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WINTER 2018 ISSUE 68

FUTURE SHOCK

THE ULTIMATE GUIDE TO FUTURE-PROOFING INSURANCE BUSINESS

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

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RENAISSANCE PEOPLE

Insider Quarterly is about to go through a renaissance. I'm not suggesting it's about to become enlightened and cultured – hopefully it has always been that – but there's always room for improvement.

Brands need to be refreshed from time to time. Logos look dated, straplines start to sound tired and mission statements feature the buzzwords of yesteryear.

Print titles need refreshing also. Any longer than five years using the same style and format, and print brands start curling at the edges like day-old buffet sandwiches.

You might well ask, however, why there is even a need for a long-format print publication in this digital age. Publishers everywhere are turning away from print, arguing that the digital space is where most people read content nowadays.

Well, yes – and no.

Arguably, news is the ultimate digital content. Short, punchy, easily digestible – as perishable as it is immediate – it lends itself gladly to consumption via smartphones and dissemination via social media platforms.

Features, however, cry out for a homelier format. You can read them on your tablet or desktop, but how many people can be bothered to scroll down their screen through a chunk of copy that is much more than 500 words in length?

I would suggest that there will always be a need for the features publication. The physical object may change of course. We are not so far from the adoption of graphene-based "electronic paper" which can display digital images on a sheet that can be rolled like a newspaper.

While this might seem closer to an e-reader than a printed magazine, the drive to produce a digital format in sheet form suggests there is a cosy familiarity about holding your reading material in both hands that we haven't yet given up on.

Look at the continued existence of fashion/lifestyle glossies, gossip mags and Sunday supplements. Yes, all are available in digital formats, but there remains a faithful core readership who still buy printed magazines in the hundreds of thousands.

Features publications are the forum for topics that deserve a more in-depth approach than that afforded by a news story or short analysis/comment piece. They enable journalists to look at the industry in the round, to chart the development of a particular company or market sector, and to deal with historical developments or emerging trends in a more context-heavy and satisfying manner than the snapshot of a news story.

Perhaps most important of all, the features publication is the venue for mainstream topics that might seem less newsworthy in the business-to-business context, but which are nonetheless important in any discussion of the development of the industry.

Our feature on diversity and inclusion in this year's Spring issue of *Insider Quarterly* is a case in point. Not a (re)insurance topic per se, but it reflects a discussion that is going on at all levels, in businesses large and small – the need to tap into the wealth of talent and ability inherent in a more diverse workforce.

It's not just about the zeitgeist though. One of *The Insurance Insider*'s great strengths in recent years has been the market data it has assiduously compiled on anything from M&A to cyber underwriting. *Insider Quarterly* is an obvious forum for the results of these market surveys and, indeed, you will be seeing more of that in print as we translate the data into eye-catching features for future issues.

The renaissance of the (re)insurance industry is already underway, and *Insider Quarterly* will continue to be there to chart its development!

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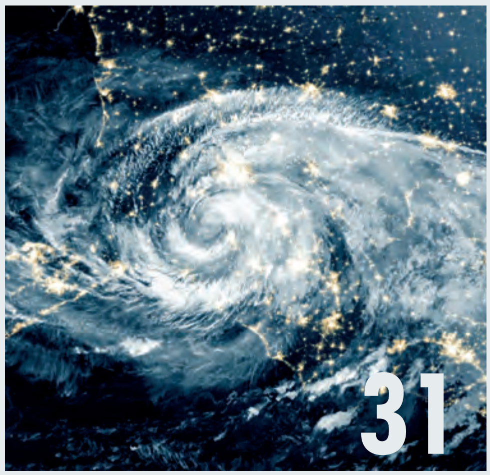


AROUND THE WORLD

IQ's roundup of regional market developments

UK

FCA halts wholesale study publication

The UK Financial Conduct Authority (FCA) has pushed back publication of the initial findings of its wholesale insurance broking study to early next year.

The regulator had originally promised to report back this autumn when it announced the terms of reference for the market study a year ago.

That target slipped to year-end in the FCA's April business plan for 2018/2019. The regulator has now promised the interim report in the first quarter of 2019.

The FCA said on its website that it took the decision to push back the timing "following consultation" but gave no further details.

The FCA study is focusing on market power, conflicts of interest and conduct within the wholesale broking sector.

Sources have suggested the supervisor is struggling to process the volume of forensic information requested from brokers, while smaller and mid-sized brokers were also finding it hard to assemble the five years' worth of detailed financial information required.

US

Wildfires strike California again

Insured losses from the Camp and Woolsey fires that raged in California in early November are expected to total $9bn-$13bn, according to RMS.

At least 80 people are known to have been killed in the blazes. Most of the fatalities relate to the Camp Fire, which devastated the town of Paradise and has been described as the most destructive wildfire in the state's history.

RMS said its estimate reflected a loss range of $7.5bn-$10bn for the Camp Fire and $1.5bn-$3bn for the Woolsey Fire, relating to property and auto damage (including burn and smoke damage), business interruption, additional living expenses and contents loss.

The Camp and Woolsey events were among 15 fires that broke out in early November, and have so far burned a total of 245,000 acres of land, destroying more than 14,000 homes and businesses.

BELGIUM

Lloyd's Brussels opens for business

Lloyd's has opened its Belgian subsidiary, Lloyd's Brussels, as it takes the next step in its Brexit preparations.

The Corporation's chairman, Bruce Carnegie-Brown, said: "Our decision to set up an insurance company in Brussels has provided certainty to our partners and customers throughout Europe, reassuring them that they can continue to benefit from Lloyd's specialist expertise and financial security post-Brexit."

Carnegie-Brown added that Lloyd's Brussels was already accepting and processing European Economic Area risks incepting from 1 January 2019.

"Now that Lloyd's Brussels is operational, we are looking forward to the new opportunities that we will have to grow our business with European customers through a locally-staffed, locally-regulated and locally-capitalised insurer," he said.

"By using electronic placement and digital data capture, Lloyd's Brussels offers its partners in Europe the very best that Lloyd's has to offer in an easily accessible and cost-effective way."

AUSTRALIA

Regulator calls for commissions ban

The Australian Securities and Investments Commission (ASIC) has told a government review into financial services that general insurance should no longer remain exempt from a wider ban on "conflicted remuneration".

The regulator said: "ASIC's view is that the negotiation, payment and acceptance of conflicted remuneration has contributed to poor consumer outcomes, such as sales of products with little or no value to consumers, or which do not meet consumer needs."

The Royal Commission is probing misconduct in the banking, superannuation and financial services industry.

In its response, the ASIC claimed that a ban could encourage insurers to better engage with customers. It said the change would mean insurers "would not be able to rely on the payment of commissions to intermediaries".

ASIC also called for an end to three insurance products: accidental death insurance, "tyre and rim" auto cover and certain types of permanent disability insurance.

Global market updates by class of business

Credit

The credit insurance market is concerned that a proposal by the UK Prudential Regulation Authority (PRA) to call defaults after a 90-day waiting period, rather than 180 days at present, could have a chilling effect on the $1.75tn sector.

The credit insurance industry used the PRA consultation, which closed on 29 October, to criticise the regulator for failing to understand how political risk insurance works.

The consultation follows an earlier paper from the regulator, published in February, about the speed at which claims have to be paid by banks.

The PRA gave credit insurers no opt-out on an interpretation of EU regulations that means insurers would have to pay credit insurance claims "within days but not weeks or months, of the date on which the obligor fails to make payment".

Banks use credit insurance as a way of mitigating credit risk..

Marine

Rate increases of up to 15 percent for commercial lines such as marine, cargo and environmental could be forthcoming next year, Willis Towers Watson has said in its annual Insurance Marketplace Realities report.

The report predicted rate firming across 14 commercial lines in 2019. In particular, the "long-standing downward trend" for cargo is said to be definitively over, due to increased severity and frequency of cargo claims, while rates in other marine lines – namely hull and liability – are also hardening for the first time in several years.

Hull renewals are expected to be flat to up 15 percent next year, and marine and excess liability flat to up 10 percent.

Property D&F

Apollo Syndicate 1969 has exited property direct and facultative (D&F) business in Mexico and the Caribbean, but will continue to write the class in Puerto Rico, sources have said.

Apollo is the latest syndicate to rein in its property D&F book amid the Lloyd's crackdown on underperforming lines.

StarStone Syndicate 1301 and Barbican's Syndicate 1955 withdrew completely from property D&F in order to ease their 2019 business plans through the approval process.

Other markets known to have reduced or withdrawn their property D&F capacity include: Advent, Argo, Ascot, Markel, Navigators, Novae, QBE, Sirius, The Standard Syndicate, Talbot and Travelers.

Construction

Talbot Syndicate 1183 has exited the construction market "with immediate effect" following "a strategic review and discussions with Lloyd's", the carrier said.

Rupert Allhusen led the construction business at the syndicate, following the departure of David Turner, who left to join MGA Rokstone Underwriting.

It is not known whether the exit wil lead to any redundancies, or if Syndicate 1183 has yet been granted its 2019 business plan approval.

The syndicate wrote construction all-risks and erection all-risks business across nine industries, including downstream energy, mining and nuclear. Talbot was one of the four founding syndicates of the Lloyd's construction consortium.

Energy

The Lloyd's Market Association is set to issue a new business interruption (BI) wording for onshore energy business after five years of mounting losses that have seen a substantial increase in the frequency of claims costing more than $200mn.

The trade body said its onshore energy business panel engineering sub-group is working on a new wording to provide "coverage clarity". The new wording will encourage syndicates to share BI information in a bid to improve the market's understanding of the type of claim. Underwriting estimates for 2018 suggest BI claims have made up about 70 percent of losses for the year so far.

Aviation

Aviation underwriters are expecting to pay out about $100mn after a Lion Air 737 Max 8 airliner crashed in the Java Sea with 189 passengers and crew on board. Global Aerospace leads the aviation all-risk policy, which was brokered by JLT.

Multiple sources said the insured value of the hull was $60.1mn, and that the policy would also pay out $3.5mn in additional costs.

While it is still too early to establish a quantum for the liability pay-out, market sources said it could be in the region of $40mn, while the all-in cost of the claim was unlikely to rise beyond $100mn.

Market intelligence on the QT

Hot spam

However much one might groan under the oppressive weight of compliance training – the bane of contemporary corporate employment – it seems that all those lessons about cyber safety may have paid off at Insider Publishing.

Our journalists were somewhat bemused to receive more than one email in November from contacts in the (re)insurance world to open a PDF titled ‘Cordial invitation’.

The invitation to open an invitation, without any indication of the nature of the invitation, seemed a little, well, uninviting to say the least – and our hardy cyber warriors rose to the challenge by declining to do so. It goes to show that, however big the organisation and however tight their cyber security, nobody is immune to scammers and spammers. Stay vigilant!

Cold shower

On the subject of spam, *IQ* PI was somewhat bemused to receive a PR email, touting a ‘relationship expert’ client, titled ‘Eight ways to flirt during party season’.

In the climate of reversing gender inequality and improving diversity and inclusion, it seems curiously anachronistic at best to be reading injunctions (to what appears to be a female audience) on how to find ‘love under the mistletoe’.

Here’s one gem of wisdom: “Listen. No, really listen. Remember what he tells you when he’s talking about himself and refer back to his earlier comments later in the conversation. In this way, you show him that he has been at the centre of your attention the whole time.”

Aside from the weird, *Stepford Wives*-like, patriarchal overtones of this ‘advice’, *IQ* PI is reminded of Rachel Dalton’s comment piece in sister publication *The Insurance Insider*, on the topic of ‘micro-aggressions’ – “constant reminders of difference” that create “a heavy sense of exclusion”.

As Rachel’s piece eloquently points out, the assumption that romantic involvements only occur between men and women is criminally out of date. And, as for the suggestion that women should seek to please/defer to men in order to ‘find love’, the less said about that the better.

So, good luck with getting your “flirting game on point this party season”!

FUTURE SHOCK

In a rapidly consolidating (re)insurance market, **Rachel Dalton** assesses how companies are preparing for disruption – and future-proofing their business models in the process

The past two years have seen increasing consolidation in the P&C (re)insurance space. Major transactions this year include Axa's $15bn takeover of XL Group and Marsh & McLennan Companies' (MMC's) $5.6bn purchase of JLT.

The prevailing sentiment is that this phase of consolidation is far from over. In fact, some players believe the market is heading for a second age of global composite insurers offering personal, commercial, specialty and reinsurance products. As cost pressures increase on carriers and brokers worldwide, the benefits of scale begin to look more attractive.

In the ongoing consolidation ball, it stands to reason that the less attractive organisations, which fail to attract a dance partner, will not survive alone. With the continuing over-supply of capital maintaining soft market conditions, many companies are looking for an edge to keep them relevant and profitable. And that edge, many contend, is better use of technology and data.

"The winners and losers will be decided by who can adopt data and tech," claims Barnaby Rugge-Price, CEO of Hyperion's newly created in-house InsurTech operation, Hyperion X. "If you can't, you will just fall away."

Hyperion X was launched in October, with the stated intent of transforming the wider organisation's use of data and technology. It will also manage Hyperion's third-party InsurTech investments and incubate start-up ventures.

Rugge-Price says the fundamental driver of change in the industry, and the foundation of Hyperion X, is the "cost problem in the industry".

"We need to bring that down. If we aren't part of the solution, we won't survive," he admits.

> Carriers are looking for an edge to keep them relevant and profitable. That edge, many contend, is better use of technology and data

Feel the benefit

Technology and data, used to their full advantage, could confer significant benefits on the industry.

Adam Szakmary, director of underwriting for Bermuda at Hiscox, says the first priority must be to use tech to "solve the mundane tasks that lead to operational overhead issues".

In his view, these include handling claims, constructing risk portfolios and standardising contracts where appropriate. Technology could even be used for the "commoditisation of the underwriting process".

Szakmary adds that taking costs like these out of the process could make coverages that are currently expensive – and where the risks are large and poorly understood, such as cyber – more affordable for insureds.

Nigel Brook, partner at Clyde & Co and head of the law firm's reinsurance practice, also highlights the ability to improve user experience, particularly in personal lines, as a major benefit of technology. He argues this will help with customer acquisition and retention if done correctly.

As for benefits to the carriers themselves, technology has the power to make business "radically more efficient" – not least in using data from sources such as the Internet of Things to "get a better handle on risk", Brook says.

Additional data could also allow insurers to offer more comprehensive risk management or mitigation services to customers as a standalone service, separate to risk transfer itself, according to Brook. This would add another revenue stream at a time when many carriers are struggling to pull in underwriting profits.

Brook adds that better use of front-end technology can allow insurers to "take part in ecosystems" by "embedding themselves in a broader range of services" – through one-stop online platforms offering more than insurance, for instance.

Data points mean prizes

Jonathan Prinn, group head of broking at Ed, says capturing and analysing data from new sources would be key, as underwriters look to take on profitable risks and avoid writing bad business.

He cites the example of a home property insurer that used the length of homeowners' driveways as an element in pricing their cover against burglary. Those with shorter driveways provided easy access to thieves, while those with long driveways gave burglars the opportunity to enter premises undetected. Mid-length driveways were the least risky.

This more detailed picture of a risk is just as possible in commercial and specialty insurance as in personal cover, and this is what will give carriers an edge when it comes to pricing, he says.

Prinn adds that greater use of data to help price risk does not necessarily translate into lower pricing for clients.

For example, while an oil refinery may throw off 30,000 data points, carriers may typically only use five to price a refinery's risk. Using more of these data points may well mean higher premiums for the client. It also means, however, that insurers can help clients to mitigate more risks and do so more effectively.

And there are prizes on offer for brokers as well.

Ed Broking is currently moving towards a more automated model that takes frictional cost out of the process. Speaking at a lecture at Lloyd's in early November, CEO Steve Hearn explained that the broker introduced its online platform, TradEd, in order to bring down commissions.

"Every single one of our customers' policies is on that. Brokers have it on their iPhones. With six insurers we can take the information off our system and put it on theirs and get a quote."

Continued on page 12

> Additional data could also allow insurers to offer more comprehensive risk management or mitigation services to customers as a standalone service, separate to risk transfer itself

This frees brokers from administrative work in order to spend more time on tasks "where brokers add value", such as price negotiation and claims handling, Hearn added.

Bob Finch, CEO of AFL Insurance Brokers, says brokers have so far focused mainly on using tech to better promote their services and present risks to insurers. However, he emphasises that using tech to slash back-office costs is key to achieving a competitive advantage.

"I don't see anybody doing this well in the market. Brokers who get it right can get margins 30-40 percent ahead of other London brokers."

Disrupting the model

Apart from improving processing in a piecemeal fashion, technology and data could be the key to transforming the way the industry works – in particular, tackling its long, obtuse and costly value chain.

According to Hyperion X's Rugge-Price: "Data and tech will shine a light on who is adding value in the process and who is not. It doesn't mean you necessarily shorten the chain, but make it clearer and cleaner."

AFL's Finch adds that while he doesn't see tech and data as a force that will fully disintermediate insurance brokers – allowing carriers to supply complex cover directly to customers – it would force all players in the chain to demonstrate what they bring to the table in a transaction.

Finch says brokers themselves are already using data to benefit carriers and insureds. Wholesalers are "sitting between the producing broker and the carrier, giving both sides access to better information on the risks", he explains, which in turn leads to better value for the customer and improved pricing accuracy for the carrier.

Ed's Prinn, meanwhile, claims the growth of electronic trading within insurance could in time create a more unified system of buying and selling cover focusing on a handful of major exchanges, or potentially "a number of over-the-counter systems", similar to the financial markets.

"It's likely that the underwriters of the future will go down one of two routes," says Prinn. "Either every carrier will have a market tracker, or the underwriters will pick and choose risks to beat the tracker."

Early adopters

No broker or insurer would publicly declare that it is not digitally enabled and tech-savvy. However, as Rugge-Price notes, it is hard to spot genuine innovation "because there is a lot of noise" as companies scramble to maintain their relevance.

Chris Sandilands, a partner at management consultancy Oxbow Partners and specialist in insurance strategy, says harnessing digital technology and data is not a question of buying or developing a single gadget that will cure all ills. The key, in his view, is pivoting an organisation towards a modern mind-set and using technology to do it.

"The broader question is what you need to achieve," Sandilands explains. "What's the corporate strategy and what tech do you need to achieve that?"

> "InsurTechs are coming back to incumbents because they have the one thing the InsurTechs don't have, and that is the clients"

BARNABY RUGGE-PRICE
CEO, Hyperion X

There are a number of examples of carriers adopting a more holistic approach to digital transformation, as well as some players who are dipping their toes in the water. The differences in pace here will be a decisive factor in which companies survive.

Clyde & Co's Brook says Chinese carriers Ping An and Zhong An have taken "enormous strides" in using InsurTech to transform the insurance business model.

Ping An Technology, the Chinese carrier's tech company, is responsible for a number of breakthroughs in personal auto cover, including an app that allows customers to take and upload a photo of a damaged car with their phone, and receive an immediate damage estimate through a system that uses artificial intelligence to compare the image to millions of others.

Ping An Technology is also responsible for the technology behind Ping An's peer-to-peer lender Lufax and online car-buying app Autohome.

Zhong An, meanwhile, bills itself as the world's first online-only property insurer, and is currently working on a reinsurance platform based on blockchain.

As a caveat, however, Brook adds that in the Chinese market, "800 million people are active online and personal data is only lightly regulated", making use of big data much cheaper and easier than in the UK and Europe.

Brook also cites Munich Re's Digital Partners division as a trailblazer. The unit supports tech start-ups that it believes have the digital knowhow to transform the industry but lack the insurance expertise to break into the sector.

Insurwave, the marine insurance blockchain platform launched by EY and software company Guardtime and used by Axa XL, MS Amlin and Willis Towers Watson, is another good example of the potential of digital technology, Brooks says.

This transforms the way in which cover is provided, allowing for 'live' insurance products that can be switched on and off as ships move through riskier waters, either on-demand or automatically.

The keys to the kingdom

The imperative is clear for the (re)insurance industry to make better use of technology and data to streamline processing and offer more intelligent products to the market. The question remains, however, over who will develop the tech and own the data that could ultimately lead to the owners' and developers' dominance in the market.

Oxbow Partners' Sandilands doubts there will be a single "game-changer" tech product in insurance due to the sector's inherent complexity.

"Some people talk about blockchain [as a game-changer] but it is not clear that will give you that edge," he says.

Similarly, according to Hiscox's Szakmary: "I don't think there will be a dominant product like a Google in our industry."

Fears that a band of nimble InsurTech companies would disrupt the market and wipe out traditional carriers also seem to be unfounded. The consensus now appears to be that InsurTech firms, carriers and brokers need each other and must work together on reforming the industry.

As Rugge-Price says: "With our convoluted value chain, the time would appear ripe for InsurTechs to take us out, but that has proved incredibly difficult.

"InsurTechs are coming back to incumbents because they have the one thing the InsurTechs don't have, and that is the clients."

Sandilands agrees with Rugge-Price's theory, adding: "One feature of specialty is only a small number of investors have an appetite for niche risk or have an understanding of it. Specialty won't be disrupted by a new Uber; it will be more subtle."

Partners or competitors?

AFL's Finch predicts 2019 will be the year in which partnerships come to the fore, where carriers and InsurTech companies own technology on a 50:50 basis.

"InsurTechs working on their own would spend two to three years banging their heads against the wall, but with the right partner, they can disrupt together [with carriers]."

Szakmary agrees: "There is a lot of syndicated ownership of InsurTech now. They have the tech; they need the expertise. We have an active strategy in investing in companies that are transitioning the model."

Hiscox has invested in two tech start-ups through its business accelerator. Wrisk allows customers to combine their different insurance policies into one mobile app.

It also offers pay-as-you-go cover that customers can top-up or change as and when they need it, and produces a risk score to help them understand and minimise their insurance costs. Hiscox has also invested in Yoti, a start-up which helps customers to protect their identities online.

Clyde & Co's Brook also believes partnerships are the way forward, with one notable exception.

"We will see tech start-ups bought by carriers. There is still an incumbent advantage; most start-ups don't have the capital backing to become a 'full stack' insurer. Lemonade is one of the few to go down that path to date," he says.

Lemonade's business model is based on behavioural economics and technology, using artificial intelligence and chatbots to deliver insurance policies and handle claims for users, without employing or using brokers.

> "Brokers must begin sharing data with carriers for free, rather than charging for it. We need to share data appropriately and safely, or someone else will"
>
> **JONATHAN PRINN**
> Group head of broking, Ed

However, Brook notes: "Companies with the ambition to be a full-stack insurer are few."

Goodbye to silos

Technology aside, ownership of data is another crucial element for an insurer that wants to survive in the long term. Carriers and brokers have always gathered vast amounts of data, but the insurer with the most and best information will win the day, Szakmary says.

"If I'm competing with a reinsurer down the street, I want a different mousetrap," he says. "Data is the competitive advantage in a knowledge-based industry."

However, Ed's Prinn takes a very different approach. Carriers which hoard data for competitive advantage may one day find themselves unable to compete if a player with the dominance of, say, Facebook in terms of data, comes along.

Prinn says that although carriers currently rely on data they hold themselves as well as data from external sources, they will increasingly aim for a greater degree of self-reliance.

"Brokers gathering information about a risk and submitting it to carriers will reduce."

Prinn warns that for brokers and carriers to more effectively serve clients by accurately assessing risk, a siloed approach must become a thing of the past.

"Brokers must begin sharing data with carriers for free, rather than charging for it. We need to share data appropriately and safely, or someone else will."

LOOK TO WINDWARD

Ami Daniel and **Nick Maddalena** of Windward tell *Insider Quarterly* how the firm evolved into the first company to model maritime risk, and detail the opportunities it offers the marine insurance market

A starter for 10. What do the world's leading InsurTech fund (XL Innovate), the former CEO of BP (Lord Browne) and the billionaire owner of the port of Felixstowe (Li Ka-shing) have in common? Answer: They are some of the investors behind maritime risk analytics specialist Windward, the company co-founded in 2010 by ex-naval officer Ami Daniel.

According to Daniel, the company's CEO, the mission was clear: to go deeper into maritime data than anyone has gone before. In just eight years, the firm has grown and developed significantly. Initially, Windward focused on helping governments discover vessels involved in illicit activities. Successes included major drug busts, helping curb oil smuggling and enabling the United Nations Security Council to discover ships aiding North Korea in evading international sanctions.

Yet, as pleasing as these applications have been, it became apparent to Daniel and senior management that the technology they were developing could do so much more. This realisation evolved into an ambitious goal: for Windward to become the leading company to accurately model maritime risk. Because maritime risk applies to all sea-based activities, Windward is now applying its expertise to marine insurance.

"This is an interesting time for the marine insurance market," says Daniel. "There is a new generation coming into insurance that's enthusiastic about using new technology. This younger generation is working alongside senior underwriters who have considerable experience, but who are also keen for their colleagues to train with and to use the technology which is now available."

Operational profile

All well and good, but how does maritime risk modelling work in practice? After all, we aren't talking about standard US or European property risks here, which have been well-modelled for decades and where the market is very well established, with stiff competition from a number of veteran vendors. Maritime modelling, by contrast, is a relatively nascent field which is still being viewed with a degree of scepticism by some observers, who need to test its efficacy. Here, Windward believes that the result of its analysis speaks for itself.

What Windward does is almost akin to psychological profiling; in effect, examining the operations of vessels in various conditions using data sources, such as the AIS [automatic identification system] positioning system, weather data, satellite imagery and port data.

Windward uses this data to see where a vessel has been, what ports it's visited, whether it's been sailing in deep water or shallow water – a whole range of information which, when put together, provides a comprehensive operational profile of a vessel, attesting to the standards and ways in which it is operated.

"Looking at this globally, we have 300 million data points a day, which we layer and use to produce the operational profile of a vessel," says Nick Maddalena, Windward's head of insurance.

"And it's not only looking at the operational profiles of individual vessels [see box-out opposite] – we are using this information to rate fleets."

As Windward's platform evolved into today's advanced analytics, the process became more automated. The company can now identify previously invisible patterns created

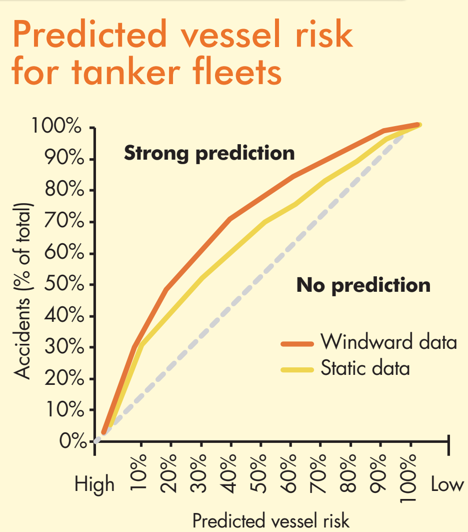
Predictive power

This chart compares the predictive power of two models – Windward and the industry standard – for the frequency of tanker accidents, using different types of data.

The yellow line shows the predictive nature of models using static data (things like length, age, deadweight, flag etc.); and the orange line shows the highest level of predictiveness for models, using Windward data and risk ratings.

The x-axis is the outputs of both models in terms of deciles of risk. The y-axis shows the proportion of accidents that actually happened the following year for each predicted decile.

The further the curve is from the diagonal, the better the model is at predicting.



Source: Windward

by ship movements, and assess what they mean.

The scope of its offering at present is limited to providing live data and products for assessing risk in the marine hull market. But it has ambitious growth plans, according to Daniel, who expects that Windward will expand, in time, to encompass the entire spectrum of risk in the marine insurance market, including protection and indemnity, loss of hire and energy risk.

"We see this as a journey," he comments. "What we are focusing on is providing a risk rating for fleets that is correlated with the projected loss. So what we do correlates not only with pricing, but also provides decision support to the underwriter."

Partnership potential

The company appreciates that if it is to become the industry standard for maritime risk modelling, it can't necessarily do it alone, and therefore intends to partner with other leading players in the field.

Indeed, in November 2018 it unveiled the first of what it expects will be a series of such moves with the announcement of a partnership with IHS Markit, a data and information services provider, to boost maritime risk modelling for insurers, governments and shipping companies.

Also key to the company's expansion will be the London market, which, despite considerable competition from overseas hubs, remains the global leader for marine insurance. It continues to be an extremely difficult time for marine insurers, with a prolonged soft market that shows no signs of ending in the near future.

However, as Maddalena observes: "Given these difficult trading conditions, it's a good time for underwriters to look for a deeper understanding of risks in their portfolio. The right technology can provide this deeper understanding of their risks.

"We are not suggesting we can wheel in a black box which can regenerate risk and produce profitability," he adds. "What we are looking to do is to partner with the marine insurance market to integrate this into their workflows and, where appropriate, provide them with our unique data and features to enable them to build bespoke models. We understand underwriters' risks and pain-points. We want to help them."

A confident Daniel notes: "We are excited to be here. The technology we've built is valuable and applies to a range of risks for vessels around the world. We firmly believe this represents a big opportunity for the marine insurance market."

> "We are looking to partner with the marine insurance market to integrate our technology into their workflows, and provide them with our unique data and features to enable them to build bespoke models"

Operational profiling

Windward creates risk scores for the entire world fleet. These risk scores, which are predictive of future casualties and losses, are based on a unique "operational profile" for each ship.

Operational profiles bring an unprecedented level of depth and accuracy to risk modelling that goes well beyond traditional factors, such as ship characteristics and past accidents.

It incorporates elements like how vessels navigate, the water depths in which they operate, what they do in rough weather, how they are managed and maintained, and how they manoeuvre when arriving in port.

Windward says it has been recording the operational profiles of ships since January 2015, and there are 80,000 IMO vessels on the platform.

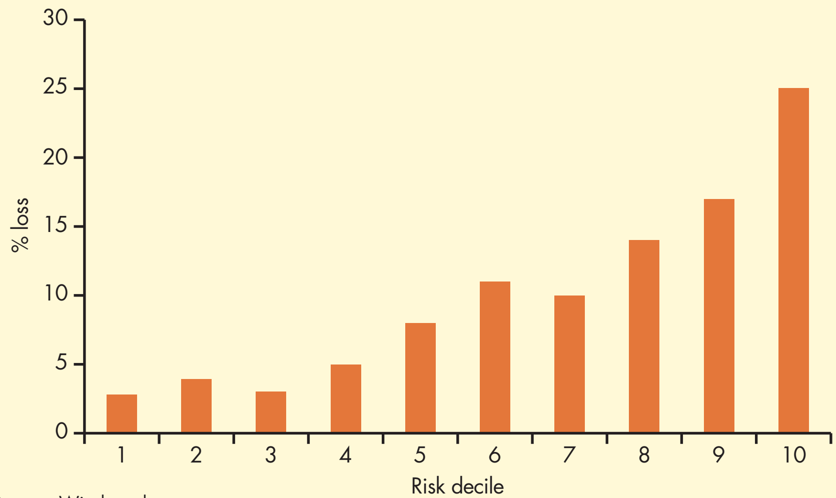
Using these insights, insurers can simulate how a shift in portfolio composition using Windward's risk scores would impact their loss ratio by reducing exposure to high-risk fleets for which the premium was not commensurate with the risk, and increasing exposure to medium-risk fleets.

By implementing such strategies, simulations have demonstrated that the impact to an insurer's loss ratio can be between 4 percent and 10 percent.

The chart below shows that vessels Windward rated highest in terms of risk at the beginning of a given year (where 10 is the riskiest decile) ended up having the largest proportion of losses during that year.

Average loss distribution per Windward risk decile

(based on portfolios of multiple carriers)



Source: Windward

SHIPSHAPE AND DIGITAL FASHION

Cargo tech start-ups could help marine insurers to cut the costs of claims disputes and improve their risk selection, finds **John Hewitt Jones**

When it comes to digital innovation, outsiders are usually focused on knocking incumbents off their perch, whether it's Uber tackling the taxi industry, digital banks like Monzo and Starling disrupting retail banking, or Amazon taking on the high street.

As you might expect with cargo insurance – the origins of which can be traced back as far as 8th-9th century BC Ancient Greece – change is taking place more incrementally.

InsurTech start-ups are targeting risk selection and expense ratios on behalf of carriers. These are firms that have no interest in placing someone else's risk on their own balance sheet, but instead have positioned themselves to fight the carrier's corner. For such firms this is a chance to show that technology has a role to play in bringing this area of the marine market back to profitability.

And it couldn't come at a better time. A spate of large pharmaceutical and in-transit losses this year have compounded the woes of an already beleaguered segment of the marine market and left underwriters struggling to contain losses.

As one source tells *Insider Quarterly*: "With combined ratios ticking up, the pressure to select the best possible risks and cut expense ratios is more intense than ever. Anything that helps to do this is certainly of interest."

Improving data collection

One of these start-ups is CargoSnap, which was launched in 2017 with the intention of making loading and tracking cargo more efficient. Through a digital application that can be loaded onto smartphones, the company is trying to change the process of obtaining proof-of-condition documents.

A dock handler unloading cargo at a port or warehouse can give a direct report of the cargo's condition – including photos and videos where it helps. Managers in charge of the shipment process also have the app on their phone and, through it, can access a trail of indisputable data points created by handlers as they log each individual cargo inspection.

For CargoSnap founder and CEO Marcel Merkx, one of the ways to cut the cost of administering claims for cargo insurers is to stop losses turning into protracted negotiations by providing multiple indisputable data points.

"Our focus has been centred on generating data about every aspect of the shipment process," he explains. "We're focused on enabling the hauliers and the dock workers to become the eyes of the logistics provider."

Having a wealth of detailed, precisely recorded data points along the value chain makes the settlement process faster and easier, and may avoid the need for those long, protracted adjustment disputes.

Plugging this kind of granular data into smart contracts could also cut the cost of adjusting smaller claims out of the value chain and facilitate instant pay-outs for low-value goods.

Monitoring cargo

Another tech firm hoping to change the face of cargo insurance is Parsyl, a supply chain data platform that provides carriers with a wealth of data about their shipments, including a time interval log of the conditions in which their cargo has been kept.

The company, which last month formed a partnership with Axa XL, places a strong emphasis on the affordability of its product. At the core of its service are monitoring devices that are cheap enough to manufacture that an entire shipment can be flooded with them, giving insureds granular data about their entire cargo.

As Rob McAdams, chief underwriting officer for global marine at Axa XL, says: "Superior risk management starts with superior data; the more the better. Being able to track and visualise the conditions of our clients' sensitive shipments is incredibly valuable when thinking about risk."

Parsyl's trackers are slightly smaller than an iPhone. While the technology exists to create sensors that allow carriers to track a shipment in real-time, the company has chosen to manufacture a Bluetooth version of the product to cut the cost of providing the service to the client. Uploading information across a Bluetooth connection makes the devices much more affordable and ultimately cuts the cost to the end users – the marine insurer and their clients.

Spread throughout a shipment, the devices offer insureds detailed information about the location of cargo, the temperature, light levels and humidity of the cargo space, and information about how damage has occurred, where necessary.

Real-time claims

The panoply of information from multiple shipments brings with it the opportunity to introduce smart contracts – an innovation which other segments of the marine market have begun to experiment with, via initiatives such as Maersk's Insurwave programme.

While large, complex risks will continue to require the expertise of an adjuster, smaller shipments with binary requirements could be settled faster – perhaps even automatically.

With products such as fish or vaccines that become spoiled if they reach a certain temperature, multiple data points showing the exact conditions of a shipment allow a carrier to immediately see where a claim has occurred, almost in real-time. Using this technology could not only help insurers identify when a claim has taken place, but also enable them to help insureds improve their risk profile.

> "With products that are spoiled if they reach a certain temperature, multiple data points showing the exact conditions of a shipment allow a carrier to see immediately see where a claim has occurred, almost in real-time"

This innovation, however, brings with it a difficult question. Traditionally the client-focused broker has played a key role in advising the insured, helping to mitigate risk and select the most suitable cover. If insurers sign tie-ups and distribution deals with InsurTech companies that slash both loss and expense ratios, what happens to the brokers?

As insurance intermediaries shift their value proposition from day-to-day broking towards analytics, where does this leave them if insurers find themselves able to offer their clients the best risk management information in the business, tailored to each portfolio?

Could this be the beginning of a challenge to the brokers by marine insurers specialising in cargo?

> "Having a wealth of detailed, precisely recorded data points along the value chain makes the settlement process faster and easier, and may avoid the need for those long, protracted adjustment disputes"

Mutual benefit

Merkx says CargoSnap has received a variety of responses to its product from the London market, but is adamant the technology can help insurers and brokers alike, because it fundamentally improves the consistency of data collected.

"Where evidence exists we can use the tool to improve the cost of the process of shipping," he says.

"Everybody in the supply chain benefits from greater transparency, and when a claim does come to market it's important for the responsible party to be identified as quickly as possible."

Both CargoSnap and Parsyl have joined the Lloyd's Lab programme, but neither are taking aim at the industry in its totality.

They are not offering complex, end-to-end risk selection solutions that add significantly to a carrier's expense ratio and replicate existing functions, nor are they creating solutions that can easily be replicated by the brokers.

Instead, they say they are working to increase competitive advantage at a price that becomes too good to refuse.

As CargoSnap's Merkx adds: "We are not your warehouse system. Instead we pick up one or two things and focus on doing them really well.

"It's all about generating a heck of a lot of data from one port or shipment; it's a case of repeating a process and refining it as you go."

KEEPING IT CONSISTENT

Zurich is well-positioned to benefit from uncertainty surrounding Brexit and Lloyd's, but will it ever really compete with London, asks **Catrin Shi**

The hum of construction permeates the shores of Lake Zurich. Swiss Re, Switzerland's largest reinsurer, is building up its current offices into what will be called Campus Mythenquai – a complex of six interlinked buildings that will house the company's more than 3,000 Switzerland-based employees.

The campus will feature state-of-the-art architecture, be environmentally friendly and will integrate itself seamlessly into the fabric of the Zurich community – with members of the public allowed to walk through the campus at their leisure.

The cost of the project is not known, but the work is scheduled to be completed at some point in the 2020s.

Swiss Re has been headquartered in Zurich since 1863, but Campus Mythenquai is a statement by the reinsurer on the importance of maintaining the city as an attractive business location for reinsurers.

It has a broad pool of intellectual capital and a flexible, efficient labour market which attracts specialists from all over the world.

Zurich is home to some of the world's leading universities and international schools, which feed into the carrier's stock of talent and innovation. Logistically, Switzerland is well-placed to service all major European cities and Zurich's own transport links ensure the efficient and reliable flow of people in and out of the city. What's more, consulting firm Mercer's annual survey ranks Zurich as second in the world for quality of life.

"We want all of this to stay this way, which is why Swiss Re has been committed over many decades to help keep Zurich [and] Switzerland a strong and attractive business location," said Thomas Wellauer, country president for Switzerland at Swiss Re.

In London's shadow?

However, for all its plus points, many would argue that Zurich still lies in the shadow of London, at least in the (re)insurance world.

London has its flaws but, arguably, few hubs are able to mimic the unique make-up and strengths of the birthplace of specialty insurance and reinsurance.

Can Zurich ever prove itself as a serious competitor against the UK capital for reinsurance business or, perhaps more importantly, should it?

The amount of premium written by Zurich's reinsurers has been on a general upwards trajectory. Since records began in 1996, the market has swelled almost fivefold.

In 2017, the market generated CHF49.2bn ($48.7bn) in reinsurance premium, according to data from Swiss regulator Finma. This was a contraction of 4 percent on the previous year, largely driven by Swiss Re's decision to redomicile its Asian subsidiary to Singapore.

Finma claims that, excluding Swiss Re, the reinsurance market grew by 4.9 percent.

The biggest players in that market are large, global balance sheet reinsurers. Unsurprisingly Swiss Re leads the way with a 46 percent market share. However, also among the top 10 are Munich Re subsidiary New Re, XL Catlin Re, MS Amlin and Scor.

It is also home to some of the largest ILS fund managers including Credit Suisse, LGT and Secquaero – which combined manage assets of around $20bn.

The profitability of the Zurich reinsurance market largely follows that of the wider reinsurance sphere and, in 2017, the hub's reinsurers suffered a heavy underwriting loss as a result of the North Atlantic hurricanes and various other catastrophes, with the combined ratio for the market rising to 125 percent.

Global appeal

The majority of business written by Swiss reinsurers is short-tail, non-cat business, which in 2017 accounted for 37 percent of net earned premiums (NEP). Catastrophe lines accounted for 5 percent of NEP.

The market relies heavily on North America for business and the region accounts for more than half of Swiss reinsurers' NEP, at 53 percent. European business generates 32 percent of NEP.

"Zurich is the third-largest commercial and specialty insurance hub in the world and one that continues to grow," says Chris Beazley, CEO of MS Amlin AG, which launched in 2008.

He explains that, as a leading global reinsurance business, it is key to have empowered, high-quality underwriting teams available and accessible in the major global reinsurance hubs.

"We are proud to have been a part of the development of the market and look forward to further growth over the longer term," he adds.

Zurich continues to be an attractive location for those companies looking to get a foothold in Europe – so long as they are willing to accept the high cost associated with operating out of the city.

Two Asian reinsurers have recently set up Zurich subsidiaries – Korean Re and Japan's Toa Re.

Korean Re, which recently hired Markus Eugster to run the Zurich subsidiary, has plans to increase its European premium volume from the current $200mn to more than $300mn by 2025 through the unit.

Meanwhile, Toa Re has made three hires to join CEO Philippe Regazzoni at its Zurich subsidiary, named Toa Re Europe.

Christian Vogel has been named CUO, while Alain Favre and Stefano Simoni join as lead underwriters.

Speaking to *Insider Quarterly*, Regazzoni notes it is important to be close to the European market and have local market knowledge for the operation to be successful.

"At Toa Re we like to have a stable and consistent approach. We are focused on reinsurance but our strategy is around hiring the best people and building an underwriting company with a long-term view," he says.

"There has been quite a bit of movement with M&A and team changes, and clients and brokers like to have a stable and long-term proposition to work with. This is why we have been extremely well received by recipients in the European market."

Brexit bonanza?

Continental European clients often differ from those in the UK or the US in the sense that they value bilateral trade relationships.

Reinsurer-cedant partnerships are often the result of years of face-to-face meetings and a gradual building of trust, and several Zurich-based underwriters surveyed by this publication highlighted the importance of regular contact with their clients on the continent.

Consistency is, as one underwriter put it, Zurich's unique selling point.

"Zurich offers stability," he says, speaking to *Insider Quarterly* on an anonymous basis. "Clients don't like surprises."

This consistency is an especially important advantage for Zurich in light of Brexit, with which the London market continues to grapple.

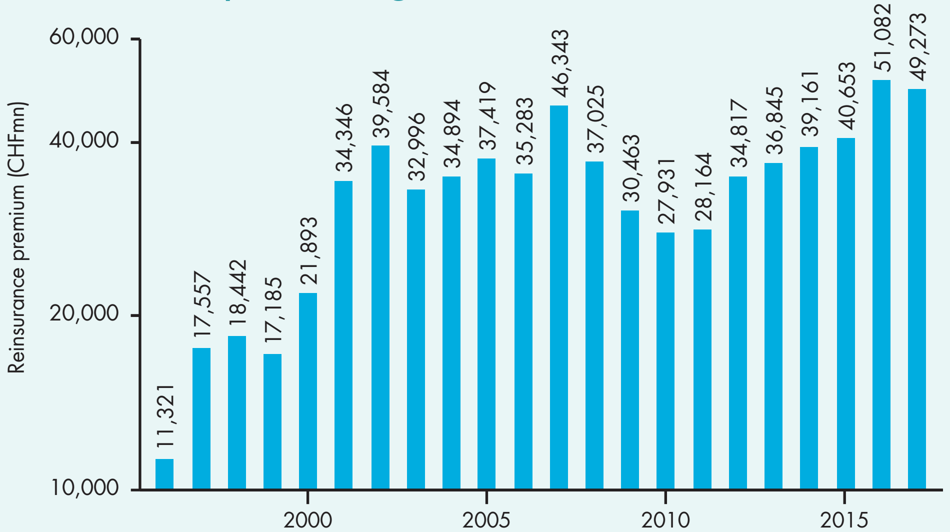
This uncertainty over the ability to trade seamlessly in the future is compounded by the remedial action being taken by Lloyd's to improve profitability. At the time of writing, many syndicates were still not clear on how much business they would be permitted to write for the coming year – throwing their clients into disarray.

German and other European cedants are considering dropping Lloyd's reinsurers at the 1 January renewals, amid uncertainty about the regulatory status of those carriers after Brexit.

Meanwhile, regulators in Germany and Poland said they would impose

Continued on page 20

Reinsurance premium growth



Source: Finma

> "Perhaps Zurich's true place is as a complement to London. What it offers is another platform from which (re)insurers with a global outlook can operate – one which offers local knowledge to a continental European market"

restrictions on reinsurance ceded to the UK – including withholding capital credit – unless the country is deemed "equivalent" under Solvency II.

Lloyd's has promised to implement a workaround for its Brussels platform by 2020, but Zurich is already waiting to take on London's lost business.

The stable and well-regarded regulatory environment, presided over by Finma, is a key advantage for Zurich's reinsurers in light of this uncertainty. Switzerland has for some time held the sought-after Solvency II equivalence needed to trade on the continent.

A number of Zurich market participants said they were already seeing a flow of reinsurance business into Switzerland – both as a result of the challenges facing London and the establishment of new, EU-domiciled companies set up as Brexit workarounds.

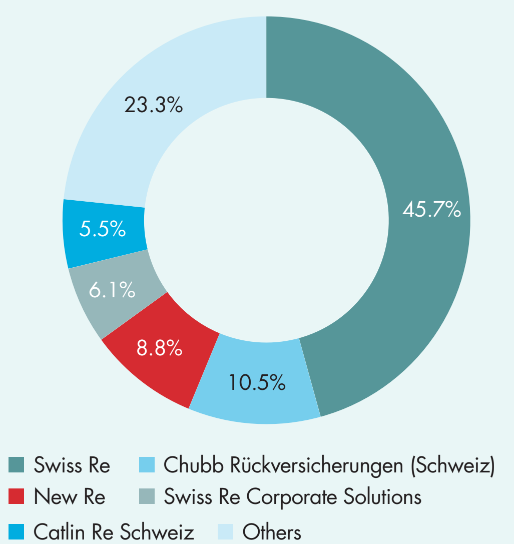
"The Brexit process has created significant uncertainty which is unacceptable for our clients," says MS Amlin's Beazley. "MS Amlin's ability to provide flexible solutions on multiple strong capital bases enables us to provide continuity regardless of the eventual Brexit outcome, which may include some clients preferring to access our strongly capitalised Swiss reinsurer."

Administrative burden

However, a stable regulatory environment often comes with a price. As Peter Philipp, head of Willis Towers Watson's corporate risk and broking business in Switzerland explains, the regulatory burden has increased for carriers over the past five or six years.

"Finma has become more demanding in terms of capitalisation and reporting. It has also become more restrictive in certain areas," he says. "It is a large administrative burden on some carriers. You could say, however, that stronger and heavier regulation is also a wider trend in Europe, and Finma is part of that."

2017 reinsurance market share



Source: Finma

In comparison, Singapore is now a much more flexible regulatory environment for (re)insurers, he adds.

Philipp is, however, a strong advocate of the Zurich market. "Zurich is a beneficial place for (re)insurers to operate and do business overall. There is a thriving and competitive market here and tax conditions can be favourable," he says.

He also believes that, for some lines, buyers are able to get a better price for their cover in Zurich than in London.

"Sometimes London will have more capacity for specialist niches, and therefore rates in that specialism will be cheaper, but on the whole Zurich is a very competitive market and that is favourable to a (re)insurance buyer," he explains.

Peak Zurich?

However, others told *Insider Quarterly* off the record that the market in Zurich operated in a far more siloed fashion compared to London and, as a result, exchange of information between underwriters was more disjointed.

"I would say I don't benefit from the footfall effect you would have from being sat in Lloyd's," one Zurich-based underwriter said. "I would also say that we probably miss out on some business from the mid-tier brokers – I largely only deal with top-tier brokers."

One broker went so far as to say that, for all the perceived benefits or opportunities in the Swiss city, the market may have already hit "peak Zurich".

While Zurich is not going anywhere, it is hard to see how it could truly compete with London in the traditional reinsurance space, even if London is currently challenged, he adds.

Perhaps, then, Zurich's true place is as a complement to London. Its size and significance as a hub may ebb and flow, but what it offers is another platform from which (re)insurers with a global outlook can operate – one offering local knowledge to a continental European market that values longevity and consistency.

"MS Amlin operates a global reinsurance business with global management making sure that all clients receive the best we can offer in terms of product and capacity, delivered locally," says Beazley.

He adds that MS Amlin's Zurich-based underwriters work closely with brokers and clients across Europe but also as part of a client team able to offer expertise and capacity on behalf of other MS Amlin capital bases, as well as Leadenhall Capital Partners, the firm's joint venture fund manager.

Therefore, he concludes: "Zurich is very much complementary in terms of our client offering."

CLAIMING THE FUTURE

With increasing outsourcing of claims functions and rapid growth in automation, could the role of the loss adjuster be consigned to history? Laura Board finds the human touch may still be needed

It is 1980 and a loss adjuster drives his Ford Cortina along miles of dual carriageway to the scene of a fire at a stationery warehouse. His armoury includes a clipboard, pencil, experience of every type of claim under the sun, and a raft of colleagues back at HQ to handle the paper work.

Fast-forward to 2030 and drones have replaced the legwork, with payment being made directly into the insured's account.

The process is largely untouched by human hands and, back at HQ, the claims team comprises just a small handful of technology specialists.

Claims management and loss adjusting is arguably changing faster than any other part of the insurance industry as carriers and brokers strive to make the process – insurance's ultimate product – speedier and cheaper to execute.

We might not yet be at the point where most claims are settled automatically – as PwC predicts will be the case in 2030 – but automation is creeping up the claims value pyramid.

Milan Simic, executive vice president and managing director of global business development at Verisk, notes that personal lines motor claims are now typically determined by algorithms, using images submitted by the insured.

"Five or 10 years ago everything would have some kind of human intervention. But the boundary between 'low touch' and 'light touch' is constantly moving."

In the front line of the changes are claims management firms.

Sedgwick International CEO Ian Muress started in the claims business in 1978 and has witnessed sweeping changes, including the divergence between the way low-value, high-frequency and large losses are handled.

"I sometimes draw an analogy with getting on a plane – you can turn left to buy business class and cross the Atlantic – or turn right to buy coach," he says.

Outsourcing claims

Muress' firm is one of a number of claims companies to have thrived amid increased demand from carriers for outsourced services.

The largest of these players have expanded through mergers as insurers seek suppliers with a greater geographical reach or broader range of claims-related services.

Sedgwick bought Cunningham Lindsey in April and, at a stroke, transformed from a large North American workers' compensation-focused business – with a small

> Lloyd's Market Association claims director Lee Elliston is of the view that outsourcing of the claims function within the London market will diminish over time

adjusting operation, mostly reliant on international partners – into a global, diversified claims business.

Another expansive firm is Davies Group, whose acquisitions have included an October deal for the claims business of Ardonagh's Direct Group.

According to Darren Coombes, chairman of Davies' claims solution unit, insurers are increasingly looking for suppliers that can offer a range of services.

He says mounting regulation and compliance requirements are working in favour of the larger claims management companies.

"There are still some claims businesses out there that are smaller or mid-sized which are owned by proprietors towards the end of their careers and they are getting challenged with complex governance, data, and client reporting issues," he adds.

"Layered on top is the fact that some of the tendering exercises are quite onerous – some of the due diligence documentation that is required to complement that governance is making it very difficult for those businesses to continue to grow."

Regulatory burdens

The General Data Protection Regulation (GDPR), which came into force in the UK in May, is one such regulatory challenge for the claims sector.

The regulation significantly bolstered EU residents' rights over how their data is handled, and introduced heavy fines for firms that break the rules of either up to EUR20mn ($22.7mn) or 4 percent of a company's global turnover – whichever is the greater.

Although in the UK the insurance sector has a derogation, allowing sensitive personal data to be handled for "insurance purposes", the movement of personal data across the insurance chain must still be carefully tracked, and parties need to be equipped to handle "data subject requests" – when individuals demand to see what data on them is held – and to do all they can to avoid the loss of personal data.

Meanwhile, the UK's Enterprise Act introduced liability from May – and raised the prospect of conflicts among different parties in the insurance chain – if claims are not paid in a "reasonable" length of time.

More generally, regulators worldwide are increasingly alive to the need for carriers to oversee outsourced services more effectively.

In the UK, the Senior Managers & Certification Regime, which will capture insurers from December this year and brokers in 2019, stipulates that a named senior manager within an organisation must take personal liability for outsourced functions.

In October, the UK's Financial Conduct Authority underscored how closely it is watching such arrangements when it fined Liberty Mutual Europe £5.3mn ($6.8mn) for the failings of a former retail coverholder in the handling of mobile phone insurance claims over a near five-year period.

The Liberty case serves as a stark reminder that outsourced claims handling can go wrong. The economic case for outsourcing is a different matter – and indeed for many carriers is a no-brainer. But how might emerging technologies change the dynamics?

Taking back control

Lee Elliston, claims director of the Lloyd's Market Association (LMA), is of the view that outsourcing of the claims function within the London market will diminish over time.

The LMA has been working hard to leverage technology to make claims payments more efficient.

It recently deployed its new satellite imagery and intelligence service to assess and pay claims arising from hurricanes Florence and Michael.

One of the advantages of the technology is that, when natural catastrophes strike, the claims team can often avoid the need to temporarily staff up, limiting the occurrence of scenarios like those during the 2017 hurricane season when loss adjusters became gold dust due to the volume of work.

Continued on page 24

The service can also provide exposure and mapping information, aid post-catastrophe triage, speed up advanced payments and allow total losses to be made good earlier than before.

Another claims initiative is the ECF (electronic claim file) Write-Back project, which offers carriers the ability to review and respond to a claim in their own system, interacting with central market systems. The LMA expects 50 carriers to have adopted the ECF by the end of the year.

Meanwhile, the association's Single Claims Agreement Party, which went live in Lloyd's in February, allows policy leaders to agree to non-complex payments up to £250,000 on behalf of following carriers.

The LMA's Elliston estimates that the market is 12 to 18 months away from allowing commercial insurance policy holders to track claims.

He says: "We are using technology to create a more flexible model that people can relate to and know it will help their business in terms of efficiency, cost modernisation and speed.

"We've only started scratching the surface and need to look at what we can achieve at a transformational level."

Re-skilling

Training and re-skilling staff to deal with such new technology – including identifying and working with the right vendors – is a major concern for the claims sector, both at outsourced claims management companies and in-house at carriers.

Davies' Coombes says the company's recruitment needs are shifting towards statisticians, analysts and mathematics graduates who are able to extract the increasingly forensic level of data clients require.

As is the case among many industries, genuine specialisms look set to insulate some of the claims workforce from automation.

Sedgwick International's Muress notes that his firm is increasingly drawing from outside the sector to secure the expertise it needs for high-value claims.

"In the old days you would turn your hand to anything – but now, just as with underwriters, we think in terms of specialisms, whether that's cyber, renewable energy claims, power and energy or aviation.

"We increasingly look at recruiting people from professional backgrounds and work them into our training programmes so they pick up the insurance, social and customer care skills."

> "The optimal insurer will be a bionic organisation, harnessing the power of data and technology, while combining this with a human touch that the customer really values"

Within Lloyd's, the market was widely perceived to have lost claims expertise after the Lloyd's Claims Office was swallowed up by Xchanging in 2001.

However, Keoghs partner Andrew Schütte says the Single Claims Agreement Party Clause could be the "beginning of a trend that takes us back to a scenario where a finite number of people understand and have the skills to deal with claims, to the point where we might see a return to the old Lloyd's Claims Office".

"I see a recognition in some parts of the market that the skillset that claims handlers need within the insurers and the syndicates themselves is a valuable resource and there's concern that people coming up through the ranks need to be exposed to the right sort of training," he adds.

Brexit complications

Looming on the horizon of all these changes is Brexit, which will complicate the claims function within the UK and the European Economic Area (EEA) in several ways.

Top of the list of headaches is concern about the legality of claims payments on pre-Brexit contracts from carriers that have lost their local authorisations with the loss of passporting rights.

This won't be a problem for EEA carriers in the UK, because of both local rules and steps the Prudential Regulation Authority and the UK government have taken to ensure contract continuity.

But without a political agreement, supervisors in countries including Spain, Poland and the Netherlands could make life difficult.

The data flow across the future border could become more complicated if the European Commission does not give an "adequacy" stamp of approval on the UK incarnation of GDPR, or deem it to match the data protection regime of the EU-27.

And movement of claims professionals – notably loss adjusters assessing claims – into EU markets could be trickier if temporary visas are required across that same border.

Whatever type of Brexit is agreed, innovations like satellite, drone and streaming technology mean the movement of people will ultimately cease to be a major headache.

PwC's Jim Bichard and Michael Cook predict that, by 2030, most first notice of loss and triage work will be automated.

Increased emphasis on reducing losses or reducing the severity of losses will mean fewer claims in the first place – and investment in and understanding of automation and artificial intelligence will be key, they note in a report entitled the Claims Workforce of the Future.

Bichard and Cook predict that the overall claims headcount will fall, and those remaining will be more highly skilled technical professionals.

They note: "The optimal insurer will be a bionic organisation, harnessing the power of data and technology, while combining this with a human touch that the customer really values."

WHO CARES WINS

ESG investing is nothing new, but are the specialty and reinsurance markets really ready to invest or are they vulnerable to 'greenwashing'? **Charlie Thomas** investigates

Environmental, social and governance (ESG) issues are rarely out of the headlines these days, be it climate change-related disasters, boardroom corruption or new reporting requirements giving executives headaches.

Earlier this year, environmental law firm ClientEarth requested that the Financial Conduct Authority (FCA) investigate three household UK insurance companies for alleged failures to communicate their exposures to climate change-related risks to shareholders in their annual reports.

But while ESG may have been front of mind for some time with respect to carriers' underwriting philosophies, when it comes to their investment portfolios the situation is more mixed.

Previously labelled as "responsible investing", ESG has evolved and grown in prominence over the past two decades with regards to asset managers investing on behalf of institutional investors.

For specialty (re)insurers, the attraction and subsequent take-up has been smaller than for life and retail carriers, but is all that about to change?

What's in a name?

ESG today can broadly be described as a set of metrics used by investors to assess a company's risks – which may not be captured by conventional methods – with the intention of enhancing long-term returns.

The environmental part could encompass how a company performs as a steward of the environment, including how it looks at climate change, carbon emissions and pollution.

Social criteria include how companies manage relationships with staff and stakeholders, while governance considers a company's leadership, executive pay, audits and internal controls. It can also look at board composition, transparency and business ethics.

Historically, asset managers looking to offer an ESG approach to investing only considered equity holdings – typically applying "sin stock" filters to passive portfolios to exclude companies from their index plays that are considered "bad".

But over the last five years, ESG strategies have become more sophisticated, applying a more holistic approach that includes applications for fixed income holdings.

This change in approach appears to have driven greater interest in the strategies from (re)insurers, albeit from a slow starting point.

"Insurers are starting to wake up and starting to consider to a larger degree how much they should adopt ESG and climate change considerations within their portfolios," says Sean Thompson, managing director at Camradata.

"Regulation will play a large part in driving these changes through. That said, insurers should wake up a bit earlier and they'd be wrong not to start thinking about it themselves before that."

Mazars partner Michael Tripps agrees: "The regulatory push is definitely there, the Financial Stability Board at a global level has given guidance so there's global regulatory influence, as well as the PRA [Prudential Regulation Authority] and FCA here.

"There is also increasing awareness as the generations come through, and that will only grow. And the depth of analysis has developed, along with the way asset managers are selling the products," he adds.

Other key drivers include reporting requirements, pressure from shareholders and increased awareness from both the executive committees at carriers and their staff.

Desire to improve

Patrick Liedtke, head of the financial institutions group at BlackRock, notes it is not just external pressures pushing insurers to engage with ESG.

A heightened interest from insurers' own staff is at play too.

"There's the insurer's own desire to improve, which is creating opportunities – whether that's creating new products, investing in renewable energy, finding new markets which diversify portfolios and providing access to other income streams over a sustained period of time," he says.

"We're also seeing that the original move to create a few products – mostly equity-driven, which included ESG components – has been replaced by a comprehensive view of the world in terms of what ESG means. It's about integrating ESG thinking into the whole investing universe."

He adds that, while screening of certain companies remained an important tool, other areas such as impact investing and benchmarking investments for ESG were also being demanded in parallel, placing higher demands on asset management companies.

"If you look at the Nordics and the Netherlands there isn't a single RFP [request for proposal] now that doesn't include a chapter on ESG. As an asset manager, if you can't do at least some of it, you're not even allowed to play anymore," he explains.

Axa Investment Managers' (Axa IM's) global head of responsible investment, Matt Christensen, says the management of ESG data in particular has improved, and is now used to develop a better understanding of tail risk and generate ESG scores for a wider array of investment opportunities.

"It's not about a good or bad company, it's more nuanced now. It takes that nuance of understanding to make decisions," he explains.

Growing interest

A recent investment survey of global (re)insurers carried out by BlackRock demonstrates the rising interest in ESG. More than 90 percent of carriers in Asia Pacific and Europe said having an ESG investment policy was either extremely or very important, along with 67 percent of US carriers.

Laurent Clamagirand, chief investment officer of Axa Group, told the report's authors that Europe was ahead of the game – not only because of legislation but also due to the mindset of the investment community.

Questions over whether insurers in the US were legally entitled to focus on anything other than maximising investment returns have also held back ESG developments there, he argued.

The majority of both North American (59 percent) and European (58 percent) insurers have already adopted an ESG investment policy, along with 49 percent of their Asian counterparts.

And most of those which do not already have an ESG investment policy expect to adopt one over the next 12 months.

Other key findings from the survey showed insurers were more likely to prioritise labour policies and relations, shareholder rights and diversity, as well as business ethics and transparency over other ESG issues. However, 68 percent of US carriers viewed climate change as extremely or very important.

The implementation game

Despite the sophistication of offerings, it appears that there remains a great deal of uncertainty about how best to implement ESG into insurers' investment policies.

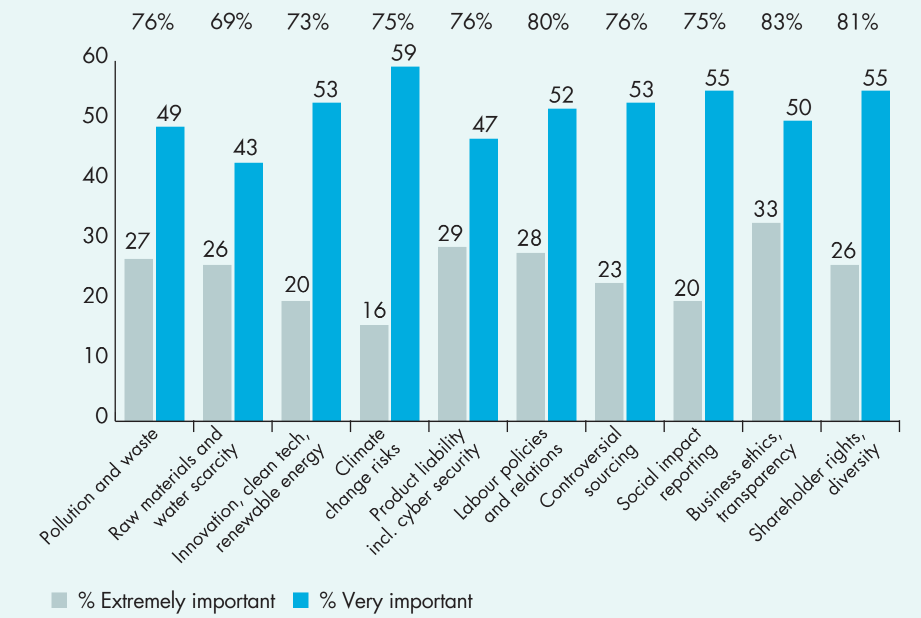
Even Zurich, which has a well-developed ESG programme, says it starts to apply ESG principles only when it reaches the point of selecting asset managers, as opposed to making it a factor in the company's fundamental decisions on strategic asset allocation.

Swiss Re argues that, by moving to ESG-focused benchmarks for all its major asset classes, it is able to capture ESG factors in its asset allocation process.

Asked which approach to ESG they favoured in their investment activities, almost half of the respondents to the BlackRock survey cited impact investing (48 percent), followed by use of a thematic focus on particular ESG issues (43 percent). Thematic investing and exclusion were next on the list.

Continued on page 28

Importance of ESG categories



Base: Global (n = 372), of which Asia Pacific (n = 113), EMEA (n = 154), Latin America (n = 30) and North America (n = 75). Q. Thinking across the whole range of ESG categories, how important are each of the following to your firm? Select one for each row.
Source: BlackRock Global Insurance Survey, July-August 2018.
Note: Percentages may not add to 100 due to rounding.

A lack of internal expertise exacerbates the situation, with most insurers lacking anyone in-house who can take ownership of the issue and ensure that asset managers responding to RFPs aren't simply "greenwashing" the investors with their wares.

Worth the investment?

While the jury remains out on ESG in terms of whether the strategy produces outperformance compared to non-ESG investing, there is a growing consensus that it at least won't negatively affect your returns.

"I've seen presentations that show how applying ESG to the investment process has managed to achieve similar returns to portfolios without ESG," says Camradata's Thompson. "I'm not saying that's always the case, [but] managers are showing that you can factor ESG into your investments without having a negative effect on your investment return – and you're seen to be more socially responsible as a result."

BlackRock's investor survey found that 55 percent of respondents felt they had to sacrifice an element of diversification to implement an ESG strategy, given that certain types of asset would be excluded from their investible universe.

And more than a third felt they should expect to give up some excess return, but only 9 percent were concerned about reduced investment income.

For insurers considering venturing into ESG for the first time, there are a few key recommendations to ensure you avoid being "greenwashed" by enthusiastic asset management marketers.

Firstly, do check that your asset manager has signed up to the UN-supported Principles for Responsible Investment (PRI) initiative, but don't just stop there.

"Merely appointing an asset manager because they've got the UN PRI box ticked won't wash," says Camradata's Thompson.

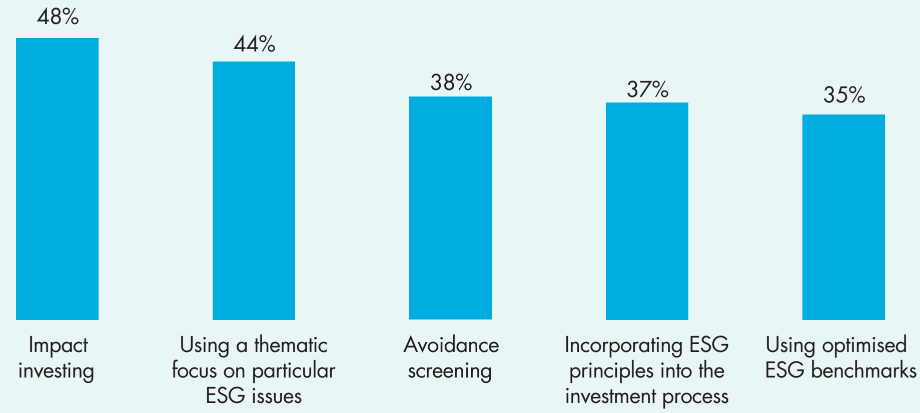
"Insurers will need to better assess how those managers integrate ESG into their processes. Is the decision purely made on returns? Or do they consider the end company's actions from an ESG perspective? And is there a serious amount of research being done at these firms by the asset managers, not just looking at the credit rating but everything else?"

Axa IM's Christensen also notes that it is important for asset managers to prove that ESG thinking flows from the very top of the firm, as well as being properly resourced with investment teams lower down.

"If you have a team that says we've hired five people last week, that's not the same as a firm that has history in the field for the past 20 years, unless those newcomers bring a lot of experience to that team," he adds.

"On the other hand, I've also seen that the longevity factor, those people who've come from one background and haven't been able to adapt to an extremely changing environment, can also be a risk."

How ESG is being implemented



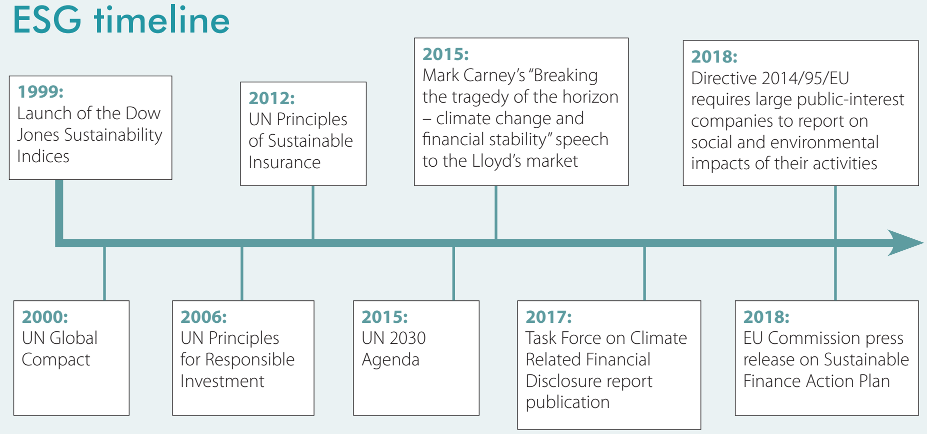
Source: BlackRock Global Insurance Survey, July-August 2018

How ESG is being implemented

	North America	Europe	APAC	LatAm*
Impact investing	61%	52%	34%	53%
Using a thematic focus on particular E, S or G issues	45%	37%	50%	47%
Avoidance screening	28%	39%	39%	57%
Incorporating ESG principles into the investment process	43%	37%	33%	43%

Base: Global (n = 372), of which Asia Pacific (n = 113), EMEA (n = 154), Latin America (n = 30) and North America (n = 75).
Q. Thinking about the most important categories, how is your firm taking these into consideration or planning to do so? Select all that apply. Source: BlackRock

ESG timeline



Source: AM Best


10
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THE EYE OF THE STORM

While a storm builds on the surface of the ocean, how do the US National Hurricane Center and the ILS market respond? Sofia Geraghty investigates real-time reinsurance trading

There aren't many people in the world who can say they have passed through the eye of a hurricane, but Mark Powell from RMS can.

Having spent 15 years manning the aeroplanes sent out by the National Oceanic and Atmospheric Administration (NOAA) to gather information on storms approaching land, Powell has witnessed them from a closer viewpoint than most.

"When you fly low like that you have a chance to see what is happening on the ocean and it is spectacular, you have all these different shades: there is blue and green and grey, you can see waves breaking, and you can see the wind sawing off the tops of waves," he tells *Insider Quarterly*.

Once the planes are in the air, they release a series of dropsondes – GPS instruments designed to measure temperature, pressure and relative humidity between flight altitude and the surface – which provide a vertical profile of the atmosphere, according to the NOAA's National Hurricane Center (NHC).

The dropsonde's parachute extends an antenna for transmitting data back to the aircraft, where, the NHC explains, "it is worked up by a computer and made ready to transmit back to CARCAH [the Chief, Aerial Reconnaissance Coordination, All Hurricanes]".

After the readings are checked and verified, the most important information goes straight to the hurricane forecaster, while the other data is plotted to provide a visual representation of the storm.

It is this data that informs everything – from which areas are evacuated, to giving an early view on what the storm may cost the (re)insurance market.

"All data is released to the public, which means a forecaster in Miami has the same access to the data as does a university researcher or a commercial business such as a television station," the NHC says.

While technology has improved to the extent that NOAA can now gather the information it needs when flying at 10,000 feet, this was not always the case, as Powell explains.

"When I first started my career we were actually flying very low through the hurricane, we would fly through the eyewall which was 500 feet above the ocean. The turbulence is pretty extreme when you are flying so low," he says.

> "For hurricanes, [livecat] trades can occur as soon as a system starts to develop and before it is named"

Livecats

Back on the ground, the formation of a storm causes a very different form of turbulence for traders of industry loss warranty (ILW) contracts known as livecats.

Livecats are ILW contracts based on overall industry losses which are sold leading up to and during a severe weather event. ILWs providing cover after events are known as deadcats.

Trading of livecats can begin as soon as news breaks that a storm is developing, Patrick Gonnelli, partner and global head of ILS distribution and trading at TigerRisk Partners, tells *Insider Quarterly*.

"For hurricanes, trades can occur as soon as a system starts to develop and before it is named. At this point it is given an invest '#' [tag] by the NHC; 'invest' is short for investigative area and is to be monitored."

The catastrophe covers most frequently bought and sold in this way are US and Japanese wind. While most livecats are done for wind events, there has been some interest in doing the same for wildfires, although nothing seems to have been traded yet, Gonnelli tells *Insider Quarterly*.

Credit Suisse is currently considered to be the biggest seller of livecat cover. Other sellers include more boutique ILS providers such as Iris Re.

Livecats are usually bought and sold on a bilateral basis – one buyer and one seller. Both parties agree an event trigger, for example a PCS loss of more than $20bn for a Floridian wind event, as well as the limit of the

Continued on page 32

cover and the premium to be paid to the seller (rate on line).

It is not clear when exactly the first livecat was traded. However, they are now a permanent feature of the ILS market, albeit still a relatively new entrant to the reinsurance market.

The first livecat Gonelli traded was for Hurricane Gustav, which struck the East Coast of the US in September 2002, he says.

"There was some post-event trading on the PCS estimate for the World Trade Center in 2001," he adds. "2004 was very busy with [hurricanes] Charley, Frances, Ivan and Jeanne."

Real-time pricing

Unlike pricing in the traditional reinsurance market, livecat traders do not have the luxury of time, so information from the NHC takes on greater significance.

"Pricing for livecats is based purely on that individual storm so it is hard to compare year to year. Pricing changes at every update on the storm, which for a US hurricane event is updated every four hours by the NHC," Gonelli explains.

Pricing is also dependent on what industry trigger is quoted at that particular time and what the expected loss is, he adds. As well as NHC data, companies use cat models and independent forecasting companies.

"There are many different views on pricing because counterparties use various vendors to quantify the risk," says Gonnelli.

When trying to gauge the impact of a live hurricane, which will dictate the financial cost to insureds and insurers, it is important to consider multiple aspects of the storm, says RMS' Powell.

"A large storm may only be a Category 1 or 2 but it can be extremely damaging. Sandy was an example of a storm that lost its category just as it made landfall, but was still a very large storm which had a huge impact. Our kinetic energy scale would take this into account."

Due to Superstorm Sandy's kinetic energy, the wind speed contributed to significant coastal flooding, which damaged homes on the New Jersey coast.

Sandy's storm surge also hit New York City, flooding streets, road and rail tunnels and subway lines, as well as causing power cuts in the city.

There is estimated to have been $200mn-$300mn of livecat trading around Superstorm Sandy.

Pump up the volume

Due to the bilateral nature of the ILW market it is difficult to get an idea of how much volume is traded at any given time. However, the latest update from Aon indicates that around $700mn of ILWs were traded in the second quarter of this year.

> "Livecats are ILW contracts based on overall industry losses which are sold leading up to and during a severe weather event. ILWs providing cover after events are known as deadcats"

Gonnelli suggests improvements in forecast modelling have brought new counterparties to the market.

One of the biggest drivers of livecat volume can be an event itself, he adds.

"Most companies have cover in place to handle the first loss, and then on the second and subsequent events you will see more activity."

He continues: "Events that target Florida have the most volume, given how much of the market is exposed to that one state, and the insured values are very high compared to other regions."

While there were rumours that the livecat market had ceased trading in the days leading up to Hurricane Irma (which was forecast to be a Category 5 hurricane at one stage), Gonnelli says this apparent reluctance to trade around larger events doesn't reflect his own experience.

"The last trade we did for Irma was at $80bn on Friday 8 September. [Irma] made landfall on the 10th, so yes, there is appetite for large events."

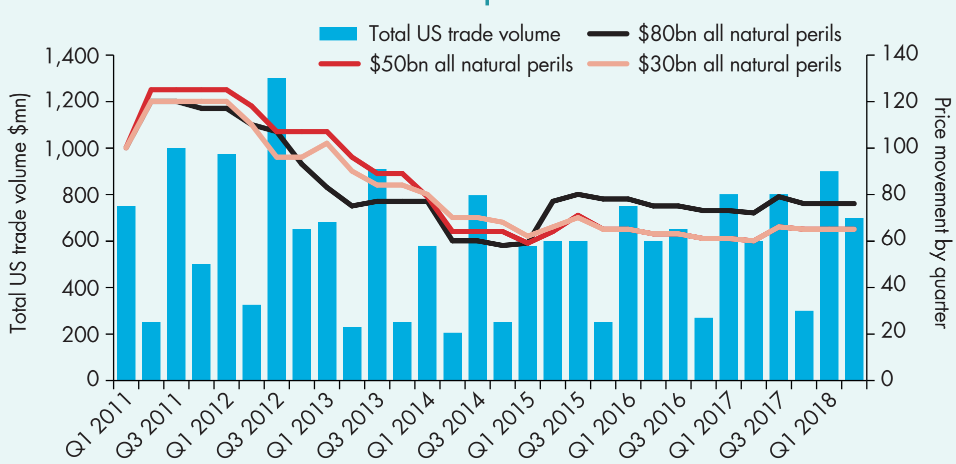
He suggests that the high number of prior losses in 2017, combined with a lack of clarity around the costs of these losses, may have made it difficult for some sellers to offer cover.

In the future, ILW traders may find themselves facing a different sort of catastrophe risk.

The simplicity of ILW structures means they are being turned to as solutions for a number of emerging risks.

This year Hiscox Re has introduced the first ever cyber ILW to the ILS and reinsurance markets. The cover responds to the aggregation of cyber losses throughout the year, as is the case with property ILWs.

ILW trade volume and US ANP price movement



Source: The Global Re Specialty Team of Aon UK Limited

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INSURANCE IN THE IoT AGE

Insurers will have access to more data than ever with the Internet of Things, but companies must be ready for the risks that come with such rewards, says **Tom Saminaden**

The advent of the Internet of Things (IoT) presents huge opportunities for insurers – and it's no surprise that the industry has been an enthusiastic early adopter. Motor insurers, for example, have used telematics to cover drivers who would otherwise be too risky to insure, while also ensuring claims are supported or disproved by telemetry.

The pervasive presence of smartphones adds further data points – and may also help, with the use of biometrics, to prove the presence or otherwise of a claimant at the scene of a claim. But, of all the IoT devices widely discussed, the humble smartphone is probably the most underrated. In the UK, Aviva's Drive app uses the phone's camera as a dash cam – but also gamifies the experience of driving, as users compete with friends to be the safest driver.

Home automation driven by cheap, task-specific devices such as smoke alarms, thermostats and security solutions promises a rich haul of data for insurers when applied correctly – but it also creates new opportunities for fraud.

Many general-use IoT devices and applications are making their way onto the market without the diligence and scrutiny many consumers take for granted, and this lack of security can cause complications for insurers hoping to harness their power.

A 2017 survey by digital security firm Gemalto revealed that most organisations (96 percent) and consumers (90 percent) surveyed are already demanding greater IoT security regulations.

But much of the media attention focuses on fanciful 'headline hacks' rather than the more mundane (and more probable) vulnerabilities like fraud and identity theft. And that's a big problem for the insurance industry.

IoT is a double-edged sword. For every opportunity, there's a sinister threat lurking in the shadows. Insurers can (and must) embrace the potential of IoT. But to do so they need to be fully prepared for this new era of hyper-connectivity.

> "One of the immediate vulnerabilities that IoT can expose insurers to is the hacking and modification of usage and telemetry data"

That's where an intelligent approach to IoT comes in – helping to negate the threat of fraud and harness the full spectrum of opportunities.

IoT presents opportunities for everyone. The trouble is, that includes fraudsters. And when it comes to the insurance sector, that means big headaches.

It's important to understand the potential threats created by the advent of this technology, as well as how your business can harness the potential that IoT offers.

> "The Internet of Things is a double-edged sword. For every opportunity, there's a sinister threat lurking in the shadows"

Insurance evolution

It's no surprise that the insurance sector has taken to IoT-generated data with gusto. The data generated from connected devices can provide valuable insight during the claims and loss adjustment process, giving insurers the opportunity to launch new usage-based products and speed up processing. But insurers are not necessarily using IoT data to its full potential.

Some are already making strides in an effort to obtain a fuller data view, rewarding customers who supply them with IoT-fuelled information.

Aviva's Drive app provides a valuable record in the event of a claim and also discounts policies for motorists with an app score safer than average drivers. In the US, insurer Metromile offers policies payable by the mile thanks to its telematics system.

Other insurance markets also benefit from IoT. Neos offers reduced premiums for homes with connected smoke alarms and security systems – and offers customers such devices as part of its policies. US insurer Liberty Mutual will discount policies for customers who use Nest Protect-connected smoke sensors in their homes.

What all these innovations have in common is their innate 'good persona bias' – where technologies or devices are designed assuming the user has virtuous intentions.

But this rose-tinted perspective creates opportunities for organised crime. Fraudsters are well aware of the potential security flaws that exist across internet-connected devices, and they are already familiar with the many ways they can be exploited.

IoT threats

One of the immediate vulnerabilities that IoT can expose insurers to is the hacking and modification of usage and telemetry data. In an era when insurance is moving towards a pay-as-you-go model, the ability to doctor policy or usage data is a concerning scenario.

Such a situation would allow nefarious parties to affect premiums or trick providers with a faked low-risk profile. For example, the mileage recorded on a pay-per-mile policy could be manipulated and artificially lowered, or the time at which a vehicle is in use changed.

If this sounds far-fetched, it's actually troublingly feasible. The FBI warned in August this year that hackers were able to intercept ATMs and alter withdrawal limits – potentially allowing limitless volumes of cash to be swiped.

Fraudsters learn what works and replicate that model. ATMs are regarded as relatively secure devices. In comparison, vulnerable IoT devices are an open goal.

Fictitious or staged claims are an even more alarming prospect. It has been reported that criminals are using peer-to-peer ride-sharing companies to launder money through fake rides. The fundamental flaws of IoT devices make it disconcertingly straightforward for fraudsters to fabricate collisions or damage and make a false claim.

IoT opens the door to opportunistic criminals, and conceivably makes fraud easier, faster and more profitable than ever.

In the motor industry, intentional crashes are already a familiar fraud tactic. While it often provides evidence to back up claims, misuse of IoT could also reinforce fraudulent claims. By meddling with an IoT-connected device, like a telematics box or a smartphone, fraudsters can stage fabricated collisions that are potentially harder to disprove.

This approach could be adopted for fraudulent home insurance claims too. How can you verify if a smoke alarm was actually triggered by a house fire? The same goes for a connected burglar alarm.

As IoT becomes more widely embraced, the challenge is finding a single version of the truth and being able to trust the data you're seeing.

IoT and analytics

Despite all of this, IoT should be welcomed into the insurance fold – the sector just needs to be ready for it.

Insurers have access to more data thanks to IoT, but more information doesn't necessarily mean better fraud prevention. Data needs to be processed in a timely and accurate manner to identify and thwart fraud.

Smarter fraud detection platforms that are capable of sorting through large volumes of data at speed are therefore invaluable.

Data must also be sorted in a way that provides a single customer view. Connecting the data collected by various devices to a customer's profile provides better context around a claim and makes the job of assessing it – or identifying potential fraud – all the easier.

Data consistency and alignment across all sources – quotes, policies, claims, credit data and device data – is vital when seeking out that single customer view.

Just as important is seeing the connections between individual customers. Are two seemingly unconnected claimants using the same email address, for example – or are there other, less obvious, connections?

It's a big task, but one that must be diligently completed in the midst of a data deluge. This is where the true power of a smart analytics platform can be felt.

There's never been a more exciting time for the insurance industry. But that breathless speed of innovation means risk as well as reward.

TOM SAMINADEN is an insurance solutions consultant at BAE Systems

THE MILLION-BITCOIN QUESTION

Cryptocurrencies bring with them new insurance needs and unique challenges. **Karen Boto** examines how insurers are approaching this emerging market

In recent years, the volatility of bitcoin and other cryptocurrencies has led to much speculation about their long-term viability. However, almost 10 years after the advent of bitcoin, global interest in cryptocurrencies and other crypto-assets shows no sign of abating. It appears that cryptocurrencies in their various guises are here to stay, at least for the foreseeable future.

Indeed, new crypto-related businesses are continually being developed – from security services and custodians, whose products and services protect and keep crypto-assets safe, through to crypto-exchanges, which offer safe trading environments to buy, sell and invest in cryptocurrencies.

As such, the risks to businesses using and accepting cryptocurrency, as well as those providing crypto-services, are ever increasing. Risks include both acts of a deliberate nature such as cyber-crime and hacking, as well as unintentional acts like technological faults.

Recent hacks

Cryptocurrencies have characteristics of both a digital asset and a network, so it is easy to see why they are an attractive target for cyber attacks. Indeed, cryptocurrency investors have already lost millions from high profile hacks during 2018.

It has been reported that just over $1bn worth of cryptocurrencies have been stolen from crypto-exchanges so far in 2018, with an expectation that losses will continue to increase by year-end. This compares to losses in 2017 totalling approximately $266mn.

Unsurprisingly, the staggering size of these losses has led to these businesses reviewing their security measures.

Regulators worldwide are also seeking to strike the right balance between providing protection to consumers and not stifling innovation. The sense is that tighter supervision is on the way.

Insurance coverages

As the industry takes steps to become more secure, leading insurers are considering whether they can play a role in the risk management process.

There is still, justifiably, some nervousness surrounding the risks associated with the cryptocurrency market. In this nascent stage of development, cryptocurrencies have been publicly associated with criminal activities and therefore received negative media attention. No surprise, then, that the insurance market remains divided over the question of whether to insure cryptocurrency businesses, and, if so, on what terms.

In fact, to the extent cryptocurrencies are characterised as the equivalent of "money" or "securities", traditional covers like crime, directors' and officers' and cyber policies might already respond to losses sustained by cryptocurrency owners.

However, there are conflicting views as to how to characterise cryptocurrencies like bitcoin, with the current school of thought swinging in favour of them being treated as a commodity.

As such, businesses using cryptocurrency are typically seeking confirmation that existing policies will respond to claims involving cryptocurrencies, or are seeking to amend and broaden the definition of

What is a cryptocurrency?

Cryptocurrencies are essentially a form of electronic cash.

Broadly speaking, there is a distinction between pure cryptocurrencies, which act as stores of value and mediums of exchange, and cryptotokens, which also use blockchain but serve as digital assets for use only for a specific network of platform.

This article focuses on cryptocurrencies.

"money" in a crime policy covering cryptocurrencies, especially as the hacks become more sophisticated and often involve the use of an insider.

Standalone policies

While cover may be provided through specific endorsements, a handful of London market insurers appear to be embracing the opportunity to insure cryptocurrency-related exposures and offer standalone policies.

However, the exact cover being offered differs from one insurer to another, and depends very much on the nature of the underlying business.

Crypto-exchanges, for example, are seeking protection against heists. While this cover may only serve to provide limited protection due to the large size of the losses suffered versus the relative lack of capacity in the market, some level of insurance might at lease legitimise their reputations.

When it comes to storage, some insurers are covering hot wallets (online wallets connected to the internet) as it is expected that the value of the cryptocurrency held in hot wallets will be lower than cold wallets (those stored offline). Others feel the risks associated with cold wallets are smaller for the very reason that they are not connected to a public network, although the value stored there may be higher.

Of course, insuring physical and intangible assets is a key concern for any business. More and more crypto-related businesses are also starting to seek protection for their businesses against a variety of additional issues such as unforeseen operational disruptions, errors and omissions, and for their executives against regulatory exposure and shareholder litigation.

Another pertinent issue within the blockchain and crypto-world is that of governance.

The protocols which govern many cryptocurrencies are akin to constitutions, setting out how such currencies can be altered.

This can often be to the detriment of some classes of coin holders, which has implications for insurers providing cover.

We have not seen these considerations reflected in any policy wordings. It may be difficult to ascertain what is a technological "malfunction" and a legitimate correction of flaws in the code.

Risk versus reward

For insurers entering the crypto-space, the obvious challenge is how to cover these risks in circumstances where little is known about investors, and where few fully understand the technology.

Due to the infancy of the crypto-space and absence of a clear regulatory framework, the insurance industry lacks critical historic data that underwriters would normally rely upon to price and assess risks, and form decisions on scope of cover.

Nevertheless, despite these challenges, insurers choosing to offer protection in this emerging market are benefiting from annual premiums earned which reportedly dwarf those offered to other businesses for similar covers.

Despite the new opportunities, insurers entering this market should do so cautiously. Indeed, in July, Lloyd's of London issued a warning to all its managing agents to "proceed with a level of caution". Underwriters should not underestimate the level of due diligence required, should they choose to explore this opportunity. The risks, after all, relate to experimental companies employing experimental technology.

Important risk factors that underwriters will need to heavily scrutinise include the prospective insured's security and storage procedures, the scale of their operations, and the experience and integrity of their management.

Underwriters will also need to consider the impact of wider issues and trends, such as the risks of hacking and financial crimes, and gain a clear understanding of the underlying technologies.

Additionally, any policies issued must also be compliant with applicable laws and regulations, which are quickly evolving.

In order to limit insurers' exposure, any policy issued should be for a specified term, with fixed limits of indemnity in legal tender. Of utmost importance, they should contain a clearly defined method of valuation clause to calculate loss of cryptocurrency.

It remains to be seen whether, as the crypto-space matures, the insurance demands increase, and also whether, as the industry and regulation become more stable, insurers' appetites to write such risks also expand.

What is clear is that detailed knowledge and a full understanding of the relevant asset or platform is required, rather than a one-size-fits-all approach.

What is blockchain?

Blockchain was developed as the supporting ledger for bitcoin, the first cryptocurrency created in 2009.

At its simplest, it is a constantly updated, de-centralised digital ledger on which transactions are recorded and verified, chronologically and publicly.

Every block links to a previous block (the chain) containing a time and date stamp. Transactions cannot be copied or reversed, meaning that the ledger is virtually incorruptible.

Blockchain offers various benefits including increased transparency and quicker transaction speed. It now has a variety of uses beyond bitcoin.

> "The risks to businesses using and accepting cryptocurrency, as well as those providing crypto-services, are ever increasing – including acts of a deliberate nature such as cyber-crime and hacking, as well as unintentional acts, like technological faults"

KAREN BOTO is a legal director at Clyde & Co


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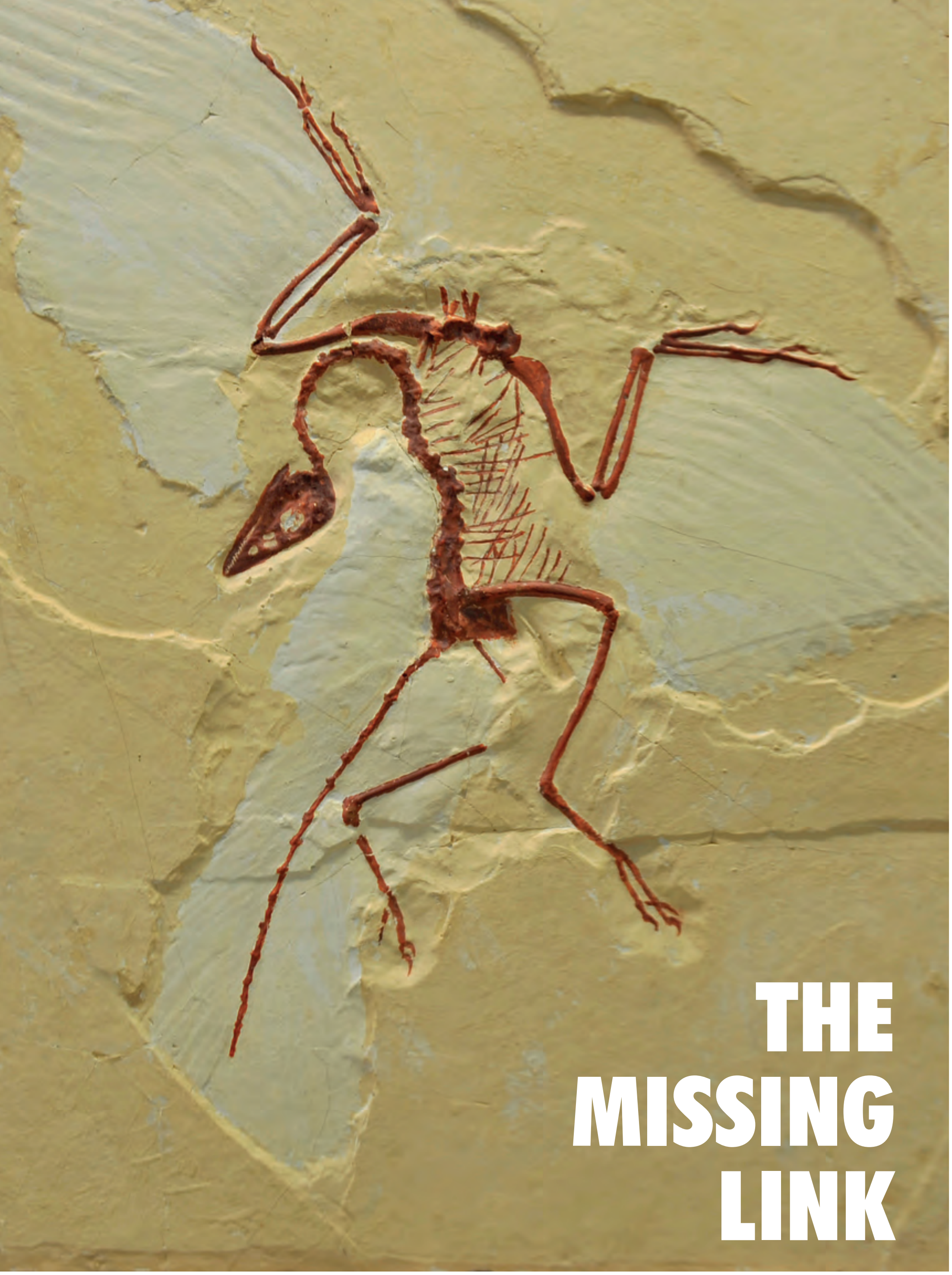


THE MISSING LINK

From machine learning to artificial intelligence and the Internet of Things, the insurance world is evolving, and the London market must master data confidence if it is to keep up, says Nick Mair

In my opinion, Archaeopteryx fossils are some of the most stunning in the entire fossil record. Dating back over 150 million years, showcasing both feathers and reptilian traits, they are often described as the missing link between birds and dinosaurs. They represent an irrefutable bridge between the old and the new – a snapshot of evolution caught in the act, set in stone for posterity.

Here in the London market, it feels like we too are on the brink of another such momentous transition from old to new. But let's face it, if the innovative next stage in insurance evolution is represented by the feathered plumage of artificial intelligence (AI), machine learning (ML), blockchain and the Internet of Things (IoT), the London market is just not that type of creature. Not yet, anyway.

But unlike Archaeopteryx, if we don't adapt, we run the very real risk of being remembered in the historic record as something more closely akin to a dinosaur.

This is because every day, at any given moment, in every department, in almost every London market carrier, someone is still having to address a basic data issue. While at the same time, another carrier over the street is likely to be manually inputting the exact same data into their organisation's separate systems – and in a slightly different format.

Data dinosaurs

For today's underwriters, taking decisions on a daily basis across different lines of business requires timely analysis of high-quality data. But carriers are handling global risks with an unwieldy mess of legacy systems and sticking-plaster controls that were not designed for the InsurTech-driven needs of today.

The reality is that current processes for data checking are manual, ad hoc and error prone. This is anathema to effective data controls, and the resulting efforts are typically tactical, disjointed or downright dysfunctional.

These are not the actions of a streamlined, efficient market. If the next steps in our evolution involve AI, IoT and the rest of the current InsurTech wave, we need to recognise that these technologies are built on the assumption that there is great data on which to base intelligent outputs. But in far too many cases, there isn't!

In our market, operational performance and data performance are inextricably linked. Data is at the heart of our future – from pricing risks, tracking policies, reconciling claims and compliance to data-

Continued on page 40

hungry initiatives like AI – and it's a matter of survival of the data fittest.

Is the risk based in a sanctioned jurisdiction? Has the underwriter overshot their limit? Have the right European licences been referenced in the policy post-Brexit? Is there a pattern of activity that could indicate money laundering? It's not just operational efficiency at stake. From underwriting discipline to regulatory compliance, insurers risk hefty fines, lower profitability and serious reputational damage if they get it wrong.

Front-end implications

Take fire wordings as an example. Fire protection has historically been thrown in with property policies; no extra premiums attached. However, these wordings are starting to have a major impact as we are seeing more and more wildfires around the world.

And yet we hear from carriers that there is little consistent data being collected about the use of fire-retardant materials in properties and infrastructure, which should clearly be factored into the pricing. There is also a worrying porosity of data in terms of updates to property policies, often leading to increasing property values not being factored into the premium.

Given that the volume and intensity of wildfires around the world is likely to increase, wouldn't it make sense to have an automatic company-wide or market-wide check for new property and infrastructure wordings for policies covering areas at risk of wildfires?

This is just one example of the type of inconsistent or incomplete data that is flowing into the London market, directly impacting how risks are priced and adding to claims attrition. And data flows are only set to increase as technology continues to evolve.

But, while the quantity of data flowing into London continues to increase exponentially, a recent London market survey from web-based property valuations and data firm E2Value demonstrated that up to 70 percent of insurers feel data quality has not improved in the last five years. Just 30 percent of those surveyed reported that it had.

> "Unlike Archaeopteryx, if we don't adapt, we run the very real risk of being remembered in the historic record as something more closely akin to a dinosaur"

When you consider how much the quality of technology has improved during the past five years, it is seriously worrying that nobody seems to have given the same attention to the quality of the data itself.

Survival of the data fittest

Data hygiene might seem like an unglamorous nuts-and-bolts detail but, while many think of data quality as a back-office concern, in reality it has a direct impact on underwriting. This is why the need for improved data controls requires urgent acknowledgement and action from the industry.

Front-line decision-makers are only as good as the data at their fingertips. Lack of data oversight upstream leads to costly inefficiencies downstream that, in turn, can produce mistakes that have serious underwriting or regulatory implications.

Of course, the best way of solving all this would be to have consistent data and a single system used by everybody, or one that converts data automatically into standard formats when it reaches a carrier.

But that is just not a reality for the London market.

Legacy systems abound, data in all formats flows in from around the world, and we are still a long way from standard messaging, despite the industry's best efforts.

London market insurers have themselves complained that data points critical to understanding a risk – such as location data, or construction and rebuilding data – are of an unacceptable quality most of the time. What we need is oversight of, and confidence in, the data with which we are working.

In reality, we are not going to reconcile all existing and legacy systems handling this data into one standard system or format – at least not within the next 10 years.

Specific checks are required that give oversight across all the different systems for individual data points related to business controls, underwriting thresholds, etc. as they enter insurers' system – with any issues immediately flagged and routed back to the right person to resolve.

London market Archaeopteryx

If the London market is going to evolve in a competitive, changing world, we need to recognise that data quality is not a back office problem. Data controls must be applied in such a way across the market that integrates with daily workflows at the front end of each business.

Data quality is a pressing boardroom topic as a leading indicator of the health, efficiency and reliability of a business. The carriers taking confident underwriting decisions for a strong 2019 will be those with true, global data confidence.

So here's my call to action. Lloyd's must go beyond the current minimum standards to make data quality a key performance indicator for the market, right up there with underwriting profitability.

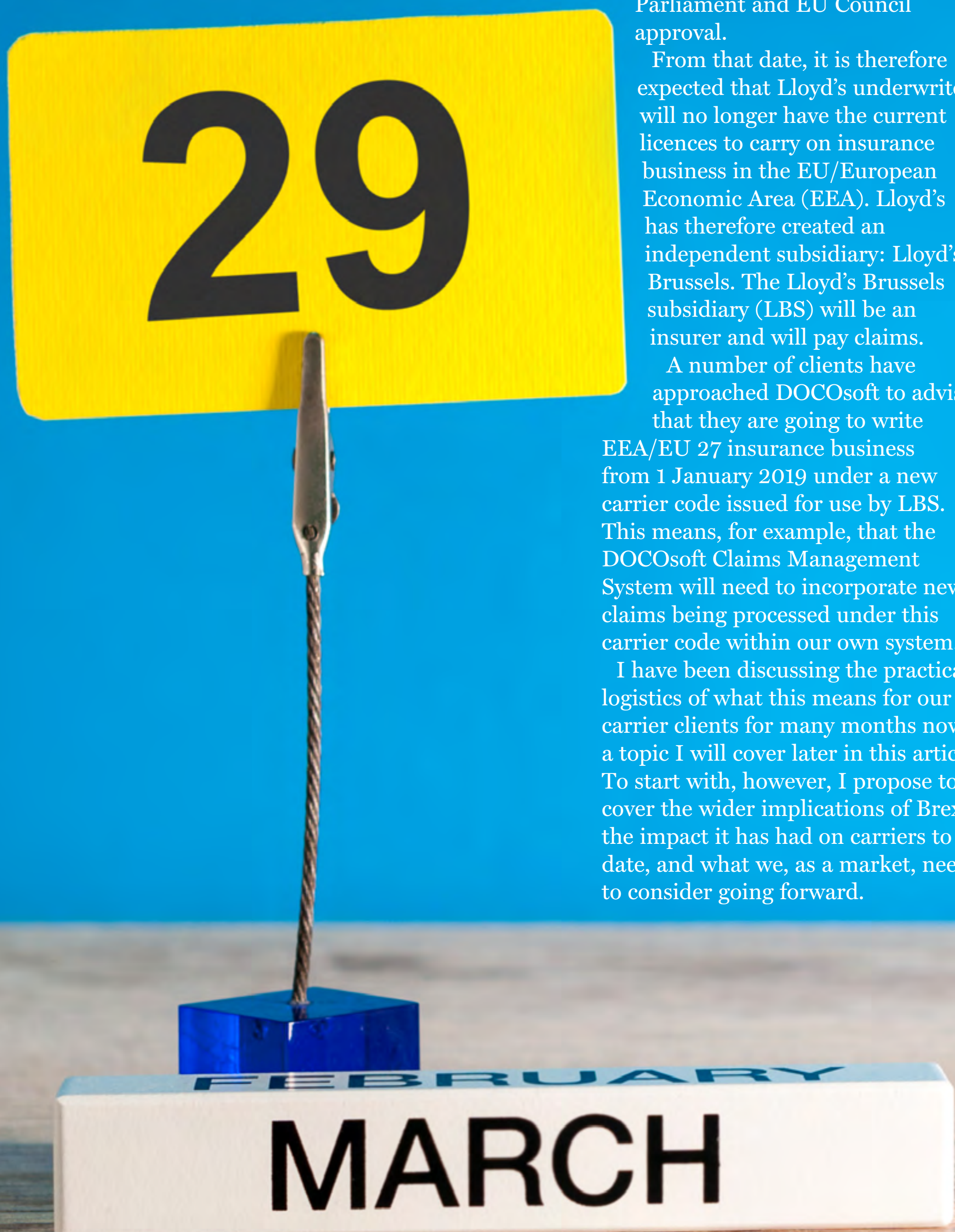
A confident, data-enabled market is the missing link – the Archaeopteryx – to embracing the next phase in our evolution.

Only with data confidence can we adapt and take full advantage of the opportunities that AI, ML and IoT present, with all the efficiencies and insight that they could bring.

NICK MAIR is a co-founder of InsurTech startup DQPro

NO SLEEP TILL BREXIT

Taking claims clients through the Brexit transition phase has been a complex process, and there are likely to be more challenges ahead, says **Jonathan McGraw**



On 29 March 2017 the Brexit process was officially launched, triggering Article 50 and starting a two-year period before the UK's split from the EU.

It has been a long and winding road to get to where we are now, and the only thing we can say with any certainty is that there is no certainty with Brexit.

However, any withdrawal agreement requires necessary support to be passed by the UK parliament and thereafter requires both European Parliament and EU Council approval.

From that date, it is therefore expected that Lloyd's underwriters will no longer have the current licences to carry on insurance business in the EU/European Economic Area (EEA). Lloyd's has therefore created an independent subsidiary: Lloyd's Brussels. The Lloyd's Brussels subsidiary (LBS) will be an insurer and will pay claims.

A number of clients have approached DOCOsoft to advise that they are going to write EEA/EU 27 insurance business from 1 January 2019 under a new carrier code issued for use by LBS. This means, for example, that the DOCOsoft Claims Management System will need to incorporate new claims being processed under this carrier code within our own system.

I have been discussing the practical logistics of what this means for our carrier clients for many months now – a topic I will cover later in this article. To start with, however, I propose to cover the wider implications of Brexit, the impact it has had on carriers to date, and what we, as a market, need to consider going forward.

Post-Brexit Lloyd's

Two years on from the UK's vote to withdraw from the EU, Lloyd's continues to work through the challenges of Brexit. The Corporation is supporting the market to deliver a post-Brexit operating model for Lloyd's business and, in doing so, the market is required to make some changes to the claims management and processing model.

According to the Lloyd's Market Association (LMA), the operating model and established electronic claims file vehicle to support claim notification, agreement and processing will remain, and will therefore be integrated within the Brexit operating model.

The data reporting services and bureau messages for the syndicate claims message (SCM) facility will also remain. Claims data will also be sent back to LBS via the SCM. This will provide the recently incorporated LBS some oversight of claims and the outsourcing between Lloyd's and managing agents.

Dispute resolution and partial market agreements will cause contention under the Brexit operating model and for the sole carrier of insurance, the LBS – according to a note issued to the market in May 2018 by the LMA.

Any Single Claims Agreement Party (SCAP) claims that are impacted by a market dispute or partial agreement will also be in contention with LBS.

The claim scheme looks to overcome carriers' disputes with a supporting dispute resolution process.

However, it has been difficult to see how this will support the resolution within a Brexit operating model without some changes being applied. Lloyd's and SCAP claims have had to consider change, particularly as split market agreements cannot be accepted in a Brexit model.

It has therefore been a challenge for the subscription market to reach consensus on the basis that LBS is the carrier in a Lloyd's Brexit model.

On the plus side, Brexit risk has proven to be an opportunity for investment in new technologies, providing a chance to bolster the City's position as a technology hub. Might that lead to more investment in an area with growing potential: InsurTech? Quite possibly.

> “Dispute resolution and partial market agreements will cause contention under the Brexit operating model and for the sole carrier of insurance, according to the LMA”

Contract certainty

A major next step is delivering progress on the contract continuity issue so that clients in the EU 27 do not find themselves facing contractual uncertainty and protection gaps.

Insurers clearly do not want to be in a situation wherein they would have to break the law in order to make good on contractual obligations, so the issue of contract continuity must be resolved. There has been some doubt as to whether UK insurers will remain licensed to pay claims in a few EU countries without an agreement in place.

What is a concern is whether we will see international business that was coming to London from outside of the EU being put through the EU subsidiaries.

Another potential threat is that international business will not be placed in London or the EU, but rather go to other regional hubs such as Singapore.

JONATHAN MCGRAW is a business analyst at DOCOsoft

If there is no agreement, the current regulations could leave the London market with a major issue around contract continuity. Under the current regulations, UK firms will not be able to pay claims to EU clients on policies written before 29 March 2019, should they arise post-Brexit.

The situation leaves London insurers concerned that their clients will have claims that, despite their willingness to pay, they simply will not be allowed to pay by regulators.

The LMA has stated that, if no agreement is reached on this issue, there may be profound implications for insurers and their EU clients.

The process of insurance undertakings adjusting from one trading environment to the other will be hugely disruptive. It will be a lengthy and complicated process, which will involve higher costs and create uncertainty as to the fulfilment of policies in the event of a claim.

High priority

Brexit is a top-three priority according to a survey of managing agents' claims heads and claims directors, published by the LMA this year. When asked to state their top three priorities for the market, online respondents offered diverse responses.

As their number one focus, systems innovations, improvements to resolving issues, and improvements to electronic claims filing or the insurers' market repository were regularly mentioned – as was the improved efficiency that is required via the use of automation.

Brexit was also mentioned as a top priority, as was maintaining the brand or the customer experience.

“One priority is integrating our EU company before Brexit,” said one survey respondent.

By a very great distance, the respondents' first priority was their own managing agency's claims brand and reputation.

Half of online respondents selected this as their highest priority, and more than 90 percent in their top three. It was also the highest priority mentioned by in-person interview subjects. Brexit, however, is clearly very much a reputational issue.

CMS issues

For our part, DOCOsoft has been analysing all areas affected within our claims management systems (CMS).

Throughout the project we have been managing project risks, as requirements have evolved, based on market feedback.

We have therefore been attending numerous market events on Brexit to ensure we have visibility of the latest issues affecting our clients. Some of our clients have requested additional bespoke requirements, so these have been considered in order to ensure seamless integration of claims into each of our clients' CMS.

In order to display LBS claims, all new LBS carrier codes must be configured into DOCOsoft's CMS. This ensures functionality is maintained to accept data such as risk code allocation, movement limits, and report on LBS claims, separately from Lloyd's claims.

Without this work on clients' issue, this functionality would not be possible and might affect the reporting requirements for LBS and regulatory requirements.

Document management system integration for document storage has also been factored into the process along with underwriting system integration into DOCOsoft.

Finally, those carriers on Write-Back also need to consider handling of Write-Back message processing, and we have been actively involved with assisting our clients with the necessary assistance through the registration processes with DXC.

It has been a complex journey, taking our claims clients through the Brexit transition phase, but I suspect there will be many more twists and turns before we come out the other side.

SLAM DUNK

When it comes to launching a new MGA, the choice of which suppliers to collaborate with is critical, say **Stephen Card** and **Kirstin Duffield**

Stephen Card

Starting any new business can be an exciting time but also an intimidating one. Building from the ground up brings together a multitude of skills in a variety of combinations. I have felt this keenly first hand during a recent venture to start a new MGA.

My previous experience heading up a company supplying both technology and insurance services left me uniquely equipped with the necessary mix of these skills and understanding to set up a new, Financial Conduct Authority (FCA)-regulated business.

The process itself, however, is challenging when you are operating on your own. The minefield of dealing with regulation, compliance, General Data Protection Regulation, data collection, and appropriate and compliant IT systems took time and significant help to accomplish.

> "In choosing an outsourcing partner, having someone who intuitively understands your business and your chosen market is essential"

Seeking Lloyd's coverholder approval meant that, in addition to satisfying the FCA, we also had to satisfy the Corporation's coverholder department that we were fit and proper people, and that we had the appropriate systems and controls in place to manage our business effectively.

The key component for us to achieve success was our choice of IT system and supplier. When starting – or indeed running – any business, cash-flow is king. Managing cash-flow is critical to the business and there is always a temptation to go for the cheapest of everything but, as the adage goes, "You get what you pay for".

We chose to look for an outsourcing partner that could not only offer us services but also allow us to become their appointed representative. This would enable us to begin trading earlier than if we were to apply for full independent FCA status from the beginning.

STEPHEN CARD is CEO of Jigsaw Insurance Services

This route also allows you to follow a well-trodden path with a partner who is familiar with the process, having gone down that road many times before, and is therefore able to warn you of the pitfalls ahead and – perhaps more importantly – how to avoid them.

In choosing an outsourcing partner, having someone who intuitively understands your business and your chosen market is essential, as the time spent in bringing them up to speed is both frustrating and causes unnecessary delay.

We chose to conduct a beauty parade of three suppliers of services and each had qualities we found attractive; from breadth of service to investment opportunities and, simply, being people we just liked.

Our final decision was made very easy for us as one provider fulfilled all our criteria, and was able to offer us a real hands-on insight into IT provision – a key ingredient for our future success. This is why we chose Ambant Underwriting Services, part of the Davies Group, as our outsourcing partner.

Ambant's overall familiarity with the market, experience with successful MGAs, and the quality and pricing of its offering made it a simple decision for us.

The choice of IT supplier was always going to be difficult as IT systems abound in the insurance space. While some are slightly ahead of others on one area, there will be another which offers greater functionality elsewhere.

Without commissioning a cumbersome request for proposal process, which seems to benefit few, how do you know you are selecting the right supplier?

As with all things, there are several factors to consider: price, functionality, support/service and growth potential (product and service).

Price is certainly an issue but, leaving that aside and looking at the products, let's assume that all are much the same, give or take a button or two. So what is the next criteria?

For us it was the choice of supplier – one who understood our business best; was able to offer the bespoke configuration we would require without significant additional fees; could offer the system out of the box the fastest; really understood the London and international markets; and could offer integration with all the key London market Target Operating Model initiatives.

On top of this, the overall robustness of a tried-and-tested system was the trump card. Strong and robust beats flashy and glitzy every time, and that is why we chose Morning Data's Novus system. It was a pleasant surprise that flash and glitz were included too.

Without a doubt, the relationship that Morning Data had already forged with Ambant was one of the most important factors in our decision, with transparency and collaboration at its core.

Ambant had been managing start-up MGAs for several years and had a proven track record of success with them.

As several of their existing MGAs are already using Morning Data, Ambant's staff who would be handling our data were already completely familiar with Novus. A slam-dunk decision.

I cannot speak for others in a similar position with regard to starting a new MGA but for us, being able to go from a decision to create the business in April 2018, to within six months having our appointed representative status, Lloyd's coverholder approval, investment and systems all in place and our binder completed, I think we made the right choice with each of our partners!

Kirstin Duffield

KIRSTIN DUFFIELD is managing director of Morning Data

We have always remained totally committed to supporting coverholders, MGAs and brokers in the London market, as well as our insurer clients both domestically and overseas.

Our clients present various combinations of facultative, treaty and delegated authority business for almost every class imaginable, and we relish the challenge to handle it all.

We are delighted that Jigsaw has selected our Novus platform, together with services provided by Ambant of the Davies Group.

They have a keen eye on innovation at their core and this turnkey collaboration is hassle-free and cost-effective, providing efficient one-touch, straight-through processing of insurance data in the London market.

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CEO, Lloyd's Market Association (as of 1 Jan 2019)

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UK BUDGET: THE NEED FOR SPEED

In part two of a second series of articles focusing on M&A, **James Mee** and **David Wallis** reflect on some of the key issues facing buyers and sellers of insurance businesses

In the UK government's 2018 Budget, the Chancellor of the Exchequer announced several changes to entrepreneurs' relief (ER) that owner managers need to be aware of.

Firstly, for deals signing after 5 April 2019 (or, if signed earlier, subject to conditions that are satisfied after 5 April 2019), the minimum holding period to attract ER will be two years rather than one as it is currently. Of course, for processes not yet begun, it is going to be extremely difficult to avoid the higher tax charge without delaying a sale for 12 months.

Secondly, with immediate effect, Her Majesty's Revenue and Customs (HMRC) has closed what has been described as a loophole, whereby shares could be held that delivered ER treatment without carrying the entitlement to 5 percent of the dividends or assets on a winding-up. So, in other words, to obtain ER, shares really do have to be worth 5 percent or more of the company.

Other changes may affect valuations in certain cases. We will know more as and when additional detail is published.

The VAT treatment of insurance intermediaries that contract with non-EU entities to re-supply services to UK consumers will become less attractive, as associated input VAT will cease to be recoverable from 1 March 2019.

From 6 April 2020, larger businesses that contract with personal service companies will have to focus on their arrangements and tax/National Insurance Contributions liabilities, because the so-called IR35 rules, as applied to public sector companies since April 2017, will be extended to the private sector.

> "Further planned changes to the corporation tax rules restricting the use of carried forward losses will be of interest particularly to private equity acquirers"

Further planned changes to the corporation tax rules restricting the use of carried-forward losses will be of interest particularly to private equity acquirers. They may start looking even more carefully at the returns they seek given the impact of these changes for general partner companies.

The impact of the strategic rationale on legal terms

One area always worth focusing on is the experience that particular buyers have in actually consummating deals. In addition to having an understanding of the market as a whole, that part of the market in which a target business operates, and the ability to focus their diligence efforts, buyers that have handled a number of deals in the market may have a number of advantages.

One key advantage where an acquisition adds to an existing sector portfolio is likely to be cost

Continued on page 48

> Synergies are not always about reducing cost, as combining complementary businesses can provide an attractive upside after the deal

synergies. The ability to take out, or spread, cost will enable such buyers to pay more. Synergies are not always about reducing cost, as combining complementary businesses can provide an attractive upside after the deal, as cross-selling or acquiring a wholesaler may enable more revenue to be captured.

While the strategic rationale for any bidder is more the purview of the corporate financier than the legal adviser, knowing what is important to a particular bidder informs an understanding of the protections that the buyer will be looking for, and can shape the seller's response.

For example, where businesses will be combined, and an element of the purchase price will be deferred, sellers and their advisers always have to focus on "deferred consideration protections" to ensure, as best they can, that they will have the opportunity to achieve the deferred consideration.

When a target group is the first acquisition in a sector, the negotiation around these terms tends to be easier than when it is not, simply because in the latter case the selling team cannot expect the same degree of control.

Key areas for discussion always include the operational flexibility of ongoing management, recognising revenue and expense for deferred consideration calculations, and the accounting policies to be used.

The continuing role of private equity – and the availability of acquisition finance

It remains the case that private equity funds and their portfolio companies are active participants in most intermediary processes we see, and that funds (private equity or other) with longer time horizons are similarly active in many processes involving carriers.

Investment funds (and trade buyers utilising acquisition finance) continue to benefit from borrower-friendly terms. We are seeing a softening in mandatory prepayment provisions, and "covenant-lite" loans (i.e. a reduction in the financial maintenance provisions that would ordinarily require a borrower to meet certain performance standards and/or restrict a borrower from taking certain actions). Incremental facilities are also common.

Diligence

Diligence, as we have previously written, tends to be ever more extensive. The increasingly regulated environment requires an advisory team that can distil and advise on the important issues, both so as to streamline and expedite a time-consuming and expensive process, and to minimise time negotiating warranty and indemnity protection.

This has always been the case, but given recent regulatory changes and the focus of the regulator, this has become ever more important.

Recent auction and bi-lateral experience

The deals we are seeing fall roughly half-and-half into auction or bilateral processes.

Even where there is an auction, we are seeing the quantity of bidders being whittled down to a relatively small number fairly quickly. That can be for a range of reasons (and, as is often said, all deals are different).

Our own observation – personal and anecdotal – is that bidders remain reluctant to spend considerable time and money without a degree of deal certainty.

That said, we are seeing bidders engage in full mark-ups of auction sale documents perhaps more readily than a few years ago, although the majority are still reluctant to do so (or engage in detailed diligence) without a degree of certainty about exclusivity, or that they are one of a limited number of active auction participants.

What interests us as deal lawyers is the range of approaches being taken by bidders and their advisers to marking-up auction sale documents.

Almost all bidders seem happy to commit to purchase warranty and indemnity insurance, but there is different treatment as to how much "skin in the game" bidders require. In recent years we have had some bidders require very little (practically nothing in some cases) through to quite a considerable amount.

An interesting recent development is seeing certain bidders not prepared to purchase a buyer-side warranty and indemnity policy. This can cause real problems on a transaction where vendor due diligence has not been undertaken, as arranging a seller-side policy can be difficult.

Bidders in auctions tend to avoid seeking to introduce many conditions to completion beyond the necessary regulatory approvals.

Certain bidders, even in an auction, are clear that they will not proceed without some degree of protection beyond undertakings as to how the target business will be run during the period between signing and completion.

That can take the form of a material adverse change clause (where US and UK practices can be very different, as we have commented previously) or termination rights where breaches of pre-completion undertakings occur.

From a buyer's perspective, there is a real art to marking up auction sale documents so as to achieve the necessary degree of protection through warranties, undertakings and conditions while not giving the impression of striving for the perfect buy-side legal deal or of being difficult to deal with.

Once price is neutralised as a factor, achieving that delicate balance can often be the key to winning exclusivity.

JAMES MEE is head of corporate insurance and financial services at RPC

DAVID WALLIS leads RPC's private equity work in the financial services sector

FLYING THE LLOYD'S D&O BANNER

Mark Peeters, CEO of StartPoint Executive Risks, details the current state of play in the D&O market

Insider Quarterly: **How would you describe current market conditions for directors' and officers' (D&O) insurance?**

Mark Peeters: We write in-bound domiciled US accounts on behalf of various syndicates in the market and, having started writing in 2015 and looking at existing conditions, I would suggest that at the moment the market is hardening to an extent.

There is a degree of re-underwriting of the D&O portfolio by some of our competitors, which means in practice that some carriers have been cutting back headline limits, causing a slight capacity crunch – although there is still undeniably plenty of D&O capacity available. So where a carrier might, say, have been offering \$15mn or \$25mn in limits, they are now offering \$5mn or \$10mn limits.

In terms of demand, headline security class action lawsuits, which are a real driver of demand, are moving to very high levels, with over 200 filed in the first half of 2018 alone.

With that many first-half lawsuits, the total by year-end could conceivably be over 400, which would represent a 100 percent increase over the 1997-2017 annual average. It's also important to note that many of these are so-called "mega-filings" where the disclosure dollar loss is projected to be over \$5bn, so they are significant.

Also, bear in mind that these figures also come on the back of higher-than-average numbers in 2016 and 2017. A recent analysis by Cornerstone Research (Securities Class Action Filings Continue at Historic Pace through First Half of 2018, July 2018) speaks to the possibility of 8.5 percent of companies listed on the New York Stock Exchange and Nasdaq becoming the subject of a filing this year if the first-half trends continue. It's easy to see why people are very nervous.

Add to this the uptick in mergers and acquisitions, as well as very robust IPO activity, and one can see that this is a very dynamic market.

IQ: **What has been your approach to pricing and the management of limits?**

Mark Peeters: We have our own underwriting strategy and have been very consistent in sticking to it. We underwrote our first policy in April 2015 and, through luck as much as judgement, the market has moved towards us, having accelerated towards where we think the right pricing point sits.

We have been disciplined and consistent in our underwriting approach so, where we have seen some carriers scaling back limits, that has given us an opportunity to participate on programmes where we feel comfortable.

At present, our headline limit is $25mn, though our average is closer to $7.5mn. We also judiciously employ our capital where we feel it makes sense to do so, looking at certain newer companies in the tech space which are maybe first-time purchasers [of D&O], and those working in the biopharma arena, for example.

IQ: How would you describe your growth trajectory since inception?

Mark Peeters: We didn't go out and hire a large team of underwriters from the start, as we have instead been disciplined, operating with two underwriters with very controlled activity, which has worked for us.

However, we are now getting to the point where we are looking at hiring new staff to facilitate our growth, which has been in excess of 50 percent from year to year since inception.

Part of that growth has been associated with a degree of acclimatisation, as brokers have become more comfortable with the StartPoint brand and philosophy over time.

We possess solid relationships with key broking houses in London, the US and globally. We believe that these relationships are a direct result of many years of trading together – relationships that only time can cultivate.

IQ: Where do you see the current opportunities in the D&O market?

Mark Peeters: Core to our strategy is continuing to work with US exposures and, in connection with this, another area we are examining at present is "reverse-flow business", which refers to non-US domiciled companies that are publicly traded on a US exchange and therefore have a heightened D&O exposure compared to companies being traded on the London Stock Exchange, for example.

We also see opportunities in other markets such as Australia and Canada and, looking more broadly as we scale up, we want to write more international business, although we will be very selective with risk selection as that market is thinly priced at present, in our opinion.

Our appetite is for writing both primary and excess business, working in the main with publicly traded companies, although we do consider the larger private companies.

IQ: Can you talk a little bit about your underwriting philosophy?

Mark Peeters: Our framework is built upon clearly defined guidelines as well as specific portfolio and cycle management strategies around individual risk selection criteria. As such, we have an underwriting mentality that demonstrates transparency with our clients and trading partners. We treat our partners' capacity as if it were our own.

IQ: What do you see as some of the most interesting evolving exposures for the D&O market?

Mark Peeters: It is important to be wary of some of the looming exposures out there, and to be selective in terms of expansion.

A good example of this would be in the "crypto" space where we see a lack of regulatory control in many parts of the world. At the moment it is a little bit of a Wild West and, as such, we are building up our understanding so that if we do become active in that space it is with our eyes wide open.

Not unsurprisingly to us and, again, according to analysis by Cornerstone, core filings related to initial coin offerings or cryptocurrencies continued to rise in 2018. There were five such filings in the final months of 2017 and seven in the first half of 2018.

Cyber security is also a hugely important issue and, for any D&O writer, it is vital to ascertain if the board of directors of a company are truly aware of the cyber exposures it has, and the security protocols etc. that they have in place.

IQ: Are you looking at opportunities to expand into other lines beyond D&O?

Mark Peeters: We are actively seeking opportunities to expand into different lines, yes. In June, we launched the first of these, a financial institutions practice under the StartPoint banner, which includes a full suite of products: D&O liability, errors and omissions, bond, crime and employment practices liability.

We are using a similar strategy to that of our original D&O offering and playing the slightly longer game – establishing our brand and presence with modest yet market-leading talent and capital, so that when the market changes in our favour we are then ready to go to market in a more meaningful manner.

IQ: The Lloyd's market is currently experiencing a degree of criticism from certain sections of the media following a mixed set of recent financial results. How confident are you in the strength and viability of writing on behalf of certain syndicates at Lloyd's?

Mark Peeters: We have absolutely zero hesitation in writing on behalf of various syndicates at Lloyd's. We are part of a small market within Lloyd's that writes D&O for in-bound US domiciled accounts, and it's important that all of us are active as that provides a healthy Lloyd's market. Over the last three and a half years we certainly feel that we have been a positive addition to the US D&O space which is written in London through the Lloyd's market.

StartPoint Executive Risks is the professional liability-focused MGA of Lloyd's coverholder RSG Underwriting Managers Limited.

KEEPING AN OPEN MIND

While Citadel Risk has taken a ratings hit from US commercial auto business, CEO **Tony Weller** says the firm is adaptable enough to keep finding opportunities in a continuing soft market

***Insider Quarterly:* Can you explain the rationale behind the recent AM Best downgrade, and do you think it is reasonable?**

Tony Weller: AM Best's revised "stochastic credit rating methodology" has adversely impacted Citadel's rating for the December 2017 year end. We understand we would have kept our rating had they used their traditional method, and we are still wrestling with making a record profit and getting downgraded. It's a bit like we're defending goal posts that have both moved and become further apart.

AM Best's new rating methodology encompasses four building blocks – balance sheet strength, operating performance, business profile and enterprise risk management. The balance sheet strength block provides the baseline credit rating (e.g. A-), based on a quantitative determination of business risks and the capital adequacy, and this rating is adjusted up or down by the scores given by AM Best to each of the other blocks. For example, the rating from the operating performance building block could result in a rating between two notches higher or three notches lower.

Although AM Best has not yet provided Citadel Re's actual scores from each building block, our discussion with the agency's analysts enables us to provide commentary on how we believe the new rating methodology adversely impacted us.

In short, Citadel Re's continued, very good baseline credit rating relating to our balance sheet strength was significantly impacted by two of the other blocks:

AM Best now looks back over five years and effectively double counts the impact of the adverse development of two programmes written between 2012 and 2014 on Citadel Re's results (balance sheet strength and operating performance),

The rating agency currently has a generic dislike of US commercial auto liability business (business profile), which is the major business line of our principal US operating subsidiary, American Millennium Insurance Company, and has marked us down as a result. Also, in our opinion, insufficient credit is given for the fundamental changes to the group's underwriting programmes and business profile since 2015 and the stability provided by Citadel's non-underwriting risk revenues (business profile).

***Insider Quarterly:* Has the downgrade affected your risk appetite for US commercial auto?**

Tony Weller: Well, one of the qualitative factors AM Best took into account is its belief that US commercial auto is an inherently risky class of business. A lot of companies have had their fingers badly singed by it, so you can understand their concern.

I'd like to think we've always been pretty careful what we wrote even before AM Best's misgivings on the topic, but I think we probably need to be even more selective. They've warned us and if we write a poor risk in the future, the chance of us being upgraded (despite other results) will be compromised.

***Insider Quarterly:* Have you lost any clients as a result of the downgrade? What parts of your business might be affected by this?**

Tony Weller: We have not lost any yet, but I expect we will. The obvious ones are going to be ones where we are only fronting, and they only really want us involved as we had a A- rating. All our clients, without exception, are very supportive as they deal with us whatever the rating, but there are some cases where I expect to meet some resistance.

***Insider Quarterly:* Do you think you can get Citadel Risk back to an A- rating? What needs to be done and how long might this take?**

Tony Weller: The rating agency is telling us it is quite possible, but we made a record profit in 2017 (and a healthy half-yearly profit in 2018) and that was not enough. That said, it has told us what needs to happen.

AM Best's concerns over consistent operating profit is valid enough, and if we keep posting decent combined ratios, our argument is going to be pretty good.

There are a few strange things that turn up, our BCAR (Best's Capital Adequacy Ratio) suffers from using rated reinsurers over unrated carriers that post cash collateral. I sort of understand the logic of that, but then regulators don't really like it, so you're damned whatever you do.

Adjusting our appetite for commercial auto is another action we can take, but our current programmes (as opposed to those in run-off) are running well, and we own a company in the US that doesn't do much else, so it is a bit of a balancing act.

Our BCAR score is still safely in A- territory but qualitative factors have worked against us.

***Insider Quarterly:* Citadel Risk was first founded in 1978. How has the company evolved since then and what is now its key client proposition?**

Tony Weller: In the old days, it was primarily confined to old-style "time and distance" programmes, but FASB113 and the Spitzer investigations were some serious nails in the coffin of that type of business. Happily, at that time, it was easier making money on investment income, so we were at one stage more of an investment entity in truth.

We then started writing a number of smaller run-off programmes that went very well, and the competition for the smaller deals was not as intense as it is today. While some of our programmes were administrative, most involved risk transfer, but the pricing became more and more problematic.

We started writing more prospective business which became a bit easier when we decided to get a rating which opened up a whole new inventory of possibilities.

Since then we have become quite diverse. We write traditional and so-called niche reinsurance programmes, assume run-off risk, and derive service income and investment income – which of course has been drying up over the years.

***Insider Quarterly:* How would you describe the current market environment for reinsurers? How does your firm position itself in the current conditions?**

Tony Weller: Being small and adaptable, I think life is a bit easier for us in some respects than for larger reinsurers. The market is generally soft of course, but there are pockets where some money can be made. It is true that we don't have the capital base of the Munich Res of the world, but, then again, we don't have to write business. If the market is that soft, we are better off looking for something else to do.

***Insider Quarterly:* As mentioned, you're also a player in the legacy market. How do you think that market might evolve and how will Citadel Risk choose to participate in that market?**

Tony Weller: The legacy market is unpredictable. We saw a lot of opportunities at the beginning of the year, and now it seems very quiet. I would not read anything into that, and I don't think there is any reason, it's just that we don't really chase it that hard.

During our last tender, I thought we had dropped the price a bit too much but also thought the deal had some potential. However, one of our competitors was about 40 percent cheaper, when we had always been historically very close. That could have been an aberration of course, but people are fighting hard for the business. If it is super-competitive it is better not to do it at all as we'll only end up losing money, and you can't really derive any investment income if there is a tail on the business. We are seeing some good ones though.

***Insider Quarterly:* Are you seeing any other opportunities in the wider (re)insurance market?**

Tony Weller: Everybody calls us "niche" and I guess that is a fairly accurate description. What that does mean is that it is hard to give a satisfactory answer to that question.

Opportunities tend to be "random" or unpredictable – for example, we wrote a mobile phone warranty programme earlier this year. We had always seen plenty of these, but they always seemed to me to be fairly marginal and I had been wary of it as a class of business. Yet, here we are now having written one.

Now it's possible we've got this one wrong (although so far, so good) but I just tend to keep an open mind. While most people don't want to write Italian medical malpractice, it doesn't mean there aren't some good ones out there.

***Insider Quarterly:* Where would you like to see Citadel Risk in another 10 years' time?**

Tony Weller: I don't see it being much different to how it is today. That presupposes that "things" remain the same, and that I cannot predict.

Tony Weller, CEO of Citadel Risk Group

WINNING THE RACE

Risk Theory founder **Bryan Wilburn** tells *Insider Quarterly* about developing the winning methodology for standing out in any given space

Texan entrepreneur Bryan Wilburn founded Risk Theory in 2013 after the sale of his previous insurance startup venture, Southwest Risk.

Taking an insurance startup to a market-leading position is no small feat, but the serial entrepreneur and CEO of Risk Theory is five years into his second underwriting venture. Dallas-based Wilburn formed Risk Theory in 2013 as a managing general agent (MGA) with a difference.

"Oftentimes an MGA underwrites on behalf of an insurer, with the insurer's terms, authorised to write designated business, churning quote after quote," Wilburn says.

"What we do differently at Risk Theory is step into the shoes of the insurance company.

> "It is important for our business to diversify our production sources. From a business risk perspective we want to develop business from multiple sources"

"They contribute their balance sheet, and we identify, recruit and hire best-in-class underwriting talent, develop underwriting tools for risk selection and pricing, implement loss controls, and facilitate efficient claims management."

He notes some important factors in how to do this successfully. The first one of these is developing specific areas of expertise.

"We take our underwriting value to niche insurance markets, build the business to a market-leading position, and ultimately look to transact and sell the business. When the right opportunity presents itself, we will entertain it," Wilburn says, explaining that the time period for disposition is not specified.

He lists some "niches" as top sectors for his business, led by auto dealers' business – his largest underwriting segment – operating on behalf of two insurers. Risk Theory underwrites "garage packages" offering compilations and dealers' open lot for thousands of US auto dealers.

Construction risks are another niche for Wilburn, while a third area he emphasises is residential property, which Wilburn successfully developed at his previous venture. He founded Southwest Risk in 2004 before its acquisition by ClearView Risk Holdings in 2010.

"I took Southwest Risk to a market-leading position by 2008-2010, and gained invaluable knowledge and experience in the habitational property marketplace," Wilburn explains. "That success continues today at Risk Theory, by employing lessons learned over decades of understanding risk better than competitors in niche markets."

Top athletes

Talent is another key to winning the race in this growing list of niches, according to Wilburn. He likens top talent to athletes on an underwriting field.

"We identify, recruit and hire the best athletes at every position," he says. "We are strategic to engage the best underwriter in any given business segment, and help each of them develop the winning methodology to allow us to stand out in a niche market."

There is no place for generalists in this strategy. "It is commonly the case that insurers' underwriters are generalist in the multiple classes they pursue, and therefore they often struggle to underwrite niche industries profitably," notes Wilburn. "Conversely, we intend to hire the smartest, the brightest and the best athletes from within the market, to develop our underwriting platform, and to bring innovation within the targeted niche marketplace."

Because Risk Theory is more than just a typical MGA, innovation is not restricted to recruiting underwriting expertise.

"It's great to break new ground and do things differently, and in some circumstances do things the right way rather than the way things have always been done, which may no longer be the right way. In the automotive space, for example, we believe we are the best at claims handling, at risk pricing, in our efficiencies in issuing new business, and for creativity in our distribution," Wilburn says.

Asked about the challenges and rewards of entrepreneurism, Wilburn returns to the topic of talent, its recruitment and retention.

"Communicating the vision necessary for keeping people on track is a challenge, particularly as circumstances can change and influence the vision," he emphasises. "I would not rule out a change to strategy when new circumstances dictate the necessity to manoeuvre."

He also stresses the importance of gauging the right level of oversight and control for each business leader within the company, agreeing with Steve Jobs' maxim that you do not hire the top people in their field just to stifle their creativity.

"I want to watch our leaders develop in the business," Wilburn says. "It would be foolish of me to hire the smartest guy in the room and then tell them what to do. I want to hire the smartest person in the room and let them use their gifts and talents to do what they do best."

Diversity and differentiation

Risk Theory's principal strategy has been all about acquiring talent rather than buying rivals. However, Wilburn does not rule out the option of M&As in the future.

"We have not acquired, but it isn't that we wouldn't do so," he says. "Our governing strategy is not to go acquire other businesses, but to hire and develop the best talent to build the best business, differentiate ourselves from the market, and underwrite profitably on behalf of an insurer's financial commitment."

The M&A environment is important to the timing of divesting Risk Theory's business. "Whether it is a silo or a compilation, our appetite

> "We intend to hire the smartest, the brightest and the best athletes from within the market, to develop our underwriting platform, and to bring innovation within the targeted niche marketplace"

to dispose of the business is driven by the M&A marketplace," adds Wilburn.

He sees the logic for some of the insurance M&A deals taking place, particularly when an acquirer can leverage the business, structures can be too small to achieve operational benefits of scale, or because businesses need funding to maximise growth opportunities.

"If we were looking at an M&A opportunity, we would look at businesses where we can improve the underwriting discipline and their operations. We would look to deploy the same organic things we do on a day-to-day basis," says Wilburn.

Despite ongoing consolidation in the broking space, he sees an environment where there is still considerable choice among intermediaries, whether among retail or wholesale brokers.

"There are tens of thousands of independent insurance agents out there, operating with various degrees of effectiveness," Wilburn notes. "There are the geographically centred agencies, and those focused on specific types of business, like restaurants, auto dealers, or property. The marketplace is large and still has a lot of fragmentation."

This is a good thing, he emphasises. "It is important for our business to diversify our production sources. From a business risk perspective we want to develop business from multiple sources."

Scale is not Wilburn's primary focus for his own business. "We would rather have a smaller business that produces an underwriting profit rather than a larger business that is losing money," he says.

Risk Theory's capital allocation depends on the proper fit between the market and a particular insurer. "Our next capital commitment goes to the next insurer that has an appetite for the right business niche," adds Wilburn.

Paramount to Risk Theory's strategy is a deep understanding of the chosen niches of businesses it underwrites on behalf of its insurance backers.

"We focus intently on ways to better select and price risks, to develop terms, and to develop claims services that allow our underwriting partners to earn an underwriting profit," Wilburn concludes.

Bryan Wilburn, founder and CEO, Risk Theory

FITTER, HAPPIER, MORE PRODUCTIVE

A healthier boss means a happier staff and a stronger business, argue **Cameron Harris** and **Tony McCarthy**

It's true that success in the city comes at a high price. Thankfully, our health is one of the few things where, if we sacrifice it, we can recover it to a certain degree. There's only so much time to make your mark in the world and if that is at the expense of your health, you're the same as 95 percent of your peer group.

A recent study by Dr James Rippe, former associate professor of cardiology at Tufts University School of Medicine, and founder and director of the Rippe Lifestyle Institute, examined 200 patients – of whom three quarters were Fortune 500 executives. The findings revealed that 73 percent of the study's participants were living a sedentary lifestyle – which can lead to diabetes, heart disease and many other conditions. To make matters worse, 80 of the 200 patients studied were obese.

It is clear from these alarming results that execs pay the price and it is their health that suffers. However, these issues are preventable and reversible if caught and understood quickly enough.

As age rejuvenation specialists, we deal everyday with the first-hand effects of ill health, and the knock-on effects can be disastrous to the individual, their business, their associates and their family.

Apart from shortening an individual's potential life span, they are also at risk of reduced quality of life – meaning hospital trips, doctor visits, medication and illness.

Bad habits

It's a horrible moment when you wake up in the morning and realise you can no longer do the things you love. It's unfortunate to say, but many execs fall into a habit that they can never get out of, due largely to cultural pressures and social obligations, but also because there is a huge lack of knowledge out there.

I meet few execs who know how many calories their bodies need during the day to stay healthy, and even fewer of them can tell me the right type of movement patterns which will work for their bodies to keep them strong, agile and fit. They often come to the gym as absolute beginners.

Well, the future is changing. There is huge growth in the health and wellbeing sector, driven by the demands of a younger work force.

But, I hear you cry, why is it just the young ones that get all the health benefits?

> “When your team gets into the office and the CEO is happy, smiling and full of energy after his morning workout and a healthy breakfast it inspires the team. It creates a positive shift in the team mindset”

We have found there are more significant blocks to health and wellbeing for execs. Executives have different demands than their associates, and the average gym's fitness advice simply isn't good enough, causing immediate disengagement.

Another massive block is the prospect of being stuck in an exercise room for an hour with the colleagues you are trying to create a bit of distance from. The gym is a place for personal time – and it's not very personal when you have your entire work team sweating it out next to you.

That's the problem faced in many commercial gyms – and they are all certain to be commercial, wherever your office is based. No matter where you go in the fitness world there is rarely an executive option, which is strange considering you have executive bars, members' clubs and even aeroplanes.

Shifting mindsets

At Truth Gym we have spent the last 10 years looking for the answers and working out the chinks in the executives' armour. From getting the right mindset shift to creating easy-to-follow meal guides and confidence-boosting, body-transforming workouts, we have it covered.

Everyone loves to see a good return on an investment. Well, the body is the only home we ever truly own, no matter where we are in the world – and it's the only investment that guarantees a return.

In my world, I'm used to helping executives get back 10 years or more of their life that has been lost in the world of business. We do this by creating long-term, suitable plans that cater for the needs of executives who travel constantly, regularly have urgent meetings and social engagements, and simply don't fit the same box as everyone else.

From the luxurious setting of our facilities to the workout plans tailored to the client's goals and lifestyle demands, we are achieving great success at the executive level.

Take nothing away from this. Time is our friend, not our enemy. Why rush towards an early grave when we can make the most of life?

It's clear to see that the insurance market has to evolve on some level. The culture of entertaining is a massive part of business development and networking, but the negative affect it has on your health is quite obvious.

The long game

So what's the solution? How can we bring real-world, tangible improvements to the health of the city's execs while maintaining business development and social benefits?

We believe the following points are all great advice.

It all comes from the top down.

CAMERON HARRIS is a director of Truth Gym

TONY MCCARTHY is a director of Truth Gym

Having worked with a large number of insurance CEOs and senior executives, we know that a change in culture starts with the boss.

We have experienced this first-hand. When your team gets into the office and the CEO is happy, smiling and full of energy after his morning workout and healthy breakfast, it inspires the team. It opens up a conversation that may not have happened before; creating a positive shift in the team mindset and driving the team to feel the benefits of health, just as the boss has.

Small steps make all the difference. Some of you may be reading this feeling overwhelmed by the ideas and thoughts running through your head – the prospect of spinach and broccoli smoothies, no more pints, and drinking five litres of water a day.

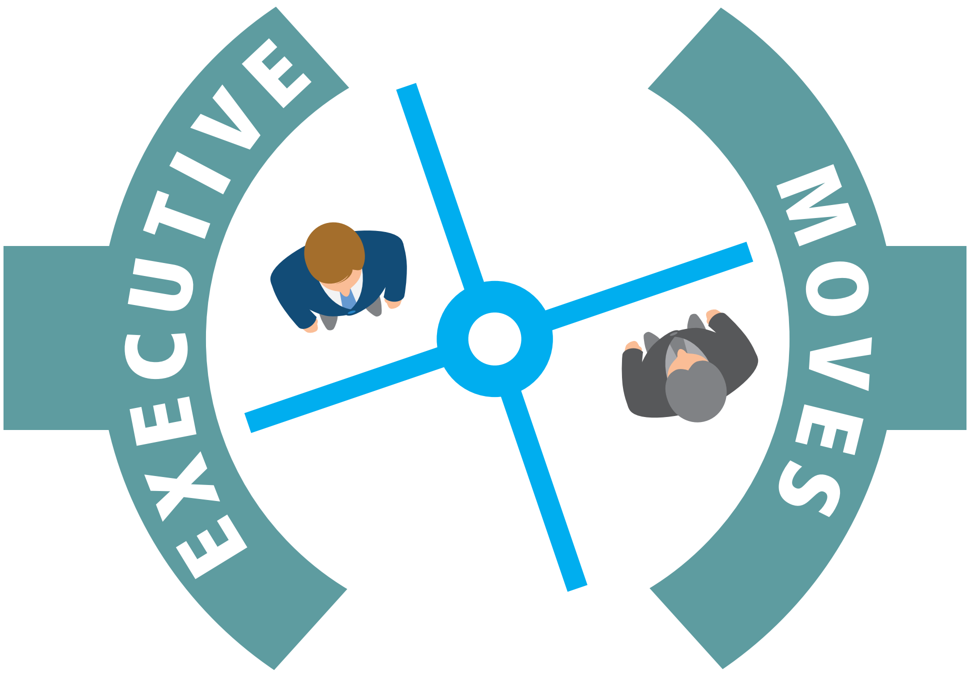
The truth is this – that's not the reality of what actually works. Huge shifts, new protocols, big changes in policies and a free Virgin Active membership isn't the answer either.

It is the small changes that matter; opening up healthier options in the canteen, creating a programme of health and fitness that is bespoke to your business and which works for you and your staff – one that is fun, engaging and rewarding.

Think about the long game. The city is in a phase of transition and – let's be clear – this isn't going to be an overnight shift.

What changes are you going to make as a CEO, as a senior executive and as a business, that are going to benefit everyone over the next five, 10, 25 years?

This is all about collaboration, and having a conversation. We are at the very start of the journey of creating the business of the future.



The ins and outs of the executive job market

Dominic Burke and Lucy Clarke

JLT Group CEO Dominic Burke will become chairman of the merged Marsh and JLT specialty teams, in addition to becoming vice chairman of Marsh & McLennan Companies (MMC). At the same time, JLT Specialty CEO Lucy Clarke will become president of the merged entity, Marsh-JLT Specialty, reporting to Marsh president and CEO John Doyle.

Jürgen Gräber

Hannover Re executive board member Jürgen Gräber has died unexpectedly, aged 62. Gräber joined Hannover Re in 1981 as an underwriter, rising to vice president, managing director and, in 1997, to his most recent role. He was responsible for coordinating the P&C business group, as well as worldwide treaty reinsurance, catastrophe excess of loss, structured reinsurance and ILS.

Mark van Zanden

Mark van Zanden is stepping down from his role as chief executive of underwriting capital management for XL Catlin, and is expected to leave by the end of the year. Prior to the firm's acquisition by Axa, he controlled a major portfolio of ceded reinsurance, with $4.3bn of premiums in 2017, across XL Catlin's insurance and reinsurance segments.

John Hendrickson

StarStone has confirmed the appointment of John Hendrickson as group CEO, taking over from Demian Smith. In his previous role, Hendrickson was director of strategy, risk management and corporate development at Validus Group. Smith resigned as group CEO in September.

Peter Bilsby

AIG has appointed Talbot CEO Peter Bilsby as global head of specialty. Bilsby will remain in the CEO role until a successor is found. Talbot became part of AIG as part of its $5.6bn acquisition of Validus, which was completed in July. Before becoming CEO, Bilsby was managing director of Talbot and director of underwriting.

Rob Wyatt

Rob Wyatt, long-time CEO of MS Amlin's Bermuda branch, left the carrier at the end of October. In a statement, MS Amlin said it had taken a strategic decision to replace the Bermuda CEO position with the newly created role of CUO, Bermuda. Wyatt took up the CEO role in 2012.

Andy Bragoli

Andy Bragoli is to replace Barnaby Rugge-Price as CEO of Hyperion Group subsidiary RKH Specialty. Bragoli was previously deputy CEO. His appointment follows that of Rugge-Price as CEO of newly launched in-house InsurTech operation Hyperion X. Elliot Richardson – who will continue to lead RKH's reinsurance business – will become chairman of Hyperion X.

Greg Wolyniec

Ascot has appointed Greg Wolyniec as president and CEO of its newly launched admitted and excess and surplus lines carrier, Ascot Insurance US. Wolyniec first joined Ascot in 2017 as group head of strategy. Prior to this he held a number of senior leadership roles at AIG, before taking the helm of a technology start-up.

Dinah Gately

Dinah Gately has resigned as CEO of Vibe Syndicate Management to be replaced by Joe England, currently CEO of Vibe's parent entity Syndicate Holding Corp. England is now CEO of both entities. Gately will remain with the Lloyd's business into 2019 to facilitate a "smooth transition" of leadership.

Mike Reynolds

Meanwhile, JLT Re CEO Mike Reynolds is to depart, as MMC continues putting a senior team together following its acquisition of JLT. Reynolds "decided not to accept the position prospectively offered to him" at Guy Carpenter. He joined JLT in 2012 as financial director and has been global CEO of JLT Re since 2014.