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THE VOICE OF YOUR PROFESSION

2022

A PREMIUM ON CHANGE

How greater diversity in the workforce could help us rise to today's resilience challenges

The Insurance Institute of London

Chartered Insurance Institute

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PRESIDENT'S WELCOME

FROM JULIAN ENOIZI

Last year, my predecessor, Anthony Baldwin, wrote about 'a year like no other' as we emerged from the pandemic and London looked to a hybrid world and increased automation. This year, we will build on the theme of a changing world by looking at new ways of insuring these problematic risks through partnering with the public sector, focusing on resilience and sustainability as well as encouraging new ways of thinking through cognitive diversity.

As a global (re)insurance hub, the London Market must evolve to reflect and respond to new challenges created by issues we would not previously have considered - pandemic, cyber, climate change and now, a war in Europe. This requires our industry to adapt to new risks – many of which are covered in this year's edition of the London Journal. By looking forward with an innovative spirit, the London Market is uniquely placed to lead the world as a socially responsible underwriter of the issues that threaten our planet today.

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WHAT'S NEW AT THE INSTITUTE?

ARE WE NEARLY THERE YET?

My 2020 report was drafted on the day when the first COVID-19 lockdown was announced. My 2021 report was prepared when the third national lockdown was partially lifted. I was hoping that the pandemic was over, but my 2022 report is being drafted on the day when a record-breaking 4.9 million people in the UK have the virus, mainly due to a more transmissible variant having emerged. More than 176,000 UK citizens have now died having tested positive for COVID-19. The strains of the last few years, plus the considerable impact Russia's invasion of Ukraine has had on inflation, and particular sectors of the London Market, mean we need to keep looking after ourselves and each other. The IIL has developed a comprehensive wellbeing programme for members, and, as always, The Insurance Charities can provide practical and financial help to those who may be struggling. See Victoria Sutton's article on p31.

THE NEW 'NORMAL'

While the IIL's huge range of topical webinars remains very popular, Lloyd's and some of our speakers have been very keen for us to reintroduce in-person lectures. We held our first event back in Lloyd's at the end of March to an 'intimate' audience. As one committee member put it, 'we're embracing the hybrid working model, which means many are selecting their days in Lime Street very strategically… And I suspect many brokers and underwriters who are in their offices more regularly… are using their visits to catch up on two years of missed lunch engagements!' I think he is probably right.

WINTER BALL 2022

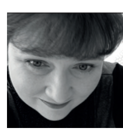
There is strong demand from our younger professionals for us to get back to hosting networking events. We are especially looking forward to bringing back the highly popular YMC Winter Ball, which will be taking place on Friday, 18 November, at City Central at the HAC, Chiswell Street. This event is a great way to reward exam success and engender loyalty, so make the most of the early bird booking discount. If your firm would like to buy a table or help sponsor this event, please get in touch with **Gemma.warren@cii.co.uk**.

NEW BOOKS

The IIL's research study books resemble London buses in that they tend to arrive together. The restrictions enforced due to COVID-19 meant that our teams of volunteer authors had fewer distractions, and we now have several books coming out this year. Many congratulations to Neil Park and his team for their excellent work on our new Cyber Insurance book. There has been high praise for Sally Blake and her co-authors for their work producing our new book on InsurTech. And Stephen Coward and his team have delivered a highly valuable update on Delay in Start-Up. See the final page of this Journal or go to the publications section of our website **iilondon.co.uk** for more details about the scope of the works and how to get your copy.

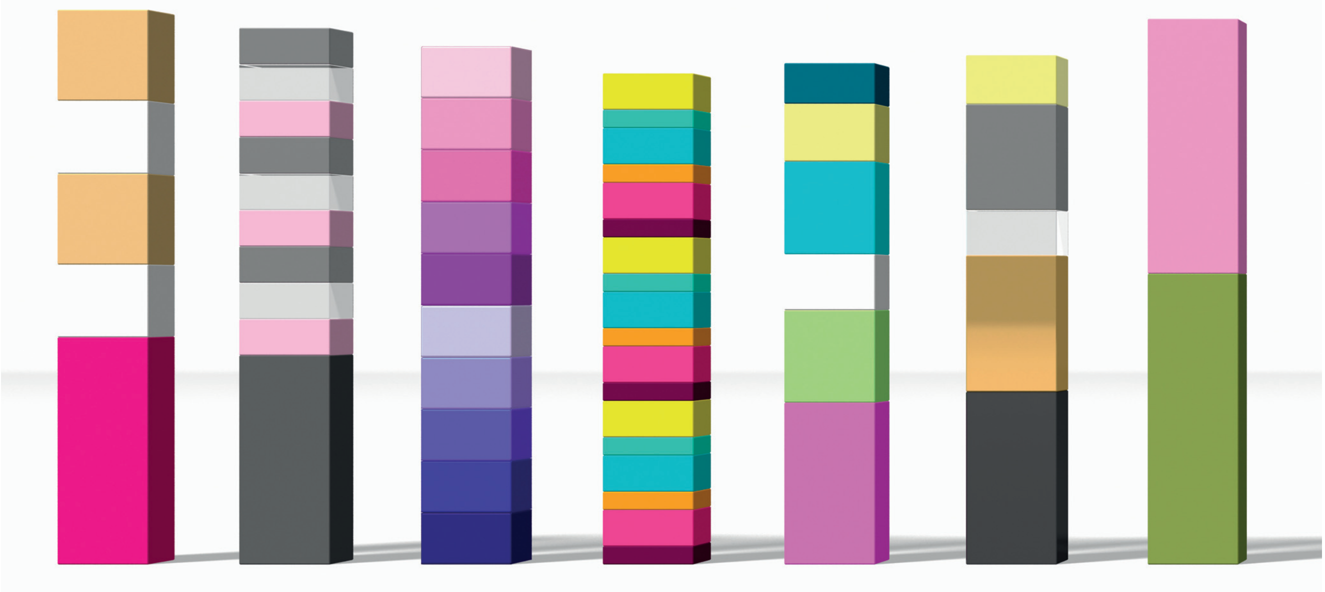
NOTICE OF ANNUAL GENERAL MEETING 2022

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 online, at **12.30 pm on Monday, 26 September 2022.**



ALLISON POTTS
Institute Secretary,
Insurance Institute of London

EXPLORING THE DIVERSITY DIVIDEND



PUTTING A PREMIUM ON CHANGE

At the beginning of my IIL Presidency, I introduced my theme for the year: putting a premium on change. Throughout my term to date, I have called attention to the fact that too often, when faced with new and complex risks, our instinct has been to exclude them from our policies, rather than find innovative ways to include them. But the future of our industry depends on embracing change, not avoiding it.

My primary focus this year has been on how we insure new and difficult risks, exploring the role of new technologies and partnerships to foster innovation, and how they may secure our overall value proposition for the future in the face of an increasingly complex and competitive risk universe. I have been clear throughout my term that ensuring our success in the future will be impossible without attracting new talent and greater diversity into our industry.

This has never been a call for 'out with the old, in with the new'. The insurance industry is full of highly skilled, highly motivated individuals. Few understand risk better than we do. Our contribution to both the British economy and society is vast. But I am convinced that diversity and fresh thinking are the keys that will unlock the collective investment we need to secure our future.

This conviction has grown even deeper during my term, as I have witnessed the wonderful work of individuals, committees, and initiatives across the London Market driving meaningful change and demonstrating the business case for greater diversity. I have been privileged to engage with various carriers, brokers, and trade bodies leading the drive to build a workforce with the different skills, experiences, and culture to ensure that we regain our competitive edge as an industry.

ENHANCING COGNITIVE DIVERSITY WITHIN THE LONDON MARKET

In particular, I and my IIL colleagues from the Inclusion and Diversity Committee have been struck by the experience and passion of Ian Smith, who has worked in the insurance industry for almost 20 years and currently works for Zurich Insurance as a Senior Operational Divestment Specialist. Ian has been a strong diversity and inclusion advocate for many years, and was recently diagnosed with ADHD, ASC, dyslexia and dyspraxia. He is a former Co-Chair of Zurich's Cultural Awareness Network, Chair of the Zurich London OHI Committee, and is also an active member of Zurich's Accessibility and Inclusion Network.

Ian's knowledge, passion, and personal experiences resonated strongly with my feeling that cognitive and neuro diversity was an underexplored but critical area of our industry's diversity and inclusion drive. We are working with Ian to explore how we can enhance cognitive diversity in the London Market and looking to release the findings later this year.

The report will describe the challenges and missed opportunities of the London Market in not attracting experiential, demographically under-represented and neurodiverse talent. We are aiming to introduce IIL members and the wider London Market to some key aspects of cognitive diversity, why it is important, and outline actions we can take together to develop a more cognitively diverse talent pool.

IMPROVING EMPLOYABILITY AND EMPLOYERS' OUTCOMES

In his recent Master's thesis, Ian's research focused on how the insurance industry can attract and retain neurominority talent. He explains that neurodiversity is intersectional and can be understood as how all people differ in their perspectives due to the differences in the way our brains are wired and how we prefer to process information. Cognitive diversity then expands this further to different education, backgrounds, and experiences.

Ian's work to date has included a review of the many research papers that have been written on the unique characteristics that neurominorities can bring such as innovative thinking, problem-solving and other in-demand business skills. Some of the world's largest corporate firms have set up dedicated neurominority recruitment initiatives and divisions and in so doing, realised real business benefit and meaningful ROI.

Looking beyond our own industry to learn lessons and implement proven strategies is essential. Recent McKinsey research analysing over 1000 large companies was the latest report to demonstrate clear evidence for the compelling business case for diversity, emphasising the imperative for companies to focus on advancing diverse talent into executive, management, technical, and board roles.

HIRING FOR THE RIGHT SKILLS IN THE LONDON INSURANCE MARKET

If we continue to hire in our image, our improvements will be contained to evolution, not revolution. Historically, this approach has not been a particular problem for our industry, but the changes and VUCA environments wrought by the Fourth Industrial Revolution demand innovation, revolution, and reinvention to remain relevant. The breadth, depth, and variety of roles in our industry should make it one of the most attractive to neurodiverse talent; big data and predictive analytics are exciting new areas which complement traditional, equally important and attractive roles in claims and underwriting services.

The IIL's report with Ian will explore how our industry could do more to support neurominorities in the recruitment process. For example, some insurers have spent huge sums on perfecting experiential competency-based questions, to ensure fairness for all within the selection processes. However, these questions are designed for neurotypicals, and the 'fairness' unintentionally introduces discrimination for autistic candidates. If the candidate feels able to disclose their situation, adaptations can be made and offered, though this is another area for improvement, given that research in 2020 from the Institute of Leadership and Management found that only 50% of managers would hire a neurominority candidate.

Little wonder then that Ian's research found that only 8% of neurominority people believe they would be treated fairly in the recruitment process. More positively, once managers were aware of any neurocognitive impairment, they would actively make adaptations to the recruitment process.

Awareness and the dismantling of stigma is crucial, and another area which our report will explore is that of an insurance academy to support non-traditional candidates into the market based on ability and aptitude. Ideally, this approach would help to overcome institutional recruitment issues including requiring many years of experience in another insurance role, or bringing an existing 'book of business' before even being considered.

> ONLY 8% OF NEURODIVERSE PEOPLE BELIEVE THEY WOULD BE TREATED FAIRLY IN THE RECRUITMENT PROCESS

SHARING OUR FINDINGS

There has been encouraging rhetoric in the London market describing the need for change for years; some of this has led to real progress, while in other areas actions have not followed words. Many organisations are in a state of flux, and the picture is rarely simple. For example, damaging incidents and attitudes continue to contribute to an image problem at Lloyd's, which does little to encourage non-traditional and much needed new talent, while at the same time its Dive In Festival is a global industry beacon which has done more than most to promote positive action for diversity in all its forms.

By sharing the findings of our study later in the year, Ian and I hope to be able to contribute to this complex environment with a non-complex message: that enhancing cognitive diversity cannot be forgotten amongst the broader diversity and inclusion drive, and that successfully doing so will be vital for securing our industry's value and relevance in the years ahead.

JULIAN ENOIZI
President, Insurance Institute of London and Global Head of Public Sector, Guy Carpenter

GETTY

TRUST — THE MARK OF A PROFESSIONAL

Does professional development lead to increased public trust?

Within the context of this year's IIL presidential theme of A premium on change, and the feedback in response to the CII's consultation *Shaping The Future Together*, we can reflect on how the CII can join up key drivers of change and make sure we get the right results for members and for the wider public too.

It's a cliché to say change is a constant, but recent global developments such as the COVID-19 pandemic and war in Europe do reflect a greater intensity and frequency of disruption compounding wider change in key areas like climate and technology. These systemic changes aren't limited to certain types of customers or sectors, but the whole economic system and the public's approach to risk. That in turn has the potential to impact trust in institutions and individuals who manage that risk.

The CII's Public Trust Index research has demonstrated a link between professionals' ability to understand and respond to customer needs – whether that's fair pricing that reflects their risk, settling claims in a way that demonstrates respect and understanding, or advice that secures good outcomes – not just the best price. Consumers and businesses expect to deal with a professional who can demonstrate not just the technical knowledge to be able to apply existing product solutions to known problems, but the wider skills and behaviours, set within an ethical framework, to support them through an unknown future.

Public trust in insurance was negatively impacted by the pandemic, both directly as claims were made for losses that were assumed to be covered by Business Interruption policies, and indirectly as wider economic and social certainties were thrown into question. The 2021 Insurance Public Trust Index report indicated that while slightly down from 2020's peak, 60% of SMEs stated that their business was 'somewhat impacted', and 24% 'significantly impacted' by the pandemic. The key drivers among SMEs affected by the pandemic were loyalty, respect, and confidence that the firm had their best interest uppermost.

The FCA has increased its focus on culture, competence and customer outcomes, and most recently indicated a greater accountability for insurers and

brokers to innovate to address unmet needs through the Consumer Duty. This represents a significant shift in the burden of responsibility and will require new skills and behaviours to proactively identify customers' needs, together with delivering solutions that recognise a more holistic customer understanding. We have become more familiar with inclusivity as employers, but the same principles must be applied to ensure inclusive customer outcomes.

What are we doing as a sector to attract diverse mindsets, set standards and empower people to be the best professional they can be? How do we even know what the right mix of knowledge, skills and behaviours are in order to confidently refer to ourselves as a professional, let alone where do we acquire the new learning and skills to maintain that standard?

The CII is launching the Professional Map - a new competency framework for our profession - covering not just technical knowledge, but skills and behaviours expected of a professional now and in the future. The Professional Map has already had the input of hundreds of practitioners, leaders, L&D and HR professionals to make it relevant to the greatest number of roles and businesses. The CII also worked closely with the Financial Services Skills Council to ensure that its Future Skills Framework reflected the insurance sector's priorities and could be mapped to relevant functions alongside existing competencies in the Professional Map.

'The Professional Map will become the 'Golden thread' in what the CII offers – providing a common set of competencies that will enable alignment between professional standards and lifelong learning – delivered through world-class learning content, qualifications and membership.' Gill White, Chief Customer Officer, CII

Turning specifically to the London Market, the CII, Lloyd's and LMA have collaborated on the development of systemic risk masterclasses and online learning to support Futureset, a platform and community to create and share risk insight, expertise and solutions to new challenges facing the sector. And while of course these include the high profile technological and environmental challenges, there's a need for a focus on the basics too. Most recently we have together created learning materials to improve insurance product design skills, recognising that while it may have been the pandemic that triggered the losses that led to business interruption claims, a fundamental basis in customer-centric product design, transparency principles and documentation will reduce future customer expectation gaps.

Ours is a sector in which professionalism is not always represented by the direct customer experience with an individual practitioner, but also through organisations as a whole, brand experience, policies and technology interfaces. And the approach an employer takes to investing in individual employees' professional development is a vital element of that experience. A commitment to nurturing knowledge, client centricity and serving society allows Chartered Insurers, Insurance Brokers and Insurance Underwriting Agents to demonstrate how those same principles we expect to experience in a direct personal relationship can be delivered consistently across an organisation as a whole.

The Q4 2021 Chartered Perception survey – an independent survey of consumers' and firms' recognition and propensity to choose Chartered firms – identified that 76% of consumers would choose a firm with Chartered status over one without, driven by a belief that accreditation by a professional body and a commitment to good practice and an ethical code should lead to good customer outcomes. This increased to 86% of businesses and 89% consumers where they were already customers of Chartered firms, indicating that experience of professionalism, not just the holding of a marque, was consistent with the promise. Forty-three percent of businesses said that the main reason they chose a Chartered firm was that they represented high professional standards, and that they are proven experts in their subject area (37%).

Given the pace of change, combined with higher expectations from customers for evidence of practices that drive trust (such as inclusive practices, transparency and demonstrable competence), how do we better arm ourselves to demonstrate professionalism ready for future inevitable change? As a start, the CII has reviewed the responses provided to the Shaping the Future Together consultation and outlined its commitments to members and stakeholders – which includes the wider public as follows:

The CII will be:

- Making learning, qualifications and support tools more relevant and effective through a combination of educational best practice, learner feedback and application of the Professional Map.
- Targeting sector-specific skills and behaviours as well as applied technical knowledge.
- Making the qualification pathways clearer and simpler and supplementing them with certificated programmes.
- Making it easier and fairer to convert previous study to CII qualification pathways.
- Ensuring a wider range of CII and partner learning content is available at the appropriate level for every stage of members' careers.
- Helping members to expand their horizons with career development tools and resources.

So, the link between professional development and public trust is a strong one, and with a concerted focus on the skills, knowledge and behaviour the sector and their customers identify as the mark of professionalism, the path is clear for individuals and businesses who want to achieve and maintain that standard. ●

DR HELEN PHILLIPS
Chair, CII Board

ISTOCK

YOUNG MEMBERS' POST-PANDEMIC PERSPECTIVE

Most of us would assume that new entrants to the market and those in the burgeoning stages of their career are likely to have been most affected by the pandemic. Many started new roles virtually and have only met their colleagues on a couple of occasions since, if at all! Challenges with IT, inductions, training, development, bonding and socialising with team members are all apparent.

The YMC wanted to hear from the horse's mouth how they've been affected by these challenges, so at our first in-person networking event of 2022, we set about to understand how the pandemic affected young insurance professionals and gain some insight into what the future holds…

LEARNING AND DEVELOPMENT

Firstly, regarding CII exams, Abigail Clark, Assistant Underwriter at Barents Re told us 'I found the process of doing the exams online very arduous and I much preferred doing them in person in London'.

More generally speaking, attendees agreed that it can be harder for new joiners to ask questions when working remotely, which can slow down learning and understanding within the business, commenting that it can be easier and quicker to get answers if someone is sat next to you.

HYBRID WORKING

Emily Rowell, Graduate Trainee Broker at Aon, explained there is an element of Catch-22: 'The benefits of working from the office are the networking and being new to the industry you can learn from people. However, if you're working on data/wordings, it's a lot easier from home to have the time to think as you're not as distracted by the social side and getting to know people.'

Tess Ludlow, Claims Handler at Kidlington Properties, described how for improved mental health, she likes to segment work and home, so four days in the office is her ideal. Another attendee agreed with this arrangement as his job is client facing, so he finds the office more productive. The social side of office life and interactions with the wider team were both common themes amongst interviewees who missed out on this during the pandemic.

Overall, the consensus amongst the group was that a hybrid model of two to four office days works best, with a leaning towards more days in the office (especially for new starters) and employer flexibility. Lucia Halford, Junior Broker at Price Forbes, summed it up in a nutshell: 'Being at home… you're just a name on an email. When you're in the office, they get to know you as a person.'

THE FUTURE

Sophie Waterhouse, Graduate Trainee Broker at Aon: 'At the end of the pandemic, the thing I'm most looking forward to is being able to network with other people in the industry. Building up your network is so important, especially as a young professional when you're learning loads of new things about the industry – you get to see the scope of what you can do over your career by speaking to new people.'

Arjun Sharma, Broking Apprentice at McGill praised the YMC for the mix of virtual and in-person networking events that run alongside CPD events.

If you would like to hear more on this topic, the CII's New Generation Programme has conducted a market survey: on 'The impact hybrid working has on learning and development across the London Insurance Market and its contribution to the talent gap'.

For more information on upcoming events visit: **https://www.iilondon.co.uk/home/about-us/young-members/forthcoming-ymc-events** ●

GEMMA HENDERSON
YMC Chair and Business Director, IDEX Consulting

KIMBERLEY HALLAM
Dip CII - YMC Co-Deputy Chair, Underwriter and Underwriting Operations Manager, Britannia P&I

RESILIENCE IN AN EVER-CHANGING WORLD

For many, resilience has become a badge of honour in navigating the modern working environment. The COVID-19 pandemic only reinforced the need for leaders to be brave and resilient during challenging times.

But what does it mean to be resilient, and how important is it in our ever-changing working world?

I always believed I possessed high levels of resilience and was able to respond to challenges, manage stress and pressure, and bounce back quickly after periods of intense work. Elements of this are certainly true, and I have plenty of evidence of building resilience from a successful 20-year career in HR, most recently as Chief People Officer at Brooks Macdonald.

However, the pandemic made me reflect on how I manage stressful situations and I began to question my true resilience levels. I concluded that although I'm generally able to cope with adversity, my desire to be a consistent and reliable leader means that I can over persist, resulting in increased stress and exposure to risk of burnout. This means I sometimes struggle to cope or experience negative emotions, which unchecked can mean I become ineffective.

I've recently had the pleasure of working with Dr Amanda Potter, Chief Psychology Officer at Zircon, who helped me to understand that when we feel resilient and experience positive emotions, we're able to identify and use our strengths to perform at our best. However, when we push too hard, we're not giving ourselves a chance to alter our approach.

I've built up my resilience by listening to Resilient Leadership podcasts and even engaging a coach. It's important to fail and make errors, and the frustration when I think I'm not good enough is natural and necessary to drive me to try again.

Amanda introduced me to the neuropsychology of resilience, which helped me to understand the links between errors or failure, learning, resilience and brain plasticity. Resilience is a skill that can be learned and developed, and over time the brain can create new neural pathways and connections to help us to reinforce and learn new skills. If the behaviour is significantly different from previous actions, new neural connections can be created.

To be resilient we need to be agile and try new things; by doing the same things repeatedly we diminish our resilience and cease to learn or create new neural pathways, which is critical for neural plasticity.

Amanda and her team have developed a way to measure nine aspects of emotional resilience on the premise that developing this skill will give a more balanced perspective of an individual's strengths and ensure they can use them more effectively. The nine aspects incorporate the positive emotions associated with strong emotional resilience as well as the negative and more challenging emotions. To measure my own resilience levels, I completed the BeTalent resilience assessment, which provided me with some valuable insights. Not only does it tell me where my strengths lie, but where I have resilience risks and what I can do to improve my skills.

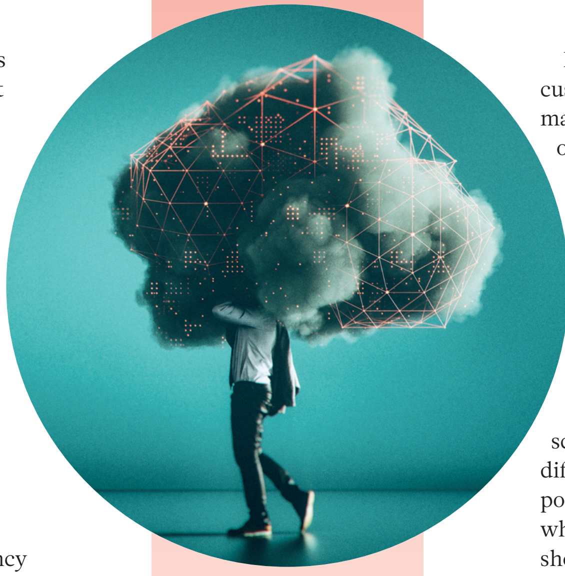
In conclusion, equipping ourselves with the skills to be effective under pressure will help us be happier and more successful, both personally and professionally. Focusing on our resilience will make the changing world that little bit easier to manage.

The BeTalent resilience assessment can be found at **https://www.betalent.com/product-resilience** ●

TOM EMERY
is the Chief People Officer at Brooks Macdonald. Brooks Macdonald Group provides leading investment management services in the UK and internationally.

DR AMANDA POTTER
is the CEO of Zircon, an expert business psychology and consultancy firm that has conducted extensive research on resilience and the link to mental well-being.

HARNESSING THE POWER OF DATA AND ANALYTICS



Data and analytics surround us in our daily lives. We interact constantly with devices that collect data about us: our phones understand our sleeping patterns better than us, our smart watches know when we're stressed and our banks share information with credit companies who in turn decide if we are financially trustworthy and should be given a mortgage. Our credit cards use AI to automatically detect potentially fraudulent activity and decline a suspicious transaction abroad and even our supermarkets know when we're likely to require household items based on the frequency of our purchases. In a world where TikTok provides personalised video recommendations to us based on our interests and where Instagram knows if you're looking to purchase a new sofa and shows personalised advertisements from various companies… how is the insurance industry keeping up?

Data is the lifeblood of the insurance industry and is heavily utilised in personal lines insurance. We now have new data sources such as social media, telematic sensor information and aggregator policy quote data. This information helps us assess the customers more thoroughly and change the pricing of our policies. However, the adoption in commercial lines insurance is not as high and there is an opportunity in this space to gain a competitive advantage. Data and advanced analytics can help reimagine risk evaluation, improve customer experience and enhance efficiency and decision making throughout the underwriting process. There is an enormous amount of data available such as environmental, location, government and connected devices data. In 2020, there were 30 billion connected devices in the world and this number is expected to jump to 41 billion by 2025. These devices are producing 14 zettabytes of data (1 zettabyte = 1 trillion GB) and a lot of this is being generated by equipment and infrastructure that commercial carriers already insure.

All this data has the potential to help insurers improve the way that risks are assessed and priced which ultimately leads to reduced loss ratios and shortened quote-to-bind times, among other benefits. And if this wasn't enough proof of the importance of data, there is an external pressure from the FCA via new regulations such as Know Your Customer and general insurance pricing remedies to improve our customer insight and gain a deeper understanding of our clients and their needs.

However, within the commercial arena customers now utilise analytics to better manage their exposures. This becomes of greater pertinence as insurance costs continue to rise; according to the Q4 2021 Global Index by Marsh, rates surged by a further 13% on average – the 16th straight quarter of rate increases since 2018. As a result, clients are focusing on how they can more cost-effectively procure insurance to protect the balance sheet. Through loss modelling scenarios and analytically assessing different excesses/limits/deductibles/policy options, as well as quantifying what risk can be retained on balance sheet, this can be achieved. Now insureds are utilising data science to calibrate their cost of risk and weigh this up against the expense of risk transfer to the insurance market. Whilst conditions soften for some lines, with other rising costs and wider challenging macroeconomic conditions, the use of data to assess this deployment of capital will no doubt be key to the management and transfer of risk moving forward.

The world is changing around us and data and technology are at the centre of it. How are you and your organisation keeping up with these changes?

ALINA JIPA
ACII, member, YMC
Head of Analytics, Insight and Reporting, RSA Commercial and Specialty Lines

ADAM ROSS
ACII, Deputy Co-Chair, YMC
Development Executive, UK Corporate, Marsh

INSURERS OF FIRST, OR LAST, RESORT?

DESIGNING PUBLIC-PRIVATE PARTNERSHIPS FIT FOR TODAY'S RESILIENCE CHALLENGES

INSURERS OF FIRST RESORT

The financial management of disaster risks, such as those associated with climate change, digital vulnerability, geopolitical instability, and communicable diseases remains a key public policy challenge for governments around the world. The COVID-19 crisis has demonstrated more strongly than ever the interconnected and amplifying nature of such risks, and the significant contingent liabilities to which government budgets are exposed.

At the outset of the crisis, governments around the world defaulted quickly to assume their implicit function as 'insurers of last resort'. In the almost complete absence of private market coverage for the losses and interruption that ensued, however, governments were better understood as insurers of first resort, financial first responders whose spectrum of interventions ranged from emergency loans and guarantees for businesses, to capital injections into private firms and comprehensive furlough schemes.

The unprecedentedly active role of governments throughout the pandemic has fundamentally altered populations' expectations of the state in times of crisis, a genie that cannot now be put back in the bottle. In any case, the pandemic has highlighted the limits of private sector capacity to underwrite losses resulting from any systemic loss event. Governments are left unilaterally bearing the risk, even as the past two years and more recent geopolitical events have left public debt and economic scarring at historic levels, compromising the ability of governments to meet the costs of future catastrophes.

This is a fundamentally unsustainable and non-resilient model. As such, several governments are conducting ground-up reviews of their national risk management and resilience frameworks, with some of these considering how to harness global (re)insurance and capital markets both to a) close 'the protection gap' and thus mitigate the financial impact of shocks, and b) incentivise investment in loss-prevention measures to reduce underlying vulnerabilities.

TO INTERVENE OR NOT TO INTERVENE?

In jurisdictions across the world, the (re) insurance industry has demonstrated a strong appetite to partner with governments to implement public-private schemes for risks for which there cannot be adequate coverage without state intervention. For example, during 2020 and 2021, there were over forty active country-level discussions about the establishment of schemes to address pandemic risk. In the UK, this took the form of the industry-wide 'Pandemic Re' steering group, which in August 2020 submitted a proposal to HM Treasury (HMT) stating that:

The insurance industry can demonstrate its commitment to a public-

private scheme by sharing the risk with Government through the provision of capital and risk retention; contributing to economic confidence and resilience, as well as providing risk management, mitigation and transfer expertise, infrastructure, and capabilities.

The proposal was clear that the industry had reached a position where Government dialogue and steer is required to take the concept any further. Indeed, this is a common factor in many other proposals emerging from the UK industry, from the 'Cyber Re' and 'Gov Re' frameworks outlined by Julian Enoizi and Lord Toby Harris respectively in this Journal, to the 'Black Swan Re' framework published by Lloyd's during the pandemic. What, then, are some of the fundamental policy levers likely to shape the UK Government's approach to public-private risk financing in the years ahead?

Historically, addressing 'market failure' has been the primary rationale for the establishment of schemes such as Pool Re and Flood Re in the UK. These, and over 100+ public-private pools globally, aim to address protection gaps for various large-scale disasters by transforming uninsured risk into mutualised (re) insurance products. Market failure can be understood as an absence of satisfying market solutions, leading to reduced economic efficiency and impaired social welfare, and therefore sufficient justification for a government to intervene and backstop (or 'guarantee') a (re) insurance pool.

However, even in clear areas of market failure such as for pandemic risk, with fiscal balance sheets under significant strain, the UK Government is not alone in being understandably wary of making contingent liabilities 'explicit' rather than implicit. Policymakers are faced with a trade-off between crystallising state support in advance of a future crisis, or maintaining policy space and discretion post-event over, for example, which sectors receive targeted support, how much support is given, and how that support is delivered.

This trade-off has been recognised by, among others, the Geneva Association. In a 2021 report assessing different public-private responses to pandemic risk, though with a read across to any catastrophic or potentially systemic risk, the think-tank concluded that:

Any form of government involvement in pandemic risk management comes with major trade-offs. Having said this, just waiting for the next pandemic to happen and then disbursing cash post-event is probably the least effective approach.

Prospective public-private partnerships, then, can only be attractive to governments if the benefits of pre-committing to support them through a guarantee clearly outweigh the costs from loss of discretion. There is no 'one size fits all approach'; existing schemes vary significantly in terms of type of risk solution (e.g. insurance or reinsurance), funding model (e.g. policyholder premiums, public or private levy), risks covered (e.g. single or multi-peril) and overall public policy objective (and therefore whether cover should be mandatory or voluntary, amongst other considerations).

Proposals for new partnerships, then, must be tailored to the specific risk-sharing and resilience policies of the individual government in question. If sufficiently attractive in the first instance, new schemes will ultimately need to be co-designed and implemented by industry practitioners in partnership with policymakers and regulatory authorities, to ensure that they are supported by the right policy signals and enabled by responsive legislation.

UK RISK-SHARING AND RESILIENCE: THE NATIONAL RESILIENCE STRATEGY

One of the key commitments of the UK Government's Integrated Review (published March 2021) was the development of a comprehensive National Resilience Strategy (NRS). At the time of writing the NRS, due to published in spring 2022, had yet to be finalised by the Cabinet Office.

However, the public consultation into the prospective NRS which took place from June – September last year, and the Government's response to that consultation, make clear that two key aims of the UK's approach to resilience in the future are to:

1. Reduce the impact of acute shocks, including low-probability and catastrophic events, by establishing a 'whole of society' approach

to resilience.

2. Enable investment in the UK's capability to address the common causes and impacts of risks and systemic vulnerabilities.

This emphasis on impacts builds on work throughout 2020 and 2021 by the Lords Select Committee on Risk Assessment and Risk Planning, and the National Preparedness Commission. As explored by the articles in this Journal by Lord Toby Harris and Julian Enoizi already referred to, these and other bodies are engaged in pivoting the UK's approach away from planning for individual risks on a causal basis towards preparing for the impacts of the next systemic crisis on a risk-agnostic basis. This of course has profound implications for the shape of prospective public-private partnerships between the UK Government and an industry premised on the underwriting of discrete risks and the use of causal triggers to validate claims.

UK RISK-SHARING AND RESILIENCE: CONTINGENT LIABILITIES AND POOLING SOLUTIONS

The NRS, when it is published, ought to dovetail with HMT's relatively recent policy commitment to manage more effectively the public sector's liabilities. In March 2020 the department published the policy document 'Government as insurer of last resort: managing contingent liabilities in the public sector', noting that,

The Government should consider its stock of [existing] contingent liabilities and investigate where it may be appropriate to expand the scope of current pooling schemes, [since] pooling risk across a sector can be an effective way of managing the Government's role as insurer of last resort as it reduces the impact of losses on any individual contingent liability… It should also consider whether risk pooling arrangements are appropriate when issuing new contingent liabilities.

> POOLING RISK ACROSS A SECTOR CAN BE AN EFFECTIVE WAY OF MANAGING THE GOVERNMENT'S ROLE AS INSURER OF LAST RESORT

The Economic Secretary to HMT, John Glen, has repeatedly referred to this publication as a touchstone for how the department, and therefore wider Government, will approach its future risk-sharing strategy and the long-term resilience of public finances.

If the Government is committed to investigating the potential expansion of existing pooling schemes, Pool Re, cited in the document as a case study for the successful public-private management of a contingent liability, would seem a logical place to start. Already guaranteed by an HMT loan facility to backstop the UK's terrorism risk (re)insurance market, Pool Re is a proven and globally respected template for building resilience to catastrophic risks which has added very significant value to the public and private sectors over nearly thirty years. Further, the shared strategic objectives and platform for restructuring which emerged from its latest five-yearly review with HMT, coupled with its new status as an Arm's Length Body of Government, should foster an even more productive relationship and trusted conduit between the Government and UK insurers.

Broadening the remit of Pool Re has been a significant industry conversation over the past two years, mainly in the context of a pooling solution for pandemic risk. But some leading industry figures have gone further to suggest an 'umbrella' facility to benefit from economies of scale by not only uniting existing state-supported pools but creating further pools to facilitate (re)insurers' participation in risks for which there is either realised or latent market failure (such as for systemic cyber).

For this or any other industry pooling-proposal to succeed, its design will need to factor in the risk-sharing and resilience objectives of the two policy areas outlined so far. The final, and most explicit, set of considerations come directly from John Glen himself. In his correspondence with the National Preparedness Commission late last year in relation to the Commission's ongoing work to promote better preparedness for major crises in the UK, Glen outlined some fundamental policy principles that HMT would use to assess future industry propositions:

1. Proportionate risk share between the private insurers and government.
2. Taxpayers are adequately remunerated for any risk taken on through a guarantee.
3. The scheme is not premised upon an unlimited guarantee.
4. The scheme improves market outcomes.
5. An assessment is undertaken around the suitability of accruing large pools of capital for a specific and contracted purpose, and how these pools are accessed and replenished before, during and after a loss event.
6. Customers fully understand what they are covered for.

By understanding and listening to the UK Government's developing policy approach to risk-sharing and resilience in a post-COVID world, the industry should be in a position to design and present tailored proposals which ought to be sufficiently attractive to policymakers to justify an ex-ante, rather than ex-post, approach to public-private risk-financing in the years ahead. Doing so would not only open up new markets and margins for the (re)insurance industry, but ensure that when future disasters strike, the state is truly insuring in the last, not first, resort.

CHRIS YEATES
Senior Strategy Analyst, Pool Re

HOW TO INSURE NEW AND EMERGING RISKS

Initiatives arising from the Business of Resilience Campaign

THE BUSINESS OF RESILIENCE CAMPAIGN 2021 – 2022

Last year I was privileged to be invited by the Department for International Trade (DIT) to take part in their Business of Resilience (BoR) Campaign for 2021-2022. In partnership with the City of London Corporation (COLC), the campaign promoted the UK as a global hub for insurance resilience solutions, culminating in the BoR Conference which took place on 21 March 2022.

A key initiative of the campaign was the creation of an industry-led taskforce which covered three sets of themes central to building resilience over the next decade: 'Infrastructure Investments and Resilience'; 'Climate Risk and Disaster Finance'; and 'Cyber and Terrorism Risk'. As Chair of the latter, I was fortunate to be able to convene an experienced and specialist group including brokers, underwriters, risk managers, academics, and former senior civil servants.

The findings of the Taskforce were presented and discussed at the BoR Conference in March. Senior Government ministers were joined by a diverse global audience of decision makers from corporates, multilaterals, and national governments, as well as leading practitioners from the (re)insurance industry, technology companies and the engineering sector.

FINDINGS FROM THE 'CYBER AND TERRORISM' SUBGROUP

Since the global resilience challenges and growth opportunities are arguably more acute for cyber than for terrorism risk, the subgroup's work gravitated more towards the former. Further, through its public-private partnership Pool Re, the UK is already recognised as being a world leader in terrorism risk resilience, providing valuable lessons for cyber risk efforts.

Our report highlighted that cyber losses currently cost the global economy over \$1.5 trillion per year and that a cyber catastrophe could impact across multiple industries and geographies. The global cyber insurance market has been one of the fastest growing over the last decade; premiums doubled since 2015 to reach \$3.15 billion in 2020 and are expected to exceed \$20 billion by 2025. With its unique concentration of expertise and capacity, London has been a key driver and beneficiary of this growth; Lloyd's writes around 20% of global cyber premiums.

However, the global cyber protection gap is likely above 70%, and may be as high as 90%. With digital dependencies and exposures only set to increase in the years ahead, even a $20 billion market by 2025 still leaves a very significant potential protection gap and resilience challenge for (re)insurers, governments, and businesses.

The subgroup noted that while there are over 100 iterations of public-private catastrophe risk insurance programmes globally to address resilience challenges for natural catastrophes and terrorism risks, industries and governments have yet to find a way to collaborate on cyber risk. In the aftermath of a catastrophic cyber event, coverage may become prohibitively expensive or result in either a national or global 'market failure', as seen after the Baltic Exchange bombing and 9/11 respectively in the terrorism space.

As such, our report recommended that a coordinated solution now, in advance of a problem occurring, would enable the still nascent cyber insurance market to develop sustainably and for society to build as a result, resilience to systemic cyber risks. Further, we noted that significant growth and resilience dividends were likely to accrue to 'first-mover' nations and markets who are proactive as opposed to reactive in the cyber risk space.

RECOMMENDATIONS FROM THE 'CYBER AND TERRORISM' SUBGROUP

The primary recommendation from the subgroup discussed at the BoR Conference was the 'UK Pooling-Potential Framework' (UKPPF). This phased approach recognises that many governments are unwilling to intervene before a market failure crystallises in the form of a market-changing event. Therefore, a commercial cyber pool in the first instance could provide a starting point, leveraging additional capacity and enabling market coordination and greater resilience, becoming state-backed only after a demonstrable market failure rendered it necessary and government agreed from a policy perspective.

If established in the UK, the pool could withstand losses for at least a major catastrophic event and create capacity not already provided by the UK's cyber insurance ecosystem, as well as harnessing that of the reinsurance sector. Moreover, it could strengthen cyber risk management best practice and underwriting, and twin coverage with cyber-security best practices, reducing aggregate losses and therefore premium costs.

Compared to the status quo, the pooling of this poorly understood risk even without state backing makes the market more robust, reducing the volatility of claims and the costs of cyber insurance. Furthermore, it potentially decreases the UK's protection gap, and strengthens the UK cyber ecosystem, with the potential to attract foreign direct investments by improving investment prospects.

The concept of a sovereign public-private cyber pool is not new, though the idea of it being designed into a preliminary commercial cyber pool is. Numerous other industry working groups and senior executives around the world, as well as think tanks, academic institutions, and some multilaterals, have explored and advocated various forms of a 'Cyber Re' structure. This structure could provide even greater resilience benefits by guaranteeing the tail risks which cannot be underwritten in the private sector, thereby enabling the commercial market to grow sustainably whilst fulfilling the public policy objectives articulated by the UK's National Cyber Strategy 2022.

Clearly, challenges relating to scope, funding and triggers would need to be carefully considered in the design process. The subgroup noted, however, that the complexity of these considerations makes a strong case for carefully implementing an optimal scheme ex ante, rather than in a hurry ex post when market failure has already occurred and systemic impacts have multiplied unmitigated. Indeed, the concept would allow for the incubation of a currently poorly understood risk, allowing time for investment via the resultant economy of scale into aggregating data and using it for modelling, risk reflective pricing, and mitigation techniques.

RETHINKING RESILIENCE: FROM CAUSE TO EFFECT

The House of Lords Select Committee on Risk Assessment and Risk Planning delivered its comprehensive report into 'Preparing for Extreme Risks: Building a Resilient Society' in December 2021. This report carried a salient message not just for the UK but for policymakers from all around the world:

We must move away from a risk management strategy which prepares for individual risk scenarios in isolation and often ignores or fails to appreciate the interconnected nature of our society... The Government's risk management system should change from attempting to forecast and mitigate discrete risks, towards a more holistic system of preparedness.

Accordingly, in collaboration with the other two taskforce subgroups, we looked beyond cyber as a discrete risk to outline frameworks aiming for a more holistic system of preparedness at a country level. The primary framework discussed at the BoR Conference, 'Resilience UK', proposed the creation of a new combined insurance and infrastructure public/private offering that will allow governments to invest ex ante in climate and cyber resilience.

These conversations have been ongoing since the Conference and are gaining traction beyond it. In another of this Journal's articles, Lord Toby Harris, Chair of the National Preparedness Commission, explores the concept of a 'Gov-Re', reinforcing that while there may be no silver bullet to greater resilience in the future, holistic public-private partnerships between states and the (re)insurance industry will be an indispensable ingredient. ●

JULIAN ENOIZI
President, Insurance Institute of London and Global Head of Public Sector, Guy Carpenter

ROB GOEBEL / IKON IMAGES

> We have all now seen in practice just how vulnerable we are to systemic issues and interconnected risks

IN THE SPOTLIGHT

In February 2022, **Julian Enoizi**, President of the Insurance Institute of London, spoke to **Dr. Michael Menhart**, Chief Economist and Head of Central Division Economics, Sustainability and Public Affairs, Munich Re.

Julian spoke to Michael before the outbreak of war in Ukraine, and though the macro trends they discuss will be inevitably shaped by the conflict and its consequences for the global economy, these trends will continue to be key strategic issues for the London Market and broader (re)insurance industry over the long term.

JE: What will the post-pandemic world economy look like? What are the implications for the insurance industry?

MM: The pandemic brought the most severe economic recession in modern times, with the global economy contracting by around 3.4% in 2020. However, in 2021, despite the persistence of the pandemic, we witnessed a strong recovery; global GDP grew by 5.6%, due in part to the extraordinary fiscal and policy support measures put in place by governments around the world. In early 2022, with the effects of the pandemic still very much with us, we saw high growth, but also high inflation and very high uncertainty.

To look ahead and assess implications for the industry, we need to attend to key mega-trends emerging from the pandemic. These are not exhaustive, but include:

- **Supply chain** and labour shortage issues continue to affect productivity and the global recovery.
- **The increased role of the state:** Governments have been highly interventionist throughout the pandemic, affecting markets' expectations for future crises, as well as using vast amounts of debt to support economies throughout the pandemic with knock-on effects for fiscal policy over at least the next decade.
- **Higher inflation rates:** impacting on global stock markets, businesses' growth, and consumer spending trends.
- **Digitisation:** The pandemic has transformed industry and consumer behaviour, fast-tracking the existing global trend for increasingly digital work patterns, lifestyle choices, and business strategies, bringing with it unforeseen challenges and opportunities.

- **Sustainability:** has risen even further up the agenda, as we have all now seen in practice just how vulnerable we are to systemic issues and interconnected risks.

JE: Will the economic recovery continue? What are some key scenarios for the future of the world economy?

MM: The only certainty at this point is the high level of uncertainty that is likely to be a key feature of the next few months and perhaps years. The global economy is at a critical junction between a positive scenario of continued recovery with a moderate degree of inflation, and a negative scenario of stagnation with high inflation and low growth.

For the positive scenario to play out, we would need 1) to avoid further economic damage from the effects and policies relating to COVID-19; 2) an easing of supply chain disruptions; and 3) no further escalation of the geopolitical tensions we are already witnessing.

Consumers are a key driver in this positive scenario; many are sitting on large amounts of accumulated savings they could not spend during the pandemic, and increased spending can drive recovery in the Eurozone and the US, with a knock-on effect for the amount that firms can invest in their own development.

In the downside scenario, high inflation and low economic growth would be key features, though continued supply chain disruption also poses a significant short-term threat. For example, if China's 'zero COVID' policy continues and leads to more widespread lockdowns, this could impact harbours, and global supply chain logistics would suffer another hit.

JE: Is inflation a temporary phenomenon or are the times of low inflation over?

MM: The fundamental drivers of low inflation in the past are changing. Global competition and cost- efficient supply chains have been keeping inflation rates low, but these forces have been significantly weakened over the last two years. Global cooperation has not increased, while many more companies will now not rely on vulnerable global supply chains in the future, even if they are more efficient.

Another factor is the decarbonisation of our economies. This is both desired and needed, but brings the risk of higher volatility, for example in energy prices, raising the prospect of renewed periods of inflationary pressure from energy and commodity markets.

> THE TIMES WHEN ESG ISSUES WERE ONLY COMMUNICATION ISSUES ARE GONE

Further, it will be worth keeping an eye on labour markets. If people see or think that inflation is not returning to pre-pandemic levels, then inflation expectations will rise, potentially leading to pressure for higher wage growth and triggering a wage price spiral similar to the one we saw in the 1970s.

For these and other reasons, I think the times of ultra-low inflation are over, a reality we are all going to have to adapt to. We have already seen the Bank of England shift gear by beginning the process of ending expansionary monetary policy, whilst the US Federal Reserve has signalled similar moves.

JE: Has ESG developed into a strategic topic for all companies? What does this mean for the insurance industry?

MM: I'm deeply convinced this is a strategic topic. It has to be. The times when ESG issues were only communication topics are gone. The insurance industry's stakeholders have massively increased their expectations in this area. For example, all investors, and not just niche investors, as well as the rating agencies, have questions on a company's ESG performance and indicators, which automatically makes it a strategic topic. We also of course have increasing ESG regulation and reporting requirements which the entire industry is already having to navigate.

Another key stakeholder group is current and future employees, many of whom have and will have new expectations from their employer. Younger colleagues in particular are asking in job interviews what our company is doing on ESG, what our motivating purpose is. They want to work for companies that truly make a difference, that don't prioritise financial performance above anything and everything. I believe that the so-called 'war for talent' can only be won by companies who have a firm purpose and ESG strategy.

JE: Climate change has dominated the discussion on sustainability for years. Will this continue?

MM: I am convinced that conversations around climate change and sustainability are here to stay. There had been a view amongst some economists that once another major financial crisis occurred, such topics would be overridden by the need for profit and economic recovery in whatever format, that there would be too little resource to dedicate to sustainability issues.

In fact, the opposite has been true. During and after the more severe economic crisis of recent times, the strategic importance of sustainability has increased, partly, I think, because of our now heightened awareness of vulnerability and exposure to systemic global risks such as those associated with climate change. This is not to say that our core business can be sidelined, and there are always new trends to worry about, such as cyber. But in my view, sustainability and other ESG themes such as human rights, are an inescapable and in many ways welcome part of the way we are all going to need to do business in the future. ●

JULIAN ENOIZI
President, Insurance Institute of London and Global Head of Public Sector, Guy Carpenter

MODELLING THE UN-MODELLABLE

In catastrophe insurance and reinsurance our reliance on model outputs has grown to the point where it is difficult to imagine an industry without them. The distillation of loss data, peril analysis and a glimpse into the future, produces a view of likely severity and frequency capable of translation into future expected losses. This underpins pricing, acceptance, limits, attachment points and aggregation in most property classes. Although any model is only as good as the data that underpins it, it seems logical that model output for high frequency events is more accurate than very low frequency or even unprecedented events.

One of the key challenges facing (re) insurers of low frequency, high severity events is how in the absence of relevant or accurate historical event data can such events be modelled? Although it is easy to imagine the challenges in quantifying events that are completely unprecedented, evaluating and quantifying events that last occurred more than a century ago can be equally problematical. Insurance models are most reliable when they are experience led, as they use a plentiful supply of historical claims data to forecast what might happen in the future and this can be applied at policyholder, account or insurer level. Once claims frequency recedes, sometimes to the level where there are no claims at all, the underwriter or actuary needs to consider how accurate the foundation stones of the model might be, with a pivotal consideration being what does a claim event look like?

This might seem straightforward for certain natural perils such as storm or flood which happen frequently and where it might seem there has been little change to the event manifestation. Unfortunately climate change is leading to significant shifts in the severity, frequency and location of storm or flood events. This is illustrated by the recent rain bomb in Eastern Australia, until recently a location not known for storm or flood events. Other natural catastrophe perils such as earthquakes present different challenges, due primarily to very low frequency and uncertainty surrounding the precise magnitude of many of the large earthquakes pre-1920. A New Madrid (Missouri/Tennessee, USA) event today would be very different to the last earthquake of magnitude on that fault line over two hundred years ago, largely because the world is a different and more densely populated place. Moreover, earthquakes present themselves in different forms depending on multiple factors. So not only do seismologists not know which of the average of 200 measured New Madrid seismic events per year might be the big one, it is difficult to predict the nature of such an event given there were three concurrent earthquakes in 1811/12, which also caused extensive changes to the fault itself and the land around it.

Pandemics are a naturally occurring phenomenon, although the jury is still out on COVID-19 as to whether there was also some human influence. However, COVID-19 does illustrate the difficulty in predicting the nature of future events given most discussions on the subject prior to 2020 would have been in the context

of mortality and life insurance. The actions of governments around the world turned the loss into a BI event for the property industry, an outcome few had predicted. A key issue for any catastrophe underwriter is not merely the occurrence of an insured event that they should be concerned with, but the post-event response of authorities, policyholders and wider society that may exacerbate the loss, sometimes significantly.

This concept of event manifestation, that is what an event looks like when it happens as well as the chain of events it might trigger, is further magnified when we are concerned with non-natural or man-made perils. Such events are created by humans, whether deliberately or accidentally, and are therefore difficult to predict. Terrorism is a good example of the difficulties in assessing a dynamically changing risk as terrorists change tactics, counter-terrorism agencies respond and the terrorist groups find new attack pathways. The possibility of unprecedented attacks, such as 9/11 or even a CBRN incident, are events any terrorism underwriter must evaluate and attempt to quantify. So how can we assess events where there is little or no history or loss data with which to calibrate a model?

SHUTTERSTOCK

Many underwriters of unprecedented events choose to engage with experts to build and quantify scenarios, which can then inform severity assessment. Frequency is more difficult and may involve expert elicitation to compare different types of scenario and compare feasibility. This is how we approached CBRN and cyber terrorism at Pool Re given there is little useful loss data and few incidents on which to underpin a model. Furthermore, the constituent parts of CBRN (chemical, biological, radiological and nuclear) need to be assessed and modelled as individual perils, within which are then multiple compounds, pathogens or isotopes that could be involved in an incident.

An illustration of the approach we adopted was for biological terrorism. We commissioned a research project from BioRisc Initiative at St Catherine's College and Cambridge Centre for Risk Studies (CCRS), which was asked to identify various scenarios where a terrorist group could deploy a biological pathogen, something post-Covid it seems likely they might be interested in. BioRisc and CCRS convened expert workshops to identify potential pathogens which resulted in the creation of two different pathogens; anthrax and a bio-engineered pox virus. Each scenario is representative of all possible scenarios that could lead to a similar sized loss and is quantified using Pool Re's exposure data to derive three sets of realistic, conservative and worst-case assumptions. This then provides the basis for a probability loss function.

So, if scenarios can be built like this then what's the problem?! Whilst this approach is useful in the absence of any other data, unfortunately there are inherent uncertainties in evaluating unprecedented events. Firstly, the event might manifest itself in a different way, such as for a biological pathogen where the wind blows the pathogen in an unexpected direction or even where terrorists obtain or create a more virulent pathogen than expected. Secondly, the event happened as expected but the response of the authorities is different which changes the nature of the event. This is what happened with COVID-19 where governments around the world decided to shut down parts of their economy in order to protect public health. While casualties were reduced significantly, considerable economic (and insurance) losses occurred. Finally, it is possible that the idea of event manifestation we have in mind is not the most likely outcome and circumstances conspire to deliver a completely different loss. As the loss is unprecedented, this is entirely possible.

> ONE OF THE ANSWERS TO THIS IS RESEARCH AND COLLABORATION

Many of the terrorism pools around the world recognised some time ago that one of the answers to this is research and collaboration. Like Pool Re, many of the pools invest in research locally but recognise that through partnership more is possible. This led to the creation of IFTRIP (International Forum of Terrorism Risk Reinsurance Pools) in 2015. This organisation not only convenes conferences and meetings but now commissions its own research, most recently a report on hostile cyber activity compiled by the Geneva Association.

Therefore, it is possible to model unprecedented events, as long as the underwriters understand the need to allow a much bigger margin of error.

STEVE COATES
ACII, Chartered Insurer, Chief Underwriting Officer, Pool Re

PREPARING FOR THE NEXT CRISIS

In January 2020, few people would have predicted how quickly the norms of our way of life would be disrupted by what the World Health Organisation were describing as 'a cluster of pneumonia cases with no deaths' in the Wuhan province of China. Yet just weeks later, we had deserted city centres, businesses shut down, enforced social distancing and mask wearing.

In the subsequent two years, we have witnessed the apotheosis of Zoom, the transfer of most interactions online and at various times more than half of the world's population subject to lockdown restrictions.

These developments came as a shock to many, as did the length of the crisis, the acceleration of societal trends and the possibly permanent alteration in the balance between citizens and the state.

But epidemics have occurred traumatically throughout history and pandemic flu has been in the top tier of the UK's national risk register since it was first published a decade earlier. So, we should have been better prepared. Of course, COVID was not flu – it has, for example, different requirements for personal protection equipment and crucially a strong ability to spread asymptomatically.

The UK was not alone: most governments had failures either in preparation or in execution of their COVID response. However, no crisis is ever exactly what you plan for. Moreover, as the Ukraine crisis has shown, we are living in a world that is increasingly volatile and unstable. Indeed, the last edition of the national risk register mapped 38 major risks facing the country, including environmental hazards, major accidents, malicious attacks (cyber-based and terrorist), risks arising overseas, and – inevitably – animal and human diseases.

The National Preparedness Commission was conceived before COVID hit, but the eighteen months since its first meeting have highlighted how vital its central purpose is to promote better preparedness in the UK for a major crisis or incident. The Commission brings together 46 leading figures from public life, academia, business and civil society and is focusing on three questions:

- What should we prepare for?
- How much preparedness is enough?
- How do we finance the necessary investment?

These are not just questions for government and there should be welcome recognition of this in the new National Resilience Strategy that is to be published in the next few months. Indeed, we are promised that this will be based on a whole-of-society approach, involving individuals, businesses and organisations.

This is consistent with what the Commission has been saying: if you make all levels of government, every organisation and each community more resilient, you can create a sort of 'herd immunity' for a society better able to address future crises, whether it is a new pandemic or a massive cyber attack or climate change. This is also true for each household and every individual. We all have our part to play. Genuinely, as someone once said, we are all in it together.

However, being properly prepared and resilient is expensive. Adopting a preparedness philosophy means parking our 'just in time' approach in favour of 'just in case' and being ready to build in redundancy and avoid interdependence. We need to be better prepared for the unexpected and for the uncertain.

None of this is easy, particularly in a world driven by short-term objectives and quarterly returns. And this is where the National Preparedness Commission comes in. Since its formation, it has published ten major reports, looking at what is needed to build better resilience, what is the organisational culture required, and how we can incentivise resilient behaviour.

One of these reports, 'Financial Foundations for Resilience', published last October, proposed an insurance-based solution. This recognised that large parts of society are ill-equipped to prevent, mitigate, or recover from major threats and shocks. In reality, there is little to incentivise many organisations to prepare for low probability events, to spend money on activities that may never be necessary, or not required until some unspecified time in the future. Yet recovery from major shocks may far exceed the readily available resources of many organisations and it may be impossible to insure against such risks, if the insurance markets are unavailable or are too shallow.

> **WE NEED TO BE BETTER PREPARED FOR THE UNEXPECTED AND FOR THE UNCERTAIN**

However, insurance plays an important role beyond just distributing money after losses. Insurance can also be a mechanism for encouraging innovation, establishing value-for-money, and spreading risk management best practice.

There is a real problem: at present, it is not clear who is responsible for systemic resilience. It is nonetheless a whole-of-society problem. The absence of arrangements may pose an existential threat to some organisations and because of interdependency this may become an existential threat to the nation. Protection for all is necessary and this means that it must be for government to ensure that these issues are addressed.

Indeed, the ability to better withstand and recover from serious shocks gives organisations and the nation a competitive advance. The report proposed a broadly-based public-private catastrophe scheme to make the nation more resilient.

Such a scheme, for the sake of discussion 'Gov-Re', would start with the National Risk Register to specify the major risks it would cover. Critical national infrastructure (CNI) organisations might form a compulsory core. Commercial insurers and reinsurers might be encouraged by their regulators to participate. Other organisations might apply to join, especially those on the edge of being CNI such as the many firms that during the pandemic turned out to provide 'front-line workers', such as supermarkets. Gov-Re would provide these organisations with business or operational interruption insurance. In the event of a major risk materialising, money would become available swiftly to Gov-Re's clients.

Gov-Re could require those insured to carry out a specified level of resilience preparedness activity in order to provide coverage or in exchange for reduced premiums. Gov-Re would act as the underwriter-of-last-resort to support payouts for recovery from catastrophic events.

Such a scheme could deliver higher levels of preparedness and resilience, enabling the nation to recover better and more quickly. Gov-Re would be as much about the identification of and solutions to problems in advance, sharing best practice, as about financial support after an event. The insurer would help organisations take preparations seriously and make appropriate cost-benefit decisions. The costs would be borne by organisations in a proportionate manner.

As a whole-of-society issue, ultimately government has to 'own' moving towards a Gov-Re. However, government should be doing so with full support from those charged with preparedness and emergencies, with support from critical national infrastructure facilities, and support from the insurance sector.

As the government moves towards publishing its new National Resilience Strategy and takes it forward over the next few years, what will be needed is a genuine whole-of-society approach that embraces all parts of society and properly recognises and supports the contribution that business and the insurance sector can bring.

LORD TOBY HARRIS
Chair of the National Preparedness Commission

ISTOCK

HMRC'S TRUST REGISTRATION SERVICE DEADLINE LOOMS

If you have set up a trust, or are a trustee, you may be required to register that trust with Her Majesty's Revenue and Customs (HMRC) under their Trust Registration Service (TRS). As part of European-wide anti-money laundering regulations, HMRC now require most trusts to be registered on their online Trust Registration Service (TRS). Previously, only trusts that had to pay tax had to register; the requirement now extends to most trusts, regardless of their tax status. This has created additional focus on trustee duties and whether the most appropriate trustees have been appointed.

In simple terms a trust is an arrangement, usually evidenced in writing, which creates a legal relationship between individuals and assets. For some assets, such as land, a trust must comply with certain legal requirements but generally, for a trust to be valid, all you need is an intention to create a trust over an asset that is clearly defined and a clear definition of the persons for whose benefit the trust is made, usually specific individuals, known as beneficiaries.

The person who provides the assets is called the settlor and they express their wishes in the trust document (usually called a Deed of Trust). Trustees are usually appointed (in addition to the settlor) and administer the trust in accordance with those wishes and relevant trust law. The assets transferred into the trust, and any benefits arising from them, will have to be applied for the benefit of the beneficiaries.

You may have a trust that needs to be registered, this must be done by 1 September 2022, or within 90 days of it being set up, whichever is the later date. The TRS must also be kept up to date with any changes such as a change of trustee and such updates must be made within 90 days of the change. Failure to complete the TRS and keep it up to date may result in a fine from HMRC. It is the responsibility of the trustees to ensure the TRS is completed and kept up to date.

All trustees are equally legally responsible for the trust, but you must nominate one 'lead' trustee to complete the TRS. They will then be the main point of contact for HMRC. If you have more than one trust, each one must be registered separately.

You can access the HMRC online TRS here **https://www.gov.uk/guidance/register-a-trust-as-a-trustee**. You can only register via this online service. You will need to set up an Organisation Government Gateway user ID before you can register the TRS.

Many people have become trustees without a full understanding of their responsibilities. Ensuring a trust has a suitable lead trustee able to comply with the TRS obligations is important. Trustees should remind themselves of their duties. Often a settlor is the lead trustee, which may have been appropriate when the trust was created but perhaps now needs reviewing. As the TRS is an online-only platform this may create a challenge for trustees with vulnerable circumstances, especially digital capability.

The financial planning profession is actively supporting trustees to comply with the TRS regulations and the tight 1 September 2022 deadline. A great example of the value of advice. ●

EDWARD S GRANT
FPFS, MSc Finance, Chartered MCSI, FRSA
Chartered Financial Planner,
Chartered Wealth Manager,
European Financial Planner

AVOIDING CLAIMS FOR DISCRIMINATION WITHIN RECRUITMENT

Discrimination is a minefield; full of complex concepts and case law. This article highlights steps to avoid the main pitfalls (time, expense, reputational damage) arising out of claims and flag the inherent added value of going beyond the requirements.

UNDERSTANDING THE BASICS

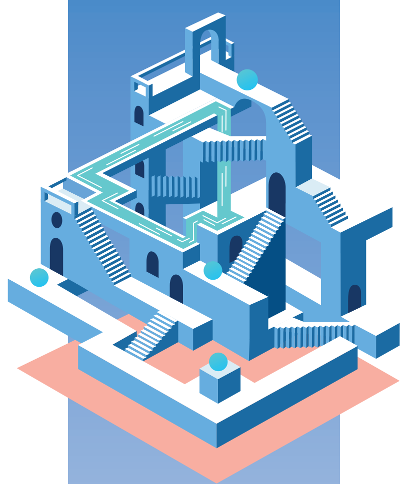
- The Equality Act 2010 (EqA 2010) makes discrimination unlawful in relation to nine protected characteristics - age, disability, gender reassignment, marriage/civil partnership, pregnancy/maternity, race, religion or belief, sex and sexual orientation. A report is expected from the Commons Women and Equality Committee this year on whether the menopause will be added to this list.
- The EqA 2010 prohibits discrimination at all stages of the employment relationship, not just recruitment.
- No length of service is required to bring a claim for discrimination - an unsuccessful applicant could do so.
- Awards for upheld discrimination claims are uncapped, the highest ever compensation award in the UK is thought to be £4.5m

BEYOND THE REQUIREMENTS

Rather than aiming for compliance with the law, we now know there's added value in going beyond the requirements and embracing inclusion and diversity (I&D) in business.

Diverse workforces can be more successful, with higher levels of innovation and creativity. Having a team of people with different backgrounds gives a business a wider perspective and suggests that it's a good place to work.

How can employers avoid claims and strengthen the business?



In a nutshell - follow the Code.

The EHRC's Code of Practice is designed to provide best practice advice on how to comply with the EqA 2010. The Code opens employment opportunities to a wide pool of candidates to ensure access to the best talent.

The Code isn't legally binding but it may be used as evidence in tribunal proceedings. Following the Code's do's and don'ts (see below) will help avoid claims for discrimination and may enhance I&D.

PRACTICAL STEPS:

- Keep a robust paper trail with clear and objective records from every selection decision to justify each decision and process.
- Make sure you'd be happy for an applicant to see everything that's written down about them. It could be subject to a data subject access request.
- Train staff to avoid subconscious bias and how not to undermine the process at interview.
- Assess whether the job needs to be full-time, or is it open to job-sharing, part-time, or home/hybrid working. A policy of offering all vacancies on a full-time, part-time or job share basis could avoid claims for indirect sex discrimination.
- Prepare a detailed written job description and person specification before advertising - in plain language with an appropriate gender-neutral job title.
- Advertise vacancies widely to increase diversity in the workplace.
- Use the same process and interview questions for each applicant.
- At interview:
  - Avoid asking questions about health/disability before offering a job, to avoid claims relating to disability discrimination. You must still ask whether reasonable adjustments are necessary to enable attendance at interview/selection process.
  - Conduct interviews strictly on the basis of any application form, job description, person specification, set weight for criterion and selection test results, to ensure all applicants are assessed objectively.
  - Avoid asking interview questions that relate to any protected characteristics, such as those about childcare arrangements or plans to have children.
  - Give feedback to unsuccessful candidates to avoid an implication that the reason for rejection is a discriminatory one.

This way, you'll be less likely to face a claim for discrimination and more likely to gain competitive advantage from developing a greater reflection of society within your business.

KATE ROBERTS
Senior Solicitor, St. James's Place

HOT TOPICS IN INSURANCE AND FINANCIAL PLANNING

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

ILLUSTRATIONS: **BEN MOUNSEY-WOOD**

CLAIMS

PAUL HANDY BSC(HONS) MBA ACII FCILA FUEDI-ELAE FIFAA ACMI

Chartered Insurance Practitioner,
Global Head of Cyber Crawford & Company, Chair, Claims Committee

We continue to operate in a recovering and fast changing operating and socio-economic environment, as such our claims programme this year is intentionally broad whilst allowing for flexibility to ensure that it remains current and on point. Examples of this can be seen in the latter part of this year's CPD programme, where we have introduced and hosted additional presentations discussing the increased cyber threats stemming from the Ukraine crisis and the recent Australian COVID BI test case ruling.

We arranged a presentation that focused on the continuing debate and related challenges attaching to the payment of ransomware claims, including discussion on sanctions, war exclusions and current trends. Aligned to an increase in inherent or latent defect claims, we hosted presentation spanning the basis of this cover, understanding risk and exposure and current trends. Global warming and the impact thereof continues to be a topic of concern, and this will be explored by way of reference to claims attaching to third party litigation against energy providers – is this 'the new tobacco'? As offshore construction claims costs escalate, how do we control these; what provisions exist within wordings to manage related risk and exposure?

Promoting and supporting the needs of our younger members is and remains an important component of our programme. This year we are hosting a presentation tackling the need to future-proof the role of the claims handler, specifically discussing 'career progression in a hybrid workspace'. In addition, we are working

with a well-known business school and our Young Members Committee to provide a series of introductory presentations with learning objectives built around a set of more general business skills for claims people with the option to progress towards an MBA qualification.

AVIATION

GARETH HOWELL, ACII

Chartered Insurer
Underwriting Technical Director, Global Aerospace
Chair, Aviation Committee

The aviation sector is preparing for a successful summer season in 2022 as it emerges from the pandemic restrictions. It remains to be seen whether there will be a shift between the mix of business and leisure travel as companies evaluate the longer-term implications of conducting business virtually.

Survival and positive cashflow generation are still a focus for many in the industry, however, we can see continued investments in the future. New technologies are in development with sustainable fuels, electric advanced air mobility vehicles and hydrogen-powered aircraft all attracting substantial investments.

Sustainability is arguably the focus word for 2022, both economically and environmentally as airlines grapple with implementing meaningful environmental policies in an industry heavily reliant on burning fossil fuels. Climate-related events have brought challenges for aircraft insurers, with various hail and tornado events affecting aircraft parked up due to the pandemic.

Overall claims prior to the pandemic were some of the worst on record, and underwriters have resolved to underwrite business profitably, notwithstanding the temporary reduction in exposures. Insurers expect that as flying resumes, so too will claims, and the industry may suffer from losses associated with bringing back a workforce that has largely been laid off for 18 months. There have also been some $100m+ jury awards for individual aviation accidents in the US, for which the implications are being evaluated.

Finally, increased private investment has fuelled growth in the space sector and new launch methods, reusable rockets, miniaturised satellites, space tourism and space exploration are presenting new risks and opportunities for insurers.

A combination of optimism, investment and uncertainty indicates that the aviation sector will be an exciting place to be and our CPD programme for the 2022/23 season will help members to navigate some of these issues.

CYBER AND TECHNOLOGY

ROB WINDSOR-CLIVE ACII

Product Owner, Revolut
Chair, Cyber & Technology Committee

Cyber insurance has started to see a gap emerge between what insureds need and what carriers are willing to offer, and it will be a goal of cyber as a line of business to find ways to close this gap (please watch out for a talk on this topic next CPD season). An expanding threat landscape and increases in the frequency and severity of losses, particularly driven by ransomware, are largely responsible for this gap emerging.

Russia's invasion of Ukraine has sadly reminded us that in peace sons bury their fathers, but in war fathers bury their sons. Cyber insurers are trying to understand how the paradigm shift in politics will impact the digital world. Hacktivism has already played a part in the war and while hacking attacks have more recently been on government targets, history suggests targets may spread to the corporate world. The distinction in cyber wordings between state actors and non-state actors will be key. A recent ruling in the USA in favour of Merck against an insurer applying for a war exclusion in 2017 on the grounds NotPetya 'was an instrument of the Russian Federation as part of its' ongoing hostilities against the nation of Ukraine' will not be the first such case to be in the courts in coming years.

Within Insurtech we still await a breakout player spreading fear among the incumbents. The significant consolidation in the market during 2021 suggests we may need to wait longer: Lemonade acquired Metromile, Travelers bought Trov, and Zenefits (once with a $4.5bn valuation) has left Insurtech altogether, having been taken over by TriNet.

FINANCIAL PLANNING

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

Over the past year the financial planning community, as a client-facing profession, has benefited from more frequent virtual client meetings enhancing ongoing servicing and better client outcomes. This has improved the client's financial housekeeping, doing the basics well. As a result, the profession has become more flexible, both for clients and financial planners. Clients have found it easier to arrange a virtual call bringing family members together to discuss their family wealth. Active intergenerational family meetings enhance the impact of the value of advice.

In addition, there are greater opportunities for more diverse professional financial planners who fit their client meetings around their clients and their own family commitments. The growth of alternative assessments like coursework rather than written exams also offers greater flexibility. The financial planning profession nudged by the Retail Distribution Review is embracing professional development with increasing numbers of Chartered professionals and going even further with master's programmes too.

Our themes have continued to be focused on the key issues of effective use of tax wrappers, pension transfers, financial goals-based planning, supporting clients in vulnerable circumstances and the cost of long-term care. We also considered leadership in the evolving landscape and the CII professional roadmap.

INCLUSION AND DIVERSITY

MARY BOWIE
Senior Counsel, Miller
On behalf of the Inclusion and Diversity Committee

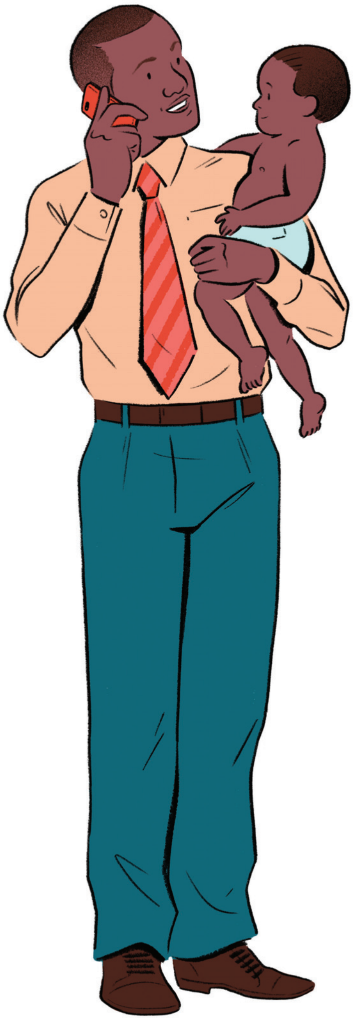
The IIL Inclusion and Diversity Committee asked the Insurance Families Network (the IFN), an Inclusion@Lloyd's Partner Network, to suggest hot topics for this year.

'The IFN's purpose is to create a more family friendly insurance industry and recently introduced Inclusion Champions who are passionate about supporting those aims within key areas of focus. The Champions dedicate a few hours a month on a voluntary basis to actively promote the work of the IFN within their organisations and networks, through events with other networks and subject matter experts, and by producing awareness raising articles, blogs and social media posts.'

Our Champions share thoughts on key priorities.

- Tim Soper, Aon – Working Dads: 'Fostering a working environment where dads are willing and able to talk about any issue and are supported by "one-for-all" employer policies based on parental status alone – not just statutory minimum based on gender.'
- Michaela Gibson, Apollo – Menopause/Age Inclusion: 'The "50 over Fifty" campaign challenges the intersectionality between gender and ageism and will continue this year. The Good Recruitment for Older Workers (GROW) project launched by the Government's Behavioural Insights Unit along with the Centre for Ageing Better, will prototype solutions that minimise age bias in the recruitment process.'
- Rachel Pears, RPC – Neurodiversity: 'Organisations should include neurodiversity as a separate question in their diversity surveys and proactively consider workplace adjustments for any neurodivergent candidates and employees.'
- Sarah Brown, Acumen – Domestic Abuse: 'Raising awareness that domestic abuse can impact a variety of different relationships – parent, child, sibling, elders, LGBTQ+.'

The IFN is looking for an Inclusion Champion to support us on fertility issues – for details on the Champion role profile, please email: **contact@insurancefamilies.org**



For financial planners and their clients, the world continues to become more complex as we evolve out of the pandemic, tackle the cost-of-living crisis and markets assess the impact of the war in Ukraine. Clients are increasingly concerned about how their investments are managed and the collective good they can create. Governments will continue to incur high levels of expenditure and grapple with how they will repay the historic UK PLC debt. Navigating the allowances, exemptions and reliefs available will require financial planners to ensure their regular ongoing client conversations balance the clients' goals and aspirations and the nuisances of the increasing tax burden. ●

MARINE AND ENERGY

JUDY KNIGHTS, ACII

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

The global supply chain is in upheaval, with the pandemic halting international production and trade operations. Mayhem at factories, ports, shipping yards, lack of containers, and shortage of hauliers caused delivery delays and inflated transportation fees. After decades of reliance on 'just-in-time' logistics, cheap and reliable shipping can no longer be taken for granted. The Ever Given, which blocked the Suez Canal in 2021, also resulted in huge ramifications for the global supply chain.

A series of presentations are planned covering topics such as lessons from the Ever Given, evaluation of container stack collapses and containers overboard and a discussion of the capsize of the MV Golden Ray, considering the lack of stability of car carriers and difficulties of wreck removal. A presentation on Lloyd's Open Form will discuss 'is it fit for purpose?'.

Earlier this year, investment banks predicted that the price of a barrel of oil could rise to over $100 by Q3 2022 and, following the war in Ukraine, oil has already surpassed this. This return to drilling will have serious consequences for energy insurance and could increase loss activity.

Given the PRA's and Lloyd's focus on climate risk and Environmental, Social and Governance, insurers are expected to cease providing new insurance cover for coal-fired power plants, thermal coal mines, oil sands and Arctic energy exploration. Marine insurers have a key role in supporting the transition to a net-zero economy, with a presentation set to advise on the Poseidon Principles enabling insurers to assess their portfolios against responsible environmental impacts and incentivise international shipping's decarbonisation, set against the IMO timeline of achieving 50% reduction in carbon emissions by 2050.

Meanwhile, US social inflation continues to be a concern. Possible drivers include reptile theory tactics by plaintiffs' attorneys, desensitisation to large sums of money by the public and growing anti-corporate sentiment. ●

REINSURANCE

JENNIFER BRANEY, ACII

Cyber Broker & Consultancy, Gallagher Re
Chair, Reinsurance Committee

The London reinsurance market has already had to rethink aggregating and systemic exposures in light of the global pandemic. For 2022 and beyond, war, non-peak perils and inflation should be added to the list for consideration. The market should also re-examine its appetite for these exposures in the changing industrial and geopolitical landscape and accurately reflect this in the actual reinsurance product: the contract wording.

We are often guilty of thinking that war happens in a distant place or a different time. Yet with war now in Eastern Europe, the reinsurance industry needs to rethink the systemic consequences: from sanctions implications, to adapting cover to account for hybrid warfare in the cyber age, to addressing arguably defunct war exclusions originally drafted in a bygone time.

'Non-peak' perils also seem a misnomer now given mounting evidence of their increasingly peak status. With rising inflation – economic as well as social – we should consider the impact this will have to capital as well as risk.

When combined, these important issues and exposures amount to a call to arms for the London reinsurance market. If, after re-evaluating appetite we cannot adequately spread these risks in the private market, efforts should be made to engage effectively in the public/private space to collaborate on solutions.

Equally important is to reflect that clarity on appetite in the reinsurance contract wording. The market must invest in developing talent in this specific, technical area and consider how this crucial role fits in to the wider organisation – as an integrated part of the business units of underwriting, advising and broking, or as a risk management or compliance function.

My Committee will discuss these topics in our CPD programme for 2022/23. ●

PROPERTY

IAN FRANCE, ACII
Chartered Insurer
Head of Property for European Operations, QBE
Chair, IIL Property Committee

Climate risk remains a hot topic for property underwriters, brokers and risk managers. Munich Re estimated that insurance industry losses from natural disasters reached their second highest ever total of US $120 billion in 2021.

Climate trends are notoriously difficult to predict but there has been an increase in both frequency and severity of natural catastrophe events in recent years. The current geopolitical uncertainty and economic impact of the pandemic also impact on supply chains and create inflationary pressure on rebuild costs and insured values.

These interconnected challenges are difficult to manage but uncertainty and risk creates a tremendous opportunity for the London insurance market to increase in relevance by offering risk transfer solutions and related risk management services in response to the fast-changing risk landscape.

The impact of future climate events will not be evenly distributed, but certain perils such as wildfire will become more common across larger areas. Additionally, we anticipate that legislative and/or regulatory change to building design, building materials, building resilience and/or emission reductions will have a direct effect on the risk profile of any given building, which could lead to unexpected exposure for insurers and risk managers.

The risk industry needs to improve our understanding of these evolving risks by developing a culture of continuous improvement. For example, it is now possible to better capture risk management data at location level to provide more predictive pricing and proactive risk mitigation services to clients. Use of AI, digital twins and real time data via IoT devices are all potential areas of improvement currently being explored by risk professionals.

Underwriters may need to enhance their due diligence, but the London insurance market has the relationships, capabilities and experience to partner with our clients to effectively manage climate risk and the Insurance Institute of London will continue to support these efforts.

CAN YOU HELP OUR FOODBANK CHARITY?

A lot has changed since I started volunteering for Barking Foodbank back in March 2020. Some of those changes have been welcome - I said a happy goodbye to operating from the car park through heatwaves, snow, and storms as soon as Covid restrictions allowed us to safely move back inside. Others, less so. The cost of living crisis is having an inevitable impact on our services and statistics released by the Trussell Trust make for grim reading:

- Foodbanks in the Trussell Trust network provided more than 2.1 million emergency food parcels between 1 April 2021 and March 2022 – a 14% increase on the same period pre-pandemic.
- 832,000 of those parcels went to children.
- Compared to this time five years ago, the need for foodbanks has increased by 81%.

In June 2022 Barking Foodbank will open its third site in the London Borough of Barking and Dagenham, providing support to the community six days a week.

As the cost of living increases, donations are decreasing. I never thought I'd see a time when we were running low on baked beans (almost every donation contains a tin of beans and a bag of pasta!), but we are getting there. This is why I am delighted that the Insurance Institute of London has continued its Charity Partnership with Barking Foodbank. £4,075 has been raised so far and more fundraising events are being planned. The most highly anticipated is the return of the YMC Winter Ball after a two-year break. The YMC Ball is the biggest social and networking event on the IIL calendar and will be held on 18 November at City Central at The HAC, with any surplus funds being donated to Barking Foodbank.

Foodbanks are able to operate thanks to the support and generosity of the public and every donation makes a real difference to someone in crisis.

If you would like to support the work of Barking Foodbank, you can donate via our JustGiving page.

NICCI GREENACRE
Chief Operating Officer, IIL

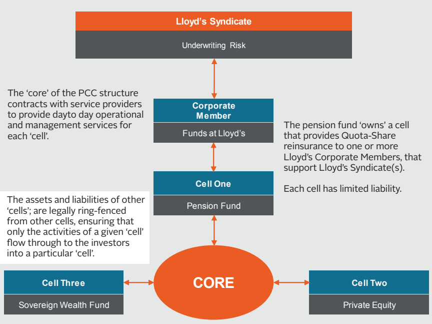
INVESTING IN LLOYD'S UNDERWRITING

Lloyd's has suffered challenging underwriting years recently, driven by catastrophes and COVID. However, Lloyd's remains a market where patient investors can generate significant returns from underwriting and investment income. Insurance risk is largely uncorrelated from market risk and with the long-term performance of Lloyd's, diversifying into Lloyd's-related investments can reduce the volatility of an investment portfolio while protecting returns. Given this and Lloyd's recently created a new way for capital to support syndicates – are we entering a period where long-term investors like pension funds will increase their exposure to Lloyd's?

INVESTING AT LLOYD'S

Investing at Lloyd's may feel like entering a new world, while in practice. Investing in Lloyd's is not as complex as it may appear, and Lloyd's has made progress in simplifying the process. For instance, Lloyd's recently established UK based protected cell company, London Bridge Risk PCC ('LBR'), that aims to provide simpler, tax efficient, and regulated investor access to the Lloyd's market. In this model, an investor sponsors a 'cell' in LBR to access Lloyd's.

ILLUSTRATIVE PCC STRUCTURE



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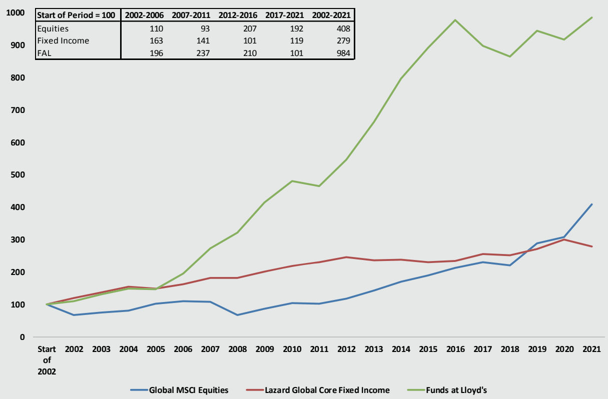
CUMULATIVE RETURNS FROM (INDEXED TO 100)



Start of Period = 100	2002-2006	2007-2011	2012-2016	2017-2021	2002-2021
Equities	110	93	207	192	408
Fixed Income	163	141	101	119	279
FAL	196	237	210	101	984

Source: Calculations by author; statistics relating to Lloyd's; Lloyd's Annual Reports; MSCI World Index; Lazard Global Core Fixed Income; return on funds at Lloyd's = pre-tax profit/ funds at Lloyd's; indexed to 100 for the start of each period; assumes end of year FAL is fully reinvested back into the following year's FAL.

The cells are legally insulated from the results of other cells, with investor capital used to support underwing at Lloyd's. By using standardised documentation and processes, this should streamline investment in Lloyd's.

FUNDS AT LLOYD'S

Using LBR the assets supporting an investor's cell are lodged as Funds at Lloyd's ('FAL') to meet regulated capital requirements. FAL is usually made up of cash, bonds, and equities, but can also comprise letters of credit ('LOC'). FAL is largely held in safer assets, with the average annual investment income on FAL from 2002-2021 being 3%. Investment income on syndicate assets also benefits investors.

PERFORMANCE OF FAL

In the twenty years from 2002-2021, Lloyd's generated an annual average return of 13% on FAL. However, results can be volatile, with returns peaking at 39% in 2007 and a loss of (8%) in 2017, driven by US hurricane losses. Compared to investing in a diversified portfolio of global equities or a global portfolio of fixed income securities, investing at Lloyd's over a 20-year period generated superior returns. However, timing of entering and exiting an investment can result in very different results.

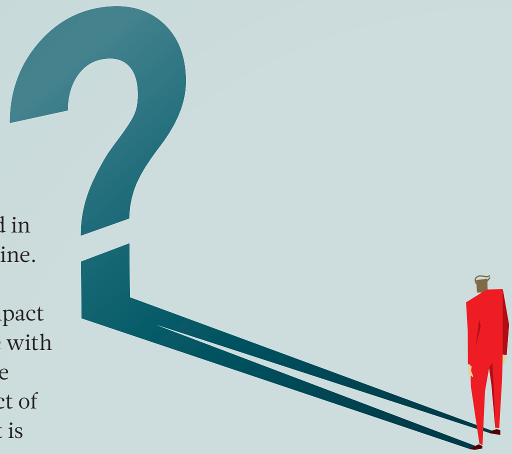
Looking at five-year periods, FAL outperformed equities and fixed income securities in all periods other than 2017-2021. This was a period where Lloyd's focused on remediating underperforming syndicates to create a foundation for future profits. With much of the hard remediation work completed and rates hardening in all lines, is the market positioned for another period of strong performance?

CONCLUSION

Global pension fund assets exceeded $50 trillion in 2020, nearly thirteen times larger than global insurance capital. Even a small allocation of pension fund assets to the (re)insurance industry could provide pension funds with a diversifying asset class that, when looking at Lloyd's FAL, has outperformed traditional equities and fixed income. The first major pension fund transaction using Lloyd's new PCC entity LBR took place in 2021 with the Ontario Teachers' Pension Plan. Will this be the first of many new pension fund investments in the market? Time will tell. ●

ERIK JOHNSON
FCII, Active Underwriter, MIC Global Syndicate

DIALLING UP OUR PURPOSE FOR A MORE RESILIENT FUTURE



As I write this, we are united in horror at the crisis in Ukraine. The human suffering is immense, and sadly the impact looks likely to grow and be with us for some time. Just as we learned many lessons from the impact of the pandemic, the Ukrainian conflict is prompting many of us to re-evaluate our purpose, and look to future possibilities with different insight and perspective.

As we ask ourselves, 'What exactly is our purpose?', our focus should be on the risks that affect our ability to withstand, and recover from future shocks, protecting and promoting possibility to ensure a more resilient future. As an industry, we have a tremendous purpose and, now more than ever, it's important that we tell our story and lead with purpose.

Key to this are three issues I'm particularly passionate about; attracting and developing future talent; diversity, equality, and inclusion (DE&I); and the wide spectrum of ESG risk issues.

The pandemic highlighted that societal discrepancies are not conducive to resilience in the face of future adversity and shocks. Young people have been disproportionately affected by the pandemic; with under 25s accounting for three in five jobs lost in the UK. As we return to the office, we need to consider the development needs and career progression of young people and ensure they are fully supported in achieving their potential.

As we grow our future talent we must seize the opportunity to build more inclusive workplaces. There are many commendable initiatives, notably GAIN (Group for Autism, Insurance and Neurodiversity) - of which Marsh is proud to be one of the founder members - which aims to unlock the potential that neurodiverse individuals can bring to the financial services sector; the Insurance Returners' Programme, which provides opportunities for career break professionals who are often overlooked; and The African Caribbean Insurance Network (ACIN), formed to boost black and minority ethnic representation within the insurance industry. However, despite making good progress, more is required to understand and foster greater diversity among our ranks.

Innovation is part of The London insurance market's DNA, with London and the wider insurance industry continually supporting organisations to overcome many challenges, yet more needs to be done.

The pace of change is rapid, and we must get ahead of the curve; as this year's Global Risks Report from the World Economic Forum attests; while some businesses are eyeing space exploration, the majority are facing new risks as a result of it.

One of today's key challenges is keeping up with the speed of technological change and delivering to our clients the benefits that efficiencies in data, analytics and risk modelling can provide. We also need to be mindful that while data and analytics can deliver a deeper understanding of client behaviour, algorithms can also be used to eliminate bias.

The health of the planet also dominates concerns in the Global Risks Report: environmental risks are perceived to be the five most critical long-term threats to the world as well as the most potentially damaging to people and planet, with 'climate action failure', 'extreme weather', and 'biodiversity loss' ranking as the top three most severe risks. As an industry we must accelerate our impact in addressing risks and supporting transition.

I have worked in the insurance industry for over 35 years; every year feels more exciting than the last, in terms of the possibilities within our grasp. As an industry it's time to dial up our purpose for a more resilient future.

CHRISTOPHER LAY
ACII
Chartered Insurance Practitioner
Deputy President, Insurance Institute of London
Chief Executive Officer, UK & Ireland, Marsh

THE INSURANCE CHARITIES

Despite the turbulence of the last two years, The Insurance Charities has remained a constant lifeline, offering practical and financial support to those in the industry who are struggling due to challenging circumstances.

We want to ensure that no current or former insurance employee misses out on any help they might need to steer them through a difficult time. Whether you've been affected by redundancy, bereavement, sickness, or domestic abuse we are here to help for as long as it's needed.

WHO ARE WE?

We support anyone in the insurance industry across the UK, Ireland, and Channel Islands. In 2020/21 we awarded over £912k to help those facing hardship. Whether you are a previous insurance employee, retired or are in the early stages of your career with no other employment, no matter your job role, we could help you and any dependants you have. All applications are dealt with in confidence. Employees and those who are not currently working can apply.

OUR HELP

We can provide one-off payments (including charitable loans) to help fund essential items such as property repairs, household appliances, funeral expenses and furniture. We also provide ongoing financial support where income is restricted or insufficient, and offer practical support to those with health, money, and housing concerns.

WORKING IN PARTNERSHIP

Since 2019 we have worked alongside the Alzheimer's Society to support people affected by dementia in our industry. At the end of last year, we were delighted to become an official Dementia Connect Referral Partner.

I CANNOT FAULT THE INSURANCE CHARITIES AT ALL. THEY HAVE HELPED ME AND MY SON HUGELY IN A VERY TRAUMATIC PERIOD FOR US AND I CANNOT THANK THEM ENOUGH

Anyone living with dementia, or who has a loved one diagnosed with the condition, can contact us directly, where we will refer them to a Dementia Connect dedicated adviser to provide the help that's right for them.

If you know of a colleague who may be affected either directly by dementia or through a loved one, we'd encourage you to share the details.

Our unique partnership also offers volunteering opportunities to those in insurance. We are looking for volunteers to become 'Companion Callers' and give up to an hour a week to make friendly (non-advisory) calls to those affected by dementia and who have been experiencing isolation because of the pandemic.

We can also support those in insurance with housing issues via our partnership with Shelter. If you have any housing concerns, whether you are in rented or owned property, you can make an online enquiry for support.

SPREADING THE WORD

The Insurance Charities is keen to spread the word throughout the industry, to make sure as many people as possible are aware of our support offering. We can come to your workplace or attend local networking events to give a short talk or have a stand to demonstrate how we can help. We can also provide flyers and giveaways, plus additional resources such as presentations for employers to share with colleagues. Thank you to all the CII members who champion our work, particularly those who support our national Awareness Week, which this year will take place between 20-24 June. We hope you and your employer can get involved to ensure your colleagues don't miss out on any available support.

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

VICTORIA SUTTON
Marketing & Communications Manager
The Insurance Charities

NEW BOOKS FROM THE INSURANCE INSTITUTE OF LONDON

INSURTECH – DIGITAL DISRUPTION AND INNOVATION IN INSURANCE (RS267)

Over recent years, the insurance industry has seen the application of new technology such as automation, artificial intelligence, blockchain, big data and chatbots. These offer benefits including reduced costs, improved customer experiences and greater accuracy in pricing, reserving and fraud identification. Whilst some insurers have already established digital strategies, others are still in the early stages of development. There are also several influencing factors, including legacy systems, GDPR and cyber risks, which insurers must negotiate to build a robust digital strategy. Furthermore, InsurTech innovations are typically driven by customer or business requirements rather than the traditional IT model.

Aimed at those involved in the development of digital strategies who may not have prior experience in this area, this reference-style book supports on-the-job learning and professional development by providing quick access to the key information about the most important InsurTech topics. This book builds on existing publications that explore general and life InsurTech by focusing on the London Market.

The topics encompass all aspects of the London Market, including broking, underwriting, claims, and reinsurance.

The book is split into four parts to ensure ease of reference. The first part provides a general background to InsurTech, including key terminology. The second part introduces the core technologies by chapter and provides an overview and examples for each. Part three covers key regulatory and legal concepts to help with compliance queries. The final part considers how InsurTech might evolve in the future to equip readers for discussion and debate.

This book is

● Pages 217 ● CII/PFS members £50 ● Non-members £65
Hard copy book is accompanied by a free PDF version. Go to **iilondon.co.uk** for more details on the launch.

CYBER INSURANCE RESEARCH FINDINGS (RS266)

2021 was a defining year for the cyber market – with significant rate increases in both the insurance and reinsurance markets and pressure building (via, among other things, recent cyber incidents like the Colonial Pipeline and Log4j) on carriers to clarify whether the peril of cyber is covered under non-cyber (re)insurance policies.

To understand the reasons behind these dynamics, it is necessary to take a deep dive into the risk of cyber, how it happens, why it happens, and the consequences. The (re) insurance fundamentals for this class of business need to be understood as well as the tools and processes used in underwriting and risk modelling. How do (re)insurers select which risks to cover? What are the common terms and conditions (and why)? What granularity of data is required for future underwriting success?

In this study, we examine cyber risk from four different aspects. We start by giving an overview of the cyber threats before detailing how organisations can insure against these threats. We then examine the insurance coverage available to insure (and reinsure) against these threats. We provide an overview of the latest thinking and mathematical modelling approaches on how insurers and reinsurers quantify and price cyber risk before giving an overview of cyber risk and loss management.

Written by practitioners, this comprehensive publication is useful for anyone wanting to gain an insight into cyber risk and how it is approached in the insurance and reinsurance market.

This book is being launched on 16 June 2022 online.
Go to **iilondon.co.uk** and click on the CPD programme for details of how to register for the event.
● Pages 382 ● CII/PFS members £60 ● Non-members £75
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