva has named former Zurich EMEA CEO Amanda Blanc as successor to CEO Maurice Tulloch, who is stepping down for family health reasons. Blanc joined Aviva as an independent non-executive director last December, after abruptly leaving Zurich a year ago. Prior to Zurich, she worked at Axa, most recently as UK and Ireland CEO, and at Towergate as group deputy CEO.