iQ
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ROBOT REVOLUTION

AI-driven pricing is transforming insurance

SPINNOVATION

Welcome to the 'Innovation' issue of *Insider Quarterly*!

Innovation, I'm sure many of you will agree, is a much over-used word in the (re)insurance sector, not because it isn't needed and not because the industry isn't capable of it, but – as with phrases like 'efficiency', 'transformation' and 'electronic placement' – the reality of what's actually happening on the ground sometimes lags far behind the rhetoric.

Also, it can be a hard term to define – hence the meaningless stock photo of somebody apparently levitating a light bulb, while somehow illuminating it sans electricity (with the power of their mind, no doubt).

And let's be frank, there is a lot of waffle talked about innovation to mask the fact that it's actually "business as usual" and nothing new is really happening.

But in an environment where there is greater scrutiny in all areas, true innovation is becoming a necessity for many market players.

Investors and shareholders are watching companies carefully to make sure they are keeping costs under control and delivering promised returns.

Regulators are scrutinising every area of the market to make sure that true competition exists for buyers of (re)insurance products.

The Lloyd's market, which recently said goodbye to its own great innovator – former chairman and co-architect of the Reconstruction and Renewal process, Sir David Rowland – is keeping a watching brief on syndicates to ensure they are writing profitable business

And counterparties at every stage of the (re)insurance process are watching each other to make sure they are getting the best out of their portion of the deal.

In all of these areas, there is scope for innovation and, to give the sector its due, the (re)insurance industry has always had to innovate to stay relevant to its client base.

So it is that Bernard Goyder's lead feature, on the equally popular topic of InsurTech, details a number of ways in which standalone InsurTech companies, in-house ventures and partnerships between brokers, carriers and technology firms are making some real progress in introducing meaningful innovations that will shorten the (re)insurance value chain, speed up claims and cut costs.

But innovation isn't just about cutting-edge technology or companies with unsightly names (where syllables have been replaced with single letters in a bid to look more urgent and contemporary). One of the biggest innovations in the sector in recent years has been in distribution, with the growth of the MGA. The jury is out on whether we have reached peak MGA and whether the promised benefits of cost reduction, agility and speed to market are all they have cracked up to be.

One thing is for sure – new MGAs keep appearing and, as Catrin Shi details in her feature on the topic, this growth in competition coupled with some challenging market dynamics mean that some pretty innovative underwriting is required by those MGAs that want to stay in business.

We have not one, but two opinion pieces on the cyber sector!

Overkill, you might feel. However, this is one topic where innovation quite clearly needs to be brought to bear on current market practice.

As Laura Sanicola's article details, more dedicated cyber wordings are being brought into play in the market but, as she hints – and Shirley Beglinger's subsequent article explores, the area of so-called 'silent cyber' threatens to overwhelm the market if these risks if not swiftly addressed.

We also have a host of technology, legal, investment and consultancy writers giving their own take on innovative approaches to managing the business of (re)insurance.

Let the innovation commence!

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ROBOT REVOLUTION

Machine learning and AI-driven pricing has huge significance for the insurance and risk management world – and drone use is just the beginning. Bernard Goyder investigates

How do you work out the price of insurance for a fleet of drones all flying at different times, in different places, with different wind conditions, some flown by experienced pilots, others by rank amateurs?

It sounds impossible.

But live pricing has become a reality for advanced insurance buyers, and drones are just the start.

Flock is a London-based InsurTech which underwrites on behalf of Allianz Global Corporate & Speciality.

Flock's CEO is 26-year-old entrepreneur Ed Leon Klinger, who tells *Insider Quarterly* that artificial intelligence (AI) makes it possible for the company to rapidly interpret huge amounts of information.

"We take in 50,000 flights of data, split them up and quantify the risk of every one of those flights," he says.

Since January 2018, Flock has been gathering data on around 1,500

Continued on page **08**

commercial drone users that have used the InsurTech's app to buy cover.

If a pilot wants to fly on a windy day, their insurance will cost more, while a flight at rush hour over a road will have a more expensive premium than the same flight a few hours earlier.

"It's not just the data. It's the interpretation of the data," Klinger explains.

The company has pulled the views of risk assessors into its pricing model. Flock also has its own claims experience to work with, having been selling insurance on its app for more than a year.

"At Flock we believe the technology we've built has massive implications outside the drone industry," Klinger adds.

Although the entrepreneur refuses to be drawn on other lines of business the startup is exploring, general aviation insurance is one clear area where real-time, pay-as-you-fly insurance can make its mark.

At its core is the power InsurTech can bring to solving a very real problem facing insurance: data quality.

But the implications of AI-driven insurance pricing ripple out into the wider waters of how companies manage risk.

External data

At the heart of changes happening in the insurance industry is the idea of enriching the underwriting process with useful information pulled from outside sources.

Underwriting using external data doesn't just make life easier for the insurer, it makes life easier for the client.

As CEO of Munich Re Digital Partners Andrew Rear explains: "One of the most frustrating things about insurance is you have to answer all these questions.

"The great thing about using external data is we don't irritate the customer."

Azur, an AIG-backed InsurTech that underwrites UK high net worth insurance, is a good example of the benefits of using external data.

Once a broker has pumped a customer's address into Azur's new pricing system, the company knows the age of the property, its value, and even any planning applications the owner has submitted to their local council.

Small business cover

For the US small and medium-sized enterprise market, Munich Re-supported InsurTechs are scraping data from sources like Yelp and TrustPilot.

SME startup Next Insurance, part of the Munich Re Digital Partners network, has run "a whole bunch of experiments" using external data to price risk, says Rear.

Munich Re's traditional reinsurance business is also doing tests with incumbent insurers that cede risk to the reinsurer.

According to Rear, it is often easier to feed new data sources into InsurTech startups than with existing insurers.

"These integrations with modern data systems are quite easy to do, with legacy systems they are quite hard to do," he explained.

For high-volume, low-value lines of business like personal lines and SME commercial, it makes a huge amount of sense to pull in external data to aid underwriting.

Meet the robots

For external data to be useful, it needs to be interpreted properly.
This is where artificial intelligence comes in.

AI refers to any attempt to simulate human-like intelligence, encompassing everything from a robot that can play football to a chat bot which can pass the Turing test and appear human.

In data science, AI can teach itself how to interrogate huge stacks of data.

Machine learning is a branch of AI which leverages existing statistical models. Artificial Neural Networks were first proposed in the 1960s and, with today's computing power (specifically, the very same hardware used to run computer games) can be used to "learn" the patterns behind massive data sets.

Machine learning isn't really new. As Charlie Blackburn, chief technology officer of AIG-backed InsurTech Azur puts it: "Machine learning is really just 25-year-old Bayesian mathematics".

Londoner Thomas Bayes was a Londoner who died in 1761 and is buried next to Silicon Roundabout, the area around Old Street station in the UK capital which is popular with tech startups. He gives his name to the branch of statistics that seeks to find answers in oceans of data.

Although mathematicians have long theorised that it is possible to find predictive patterns in vast data sets, it is the advance of cloud computing over the past five years that has given data scientists more processing power at their fingertips than ever before.

In some lines, like direct motor, machine learning is already being used to price risk. For others, it is only a matter of time.

"In almost all lines, machine learning is going to transform underwriting," Rear notes. "We're

InsurTech innovators

InsurTech	Total funds raised	Lead Investors
Azur	$14mn	AIG, Hyperion X
Carpe Data	$6.6mn	Aquiline Technology Growth
C-Quence	Undisclosed	Primary Group
Cytora	$8.8mn	QBE Ventures, Starr
Digital Fineprint	$3.1mn	Eos, Pentech Ventures
Flock	$4.4mn	Anthemis
GeoSpatial Insight	$5mn	Foresight Williams, VenturesOne
Next Insurance	$131mn	Ribbit, Munich Re, Redpoint
Omnius	$27mn	MMC Ventures, Anthemis, Talis

Source: Crunchbase

already using it in small business."

Indeed, machine learning is already widely used across the insurance industry in highly commodified lines like UK motor.

Digital Fineprint, a London-based InsurTech, is getting rather good at scraping and processing information from the internet. The company scoops up online data sources like the UK's Companies House, social media and online reviews to help insurance companies price risk and brokers find new sales leads.

The InsurTech's founder Erik Abrahamsson launched the company out of business school, having previously worked at Twitter.

"We read reviews about businesses, we take in sentiments analytics and compare it to [insurers'] internal data. We allow underwriters to become more like a partner," he says – in many cases giving them more information than the client would have access to themselves.

Abrahamsson's vision of the insurance industry is one where the underwriting role itself is increasingly taken over by actuaries and data scientists building pricing software.

The role of an underwriter then becomes much more about working with clients to manage risk.

Moving up the value chain

But machine learning and AI are no longer just helping retail and SME insurers. The technology is rapidly moving up the value chain to help mid-market commercial insurance and wholesale and specialty cover.

Richard Hartley is co-founder and CEO of Cytora, an AI-driven InsurTech that has taught its models on high-frequency business lines like property insurance for restaurants, working with the likes of Starr Companies and QBE.

He says Cytora's machine learning processes are getting better through time, the more data they ingest.

The startup sells a tool to underwriters that scans broker submissions, ranking them by the quality of the risks, with analysis by a cornucopia of metrics – from the state of a firm's financials to the distance to the nearest fire station.

The likes of Cytora, Digital Fineprint, Omnius and Carpe Data all offer routes out of the current crisis in underwriting, acquisition costs and expenses facing the industry.

Taking Lloyd's as a microcosm of the commercial and specialty scene, the market's combined ratio has worsened over the last seven years – a period in which deterioration in non-cat claims was flattered by an astonishingly benign period for cat events.

Meanwhile, a company like AIG is grappling with the consequences of its "large limits" policy for the firm's profitability.

Insurers worldwide are changing the way they underwrite. Carriers are looking closely at the way brokers are paid amid scrutiny from regulators. Meanwhile, the back office is an area where costs have to come down if the industry is to recover profitability, as global warming threatens to increase cat claims.

Technology can help address all these challenges.

The marine market, for all its glorious ink-stained tradition, has been one of the worst culprits for embracing technological change.

The Lloyd's mariners mutinied two years ago, when electronic placing was first introduced in the London market.

But under pressure from clients, some senior figures in the marine insurance market have embraced change.

A marine blockchain initiative by Maersk and EY is now supporting more 500,000 transactions on the blockchain, insuring 1,000 ships.

AI technology is being deployed by marine InsurTechs like Windward and Concirrus. Both firms are applying machine learning to publicly available data sets, as well as from completely fresh sources such as satellite data.

Taking over

So should brokers and underwriters fear the rise of the robots?

Almost every technology entrepreneur quizzed for this story believes the role of the human underwriter remains crucial for higher-value risks.

Azur CEO Graham Elliott talks about the future insurance market as a world of "augmented underwriting."

Other startups, including the MGA C-Quence, are working on bringing analytics based on machine learning to the mid-market.

Both companies are targeted brokers – the very group with the most to fear from AI.

Azur operates in the high net worth market, while C-Quence writes on Arch paper in mid-market UK commercial lines.

In theory, if commercial insurance can be automatically underwritten by an algorithm, brokers and underwriters will be redundant – quite literally.

> "Machine learning and AI is rapidly moving up the value chain to help mid-market commercial insurance and wholesale and specialty cover"

At lower premium levels, startups like Next Insurance, and incumbents led by carriers like Hiscox, are proving the direct model can work. But in the mid-market, InsurTechs are so far focusing on making life easier for buyers, brokers and underwriters.

For Hartley, Cytora is all about giving underwriters more time and information to underwrite, helping them spend less time trawling through broker submissions.

For others, like Azur's Elliott, the broker is ultimately the one who understands their client best, and is in the prime position to cross-sell across multiple lines.

For example, the web platform built by Elliott's team allows a professional lines broker, perhaps visiting a client, to see if the director buying cover for their business wants to add on personal home and cyber cover for themselves. An address is pumped into an app, and two minutes

Continued on page 10

later a quote is produced.

Like most technology, the client doesn't actually care how the product works behind the scenes.

For canny brokers, these tools will help cement existing relationships and provide opportunities to push into new markets.

Reinsurance

Now for the big stuff. For reinsurers, AI can help carriers understand what it is they are actually insuring.

"Reinsurers just get incredibly poor information from their cedants," notes Hartley, who adds that Cytora delves into reinsurer's portfolios to monitor for large losses.

"Even if you're a reinsurer, you can still get the same information that a broker would [using the software]."

For example, he says, an insurer can find out every fire or flood claim in the UK on the system.

Using advanced machine learning and AI, once the data is aggregated, it is as possible for a retrocessionaire or a reinsurer to discover exactly what their risk is, building by building.

Geospatial Insight is another company that is using technology to help reinsurers. The InsurTech pulls images from satellites, light aircraft and drones to monitor risk around the world.

When the Fundão tailings dam collapsed in Brazil in January, with the loss of 169 lives and the destruction of around 100 buildings, Geospatial Insight was able to rapidly inform clients about what was happening.

"The imagery was supplied first, followed by the analytics, including an assessment of the potential damage or destruction of properties in the immediate region," a spokesperson told sister publication *The Insurance Insider*.

What companies like Geospatial Insight can do is use AI to monitor aerial photographs for signs of change at insured sites. "From a pre-risk perspective, underwriters can access enriched information on which to price and assess property risk."

The approach is especially useful for reinsurers, where risks are bundled up and further disseminated across the market into retro and facultative placements.

AI digital monitoring of a location can give carriers critical information about the changes to individual risks being underwritten within those portfolios.

> "If external data, analysed by robots, is to truly transform the industry, it must start at the point of purchase and not get degraded along the way"

"Continuous monitoring helps prevent disasters, such as the Vale [tailings] dam, as assets are evaluated regularly, using automated change detection techniques to identify asset degradation or signs of damage," the company said.

Geospatial Insight argues that, even before the Fundão Dam collapse, the structure was being undermined, with leaks visible from aerial imagery.

"Insurers are using this technology to better understand risks, take steps to prevent losses, provide loss estimates, support claims and inform future modelling."

For Adrian Jones, deputy CEO of P&C partners and head of strategy at Scor, there are now countless new sources of data to underwrite and manage risk.

"You can use this data to have a more intelligent conversation with the client about your client's risks," Jones says.

But, he warns, AI is "only as good as the data coming in".

So if robot-analysed external data is to truly transform the industry, it must start at the point of purchase and not be degraded along the way.

Once the technology being used by organisations like PPL, Whitespace, Digital Fineprint, Azur and C-Quence is commonplace in distribution and placing, (re)insurers can then start delivering real change to the industry.

Jones paints a future of insurance as one where the retro underwriter (who, for the sake of artistic licence, we will put on a sun-lounger on a beach in Bermuda) will have access to "the same high-quality risk data, scraped from all available public sources, as the retail broker in an office in Springfield".

There will be enough information for risk be properly traded across the value chain, making it easier for third-party capital to underwrite primary risks.

And then the robots can really come out to play.

Damage caused by the 2019 Vale dam collapse. SuperView Satellite image distributed by Spacewill

NATURAL SELECTION

With widespread scrutiny of underwriting performance and operating efficiency in the London market, **Catrin Shi** discovers why only cutting-edge MGA innovators will survive

The London MGA market is undergoing a Darwinian evolution.

After a surge of new start-ups in the thick of the soft market, a crackdown on underwriting performance by Lloyd's and the urgent need to reduce the market's expense base has put the squeeze on MGAs.

The result has been a flight to MGA quality, as paper providers have been forced to be more scrupulous as to who they give their pen away to, and at what cost.

MGA market sources described the 1 January 2019 renewal as one of the toughest in many years, with many MGAs needing to have difficult discussions with their capacity providers and, in a number of cases, scrambling to find new paper.

The concept of the survival of the fittest has never been truer for the MGA market.

So who will survive the rigours of natural selection?

It is widely believed that, in this new market normal, there is only room for those who are innovators.

The age-old raison d'être for MGAs will still hold true. Traditional carriers look to the intermediaries to provide a source of business they couldn't otherwise access, or provide them with underwriting expertise which isn't readily available elsewhere.

And MGAs will always be a welcome vehicle for those

> MGAs will always be a welcome vehicle for those entrepreneurial and ambitious underwriters for whom the start-up process at Lloyd's is too burdensome

A cross-section of a Nautilus shell. The species has survived relatively unchanged for millions of years.

entrepreneurial and ambitious underwriters for whom the start-up process at Lloyd's is too burdensome.

But who can execute these principles to the greatest benefit of all parties involved?

As Chris Hardcastle, managing director at Alesco's delegated authority team explains: "In the MGA market there has been a lot of top line chasing – from carriers, brokers and MGAs – and that is now all refocusing on margin. A lot of MGAs are now realising that the model is not as easy in a hard market."

Technological advantage

Crucial to the innovation question at MGAs is the smart application of technology. And while delivering the efficient sale of a product is important, an MGA can only show relevance if it is using this saving to take less operating cost out of the value chain.

"We need to get leaner and fitter and be better value for our carriers, and at this stage in the cycle that is more true than ever," explains David Walsh, CEO of CFC Underwriting.

CFC has always had an "obsession" with building a clean business and with an eye on process, he notes. This means either building digital systems to operate more efficiently, or outsourcing processes to lower-cost operations abroad.

"I think as you gain scale you can build more and more efficiency into the business," Walsh adds. "But it is something you have to constantly keep on top of. It's almost like a Whack-A-Mole arcade game – as soon as you solve one problem, another one pops up."

But for those MGAs looking for capacity to launch, smart application of technology is becoming a 'must have', rather than a 'nice to have'.

Hardcastle tells *Insider Quarterly* that most start-up MGAs he sees have some sort of technology application embedded into the model, but it is not always applied where it can bring the greatest value.

"It is healthy to see new ideas and technology coming in, albeit some of the tech in question is often mislabelled as 'disruptive' when it is actually better placed to assist the market rather than to replace it," he explains.

A good example of this is telematics, which was developed independently but quickly adopted by the mainstream, Hardcastle notes.

"Some of the best technology deployment remains that which has partnered with the market, but there are some platforms which are genuinely geared to front-line customers. These are rare but in some cases very good."

He also says the market has seen a big rise in quote and bind technology, and there are many providers out there now who have developed models with short question sets and good algorithms behind them that aid efficiency – both in retail and wholesale markets.

A recent example which has started trading with this type of technology is C-Quence, set up by former AIG UK CEO Jacqueline McNamee.

The firm claims that its platform makes it easy for brokers to deliver sophisticated commercial insurance solutions quickly, at lower cost and with enhanced levels of service compared to traditional approaches.

The platform also uses third-party data, a streamlined question set for quotes and underwriting with automated pre-bind compliance checks.

If a risk falls outside the automated process, system-driven referral recommendations reduce administrative overheads and speed up underwriting decisions.

Looking further ahead, Hardcastle believes artificial intelligence (AI) will be important in the efficiency conversation.

"What I see as most relevant right now is the ability to harvest a lot of information about a risk from a limited question set. AI will have an application to help deliver and monitor that, which is the next phase of technology in the market – machines understanding risk characteristics and monitoring changes to them."

Low-cost capital

Technology is frequently held up as the catch-all solution to the London market's expense problems, but there is increasing debate among MGA market participants on how they could use the industry's abundance of low-cost capital to their advantage.

The use of ILS or pension fund money – which has lower return hurdles than traditional (re)insurance capital – as capacity, would allow for wider margins if the right type of risk can be effectively matched with that capital.

As long as that capital could be outfitted with a sufficient rating and licensing for an MGA to operate as it needs, it could work at removing

Continued on page 14

significant cost from the value chain.

Beazley's "beta" syndicate – which has been designed for facilities business, with low operating expense and backed by low-cost capital – is held up as an opportunity for MGAs in this regard.

"To me that seems like a really smart move, which is going to be really attractive to MGAs because it has a low cost attached to it, but it enjoys all the licensing and ratings at Lloyd's," says CFC's Walsh.

"If that is the way the market is going, Lloyd's need to be recognisant that there is lower-cost capital out there, some of which comes with a rating."

If an MGA is a "virtual insurer", where they are doing the same job and the same lines of business as any other traditional insurer, it probably doesn't make sense to get paper from those traditional carriers, explains Charles Manchester, CEO of Manchester Underwriting. "They then are an extra mouth to feed."

He describes a "bell curve" in the MGA market – with MGAs at one end, as a pure distribution model, and virtual insurers at the other end.

The virtual insurer end of that bell curve could benefit from low-cost capital, Manchester explains, adding: "Traditional insurers [as paper providers] are ultimately fairly high cost of capital now."

> "On the other side of London's expense question, MGAs are often held up as prime culprit of London's swelling acquisition cost base"

Remuneration

On the other side of London's expense question, MGAs are often held up as prime culprit of London's swelling acquisition cost base – and are accused of taking fixed commissions for very little in return.

In recent times, there has been a shift towards commission structures that are more geared towards profit commission, rather than fixed commissions.

The Volante platform, founded by former Dual CEO Talbir Bains, has been a proponent of this model. The MGA charges fixed commissions purely to cover operating costs over a five-year period, and then the carriers only pay any additional commission when Volante makes a profit.

This is a move away from the traditional MGA commission structure, which is typically a fixed commission based on a percentage of gross written premium (GWP), then additional profit commissions on top of that.

As Manchester puts it: "We have seen examples of the remuneration structure of MGAs becoming more aligned with their capital providers."

While from one perspective such commission structures effectively demand that the insurers pay an MGA's start-up costs, it can also be argued there is more of an incentive for an MGA to perform, he says.

"It requires an enormous amount of trust and alignment of business and strategy between the insurer and the MGA," he explains. "That model can only work with people an MGA truly knows and trusts."

Nexus CEO Colin Thompson tells *Insider Quarterly* that he has also seen a shift in the marketplace towards profit-based remuneration.

"It's difficult for an MGA to argue against that, as it is your ethos as an MGA – to make your capacity providers a profit," he adds.

Thompson agrees there are some inefficiencies in the London MGA market, but believes that a lot of those inefficiencies stem from monoline MGAs.

To counteract that, Nexus has pursued an M&A strategy which brings in monoline MGAs and plugs them into the Nexus group infrastructure, effectively taking out the cost base of the original MGA.

This model also goes some way in building what Thompson sees as the MGA of the future.

"I would look to the US and how advanced the US MGA model is. If you look at that US model there is a multitude of \$1bn+ MGAs which are multi-product. They are effectively insurance companies, albeit using someone else's balance sheet."

The likes of Nexus, Dual and CFC in London are moving towards this model – with more than £300mn of GWP each and all pursuing multiple product lines in multiple geographies.

However, Thompson adds, there will always be a place for monoline MGAs – especially for those underwriters who want their own venture but do not want the challenge of setting up a Lloyd's syndicate.

"There is very natural scene for a monoline MGA for many reasons but I think the MGAs of the future will have that evolution," he explains. "They will be able to offer their capital providers the option to plug in and play across a number of products and geographies."

Market views: What does the MGA of the future look like?

Chris Hardcastle, Alesco: "I think that the oldest principles will always apply. MGAs have always been based on expertise – that might be local knowledge, product expertise, or both. "Ultimately, the development and application of good technology is vital, but bespoke, intelligent capacity to sit with that tech will always be just as crucial."

Charles Manchester, Manchester Underwriting: "MGAs in the future will be leaner than they have been, technically very savvy, and as ever, their expertise in their field will be unrivalled in the traditional market."

David Walsh, CFC: "We always say the ultimate MGA is a combination of people, process and tech. If it was just about technology, Google would have probably killed us by now."

Colin Thompson, Nexus: "I think the MGAs of the future will be multi-product, multi-geography, writing more than £500mn in premium. I'd even go as far to say as the MGAs of the future will be the new-start insurance companies."

GEOGHEGAN GRILLS …ULRICH WALLIN, CEO AND CHAIRMAN OF THE EXECUTIVE BOARD, HANNOVER RE

In a world where pure reinsurers are supposed to have had their day, **Mark Geoghegan** catches up with a master who has made a mockery of this received wisdom over the past decade

How is it that some reinsurers do so much better than others? What is their secret?

The answer is that they outperform very slowly and marginally, but they do this consistently over long periods of time.

The nature of compound interest means these small day-to-day gains multiply and produce some pretty spectacular long-term results. Hannover Re is the ultimate case in point. It is not the first company to trip off the tongue when you think of knockout performance. It is not a sexy start-up. It is a mature company operating all over the globe. It is in the top tier of reinsurance.

Surely this should make its returns dull and unappetising? Surely it has become too big to be able to outgrow or outperform the market? Shouldn't it have evolved into a nice, diversified, predictable, but ever-so-slightly-dull proxy for the reinsurance market as a whole as it nestles in with its larger European peers?

Wrong. Very wrong. Hannover's returns have shot the lights out in the decade-long tenure of its unassuming and down-to-earth CEO Ulrich Wallin.

What's more, he has performed against the aftermath of the global financial crisis, quantitative easing, plummeting yields and ballooning capital.

He is going to step down from his role in the next quarter, so I had to catch up with him to find out how he has done so well.

If you have never met him, Ulrich is easy-going, approachable, straightforward and direct – but not in an aggressive way. He exudes high intelligence and a thoughtful studiousness but without parading his intellect in a way that would make anyone in his company feel uncomfortable or inadequate.

On the contrary, he is a patient listener and will put you at your ease, hearing you out before making any counter-arguments. He is absolutely dependable and consistent.

In short, he is exactly what you want your reinsurer to be: someone smarter and more solvent than you, but a patient and responsive partner who is going to help you grow your business and be there for you in your hour of need.

No wonder Hannover Re has done so well…

Continued on page **18**

Mark Geoghegan: At Hannover, you have a famously lean culture. What is it about that culture that has made Hannover Re so successful?

Ulrich Wallin: Hannover Re came into the market as a small reinsurer with a relatively lean capital base. We called it the "thin tiger syndrome". We always felt that we would be different to the established carriers, and that has lent to a culture of basically trying to outperform, trying to get a place on the table of the established reinsurers.

Mark Geoghegan: You're now a global reinsurer. How can you continue the mentality of the small reinsurer when you're a big reinsurer now?

Ulrich Wallin: We're still trying to keep the differences. One is that we still haven't got a matrix organisation. Of course, we have a pricing department. But still, the final decision rests with the client-facing underwriter. That way, we have clear responsibilities in our structure. We also have less general administration.

As such, we are acting a little bit quicker than many of our competitors that probably have to satisfy various structures in their organisation before they can make important decisions.

Mark Geoghegan: So if you give more power to underwriters facing the client, how do you control that – in terms of making sure that they don't go rogue or do anything that you'd later regret?

Ulrich Wallin: We keep records of the prices that we write the business at, and we also keep records of the difference between the technical prices and the actual prices. We have a very strict management of natural catastrophe limits.

We have a global risk appetite and each of the underwriting departments gets an allocation of cat risks that they can write. Of course, if they have more opportunities, they cannot just write it because then they would overwrite the capacity that they have been allocated.

We are very strict with that, but they have the ability to trade aggregates if they can fill one but not the other. We encourage them to come with proposals to write more. We have a system so that the decision for that would take no longer than 24 hours.

The controls are there, but still the final decision rests with the underwriter, and therefore they feel responsible for the results as well.

Mark Geoghegan: You're stepping down from your role this year. What advice would you give to your successor?

Ulrich Wallin: With our business model, which is more or less the business model of the pure reinsurer, we have the opportunity to grow our market share further.

I would say the growth in the reinsurance market is not overly exciting. In the last five to 10 years, the market generated two to three percent a year maximum growth. If you have higher growth ambitions, which we have, you need to outgrow the market, which just means that you want to increase your market share. There's a limit to that, but I think we are not yet at that limit.

So, for the time being, the business model of the pure reinsurer is still valid. Only if we get to a size where we can no longer expect to profitably grow our market share, then we would have to change our business model.

Mark Geoghegan: At what point would you say Hannover Re is too big to continue the pure reinsurer model?

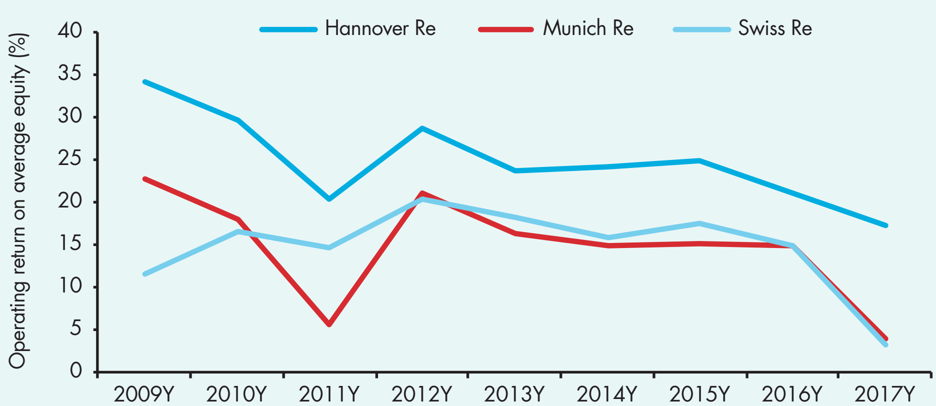
Ulrich Wallin: From where we are now, we could probably double our market share. Then we would be at 12-15 percent. At that point, we would probably have reached what we can achieve at the current business model. If we want to go further, then we would have to offer a lot more services.

If you look at the structure of demand for reinsurance, the largest part is volatility management and capital management. Then there is the part where the reinsurer gives support to the insurer, along the value chain of the insurer – so helps with the distribution, with the products and the pricing.

That's a little bit more prevalent on the life and health than on the P&C side. But at this point in time, at least on the P&C side, that's the smaller part of reinsurance demand, because certainly the large insurers would say they can do it themselves.

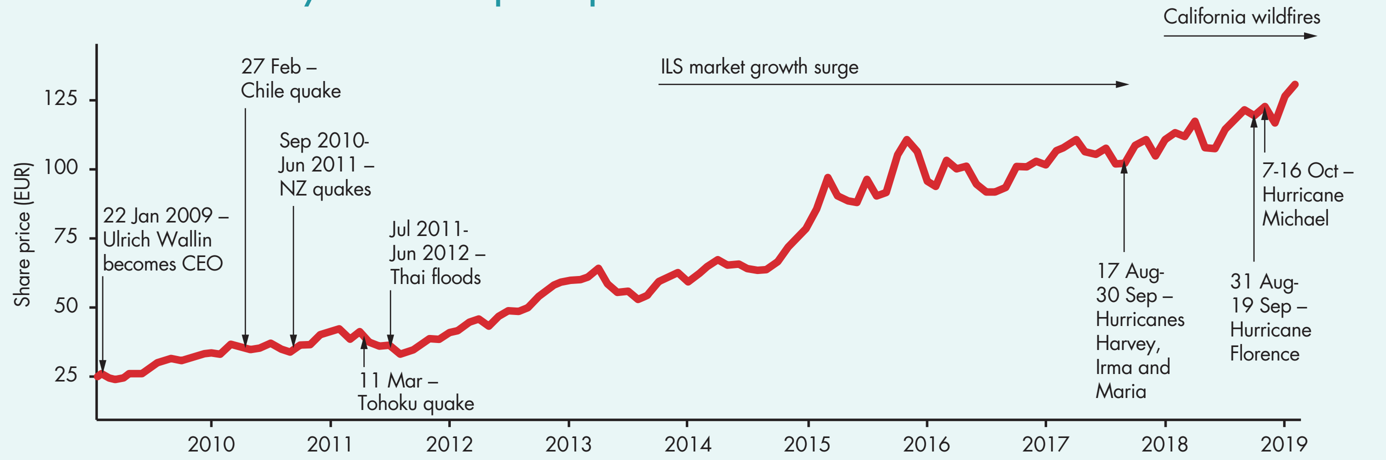
With the small to medium size insurers, that part of the business model has some relevance, but it's still less relevant than the

European reinsurer returns



Source: Company reports, *Insider Quarterly*

Hannover Re 10-year share price performance



capital management and volatility management.

If we achieve that kind of market share of 12-15 percent, then we would have to actively try to spur demand for our capacity with those kind of service offerings. And then the big question is what kind of margins would be left for us after the expenses that we would have to incur to provide those services?

Mark Geoghegan: Would it be fair to say that the catastrophe model of making outsize returns after a price spike post-loss doesn't exist anymore?

Ulrich Wallin: It still exists, but it needs significantly more pronounced losses. It also needs a change in the way you view the exposure. The market really only hardens if market participants, even with increased prices and better terms and conditions, are cautious because they are not sure that it's enough to really make the business profitable.

Of course, if we have, say in 2019, another year where the ILS market loses money and it's a little bit more severe than what we have seen in 2017, then people would reassess the business overall. But outside that, we would probably have to assume that the supply outweighing demand would continue to put pressure on margins.

Mark Geoghegan: So is it a good assumption that you have to work towards the idea that a property catastrophe subsidy will no longer exist?

Ulrich Wallin: That's absolutely the case. I would also say, in order to still be able to generate attractive margins on the reinsurance business, you have to outperform the average player in the market. Because it's probably a fair assumption that the average margins in the reinsurance business are gradually decreasing, and it's not easy to see why that trend should change.

Mark Geoghegan: Do you think there's likely to be more or less consolidation? Or do you think we're nearly done with consolidation in the reinsurance sector?

Ulrich Wallin: First of all, I think the structure of the demand for reinsurance favours the larger reinsurer at this point in time. That's because of global reach and being active in all lines of business, and having a reasonable size of capacity suits the reinsurance buyer because he can buy a more holistic programme from those kinds of reinsurers, which is more capital efficient. Therefore, there is a little bit of a tendency that the business gravitates towards the larger reinsurers.

At the same time, certainly on the P&C side – to a lesser extent on the life and health side – there's certainly room for smaller reinsurers as well.

There is still some push, in particular from the brokers, to spread the risks around a larger number of participants; not to be that reliant on a very small number of partners. Because if you fall out with the reinsurer that has 50 percent of your business, you have a real problem. So people want to have spread, and that would of course allow smaller players also to be successful. It's very difficult to move from an entity that is among the top 50 but not among the top 10, to a top five position. For reinsurers that have to survive in a free trade environment, it's very difficult to move and rival, say, the Munich Res and Swiss Res of this world. But there's still a business model for a smaller reinsurer, I would say.

Whether we will see more consolidation in reinsurance, where reinsurance is the main part of their business, it's really difficult to say. It's entirely possible. If you want to set up a reinsurer that is rivalling the size of the two market leaders you really would need acquisitions. You would need to find a number of the next reinsurers in line behind the two big ones. They would then have to merge in order to get to a similar size.

Whether or not that is happening, it's very difficult. On the one hand,

Continued on page 20

of course, you would lose business if you did that, because one and one would clearly not be two. On the positive side, you would have lots of synergies because you could take out a lot of expenses out of the combined organisation.

On the negative side again, you would have a very big challenge on the integration of the organisations. Finding a corporate culture for the merged organisation would be a challenge. For the time being, it's possible but I think there's nothing imminent.

Mark Geoghegan: Is there anything you're worried about particularly in the global insurance space? Is there anything that keeps you up at night?

Ulrich Wallin: One is the whole space of cyber and silent cyber, because we are looking at the real exposure, which is quite difficult to quantify. In the case of silent cyber, we don't even get any money for it.

The problem is that you can think of scenarios where the losses are a little bit larger than what you can expect from, say, natural catastrophes, where we probably have a better handle on the risk.

The other question, of course, is the issue of global warming. Natural catastrophe losses are rising. If you look at recent years, 2017 and 2018, where we had above-average large losses, you might think, "Okay, that's an aberration, and it will go back to the expected loss level, then the current cat pricing might be able to cater for that."

But there's also, of course, a possibility that cat losses are rising. If that's the case, all your current cat pricing would be insufficient.

It's not so much of a problem if the losses are rising gradually. It's only if you have a sharp increase that you cannot adapt your pricing

Mark Geoghegan: On a personal level, what are you looking forward to most about retirement?

Ulrich Wallin: Well, probably doing a little bit more private travelling and less business traveling.

Mark Geoghegan: Where have you always wanted to go to as a tourist that you haven't been able to go?

Ulrich Wallin: Well, more to where I have already been up to now, I like traveling in Europe. Say, Austria, Switzerland, the North Sea. But also not being boxed in completely by the diary. Right now, a vacation is automatic downtime in July, because that's the only time that is free in between all the board meetings and other things I have to do. That will be a relief, of course, and quite a nice change – that I have a little bit more freedom to plan these things. That's probably what I'm looking forward to most.

Then I have to see to what extent I still dabble around in the business.

Mark Geoghegan: So we haven't seen the last of you, Ulrich?

Ulrich Wallin: Not completely, I would say.

Mark Geoghegan: So more non-executive work, I presume.

Ulrich Wallin: Well, more non-executive than executive, I would say. If you look at the current position that I have as a CEO, you are basically responsible for everything, but have limited influence on what's happening in the company.

That's, of course, something that can be quite stressful. It hasn't been the case with us over the last ten years, luckily, but still I quite look forward to not having that pressure any longer.

So there you have it.

We haven't seen the last of Ulli – less boxed in by his diary, refreshed from his bracing North Sea and Alpine breaks, and coming to lend a very calm head and a helping hand to a board near you soon.

> From where we are now,we could probably double our market share

Short-cuts

On Bermuda consolidation:
"You can see with these business models that they all look so alike, so that's where you see quite a lot of mergers and acquisitions. You have a clear synergy case if you have two business that look almost the same. If you put them together, you will clearly have a good synergy case, and I think that will continue."

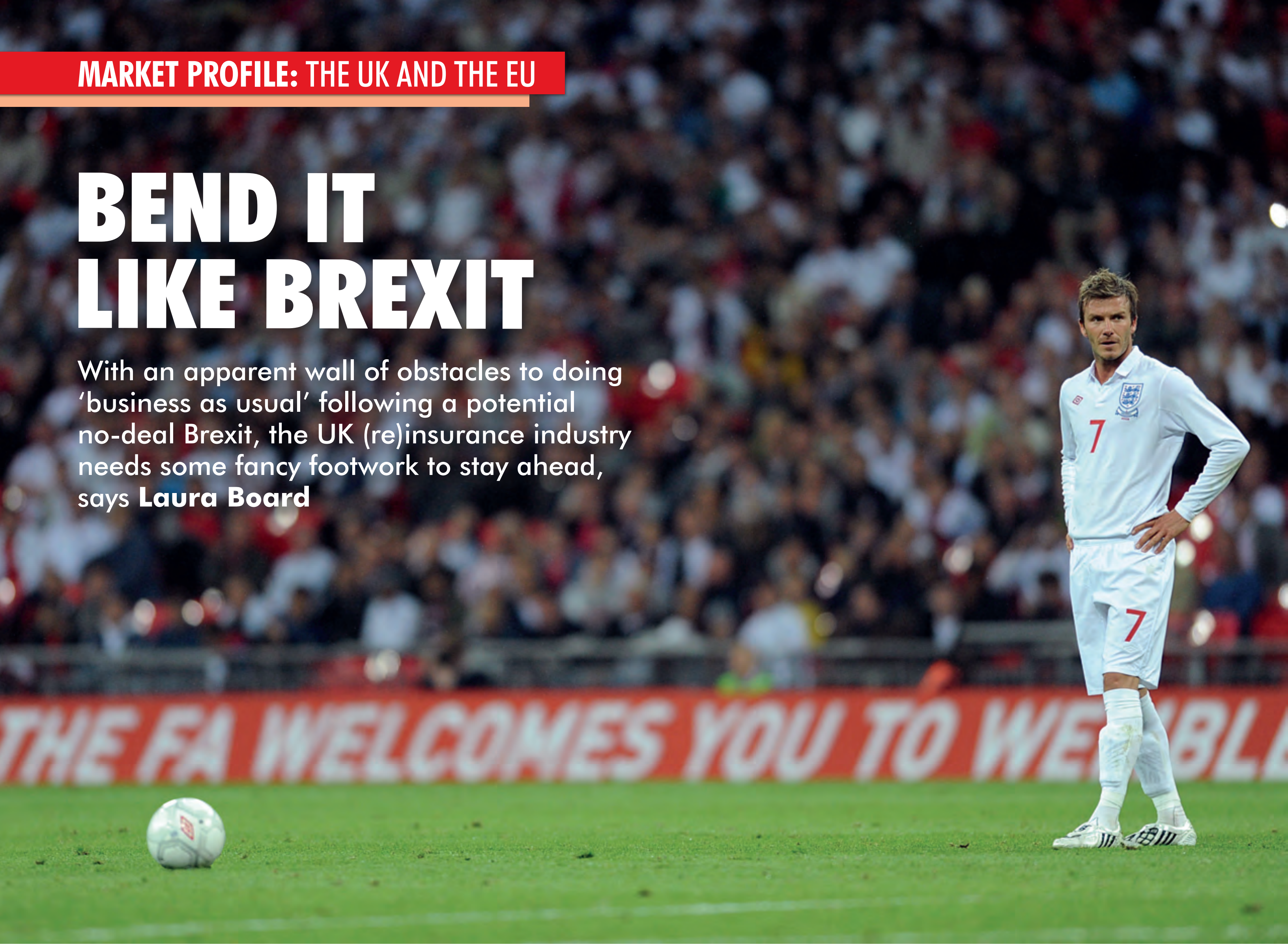
On InsurTech
"For the InsurTech start-ups, disruption is very difficult because in reinsurance, you need quite a lot of capital to start your business, and you have the problem of distribution, which is not going away if you are an InsurTech.

"Therefore, the InsurTechs have for the most part looked for cooperation within the existing insurance and reinsurance market. Reinsurers have a relatively good opportunity to work with InsurTechs, because, to the extent that they are not that much involved in insurance, they have less of a channel conflict."

Lloyd's and the Argenta deal
"Argenta is just about giving us strategic options in the Lloyd's market. The Lloyd's market, of course, is based on specialty business, co-insurance, and co-reinsurance business. It fits a little bit better with the reinsurance model, because we are not taking risks entirely out of the market. You only take a small part, so it's not so detrimental for our clients.

"Also, we get fee income. In a stable market, I would say it's a defensive play. It gives us participation in the Lloyd's business with a business we have known for many years. It hopefully gives us an additional profit stream.

"In a dislocated market, through the managing agent and setting up of the Hannover Re syndicate, we would have the ability to take advantage of that market through the Lloyd's franchise. I still think it's a strong franchise."



BEND IT LIKE BREXIT

With an apparent wall of obstacles to doing 'business as usual' following a potential no-deal Brexit, the UK (re)insurance industry needs some fancy footwork to stay ahead, says **Laura Board**

Luxembourg City in the spring has all the ingredients for a pleasant few days: gastronomy such as the famous Judd mat Gaardebounen (smoked pork collar cooked with broad beans), a temperate climate, and numerous attractions including the 16th century Grand-Ducal Palace.

In the past year, the weekend visitor may also have observed a new feature on the urban landscape – plaques belonging to insurers and investment companies which have hastily established a foothold in the Grand Duchy.

Newcomers include RSA, whose Brexit planning began more than two years ago.

"We couldn't wait for the political answer, we had to get on with it," says Richard Turner, RSA Luxembourg CEO. "We would have been writing policies early last year that were going to go beyond the Brexit date."

"Luxembourg was pertinent in terms of where our business is and the Luxembourg regulator was already familiar with insurance businesses, whether general, life, or captives," he adds.

RSA is among about 40 carriers to have formed locally authorised subsidiaries in mainland Europe, Ireland, or even Malta, as optimism about Brexit talks has diminished.

An estimated £8bn ($10.3bn) of London market premium covers European Economic Area (EEA) risk and UK carriers were initially hoping for EEA market access rights akin to the current passporting arrangements after Brexit.

However, insurers quickly downgraded their best-case scenario to equivalence – a type of mutual recognition of a "third", or non-EEA, country's regulatory regime. Now even that's in doubt.

Brokers and Brexit

Brokers too are planning for Brexit, but the supervisory backdrop is more complex. In February, the European Insurance and Occupational Pensions Authority (Eiopa) added to the uncertainty by appearing to take a broad view of what constitutes "distribution activities" in a recommendation that would appear to make life harder for wholesale brokers.

Eiopa sees these as anything involving EEA policies and EEA risks. In a series of Brexit-related recommendations, it called for the Insurance Distribution Directive (IDD) to govern these risks.

However, unlike with Solvency II, there are no rules on the treatment of third countries baked into the intermediation directive.

And as a "minimum harmonisation" set of rules, the scope for different interpretations is wide.

That means UK brokers' ability to service EU clients and bring business to London from a single EU "hub" subsidiary will come down to national supervisors' reading of the directive.

Brokers are lobbying hard and the London & International Insurance Brokers Association CEO Chris Croft hopes that an equivalence framework can eventually be added to the IDD.

"It isn't the intent of the IDD to prevent the trading of insurance into third countries – it's an oversight and we can put that right," he says. "This isn't a Brexit issue – it's about EU clients' access to global markets in their entirety."

In the meantime, he notes: "Our advice is to make sure you have gone through a rational and well-documented process that is justifiable."

Given that the London market is an overwhelmingly intermediated one, it's clear that the brokers' predicament affects the whole insurance distribution chain.

As PwC partner Jane Portas points out: "The London ecosystem is all interconnected and it's really important that, as it evolves into a post-Brexit model, those connection points work smoothly."

Right now, those connection points are creating some anxiety.

Delegates polled at a recent Moore Stephens seminar were more worried about their partners being unprepared for Brexit than about themselves.

Moore Stephens partner Alex Barnes says: "If you are a broker or an MGA, you need to know your capacity providers are ready to offer covers post Brexit, and if you are an underwriter you need to know your brokers and intermediaries are able to offer your products to clients."

Part VII progress

One of the reasons that carriers are so far ahead of brokers in their Brexit preparations is the need to transfer their EEA portfolios into local entities to ensure they can continue to service the contracts in the event of a hard Brexit.

These transfers – known as Part VIIs – are complex, cumbersome and lengthy affairs, involving tracking down and notifying thousands of policyholders by mail, appointing independent experts and seeking High Court clearance.

Early starters including RSA, AIG, CNA Hardy and Tokio Marine have completed the transfers. But Lloyd's, for example, expects its gargantuan transfer to take until December 2020. Other carriers, still, have decided not to establish EEA entities but nevertheless have back books of EEA risks.

> "UK brokers' ability to service EU clients and bring business to London from a single EU 'hub' subsidiary will come down to national supervisors' reading of the rules"

While some European nations, including Germany and France, had already legislated to ensure existing domestic policyholders won't lose out after Brexit, it took until February for Eiopa to deliver EU-wide recommendations on portfolio transfers and contract continuity.

It called on national supervisors to allow Part VII transfers that had begun before Brexit to close, and advocated the establishment of "orderly run-off" structures for UK insurance undertakings not seeking transfers into new EEA entities.

However, its recommendations left some questions unanswered and the ability to legally service existing policies when passporting rights fall away remains a concern, unless UK and EU negotiators strike a revised Brexit deal with an implementation period.

Commercial sensitivities

But are businesses' no-deal Brexit preparations enough anyway to appease anxious commercial clients located in the EEA?

Anecdotal evidence suggests some EEA insureds are getting spooked, and certain European supervisors are insisting on penalising insurers that cede risk to UK-based reinsurers after Brexit by withholding capital credit they would otherwise have accrued.

Anxious Europeans included French mutual Covea, which last year opted not to renew a reinsurance treaty with the Lloyd's market.

However, at a recent Fitch conference, Lloyd's Brexit director Hayley Spink said talk that Lloyd's was haemorrhaging EEA business was wide of the mark.

"There have been a couple of clients who have questioned [Lloyd's Brexit arrangements] and we have had to spend a lot of time giving them assurance and really giving them the facts."

One geography where Brexit anxieties are particularly acute is the island of Ireland.

The British Insurance Brokers' Association (Biba) says 50,000 small- and medium-sized enterprises trade between the Republic and Northern Ireland, and has called for special consideration in any Brexit deal for insurance arrangements that straddle the border.

"Every broker in the North has customers in the South," notes Biba CEO Steve White.

UK planning

EEA carriers operating through UK entities are generally well-catered for after rule changes in London.

Having announced plans for a temporary permissions regime (TPR) in December 2017, the UK Treasury and domestic regulators have devised a further stop-gap. It targets EEA carriers and other financial services companies operating in the UK that don't want to use the TPR, but which will still have books of business after Brexit.

The so-called financial services contracts regime will allow them to service existing clients for up to 15 years for insurance contracts, and five years for other contracts.

Continued on page 24

However, for all carriers and intermediaries – wherever their domicile – moving personal data across the future Brexit border will be more difficult in the absence of a transition agreement, and unless the European Commission (EC) ultimately decides the UK's data protection regime is "adequate".

The EC had promised to adjudicate on that matter by June 2020 under the November withdrawal agreement with UK Prime Minister Theresa May. That deadline had also applied to a determination about whether relevant industries were "equivalent" from a regulatory perspective. But as long as a Brexit deal that's acceptable to the UK parliament is elusive, those intentions remain in doubt.

Another yet-to-be resolved issue is cross-border hiring after Brexit. The UK insurance sector may not be as dependent on the EEA workforce as, say, the agricultural or hospitality industries, but 2,400 of the London market's 52,000 employees come from elsewhere in the EEA, and the expected curtailment of freedom of movement with Brexit could cause problems.

Cost of business

Ratings agencies are watching the situation closely. AM Best senior director Catherine Thomas says the company "will closely monitor the impact of any deterioration in economic conditions in the UK on rated insurers' performance and risk-adjusted capitalisation, and respond accordingly".

Fitch, however, expects only a limited impact from Brexit on the UK non-life insurance sector, including the London market, given that many carriers have minted new EEA entities.

> "However well-prepared carriers are, few could argue that having to establish a separately capitalised and regulated subsidiary in order to continue to write EEA risk is an efficient allocation of resources"

But however well-prepared carriers are, few could argue that having to establish a separately capitalised and regulated subsidiary in order to continue to write EEA risk is an efficient allocation of resources.

RSA's Turner notes: "There is a risk for London in this process that if the frictional cost of moving business from the EEA into the London market is going to be higher it will increase the chances of business being placed inside the EEA.

"The degree to which that is going to happen is the point of uncertainty I don't think anyone has a handle on what that looks like right now."

Dislocation risk

Perhaps one of the biggest risks of Brexit is dislocation in the financial markets, including sharp declines in assets such as equities, government bonds and real estate that underpin (re)insurers' investment portfolios. (Re)insurers' own stock could also take a battering with a disorderly Brexit.

Yet at a January Fitch Ratings conference in London, 40 percent of delegates polled said the UK insurance sector would be a net winner from Brexit.

> "Another yet-to-be resolved issue is cross-border hiring after Brexit. The UK insurance sector may not be as dependent on the EEA workforce as, say, the agricultural or hospitality industries, but 2,400 of the London market's 52,000 employees come from elsewhere in the EEA"

One school of thought is that the sweeping restructuring processes carriers have undergone for Brexit have been positive. Whether retreating from the EEA or establishing a subsidiary on the continent, carriers have thought through where they want to be, what they want to write there and why.

Having taken the trouble to establish an EEA subsidiary in Brussels, for example, Lloyd's has made continental Europe one of its strategic growth markets, along with the US and those emerging markets which the Corporation anticipates will generate the best return.

The surprisingly large minority of optimists may also be informed by the fact that Brexit will necessitate swingeing changes in the way most industries operate.

Biba has warned also of a wide-spread problem of under-insurance among companies stockpiling supplies ahead of Brexit.

With these changes come shifting coverage needs, and therefore opportunities for insurers and brokers that are fleet of foot.

However, it is unclear that the London market is really grasping these new opportunities.

Moore Stephens' partner Alex Barnes warns: "There is a risk that the insurance industry isn't really finding out how customers will be affected by Brexit.

"Everyone is looking internally but what they should be doing is being on the front foot, doing what London does well. They need to be outwardly focused and thinking about the wider market."


NIIT
technologies

LATCH ON TO THE AFFIRMATIVES

The affirmative cyber market is on the rise as insureds seek higher, well-defined limits, says **Laura Sanicola**

The cyber insurance industry has been morphing itself in many ways to face new challenges in the form of regulatory pressures, competition, new legislation and increased sophistication from hackers.

While cyber threats have been increasingly frequent, the market has never had as much capacity from as many players as it does currently.

In 2017, 170 US insurers reported writing cyber insurance, according to a report from Aon published in July last year.

This figure is up from 140 in 2016 and 119 in 2015, as shown by previous Aon data.

While the cyber market has seen more entrants in the past year, the top five cyber insurers surveyed by Aon wrote 51 percent of direct written premiums in 2017, down from 52 percent the previous year. AIG and Chubb tend to put down the largest limits on cyber policies, sources have told sister publication *The Insurance Insider*, with both carriers plus XL Catlin, Travelers and Beazley holding the top five spots for US cyber insurance direct written premium in 2017 and 2016, according to AM Best (see table opposite).

The capacity increase, coupled with a lack of large losses in the past year, has pushed down rates in the cyber market considerably.

In the third quarter of 2019, cyber renewal rates fell 1.5 percent, compared to three years earlier when prices increased nearly 19 percent in the same quarter, shown by data from Marsh.

Despite the lack of large losses, however, attritional losses are coming in steadily, and are being picked up in the standalone cyber market or via cyber endorsements on other policies.

However, cyber risk is increasingly shifting to standalone policies as insureds seek higher, more dedicated limits and expanded coverage, according to an October 2018 study by PartnerRe.

Affirmative shift

One of the biggest areas of innovation in the cyber market is the shift from cyber perils being covered in traditional P&C sectors to being purchased in standalone policies.

This move was first noted in 2017, as mentioned in PartnerRe's 2018 survey which stated that the trend continued into last year.

The most popular reason given by respondents for seeking standalone cover was buyers seeking dedicated limits expressly from cyber markets.

Buyers also wanted more expanded coverage for business interruption (BI) and contingent business interruption, which was the most popular coverage sought at renewals in October 2018, according to PartnerRe.

As more insureds consider the benefits of purchasing standalone cyber policies, they will have to weigh the cost of a more expensive affirmative cyber policy with the potential benefits of separate coverage.

"It is likely to cost the policyholder more to have affirmative cover, but what they gain is certainty," says Matt Northedge, head of cyber underwriting at AmTrust.

The growth in the affirmative cyber market has been hastened by

US food company Mondelez International is taking Zurich to court for refusing to pay out on a $100mn cyber claim on its property policy increased capacity from London and the US that is pushing down prices and broadening terms and conditions.

It is also being driven by the increase in attritional losses falling on policies that were not designed for it, explains Ben Maidment, head of cyber at Brit.

As cyber cover shifts to standalone policies, the question of how to address pricing for catastrophes continues to weigh on insurers and reinsurers.

The underwriting community also perceives a potential systemic or catastrophic exposure for cyber cover being written now, according to Maidment.

The standalone market is continuing to model these potential catastrophes without the necessary level of historic data.

When contingent business interruption cover is offered, pricing must also factor in the potential for a cloud service or other third-party system to experience a failure.

"There is something of a frontier mentality, informed by a lack of historic data, requiring that as a market we have to make best endeavours based on predicted outcomes to price risk," Northedge says.

An area that divides some underwriters and brokers is whether property damage should be covered by standalone cyber products in the future.

This year, a couple of the larger claims in the market were attached to property or general liability (GL) programmes because of the lack of a cyber exclusion.

This issue could be addressed by either putting the exclusion back into policies and covering more in the affirmative basis, says Northedge.

The PartnerRe cyber report found that a majority of underwriters felt property policies should handle property risks.

"The property market is more prepared from a capacity standpoint for the type of loss itself, but the scenario will not be a classic BI/PD trigger if it is a cyber incident," one broker told PartnerRe.

Another respondent told PartnerRe: "Now that cyber policies are becoming more common, other lines of coverage are reducing their scope of coverage. Clients do not want to have their GL limits eroded by a cyber loss."

SME appetite

Small-to-mid sized businesses are experiencing a "genuine uptake" in affirmative cyber policies, driven increasingly by education among insureds as well as by regulatory changes.

The cyber market has seen an influx of new-to-market buyers of standalone cyber insurance, with the majority of them having less than $1bn in revenues, according to PartnerRe.

While the survey notes this may reflect an already-higher insurance take-up rate among larger organisations, the trend remains heartening – an indication that smaller businesses are beginning to more fully understand their risks.

"Three or four years ago you wouldn't have seen as many companies with awareness of what their businesses were exposed to," says Brit's Maidment.

According to a September 2018 report by Travelers, nearly three-quarters of small business owners do not purchase cyber insurance.

But the SME world is increasingly seeing how ransomware in particular can be a threat to their ongoing viability.

Ransomware was highlighted by AIG as the top cause of loss for cyber claims in a May 2018 report, with more than a quarter of all claims arising from the peril.

Maidment says the European Union's General Data Protection Regulation (GDPR) is the final building block in creating the case for small businesses to get cyber insurance.

Under GDPR, firms can be fined up to EUR20mn ($23.4mn), or 4 percent of annual turnover, for breaching the rules.

In a May 2018 report, Aon noted that European companies will now be more inclined to report breaches, leading to an increased volume of cyber claims, as was seen in the US when state breach notification rules came into place.

The market is aware that small- and mid-sized companies are increasingly being targeted by hackers as the latter begin to use more sophisticated tools.

One of the most common types of attacks these businesses are now experiencing are email compromise, which relate to hackers getting access to an email account, searching for key terms, doctoring invoices and rerouting money to another bank account set up by the hacker.

Often, organisations do not realise these communications are happening and that the money is being moved.

As demand from SMEs for cyber cover increases, some insurers are changing their own appetites, away from large-risk cyber.

For example, sister publication *The Insurance Insider* reported in January this year that Argo is no longer providing standalone cover for insureds with revenue of more than $1bn, on either a primary or an excess basis. Argo had traditionally focused on writing excess layers on cyber placements for large US corporates.

Some sources told *The Insurance Insider* that there are considerable risks to (re)insurers from being on large corporate accounts, given that those high up on insurance towers

Continued on page **28**

US cyber insurers

US P&C industry – cyber security direct written premiums (DWP)

Ranking		Company	DWP ($mn)	
2017	2016		2017	2016
1	3	Chubb	284.4	133.6
2	1	AIG	227.6	228.3
3	2	XL Catlin	177.9	160.8
4	4	Travelers	119.1	92.2
5	5	Beazley	95	83.9
6	6	CNA	73.1	68.5
7	8	BCS	68.9	55.4
8	9	Axis	63.8	50.3
9	7	Liberty Mutual	60	56.4
10	12	Zurich NA	43	26.2

Source: AM Best data and research

may not reap enough revenue when losses come in.

While SMEs have less sophisticated cyber security networks, the risk of being on a large limit loss is mitigated by moving to that space, sources say.

Regulatory and legal

Cyber insurance is also adapting to a myriad of legislative changes and court decisions that may substantially impact the market going forward.

One debate at the forefront of cyber innovation is the exclusion clause in policies such as property. US food company Mondelez International is currently taking Zurich to court for refusing to pay on a $100mn claim related to the NotPetya cyber attack which crippled computer networks in 2017, causing billions of dollars in damage. The event has been blamed by both the US and the UK on foreign state actors from Russia.

Mondelez made its claim for losses on its property insurance policy, which covered physical loss or damage. However, Zurich invoked a "hostile or warlike action" exclusion clause to refuse payment.

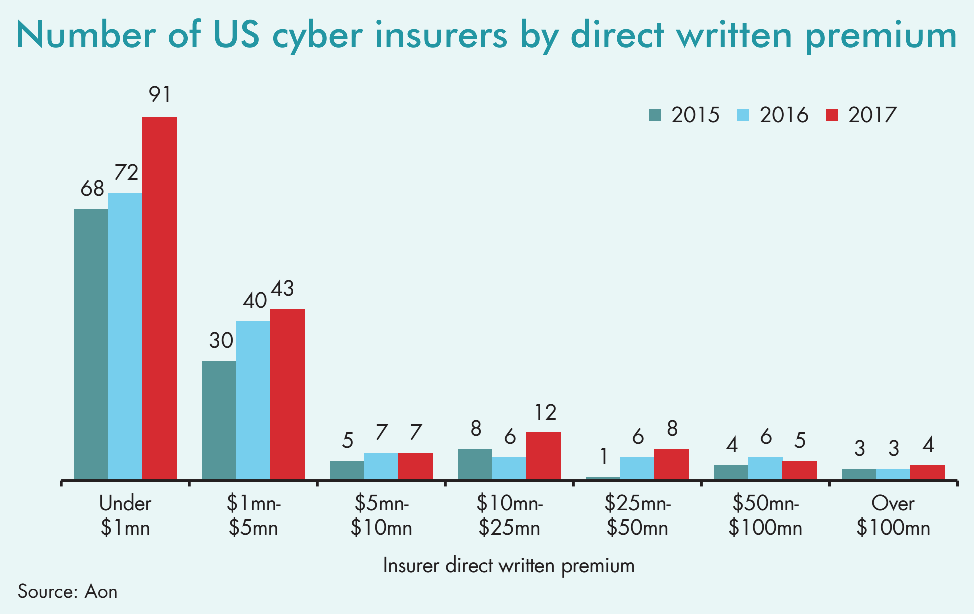
The idea of whether or not war exclusion applies in this case is has caused tremendous debate among underwriters. Speaking to *The Insurance Insider*, some said that taking out a war exclusion is reckless because of the aggregate consequences of not having it in a property policy.

However, the enforceability of this clause is also in question, given how difficult it is to prove that a state actor is behind a cyber attack and how to qualify what constitutes an act of war.

The outcome of the case might have the effect of pushing insureds to buy standalone cyber policies, or to push for a tightening in the terms and conditions of existing policies.

"This is just part of the cyber market establishing where it belongs," one senior underwriter told *The Insurance Insider*.

In the US, there are also new state-specific laws and court cases coming into effect that have the potential to alter the cyber market.



Source: Aon

The passage of the California Consumer Privacy Act, which goes into place next year, allows individuals to sue companies for "unauthorised access and exfiltration, theft, or disclosure as a result of the business' violation of the duty to implement and maintain reasonable security procedures and practices appropriate to the nature of the information to protect the personal information".

Under the former law, customers had to be able to prove that they were directly impacted by a cyber breach in order to sue companies.

A breach of 100,000 people, relatively small in the cyber world, could now be worth up to $750mn under the new law.

At the 2019 Plus Cyber Symposium in New York, as part of a panel discussion on cyber in the SME space, Mullen Coughlin partner Jennifer Coughlin predicted there will be a "slow explosion" of new legislation related to the law, though all panellists concluded that the impact has yet to be seen.

The cyber insurance industry is also monitoring the effects of an Illinois Supreme Court decision in late January to hold that a person who alleges that their biometric information was taken in violation of the Biometric Information Privacy Act (BIPA) satisfies the "aggrieved" party pleading requirement of BIPA.

Therefore, lawyers have predicted it will be more difficult for defendants to secure dismissal of BIPA claims in the state, which may prompt companies to review how they collect and store biometric information.

Finding its footing

Like many other lines of insurance, the cyber market will have to adapt and innovate to thrive in the current climate.

Legal costs can drive up expenses, cutting into the bottom line of a currently profitable sector of the market.

Repeated attacks on small- and mid-sized businesses using ever more sophisticated tools to attack many targets at once is also a concern.

But the market's hallmark change is in tightening up cyber wordings to clarify what is covered in a cyber policy and what is not.

Insureds are increasingly demanding this clarity as large-scale attacks threaten to use up the capacity in the industry, according to brokers and underwriters.

While cyber market competition is fierce, terms and conditions have been loose and coverage broad.

Growing market share, while also reducing unreasonable exposures, will be the key to success in the cyber market in the future.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FACING UP TO 4IR

The fourth industrial revolution, which focuses on advances in communication and connectivity, is the insurance industry's greatest test yet, says Dave Brosnan

The Fourth Industrial Revolution took centre stage at the World Economic Forum annual meeting in Davos this year, with session after session agonising over its impact on the global economy and geopolitics.

Our own research underpins the extent to which company activity is driving the progress of the Fourth Industrial Revolution – blurring the boundaries between the physical and digital, company and government, national and international.

It also suggests the Fourth Industrial Revolution will prove the biggest test yet for insurer-business relationships as we grapple with the challenge of ever-greater technology integration and global inter-connected risk.

Tech commitment

Simply put, the Fourth Industrial Revolution refers to how technologies like artificial intelligence, autonomous vehicles and the Internet of Things are transforming how businesses function and how people work.

Even the most basic tasks – a farmer planting a crop, a manufacturer ordering parts, a patient taking a breath, or a customer paying a bill – can be monitored, supported or even supplanted by technology in the room, through the Cloud, or on a server on the other side of the world.

Our research shows that technology is an increasingly critical area of spend for companies seeking to drive efficiency, profitability, innovation and closer customer interaction. Three quarters of business leaders we spoke to across the world in November 2018 for our Risk and Confidence report 'Global Risk and Confidence Survey – Taking the pulse of global business' are prioritising technology spend over all other.

Indeed, in the digital age, it is the technology and research and development spend where businesses are choosing to concentrate their firepower, rather than on technology and talent, as was the pattern two years ago when we first began our business risk and confidence research.

As companies cut back investment on both hiring temporary and permanent staff, and on corporate development such as M&A, the trend is all too clear – companies are confident and preparing for growth, but are also looking to technology to give them that all important 'edge' by improving service and making their businesses more efficient and effective.

The result will be a tidal wave of further innovation and disruption to everyday life and a shift in the way we prepare, mitigate and manage risk.

Tech risk concern

However, the recent agonising at Davos demonstrates that technology is not an unmitigated force for good.

While, on the one hand, technology offers businesses a range of fantastic opportunities as the interconnectivity of machines, systems and processes increases, it also brings questions around security, data protection, business continuity and third-party liability, as well as containing the potential for critical infrastructure breakdown.

We define tech risk in our research as the danger of making the wrong investment decision, or of allowing technology assets to age, making the business inefficient or uncompetitive.

The UK banking sector is a prime example of tech risk in action. Despite investing billions to overhaul outdated and overloaded IT systems, high-street lenders suffered a string of outages in 2018, most notably at TSB but also at Barclays, RBS and HSBC. Customers were left unable to withdraw cash, access apps or pay their staff.

The experience of the UK banking sector in 2018 was a lesson, if one were needed, on the severity of tech risk and how it can lead to less obvious, but equally severe, interconnected risks.

As a result of the TSB failure, the

UK House of Commons announced a public enquiry, the UK Financial Conduct Authority and Information Commissioner's Office launched regulatory investigations, and there was widespread loss of consumer confidence and significant reputational damage.

Interconnected risk

In our Risk and Confidence surveys undertaken since 2017, business leaders consistently fail to understand the new equation heralded by the Fourth Industrial Revolution – namely that a tech-enabled integrated world creates a web of interconnected risk.

In our surveys, for example, business leaders persistently under-rate the significance of the interconnected regulatory and reputation risks that flow from a cyber attack or technology failure.

In 2018, only 13 percent of respondents ranked regulatory and compliance risk top, and a mere 6 percent were most concerned by reputation risk.

Looking ahead to 2019, less than a third of company leaders thought reputation risk would rise and less than half thought regulatory and compliance risks would increase. Supply-chain risk likewise languishes at the bottom of the risk league table, despite Maersk being shut down for 10 days back in 2017 following the NotPetya malware attack.

The inexorable increase in connected devices, with the Internet of Things, the digitisation of supply chains, and more widespread adoption of AI in industries from medical diagnostics to electricity demand management, can only expand the number of fronts that criminals and nation states can exploit.

In a sad indictment of human failure to translate information into action, more than three quarters of the companies expect to become a target of a cyber attack, yet only 23 percent comply with minimal cyber security guidance or regulations, according to cyber security firm Kaspersky ('The State of Industrial Cybersecurity 2018', June 2018).

DAVE BROSNAN is CEO of CNA Hardy

> While, on the one hand, technology offers businesses a range of fantastic opportunities, as the interconnectivity of machines, systems and processes increases, it also brings questions around security, data protection, business continuity and third party liability

Reassessing risk management

The reality of interconnected risks means insurers, brokers and risk managers will need to work ever more closely to build appropriate resilience into business systems, processes and assets if we are to navigate the Fourth Industrial Revolution successfully. In particular, we need to explore how we can leverage technology more effectively as part of the fightback.

While technology can augment risk, it also brings the power to augment our own skills, and developments such as AI really can help hold back cyber crime, especially the huge state-sponsored attacks.

It is predicted that 2019 will see big growth in AI-on-AI cyber battles as we seek to harness technology to protect our digital assets, and this is positive all round.

New technologies are also boosting risk analysis. Insurers now use drones to analyse damage to crops and buildings following natural catastrophes in territories across Africa, the US and Europe.

Some are deploying semantics analysis to better understand supply chain risk, or partnering with InsurTechs to identify next generation litigation risks (See 'Allianz Risk Barometer – Top Business Risks for 2019').

In an increasingly networked world, data from devices known as the industrial Internet of Things in factories and supply chains will provide an opportunity for even better risk assessment through predictive indicators and more flexible, tailored and timely solutions.

Cameras, for example, can monitor machine tools 24/7 and report immediately when tolerances are exceeded. Likewise, automated sensors can track every stage of the storage and shipment of temperature-controlled pharmaceuticals, ensuring that manufacturers and logistics providers can monitor risks and prevent losses before they occur.

In a technology-driven, integrated world, the aim must be to understand and manage interconnected risks more quickly and prevent losses before they occur.

It might not make Davos meetings more upbeat, but it will help ensure that insurer-broker-insured relationships are more productive – and that we develop products that manage these complex risks more effectively.

> Understanding and managing interconnected risks will help ensure that insurer-broker-insured relationships are more productive – and that we develop products that manage these complex risks more effectively

IN A SPIN

With a transformation currently underway in the insurance industry, managing profitable growth and mapping out a technology and analytics strategy is a little like spinning plates, says **Alice Underwood**

Plate spinning, the trick of keeping multiple plates in motion, while balanced atop long, precariously thin sticks – has a history going back hundreds of years. Believe it or not, the Guinness World Record holder, 'The Great Davido', achieved 108 simultaneously spinning plates.

Yet in recent years, insurance companies could be forgiven for thinking their own juggling act, brought about by the various economic, technological, demographic and operational drivers of change affecting the industry, would give even the world record holders a run for their money.

Insurers today must balance a wide range of competing demands, risks and opportunities – with swiftly changing technological capabilities at centre stage.

Consider, for example: the impact and implications of widespread digitisation on the granularity and sophistication of pricing and the personalisation of customer relationships, the benefits of automating routine processes and the knock-on considerations for how work is done, the need for cost-effective claims management even as policyholders expect more customised and individualised service levels, the pressures of mounting regulatory and accounting requirements, and the ever-expanding array of options for risk management and transfer. It's enough to make you dizzy.

Making connections

Unlike the champion plate-spinner, insurers are attempting to foresee, manage and create value from multiple moving parts that are not only interconnected but also far from uniform in size, weight or shape.

Instead, effective responses increasingly depend upon multi-faceted initiatives – with a coordinated approach across risk, capital, people and operations – where technology is both a driver of and a response to change.

Despite its central role, technology alone is not the answer. People will continue to be involved throughout the insurance value chain, so insurers must anticipate how they will interact with, use and leverage technology to drive value.

Digitisation runs deep

As digital business models come to the fore, data and advanced analytics take on ever-greater importance, with the potential to wholly transform insurance company operations and the customer experience.

Core operational issues include what data to acquire and for what purpose, where and how to acquire it, how to store it and how to analyse it.

Going deeper, what challenges will the company face in connecting legacy IT infrastructure with new systems and data types? How can better, more predictive analytics provide new business value in previously untapped areas? What skill gaps may exist in the insurer's existing talent base, and how might the workforce be differently structured going forward?

How might the target customer groups be changing, and what are their expectations about privacy, product customisation, distribution and other touchpoints? The customer who remembers watching plate spinners on a favourite TV variety show may prefer a very different experience from her digital native granddaughter – meaning the insurer who wants to appeal to both must adopt a flexible, multichannel approach.

New activity streams

Automation has been the tool of choice for routine tasks, whereas until recently advanced analytics and artificial intelligence (AI) have required more handcrafting. But harnessing automation and AI in tandem – whether through automated machine learning or 'smart automation' – can further streamline operations and create cost savings.

Between 40 percent and 50 percent of insurers surveyed for Willis Tower Watson's 2018 'US Advanced Analytics Survey' expect to be using automation and AI within two years to reduce time spent by employees on repetitive tasks, identify high-risk

> It's increasingly critical to connect and share tasks and information (with appropriate controls) across a range of systems, processing modes, and organisational boundaries

cases requiring special attention, and build better risk models for decision-making.

So a key question for insurers will be which parts of what tasks currently done by employees could be handled more quickly, accurately and efficiently by a machine, thereby saving cost and potentially freeing up people to focus their energy on more interesting and higher-value tasks? Which things, due to the required creativity, judgment, or emotional sensitivity, are better handled by people?

Automated pricing and underwriting, underpinned by advanced analytics, is already well-advanced in personal lines, and beginning to gain traction in the small commercial segment. The customer who wants a straightforward, standardised insurance product can get quotes more quickly – typically after answering fewer questions than in the past – and make a purchase quickly from their computer or mobile phone.

Moreover, appropriate use of external 'big' data and advanced analytics can enable insurers to provide products and prices that are better tailored to the individual customer.

Commercial underwriting, with its significant frictional costs, presents an opportunity to employ intelligent automation to determine which risks can run through a no-touch process, the ones that should go through a 'low-touch' process, and those that need a lot of underwriting intervention.

For the most complex risks, AI applications can populate a dashboard to make the underwriter's job easier by providing supplementary information, potentially useful precedents or comparable risks, and so forth – as well as facilitating documentation and governance.

In claims processing, AI applications are already being used to identify potential fraud. 'Smart automation' in the claims process can extend this to bring the claims that need attention to the right handler and process the claims that don't need close attention in a no-touch way.

New distribution channels and means of client contact run the gamut from simple online portals and automated reminders, to chatbot-facilitated purchasing and claims reporting, all the way through to automated brokers, digital MGAs, and commercialised trading hubs.

Using smart automation, these hubs could offer intelligent pricing from a panel of insurers and enable brokers to automate decision rules about which offer is presented to what client.

Regulatory compliance and financial reporting obligations, having increased significantly in many countries, legacy systems that require significant manual intervention may struggle.

Finance and process transformation, making wider use of technology and automation, can address these challenges while also delivering better governance and richer management information.

ALICE UNDERWOOD is global leader of the Insurance Consulting and Technology business at Willis Towers Watson

That said, another plate to juggle may be potential consumer and regulatory wariness about the use of data and complex analytics. For example, there is increasing interest in ways to explain and assess machine learning applications in the context of fairness.

Sharing economy

The challenge is integrating new technologies with legacy systems, and new ways of working with the existing culture of a business. In the past, a company may have wanted to control every part of a process, but that's now changing.

It's increasingly critical to connect and share tasks and information (with appropriate controls) across a range of systems, processing modes, and organisational boundaries.

Insurance products may become more fragmented, with coverages being divided – and potentially shared and connected – across several policies.

> Insurers are attempting to foresee, manage and create value from multiple moving parts that are not only interconnected but also far from uniform in size, weight or shape

At the same time, there may be merging of protections that once were disparate. Given more pervasive automation in vehicles, there are new questions about where the liability of the driver ends and that of the vehicle manufacturer begins.

With the accelerating connectivity of information and technology, no plate spins in isolation. A nimble and truly transformative approach to change requires a ripple effect of responses, a view to interconnectivity, and a coordinated range of skills and contributors.

Not even the most accomplished 'plate spinner' can or should deal with everything at once. After all, even 'The Great Davido' himself had an assistant!

BREAKING THE SILENCE AROUND CYBER

Despite all the chatter about cyber (re)insurance, the industry's response to 'silent cyber' has largely been "nothing to see here!"

Shirley Beglinger unpicks the issues surrounding the peril

For months now, everyone has been talking about cyber. Cyber underwriting, cyber metrics, cyber exposures, cyber events, new cyber insurance policies.

Insider Quarterly's sister publication *The Insurance Insider* has hosted learned conferences and roundtables where brokers and underwriters set out impressive stalls of cyber knowledge.

Insurance companies have been hiring teams and talking up their capabilities and risk appetite.

Everyone has been patting themselves on the back for acting promptly on the PRA's "Dear CEO" letter in November 2016, which publicised two major concerns the regulator had with regards to cyber.

The first was that companies were piling into cyber underwriting with little thought for what, exactly, they were insuring. There were large lines being written on the back of no experience, no statistics and no understanding of exposures.

The PRA desired most urgently that companies wishing to leap into this – admittedly lucrative – area of business should demonstrate they had appropriate underwriting and risk evaluation expertise, solid underwriting controls, and above all, crystal-clear aggregate control.

The second concern was that insurers were not paying any attention to what the PRA calls "silent" cyber cover, i.e. cover extended under insurance policies intended to cover other risks – property, casualty, construction, marine, aviation – whatever.

Such cover, the PRA contended, was essentially being given for free by virtue of not being excluded.

Well, we know the first concern has been addressed. Hardly a day passes without *The Insurance Insider* publishing the appointment of yet another team of cyber specialists with glittering business plans and ambitious premium targets. It seems that – PRA concerns notwithstanding – there had been a great pool of cyber expertise hiding in plain sight in the London market.

The PRA can be well pleased with dragging all those experts out into the limelight. And indeed, their 30 January 2019 follow-up does express guarded satisfaction with companies' efforts to up-skill.

The premium projections for this marvellous new line of business would make any self-respecting CFO salivate, and of course they all come with carefully balanced aggregate control plans so as to ensure the risk/reward balance is in kilter.

Addressing silent cyber

The response on silent cyber appears to be less satisfying, however.

Back in 2016, the PRA was urgently concerned that insurers should get a handle on their cyber exposures. They went so far as to state that companies which failed to demonstrate a robust grasp of their aggregate cyber exposures would be facing additional, possibly substantial, solvency capital requirements.

That sort of threat would seem well-designed to concentrate the minds of CROs and CFOs in the industry. After all, capital is expensive. Tier I capital as defined under Solvency II is very expensive.

Certainly, companies took it seriously at the time, but the response was... surprising. All the major brokers have spent the past several years actively levering open policy wordings, dumping exclusions, broadening definitions and generally introducing as much 'creative uncertainty' into policy wordings as possible.

> In 2016 the PRA went so far as to state that companies which failed to demonstrate a robust grasp of their aggregate cyber exposures would be facing additional – possibly substantial – solvency capital requirements

The idea behind this, so we understand, is that where underwriters have (occasionally) declined to give actual expressis verbis cover, the creative uncertainty will enable insurance buyers to assert in court (or arbitration) that they intended to have the cover and assumed underwriters meant to give it.

The upshot would be a bit of legal argy-bargy, but the creatively uncertain insured might secure insurance cover for some creative situations.

In the midst of all this creativity, I had conversations with the CROs of two large UK insurers. Both assured me they had checked with the heads of their underwriting teams and were confident they did not have a problem with silent cyber.

Anecdotal evidence from colleagues who had conducted similar conversations reaffirmed this view: no-one in London believed they had a problem. This, presumably, was also the message that was fed back to the PRA.

So, since they genuinely believed they didn't have a problem, no-one was going to cause a problem by inserting exclusionary or clarifying language into their policy wordings. Many of us who have grown hoary in insurance can remember previous occasions when clarification was inserted into policy forms, only to have (usually American) insureds then saying: "Aha! So you're saying it was covered before. Well, I have this situation..." And all our good intentions of clarity and transparency went up in a puff of enormous legal fees, fighting off spurious claims.

Besides which, in the current underwriting climate, everything is up for grabs in most lines. Pricing, terms, conditions, reinstatements, deductibles, everything. And when everything is up, nobody wants to be the self-destructive idiot who starts excluding things nobody thought were covered anyway. Brokers have plenty of choice and heaps of capacity; the underwriter who starts getting bolshy will soon find himself with nothing to underwrite.

SHIRLEY BEGLINGER is a director of Shires Partnership Ltd and specialises in insurance and reinsurance disputes, as well as being a longstanding (re)insurance market observer

Policy purge

And so everyone ignored the PRA's anxious fluttering and told themselves there wasn't a problem.

Until there was. And somebody broke ranks.

The rank-breaker was Allianz, which *The Insurance Insider* revealed in November would be reviewing all of its policy wordings to ensure it was crystal clear that there was no coverage for cyber.

Allianz's announcement was followed a short time later by the news (in January this year) that Mondelez, the US confectionery manufacturer, was to sue its insurer, Zurich.

Mondelez had twice been struck by the NotPetya malware, which

Continued on page **36**

> "If Mondelez should prevail [in its action against Zurich] – thereby kicking loose a flood of claims from the many other companies and entities which were impacted by NotPetya – how will reinsurers react?"

it said had rendered thousands of servers and laptops "permanently dysfunctional", according to a report in the *Financial Times* on 10 January. Under its property insurance policy, it sought to recover $100mn for the loss.

Since it's ongoing litigation, both sides are tight-lipped. But the case raises at least three interesting points.

Firstly, what is cyber cover doing in a property damage/business interruption policy?

Secondly, if Mondelez should prevail, thereby kicking loose a flood of claims from the many other companies and entities which were impacted by NotPetya, how will reinsurers react?

And thirdly, is there merit in Zurich's argument that the NotPetya attack triggered the policy exclusion for "hostile or warlike action" by a government or sovereign power or people acting for them?

Further to this, the question arises that if there is merit in the above argument, where does the industry go from here?

Does what it says…

So this is what the PRA was on about back in 2016, and indeed is still banging on about in its January 2019 follow-up.

We hoary practitioners remember the days of yore when, for example, a professional indemnity policy did what it said on the tin, but only what was on the tin. On the tin, it said something to the effect of "indemnity for errors and omissions arising during the provision of professional services performed for a fee".

Fast-forward to the present time and we have something that sounds like "all risks of civil liability" with a few hotly contested exclusions relating to deliberate wrongdoing and criminal acts.

Similarly, in the property market, the traditional cover was for "all risks of physical loss or damage…", and there was a carefully worded exclusion to make sure everyone understood that computer crime and computer virus did not constitute "physical loss or damage".

That too has gone by the wayside, and thus we come back to Mondelez suing its insurer.

Should Mondelez prevail, it may well open the floodgates. Many property underwriters seem to have believed that cyber was all about using the computer to steal money or credit card details or, possibly, identity.

If your insured is a chocolate manufacturer, they don't hold that kind of information and so are not at risk.

Yes, well…tell that to Merck (pharmaceuticals manufacturer), Reckitt Benckiser (makers of Fairy dishwashing liquid), or Maersk (the shipping company), all of which suffered substantial property damage and commensurate business interruption.

The scale of the problem

So, how big might our hypothetical problem be?

A recent PwC study, 'Cyber security insurance – how can insurers quantify the risk?', commented that: "While 85 percent of [insurers] claim to have a loss estimation methodology in place, the majority use simplistic exposure and factor based methods which were in the past shown to underestimate the risk. This is contradicted by the fact that 70 percent of respondents believe their method to be overly conservative."

That is a long-winded way of saying: "Everyone thinks their loss estimate is conservative but we don't agree."

The PRA's 30 January letter summarises the results of a similar survey it conducted after their initial warning.

It seems that insurers confirmed they have a significant exposure to cyber through multiple lines of business. However, very few have a formalised cyber risk-appetite or a board-agreed strategy for dealing with the threat.

In extra-specially dry-as-dust regulator-speak, the PRA remarks (my translation) that most insurers' models, loss estimates and management information amount to little more than well-presented fag-packet maths.

So I did a little fag-packet maths of my own…

- Companies House tells us there are 3.1 million companies registered in the UK, of which 2.8 million are active.
- If we assume that 70 percent of those companies are subsidiaries or consultancies or otherwise not involved in manufacturing, that still leaves us with 840,000 companies buying property or casualty insurance or both
- Let's assume the top 1 percent of companies buy PD/BI for £50mn each
- The next 5 percent of companies might buy PD/BI and/or some form of liability for a combined total of, say, £10mn each
- The remaining 94 percent of companies might buy combined property/casualty cover for say £1mn each
- Aggregate exposures for silent cyber might then work out as follows:
  Top 1%: 840 companies x £50mn each = £42bn
  Next 5%: 4,200 companies x £10mn each = £42bn
  Remaining 94%: 789,600 companies x £1mn each = £789bn

Aside from creating an impressive number for aggregate exposures, our fag packet can probably discount the small fry.

But now let's assume a cyber event that inflicts losses on:

- 5% of the top 1%, say, 50% of their limit each = 42 x £25mn each = £1.05bn
- 5% of the next 5%, at 50% of their limit each = 210 x £5mn each = £1.05bn

That's a £2bn single event loss – hardly cause for concern.

But there is of course a high likelihood that London underwriters in particular would be picking up losses in their US portfolios. Bear in mind that three of the four high-profile victims of NotPetya referenced above were American companies. According to Lloyd's, 40 percent of their business emanates from the US. So let's hike that £2bn by 40 percent to allow for US exposure.

Now we're at £2.8bn, presumably spread around the market roughly in proportion to market share.

The reinsurance incalculable

A loss of £2.8bn is still not cause for concern, unless reinsurers get stroppy.

Their argument might be that they priced per-event, non-proportional treaties for natural perils such as earthquake and windstorm. Cyber was never contemplated in property catastrophe treaties. Ergo, no premium has been paid for the risk, and – since the treaty is non-proportional – they are not obliged to follow the settlements as they might be under a proportional treaty.

At the very least, this would give rise to a lengthy court battle. In that case, underwriters would find themselves covering their cat XL retention, and that part of the aggregate loss which they expected to recover (swiftly) from reinsurers.

Depending upon reinsurance structures, that delay might cause a significant drag on cash-flow. If the courts found in favour of reinsurers, it would result in a big hole in the profit and loss, which would drop into the balance sheet in the form of a reduction in solvency capital.

And that would bring us to exactly where the PRA threatened back in 2016: if the industry can't quantify its silent cyber exposures, then the industry needs to set aside additional solvency capital to allow for unbudgeted catastrophes.

> "It seems that insurers confirmed that they have a significant exposure to cyber through multiple lines of business. However, very few have a formalised cyber risk-appetite or a board-agreed strategy for dealing with the threat"

The war exclusion

In denying the Mondelez claim, Zurich has invoked the policy's war exclusion, which at first glance seems a little far-fetched. After all, who ever saw a war exclusion invoked? But both the US and the UK have blamed NotPetya on state-sponsored Russian hackers who were supposedly targeting the Ukrainian government.

So if the primary bad actor was a hostile state (and we all seem to assume that the Russian state has become universally hostile), then it follows that the act itself must be at least an act of terrorism if not an act of undeclared war.

No doubt the clever legal minds who will orchestrate the court fight between Mondelez and Zurich will think of many permutations, but two spring immediately to mind.

None of us now active in insurance can remember the bombing of Guernica in 1937 which gave rise to the near-universal exclusion of war in insurance.

Nor do we remember the painful debates which led to the recognition that state-sponsored hostilities would almost inevitably lead to damage so great that private enterprise could never hope to have the means to insure it.

Thus, the exclusion has held up constantly, despite the broker wordings onslaught. Over the subsequent decades, many of us may have come to assume that the exclusion was aimed at damage arising out of direct hostilities between two states.

When you think about it though, the assumption of direct hostilities is rather illogical. After all, the original bombing – by the German Luftwaffe and the Italian Aviazione Legionaria against a Basque city in Spain – was not necessarily direct hostility against the nation of Spain itself.

The civilians slaughtered in Guernica were seen as collateral damage in Franco's drive to power. Ergo, decades later, 'hostilities' must also include collateral damage to other states, people or enterprises.

But if that is true, where do 'state-sponsored hostilities' start and stop? Who pays for the collateral damage? And how?

The Guernica question

It seems that, without applying any great expertise or logic, we find ourselves between a rock and a hard place.

On the one hand, the insurance industry cannot step up to insure the damage caused by state-sponsored hostility – be it war, terrorism, theft of intellectual property or just outright larceny. The industry simply does not have enough money.

On the other hand, it cannot be in the public interest for insurers to declare: "ha, 'act of war', see – not covered – you're on your own!" and go whistling off to lunch. There would be all sorts of legal and societal mayhem.

The nature of the cyber threat is murky and poorly delineated. Who can say whether a specific event – be it NotPetya or WannaCry or whatever will next be launched at us – is state-sponsored hostility, criminal intent, experimental

Continued on page 38

> The nature of the cyber threat is murky and poorly delineated. Who can say whether a specific event is state-sponsored hostility, criminal intent, experimental hacking or just plain stupidity?

hacking or just plain stupidity?

One thing is clear though: the industry had better find a solution before the trickle of claims becomes a flood.

A clever reinsurer might design a cover that reinsured a cedant only for higher-frequency losses which exceeded a certain size threshold (eg £25mn) in a defined portfolio (e.g. of cyber policies).

The clever reinsurer would still have the problem of reinsuring the (possibly) uninsurable and so would need to fix a hard aggregate limit on his exposure, and charge a commensurate up-front premium.

Our clever reinsurer might have backing from ILS-type capital markets rather than traditional reinsurance capital. Capital markets in recent years have been careful to stick to the well-trampled path of windstorm, earthquake etc, and have seen their returns drop dramatically as a result of their timorousness.

Perhaps now – when the world is awash in capital chasing dwindling returns – would be a good time to evaluate structures which assume *a priori* unstable frequencies and occasional catastrophic event losses.

Investors in such securities could demand appropriate risk premiums, knowing that the asset class would be completely uncorrelated with any other insurance-linked security.

Perhaps the moment has also come to revisit, repurpose and expand Pool Re.

Their website tells us that the entity was established following the Baltic Exchange bombing in 1993, in the depths of the "Irish Troubles", to insure terror-related damages.

It collects premiums across the insurance industry and pays out accordingly for terror incidents. Should a terror-related event exceed their means, there is a mechanism for HM Treasury to step in and be reimbursed over a number of subsequent years by insurers, depending upon each of their market shares.

Pool Re has been laudably proactive with regard to cyber. It placed retrocession that ensures it can cover property damage and business interruption directly caused by a cyber terrorist attack up to an amount of £2.1bn without recourse to that government backstop. It might even go further.

[Editor's note: Pool Re has indeed gone further. As sister publications Trading Risk and The Insurance Insider first reported on 19 February, Pool Re has placed a £75mn cat bond via its Baltic PCC special purpose vehicle, paying a coupon of 5.9 percent – with the launch officially confirmed a week later. The cat bond will cover terror attacks from various possible causes including explosive devices, chemical or nuclear explosions, as well as physical damage from cyber attacks.]

Expanding cyber cover

Thinking back to the IRA's bombing campaign in Britain, many people would have described its members as terrorists, some would have described them as criminals, others as freedom fighters, and perhaps some as just plain crazy.

The same could be said of today's cyber 'warriors'. It will remain impossible to differentiate between hostile armies, freedom fighters, criminals and daft experimenting teenagers.

Whatever the source, in our interconnected computer-controlled world, the loss potential of a major cyber attack has leapt exponentially and may well be far higher than the material damage exposures contemplated in the City of London's disaster planning.

What would it take to knock out the power network? Take down the mobile phone systems? Crash the electronic payments system? And what would be the knock-on effects for our economy?

The UK government has been understandably reticent about creating a 'Cyber Re', and indeed has commissioned industry reports which were carefully designed to reach the conclusion that no government backstop would be required.

But there need be no great leap of imagination or regulation for Pool Re to expand its ambit to cover all cyber for which it has received a premium.

Yes, the insurance industry as a whole would need to agree the necessity and put in place the mechanisms for premium reporting and collection. We shall need to design cover forms and a premium scale, and both will require regular updating as statistics roll in. There's a lot of work to be done, and much ground to cover.

[Editor's note: The new Pool Re cat bond will not provide non-damage business interruption cover in cases where businesses have not been damaged but have shut down due to proximity to an event.]

It's not completely terra incognita. We've been here before, and we know this is what London excels at: finding answers to intractable problems.

No other marketplace in the world can match London for sheer exuberant ideas, for finding proxies where statistics are lacking, for coming up with structures that work.

Now more than ever, with the Brexit winds blowing cold in our faces, London needs to prove its unique talent for finding workable durable solutions.

We're in the 21st century now, dealing with 21st century challenges. So we need new (or expanded) workable durable solutions, before we have the cyber equivalent of the Baltic Exchange bombing. And we need them quickly.

DIGITAL VISION

Sabine VanderLinden argues that digital transformation is not merely a cosmetic change, but a journey involving structured innovation and the power of collaboration

> "Organisations that can take their marketing dollars and pounds and focus down to the individual rather than the generic will see much higher returns"

Given the amount of ongoing hype, it seems that 'digital transformation' is still a favourite hot topic ticket across a range of industries.

However, despite years of discussion on the topic and the obvious need for digital transformation, even in cautious sectors like the insurance industry, recognising the productivity, efficiency, operational and financial improvements of digitally enhanced systems (including processes and customer engagements), let alone adopting a transformation, remains an elusive vision for most.

The result? Often, organisations have slipped into delivering what some have nicknamed a 'digital makeover'. This describes a shallow approach where things like a few digital marketing strategies or the use of more segmented databases have been employed to cover for the lack of engagement and the willingness to do what is required to adopt new approaches.

Delivering innovation

With digital transformation still firmly on the radar, we also see the rise of a new hype term: innovation. A day can't go by without another article posted on this new requirement, often hailing it as the answer to all our digital transformation sins.

Innovation is a powerful tool but, much like its cousin digital transformation, teams can run the risk of slipping into a similar shallow approach. To be groundbreaking, it seems, is more difficult than expected.

While it is business critical in today's highly competitive world to stay relevant to customers, the cognitive biases and blind spots that we bring to work with us every day impact our ability to deliver the fresh ideas required to meet this need.

In other words, the very essence of the challenge requires start-ups and corporates to be innovative. However, due to our own human nature getting in the way, organisations tend to fall short. What is widely seen as innovation can often just be a poorly designed experiment or a badly designed digital transformation that only touches on its possibilities. Innovation is most often not a natural state and needs to be learned and even cultivated.

A painful realisation for many is that innovation is not an accident. It's the result of an ongoing journey of discovery, developing processes, building skills and a large amount of hard work. The InsurTech team within Rainmaking.io believe it to be a learned skill that start-ups and corporates alike must embrace at all stages of their evolution.

To harness the power of innovation and build businesses or propositions that drive real competitive advantage, you need structure (which may seem counterproductive to many) and process.

Often, organisations put in place teams or even innovation centres without the right structure, communication, governance and tools to effectively strengthen their abilities to drive towards real change.

It is necessary to build in the skillset and mindset as a process in order to produce the critical internal capabilities that allow organisations to sidestep their blind spots.

Innovation must be seen as more than just a project; it needs to become a core organisational capability. Building a framework into your organisation will allow you to capitalise on the ideas that matter most and, possibly even more importantly, scale the positive impact across the business.

Organisations that leverage this approach can unlock clear benefits, increase their speed to market and transform internal innovation beliefs to sync with the business strategy and drive high-value impact and growth.

Corporates can learn a lot from the fresh-thinking start-up space where there has historically been more emphasis on leveraging the hard work of new thinkers and innovators.

Due to the liberation of resources through advances in technology and direct access to the connected consumer, there has been a shift in power, and a small but smart innovative business, the SME, can now have as much influence and share of wallet as more significant players.

With less history, regulatory impacts or complicated requirements to drive return for shareholders, we have seen the rise of hard-working and nimble InsurTech challengers that are daily impacting the insurance landscape for the better.

There are three areas that are clear lenses and views on the direct impact and opportunity offered.

Honesty and transparency

Increasingly, the millennial generation and the younger population are looking for something very different when it comes to the services they choose.

They aren't merely content to go with the old-school brand names based on blind faith and trust. Millennials want to feel connected to those businesses they engage with and think share their values.

Honesty and transparency are perhaps more natural at the SME level, as it is easier to build trust, transparency and relationships with your customers when you have fewer layers between you and them. But it's important to challenge any preconceptions regarding your customers and remember they do have many more choices than ever before.

Big businesses can learn from start-ups in terms of how to use tech (such as artificial intelligence, machine learning, augmented reality and the Internet of Things) to foster trust-based relationships with their customers.

For larger enterprises, this is a great area to consider a partnership approach where technology gains are brought in from focused start-ups who have the ability to target these tools to make significant step-changes in personalised engagement.

In unsettled times, this desire for authenticity through honesty and transparency can be a game changer for many brands.

The local factor

A highly distinctive area in which start-ups and SMEs are shaping the future is through their ability to capitalise on hyper-localisation in a range of different ways.

Tech – working within the remits allowed by GDPR and other regulations – makes it possible to know the precise locations and behaviour of individuals. This allows advertising and targeting in an incredibly tailored way, which again is often more accessible for these typically nimbler organisations.

The businesses which are particularly booming are those utilising location and behaviour knowledge to their advantage. Larger businesses get lost on the national or international stage and lose the regional avenue.

SABINE VANDER LINDEN
is global CEO for InsurTech at Startupbootcamp and partner at Rainmaking

Organisations that can take their marketing dollars and pounds and focus down to the individual rather than the generic will see much higher returns.

Changing nature of business

We also need to look at trends in the nature of work. There is an increasing shift towards flexible and remote working, again being empowered largely from SMEs upwards.

For instance, the number of SME freelancers grew by 43 percent in the UK between 2008 and 2016. And with the advancements of digital capabilities, we're often less confined by the physical premises of an organisation.

Smaller organisations are again in the prime position to benefit from this, as they can build a team of remote workers without the need for expensive premises. This both keeps operational costs down and allows for the even more important ability to hire talent more effectively. This flexibility feeds into their ability to be more innovative and potentially more successful.

How large corporates take advantage of this ongoing shift will continue to be interesting but, again, collaboration will play a role.

Ultimately, the impact of the digital transformation and its accompanying need for innovation means it's no longer accurate to say the only drivers of change are the macro giants – whether that's the economy, politics, or large industry names.

Digital transformations and innovation are here to stay, and they are democratising the ability to generate positive results. The key is to step back and view both digital transformation and the rise of innovation within your team as a journey to gain agility, adapting to the changes happening around us, such as the increasing demands of the digital economy and the connected customer.

Open yourself to the structure of innovation and the power of collaboration to deliver the promises of digital transformation.

MAKING A DIFFERENCE

Ian Summers says willingness to better embrace technology has the potential to drive both stronger underwriting results and greater efficiency in the London market

The London market continues to shape its response to the changing global risk market. Lloyd's CEO John Neal has been looking to define the market's direction and already we are seeing a clear move towards a focus on profitability, which will be predicated on better underwriting decisions.

There also seems to be an agreement that the delivery of those better underwriting outcomes will be based on the ability to access real-time data.

There is a growing requirement for greater levels of data to enable underwriters to better assess the risks they are being asked to assume. The mantra we are hearing is that more information delivers more informed assumptions and better decisions.

Internationally, the industry's efforts to achieve its aims around data – in particular in the US property market – highlight the challenges that London faces.

The US property market constitutes a sizeable percentage of London's business and we are seeing local carriers accessing and using far more granular data than their London counterparts.

It creates a situation where local carriers have a better idea of the risks and therefore can identify those which can be deemed as more attractive.

This puts London in danger of being left with those policies which come with higher risks attached, as they struggle to access granular data.

Market interface

Traditionally, London has been more of a portfolio management market,

> "There is a growing requirement for greater levels of data to enable underwriters to better assess the risks they are being asked to assume"

but we need to have the ability to look closer at the risks if we are to identify those which we need to either re-rate or remove from portfolios.

There is pressure on underwriters to write profitable business. However, to do so, underwriters must recognise the need for business to be distributed more efficiently – it will no longer just arrive at the box.

It is also clear that they have to better understand their clients' wants and needs in order to develop the products they require.

As the need for better distribution increases, it is also being driven by the changes we are seeing in terms of how the market interfaces with its clients.

Technology can help. When it comes to product distribution and rating we need to have the ability to work with our clients – be they MGAs, brokers or policyholders – by changing the way they interface with the market.

Innovative new products should come "pre-filled" with industry data enabling clients to access solutions quickly and easily and enabling online quote-and-bind and delivery of the policy automatically in real time.

It comes down again to technology to create and deliver a distribution and rating tool that has the ability to access data and make product and pricing changes quickly.

We need in many ways to empower our current and future clients and underwriters by providing access to data, via the use of better technology.

Traditional disruptor

Much has been said around the issue of InsurTech. At Sequel, we do see ourselves as an InsurTech company, but in the more traditional description of that of a company which delivers innovation and disruption to the status quo – not in the popular, current new start-up mode.

As a firm, we believe we have helped – and continue to help – the market to innovate and we have certainly disrupted.

As a market, London is a specialty centre, with the bulk of its business written on a bespoke basis. Therefore, underwriters and brokers have specific needs and there is a demand for a broad range of technologies and tools.

The issue in the past has been the ability for companies to access the specific technology in a way that enables them to effectively "plug and play" into their systems.

As a market and as a firm we want and need to drive seamless products that will enable the more efficient collection and use of information and data.

The rewards for successfully implementing technology are potentially significant for London.

We are all aware of the issues that have been identified around the frictional costs of underwriting within the London market. For all our history, innovation and underwriting expertise, the costs of doing business remains an issue.

Technology can and will make a difference. If we can successfully lose 20 points off the cost of administration within the London market we can only imagine just how much more competitive the market would be.

Freeing up capital

Technology is already making a difference, but there is still more the market can do.

The debate over the use of technology to replace staff, by undertaking repetitive and time-consuming tasks, is not new, but the market has to look at how technology can build stronger connections to its clients and reduce overheads – therefore enabling companies to free up capital for other areas, many of which are client facing and revenue generating.

Internally the market is also wrestling with how it can best use the technology. We are seeing participants looking at how they can potentially disintermediate those up or down the value chain and clients who would like to go direct.

It is becoming clear the wholesalers need to show how they add value and efficiency to the process. Underwriters need to create a system that enables better use and understanding of data, to better deliver new products and pricing.

Underwriters who look to solve the challenges and harness the available technological tools to understand the information they have the ability to access will find that they will outperform their peers and deliver tangible efficiencies.

Clients demand more as competition continues to push firms to look at ways in which they can deliver more, enhance responsiveness or increase speed to market.

Feeling the benefit

The issue remains that for technology to aid the market it needs to be seamless but, more importantly, to deliver across the whole transactions process.

You can have and understand the best possible data, but if the underwriting systems are poor then the data will be wasted.

You can have the data, the underwriting and with it the products, but unless you have the ability to swiftly adjust and revise those products much of the benefits would be wasted.

The same can be said with an inefficient administration system, and an inefficient distribution chain.

There needs to be a broad approach to technology and its use. Firms need to see their relationship with technology not simply as the acquisition of a product, but the creation of a partnership that will drive current and future thinking.

I say "future" as technology will continue to evolve – and with it, the ability for the London market to reduce its frictional costs and enhance the way in which it distributes its products and interacts with its clients.

Effective and quality underwriting will remain at the heart of what the market does, but the role of technology cannot be underestimated.

IAN SUMMERS is CEO of Sequel

DIALLING DOWN COSTS

With the (re)insurance market seeking to embed cost efficiencies, **Aidan O'Neill** says firms can harness the power of claims tech to drive down expenses

As a technology claims professional, I naturally have one eye on trends and events that affect payouts to policyholders, but I believe it is important to maintain a broad perspective on wider issues that have an impact on DOCOsoft's insurance customers.

That's why my eye was drawn earlier this year to a *Financial Times* (*FT*) report on the 1 January reinsurance renewal season, which acts as a kind of barometer for how the insurance sector is likely to perform in the next 12 months.

The *FT* reported in the New Year that reinsurers faced a tough start to 2019 with renewal prices flat – yet again – despite industry hopes that a second year of natural disaster losses would boost prices.

According to the *FT*: "That will add to pressure on the business models of companies that sell insurance to insurance companies after years of falling prices."

As anyone with even a passing knowledge of global reinsurance trends can tell you, the industry is deep into one of the longest soft-market cycles in living memory.

What is unusual about the present soft reinsurance market cycle is that last year was the fourth most expensive on record for the insurance industry, according to estimates from Swiss Re.

> There has been much excitement about the potential for InsurTech solutions to reduce expense ratios, while leveraging the power of data

The reinsurance behemoth said wildfires in California and storms in Asia and the eastern US resulted in $79bn of claims payouts in 2018.

If you then factor in the increase in payouts from hurricanes Harvey, Irma and Maria in 2017, that led to more than $100bn of losses.

Cutting expenses

This is the reason why there has been so much excitement at insurance events and conferences over the last three or four years about the potential for InsurTech solutions to reduce expense ratios while leveraging the power of data.

The week beginning 4 February was the start of London market conference season. Three major events brought together hundreds of senior insurance executives to debate the year ahead.

DOCOsoft attended all three events, including *The Insurance Insider*'s 'Insider London' conference, and there was plenty of analysis as to what London market claims professionals can expect in 2019.

At the first conference I attended, an insurance group CIO started with a talk on driving forward innovation to enable digital transformation.

This Lloyd's managing agent is turning to new technologies such as ECF Write-Back to drive efficiencies and improve productivity. But he said it's a fine line for today's CIO to navigate through the dangers of being seen as either a steamroller or order-taker in today's tech-driven world.

He explained that those working in insurance in the future must be "purple people" who understand insurance and technology, not "red" insurance people or "blue" tech people. The market needs cross-functional purple teams. Purple power!

Modernisation and transformation

According to one CEO, a majority of Lloyd's managing agents are in the middle of digital transformation initiatives. However, many are still re-keying data across multiple systems, which introduces errors and increases inefficiencies.

During her speech, the speaker noted that we need to introduce end-to-end solutions across underwriting and claims. We should be "drenching every tech sticking point with digital tech solvent". I thought that was a snappy line!

According to her analysis, we have to overcome the VHS versus Betamax challenge. If you are a top of the league carrier you probably need a state-of-the-art system, which means there should be different flavours of platforms e.g. hi-end specs for Tier 1 carriers to more simple platforms for the mid-tier players.

London is losing market share, according to a senior leader in charge of market modernisation. His view is that the market must focus far more on customers, which means we have to get better at accessing market data.

We need to be able to see, for example, where claims are in the cycle at any given time to make it easier for end-user customers to understand the process.

He explained: "We want to help underwriters to meet their regulatory requirements, improve visibility of claims and make it easier for cover-holders, with quicker claims settlement, but it should not just be specific to London. TOM [Target Operating Model] needs to help break down silos and get the underwriting and claims communities better connected."

More agile processes

According to one of the claims director speakers at a recent conference, Lloyd's expense ratios are 40 percent. That is high compared to some of our peers, whose expenses are around the 30 percent mark or even lower.

This speaker believes the market needs to look at more agile processes, which are more iterative and incremental.

We should build workflow processes that produce cost efficiencies over time. In addition, we should look at how claims processes can be automated. Digital process automation is the future, as is optimal character recognition.

At the same time we must make sure that audit, compliance and regulatory processes are fit for purpose.

AIDAN O'NEILL is CEO of DOCOsoft

> "While we all recognise that machine learning and Blockchain technologies may be the future, the fact is that the market need to embed cost efficiencies right now"

London needs to learn from other sectors such as banking and media, which are far more advanced than insurance. Obtaining better management information is the opportunity. Insurers also have to be better at consolidating core systems. Agile transformation will drive iterative and collaborative processes.

Lloyd's achieved 14 percent growth in a softening market, which is remarkable in its own way, but it came at the price of a lack of underwriting discipline.

Reinsurance pricing is flat while insurance rates are up 4 percent. Lloyd's is worse than our peers in this area so we require a clear game plan.

This poor performance masks the success of global claims payouts, which totalled £200bn this century – an extraordinary statistic.

Operational excellence

Finally, a chief operating officer at one of the largest Lloyd's syndicates explained that we must have a better understanding of our delegated authorities.

If you are a run-off business or a Tier 1 carrier you need different types of technology with different requirements for different brokers and carriers that are appropriate.

Claims are a huge opportunity to understand clients' needs, respond effectively, understand the importance of claims to reputation in the marketplace and get closer to the customer. Claims data can be used to provide competitive advantage and help with e-distribution.

"We need to understand our customers' pain points; start with the problem, not the solution," he said.

So that was my summary of the recent conference season. The main takeaway for me is that the London market seems to be going back to basics.

While we all recognise that machine learning and Blockchain technologies may be the future, the fact is that the market needs to embed cost efficiencies right now. That is a message that DOCOsoft has got loud and clear.

FINANCE TRANSFORMATION

Richard Tyler explains why life is getting tougher for finance teams and how technology can transform processes that reduce cost and help drive growth

When EY published its largest-ever survey of CFOs and finance leaders in the insurance sector, the collection of data and sentiment spanned over 60 insurers of varying sizes across different regions and lines of business.

The findings of the 2016 survey revealed a range of views on business and finance priorities, with growth and profitability being the primary challenges for CFOs as they look to the future.

In particular, expense management is regarded as an ever-increasing priority for insurers as the continued soft market, catastrophe losses and modest investment returns all put pressure on profit margins.

Now, three years later, those challenges are even more pronounced as the market continues to experience a surge of M&A activity and ever-emerging regulations, forcing companies to address the complexities of integrating people, processes and technology while maintaining a growing and profitable business.

Nowhere is this more keenly felt than the Lloyd's market. Last September its performance management director Jon Hancock insisted that "every syndicate must reduce expenses" in their 2019 business plans.

Further afield, despite slowly improving returns across the Bermuda and US specialty markets, companies are increasingly focused on making operational improvements in a bid to increase margins.

In a Morgan Stanley survey of P&C carriers, analysts said: "In the current pricing and interest rate environment, expense management becomes more important for P&C companies to maintain or improve return on equity. Management is increasingly focusing on technology to improve operating efficiency."

Threat or opportunity?

Seeking operating efficiencies is of course nothing new in the insurance industry. The London market Target Operating Model project is just one current initiative focused on harnessing technologies to improve processes across functions such as distribution, underwriting and claims.

Market modernisation remains a top priority as new CEO John Neal aims to make Lloyd's the "world's most technologically advanced marketplace that delivers outstanding value and products for our customers".

From a broader perspective, PwC's recently published 22nd Annual Global CEO Survey of 140 insurance industry leaders reveals that the sector's early hesitation over adopting new technologies is drastically shifting to a mindset of embracing digital transformation.

Today, PwC says, "70 percent of CEOs are relying on operational efficiency to drive growth". They are looking to new tools and technologies to automate back-office processes and controls, freeing up resources to focus on growing capabilities and client-facing offerings.

For companies to thrive within the insurance industry, technology must be at the top of every boardroom agenda.

From a finance perspective, this means that today's insurance CFO must adapt to ensure that their business benefits not only from operational efficiencies and reduced expenses, but also from a transformation in financial management that aligns with business strategy and supports future growth.

The changing CFO role

Accounting, budgeting, statutory and regulatory reporting have always been the traditional preserve of the finance team, and while these remain a core part of insurers' operations, the role of the insurance CFO is becoming more strategic.

According to EY, 48 percent of insurance CFOs now demand faster, more relevant and integrated financial analysis that enables better insights to empower decision making across the enterprise. In fact, it's their number one finance priority.

At the same time, ever-increasing regulatory reporting demands and continued industry mergers and acquisitions create unique challenges where insurance CFOs need a different set of skills to those traditionally required by the finance function.

Understanding how new technologies and sophisticated data analytics can be aligned with finance, risk and actuarial information is essential for today's CFO. IT expenditure cannot be viewed simply as a drain on capital. When intelligently applied, the right technology will not only drive cost reductions, but will also generate opportunities to transform, protect and grow the business.

Using the right technology to reliably predict the financial implications of business decisions is crucial – the more access a CFO has to reliable financial data, the more they are able to develop future strategy by gaining measurable insights into business performance.

Accenture's multi-sector Digital Adoption in Finance survey supports this view – nearly a third of company CFOs reported that digital finance investments were transforming their business beyond the finance function.

But why is finance transformation now emerging as one of the top strategic priorities for the insurance industry?

Finance transformation

Finance teams across the insurance industry are all too familiar with increasing regulatory and statutory financial reporting demands – from Lloyd's and Solvency II Pillar 3 submissions to US GAAP and other international, national and state filing requirements.

EY's survey stated that faster reporting timeframes for annual and quarterly reporting periods ranked among the most important priorities for insurance CFOs.

The pace of regulatory and accounting change continues

> "When intelligently applied, the right technology will not only drive cost reductions, but will also generate opportunities to transform, protect and grow the business"

with IFRS 17, which imposes new reporting requirements that must be met by January 2022.

This creates an additional and very significant demand on insurers which see integrated data, systems and processes across finance, actuarial and risk functions as being critical in complying with the required standard.

All of these demands place huge pressure on already over-stretched finance teams. Despite working with disparate and antiquated systems, these teams are being asked to do more, more frequently and within increasingly tight deadlines.

Data, systems and processes

Insurers both large and small all have some degree of inflexible and siloed legacy systems with unreconciled data housed in multiple places, often with no central data warehouse as the "single source of truth".

Using large and complex spreadsheets to handle the vast majority of finance and accounting processes continues to be the norm across the insurance industry. The problems of this over-reliance are both well-known and generally accepted as "the best it can get", with finance teams resigned to the resulting inaccuracies and inconsistencies.

Working long hours and hiring additional resources – particularly around reporting deadlines – is not uncommon to ensure the manual adjustment and reconciliation of financial information is reliable, compliant and completed on time.

Ongoing M&A across the insurance market only adds to the existing IT disparity, creating an increasing need to deftly consolidate related entities that bring with them multiple systems and data sources.

Similarly, those companies with Lloyd's businesses are faced with different data structures, accounting periods, foreign exchange methodology and reporting requirements.

Digital transformation

Life is getting tougher for insurance finance teams. The widening gap between today's technology assets and tomorrow's finance requirements must be bridged in order for insurers to survive and face the future with confidence.

But genuine and meaningful finance transformation that improves efficiency and reduces cost is only achievable through the intelligent and targeted use of technology.

A growing number of insurers are investing in finance transformation initiatives that not only stimulate new ideas about how they will manage finance and accounting processes in the future, but which also start to deliver genuine and tangible benefits to their business.

Technology clearly has a key role to play in all of this. Integrated finance systems that automate and streamline previously manual processes, enhance data integrity and accelerate regulatory and statutory reporting, can provide huge benefits to today's insurer and help drive enterprise-wide transformation that improves overall business performance.

RICHARD TYLER is CEO of Phinsys

WHO'S LIABLE?

Antony Colman assesses the effect of the UK's impending exit from the EU on product liability claims

Picture the scenario. A UK importer of products manufactured in another EU member state sells them to retailers, who in turn move them on to end users.

A defect in such a product causes personal injury and/or damage to property which is for the user's private use, occupation or consumption.

The producer has exercised due care in the design and manufacture of the product; expert evidence cannot establish how the defect arose.

The importer has verified the producer's standing and quality assurance procedures and tested samples of the incoming product (for the duties of a distributor, see *Watson v Buckley, Osborne, Garrett & Co Ltd and Wyrovoys Products Ltd* [1940] 1 All ER 174).

Negligence cannot be established against either the producer or the importer.

Who, if anyone, is liable for the damage, and how will this change upon the withdrawal of the United Kingdom from the EU?

The current position

Contract: The end user may have a claim in contract against the retailer. However, if the injured person is not the purchaser but, for example, a member of their family, they will have no claim against the retailer.

Part I of the Consumer Protection Act 1987 (the CPA): Provided that the importer identifies the producer, they will be under no further liability to the injured person (Section 2(3)).

If the injured person can prove the defect, the damage and that the defect caused the damage, the producer will be liable (Section 2(1)).

The injured person need not prove fault. Whether the product is defective is determined not by its fitness for use but by whether it lacks the safety which persons generally are entitled to expect (Section 3).

Breach of statutory duty: The injured person may also have a claim for breach of statutory duty. Under section 41 of the CPA, an obligation imposed by safety regulations made under Section 11 is a duty owed to any person who may be affected by a contravention of the obligation.

Subject to any provision to the contrary in the regulations themselves, and to defences applying to actions for breach of statutory duty generally, a contravention of any such obligation is actionable.

In *Howmet Ltd v Economy Devices Ltd* [2016] EWCA Civ 847, a factory owner claimed damages from the producer of a device which had allegedly caused a fire. The owner alleged that the producer was in breach of the Electrical Equipment (Safety) Regulations 1994 (since replaced by the Electrical Equipment (Safety) Regulations 2016), having supplied unsafe electrical equipment.

In that case, Part I of the CPA did not apply as the damage was to commercial property. However, where the damaged property is for private use, occupation or consumption, an anomaly arises.

Part I of the CPA was enacted for the purpose of giving effect to Directive 85/374/EEC of 25 July 1985. The Directive provides for a supplier to be liable without fault only where the producer cannot be identified. As between the injured person and the producer, it apportions risk by providing for circumstances in which the producer is to be freed from liability.

A contravention of the Electrical Equipment (Safety) Regulations would not only make all suppliers along the chain of supply potentially liable without fault to the injured person, but also deprive the producer of the defences available under Part I of the CPA.

As appears from the European Court of Justice (ECJ) judgment in *Skov Æg v Bilka Lavprisvarehus A/S* (ECJ Case C-402/03), the discretion available to member states to make provision for product liability is determined by the Directive. To the extent that a claim for breach of statutory duty would be inconsistent with the Directive, it is strongly arguable that section 41 of the CPA should not apply.

> There is some uncertainty over the effect of Brexit on product liability claims, and those potentially affected may wish to take precautions

Jurisdiction and enforcing judgments: On the facts outlined in the introduction, the damage occurred in the UK. The courts of the appropriate part of the UK would have no discretion to decline jurisdiction to hear the claim against the foreign producer (Article 7(2) of Regulation (EU) 1215/2012 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters). A judgment of the UK court would be enforceable in other EU member states (Article 39 of Regulation (EU) 1215/2012).

The position after Brexit

As a piece of EU-derived domestic legislation, Part I of the CPA is "retained EU law" as defined by the European Union (Withdrawal) Act 2018. The ECJ judgment cited above is "retained EU case law". The Withdrawal Act provides for the making of such regulations as may be appropriate to prevent, remedy or mitigate any failure of retained EU law to operate effectively following withdrawal. "Exit day" is defined as 29 March 2019 at 11:00pm, although that may be amended by regulation.

The draft Product Safety and Metrology etc (Amendment etc) (EU Exit) Regulations 2019 will come into effect pursuant to section 8 of the Withdrawal Act, should the UK leave the EU without a deal. Regulation 6 and Schedule III would amend the CPA so as to make an importer of a product into the UK (as opposed to an importer into a member state of the EU) liable for a defect in the product as if they were the producer.

There will be another change. On the facts given in the introduction, the product will have been exported from the EU. If the producer could not reasonably have foreseen that the product or a product of the same type would be marketed in the UK, the law of the producer's domicile will apply (Article 5 of Regulation (EC) No 864/2007 on the Law Applicable to Non-Contractual Obligations).

It is unlikely that that law will make the producer liable without fault to persons who suffer damage outside the EU and who have no connection with the EU (See *Allen v Depuy International Ltd* [2014] EWHC 753).

As the validity, meaning or effect of Part I of the CPA is to be decided in accordance with retained EU case law, the ECJ judgment cited above would continue to apply, although it would not be binding on the Supreme Court.

However, the rationale for it would largely fall away. Part of the motivation for Brexit is for the UK to make such laws as it sees fit. The imposition of strict liability upon suppliers in some circumstances would create divergences between the laws of the UK and those of member states, and entail a differing degree of consumer protection.

Because of the need for additional insurance, it would impose an extra layer of cost on the supply chain and therefore distort competition and affect the movement of goods between the UK and the Single Market.

These considerations would cease to apply after Brexit, but they are reflected in the recitals to the Directive pursuant to which Part I of the CPA is to be interpreted.

As regards jurisdiction, if the injured person is to proceed against the EU-based producer, they will have to show that the UK court is the most appropriate forum for the trial of the action (Regulation (EU) 1215/2012 will be revoked by Regulation 89 of the Civil Jurisdiction and Judgments (Amendment) (EU Exit) Regulations 2019. The position will be governed by Civil Procedure Rules rule 6.37 and Practice Direction 6B). Enforcement of UK judgments in EU member states will depend on the national law of the relevant member state.

Practical considerations

There is some uncertainty over the effect of Brexit on product liability claims, and those potentially affected may wish to take precautions.

Injured persons with claims against EU-based producers may wish to consider bringing their claims before exit day, so long as the courts have no discretion to decline jurisdiction.

Importers into the UK should review their product liability insurance.

And parties in the chain of supply who might claim or face claims against one another for contribution or recourse should review their contracts for terms which might (1) limit or exclude claims, (2) determine which law is to govern them or (3) provide for the forum in which they are to be heard.

ANTONY COLMAN is a product liability specialist with Keystone Law

LATE-CYCLE FIXED INCOME

Matthew Chaldecott explores the investment options for 2019 in a challenging environment for global economic growth

> We think that corporate earnings growth has passed its peak in this cycle, while credit fundamentals have also deteriorated

Last year was a challenging one in the global bond markets, with rising short end interest rates and tightening liquidity impacting sovereign, corporate and emerging debt. The fourth quarter in particular was a tumultuous period for all asset classes given growing concerns about the global economic growth environment and bouts of market volatility.

We saw a sharp recovery in most asset classes in January 2019, but the global economic growth environment remains challenging. Our leading indicators suggest that global economic growth is losing momentum, with downside risks particularly evident in China and the Euro area.

The US economy appears to be recoupling with the rest of the world after 2018's cyclical outperformance. US growth was boosted in 2018 by tax cuts and government spending. However, the impact of the fiscal stimulus is set to wane over 2019; coupled with a restrictive monetary policy stance, we expect US growth to slow back towards its trend rate over the course of 2019.

As far as the US inflation picture is concerned, it remains relatively benign, despite a tight labour market and some modest wage pressures. Consumer and market-based measures of long-term inflation also indicate a subdued inflation backdrop; an "inflation break-out" seems unlikely at this juncture given weaker economic growth prospects and the impact of recent oil price declines.

Indeed, the rise in US Treasury yields over the past two years was mostly attributable to the "real" interest rate component rather than an increasing inflation premium. For the next year, our central scenario is for a further rate hike from the Federal Reserve System (Fed), with a terminal Fed Funds rate in this cycle around 2.75 percent. However, the unwinding of the Fed's balance sheet may serve as the greater driver of tighter monetary conditions, if it continues as planned.

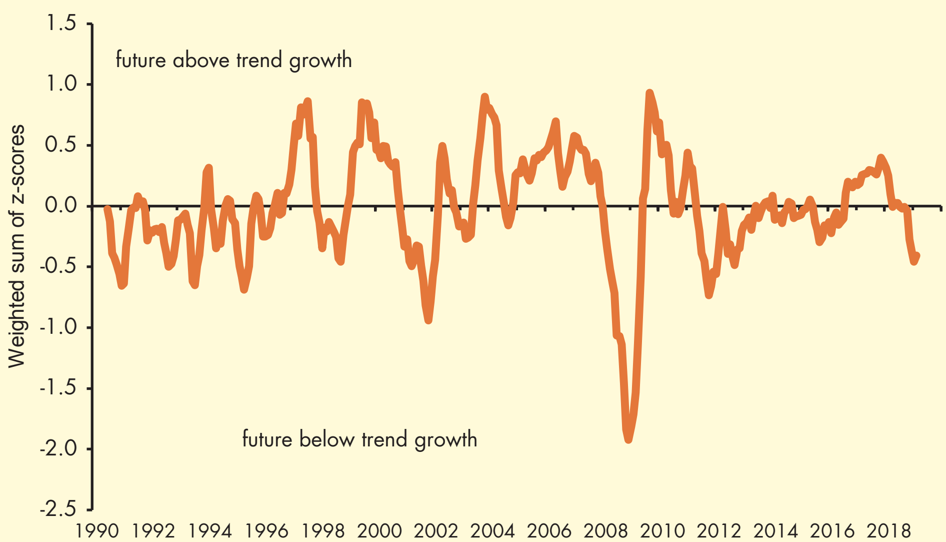
Subdued long-term inflation expectations, combined with rising short-end rates, has led to a significant flattening in the US yield curve in recent years. A flat or inverted US yield curve portends weaker growth or even recession ahead, which in turn is likely to impact the performance of assets such as credit and equities.

In the Euro area, economic growth has been losing momentum since early 2018 and is set to decelerate further to below its trend rate in 2019.

Meanwhile, fiscal sustainability remains a key long-term risk in the peripheral Euro markets; they remain uncompetitive relative to the core economies, requiring further rounds of internal devaluation (i.e. real wage declines) to raise their competitiveness.

As such, the region continues to face a structural disinflationary bias, which will only exacerbate fiscal sustainability concerns in the region. The European Central Bank (ECB) is

AllianzGI Global Fixed Income Team
Global proprietary leading economic indicator



Source: Allianz Global Investors, February 2019
Past performance is not a reliable indicator of future results.

unlikely to raise interest rates in the foreseeable future, but it has brought its asset purchase programme to an end, which was key in helping to reduce government and private sector borrowing costs in recent years.

In 2019, we believe the ECB's targeted longer-term refinancing operations (TLTROs) will be renewed in order to avoid precipitating a credit crunch in the peripheral banking systems.

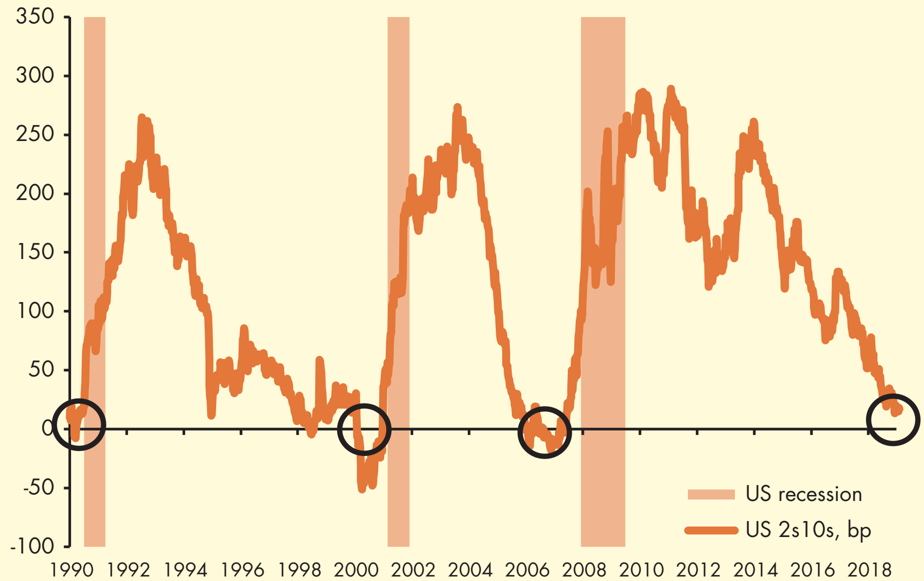
UK economic growth dynamics have also been waning due to softening Euro area performance and Brexit-related concerns. At the same time however, UK inflationary pressures have been evident given a tight labour market and the feed-through from past sterling weakness. This presents something of a quandary for the Bank of England as they try to find a policy path consistent with these countervailing forces.

In the main developed markets therefore, the above trend economic performance of the last couple of years has come to an end, which in turn is reducing the incentive for central banks to tighten policy much further, if at all.

Applying these findings to the credit markets, we think that corporate earnings growth has passed its peak in this cycle, while credit fundamentals have also deteriorated. Meanwhile, segments of the credit markets call for heightened vigilance; leveraged loans, for example, are displaying several warning indicators, with lower-rated issuance rising, covenants disappearing and more than half of new issuance being used for credit-negative activity such as acquisitions or leveraged buy-outs.

High yield bond fundamentals on the other hand are stable, while valuations are fair overall, accurately reflecting default rate expectations. There was a brief window at the end of last year when the whole market looked oversold, but given the strength of the recovery in January 2019, we favour a selective approach with a bias toward higher quality names. We see greatest value in the 3-5 year part of the high yield credit curve.

US Treasury 2y10y spread (basis points)



Source: Thomson Reuters Datastream, Bloomberg, Allianz Global Investors
Past performance is not a reliable indicator of future results.

The area that could be considered to watch is BBB industrials. Following ten years of easy monetary policy, this segment has grown to over 50 percent of the investment grade market, with rising leverage and risks of credit downgrades if the growth picture deteriorates further. As such, we continue to look to move higher in credit quality with a preference for more defensive sectors, including US utilities. Issuer selection will become more important as idiosyncratic risks rise in this late stage of the economic cycle.

In emerging markets (EM), we expect a softer growth environment relative to 2018, with Chinese growth a particular cause for concern. However, sovereign balance sheets are generally resilient, with some markets like Brazil seeing an upswing in activity following a boost to sentiment given a more reform-friendly president.

MATTHEW CHALDECOTT is senior product specialist, Global Investment Platform, at Allianz Global Investors

Valuations within the EM asset class also look attractive following the sell-off last year, particularly now that the US rate hiking cycle is nearing its conclusion. Historically, an easing in the US monetary policy stance relative to the rest of the world has resulted in a softening in the US dollar and consequently good performance for both emerging market currencies and tighter spreads in USD-denominated EM debt.

The technical position for hard currency EM sovereigns is also extremely supportive this year; net sovereign financing is likely to be only around \$2bn in 2019, close to historical lows.

In summary, we think that 2019 presents its own challenges, but with them opportunities. We offer the following key takeaways:

Observation	Active is:
The global liquidity backdrop has tightened	Adopting a higher quality bias and maintaining high portfolio liquidity
Growth concerns and a flat US yield curve may pressure credit assets	Exploiting duration, curve and currency risk for return generation – not just carry
Emerging markets have been oversold and have scope to recover in 2019	Allocating to the asset class, but selectively
Late-cycle dynamics will bring volatility and more idiosyncratic risk	Pursuing a very flexible and very active approach
There are attractive opportunities for active investors	Allianz Global Investors

BEYOND BREXIT

While Brexit will remain the top agenda item for the insurance industry in 2019, **Alex Barnes** warns that there are other issues the sector cannot ignore in the coming months if it is to remain relevant

However much we would have hoped there would have been a degree of certainty, there is still no getting away from the issues around the UK's withdrawal from the European Union.

For both underwriters and brokers, the past two-and-a-half years have been dominated by talk around Brexit. But, while Brexit clearly has the potential for significant change in the market, it has also served as a distraction from the wide range of other challenges for the market around technology, regulation and future strategy.

In terms of Brexit, underwriters have on the whole moved swiftly to look at what needs to be done should no agreement be reached on the continued ability to passport financial services. Brokers, meanwhile, look to be less prepared.

Regulatory moves

For their part, the UK regulators have introduced the temporary permissions regime that will allow EU insurers to continue to underwrite in the UK for a fixed period in the event of a no-deal Brexit. The move was an attempt to break the impasse with EU jurisdictions in the hope they would follow the UK's lead. However, at present, no EU jurisdiction has reciprocated.

The UK has also introduced the financial services contracts regime that will enable European insurers that have UK contracts underwritten before the Brexit date to run off those contracts for a period of 15 years after a hard Brexit. Again, there has been no EU-wide response to the regime but some individual states are developing reciprocal arrangements, so we hope the tide is turning.

There has been some good news for UK insurers as the European Insurance and Occupational Pensions Authority (Eiopa) has contacted European regulators to allow insurance contracts which were underwritten before Brexit by UK insurers to be subject to an "orderly run-off" for the period of their term, without the need for UK insurers to undertake a part VII transfer to a EU-domiciled entity.

However, Eiopa's recommendation makes it clear UK insurers will not be able to underwrite new policies after Brexit in the absence of a new agreement, unless it is through an EU-registered and domiciled business.

Client needs

In addition, it is not just the internal steps that need to be taken but also those of the firms with which underwriters and brokers work.

If you are a broker or MGA you need to know your capacity providers are ready to offer covers post-Brexit, and if you are an underwriter you must be sure your brokers and intermediaries are able to offer your products to clients.

Also, importantly, underwriters and brokers have to understand how Brexit is going to impact the risk profile and insurance needs of their policyholders. Brexit will pose market risk and opportunities, so it is important to work with policyholders on their requirements, or some providers may be left behind. The market has a duty to understand the needs of its clients.

The question we face at present is whether insurers are responding and

> To many in the (re)insurance industry the 12-month delay in the implementation of the IFRS17 accounting requirements to 1 January 2022 has been viewed as a significant bonus

advising appropriately.

Are firms able to meet the requirements that come with any of the potential eventualities which range from a no-deal Brexit to an eleventh-hour deal and then a period of transition as the UK and EU thrash out their future relationship?

InsurTech and AI

Brexit aside, there are other significant challenges for the market too, which continues to wrestle with the implementation of new technology. The rise of disruptors and the continued growth of InsurTech has seen a great deal of time, effort and money expended on how to embed technology into the underwriting and broking processes. The London market in particular is continuing to drive its process-reform efforts.

It does create new dynamics and the potential for artificial intelligence (AI) to further enhance the ability of underwriters. AI has the potential to access data and information which is currently not available and, as such, can enhance the capacity of underwriters to better understand and rate risk.

It comes at a time when the ability to better collect, analyse and utilise data is under scrutiny as (re)insurers grapple with ever-rising amounts of exposure and the demand for new covers for new risks.

But questions remain as to just how big a role AI could play in the future market and what this will mean for staffing levels across the industry.

IFRS17

To many in the insurance and reinsurance industry, the 12-month delay in the implementation of the IFRS17 accounting requirements to 1 January 2022 has been viewed as a significant bonus.

However, understanding the reasons behind the International Accounting Standards Board (IASB) decision means highlighting the need for the market to take urgent action to ensure it is ready for the regulations when they come into force.

When announcing the decision to delay implementation, the IASB said it had taken heed of insurers' warnings that they were facing serious constraints in their ability to meet the original timetable.

It creates a situation whereby (re)insurers will be required to have the systems in place to provide financial reporting in a significantly different manner, and this will come with some unexpected consequences.

The reasons behind its development were clear. There was a view that a lack of transparency existed around the profitability of (re)insurers, and an inability for investors to compare insurers and types of insurers. It was felt that the current system delivers greater inconsistency compared to other industries.

There is a great deal of work for the market to do and it will span all areas of its operations. It is extremely unlikely there will be a further extension and, given the scope of the changes that will come into force with IFRS 17, firms must ensure that work towards compliance is already underway, and that there is a clear timetable as to how they will move towards compliance before the deadline. It is also important for stakeholders to understand the new form of reporting that will come out.

> Underwriters and brokers need to understand how Brexit is going to impact the risk profile and insurance needs of their policyholders

ALEX BARNES is a partner in the insurance practice of BDO

M&A activity

As pressure continues on pricing, the market itself has been looking to its shape and structure. We have seen significant M&A activity in recent months, the most notable of which has been the Axa-XL deal, Liberty gaining Ironshore and Marsh's acquisition of JLT.

There is no reason to believe there will be any change in the trend as market conditions continue to challenge profitability and growth.

On a personal basis, Moore Stephens LLP in London undertook a merger with BDO earlier this year.

In the UK, this has created a combined workforce of 5,000 people across 17 locations, delivering revenues of £590mn.

It provides a real challenger in the insurance industry to the 'Big Four' consulting firms, and has seen us combine some great specialist skills.

The merger will enable BDO to enhance our ability to serve the insurance and wider financial services sector, delivering greater expertise and building on the already significant position in the sector enjoyed by Moore Stephens LLP.

In effect, it has further increased our breadth and depth of skills as well as the services we can provide to clients.

The (re)insurance industry will have much to consider in the year ahead and much to do. The changing nature of risk and the changing demands of the client will drive the requirement for relevance.

From Brexit to IFRS 17, the need for focus on internal operations and systems remains acute, but so too does taking advantage of the opportunities that the market and advancements in technology present.

THE DOG THAT DIDN'T BARK

Peter Allen assesses the FCA's investigation into – and conclusions on – the wholesale insurance broking market

What was the background to the FCA's study?

The UK Financial Conduct Authority (FCA) decided to do an in-depth study of the London wholesale insurance broking market in late 2017.

It set out its reasons at the time: the broking market had continued to experience consolidation, and an extended soft market had led to the growth of MGAs and the use of broker facilities that bundle up multiple clients in a single placement.

The background included the continuing deterioration in London's expense ratio, an important part of which was broker remuneration. Having not looked at the market for a decade, they thought the time was right.

In short, what has the FCA concluded?

To cut to the chase, having done a lot of work and gathered an awful lot of data, the FCA concluded in February 2019 that there is not "evidence of significant levels of harm to competition" to merit "intrusive remedies".

That doesn't mean they are going to do nothing, and we shall touch on what they are going to do shortly, but it does mean that a major challenge by the regulator to the market is not going to happen at this stage.

Is that a surprise and is it welcome?

This is a bit of a surprise but only because, over the last decade, we have got used to very high levels of active intervention from both UK financial regulators – and also from Lloyd's which acts as an additional quasi-regulator in this market.

For a regulator to do a lot of intelligent spadework and conclude that what is now needed is evolution not revolution is evidence that the landscape is changing.

And broadly – with an important caveat which I will come to – it's welcome, for two main reasons.

First, this report is in the good recent trend of FCA reports which are well-written, thoughtful and based on more extensive data and analysis than any private observer could realistically achieve.

The analysis of the market is genuinely educational and I would recommend it to anybody wanting to understand London's unique structure. Some of the data, such as the material on broker profitability, is fascinating.

Second, its conclusions are intuitive. The essential conclusion is that larger brokers use their scale benefits to increase their placement power and profitability; this is easier in a soft market and it doesn't visibly lead to a degradation of the client experience.

This "feels" correct – if unwelcome to underwriters – and is a solid foundation for further action.

So what is the FCA going to do next?

The FCA identifies three areas for action which it is going to pursue as part of the usual supervisory processes.

> "The essential conclusion is that larger brokers use their scale benefits to increase their placement power and profitability; this is easier in a soft market"

First, it thinks there is work to be done on restrictive clauses in some broker facility agreements. These clauses may force underwriters not to offer better terms on the open market or prevent them offering the same terms to clients via other brokers.

This would have an adverse impact on clients' experience as it would impede their ability to shop around.

Although the FCA says these were only found in "a few" cases, it gave no hint of whether these were smaller or larger facilities. It's not impossible that this could be a significant matter if the cases were very large facilities operated by very large brokers.

The FCA will engage with brokers as part of its usual processes. This means that, even if the FCA gets serious and commissions Section 166 (skilled person) reviews, it will not be publicly known what has changed.

Second, they will look at conflicts of interest management in brokers. This is important because the use of facilities which generate higher levels of remuneration can produce immediate conflicts.

The FCA undertook an analysis of placement commissions and found that, on average, remuneration on like-for-like business was some 4-6 percent higher via facilities than via open market placement in 2016. This was consistent with underwriters' evidence to the enquiry which indicated a range of 2.5-7.5 percent.

This is clearly enough to influence placing behaviour since the additional revenue would be essentially cost-free to the broker once the facility is established and would drop straight to the bottom line.

In some brokers, the FCA found inadequate evidence of procedures, controls and management information surrounding conflicts.

> "If broker consolidation and a continuing soft market put acute pressure on smaller underwriters, will the PRA act to prevent permanent damage to levels of choice in the London market?"

Unsurprisingly, smaller brokers had less good documentation.

In a "significant minority" of cases, the conflicts of interest log contained no or few items. In a third of cases reviewed, the log focussed only on personal conflicts of interest, raising the possibility that the brokers either didn't realise or chose to ignore the possibility that enhanced placement revenues may pose a conflict of interest.

Third, it will look at information disclosure to clients. The FCA found that only one-third of brokers disclosed the actual commission they received as a matter of course.

Half told their clients how their remuneration is structured, but would only disclose the actual commission if the client specifically requested it.

So again, as part of their usual supervisory processes, the FCA will be looking at whether brokers are providing "clear, fair and not misleading" commission information to customers.

So is the FCA being too soft on the brokers?

A reservation I do have is that the FCA was looking at the issue primarily from the point of view of the clients' immediate interests, and the current impact of facilities and bulk placements on competition.

However, there is another way of looking at the matter – from the point of view of market structure and whether, in the longer run, the consolidation of power in the hands of ever larger brokers might be damaging because it squeezes out not just smaller brokers, but also smaller underwriting businesses.

In the final section of its paper, the FCA does partly acknowledge this. "Should brokerage activities... become significantly more concentrated the market power of some brokers could increase, leading to potential consumer harm," the FCA says, adding: "Insurers' bargaining power would also decrease."

If broker consolidation and a continuing soft market put acute pressure on smaller underwriters, will the Prudential Regulation Authority – the FCA's sister regulator, with responsibility for the underwriting sector – act to prevent permanent damage to levels of choice in the London market?

PETER ALLEN
is co-head of Financial Services at RSM

What are the recommendations to broker clients?

I recommend as follows: first, if you operate facilities, do they contain restrictive clauses that tie underwriters' hands? If so, you may have to make changes the next time the FCA come calling, and it may be worth agreeing changes in advance before the market hardens further.

Second, when did you last review your conflicts of interest processes and documentation? Specifically, do those processes consider conflicts due to your business model, not just individuals' disclosed conflicts?

Third, how comfortable are you with your remuneration disclosure? Would it be better to move now to best practice rather than being forced to by the regulator at a time and in a manner not of your choosing?

> "There is another way of looking at the matter – from the point of view of market structure and whether, in the longer run, the consolidation of power in the hands of larger and larger brokers might be damaging"

CREATING NEW NARRATIVES

With the London and international (re)insurance markets facing challenging times, says **Dan Saulter**, new narratives are needed to address complexities at both ends of the underwriting spectrum

By its very nature and that of the risks it underwrites, the international commercial insurance market is complex.

In many ways, that complexity has only increased in recent months. Lloyd's syndicates and managing agents have seen the launch of a comprehensive strategic review of the market, and we are already seeing its effects.

Syndicates and managing agents have had their wings clipped in terms of what they can underwrite. The market is looking towards what it can underwrite profitably, and that has put pressure on some traditional classes, where either premium or performance are seen as unsustainable.

Furthermore, the review has seen the market look to underwrite quality business and focus on territories and classes that deliver a technical result.

Many Lloyd's syndicates are owned and operated by underwriting companies and as such, they can underwrite on both Lloyd's and company paper. Therefore, if they believe that the business and risks they have traditionally underwritten still add value, they can use their company paper to continue to do so.

MGAs and InsurTech

The MGA sector continues to prove attractive to capacity providers, and those underwriters who may have seen a reduced appetite from their current employers are looking to find support for their own operations.

In terms of new MGAs, Davies had a very successful year in 2018 helping entrepreneurs establish new ventures,

> “The complex nature of the market does mean that there is not a common narrative across the industry. But there are still opportunities and we are seeing a rise in the number of InsurTech start-ups as the use of technology continues to disrupt”

and we have already seen the launch of a number of MGAs in the first two months of this year.

While we have seen the larger underwriters and Lloyd's syndicates looking at how they can manage after having their wings clipped, the MGA sector continues to provide opportunities for growth.

For reinsurers, we have seen an increase in the emphasis being placed on how to deal with legacy business and the potential for run-off, and as such, our reinsurance operation has been busy.

The complex nature of the market does mean that there is not a common narrative across the industry. But there are still opportunities and we are seeing a rise in the number of InsurTech start-ups as the use of technology continues to disrupt.

Clever people with good ideas can get into the market, with private equity and reinsurers continuing to look at investing in new entities that have potential – Munich Re is a case in point.

This has created change and a new dynamic in the market. As a business, Davies is well placed to understand these changes and challenges.

In many ways, companies across the market which work alongside the brokers and underwriters need to understand what the impact will mean not only for the (re)insurers but also for the demands they will place on them.

We have been working to ensure that our core solutions deliver quality and value to our clients.

What we have seen is that firms are looking towards partners which have international reach. They do not want to have a large number of relationships with lots of different business. They want deeper, longer-lasting relationships.

Utilising technology

We have reacted to the changing demands of our clients, and much of what we have done has been built on the recognition of talented people at Davies and the use of technology. It has brought into focus the need for the market as a whole to better utilise technology.

Lloyd's, for instance, has been working on its innovation lab and those efforts are meeting with some success.

However, it does not come without a degree of investment. In October 2017, we launched our disruptive thinking innovation lab, which places the power of new ideas in the hands of our people. The purpose is to discover valuable ideas for our clients and our people so that we can reimagine our business by using new technology and creating a culture of innovation.

Compared to our peers, we over-invest in training, development and study support. Over the past four years, our annual staff attrition performance is around half of what the wider business process outsourcing and insurance services sectors experience.

It is a lesson that the wider market could – and should – learn. To win in this market we must combine a highly skilled workforce with technology to ensure we can keep our processes efficient and lean and offer additional value to our clients.

Overcoming uncertainty

The market continues to look for growth. Be that new classes of business or access to new territories, the need to ensure that a business does not stand still is ever more pressing.

As we have found, there is no one-size-fits-all solution. The balance between organic growth and a clear and structured strategy for M&A needs to be struck. However, it is easier said than done.

It is interesting that the message coming out of Lloyd's is that the Corporation is looking to concentrate on its core business classes and markets. The strategy appears to be a focus on markets where it has built strong capabilities, such as North America, and on classes where it has a market-leading reputation.

What is interesting is the view that it will look to emerging markets where there are clear opportunities for significant growth. Where that leaves Lloyd's global strategy remains to be seen but it does create some uncertainty.

Sadly, uncertainty remains in the market, not least when it comes to the UK's future trading relationship with the EU.

It would be helpful if the UK government could bring a greater degree of certainty in terms of Brexit. Whatever your business, certainty is key when creating a strategy for the future. At present, that certainty is not evident.

In times of uncertainty the market has to focus on what it can control. It comes back to a focus on how best you can drive efficiency, both in terms of costs and the delivery of your product to your clients. Technology has the potential and ability to enable companies to transform processes and enhance responsiveness.

The needs of clients across the (re)insurance industry are changing due to both internal and external pressures.

The firms that will not only survive the challenges to come but will also thrive are those that can identify those changing needs, in many ways, before their clients do, and have a culture that enables and encourages innovation.

For many it will simply come down to relevance. Are you and the products you provide relevant to the needs of your clients?

“The firms that will not only survive the challenges to come but will also thrive are those that can identify those changing needs, in many ways, before their clients do”

DAN SAULTER is group CEO of operations at Davies Group

THE ART OF THE PIVOT

WKFC Underwriting Managers is an organisation that is constantly striving to do things differently, says president and CEO **Dawn D'Onofrio**

Working as part of Ryan Specialty Group Underwriting Managers (RSGUM) entails constant process evolution and anticipation of emerging industry trends, according to Dawn D'Onofrio, president and CEO of WKFC Underwriting Managers and CorRisk Solutions.

D'Onofrio is responsible for a sizeable property portfolio at the managing general underwriter (MGU), which is celebrating its 25th year of doing business in 2019.

She's spent a decade building a bundle of complementary products around US real estate business – from shopping malls to apartments and condos.

However, she's keen to place the stress less on continuity and more on the organisation's ability to pivot – particular when responding with the use of data and predictive analytics.

The leading MGUs are the ones that are nimble and can address change appropriately and quickly, according to D'Onofrio.

"Pat Ryan, chairman and CEO of Ryan Specialty constantly challenges operating units to raise the bar, and I love that; we're an organisation striving to do things differently," says D'Onofrio.

"Just because we're delivering a strong loss ratio doesn't mean we can't do things better. Not many MGUs have lasted as long as we have, and that's because we're constantly looking to offer products customers need," she adds.

D'Onofrio prides herself on her underwriting background, now that she leads a team of 50 underwriters transacting business on behalf of WKFC's other stakeholders, the carriers that back the MGU on a long-term basis.

"That's my passion. You're talking to an underwriter, and I see things through that lens," she says.

But at WKFC, it's the relationship between underwriting skills and the technical strengths of actuaries, good data, and predictive analytics, which she's keen to emphasise.

Predictive analytics

Most of what WKFC does is driven by its technical analysis, but D'Onofrio also stresses a strong belief in the role of traditional underwriting nous and human interaction in the insurance process.

According to her, the modern underwriter's skillset is a symbiosis between data science and more traditional underwriting strengths.

"Underwriting, the way I trained 27 years ago, simply doesn't exist anymore," D'Onofrio explains. "Data, plus underwriting, plus broker relationships – that is our formula for success."

The focus is on getting high-quality, refined data to the underwriter's desk quickly and efficiently. To this end, since 2016, WKFC has embraced predictive analytics to gain a more technical approach.

"Our underwriters fully understand that the delivery and assimilation of data makes them better at their jobs," says D'Onofrio. "When the underwriter gets an account, we've typically already run nine different reports, the results of which come up in their workstation to inform them."

> "The leading MGUs are the ones that are nimble and can address change appropriately and quickly, according to D'Onofrio"

Behind the scenes there's the actuarial pricing, outlining how low rates can go while still turning a profit for WKFC's carrier backers. The underwriter completes that pricing progress, D'Onofrio explains.

She also suggests that the stereotypical friction of the underwriter-actuary relationship can provide a healthy balance – one that has strengthened with the firm's deeper use of analytics.

"The push and pull between underwriters and actuaries has come full circle because the underwriters appreciate the value actuaries bring to the table," D'Onofrio notes.

"My colleagues say it's unusual for underwriters to talk so positively about the actuaries, but we have worked hard to get there. Of course, they don't always like what the actuary has to tell them, but they respect the job they're doing," she continues.

None of this undermines the role of the underwriter, emphasises D'Onofrio, who wants underwriters to develop their broker and client relationships and be willing to get out from under their desks to do that.

"Underwriters breathe life into the numbers because they know the market," she says. "Strong relationships with brokers and customers are vital. You need to have a face-to face-relationship with your customer, to develop trust and to hold broker relationships accountable."

She also wants underwriters to be more geographically focused. "We hire underwriters with strong local knowledge. Typically we want New York underwriters writing New York business, for example, and the same goes for our other offices," D'Onofrio adds.

Towards the pivot

Disruption of the conventional understanding of risk is a common topic of conversation among D'Onofrio's management team. She is a firm believer in the dramatic effects of climate change, for instance.

"The world is changing. The extreme weather in recent years has been unprecedented. We, from an underwriting perspective, must respond to the changing weather patterns as weather events increase in their frequency and severity."

WKFC is scrutinising its claims costs as well as its upfront risk selection.

"We look at our claims data, and the costs of claims are going up because of so many factors that all tie in. Materials cost more, labour costs more, there are more cat events, and more attritional claims," says D'Onofrio.

This makes the job more challenging but also more interesting, she argues, in continuing to find innovative solutions and to pivot the business accordingly.

For her, previous pivots include Hurricane Sandy, which transformed the MGU's approach to underwriting flood risk, which D'Onofrio confesses was "generic" before Sandy struck in 2012.

"We've taken these loss events, asked what we did well and what we didn't do well. Looking at claims is so important to learning lessons – and frankly there typically are lessons to learn."

From Hurricane Matthew, D'Onofrio emphasises aggregation management as the MGU's biggest takeaway. WKFC is unusual among MGUs for its investment in catastrophe modelling capabilities, she notes.

"We have the technology to track weather events 10 days in advance, and we've invested in tools to track the amount of subject aggregates. We're investing in places other MGUs probably can't afford to."

> From Hurricane Matthew, D'Onofrio emphasises aggregation management as the MGU's biggest takeaway. WKFC is unusual among MGUs for its investment in catastrophe modelling capabilities

Visionary analytics

RSGUM deserves the credit for allowing the leeway to invest in such analytics tools, D'Onofrio stresses. "Being owned by RSGUM has opened up doors for us. RSGUM targets a longer-term vision and is willing to invest, knowing that sometimes an investment may not turn a short-term profit, but in the longer term it will pay off," she says.

Better analytics means the ability to more nimbly deploy capacity towards opportunities and steer clear of risky bets that good data can warn against.

WKFC has shrunk its cat exposure amid fiercely competitive pricing, for example. California marks a big opportunity "to weave in and out of", with the right data to avoid wildfire risk D'Onofrio adds.

"We want to go where others are pulling out when the data we have available tells us we can do a better job and make an underwriting profit. People are asking what's their wildfire exposure – in our case, we know exactly what it is (or not), because we've already been looking at that," she explains.

"We have the ability to pull back or speed ahead in response to market conditions, and we don't have to write business for the sake of writing business. Not every MGU has that luxury."

Dawn D'Onofrio, president and CEO of WKFC Underwriting Managers and CorRisk Solutions

STRATEGY FOR SUCCESS

Bryan Wilburn, founder and chief executive of Risk Theory, shares some lessons for pursuing successful strategies

Strategy, to paraphrase the dictionary, is about setting out a plan of action to meet desired goals. And no battle plan survives its first contact with the enemy, as the Prussian Field Marshal, Helmuth Karl Bernhard Graf von Moltke, once wrote.

Likewise, in a tough market environment, beset with rivals and uncertainties, formulating a successful strategy is easier said than done.

Bryan Wilburn founded Risk Theory, a Dallas-based MGA, five years ago, following the sale of his previous start-up, Southwest Risk. The serial insurance entrepreneur shares his experience of pursuing a successful strategy in a competitive landscape.

"At Risk Theory, we continually ask ourselves 'how do we create and maintain value in a transaction'," Wilburn says. "Everything we do is toward furthering the objectives of the business, in terms of stewarding the trust of our business partners and ultimately earning income."

In this respect, an MGA's strategy must further the goals of its supporters, as well as its own ends. "It is crucial to align the interests of all parties within the transaction, from employees, to vendors, to risk-taking partners," says Wilburn. "We take on underwriting authority for our various risk takers. That means we need to appraise and reappraise the value proposition we add to the transaction."

Making sure the right resources are in place, particularly underwriting expertise, is a point Wilburn emphasises. "We set a goal and identify what we are going to do; we set a strategy, identify the talent we need to achieve it, and the best path to get there."

Talent is crucial to his objective of building new businesses. "I would be reluctant to give an estimate of time and resources invested to do that, but it is a critical investment, because it is a common failure of others to not have the right talent in place," he continues.

Other influences are beyond control. As a business leader, there are a number of direct and indirect impediments to achieving a desired goal. The known and unknown factors between the company and its objective, including its rivals and customers, should also be identified wherever they can. And where they cannot, flexibility to adjust is necessary to keep any plan alive.

"Once you make that proverbial 'contact with the enemy', it is important to adjust, to choose the right direction, and to communicate that adjustment to the business leaders effectively," Wilburn says.

A primary role of the CEO is to be sure that the strategy, once set, is well articulated and understood by those responsible for its execution. Good communication and regular reiteration are needed, Wilburn underlines, to keep the team on course.

Effective leadership

The more effective the management team, the more the CEO is able to focus on the primary strategy. To avoid micromanagement, it is vital to stay above the minutiae, yet also remain capable of assisting business leaders with complicated decisions.

"One person can only carry so much, so it's vital to delegate," Wilburn says. "Having good leadership throughout the business is critical, empowering people with the responsibility and accountability to execute and to grow."

Teaching moments are part of good leadership, where the CEO can develop the skills of business leaders to trickle down throughout the organisation. The expectation is that business leaders provide similar communication and teaching to the managers, supervisors and employees for their understanding and development.

Good leadership does not just mean good direction, Wilburn stresses. Listening to leaders and subject matter experts within the business makes the most out of recruiting talented staff. That expertise helps the CEO steer the conversation to a resolution in keeping with strategic goals.

"There are always smart people in the conference room, and it pays to lean on their expertise," he says. "It would be a mistake to hire the smartest people and then tell them what to do, rather than lean on their expertise. God gave me two ears and one mouth for a reason: to listen twice as much as I talk," Wilburn continues.

Not least because a CEO cannot be a subject matter expert across all lines of business. Wilburn's firm focuses on underwriting in niches of opportunity, but not all of these fall within his own areas of personal expertise.

"We operate in a number of different niches and the largest is not one in which I have previous experience," Wilburn says. "It's important to show confidence in someone who shows great expertise in their own discipline. Going in, hiring the right team and letting them do their job has been a rewarding journey."

"Not all niches turn out to be good ones. Before committing to any given objective, embarking on a good reconnaissance can save on wasting resources later, if the conditions are not right for success"

Measuring results

Last year Risk Theory transacted $430mn in gross premium, and for 2019 the business is budgeting $600mn of gross premium. It is active across a range of lines, including auto dealers, construction, real estate, and "heavy iron" business, such as cranes, foundations and demolition equipment. The MGA operates under the premise that the whole is more valuable than the sum of its parts, Wilburn explains.

"Some of those niches have crossover and others less so," he says. "We think the value is in developing our business, diversifying classes, developing product lines and distribution."

Not all niches turn out to be good ones. Before committing to any given objective, good reconnaissance can save on wasting resources later, if the conditions are not right for success. Wilburn describes one such situation which arose within his firm, for US medical malpractice and affiliated healthcare business, which is awash with capital.

"We had an opportunity to pursue the class of business," he says. "In our research, before we started to execute on a plan, we recognised that there were outside influences that were going to prohibit us from successful execution, so we shelved it."

That does not mean it is shelved forever, but the willingness to change plans highlights his point about the importance of being flexible and pragmatic. "If things change we will pursue it, but it remains a soft section of the market, with a lot of capital chasing diminishing premium," Wilburn adds.

Any strategy's success or failure must be measured against unbiased and unvarnished results. Wilburn says at Risk Theory this is done continually across the business.

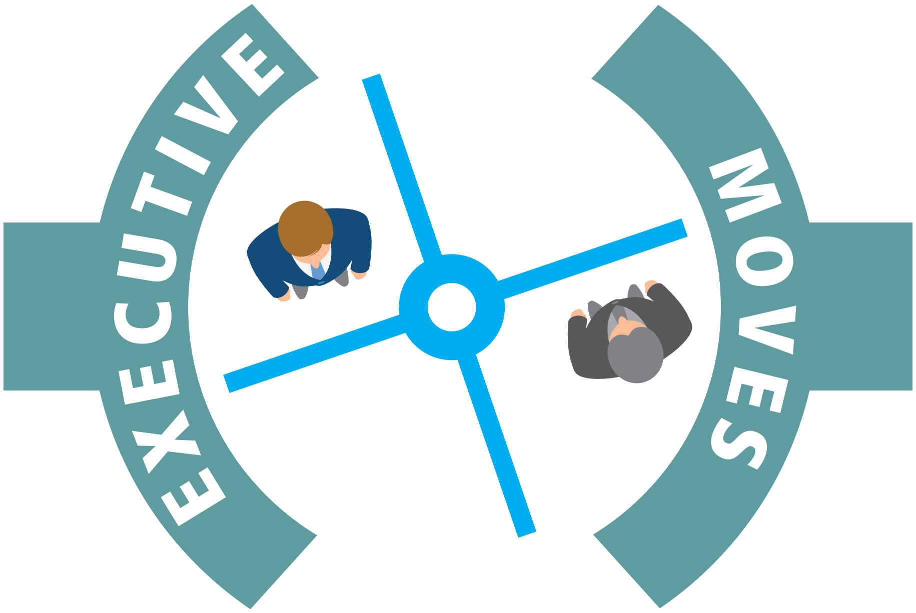
"That is not just once a year or once a quarter, but continually," he says. "When we set a goal or strategy for the business we have the ability to be nimble enough to adjust, accepting the outcomes, positive or negative."

The MGA's backers will certainly judge its results. Wilburn suggests the outlook of Risk Theory's capacity providers can vary. Most partners are focused on profits for the next underwriting year, he suggests, but also on how their capital investment could grow with scale over a period of several years.

"Their most acute focus is on 12-18 months," he says. "Our risk-taking partners often have a view for the near term, but they will always consider the long term."

Unforeseen factors can change plans in the interim, reinforcing the requirement for reappraisal and flexibility. "Our focus is to identify classes of business with opportunity for profit today," Wilburn says, "Because there are so many variables that can affect profitability three years down the road."

Bryan Wilburn, founder and CEO, Risk Theory



The ins and outs of the executive job market

Sir David Rowland

Sir David Rowland, former chairman of Lloyd's, died in February aged 85.

He is widely credited with rescuing Lloyd's from crisis after his appointment in 1991 (while chairman of Sedgwick Group) to oversee a taskforce charged with assessing the need for Lloyd's reform.

The Rowland Report revealed the scope of the crisis facing Lloyd's and led to Sir David's becoming chairman of the Corporation in 1993.

The taskforce's proposals for saving the market, overseen by Rowland, resulted in the Reconstruction and Renewal programme, which was implemented in 1995.

The programme also included the creation of reinsurance-to-close vehicle Equitas in 1996, to take on the markets' 1992 and prior-year liabilities.

Rowland stepped down as Lloyd's chairman in 1997 but was knighted in 1998 for his achievements during his time in the London market.

Mark Cloutier

Apollo has confirmed that Mark Cloutier will be Aspen executive chairman and CEO as it closed its acquisition of the Bermudian carrier.

It emerged in October last year that Cloutier was due to leave his role as executive chairman of Brit at the end of the year, joining Apollo as a consultant on 1 February.

Aspen CEO Chris O'Kane has now stepped down with immediate effect, along with chairman Glyn Jones.

Jean-Paul Conoscente and Victor Peignet

Scor has appointed the former reinsurance CEO of its global P&C segment, Jean-Paul Conoscente, as overall CEO of the division, replacing Victor Peignet, who is retiring "for personal reasons" after 35 years with the group.

Conoscente will take over as CEO of global P&C as of 1 April.

He joined Scor group in 2008 in New York, where he headed Global P&C's North American business, before taking charge of reinsurance business across the division.

Lambros Lambrou

Aon has named Lambros Lambrou as global CEO of its Commercial Risk Solutions operation. He replaces Mike O'Connor, who was named co-president of Aon last May and will continue alongside Eric Andersen in that role.

Lambrou has been global chief commercial officer and CEO of global specialties since May 2018, and will retain those positions alongside his new role.

Mel Goddard

The Lloyd's Market Association's (LMA's) market liaison and underwriting director Mel Goddard is to leave the organisation after almost 13 years.

Her work with the LMA included helping Lloyd's establish its Brussels platform, and advising the Corporation on post-Brexit regulatory issues with reinsurance placements from some EU markets into London.

She started her insurance career as a broker at H Clarkson and was the first female Lloyd's active underwriter – at QBE's Syndicate 1223.

Bob Quane

Axis Capital has hired Bob Quane for the newly created role of head of underwriting and portfolio optimisation.

He comes to Axis after 22 years at AIG, where he most recently served as head of global commercial property.

Quane will be based in New York and report to Eric Gesick, group chief underwriting officer at Axis.

Jason Hammond

QBE has made Jason Hammond CEO of Asia, reporting to QBE International CEO Richard Pryce.

Hammond was previously interim CEO for QBE North Asia.

In his new role, he will have responsibility for operations in China, Macau, Hong Kong, Singapore, Malaysia and Vietnam.

Hammond has worked at QBE for about 15 years, mostly in QBE Australia.

Allan Waters

Allan Waters has stepped down as Sirius International chairman and CEO.

Waters has been CEO since 2007.

His departure follows the closure of Sirius Group's reverse merger with Easterly Acquisition in November.

CFO Kip Oberting has been appointed CEO, while Ralph Salamone, group chief accounting officer, will replace Oberting.