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UPHILL BATTLE

The four issues preventing women reaching the top in the London market

The intelligent quarterly from the publishers of *The Insurance Insider*

COMMENT

JUST SAY NO

Finally it has come to a stop. The goose has been cooked. The canary has croaked. The party is over. The fat lady has sung and the curtain has come down. The last person out has indeed turned out the lights. The rattling train has come to a halt.

It doesn't matter how you say it. It is finished. It's done. Finito. The End.

The end of what?

The end of the longest and strongest soft market in history? Surely not?

Well, if not the end, the beginning of the end.

Perhaps we have spoken too soon. We shouldn't dare even whisper it.

The last person to make this call was stuck down by a mysterious bolt of lightning and died, gibbering, charred and in agony as his distraught and helpless family looked on.

But, somehow we will pluck up the courage to mouth the words in defiant Trappist silence:

"It's the end of price declines."

And in moments of mindfulness we find ourselves doodling the words "no more discounts" in the margins of our jotters.

The blood has finally hit the streets and we have recognised some of it as our own. It has been a moment of grim, lucid realisation. An epiphany.

The junkie finally knows he is addicted and has decided to seek help before he sells the last of the family silver.

We know we need to act and only tough choices are going to work. We have rediscovered the will to stand up for ourselves and say no.

As this opioid affliction took hold of us over the past decade, we tried every piece of exotic financial engineering in the book.

We got into ILS asset management and ran sidecars. We diversified into specialty, casualty, E&S, credit and mortgage reinsurance. We did some synergy deals. We backed MGAs and binders. We went to Lloyd's. We pushed new lines like cyber and M&A insurance. Eventually we ran out of options and the losses came. We started to waste away.

But we would still do anything to ease the pain and the creeping anxiety, that butterfly feeling in the stomach that told us we were somehow going to lose all our friends if we didn't carry on with the party. But, it is so hard to say no.

Sometimes it seems that willpower alone is not enough. We fear we will fall off the wagon and then we may overdose with tragic consequences.

MARK GEOGHEGAN
Managing director, Insider Publishing

I once heard an amazingly candid interview with a doctor who specialised in palliative care for attempted suicide cases. He said the hardest part of the job was not dealing with sudden death. The saddest cases concerned those who had overdosed massively on standard household paracetamol painkillers. These victims were conscious and indeed many of them had recovered the will to live after their cry for help.

The trouble was that they had suffered liver failure and were condemned to a slow death. There was nothing he could do for them other than make them comfortable as the inevitable end approached.

And so it will be for some of us.

For an unlucky few the sad consequence of a decade of abuse of our vital organs is already a nailed-on certainty. The rediscovery of puritanical virtues will have arrived too late. Our fate is already sealed from the vast quantities of poison we ingested in prior years.

And we haven't even asked for more yet. We still can't bring ourselves to do that. We are still too scared and too weak. That will have to come another day when we have weaned ourselves off this awful drug.

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AROUND THE WORLD

IQ's roundup of regional market developments

INDIA

Reliance buys $4.7bn cover

Reliance Industries bought $4.7bn of downstream nat cat limit for its refinery and petrochemical plants at Jamnagar in one of the largest ever reinsurance placements in the London market for Indian petrochemical risks.

Local reports suggested the programme limit has risen by 33 percent from the previous year. The increase came after Reliance upped its 2018 refining capacity for the Jamnagar complex to 1.24 million barrels of oil per day.

Indian broker KMD is understood to be fronting the programme, with London market wholesalers including Ed Broking facilitating at the facultative end.

The downstream element is understood to be led by Munich Re, while upstream is led by Munich Re Underwriting, formerly known as Watkins Syndicate.

New India Assurance and GIC Re are also significant participants on elements of the programme.

NEW ZEALAND

Tower settles Peak Re dispute

New Zealand insurer Tower has reached a NZ$22mn ($15.9mn) settlement with reinsurer Peak Re over a dispute arising from an adverse development cover agreed in 2015.

Following an arbitration process the Auckland-headquartered carrier will receive NZ$22mn of the NZ$43.75mn claimed under the reinsurance contract, as well as all sums claimed in the arbitration proceeding.

Tower has sought to claw back costs arising from the Canterbury earthquakes in 2010 and 2011 after receiving more than 16,106 claims as of September. At the time it estimated the claims would cost the company about NZ$897.4mn.

In a commentary on its fiscal 2017 results Tower said it took an additional NZ$1.6mn after-tax reserve strengthening in the second half in relation to the claims, bringing the full after-tax impact to $11.4mn.

Industry-wide claims stemming from the earthquakes hit NZ$19bn ($13.6bn) in 2016, according to the Insurance Council of New Zealand.

DUBAI

RKH Specialty approved in Dubai

RKH Specialty has received a licence from the Dubai Financial Services Authority (DFSA) to set up an operation in Dubai's reinsurance hub.

According to a filing on the Dubai International Financial Centre website, RKH Specialty has been granted full authorisation from the DFSA.

A source at RKH said the Dubai operation is expected start placing business later this year.

RKH's operations in Dubai are led by trade credit and political risk broker Mahan Bolourchi, a former Middle East CEO at Euler Hermes.

Bolourchi joined RKH parent company Hyperion in May 2016 as Middle East head of financial risks.

It is understood that Bolourchi is being joined by Hala Long, former head of energy, Middle East, at XL Catlin, who moved to RKH in November. Long previously worked at Liberty Mutual and Zurich.

RKH already has a presence in Singapore, Bermuda and Miami as well as a subsidiary in Hong Kong.

BERMUDA

Bermuda registers 58 new insurers

The Bermuda Business Development Agency (BDA) has revealed that 58 new carriers were registered on the island in 2017, up 38.1 percent on the prior year.

The registrations, which ranged from captive insurance companies to long-term (re)insurers and special purpose insurers (SPIs), generated at least 61 new jobs, the BDA said.

Of the 58 new carriers, 24 were SPIs – seven more than in 2016 – with reinsurance covers consisting primarily of cat bonds, collateralised reinsurance and sidecars.

Among the sidecars launched last year were Chaucer's $95mn Thopas Re and Brit's $100mn Sussex Capital.

Barbican was also planning to raise £160mn ($214mn) of capital to fund collateralised reinsurance vehicle ClaRe, which provides stop-loss retro cover to Lloyd's syndicates.

There was one new Class 4 commercial reinsurer formed in Bermuda in 2017 – Premia Re, the reinsurance run-off group led by former Chubb chief reinsurance officer Bill O'Farrell and Arch.

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A touch of class

Global market updates by class of business

Political risk

Global credit and political risk insurance capacity has increased by nearly a third since 2015, with the market increasingly willing to take on financial risks without trade collateral, according to a recent report.

Trade credit broker BPL Global said maximum coverage available for private sector entities against credit default has risen by 30 percent since 2015 to $2.4bn. Capacity for state-backed risks has also climbed by 30 percent to $3bn.

The recent increase in capacity is attributable to a combination of both new entrants to the market and bigger line sizes from more seasoned players, the BPL report said.

Capacity for non-trade related financial risks, such as bonds, has reached $1.5bn, although BPL's data did not indicate the prior capacity in this line of business.

Aviation

Hiscox has ceased writing new aviation hull and liability insurance lines at its Lloyd’s operation.

The carrier said it would continue to honour all existing quotes issued for hull and liability cover.

It is currently in consultation with two members of the aviation team.

A spokesperson for Hiscox said: “Our team has built a core, high quality book of aviation hull and liability business, but market conditions make it difficult to see a future in this area.”

Hiscox pointed to the continued reduction in aviation rates and said it did not believe market conditions would change anytime soon.

Contingency

Spiralling incurred loss ratios from non-appearance risks have prompted a scaling-back of contingency lines being put down and the exit of three markets since last summer.

Data supplied to sister publication *The Insurance Insider* showed gross incurred loss ratios for the PN Lloyd’s risk code – which covers non-appearance losses only – reached 150 percent in 2016, the highest level since records began in 1999.

Barbican and Travelers both saw key underwriters depart last year and chose not to replace them, with the firms exiting standalone contingency business for 2017 instead. And ProSight, which wrote contingency as part of its media and entertainment book, placed its Lloyd’s operation into orderly run-off last June.

D&F

Property underwriters are facing the possibility of another full-limit loss in the Caribbean as a claim for water-related damage from Hurricane Irma to a beachfront hotel rises into the hundreds of millions of dollars. The Frenchman’s Reef & Morning Star Marriott Beach Resort in St Thomas, US Virgin Islands, is operated by the Marriott hotel chain but owned by property investment firm DiamondRock Hospitality Company.

DiamondRock said last November it was booking a receivable of $39.6mn for expected insurance proceeds relating to Frenchman’s Reef and other hotels in its portfolio, but sources have suggested that the claim has already reached in excess of $200mn and could threaten the full limit on the Lockton-placed cover.

Trade credit

A spate of losses in the UK trade credit market has prompted optimism about a possible increase in rates.

The insolvencies of charter airline Monarch and wholesaler Palmer & Harvey in 2017 were followed by the collapse of construction and services contractor Carillion in 2018, which led to £31mn ($43mn) in losses to carriers alone.

Sources said that some insolvencies were not entirely unexpected, including Carillion, Maplin and Toys R Us, with insurers having little exposure to the two retailers.

But the collapse of Palmer & Harvey and meat supplier Russell Hume caught underwriters off-guard.

Pub chain Wetherspoons dropped Russell Hume as a steak supplier in January over hygiene fears and the firm went into administration on 28 February.

D&O

Pricing for directors’ and officers’ (D&O) insurance is getting firmer, albeit slowly and in distinct areas, while industry executives are heartened that market leaders are walking away from business if they have to.

Pricing for primary public company D&O was relatively flat in Q4, but some executives believe what has been overlooked is a firming of rates stemming from legal costs from dismissed securities class action lawsuits.

Half of the securities-related class actions filed in 2015 have been dismissed, but legal costs from those cases still ate into primary D&O layers, aiding pricing.

Market intelligence on the QT

Medals and honours

The *Insider* team was honoured to receive a stylish, gold-edged, embossed invitation to the Chartered Insurance Institute's (CII's) President's dinner at Lloyd's, where BBC Breakfast business anchor Steph McGovern and Lloyd's CEO Inga Beale were co-presenters. But what's this? 'Dress Code: Black tie and badges of office'? Apparently this referred to the masonic-style medallions worn by CII members. This prompted a heated debate at *Insider* HQ: what form of regalia would befit the *Insider* attendee, referencing their journalistic credentials? A badger? A fly (in ointment)? A mosquito? A (cunning) fox? Answers on a postcard please.

Kinder Surprise

Apparently a large number of Swiss Re's UK employees were dressed up as unicorns, Easter Bunnies, Smurfs and the like earlier in the month. No, not in an attempt to show the reinsurance giant's 'fun' side – but a charity drive for the kiddiewinks. As part of the carrier's involvement in #MakeaDifferenceMarch, employees were raising funds for London and South East children's hospice Demelza. (And yes, we know Kinder eggs are Italian, not Swiss...)

Holidays in the sun

If you've caught an inflight movie on the way to Miami recently, you may have had to sit through a glitzy advertisement promoting the attractions of the Cayman Islands' sun-drenched beaches. The islands are a favoured destination for US sunseekers, as well as risk managers looking to set up captive insurance companies.

But, splutters of outrage followed a recent news story that executives from a hospital trust had been barred from attending two week-long captive board meetings in the domicile. The local captive managers' association suggested the story sent a "distorted message" about the reasons for such board meetings.

An overnight stay seems reasonable given flight times from Long Beach to Cayman. And, a week's stay seems sensible, given those glorious beaches...

UPHILL BATTLE

As UK firms publish details of their gender pay gaps, **Charlie Thomas** outlines the four major issues stopping women reaching the top jobs in the London market

It has been 46 years since Lloyd's welcomed its first female underwriter, and 45 years since it appointed its first female broker. It took until 2014 for the Corporation to appoint a female CEO, Inga Beale, and she remains one of a handful of women at the top of their game in EC3.

Even looking beyond Lloyd's to the wider London market, the statistics make for poor reading.

The London Market Group's London Matters report, published last year, showed the city's insurance market employed some 35,000 people, 41 percent of whom were female.

But when the focus shifted to the upper echelons of those businesses, just 5 percent of executive directors in the London market were women – far short of the 21 percent average seen across FTSE 100 companies.

Lloyd's recent gender pay gap reporting showed there was almost double the number of men than women in the highest-paid quartile of the Corporation, at 66.2 percent compared to 33.8 percent.

So what's going on?

Insider Quarterly has spoken to our market's top headhunters, along with representatives from the human resources (HR) community and a few executives, and has identified the four major issues which are holding back our market from making progress in the area of diversity and inclusion (D&I).

Timing and pipelines

Senior role turnovers are few and far between. Add to that the fact that the notion of having gender diversity on boards is a relatively new one, and you can see why it might take some time for companies to demonstrate material changes in their board make-ups.

"The issue has only really become live in the last decade or so, and we have seen progress – albeit slow progress," notes one headhunter.

There are a growing number of women taking higher-ranked roles, such as Beale at Lloyd's, Hiscox's Kate Markham and Megan McConnell, JLT Specialty's Lucy Clarke and Canopius's Sarah Willmont.

But it is not enough to simply sit and wait for nature to take its course. There is also a clear problem in terms of the limited pipeline of potential female candidates.

As more women become middle managers, the potential pool from which to select the CEOs, CFOs and chief risk officers of tomorrow will become more diverse. The problem is, the number of women filling that pipeline is currently low – and they don't have as many years' experience in those higher roles as their male counterparts.

"We've seen searches where we've been asked to come up with female candidates, but the problem is they all have less experience than the male ones because of where they are in their careers," says one search executive.

"And for all the positive talk at the beginning of the search, some firms can't see past that. They also don't understand that the few available 'good' women get snapped up. There needs to be a change in mindset about which skills you really need, rather than insisting on ticking 10 boxes out of 10."

There was also a need to recognise that men and women have different experiences – and to then help mentor and teach accordingly.

Of course, even as the pipeline of top women improves, there are other obstacles which need to be addressed.

Networking and visibility

Many of the people *IQ* spoke to said that when it came to selecting a person for a top job, a lot of consideration was given to culture and making sure the individual would "fit in".

Therefore, those doing the selecting would often consider candidates they already knew well – people they socialised with, trusted and had anecdotal evidence of being "the right fit" as well as the proven experience on their CV.

Out of sight is definitely out of mind for many of those hiring for the top jobs in insurance, and as a woman, if your network is not strong enough, it is unlikely that people will put your name in the hat when vacancies arise.

"There's a lot of leaders who've been in place since before the financial crisis, and when they plan their exit they'll probably look to hire in their own image," says one search specialist.

Much is often made of the "blokey" nature of the insurance market, and while the boozy heyday of long lunches, days on the golf course and nights out in table-dancing bars is largely behind us, the relationships

> There needs to be a change in mindset about which skills you really need, rather than insisting on ticking 10 boxes out of 10

Continued on page **12**

between men from such events is strong, and can be difficult for women to penetrate.

Much of the bonding still happens outside of work hours, which can be challenging for women with childcare concerns.

And given that the recruitment process for these jobs also often begins before the vacancy is made public, it is difficult for those on the outside to know that the job is available, unless they are part of the hiring team's network.

One way to combat this is to create D&I champions, ideally at the board level, whose job it is to make sure these women are not overlooked – and hold the board's feet to the fire when they are failing to look beyond their usual pool of potentials.

Having a champion also combats the issue highlighted by a number of recruiters – that some women have lacked the self-belief and self-confidence to put themselves forward for senior roles.

Research carried out by Korn Ferry in 2017 revealed that of 57 female CEOs across financial services they interviewed, 65 percent didn't realise they could be a CEO until someone else told them. Just five of the women said they had always wanted to be a CEO.

While having a lack of role models for women is certainly a challenge, mentors who provide advice or sponsors who promote people internally and externally can be a good alternative.

One firm also talked about how they had set up an "allies" programme, so that staff can be visible in their support for greater diversity in the workplace in a subtle, but clear way.

Maternity leave

How companies handle women returning to work after maternity leave was the number one issue when we consider why we're not seeing more female leaders in insurance, according to headhunters.

Broadly speaking, this is because many firms have an unsupportive, inflexible culture, which in some cases penalises women for working on a part-time basis.

After attending a Dive In event last year, *IQ* asked several brokers and underwriters what one change would help to bring more women into senior roles.

They all identified how firms handle returning to work after maternity leave as a major problem. Job shares were not an option for high-powered roles, meaning women who wanted to work part-time initially were denied the opportunity. This was driven by HR departments seeing roles in terms of headcount rather than budget and being unwilling to temporarily increase the headcount to retain talented staff.

INGA BEALE
CEO, Lloyd's

> Out of sight is definitely out of mind for many of those hiring for the top jobs in insurance

One headhunter spoke of what he called "squeaky wheel syndrome", where there was an attitude of not wanting to be the individual to call attention to the need for change when it came to encouraging women to return to work.

Others noted that the issue was particularly pronounced in "front office", client-facing roles, where presenteeism remained rife.

"People are definitely encouraged to come back, but in my experience, there's less flexibility offered in underwriting roles," one source says.

"This won't make me popular, but if you come back three or four days a week after mat leave, until you're prepared to do five days a week you won't get further up the ladder in underwriting. That's because there is still massive presenteeism in [the profession].

"I have a friend at [a large London firm] who's gone back to five days as, in her words, if you're doing four days a week, they think you're just grateful to have a job. You don't get the same bonuses, pay rises or opportunities, and there's always a crucial meeting that you'll miss."

KATE MARKHAM,
CEO, Hiscox London Market

The headhunter puts the dearth of action in this space down to poor understanding and support from management and a failure to embrace technology. "There's no reason why a broker couldn't FaceTime someone at the box. But I bet it doesn't happen," the source says.

Others had a more positive experience. "We have seen an example where a client initially specified they wanted a full-time worker only, but HR actually challenged it and they ended up appointing someone for four days a week in the office, and a day from home," one says.

A related issue is that women often find themselves behind the pay curve once they return to work, which can – unfairly – mean they get stuck earning less than their male counterparts for prolonged periods.

One way in which headhunters are tackling the issue is to attach a salary to the job, rather than the individual, and to prohibit the client from asking what the candidate is currently earning.

"We talk about what the price of the seat is. As women don't get paid as well as men, broadly speaking, it can affect how much they're offered for the next role. So we don't talk about how much candidates are currently earning, and just put a worth on the role instead."

Parochialism

The final issue raised by a number of search firms was the somewhat limited view that some clients took when considering the search pool for a top insurance role. They cited an inability to look beyond the UK industry and the insurance market itself. As an example, many clients would insist that CEOs and chief underwriting officers had worked in a top underwriting role in their career, rather than considering a leader from a different field.

This issue is less pronounced with more operational roles, such as CFO or COO, where it was more acceptable to take on someone from a different financial sector. As the regulatory requirements on CEOs and other executives are ramped up, however, many search firms believe the reins could be loosened somewhat, as a proven ability to handle compliance and the asset side of the balance sheet become more important than 30 years of underwriting experience.

Another headhunter notes that the way search firms are traditionally set up could also be hindering progress. At most firms, he says, each country's office operates under its own profit and loss (P&L) account, meaning that leaders of those regions are quite territorial around who can see those candidates.

At his firm, there was one global P&L, meaning there was more collaboration across geographies, which in turn led to a far greater pool of female candidates to choose from for the top roles.

"From a headhunter's point of view, we have to look further afield," says one search executive. "For us, having offices in New York, Singapore and London, we're able to look globally, which allows us to put together a shortlist with real D&I in it."

Leading by example

As depressing as the statistics around gender diversity on boards in the London market are, not everyone is getting it wrong.

When *IQ* asked a collection of headhunters if any of the firms were getting it right, one name came up consistently: Hiscox.

The London-listed carrier has three women on its board – non-executive directors Lynn Carter, Caroline Foulger and Anne MacDonald. More recently, Kate Markham was promoted to CEO of the firm's London Market business, while Megan McConnell was named director of underwriting for Hiscox Re.

But it is not just gender diversity that Hiscox stands out for – the board has a distinctly international flavour too. There are three Americans, two Bermudians, one Swiss, one Australian as well as CFO Hamayou "Aki" Hussain, who is a practicing Muslim from a Pakistani immigrant family, and South African-born CEO Bronek Masojada. Masojada is clear that all those at the top have got there on merit, and stresses that there was not a conscious effort to create a diverse representation at the top – it was something that occurred naturally.

He does credit Richard Watson, Hiscox's chief underwriting officer, for making a tangible difference, however. Having a D&I champion from an underwriting background in the boardroom means the issue is taken seriously.

"There's no special passes given here, but I think Richard's made a big difference," Masojada says.

"He's a business person, he's on the board, and in an underwriting business when an underwriting person asks a question, people take notice."

A QUESTION OF VISIBILITY

Yvonne Lancaster has worked in a variety of senior roles across the insurance industry in a career that has included stints at Lloyd's, Amlin, Barbican, Beazley, Charles Taylor and Asta.

A vocal advocate for getting more senior women to the top of the insurance market, Lancaster believes the biggest issues for women are a lack of visibility and a lack of confidence.

"I'm a firm believer that people don't deliberately put hurdles in front of women in the workplace, we put the hurdles there ourselves. There is a massive difference between how men and women see the world, and therefore how we might position ourselves, compared to men," she says.

"When I was younger, I'd think, 'I work really hard, I do a great job, and someone will give me recognition for that' – but that doesn't work in the real world. Men are more forthright in showing off the work they've done and asking for something in return.

One of the key problems, Lancaster believes, is that when top jobs become vacant, the men who are hiring look to their existing network to fill the gap – and if women aren't in that network, they're not considered.

"You have to consider, how do I penetrate that network and make the opportunities to meet with those people? There are a lot of women a few levels below board level; the question is, are they visible enough, do they believe in themselves enough?"

That lack of confidence can also see women limit their ambitions when seeking their next role, Lancaster continues. Too many women will only look at a sideways move, rather than looking at the next rung on the ladder.

She also recognises the issues around returning to work after having children.

"[Women] almost feel like we have to prove ourselves all over again, and even if we're supposed to be working three-day weeks, we'll in effect be working five-day weeks, because we care," she says.

"If we could invest more in flexibility we'd get massively productive women at work, which would be hugely helpful for the industry."

Her other tip was for women to stop limiting their job hunt to part-time positions, and instead apply for a full-time role and then negotiate flexibility options once their foot is in the door.

"If you start off saying, I'm only going to look for a three or four day a week job, that's much harder to find. Again, it's about not waiting for something to be given to me, I'm going to go out and make that happen."

Yvonne Lancaster is co-owner of a strategic agency, advising Charles Taylor Managing Agency, where she was, until recently, interim CEO

BRINGING OUT THE BIG GUNS

GDPR is a powerful weapon in the EU's consumer protection armoury, but this latest barrage of compliance has positives as well as challenges for the (re)insurance industry, says **Laura Board**

If data is the new battleground in regulators' long war to curb corporate excess the General Data Protection Regulation (GDPR) is the big gun in the EU's armoury.

The rules, which come into force from 25 May this year, will usher in a range of obligations for companies collecting EU residents' 'personal data' – a widely-drawn concept that can include policyholder numbers, IP addresses and even some pseudonymised information.

The system is underpinned by vastly increased fines of the greater of either up to 4 percent of global turnover, or EUR20mn ($28.1mn) for companies breaking the rules. The maximum under existing UK legislation is £500,000 ($614,871).

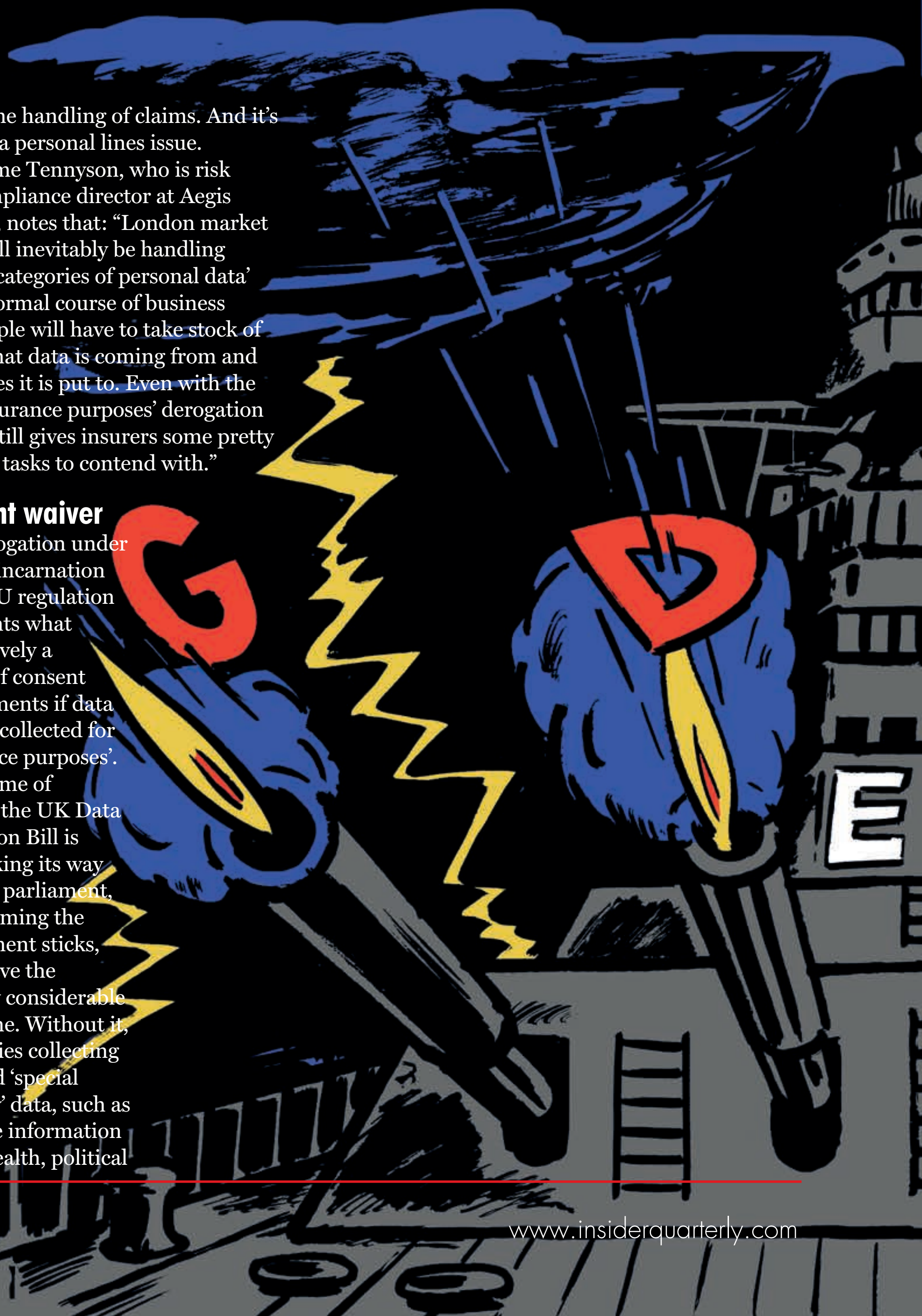
Among other changes is an obligation for companies to report data breaches within 72 hours while data subjects will have the right to receive the information held on them free of charge within 30 days. The framework also imposes legal obligations on data processors – those processing information on behalf of a controller – for the first time.

Europe-wide, companies are overhauling the data they hold, how it is stored and how it can be retrieved and deleted. They are undertaking sweeping internal training programmes and supplier outreach and reviewing their own human resources systems. But the (re)insurance sector is bracing for specific challenges, from the pricing of risk to the handling of claims. And it's not just a personal lines issue.

Graeme Tennyson, who is risk and compliance director at Aegis London, notes that: "London market firms will inevitably be handling 'special categories of personal data' in the normal course of business and people will have to take stock of where that data is coming from and what uses it is put to. Even with the new 'insurance purposes' derogation GDPR still gives insurers some pretty onerous tasks to contend with."

Consent waiver

The derogation under the UK incarnation of the EU regulation represents what is effectively a waiver of consent requirements if data is being collected for 'insurance purposes'. At the time of writing, the UK Data Protection Bill is still making its way through parliament, but assuming the amendment sticks, it will save the industry considerable heartache. Without it, companies collecting so-called 'special category' data, such as sensitive information about health, political



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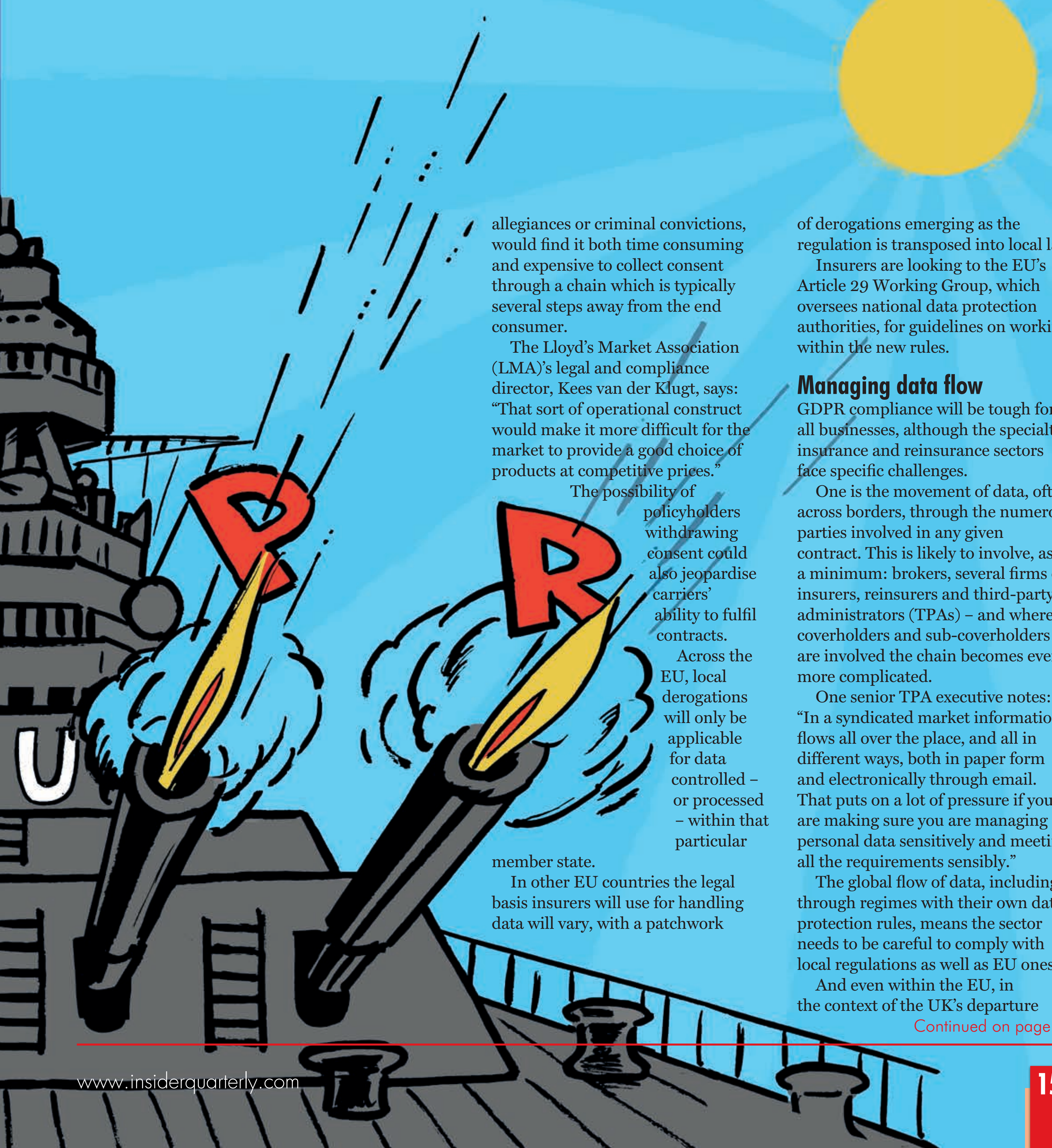


allegiances or criminal convictions, would find it both time consuming and expensive to collect consent through a chain which is typically several steps away from the end consumer.

The Lloyd's Market Association (LMA)'s legal and compliance director, Kees van der Klugt, says: "That sort of operational construct would make it more difficult for the market to provide a good choice of products at competitive prices."

The possibility of policyholders withdrawing consent could also jeopardise carriers' ability to fulfil contracts.

Across the EU, local derogations will only be applicable for data controlled – or processed – within that particular member state.

In other EU countries the legal basis insurers will use for handling data will vary, with a patchwork of derogations emerging as the regulation is transposed into local law.

Insurers are looking to the EU's Article 29 Working Group, which oversees national data protection authorities, for guidelines on working within the new rules.

Managing data flow

GDPR compliance will be tough for all businesses, although the specialty insurance and reinsurance sectors face specific challenges.

One is the movement of data, often across borders, through the numerous parties involved in any given contract. This is likely to involve, as a minimum: brokers, several firms of insurers, reinsurers and third-party administrators (TPAs) – and where coverholders and sub-coverholders are involved the chain becomes even more complicated.

One senior TPA executive notes: "In a syndicated market information flows all over the place, and all in different ways, both in paper form and electronically through email. That puts on a lot of pressure if you are making sure you are managing personal data sensitively and meeting all the requirements sensibly."

The global flow of data, including through regimes with their own data protection rules, means the sector needs to be careful to comply with local regulations as well as EU ones.

And even within the EU, in the context of the UK's departure

Continued on page 16

from the EU, the country's future ability to receive data from the rest of the trading bloc is not cut and dried – despite the fact that the UK government is enthusiastically adopting GDPR.

The situation mirrors the debate over whether the EU will recognise UK financial regulation as 'equivalent'. In the case of GDPR, 'adequacy' is the buzzword.

In a January notice to stakeholders the European Commission (EC) confirmed that UK adequacy for EU data protection law purposes is not a given, but is instead a matter for decision by the EC.

Businesses may therefore have to rely on other legal bases for keeping data flowing across borders. As Hogan Lovells lawyer Clare Douglas says: "It would make things considerably more difficult, but if adequacy is not addressed companies would be able to find alternatives."

The flow of data from the UK to the remaining members of the EU should, at least, be straightforward, Douglas notes. The UK Information Commissioner's Office (ICO) has already said that no binding corporate rules – which provide for the transfer of data within corporate groups – will be cancelled because of Brexit.

Controllers and processors

The syndicated nature of the specialty insurance market also raises the prospect of disputes if one carrier causes a data breach. Disputes could be exacerbated if insurers are grouped as 'joint controllers'.

Steve Morrell, the LMA's head of regulatory affairs, notes: "The regulatory requirements placed on data controllers are significant, so it is important for insurance market participants to agree whether they act as data controllers or data processors, the latter processing data on behalf of the former. Our view is that usually brokers, coverholders and insurers will be controllers in their own right, with clear responsibilities to consumers."

The LMA believes that designating such parties as controllers separately – rather than as joint controllers – will reduce the prospect of disputes.

The LMA has spent a lot of time overhauling model wordings for terms of business agreements (Tobas), binding authorities, third-party administrator agreements and consortium agreements to respond to the new framework.

But the regulation certainly provides fertile ground for disagreements between different parties in the insurance chain if things go wrong.

Companies are frenziedly revising contracts to allow for indemnification by business partners and suppliers against fines or claims from third parties and Tobas between brokers and managing agents are swelling.

TPAs and MGAs

The TPA executive notes that under GDPR TPAs are facing the prospect of having to accept unlimited liability on contracts that could potentially be in the low tens of thousands of pounds.

Keoghs partner Andrew Schütte notes: "This is a new area for people and as a result the discussions are not always well-informed. There are all sorts of potential liabilities out there. The question of how you allocate them commercially is playing out right now and will play out over next few months. This will be the case all the way down the chain from policyholders to brokers and coverholders, to insurers and reinsurers, and to the service providers to the insurance industry and their professional indemnity insurers."

Aegis London's Tennyson adds: "Where you are using third parties, firms need to satisfy themselves that these have appropriate controls in place to deal with data and appropriate insurance to deal with any liabilities."

If TPAs are feeling the pressure, managing general agents (MGAs) are also in a difficult situation.

One MGA executive points to a grey area in MGAs' rights to access claims data, if this is being handled by a TPA appointed by the capacity provider, even when the MGA has delegated claims authority.

He says: "A lot of thought seems to have been given to brokers accessing the market and third-party administrator agreements but a lot of sensitive data comes at the claims stage. Claims that come in can be quite memorable, and at a lot of insurance companies it would not be unheard of for anyone to come and open a claims file."

Like TPAs, MGAs also report that there are routine attempts to pass the buck between capacity providers and MGAs, with the latter generally advised to push back.

Other particular challenges for MGAs include compiling client lists, particularly for those dealing with smaller intermediaries which use personal email.

Reinsurance issues

Reinsurers have their own issues with the new rules. Unipol Re chief risk officer Michael Doyle is concerned that reinsurance sector access could be curtailed to the data it needs from cedants to price risk properly.

The first major test of this will come at next year's 1 January reinsurance renewals. However, anecdotal evidence from Germany, where privacy law is notoriously stringent, suggests brokers are already pre-emptively redacting more information than necessary. The International Underwriting Association (IUA) is concerned carriers could inadvertently breach sanctions if personal identities are masked.

As for the reinsurance renewals, Doyle says: "I don't want anything we don't need. It's nice to have some names but there are certain things you definitely do need – like the location of the risk and the age of the person. If people get overzealous with their redacting, that can cause problems."

Because of their distance from the end consumer, reinsurers also need to make particularly sure their data mapping and retrieval systems are up to scratch, adds Doyle.

"If an insurer came to you and said, 'We have these 10 people who want to be forgotten', you have to respond very quickly and make sure you can change it at any given time."

The (re)insurance sector is also

grappling with how to monitor sensitive data coming in, and how to determine what personal information being transferred is relevant.

Carriers will also need to work out what to do with legacy data, including historic emails. And those companies and TPAs which record voice data may need to make hefty investments – if they haven't already – in systems that allow them to retrieve it better.

The insurance industry may also need to keep personal data for longer for than the seven years advised – and be able to justify that.

Dealing with the ICO

For many London market carriers the lead data protection supervisory authority will be the ICO, which is currently busy taking on Facebook and Cambridge Analytica.

The ICO is led by Information Commissioner Elizabeth Denham, who has ruled out a GDPR lead-in period, but she has suggested the ICO will look kindly on those businesses that cooperate with the regulator when an issue arises.

Denham has also promised enforcement as a last resort, declaring it will be "proportionate" and that she prefers the carrot to the stick. But recent cases suggest the ICO means business.

In January it fined Kent loss-adjusting firm Woodgate and Clark £50,000 for unlawfully disclosing personal data which the ICO found had been obtained illegally by senior employees and what it called "rogue private investigators". A director and a senior executive at Woodgate also received record financial penalties, along with the private investigators.

The case dated back to 2013 and centred on banking data about the policyholder, illegally obtained by the private investigators.

At the time the ICO noted that the case was part of an ongoing ICO investigation into allegations of a criminal trade in confidential personal information involving corporate clients suspected of using the services of rogue private investigators.

The ICO also pursued Hiscox at Southwark Crown Court for allegedly attempting to force a policyholder to furnish them with his criminal record before it would pay a claim for a £30,000 watch. However, Hiscox, which had denied the charges, was cleared when the policyholder – the ICO's key witness – fell ill and the jury was discharged.

The ICO is offering free voluntary audits of data systems and is a developing a sandbox for companies to test their processes. It is also staffing up, and has government clearance to increase employee numbers from about 490 at present to 600 by 2021.

Litigation fears

However, it is not only ICO fines people are worried about; GDPR is also seen as providing a lever for individual and class action lawsuits regarding the misuse of data.

A January 2014 ruling in a case known as *Vidal-Hall vs Google* established a precedent for pay-outs to compensate for distress even where there is no financial loss arising from the mishandling of data.

The IUA is concerned that several provisions within GDPR could encourage spurious litigation by data subjects, or by law firms acting on their behalf that spring up to take advantage of the new rules. The very fact that data subjects have a new right to access their data for free could encourage litigation 'fishing trips', the organisation fears.

But where there is new risk, there is new opportunity for insurers. Whether it is legal to insure against fines is a legal grey area and varies from jurisdiction to jurisdiction, with the practice outlawed in Italy.

The stock caveat is that a risk is insured 'to the extent that it is insurable by law' and in practice there is a large swathe of grey between routine inquiries that are part of normal business operations and, say, a fraud investigation.

The UK Government's Department of Media, Culture and Sport has indicated to underwriting representatives that it sees nothing in the legislation that suggests fines under GDPR are not insurable. But at the same time, it has also noted that the fines are meant to deter companies and individuals from bad practice.

Reasons to be cheerful?

The broader cyber insurance class is likely to gain a fillip from the new rules, and demand will probably increase for directors' and officers' insurance and other liability policies. But at the same time, insurers' exposure under these types of cover will rise. And, as with any cyber-related product, the extent of their exposure is by no means obvious.

A less equivocal positive of the legislation is that GDPR has a good chance of becoming the gold standard for data protection rules worldwide and carriers complying with the European regulation will be well placed for rules in other jurisdictions, says Fifth Step CEO Darren Wray.

Roughly 30 countries have fully developed data regulation, with varying requirements regarding breach notification, the obligation to have a data protection officer or a chief information security officer, and the cross-border movement of data.

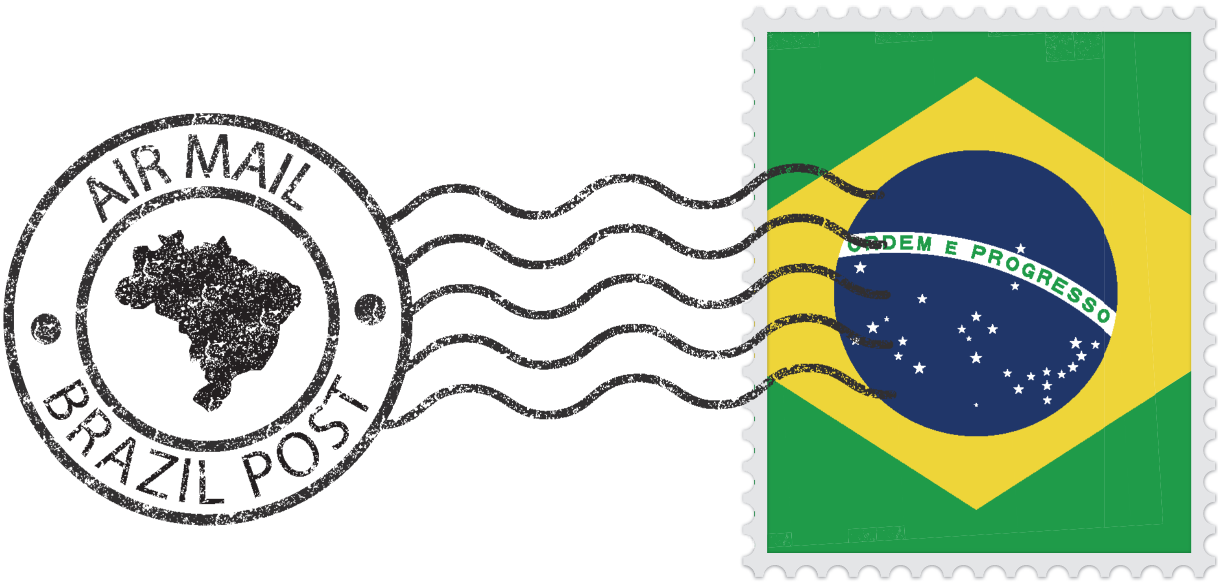
GDPR also comes hot on the heels of the New York Department of Financial Services' Cybersecurity Regulation.

Wray, the author of *The Little Book of GDPR*, says the ideal situation is for companies be able to use a common control framework to ensure global compliance with data rules.

"It's possible to share a great deal of those controls between GDPR and regulatory requirements around the world, and the EU recognises about a dozen jurisdictions as providing adequate protection [for consumers' data]."

Wray advises those considering entering the EU market to take on board the new regional rules well in advance. He also warns insurers against thinking that advanced preparations for GDPR means the job of compliance is done.

"You're going to need to have a continual improvement approach to this," he says.



SÃO PAULO CALLING

As the Brazilian regulator relaxes its protectionist stance on foreign reinsurers, **Catrin Shi** wonders whether the country's financial centre could one day become a Latin American reinsurance hub

Brazil. The fifth largest country by land mass in the world. Home to the world's longest river, one of the greatest national football teams and the biggest party on the planet.

The country is renowned for its celebratory spirit, its unabashed enthusiasm for dancing, singing and being larger than life, and inviting others to do the same.

But it does not extend this inclusivity in all walks of life.

Historically Brazil has staunchly defended its local reinsurance market as its national team would its own goal. Fears over a wavering economy – particularly around the time of the financial crisis – caused the Brazilian government to put up walls in all areas of trade, implementing high tariffs and regulation which promoted domestic production over imports.

Since 2008, the local insurance regulator has flip-flopped in its stance on allowing foreign carriers to trade in the market. It has been a constant source of frustration for the wider reinsurance industry, which in its quest for growth opportunities can see the potential of Brazil's 208 million inhabitants and burgeoning economy.

"Brazil has been inconsistent with how open it has been as a market historically, although it is getting better," explains Dave Matcham, CEO of the International Underwriting Association. "It's always been a target market for London in the context of growth. There are number of parties representing the City [of London] in Brazil to try to liberalise it."

Protectionism to liberalisation

However, there are early signs the tide now could be turning on Brazilian protectionism in reinsurance. In December 2017, the local regulator removed certain barriers limiting foreign reinsurers' access to the Brazilian (re)insurance market, including the mandatory placement of risks with local reinsurers.

A separate reform also relaxed the minimum domestic retention requirement for a number of additional classes: named and operational property risks, aviation hull, facultative aviation liability, and energy insurance risk. However, restrictions still remain.

While surety bonds, agricultural (re)insurance and domestic credit (re)insurance were already exempt from minimum retention requirements, all other classes still remain subject to a minimum 50 percent retention in the domestic Brazilian market.

Furthermore, while the mandatory placement of risks with local reinsurers has been removed, the local market still holds a right of first refusal over 40 percent of each reinsurance risk.

So it is perhaps not surprising that Brazil's reinsurance market is dominated by local players. Sixteen local reinsurers operate in Brazil alongside 100 admitted and occasional foreign players, however the local carriers preside over around 75 percent of the 11bn reais ($3.4bn) market.

State-backed reinsurer IRB holds a 48 percent market share by ceded reinsurance premium, according to 2016 figures from AM Best (see chart and table, page 20).

Munich Re's and Zurich's local operations are the second and third largest players, respectively, but have only a roughly 5 percent market share each. Business written by the local players is currently profitable – according to a recent report by Terra Re, local reinsurers ran a combined ratio of 92 percent in 2017. This compared to 96 percent for the previous year. In the same time period, Brazil's local reinsurers generated a profit of 1.31bn reais, up 15 percent year on year. Of this, IRB's profits accounted for 925mn reais, up 9 percent on 2016.

Barriers to entry

However, reinsurance practitioners on the ground in São Paulo warn that it will still be challenging for foreign players to gain market share under the eased restrictions.

"With the recent lift of certain restrictions, the market seems to be taking an international view, which is good in the long term," says Frederico Knapp, CFO and chief operating officer for Latin America at Swiss Re.

But to be able to place 40 percent of a risk, the ceding company has to be declined by all 16 domestic reinsurers before making the placement with admitted or occasional carriers, explains Knapp.

"Today the local market is well established and has enough capacity and the main global players to be able to provide support to local risks," he says. "So in the medium term, we do not believe in a major shift from local placements to admitted carriers as happened in 2008/2009, when the market had very little local capacity or participants."

Alain Derron, general manager for Brazil at Axis Re, also points to overcapacity as a barrier to entry for admitted players. He says the lifting of the mandatory placement rule is unlikely to have any tangible effect on the local carriers' market share.

"The only thing that in theory changes is the price-setting power of the locals on the mandatory cession piece that was previously in place," he says. "According to market intelligence, differential pricing has not occurred in recent years as local markets followed, by and large, international pricing."

Tough competition and suppressed rates aside, operating in Brazil and finding the right talent for the job can be an expensive business.

"Establishing new operations in Brazil can be difficult," says David Battman, head of international at

broker BMS. "Brazil is a vibrant market, but the domestic reinsurance industry is comparatively small and the pool of people and experience is limited. Because of years of protectionism, the general cost of living and working in Brazil is also quite high, so it's not the cheapest to set up in." Meanwhile, constant changes in regulation and taxes bring yet more difficulties in writing Brazilian business.

Opportunity knocks

However, for those with a long-term view and thick skin, the opportunity could be huge.

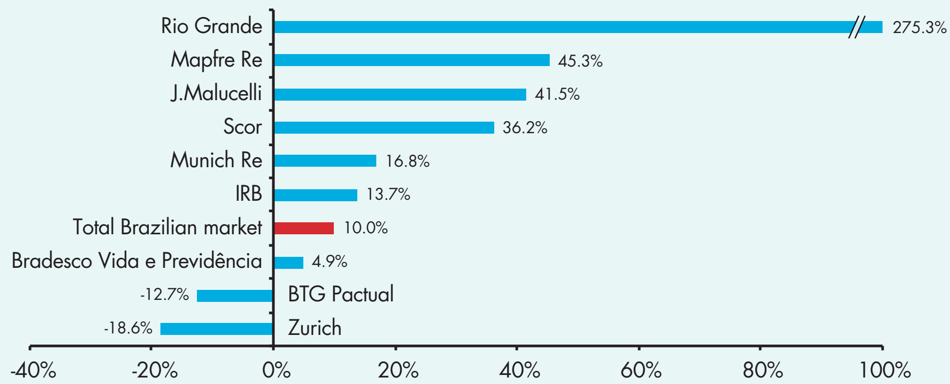
Insurance penetration remains low and new products continue to be developed to support an improving economy, which assists reinsurance growth. According to AM Best data, the volume of ceded reinsurance premium in Brazil grew by 10 percent between 2015 and 2016.

"There is a palpable sense of optimism in the Brazilian market at the moment, both in the (re)insurance market and the wider economy," says Battman. "The opportunity is now better than it was before – for example, in the offshore energy market, because it is such a big

Continued on page 20

Top 10 reinsurers – year-on-year growth

In reinsurance premiums assumed



2016 vs 2015
Source: AM Best

part of Brazil's economy."

Experts speaking to *Insider Quarterly* also identified opportunities in affinity products, surety and political risk, as well as offshore risks and aviation. Meanwhile, flood risk remains a key peril in Brazil, and sectors such as agriculture, cyber and large infrastructure projects remain under-served.

There is also huge opportunity in serving the vibrant Brazilian InsurTech sector, with initiatives trying to tap into the under-served or uninsured segments of the market and population, notes Axis Re's Derron.

According to April McLaughlin, head of reinsurance, and Emmanuel Jacquemin, chief underwriting officer for reinsurance, at XL Catlin's Latin American division, delay to start-up insurance for complex projects presents another opportunity in the country.

Jacquemin adds that with insurance penetration in Brazil as low as any other new market, classes like casualty and personal accident also promise to be growth areas. "The continuous growth of wealth will increase the insurance spend and lead to strong natural growth over the next decade," he predicts.

Hub dreams

XL Catlin anticipates the Brazilian reinsurance market will further strengthen its position as one of the world's leading emerging markets.

"Emerging markets as a whole are taking on increased importance within international reinsurer global portfolios. We see a high correlation between economic growth rates and insurance penetration rates," explains McLaughlin.

As penetration rates increase, global capacity will naturally migrate to areas where the demand exists, she adds.

"Brazil is a growing economy with strong domestic consumer potential. This should lead to above average growth rates over the next 10 years," says McLaughlin.

There is a sense of positivity from Brazilian market participants for the decade ahead.

"We believe that the Brazilian reinsurance market will be much closer to what the international markets are today, more open and with less restriction, creating the ability to have reinsurance as a cross-border [transaction] and allowing capacity to be shifted freely," says Swiss Re's Knapp.

Could São Paulo, then, eventually challenge the likes of Miami as a hub for Latin American risks, or even Zurich, Dubai and Singapore for international business?

There is optimism for the future of Brazil's (re)insurance market, but there is a sense that participants shouldn't necessarily get ahead of themselves.

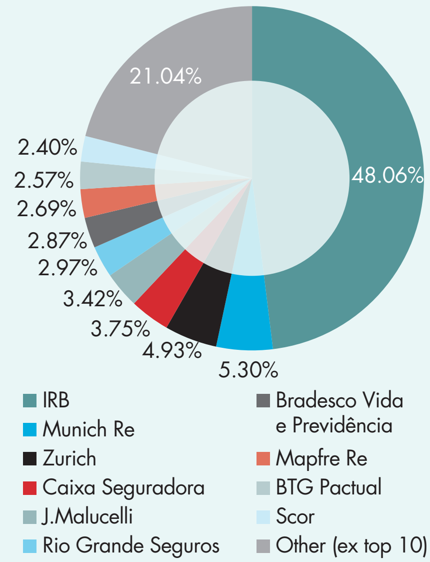
"There is a lot of opportunity in Brazil but in order for it to become a (re)insurance hub the other South American countries will have to liberalise as well," says Matcham.

Chile and Colombia are two countries which are more open to foreign carriers in the regulatory sense but Brazil and Argentina have a history of protecting their local market through regulation, he adds.

"I think you need a bit more of a mutual understanding amongst the South American counties for it to become a hub."

However, as Axis Re's Derron concludes: "If the ease of doing business improves and the right talent developed and attracted, Brazil could become a regional hub for Latin American reinsurance business."

Brazilian reinsurance market share (%)



Source: AM Best

Top 20 Brazilian reinsurers

By reinsurance premiums assumed

Company name	2016 reinsurance premiums assumed (000s reais)	2016 market share
IRB – Brasil Resseguros S.A.	4,929,033	48.06%
Munich Re do Brasil Resseguradora	543,580	5.30%
Zurich Resseguradora Brasil S.A.	506,062	4.93%
Caixa Seguradora Especializada Saude SA	384,362	3.75%
J.Malucelli Resseguradora S.A.	351,282	3.42%
Rio Grande Seguros e Previdencia S.A.	304,224	2.97%
Bradesco Vida e Previdência SA	294,173	2.87%
Mapfre Re do Brasil Companhia de Reaseg	276,211	2.69%
BTG Pactual Resseguradora S.A.	263,609	2.57%
SCOR Brasil Resseguros S.A.	245,996	2.40%
Chubb Resseguradora Brasil S/A	219,838	2.14%
Atlântica Companhia de Seguros	193,820	1.89%
Allianz Seguros S.A.	176,146	1.72%
AXA Corp Solutions Brasil America Re	142,016	1.38%
Tokio Marine Seguradora S.A.	121,376	1.18%
MAPFRE Seguros Gerais S/A	115,413	1.13%
Bradesco Auto/Re Cia de Seguros	114,968	1.12%
Terra Brasis Resseguros	99,222	0.97%
AIG Resseguros Brasil S.A.	95,416	0.93%
Sul America Companhia Nacional de Seg	87,097	0.85%

Source: AM Best

EMERGING MARKET REVOLUTION

Bernard Goyder explores how InsurTech is transforming emerging markets, by taking on risks traditional carriers have shied away from

The death of a tea-seller in a remote part of Bangladesh is a telling example of the way InsurTech is revolutionising how the world's poorest buy insurance.

Samsul Hoq bought a life insurance policy from Bima, an InsurTech company, after meeting one of company's agents at a railway station. What appears to be a very traditional distribution method belies how radical Bima's approach to insurance is. The entire Bima transaction was cashless. Hoq's annual premium of roughly $7.50 was paid in tiny instalments over the course of a year through mobile phone credit. After Hoq's death, his beneficiary in Comilla district, Bangladesh, received roughly $720 in cash, enough to start his own business.

Mathilda Ström, deputy CEO of Bima explains that people in Hoq's village had been deeply sceptical about insurance, believing insurers would never pay claims. That all changed once the cash arrived.

"Our customers may not even know the concept of insurance," says Ström. "It's incredible," she continues. "When people see something work, they embrace it."

The whole village held a festival to celebrate the claim arriving, with the company selling 40 policies.

Bima is also winning over incumbent insurers. In December, Allianz ploughed $96.6mn into Bima, becoming the company's largest strategic shareholder.

Ström says the investment from Allianz brings the Swedish InsurTech company added legitimacy and credibility in the eyes of the global insurance industry. But Allianz also has a lot to gain from the relationship.

"If they are looking at reaching the world's biggest insurer status, they really need to address the mass market," says Ström.

Ström says that Allianz is keen for Bima to be paying "even more claims".

The Bima investment marks the first major investment by the German carrier's InsurTech arm, Allianz X, since it switched strategy from incubation to venture capital investment late last year. Oliver Bäte, the Allianz CEO, has said the Bima investment will help the carrier access its "next billion customers".

Measuring the gap

Consumers in developing countries are chronically underinsured. Take Africa as an example: in 2017, Kenya had insurance penetration of around 3 percent, according to Deloitte; in Nigeria, around 0.4 percent of the population have insurance.

But as Deloitte points out in its report into InsurTech in Africa, 'Leveraging digital to unlock the base of the pyramid market in Africa', far more people have access to mobile phones than to financial services.

World Bank data shows that 87.8 percent of people in Kenya have a mobile phone and more than four in five Nigerians have a phone.

The Nigerian insurer Cornerstone is working with the mobile network Airtel to bring insurance to the mass market. The Airtel scheme provides its customers with free life and health insurance. The size of the cover available varies each month depending on how much the consumer spends on phone credit.

The company has signed up more than 1.8 million users to the insurance coverage programme. In 2016, the Cornerstone-Airtel scheme paid out 3.4bn naira ($10.2mn) in claims.

Making insurance free for the end user by finding an affiliated entity to pay the premium is also the approach taken by RemitRadar, a UK headquartered InsurTech. The company acts as a price comparison site for money transfers, often used by migrant workers to send cash back home.

RemitRadar has amassed a pool of data on how workers return funds to their families. Its insurance proposition is to sell life and workers' compensation policies to these workers, with the company acting as a digital distribution platform for global insurers. Premiums are paid by the money transfer agencies in exchange for customer loyalty.

RemitRadar has signed deals with Axa and Partner Re to provide insurance capacity to migrant workers and their families, with the remittances service acting as an intermediary.

The structure and ethos of the InsurTech space is ideally suited to the rapidly changing environment in emerging markets.

Beat Candrian, head of insurance at RemitRadar, says the more conservative culture at traditional insurers and reinsurers makes it harder for them to bring products to under-served customers in emerging markets.

"At some point, you have to take some risk," says Candrian, who worked at Swiss Re for more than 20 years. Candrian argues that it's more efficient for insurers to outsource elements of innovation to InsurTech startups.

Asia and the next billion

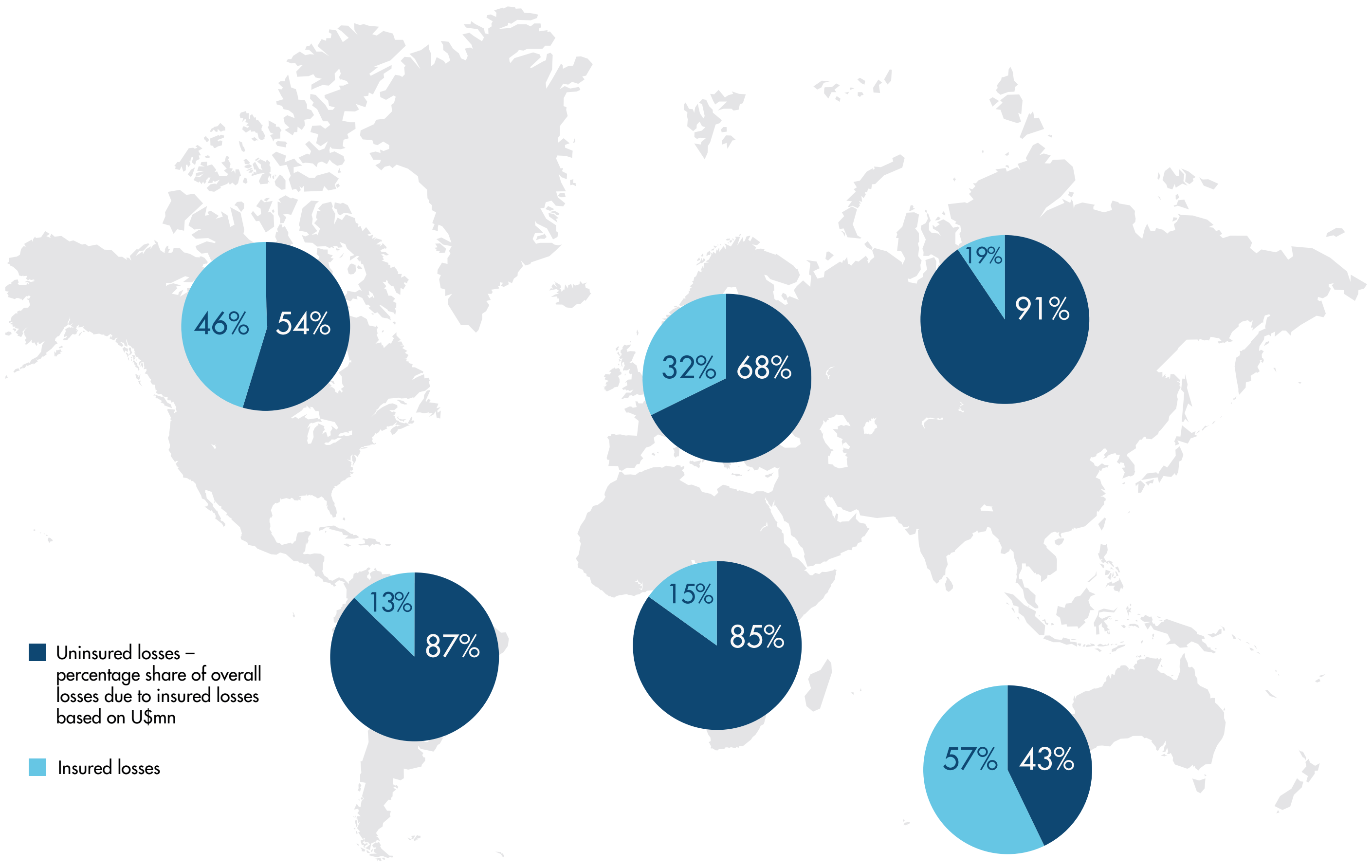
The Asian insurance market is where many of the 'next billion' of insurance customers described by Bäte reside.

In China and India, InsurTech companies have been aggressively

Continued on page 24

Loss events worldwide 2017

Overall and insured losses by continent



Source: Munich Re, NatCatService, 2018

disrupting traditional insurance value chains in ways that are bringing coverage to previously uninsured customers.

Policy Bazaar is one such company. India's largest insurance aggregator, the company has roughly 60 million site visits a year and sells approximately 125,000 policies a month, according to Forbes India.

In China, the world's largest InsurTech company is gaining ground. Zhong An raised $1.5bn in an initial public offering on the Hong Kong Stock Exchange. According to analysis of the carrier's financial statements by the Singapore bank DBS, the insurer had annual premiums of roughly $538mn in 2016, its first year of operation.

The company's ownership provides intriguing clues to shape of the future Chinese market. Ant Financial is the company's biggest shareholder, with a 16 percent stake. Owned by the e-commerce giant Alibaba, Ant is valued at around $60bn and is one of the fastest growing financial services businesses in the world. Tencent, one of China's biggest internet and technology companies, owns a 12 percent slice of the carrier, as does Ping An, an incumbent carrier.

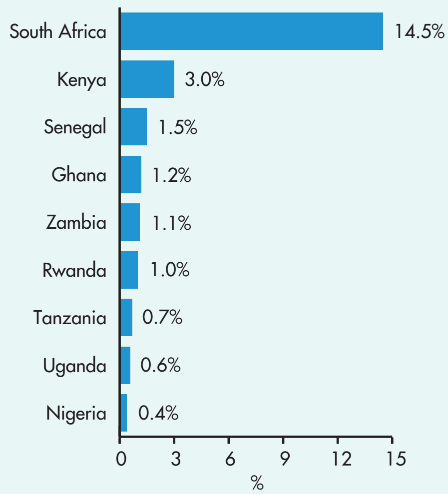
Approximately half of Zhong An's premiums relate to a type of e-commerce insurance called shipping return cover, the DBS data shows. Zhong An is thus selling totally different types of products to traditional Chinese insurance companies, where 73 percent of premiums stem from motor.

Tobias Farny, CEO of Asia Pacific for Munich Re, explains that in China, the insurance business is dominated by motor business. The reinsurer is keen for clients to diversify, however.

"We try anything we can do to build further business in other segments," says Farny.

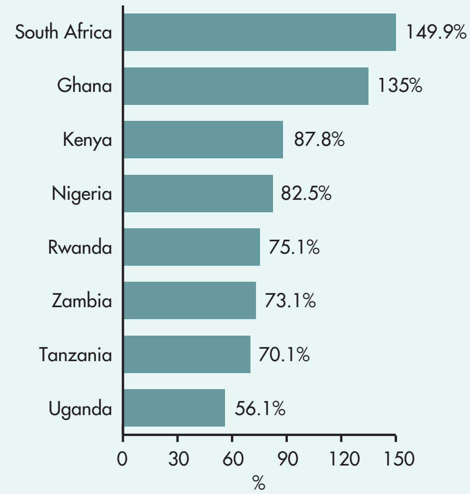
Munich Re has opened an InsurTech consultancy operation in Beijing to help clients adapt to the changing insurance landscape. Farny, who runs China, Taiwan, Australia and New Zealand for the reinsurer, says InsurTech can broaden the insurance market, as new pools of

Insurance penetration in Africa



Insurance penetration is measured as gross premiums as percentage of GDP
Source: BMI 2017, Deloitte

Mobile penetration in Africa



Source: The World Bank, Deloitte

premium entering the market.

Insurers in China are in the middle of a "struggle to transform the market", he explains. In the Chinese market, Munich Re's consultancy role therefore involves: "Sitting down with the client to develop new products."

"What does a private liability product look like for the retail customer? How do we bundle these products to make them more attractive? Can we sell it though an app? Can we sell it through other providers?" Farny asks.

Market penetration

Clearly though, these consumers represent China's growing middle class, rather than the very poorest.

Digital insurance in China is a rapidly growing space. The total online insurance market in China hit $57bn in 2016, according to Oliver Wyman, and is expected to reach $223bn by 2021. But there remains a significant gulf in insurance penetration in China compared to more developed markets.

"There's a huge gap," says Farny. "Every time we have natural catastrophes, we can clearly see that on the private side and on the commercial side, the sums insured and the insured values are relatively low compared to the western world."

Munich Re data shows that only 9 percent of losses in Asia were insured on average in 2017, compared to 32 percent in Europe and 46 percent in the US.

Farney points to the opportunities for insurers posed by technology such a WeChat, a messaging app similar to WhatsApp that is incredibly popular in China. The app has become more than a texting programme and is evolving into a private work flow device that people use to plan their lives – both at work and in leisure time.

"If insurers find a way into this private work flow, [carriers can provide] proper protection for individuals not only on an annual basis but also on maybe in real time, or maybe for a certain period of time," Farny says.

"This is going to happen and it will happen with all the relevant players – be it existing primary, technology companies, or the digital players."

So from the traditional coffee houses of 17th-century London, to the tea sellers of Bangladesh, insurance is now able to reach vast numbers of new customers through digital distribution.

It's a future that will make a huge difference to families like Samsul Hoq's.

RELOADED AND READY TO DEPLOY

The arms race for efficient capital is underway, says **Fiona Robertson**

Heading into the 2018 renewal season, two of the biggest questions being posed was how much ILS capital would flow into the market and whether trapped collateral would figure as a major issue in negotiations.

For many, 2017 major insured losses figured as the first significant test of ILS capacity, since the alternative reinsurance segment had only occupied a relatively minor role in the overall market previously.

But by the time ink was drying on 2018 renewal documents, it was clear that alternative providers had forged a larger market share than current levels – just under a quarter of dedicated reinsurance capacity, going by Guy Carpenter and AM Best figures.

Indeed, cat bond broker-dealers are expecting another booming year for this segment of the ILS market, as protection buyers play off different types of capacity to help manage anticipated rate increases.

And ILS managers have not only reloaded their lost capital, in many cases they have actually taken in new mandates to push them to a greater scale than before the losses from hurricanes Harvey, Irma and Maria (HIM).

These signals of a burgeoning ILS market are highlighted by several key data points compiled by sister publication *Trading Risk*.

Asset base growth

Let's start with the ILS managers.

In the aftermath of HIM, the investor relations executives charged with raising funds at ILS managers were busy criss-crossing the globe, selling the story to investors that now was the time to take advantage of a rating correction.

These efforts paid off, as is evidenced by *Trading Risk*'s league table of assets under management (AuM) at the top 10 managers (see chart, right).

These companies grew their collective asset base by 13 percent in the second half of the year, to start 2018 on $64bn of capital, up from $57bn midway through 2017 (see table, right).

The leaderboard shuffled around somewhat as some firms took in significant sums of new capital – notably, Securis leapfrogged Stone Ridge and Fermat to take fourth position with $6.2bn of assets.

For the first time in the market's history, the majority of the top 10 ILS managers have more than $5bn of assets under management.

Outside the top 10, AlphaCat's assets surged to $3.4bn from $2.9bn at the start of October.

However, it is possible that some of these figures are inflated by inclusion of trapped capital that was not available to be deployed at 1 January.

Trading Risk asked managers to provide AuM numbers that reflected only capital available to deployment, but as some firms have a practice of charging fees on side-pocketed assets, they may have included these sums in their total.

Markel Catco certainly included trapped capital in its statement that it had $6.1bn of assets under management. It did not specify how much had been held back against potential losses, but it raised fresh capital of $2.2bn in the third quarter.

The retro manager previously said it had redeployed 35 percent of net assets in its London-listed vehicle from the 2017 portfolio to support 2018 contracts. This implies another $1.6bn based on mid-year AUM was rolled forward in addition to the new funds raised, if its overall portfolio was in line with the London vehicle, leaving it with under $4bn of active capital.

> For the first time in the market's history, the majority of the top 10 ILS managers have more than $5bn of assets under management

Market share battle

Either way, Markel Catco's successful reload was certainly one of the defining features of the renewal – as it was among several leading retro writers that picked up a heavy portion of ILS losses.

Indeed, one of the reasons that trapped capital may not have figured as large in the January renewal negotiations as it did in commentary ahead of the deadline was simple – that battle is yet to be played out.

Hurricane Irma affected many Floridian reinsurance programmes, but these have until 1 June to run before they roll over – largely confining trapped capital issues to the retrocession market.

Furthermore, with several months to go before the Florida renewal, signs are that trapped capital will also prove to be a non-event at that point.

Irma losses as reported by local carriers appear to be settling quickly, with high levels of claims already closed and losses generally tracking down.

As losses are ironed out, this suggests there could be a boost to the ILS market's capital base later this year, if further trapped capital is released.

After the January season, ILS commentators were quick to proclaim that the results showed that the sector had proven its value and come of age.

ILS managers are "running toward" the potential to grow their market share rather than running away from last year's losses, Willis Towers Watson Securities said in its latest market report.

The firm's head of ILS Bill Dubinsky said that 2018 could shape up as a "brutal battle for market share" between incumbent risk carriers and those trying to grow their business.

Aon Securities said that momentum for growth will be a "tide that rises and lifts all ships" or all forms of ILS.

Cat bond boom

The cat bond segment in particular is set to benefit from the post-loss environment, broker-dealers have forecast.

Dubinsky tipped that widely distributed cat bond deals would continue to grow in relative importance compared to private deals of all types, especially bilateral collateralised reinsurance. This was despite attempts from large ILS managers to replace syndicated covers with bespoke structures.

The broker said that the play to offer customised covers could lead cedants into a difficult position after a loss "where the relationship hug sometimes turns into a sucker punch...when the cedant suddenly has only a few strategic relationships and no one else to stabilise their capacity needs".

Concerns about potential volatility in post-loss traditional reinsurance pricing could also drive up cat bond volume this year, said Cory Anger of GC Securities.

While some rate increases on loss-affected perils are expected in the cat bond sector, these are expected to be moderate. This means that ILS broker-dealers are expecting another $10bn issuance year for the cat bond market, with the average forecast from leading broker-dealers for new issuance in 2018 coming in at $9.7bn (see table, page 28).

Willis Towers Watson projected 2018 issuance would be flat to 10 percent above volumes from last year, whilst Swiss Re and GC Securities have both estimated issuance would surpass $10bn.

Aon Securities has put the expected issuance slightly lower at $8bn-$9bn, but its CEO Paul Schultz said there was a great deal of momentum in the market heading into 2018.

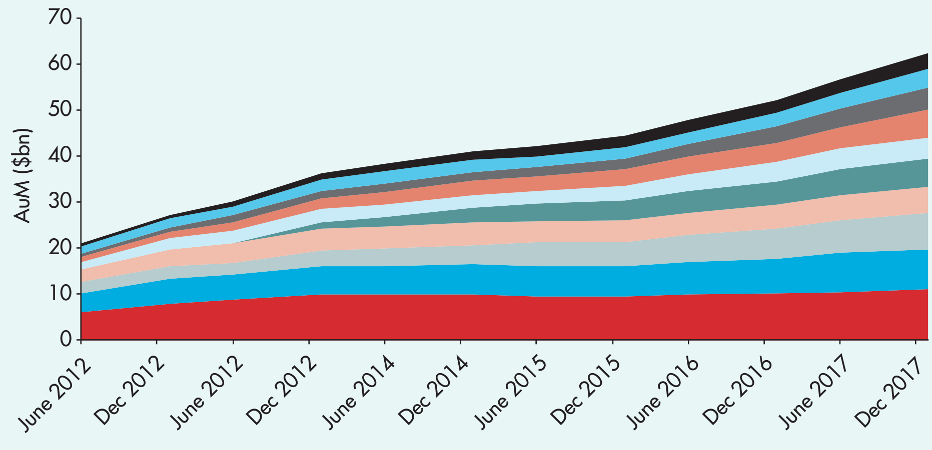
"ILS capacity demonstrated its value proposition throughout 2017," he noted. With new issuance activity expected to be strong, the cat bond market will also receive a fillip from a drop in maturities, which will make it easier to post overall growth. Some $5.7bn of deals will mature this year, down from $7.8bn last year.

But Judy Klugman, global co-head of ILS at Swiss Re Capital Markets, said that the 2017 events could prompt more primary sponsors to enter the market, after just 38 percent of last year's deals were made by insurers.

She said: "We are cautiously optimistic that this percentage will rise as more primary insurers (including past issuers) look back at 2017 events and see value both from a capacity and pricing perspective of

Continued on page 28

Top 10 ILS managers' AuM



Source: *Trading Risk*

Top 10 ILS fund managers

	ILS AuM $bn				
	Jan-18	**Jul-17**	**Jan-17**	**Jul-16**	**Jan-16**
Nephila Capital	11.0	10.5	10.2	10	9.5
Credit Suisse Asset Management	8.8	8.6	7.5	7	6.5
LGT Insurance-Linked Partners	7.9	7.0	6.5	5.8	5.2
Securis Investment Partners	6.2	4.6	4.1	3.7	3.53
Stone Ridge Asset Management*	6.1	5.7	5.1	4.8	4.4
Markel Catco	6.1	4.5	4.3	3.7	3.2
Fermat Capital Management	5.7	5.4	5.2	4.8	4.8
Leadenhall Capital Partners	4.7	4.2	3.5	2.9	2.41
Aeolus	4.0+	3.2	~3.0	2.5+	2.5+
Elementum Advisors	3.4-3.7	2.8-3.1	2.7-3.0	2.6-2.9	2.25-2.75
Total	**64.1**	**56.7**	**52.3**	**48.0**	**44.5**
% change from prior half	**13.1%**	**8.4%**	**9.0%**	**7.7%**	**5.5%**

*Latest Stone Ridge AuM is based on most recent disclosure as of 31 October
Source: *Trading Risk*

having two distinct capacity sources that are on different cycles."

Dubinsky agreed that last year's events could bring new sponsors to the market.

"ILS capacity is rapidly moving from a 'nice to have' to a 'must have'," he said.

"Depending on their region and line of business, cedants failing to attract ILS capacity face a significant competitive disadvantage if their reinsurance programme is less efficient."

So far, 2018 seems to be well on the way to another $10bn issuance year with a number of large diversifying bonds having been issued.

At the beginning of February, the World Bank issued a multinational $1.36bn cat bond which will cover earthquakes in Chile, Colombia, Mexico and Peru.

Later on in the month, Japanese sponsor, Zenkyoren, returned to the market with a $700mn Nakama Re 2018-1 cat bond, which will provide it with cover against Japanese earthquake risk.

If you can't beat 'em…

Just as the Katrina-Rita-Wilma (KRW) hurricane season prompted a wave of new sidecar launches, so HIM drove a proliferation of new vehicles.

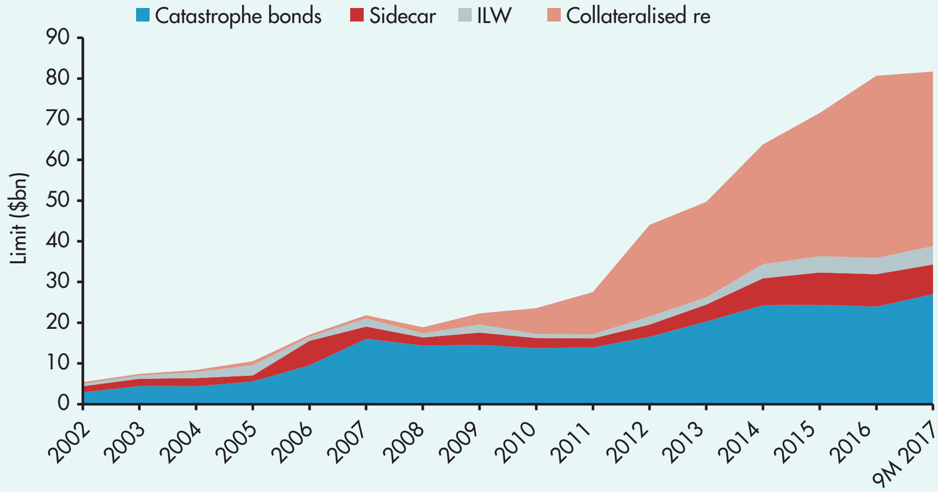
But although there were a number of new initiatives, overall sidecar volumes were much more subdued – in line with the modest level of rate increases, compared to the massive spike post-KRW.

Some had already been in the works ahead of the storms, as reinsurers that were late to the asset management game finally moved to add third-party capital strings to their bows.

This included the $95mn Thopas Re vehicle from Chaucer and Neon's $72mn NCM Re – which also achieved the feat of being the first vehicle set up under London's new ILS framework.

Sompo International and MS Amlin launched small new vehicles, despite already having other ILS interests via the former's asset management business and MS Amlin's stake in Leadenhall.

Alternative capital deployment



Source: Aon Securities

Broker-dealer issuance forecasts

Broker	2018 issuance prediction
Willis Towers Watson	Flat to 10% above 2017 levels
Swiss Re	$10.5bn +
GC Securities	$10bn +
Aon Benfield	$8bn-$9bn

Source: *Trading Risk*

However, MS Amlin's new $60mn Viribus Re will provide something that Leadenhall does not – direct reinsurance for its own book.

One new vehicle that seems to signal further investment to come in the third-party capital management space was the $102.5mn Sussex Re launch from Brit.

This was the only new launch that will operate partly as a 'market-facing' vehicle that can write business directly for investors, although Sussex Re will also reinsure Brit.

Market facing vehicles represent more of an asset management pitch to capital providers, as setting them up entails creating specific portfolios for investors and more active portfolio creation.

In contrast it can be harder to draw the line between quota share sidecars that are represented by a reinsurer as an asset management initiative, involving a duty of care or partnership with investors; and quota share cover that is simply treated by a carrier as another form of retrocession bought off counterparties on a 'buyer beware' basis.

For example, XL Catlin significantly expanded its retro cover for 2018, including via a new $225mn property quota share placed entirely with alternative capital providers.

However, the carrier did not package it in tradeable sidecar format nor present it as this kind of initiative when executives spoke about the deal on an earnings call.

Axis also disclosed that it had more than $1.05bn of alternative capital support for property catastrophe business, without providing any information on the form of such support.

The reinsurer is known to have set up several private sidecars with mutual fund manager Stone Ridge Asset Management – worth $359mn at 31 October last year, the firm's most recent filing available.

But beyond the Stone Ridge connections, Axis has previously disclosed little information on its catastrophe-exposed managed capital.

While it might be difficult to classify these new initiatives, either way a general trend is clear.

The arms race for efficient capital is underway.

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TOO FAST AT ANY SPEED?

Insurers may be hurtling towards an ethical pile-up with their increasing use of telematics. **Anthony Baldo** looks at the consumer privacy issues around gathering data from drivers

Just as car manufacturers in the 1960s seemingly forgot about safety considerations in their rush to bring new models to market, insurers may be in danger of forgetting about the ethics of data gathering in their eagerness to benefit from InsurTech innovations.

With telematics companies already gathering huge amounts of data, the likelihood is that they are only going to collect more. Management consulting firm McKinsey & Company predicts that car data will be monetised to such an extent by 2030 that it could yield between $450bn and $750bn in revenues.

Such data volume raises obvious concerns about privacy, since the data collected not only reveals how a motorist drives, but also how he or she behaves. That is, of course, why insurers are so interested in gathering it and analysing it.

But insurers are not alone in this. Law enforcement, consumer products companies, advertising agencies and many others want the data for their own analysis too.

"There's an ethical dilemma, but not just with telematics," says John Kramer, vice president for North America for The Floow, an InsurTech company that collects and analyses driver data for large insurers, original equipment manufacturers (OEMs) and big fleet managers. "It's anything related to location-based services."

While insurers clearly don't own the data – the policyholder does – they have access to it and can easily provide a pathway to others. As a result, permission for using telematics data and safeguarding it becomes an ethical burden.

InsurTech companies aren't out of the woods, either. While the onus of permissions is on their customers – insurers – they too have a responsibility to protect against data breaches. "As stewards of the data, we're held to that same standard [as our customers are]," Kramer notes.

Game changer

What may ultimately force discipline on insurers and InsurTech firms, as well as other companies, is the EU's incoming General Data Protection Regulation (GDPR), which will require corporations to better protect people's privacy or face stiff penalties.

"GDPR is a game changer," asserts Ann Cavoukian, distinguished expert-in-residence at the Privacy by Design Centre of Excellence at Ryerson University in Toronto. "Companies understandably are freaking out."

Still, the incentive for using telematics doesn't just lie with insurers, but policyholders themselves, who potentially stand to save money. Lots of money.

There are other advantages, too, such as increased safety, because driver weaknesses are exposed.

"Everyone has a tendency to go to this dark place," says The Floow's Kramer. "But how we use this data is to save lives. We can help protect the world. And in the process of trying to protect society, we are helping insurers make money."

Good drivers have always complained that they unfairly subsidise bad ones. Telematics can help liberate those good drivers. Insurers are now exploring real-time underwriting, using data and analytics to adjust premiums every time a driver gets behind the wheel.

Drivers enrolling in Floow's "Floow

Coach" product are able to see the data from their trips and receive a safety score that influences the insurance discount they could get.

The company can also home in on the worst drivers. Floow creates a programme for each of those drivers, calls and coaches them, and walks them through the steps to becoming better drivers, setting goals and establishing accountability.

Not only has the programme reduced the severity of accidents, claims Kramer, but it has resulted in 16.5 percent fewer accidents altogether.

Floow doesn't record data of someone breaking the law, however. For example, it doesn't tag people going over the speed limit, Kramer says. When speed is measured, it is contextual – as in, for example, how risky is the road a person is driving on? And what speed are they driving on it?

Floow does measure phone usage, though. Why? Because such telematics record distraction data, "and that's a risk event", Kramer says.

Compliance and benefits

For several years now, law enforcement agencies have, at times, used subpoenas and warrants to get location information collected by the likes of satellite radio and telematics company SiriusXM and General Motor's OnStar service.

Insurers are not immune and have also received subpoenas for telematics data. They get the data from their suppliers and comply with the request.

Kramer says that while Floow has not experienced this yet, like other telematics companies it would have to accommodate its customers (i.e. insurers), and also comply.

In addition to saving money, however, drivers can also derive additional benefits from the data that telematics companies are collecting on them.

Consider, for example, the benefits that Otonomo, a San Francisco-based telematics company which describes itself as "a marketplace for car-connected data", can provide. Otonomo's customers are OEMs, namely big automakers. But new clients are coming. "We're in discussions with insurance companies for user-based insurance," says Otonomo's chief marketing officer Lisa Joy Posner.

She thinks Otonomo will partner with InsurTech companies and then work with big insurers. Why? Because Otonomo deals with three kinds of data – mobility, behavioural and diagnostic. Mobility data tracks what is happening to the car; behavioural information measures how far a driver lets fuel levels fall or how hard he or she presses down on the accelerator, for example; and diagnostic metrics record how often the windshield wipers are on or how full the battery charge is.

Armed with this data, Otonomo can then offer the driver real-time coupons for services he or she may need – like an oil change, or a service call for a fuel truck if there's only quarter of a tank of petrol in the car.

To provide those services, however, Otonomo needs the motorist's permission. The customer owns the data, Posner asserts, "but chooses to share it in return for applications and services".

Opt-in, opt-out

What critics don't like about the permission system is that it is often "opt-in, opt-out", where privacy isn't the default, opting in is.

"What I don't see is a lot of insurers asking themselves these questions," says Duncan Minty, who writes a blog on insurance ethics and provides consulting services to insurers on ethical matters. "It's a gold rush. Let's use as much as we can."

Ryerson's Cavoukian points out that drivers have to actively opt out, which they rarely do because the legalese and verbiage surrounding terms and conditions just make it more convenient to accept.

But the GDPR could change the paradigm. Cavoukian created the "privacy by design" guidelines in the late 1990s, which became an international standard in 2010. Now the principle has been incorporated in Article XXV of the GDPR.

With privacy by design "you automatically get privacy", she explains. In other words, privacy is the default – opting in is not.

GDPR's influence will not end there, however. Under the rules, law enforcement agencies would have to get a warrant to request telematics and other private data and not just a subpoena. "Insurance companies shouldn't be providing material without a warrant," Cavoukian says.

She points out that it is difficult to predict what will happen in the US, though she believes companies will start adopting the GDPR standard on their own. "If you don't have a strong foundation of security, you don't have privacy," she explains.

> McKinsey & Company predicts that car data will be monetised to such an extent by 2030 that it could yield between $450bn and $750bn in revenues

A lack of standards for telematics data may lead to more vigilance, too. Some companies collect such data every second, but others may do so every 30 seconds. "I don't see standardisation in the short term," says Kramer.

This lack of standardisation means insurers and InsurTech firms will hopefully default to a position of caution. Telematics conservatism could also be the result under GDPR too. But insurers under GDPR will have to up their game on data protection, Cavoukian believes.

Under the law, there are data controllers – the insurers themselves – and data processors, which are the InsurTech firms. The data controllers are ultimately responsible for their data processors.

"They have to lay down the law," she says of data controllers. "The law with data processors is, they'll have to elevate the data protections insurers expect of them."

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WATCH THE SKIES...

A rise in the number of drones has exposed a grey area of risk and a lack of regulatory clarity, says **John Hewitt Jones**

On 9 July 2017 the captain of an Airbus A319 approaching London's Gatwick airport was greeted with the startling view of a metre-long unidentified object hurtling towards the cockpit of the aircraft.

An unidentified operator had directed a drone into the path of the aircraft, creating a sudden obstacle that nearly shocked the first officer of the airliner into disengaging the airliner's autopilot 6.3 nautical miles – three minutes' descent time – from the runway.

A report into the incident by the UK Airprox Board, the UK watchdog responsible for investigating near-misses in the sky, found the episode had endangered the lives of 130 people on board and classified the risk of collision as high.

The near-miss was a catalyst for stricter controls on the use of drones, and just 10 days later the UK government announced the introduction of a drone registration scheme and safety awareness courses for owners of small unmanned aerial vehicles (UAVs) in a bid to tackle issues around the operation of drones – issues that insurers have been facing for years.

Speaking to *Insider Quarterly*, Jon Prowse, executive liability underwriter at AGCS, explains that operating standards for UAVs have always been a challenge and that carriers currently rely on CAA rules to determine whether a risk is acceptable.

"Essentially our position is that if we are extending the GL (general liability) policy we will only do so as long the insured is abiding by the rules of the relevant regulator, which in the UK is the CAA," he says.

For insurers then, the regulatory regime for the operation of drones is more than just a legislative framework – it is also an important means of protecting their loss ratio.

Aviation or GL risk?

Both the quantity and profile of the risks presented by large multinationals are expanding exponentially as the use of unmanned aerial systems (UAS) increases.

According to a report published in 2016 by Goldman Sachs a figure in the region of $100bn will be spent on new remote systems over a four-year period. Of this, construction will account for $11.2bn, agriculture $5bn, infrastructure inspection $1.1bn and insurance $1.4bn.

As it stands, commercial firms seeking drone cover have two options: obtain a standalone aviation policy or extend their existing general liability (GL) cover.

Accompanying the significant investment in UAS technology, aviation underwriters have witnessed an uptick in the demand for cover and an increase in the complexity of insureds' requirements.

Continued on page 34

Robert James, aviation underwriter at Tokio Marine Kiln (TMK), explains to *IQ* that demand for the product from corporations led TMK to begin providing specific, standalone UAS cover 10 years ago. The aviation cover is targeted at both SMEs and large multinationals and James is clear they are expecting further growth.

"It's a growing field and we are seeing more demand for coverage," he says.

UAS cover is a well-established product offered by the aviation market but in recent years demand has surged for the extension of general liability (GL) policies to cover drones – a development that has brought significant challenges.

AGCS's Prowse explains that three years ago his division began receiving a spate of enquiries from clients asking to extend existing GL policies to cover commercial drone operators.

"At first I think it was a challenge for all general liability underwriters to understand the needs of clients using drones for a range of tasks including filming and surveying," he says, highlighting the range of new uses for drones: pipeline inspection, filming and aerial photography, to name a few.

Speaking to *IQ*, a senior executive at an aerial mapping company says that the structure of a company involved in drone operation has a profound effect on whether it buys separate aviation cover or extends a GL policy.

"In our case we subcontract out nearly all our drone operations, so it doesn't make sense to have a standalone aviation policy," he says. "Each of our contractors have their own cover, so we simply extend our GL policy to add additional liability cover sitting above their insurance."

Major exclusions

Despite a significant increase in the numbers of UAVs, the relatively nascent nature of the market means there are areas where coverage has not yet been challenged and remains untested.

Liability claims arising from invasion of privacy or trespassing are difficult for underwriters to mitigate and while aviation insurers offer cover for the peril, the majority of GL policies exclude it.

UK Airprox Board drone report to January 2018

Year	Number of UAV incidents
2010	4
2011	0
2012	0
2013	0
2014	6
2015	29
2016	71
2017	92

Source: Civil Aviation Authority

While some aviation underwriters offer cover for the peril, the Lloyd's Market Association (LMA) points to a recent meeting of the aviation insurance clauses group, which issued a clause – AVN124 – excluding liability for non-physical injury, mental anguish and fright and shock.

James Straker-Nesbit, senior executive, underwriting, at the LMA, says this suggests aviation insurers are keen to avoid the complex legal tussle likely to arise from a claim of this type.

"There are complicated issues around traceability and this whole area is one of concern," he tells *IQ*.

Meanwhile, as multinationals expand their use of drones they are demanding more responsive cover – eliciting a comparison with motor insurance from the LMA.

Current UAS coverage in the aviation market does not cover events such as vandalism, which the driver of a car would expect as standard.

As the use of unmanned aerial vehicles becomes more common, underwriters are starting to adapt. "The Aviation Insurance Clauses Group wrote a wording – AVN1E – as a consumer hull and all-risks policy, designed for consumer aircraft – however it could be adapted for UAVs," says Straker-Nesbit.

Regulatory uniformity

While insureds continue to face the choice between extending the existing relationship with their GL underwriter or obtaining standalone UAS cover from an aviation insurer, greater international agreement on the regulation of drone operation would greatly benefit the market.

In November the European Commission entered into an informal agreement on developing an EU-wide framework for the regulation of drones, and in December the US signed key legislation requiring all recreational drone owners to register their aircraft with the government.

A January report from the International Underwriting Association (IUA) details the current patchwork of requirements across drone regulatory regimes in the US, UK and Europe and calls for greater clarity over the way in which these rules will affect how underwriters assess risks.

"None of these initiatives appear to focus in detail on insurance requirements, and, in particular, whether and how the minimum requirements in the EU Directive apply to drones," the study says.

In tandem, the IUA highlights issues ranging from the need for more sophisticated basic safety requirements to the need for clearer definitions of "aerial work", "congested space" and "visual line of sight" under CAA rules, which are central for underwriters seeking to establish whether or not to offer clients cover.

As the US, UK and EU take steps to develop their regimes for the regulation of drones carriers are hoping for a convergence that will allow the expansion of lines of business into other jurisdictions.

"Greater unity across the regulatory environments in the UK, the EU and the US would be positive for GL underwriters," Prowse says, adding: "We've already developed policy extensions within the UK framework established by the CAA."

TMK's Robert James agrees: "There are efforts to bring harmonisation of UAV regulation across Europe." However, he adds: "To date the landscape still remains relatively fractured."

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DON'T BELIEVE THE HYPE

Cyber innovation is needed, but the response to threats should be collaborative, informed and sustainable, says **Dr Rachel Anne Carter**

If we think about cyber risk we are bombarded by hype and doomsday threats. Cyber has thus been transformed into a risk which it is difficult if not impossible to ignore.

There are genuine risks associated with cyber – and there is a realistic potential for losses. Yet a greater overall understanding of technical risks and vulnerabilities, as well as proportionate, reasoned, informed and sustainable solutions is preferable to succumbing to any hype.

So what should we be doing about it? The answer is 'considering innovation'. When I talk about innovation I am not referring to just keeping up with the buzzword of the moment. Rather, what I am referring to is genuine and scalable innovation.

This needs to be informed via a thorough understanding of the risks, appetite, and ability to mitigate the risk and the promotion and generation of a more sustainable series of steps to ensure that any cover offered is fit for purpose.

For products which at present are not ideal or could be improved, this will require adaptation and evolution; the degree of which should again be informed by the overall cyber risk paradigm as well as client demand.

Although innovation is key, it is only useful if done in a manner where risks are properly assessed and understood, options are considered and one or more options proposed.

That said, within these parameters, the cyber market does have a great degree of scope for modernisation. To stay relevant, cyber products need to be in line with the ever-changing and transformative nature of the variety of risks and their technical manifestations.

Cyber requires a greater in-depth technical understanding not just of the risk but of the way that it can link to other areas of the business. Cyber underwriters must understand the way the risk can affect or interlink with existing companies and suppliers – or even interrupt a supply chain. This is coupled with the intangible nature of a risk that is not confined by any geographical or physical boundaries.

Security strategy

Offering fewer, carefully thought out, well understood and targeted products is not only likely to generate benefits for the individual insurer developing these products but is also more likely to enhance the respectability of the market as a whole. Insurance is an integral part of this but it needs to be a critical component within a broader security strategy. The collective value to be attained from this broader security strategy is that it will promote greater protection, prevention, resilience and recovery against cyber-attacks, breaches, interventions or disruptions.

Insurance will necessarily involve clever financial options for shifting the risk and financial implications of cyber events. However, given that cyber is not merely an economic risk, but also a business risk, this necessitates a broader and more holistic strategy. In attaining the broader objectives of scalability, through understanding the evolution of solutions to fit the business risk that cyber poses, it is probable that innovation will involve non-traditional players in the market.

In developing the most optimal solutions, we need to utilise and leverage the experience, expertise and technical knowledge of cyber professionals, police and government organisations (such as the National Cyber Security Centre and GCHQ).

We also need to be mindful that those we are seeking to work with need to embrace us also. A scalable, proportionate and knowledge-driven innovation will benefit everyone and will set an individual company or particular insurance market ahead of others, not only in terms of the product, but also the broader protection provided to a client.

Insurers have the best possible understanding of, and insight into, providing economic protection against business risks. In terms of physical risks there is often a convergence of physical and cyber risks.

The insurance industry thus also relies upon technical cyber professionals who have the specialist knowledge of the IT and cyber infrastructure, vulnerabilities and programming capabilities, and can implement technical solutions.

The ability of insurance, physical security and technical cyber experts to work together to generate a holistic solution, will be preferable to a purely economic solution.

This joined-up approach will also help facilitate the identification of patterns used by adversaries to carry out attacks and put in place solutions to combat these, and isolate any potential losses.

Collaboration is the strongest force we have available. The economic aspect of the solution, which insurance cover provides, positioned within a broader security strategy, will aid recovery for an affected business.

Holistic solutions

Security breaches rarely affect only one part of a business – rather, they are more likely to hit several areas of a business and may even affect its overall functionality and operability (even if only temporarily). A solution accounting for the various effects is therefore key.

> A broader security strategy will promote greater protection, prevention, resilience and recovery against cyber-attacks

Information about the potential effects of security breaches involves intelligence gathering, understanding of technical intricacies and behavioural and other observations.

This understanding and holistic approach to the threat and its potential implications takes into account minimisation, prevention and recovery from security breaches.

A security solution involves taking into account physical risks and ways of minimising these risks. It also requires cyber professionals to be more prescriptive about what clients and stakeholders must or should do (and the regularity of these actions) to ensure systems are as safe as possible. And, in addition, insurers will need to adapt and optimise their offerings to ensure clarity.

The bringing together and selling of such products and services will benefit all and will provide more robust solutions for clients. From the clients' perspective, this will also take the stress, time and inconvenience out of having to source their own vendors for a variety of different security objectives.

In terms of both the provision of security as well as the level of insurance cover offered, it is likely a higher degree of security will be afforded and that insurance solutions may have higher limits or more extensive coverage.

Overall optimal solutions protecting against all security eventualities will be provided to companies who understand their risks, vulnerabilities and use – or are willing to have a strong security culture. This approach is also conducive to innovating in an informed, measured and scalable way.

Joined-up approach

The breaking down of traditional barriers to promote a joined-up approach – and more targeted innovative insurance solutions – sends a very powerful signal to our adversaries.

Together we are stronger, and by sharing knowledge we make it harder for the adversary to exploit those areas within a business where knowledge may be trapped within silos. Instead, it provides a stronger position for analysing past events, learning and adapting.

Ultimately, if there is a loss, it is best that everyone is on board from the security sector (including insurers), as the only winners from these events are the cyber attackers who have been able to exploit our own entrenched silo system to their advantage.

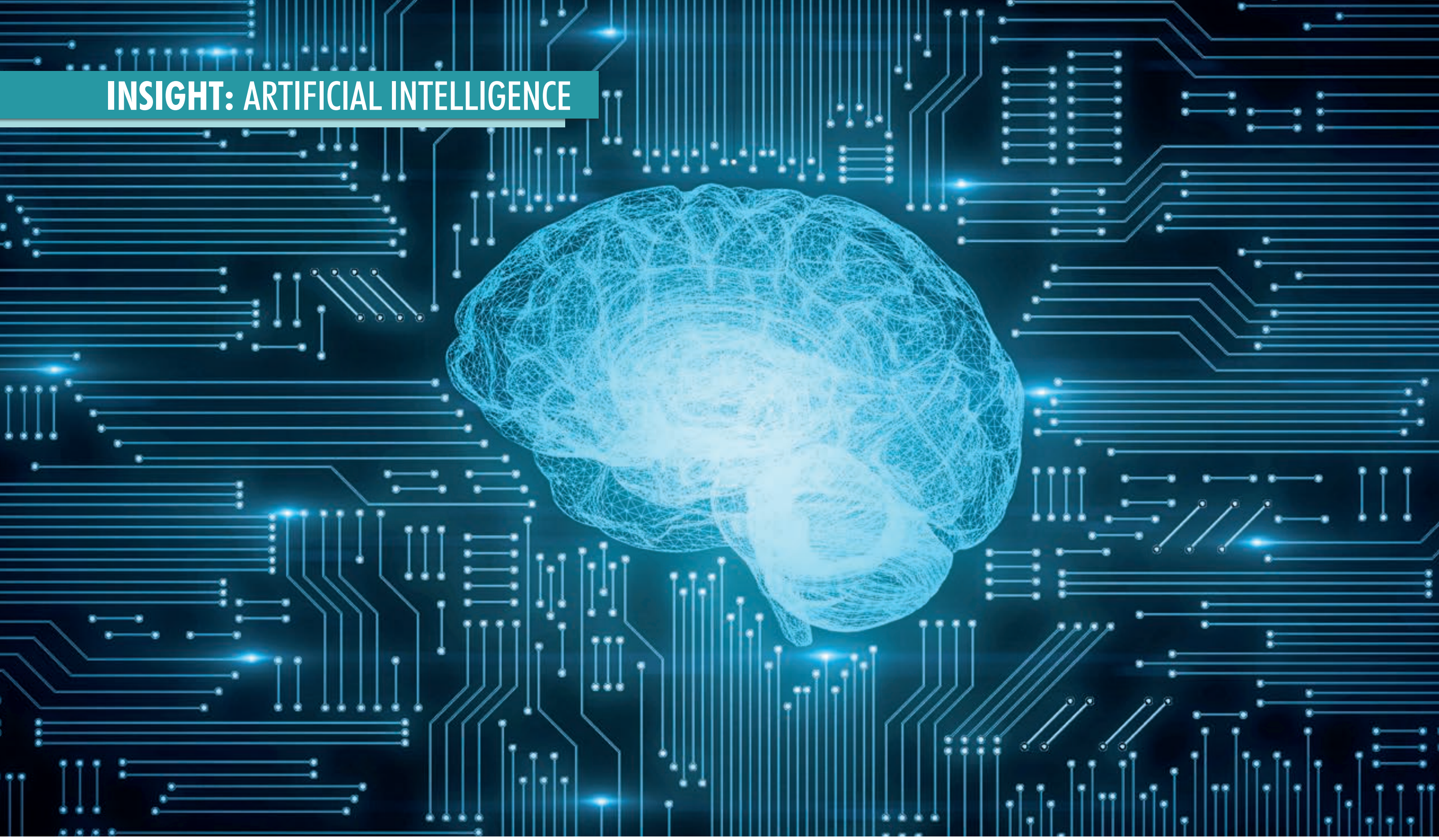
In summary, security is an all-encompassing profession, focusing on the safety of people, business and communities. Insurance is a part of that solution, providing an economic and financial buffer.

Let this year become the turning point where there is greater, collaboration, adaptation and modernisation of the way various security risks are perceived and remedied.

Innovation is needed but it must be targeted, informed and scalable. Let us become a united force for the future and a seed of resentment for our adversaries carrying out cyber breaches.

If we grow stronger together by targeting innovation, and ensuring that insurance offerings are adaptive and can evolve within a sustainable and well-entrenched security strategy, then cyber attackers will realise they are faced with a harder task if they continue to carry out attacks.

DR RACHEL ANNE CARTER, MSyI, is cyber innovation lead (underwriting) at AmTrust and director (Research and Policy) for the Security Institute



AI: STAYING ONE STEP AHEAD

Quantifying cyber risk is one of the biggest challenges facing the insurance industry, but the adoption of the latest AI and predictive analysis tools could be a game-changer, says **Graeme King**

In the world of physical risks, underwriters can see, touch and experience the factors that determine the value of a risk. In the cyber world, threats are more intangible, complex and are evolving by the minute.

Underwriters are grappling not just with limited historic loss data but also a moving target. With the methods used by hackers constantly changing, what may have been a strong premise for cyber defence one year can quickly be irrelevant the next.

Over the last decade, certain common features have emerged as indicative of good or bad cyber-security posture. While they can be a useful guide, they are often somewhat blunt. Underwriters find it easier to quantify the typical claims costs associated with data privacy breaches, particularly in the US, however putting a price on cyber-related business interruption remains extremely challenging.

Last year, the NotPetya virus showed just how severe that type of loss can be, with the worst-hit company reportedly losing over a billion dollars. There is also the concerning issue of risk aggregation when a virus can affect multiple companies at the same time.

In an interconnected world, failure in one part of the supply chain can have a knock-on effect on many insureds in multiple regions. Whilst we are aware that risk aggregation exists, the market has not yet fully quantified the scale, probability or severity of the problem.

Underwriters have traditionally managed aggregation by controlling line sizes, spreading exposures across geographies and sectors, and building margin into pricing. They can also choose to select clients who have the ability to respond quickly and efficiently to a cyber incident.

When uncertainty exists, a sensible underwriter will price a risk higher to ensure they bring in sufficient premium for the risk. Yet increased competition in the cyber insurance market has pushed rates down, while coverage has expanded to such an extent that it is hard to see how much further rates can realistically fall.

Introducing AI

This is where artificial intelligence (AI) could play a key role in the future. Machine learning and predictive analytics are increasingly being deployed by underwriters and insureds to identify cyber risks and better understand the extent of their exposures.

Certain tools exist, for example, that can rate companies' chances of falling victim to a cyber-attack by passively scanning their internet footprint for evidence that they are complying with the National Institute of Standards and Technology's cyber-security framework.

Understanding how well potential insureds protect their digital crown jewels is a major factor for underwriters to consider when pricing cyber risk. Considerations include how they segregate systems, how regularly they back-up, as well as their ability to detect, contain, eliminate and recover from an incident.

AI can help evaluate the likelihood of a data breach occurring in the presence or absence of certain key vulnerabilities. There is much that can be learned by comparing data from the vast number of companies that have experienced breaches with data from those that haven't. Good and bad cyber behaviour can become evident when computers analyse data for strong correlating factors.

Through predictive analytics, we will increasingly be able to use this data to give an insured a more precise probability of it falling victim to a cyber-attack. Adopters of such tools will be able to see exactly why they scored well or poorly and take very specific mitigating actions to lower the likelihood of a breach in the future.

If used well, AI can guide companies on how to improve their cyber resilience, right down to the individual assets in their IT systems. It could also be used to help companies identify cyber risks within their supply chains, allowing them to scan their own suppliers and potentially advise them on how to mitigate risk.

If this approach were to spread through supply chains and the wider economy, cyber risk aggregation would undoubtedly be reduced.

Cyber-security ratings

The difference between the highest and lowest risk scores for companies analysed by credit rating agency FICO's cyber vulnerability assessment tool (FICO Enterprise Security Score Portrait) is a factor of 24. In other words, the company with the worst risk profile is 24 times more likely to suffer a cyber breach than the best. As the dataset grows and machine learning continually refines the model, this probability difference will surely increase.

Some experts predict that within five years cyber-security ratings will be as important as credit ratings. With a growing number of insurers using analytics to help underwrite risks, there is every likelihood that this kind of rating will become a major consideration for underwriting decisions.

While the method may be new, the principles behind the AI approach are similar to traditional underwriting, only on a much bigger scale. At Barbican, we have already partnered with a number of cyber specialists in a bid to help our insureds better identify and quantify their cyber risk. It is inevitable that more will follow as machine learning becomes mainstream.

> Some experts predict that within five years cyber-security ratings will be as important as credit ratings

Already, some assumptions about the vulnerability of certain sectors to cyber-attack are being confirmed. The education sector, for example, is not renowned for big IT budgets. These are large organisations with limited spending power that can often be leaky around the edges, and their scores tend to be lower.

Banks on the other hand tend to score extremely well because they have invested so much in their endpoint security and have highly developed security policies driven by regulations. The retail sector also seems to be doing remarkably well, having learned valuable lessons from various high-profile breaches in recent years.

At the sector level, these findings can help underwriters ensure they have the right mix of exposures to certain industries in their portfolio, and price their risks appropriately.

At the level of individual insureds, underwriters can respond in a number of ways to a company receiving a different rating than expected.

If underwriters believe there is a risk mitigation issue that needs to be addressed, they could approach the client and invite them to make changes. At this stage in the evolution of such technology, this is preferable to offering insurance with strict conditions or limitations.

Human insight

It would, of course, be unwise to base underwriting decisions solely on an AI scoring mechanism. Sometimes false negatives or positives can be generated. Risk ratings can be affected by assets or systems that are disconnected from key services but haven't been shut down properly, for example, or by assets that have no value attached to them and are therefore irrelevant from an underwriting perspective.

Sometimes insureds will have a reasonable explanation for why a certain vulnerability appeared on their footprint, and it is up to the underwriter to decide whether to accept this.

Analytic software should always be used in conjunction with human insight – when it comes to underwriting complex commercial risks, human expertise remains vital.

However, there is no doubt that AI has a key role to play in not only helping insureds stay one step ahead of the cyber threat, but also in helping underwriters quantify and price coverage more effectively.

Better still is when the insured gains the direct benefit of the same AI, to allow it to identify specific actions that will improve its cyber-security posture.

Whether the insurance market has the capacity to meet demand for ever-increasing cyber limits in the wake of NotPetya and other headline-grabbing breaches remains to be seen. If AI is used to its full potential, perhaps there will be no need for billion-dollar cyber coverage in the first place.

GRAEME KING is business group leader, cyber at Barbican Insurance Group

IT'S GOOD TO TALK

Culture and regulation can create an ethical environment where competition can flourish, says Carol Richmond, but a positive, dialogue-based approach is the key

In a compliance-heavy industry such as ours, it's all too easy to bash and bemoan the regulator. As we all strive to reduce costs for our customers and capture new efficiencies, the tide of new or revised regulation can sometimes feel like it is pushing us back despite our best efforts.

Disdain or dislike for heightened governance requirements may therefore be a natural response from some. But such a response is as unproductive as it is prosaic. A more imaginative approach is to focus on the benefits that regulation can bring and what can be achieved through effective dialogue.

Viewed through one lens, regulation is a final step – with sanctions as ultimate deterrents. Viewed through another lens, good governance and compliance are an intrinsic part of any good business — they inform decision making, enhance customer outcomes and lead to a more effective and competitive marketplace.

However, it has to be a top-down approach. If you don't have the right culture and appetite at the top to improve governance, it will never be a priority for the business. Equally, if a firm values its reputation, it will instinctively follow the rules – they will be no need for the stick of sanctions for any rule breaking.

Conduct risk is all about consistent behaviour and a great corporate culture, which is why a tick-box approach will never deliver the outcomes you need.

Good governance is not about admin – blindly following processes and procedures is not the way. You have to exercise judgement. You have to question and challenge.

Good governance is also not about what the risk and compliance team does – it requires engagement right across the business. Work streams must be owned by those at the coal-face of trading; leaders need to get involved, debate and challenge.

Changing perceptions

The first step in moving to a positive perception of regulation is to accept that the regulator is more pragmatic than many assume. Building a positive two-way dialogue with regulators often leads to sensible accommodations and beneficial outcomes. Both sides need to adopt a practical and realistic approach to the application of regulations designed to deliver effective consumer protection and transparency while ensuring a competitive marketplace. Those that take the opportunity to work with the regulator will quickly find they are not blind to the potential drawbacks of introducing rules typically designed to encompass the whole of a market – nor why some will challenge their relevance as a result.

However, through collaboration, whether direct or via trade bodies, reasonable changes and accommodations to individual sectors are not only desirable but wholly possible.

The efforts of market associations, such as the London & International Insurance Brokers' Association (LIIBA), are crucial in effectively highlighting not only the complexity of implementing new regulations but also of vigorously representing the industry's interests to the regulator.

Collective action will always ensure that regulatory decision making takes into account reasonable business concerns. Recent examples illustrate this well. Effective dialogue has seen industry concerns over incoming regulatory regimes not only met with understanding but a willingness to change tack.

> Some argue that a rigorous approach to regulatory compliance conflicts with our entrepreneurial desire as brokers to compete aggressively in a crowded market. In fact, the opposite is true

Lines of communication

Take the Insurance Distribution Directive. Explaining why the original implementation timetable was both overly optimistic and not achievable when there were so many competing priorities resulted in a new, more viable one that the industry felt it could support and deliver on.

Another example that demonstrates the value of dialogue is the development of the Senior Managers and Certification Regime. It was important for our industry to establish in the regulator's mind that what is proportionate for the banking sector may not reflect the way that insurers and brokers interact. It was also vital that the distinction between large and small entities was clearly understood in framing the legislation.

Keeping these lines of communication open and honest with the regulator is what helps make any such challenges effective. As well as the power of considered collective submissions, an important part of any CRO's and CCO's role is to have these discussions with their regulatory counterparts on a one-to-one basis.

It is for us as CROs to work through any new requirements that our brokers may feel shouldn't apply, and explain why, so as to inform the regulator's guidance or decisions.

And it goes without saying that the more demonstrably well-ordered your own governance house is, the more credible your contribution and persuasive your points.

Understanding the motivation behind any new regulatory requirements is also important. Often this is the desire to create a level playing field for all participants as well as effective accountability, so as to ultimately drive competition, innovation and profit.

If there are genuine concerns that a change might have the opposite effect or drive the wrong behaviour, this must be clearly articulated rather than simply criticised.

Take the Financial Conduct Authority's Approved Persons Regime. Was some of the criticism justified? This new regime, it was claimed, would discourage candidates from becoming non- executive directors and lead to a dearth of good candidates. But the obvious counter to this is to question whether anyone put off by greater accountability is the right person for the job in the first place.

Similarly, conduct risk demands certain working behaviours and governance frameworks sit at the core of all business decision making. Yet without this consistent conduct, long-term sustainable growth is not achievable.

Sanctions and GDPR

Of course, alongside the influence of good corporate culture in driving the right behaviours, sanctions can have their place. Punitive penalties certainly serve to focus the mind.

The soon-to-air General Data Protection Regulation is a good example.

With non-compliance resulting in a fine equating to 4 percent of global annual turnover or EUR20mn, whichever is the greater, our industry – just like any other – cannot afford to fail to invest in meeting its provisions.

However, in assessing the effect these regulations will have on our business and customers as a whole, as well as the motivation behind them, we learn lessons well beyond straightforward compliance.

Taking a positive dialogue-based approach to regulation should be the bedrock for all brokers. Engagement is essential. Box-ticking is doomed to failure. Of course some may argue that a rigorous approach to regulatory compliance is in conflict with our entrepreneurial desire as brokers to compete aggressively in a crowded market. In fact, the opposite is true. Competition is improved when firms operate in an ethical and compliant environment.

A market that champions the needs and rights of customers and puts all players on an equal footing is inherently more competitive, as only those with the highest levels of service, efficiency and expertise will gain a meaningful market share.

While it may generate some short-lived financial returns, ultimately a 'hard sell' approach with little regard for customer-focused compliance requirements will result in damaged reputations. And for broking businesses that only exist due to the goodwill and trust of their clients, that can spell disaster.

In financial services, reputation is everything.

At Gallagher that means embedding our ethical approach into all our activities, and being prepared to call out or challenge bad behaviour or breaches in others when we experience or witness it. Integrity is integral to success and good conduct matters.

CAROL RICHMOND is UK chief risk and compliance officer for Gallagher

PROTECTING THE MODERN VAULT

The lessons from a fire at an art storage facility in 2004 are finally being learnt by the industry, says **Oliver Howell**

The late Brian Sewell,London Evening Standard art critic, described a devastating fire that ripped through a London East End storage facility in May 2004 as: "The makings of an appalling tragedy for the history of contemporary art."

The catastrophic incident saw the destruction of works by numerous renowned contemporary artists, including Tracey Emin, Damien Hirst and Rachel Whiteread, as well as parts of collections held in store by Buckingham Palace, The Tate and The National Gallery.

The incident also shook the art insurance industry to its core. The fire at the facility, which belonged to a leading art shipper, forced the industry to consider how items in their care could be better protected and secured. Insurance premiums were immediately affected, with fresh scrutiny placed on the safe, secure and effective storage of art.

Sewell's comment might now be viewed with a little more perspective – this was a terrible situation of course, but one that gave the art-storage sector the opportunity to reflect on its practices. The event raised serious questions surrounding how the industry dealt with threats to collections in its care, and how the sector could work with insurance and reinsurance providers who ultimately had to assure their own clients their valuable items were in good hands.

The lessons learned from the fire have catalysed new approaches to the practices of high-end storage providers. Museums and arts bodies such as The National Trust and English Heritage have been updating their conservation and upkeep practices in recent years, minimising the risk of catastrophic damage or any 'agents of deterioration' (reported by the National Trust as being: fire, loss, water, physical damage, chemical change, biological – that is, pests/critters/fungi, light, wrong humidity and wrong temperature) – and the art storage world has taken notice.

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Gander and White Shipping has put these lessons at the forefront of its latest storage facility design in Wandsworth, south London, setting a new industry standard for fine art storage.

The building of this 4,500m² warehouse shows an acknowledgement in the industry that unique and high-value artworks can only be stored effectively if they are given the best protection against all potential threats – both natural and man-made.

The facility will represent one of the best in the industry for security, fire-protection, environmental condition control, handling and use of space. The state-of-the-art storage space aims to set an example to other operators in the broader high-end storage sector.

Other storage providers who are upping their game include Octavian Vaults, for fine wine storage, and Windrush Car Storage for luxury vehicles. The entire high-end storage market is stepping up to meet the demands of institutions, collectors and insurers alike.

A broader drive for improvement in the art storage sector is also being assisted by the International Convention of Exhibition and Fine Art Transporters (ICEFAT), of which Gander and White Shipping is a founding member. This organisation promotes high industry standards with the participation of its more than 70 members in 33 countries.

Security and fire safety

Clients who require safe repositories for art want to be certain that the high-value objects that they place in storage are subject to the highest levels of security. This security must be implemented in every step of the process, from moving the objects from origin to the storage facility and their safe placement in the secure facility itself.

For very high-value pieces, art shippers sometimes use decoy vehicles to throw any potential thieves off the trail. When the high-value cargo arrives safely, the next step is the secure and efficient moving of the objects from vehicle to storage space. From storage of fine wines to classic cars, high-end storage facilities should be able to provide peace of mind to clients and insurers through modern security systems such as CCTV, access-control systems, continuously monitored security alarms and a dedicated high-security control room.

> "From storage of fine wines to classic cars, high-end storage facilities should be able to provide peace of mind through modern security systems"

In a large, purpose-built art storage centre such as Gander and White's new London facility, the safe removal of objects from vehicle to storage space is carried out in a fully-enclosed 30 metre loading bay, meaning that the objects are effectively 'locked in' from the moment the transportation vehicle enters the facility.

The fire in 2004 occurred in a facility that had been rented and was not up to the task of safe and secure storage of artworks and was vulnerable to innumerable threats. Using an art storage company with purpose-built art storage facilities allows for peace of mind when storing precious objects.

Advances in technology encapsulating better prevention and protection mean that an incident similar to the one in 2004 is unlikely to happen again in the art storage sector. Complete coverage fire-alarm systems, air sampling and four-hour rated fire-retardant rooms are all examples of developments in this increasingly technologically-up-to-date sector.

Historic properties which often house these objects are far more prone to a disaster than modern storage facilities.

OLIVER HOWELL is UK managing director of Gander and White Shipping

Environmental conditions

Art storage providers have to contend with delicate materials that may be extremely vulnerable to environmental conditions. They are vulnerable to the elements and to bugs that could use them as a habitat or food source.

Museums and historic sites and buildings have led the effort to ensure these natural occurrences do not jeopardise their beloved objects, and the art storage sector is now catching up.

'Museum-standard' environmental checks are becoming the norm in art storage facilities, with these buildings positioned and designed in a way that impedes the chance of any external harm. The closely controlled, stable conditions for clients' artworks eliminate worry for depositors and insurers alike. Any new art storage warehouse should be equipped with such museum-standard storage capabilities.

Conditions that are likely to cause damage virtually eliminated in purpose-built art storage facilities with temperature, pollutant and humidity. Most importantly, pest control is much easier and more efficient in a secure, water-tight building.

Compare the clean, sanitised space of the modern art storage facility to a private house, a museum housed in a Georgian-era building, or a heritage property, and it is easy to see why art storage makes much more sense for insurance than a client storing their objects in one of their own spare spaces.

Insurers, collectors, museums and dealers want to be certain that artworks sent into the modern vault will emerge in their original condition.

As a key part of the art world, it is crucial that the art storage sector be closely scrutinised. The efforts of the ICEFAT organisation and the quality of newer facilities can assure the insurance world, and various interested sectors and industries, that professional art storage is an increasingly reliable resource for the care of their precious items.

DON'T PANIC!

Aidan O'Neill examines how GDPR and SCAP will affect claims adjusters and argues they could be a positive for London if handled correctly

Navigating a path through the blizzard of acronyms that often besets London market processes and models can often be a hazardous affair to the uninitiated, so in this article I have set out to decode the effect of two prime candidates affecting my clients in 2018.

The effect of the General Data Protection Regulation (GDPR) and the Single Claims Agreement Party (SCAP) will be widely felt by the London market, its suppliers and their customers in 2018.

Turning to GDPR first – a major challenge is that London market bureau and non-bureau suppliers are often engaged in claims adjusting with other parties storing personal identifiable information (PII).

If an adjuster resolves a fire claim, for example, they often ask supplier partners in the insurance value chain to act on their behalf - that means stored data is shared by multiple parties.

The 'Right to Erasure'

There are 99 articles in the EU regulation, which comes into effect on the 28 May 2018, and has the power to levy fines up to EUR20mn, or 4 percent of annual global turnover – whichever is higher.

This is a significant step up from the Data Protection Act 1998 (DPA), enforced by the Information Commissioner's Office (ICO). The ICO has several options when it finds an organisation to be in breach of the act including monetary penalty notices, including fines of up to £500,000 for serious breaches of the DPA.

The regulation also confers eight data subject rights: the right to be informed; the right of access; the right to rectification; the right to erasure; the right to restrict processing; the right to data portability; the right to object; and rights in relation to automated decision making and profiling. In less than three months' time, imagine a claimant invoking the 'Right to Erasure' (nothing to do with the 1980s synthpop duo!) against their personal data within a few months of the regulation going live.

When this happens, how does the claims team reliably guarantee and certify that its third-party administrator (TPA) has erased all the claimant's personal data?

The next question to ask is who is responsible for this data? It is a thorny question because it is open to debate whether many insurers and managing agents with ancient legacy systems even keep reliable record of all TPAs.

Some will, but do the majority know which counterparties process data that is used to resolve all claims? Which then leads to another question, how does GDPR define the data controller?

The answer, according to the ICO is that a controller determines the purposes and means of processing personal data. However, if you are a controller, you are not relieved of your obligations where a processor – for example, whoever is responsible for processing personal data on behalf of a controller – is involved.

The GDPR places further obligations

on you to ensure your contracts with processors comply with the GDPR. That obviously has implications throughout the (re)insurance value chain.

The right to charge for data requests is also being removed. Such a charge would have deterred who knows how many thousands of people that wanted to see their data in the past, but no longer, presumably.

The fear is that insurance companies will be swamped with an enormous new workload and spiralling cost of performing tasks to meet requests using out-dated legacy systems – and even new technology – which are unable to automatically process such requests.

Data protection

Insurers need to review their security procedures and be prepared to adapt them in order to comply with the regulation. Staff training also needs to focus more heavily on data protection training and education.

As well as talking to clients about the potential effect of GDPR I have also had conversations with the market's associations.

David Matcham, chief executive of the International Underwriting Association (IUA), was kind enough to give me the IUA's perspective.

With regards to GDPR, he told me: "It promises to have a significant impact on the way insurers process many different types of personal data – information which is the lifeblood of our industry.

"It is encouraging, however, that the legislation implementing the GDPR has been amended to allow insurers to continue processing personal data. The new law generally requires firms to obtain specific consent before processing such data, but this would present enormous challenges in the provision of insurance cover. This issue has been well recognised by government and action taken to remove any potential obstacle to future provisions of essential insurance cover.

"The industry's concerns were reflected in the House of Lords and an amendment was introduced allowing the processing of personal data, including health details and criminal conviction records, to be processed provided certain condition are met. These conditions include if the data is necessary 'for an insurance purpose' and 'for reasons of substantial public interest'."

> "There is trepidation on the part of the market's participants that complying with GDPR is going to require potential changes to systems and processes"

Implications of SCAP

The Single Claims Agreement Party model went live at the beginning of February 2018. According to London market observers, SCAP will develop a more effective process for the settlement of lower value, non-complex claims (£250,000 and below) where multiple London agreement parties exist. It is a contractual arrangement to delegate sole claims handling responsibility to the slip leader (who must be a London market carrier).

It represents a significant step in ensuring that the London market remains competitive and at the centre of the international insurance industry through the implementation of innovative and efficient working practices.

SCAP has been designed for adoption by brokers and carriers on individual risks, with participating carriers having the option to contract out of SCAP should they choose.

SCAP offers significant potential benefits and opportunities to the London market. It will simplify the agreement of a large number of claims, but which together are calculated to only represent a small proportion of the London market's total claims cost.

It is reported that as many as 80 percent of claims across the market could be in scope for SCAP. Having to deal with multiple claims agreement parties has been identified as a barrier to the ease of doing business in the London market for lower value claims, so SCAP addresses some of those concerns.

The London Market Association's CEO David Gittings has said that the single agreement model will make the settlement of claims in the London market more efficient and offer an improvement in service and customer experience.

SCAP is part of a wider move to rationalise the agreement process in London in its strategic move to making London easier to conduct business. It is clear the market believes that the framework is designed to provide a more effective process for determining and settling cross-market, non-complex claims in the London market.

Meanwhile, it should be noted there are no system changes being made to CLASS, ECF or Write-Back messaging to support this initiative. The onus is entirely on the broker to identify SCAP claims. A daily report is being produced by Xchanging advising managing agents of claims from the previous day, which are within the SCAP scope. If adjusters have no claims to report, the report will not be generated.

London's insurance carriers might be forgiven for thinking sometimes that they are involved in a battle of the acronyms.

There is a certain amount of trepidation on the part of the market's participants that complying with GDPR is going to require a lot of thought and potential changes to systems and processes but fear not: Docosoft has been consulting with clients, consultants and market bodies on the issue and we are here to help.

GDPR is complex but its intentions are good. The regulation sets out to improve the data rights of individuals, clients and their suppliers so that could be a positive for London if it seizes the opportunity to be a global leader in this area.

SCAP, meanwhile, is an opportunity to significantly improve the customer experience.

AIDAN O'NEILL is CEO of Docosoft

INSURANCE, IT AND GENDER

In the wake of the Presidents Club scandal, **Kirstin Duffield** argues that equality in the IT workplace is about having a flexible and inclusive approach that maximises the value employees' contributions make

Gender equality is the topic of the year so far, with *The Insurance Insider* itself recently commenting on the inappropriate behaviour reported at the Presidents Club charity dinner in January.

We strive to push for more coverage in the media on the work of IT and its "success" with gender equality – as does the London insurance market through its various diversity initiatives.

So, does the industry suffer from gender inequality? Well, in Lloyd's we have a female CEO, a female chief information officer (CIO) and a female chief data officer. It appears that the market we serve has no qualms about women holding senior roles. The Lloyd's executive committee also has a 50/50 gender split.

However, this is not reflected across the London insurance market, where on average only 18 percent of executive leadership roles are occupied by women, and 50 percent of company boards do not have any female representation at all.

Considering there is 41 percent female representation across the market, there is still some work to do. What about the IT vendors themselves? On average, only 17 percent of the UK IT workforce are women. It seems IT has much further to go than the London insurance market. Of school leavers enrolled on computer science degrees in 2016 one in six were female, and the total number of girls taking either information and communications technology or computer science at GCSE fell by 12 percent in the same year, indicating that this is as much of an issue at a grass-roots level.

So, when we look at IT software vendors in the London market – companies writing software specifically or tailored for the insurance sector (document management systems, back office, claims management, workflow, web services, portals etc) – it is a huge challenge.

With such a low starting position, and factoring in the relatively low number of vendor companies in this market, anecdotally we can see that even these firms have some work to do. IT has been the domain of women across history. Ada Lovelace, in 1842, was Charles Babbage's analyst on his proposed mechanical general purpose computer, the Analytical Engine, and thus the first "computer

> When someone attends an interview and informs me they have Asperger's syndrome, I look for how that will complement the team

programmer". Hundreds of Wrens served as codebreakers at Bletchley Park during World War II. Irma Wyman calculated missile trajectories at the Willow Run Research Center and was the first female vice president and CIO of Honeywell. Ida Rhodes invented the C-10 programming language in the 1950s. Sister Mary Kenneth Keller was the first woman awarded a PhD in computer science in 1965. And Donna Dubinsky was instrumental in bringing the first hand-held PC to market, as CEO of Palm. Just to name a few.

The IT industry has actively and vehemently pushed for more women. You only need to see the investment and publicity around science, technology, engineering and mathematics (STEM) subjects as schools attempt to ensure that home-grown talent is nurtured in the UK from an early age. Not to mention the exploding attendance numbers at some of the many award ceremonies celebrating women in IT.

Positive female role models

The Women in IT awards, now in its fourth year in London and New York, has grown from roughly 25 tables to more than 120 this year. Winners come from both start-ups and companies numbering thousands of employees, along with new talent, founder CEOs and Bletchley Park codebreakers – rock on Betty Webb!

Men are always welcome at these events too – I would estimate that one-third of the 1,200 attendees are male. Furthermore, it's not unheard of for a man to win! Granted I am not sure what the industry would make of a Men in IT award!

Looking closer to home, at Morning Data we have a 65/35 split, male/female – more than the national average of 17 percent of women in IT roles.

The next question is whether women are in senior roles within their organisation.

Again, at Morning Data 57 percent of the management roles are filled by women and the owner/CEO is a woman! But that is not the reason our numbers are high…or is it? Why should the CEO being a woman make a difference? Or perhaps the question is how does it make a difference? There is not a mystery sisterhood of some kind. Any woman will recognise the drawbridge effect – the silent agenda and unsaid cattiness that is present in the workplace in every role there has ever been. Don't deny it girls!

Research has shown that having women in leadership roles leads to increased profitability and performance. A report by Credit Suisse in 2016 showed that "companies where women made up at least 15 percent of senior management were 50 percent more profitable than those where fewer than 10 percent of senior managers were female".

It shows that balancing the gender ratio will have a direct positive impact on company performance.

It is not the case that companies should just employ more women in leadership roles, as though that's the magic bullet. Other factors must be addressed, including corporate culture and wider diversity issues.

The hot topic of the moment is the gender pay gap. It's not easy to compare many roles on a true like-for-like basis, but it is clear that there is a large gap in the industry.

Legislation came in to force in April 2017 affecting employers with 250 or more staff. Their pay gap data must be analysed and published by 4 April 2018, and we are now starting to see some of the results hitting the headlines.

The Insurance Insider reported recently that Zurich pegs its average (mean and median) gender pay gap at 27 percent. Yes – women in Zurich's UK operation earn, on average (mean and median), 27 percent less than their male counterparts. And Aviva has recently revealed its mean pay gap to be 28.5 percent.

As more companies release their results over the coming months, we will start to understand the true gulf in gender pay across all industries.

Companies of our size have few truly identical jobs. We are not legally required to publish our data, but we still monitor this nonetheless. Analysis of average pay at Morning Data indicates that the women are paid 0.05 percent more than the men across the company. We consider that to be no gap! How many operations in the London insurance market can say that?

Perhaps the market needs to have even more openness regarding gender pay, regardless of operational size. After all, a large proportion of the market is made up of small brokers, MGAs and underwriting agencies, so it's important to understand the true gap across the entire market.

Flexibility through diversity

We have strived to look at each candidate for a job on a range of measures – skills, experience, potential, personality and "face fit factor". That means that when someone attends an interview and informs me they have Asperger's syndrome, I look for how that will complement the team.

And, when a contact from the market says they would like to join our company, but also wants to study a degree at the Open University, so would ideally like to work three days a week, we look at the additional resource I can build into the team for less than the cost of a full-time employee.

Add to this list young first job applicants and, if you don't see their potential, then you are missing out! It's about having a flexible and inclusive approach that maximises the value that person brings, regardless of their gender or diverse background.

So, what about a man's point of view? Well, this piece was jointly written with one of my fellow (male) directors. My hope is that this sentiment is echoed across the industry, by all genders.

KIRSTIN DUFFIELD is CEO of Morning Data

PERSONAL DATA BREACHES AND THE GDPR

Richard Breavington and **Amy Winterbourne** outline some of the key requirements under the EU's GDPR for notifying personal data breaches to regulators, plus the challenges which could result from such breaches

The European Union's General Data Protection Regulation (GDPR) contains demanding requirements for notifying certain personal data breaches to regulators and, in some cases, data subjects. These are of potential interest not just to cyber insurers, but also to all who work with personal data. This article provides an overview of some of the key requirements and the challenges

> While there might be a natural reluctance for an organisation to bring itself to the ICO's attention unnecessarily, the consequences of not notifying could be significant

which could result from such breaches, including the knock-on effect on related third party claims.

Notification of data breaches is not currently compulsory. The ICO (Information Commissioner's Office) has published guidance on when breaches should be notified, and compliance with the guidance can affect the outcome of an ICO investigation into a breach.

It is, however, a judgement call whether and when to notify, based on guidance rather than rules. On 25 May 2018, when the GDPR comes into force, this will change. There will be specific rules on what to do when there is a personal data breach, and a failure to comply with those rules could prove costly.

Notifications to the ICO

When a data security incident takes place, organisations must quickly establish whether a personal data breach has occurred and, if so, promptly take steps to address it (GDPR, Recital 87).

The Article 29 Working Party responsible for providing guidance on breach notification under the GDPR in practice has identified three types of personal data breach:

- Confidentiality breach – where there is unauthorised access to personal data
- Availability breach – where there is unauthorised loss of access to, or destruction of, personal data
- Integrity breach – where there is an authorised alteration of personal data

If the breach is likely to result in a risk to people's rights and freedoms it should be reported to the ICO. This must be done without delay and, where feasible, not later than 72 hours after becoming aware of it (GDPR, Article 33).

An organisation is 'aware' for these purposes when it has a reasonable degree of certainty that a security incident has occurred which has led to personal data being compromised.

This could be a challenging timescale. It is not uncommon for the alarm about a potential breach to be raised on a Friday afternoon. The breach may have been discovered on the Friday morning. Those who discovered it may have hoped to fix it or to show that its effect was only limited.

As the weekend loomed, these hopes perhaps did not materialise and management were informed. The initial notification to the ICO would then potentially be due on the Monday morning.

Where an organisation does not have all of the required information about a breach available after 72 hours, an initial notification can be made, with more information to be provided later. Article 34(4) allows organisations to provide the required information in phases, as long as this is done without undue further delay. This could help. The 72 hour notification need only cover the information available at the time. But it will generally be preferable to have made good progress on the investigation before the initial notification if possible.

It will also be necessary within the first 72 hours to make a decision on whether a notification to the ICO is needed or not.

When assessing the risk posed to individuals as a result of a breach, the Article 29 Working Party Guidelines recommend taking into account: the type of breach; the nature, sensitivity and volume of personal data; the ease of identification of individuals; the severity of consequences for individuals; any special characteristics of the individual (for example – children or vulnerable individuals); the number of affected individuals; and any special characteristics of the data controller which may affect the level of risk to the individuals. Within 72 hours, not all of these factors will necessarily be clear.

Where there is doubt, it is likely to be preferable to notify. The organisation suffering the breach will have to be comfortable that there is unlikely to be an effect on the rights and freedoms of individuals to justify not notifying.While there may be a natural reluctance for an organisation to bring itself to the ICO's attention unnecessarily, the consequences of not notifying could be significant.

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Notifications to data subjects

Where the personal data breach causes a high risk to individuals' rights and freedoms, then it should also be reported to the individuals who have been affected (GDPR, Article 34).

High-risk situations are likely to include those which have the potential for people to suffer a significant detrimental effect – for example, discrimination, damage to reputation, financial loss, or any other significant economic or social disadvantage.

When notifying individuals, organisations need to describe, in plain language, the nature of the personal data breach, including a description of the likely consequences of the personal data breach; a description of the measures taken, or proposed to be taken, to deal with the personal data breach; and the name and contact details of a contact point for further information.

Organisations must also keep a record of any personal data breaches that occur, regardless of whether they are required to notify the ICO. Article 33(5) requires organisations to document the facts relating to the breach, its effects and the remedial action taken. This allows the ICO to verify an organisation's compliance with its notification duties under the GDPR.

Fines and penalties

Failing to notify a breach when required to do so could result in a fine of up to EUR10mn or 2 percent of an organisation's annual global turnover (whichever is greater). This is a significant increase from the current maximum ICO fine of £500,000. It is also important to realise that a fine of this amount could apply just for a failure to comply with notification requirements, even if an organisation is blameless in relation to the circumstances making up the breach.

If any investigation into a breach leads to a finding that there has been a breach of certain of the more fundamental requirements in the GDPR, a higher maximum fine of EUR20mn or 4 percent of annual global turnover could be applied in respect of that breach.

> "Insurers covering liability losses will need to be aware of the potential liability from personal data breaches and to be clear on how their policies will respond"

These are eye-watering maximums. The ICO has indicated that it will take a proportionate and judicious view in issuing fines. It currently views fines as a last resort. This provides some initial comfort. But it remains to be seen whether that view hardens in time.

There are also a number of other corrective powers available to the ICO under the GDPR, such as warnings, reprimands, compliance orders, orders to notify, and restrictions and bans on processing. So, even without resorting to fines, the ICO is well armed to ensure that there are meaningful consequences for failing to comply with GDPR requirements.

RICHARD BREAVINGTON is a partner, Insurance, at RPC

AMY WINTERBOURNE is an associate, Insurance, at RPC

Third party claims

The notification requirements under the GDPR will inevitably result in an increase in reported data breaches in the UK. There is also an increasing awareness amongst both organisations and individuals of the risks that data breaches pose, as well as the value which data has. The GDPR expressly provides that data subjects should be entitled to be compensated for distress if their data is compromised and to join a class action to recover.

In the recent case of *Various Claimants v WM Morrisons Supermarket*, claims were brought against Morrisons by approximately 5,500 individuals whose personal data had been published on the internet. None of those individuals had suffered any financial or physical harm. They had just suffered the distress of knowing that the data was available for all to see.

Even prior to the GDPR coming into effect, it is now established that data subjects can recover for distress where their personal data has been compromised. Although the quantum recoverable by the claimants in the Morrisons case is yet to be decided, the sheer number of claimants means that even a relatively modest award for each individual could have significant consequences.

There is increasing interest from claimant law firms and litigation funders in class action data privacy claims. For example, Max Schrems, the Austrian lawyer and privacy campaigner, has recently formed a not-for-profit organisation called None Of Your Business. The aim of this organisation is to take privacy cases to court, and use PR and media initiatives to raise awareness of cases. They have launched a crowdfunding initiative which has already raised EUR300,000 (of their target of EUR500,000) to fund these activities.

The liability arising from claims brought by third parties as a result of a data breach, and the costs of defending them, will usually come within the terms of a standalone cyber liability policy, along with the costs of any regulatory and/or data subject notifications described earlier. There is, however, also the potential for third party claims to be covered under the terms of other (non-cyber) policies.

The extent of such 'silent' cyber cover is beyond the scope of this article. However, insurers covering liability losses will need to be aware of the potential liability from personal data breaches and to be clear on how their policies will respond. For those policies that do, the landscape of claims arising from personal data breaches is likely to change.

NEW NORMAL

Electronic placing has become normal for a new generation, says eReinsure president and CEO **Igor Best-Devereux**

Insider Quarterly: **You had a record renewal period in the month to 1 January 2018. What's driven the increase in placements using eReinsure's technology and does this signify that digital distribution has finally made its way into the mainstream of the reinsurance market?**

Igor Best-Devereux: We have been very pleased with the recent levels of activity. One of the measures we use is "unique users" – that is – underwriters or brokers that use our platform for at least one transaction in a month. In December 2017, 6,741 reinsurance professionals at 489 companies located in more than 70 countries requested, quoted and bound reinsurance contracts using eReinsure's reinsurance-placing technology.

Market conditions help somewhat as there has been an increase in fac activity. An increasing number of our clients have integrated their systems with eReinsure so that the electronic placing process starts as soon as a decision is made to consider buying fac. In addition, growth has resulted from new customers and the use of our technology for treaty business.

eReinsure has been in production since 2001. I think many of those in the market at that time doubted digital distribution would ever succeed – in spite of the evidence to the contrary in other areas of the economy.

Some of those doubters have retired in the past 17 years and electronic placing has become normal for a new generation. I believe it is true to say that there are now underwriters in the market that have only ever bought fac reinsurance via the eReinsure platform – especially when they work for a carrier that has integrated underwriting systems with eReinsure. The increasing use of online/networked engagement between companies in the market has definitely passed a tipping point.

Insider Quarterly: **A number of other electronic placement initiatives have been making progress – such as PPL in the London market and the recently announced globalREmarket. How do you view the competitive landscape going forward?**

Igor Best-Devereux: I've always viewed the market as a network and so I expect there will be increased activity in e-placing as well as using network-based technology to reduce frictional cost in the market. These initiatives are evidence that real interest exists in the type of capabilities eReinsure provides. The old manual 'information distribution' model just isn't sustainable.

It is surprising that there has not been more competition over the years – although we have been told by reinsurers that they hope there will not be a proliferation of platforms that they are asked to use. Another factor may be that some initiatives have come to the market with a sense of entitlement. Disruptive technologies do not bring value just because they are labelled disruptive and certainly don't add value by increasing cost or complexity. There are real business needs that should be satisfied and technology should be proven to be reliable, secure and relevant to the real problems of the business – including helping with data quality, greater management control, and reduced cost.

> Our goal is to provide technology solutions that can help reduce the cost of moving risk to capital

Insider Quarterly: **eReinsure has also announced a new blockchain service capability. What are the advantages of using blockchain technology for reinsurance processing and what is it about eReinsure's platform that you consider makes it a complementary fit for blockchain technology?**

Igor Best-Devereux: Blockchain is particularly exciting because it has generated excitement about technology solutions. One of the fundamental values that I see with blockchain is that our customers can be more responsible for their own data. Data is the life blood of the (re)insurance market and blockchain can provide another way to control the movement of data from one system to another.

Automation, event-based notification, realtime data to update contracts and bordereaux could result from "permissioned" system-to-system communication. At eReinsure we add value by providing workflow and data flow to enable our clients to interact and negotiate online. This fits well with the vision of data sharing and data history on blockchain. Of course, none of this will happen overnight but offering our clients alternatives to have greater control over their own data is an important goal.

Having said that, existing technologies are more likely to save cost in the next few years and waiting for blockchain should not become an excuse for delaying the implementation of existing proven technology solutions. In the longer term, the tools being developed to build applications on blockchains, including roles-based workflows and smart contracts should allow faster deployment of lower cost applications. Technical experts will be able to build these solutions without having to build everything from scratch and that will be a significant benefit.

I'm especially enthusiastic about models such as B3i – developing a data structures and operating systems for the market that can be available to application developers such as eReinsure. The challenge is to enable people to use technology – so the layer between the user and the blockchain is critical to the success of such initiatives. eReinsure is a specialist in this field, with a great deal of experience in understanding how users want to input and extract information in the reinsurance transaction lifecycle. We will continue to add value through evolving technology for negotiation and data management – allowing our existing user base to access new capabilities and tools while retaining the familiar system that networks them with their business partners.

***Insider Quarterly:* What challenges do you perceive in the wider implementation of blockchain technology in the reinsurance industry, and how may these be overcome?**

Igor Best-Devereux: Managing expectations is a big challenge. Blockchain is not a panacea for (re)insurance any more than XML was. The whole infrastructure of the market has proved to be lacking in its ability to quickly embrace new technology – even well-established solutions such as ACORD messaging. So no one should assume that with blockchain the benefits of a network come easily or for free.

Other challenges will be identity management, privacy and regulation – in reality these are all challenges that eReinsure and other platforms have faced and dealt with over the years. Senior managers within the (re)insurance market need to stay focused on the need to digitise the business. Better data standards must be developed for exposure analysis and management, as well as downstream processes. There is a lot of ground work that will have to be done. Another challenge is that blockchain will require investment. Each node in the blockchain is a processor, and companies do not necessarily want to invest in more hardware. That is the reason we imagine that blockchain will most likely be deployed as a cloud solution. As the promise of blockchain normalises, we will be working with our clients to see how best to use this technology to solve the top priority problems. Especially reducing transaction cost and enabling the efficient sharing of data.

***Insider Quarterly:* eReinsure is now owned by leading wholesale broker AmWins. How comfortable a fit is this acquisition, given the paranoia many brokers have felt in the past about technology platforms?**

Igor Best-Devereux: Actually, I think the paranoia went away some years ago. Many of our biggest customers are intermediaries and some of our broker clients have already embraced eReinsure technology as a way to move their business into a digital form. This does not mean that (re)insurance expertise and business relationships will not matter in the future, but if 'capital chooses distribution' you can bet that it is price and performance sensitive. Intermediaries have to add value and maximise this value by transferring to technology those areas of busy work where cost savings can be made. Just like in other areas of the economy, distribution is changing. Consolidation is occurring and online execution is expanding rapidly. Higher productivity requires automation and centres of expertise may move from costly traditional locations. A company such as Amazon provides online stores for other retailers all under one technology umbrella. There is a lot we can learn from the success of online distribution businesses in other sectors.

***Insider Quarterly:* What challenges do you see ahead for the reinsurance market, and how would you assess the role that eReinsure has had to date, and will have in the future, in enabling reinsurance processing?**

Igor Best-Devereux: At an operational level there are significant challenges to reduce the cost of manufacturing and distribution in reinsurance. The cost of distribution is a key component, as it is a cost that is both large and addressable through changes in execution. eReinsure has proven that e-placing can be reliable at scale – and we did this with a relatively small amount of investment by being nimble and determined, as well as building experience over a long period of time.

We continue to evolve and upgrade our solutions. Our goal is to provide technology solutions that can help reduce the cost of moving risk to capital. That is the role that we will continue to play.

Igor Best-Devereux

BREXIT: THE NEXT 12 MONTHS

With a year to go to the Brexit deadline, **Peter Allen**, insurance partner at Moore Stephens, considers what the next steps in the process mean for the insurance market

***Insider Quarterly:* Is the UK actually leaving the EU?**

Peter Allen: Yes. Although it is possible to imagine circumstances in which the UK doesn't leave the EU, they don't seem likely. Both major UK political parties support the move with more or less enthusiasm. Negotiations have continued steadily and the political and economic environment has not changed sufficiently to cause a change of mood in the UK electorate. Assume the UK is leaving.

***Insider Quarterly:* It seems a long process. How far through it are we?**

Peter Allen: It depends when you start the clock – and when you think it will stop. If you start the clock at Referendum Day, 23 June 2016, and stop the clock on the day the transition period is slated to end, 31 December 2020, then we are somewhat short of half way.

***Insider Quarterly:* Why is it taking so long?**

Peter Allen: First, because the EU is a highly complex structure from which it is difficult to extricate an embedded member. That accounts for, among other things, the 21-month transition period. Secondly, because it's never been done before. Third, because the EU decided that negotiations must proceed serially, in the order in which the Council decided is important: so, the divorce bill and citizens' rights came before talking about a free trade agreement (FTA). And fourth, because the UK government has not found it easy to agree internally about what its objectives are.

***Insider Quarterly:* From the insurance market's point of view, how much do we know about what 2021 looks like?**

Peter Allen: Not enough yet. We know that both sides intend to negotiate an FTA, and they both intend the FTA to include services: the UK said so in January 2017, and in March 2018 the Council issued guidelines for the Commission which make explicit reference to services as part of the proposed FTA. We can be reasonably confident that insurance will feature in the FTA to some extent, because the same guidelines rule out a sector-by-sector approach. So, if anything at all is agreed on services, it should include insurance. The currently unanswerable question is, what can be agreed?

***Insider Quarterly:* So, what might be agreed? What's the EU's position?**

Peter Allen: The guidelines talks of three areas. First, 'movement of natural persons', presumably this means provision for granting of work visas or permits. Second, mutual recognition of professional qualifications. And third, most significantly from the point of view of the insurance market, 'allowing market access to provide services under host state rules, including as regards right of establishment for providers.' However, the guidelines then caution that this must be 'consistent with the fact that... the Union and the UK will no longer share a common regulatory, supervisory, enforcement, and judiciary framework.'

***Insider Quarterly:* And what's the UK's position?**

Peter Allen: The UK Government's starting position on this was contained in the UK Chancellor's speech on 7 March 2018: "First, we will need a new process for establishing regulatory requirements for cross-border business between the UK and EU. It must be evidence-based, symmetrical, and transparent. And it must reflect international standards. Second, cooperation arrangements must be reciprocal, reliable, and prioritise financial stability. Crucially, they must enable timely and coordinated risk management on both sides. Third, these arrangements must be permanent and reliable for the businesses regulated under these regimes."

***Insider Quarterly:* When will we know for sure what has been agreed?**

Peter Allen: Not for at least a year. The Council's guidelines state clearly that although work can start

> We can be reasonably confident that insurance will feature in the free trade agreement to some extent, because the same guidelines rule out a sector-by-sector approach

on the FTA, it cannot be concluded until after the UK has left the EU. The above matters are inherently very complex. It seems reasonable to assume that important matters will be unresolved, well into 2019 or even later.

***Insider Quarterly:* By which time the transition or implementation period will have started. What do we know about that?**

Peter Allen: A fair amount, although not with absolute certainty. The EU Council issued guidelines on 29 January 2018 which set out its position in some detail. In particular, the whole of EU law and any changes to it will apply to the UK; the UK stays in the Single Market and the Customs Union; and the full competence of EU institutions is preserved.

The UK position had been summarised in a speech by Secretary of State for Exiting the European Union, David Davies, two days earlier and was remarkably similar: "Both sides must continue to follow the same, stable set of laws and rules, without compromising the integrity of the single market, and the customs union to which we will maintain access on current terms; maintaining the same regulations across all sectors of the economy – from agriculture to aviation, transport to financial services... in keeping with the existing structure of EU rules that will allow a strictly time-limited role for the European Court of Justice during that period. During this... period, people will of course be able to travel between the UK and EU to live and work."

Both these positions were incorporated in the text of the Withdrawal Agreement which was issued at the end of March 2018, with the parts referring to the transition period highlighted in green to indicate that they were agreed. So essentially, at a practical level, it seems likely that very little changes. This all assumes that the Withdrawal Agreement is actually ratified, which is a reasonable working assumption but by no means certain.

***Insider Quarterly:* When will we know 100 percent for sure?**

Peter Allen: Not until the Withdrawal Agreement is formally ratified, which is towards the end of 2018.

***Insider Quarterly:* So, what are your clients doing?**

Peter Allen: It depends on who they are. Our guidance to all insurance clients has been that they should at least have a properly worked-through contingency plan, and indeed most do now have that. Specifically, if a client is PRA authorised, they had to supply it anyway to the PRA in July of last year.

From then on, it is largely a matter of how exposed a client is to trading in the EU. If it is 100 percent mission-critical to a UK-based insurer client to be able to trade seamlessly in the EU, then they cannot really afford to wait until the transition period is finally confirmed or the details of the FTA become clear, which may in the latter case may not be until late 2019 or even 2020.

Accordingly, they will already have chosen their preferred EU location, have an authorised vehicle established, be a fair way down the process of on-boarding staff and infrastructure, and sorting out the legalities and practicalities of transferring the existing portfolio of clients into the onshore entity.

> "Our guidance to all insurance clients has been that they should at least have a properly worked-through contingency plan, and indeed most do now have that"

Insurance businesses for which a solution is important but not so critical are usually a bit further back in the process: they have selected their location and may well have got it authorised but may not be so far down the road of spending money on people and kit and lawyers.

Some businesses can afford to wait and they may have selected their location or a suitable interim trading partner, but not implemented anything yet. Others probably have to wait. This applies particularly to some wholesale insurance intermediaries who have the additional complexity of not yet knowing how the EU's Insurance Distribution Directive will be interpreted by the various EU regulators.

***Insider Quarterly:* So, what happens next?**

Peter Allen: Work can now commence on the FTA. Watch this space.

Peter Allen

CUSTOMER FOCUS

Andy Worth, UK specialty insurance and reinsurance leader at EY, details how customer expectations are driving innovation in the London market

***Insider Quarterly:* The London market's long history of innovation has kept it at the forefront of the (re)insurance world. What are the key innovations currently that EY thinks will help drive the market forward?**

Andy Worth: Innovation is essential in a fast-changing world with increasingly demanding end-customer expectations.

Technological developments are enabling more precise, real-time understanding of risks. We will soon be in a market where the customer will have an expectation that they can engage with risk service providers digitally, using real-time data. Risk sensors and other 'internet of things' devices allow real-time risk information to be shared across the insurance value chain.

Customers will want to work more closely with their brokers and carriers on value-added activity and remove inefficiencies from the value chain using technology. It is easy to envisage a true 'insurance on demand' market becoming a reality. In other words, customers will expect dynamic coverages which automatically start and stop the right type of insurance cover when it is really needed.

Technology will also enable brokers and carriers to provide new risk-management services. The digital channel is normally considered solely as a channel to distribute products.

However, it will also allow carriers and brokers to provide risk management services to clients using analytics to develop insights from the sensor data being provided by clients, in real time.

Data and analytics will also be used to help address the new risks customers are confronting, be it the ever-increasing cyber threat or changing nature of catastrophe risks.

It is estimated that cyber attacks create $400bn-$500bn of economic damage each year, and yet less than $5bn is paid out in insurance claims, highlighting the gap between economic and insured losses. Closing this gap represents a significant opportunity for the insurance market and will only be possible with the right data and analysis.

Insurers and brokers will not be able to deliver all of the necessary capabilities to succeed in the market on their own.

There will be an increasing need to partner with companies from other markets to access the right diverse talent, data and technology to complement the insurance and risk management expertise of carriers and brokers.

The market has taken a number of steps to start to address these customer expectations. Having a single London market body, in the form of the London Market Group, to align the market around priorities and provide leadership, has already delivered successes. A good example is the new insurance-linked securities (ILS) legislation passed in the UK that provides the London market with the opportunity to access new capital and offer clients different solutions.

> We will soon be in a market where the customer will have an expectation that they can engage with risk service providers digitally, using real-time data

The London TOM initiatives are long overdue and I admire the leadership and resilience being shown by a number of individuals to drive this agenda forward.

Innovation has also taken place at a more tactical level. A number of proof of concepts are taking place across the market using new technologies to provide better customer services. This is innovation at its best – lots of different teams across the market trying to develop new solutions in different areas of the insurance value chain.

This includes the marine platform initiative which EY has worked on in the past year and will be launched in the summer. We have been fortunate to partner with Maersk Shipping, Willis, XL Catlin and MS Amlin on this initiative along with technology providers, Microsoft and Guardtime.

It is a good example of a customer-led initiative aligning service providers to the customer's requirements across the value chain. London will see a lot more of this sort of innovation in the next few years.

***Insider Quarterly:* Where is London falling behind – or even missing a trick – in terms of innovation?**

Andy Worth: London has put in place some of the right structures to support innovation in the past couple of years. The market has made many attempts at modernisation but the size of the market and the number of interested parties make change difficult. The new structures, and the credibility of those involved, have made a big difference. Does change need to happen faster? Definitely, not only in terms of making London an easier place to trade but also in terms of attracting broader talent.

There also need to be more initiatives involving end customers. Innovation driven by the needs of customers is more likely to create risk management solutions to help keep London as the leading global insurance centre.

Insider Quarterly: **The UK faces a heavy compliance burden in the months ahead. What are the key regulatory changes facing the London market in the near term?**

Andy Worth: There are three areas of focus. The Financial Conduct Authority (FCA) wholesale market study is looking at market power, conflicts of interest and conduct within the market. The FCA has said it will assess whether conflicts of interest exist, how they are managed and how they affect competition and client outcomes. It will also examine how broker conduct impacts on competition in the sector – but I don't think this is just targeted at brokers; it has implications for the market as a whole. The FCA's report is due in the autumn, so boards should keep a watching brief on this report.

Data protection is another important theme that is getting a lot of regulatory focus. The FCA announced at the ABI conference on 27 February that they were concerned insurance firms were not adequately protecting their clients' personal data, and that data protection was high on the list of the FCA's plans for 2018-19. Many expect a thematic review on this topic in the FCA's business plan next month.

The FCA regards data protection and cyber resilience as not just an operational IT issue, but also something which boards should monitor and challenge the management on about the level of resilience across the business. This includes outsourcing arrangements or delegated underwriting portfolios, which represent $9bn of the Lloyd's market.

Most companies are also in the midst of executing their General Data Protection Regulation (GDPR)

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> Companies recognise that they have to prioritise regulatory compliance initiatives but there is some frustration that budgets for other innovation projects have to be a secondary priority

Andy Worth

projects as part of this agenda.

Governance and accountability continues to be a focus from both the PRA and FCA. The expectation is that there is clear oversight by the board as well as accountability for board members and executive management.

There will be further focus on this topic with the extension of the banking Senior Managers & Certification Regime into the insurance sector in December 2018. This will require firms to certify the fitness and propriety of a wider range of individuals in the business. In other words, there is a lot to think about in 2018.

***Insider Quarterly:* How would you characterise the longer-term effect of these changes on the (re)insurance industry?**

Andy Worth: The drive behind these various initiatives is to ensure good governance and ensuring the protection of customers, shareholders and staff. There will be a significant investment required on the part of carriers and brokers to address these requirements. Companies recognise that they have to prioritise regulatory compliance initiatives but there is some frustration that budgets for other innovation projects have to be a secondary priority.

***Insider Quarterly:* London market (re)insurance players have already been gearing up for Brexit by announcing plans to set up European HQs. What do you see as the key challenges for London from Brexit?**

Andy Worth: Brexit is a challenge to the European insurance and reinsurance ecosystem. It is crucial to ensure access to the UK (especially London) market for EU headquartered companies and the EU market for UK headquartered carriers. Everything we have seen in the market, so far, suggests that companies will have robust Brexit programmes in place.

One effect of Brexit has been that companies have reviewed the performance of their EU portfolios and, in many cases, refreshed their strategies for the EU market based on these reviews. In other words, companies have developed clearer focus to their growth plans in the EU.

***Insider Quarterly:* How significant is the recent announcement of a 21-month Brexit transition deal for London?**

Andy Worth: The transition deal is positive for the industry but won't be formalised until the Withdrawal Agreement in October. Further information from UK and EU Regulators is vital to allow firms to understand how they should develop their Brexit plans.

***Insider Quarterly:* Last year's increase in insurance premium tax (IPT) was received with dismay by the London market. What other tax challenges face the market in 2018 and further ahead?**

Andy Worth: The international tax landscape is going through an unprecedented period of change and some of these changes affect the international insurance industry to a far greater extent than any other industry.

Fiscal authorities globally are increasingly focused on protecting their own exchequers from perceived 'base erosion', so businesses which move functions, assets and risks cross-border are facing increasing tax complexity and cost.

The biggest tax issue impacting the market currently is the recent US tax reform.

This was the biggest tax change for 30 years and results in a significantly lower corporate tax rate for US businesses, but over a much broader tax base, with a stringent focus on anti-base erosion.

The latter includes provisions which apply a new tax, the Base Erosion Anti-abuse Tax (Beat), on outbound transactions, which includes reinsurance. The insurance industry is specifically targeted under the rules. Consequently many insurers are currently restructuring capital, reinsurance programmes and considering group reorganisations.

At the same time, the US tax reform opens up M&A options in the US. Under the old US tax system dividends repatriated to a US parent company from overseas were subject to tax.

The new system is more of a 'territorial' system such that dividends paid to the US from overseas subsidiaries are now exempt from tax (similar to the UK system). Therefore, it is much more favourable to hold subsidiaries under the US than under the previous rules.

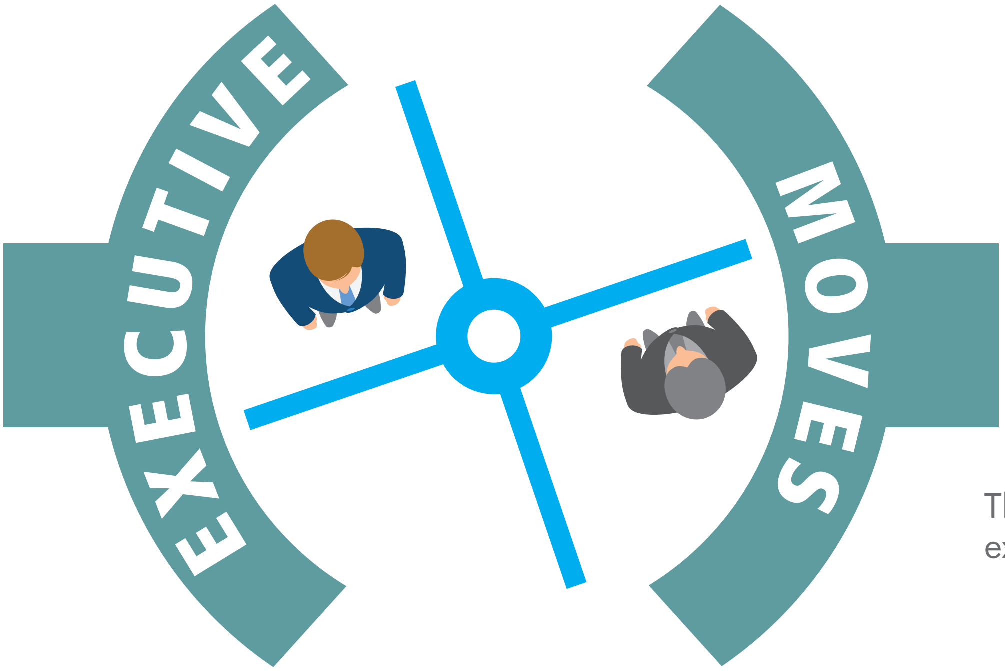
The use of indirect taxes by governments globally is also increasing and insurers are accordingly having to grapple with additional frictional tax costs of doing business.

Closer to home, Brexit presents many tax issues for insurance groups, including on the movement of books of business in or out of the UK.

There are potentially material effects of the UK no longer being in the EU for VAT purposes, and the corresponding additional cost of providing cross-border services.

For those insurers setting up new EU entities as a result of Brexit, tax authorities will be focused on the 'substance' or 'boots on the ground' in the new location in order to ensure it is respected as a standalone entity for tax purposes.

> Fiscal authorities globally are increasingly focused on protecting their own exchequers from perceived 'base erosion', so businesses which move functions, assets and risks cross-border are facing increasing tax complexity and cost



The Ins and Outs of the executive job market

Bill Goldstein

Integro CEO Bill Goldstein has left the firm after three years in the post, sister publication *The Insurance Insider* can reveal. The executive had held the CEO role at the broker since 2015, having first joined in 2006, a year after New York-based Integro was launched by industry entrepreneur Bob Clements.

John Sutton and Toby Humphreys

John Sutton (left) and Toby Humphreys (below), former co-heads of Integro's UK operation who were due to join RFIB in senior roles, are instead heading to Beach to lead a new specialty and wholesale platform.

The duo is joining alongside Simon Haggas, co-founder of Humphreys Haggas Sutton and Company (HHS), which was acquired by Integro in 2005.

Urs Uhlmann

XL Catlin has hired Urs Uhlmann as CEO and country manager for Canada. He was previously CEO of global corporate at Zurich's Canadian business.

Based in Toronto, Uhlmann will oversee the XL Catlin offices in Montreal, Calgary and Vancouver.

Mike Duffy and Sarah Willmont

Canopius has expanded the role of group chief underwriting officer (CUO) Mike Duffy to include the CEO position at Canopius Managing Agents (CMA), the group's main regulated entity. At the same time group deputy CUO Sarah Willmont will become CUO of CMA and active underwriter of Syndicate 4444.

Chris Beazley

London Market Group (LMG) CEO Chris Beazley will end his secondment in the summer to return to MS Amlin as CEO of MS Amlin AG, replacing Gregoire Mauchamp, who is leaving the company. Beazley was previously head of global clients for reinsurance.

Julie Page

Aon has appointed Julie Page as CEO of Aon UK to replace Dominic Christian (pictured), who takes the new role of global chairman of Aon Benfield. Christian was also previously executive chairman of Aon Benfield International. Page is currently CEO of Aon Risk Solutions UK and will continue in that position.

Darren Doherty

Founding Pioneer CEO Darren Doherty is set to depart the company.

In an internal email seen by sister publication *The Insurance Insider,* Dane Douetil, CEO of parent company Minova confirmed Doherty's departure "after nearly seven years at the helm to pursue new ventures".

Douetil added that Doherty would be working with the firm on "an orderly handover" while a new chief executive is found.

David Ledger

David Ledger is retiring from Aon, and is stepping down as chair of Aon Benfield UK and chief operating officer of Aon UK.

Ledger is also stepping down as chairman of Placing Platform Limited.

Ledger was promoted to chief executive of Aon Re UK in 2007, seeing the broker through its 2008 merger with Benfield.

Stephen Postlewhite

Aspen Insurance CEO Stephen Postlewhite stepped down from his position with immediate effect a day after the carrier warned of a $245mn Q4 underwriting loss. Aspen's president and chief underwriter officer David Cohen has taken over the day-to-day management of the insurance business, reporting to group chief executive Chris O'Kane.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