THE LONDON JOURNAL

THE VOICE OF YOUR PROFESSION

2020

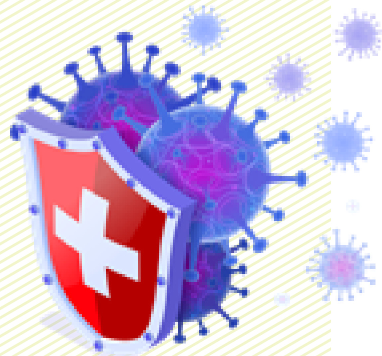
BUILDING TRUST

Who do you act for?

The Insurance Institute of London

Chartered Insurance Institute

CONTENTS



FROM CHARLES BERRY

While the tragic human cost of the global COVID-19 pandemic continues rising, the economic cost already amounts to USD trillions.

The non-life insurance sector will pay tens of USD billions in pandemic related claims, a major catastrophe loss, but manageable globally.

Whatever our market's increased response in the future, the main economic burden of global pandemics must remain with governments. It would have been imprudent for insurers to promise to bear the full financial cost to businesses: the insurance sector is not in the habit of making promises it cannot keep.

This prudence means the London market will emerge from lockdown as part of the solution to rebuilding the economy, not part of the problem. And we will again face the many familiar issues - technology, cyber, Brexit, culture, diversity – that we hope you will enjoy reading about in this year's *London Journal*.

Stay well.

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WHAT'S NEW AT THE INSTITUTE?

INTERESTING TIMES AT THE LONDON INSTITUTE!

I am drafting this report just as the UK Government announced that the Covid-19 pandemic has reached a stage that requires the whole population to severely restrict contact to limit the further spread of this new disease, which has made its way around the world in just three months with such a devasting impact on health and the world economy. In common with the majority of businesses in the country, the Insurance Institute of London's (IIL) office has been closed and all of its staff are working from home. The closure of Lloyd's of London and everywhere else in the City of London has brought to a halt the IIL's face-to-face lecture and professional networking programmes. The Chartered Insurance Institute (CII) has abandoned its spring examinations as well.

ADAPTING

We might have to learn to live with the Coronavirus for some time. The IIL team is adapting to the new situation and is now converting the lecture programme so that it can be delivered online. In the meantime, we are reminding members of lectures they may have missed first time around but are now available for download from our major collection of podcasts.

DELIVERING

In the first five months of the 2019–20 session, before the outbreak took hold in March 2020, the IIL delivered 75 Continuing Professional Development (CPD) lectures and educational visits plus five networking events. During that period the topics that were the most popular downloads were 'Silent Cyber Cover' and 'The Impact of Machine Learning'. A new series of soft skills CPD activities was introduced. Following the popularity of a trial event in the 2018 programme, in the 2019–20 session the Institute teamed up with the Royal Academy of Dramatic Art Business, which hosted several half-day masterclasses to help members improve their communication and presentation skills as well as their ability to think on their feet.

The IIL is a vibrant community and there is no better example of it than the programme for young professionals. In November 2019, the Young Members' Committee (YMC) hosted its Winter Ball, which attracted a capacity audience of almost 900 members and guests. But the YMC also hosts its own CPD events and one of the highlights of that programme was an evening with John Neal, CEO, Lloyd's, who spoke candidly of the challenges he has faced during his career and his outlook on the future of Lloyd's.

SUCCEEDING

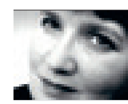
In terms of membership, we have achieved yet another record-breaking result as the Insurance Institute of London now has well over 25,500 members – a 1.71% year-on-year increase.

We are all working to ensure that when this pandemic subsides the London Institute will emerge robust and more versatile than ever, ready to support members in facing the inevitable challenges that lay ahead. ●

INSURANCE INSTITUTE OF LONDON – NOTICE OF ANNUAL GENERAL MEETING 2020

To all members of The Insurance Institute of London: Notice is hereby given that the Annual General Meeting of The Insurance Institute of London will be held at The Old Library, Lloyd's, One Lime Street, London, EC3M 7HA, at 12.30 pm on Monday 28 September 2020.*

**Subject to government advice, it may become necessary for the AGM to be conducted online – refer to www.iilondon.co.uk for updated information regarding the AGM.*
If you have any concerns about this, please contact the Institute Secretary allison.potts@cii.co.uk



ALLISON POTTS
Institute Secretary,
Insurance Institute of London

PRESIDENT'S THEME

BUILDING TRUST, AVOIDING AMBIGUITY

By the time you read this, I hope life will have returned to normal, albeit a new normal. Two things will not have changed, however – the mission of the CII and the IIL to improve professional standards and build trust in our sector; and human nature.

AA

In my period of Covid-19-enforced home working, I called the AA (that is, the car-related AA). After the usual recorded multiple-choice introduction, I was greeted by the up-front statement, 'We are an agent of the insurers we represent. As such we act for the insurers …'.

By being clear that it is not acting for customers, the AA is putting the onus on customers to check the market for other competitive products. In the process, the AA is building trust in its brand. Nobody trusts an insurance intermediary that is ambiguous as to who it acts for. Well done the AA.

BUILDING TRUST

London Market professionals, whether underwriter, broker or financial adviser, are all intermediaries. We all act either for clients and policyholders on the one hand, or capital providers and insurers on the other hand. We are all in a principal/agent relationship. The main asset of any agent is the trust of its principal, and that trust is built on two key factors.

First, an agent cannot act loyally for both sides – a servant cannot serve two masters.

It is important to draw a distinction here between who an intermediary provides services to, and who it acts for. They are not the same. All transacting intermediaries in a real sense provide services to both sides. By bringing buyer and seller together, an intermediary provides a service to both.

However, building trust requires an agent to place its principal's interests in front of those of the counter-party with which they negotiate. It follows that no agent can loyally perform this role for both sides. Dual agency may be an accepted concept in law, but it flies in the face of human nature – the declared (or suspected) dual agent is trusted by neither side.

An agent is not a trader, intermediating between a lower buying price and a higher selling price. A trader provides a service to both seller and buyer, but acts only for itself.

CONTROL OF REMUNERATION

The second key factor of building trust concerns remuneration. Nothing undermines a principal's trust in its agent more than ambiguity about agent's remuneration. The law says an agent should not make a secret profit, but that alone is not enough. The principal should control its agent's remuneration. Whether fees or commissions, agent's remuneration needs to be agreed between principal and agent as to form and amount.

THE LONDON MARKET

These two building blocks of trust apply universally to the IIL's members, whether they are personal financial advisers or engaged in the London wholesale insurance market. However, my focus is on the latter as London Market practitioners, whether underwriter or broker, have not always been clear about their duties as agents. The Lloyd's crisis that led to Reconstruction and Renewal in 1996 was at heart a crisis of trust between principals and agents, between names and underwriting agencies. But there was also a question in the minds of London Market clients – who did the traditional London broker act for? Were they really the client's agent? Or were they 'producers' for their underwriting friends at Lloyd's? The term 'Lloyd's broker' itself implied ambiguity, an ambiguity reinforced by senior Lloyd's brokers thinking nothing of being underwriting members of Lloyd's.

WHERE ARE WE TODAY?

The Lloyd's crisis was so traumatic that the market underwriters who survived, whether at Lloyd's, London Market companies or MGAs, emerged with an eagle-eyed clarity that their role is to serve their principals, the capital providers, whether non-insurance capital or capital allocated to London platforms or specialty classes by global insurers. Underwriters clearly provide a service to their brokers and clients, but they act for their capital providers. Their focus on providing a return on capital is crucial. The London Market will only exist while it continues to attract capital.

BROKERS

Likewise, the London Market will only exist while it continues to attract its clients, the policyholders. For large and complex risks, clients need to employ brokers who act for them with the same eagle-eyed clarity that modern underwriters have in acting for capital providers. But it must be said, there often lingers an element of ambiguity about who the London broker acts for. This ambiguity has been fanned recently by London brokers charging insurers for services they provide to them.

I do not question the value of services delivered to insurers or the legitimacy of such payments, which have passed close legal and regulatory scrutiny. Additionally, London brokers may be clear in their own mind who they act for. But the market's producers and clients can be forgiven for wondering if the policyholder is paying the broker for services provided to the policyholder, and insurers are paying the broker for services provided to insurers, who is the broker acting for?

THE FUTURE

As London Market-based businesses adapt to unprecedented change, success will require fluency in technology and data management. Successful businesses will also need to retain human skills as trust between principal and agent will remain key, particularly for large and complex risks. I therefore see London Market brokers evolving from their traditional wholesale role in two different directions: one as 'London producers' acting for the London insurers they chose to represent; the other as 'niche global retailers' acting for policyholders.

The London producers, as the name suggests, will see their role as producing business for the London Market. They will tend to operate at the more commoditised end of the product spectrum. Using data and analytics, they will target specific segments of different classes of insurance, producing schemes, often placed through facilities, maybe with a limited choice through the Lloyd's risk exchange, and often distributing through cover-holders. They will agree their remuneration with their principals, the London insurers. Like the AA, they will build trust by being clear they are not acting for customers, not searching the wider market, but rather are marketing London solutions.

The niche global retailers will tend to focus on large and complex risks. They will not see themselves as part of a distribution chain, but as trusted advisors and buyers of insurance. They will often deal directly with their global clients. They will view the London ecosystem as a great place to headquarter a broker business that uses electronic platforms with global reach, to place specialty business into the 'global coffee house', the emerging reality of many specialty classes. They will place their remuneration entirely in the hands of their client principals, refusing any secondary remuneration for the services they provide to insurers. Together with the underwriters, they will be engines of innovation that work for both sides, as the innovations will come from the creative tension, albeit collegiate, between broker and underwriter, one acting for clients, the other for capital providers.

Both London producers and niche global retailers will provide a service to both policyholders and insurers: but they will have different answers to the important question, 'Who do you act for?' ●

CHARLES BERRY FCII
President,
Insurance Institute of London
Chairman, BPL Global

TACKLING CLIMATE RISKS... THE INSURANCE INDUSTRY'S TIME TO SHINE?

The insurance industry, perhaps more than any other, is only too familiar with the financial implications of the perils of the weather and climate change and can use its accumulated knowledge to take a lead in tackling climate risks

NICOLAS AUBERT
Head of Great Britain at Willis Towers Watson and CEO of Willis Ltd; Immediate Past President, Insurance Institute of London; former Chairman of the London Market Group

The weather and climate have been central topics of discussion for insurers ever since merchants started talking about safeguarding their marine cargoes in Edward Lloyd's coffee house in London in the later 1600s.

In common with all public and private organisations, shifting attitudes to corporate social responsibility, legislation and public policy, investment strategy and financial reporting mean that the nature of the climate conversation has probably changed more in the past twenty years than in the previous three hundred or so.

Just how much and how quickly it is changing is epitomised in two significant events that occurred in the first quarter of 2020 as well as in the latest scientific evidence of global warming.

On 14 January, BlackRock, the world's largest asset manager, said in its annual letter to CEOs that an intensifying climate crisis would bring about a 'fundamental reshaping of finance', and that BlackRock would prioritise climate change as a 'defining factor in companies' long-term prospects'. This letter reflected how, in the investment arena, environment, sustainability and governance (ESG) principles are a new corporate trinity, backed by growing evidence that links ESG factors to returns.

On 27 February, the UK Appeals Court ruled that construction of a third runway at Heathrow Airport couldn't go ahead because it would contravene the government's Paris Climate Accord commitment to a zero carbon economy by 2050.

Meanwhile, scientists have told us that 2019 was the hottest year on record for the world's oceans and the second-hottest year for global average temperatures, illustrated only too starkly by wildfires that affected areas from the United States to the Amazon, Australia and parts of southern Europe.

STEPPING UP

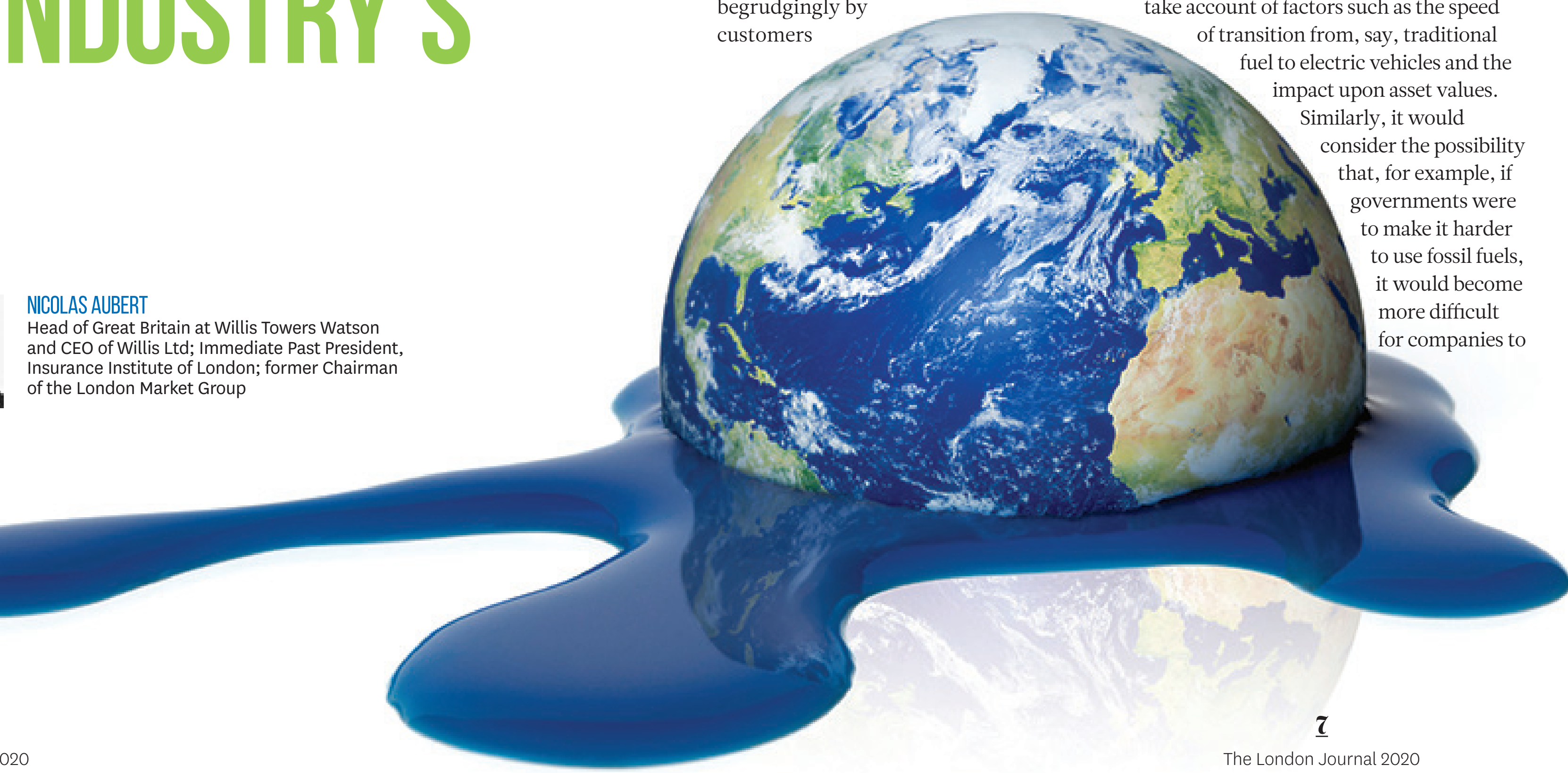
It's now clear, if it wasn't before, that long-term reputations are on the line as movements such as Extinction Rebellion also galvanise public sentiment and put the end consumer as almost the stakeholder of final call for governments and businesses around the globe. The 2020s will be a decisive decade in the race to deal with climate change.

What is apparent to me is that while the insurance industry has to ensure it plays its own part, it can also play a significant wider role in addressing the physical, economic, liability and transition risks that business and society as a whole are facing.

That's because, as part of taking responsibility for moving to a lower carbon economy, an essential step for public and private organisations will be to quantify how they will affect, and be affected by, the climate change trajectory.

The accumulated insurance-related knowledge to which I referred earlier has made its way into extremely sophisticated climate and natural hazard models. Through extensive research and development and close relationships with leading academic and professional institutions, our analytical tools can be central to helping organisations identify, understand and quantify climate risks. From there, adaptation and mitigation solutions can be developed.

In the same way that the UK government has created the Green Finance Institute, with the ambition of positioning the UK, and London in particular, as a hub for climate-sensitive infrastructure finance, the London insurance market has the opportunity to be at the heart of efforts to adapt to climate risks. For an industry, let's admit it, whose products are often bought begrudgingly by customers and whose public image is not always that lustrous, this can be our time to shine.



STRENGTHENING THE 'E' IN ESG

As has been the case in underwriting catastrophe risk since the early days of formal insurance markets, quantification of climate risk is central to managing it in its ever-changing forms.

Sound analytics will, for example, be the bedrock of more climate conscious and resilient asset strategies, a not insignificant factor for (re)insurers given the scale of the industry's investment holdings.

(Re)insurers' experience with scenario construction plays to wider understanding of the evolving climate risk exposures and the potential opportunities and threats associated with asset and liability management and infrastructure investment. And, let's not forget that as investment criteria evolve, financial backers will require new types of insurance cover that will demand a similar level of scientific and analytical rigour.

As well as direct physical climate risks, such as the risk of rising sea levels impeding or curtailing some economic activity, solid investment analysis will also recognise transition risks. It would take account of factors such as the speed of transition from, say, traditional fuel to electric vehicles and the impact upon asset values. Similarly, it would consider the possibility that, for example, if governments were to make it harder to use fossil fuels, it would become more difficult for companies to make money out of them.

That said, currently one missing component across all industries is a commonly agreed framework for valuing climate risks. Consequently, valid comparisons of the relative riskiness, from a climate point of view, of different investments are difficult. This is why Willis Towers Watson in conjunction with the World Economic Forum (WEF) has recently formed a consortium, comprising global private financial industry companies with $8 trillion of assets under management and government and multilateral institution partners, to develop and pilot the first end-to-end analytical framework for the pricing of climate risks in investment decision making.

CLOSING THE INSURANCE GAP

While efforts to make capital spending on infrastructure more climate resilient and carbon neutral are expected to escalate, an immediate issue to tackle is how climate-related impacts disproportionately affect countries and populations that are least financially equipped to deal with them.

Here again, robust analytics tools are key to the ongoing development of individual parametric covers for risks such as crop damage and for natural catastrophe emergency response programmes in susceptible regions of the world. That work is extending into other areas, such as insurance for restorative work on coral reefs.

ANALYTICS BASE

As science enables all of us to understand more about the nature of climate change and the accompanying risks, the focus from all sides of society on identifying, managing and mitigating the risks as effectively as possible is likely to further increase.

Climate risk, in all of its emerging forms, is a multifaceted issue involving a complex interaction of capital, science and policy that places an added emphasis on comprehensive analytics to help address it at a strategic and operational level.

The insurance industry should use its ingrained analytics expertise to seize the moment. ●

DEEPEST POCKET

Are attitudes towards claims changing?

While the insurance market remains resilient, it continues to harden across all business lines. For several years, insureds have benefited from reduced premium rates, lower deductibles, increased limits and enhancements to cover, partly caused by continued capital inflow. However, businesses are now subject to increased legal, regulatory, economic and political demands, resulting in higher frequency and severity of claims, which insurers can no longer absorb to the same extent.

Insurers have reacted to this by reducing capacity in key risk areas and imposing higher deductibles, lower limits and more stringent policy terms in order to protect themselves and improve profitability. Insureds, in turn, are struggling to obtain the cover they need in a climate of increased scrutiny.

DRIVERS OF CLAIMS INFLATION

We are seeing a rise in the quantity and value of claims (and the level of associated costs) across the board.

A key driver of claims inflation is the increased regulation of businesses, one example being the focus on data protection regulation following the implementation of the GDPR. Directors are under the spotlight, particularly regarding emerging risks relating to corporate culture and climate change. Securities and shareholder class actions are increasing and having a profound impact on the D&O market. The increased reliance on technology by businesses is also creating new and uncharted risks. As economic conditions harden, with an increased risk of insolvency events, professionals and their insurers will be attractive targets for claimants should things go wrong.

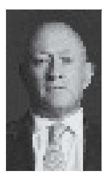
Alongside an increased risk of litigation, there are already many situations in which an insured may have limited or no real culpability for a client's loss, and is not the primary wrongdoer, but can be found legally liable. These include, for example, a situation in which an insured is victim of cyber or employee fraud, through no fault of its own, but is nonetheless found liable to compensate its customers. Such incidents, which are becoming more common, make it harder for insurers to assess, price and manage risks.

In recent years, there has been a shift in the courts' approach to litigation, with signs that the judiciary are more willing to take the depth of parties' pockets into account when assessing liability. Although careful to emphasise that the question of means should and does not directly impact on liability, recent court decisions have revealed a greater willingness to consider the availability and existence of insurance cover, and the financial means of the parties. When considering the liability of supermarket retailer Morrisons for data breaches by a malicious employee, the court considered that although the 'fact of a defendant being insured is not a reason for imposing liability, … the availability of insurance is a valid answer to the Doomsday or Armageddon arguments put forward'.

IMPACT ON INSURANCE CLAIMS

Against that backdrop, insurer's claims departments are as busy as ever. The hardening of the market does not generally result in fewer notifications (e.g., due to more stringent policy terms). In fact, insureds' expectations for insurers to settle their claims may be even higher if their premiums have been increased.

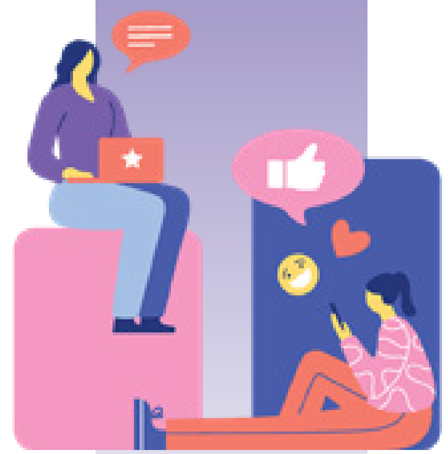
Naturally, insurers will be tempted to consider taking a harder line on policy coverage issues, where appropriate, and they are entitled to do so. That said, insurers need also to be mindful of the importance of maintaining their reputation for settling claims, treating their insureds fairly and adhering to their claims philosophy if they are to remain competitive and credible in the market. There is a fine balance to be struck.



JAMES POLLACK
Partner,
Simmons & Simmons
OLIVIA DARLINGTON
Managing Associate,
Dubai,
Simmons & Simmons

RAISING YOUR PERSONAL PROFILE

… understanding the mechanics of insurance is not the only requirement for a successful career in the industry



As an industry, insurance exists to indemnify policyholders in the event of a financial loss; facilitating informative, reasoned and speedy claims settlements. Excellent insurance claims service is in turn wholly dependent on a deployment of skilled and well-informed claims adjusters. In today's super-competitive insurance market, this is the true differentiator. Aside from being qualified and technically brilliant, what can an individual do to raise their profile, as well as their organisation's standing, within the industry?

Although clearly hugely important, understanding the mechanics of insurance is not the only requirement for a successful career in the industry. The insurance industry, after all, is about people. Engaging in the right conversations with the right people can open doors to exciting new opportunities and increases your experience within a myriad of different business areas. Increasing one's exposure to key people within the industry, you put yourself at the forefront of decision makers and other important stakeholders. Your personal profile is dependent on you, and there are many ways for you to develop it further:

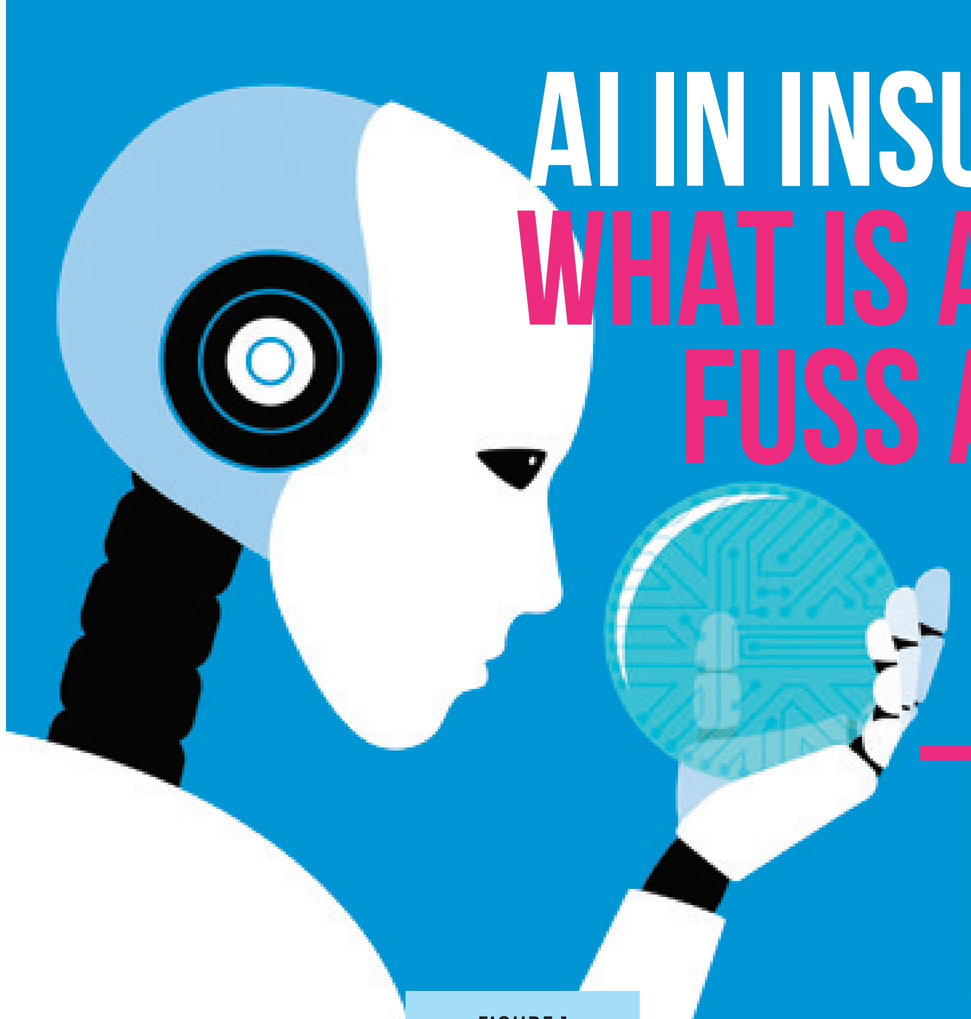
- As a rising star in the industry, the successful claims professional must continuously seek out stretch opportunities, taking on projects that might fall outside of one's usual remit. Collaborating on a project with people from other teams, or even other organisations, one could exercise and hone important collaboration and problem-solving skills better. Speaking with bosses and being proactive within one's own networks, there can be many exciting extra-curricular activities in which to become engaged, benefiting your own and your organisation's professional profiles and demonstrating excellence beyond the job role.
- Not enough can be said of the enormous advantage that an insurance education can bring to claims professionals in this industry, no matter the amount of experience an individual might have. A little knowledge of the relevant clauses, market practices and adjusting theory goes a long way when handling often large and complex claims matters, whatever the class of business. The successful claims professional should challenge themselves to complete the Chartered Insurance Institute (CII) examinations, to ACII standard and beyond. Better developed and better educated claims adjusters will do much for their own personal brand and that of the London and Lloyd's markets, differentiating it from the growing number of other disruptive insurance markets on account of the quality, experience and customer-focused approach of its practitioners.
- The successful claims professional is always plugged into the goings on and happenings of this industry. Attendance at networking events, seminars, CPD events and industry-specific conferences is a sure-fire way to raise your personal profile; making those connections, having those conversations and diversifying the length and breadth of your industry knowledge. Seek out and join professional associations. From the Insurance Institute of London to the Association of Average Adjusters, membership of an association can be hugely beneficial for one's professional development and personal profile.

Although not exhaustive, the above should serve as a useful reminder to assist the successful claims professional to realise their potential and personal standing. Championing one's own personal profile as well as advocating self-development to others will do much for the wider insurance industry; remembering always to continue exploring new opportunities, remaining curious and always being motivated for self-improvement.

Atrium Underwriters Ltd was awarded both the *Cuthbert Heath* and the *Young Claims Professional of the Year Award* at the Insurance Insider Honours 2019.


ANDREW MACKENZIE, ACII
Marine Claims Adjuster,
Atrium Underwriters Ltd

AI IN INSURANCE WHAT IS ALL THE FUSS ABOUT?



There has been a buzz around artificial intelligence and machine learning across the insurance industry – particularly in hyper-competitive markets such as the UK motor market and also in property and casualty insurance.

FIGURE 1

	Product Development	Product Distribution	Policy Administration	Claims Management
AI use cases	**Research** – machine learning insights to support customer segmentation **Underwriting** – extraction of insights using multiple structured and unstructured sources **Pricing** – ability to price at individual risk level or in smaller pooled groups	**Targeting consumers** – automated creation of marketing material relevant to the consumer **Engagement** – understanding of tone and engagement mechanisms for each consumer **Cross selling** – of useful and relevant products to the consumer	**Automation** – initial queries managed through chatbots or a webchat service **Processing** – both structured and unstructured data gathering insights into the consumer type and behaviour **Broker account reconciliations** – real time analysis of broker performance	**FNOL** – real time Q&A and escalation of claims **Reserving** – automated initial pre-assessment **Claims analysis** – prediction of claims frequency/severity/cost per claim **Fraud** – improved fraud detection using machine learning algorithms **Notification to reinsurers**
Benefits	**Optimisation** – of pricing **Efficiency** – more efficient and informed underwriting	**Consumer engagement** – improved customer engagement and loyalty **New marketing channels** **Greater ability to manage distribution channels** **Greater conversion of marketing spend**	**Greater efficiencies in administration** **Quicker visibility on broker performance to take actions**	**Improved predictability of fraud and fraud risk factors** **Greater insights to feed into pricing** **More robust claims assessments and administration**

The evolution has been as a result of more data becoming available and enhancements in the way technology is used to harness its insights. Changes in consumer behaviour, access to quotes from price comparison websites, and the developments of the Insurance Act in the UK have put insurers under increased pricing pressures and the need to reduce their expense base.

IBM estimates that there will be 43 trillion gigabytes of data available this year – an increase of 300 times compared to 2005. The uses of machine learning, which is a sub-field of artificial intelligence (AI), can unlock data value and help insurance companies find better books of business, improve their pricing structure and continue to innovate, in order to comply with regulations and stay afloat. Today, if insurers are not using advanced data analytics and AI, they are likely to be selected against even in markets they understand very well.

However, the penetration of these new technologies in the insurance industry is still low. One of the major factors is that many in the industry are still in the dark on how they work and how to use the technology effectively.

WHAT EXACTLY IS AI?

The standard definition of AI says that '…it is the development of computer systems that perform tasks normally requiring human intelligence. The tasks performed can be things like visual perception, speech recognition, decision making and translation between languages'.

Machine learning involves training a mathematical model to find patterns and execute decisions autonomously or gain important insights that can help improve operational efficiency and performance. The machine learning algorithm has the capacity to analyse underlying data and find the most important data features or attributes that can help in building a predictive model. This process is not static, it is dynamic.

Essentially, we are using data to derive insights into the most pertinent factors that influence consumers and their behaviours in order to best service their needs and risk posed by them.

WHY IS THIS IMPORTANT?

Since the rise of the internet, consumer behaviour has been evolving. Consumers have access to information at a touch of a button – we no longer live rigid lives – we work flexibly to fit around preferred lifestyle choices and want our services to evolve as we do. The evolution of consumer behaviour has shifted consumer needs and therefore, a key service, insurance, needs to adapt.

WHERE CAN WE USE THIS IN THE VALUE CHAIN?

Figure 1 sets out some use cases for AI across the insurance value chain. We will consider pricing and claims handling in more detail.

PRICING

Insurers have long gathered data to understand the nature of the risks collected. Advances in computing power in conjunction with these new technologies offer a fundamental change in risk analysis. We can now perform a risk analysis at the granular level and on a continuous basis.

These new technologies could also have an impact on the related concept of risk-pooling. We are slowly moving away from risk-pooling, in which risks are shared between policyholders with broadly similar risk characteristics, to having the risk assessment at an individual level, so that each customer assumes and pays for the risk they pose to the insurer.

In the motor market, this is being achieved through the use of telematics devices – data points gathered from these devices coupled with traffic data and weather data can help better determine the customers' driving behaviours and help insurers better understand the risks involved.

The evolution in pricing and underwriting in motor has been the enabler for a shift from annual policies to monthly, weekly, daily or even hourly policies which are mostly useful for seasonal workers such as truck delivery drivers, Uber drivers etc.

CLAIMS MANAGEMENT

Claims handling and processing is a huge cost to an insurance company's bottom line. If an insurance company can decrease the response time of settlement for most of its claims, it can bring the costs down. The availability of data will reduce the need for costly audits and assessments as algorithms in the future can perform these tasks faster and at a lower cost.

Reducing the processing time of a claim and increasing the accuracy rate can translate into higher customer satisfaction and retention of customers at a time when both customer retention and customer loyalty is at a low. We have seen lots of work being done in this space with the use of chat-bots and conversational interfaces for customer on-boarding purposes and First Notice of Losses (FNOLS). Tasks such as pre-assessing claims while automating the damage evaluation process, automating fraud detection through rich data analysis or predicting patterns of claims volume could be more easily tackled.

FOOD FOR THOUGHT

While the benefits to insurers and the industry can be tremendous from implementing an AI-led solution, there are also risks that need to be managed and considered carefully. The use of all available data and historical information brings its own challenges and questions on ethics, and how we find a suitable balance in the way we use machines and involve 'human intelligence' to avoid consumer detriment or the creation of pools of customers who are discriminated against. ●

KEVIN SOOKHEE
Managing Director,
Intrepid Tech Ventures Ltd

WAR EXCLUSION? TAKE COVER!

Market commentators were surprised when a cyber claim involving the NotPetya virus was denied by an insurer, citing the war exclusion in a property policy. But as 'cyberwarfare' is a very familiar concept, why would anyone be surprised that an exclusion of 'warlike activities' might be debated.

Failure to take war exclusions seriously is endemic in our market. They are little read, and even less understood. The eye tends to pass easily over the wording; an image of the Second World War flickers, accompanied by the thought that we are not worried about that, and could not insure it if we were.

This contempt is bred from familiarity. The war exclusion has been ingrained in general insurance policies since 1936, when insurers were banned from writing war risks on land. The 'waterborne agreement' exempted ships and aircraft from the ban, because they are mobile. Marine and aviation markets carried the banner for war risks insurance, following their well-established two policies approach: excluding all war risks from hull policies, and writing back these perils separately.

General insurers, rather than excluding all perils on the political violence spectrum, continued to cover risks such as riot, civil commotion and terrorism at the lower end, while excluding other, more serious manifestations, such as insurrection, rebellion, and civil war. This approach is inherently unsatisfactory. The more serious political violence becomes and the bigger the losses, the more likely that the general insurance market hands the risk back to its policyholders via what should be called the 'serious political violence exclusion'. Calling it the 'war exclusion' sugar-coats the bad news.

Having said that, post-1945, the war exclusion has not posed a real problem to most policyholders, particularly those with exposures in the more developed world. However, there is reason to end the complacency. The geopolitical climate is heating up and this is manifesting itself in serious political violence, not only in traditional hot spots such as the Middle East and Africa, but also in more surprising places, such as Hong Kong and Chile. Furthermore, in response to increasing global tension and conflict, general property insurers are broadening the scope of excluded political violence.

The good news is that in response, specialist insurers now offer standalone political violence cover. London is the centre of this growing market. It has the tradition, knowledge, risk appetite and the capacity. It is an area where real innovation is happening, for example the development of non-damage Business Interruption covers for political violence and cover for active shooter attacks.

This new market is still emerging. On the supply side, the market is divided, with the terrorism and political violence market in one silo and conventional political risk in another. Each silo offers value, depending on needs, but a proper 'war risks' policy like those available in the marine and aviation markets, requires a blend of both.

Meanwhile, on the demand side, many have not understood what is missing from their general insurance programme, or what they want from the specialist market. There is a tendency among clients to focus on terrorism, simply because that cover was taken away after 9/11. As a result, terrorism exclusion in property policies is viewed in isolation, rather than as an expansion of excluded 'serious political violence', an extension of war exclusion. Likewise, it is often not realised that standard London Market terrorism-only policies have more exclusions of political violence than the underlying property policies.

The time has come to analyse war exclusions; time to understand the types of political violence that are now considered serious enough to be excluded; and in today's geopolitical climate, time to take cover!


ZOE TOWNDROW
Assistant Director,
BPL Global

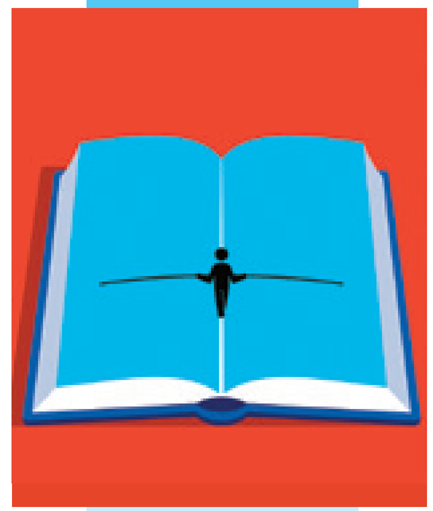
GLOBAL VERSUS LOCAL REGULATION

In a world of new and emerging risks, there is growing recognition by governments and regulators of the significant contribution insurers can make to strengthening economic, social and business resilience in the face of global challenges such as digitalisation, climate change and cyber. This recognition goes hand in hand with increased emphasis from those same regulatory and public policy audiences of the need for insurance to manage its own exposure to such risks.

For some of these fast-moving and fast-evolving areas, the writing of the rule book is in its early stages. Those holding the pen must find the right balance between creating a global framework that works for multiple markets at different stages of economic development, along with creating rules which recognise that by the time they are written and agreed, the technology or the risk itself may well have moved on.

In this context, a key question relates to the extent to which regulation will be or should be driven at the global versus the local level. Climate and cyber risks are unique in the sense that they pose a collective action challenge where a joined-up supervisory approach globally is likely to lead to better outcomes in terms of protecting policyholders and raising firms' overall resilience. Climate change and cyber criminals do not respect borders.

Despite these global challenges, insurance regulation will clearly still need to reflect local imperatives for policyholder protection, while recognising that no two insurance markets are identical. It is understandable that local legal, cultural and market differences ought to be reflected in each country's insurance regulatory regime.



Yet, there are instances where a global approach to regulation is preferable, that still serves the interests of policyholders. Globally consistent regulations not only contribute to fair and competitive markets by minimising opportunities for regulatory arbitrage and fostering a level playing field for insurance groups, but also improve outcomes by providing supervisors with a shared view of an insurer's risk profile and incentivising actions that improve a firm's resilience.

As a starting point, one needs to appreciate that the complexity of the risks necessitates a coordinated approach to the supervision of insurance groups. Climate and cyber risks are global in nature with the potential to impact insurers across jurisdictions. The threats are also constantly evolving and the resultant impacts are not necessarily distributed evenly. Given the scope and dynamic nature of the risks, it is essential that supervisors look beyond the entities under their oversight and reach a shared understanding of group-level exposures. Supervisory colleges are an ideal platform to nurture this level of understanding.

Regulators are now carrying out entity-level stress tests to gain an understanding of what firms' exposures look like under different climate change scenarios. Without a globally consistent approach to these tests, supervisors may arrive at a disjointed view of the risk profile of the entire insurance group, which arguably harms the goal of ensuring policyholder protection.

In order to ensure that firms are maintaining a robust cybersecurity posture, supervisors are regularly releasing and updating regulations, sometimes stipulating diverse approaches to address the same cyber threats. A global approach to cyber regulation would streamline requirements and free up resources that could be put towards protecting the firm and enhancing policyholder protection.

It's a difficult balance for legislators and regulators to get right, but for global emerging risks, it's worth prioritising regulatory cooperation and coordination to achieve a globally coherent approach that considers carefully where local specificity may be needed to create the right framework now and in the future.


SUZY AWFORD
Head of Regulatory and
Government Affairs,
AIG UK

CLAIMS

SOCIAL INFLATION: THE LATEST US LITIGATION TREND EXPORTED TO THE UK?

While it is not necessarily the case that there has been an increase in frequency of large liability claims, those that are filed are typically now more complex with a higher spend than in the past. With industrial, environmental, product liability and financial lines claims surpassing USD 1bn becoming more commonplace and no longer confined to the US and Europe, the trend points towards a continued increase in value for claims across liability lines. The interaction between consumers, corporates, politics, activism, legal reform, and the judicial system is of increasing importance, as can be seen in the USA, for which insurers and analysts attribute the recent inflation of US liability claims, particularly in relation to product liability awards against pharmaceutical companies, to social inflation. The current social inflationary trend has sparked market changes in US casualty insurance, with reports of high-profile withdrawals from US casualty business, and this could impact other lines.

'Social inflation' refers to the impact of changes such as higher jury awards, more liberal treatment of claims and new concepts of tort and negligence, which result in an increase in insurance claims. Changing societal attitudes, particularly the growing lack of trust in big corporates, a shift in attitudes towards compensation and the role of social media and 'fake news', can have a significant influence.

Initially evident in US commercial auto, the stress is now spreading to other liability lines, in particular, general liability, D&O and medical malpractice, and the potential impact of the ongoing talc, glyphosate and opioid litigation along with the impact of the reviver statutes that will open the door to a wave of historic abuse claims, will mean that for the US market, the impact of social inflation is likely to grow exponentially.

WHAT CAUSES SOCIAL INFLATION?

Undoubtedly the most significant factor in the increasing importance of social inflation in the USA is the role of the jury and the availability of punitive damages. The very high profile nature of recent product liability cases against large pharmaceutical companies, with jury awards of up to USD 4.7bn in relation to the asbestos-related talc litigation, are indicative of a trend towards juries awarding much higher levels of punitive damages.

That jury awards will continue to increase is something of a self-fulfilling prophecy as the RAND Corporation's study *Trends in Civil Jury Verdicts* illustrates. Looking at data from 15 different US jurisdictions and comparing verdicts across their geographical location, populations, race, household income and growth, RAND concluded that '... jury verdicts influence the behaviour of users of the civil justice system by helping to value future disputes and creating legal precedents ... Juries decide cases totalling billions of dollars annually, and jury decisions set standards that influence social behaviour.'

Outside of the USA, jury trials for civil cases are rare, and therefore it is unlikely that other jurisdictions, including the United Kingdom, will ever see this most extreme and direct impact of 'social inflation' on claims. Nevertheless, other factors that contribute to the social inflationary trend are increasingly present in our legal system and will have an impact on both the volume and severity of future claims.

LITIGATION FUNDING

Litigation funding has a significant impact on dispute resolution across the globe. Available for both litigation and arbitration, funding is currently most frequently employed in relation to consumer and shareholder collective redress actions, as well as non class action shareholder claims, antitrust litigation and insolvency/liquidation proceedings. It is now becoming much more common in commercial litigation generally and not just for claimants who might otherwise struggle to fund litigation.

ACCESS TO CLASS ACTIONS

Access to class actions is a significant factor in the growth of social inflation as access to litigation becomes simplified, and as plaintiff lawyers' expertise in this area expands.

PLAINTIFF LAWYER ACTIVISM

A trend that we have seen 'exported' from the USA, is where the proactive plaintiff bar is responsible for driving both the cost and the volume of liability claims. In the UK, claimant lawyers are following US trends and becoming increasingly sophisticated in the use of social media, technology, advertising and data to identify claimants and US plaintiff law firms increasingly look internationally in their quest for new liability claims markets. Well capitalised, and with the expertise to pursue large-scale litigation and class actions, the ability of the US plaintiff bar and indeed the UK's claimant lawyers to exploit new areas of risk in new jurisdictions or in seeking out new areas of claims should not be underestimated.

ANTI-CORPORATE SENTIMENT AND INCREASED REGULATORY ACTIVITY

There has been a massive global increase in the burden of regulation, and in the nature and effect of regulatory enforcement activity. Regulatory activity also has a material impact on societal attitudes, as regulatory scrutiny also makes civil exposures worse. It attracts attention and immediately labels what has happened as wrongful.

Anti-corporate sentiment in society is widely reported as increasing globally. This has been particularly significant in Germany, where the public response to the 'Dieselgate' scandal has been the catalyst in changing attitudes to litigation against large corporates.

GROWTH IN CONSUMER ACTIVISM

Another global trend of increasing significance in the claims environment, to date, product liability and data-driven claims are particularly of interest to activists and we anticipate that climate and environmental claims will increasingly be driven by activism.

THE ROLE OF SOCIAL MEDIA

The US plaintiff bar is adept at using social media to attract claimants. More generally, social media campaigns are contributing to greater awareness of compensatory awards and develop attitudes towards a US-style compensation culture in which an expectation that compensation will be forthcoming is becoming more commonplace.

FACTORS THAT MAY CURTAIL SOCIAL INFLATION

Campaigners for US tort reform cite the recent increase in 'nuclear' verdicts for personal injury and product liability claims as justification for further reform. It is, however, a highly politicised and contentious issue. Without further tort reform, particularly in those states known as 'judicial hellholes', social inflation will continue to have an impact in the USA for the foreseeable future. In the UK, reforms to the civil justice system are expected to significantly reduce the volume of smaller personal injury claims. However, claimant lawyers are also likely to seek new revenue streams and this may ultimately create new types of claims, particularly at the volume end of the scale.

It is inevitable that we will experience continued influence from US litigation. Increasing interest in opioid-related claims in the jurisdictions with the most active claimant lawyers, particularly Australia, Canada and the UK is already developing. Similarly, attempts to bring talc- and glyphosate-related claims in the UK are likely to increase. Securities class actions are also on the rise. Claimant lawyers on both sides of the Atlantic will continue to carefully scrutinise 'emerging risks' to look for potential deep-pocketed corporates to pursue. Climate change is probably the biggest single threat for most sectors and it is to be expected that as the climate change litigation picture unfolds, the rapidly changing societal attitudes to climate change will have an impact on how that litigation develops. ●

SIMON KONSTA
Partner,
Clyde & Co

MARLENE MCCONWAY
Head of Insurance Knowledge,
Clyde & Co

Charles Berry, President of the Insurance Institute of London, talks to **Bruce Carnegie-Brown**, Chairman of Lloyd's

IN THE SPOTLIGHT

CB: How do you think Lloyd's and the London market is coping with the lockdown?
BC-B: Given this is likely to be the largest loss event to ever hit the insurance industry, I think both markets are coping well so far. Our priority is both to pay claims as quickly as possible to our customers and to ensure that they can continue to buy insurance, despite us having to shut our underwriting room for the first time in our history. Underwriters and brokers are making use of our electronic trading platform and, so despite working remotely, the Lloyd's market is very much open for business.

CB: What do you think will be the longer-term impact of the pandemic on Lloyd's?
BC-B: We expect to pay a substantial amount in claims and earnings will undoubtedly take a hit, but our robust financial position will continue to support our customers through the Covid-19 crisis and beyond. To further help our customers, we are repurposing some existing initiatives to help fast-track the development of innovative new products and solutions to help with economic recovery and resilience. These include the Product Innovation Facility and the next cohort of the Lloyd's Lab. From a strategic point of view, the crisis reinforces the importance of completing our Future at Lloyd's work, which is focused on building a resilient, dynamic, technologically advanced insurance marketplace that offers its customers the best possible products and services – whatever the challenges we, and they, are facing.

CB: Despite decades of passporting into the EU, only 13% of Lloyd's business currently comes from the rest of Europe. With Lloyd's Brussels up and running and with London brokers expanding their direct presence in the EU 27, could Brexit mean more European business for Lloyd's, not less?
BC-B: That is certainly our intention at Lloyd's. And it's why we have worked hard since the 2016 referendum to ensure that, despite Brexit, our customers based in the EEA can continue to access the underwriting expertise and financial security of the Lloyd's market and their existing policies can continue to be serviced.

CB: The London market is positioned to be at the forefront of "global" Britain: where in particular do you see opportunities?
BC-B: With access to over 200 territories, Lloyd's international network is one of our greatest strengths. We continue to see opportunity in developed markets of North America, Europe and Australia, which have the highest insurance penetration and the greatest demand for complex risk solutions. But we are also focused on the developing economies where rapid economic growth is creating greater demand for insurance protection. In recent months, I have been to India and Mexico to promote Lloyd's. The Asia Pacific region is central to Lloyd's growth strategy and we are committed to the region, which represents a significant source of capital (14.5% in trade capital in 2018) and accounts for 11.5% of Lloyd's total income.

CB: Lloyd's needs to work for both capital providers and policyholders. Taking capital providers first, what are the main benefits they will see from your vision of the Future at Lloyd's?
BC-B: Simpler and easier access to a diverse range of risks across the Lloyd's market. We are already seeing this take shape. For example, in the form of the Munich Re Innovation Syndicate that began underwriting on 1 January 2020. This is our first syndicate-in-a-box, which offers a streamlined opportunity for innovators to bring new products and business into the market. By making the market more efficient, we are also going to increase the returns generated for capital providers at Lloyd's.

CB: And what are the main benefits for policyholders from the Future at Lloyd's?
BC-B: Solutions that are even more relevant to their changing needs. We know that Lloyd's unique attributes – the ability to access unparalleled underwriting expertise, financial security and market access all in one place – are more relevant today than ever. But the world is changing, and our customers' needs are changing with it. If we can harness the entrepreneurial and innovative spirit that is at the heart of Lloyd's we have a tremendous opportunity to reimagine Lloyd's and build a marketplace that is future focused, highly responsive to the changing and diverse needs of our global customers, with a culture of inclusivity and innovation. Everything we are doing at Lloyd's is designed to increase the market's relevance, reduce its costs and increase the policyholders' confidence in Lloyd's.

CB: The Future at Lloyd's Blueprint One revealed that in the three years to the end of 2018, nearly 80% of Lloyd's claims by number (124,000) averaged under £6,000, while the remainder averaged over £600,000. What does that say, not only about handling claims at Lloyd's, but more generally about the sustainability of Lloyd's current business model for handling small ticket business?
BC-B: It means that we have an opportunity to revolutionise the way claims are paid in the Lloyd's market. What if a claim could be settled before a customer even knows they have experienced a loss? That is the scope of our ambition in this regard. And it's why we are striving for a next generation claims service that improves customer experience and increases trust in the market by speeding up claims' payments. Improvements can come in a number of different areas – e.g. through the triaging and early settlement of smaller value claims (that's about process improvements and process reengineering). New technology can help – using satellite imagery or drones, for example, to help us assess damage from a natural disaster before anyone on the ground can access the area. New policies, with event-based triggers, so that a policyholder doesn't need to prove or document a financial loss, can also help. These are all areas that we are looking at and developing.

CB: The ideal model for handling large and complex risks has only two parts : a broker acting for the policyholder; and an underwriter acting for (each) capital provider. Do you see the day when one single intermediary could act for both policyholder and capital providers?
BC-B: No. Brokers work for customers and provide them with advice on optimising their insurance protection requirements and underwriters work for capital providers. We must avoid creating potential conflicts of intertest in the markets, so I don't see a change to the current model.

> WHAT IF A CLAIM COULD BE SETTLED BEFORE A CUSTOMER EVEN KNOWS THEY HAVE EXPERIENCED A LOSS?

CB: We welcome Lloyd's leadership on diversity, but with the world's geopolitical centre of gravity shifting East, how do we attract more Asian talent?
BC-B: I am confident that talent will follow opportunities. As our Asian business grows, brokers and underwriters will recruit the talent they need to service these customers. Much of that talent will be Asian.

CB: How do you compare leading Lloyd's, a marketplace, with your previous experience leading conventional financial services businesses?
BC-B: Lloyd's is unique and it is a great privilege to be asked to serve the market, particularly at a time of significant change and transformation. The principal difference between Lloyd's and more conventional financial services businesses is that Lloyd's is a market, so levels of engagement are much higher and the search for consensus is much harder. Market participants are very passionate about Lloyd's and this is a fundamental source of strength, underpinning the future prosperity of the market. Nowhere else in the world will you find such a concentration of (re)insurance talent and expertise. I believe Lloyd's has a great future to look forward to and it is very exciting to be part of it.

INTERVIEW

DISRUPTING INSURANCE DISTRIBUTION IN AFRICA AND ASIA

There are huge opportunities for pioneers

Insurance companies have been active across Africa and Asia for decades and yet in most countries less than 3% of the population have access to any form of insurance. It's a market failure that leaves those that face the most risk with no safety net to stop them falling back into poverty and a huge opportunity for insurtechs looking for new markets and willing to sell and service a range of life, accident and health products that typically cost from 3 cents to one dollar per month.

The breakthrough came for MicroEnsure in 2009 with mobile networks for which insurance was used to reward pay-as-you-go mobile users for increased loyalty. The more airtime bought the more free insurance was received by customers in the following month. This approach resulted in millions of people signing up for insurance for the first time. In India, over 20 million people signed up for insurance in just 140 days. While this model resulted in many people getting a first taste of insurance, it was ultimately unsuccessful in yielding long-term insurance clients because the mobile networks made it difficult to secure the necessary digital assets to upsell insurance to their customers.

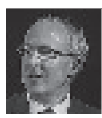
A rethink was needed and we have seen a new B2B2C model emerge, in which insurtechs have taken on the cost of selling the insurance via out-bound call centres with premiums deducted either from a client's airtime balance or from their mobile wallet.

Companies such as MicroEnsure have identified and addressed the existing market failure, which has resulted in us taking on a much wider range of activities than insurtechs in developed markets. It's not uncommon for us to design the product, create the customer journey, drive sales via call centres, collect the premium, educate the consumer and administer claims.

Traditional insurers are still involved but have been marginalised to the role of providing the balance sheet, thereby handing the creation of the market and day-to-day operations to MicroEnsure. In some markets, insurtechs are starting to question whether they really need the headache of partnering with a traditional insurer and we are starting to see the transition from being regulated as intermediaries to securing a license to underwrite business in their own capacity with reinsurance opportunities for Lloyd's and the London Market

Over the years, we have learnt a lot about how to streamline the customer journey to make it easy to sign up and use our insurance products. I recall one product for which we were losing 80% of potential clients just by asking for their name, age and next-of-kin details. We are not competing with AIG, AXA or Chubb – we are competing with apathy. Most of our clients have not had insurance before and if there is any friction in the customer journey then the easiest thing for them to do is simply not buy insurance.

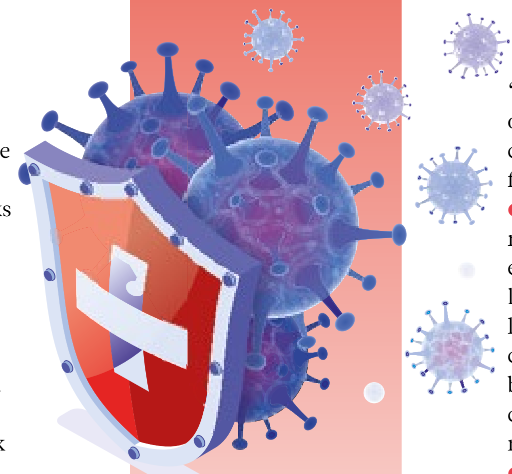
There are huge opportunities for pioneers that want to work out how to sell insurance to the mass market. More about these opportunities will be presented at the 'Insurance 3.0' on 8 October 2020 in London. This will attract tech founders and insurance executives in the global insurtech market. It is a highly focused and niche event that covers the essential themes relevant to the insurtech movement in Africa and similar markets. This year, there is a significant drive to host more international (re)insurers, technologists and investors in order to encourage greater collaboration between the UK and insurtechs in emerging markets. The event is produced by UK-based insurtech platform Market Minds in partnership with Lloyd's and the UK Department for International Trade.



RICHARD LEFTLEY
CEO,
MicroEnsure Holdings

MANAGING INVESTMENT RISK IN UNPREDICTABLE TIMES

When managing and advising on investment, we entered the year thinking about three big uncertainties. First, less policy room for central banks to address a shock; second, risks to corporate cashflows are higher than risks to economic growth; third, politics and/or geopolitics could cause an 'exogenous' market shock.



In the nearer term, we clearly now need to add COVID-19 to this list of impactful shocks. It has the characteristics of a 'black swan' event – it is unpredictable, it could have a very large impact and with the benefit of hindsight can be more easily explained.

It is no surprise that recent developments have taken on a high level of importance for financial asset prices, particularly equity prices. Our approach is to work backwards from the expected longer-term outcome – in this case over the next 1-2 years – and assess the most likely nearer-term paths.

To build a fact base for potential longer-term outcomes, we have looked at the GDP impacts of major pandemics over the past 60 years. Three things are notable: first, the drag on GDP has only lasted 1-2 quarters; second, the average peak-to-trough impact on GDP is around -4% to -5%; third, the GDP impacts vary significantly.

Our economic judgement is that the direct impact on world and country GDP from COVID-19 is most likely to be low by the end of 2021 – in line with historical outcomes from pandemics. This is despite the acute global economic contraction that has occurred in the first quarter and we expect in the second quarter. However, the virus is likely to be a catalyst for other longer-term structural changes. For example, rapidly increasing government spending and bailouts in the US and Europe could change the landscape for regulation and specific sectors. Additionally, supply chain disruption may accelerate their simplification. In the nearer term, there are material risks of the downside growth shock extending beyond the second quarter in advanced economies.

When faced with an unpredictable and potentially large risk, we suggest an approach that considers the various risks in an integrated way. Different risks will be more important for different asset owners. We use COVID-19 as a case study for illustrating the different dimensions below:

Operational risk: are there established processes for decision making, implementation and administration if many workers are ill?

Liability risk: the virus may have an impact on liability profiles and ability to trade longevity risk;

Investment risk and opportunity: consideration should be given to:

- **Liquidity risk:** while central banks around the world have committed to do 'whatever it takes', a downside scenario of an extended global recession could cause an acute tightening of liquidity in financial and broader credit markets;
- **Credit risk:** if liquidity strains in the real economy start to emerge, this can extend into credit or solvency risk. High levels of corporate debt and a loosening of lending standards in some credit sectors, could mean that a negative shock would be more disruptive and protracted for the corporate sector and asset prices than the real economy;
- **Market risk:** what can investors do? Reassessing risk tolerance or risk appetite is one course of action. More directly, we recommend rebalancing as the default course of action unless you think there has been a significantly negative long-term structural change. Appropriate geographical and asset class diversification will help manage the risk from a COVID-19 downside shock, given the virus would have a very specific geographical effect.

Recent market moves have been severe but provide a reminder of regular actions investors can undertake. We will always face systemic risks, whether they are economic, societal (e.g., COVID-19) or environmental. Carefully considering the level of risk one can tolerate, maximising the amount of diversity, removing unrewarded risks, and managing liquidity needs, will provide more resilient and, ultimately, more successful portfolios over time.

DAVID HOILE
Head of Asset Research for Investments, Willis Towers Watson

VULNERABILITY

WHO ARE YOU CALLING VULNERABLE?

Consumer vulnerability is hitting the headlines and there is an expectation to have appropriate policies in place. But there should be no surprises here. After all, it is five years since the publication of *Occasional Paper 8* by the FCA

MARTIN LINES
Martin Lines
Business Development Director, Just Group plc

WHAT IS VULNERABILITY?

The Financial Conduct Authority (FCA) defines a vulnerable person as someone who, due to personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.

That is quite a wide definition and, in some ways, might appear a bit subjective. After all, how do you define 'especially susceptible'? Does anyone want to admit to this? What circumstances might lead to consumer detriment?

WHO IS VULNERABLE?

Imagine, for a moment, how a vulnerable person might appear? What sort of image springs to mind? Are they elderly or in ill health? Maybe there are clients with cognitive issues or challenges with mobility. Some types of vulnerability may be easier to spot than others, but while some indicators may present themselves more over the years, the reality is that people can experience difficulties at any time. While some situations are permanent, others could be temporary or something that happens now and again. This transient vulnerability is particularly difficult for firms to embrace, so using a definition based on the consumer's situation rather than their inherent characteristics, could be very helpful to them when considering this.

This could also help address one of the key issues that firms may encounter. It's not always easy to identify a client who may be vulnerable but is very good at hiding it. The old adage of the 'stiff upper lip' and a resistance to disclosing personal information may present a barrier. There isn't an expectation for advisers to act as medical professionals or qualified counsellors.

However, advisers should be aware of some of the signs of vulnerability. It's important that they feel confident about discussing risk factors openly and effectively with a client. This will help ensure a client's needs can be met, whatever their circumstances.

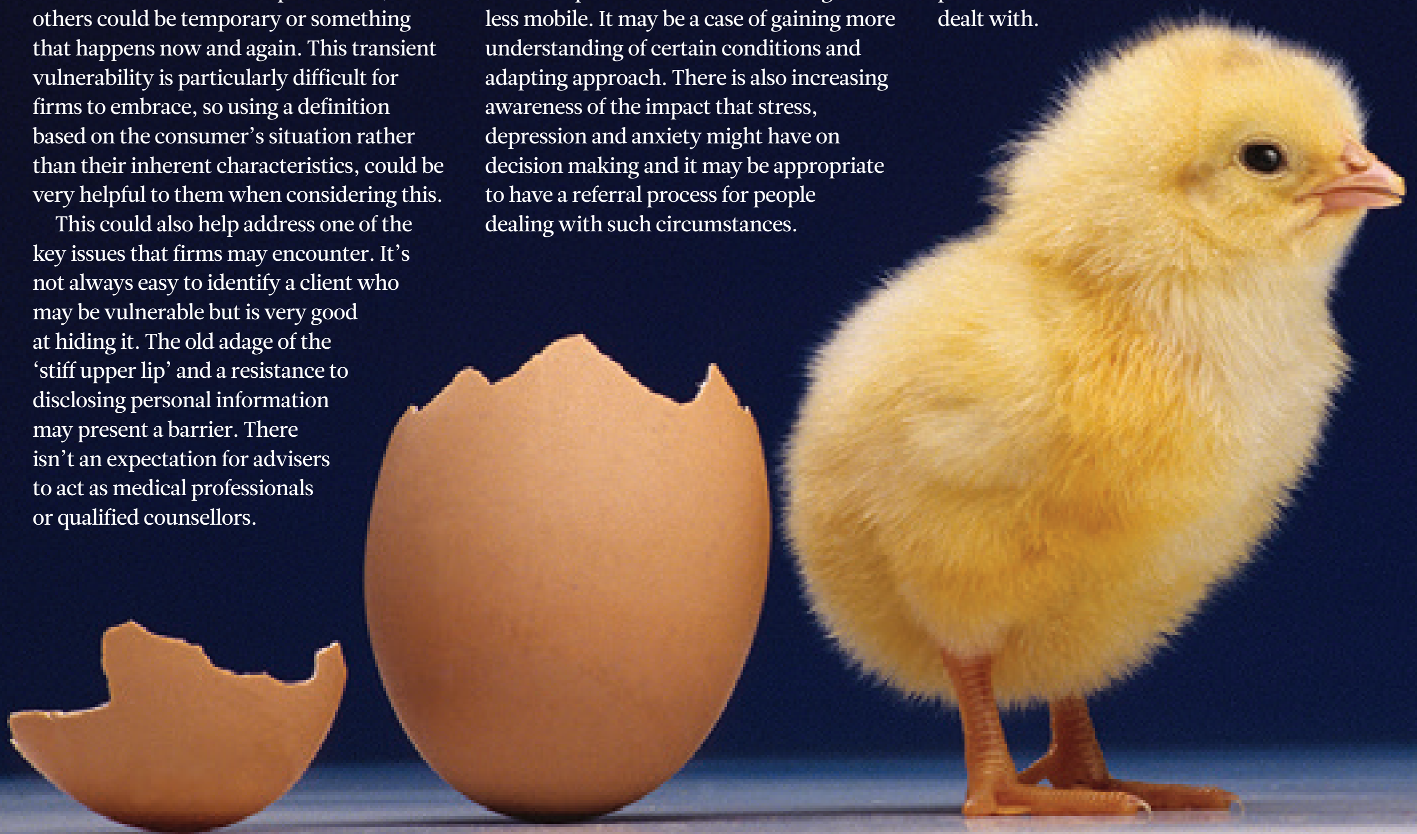
The FCA definition is very broad and that is deliberate. It is not based purely on the purchase of any specific product type or simply the age or socioeconomic standing of the client! However, four key areas have been identified for firms to consider.

HEALTH

Perhaps this is one of the most obvious areas in which vulnerability might be identified. One of the areas for which advisers need to be aware is mental capacity. In some circumstances, assessment of mental capacity might involve the need to draw on other professionals and an awareness of the Mental Capacity Act may be required. But there are many other health-related aspects to consider. For example, it may be worth looking at accessibility issues, or simply recognising that meeting in the office is not the best option for someone who might be less mobile. It may be a case of gaining more understanding of certain conditions and adapting approach. There is also increasing awareness of the impact that stress, depression and anxiety might have on decision making and it may be appropriate to have a referral process for people dealing with such circumstances.

LIFE EVENTS

I have already mentioned that we need to broaden our perspective on vulnerability. One aspect that the FCA is keen to get across is that some people may be actually vulnerable, whereas others are potentially vulnerable. The point is that circumstances change. A client from twenty years ago being advised today could be in completely different circumstances than when first seen. The reality is that while many positive things may have taken place, people could also have gone through events such as divorce, redundancy, bereavement and other stuff of life! For example, while it may be obvious that someone with a care need is in a vulnerable situation, it may be necessary to consider the impact on other family members. A person who has recently taken on a caring responsibility will have experienced a significant change in circumstances and a potential financial and emotional impact. It's not just financial circumstances that need to be considered here. In fact, some major financial decisions may need to be deferred until other priorities have been dealt with.



RESILIENCE

The situations that we've considered can clearly take their toll. Clients who struggle to 'bounce back' from or cope with different circumstances may have any vulnerability exacerbated by low emotional resilience. It could be that a life event or even a scam could cause a serious loss of confidence or contribute to decline in mental or physical health. Again, there is no expectation for advisers to become medical professionals, but an understanding of what a client's support structure is or where they might be able to get help would be a good starting point.

Firms should also look at the impact of any monetary shocks. How financially resilient is the client? We are not necessarily just talking about those on low incomes. The loss of a job or an inability to work through illness can have a major impact, whether someone is used to being employed or even an entrepreneur reliant on creating their own income. The impact of a financial loss could also lead to a downward spiral of debt if incorrectly handled. Good advice on savings and protection can mitigate some of this issue and it's important that plans are reviewed regularly.

CAPABILITY

The reality is that many people do not have the knowledge or confidence in financial matters that are needed to navigate the complex area of financial planning. A client may be an expert in their field, but is unlikely to have the level of financial knowledge possessed by advisers. And it's not just financial literacy that is the issue. The language and jargon that exists could also present a barrier to understanding. There could also be capability issues when it comes to the adoption of digital channels. Some basic measures in reviewing web content, suitability reports or other communications for people who have visual or hearing impairments may be a good initial approach. Whether the information is written or verbal, steps should be taken to ensure the client has clearly understood the information.

These areas to consider are designed to ensure that people in vulnerable situations are not excluded from fully interacting with firms. There are some basic steps that can be taken to progress with strategy in this area. These might include:

- setting out a written approach to vulnerability;
- reviewing existing policies and documentation;
- seeking feedback from clients on how to improve the services offered;
- considering the role of third parties and their ability to provide instructions;
- building connections with other professionals if additional support is required;
- undertaking additional training to enhance understanding.

The conversation on consumer vulnerability is ongoing. It is high on the FCA agenda and forms part of the Money and Pensions Service's 'Financial Wellbeing' initiative. However, it's not only a tick-box exercise. The steps here also are designed to enhance the culture of firms. After all, the key reason for implementing these measures is to improve the experience and outcomes for clients. And that has to be good for everyone.

IS DEMAND FOR LONGEVITY RISK INSURANCE SET TO GROW?

The pensions bulk annuity and longevity swap business is booming. The past couple of years have seen a dramatic rise in the volumes of liabilities transferred to the insurance sector, with a record £52bn of trades in 2019.

This included the two largest ever bulk annuity transactions – Rolls Royce UK Pension Fund's £4.6bn deal with Legal & General and GEC 1972 Plan's £4.7bn deal with Rothesay Life, as well as the second largest-ever longevity swap – HSBC Bank (UK) Pension Scheme's transaction with PICA, which covered £7bn of liabilities.

While increases have been dramatic, the majority of UK pension schemes have yet to transfer any longevity risk to the insurance sector against the following backdrop:

- Most pension schemes are maturing quickly; within a decade or so, the vast majority of liabilities will relate to pensions already in payment.
- It is not uncommon for pension scheme trustees to have an aspiration to largely de-risk over this timeframe.
- The regulatory regime for funding pension schemes is being revamped with a view to making more prescriptive a requirement to aim to de-risk by the time that schemes are deemed highly mature.

De-risking will, of course, mean hedging out inflation, interest rate and longevity risks. Most schemes have made significant progress in hedging their interest rate and inflation exposures without action on longevity. Accordingly, the risk of members living longer than expected represents a bigger share of the total risks that schemes are running.

WHY IS THIS THE CASE?

One explanation is that trustees and plan sponsors believe that longevity insurance is over-priced.

In effect, pricing typically assumes that a 65 year-old will live 12–18 months longer than the scheme's best estimate. For a standalone longevity deal, the judgement call is whether it is worth paying this premium and giving up potential savings if members actually live less than expected in order to make any further lengthening of insured members' lifespans someone else's problem.

However, bulk annuities are secured at yields in excess of those available on government bonds – at least for current pensioners. Where schemes hold gilts to back pensioner liabilities, they can exchange a form of security that excludes longevity protection for one that does, often with money to spare.

Another explanation, valid in some cases, is that schemes are insufficiently funded and therefore cannot 'afford' to tie up assets in bulk annuity contracts because they need them to deliver returns that make good the shortfall while achieving sufficient interest rate and inflation hedging.

A third explanation is that longevity risk is not a material risk. Where this is the case, it's reasonable to ask whether longevity risk is underestimated.

ONE PERSPECTIVE OF LONGEVITY RISK

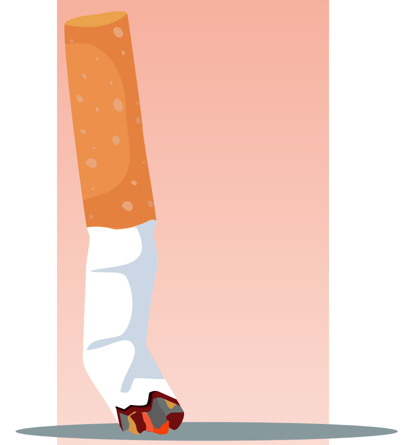
The further forward we look, the less reliance scheme trustees will want to place on employers whose ability to plug shortfalls will be less certain. Most schemes will want a reasonable amount, if not all, of their longevity risk transferred to an insurer over the next decade or so.

It is quite possible that life expectancies schemes will rise over that period, perhaps by 10% or more. That could happen if experience over that period is better than expected, if insurers change how that experience is extrapolated into the future, or if demand from insurers to take on this risk does not keep pace with schemes' eagerness to get shot of it.

Whatever the immediate effects of coronavirus, faster-than-expected mortality improvements will remain a material medium-term risk that should increasingly command trustees' attention, particularly in light of funding regime changes that are on the way. Insurers can expect a strong appetite for solutions.

RASH BHABRA
GB Head of Retirement,
Willis Towers Watson

NO IFS, NO BUTTS



STILL FINANCING TOBACCO?

Tobacco companies have thrived with ongoing investment, enabling their continued expansion and influence. Financing the tobacco industry stands in sharp contrast to global tobacco control efforts and increased societal awareness of the dangers of tobacco (a.k.a. nicotine) addiction. Individuals with everyday financial products, including pensions, insurance and investments find themselves unwittingly contributing to the problem.

The UN Tobacco Control Treaty highlights in Article 5.3, that governments should cease financial support of and investment in tobacco companies as a crucial piece of tobacco control.

Tobacco is the world's number one cause of preventable death, and the single most deadly consumer product in history.

Tobacco kills an estimated eight million people/year, causing premature death of two out of three users – when consumed exactly as is intended. We are on track for one billion deaths by the end of this century.

The cost of treating the adverse health effects of tobacco products was estimated in 2016 to cost the global community more than PPP (purchasing power parity) USD 1 trillion per year and including morbidity and mortality this rises to PPP USD 1.8 trillion (1.8% of GDP).

HIGHLIGHTING THE FINANCIAL RISKS ASSOCIATED WITH TOBACCO

Risks associated with ongoing financing of tobacco include:

Regulatory risk: 181 countries are actively implementing the UN Tobacco Control Treaty – regulation increases annually, further denormalising tobacco and reducing sales.

Litigation risk: In 2019, Quebec's Court of Appeal upheld the award for damages of CAD $ 15 billion health-related costs. Brazil announced its case against Big Tobacco in May 2019.

Supply chain risk: Practically no cigarette can be guaranteed to be free of child labour, in addition children contract Green Tobacco Sickness causing ill health and nicotine addiction.

Reputational risk and human rights: The Danish Institute for Human Rights has stated 'Tobacco is deeply harmful to human health, and there can be no doubt that the production and marketing of tobacco is irreconcilable with the human right to health. For the tobacco industry, the UNGPs (UN Guiding Principles on Business and Human Rights) therefore require the cessation of the production and marketing of tobacco'.

Environmental risk: The European Parliament paved the way for a ban on single use plastic, to reduce pollution in the oceans in accordance with Sustainable Development Goal (SDG) 14 'Life below water'. Less well known is that cigarette butts are the biggest man-made contaminant of the ocean and can take over a decade to decompose. An estimated 4.5 trillion cigarette butts are discarded every year. Detritus from vaping products adds to the increasing volume of environmentally damaging waste.

The good news is that momentum around tobacco-free finance has grown notably in the past five years.

Key global insurers have announced the movement of investments out of tobacco. These included AXA (2016), Aviva (2017), ING, Aegon NV, BNP Paribas Cardif, Société Générale Assurance (2018) and AIA Group (2019). Achmea and a.s.r. have been tobacco-free for several years.

TOBACCO-FREE FINANCE PLEDGE

The Tobacco-Free Finance Pledge, launched in September 2019, was developed in collaboration with the UN Principles for Sustainable Insurance, UNEP Finance Initiative, the UN-backed Principles for Responsible Investment, AXA, BNP Paribas, Natixis and AMP Capital.

The pledge currently has 129 signatories, leaders in insurance, banking, pension funds and asset management, representing over USD 8 trillion in assets under management (AUM) and over USD 2 trillion in corporate loan book. They are guiding us all to a healthier, more sustainable and more financially secure future.

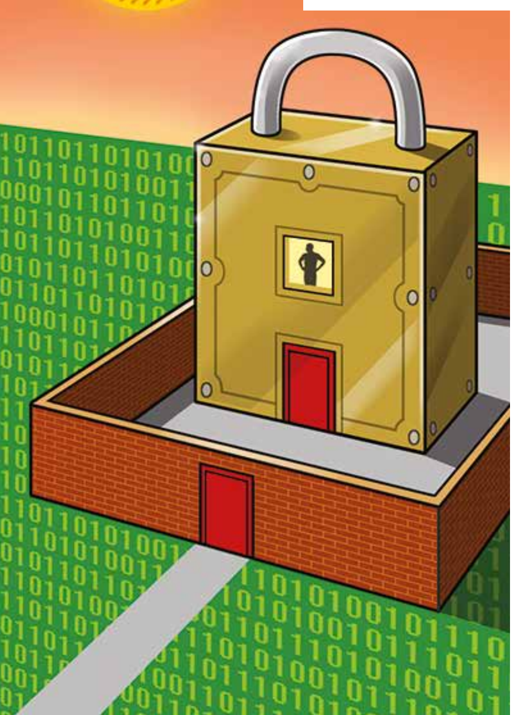
DR RACHEL MELSOM, MBBS, BSC
Director, UK & Europe
Tobacco Free Portfolios

HOT TOPICS

HOT TOPICS IN INSURANCE AND FINANCIAL SERVICES

Find out which issues are taxing the best brains in our business

ILLUSTRATIONS BY: **DAN MITCHELL**



ACCIDENT

NEVILLE WHITE
Technical Underwriting Manager, Tokio Marine Kiln
Chair, IIL Accident Committee

One of the more interesting aspects of underwriting is the potential for claims to arise from innocuous extensions, or areas of cover which are perceived as being of relatively low risk. Three such areas are Data Protection Act (DPA) extensions and standard extensions for the torts of nuisance and trespass. When DPA extensions were first granted in 1998, following legislation by the same name, they were seen as a low risk extension to a liability policy. That changed with GDPR legislation, which was enacted in the UK as the Data Protection Act 2018.

This legislation has broadened the liability arising from misuse of data, particularly regarding heads of claim for financial loss and distress. Combined with the case law of Gulati v MGN Ltd (2015), Morrisons Supermarkets Plc v Various Claimants (2018), and Lloyd v Google LLC (2019), is it now a very different playing field. The tort of trespass is generally associated with rights associated with the ownership of land, but legal journals are now talking about the concept of cyber trespass, which begs the question of how widely can an innocuous trespass coverage be interpreted.

Finally, there is the tort of nuisance – again, another standard coverage of most general liability policies, and again, another tort associated with land ownership. In the USA, diligent law firms are now bringing actions against fossil fuel (oil and gas) companies in respect of climate change costs that are incurred by municipal authorities, pleading the tort of nuisance. Insurers of global programmes, and their excess layer insurers in London, are now looking at past policy wordings and see to what extent a traditional 'low risk' policy coverage is now proving to be a significant exposure. ●

CLAIMS

MARK GRAVES, ACII
Chartered Insurer, Head Claims EMEA, Managing Director, Claims Corporate Solutions, Swiss Re Services Ltd
Chair, IIL Claims Committee

This year is shaping up to be interesting for claims professionals. At the start of the year, bushfires destroyed or damaged hundreds of properties in Australia and climate change will likely continue to drive the frequency and severity of losses. Claims teams are well versed in handling these losses, but new challenges continue to arise. For example, the Coronavirus affected businesses in China, where the virus was identified, and had significant downstream impact globally.

There has been an increase in copycat terrorist-related events, ongoing social unease and prolonged civil commotion in places like Hong Kong, France and Catalonia, which can sometimes cause difficult claims issues, such as aggregation. Additionally, 'social-inflation' – a term used to describe the increasing costs of claims, especially in the USA, due to variables like more litigation, more plaintiff-friendly legal decisions, and larger compensatory jury awards – has become one of the latest buzzwords.

Amid all of this change, claims professionals face difficult tasks, especially accurately reserving these claims. At the same time, the uptick in innovative products – such as parametric deals where certain events can trigger pre-agreed payouts – might leave some wondering what a claims handler might look like in the future. Despite these developments, there remains a need for strong claims professionals; the teams who can provide top-flight advice and support customers throughout the claims process in a highly transparent way will be even more valued and provide significant differentiation. We look to address these topics in our lecture programme. ●

CYBER, TECHNOLOGY AND INNOVATION

ROB WINDSOR-CLIVE, ACII
Product Manager, Babylon Health
Chair, IIL Cyber, Technology and Innovation Committee

Currently at $5 bn+ of premium globally, cyber insurance continues to grow apace and is projected to grow into a line of business with written premiums comparable to those of engineering and credit by 2027. This growth has recently been fuelled by medium-sized companies realising the need for protection and, in part, from cyber moving from existing lines of business into standalone products.

Cyber protection against systems failures and contingent business interruption will be a further area of growth expected in the coming years.

As the world continues to digitise, companies we would normally associate with hardware find themselves increasingly in need of cyber insurance. They are dependent on the cloud to store and process data, supply chain systems to produce their products and online retail systems to sell them. And hardware products themselves increasingly offer software as a service to deliver maximum value to users.

Recent losses have emphasised the need for cyber insurance with NotPetya (malware) and WannaCry (ransomware) affecting organisations including local government, SMEs and large manufacturers. Data breaches, such as those experienced by Marriott and British Airways, will become scarier as we learn how GDPR is enforced. Insurers offer capabilities to rapidly support insureds that have been attacked, whether in forensics to find the source of an attack, supporting with PR or knowing how to respond to threats from hackers.

Previously, the cyber race has depicted slow-moving suits in corporate boardrooms against hoodied hackers in bedrooms. In truth, the sophistication of corporates has increased, while the hackers have themselves left bedrooms and joined boardrooms or indeed barracks. ●

AVIATION

SIMON ABBOTT, ACII
Chartered Insurer Underwriting Executive, Global Aerospace
Chair, IIL Aviation Committee

In 2019, there were historic losses in both the aviation and space insurance markets. Aviation losses arising out of the Ethiopian, Lion and MAX grounding are in the same order of magnitude as the 9/11 losses, noting that 9/11 was the largest loss in the aviation insurance market ever. The space insurance market has had its worst loss experience in 20 years. A perfect storm when combined with rates coming off historical lows in both markets.

Direct rates are now hardening in all sectors of aviation and space. The reinsurance market has taken a sizeable share of these losses and responded by pushing up reinsurance premiums and fuelling direct insurers' pain.

Although the aviation insurance market has seen some new entrants and some consolidation, several household names have ceased to trade in aviation, and more are likely to follow. The effects of broker diversification with three new start-ups have already led to several teams being poached from the alphabet houses and leading to further disruption in the market.

The upcoming lecture series will attempt to tackle some of the issues facing the aviation and space industries. The environment and sustainable aviation fuels will be a topic we shall ask IATA to address. A few airline insolvencies occurred in 2019, leading in one notable case to the challenges of repatriation of stranded passengers. Coronavirus has also contributed to further airline insolvencies in 2020, keeping the subject very much alive for the next lecture series. Emerging technologies such as urban air mobility and developments in the UK space industry are other areas of focus. ●

FINANCIAL SERVICES

EDWARD GRANT, FPFS
Chartered Financial Planner, Divisional Director, Technical Connection
Chair, IIL Financial Services Committee

Over the past 12 months, the financial services community sought better client outcomes in an environment of political and economic uncertainty. In parliament, we now have a large Conservative majority committed to transformational change. This will certainly have implications for the advice offered by financial planners to their clients and continue to ensure the sector remains vibrant.

The introduction of the Insurance Distribution Directive has driven a greater interest in the protection market and while it has been seen by many as a CPD exercise, what is notable is that there is also a rekindling interest in protection, one of the core foundations of a goals based financial plan.

Several themes have continued to evolve including the ongoing service of existing clients with an increasing focus on goals-based planning using cash flow tools helping clients to visualise their dreams, goals and aspirations. The investment industry impact on the environment has become a big concern for clients as they seek investment returns in a world worth living in. We are also seeing the Regulator increasing its focus on how vulnerable clients are supported; FCA research has identified that in a client's lifetime over 50% will experience permanent or temporary vulnerability. It is critical that as a profession we adapt to ensure our processes, products and advice is sensitive to their needs at a critical time.

Finally, back to the large Conservative government majority, transformational change demonstrates the need for advice navigating the allowances, exemptions and tax reliefs that governments use to incentivise our clients to invest, set goals and plan for their futures. ●

INCLUSION AND DIVERSITY

LYNSEY CROSS
Chief Operating Officer, Brooks Macdonald
Chair, IIL Inclusion and Diversity Committee

Culture, and the interplay with inclusion and diversity has received heightened focus across the insurance industry. Firms, if not already, are becoming alive to the fact that a diverse workforce brings huge benefits for the organisation, staff and clients alike and not only is this the right stance to have, but also the Prudential Regulation Authority (PRA) is taking a keen interest in this important area.

The PRA is doing so through the Senior Managers and Certification Regime (SM&CR), 'Dear CEO' Letters and PRA Rulebook. In November 2019, the PRA wrote to the CEOs of general insurance firms, and for the first time, referenced culture and makes the link between culture and the effectiveness of insurers control functions.

A diverse workforce is essential to ensure an inclusive and open culture in which individuals can perform at their best. As our industry changes, modernises and moves forward, we will need new talent to support the initiatives in play across the market. This has been recognised by Lloyd's in the publication of 'Blueprint One', which states that culture and people are part of the foundations on which it will build the future at Lloyd's. Given this heightened focus and the links being made between culture and prudential soundness, it is only a matter of time before the Regulator and Lloyd's will look to use the tools in their armoury to hold firms and individuals to account. ●

LONDON MARKET

TIM PRITCHARD
Partner, Risk Solutions, Lockton Companies LLP
Chair, IIL London Market Committee

All too often, customers, employees and industry observers bemoan the lack of innovation in the insurance industry. How do we future proof with talent able to address emerging risk challenges and take advantage of innovation? How do we make our industry attractive to millennials who will comprise 75% of the workforce by 2025? It is not only the insurance industry that is wrestling with this challenge. The recent call from Dominic Cummings to shake up the civil service with 'wild cards and weirdos' has attracted both attention and derision.

In his recent book *Rebel Ideas*, Matthew Syed, Times columnist and Olympian explores the benefits of cognitive diversity. The premise that diverse teams make better decisions and consistently outperform homogenous groups of the best and brightest is evidenced in numerous examples, most notably the Enigma code breakers at Bletchley Park that included mathematicians, philosophers, a renaissance scholar and a crossword genius.

To address the challenges our industry faces, we must confront the fact that if intelligent teams think the same way they become collectively short sighted. Diversity of insight, perception and knowledge is critical.

The industry has taken significant strides in opening career paths in recent years, but this focus must be maintained. The CII Aspire apprenticeship programme is one example where career opportunities in our industry have been made more visible to a new generation of brokers and insurers. Reaching out to schools and higher education institutions on our doorstep and raising awareness of the variety and challenge an insurance career can offer will ensure a healthy talent pipeline and diversity of thought to take our industry forward. ●

MARINE AND ENERGY

JUDY KNIGHTS, ACII
Chartered Insurer
Director, JK Knights Consultancy
Chair, IIL Marine and Energy Committee

Large ship losses are the focus of the IGA P&I Clubs Large Casualty Working Group, which has identified key factors driving increasing claims costs. Large losses to be considered are containership fires/mis-declared cargo, general average and wreck removal/salvage issues rising from such ships. Additionally, the subject of another lecture is two recent expensive wreck removal cases – a grounded car carrier in a location of extreme tidal/current erosion and a small containership that grounded and broke in two on a reef in a World Heritage site.

From 2020, Lloyd's mandated policies could no longer remain silent on cyber exposure. The Brillante Virtuoso was initially a piracy claim that metamorphosed into insurance fraud, which was settled by the High Court, who found in favour of underwriters that the vessel was fraudulently destroyed by the owners. The key learning points to be explored are malicious damage and cyber exclusion implications, highlighting that current cyber exclusion clauses are not fit for purpose.

Following on from Lloyd's PMD restrictive action applied to writing marine business in 2019, the market hardened. Many younger brokers and underwriters will not have seen a hard market before, so a timely programme lecture is 'How to operate in a hard market?'

Energy hot topics include drilling and loss of well control, focusing on the reasons wells go out of control and natural phenomena that make this more likely. Additionally, there have been incidences of US refinery and tank farm explosions, possibly due to aging infrastructure.

Other lectures include the Lürssen shipyard fire loss from the viewpoint of interaction of contracts and lessons learnt and 'Climate Change – What are the concerns for marine insurers?' ●

PROPERTY INVESTORS

ANNA WHITFIELD, ACII
Managing Director, Client Service Director Real Estate Practice, Marsh JLT Specialty, Marsh Ltd
Chair, IIL Property Investors Committee

In contrast to previous years, the real estate insurance market has undergone change in the past 12 months. The market has 'tightened', some might say 'hardened', and the real estate sector has seen increases in rate, minimum premiums and excesses as a result of insurers taking corrective action on underpriced books and a squeeze on capacity with the exit of two major insurers. Insurers are reviewing the whole pricing package, including payment terms and remuneration to assess profitability.

That said, there are still rate reductions to be had for those portfolios focused upon risk management, particularly if this translates through to loss history. In the wider property market, the high street continues to be challenged by changing consumer buying trends; many real estate investors are rebalancing their portfolios to meet investor returns. Alternatives such as PRS and student accommodation continue to be attractive segments and the major cities remain viewed as safe havens for overseas investment.

The incidence of illegal raves, fly tipping and commercial squatting continue to be a challenge for all aspects of the real estate industry and we look forward to seeing what action the government takes to strengthen police powers to tackle criminal trespass. In addition, legislation is forecast to be brought about that aims to reform building safety and construction projects as a response to the Hackitt review.

Finally, climate change is firmly on the radar – from investors being required to back up their ESG credentials under EU law to clients wanting to understand the impact of climate change on their portfolios. ●

PROPERTY

IAN FRANCE, ACII
Chartered Insurer Technical Underwriting Manager, International Property, AXA XL
Chair, IIL Property Committee

Digital technology is transforming the way companies across all industries operate. Strides in technological development, such as the increased use of artificial intelligence (AI), bring both risk and opportunity.

Technology can provide masses of data – and these data can be used to derive insights that can change the way insurers look at, understand and underwrite property insurance risks. For example, technology is now being used to monitor and provide data around many environmental factors. Underwriters can then use this information to work with risk managers and risk engineers to take steps to fix defects and complete preventative maintenance to help mitigate or avoid risk.

In addition, I believe we are now entering the age of the 'digital risk engineer', bringing together AI and connected devices, such as sensors, industrial control systems and cameras, to identify problems before they arise. Some insurers are now starting to collect data 24/7 via connected devices – 'black boxes' that plug into a building management system and aim to reduce both the frequency and severity of losses.

The data that we now have at our fingertips – thanks to developments in technology – are an extremely powerful tool. But it is important to remember that that is what it is – a tool. Technology and data are not in themselves the answers to the risk challenges facing our clients or to the way we underwrite them.

As we enter a new decade, we can look forward to more exciting technological leaps. The challenge for us, as underwriters, will be to bring our human skills and expertise to bear alongside those advances – both to ensure that technology and data are harnessed to better understand the risks our clients face and to work with them to develop coverages and services to help them meet those challenges. ●

REINSURANCE

IAN BRANAGAN
Senior Vice President and Group Chief Risk Officer, Renaissance Re Holdings Ltd
Chair, IIL Reinsurance Committee

The terms 'resilience' and 'sustainability' have recently become widely used in association with our industry. While new to some, they are core to our industry's value proposition to society and investors. If our industry were one company, its vision statement might be 'to improve the resilience and sustainability of people, businesses and economies in response to loss'.

That the reinsurance industry remains well capitalised and stable following the two largest consecutive loss years of all time, followed by USD 75 bn in losses in 2019, demonstrates the resilience of the sector and the benefits of thirty years of innovation in the science and technology of understanding risk and matching it with capital.

Our industry faces many challenges – secularly changed economics, increasingly complex emerging risks, the digitalisation of the supply chain, climate change, and the expanding protection gap. The overarching 'hot topic' underpinning all this complexity is actually very simple: what do our customers need?

Considering our customers in the broadest possible sense, from individuals through to governments, our greatest challenge is to continue to develop products and contingent risk finance structures in response to a rapidly evolving risk landscape. If we do not do so, we will fail as an industry in our vision to further the resilience and sustainability of the societies we serve.

What must we do? We must increase risk understanding and mitigation, solve the protection gap, and encourage the digitalisation of supply chains. We must embrace the changing risk landscape. ●

I&D, CULTURE AND THE REGULATOR

Culture, and its interplay with inclusion and diversity (I&D), receives heightened focus across the insurance industry

Firms are recognising that a diverse workforce brings huge benefits, and not only is this the right stance, but also the Prudential Regulation Authority (PRA) has a keen interest in this important area.

The PRA is acting through the Senior Managers and Certification Regime (SM&CR) and PRA rulebook. In November 2019, the PRA wrote to CEOs of general insurance firms and, for the first time, referenced culture and the link between culture and the effectiveness of control functions.

A diverse workforce is essential for an inclusive and open culture, in which individuals can perform at their best. As our industry changes, modernises and moves forward, it will need new talent to support market initiatives. This is recognised by Lloyd's in the publication of 'Blueprint One', which states that culture and people are among the foundations on which the 'Future at Lloyd's' will be built.

Culture, with its links to D&I, enjoys greater standing within insurers' boardrooms. Not only is an inclusive culture the right thing to have, but also Lloyd's and the PRA are making this known to the market and have in place several tools to hold firms and individuals to account.

The PRA also stressed that public reports relating to sexual harassment and bullying within the London Market are of concern. It identifies the link between what could be considered an inherently poor culture and a firm's financial soundness. The PRA letter clearly states that prudent management is the board's responsibility.

In 2019, Anna Sweeney, Executive Director of Insurance Supervision, said that the lack of intellectual diversity, including the lack of gender, race and other diversity, contributed to the severity of the problem. The PRA has highlighted the dangers of 'groupthink' that arise from a shared network of assumptions that are so deeply held and often rooted on cultural bias. By bringing diverse groups together, groupthink can be eliminated.

Alongside this, the PRA has a hook on which to hold individuals to account – the extended SM&CR regime and individuals' prescribed responsibilities. Through these, the PRA mandates that an individual, usually the CEO, has responsibility for overseeing adoption of the firm's culture in day-to-day management while leading its development.

The PRA rules require that firms must put in place a policy promoting diversity on the governing body. It remains to be seen how firms respond.

With heightened scrutiny comes increased reputational risk and some London Market firms have recognised this. As such, firms are choosing to include this in risk registers, giving rise to a higher operational risk charge and therefore solvency capital requirement. Where the PRA has observed incidences of poor culture, this can lead to increased regulatory scrutiny.

The first 'Future at Lloyd's' blueprint marks an exciting new chapter. It sets out how it will combine data, technology and new ways of working to transform the market culture. It states that the most talented people will come to and stay with the market because of the diverse environment that allows them to thrive. This will require the market to represent all aspects of diversity to better reflect and respond to the societies in which we operate.

There has not been a case of a major prudential or conduct failing in a firm that did not have among its root causes a failure of culture. The question, therefore, is not if, but when, the PRA will flex its regulatory muscles in relation to culture, as a result of which the market will need to address the areas of inherently poor culture ahead of any possible intervention. ●

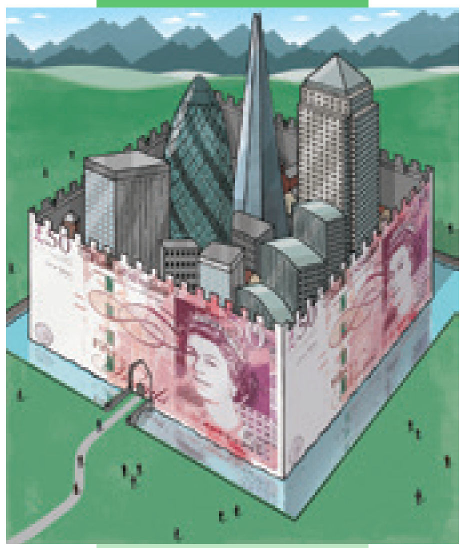
MAURICE ROSE
Insurance Risk, Regulatory & Restructuring Manager
PwC

LONDON'S ROLE AS A GLOBAL CENTRE FOR INSURANCE

London has been the epicentre of the insurance industry for centuries. It is the historical, spiritual and physical home of an industry that is itself the lifeblood of a thriving global economy. London has long been the home of a deep pool of world-leading talent and it is a market that is founded on a history of resilience over 300 years. London has remained relevant as a global insurance centre because it is a hub for specialist expertise and will continue to be so. We were ready to embrace digital and remote ways of working and we are demonstrating every day that they work.

In addition to London's geographic location, the co-location of extensive expertise sets the market apart and has made it the natural home for specialist and multinational risk. Specialists in very specific types of insurance such as marine hull, satellite and cyber all operate from London. This high concentration of specialty insurance talent is not just in underwriting, but also in claims, actuarial science, catastrophe modelling and pricing modelling. All are vital aspects of the value chain.

This deep expertise is focused on providing solutions in an uncertain world, creating confidence in times of change and helping businesses and individuals reach their full potential. The strength of the marketplace here provides a hub for innovative solutions facilitating innovative thinking and co-creation in a highly competitive marketplace which prioritises addressing the big risks of today and tomorrow. The London insurance market remains the world's largest centre for commercial and speciality risk, controlling around



"WE NEED TO CONTINUE TO ATTRACT, DEVELOP AND RETAIN THE BEST TALENT"

USD 91 billion of gross written premium and London continues to grow its share of global specialty markets (marine, energy and aviation), outperforming the declining global market. The opportunity to deepen this expertise and global standing is clear and the onus is on the industry to ensure that it reinforces its relevance, competitiveness and sustainability for its clients.

We are moving in the right direction. A renewed focus on underwriting discipline has helped drive innovation, particularly in lines such as cyber, in which we are using our insight to help customers and brokers mitigate risks and tackle the causes of claims. Cyber insurance is an excellent example of the UK's opportunity to become a world-leading centre for specialist expertise in an area that is highly relevant to governments, companies and individuals alike.

The world is clearly facing new challenges and new emerging risks. To ensure that we continue to evolve and remain resilient, we need to continue to attract, develop and retain the best talent, including developing and equipping our teams with the future skills needed to tackle tomorrow's risks. This includes evolving our workforce to reflect our diverse client base. The London Market has made great strides to evolve so it can attract the best and the brightest talent, which are so vital for its future, but there is more to do. The Insurance Institute of London plays a vital role in ensuring our workforce has the right skills to face the future with confidence, so that we can enable our clients to do likewise.

London's ecosystem is unique. The world is facing unprecedented challenge and opportunity and progress goes hand in hand with risk. We need to develop and nurture the dynamic ecosystem in London and the UK that talent, history and expertise has built, so that we can continue to help our clients face the future. ●

ANTHONY BALDWIN
CEO, AIG UK
Deputy President,
Insurance Institute of London

PROVIDING A LIFELINE IN TROUBLED WATERS

Over the past few months, we have all witnessed or even experienced how unforeseen events can impact on our lives. Fortunately, extreme situations, such as Covid-19, are few and far between, and it's rare that so many are impacted in this way. However, adversity can hit any of us at any point, and much like Coronavirus, we are not prepared for the way lives can be turned upside down.

The good news for our sector, however, is that there are lifelines available to all insurance employees. The Insurance Charities is one such lifeline and offers practical and financial support to ensure that no insurance employee (past or present) misses out on any help they might need to steer them through a period of hardship. Whether they have been affected by redundancy, bereavement, sickness or domestic abuse, The Insurance Charities can help.

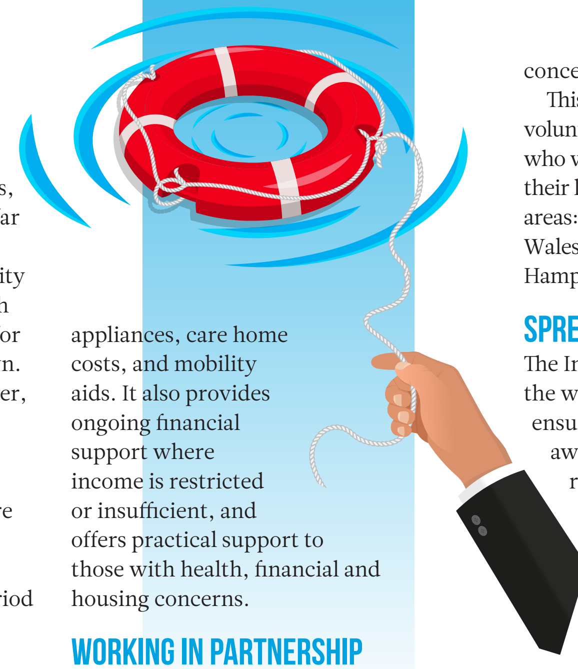
WHAT IS THE INSURANCE CHARITIES?

The Insurance Charities was established over 100 years ago to help those working in the London insurance market. True to its founding principles, it continues to support anyone in the insurance industry, now reaching beyond London and covering the UK and Ireland.

Whether you're a previous insurance employee, retired or just starting out; no matter your job role, it can help you and any dependants you have. Over £1.7 million is awarded annually, with this figure increasing year on year.

HELP

The Insurance Charities can provide one-off payments to help fund essential items, such as property repairs, household appliances, care home costs, and mobility aids. It also provides ongoing financial support where income is restricted or insufficient, and offers practical support to those with health, financial and housing concerns.



WORKING IN PARTNERSHIP

Last year the Insurance Charities joined forces with the Alzheimer's Society's 'Insurance United Against Dementia' (IUAD) campaign to create a service for people affected by dementia in our industry.

Anyone living with dementia, or who has a loved one diagnosed with the condition, can contact The Insurance Charities and they will be referred to an Alzheimer's Society adviser to provide appropriate help.

Dementia is not the end, but it can make everyday things such as going to the shops or making a cup of tea more challenging. Having someone around can make all the difference and gives a sufferer the confidence they need to continue doing the things they love.

If you know of a colleague who might be affected either directly or indirectly by dementia, The Insurance Charities would encourage you to share its information concerning this service.

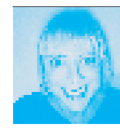
This unique partnership offers flexible volunteering opportunities to anyone who would like to give back something to their local community, in the following areas: Birmingham, Cardiff/South Wales, Manchester, Nor folk/Suffolk and Hampshire.

SPREADING THE WORD

The Insurance Charities is keen to spread the word throughout the industry to ensure as many people as possible are aware of the support offered. Its representatives are more than happy to come to your workplace or attend local networking events to give a short talk or have a stand to demonstrate how it can help. It can also provide flyers and giveaways, plus additional resources such as presentations for employers to share with colleagues.

The Insurance Charities thanks all of the CII members who champion its work throughout the year, particularly those who support its national 'Awareness Week', and help it to ensure that no insurance employee and their family, going through difficult times, miss out on the support it can provide.

For advice, support information or details on how to help raise awareness, email info@theinsurancecharities.org.uk or call 020 7606 3763.
For more information visit **www.theinsurancecharities.org.uk** ●



VICTORIA SUTTON
Marketing & Communications Manager,
Insurance Charities

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There is a Knowledge Lounge situated behind the main reception. This is a touch-down working space with access to CII Knowledge Services and online resource centre.

The CII Knowledge Services team continue to provide their services including offering access to items stored in offsite locations. We have a small selection of our most popular and interesting books physically available in the Knowledge Lounge, but all the CII current library and archive items are still easily available from the CII's storage facility, which also houses most of the historic collection. The CII is progressively digitising its older and most fragile books and documents and all the current study texts and accompanying materials are e-available.

FOMO – THE FEAR OF MISSING OUT!

If we don't have your email address we can't invite you to free CPD-accredited lectures and webinars, arranged by the Insurance Institute of London.

For more information go to: **www.cii.co.uk/membership/updating-your-preferences/**