SUMMER 2019 ISSUE 70

iQ INSIDER QUARTERLY

MAKING A SPLASH

D&I ripples are spreading through the insurance industry

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

COME TOGETHER

As we high-five our way into the "Culture" issue of *Insider Quarterly*, readers could be forgiven for having a degree of cynicism at the back of their minds when it comes to the notion of a fairer, more cohesive and more open-minded working environment.

In the world of work at large, there continues to be a lack of diversity, an inequality of opportunity, and the stubborn stain of workplace bullying, sexual harassment and entrenched hierarchies that hold back some of the brightest and best from achieving their utmost.

I think it's fair to say that the picture only gets worse as you drill down into the business world, into financial services and ultimately the insurance sector – although, as recent events have shown, charities and NGOs have their own cultural issues to address too.

In Lucy Jones' feature on the revelations of a culture of bullying and harassment at Lloyd's, a grim picture is painted of the ways in which women in particular continue to face a monolithic, oppressive and seemingly unchanging male-led orthodoxy which fails to recognise their abilities in the workplace and habitually subjects them to humiliation.

The continuing struggle for equal pay, maternity/paternity benefits and flexible working belies any naïve notion that sexism and other forms of prejudice have somehow been banished from the workplace.

However, Helen Yates' feature on diversity and inclusion (D&I) programmes and activities in the insurance sector gives some hope, at least, that such initiatives are more than just lip service paid by companies looking to whitewash their image, or box-ticking exercises by HR teams eager to burnish their "equal ops" strategy.

Change is slow, and we're a long way from reaching the point of a global insurance sector which is truly diverse, inclusive, prejudice-free and meritocratic, but the indications are that the industry has nonetheless come a long way since the first Dive In D&I festival was launched in 2015.

What's been interesting from the perspective of putting together this publication, is the degree to which companies and industry bodies have rallied around the notion of a "culture" issue.

They have been eager to either express their thoughts to our journalists on how their organisations and the industry as a whole can and are improving D&I in the workplace, or have been keen to set down their own thoughts in the form of a contributed article.

GAVIN BRADSHAW
Editor, *Insider Quarterly*

D&I is both a concept and an activity which has gathered pace in recent years, and that momentum appears to be ever-increasing.

Even the august statesman of independent insurance broking, David Howden, is at pains to stress his company's emphasis on hiring talent for talent's sake and nurturing ability wherever it may be found.

Of course, the proof will be in the pudding as to whether all of the employment schemes, education and training programmes and hiring policies touted by industry commentators amount to anything.

When the Dive In festival reaches its 10-year anniversary perhaps we will be able to discern a palpably more diverse and inclusive insurance industry. Let us hope so.

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MAKING A SPLASH

Since the first Dive In Festival in 2015 diversity and inclusion has gone from an aspiration to a real motivator of change in the insurance industry, writes **Helen Yates**

Just four years ago, when Dive In – The Festival for Diversity & Inclusion in Insurance – was launched, Jason Groves, chair of the festival and director of communications and head of marketing at Marsh, witnessed intolerance in the industry first hand. Fast forward to 2019 and he thinks there has been a cultural shift in the London market, with much greater acceptance of diversity and inclusion (D&I) in the workplace.

"I stood at the entrance to the Lloyd's cafe and asked people if they would like a sticker to show that they were allies of their LGBT colleagues," Groves says. "A few people took the stickers, a lot more just tried to ignore it and there was a pretty reasonable percentage who were outright hostile. Some people came up and went out of their way to be rude."

He believes that Dive In and other cross-industry initiatives have helped change those attitudes. "Some people may still be intolerant in private, but they are much more likely to keep that sort of attitude to themselves now, or realise they just can't say that kind of thing in the workplace. But honestly, I think a lot of people's eyes have been opened to LGBT issues."

The fact that the London and Lloyd's market is steeped in tradition should not hold back the change that needs to take place, believes Groves.

"I love the traditions of the London market, but tradition is not an excuse for bad behaviour. Bad behaviour is just bad behaviour. We shouldn't blame tradition for behaviour that really ought to change."

Groves is on a bit of a high. At the time of our interview he had just been informed the Bank of England (BoE) would be hosting a networking event to celebrate five years of Dive In, and that BoE governor Mark Carney himself would be attending.

"We should be incredibly proud as an industry. A lot of very forward-thinking people have really got behind this and we need to bring everyone with us, to make sure the entire market is part of the initiative to help things change for the better."

Proven business case

The business case for D&I has been made. We know that diverse companies get better results (generating 19 percent more revenue, according to one study by Boston Consulting Group) and that this is because diversity fosters innovation, leads to better performance, helps to win new business and attracts talent, among other things.

"When you get a diverse team and an inclusive culture, diversity of thought is what it's all about," says Katherine Conway, head of D&I at Aon. "You get innovative and creative thinking where people from different backgrounds have different perspectives and ideas and can challenge the status quo. That's when a team really comes together."

> "When organisations get it wrong, and/or treat D&I as a box-ticking exercise, there can be dire reputational consequences"

In May, a report by the London Market Group and KPMG called for urgent action to be taken to address the skills gap and to be "proactive in trading people and attracting new talent" as business models change and evolve, and as the wider business community evolves.

There is an acceptance that insurers and brokers must reflect the diversity inherent in their global client base if they are to remain relevant.

One cautionary tale involves a meeting between a group of London brokers and prospects from a major global sports brand.

"The brokers and underwriters turned up in suits and the clients were dressed in tracksuits and trainers. They turned down the deal because they didn't feel represented by them," says Sabrina Pyneeandy, co-chair of the Gender Inclusion Network for Insurance (GIN).

When organisations get it wrong, and/or treat D&I as a box-ticking exercise, there can be dire reputational consequences, as Nike's "boys-club culture" and the subsequent damage to its brand and class action lawsuits have demonstrated. In a world of social media and wider public awareness, one bad move can cause share prices to plummet and customers to vote with their feet.

A story about a PwC receptionist being sent home for not wearing high heels to work received a massive response in 2016 when the employee posted about the incident on her Facebook account. It inspired a report by the UK Parliament's Women and Equalities Committee entitled 'High heels and workplace dress codes', which expressed "concern for the workers affected by discriminatory dress codes, many of whom are young women in insecure jobs who already feel vulnerable in the workplace".

Rooting out everyday sexism

The London market has had to work hard to rid itself of its "pinky ring-wearing, old boys club" image, says Pyneeandy. Part of this requires a rethink about how the industry networks.

"The insurance industry is so traditional and set in its ways and what we're doing is forcing it to change," she says. "And that's not easy. We need to make sure that when we have away-days, for instance, that they are inclusive and that people aren't only [offered] arranged activities like golf, that may be seen as exclusive."

Studies have shown that "pale, male and stale" boardrooms are more likely to make risky decisions and less likely to challenge one another. Since the global financial crisis there has been a drive to increase the proportion of women at senior levels within FTSE 100 companies (now at 30 percent) and beyond.

The push for boardroom diversity goes beyond gender diversity, but gender is a good place to start, thinks Nicolas Aubert, chief executive, Willis Ltd and head of Great Britain at Willis Towers Watson. "We face a major struggle, which is the fact that the industry as a whole is not

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adequately gender diverse," he says. "We have a fantastic reservoir of female talent, but the industry is not doing a good enough job at promoting the developing of this talent, which absolutely can deliver deep expertise at a senior level."

than their male colleagues to have managers sponsoring them and supporting their career progression.

Providing greater flexibility and broader parental leave is one solution that many firms are putting into practice. "Everything around parenthood and supporting maternity and paternity situations is critical," says Aubert.

> "Tangible steps are being taken in the insurance industry to move beyond the rhetoric – to introduce schemes to improve D&I at all levels"

His comments are backed up by a recent ABI study, which found that while gender diversity has improved at nearly all levels within the industry, at the very top women have just 20 percent of board positions. The annual survey found that women who chose to start a family experienced a significantly greater impact on their earnings following the birth of their first child than was the case for men with children.

In its research with LeanIn.org, management consultancy firm McKinsey argues that this is because there is a lack of support from employers in balancing family and work commitments. Women in entry-level jobs are less likely

"But it's the overall environment that we create around flexible work which is really important in demonstrating that employees, managers and leaders can all work flexibly and still deliver their contribution to the company and their clients."

Collaborating on D&I

The industry should have targets on achieving better D&I just as it has financial targets, believes Aon's Conway.

"We have opened the conversation up so much more and we're really removing the stigma in areas such as mental health – which is not traditionally been seen as a diversity issue – and there are few other industries working and collaborating on D&I like we are."

In addition to Dive In, there are numerous collaborative efforts designed to tackle and improve impediments to D&I in the industry. They include the Link LGBT Insurance Network, GIN, the Insurance Cultural Awareness Network, the Insurance Families Network, the Insurance Disability, Ability and Wellbeing Network, the Afro-Caribbean Insurance Association and Inclusion@Lloyd's.

Tangible steps are being taken in the insurance industry to move beyond the rhetoric – to introduce schemes to improve D&I at all levels through mentoring programmes, internships, graduate initiatives and cross-industry collaboration. But there is still a need to attract a broader pool of talent, thinks Conway.

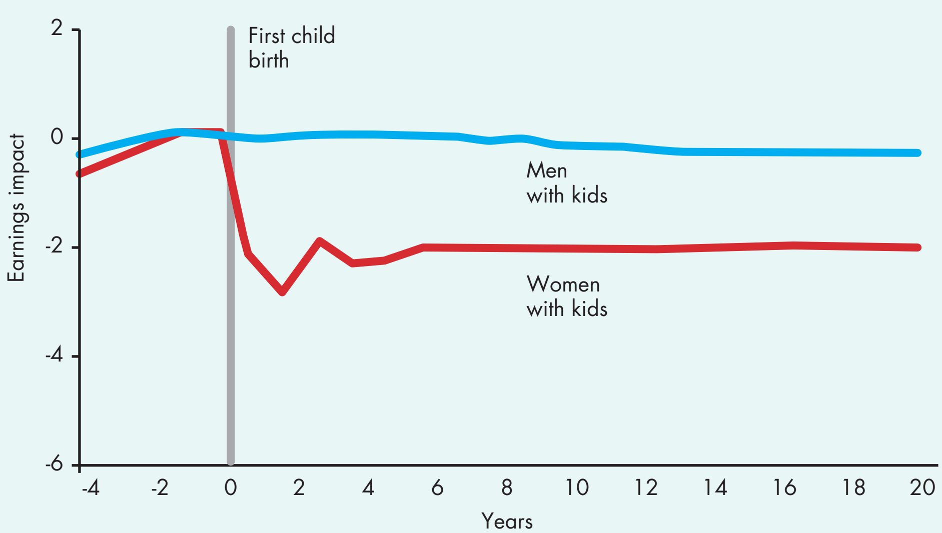
It is still the norm to come across underwriters, brokers and other insurance professionals in the London market who pursued a career in the industry because their father was already working in insurance. This is what needs to change, says Conway.

"Our typical talent pool comes from people who know people in the industry," she explains. "We need to look at how we can reach different communities and universities, and showcase the benefits of a career in our industry to a different cohort of people."

In many ways, it is the broking community that is leading the way in initiatives to attract young talent from more diverse communities, including reaching out to ethnic communities in London and visiting some of the less elite universities. Bodies such as the Chartered Insurance Institute and Lloyd's also offer apprenticeship and graduate training programmes that aim to improve the diversity of young people coming into the industry.

"We recently hosted a BAME [black, Asian and minority ethnic]

The difference in earnings between men and women with children



Source: ABI

future leaders programme which specifically targeted BAME undergraduates who were coming up to graduation," says Conway. "We put on a two-day workshop to help them understand our industry and the careers that are on offer along with details on how they can apply for positions, what we're looking for and how they can succeed in their applications."

Marsh has an annual summer internship programme where it invites young people from London boroughs that neighbour the City.

"Typically, our interns have never had anyone in their family working in a City job before," says Groves. "It's about bringing them in and giving them an opportunity to experience what working in the City is like. Some have gone on to change what degree they're studying at university with a view to pursuing a career in insurance."

Looking further afield

Groves believes there are still challenges to overcome when recruiting at a more senior level.

"Specialist recruitment firms should be encouraging companies to look for talent outside of the industry. A lot of companies have started to build up talent acquisition teams and it's not just about going through LinkedIn and looking for people who have very similar backgrounds.

"By looking further afield and casting the net wider you can get some amazing candidates. They may not have much of a background in insurance but it doesn't really matter, because we can tap the knowledge and skills they have got from another industry.

"But people make excuses," he adds. "They'll say, 'We need someone quickly and I don't want to have to train someone up – we need them to hit the ground running'. The other phrase that annoys me is, 'Will this person fit in?' What they mean is, will they want to talk about football and enjoy going out for a beer after work. It's much easier for that line manager, rather than thinking long term and strategically about who will complement the team, to bring in someone from a competing firm. And that's what you need to get away from."

ABI member firms taking action

76% have a diversity and inclusion strategy

79% of companies have an internal employee resource group to support inclusivity

61% have a mentoring programme targeted at developing under-represented groups in their firm

88% have an executive sponsor for diversity and inclusion

75% provide mental health first aid training

58% have a development programme specifically for women

Source: ABI

> "By looking further afield and casting the net wider you can get some amazing candidates. They may not have much of a background in insurance but it doesn't really matter"

Support and buy-in from senior managers is critical to the movement's success, adds Willis' Aubert.

"Over the last three years we have seen leaders of the industry as a whole recognising this matter was absolutely critical, that it was necessary to be candid and honest about it and there is clearly now a very genuine commitment and engagement of senior leaders on D&I," he says. "So it is clear the industry has recognised the matter, it is not complacent and it is really working hard at solving the issue and truly collaborating.

"I've been struggling a bit myself with that. At one point I thought that success in D&I was going to be essentially a competitive matter, but I've now recognised that it's an area where we are going to succeed as an industry and where we need to collaborate.

"A few years ago during the Dive In Festival I was entering the Aon building – which is not my natural habitat – and at the same time the CEO of Aon was coming down the stairs," Aubert recalls.

"He asked me what I was doing in the building and I said I was going to a Dive In meeting. And he said, 'That's really interesting because two days ago I was in the Willis Towers Watson Auditorium for exactly the same reason'.

"That's a good thing because it means there is true collaboration. It's good that we are collaborating as an industry, sharing and progressing ideas together."

GEOGHEGAN GRILLS

…DAVID HOWDEN, FOUNDER AND CEO OF HYPERION INSURANCE GROUP

From humble beginnings 25 years ago David Howden has built a formidable employee-owned global broking and MGA business, both organically and via M&A. **Mark Geoghegan** attempts to decode the Hyperion genome…

When I go to a tall new office building for a meeting I always plan to arrive with plenty of spare time so I can navigate any unexpected extra security checks (such as having my photo taken), reception system teething troubles (often involving how to spell my surname) or simply finding the right set of elevators for the floor I want (easily the most common cause of delay).

It turned out that One Creechurch Place, Hyperion's new home in the heart of the London insurance market, was very efficient and well managed. So it was I found myself sitting in reception 10 minutes early for my interview with David Howden.

You can tell a lot about a business by sitting in reception and keeping your eyes open. From my 10-minute sample, Hyperion is an exceedingly busy place.

This is perhaps understandable as it is the first time the group has been able to house all of its business units – retail broker Howden, wholesale and reinsurance intermediary RKH, MGA Dual and now its new tech venture, Hyperion X – in the same building. They are on multiple consecutive floors of the state-of-the art building, joined together by a central spiral staircase.

Clients, suppliers, brokers, underwriters and support staff bustle hither and thither with purpose and energy. There are a lot of quite animated conversations happening.

However, what suddenly hits me is the realisation that there are almost always smiles on the faces of the people doing the talking and listening. This looks like company culture in action.

Soon it is time to go into David's office overlooking the City. We don't have long so I am a little anxious that we might not have time to get enough material for an article. I needn't have worried. If the reception area was bustling, a meeting with David is a whirlwind. He operates in a different dimension to the rest of us.

I realise I have located the source of the energy and buzz in the building. He is sitting opposite me, animating and emphasising conversational points at extraordinary speed – and with a smile on his face.

The same electrical charge should crackle off the pages that follow.

Mark Geoghegan: What are the core Hyperion cultural values and how have you promoted them?

David Howden: First and foremost, we say we're a people-first business. We have a number of key themes, it's not just one. It's partly the employee ownership. It's partly the model that we built around having a business that was very much about not liking centralisation. And a truly diverse management team, where we really believe that managers are leaders and not micro-managers.

At a conference we had a few weeks ago for some of our global leaders, I said: "Any of you who have read management books on how to manage, I think you should put them in the bin. I'm not sure that any of what they would try to teach you is actually what makes a good manager and leader at Hyperion."

It's about empowerment and an owner's mindset and owning your decisions. I often say: "It doesn't really matter what the decision is, just make a decision, learn from it and move on."

> "I can quite comfortably see a business with tens of billions of valuation being supported by long-term capital…I don't think the runway will ever end"

I think that creates a whole environment around empowerment, around trust, around collaboration, around alignment, around the idea that we are stronger together.

We are also fiercely independent, but it is not something that we take for granted – we need to continue to earn the right to remain independent. We don't issue dividends to shareholders. Everything is reinvested in the business. Our shareholders and investors support this strategy completely and independence is enshrined in our shareholders' agreement. In a nutshell, the group cannot be consolidated.

Culture is the most valuable thing we have, and we try and retain it, and build on it, and see people come into it. To come and work here, you'll be respected, you may well be an owner, or you may well have the chance to become an owner.

But whatever it is, you'll be an individual, you'll be able to make decisions, you'll be empowered to do stuff. We like standardisation but we don't like centralisation.

Mark Geoghegan: Is it the standardisation that allows you to give people relative autonomy?

David Howden: We're not a federation. If you get people running off doing anything they like there's no value from being part of a group.

Let's take Dual for example. At Dual we have lots of standardised things. We have standardised capacity, we have great bind-and-quote systems, we've got the shared service centre in India for processing. We have branding, we have shared brokers. So where it creates value for the business, we love to support people. And it'll always be plug and play.

Our message to really good talent is to come and join us – we'll give you the branding, the support, everything you need, but we won't micro-manage the way you run your business.

Best practice, best process, best expertise – that's what I mean by standardisation. But it's very different from centralisation.

I often say to people: "If you like it somewhere else, you may not love it here." Some people quite like to have clear rules and regulations and know exactly what they can and can't do, and others prefer a slightly more grey area, and it's horses for courses.

Mark Geoghegan: At Hyperion, you've done quite a lot of M&A in your history. How does that work culturally?

David Howden: I think fundamentally we have to ask ourselves if we think culturally the business is going to fit.

It doesn't mean it's identical to us, because it's not always identical. But take the big one – RKH. We'd be nuts to have done that if we'd thought that would have created a massive tension in the business.

You look at that now four years on and we really have assimilated the cultures, assimilated the people, we've developed a business together, and that was because fundamentally,

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they were similar.

They were owner-managed businesses, they were quite entrepreneurial and they ran a model where they were experts at what they did. They weren't identical, but they had enough in common.

If you look at a business where it's very different from us – for example, it's a corporatised business where the management wants to sell out – that's not for us.

But if you've got an entrepreneur who's grown a business a certain size, but now has difficulty in getting next level – be it through better technology, better products, or access to international markets – then that's going to be a better cultural fit with us.

We've tended to know them, as well. They haven't come from an investment banker saying: "Oh, do you want to buy Joe Smith insurance brokers in Kathmandu?" They tend to be people we're trading with already.

Mark Geoghegan: You mentioned majority employee ownership. How much bigger can Hyperion get before that becomes unsustainable?

David Howden: We've only just started. I don't think it's about the size. In a funny way, a sustainable business model with employee ownership at the heart of it almost works better at a larger level. In fact, we are committed to broadening even further our employee shareholder base.

When you think about it, with small brokers, where there are two or three employees, what tends to happen is they either full-on fall out and hate each other, or one of them wants to retire or another gets divorced and they therefore have to sell the business.

So I think the spread of risk among a much broader base of shareholders is actually easier to sustain.

And secondly, if you look at the capital markets today, as we build our business, I can quite comfortably see a business with tens of billions of valuation being supported by long-term capital. We attracted Caisse de dépôt et placement du Québec in, because a lot of the really long-term investors need really big investments. I don't think the runway will ever end.

Mark Geoghegan: What are the bigger industry-wide culture-change questions that you'd say are facing Hyperion and the wider market?

David Howden: There are two things, really, going on, and they're well-encapsulated in Lloyd's CEO John Neal's Future at Lloyd's document. The most positive element of the document is the focus on talent, and the diversity of talent.

And I'm not just talking about sexual diversity, gender diversity or ethnicity. I'm talking about the need for a diverse group of people in insurance if we're going to really be the survivors and the thrivers in the next 25 years.

We absolutely need to be attracting the people that think: "Oh, should I work for Amazon, Google, Uber, or Hyperion? Or Lloyd's?"

It's not a soft strategy. If you look after the people, and they feel empowered, you'll get good people, and you'll get good results, and they'll look after the clients. And if we can do that in a broader sense, in this market, if we can attract the brightest from all walks of life, then we'll definitely thrive.

Conversely, if we end up having a small pool of people who don't really understand where the business should be in 25 years' time, then others will start to chip away at what should be our world.

> "If [my people] cease to want to work at Hyperion and want to go and work somewhere else, they have not been poached from me, I have lost them"

Mark Geoghegan: Bloomberg recently published an article on sexual harassment in the London market. Do you think London has a culture problem of the sort that report identified?

David Howden: There is no smoke without fire. And I think all businesses in the London market should be absolutely pushing to get rid of any of the old smoke. Blow it away.

While there may be no smoke without fire, the fire is certainly not burning. We've changed – I've been in this market 37 years and it's changed dramatically.

There are still pockets of badness, and we make sure that those who want to attract bright, talented, young diverse people are portraying an image that is absolutely vibrant – and world-leading.

Are we perfect? We're certainly not. You look at our gender pay gap, it's no better than average, which is not where we should be.

But rather than cry over the bad areas, let's be positive leaders and say: "That's an old market. It's not what we're like today." We're going to do that positively and we have recently launched in the UK a campaign, which we asked the employees to lead, called RESPECT, which is all about driving through an inclusive culture that allows all colleagues to feel respected and valued. It is so important to embrace a bottom-up approach and not just from the top down.

Mark Geoghegan: And when you say "blow that away", is zero tolerance the way it has to be?

David Howden: It has to be. You've got to lead by example. You've got to be able to say to people who want to come and join the business: "These are our standards, and we will apply them across the board." If you don't do that, and you're seen to have a chink in the armour, then the whole thing's gone down.

Mark Geoghegan: You mentioned the gender pay gap. What kind of things are you doing to close it? Is it things like maternity leave?

David Howden: Exactly that. Long maternity leave. And also flexible working. If you think about the way we work today, why couldn't we be flexible? Why do we need to tell people how many holidays they can have, or what hours they've got to work?

Ultimately, you tend to know who is delivering and who's not. I come back to an empowering, trusting business.

There's another thing, which is understanding as a business the real value of diversity, because I think when it's a tick-box thing, it doesn't happen.

You have to show why diversity builds a better business, and then people will actively do it.

Mark Geoghegan: What are your views about some of the broker poaching disputes we've had in the UK High Court and what that's done to the image of the industry?

David Howden: Poaching is an interesting word, isn't it? It is a journalist's term, it's interesting because it suggests that people belong to the companies.

That is not the case. They do not belong to the companies. I'm an owner of a company, and I love my people, but it is my duty to make them want to work at Hyperion.

If they cease to want to work at Hyperion and want to go and work somewhere else, they have not been poached from me, I have lost them.

It is my fault – it's on me and my managers. You cannot poach human beings.

But I think you've got a point that in attracting talent, you must do it in a way that has good ethical foundations.

There is a question mark over what is ethical practice and what is not, but that's very different from poaching staff. The industry needs to be very clear that the outside world is looking on. It's rather unfortunate

> "You've got to be able to say to people who want to come and join the business: 'These are our standards, and we will apply them across the board'"

that sometimes, we end up having our dirty laundry out there waving in the wind, and I'm sure the whiff to others outside our industry is not great.

I'm absolutely open to talent, but I want it to come and join me in an ethical way. Just as I would want those who leave me to leave me in an ethical way.

Mark Geoghegan: How much of a culture change is something like Hyperion X for you?

David Howden: I would always put the people first but I think embracing technology is very important. We've got to change, both in the delivery of the product and the cost of delivery of the product.

But there's no good telling a business they've got to do it. You can't go along and take away someone's profit margins, or require them to dramatically foul all their business. You've got to deliver the solutions that allow them to run their business successfully and the only way we're going to do that is by embracing digitalisation and technology and data.

If you look at some other industries, they've done it very successfully and much faster than us. If you look at what asset managers are now charging, it's not even half what they used to charge, but 10 percent of their old cost. But their margins are about the same. Why? Because they embraced what they needed to do. To me, it's an absolute must.

And that brings us back again to the talent pool. We need the people who can help us do that and understand it and explain it to people, because if we don't have the right people, it's not going to happen.

I think the launch of Hyperion X will be the biggest change in our business since the acquisition of RKH or the launch of Dual. These will be the three turbo chargers of the last 25 years.

Mark Geoghegan: What else in the Future at Lloyd's document has grabbed your attention?

David Howden: First and foremost, the focus on talent, because I think that really is important. I love the fact that's there, and that's really key, to me.

Secondly, I love the ambition of it. Clearly, there's going to be a lot of naysayers out there, questioning whether it can be delivered. At least set out to be ambitious – if don't set your bar high, you won't get anywhere.

I also like the clarity of what would make a great Lloyd's. If you could create, in a reasonable time-frame, a Lloyd's that could do all those things, it would be a very powerful vehicle, because no one would say that it wouldn't be good to reduce the cost of delivery of product.

But you've got to have the way of reducing that cost before you force people to reduce their revenue take. You're not going to do it just by slashing it. It's not going to happen.

It's the first time that the market has felt there is a plan out there about which they can say: "You know what? I'd like to be part of that drive and that success." Good luck to them!

> "You have to show why diversity builds a better business, and then people will actively do it"

LETTING IN THE LIGHT

Lloyd's CEO John Neal was quick to act following an article alleging unchecked sexual harassment in the market, but is the issue being addressed more widely in the insurance sector, asks **Lucy Jones**

Lloyd's first began pursuing a diversity and inclusion agenda several years ago under former CEO Inga Beale, but it took a Bloomberg article in March titled "Drinking, sexual harassing ways are thriving at Lloyd's" to push the issue onto centre stage.

The article by Gavin Finch painted a damning picture of the marketplace, which he described as having "a deep-seated culture of sexual harassment – the full appalling range, from inappropriate remarks to unwanted touching to sexual assault".

The journalist spent a year researching the article, interviewing 18 women who he says "described an atmosphere of near-persistent harassment".

The report has been criticised for being light on specifics – none of the women cited went on record – and their stories were overshadowed by well-worn descriptions of Lloyd's eccentricities and rehashed interviews Beale gave during her tenure as CEO of the Corporation.

"This was Lloyd's of the past but we've come a long way and I didn't recognise the market that was painted in the article," says Roddy Langley, of Lysander PR, who started working in the London market in 1977.

"There are still areas of male ill treatment of women in Lloyd's, but when I go in the [underwriting] room I perceive a professional atmosphere, a place ever more youthful and at ease with itself – not the febrile marketplace alluded to in the article," he adds.

But nonetheless the article has had a huge impact, leading the new Lloyd's CEO John Neal to pledge in the wake of its publication that he would be "ruthless" in the Corporation's stance against sexual harassment and inappropriate behaviour and that offenders could face a lifetime ban from the market if found culpable.

He told Bloomberg in a televised interview that the news outlet's depiction of the London exchange "is not the Lloyd's I want to be part of".

"What I'm clear on is, whatever we say, we're not doing enough", Neal said. "This is not the Lloyd's that many of my colleagues feel they want to be part of either."

Everyone he had spoken to had been "shattered" by the article, he admitted.

Addressing bad behaviour

Lloyd's has been quick to take action and within days of the article being published it unveiled a package of measures to address sexual

harassment in the marketplace.

Walk around the Lloyd's building and you will now see posters advertising a 24/7 "Care First Bullying & Harassment" support line, established in April to provide advice and information to those suffering from these acts in the marketplace.

The year-round service is independently run and completely confidential, with a UK freephone number and an international number for those calling from outside the country.

The volume of calls to the line has so far been "modest", according to a source, who adds: "It's early days, but the line is functioning pretty well."

The Corporation is also looking at training and policies to combat inappropriate behaviour which already exists in the insurance industry.

"The aim is to identify what [policies are] market-leading then advertise those back to the marketplace and say these are the policies we absolutely must have in place," a source says.

Training will be made available on "how to be a courageous bystander" to various levels of staff, up to board level, as Lloyd's intends for senior staff to be ambassadors for the change.

> "The Lloyd's commitment to reform from within has been welcomed but the culture of inappropriate behaviour runs deep in the insurance market at large and much needs to change"

"If our view of the world is that we [at Lloyd's] have to show leadership, we should be showing leadership in a way in which we just do not accept inappropriate behaviour," Neal said.

References to the need for an improved working atmosphere at Lloyd's were included in the Corporation's prospectus, launched in May to map out its path towards increased efficiency and lower costs.

"We will struggle to recruit top talent unless we can define and communicate more appealing employee value propositions to candidates, and create an inclusive culture in which everyone is respected and valued," the prospectus says.

"We must and will reflect the diversity of our customer base, and our talent agenda will be designed to attract the best and offer an open, honest and flexible working environment," it adds.

"Our industry is facing a talent shortage," it warns.

Cultural change

The Lloyd's commitment to reform from within has been welcomed but the culture of inappropriate behaviour runs deep in the insurance market at large and much needs to change, according to women working in the industry in London and elsewhere.

"I don't know a single senior woman in insurance who hasn't been harassed in one way or another, as they have risen through the ranks," says Mairi Mallon, chief executive of PR firm Rein4ce, who has worked in the insurance industry in Bermuda and London for 20 years.

At Monte Carlo, meetings are routinely arranged in hotel suites, an uncomfortable setting for most women, she says.

Another source says: "I've had middle-aged men in meeting rooms leaning in. I've been mansplained, been looked through, asked to make the coffee. For years I didn't wear a skirt... I would be told 'you've got a lovely turn of the ankle'."

One woman filed a harassment complaint and subsequently got signed off while the man kept his job, the source continues.

And it's not just the workplace that is a problem. After work socialising can also be problematic. "I've heard of roofies [date-rape drug Rohypnol] put in drinks," the source adds.

Despite insurance being an industry based on trust, where most men are considered "gentlemen", woman are treated differently, she says.

"Men don't even know they are doing it [sexual harassment] and the men who do see it have daughters," she adds.

Another woman who has risen up the ranks in reinsurance and the world of ILS remembers being told by her boss that she couldn't have a senior role if she went part-time after having her first child.

"I was being surpassed by mediocre men, so I left the company," she says.

At another company, she was bullied by a woman, so again handed in her notice and this time, sued successfully.

"Intrinsically, I am a very loyal person, but if I reach a limit, I move on. It's important to hold on to your core values," she says.

"You need to develop a survival

Continued on page 16

technique but you have to ask yourself, do you really want that?"

She says she has since found a company where she can contribute and feel comfortable at the same time.

Legal issues

There have been a number of high-profile sexual harassment cases in the insurance industry, although to date most of these have been in the US.

As sister title *The Insurance Insider* has reported, Lockton is currently facing a lawsuit which alleges a "culture" of sexual harassment at the company.

> "I've had middle-aged men in meeting rooms leaning in. I've been mansplained, been looked through, asked to make the coffee"

In April a former data employee for the Lockton Pacific Series filed a lawsuit alleging she was regularly subjected to sexual harassment over 15 years by executives, including the chief executive of the series, Tim Noonan.

She described instances of being groped or slapped on the buttocks in the Los Angeles office, as well as one occasion in which she alleges Noonan "forcibly kissed her on the lips" in an elevator, and another in which he briefly locked her in his office.

The worker, who is of East Asian descent, also claimed she was teased about her ethnicity in a sexually harassing manner, with Lockton partner Mark Carlin referring to her as an "Asian schoolgirl" on multiple occasions.

In London, bullying and harassment claims are brought to the insurance law firm EC3 Legal, which is located within spitting distance of Lloyd's, but most go down the settlement route.

"Claimants need strong evidence that it [bullying or harassment] has happened," says the firm's legal director Marina Garston.

"They also have to be aware that all tribunal decisions are now all online. It's not just the cost of it. Do you want to go public with something like this is also a question" she says.

Lloyd's attempt to overhaul the culture of the marketplace could mean it's more likely that people will come forward, she adds.

Speaking up

According to one source who spoke to *Insider Quarterly*, men need to play a bigger role in calling out harassment and bullying.

In the wake of the Bloomberg article and following Neal's lead, there have been calls for a culture change in the industry.

CEO of Allianz Insurance Jon Dye used an address at the annual British Insurance Brokers' Association conference in May to speak out on the issue, saying some of the behaviours detailed in the Bloomberg report stemmed from the gender imbalance in insurance and that such behaviours were not tolerated in his organisation.

At the same event, Allied World head of commercial Darren Rowe urged the sector to "change the way we're perceived".

And AIG president and CEO Brian Duperreault has said zero-tolerance policies on harassment must involve men speaking up if they see a male colleague violating such policies.

Often bad behaviour is called out by men rather than the woman herself because she fears her career will be stymied in some way or she will get a reputation for being a troublemaker, says Barbara Schönhofer, a headhunter who manages board and senior management search assignments.

It is time for men and women who want things to be different to demand change together, she says. "It takes hundreds of years for things to change organically, there isn't time for that anymore."

There is an irony in that one of Beale's greatest achievements during her time as CEO at Lloyd's was the attention she drew to injustices in the London (re)insurance market, but it took a white middle-aged man to call it out for everyone to take notice.

Beale was a key driver of Dive In, the festival for diversity and inclusion in insurance, which this year celebrates its five-year anniversary.

She used her platform to raise awareness of inequality but was often despised for it. "You had charming men spitting feathers about her," says one source.

While it is hard to argue with Lloyd's outspokenness on the harassment and bullying issue and its swift response to the Bloomberg report, what happens next is key.

Lloyd's has already put its plan on hold for access points to enable people to report inappropriate behaviour or get advice confidentially, albeit because the hotline is deemed to be working well so far.

There are doubts about whether there will be full participation in Lloyd's culture and work practice surveys, and measuring progress on such sensitive issues may prove impossible.

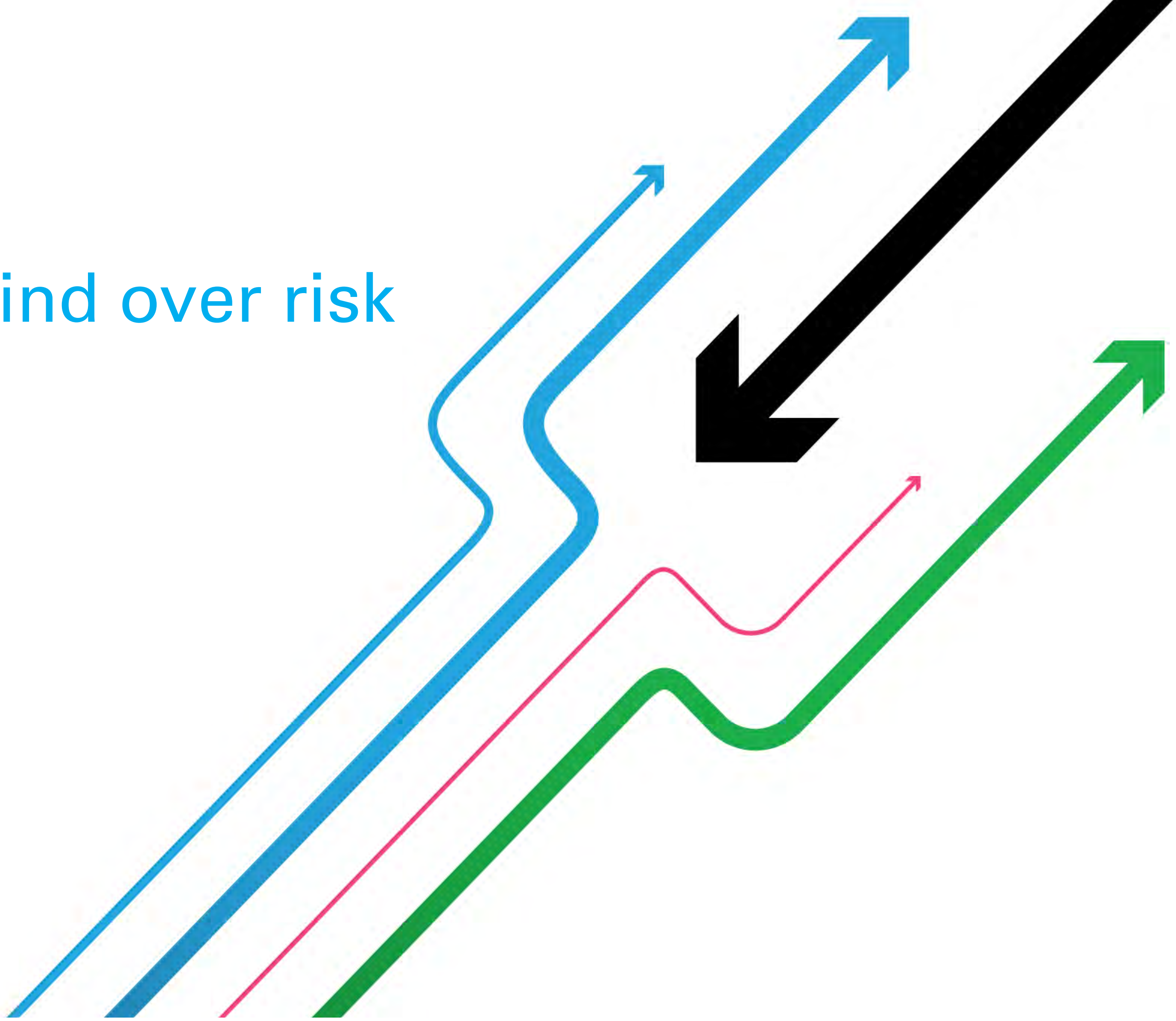
It was hardly encouraging that the phrase "How many naked ladies would..." was written on a blackboard in a pub in Leadenhall Market shortly after the Bloomberg article was published – albeit advertising the eponymous guest ale available on draught that day, but not exactly the greatest timing.

> "Often bad behaviour is called out by men rather than the woman herself because she fears her career will be stymied in some way or she will get a reputation for being a troublemaker"

What most sources agree on is that change in the insurance sector will have to come both from within the rank and file and from the leadership.

"A hotline is not certainly not going to be enough," one source concludes.

Mind over risk



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THE BOEING DILEMMA

While design flaws in Boeing's 737 Max aircraft have turned into a costly disaster, history suggests airline underwriters may do well to back the product across the market cycle, finds **John Hewitt Jones**

Underwriters are not so different from investors in their desire to back the right horse. When a carrier considers a prospective risk their myriad questions and concerns usually centre on the culture and leadership of the business managing the physical asset they are looking to insure. Do they maintain their ships/planes/power plants well? How are they run? Do they employ skilled engineers?

These questions have loomed large in the aviation insurance market since the Ethiopian Airlines disaster on 10 March that killed 157 people and brought into sharp relief some systemic flaws in the design of Boeing's 737 Max 8 and 9 jets.

For underwriters, the million-dollar question is therefore: should I take the opportunity to double-down, push for rate and expand my portfolio of airline risks exposed to the family of 737 Max aircraft or not?

In the aftermath of the Ethiopian Airlines crash the insurance market was focused on the airline's all-risks policy; the combined hull and liability cover held by every commercial airline that pays out if the worst happens. Within 48 hours, as multiple civil aviation authorities moved to ground the entire global fleet of 737 Max 8 and 9 aircraft, attention shifted to the manufacturer's liability programme held by Boeing.

Sources speaking to *Insider Quarterly*'s sister publication *The Insurance Insider* at the time revealed that Boeing's manufacturer's liability insurance programme stretches to at least $2.25bn, with a limit of $500mn for claims stemming from aircraft grounding losses over the policy period. Market sources confirmed that the aviation market had issued a loss estimate of around $275mn for the disaster.

Aviation insurance market sources canvassed by *Insider Quarterly* following the Ethiopian Airlines disaster were quick to break down the insurance market's exposure to design failures within the Max family of aircraft, highlighting those insurers with exposure to the aviation all-risks policies of Ethiopian Airlines and Lion Air, and Boeing's own manufacturers' liability policy.

However, multiple markets were swift to point out that any compensation provided by Boeing's insurance programme paled in comparison with the value lost after the company's share price plunged by nearly 25 percent following the 10 March crash.

Software defects

Commercial aviation is, by its nature, a volatile endeavour, but the failure across an entire type of aircraft – such as the Manoeuvring Characteristics Augmentation System (MCAS) – has the potential to result in systemic loss across a whole portfolio.

Following the Ethiopian Airlines crash Boeing identified two software defects within the MCAS system, an automated stall prevention feature found in 737 Max aircraft.

Despite the system error, Boeing's recent past shows it has a record of dealing with engineering projects that have gone awry and snatching commercial success from the jaws of disaster.

One senior insurance market source speaking to *Insider Quarterly* said that as a result of its experience across myriad projects including the design of the 747 and 707 airliners, Boeing would move to settle claims arising from the Ethiopian Airlines and Lion Air disasters.

"Boeing will want to settle the amount it contributes to the Lion Air and Ethiopian Airlines crashes as soon as possible," the source said. "The only real option in front of them is to pay up fast, fix the fault with the plane design, and move forward."

In the broader aviation industry, operators including budget airline Ryanair have expressed support for Boeing's aircraft.

Speaking to media in May, Ryanair CEO Michael O'Leary said he believed the US aerospace manufacturer had handled the 737 Max crisis "reasonably well", and that the airline had continued faith in Boeing.

"Maybe the regulatory process with the manufacturer was a bit too close. Maybe there needs to be a bit more scrutiny. Ultimately, we've got great confidence in Boeing, in the FAA [Federal Aviation Administration] and in EASA [European Union Aviation Safety Agency]," O'Leary told US broadcaster CNBC.

The executive made clear that, while the airline remains loyal to Boeing, it expects future benefits in kind – substantial discounts on the jets it orders from the aerospace giant.

Pricing correction

Underwriters from the aviation market speaking to this publication said they had pursued a similar line of reasoning and regarded this as an opportunity to reinforce recent risk-adjusted rate rises achieved on some aviation all-risks accounts.

The Lion Air and Ethiopian Airlines disasters have allowed carriers to make the argument for a reasonable correction in pricing, and enabled following markets to apply greater pressure to lead underwriters across some geographies.

"After Lion Air and Ethiopian, underwriters' appetite for business in those geographies has declined and getting the placement over the line at all is hard work for some airlines," a source explained.

At its 1 April renewal state flag carrier Air India is understood to have renewed with composite risk-adjusted rate rises of as much as 90 percent.

For carriers underwriting airline business this disaster may represent an opportunity to reinforce relationships and make the argument that rates are below the level required for technical profitability and cannot be sustained.

Aviation market sources described executives at major airlines "queuing up" to negotiate new deals with Boeing, viewing recent disasters as an opportunity to strike long-term deals of the kind the company has been adept at negotiating since the middle of the last century.

Underwriters equivocating over Boeing's technical prowess may take comfort in the fact that the company has navigated many engineering disasters since its formation in 1916.

Shortly after the 747-400 aircraft entered production in the 1980s the company faced one of its greatest challenges as it received reports of operational issues from multiple customers across a range of jets.

Already struggling in the face of industrial action, Boeing was confronted with demands from the FAA that every Boeing aircraft produced since 1980 must undergo additional safety checks.

The mandate followed the discovery of complications in the design of the new jumbo jet and, alongside a meltdown over industrial relations, would result in the departure of then-commercial head for aeroplanes Ron Woodard.

Despite these setbacks Boeing was able to forge ahead with a 747-400 programme that proved in the end to be both safe and profitable.

While the company's fortunes have followed the expansion and contraction of support from the American state, the aerospace manufacturer has made a habit of exploiting new technologies and ways of working with tremendous commercial success across the business cycle. Even slow-selling aircraft such as the narrow-bodied 757 have become major opportunities to learn what the market wants.

The virtual duopoly in the international market for commercial aircraft makes it a near-certainty that Boeing will establish a successful fix for 737 Max family of jets and the current turmoil represents an opportunity for underwriters to push back hard on pricing.

"Underwriters equivocating over Boeing's technical prowess may take comfort in the fact that the company has navigated many engineering disasters since its formation in 1916"

Liability crunch

However, market dynamics work both ways, and while all-risks underwriters push for rate, the prevailing soft market could result in the under-pricing of Boeing's manufacturer's liability risk.

Since the Ethiopian Airlines disaster, underwriters in the aerospace market have raised concerns that a major loss on the aerospace company's manufacturer's liability programme could use up much – if not all – of the business segment's estimated \$600mn-\$700mn premium pot.

Multiple market sources speaking to *Insider Quarterly* suggested Boeing may look to reinstate coverage limits for its current policy period or look to buy more cover at its 1 July renewal.

Any buybacks or new policy purchases would allow the market to claw back some premium from the carrier, but this year is unlikely to provide such an opportunity, according to sources.

Like many major corporates Boeing has purchased some of its cover using multi-year agreements, allowing it to spread risk across annual policy periods and subsidise its bad loss years with good ones.

Sources said a significant portion of the company's liability programme is underwritten on a three-year basis and is set to renew in 2020, meaning the market may have to wait another year before implementing risk-adjusted rate rises on the account.

"From a strategy point of view, if I were part of the management team at Boeing I would let the policy roll over for another year before moving to renew it," a source said. "Having a better period of losses to put before underwriters at the next renewal would help them achieve a substantially better price."

Credit concerns

Meanwhile, exposure from the 737 Max fallout is also hitting the trade credit insurance market through the Marsh-co-ordinated Air Finance Insurance Consortium (AFIC).

The consortium, launched in 2017, underwrites the delivery of aircraft to airlines with below-investment grade credit ratings and provides Boeing with guarantees against the non-payment of loans on its jets.

Ethiopian Airlines Flight 302 was an aircraft delivered through the consortium, raising concerns over the implications of a systemic issue with 737 Max jets for carriers underwriting the credit risk.

The policies, which are underwritten by Allianz, Axis, Sompo International and Fidelis, effectively back the balance sheets of airlines purchasing jets from Boeing; a prospect that according to some carriers is trickier to define.

AFIC replaces financial backing from the US Treasury-backed Export-Import (Exim) Bank that has been suspended since July 2015.

Continued on page 20

Since its launch in 1934 the financial institution has provided federal loan guarantees to overseas purchasers of US-made goods.

Industry sources with knowledge of the facility are keen to emphasise that the insurer-driven scheme gives carriers a final say over the assets they underwrite around the world.

But the facility relies on the balance sheets of its insureds in a fickle market where fluctuating oil prices, consumer demand and unanticipated disasters such as 9/11 can hit an airline's finances overnight.

Further, the entire project is contingent on public policy decisions from Washington, which Boeing's history show fall in and out of fashion.

Projects such as the experimental Supersonic Transport – bankrolled to the tune of $1.6bn by NASA before being mothballed in the early 1970s – and a panoply of military contracts have seen funding signed off and subsequently revoked across decades.

A market source speaking to *Insider Quarterly* was adamant that the majority of airlines backed by AFIC do not represent a significant credit risk to the consortium, but said there would be concerns over smaller airlines with a high concentration of 737 Max aircraft in their fleets if the underlying value of the asset – the jets they fly – were to significantly depreciate in value.

Figures provided to *Insider Quarterly* by The Airline Analyst suggest that this model of airliner constitutes more than 25 percent of the fleets belonging to airlines Samoa Air, Fiji Airways and Air Canada.

Trade credit insurers must back the airlines preparing to negotiate with Boeing as they struggle with the knock-on effects on revenue and passenger numbers caused by replacing services scheduled to be flown by 737 Max aircraft.

Long-term confidence

The markets for airline insurance, aerospace manufacturers' insurance and trade credit cover remain distinct, but as senior management at most carriers fight to establish their exposure to fallout from the systemic design flaw present in 737 Max aircraft it is uncertain which element of the risk represents a more attractive option.

Most airline insurance underwriters canvassed by this publication have remained bullish on risks associated with the Max aircraft, indicating their long-term confidence in Boeing's record on the successful commercial exploitation of new technology.

Assessing risks associated with a tangible asset like a jet is easier than identifying the softer attributes that make up the value of an airline. For those carriers that stick with the airline aviation market across the market cycle it may prove a more profitable endeavour than for trade credit carriers facing a risk with direct exposures to unpredictable, equivocating US political projects.

Boeing 737 Max operation by airline

Airline	Max 8	Max 9	Total narrowbody aircraft	Max 8/9 fleet %
Samoa Air		1	2	50%
Travel Service	7		15	47%
Lot	5		13	38%
Cayman Airways	2		6	33%
AirItaly	5		17	29%
Fiji Airways	2		7	29%
Air Canada	24		96	25%
SpiceJet	13		54	24%
FlyDubai	11	3	64	22%
Mauritania Airlines	1		5	20%
Miat Mongolian	1		5	20%
Tui	13		67	19%
SilkAir	6		36	17%
Oman Air	5		31	16%
Norwegian	18		129	14%
Ethiopian Airlines	4		30	13%
Fuzhou Airlines	2		16	13%
Aerolineas Argentinas	5		44	11%
Corendan Airlines	1		9	11%
WestJet	13		122	11%
Icelandair	3		30	10%
Shanghai Airlines	9		90	10%
Jet Airways	8		81	10%
Aeromexico	5		53	9%
Sunwing Airlines	4		45	9%
Eastar Jet	2		23	9%
Enter Air	2		23	9%
Scat	1		12	8%
Lion Air	8	3	151	7%
Copa	1	5	84	7%
Kunming Airlines	2		29	7%
Hainan Airlines	11		174	6%
Lucky Air	3		48	6%
Okay Airways	2		32	6%
9 Air	1		17	6%
Turkish Airlines	10	1	187	6%
Gol Transportes Aeros	7		120	6%
Xiamen Airlines	9		160	6%
Shandong Airlines	6		122	5%
China Southern	24		508	5%
Air China	14		307	5%
Southwest Airlines	33		814	4%
Comair	1		27	4%
Malindo Air	1		29	3%
Flynas	1		31	3%
S7 Airlines	2		67	3%
American Airlines	24		838	3%
Shenzhen Airlines	5		183	3%
Royal Air Maroc	1		42	2%
United Airlines		14	595	2%
Garuda Indonesia	1		77	1%
China Eastern	4		471	1%

Source: The Airline Analyst / AirFinance Journal

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LEGACY

Welcome to the Party

The party might be over for some in Lloyd's and the London market, but it's just beginning for the legacy sector…

From the publishers of The Insurance Insider

Legacy – the wonder drug

Hangxiety. Are you familiar with the term? I'd wager that a few of us have experienced it. It's that apprehension you get the morning after the night before that you might have said or done something you regret.

A nagging feeling in the pit of your stomach that during the fuzzy height of the previous evening's excesses you might have gone that step too far.

Combined with the fug of a hangover, this anxiety can linger longer than is welcome. And you can't remedy it with an Alka-Seltzer and a can of Coke.

(In fact, one hangxiety sufferer on the *Insider* team said the other day that if a company had figured out a wonder drug for this affliction, she'd buy shares in it.)

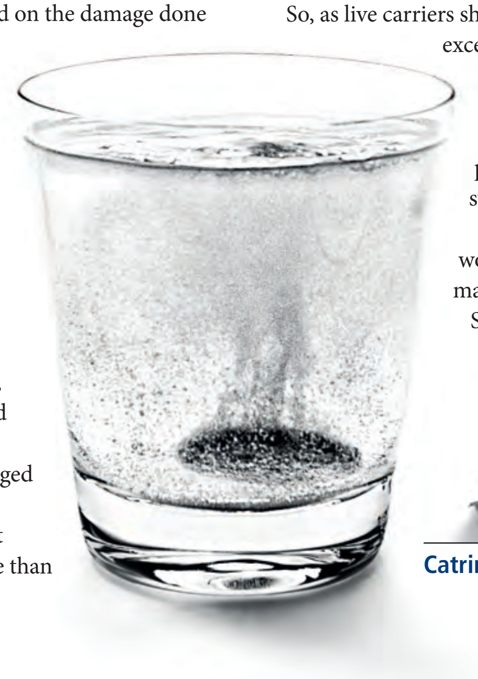
In the live market, London and Lloyd's are nursing their own sore heads at the moment.

> "As live carriers shake off last night's excesses and vow to turn over a new leaf, the run-off market can be there to provide a reassuring pat on the back and a sympathetic ear"

It was in April last year that Chubb chairman and CEO Evan Greenberg compared the London market to "a bar room with a bunch of drunks".

A lot of the underwriters in London and in Lloyd's "want a reform but they just can't put that glass down and push away from the bar", he said.

A month on from this damning indictment, Lloyd's kick-started its performance gap process and lifted the lid on the damage done by years of top-line growth in a softening pricing climate.



This process was mirrored – albeit more privately – across the company market and even in the US.

That reality check wasn't pretty, and it triggered the closure of a number of syndicates, dozens of class exits and scores of job losses.

The market has emerged battered, bruised and smaller than before, but arguably in better shape than it was. But perhaps the hangxiety remains?

For short-tail classes, remedying the underwriting mistakes of the past can be swiftly done. But for long-tail classes, those bad decisions are baked in, and can resurface when you least expect it.

This is where the legacy market steps in.

The London market, and particularly Lloyd's, will be in search of a solution to its exited or poorly written portfolios, as scrutiny on performance continues and the market's reserving position dwindles.

For around a decade the Lloyd's market's reserves generated favourable development of broadly 6-9 points annually, but this was just 2.9 points in 2018.

Giving finality to those underperforming portfolios would not only free live businesses of that lingering uncertainty, but also free up additional capital at a time when rates on inwards business are improving and trade capital is less available than previously.

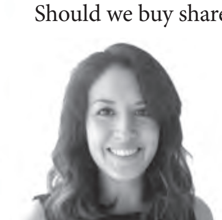
Meanwhile, the legacy market is healthier and more capital-rich than ever before.

For the last three years, prevailing soft market conditions have been identified as one of the top five drivers of future legacy volumes in our annual Legacy Barometer. Read on to see where it ranked this year.

So, as live carriers shake off last night's excesses and vow to turn over a new leaf, the run-off market can be there to provide a reassuring pat on the back and a sympathetic ear.

It could even be that wonder drug for live market hangxiety.

Should we buy shares?



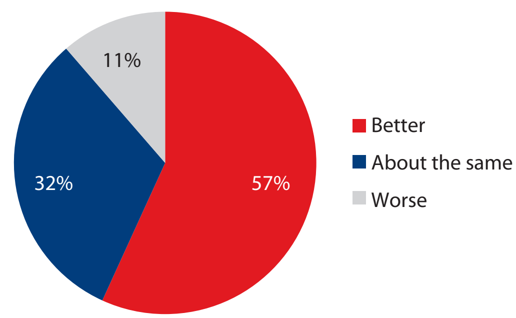
Catrin Shi, Editor, Legacy

Tempered enthusiasm

Challenges in the live market have led to fresh opportunity for legacy carriers, but competitive pricing and regulatory frustration still dog the market

Is the picture for legacy carriers looking better or worse in 2019 than it was this time last year?

The majority of respondents again feel that the business landscape in run-off has improved since last year. However, enthusiasm has tempered – in the 2018 barometer, no respondents said they felt the picture was worse than the year before, whereas 11 percent of respondents feel that way this year.



Industry comment:

"Better – increased acceptability of legacy solutions in the market and continued focus on capital, expense cutting and alternative exit solutions"

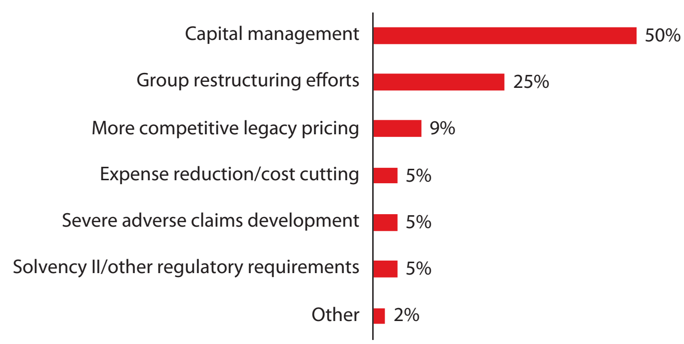
"There is more and more capital looking to enter the industry and prepared to support more and more deal structures that may work for the seller"

"Worse – there is more competition, particularly from private equity funds, [which is] depressing prices"

"About the same – no real change in the US market for exit strategies"

In your experience, what has been the most common driver for legacy book disposals by sellers over the past 12 months?

Capital management has been voted the most frequent reason for a live carrier to dispose of legacy portfolios for the third year in a row, with half of the vote. Group restructures also feature as one of the most common drivers, with 25 percent of the vote. In commentary, some respondents noted it was a mix of all of these issues, which they saw as a positive.



Industry comment:

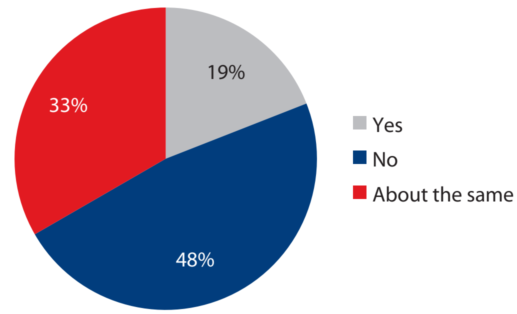
"In my view, there has to be a clear balance sheet saving to make transactions viable"

"The Lloyd's performance initiative"

"For us it is about cleaning up legacy portfolios, removing downside risk, reducing the drag on business performance and releasing capital. We believe that a good run-off carrier can give more focus and deploy more claims management experience/expertise to specialist legacy portfolios than we can, such that there is economic value creation in a good disposal"

"Legacy transfers are really a capital management tool for insurers to hand off liabilities. Loss portfolio transfers and adverse development covers have many beneficial advantages for a company, such as stabilisation of earnings, capital relief, risk transfer and enhanced investment return. Legacy transfers are no longer associated with failure for these reasons"

Have you seen an increasing number of deals offering the renewal of live business?



The market is fairly split on this question, particularly in comparison to the 2018 survey, when 69 percent of respondents said they had not seen more legacy-live deals.

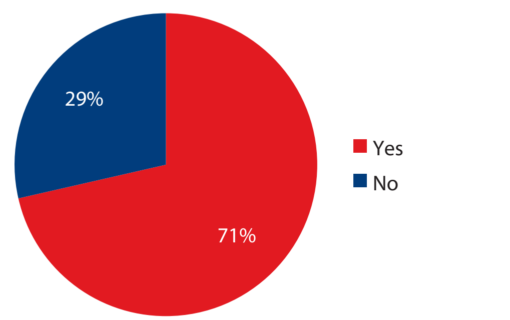
Industry comment:

"There have been live contracts in offered deals, but not specifically offering the renewals of those contracts"

"I think opportunities in the past have been limited and can't see that changing materially as live and legacy have very different drivers and objectives so alignment on both sides is difficult"

"More unexpired risk deals, but not necessarily front book/back book splits"

Do you anticipate more strategic partnerships between legacy and live carriers for run-off deals?



Some 71 percent of respondents believe there will be more tie-ups between legacy and live carriers on transactions. Although there was some scepticism in the commentary, many highlighted the opportunity to be more flexible and creative with product development via these types of partnerships.

Industry comment:

"Yes – especially for large groups with numerous different elements of run-off. Creating a strategic relationship with a trusted partner, proven in early or taster deals, works very well for both parties, especially where the live carrier has a steady pipeline of run-off opportunities"

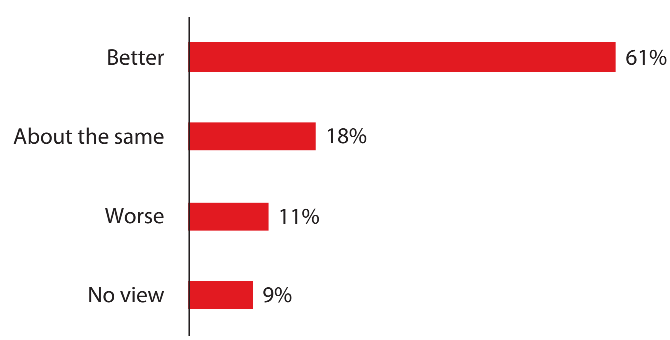
"Not really, there are those already in the legacy space that can offer combined products. To have transactions that involve numerous parties adds complexity"

"There are very few companies that would be interested in both, so partnerships may provide more options for sellers"

"Legacy companies do not want the tie-in and [to] answer to someone else or split the profits"

"There is potential for more dynamic partnering based on sharing resources and skills and lowering overall costs. There may be some space for price innovation based on control options. There may be space for some 'Brexit' partnering"

How does the handling of claims by a legacy player compare to handling of claims by a live company?



Almost two-thirds of respondents believe the run-off market has superior claims handling to the live market, with a number of participants putting this down to claims service being a board-level concern for legacy firms. Just under 20 percent saw the two markets as equally skilled in this regard.

Industry comment:

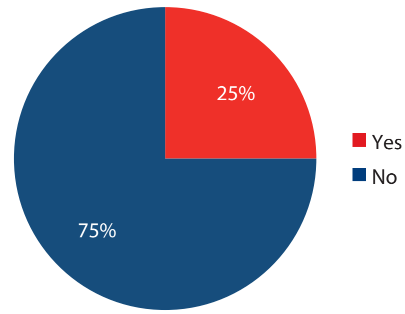
"Without underwriter or broker renewal pressure the claim is reviewed strictly on a policy coverage basis"

"Liability management is a key focus for a legacy company. Management does not need to concentrate on underwriting decisions or issues. The legacy company needs to continue to look after the reputation and interests of their clients and the best way to demonstrate this is to ensure that claims handling is of the highest standard"

"Live claims have much more of a customer angle whereas legacy is more about strict coverage. Both have excellence but for different reasons"

"Many live players have tended to neglect claims in certain parts of their book (especially those in run-off). We find policyholders have a better experience post-transfer to our run-off claims handling operation"

Have you seen an uptick in approaches from potential buyers of your company? If yes, where have these approaches come from?

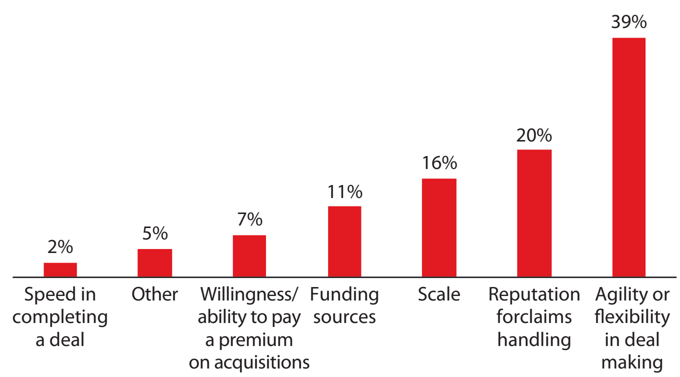


Interest in acquiring legacy companies appears to be dwindling, with only 25 percent of participants saying they had had more takeover approaches this year, compared with 36 percent last year. Private equity companies continue to be the most dominant investor type in these conversations.

Industry comment:

"Approaches are very common – there is lots of new capital looking for opportunities"

What is the biggest competitive advantage for legacy companies in the current market?



The majority of the market views agility and flexibility in deal making as the biggest advantage in competing for business in this year's barometer, whereas reputation for claims handling came out on top last year. Scale is also seen to be less important, dropping to third from second position last year.

Industry comment:

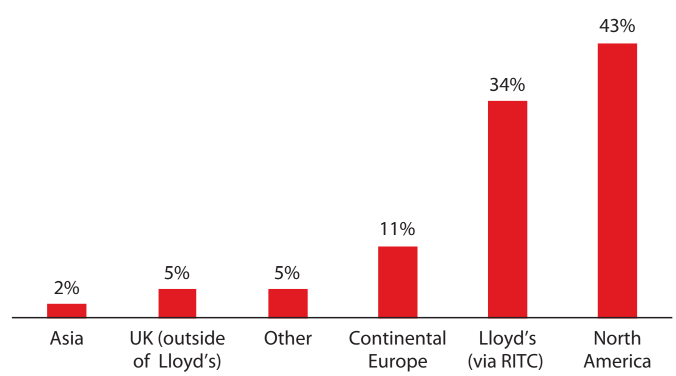
"Those with the scale and flexibility to deploy claims resource in a wide range of countries, with established businesses and regulatory relationships, [and] with an ability to take a higher investment return on longer-tail portfolios, tend to have an advantage"

"Having access to the right capital with reputable parties at competitive prices is still the most important driver for securing a transaction"

"I think reputation should be paramount – a seller that goes for just the lowest price is risking policy holder dissatisfaction"

"I would also say that flexibility in making deals has definitely become the norm in the latter part of 2018"

Which market holds the most promise for legacy growth in the next 12 months?



Respondents are clearly still optimistic on the prospect for forthcoming North American business, as several US states prepare transfer legislation to facilitate legacy deals. The reinsurance to close (RITC) market at Lloyd's also holds promise for many. When asked, 41 percent of participants said they would consider establishing a Lloyd's platform, while 24 percent said they would look to partner with a managing agent to access RITC business.

Industry comment:

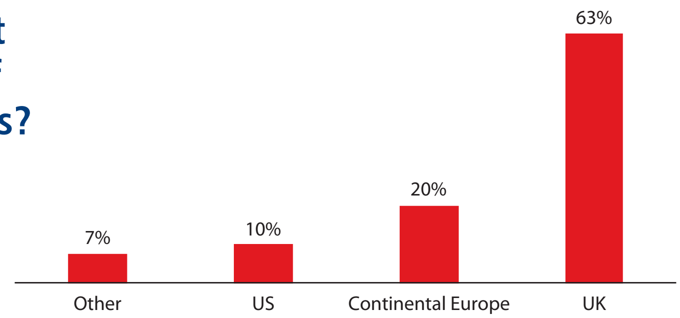
"The review of 2019 business plans put a lot of classes and portfolios in run-off. These will be ripe for reinsurance into legacy players which will focus on the claims handling and eventually lead to RITC"

"Continental European carriers are still divesting [themselves] of non-profitable lines and rebuilding their operations"

"It's very difficult to break into Lloyd's without a managing agent. Lloyd's doesn't want too many competing parties"

"If and when portfolio transfers legislation gains traction in the US and is adopted across all 50 states, then the market could take off. I suspect there are plenty of hurdles to overcome still and potential legal challenges, so that while I think there will be progress in the next 12 months, I suspect it will take a few years before the market really opens up"

Which jurisdiction do you think has the most responsive or effective regulator in terms of dealing appropriately with legacy businesses?



The UK has overwhelmingly come out as the leader in this vote. Continental European regulators highlighted by respondents included Malta and Germany's Bafin, while in North America, Vermont, Pennsylvania and North Dakota found favour.

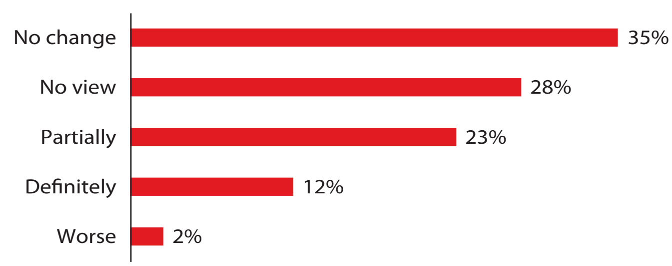
Industry comment:

"Is this a trick question? Perhaps it would be better worded as 'Which regulator is least unresponsive?' We are increasingly finding that hurdles are higher in all jurisdictions, with greater regulatory scrutiny consistent across all countries we work with. In which case, predictable engagement is a big plus and, in this respect, the Central Bank of Ireland ranks fairly well"

"Malta has been very supportive and flexible and there is now a growing critical mass there and the development of skills and talent"

"The UK is the most effective regulator in terms of dealing with legacy business even though the UK regime is seen as restrictive, control heavy and riskless. There is still room for innovation. The key is seeing the regulator as a partner and building an effective relationship (building the trust). The US (50 regulators) is significantly behind in terms of providing run-off mechanisms and Europe is catching up"

Have you noticed an improvement in the Part VII process?



While there is divided opinion on the degrees of improvement in the Part VII transfer process, the main takeaway from this question is that very few participants felt there had been a deterioration in the way transfers are handled.

Industry comment:

"The response from the Prudential Regulation Authority on a pre-29 March application was very prompt. Overall the regulators are much better than two to three years ago and I hope the volume of transfers for Brexit does not set them back"

"Still takes far too long to get an IE [independent expert] appointed. The regulatory rules applied on IEs' past company involvement means there is an ever-dwindling pool of IEs available for legacy carriers transacting multiple deals and transfers. Change is required"

"In 2018 yes there was an improvement, but with the influx of Brexit-related applications [the] process seems to have slowed again"

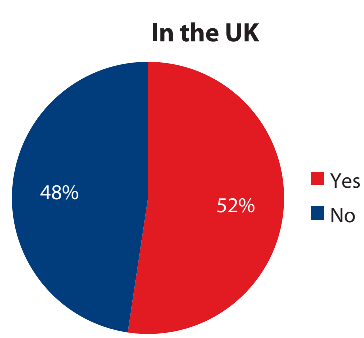
"[It] still takes too long and [is] very onerous, though regulators have a better understanding and are providing more process clarity"

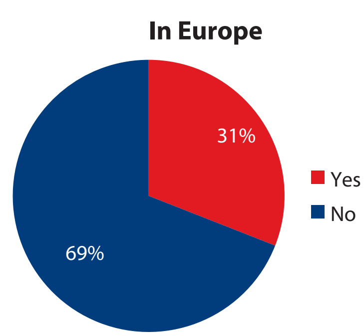
Do you see a coherent regulatory response arising out of issues from Brexit in the UK? How about in the EU?

Participants were virtually 50-50 split in their view of the UK regulator's response to Brexit, but overwhelmingly it was felt that EU regulators had not been cohesive in their guidance around Brexit, with 69 percent of the vote.

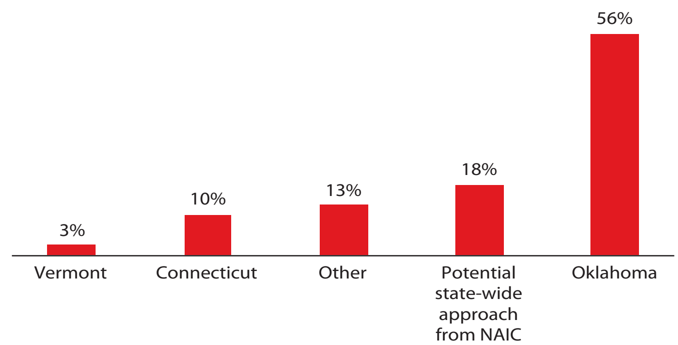
Industry comment:

"Regulators are being stymied by a complete lack of guidance from central government about what Brexit actually means and what it will look like"





In the apparent absence of deal completion in Rhode Island which, if any, other US states will stimulate deal flow?



Oklahoma is the runaway favourite here in terms of being the most likely to enact robust transfer legislation. Participants also found favour with a state-wide approach, and noted in commentary that there would need to be some regulatory cohesion between states for transfers to work.

Industry comment:

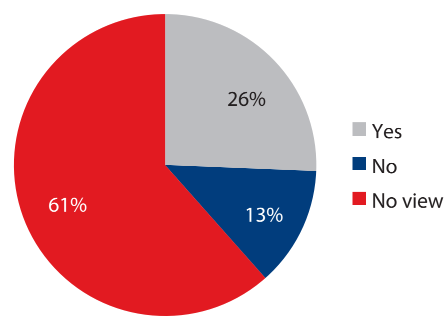
"The sands shift on a regular basis. Rhode Island was always going to be the stalking horse and Oklahoma seems to be responsive to industry views so may get there first. But until there is consistent buy-in across all states, potentially with mirror legislation, then I don't think it will quite work. This means NAIC [members] (including California and New York) all working together to the same goal. I don't think this is imminent"

"Illinois legislation may be the dark horse here"

"Oklahoma has been promoting hard in attracting run-off players to utilise their latest legislation, but so was Rhode Island in the early days. We need to see one or two transfers complete"

"The state-wide approach, if achieved, would have the regulatory support to make it happen"

Has implementation of the Senior Insurance Managers Regime (SIMR) and other regulatory changes been proportional to your company?



While many in our survey felt indifferent to SIMR, there were strong views from respondents in terms of the regulatory burden on legacy companies, which are often of a smaller scale compared with live carriers.

Industry comment:

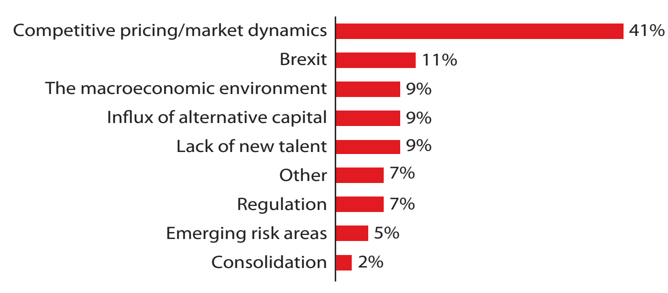
"The SIMR and other regulatory changes are not burdensome to live carriers and form part of an overall benefit to the governance and risk management of those organisations. However, for a legacy carrier, these regulatory requirements are disproportionate in terms of scope, they are also not conceived with legacy carriers in mind"

"It's a huge bureaucracy"

"Regulatory implementation is never proportional as there are base standards to comply with, irrespective of organisation size"

"We have sufficient scale to adopt this without too many issues"

What do you see as the biggest challenge to the legacy industry over the next 12 months?



Competitive pricing topped the list of challenges in our survey for the third year in a row, with other challenges being viewed as fairly even in terms of their scale. Brexit is still causing concern, while implementing new technology was also flagged in commentary as another key hurdle for the legacy market.

Industry comment:

"Not enough deals brought to the market by experienced sellers and advisers – too many potential deals do not get off the ground because the seller does not know enough about the likely deal terms and conditions before the process starts"

"It is a sellers' market with a lot of new entrants trying to get deals"

"There is the possibility of legacy market dislocation and consumer unrest if Brexit leads to regulatory intervention when carriers are simply trying to pay valid claims – that would fly in the face of the stated purpose of the regulation..."

"The sector is still resting with too many older people and the concern is that when the 50-year-olds go, who takes it up?"

Legacy lab

Sean Thomas Keely considers the options for run-off in the US and asks whether states have yet to prove themselves productive laboratories for legacy solutions

Justice Louis Brandeis famously wrote in a US Supreme Court opinion in 1932: "It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country."

His turn of phrase has since been picked up to describe the states metaphorically as "laboratories of democracy".

In the dual sovereignty system in America, some things are within the purview of the federal government to arrange on a national level while others are left to the states where local legislators can be more responsive to local concerns and opportunities. In theory, this can lead to healthy competition among states for residents, businesses and capital.

State laboratory

One can question, however, whether states have yet been a productive laboratory for legacy (re)insurance solutions.

(Re)insurance professionals from the rest of the world are often befuddled that insurance is one of the things our system in America leaves to the regulation of 50 individual

"(Re)insurance professionals from the rest of the world are often befuddled that insurance is one of the things our system in America leaves to the regulation of 50 individual states"

states. There is coordination among the states, primarily through the National Association of Insurance Commissioners (NAIC), which allows state insurance regulators to work together in setting standards and coordinating oversight. But ultimately the environment for (re)insurers – including the availability of legacy solutions – is determined by the legislation and regulation in the particular state.

> "[Insurance division statutes] provide a mechanism for an insurer to restructure legacy business into a separate insurer, often with the idea that the business can be operated more efficiently in the stand-alone entity or sold on"

The US can thus seem generations behind in this area, particularly when one considers that Part VII has been on the books in the UK for nearly two decades, with over 250 transfers sanctioned in that time.

Nevertheless, there continues to be momentum in the US – some might legitimately call it slouching momentum – toward legislative and regulatory solutions for legacy business.

There should certainly be market appetite for those solutions given the size of the US non-life run-off market nearly equals that in the rest of the world combined. Where are there recent signs of hope for progress?

Division statutes

In the past several months, Iowa and Georgia have each enacted insurance division statutes, with both taking effect on 1 July 2019. This brings the number of states with division statutes to over half a dozen. These laws provide a mechanism for an insurer to restructure legacy business into a separate insurer, often with the idea that the business can be operated more efficiently in the stand-alone entity or sold on. While the mechanism offers advantages, it probably does not offer finality.

The laws generally provide that a plan of division must be approved by the regulator and that the liabilities allocated in the plan to the resulting insurer after the division remain with that resulting insurer.

But the Georgia law contains a provision that "[i]f a division breaches an obligation of the dividing insurer, all of the resulting insurers shall be liable, jointly and severally, for the breach, but the validity and effectiveness of the division shall not be affected by the breach". The other division statutes contain similar provisions.

This, of course, leaves open the possibility that a liability intended to be housed separately forever comes back to haunt. Nevertheless, as noted, such division statutes continue to gain traction in the US. And where they have been adopted they have largely been at the prompting of insurance companies advocating for them as useful solutions.

Insurance business transfers

More aspirational in the US are insurance business transfers (IBTs), akin to transfers under Part VII where legal finality can be achieved by a novation and transfer of liabilities sanctioned by court order.

The Insurance Business Transfer Act in Oklahoma became effective on 1 November 2018. It is the most direct cognate in the US to Part VII, applying to P&C, life and health, as well as any other line of business the regulator thinks suitable for IBT.

Its forerunner, Regulation 68 in Rhode Island, provides procedures for IBTs of P&C commercial run-off business and has been in effect since 2016. But no IBT has yet been undertaken in either state. Why not?

Certainly, there is the execution risk to consider, particularly as a first mover testing the procedures. What will the regulators require in approving a plan and how will courts address them (and how long will it take)?

More substantively, there are still underlying constitutional questions that may need to be sorted out. The US Constitution contains a Contracts Clause that prohibits any state from passing a law "impairing the obligation of contracts". Some have questioned whether an IBT law might run afoul of that prohibition.

The Constitution also contains a provision requiring states to give "Full Faith and Credit" to judicial proceedings of every other state. States must honour judgments validly entered in other states.

But that may leave open questions of the jurisdiction of the court in the IBT state over certain policyholders in other states or whether the procedures in the IBT pass muster for full faith and credit.

> "More aspirational in the US are insurance business transfers, akin to transfers under Part VII where legal finality can be achieved by a novation and transfer of liabilities sanctioned by court order"

But while there are questions to be answered, there is hope for progress. Market members continue to have exploratory discussions with regulators regarding potential IBT transactions.

Earlier this year the NAIC formed a Restructuring Mechanisms Working Group to consider, among other things, issues relating to the various mechanisms that have been enacted or proposed as well as some of the legal issues presented. This reflects the real interest of the regulatory as well as the business community in finding effective solutions.

In the meantime, the laboratories await that first visionary market member to attempt the alchemy of a US IBT.

Sean Thomas Keely is a partner with Freeborn & Peters LLP in New York City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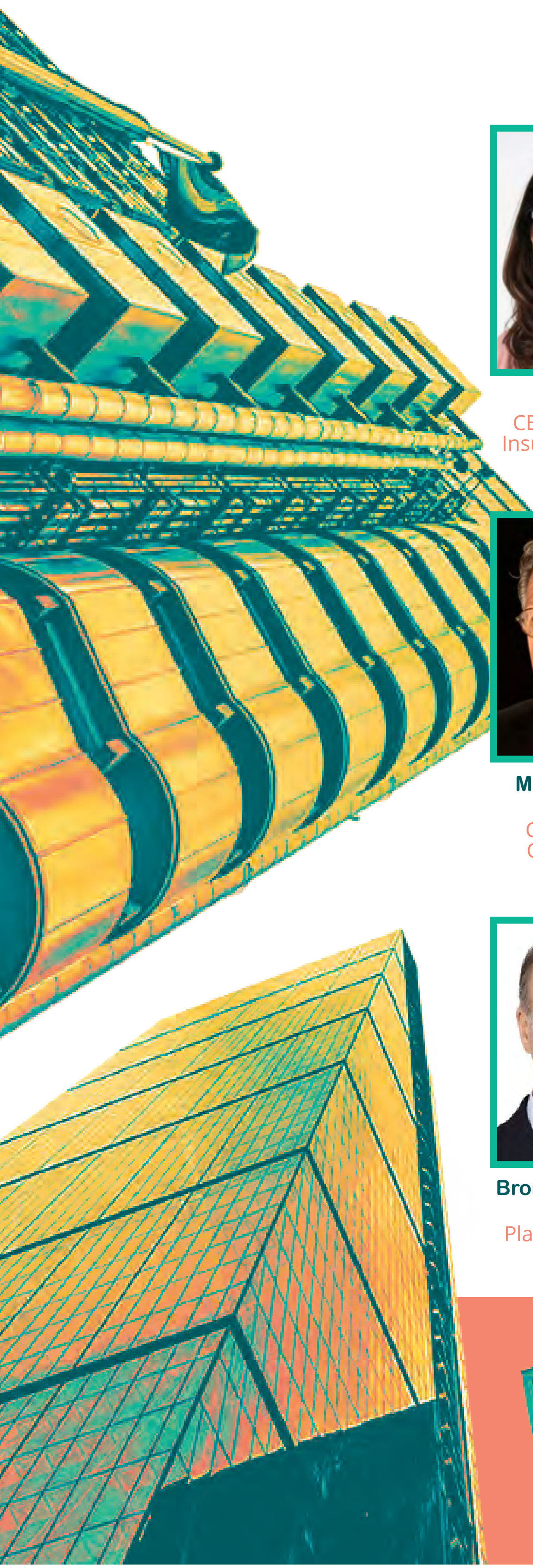


Speaker Line-up

Pina Albo
CEO, Hamilton Insurance Group

Stephen Catlin
Chairman and Chief Executive, Convex Group Limited

Dominic Christian
Global Chairman, Reinsurance Solutions, Aon

Lucy Clarke
President, Marsh JLT Specialty

Mark Cloutier
Executive Chairman & Group CEO, Aspen

David Howden
CEO, Hyperion

Paul Greensmith
CEO, Catlin Underwriting Agencies & XL Catlin Insurance Company UK

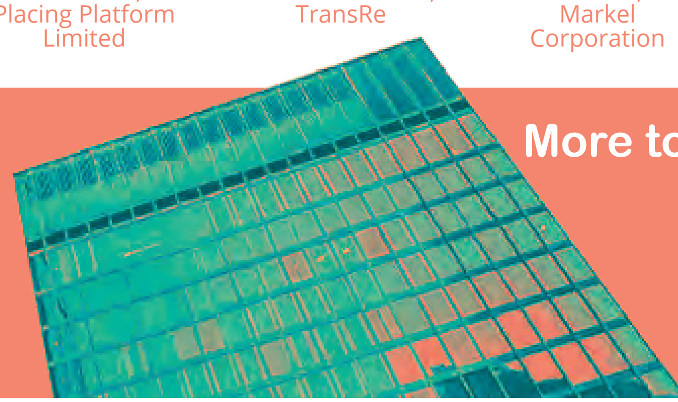
Sue Langley
Non-Executive Chairman, Gallagher UK

Bronek Masojada
Chairman, Placing Platform Limited

Mike Sapnar
President & CEO, TransRe

Richie Whitt
Co-CEO, Markel Corporation

Emma Woolley
CEO, Cathedral Underwriting



More to be announced

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BRAVE NEW WORLD

Brit group CEO and LMG talent sponsor **Matthew Wilson** ponders the future of skills in the London market

It is a truth universally acknowledged that the London market must change profoundly over the next few years. The risks we are protecting against, the companies we are dealing with, the tools we are adopting – everything is shifting.

As well as adapting to new pressures, we need to address the things that make us less competitive, and we have to learn new skills and new ways of working.

This is a once-in-a-generation opportunity to reinvent the marketplace, but doing this will require bold, brave action and a focus on the skills and talent we require to succeed in the future.

Not just technology

The London Market Group, with the help of KPMG, has just launched a new report – 'The future of skills in the London Market' – based on research which challenged market practitioners, strategists and innovators to think about where the market is now and where it needs to be in terms of skills. This is not just about technology – it also covers collaboration, innovation, communication and risk partnering.

What is clear from the report is that the skills gap is wide and the market must take action now to attract a new and diverse set of ambitious people inspired by innovation and change.

To do this, we have to widen our talent pool and include greater diversity of gender, ethnicity, age and thought.

The research reveals a need for: fresh thinking, new skills and a cultural transformation; a workforce that is adaptable, curious and tech-savvy; organisations to re-design for a digital age and create an agile culture that promotes flexible working, varied career structures and one where new projects are launched without restrictive approval processes; and future leaders who can be brave, understand and embrace the opportunities offered by technology and empower their people to be creative and develop new products and services to meet their clients' ever-changing requirements.

Disruption = opportunity

In an article published in August 2017, KPMG identified seven disruptive forces facing commercial insurance that are likely to bring significant cultural transformation to the London market (see diagram below).

They are predicted to influence the future risk need and expectations of insurance buyers and the distribution requirements of products and services across the value chain.

These forces are also likely to impact the skills required and the new technologies that will have to be adopted, and will bring the market to a tipping point which cannot be ignored.

Future skills

Big data and artificial intelligence are predicted to transform the entire customer value chain, and the research suggests that for placing brokers, claims brokers and underwriters, the future of their role will require a new, more tech-savvy approach to risk mitigation and less personal risk judgement.

It is anticipated that placing brokers will continue to require relationship building, negotiation and dispute resolution skills, but they will need to become risk partners who work collaboratively with their clients and underwriters to provide a broader risk consultancy service.

They will have to expand their industry knowledge and understanding of their clients' business, and then apply new data analytics and risk modelling techniques to design new risk mitigation services and products that better respond to their requirements.

KPMG's seven disruptive forces in commercial insurance (2017)

Source: KPMG

Claims brokers of the future will need strong data science and analytical skills, which they will use to help predict the types of events that will result in claims.

They will be able to add value and improve price and risk selection by analysing data from a wide variety of sources to identify risks and trends. This insight will help them to deliver services that better match their clients' buying requirements.

A risk-partnering approach will be needed to manage claims, and personal risk judgement is set to decline in importance in their role.

Underwriters in the future are likely to be both numbers-focused and customer-centric. They will increasingly be data scientists; fluent in reading data and working with algorithms and web-based systems.

In addition, they will be relationship and portfolio managers who are creative, with a depth of risk and industry knowledge. In the survey, 64 percent of the respondents said they believed that risk prevention and consulting will become increasingly important services offered by underwriters.

The future workforce will be more international and diverse and there will need to be empathetic support for long-standing market participants. These individuals will have to realise that their roles are shifting and that they are not immune to change.

Predicted change in skill requirements

SKILL CATEGORY	Placing broker	Claims broker	Underwriter
Data and analytics	Significantly increasing in importance	Significantly increasing in importance	Significantly increasing in importance
Technology and automation	Significantly increasing in importance	Significantly increasing in importance	Significantly increasing in importance
Risk partnering	Increasing in importance	Significantly increasing in importance	Increasing in importance
Creativity and innovation	Significantly increasing in importance	Increasing in importance	Increasing in importance
Collaboration and communication	Increasing in importance	Maintaining importance	Increasing in importance
Negotiation and issue resolution	Maintaining importance	Increasing in importance	Maintaining importance
Personal risk judgement	Significantly decreasing in importance	Decreasing in importance	Decreasing in importance

Source: LMG, KPMG

Bold leadership required

The senior leaders of the future must be change leaders with the experience and ability to drive through new initiatives that embrace technology and challenge the status quo.

The next generation of senior leaders should look to build businesses with an agile culture that stimulates learning and innovation, and promotes deeper knowledge of industry sectors and their risk requirements, as well as keeping a strategic eye out to assess danger from new tech-enabled start-ups.

To attract the appropriate candidates, companies should expand their horizons and look at candidates from other industries. Agile business cultures where products and services can be created quickly, driven by data and technology, will become the norm.

MATTHEW WILSON is group CEO of Brit Insurance and sponsor of the LMG's talent workstream

However, to succeed, it will require leaders to let go and to empower their people and to trust. This will be a big ask in a culture driven by quarterly reporting and formal boards, but it will be a fundamental requirement for success.

The speed to market will also be important and leaders will need to accept that some initiatives will fail, but organisations of the future will fail if they stand still while others are running.

Leaders can learn a lot from the younger generation, and a good way of finding out how they think would be to turn the lens around and set up reverse mentoring or work shadowing schemes.

Predicted change in skill requirements

SKILL CATEGORY	Senior leaders
Leading and managing change	Significantly increasing in importance
Technology understanding	Increasing in importance
Managing third party partnerships	Increasing in importance
Strategic thinking	Maintaining importance
Organisation and cost management	Maintaining importance
Managing market relationships	Decreasing in importance

KEY

- Significantly increasing in importance
- Increasing in importance
- Maintaining importance
- Significantly decreasing in importance
- Decreasing in importance

Source: LMG, KPMG

Fundamental shift

The predicted changes are a significant opportunity for the market, but they will require a fundamental shift in the traditions, current ways of working and skills of the market. Everyone has an important part to play in helping the market to evolve if we are to rise to the challenge. This report is a call to action, and one that we must heed if we are to modernise our business practices and attract the dynamic, diverse and inclusive workforce that we will need to make the market fit to face the future.

OPEN FOR BUSINESS

Changing company culture is the key to unlocking diversity and inclusion in the insurance market, says ***Vivian Leinster***

Developing a diverse and inclusive workforce can be complicated; there is no one-size-fits-all solution. Changing the approach to recruitment, promotions, employee communication and the role modelling of senior management is necessary.

However, if you want long-term, systemic change, you need to examine your company culture and the elements that are holding you back.

Our market is rooted in tradition, hierarchy and risk adversity. There is an unspoken understanding that to be successful you need to emulate your predecessors, looking and sounding like them. For us to progress we must cast these beliefs aside and focus on cultural transformations that promote inclusivity and agility.

Historically, the industry has taken a narrow approach to recruitment, focusing only on those who attended certain universities, came from certain backgrounds and studied certain subjects (often science, technology, engineering and mathematics, where women are under-represented).

The world is changing and we need innovative professionals with creative ideas and new skill sets. Additionally, we need employees that are representative of our customers.

Strides have been taken to broaden the recruitment pool, the uptake of apprenticeships being one example. However, with the low turnover in the industry it will take too long to change. We have to accelerate the pace of change and make it sustainable, and this means changing company culture.

Our recent internal diagnostic on diversity and inclusion (D&I) showed that one reason women are exiting the business is due to unsupportive and non-inclusive working environments. Expanding recruitment practices will increase diversity in the longer term, but we need to focus on developing inclusive workplace practices to retain talent.

One of the biggest traps companies fall into is not taking the time to properly diagnose the root causes in their organisation. D&I initiatives are often the result of speculation from the C-suite or senior management about what will make employees happier or help to retain them.

Businesses need a genuine understanding of the values and behaviours that are driving their culture by opening up a dialogue with employees.

When asking our employees what would make the biggest difference in creating a more inclusive culture, the unanimous answer was more flexibility in working practices. The traditional 'in the office', '9 to 5' model often doesn't support the complex lives we lead.

Flexible working requires senior managers to move away from restrictive policies and instead place their trust in employees' ability to determine when and where they work to get the task done in the most effective and efficient way.

Our experience is that when employees are trusted to make the decisions that are right for them and us, they are perfectly capable of balancing personal and professional demands. Our employees are happier, staff-management relationships are strengthening and productivity is increasing.

As companies become more diverse, communication becomes more complicated. Staff may feel unsure about what words are acceptable or struggle to make conversation due to a lack of knowledge about another's culture or personal challenges.

Employees may be afraid to ask for what they need for fear of appearing "different". This could be asking to re-schedule a meeting to attend a school play or modifying the work environment due to physical disabilities.

Creating an environment in which employees feel comfortable expressing their preferences and a curiosity to learn is encouraged is the key to inclusivity.

Businesses can promote this by ensuring that senior management is diverse and models appropriate behaviours for all staff.

Educating employees on the importance and benefits of difference is essential. Focusing on diversity groups you can see is just the start and can help us appreciate differences of all kinds, including those we can't see. Building an inclusive organisation creates the growth mindset which is critical to individuals and organisations thriving.

D&I is complex, but recent events in the market have shown just how important having a diverse and inclusive culture is for our industry. We are past the point of admitting the problem – now is the time for action.

VIVIAN LEINSTER is chief people officer at MS Amlin


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REVOLVING DOORS

It's time for more insurer loyalty when it comes to treating customers fairly, rather than the same old market churn, says **Mike Smart**

Oh to be a 'new' customer! As occasional buyers of a piece of furniture or a car, we are used to identifying a particular product and then shopping around for the best deal – and making the vendor work a bit for the sale.

Suppliers use incentives and we all try to time our purchases accordingly, when practical. I'm unlikely to buy more than one sofa, bed or car in a 12-month period; it's a one-off acquisition and I want to believe I've got a decent deal.

Now let's consider a longer term customer-supplier engagement. Maybe I'm old school, but from those businesses I use over an extended period of time I normally expect some sort of recognition; a discount on subsequent purchases or perhaps a loyalty card. Basically, a gesture: something tangible that rewards me for continuing to do business with them.

What happens in the insurance market? Well, it's good news if you're about to renew your policy and are happy to go to another insurer or broker. They will welcome you with open arms and offer great discounts to win your business.

Simply renewing your policy with an existing provider is typically going to cost you more than you paid the first time round – hardly surprising, as good old loyal policyholders are left subsidising all those 'new' special customer rates.

Market churn

Insurers and brokers bemoan how much it costs to acquire new customers but frankly, it doesn't take a rocket scientist to figure out that to a great extent they are their own worst enemies.

It is the insurers and brokers, along with the aggregators, who are encouraging the market to churn with all these new customer incentives.

The market is wasting hundreds of millions of pounds on advertising preferential rates to new customers.

> "Insurers and brokers bemoan how much it costs to acquire new customers; frankly it doesn't take a rocket scientist to figure out that to a large extent they are their own worst enemies"

Who's paying for this? The end-client, of course.

And then, to compound matters, we customers have to waste time shopping around to take advantage of these deals as the renewal notice that's popped into our inbox or through the door isn't as appealing as cancelling the policy and becoming a new

customer all over again.

Furthermore, while providers will explain in the small print that if you wish to make a change to a policy there will be an administration charge, these charges are frequently pretty arbitrary and not proportional to costs incurred.

Bluntly, they are used to subsidise advertised policy premiums. I appreciate that there may be a need to change the premium based on the risk being modified, but charging an administration fee in addition is really not on.

We live in a connected world in which a policyholder can – or at least should be able to – log on remotely 24/7 to make a change. Other than a potential premium change, this will have effectively cost the provider nothing.

These charges are simply a way of recovering reduced premiums to attract new business. It's not right, and those of us who have worked in the industry for any length of time know it.

So what can be done?

Delivering satisfaction

First, renewal notices should be sent out not only with a reminder of what last year's premium was, but also stating what the best price being offered to a new customer is.

To avoid perplexed policyholders phoning call centres at premium rates and waiting 20 minutes to speak to someone for an explanation, perhaps there could also be a short write-up as to why a new customer might be offered a better price for the same risk.

> "Instead of creating churn which is costing a fortune in marketing expense, suppliers might actually rely more on delivering first class customer satisfaction to retain their clients"

If, as one might logically suspect, there is no good reason to penalise an existing loyal customer and the inexplicable differentiation in pricing is removed, perhaps providers might choose to look more closely at the services they provide.

Instead of creating churn that is costing a fortune in marketing expense, suppliers might actually rely more on delivering first class customer satisfaction to retain their clients.

They might, as a result, be pleasantly surprised to learn that customers who believe they are being treated fairly choose to extend their relationship by adding further policies to their portfolio.

Second, policy administration costs clearly form part of overall policy pricing and these costs are built into premiums.

It is disingenuous at best to artificially reduce premiums in the expectation that the subsidised price can be funded later through charging administration fees over and above genuine premium changes for mid-term adjustments.

Once you are a policy holder you have no alternative but to pay these administration fees, added to which the structure of cancellation fees leaves little alternative but to pay them.

24/7 online access

Technically, there is no good reason why all basic insurance business should not be transacted over the internet, not only for new business but also to handle mid-term adjustments.

All policies should come with the details writ large about whether the supplier will provide a low- or zero-cost ongoing policy administration function. The consumer can then make a more informed choice; odds are that most would opt to do business with someone who provides 24/7 online access.

Doubtless, these suppliers will also be able to provide lower cost premiums as their administration costs would be substantially reduced. More convenience and lower premiums – sounds like a decent marketing proposition.

I appreciate that the personal lines market is highly competitive, but the structure needs to be looked at. Marketing cost and therefore cost per acquisition is spiralling ever-upwards and it's the consumer who ultimately foots the bill.

Hundreds of millions of pounds are being spent encouraging churn in the market based on aggressive introductory pricing.

Other than the comparison sites through which a huge proportion of the churn is being driven, it's hard to see where either providers or consumers are benefiting.

It's a vicious, self-perpetuating cycle that is not encouraging suppliers to focus on customer retention by improving service and demonstrating some loyalty to the consumer.

MIKE SMART is business development director for insurance fraud at BAE Systems

KEEPING PACE

Those who underestimate the scope and pace of the digital transformation of the insurance industry risk becoming irrelevant, says **Brad Smith**

The word "InsurTech" may only have been around for three years but we can already say with confidence that technology will re-invent the industry.

Resilient for decades, the traditional insurance business model is giving way in the face of changing client expectations. Millennial consumers want intuitive, tailor-made services and 24/7 access – and insurers are taking note.

Incorporating technology into daily operations can improve customer satisfaction, and much more. With the potential to price policies more accurately and better identify fraud, InsurTechs are looking at significant revenue growth opportunities.

Smart policy underwriting

There are two key technologies making waves in underwriting – the Internet of Things (IoT) and artificial intelligence (AI).

IoT devices are physical objects connected to the internet such as phones and laptops, but also technologies like Fitbits, smart fridges and smart speakers such as Google Home.

These objects can collect intimate data about users, naturally becoming an invaluable source of information for insurers. Once that huge volume of data has been harvested, AI helps with the most tedious part of underwriting – processing and analysing information.

One of the groups embracing the potential of the IoT and AI are car insurers. EverQuote has released an app that collects information about users' driving habits such as speed, distance travelled and even harsh braking and cornering.

The personalised information from the app is a game changer for the industry. Traditionally, auto insurers have had to rely on indirect indicators such as gender, age or location to assess risk. Now, with data from IoT devices, we can get sophisticated insights about each individual's driving habits and do a much better job at underwriting policies.

No wonder EverQuote and a few other insurance companies offer car insurance discounts to customers who give up their driving data in an attempt to encourage more users to join the app.

Like auto insurance, life insurance has traditionally relied on incomplete data that makes underwriting tricky. Here, it's fitness wearables like Fitbit and Apple Watch shaking things up. Customers' lifestyle choices are crucial in predicting long-term health effects. With IoT devices reporting back how much they exercise, how well they sleep and whether they smoke, InsurTech companies can get all the intimate details needed to assess risk.

Some insurers have already switched from traditional to so-called "interactive policies" which encourage customers to disclose fitness tracker data in exchange for discounts and adjusted premiums.

Right now, giving up health data from IoT devices is voluntary, but are we looking at a future in which insurers can request access to fitness trackers as part of the underwriting process?

From a legal standpoint, it's likely that privacy concerns will get in the way of that happening any time soon. And from a user perspective, there are ways to protect datastream from being intercepted by third parties. For example, you can encrypt your traffic using a VPN router when at home.

But with interactive policies becoming popular in countries such as the UK, there is a lot of potential for the IoT in insurance.

> Blockchain has the potential to drastically decrease fraud rates. Currently, 5-10 percent of all health claims are fraudulent, costing American health insurers $40bn per year according to the FBI

Customer-centric approach

Millennials are bringing new needs to the table when it comes to customer experience. The generation of digital natives is constantly connected and they expect their service providers to be so too.

In the age of convenience, meeting insurance agents in person or calling on the phone seems antiquated. Instead, insurers are increasingly resorting to AI-powered chatbots that purport to provide a human-like experience and can even guide customers through complicated processes.

While some object that chatbots will never be able to beat real humans' social skills, you may be surprised to learn that 37 percent of millennials actually prefer to talk to a business via chatbot.

But the customer-centric revolution doesn't end with how we interact with clients. New technologies enable us to do something even more important – offer products that match customers' needs and lifestyles.

In the on-demand economy, it's no surprise that policyholders gravitate towards flexible insurance solutions. Slice Labs, Cuvva and others are now offering pay-as-you-go car insurance – auto insurance that customers switch on when they're actually driving or when they need coverage on top of their usual policy (like Uber or Lyft drivers during work hours).

We can see a similar trend in travel insurance. Trov, Sure, or Goose policies can be turned on and off at the flick of a button, which makes them more suited to the jet-setting lifestyle of millennials than the traditional model.

The on-demand system also gives customers flexibility on what kind of coverage they need. Made a last-minute decision to try extreme sports on your holiday? Adding extra coverage in an insurance app is not an issue.

These new insurance models are possible thanks to automation. The InsurTech Lemonade famously promises insurance underwriting in 90 seconds with the help of its Maya "charming artificial intelligence bot." AI-assisted underwriting not only significantly speeds up the process, but is also available 24/7.

Processing a similar volume of data and accommodating constant incoming requests from customers who casually switch their policies on and off would have been impossible just a few years ago.

Fraud-proof claims

Blockchain is the buzzword in most industries and insurance is no exception. As a technology that has trust and transparency built in, blockchain promises ground-breaking opportunities for fraud prevention and claims management.

In essence, blockchain is a decentralised network that ensures all information stored on it is authentic. Any changes made to data can be easily traced which naturally makes fraud incredibly difficult. Therefore, blockchain has the potential to serve as a single source of truth for insurers and all stakeholders in the claims management process.

A case in point is the Hong Kong Federation of Insurers' initiative to develop a blockchain e-platform for auto insurance "to enjoy easy and secure access to timely and accurate data." What does that mean in practice? For example, verifying policies – what is covered by the policy, when was it issued etc – could be done in real time and with a high degree of trust. This is particularly important in the case of on-demand and pay-as-you-drive insurance policies that can be difficult to keep track of.

In addition, blockchain has the potential to drastically decrease fraud rates. Currently, between 5 and 10 percent of all health claims are fraudulent, costing American health insurers $40bn per year according to the Federal Bureau of Investigation.

Blockchain could provide a shared database for insurers, brokers, and service providers that is impossible to alter or delete, and is easily accessible at any time. This permanent audit trail would make fraud detection significantly easier and could reduce fraud by up to 5 percent.

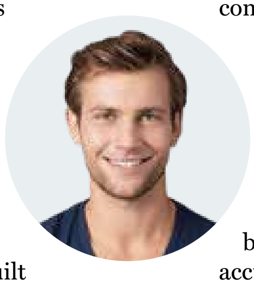
Eyes on the future

Leveraging technology in insurance has far-reaching consequences for both policyholders and insurance companies.

With more competitive policy rates, customer-centric design and tailor-made insurance plans, InsurTechs have many ways of attracting customers.

From the industry standpoint, tech-forward solutions can be ground-breaking in terms of accurate underwriting, fraud-proof claims management and client retention.

The conclusion is simple: those who underestimate the digital change risk becoming irrelevant – and sooner than they think.



BRAD SMITH is a technology expert at internet-focused non-profit organisation TurnOnVPN

BREAKING BOUNDARIES AND GIVING BACK

Alex Simpson and Jamie Gordon on their record-breaking row across the Atlantic

Hyperion CSR manager **Sophie Arup** outlines the group's fundraising accomplishments for various charities, undertaken as part of its Million for a Million challenge

For us at Hyperion Insurance Group, success looks different. To mark our 25th anniversary, the group has undertaken the Million for a Million (M4M) global challenge to give something back to our communities by raising $1mn for global and local charities.

Hyperion has chosen charities whose aims broadly help all sections of society by improving mental and physical health and promoting education, environmental sustainability and ethical entrepreneurism. Our M4M charity partners include Black Dog Institute, Cancer Research UK, InteRed and Plastic Oceans.

As a People First organisation, employees are at the heart of everything we do. Empowering and enabling our people to support causes close to their hearts is something we are immensely proud of.

"It's about harnessing the power of the group to raise money for important causes and being part of an organisation gives us the ability to raise more money than we could do as individuals. We want to empower everyone to be able to do something for charity," says Barnaby Rugge-Price, CEO of Hyperion X and chairman of the Hyperion Foundation.

By working together, Hyperion employees have raised the bar and shown what we can achieve collectively. Over one hundred events have taken place so far across our global offices, including participation in marathons, static triathlons, quiz nights, bake sales and even knitting octopuses for premature babies.

From rain to Spain

M4M was launched when 16 employees from across RKH, Howden and Dual cycled from London to Barcelona in 10 days last October. The riders covered over 1,400 km, leaving Hyperion's international headquarters at One Creechurch Place in London.

From there they headed across the Channel before pushing down the beautiful west coast of France, cutting southeast to tackle two days in the Pyrenees and then dropping down to Barcelona, arriving for the start of the annual Hyperion conference.

Damien Coates, CEO of Dual Asia Pacific says: "Black Dog is a cause incredibly close to my heart and a charity we have had a partnership with for a long time in Australia.

"Seeing employees from across the group come together to accomplish this amazing feat was a highlight of my career. Not only did we smash it but we raised an incredible $170,000 for charity!"


SOPHIE ARUP is corporate social responsibility manager at Hyperion Insurance Group

Breaking world records

Earlier this year, Alex Simpson, a marine broker at RKH, and his crewmate Jamie Gordon rowed across the Atlantic in a time of 37 days, 17 hours and 42 minutes, raising nearly $200,000.

In doing this, they broke the world record for the fastest recorded two-man Atlantic crossing and, at 27 years old, Simpson became the youngest person to row across three oceans.

Alex and Jamie rowed from Gran Canaria to Barbados covering roughly 4,800 km (2,602 nautical miles), equating to one million strokes.

Dominic Collins, chairman of Hyperion, says of the journey: "The physical and mental strength demonstrated by Alex and Jamie during this challenge has been truly inspirational and we should be justly proud of them for their outstanding achievement."

> "M4M has been fundamental in getting employees from around the world engaged in charitable giving events and supporting the local community"

Closest point to space

In addition, 10 employees from across the group set off to South America to climb Mount Chimborazo on a 13-day expedition. Together they raised over $125,000 for charity partners.

Standing at 6,310 m, the summit of Mt Chimborazo is the closest point on Earth to the Sun.

David Middleton, head of Rethink at Hyperion X and a participant in the Mount Chimborazo expedition says: "Million for a Million epitomises how Hyperion puts employees first. You can really feel that culture within the group – they really do put employees before anything else.

"You're encouraged to challenge yourself both inside and outside of work, and Million for a Million is the perfect example of that."

"We summited Mount Chimborazo on my 49th birthday, which was such a great way to ring in my 50th year!"

The Hyperion expedition at the summit of Mount Chimborazo – the closest point on Earth to the Sun

adds Petra Somerville, compliance manager at FP Marine Risks.

"I am a cancer survivor and taking part in this expedition was a great way for me to give back to causes that I know impact so many lives, in addition to testing my physical and mental wellbeing."

Shaving the infamous mop

Not wanting to be left out of the excitement David Howden, CEO of Hyperion, has committed to shaving his hair off and will take part in the 2019 Alcatraz Sharkfest Swim, raising vital funds for our charity partners.

Howden says: "Cancer is something that touches so many of us – too many – and I want to do something to recognise those we have lost and those who are fighting cancer.

"We are celebrating a remarkable quarter century by extending our culture of sharing on an unprecedented scale. All of our employees, including me, are taking on new challenges and coming together to support the communities in which we live and work."

The impact

M4M has been fundamental in getting employees from around the world engaged in charitable giving events and supporting the community, with employees entitled to two additional days of annual leave each year to volunteer for causes they care about.

M4M has laid the foundation for the group's charitable giving and volunteering initiatives, and will help shape our corporate social responsibility strategy.

"We have been thrilled by the enthusiasm of Hyperion and its employees in fundraising for Cancer Research UK through the M4M campaign," adds Caro Evans, director of partnerships at Cancer Research UK.

"We receive no government funding for our life-saving research so everything we do to prevent, diagnose and treat cancer is made possible thanks to our supporters and partners like Hyperion."

For more information on Hyperion's Corporate Social Responsibility practices and policies, please visit https://www.hyperiongrp.com/en/about-us/corporate-social-responsibility/

Employees from across RKH, Howden and Dual on their 10-day cycle from London to Barcelona

A SHOT IN THE ARM

Claims reserve analytics could be the boost managing agents need to improve compliance, says **Aidan O'Neill**, while InsurTech data science solutions could help carriers with reserving accuracy

Claims are the lifeblood that courses through the arteries and veins of the insurance body. They give tangible, quantifiable meaning to the insurance value proposition.

As well as providing one of the essential pillars of an insurance contract and transaction, claims also helps insurers to understand the data that underpins their reserves.

It is becoming increasingly clear that such data is a valuable commodity in its own right, particularly in light of recent statements by the Lloyd's regulator and the Prudential Regulation Authority, which are determined to ensure that reserving practices become more consistent across the claims team.

In this environment, is it time for managing agents to supplement their actuarial resource with a reserve analytics tool?

Certainly, my view is that with Lloyd's engaging more closely with managing agents, asking more questions about syndicates' approaches to reserving and meeting Lloyd's Minimum Standards, there is a great opportunity to use analytics to prove compliance.

A secondary, though no less important opportunity, lies in the ability to use claims reserve data to model multiple events and emerging risks.

Inadequate reserves

Reserve setting is the responsibility of the managing agent's board. If Lloyd's believes there is an unduly high risk that the reserves will prove to be inadequate, it will engage closely with the agent and expect the board to fully support this engagement.

According to a Lloyd's report published in January, 'Lloyd's Minimum Standards MS8 – Reserving': "The information on market conditions is relevant due to the reserving cycle – reserves set at times of weaker rating environments have historically been more prone to deterioration than those set at points with higher premium rating.

"The board should be aware of this reserving cycle effect and consider whether any adjustment to account for this is appropriate."

Lloyd's wants to ensure that more use is made of internal and external actuarial analysis to support reserve-setting responsibility, to help a managing agent's board to consider their analysis at a class business level, and to have the opportunity to challenge this analysis.

Modelling multiple events

There is a real opportunity to use claims reserving data to model multiple events together, given common reinsurance arrangements.

This data can then help drive discussion with managing agents' heads of exposure management to determine adverse scenarios, using their capital models to assess deterioration that adopt scenario based approaches.

Lloyd's undertakes a best estimate

reserving exercise centrally. The results are allocated to a syndicate to compare this position with the syndicate's own reserving exercise. Lloyd's expects a more holistic and joined-up approach that doesn't solely rely on external information provided.

The Lloyd's Minimum Standards for reserving require close board scrutiny of assumptions without a proven track record. The Minimum Standards are statements of the business conduct required by Lloyd's, established under relevant Lloyd's byelaws.

The requirements represent the minimum level of performance required of any organisation within the Lloyd's market.

Improving performance

In 2018 a document was presented to the Lloyd's Finance Directors Forum, which I paraphrase as follows: "Firms should not assume an improvement in performance relative to that seen in the past unless such an improvement has been clearly justified, in line with the expected Delegated Acts (PRA SS4/15). This was highlighted in the PRA Dear CEO letter."

Can you as a managing agent show that the concerns raised do not apply to your business?

In 2017, for example, the industry showed continued inadequacy of planned assumptions against actual development and that planned improvements were not being delivered.

The drive by Lloyd's to improve syndicates' reserve accuracy and Minimum Standards has led to calls for new automated solutions that accurately measure under- or over-reserving across the natural catastrophe, specialty and life insurance and reinsurance classes.

Attritional loss ratios have been climbing steadily for several years. Reserving therefore matters a great deal.

According to the Lloyd's Finance Directors Forum, reserving is an important factor in regulatory compliance and the largest item on the balance sheet.

It is also the largest single cause of historic failures in the US P&C industry and the biggest cause of Lloyd's Central Fund hits (even post-Equitas).

For syndicates, getting reserving estimates wrong has an impact across the business.

Claims reserving analysis conducted by DOCOsoft, for example, has been able to detect under- or over-reserving by territory. We were able to see very high under-reserving in China, but no over-reserving.

At the same time, we are now able to compare the reserve accuracy of claims where different experts have been appointed.

> "Individual claim data can have too much detail. Claims handlers work on individual claims and, by being immersed in the detail, they may miss patterns and trends"

Reserving challenges

I believe we have a unique opportunity to provide fine-grained historical and real-time reserve accuracy data, which eases the burden of showing regulatory compliance.

Allowing the early detection of emerging trends may necessitate a review of the reserving strategy at a senior level while assessing the reliability of broker and expert reserve estimates.

Detecting patterns of consistent over- and under-reserving will allow remedial action to be taken and the feeding of granular, timely and robust information back to the pricing team.

A machine-learning algorithm can then use the historical data (closed claims) to learn the characteristics of accurate claims as well as over- and under-reserved claims.

The system can then use the information it learned to predict which open claims will be accurately, under- or over-reserved when they close.

Claims managers can then pay special attention to the claims that are predicted to be under/over-reserved on close.

Details and patterns

When data is aggregated there can be too little detail. Actuaries trace ratio of actual to expected losses in order to work out premium pricing. However, they work on aggregated data where claims level detail can be lost.

Conversely, individual claim data can have too much detail. Claims handlers work on individual claims and, by being immersed in the detail, they may miss patterns and trends.

With pattern detection technology, however, we can detect just the right amount of detail.

DOCOsoft Reserve Analytics, for example, can find patterns of under- or over-reserving based on particular subsets of claims, focusing on adjuster, broker, location, cause of loss or combinations of these that need to be handled or priced in a different way. DOCOsoft can help your claims team to get their reserving "just right".

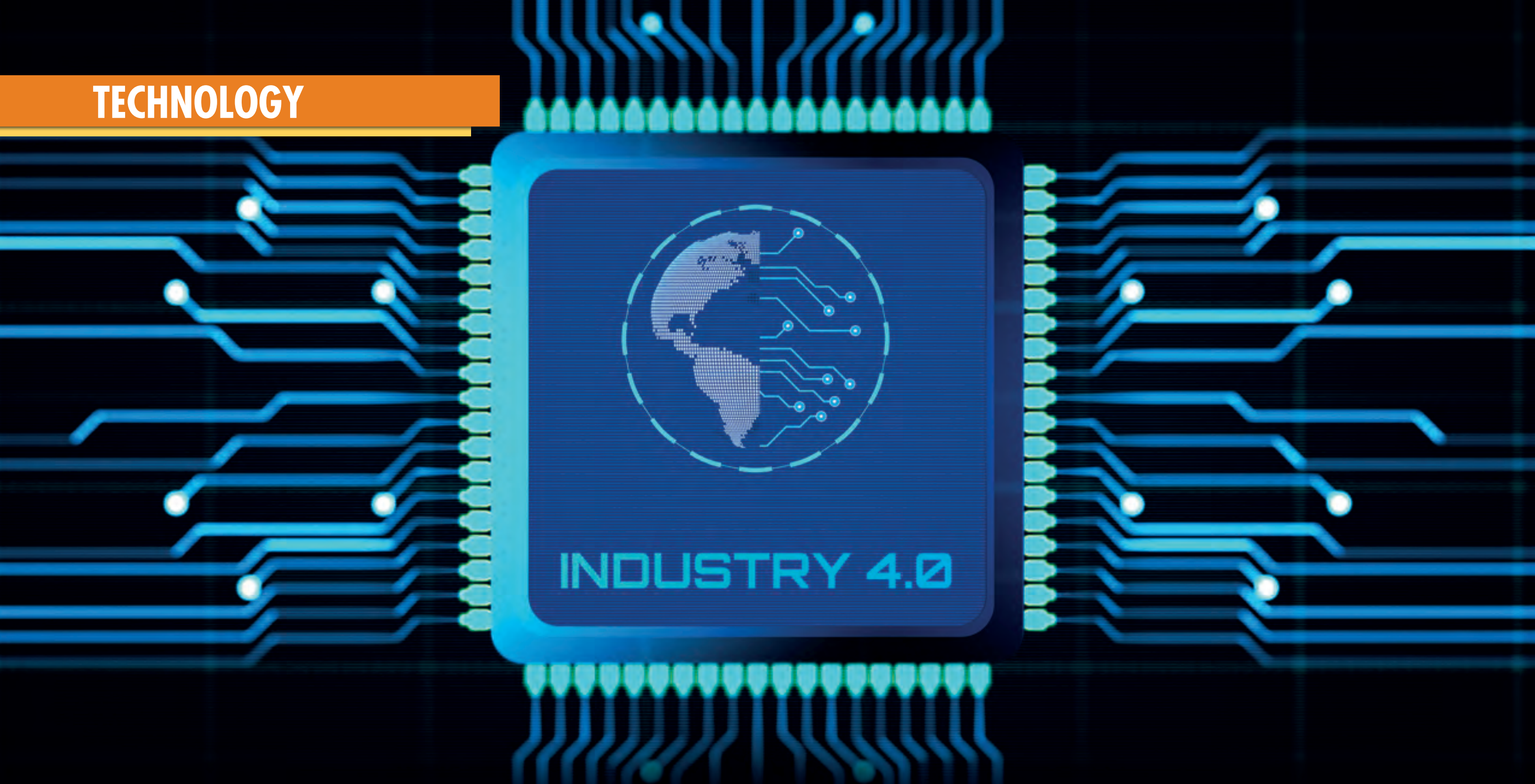
We are now in a position to be able to access and integrate data from underwriting systems such as case reserves and policy limits to create a fuller picture of the claims from a carrier and broker perspective.

With the current market environment, who would not want to identify areas where reinsurance may be extended across additional lines of business, or benefit from an early warning system to reinsurers that their current layer may be breached?

The London insurance market is undergoing substantial change, driven by regulation and competitive pressure.

DOCOsoft's new claims reserving tool supports regulatory compliance with minimum claims standards, helps increase throughput, reduces duplication of effort and supports faster reporting – all in a controlled process framework.

AIDAN O'NEILL is CEO of DOCOsoft



THE NEXT REVOLUTION

Sabine VanderLinden ponders Industry 4.0, wearable tech and the opportunities for the insurance sector

Industries are propelled by, and propel, change. There's a great deal of buzz around the so-called Fourth Industrial Revolution (Industry 4.0), and what the impact of the change it will bring about will look like on the ground.

Private businesses are exploring how they can incorporate it within their organisations and develop integrated approaches while collaborating with others.

Here, we look at the vital and compelling role of Industry 4.0 in improving the safety of individuals and the subsequent impact of these developments on the insurance sector.

What is Industry 4.0?

The Industrial Revolution is a continuum of change. It has a long history starting in the early days of mechanisation, through mass production and is now heading into the digital age.

Industry 4.0 defines the next stage of the industry's history. In Industry 4.0, the focus is on the interaction of cyber-physical systems: machine learning, the Internet of Things (IoT), cognitive computing and more. It's about how these facets interact and co-operate with one another in real time and in a comprehensive manner.

There are immense possibilities for Industry 4.0, and it's fair to say that we are not yet even capable of realising them all.

> "In Industry 4.0, the focus is on the interaction of cyber-physical systems: machine learning, the Internet of Things, cognitive computing and more"

Google's (now Alphabet's) multiple innovation strategies are interwoven into an innovation ecosystem of activities that are always thrilling to watch as they inform the future pathways for many industry sectors. This knowledge acts as our wide-angle lens, giving us a view of what's happening.

However, the sheer breadth of its possibilities poses a problem for many who are looking to benefit and be part of Industry 4.0. The question is – where to start?

One important area of interest and a starting place with real impact is in how we can make people safer in the future.

Making people safer

Human safety matters in today's industrial world. This applies to the worker (for example, on the production line) and the consumer (who is using a product or consuming a food item).

An excellent demonstration of this was shared in the Harvard Business Review article 'Global Supply Chains Are About to Get Better, Thanks to Blockchain,' in which blockchain is cited as not only the underlying technology that makes working environments safer and more transparent, but also the capability that extends to new creative horizons.

Blockchain enables disclosure and transparency in real time, which can be utilised in supply chains to gain visibility around items such as food ingredients from farm to fork.

What is interesting is the potential for this approach to go further. If individuals within the chain are also given individual cryptographic permissions, it is possible to gain visibility (and assurance) over the actions of individuals.

This same theory could apply to other areas of industry, specifically in additive manufacturing. As highlighted in the Harvard Business Review article 'The 3D Printing Playbook', 3D printing/additive manufacturing could be used in exceptionally high-tech processes (such as aeronautical engineering), but it would be imperative to trace the credentials of each person working within a process.

> “Smart wearables and IoT sensors can be used to allow insurance companies to create highly accurate insurance rates, design more relevant product offers, and provide bespoke services to industrial clients and their workers”

The role of smart wearables

By implementing the idea of individual tracking, we can take this even further with the introduction of smart wearables in the workplace, in part to gain traceability but to also gain more insight.

We are all familiar, to some degree, with intelligent wearables. Increasing numbers of people are growing used to wearing a device that tracks and monitors everything from our heart rate to our sleep patterns, and provides insight into our health patterns while sharing behaviour recommendations and health benefits.

At a broader level, these are already being used in businesses to encourage employees to pay attention to their health.

However, we need to go beyond thinking of it as merely a smart bracelet measuring steps or heart rates to being incorporated in things from gloves to exoskeletons – i.e. bodily protective shells. Its use in workplace safety improvements is only just beginning to become evident.

Smart wearables could identify that a driver is becoming sleepy at the wheel of a vehicle, helping to avoid dangerous driving incidents.

In construction, workers with GPS and sensors in their clothing could avoid entering hazardous areas.

They can be considered in occupational risk assessments such as advising and prompting ergonomic changes.

They could be used to sound alarms to react to real-time problems such as exposure to harmful gases. They could also be used to sense and respond to real-time factors in hot works where risks to worker safety are high – in activities such as welding or cutting.

In short, smart wearables are already being proven to increase worker safety. As we see the extension of Industry 4.0 there will be an increasing number of opportunities to expand their use.

Around 1.4 million working people in the UK are reported to be suffering from a work-related illness, with an estimated £15bn ($19bn) in costs each year related to injuries and ill-health from working conditions. In the US 5,147 workers were killed 'on the job' in 2017. Of 4,674 worker fatalities in private industry in the calendar year 2017, 971 – or 20.7 percent – were in construction.

It would make sense to use our smart wearables capability to change this for the better.

Back in 2016, research and advisory firm Gartner forecast that two million employees would soon be required to use smart wearables at work. It's certainly apparent that the tech is developing to enable such intelligent devices and sensors to improve health and safety at work.

There are considerable numbers of case studies out there, and so much more to do to connect smart technologies and the data they produce with the insurance sector.

Industry 4.0, smart wearables and insurance

While we see an increase in the development of solutions, there is still a long way to go in terms of the acceptance in the use of smart wearables at work. Perhaps the most significant area of concern is privacy.

Research by PwC UK has shown that while 61 percent of employees are keen for their employer to take an active role in their health and wellbeing, 38 percent don't trust their employer with their data.

This finding is clearly a hurdle to overcome through education, hopefully gaining momentum as employees come to understand how smart wearables can improve their wellbeing.

The above also has implications for the insurance industry – for both employers and individuals.

Smart wearables and IoT sensors can be used to allow insurance companies to create highly accurate insurance rates and design more relevant product offers but, most of all, to provide bespoke services to industrial clients and their workers that will show a more constant involvement in the client's risk management and prevention strategy. Preventative maintenance is an area that forces insurers to move from a passive protection state to an active prevention involvement, predicting alerts and actioning them to reduce fatalities and costs, while addressing societal and socially conscious objectives.

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

In conclusion, we can expect to see continued change throughout the insurance industry as we learn how to leverage Industry 4.0's potential to its greatest.

Specifically, in the area of safety, we anticipate an increase in the use of wearable devices both to prevent human error and to help individuals maintain awareness of their environment.

The data and approaches created will allow refinement in insurance solutions and offerings.

DELIVERING TRANSFORMATION

Tony Tarquini, director for insurance EMEA at Pegasystems, tells *Insider Quarterly* about the issues driving the digital imperative for insurance

***Insider Quarterly*: Technology and its use in transforming the way insurers do business has been a hot topic for some time, but is the insurance industry moving in the right direction?**

Tony Tarquini: If we're being honest, the insurance market is some way behind sectors such as e-commerce and banking, but that only means there are huge financial opportunities available.

We have to accept that technology is here to stay. As a society we tend to revert to how we used to do things, but we can't put this genie back in the bottle. It's far better to be ahead of the curve and anticipate what's coming.

The UK is a magnet for technology investment. As a nation, we have the right skills and technology, and an open market. But real success requires the government to be engaged. Partnership with businesses is key.

We don't just need to improve digital skills because the impact of technology will have a knock-on effect on other skills. Education needs to adapt and be flexible. For example, if a broker spends less time on administrative tasks, they can spend more time with their clients.

***Insider Quarterly*: While technology has long been seen as an opportunity, implementation has always been the issue. What lessons does the industry need to learn about implementation?**

Tony Tarquini: There are three mistakes firms often make. The first is thinking about customers in terms of channels, not journeys. The second is thinking about tasks, not outcomes – in effect, using technology for the sake of it. The final mistake is thinking in silos, not as an end-to-end solution.

We cannot view technology as the solution to every problem but there is much that can be achieved. Insurers' technology teams need to stop trying to build everything themselves and concentrate instead on being heroes who deliver enterprise-scale, robust IT capability that collaboratively supports the business in becoming agile, innovative and customer-friendly.

Transformation is a big word and you need to understand that transforming your business and its technology does not come with a quick fix.

Insider Quarterly: How should insurance executives prepare for such a transformation?

Tony Tarquini: The most important thing is executive buy-in. They need to be sponsoring transformation and have highly visible accountability for its outcome and success. Their role is to make strong, strategic decisions and unblock inhibitors so things get done.

If you get the project team wrong, you're doomed from the start. You need to ensure it is the right size and includes the skills and expertise needed to complete the task, and that it is in the right location to access the people it needs to engage with in the orgaisation.

You have to be bold and understand this is a transformation and not a tweaking of systems. The project team needs to understand how it is accountable and to whom. Ensure you understand the plan and how it will work.

> "Transformation is a big word and you need to understand that transforming your business and its technology does not come with a quick fix"

Scope the time period of the project and if it looks to be a long-term process, ensure you have factored in how you will keep the project team motivated throughout. Failure to do this will affect the ability to sustain momentum.

You need to create a new team which can be drawn from internal and external resources, but it needs to be standalone and members can no longer see themselves as in the business or IT unit, but rather as part of a team.

Insider Quarterly: Given the impact technology can make, and has made, on insurance, how do you see the future of the industry?

> "Insurers need to change both their outlook and their operations. There will be an evolution in the market that will involve insurers becoming far more pre-emptive in terms of the cover they provide"

Tony Tarquini: The industry is facing a wide range of challenges that are fundamental to its future. One that strikes to the heart of our discussion is how insurance companies can deliver consistently personal customer service.

A recent Accenture consumer survey showed up contradictions insurers should seriously consider. It found on the one hand an increased level of trust from consumers, but on the other that they are still very willing to switch providers if offered a better deal. The ability to deliver a level of personalisation that enhances client retention is not at the level other areas of the financial services sector have created.

However, it is the back office where the issues predominantly lie, rather than simply in the way the industry markets its products to clients.

What's more, insurance companies have a high level of technical debt, typically £1.2mn ($1.5mn) for each technical system they run. This is where InsurTechs have made an impact that belies their size and scale – they use their modern IT systems and muscle in on specific areas of the market. However, these start-ups have scalability issues that cannot be ignored. Insurers need to change both their outlook and their operations. There will be an evolution in the market that will involve insurers becoming far more pre-emptive in terms of the cover they provide.

Better use of data will enable underwriters to identify the risks their clients face and create the risk management and insurance protections they require. It will be a sea-change from simply waiting to be asked for remediation cover by the client when things go wrong.

Insurance is becoming embedded into other products on a more regular basis, and this trend will only gather pace. However, the fear is that, unless there is a change, the insurer will just become part of a larger infrastructure and lose the customer interaction.

We cannot ignore the fact that there are new risks to contend with such as cyber insurance, which remains a largely under-penetrated market. There is an opportunity for insurers to help their customers beyond the basic policy, by protectively helping them recover from a cyber attack.

Insider Quarterly: What do you see as the key for the market to effectively transform?

Tony Tarquini: It has to be the importance of data. Insurers must become masters of real-time data and analytics. Right now, insurers use historical data in some ways for pricing and risk management, but they are perhaps unaware of the other processes available.

Some European insurers, for example, are revolutionising their new business conversion and retention rates using real-time analytics and decisioning.

I also believe strategy is key. Transformation must connect to, and flow directly from, company strategy.

It is imperative that businesses go through the process of research and analysis to develop their strategy. When transformation is seen as key to achieving overarching business goals, it should be far easier to get the CEO and board on your side.

THE FUTURE OF LIBOR

Significant moves forward in the transition away from Libor are expected this year. **Albert Shamash**, **Richard Askey** and **Steve Bullock** assess the background, the current landscape and the next steps for insurers

Libor (London Interbank Offered Rate), and other Ibors such as Euribor (Euro Interbank Offered Rate), are used extensively across the financial system. The well-documented phasing out of Libor beyond 2021 will therefore affect almost every insurer to some extent, and in some cases to a significant extent.

As well as the more obvious lending, investment and interest rate derivative markets, Ibors can pop up in less expected areas. For example, they are frequently referenced in late payment clauses in service agreements, in leasing arrangements or even in the valuation of Defined Benefit Pension Schemes.

Insurers regulated under Solvency II face the additional challenge that Ibors often form the basis for the European Insurance and Occupational Pensions Authority (Eiopa)'s Risk-Free Interest Rate, used for calculating technical provisions in various currencies.

This can be especially significant for the valuation of long dated liabilities such as various casualty lines and most life insurance business.

The insurance industry, as well as the wider corporate community, will need to consider carefully its exposure to Ibors across its business and prepare itself for transitioning to alternative benchmarks.

Moving away from Libor

The phasing out of Libor was first mooted in 2017 when Financial Conduct Authority (FCA) chief executive Andrew Bailey announced that the FCA would no longer compel the panel of banks that contribute Libor quotes to do so after 2021.

The reason given for this is that the underlying market that Libor seeks to measure – the market for unsecured wholesale term lending to banks – is no longer sufficiently active. This, according to the FCA, has given rise to questions about the sustainability of Libor benchmarks and uncertainty about the legal position of contracts if Libor was to become unavailable.

> "The insurance industry, as well as the wider corporate community, will need to consider carefully its exposure to Ibors across its business and prepare itself for transitioning to alternative benchmarks"

This led to significant activity around the globe, with working groups set up with broad market participation, to prepare for a smooth transition to alternative benchmarks.

The FCA has kept the issue to the fore, with an update from Bailey in 2018 – and subsequent speeches from the FCA in 2019 – underlining the need for markets to transition away from Libor. "…the discontinuation of Libor should not be considered a remote probability 'black swan' event," Bailey said. "Firms should treat it is as something that will happen and which they must be prepared for."

A further catalyst for transition will no doubt be banks implementing transition programmes in response to the "Dear CEO" letters written by the FCA and Prudential Regulation Authority (PRA) to CEOs of major banks and insurers in September 2018, asking what preparations they are making to manage the transition from Libor to alternative interest rate benchmarks.

Changes are already taking place and 2021 is approaching. The transition from Libor to alternative

rates is a key area of focus for the market and firms should be acting now if they have not already done so.

> We expect to see further growth in RFR product volumes across the cash and derivative markets. We could also see changes to market conventions as the markets become more accustomed to using daily RFRs"

What we have we seen so far

Alternative near-risk-free rates (RFRs) have been developed around the world for each of the five Libor currencies. These are all overnight rates based on actual transactions, though with some differences in how they are calculated. In the UK, the Bank of England-initiated Working Group on Sterling Risk-Free Reference Rates selected a reformed Sterling Overnight Index Average (Sonia) as its preferred alternative to Sterling Libor.

Countries are at different stages of preparedness for a discontinuation of Libor. In the UK there is already a relatively liquid Sonia swap market.

Sonia is starting to be adopted in other parts of the market. In September 2018, Lloyds Bank was the first UK retail and commercial lender to price a bond using Sonia as its reference rate. This was followed by further issuances in January and May 2019.

In December 2018 Lloyds Bank priced the first securitisation to reference Sonia and has also been facilitating transitions to Sonia for some derivatives clients.

In addition, both the Intercontinental Exchange (ICE) and the London Stock Exchange (LSE) now offer trading in Sonia futures contracts.

The US only started publishing its RFR, the Secured Overnight Funding Rate (SOFR) in April 2018, which was followed by the launch of a futures market. A swap market exists but has been slower to take off.

The US Alternative Reference Rates Committee has published a paced transition plan with key milestones to transition away from USD Libor by the end of 2021. It has also instituted weekly calls to brief the market and take questions.

In the eurozone, the phasing out of Euribor is running at a slower pace than Libor. The Euro Short Term Rate (€STR) is only due to be published on 2 October 2019. Euribor is likely to be reformed in 2019 to comply with the European Benchmark Regulation, which itself is being amended to allow regulators to compel panel banks to submit to Euribor for up to five years if needs be.

In bond markets a number of conventions are being developed. To overcome cashflow challenges with RFRs bond issuers have adopted mechanisms to smooth the settlement process. This is required to bridge the gap between the Libor market convention whereby a term rate sets the cashflow on a bond coupon on day one of an interest period vs RFRs which reset daily and cashflows cannot be determined until the end of a period.

In Sonia referencing bonds we have seen the Interest Determination Date set five days in advance of the interest payment date, giving market participants time for calculation of cashflow and settlement.

In the US, we have seen a slightly different approach for bonds that reference SOFR. These bonds have typically used a lockout period whereby, instead of a lag the same interest rate fixing is assumed for the final few days of the interest period (initially four and, more recently, two

Continued on page 54

days). During May, we have seen an issuer adopt the look back convention usually seen in the Sonia bond market.

These conventions in Sonia and SOFR may still evolve and harmonise. A discussion paper exploring the conventions and inviting feedback was issued by the FCA in March 2019.

What lies ahead?

A number of key changes to the market can be expected over the remainder of this year. However, we expect to see further growth in RFR product volumes across the cash and derivative markets. We could also see changes to market conventions as the markets become more accustomed to using daily RFRs.

Coming up with a market solution for legacy trades, with Libor references beyond 2021, remains a core focus for the RFR working group.

Currently, all RFRs are overnight rates only, although some market participants and products require or desire term rates. According to the milestones and timelines set out by the working group, publication of a Term Sonia rate is anticipated over the next 12 months or so.

There are similar plans in place for other currency RFRs, albeit with different timeframes. An alternative to using a Term Sonia could be to use Bank of England base rate (or currency equivalents) in certain products.

Additionally, the International Swaps and Derivatives Association (ISDA) is likely to finalise its proposals for fall-back language in derivative contracts. It will then publish a protocol to allow market participants to include the revised fall-backs within legacy Ibor contracts if they choose to in the second half of 2019.

The ISDA proposal is to fall back to an adjusted RFR plus spread adjustment. Following the first market-wide consultation, ISDA has proposed using the daily compounding RFR set in arrears plus a fixed spread adjustment based on the average over a historic look-back period (still to be determined) of the realised RFR vs Libor.

Once a Term Sonia Reference Rate is available or the market adopts alternative solutions (as seen in the bond markets) – and when agreed fall-backs are in place for derivative contracts – firms will likely accelerate transition activity.

We can also expect to hear more from the Bank of England's sub-working group on communication, which has already started to publish information on transition. This is accessible on its website. Banks will likely increase their communications with clients on this topic too.

Leaving Libor behind

The major challenge in the transition from Libor is the sheer scale of the task. Libor is embedded across the whole financial system. It is a key interest rate benchmark for hundreds of trillions of dollars in financial products and contracts worldwide.

Furthermore, even as the transition is underway the Libor market continues to increase, with new contracts being written.

The transition presents different challenges for different products. For example, while derivatives are possibly the simplest product to transition from a contract perspective, bonds present more challenges; to make changes to contracts that reference Libor it may be necessary to gain consent to change from all or most bondholders, plus there may be economic impacts from making those changes, while any fall-backs already in place may not be optimal under a permanent cessation.

There are also accounting and tax issues to be considered, and the potential for discrepancy between the derivative market and the loan/bond market if they are not co-ordinated.

Insurers will be looking to Eiopa to signal how it intends to change the calculation of its RFR once sufficient liquidity has built up in markets referencing alternatives. Insurers will be keen to avoid any capital strain when a change is implemented.

ALBERT SHAMASH is MD, business development & innovation, at Lloyds Bank

RICHARD ASKEY is MD and head of specialist insurance, at Lloyds Bank

STEVE BULLOCK is head of benchmark submission & supervision at Lloyds Bank

Transition building blocks – product and market infrastructure – must be in place. There also needs to be a meaningful build-up of liquidity in the alternatives.

From a corporate perspective, challenges include exposure to loan, bond market and derivatives, as well as any associated hedge accounting and other financing and contracts that are Libor-linked.

What can firms do now?

While the "Dear CEO" letters were sent to the largest banks and insurers, the FCA and PRA are encouraging all firms that rely on Libor to read the letter. It sets out the reasons for moving away from Libor and the importance of developing new standards and solutions, market structures and technologies to meet the challenges this presents.

If they have not already done so, firms are encouraged to look at their Libor exposures and fall-backs, and identify the risks and impacts of a transition from Libor. This includes consideration of pre- and post-2021 inventory to help firms see if transition activities need to take place.

An inventory of existing systems is also encouraged, as well as liaising internally with operations and legal teams. Firms can also sign up to the RFR working group newsletter to keep abreast of developments.

When considering changes to treasury management systems, flexibility and planning is of paramount importance. The relative infancy of new RFR products and the associated conventions may mean we see further changes as products advance and mature. Consideration of this should be given to any system and operational updates. We would recommend speaking with your partner banks when making such changes.

While the quantum of change is of a large scale, a market where the industry works together from an early stage will help to facilitate a smooth and orderly transition.

For more information please visit: Lloydsbank.com/financialinstitutions

RESILIENCE IS KEY

Adrian Hull details the benefits of absolute return bond strategies for insurance investors in a long-term, low interest rate environment

Global government bond markets had a good start to 2019. By mid-May, 10-year gilt yields had fallen to below 1.1 percent, lower than both CPI inflation and GDP growth.

It is unlikely there will be any policy-rate changes from the UK, US or European central banks in the remainder of 2019. This means the long-term, low interest rate environment will continue to present challenges to insurance investors.

A key consideration is to assess the risks when moving out of cash into higher-yielding assets, while understanding the additional solvency capital requirements (SCRs).

As investors reassess the low-yield environment, risk-free assets look increasingly challenging. While 10-year US treasuries are currently more than 0.75 percent lower than the high point of 2018, we expect investors' concerns to grow about the need to preserve capital should government bond yields rise.

Those seeking to preserve capital could consider absolute return bond strategies. These employ a range of techniques to generate returns from fixed income markets, including the flexibility to use derivatives to control risk and move efficiently between sectors and markets.

ADRIAN HULL is head of fixed income at Kames Capital

They offer investors the prospect of a stable profile of returns with a low SCR, a focus on managing risk and preserving capital, and flexible access to opportunities in global fixed income markets.

One of our insurance clients had a £650mn ($823mn) shareholder fund, two-thirds of which was invested in cash. Our client had a regulatory requirement to hold solvency capital in excess of the value of policyholder liabilities.

With the overall return on capital being diluted by a high cash allocation, there was a desire to enhance yield without conflicting with the fund's wider objectives. Specifically, our client wanted to find a suitable alternative to cash that could potentially earn 2.5 percent per annum.

Several options were considered, including longer-dated government securities, credit and equities.

Investing in longer-dated government securities and holding these to maturity could have been subject to movements in market value and attracted a substantial capital charge.

Despite the additional yield, credit would have incurred a higher associated capital charge.

Under the standard formula, the additional capital charge for credit spread movements for a BBB investment-grade bond with a 10-year duration would be 20 percent, with a separate charge for interest rate movements.

"A key consideration is to assess the risks when moving out of cash into higher-yielding assets, while understanding the additional solvency capital requirements"

Equities provide the potential for higher returns at the expense of volatility and increased capital requirements. However, our client already had substantial indirect equity exposure through unit-linked fee income, and direct equity investment could risk 45-50 percent of capital invested.

Following consideration, and in addition to allocating part of the assets to short-term cash holdings, our client instead invested in an absolute return bond strategy. They were attracted to the capital efficiency, potential returns relative to cash, exceptionally low volatility and low correlation to underlying bond markets.

"With the overall return on capital being diluted by a high cash allocation, there was a desire to enhance yield without conflicting with the fund's wider objectives" insuranceinsider.com | 5 September | Old Billingsgate | #InsiderHonours

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M&A FORECAST: SUNNY, WITH CLOUDY SPELLS

Despite a relatively slow start to the year for (re)insurance carrier M&A the global volume of transactions is likely to trend upwards, albeit with some temporary lulls, writes **Andrew Holderness**

> "The search for scale continues, especially at the top end of the market. In 2018 there were 18 mega-deals valued in excess of $1bn"

The second half of 2018 marked the third consecutive six-month period of increasing numbers of completed insurance M&A worldwide. And, although we have seen a relatively quiet first quarter in terms of announced and completed deals, we believe the conditions are right for this upward trend to continue.

We are finally starting to see some evidence that rates are hardening and the market is turning, but the business environment remains challenging.

Political and economic uncertainty is increasing with Brexit, trade wars and protectionism are casting long shadows. Global growth is expected to slow this year, while emerging markets and developing economies have lost momentum.

Although stock markets have in general recovered from the dip suffered at the end of last year volatility remains, and persistently low interest rates mean delivering a profit is challenging.

Against this backdrop, a merger or acquisition remains one key strategy to deliver on (re)insurers' growth priorities and there are a number of transaction drivers to watch out for in the coming year.

The search for scale continues, especially at the top end of the market. In 2018 there were 18 mega-deals valued in excess of $1bn.

We expect further consolidation in the coming year with a number of large businesses around the world including Zurich, Tokio Marine and Berkshire Hathaway, on the acquisition trail.

While not ruling out the announcement of another tie-up between market leaders of the scale of last year's largest completed deal, Axa's $15.1bn acquisition of XL Catlin, most are likely to be less ambitious, such as Allianz's rumoured move for Legal & General's general insurance unit for around £250mn-£350mn.

Tapping new territories

For many, accessing new customers still means taking a stake in an overseas business. Cross-border acquisitions continued apace in 2018, accounting for 26 percent of completed deals worldwide. This trend is set to continue. What is likely to be different in 2019 is the location of targets.

With a diminishing number of potential targets, deal-making in Bermuda will likely fall, especially at the top end of the market.

In contrast, regulatory change across the Middle East points towards a long-expected pick-up in transactions. In Saudi Arabia, proposed rules that would require significantly increased capital for (re)insurers are intended to drive consolidation. Meanwhile, in the UAE prudential requirements for foreign branches have been clarified, significantly increasing the amount of capital that must be held onshore. This is causing some to rethink their positions in the country, and may result in exits.

Asia Pacific is likely to be the most active region, with a continued increase in both inbound and outbound M&A. Under-penetrated markets still offer attractive growth prospects for foreign investors, while (re)insurers based in Japan, China and, increasingly, South Korea will look further afield for acquisition targets.

Meanwhile, in a reversal of this pattern, an increasing number of companies that had entered emerging markets as far apart as Latin America, the Middle East and South East Asia have been reviewing their positions and opting to withdraw. In these cases, almost universally, returns have failed to deliver on expectations and, with pressure on core operations to deploy capital more efficiently, exiting the market is the most viable solution.

Indeed, following years of pricing pressure some insurers are running out of road and recent signs of market hardening may be a case of too little, too late for these businesses.

Companies at the fringes of the market will be looking at their long-term solvency and although some are releasing reserves this option has pretty much run its course. We expect to see more distressed businesses put up for sale in the coming months.

The Lloyd's market could provide rich pickings. With around 20 syndicates exiting different classes a substantial quantity of discontinued business will either be closed naturally or sold to another syndicate, presenting the potential for billions of dollars' worth of legacy deals.

The regulatory dividend

Another key transaction driver is regulation, with rule changes in a number of jurisdictions having an impact on M&A.

In China, a slew of new regulations has led to a spike in interest from foreign insurers and we expect a number of significant transactions to emerge through 2019.

> "With around 20 [Lloyd's] syndicates exiting different classes there is a substantial quantity of discontinued business which will either be closed naturally or sold to another syndicate, presenting the potential for billions of dollars' worth of legacy deals"

In Australia, even before the findings of a public inquiry into the regulatory framework were published, domestic insurers were under pressure to focus more on core activities. This has driven M&A activity throughout South East Asia.

Meanwhile, tighter capital requirements in markets across South East Asia, the Middle East and South Africa will lead to consolidation or players being forced out of the market.

The technology imperative

Technology has become another key driver of M&A. On the operational side of the business, although there is a risk involved in integrating legacy systems, the potential synergies a transaction delivers can be amplified by the application of technological innovation to streamline processes, resulting in significant cost savings and financial benefits.

Technology is also the skeleton key that unlocks multiple doors to new customers. Companies with the deepest customer insight will become increasingly dominant and M&A can immediately deliver acquirors a vastly expanded pool of data.

A transaction can also be the easiest way to access innovation. Examples of insurers buying InsurTech start-ups increased in 2018, with some acquirors looking at companies at a very early stage of development and others preferring more established targets with proven business models.

However, M&A is not the only route to innovation. Some prefer to keep R&D in-house through their own digital labs, take a stake in a start-up through corporate venturing, or team up via a joint venture or other type of partnership.

Caution remains

While interest in the benefits of technology will remain keen and the outlook for M&A is bright we may see dealmakers moving with caution in the coming months, which could result in a temporary lull in activity in some markets.

M&A in the Americas dipped in the second half of 2018, a trend that is likely to continue in the short term. This is partly due to the natural cycle of the market, but also because of a heightened sense of wariness – uncertainty is the enemy of deal-making and, as investors follow economic and political developments with interest, an increasing number are slipping into 'wait and see' mode.

In Europe, after two years of ups and downs, Brexit uncertainty is at a peak and we expect M&A in the region to remain relatively muted, at least until the "flextension" deadline of 31 October.

Once clarity around Brexit is finally achieved, the disruption that will follow will generate opportunities, especially in the run-off market. In the meantime, we expect Asia Pacific to see an uptick in the global share of deals.

ANDREW HOLDERNESS
is global head of the corporate insurance group at Clyde & Co

X MARKS THE SPOT

Hyperion X has a brief to develop data, analytics and digital platform delivery, with a mission to digitally transform the insurance group. *Insider Quarterly* spoke with four senior Hyperion executives to find out more

Technology investments are all the rage in 2019, but the approach taken at Hyperion Insurance Group is more thorough than most.

The group recently launched its Hyperion X subsidiary as the vehicle to drive digital transformation across its multiple businesses.

The new entity has a broad mandate to work in partnership with the business teams to develop key areas of data and analytics, and digital platform delivery across the group's broking arms – Howden, RKH Specialty and RKH Reinsurance Brokers – as well as its MGA Dual.

It also includes a technology investment brief to supervise Hyperion's third-party InsurTech investments, as well as incubating its own start-up ventures.

Barnaby Rugge-Price is tasked with running Hyperion X as CEO. He is clear about the "command and control" view necessary to turn visions of digitalisation into pragmatic collaboration across the group to produce InsurTech success stories for the business.

"Our mission is the digital transformation of Hyperion. To do that, we need to be collaborative in our resources with the flexibility to operate around the group," Rugge-Price says.

"We're ensuring that money is well spent, meeting clear long-term business objectives. It's clear we need to go through a transformative journey. My role is to provide the command and control to navigate that journey successfully," he adds.

To make this a reality, Hyperion picked Rugge-Price, who previously led its RKH Specialty division, rather than parachuting in an outsider from the technology side, according to the group's chief information officer (CIO) Lyn Grobler. Her own broad brief includes IT infrastructure across the group globally, including implementing increasing automation for back-office functions throughout the firm.

"Hyperion selected the top performing CEO to head Hyperion X," notes Grobler, who previously held the CIO job at energy giant BP. "We picked one of our own, a trusted business leader, rather than a technologist.

"We look for the right energy and bring the right people together working for a team. I've seen other businesses struggle with creating an innovation arm by breaking away and starting too separately. If you do that you risk an 'organ rejection' from the main company."

Instead, Rugge-Price underlines the importance of selecting teams that combine people from Hyperion X and the various business teams, with a specific aim for delivery. The company prides itself on agility in allowing people to adapt their roles, depending on the task at hand. The underlying consistency comes from learning lessons, such as on a product build within one team that can then be adapted within different businesses.

"We're enabling colleagues to do more and do things better, reinforced with a bench of initial tech expertise. We form cross-functional teams around an area of work within a particular business, such as our analytics dashboard, for example," Rugge-Price says.

"The team is created with its own specific business objective. It includes people from Hyperion X and the business units working towards that mission, and they leave their other titles behind when they enter the room."

Rugge-Price explains that such teams provide for proof of concept and work streams that can better inform business leaders, stakeholders and clients on how to run the most effective business, hit the desired ratios, increase penetration, and find operational efficiencies to reduce the cost of business.

Hearts and minds

An open culture must exist for such teams to be successful. By recruiting the right technology specialists and bringing them together with colleagues from different teams, the aim is to create advocates for change throughout the business.

"Being part of change is vital on a personal level and a corporate

Barnaby Rugge-Price is CEO of Hyperion X

Lyn Grobler is Hyperion group CIO

level. You don't want the highest-paid person in the room to always be the one with the loudest voice at the table. A breadth of opinions working together is an embedded culture at Hyperion," says Rugge-Price.

Personal empowerment and ownership among business teams are vital, adds Miguel Baptista, Hyperion X's chief data officer. The challenge is to promote that invested culture while collaborating to grow the business, he explains.

"The success of a business is founded on a core culture of empowerment and of owning your own business," according to Baptista. "Any digital strategy is really about hearts and minds. We're there to collaborate, not to coerce. The business units want to change, and Hyperion X is there to educate, inform and help where they want it."

Hyperion is a business combining several differently evolved elements from its Howden broking origins and the organically launched Dual MGA, to the specialty and reinsurance broking arms of RKH it has acquired externally. Getting all the teams to collaborate, with Hyperion X helping drive digital transformation, is a major achievement for the group.

"The linkages formed between the broking arms of RKH and Howden over a two-year period are a credit to everybody involved. We're here to help our colleagues through that journey and to help them expand from there," says Rugge-Price.

Howden, for example, has an ambitious target of doubling the size of its broking business within the next five years. Eliot Powell, managing director at Howden UK, makes the point that this would not be possible without the digital transformation driven by Hyperion X.

"The over-arching vision is to help the trading entities, not least ourselves, go from where they are now to where they want to be," notes Powell. "We want a digital transformation through creating digital marketplaces and creating new data insights that our clients want to see."

These comments dovetail with a point from Grobler on enabling flexibility and buy-in from the business teams. "We let our entrepreneurs grow their businesses as they see fit. This is not a top-down strategy. It is done in a manner tailored to our businesses. Their needs and their approaches come first," she says.

Hyperion X's mission statement from the board down is clear about delivering digital transformation, but turning that into reality has to be more pragmatic and tailored in its applications to the different teams.

"Hyperion X is an assertive step by the board which is aligned at the top. As such, everyone is aligned with the top-level vision that it's something we must do to be seen as a leader," according to Baptista.

That said, turning those broad brush strokes into detailed reality throughout the group is not straightforward.

"Not everyone works the same way or adopts at the same speed. The secret sauce is to understand that and progress at different speeds depending on which parts of the business you're working with. We're putting the strategies in place so we all get this benefit," Baptista says.

Data at its core

By having the right culture in place, the thinking is that business units will increasingly become the drivers as they reap greater benefits from ongoing digital transformation. Baptista is keen to take away "technology migraines" to help teams focus on what they can get out of it.

"That conversation is often much simpler than they thought it would be, because the more we can leverage the data, the more they see that this provides useful insights to gain a competitive edge, and the more appetite it produces to drive the process," he says. "The goal is to get the business to have that data- and analytics-driven mindset, creating its own the momentum to do it more and more."

Data and analytics are a crucial foundation of the strategy to take traditional paper-based products into the digital sphere, explains Baptista.

He thinks too many firms are not getting this right, by focusing on individual products in silos, for example, when an over-arching strategy is needed, or by failing to collaborate better as a market. The resulting slowness is hitting the customer experience as well as the market's pockets.

"On a macro level, insurance is not wholeheartedly embracing using data appropriately and collaboratively across the distribution chain," he says.

"Carriers and brokers could be collaborating a lot more on data insights and informing their strategies to link back to how the client is consuming products and services at all levels of insurance.

"We're approaching on a multi-channel basis – across RKH, Dual and Howden – transforming the way we offer services and insights."

All of this feeds into the end goal for Rugge-Price.

"The more that we can drive this digital transformation, the more this will lead to delivering faster and better products for our clients and the industry," he says.

Eliot Powell is managing director at Howden UK

Miguel Baptista is chief data officer at Hyperion X

INTERSTATE'S DRIVE ACROSS AMERICA

RSG's Interstate Insurance Management plans to motor across the US, fuelled by a new automation system and a truckload of data, according to president and CEO **Jack Buchan** and executive vice president and auto underwriting manager **Larry DeFrances**

A focus on data and automation is fuelling ambitious growth plans at Interstate Insurance Management.

Those plans are powered by a list of capacity providers and driven by the growth engine that is the company's parent, Ryan Specialty Group (RSG).

Jack Buchan, Interstate's president and CEO, tells *Insider Quarterly* about the expansion strategy of this commercial auto binding authority and managing general agent (MGA).

Buchan begins the conversation not with futuristic automation, data and analytics, but by underlining Interstate's proud history of nurturing talent from its humble origins.

The MGA has focused on developing underwriting expertise throughout its 50-year history, beginning with Buchan's father, an ex-steel worker who recruited and trained a cadre of talented underwriters in Johnstown, Pennsylvania, a small manufacturing town in the mountains east of Pittsburgh that was struggling with high unemployment.

Since then, Interstate's expertise and its product breadth have grown to more than 1,000 classes of small commercial business. Since the mid-1970s, this has been led by its strength in commercial auto and truckers.

Interstate's focus on trucking underwriting encompasses everything from one-unit owner-operators to 500-unit fleet businesses, from general freight haulers to refrigerated reefers, flatbeds, tankers and aggregate haulers.

The focus on nurturing underwriting talent has endured, leading the company to open new offices and employ new expertise. Since its acquisition by RSG, the nexus of talent has expanded from regional to national proportions.

Coast-to-coast

Aside from bypassing a few states Buchan eschews due to poor underwriting performance, the ambition is to provide a nationwide platform for the commercial auto and truckers classes of business. This, he says, is about boosting distribution and giving the MGA's carriers a broader spread of risk.

"We don't want to be writing business in any given state unless we have the market knowledge and boots-on-the-ground experience of underwriting there," Buchan says. "Every state has underwriting nuances as well as different rules and regulations. We want to have people who know the jurisdiction we underwrite in and know the agents they receive business from."

> "We don't want to be writing business in any given state unless we have the market knowledge and boots-on-the-ground experience of underwriting there"

The scale of this ambition would not be possible without two major factors. The first is Interstate's relationship with parent RSG (the acquisition was completed in February 2017) and its responsibility for establishing and managing RSG's transportation platform.

"As RSG makes acquisitions across the country, if the acquired wholesaler or MGA includes personnel underwriting transportation risks they become part of our transportation platform and are under our centralised management, pertaining to that," says Buchan.

This role within RSG has seen Interstate grow the number of transportation underwriting offices it manages. These now include Atlanta, Buffalo, Chicago, Dallas, Houston, Kansas City, Oklahoma City, Salt Lake City and, of course, Johnstown, Pennsylvania.

This is where the nationwide ambitions come in.

"We're just getting started. Our plan is to go coast to coast," Buchan says. "We're looking at acquisitions at a company level, and we're also looking for teams of experienced commercial transportation underwriters to join our team and establish satellite underwriting offices across the country."

Game-changers

In shaping this strategy, Buchan applauds RSG's management culture as an organisation.

"One of the great things I get to do when I need to, is to bounce ideas off of some of the best insurance minds in the business. People such as RSG Underwriting Managers CEO Mike Rice and COO Miles Wuller," he says.

One other advantage, for which he credits the RSGUM acquisition in 2017, is allowing Interstate to focus on its operational staff. Back-office roles such as accounting, HR and compliance, were moved to the group's HQ in Chicago, freeing up Buchan's organisation to be more streamlined and focused on frontline roles, repurposing staff towards underwriting and underwriting support jobs.

Which brings us to the second major factor essential to Buchan's big plans for Interstate – technology. He believes technology is the game-changer when it comes to achieving the MGA's ambitions.

The transportation platform is supported by an automation system tailored for the business. This is the responsibility of executive vice president Larry DeFrances, Interstate's auto underwriting manager, and his staff of talented programmers.

DeFrances describes the system, which has evolved over years and been piloted and expanded across lines of business, as graduating into predictive analytics.

The system takes 11 data points for each account and creates a rating scale. Overall, there are some 40 grades split into five categories to evaluate and compare how underwritten risks perform.

Retail brokers and agents gain an advantage because they know what to expect and what data is required, DeFrances explains: "They understand the benefits of supplying detailed underwriting information to us. We also help them understand how they can most efficiently grow with us."

On the customer-facing side, he adds: "The retail agents we deal with can access us online to submit business. Then, once business is bound, any documents we produce are available to them on the broker portal, which is part of the customer-facing website."

For Interstate's own staff and the RSG employees sharing the transportation platform, it is also a big boost to productivity, he emphasises.

"Speed means everything, and it's allowing us to rate and underwrite accurately and quickly. It allows our internal people to more efficiently accept and log submissions into our system, to review them and to underwrite in a much more consistent manner."

This has become more important as the business has expanded with the RSG/Interstate transportation platform.

"Remote users have direct access from remote locations as if they were sitting in our office," DeFrances says. "It's an integrated system to allow our expansion across the country."

Data advantage

Generating better data is also beneficial to Interstate's roster of A+ rated carriers, DeFrances explains, most of whom upload their data to the system to add to its mine of information.

All this means Interstate is able to provide actuarial and technical data on the level of an insurer, a cut above what rival MGAs might offer.

"It helps us be proactive, not reactive, in evaluating underwriting processes in our relationships with carrier partners," he says. "By collecting data from all our carriers in one location we are able to monitor the business as a whole, rather than relying on individual carrier partners to provide information piecemeal."

It is at CEO level that Buchan sees the greatest benefit of quality data.

"The system retains all the underwriting policy data on every account we receive, process and quote, so we can slice and dice the data any way we want, looking at any risk, at any broker or agent, at any underwriter and for any carrier," he says.

> "We can slice and dice the data any way we want, looking at any risk, at any broker or agent, at any underwriter and for any carrier"

"It gives us a leg up because we have the data and our competitors don't. We have it in our system, whereas they rely on carriers for the data."

Buchan gives an example of where Interstate stands out – it maintains a database of every driver and truck vehicle ID number.

What has happened historically, he suggests, is that when a bad operator becomes uninsurable, they reincorporate under a different business name as a brand new venture and go out into the market as fresh risk to get cover.

"We call these 'chameleon carriers'. A lot of our competition find it difficult to recognise chameleon carriers because they don't retain driver data within their systems," says Buchan.

"If we see a submission with vehicles or drivers we've insured before on another account, but the company is a new venture, that's a big red flag for us and we investigate it.

"In this way and many others, we're harnessing data and automation to improve the quality of our business."

JACK BUCHAN is president and CEO at Interstate

LARRY DEFRANCES is executive vice president and auto underwriting manager at Interstate

DIVERSITY OF THINKING

Aon is uncovering diverse talent the industry might otherwise never find, and creating a workplace culture to attract and retain expertise, **Katherine Conway** tells *Insider Quarterly*

The insurance industry desperately wants to enhance its appeal to close the protection gap, reach emerging markets and find fresh clients and innovate products. What often goes unsaid is that, to maximise its appeal, psychology suggests it should reflect the markets into which it sells.

This is why the sector's diversity and inclusion (D&I) efforts are at the core of burning questions about how to improve corporate culture within insurance companies and drive the industry to greater success. Oft glossed over matters such as unconscious bias and cultural sensitivity can have a major bearing on how and where business flows.

At Aon, using D&I to recruit and retain the broadest array of talent is the mission of Katherine Conway, the company's head of diversity and inclusion and community affairs.

"We want a workforce that is proportionate to and reflective of the outside world. Ours is a relationships business and people are our biggest asset," Conway tells *Insider Quarterly*.

"If your strategy is to source your next hire from where you've always hired from, you're missing out on talent elsewhere. This is about future-proofing the business, attracting diversity of thought and getting the best talent into the organisation. Difference and diversity can be lost on people thinking it's box-ticking, but it's a great thing for the workplace," she continues.

Hiring is only the half of it.

"It's healthier to have a culture where people feel they can be themselves. While it's great to attract diverse talent into the company through effective sourcing, your culture should be inclusive so that people, whoever they may be and whatever background they come from, feel welcome, valued and listened to," she says.

Diversity of thinking – providing different perspectives within the team – benefits the business case, Conway emphasises. There is no shortage of anecdotal evidence for this, while any number of studies provide ample evidence that group-think is anathema to good leadership and sound decision-making.

> "Almost everyone knows of cases when a team has gone to meet a client and perhaps failed to win their business because the pitch they had decided upon reflected the team being insufficiently diverse in its outlook"

While it has to be one of the hardest things for an organisation to measure with facts and figures, which could itself be self-defeating or dangerous, McKinsey and Deloitte studies have shown that diverse leadership that reflects the society an industry hires from tends to lead to better results.

"I think almost everyone knows of cases when a team has gone to meet a client and perhaps failed to win their business because the pitch they had decided upon reflected the team being insufficiently diverse in its outlook, and was negatively perceived by a client," says Conway.

Bringing in talent

A major focus of Aon's D&I efforts has been to improve the way the company brings in talent. It has embarked on several initiatives designed to broaden and deepen its talent pool at the early stages of people's careers.

These include its graduate programme and internships for apprentices. Last year, the company took on around 80 graduates and some 35 apprentices from across the UK.

For university-level students, bringing them into a 10-week internship during the summer break has led to around 70 percent of those taking part joining Aon as graduate trainees the following year.

There is also an apprenticeship programme of on-the-job training for 18-year-olds, acknowledging the talent pool among future workers who decide that several years of university study is not for them.

Aon has also introduced a programme called Step Up, two sessions of which have been run so far, targeted at young people who are not in education, employment or training. This includes four weeks of classroom training and four weeks in a job, Conway explains.

"It is aimed towards people who would perhaps never have thought of working in an office environment, or have been through circumstances in their early lives that meant studying at school did not work out for them," she says.

Social mobility is at the heart of these schemes, particularly the apprenticeships and Step Up programmes. "If your graduates and apprentices all come from the same academic backgrounds, such as the top tier of typically middle class universities, you'll end up getting the same type of person into the workforce," Conway says.

In response, the company has been increasing the list of university and colleges it visits, she explains. By broadening its outreach, Aon has been reaching different demographics to discover riches of talent it otherwise would never have found.

"In particular, that has meant city centre-based universities in addition to the traditional campuses, because we've observed that many more ethnic minority students, for example, want live at home during their university years so they tend to study closer to home," Conway says.

At the universities, Aon has used its 'Females of the Future' scheme to appeal to young women studying the sort of scientific, mathematical and technological subjects that have in the past been dominated by the men.

"That's geared towards the actuarial, data and analytics side of what we do," Conway says. "We've brought them into Aon during holidays for a three-day programme to introduce them to us and explain

> "We tell our managers they should focus on the skills they may need within their team, rather than by imagining the type of person they need"

what we do, what this industry is about and the types of roles that are on offer. Many of those young women have since applied for our graduate programme."

To further recruitment among ethnic minority groups, Aon has also invested in its group focused on black, Asian and minority ethnicities (BAME) recruitment.

"Last year we ran this as an insight week, functioning like work experience, for more BAME people to come in to see us so that we can show the career paths that are available," Conway says. "It's important for minority groups to see people from within their own communities already working in the industry as role models so they're more likely to consider career paths that might otherwise have been outside their field of view."

The programme is also aimed at developing the right skills for potential employees to make positive first impressions in the potentially intimidating environment of City life, Conway notes.

"If you're part of a minority group, perhaps come from a disadvantaged background, and nobody in your family has worked within the financial services world, learning soft skills such as how you introduce yourself to someone and presentation skills in a professional context can make a difference," she says.

The benefits of such schemes are feeding through into Aon's other initiatives, with the company hiring some of its BAME Future Leaders programme participants into its graduate programme. This year, nine out of 27 participants on the BAME Future Leaders programme were hired into graduate positions, starting in summer 2019.

Maximising experience

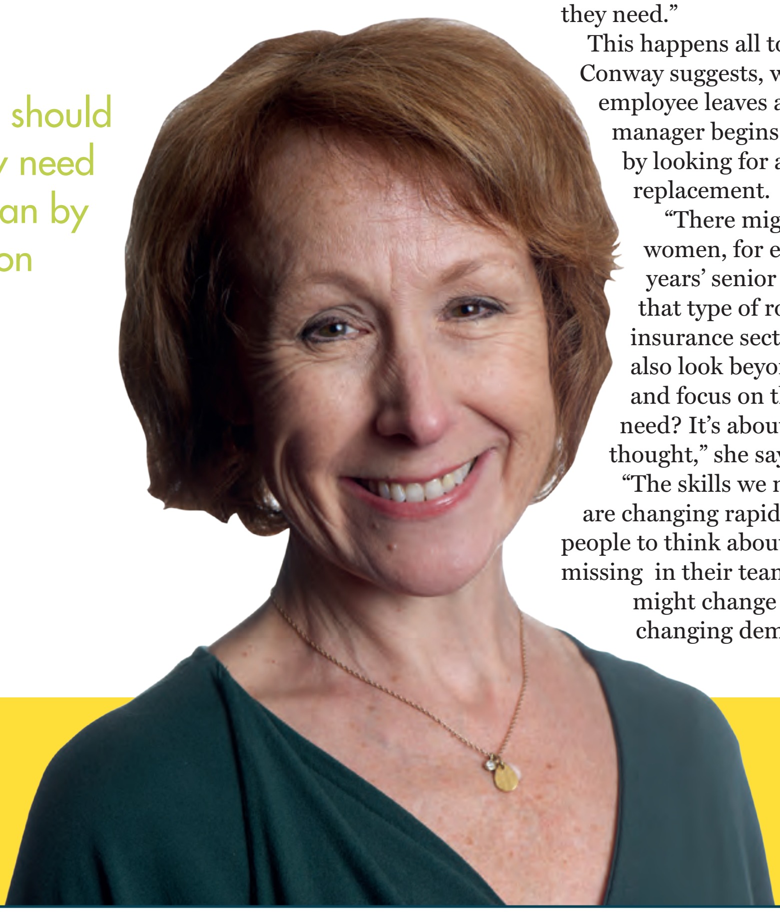
Aon's other major priority is attracting and retaining experienced people who are later on in their working lives, who also might have been previously overlooked by financial services organisations. This is mostly built around training recruitment processes, such as the inclusive recruitment training programme.

"We have a focus on unconscious bias. The aim is to make sure our employees are slightly more aware of the unconscious biases we all have," says Conway. "We tell our managers they should focus on the skills they may need within their team, rather than by imagining the type of person they need."

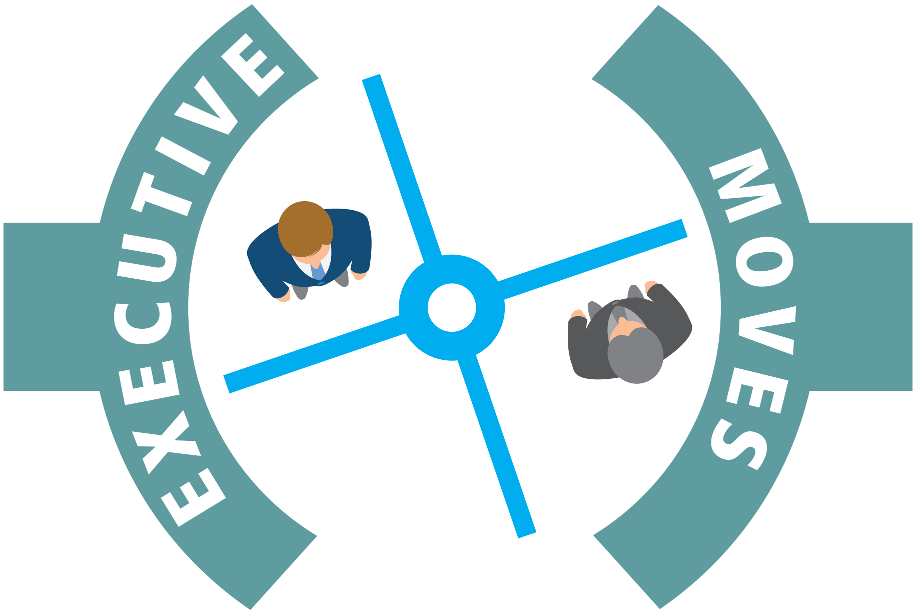
This happens all too often, Conway suggests, when one employee leaves and their manager begins the search by looking for a like-for-like replacement.

"There might not be many women, for example, with 15 years' senior experience in that type of role within the insurance sector. So why not also look beyond the industry and focus on the skills you need? It's about diversity of thought," she says.

"The skills we need to succeed are changing rapidly. We need people to think about what skills are missing in their teams and how that might change to match clients' changing demands."



Katherine Conway, head of D&I and community affairs, Aon



The ins and outs of the executive job market

Michael Cameron
Suncorp announced the departure of its CEO and managing director Michael Cameron after four years leading the business. He will be replaced by current CFO Steve Johnston, who will become acting CEO, and group deputy CFO Jeremy Robson will take on the role of CFO while Cameron is in the acting post.

John Jenkins
Scor has promoted John Jenkins to CEO of property and casualty operations in the Americas, taking on a role previously held by Jean-Paul Conoscente who now runs the reinsurer's global P&C business.

Frank Coglianese, chief underwriting officer for US P&C treaty, will replace Jenkins as chief underwriting officer for P&C treaty in North America and South America.

Karl Hennessy
Karl Hennessy, CEO of MGA-focused unit Aon Carrier Solutions, is to join broking start-up McGill & Partners. He has progressed through a series of high-ranking positions since he joined Aon in 2007, including CEO of its Global Broking Centre and president of Aon Broking, and was also instrumental in creating portfolio underwriting operation Aon Client Treaty.

David Flandro
David Flandro has resigned from Guy Carpenter, and is believed to be joining Hyperion's in-house data and analytics business Hyperion X. He was global head of analytics at JLT Re and became global head of economics and franchise risk advisory when the MMC acquisition of JLT Group finalised on 1 April.

Rob Bredahl and Tony Ursano
Rob Bredahl, who recently resigned as CEO of Third Point Re, is to join reinsurance broker TigerRisk in a currently unknown role.

Separately, the broker recently announced that Tony Ursano, president of TigerRisk Partners, would leave the business this month after nearly four years. Ursano helped to build out the company's operations in the capital markets and advisory space.

Keith Harrison
Former JLT Re UK and Europe CEO Keith Harrison will join Lockton Re after seeing out his restrictions, the company has confirmed.

Harrison resigned from JLT in April, having previously been due to lead the London division of Guy Carpenter's North America business following a widespread reshuffle announced in January. He joined JLT Re in 2006 from Towers Watson after the latter bought Denis Clayton & Co in 2002.

Andrew D'Arcy
Gen Re is to consolidate its international P&C operations under Andrew D'Arcy, who will move from his role as Faraday CEO. He will become head of Gen Re international P&C, a new position in which he will oversee all P&C operations outside North America, including Gen Re's direct P&C reinsurance business and Faraday's broker market operations.

He will be replaced as Faraday CEO by Tom Shelley, head of property treaty and an active underwriter at Faraday.

Colin Grint
Colin Grint, CEO of Charles Taylor Managing Agency (CTMA), has resigned to join AJ Gallagher International in London, where he will become chief operating officer for the UK retail division.

Charles Taylor is likely to make an interim CEO appointment for the managing agency business. Grint joined CTMA as CEO in July, replacing interim chief executive Robert Andrews, before the business was pressed into closing by Lloyd's.