November 2017

Insurance POST

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Rewriting consolidation

Pen CEO Jon Turner has been instrumental in bringing together more than a dozen brands into one business

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InfoPro Digital Services, Haymarket House, 28-29 Haymarket, London SW1Y 4RX
E-mail: postonline@incisivemedia.com
Deliveries: 3rd Floor – Goods In, 1 Oxendon Street, London SW1Y 4EE

Editor
Stephanie Denton 020 7316 9134
News Editor
Martin Croucher 020 7316 9289
Digital Content and Commissioning Editor
Cécile Brisson 020 7316 9116
Reporters
Rosie Quigley 020 7316 9019
Ryan Hewlett 020 7316 9391
Will Kirkman 020 7316 9265
Editor, Asia
Andrew Tjaardstra (852) 3411 4818

Production Editor
David Whittam 020 7316 9319
Director of Content
Jonathan Swift 020 7316 9321
Art Editor
Jon Ross 020 7316 9478
Production Controller
Ross Brooks 020 7316 9688
Product Manager, Insurance Division
Tracey Curran 020 7316 9795
Director of Marketing Solutions
Sajeeda Merali 020 7316 9765
Head of Key Accounts
Chris Finnegan 020 7316 9632
Group Sales Manager
Katy Pieris 020 7316 9423

Commercial Director Asia – Insurance
James Murray (852) 3411 4853
Senior Event Manager
Sara Donaldson 020 7316 9815
Senior Marketing Manager
Sarah Bush 020 7316 9126
Delegate Sales
Jordan Shekoni 020 7316 9078
Recruitment Sales Manager
Gemma Powell 020 7316 9846
Group Publishing Director, Insurance Division
Phil Davison 020 7316 9215
Managing Director, InfoPro Digital
Celine Infeld 020 7316 9645

Subscription Enquiries
Customer services 0870 787 6822 (UK only)
Email: incisivehv@subscription.co.uk
Corporate Site Licences
Jonathan Dickin 020 7316 9635
Reprints & E-prints
Richard Coury richard@medialicensingco.com

To subscribe, please contact:

Sarah Banks
020 7316 9525
Sarah.Banks@incisivemedia.com

Published by: Published by Infopro Digital Insurance Information Limited

twitter.com/InsuranceSteph
stephanie.denton@incisivemedia.com

Fashion is fickle

Fidget spinners, dabbing and the bottle flip are just three of the crazes that my son brought home from school during the last academic year. Luckily for me, unlike Pokémon - which has been in our house for three full years now - these were short-lived and relatively cheap to embrace for the period they were in vogue.

Insurers might not be well-known for following fashion but Groupama's recent sale of Carole Nash to The Ardonagh Group, followed by rumours Covéa is looking for a buyer for Swinton and Zurich is exploring the possibility of selling Endsleigh, looks to signal the firm end of one trend – that of insurer-owned brokers.

This movement has been around for some time but seems to have reached its peak in the last decade and has seen a rapid demise in the last few years. Brokers were seen as attractive propositions with their solid track records and a way for insurers to exert more control over the supply chain, but it seems the relationship was not to last. Many blame excessive regulation but is the true problem that Chinese walls can't ever really work and some influences continue, no matter how hard the parties involved try, leaving a question mark over broker commissions and client focuses?

With MGA creation at an all-time high, insurers have plenty of vehicles to choose from. But will this be the trend that lasts?

In another area of distribution control, Esure has de-merged from its aggregator Go Compare and Compare the Market – albeit broker-owned instead of insurer-owned – is being investigated by the Competition and Markets Authority over how it has set up contracts with insurers. Does this too signal the end of an era?

It seems insurers haven't been once bitten twice shy though. They have already discovered there are plenty more fish in the sea in the form of managing general agents, who they are partnering with in their droves. The icing on the cake here is that insurers putting capacity into the younger model of an MGA don't face the same regulatory issues as are seen putting funds into a broker, although this love affair isn't always sweetness and light as seen when RSA pulled out of Primary in the noughties.

With MGA creation at an all-time high, insurers have plenty of vehicles to choose from. But will this be the trend that lasts?

Insurers might do well to remember that fashion is a fickle business and stick to underwriting. After all, not many will be able to follow American designer Thom Browne, who sent a unicorn down the catwalk at the Paris Fashion Week last month.

Stephanie Denton, editor

In numbers

£250m

The amount Arron Banks is hoping to float Eldon Insurance at next year

£5m to £10m

The value in claims which NFU Mutual is anticipating as a result of Hurricane *Ophelia*

285%

The growth in dashcam footage use in contesting claims in the last three years

39%

The proportion of 250 surveyed brokers unaware of the *General Data Protection Regulation*, according to Das

Good month **bad month**

GOOD: Final regulatory approval was granted for the £477.6m acquisition of London market carrier Novae by Axis Capital

BAD: Noreen Murray had her £19,000 claim to Aviva scuppered after she carried out a TV bungee jump just 19 days after her injury

GOOD: Allianz toppled Axa from its long-standing spot at the top of Brokerbility's biannual broker satisfaction survey

Where are insurers reaping the benefits of data and analytics?

58%
See improved, more targeted marketing as a benefit

57%
See achieving operational cost cutting as a benefit

52%
See improved, ability to detect fraud as a benefit

46%
See pricing policies more accurately as a benefit

Source: Lexis Nexis Risk Solutions

WHO SAID WHAT?

"We believe the City to be the ideal future caretaker for our building as it will respect its heritage." **Sian Fisher, Chartered Insurance Institute CEO, following the sale of 20/21 Aldermanbury**

"We only pause for a second as our research shows that there is still work to be done." **Dominic Christian, chair of Inclusion at Lloyd's, on Dive In confirmation for 2018**

"We believe that it is important to grant insurers the sufficient time to properly implement the complex requirements." **Hugh Savill, from the Association of British Insurers, calling for a delay in the *Insurance Distribution Directive* implementation**

By Martin Croucher
twitter.com/Post_Martin
martin.croucher@incisivemedia.com

Wind of change: how the industry learnt from the 1987 Great Storm

>> A look back at how disaster claims have moved on

Thirty years ago, the worst windstorm in living memory swept across the South East of England, killing 18 people, felling 1.5 million trees and leaving 250,000 homes without power.

Post talked to industry figures who worked on claims at the time, about the changes that have occurred in insurance over the past 30 years and how those changes would shape the claims response today.

A different time

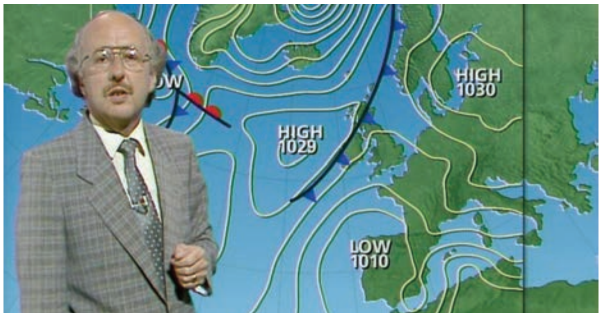
In a time before windstorms were named, the extratropical cyclone which hit the UK on the night of 15 October 1987 simply became known as 'the Great Storm'. In reinsurance circles, it earned the somewhat less dramatic moniker of 87J.

In 1987, the industry was a radically different place. The main insurers at the time were Commercial Union, Cornhill, Eagle Star, Sun Alliance, GRE, Royal and Norwich Union. However, a lot of building insurance was sold through building societies.

There were no call centres, and much of insurance was sold face-to-face. In claims too, there were major differences. There were no panel relationships with loss adjusters, no managed builder networks, no risk management, no surge planning.

Policies, estimates and claims forms were all paper-based, and the majority of insurers didn't even have the most basic Amstrad model of personal computers that had started to be available at the time.

Peter Monk, head of claims control at RSA, was a claims handler with Sun Alliance in Croydon at the time of the storm. He said once claims started to come in, the branch faced challenges that wouldn't be seen in today's paperless offices.



Top: the storm destroyed buildings

Bottom: weatherman Michael Fish made his infamous statement

"We ran out of filing cabinets very quickly and places to put claims forms and estimates," he said. "There was also a real difficulty in getting paper, and the Post Office was struggling as well."

An industry unprepared

One of the most talked about moments at the time of the storm, and for many years after, was the forecast from BBC weatherman Michael Fish.

Infamously, he said: "Earlier on today, apparently, a woman rung the BBC and said she heard there was a hurricane on the way... Well, if you're watching, don't worry, there isn't."

Hours later, the biggest storm to hit the UK for 300 years made landfall in the South East of England, causing £1.4bn in damages and killing 18 people.

The storm caught the insurance industry wholly unprepared. "There was absolutely no planning back in 1987," said Nick Lock, head of property claims at Allianz, which was then Cornhill.

"We had to pull people in from different departments and quickly train them up in how to deal with claims."

That's something Monk remembers too. "We shipped anyone that could handle a claim in from other locations, even from as far afield as Birmingham," he said.

"To augment that, we had a lot of agency staff to answer the phones. We only had a certain amount of space and we had to fit almost twice as many people in the same space instantly."

The same was also true for loss adjusters. Gerald Williams, director of Fitzgerald Consulting, was a loss adjuster at Thomas Howell Group at the time, before the company was later bought by Crawford.

"We mobilised a lot of people down from other parts of the country, as the South East was very badly hit," he said. "People came from Manchester and all other parts of the country to assist."

Opportunity knocks

Insurers at the time had an old-fashioned switchboard rather than what we expect from a call centre today. That meant there were often issues in getting someone on the phone at all.

More online
For the latest storm news
www.postonline.co.uk/topics/storm

"It became immediately apparent that every phone was ringing off the hook constantly," said Monk. "The switchboard was incredibly busy and a lot of customers were simply getting the engaged tone.

"There were no automated messages at the time and customers were really struggling to get hold of us. It wasn't unusual for customers to wait weeks before they could get someone from the insurance industry to talk about their claim."

One of the ways insurers took to communicating with the public was through full page adverts in major national newspapers. In some circumstances, those adverts also contained claims forms.

Many insurers made the decision early on to pay damages based on a single quote from a building contractor, when the value of a claim was under £1000.

"Two big insurers in particular were very naïve," said Paul May, chairman of Concordia Consultancy, who was overseeing the Croydon office of a major loss adjuster at the time of the storm.

How much would the storm cost in today's money?

Claims from the 1987 Great Storm reached £1.4bn (gross of reinsurance), which equated to nearly 50% of total property insurance premiums.

However, there is little consensus on how much the storm would cost in today's money. Here are some estimates:

£3bn
Deloitte

£2.83bn
Association of British Insurers

£2.5bn to £3.2bn
Sompo Canopius

£3.57bn
RMS

"They told people that if their claims were below a certain threshold, they'd get their claim processed immediately without question," said Muir-Wood.

"At the time, that seemed like the smart thing to do. Now it's recognised that it simply encourages claims inflation.

"I remember for some years after this storm having conversations in pubs with people you'd think to be upstanding citizens, who admitted they had exaggerated their claims."

Williams agreed: "A lot of people had their homes substantially improved as a result of the hurricane."

"There were no automated messages at the time and customers were really struggling to get hold of us. It wasn't unusual for customers to wait weeks before they could get someone from the insurance industry to talk about their claim." Peter Monk

"From their perspective, they may have thought they were providing a market-leading, quick solution.

"However, there was undoubtedly a spate of people using their newly acquired Amstrads printing out dodgy quotations and attaching them to these claims forms.

"On some of the bigger cases, there were people trying to fabricate quotes using simple word processor applications."

Dr Robert Muir-Wood, RMS chief research officer, said that it encouraged claims inflation.

Claims inflation

Part of the problem was that building contractors were inundated with business in the immediate aftermath of the storm, and increased prices accordingly. The same was true of building suppliers.

"The morning after the hurricane, a major building supplier that provided roof tiles put their price up 25%," said May. "Nowadays we call that price gauging. They realised that the majority of that 25% would be picked up by insurers.

"For some policyholders though, it had the effect of putting them into an underinsurance position, where the value of the house based on the price of materials was more than they had insured for."

Nigel Forrest, major loss specialist at Crawford Global Technical Services, said the demand was very real.

"It was a big moment when the first lorry load of roof tiles arrived," he said. "Builders merchants ran out almost immediately as the whole South East region's roofs had been blown away."

Because of that, insurers had to take a lot of the claims inflation on the chin. "We were acutely aware that builders were stretched and prices were going up," said Monk.

"Claims inflation was horrendous at the time. There was no point in asking people to get two estimates and go ahead on the lower as the costs were very similar anyway and were quite high. You had to be pragmatic.

"Ordinarily, you would contest a claim where a dozen tiles were costing you quite a lot. At the time, it wasn't the fault of policyholders. That was the rate that roofers could get away with, owing to the demand on their services.

"We hadn't written off fraud. Any significant claim would have gone through the same process with adjusters. The slightly inflated prices, we took on the chin.

"That wasn't something we could address. You'd have been penalising the policyholder for the difficult situation they found themselves in. If they started arguing about the estimate, the contractor would go off and get another job.

"However, if something was clearly fake or made up, there were processes to deal with that."

> 6

< 5

Back at the time, there was little in the way of rehousing people affected by the storm.

"There were people calling up who had their roofs blown off," said Lock. "The immediate reaction to that would have been to instruct a loss adjuster. We didn't give any other wider advice.

"What is a game-changer now is our approach now to rehousing people. We might build temporary kitchens and bathrooms where people are impacted or perhaps getting people into hotels. Whereas my memory back in those days was that wasn't something you thought about proactively."

Public exasperation

Monk said despite the difficulty reaching an insurer on the phone, and the lack of customer centricity, there wasn't the same level of public exasperation as you'd expect today.

"People were very cool and very typically British," he said. "They were matter-of-factly telling you that a 100ft oak tree was in their bedroom, they only had a one bedroom bungalow, and were wondering where they were going to sleep.

"There were other calls where people would say their greenhouse was up their neighbour's tree and they felt very bad about that, as it was an eyesore."

"Back then, people were very stoic. It struck me how much fortitude people had to just get on with things and try to solve their own problems as much as they could."

Although Monk and Lock said customer service has dramatically improved between insurers and policyholders, May believes the opposite is true for loss adjusters. "The loss adjusting side responded tremendously, mainly because it had not yet subscribed to a lot of these panel-based, cheap rate, one-visit deals that they now subscribe to.

"Experienced and enthusiastic loss adjusters were deployed. Quite often you would visit the same house twice or three times during the course of repairs.

"I don't think policyholders get as good service on these big national disasters as they did in 1987 from the pre-screwed down loss adjusting firms that are operating now."


No. 80

November 1987

NORWICH UNION NEWS

STAFF RALLY IN THE WAKE OF HURRICANE

Now Branches try to gauge full extent of NU's liability

SHARE SLIDE

Training Guide reviewed in bid to aid recruitment

INSIDE: QUESTIONS & ANSWERS P2 — OVERSEAS FIRE PAGES 6/7

It's enough to make any driver wince as all areas of insurance took a stormy battering

COST OF CLAIMS (LIKE TREES) HIT THE ROOF . . .

... and then came the floods

How Norwich Union reported the Great Storm

Picking up the pieces

Claims teams were working overtime at least until the following Easter. Monk recalls working on Good Friday and Easter Sunday to process the volume of claims.

However, very little changed in the immediate aftermath of the storm. It wasn't until the January 1990 floods that risk management and surge planning became more common throughout the industry, said Lock.

"The perception at the time was that this was a one-off," he said. "It was only after January 1990, where we were hit with another event that was more widescale, that we started to make changes."

Muir-Wood said the 1987 storm gave birth to the rise of catastrophe modelling in Europe. "In the 1990s, there was a whole succession of damaging storms that also affected other European countries," he said.

"1987 was the start of about eight years of major catastrophes around the world, which left the global insurance and reinsurance industries reeling from the losses.

"This became a reinsurance issue. There was a whole revolution that followed in terms of risk modelling. At the time of 87J, there was no risk modelling at all for windstorm in Europe. All of that was developed through the 1990s, and it was all kicked off in Europe by 87J." ■

"Experienced and enthusiastic loss adjusters were deployed. Quite often you would visit the same house twice or three times during the course of repairs." Paul May

By Ryan Hewlett
twitter.com/Insurance_Ryan
ryan.hewlett@incisivemedia.com

And then there were none...

The number of independent Lloyd's listed carriers is dwindling. What will happen if the last players are swept up?

More online

For the latest London market news
www.postonline.co.uk/lloyds-london

In recent years, the London market has seen a wave of mergers and acquisitions as big players attempt to expand their global reach.

The first half of 2015 alone saw an intensive period of consolidation in the sector. In January, Catlin agreed to a £2.7bn bid by American rival XL, just weeks after Friends Life and Aviva agreed to a £5.6bn deal.

Across the pond, M&A in the reinsurance sector was also creating waves as Bermuda-based Axis Capital and Partner Re eyed a single £7bn deal that would have brought the brands together and created one of the world's largest reinsurers.

Following a further two years of intensive and successive consolidation only four independent Lloyd's listed carriers remained. Then, in July, Axis Capital made an offer to buy Lloyd's insurer Novae for £468m.

Over the years, Novae's peer group of Omega, Hardy, Chaucer and Brit have been taken out, bought by large international players and bowing out of the public markets.

Now, the London market powerhouses of Beazley, Hiscox and Lancashire are the last three independent carriers standing.

Shareholder prerogative

A Lloyd's without any independent players isn't just a possibility but perhaps an inevitability, said Barry Cornes, head of research and an insurance analyst at Panmure Gordon.

"We've seen the market players drop out one by one. In recent years, the numbers have fallen from around a dozen to our current situation with only three remaining. It would follow that this number would continue to drop until the last listed carrier has gone," Cornes said.

"The deals will happen," he added. "It comes down to valuation and price. Any potential deal will be determined on whether the shareholders feel that it is a good investment or not. If the board think it is right and shareholders feel it is a prudent investment, then perhaps we'll see the remaining three sell."

Novae CEO Matthew Fosh echoed the same sentiment prior to the sale. "I will do whatever is necessary to secure the business and my role is to do what is best for our shareholders," he told *Post* in May.

> **"In recent years, the numbers have fallen from around a dozen to our current situation with only three remaining. It would follow that this number would continue to drop until the last listed carrier has gone."** Barry Cornes

Following a succession of quarterly losses, Novae had withdrawn from several underperforming lines of business to hone its portfolio.

In order to rebalance its book, the insurer decided to stop writing financial institutions, professional indemnity, general liability reinsurance and motor reinsurance.

Despite posting a £14m pre-tax loss in the first half of 2017, Axis improved its cash offer to acquire Novae to 715 pence per share in August, valuing the Lloyd's listed insurer at approximately £478m.

Albert Benchimol, president and CEO of Axis, said the deal would create a circa $2bn player in the London specialty market, and that the Axis-owned Novae would create a brand anchored as a top 10 insurer in the Lloyd's market.

The Axis CEO said the improved offer was aimed at bringing certainty to the deal. "This acquisition is fully aligned with Axis Insurance's international specialty insurance growth strategy and will combine two highly complementary businesses," Benchimol said.

Slice of the cake

Axis said that the deal would substantially enhance the insurer's depth and breadth of product and underwriting expertise, something that is characteristic of many buyers' attraction to London-listed carriers, according to Olly Laughton-Scott, founding partner and insurance analyst at IMAS.

He said London market carriers offer those outside the market an opportunity to access the Lloyd's market and its wealth of underwriting complex and niche specialty lines.

"For the larger insurers, it presents an opportunity to diversify the books," Laughton-Scott added. "By picking up a Lloyd's carrier, an insurer from outside the market then has access to highly specialised, niche classes of business that may have remained unavailable to it otherwise.

"The London market as a whole has always been attractive to overseas buyers and larger insurance companies in this regard."

Cornes said valuations have been greatly affected and highly inflated off > 10

Mergers and acquisitions

APRIL 2011	JULY 2012	AUGUST 2012	DECEMBER 2014
Chaucer accepts £313m cash takeover bid from The Hanover	Lloyd's listed Hardy accepts an estimated £200m bid from CNA	Omega Insurance accepts £200m cash offer from Canopius	Aviva makes successful £5.6bn takeover bid of rival insurer Friends Life

< 9 the back of the previous M&A activity within the Lloyd's market.

The 20% to 30% that is added to deal valuations as a result of condition of payment fees could price the remaining independent carriers out of reach for some buyers.

"The valuations are already very big, to pay an extra 20% to 30% could be too extreme and make any deal potentially uneconomic," Cornes said.

"Looking at the numbers of the Novae deal, it came some way below the likes of the Amlin figure and other similar deals that we have seen from its peer group. Nonetheless, it is clear that the business remains attractive."

The M&A deal valuations that have come through the market in recent years have been astronomical. On 8 September 2015, it was announced that Mitsui Sumitomo Insurance Group had agreed to buy Lloyd's firm Amlin for £3.5bn.

"There is a definite sense of scarcity about the independent carriers now."
Olly Laughton-Scott

With so few independent names left, the number of opportunities for investors to take a slice of the Lloyd's cake is dwindling. This serves to push up valuations and helps to secure the desirability of independent carriers. Laughton-Scott added: "There is a definite sense of scarcity about the independent carriers now."

"Before Axis approached Novae, there were four. Then there were three. One day, there will be none. What this means is that there are fewer opportunities for potential buyers to pick up a slice of an established Lloyd's business."

Laughton-Scott added that the remaining businesses present enormous opportunity. "If you look at Hiscox, for example. As a business, it has a very well-established and highly regarded reputation combined with a diversified portfolio and a strong background with a high-net-worth book in particular.

"It's a tempting proposition from wherever you're sitting. The challenge will be price."

A spokesman for Hiscox declined to comment for this article.

Everything must go

Andrew Horton, the CEO of Beazley previously told *Post* that the company was a listed entity, so had always been for sale.

However, he added: "In the insurance sector, people aren't bought unless they want to be.

"We ask ourselves what we could do as part of a larger group that we can't do independently as Beazley. We can generally do most things with good reinsurance support. We can't see what we are missing."

Despite that, Horton said Beazley is often misperceived as "fiercely independent". He added: "That's not how we think of ourselves at all, because we're a public company and we're interested in growing successfully for our owners."

Laughton-Scott added: "Every business is always for sale. The terms of the sale are always up for conjecture. But if the valuation and offer is right, then shareholders will give their nod of approval."

The rarity of pure Lloyd's businesses is now something that could work in favour of the likes of Beazley, Hiscox and Lancashire, Laughton-Scott said.

"There are those in the market, and outside of it, that are particularly attracted to independent players," he said.

While the fact that the market is seen to be attractive to overseas institutions and capital firms is a welcome sign of the health of the market and its participants, a challenge that accompanies this M&A activity is the further amounts of capital that it brings to an industry already under pressure from slim margins, tight pricing and awash with capacity.

However, the dynamism of EC3 and Lime Street is one of the market's key strengths and is something that, as a corporation, Lloyd's of London is keen to preserve.

A Lloyd's of London spokesperson said that adding value to the market is essential for new market entrants.

"Lloyd's is a dynamic market and we welcome new entrants, provided they add value to the market, by adding new business, new capabilities, new distribution channels and new talent," the spokesperson said.

"Ultimately, this may lead to increased capacity and diversity in the market, which benefits our customers. In fact, the ability to provide a diverse pool of capital is one of the reasons customers from around the world come to Lloyd's.

"Meanwhile, insurance investors continue to recognise that Lloyd's offers them a strong platform for growth, with a powerful brand, global access and financial security, all in one place." ■

Mergers and acquisitions (continued)

JANUARY 2015	JANUARY 2015	FEBRUARY 2015	SEPTEMBER 2015	OCTOBER 2017
Catlin accepts £2.7bn bid from American rival XL	Axis Capital and Partner Re agree on £7bn merger. The deal is terminated in August	Brit Insurance agrees to £1.2bn takeover by Canadian rival Fairfax	Mitsui Sumitomo Insurance and Amlin agree £3.4bn takeover deal	Axis Capital completes takeover of Novae for £477.6m

NTT Communications
Transform. Transcend.

Problem-free SD-WAN migration in a connected world
Overcome implementation issues with our top tips for SD-WAN deployment

10 steps to a smooth SD-WAN transition

Every organization wants to deploy SD-WAN with minimal disruption to their day-to-day business operations. We' ve put together 10 steps for a frictionless SD-WAN implementation. They draw on NTT Communications' experience of deploying the technology for many different companies across multiple sectors.

1. Analyze your IT estate to get "SD-WAN ready"

You need to fully comprehend your IT estate and how it all works together. This includes business applications and associated priorities, traffic patterns and flows, cloud services in use, software-as-a-service models, and how and where to connect to all of these.

2. Combining multiple poor access types does not make a good network

Simply bonding together multiple connections does not make for a quality SD-WAN implementation. If they are poorly thought out and executed, you will be very disappointed. You need to take the quality and capability of the access lines into consideration to ensure that application performance expectations are met.

3. Look at how SD-WAN will integrate into your current infrastructure

SD-WANs do not cover all of the network functionality. You will need to consider how you can integrate SD-WAN into your wider infrastructure during the design process. This analysis should highlight application and protocol usage to better understand routing and bandwidth.

4. Ensure SD-WAN fits into your cloud strategy

Cloud connectivity is a critical issue. Ensure your SD-WAN will operate in your chosen clouds such as Microsoft Azure and Amazon Web Services. Some SD-WAN solutions will only provide a path to public cloud providers using a central hub-style internet breakout, others only through a local internet breakout. Also these solutions may not be optimized for either latency or performance: or support only a limited selection of cloud providers.

5. Map the connectivity flows of your applications

Mapping the connectivity flow is essential to setting up routing policies for deploying SD-WAN. Establish a detailed design to ensure that available application bandwidth is allocated both fairly and based on predetermined policies. Study your application usage and be clear on routing, bandwidth and performance requirements.

6. Use SD-WAN migration as an opportunity to update your security policies and business best practices

During the design and test phase, it is essential to test your application path steering changes against current and future corporate security and compliance policies. SD-WAN provides a platform for you to make more use of the public internet, but it also brings risks. Using the internet could expose you to hacking or other attacks if the correct protection and practices are not put in place.

7. Carefully plan your deployment and consider running a pilot

An SD-WAN isn't simply about connecting points. An SD-WAN implementation is an intrinsic part of the business and requires greater design and planning than a traditional network. Run pilots to work out any "pain points", determine that the network design supports your required application priorities, and that you are utilizing the correct network access types.

8. Prioritize sites and applications for migration

Prioritize the sites and applications that will benefit most from early SD-WAN migration. Think about where applications are hosted and the key locations in your network. This will help you design your migration plan.

9. Continually monitor your network during deployment phase

A verification and validation of the solution is essential to see how the network will perform under pressure. Also you should monitor the ability for remote branch traffic to leverage both public and private connectivity in an active-active connection mode; verify that business-critical traffic is being steered across the best performing paths across your WAN, while least important traffic makes use of the most cost-effective route.

10. Ensure that you have efficient network monitoring

Use data collected from your SD-WAN monitoring systems to provide full visibility of your WAN and application performance.

By Will Kirkman
twitter.com/PostWillK
will.kirkman@incisivemedia.com

Has the sun set on insurer-owned brokers?

As The Ardonagh Group buys Carole Nash and Mastercover, has the bell finally rung for the model?

More online

Read more broker news
www.postonline.co.uk/broker

Last month's acquisition of Carole Nash and Mastercover by The Ardonagh Group signalled another step out of the UK broker market for Groupama, having lost Lark and Bollington in 2012 and 2013 respectively.

It was another nail in the coffin for a wider trend in the market as well, with the sale seeing the number of insurer-owned brokers shrinking further.

With Endsleigh reportedly up for sale, *Post* explores whether the model itself is finished, and how insurers are putting their stamp on other corners of the value chain.

The insurer-owned broker

Five years ago, the insurer-owned broker was a prevalent model within the industry. Aston Scott CEO Peter Blanc, whose group recently merged with former Groupama broker Lark, explained: "The idea was that insurers would own more of the value chain.

"The reasons why insurers love distribution is because it's incredibly predictable and repeatable. Frankly, the lovely thing about running a broker is its incredibly repeatable earnings, with really good cash generation.

"Typically most decent brokers run with Ebitda margins north of 20%. They enjoy 90% plus renewal retention and very high levels of cash conversion.

"So it's cash generative without the cyclical nature of underwriting. If you're purely underwriting, you can have a good year but then another year Hurricane *Irma* comes along and takes you to the cleaners. With broking, it's predictable and boring. And we love boring.

"That's the reason insurers historically wanted to get into it, and, of course, in earlier days before there was so much regulation, insurers were quite attracted to the idea of owning brokers so that they could also benefit from the predictable earnings generated not only from actual broking activity, but from the other side of the food chain by providing capacity to those brokers."

CEO of Global Risk Partners' retail broking business Mike Bruce, who ran Bluefin when it was still owned by Axa, said that the model originally came to form a part of a defensive move from insurers, as broker consolidation began to gain traction in the market.

"As there was some consolidation going on in the broking market, it was very much around insurers trying to lock in their own distribution," he said. "That was the motivation.

"Some other insurers may have decided to take a minority shareholding, but you've got to believe ultimately it was for the same end, that is to try to have a say in trying to control some distribution when there were a number of large broker consolidators being developed."

Why the model failed

When Lark completed its management buyout from Groupama in 2012, chairman Graham Lark told *Post* he did not see it as symptomatic of a trend, but instead a reflection of Groupama's financial problems at group level.

Since 2012 however, Axa has sold Bluefin to Marsh, Ageas has shut Kwik Fit Insurance Services, and Covéa is reportedly looking for a buyer for Swinton. Zurich is also reportedly exploring a sale of broker Endsleigh.

Former Arthur J Gallagher UK retail CEO Stuart Reid explained: "Fundamentally I believe that the principle of an insurer owning a broker is one that has merit.

"But it is obvious that the examples that have occurred in the UK have now come to an end in the majority of cases and an obvious conclusion can be drawn."

Groupama declined to comment.

Part of the issue for insurers that own brokers is the regulatory environment around it. There were worries the regulator at the time could take a dim view of the parent company potentially exerting pressure on the broker to place more business with it.

There were also potential concerns that sensitive market intelligence such as commission levels could potentially be passed on to the insurer.

"Regulation is the thing that's causing that whole concept to be a bit of a challenge," said Blanc. "The Financial Conduct Authority quite rightly expects brokers to be brokers. They expect them to be representing their client's best interest.

"It's very difficult to demonstrate all the time whether you really always are representing your clients best interests when so many policies end up with the insurance company happens to own you."

Bruce agreed: "It's down to the FCA's focus on the potential conflict of interest. Clearly the whole issue of conflict of interest within the whole industry is something the FCA is very keen on. The potential conflict of an insurer managing a broker is quite high on that list of potential conflicts."

The model was not without controversy, with Hiscox cancelling its agency with Bluefin in 2011, allegedly questioning the company's impartiality, an allegation Axa and Bluefin refuted.

Was there a conflict?

Brokers say, however, that although there was potential for conflict of interest, which the watchdog rightly examined and tried to mitigate through regulation, brokers themselves were generally good at managing potential issues.

Blanc said: "Most brokers that were owned by insurers were very good at manging that conflict, but from the outside world it could be seen as a problem. I don't think it was, because actually brokers inherently do put their client's interest first. So brokers managed the conflict very well but it is none the less still a conflict.

"So insurers have decided that it's too tricky a conflict to demonstrate that they're managing. It increases the complexity, it increases the risk of a conflict of interest, and for those reasons underwriters are underwriting and brokers are concentrating on broking."

Bruce agreed: "The conflict is the biggest challenge for an insurer to own a broker. But most brokers I knew that were owned by insurers

> 14

< 13 were very aware of that conflict and managed it appropriately.

"Like all these things, there are different models evolving all the time and that was a model that got a bit of traction because of the shape and dynamic of the sector, and clearly those things move forward and change with time.

"It doesn't mean it won't come back in the future, because that conflict can be managed, but again it is one of the ones that the regulator is very aware of, and rightly so.

"Certainly having worked as a broker that was owned by an insurer, as a broker you represent the client ultimately."

Value chain

With the decline of the insurer-owned broker, the rise of the managing general agent has provided insurers with another opportunity to put their stamp on different parts of the value chain.

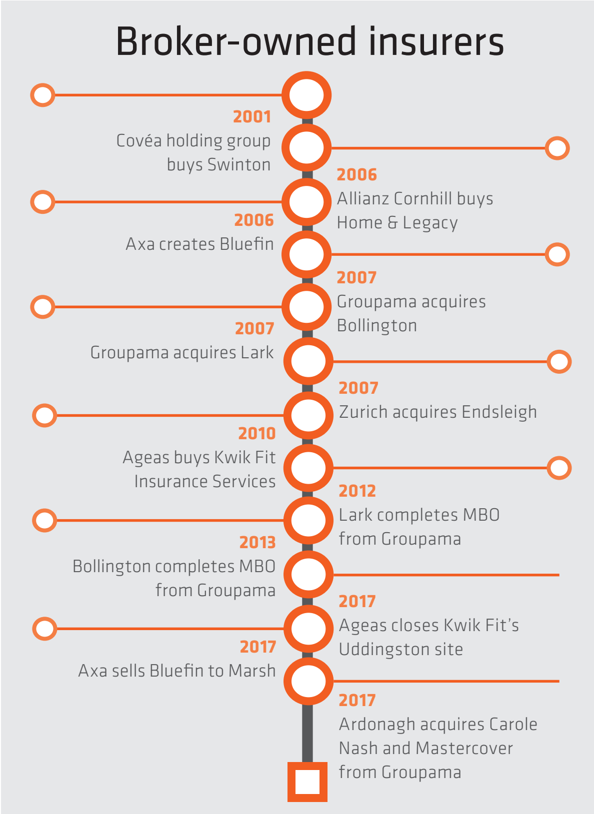
Vibe MGA Management CEO Danny Maleary said: "You're seeing a lot of the larger insurers creating incubation and acceleration hubs. The whole idea of an MGA is focused around being niche, that way it can add value to the insurer because the insurer won't necessarily have that understanding of the business."

Reid said: "Let's be honest, insurance companies are very happy to put their capacity out by way of MGAs, and maybe that's got more of a future than insurers owning the distribution."

He added he believes that insurer-owned brokers and managing general agents were "mutually exclusive" models.

"Why own a broker when you can give your capacity to an MGA and they can manage it better?" he said. "So the future is now more about MGAs than insurers owning distribution."

Blanc agreed: "The MGA is just another way in which underwriters can deploy their capacity, and in a way from a regulatory point of view it's a lot more straightforward than a broker. The MGA is not purporting to be acting on behalf of the client. It's an



MGA, it's acting on its own behalf, and it's not acting on behalf of the client.

"So an insurer putting capacity into an MGA is an exceptional way of them getting more of the value chain without incurring the regulatory risk they would be incurring if they were putting money into a broker."

One of the original triggers for the formation of insurer-owned brokers was the accelerating trend of broker consolidation. Pen Underwriting CEO Jon Turner said the MGA space may soon begin to see similar patterns of consolidation.

"It's definitely an attractive business model for an entrepreneurial underwriter," he said. "I don't see a slowdown in the formation of MGAs.

"What I do see, however, is that over time there will be some consolidation. We quite rightly live in an increasingly complex regulatory world, and larger MGAs like us can afford to invest in that type of control frame, because we have a whole risk and governance team.

"MGAs that house all that capability ultimately should pan out to be the winners because the regulatory costs for smaller businesses can be tough to navigate. I've not met too many underwriters in my career that get excited about filling out a regulatory requirements form."

Reid agreed: "There could be consolidation in the MGA space. The problem with MGAs is they have to be specialist. Many have become general commercial MGAs, and for me it's very difficult for them to be as profitable as specialist MGAs. So there'll be some consolidation, but that's obviously subject to the capacity providers being happy."

Brightside is set to launch van and motor MGA Kitsune Associates in the second quarter of next year. Executive chairman Mark Cliff doesn't believe that MGA consolidation is a trend on the immediate horizon.

"I don't see more consolidation in the MGA market at this moment," he said. "Some will thrive and some will die, that's just the nature of the market. But it's too early. It's at least two years before we'll see an impact."

The future

Are the days of the insurer-owned broker over? Blanc thinks so: "It's pretty unlikely that insurers will look to acquire or set up brokers in the future. But insurers continuing to provide support to MGAs is very likely to continue.

"For insurers, it's a quick and easy way to gain exposure to different markets without having to employ staff and invest in infrastructure to deliver it.

"Insurers supporting MGAs is logical, though I still question the profitability of a lot of MGAs. They have to actually exist for a specific purpose. If an MGA is a generalist, the only way they can differentiate themselves is on service.

"But the insurers should really look at themselves and ask 'why am I giving away a large chunk of the value chain to this MGA if all I have to do is actually deliver a better service?' that might be a more profitable way to go." ■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Listening to the 'silent middle'

The insurance offering for mid-market firms is disjointed and complex

Joe Grogan
CEO, corporate division, Marsh

Mid-sized firms are the backbone of the UK economy, contributing more than one-third of private sector gross domestic product, revenues and employment.

Despite this sector's size and importance, its specific needs are still being largely overlooked by the insurance industry. Much attention is placed on addressing the challenges that large clients face. Similarly, there is an industry-wide focus on developing opportunities associated with small businesses, through digital and affinity programmes. But what of the 'silent middle'?

Due to the increasingly interconnected nature of risk, businesses – regardless of their size or sector – are more vulnerable to major threats such as cyber risk, supply chain disruption and geopolitical events. Mid-sized firms are no exception. In fact, they need risk advisory support in much the same way as larger firms do.

Currently, the insurance offering for middle-market risks is largely disjointed. Policies can vary from insurer to insurer, and policy documents are often long, complex tomes with hard-to-interpret clauses. Approaches are largely product-led and lack the holistic risk framework this segment both needs and deserves.

Frustratingly, despite work in recent years by industry

Despite work by industry bodies such as the Association of Insurance and Risk Managers, brokers and some insurers, a great deal of confusion around claims advocacy and support prevails

The future opportunities of technology

Staff may worry about losing jobs to AI but technology opens up a range of possibilities

Brendan McCafferty
CEO, Axa Insurance

Humans are both incredible and extremely complex, our minds swirling with ideas, thoughts and emotions. Our ability to think about our future, and what it may hold, can cause excitement, hope, fear and dread.

Today, those thoughts are often tied to technology. While some marvel at what we might be able to achieve, others, even those at the forefront of modern technology such as Elon Musk [entrepreneur, investor and inventor], envisage a dystopian time where robots not only have our jobs but also want our lives. Our own research into the workplace reveals that 46% of employees are worried about automation and its impact on jobs.

While we can't gaze into a crystal ball and get the answers, it is inevitable technology will create great change – it has shaped our existence since early man sharpened stone to make tools. But rather than stick our heads in the sand, we have to grasp what is happening and adapt accordingly.

In our world, it is insurtech that has been under the microscope. Insurance companies are increasingly turning to technology to communicate with customers and take on some of the tasks carried out by humans and, understandably, this has led to concerns about the future of the men and women that we employ.

However, technology opens up a range of possibilities for companies and their staff. Artificial intelligence could carry out tasks across an insurance company, from claims, to customer services, to human resources, picking up the routine, menial work that no one enjoys.

Tech could field all the simple policy questions that staff would usually have to answer manually.

bodies such as the Association of Insurance and Risk Managers, brokers and some insurers, a great deal of confusion around claims advocacy and support prevails. All too often, mid-sized firms are perplexed by exclusion clauses and, in the event of a loss, the amount of time taken to resolve claims. When 'the rubber hits the road', all too often our industry is found wanting.

Relationships based exclusively around product interactions add little value. Essentially, what mid-sized firms need is for their insurance and risk advisers to take an industry or sector-led approach to their risks, which is backed by strong data and analytics capabilities – particularly on motor and casualty business. This approach should empower clients to make more informed decisions around risk and assist in the recovery of insured losses, if the worst were to happen.

Like any other firm, mid-sized companies need to be confident that they are resilient enough to recover from any type of event that might disrupt their operations. The vast majority of larger firms employ dedicated risk managers or insurance experts to guide them. Generally, mid-sized firms do not have sufficient in-house resources and, as a result, their voice often goes unheard in the insurance world.

The key to the insurance industry serving the UK mid-sized market well should begin with understanding that there are significant similarities to the large client space. These firms regard themselves as corporate businesses, through the lens of the industries and sectors to which they belong, rather than the

archaic insurance industry catch-all of middle market.

By focusing on this, there is an opportunity to create fully integrated and resilient solutions for these firms, in which the industry can work together with clients to deliver contract certainty in a simplistic, rational and holistic way. These solutions should move seamlessly from pre-loss risk management, through to strong post-loss advocacy and claims certainty. It is the role of the broker to drive this approach through the industry.

UK firms are facing some of the most challenging times in post-war history, from uncertainty around the UK's exit from the European Union to the spectre of cyber risk and terrorism.

Our industry needs to do more to help protect the future of the UK's backbone from these events so that they can pursue growth with added confidence and, ultimately, provide the goods, services and skilled employment on which we all rely. ■

Tech could advise customers about the cover they have bought, what add-ons they have in place and what their excess is. And tech could be used to help employees find company policies and details of their contract in a fraction of the time it would take an HR specialist.

Rather than people being left without work, staff could be liberated. Imagine the more meaningful interactions that we could have with customers and brokers, about both cover and claims, if we were freed from the more transactional, mundane tasks.

But this doesn't mean that we should invest in all forms of technology simply because it exists. Like the people we employ, all companies are different and tech must be implemented because it has a purpose, not because it is shiny and new. We have to be sure that technology serving customers is in their best interests and will make their lives easier.

Firms adopting new technology must engage with their staff to understand their concerns and help them adapt to their changing roles. We shouldn't forget the impact industrial robots had on the production line jobs of the 1980s and we must learn from it.

Insurance is, and always will be, a very personable business but that doesn't mean we should shy away from the impact of technology, especially when it is in the best interests of staff and customers. In fact, we need to embrace it, understand it and be ready for it.

Unlike the new wave of tech, we are only human and the thought of the unlimited potential of AI, and its impact on jobs, may be something that inspires fear and dread. However, I for one am looking forward with hope and excitement. ■

Louise Chadwick Auger

Chadwick is internal operations manager at the drainage and water mains claims specialist

How did you get into the insurance industry?
I was fortunate to be approached directly by Auger for a role as an account manager. My experience in dealing with challenging customers in a high-pressure environment was seen as a great fit for working in claims. Despite my initial reservations about handling drainage claims, accepting the role was one of the best decisions I've made.

What has been the biggest challenge of your career to date?
I have had a front-row seat in the rollercoaster experience of dealing with rapid growth while maintaining and improving our service and performance. I was given responsibility to develop our service offering to include fresh water claims with robust systems and processes to align with our more mature drainage and subsidence products. I established a nationwide supply chain with the necessary controls. I have since taken an active role in the transition from a supplier-led service to bringing this in-house with a direct labour model.

Do you have a role model or mentor and what have your learnt from them?
David Brewster [Auger managing director] has been an inspiration and constant source of support. As the founder of the company, he instills his core principles of transparency, fairness and honesty in everything we do. As I've built and grown teams, these principles have been key in fostering the kind of working culture that is responsible and accountable.

Where do you hope to be in 10 years?
I'm certain I'll be in the insurance industry. The challenge of maintaining happy clients, satisfied customers and a motivated workforce is one I find too rewarding to consider leaving. I'm confident I'll be playing a lead role in Auger, continuing to set new standards in service delivery. I'm excited about how our technology will transform the claims experience and enable us to potentially diversify our offering.

If I was not working in insurance I would be... travelling with a career that would allow me to explore the world. ■

Profile

2017
Internal operations manager, **Auger**

2017
Level 3 in first line management, **Chartered Management Institute**

2014 to 2017
Team leader, **Auger**

2014 to present
Professional diploma in procurement and supply, **Chartered Institute of Procurement and Supply**

2011 to 2014
Account manager, **Auger**

2008 to 2011
Client relationship manager, **Perfect Home**

"Louise has demonstrated incredible levels of initiative and responsibility from the moment she walked through the door.

Dave Brewster, managing director, Auger

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Farmer

Max Perris Cunningham Lindsey

As well as being a loss adjuster, Perris works with a 350-strong dairy herd in Yorkshire

How did your interest in farming start?
I grew up in a rural community in the foothills of the Quantocks in Somerset, where agriculture is a key element of life. My farming interest all started through messing about on the farm with friends who were farmers' sons until we were old enough to be put to good use on the farm and earn our keep.

How did you build up your skills?
I started my career working on a dairy farm in Somerset at 14. At 17, I moved to France for further education and worked on a large arable and tobacco farm at weekends and during holidays. Longer term, I couldn't see myself doing anything other than farming.

What was the experience like?
It was brilliant. There is nothing better than being outside all year round and working with live animals. Dairy farming was the ideal way for me to learn discipline, have a laugh and push myself to the limits physically and mentally.

What have been the highlights of dairy farming so far?
The ultimate job satisfaction for me is experiencing the chain of life: inseminating a cow, calving the cow and nurturing the heifer into a healthy productive animal in the herd, all while ensuring a profit.

How has the experience changed you?
Dairy farming has made me a better person; I have great respect for the countryside and animals. If a cow has a bad experience, it can change who she is for the rest of her 'career', this has highlighted my outlook on people; first impressions are everything.

Any crossover between farming and your insurance day job?
The importance of relationships, customer experiences, time keeping and doing things right first time round is everything on a dairy farm. These principles are equally important in insurance. As Cunningham Lindsey's specialist agricultural loss adjuster, my farming background has provided me with an invaluable insight into the industry when it comes to assessing claims on behalf of our clients.

CV

2017 to present
CEO
Pen Underwriting

2015 to 2017
Executive chairman
Pen Underwriting

2012 to 2015
Independent consultant
JRT consulting

2007 to 2012
CEO
Brit Reinsurance

2007 to 2012
Active underwriter
Syndicate 2987

2005 to 2007
Director of underwriting
Brit Reinsurance

2004 to 2005
General manager
QBE

2001 to 2004
Director of underwriting
QBE Re

2000 to 2001
Deputy general manager
QBE

1996 to 2000
Senior casualty treaty underwriter
QBE

1991 to 1996
Underwriter, casualty and motor treaty
Allstate Re

Jon Turner
Pen Underwriting

After spending the past year hiving up a dozen entities under the Pen Underwriting roof, CEO Jon Turner talks to **Will Kirkman** about the managing general agent's drive to be a 'virtual insurer' with the firepower to invest in data analytics and new classes of business

Jon Turner has spent the last 11 months consolidating over a dozen brands under one roof. Pen Underwriting, an amalgamation of Arthur J Gallagher's managing general agents, now serves over 1900 brokers and half a million customers, boasting gross written premium in the range of £500m.

The task of building the brand is now complete, but has not come without its challenges, Turner explains: "We inherited something like 90 different binding authorities, which is nuts. It was something like one binding authority for every four members of staff. We had one team where we had more carriers than staff members.

It was bonkers having all these different operating systems, different operating philosophies and parameters

"When you integrate any number of different businesses, they would have come from different backgrounds, would have had different pressures, philosophies and strategies.

"Bringing all of that into one isn't without its challenges. At the same time, it's the right thing for us to do as a business. It was bonkers having all these different operating systems, different operating philosophies and parameters.

"This makes us much cleaner, easier to do business with, transparent, and much more like a typical multi-class composite insurance carrier."

Pen has now 'hived up' more than a dozen legal entities into one business. From January next year, its performance will be reported as one single entity.

"We're on a journey, and we haven't finished it yet," he explains. "The challenges are the ones you'd expect, around IT and data, systems, and consistency of approach. We're gradually ticking them off the list and moving forward.

"It's quite exciting that we're coming towards the end of that, because all of that is a bit inward-looking, and it's expensive. Our parent company has been great in its support over this journey of change, but to the outside world there may not be many exciting things to show for it."

Amalgamation of brands

The amalgamation of brands such as Dallas Kirkland, E-underwriting, Evolution and Ink under one roof has left Pen with a vast range of lines, including solicitors' professional indemnity, travel, household, motor fleet, oil transportation, and high-hazard haulage.

"We operate a vast array of products, probably too many if I'm being super critical," Turner says. "We're always looking at ways to improve the product line and whether there's overlap, and what we could do better.

"Some of the work we're doing internally at the moment looks at that, because we want to make sure we're transparent and easy to navigate. There will be some portfolios that are struggling, either from a pricing perspective or a loss ratio angle, or there will also be other ones that are running well.

"Any MGA in this day and age has to be seen to be adding value somewhere, otherwise you're dead in the water. We question that in all of our businesses: 'where are you adding value in the food chain?' because otherwise, you'll be history. It's something that we constantly look at, it's how we make sure we're delivering expertise and a differentiated product.

> 24

< 22

"My job is balancing those and making sure that where we need to make adjustments and tweaks from an underwriting perspective, we make them, and that's bread and butter as far as I'm concerned, it comes with the territory."

Turner is no stranger to the world of underwriting. His break came early in life when he caddied for an underwriter at an Essex golf club, who eventually gave him his first job in insurance.

He went on to become a treaty reinsurance underwriter, before becoming an underwriting manager, concentrating mainly on long-tail classes. He was promoted to director of underwriting before joining Brit in 2005 as CEO of its reinsurance business, becoming active underwriter in 2007.

Continuing to apply the principles you have when you first start out as an underwriter doesn't take you far off what you should be doing

"In 2007 I would have been 38," he says. "It was a big syndicate and I'm very proud of what we achieved there. It was pretty daunting, and I learned a lot of lessons from it.

"Continuing to apply the principles you have when you first start out as an underwriter doesn't take you far off what you should be doing. Invariably it's when people go outside of those parameters that portfolios start to struggle and performance dips."

After Brit

After leaving Brit in 2012, Turner worked with private equity for four years before joining Pen.

"Chilly [Grahame Chilton, CEO, Arthur J Gallagher UK] had taken over back in January 2015," he says. "I'd been a client of his when he was running Benfield, and I was a reinsurance buyer as well as an underwriter.

"Over the course of that year, I started talking to him about what he thought we could do to bring everything under one brand. We talked about the vision behind how we can create a 'virtual insurer', which is how we talk about the business today, and it was a fascinating challenge."

Turner joined the business as executive chairman, looking at strategy and new classes of business. "Lots of what we had was legacy inherited relationships, and I looked at whether there was a better way of doing things," he says.

"After about a year or so, Mark Armitage [former Pen managing director] was looking at how he could take a slight step back from the day-to-day working week, and I was the natural and logical successor. I'd got to know the team, I'd got to know the challenges, the strategy was clearly laid out, and so it was more of a continuation of the same theme and cracking on with what we'd already set out on the journey.

"It was a very smooth handover, very rapid, and very easy because the team knew me and I knew them. There'd been sufficient time for people to get to know each other.

"It's been fascinating, and it's gone quickly. I've learned a lot in a short period of time. I've been in the industry almost 30 years and it's great when you're learning on the job and doing things that are slightly different from what you've done in the past.

"Risk taking has always been part of how I grew up in the business, so being part of an underwriting MGA has the same sorts of challenges and issues, as well as the same portfolio management topics coming up, but you see it through a slightly different lens because you are managing an inwards portfolio of business but you're also aware of the relationship you have with your carrier, and making sure you deliver loss ratios in line with its expectations."

Virtual insurer

Part of Chilton and Turner's vision was to create a virtual insurer, an MGA that provides all of the services of a traditional carrier, without holding the capacity.

"It's all the services, all the capabilities, and all the skills you would expect in an insurer, with the one exception being we don't carry risk on our balance sheet," Turner explains. "We can do a real genuine work transfer for our partners, and provide a full all-round service including claims, analytics and all the things you'd expect in this day and age.

"Most MGAs will do the underwriting piece and the distribution piece, but not necessarily do the other stuff, such as risk and governance, claims, pricing, and so on.

"We want to be on the front foot when we talk to our carriers, it's about having a proactive dialogue as opposed to them telling us what they've seen in the numbers, by

HOBBIES

Football

Golf

Travel

which point it's probably too late. That's what they want, it makes their life easier."

Having settled into the role, and with Pen in the final stages of its three-year consolidation journey, Turner is now turning his sights on the future. With the backing of Gallagher, he says Pen has the power not only to invest inwardly, but to look at potential acquisitions.

"Being one of the largest MGAs in the UK brings firepower, and the ability to invest in the business," he says. "It gives you the ability to spend money on IT platforms and hire analytics teams and actuaries so we can do proper data analysis.

It's uber-competitive out there at the moment, so you have to have something that shows you're adding value to the equation

"The underwriting teams see that. They see the advantages of that, they see the benefits of it, and it's great for our carriers because it means we're on top of what we're doing datawise. It also shows where we can add value.

"Us as a home for entrepreneurial underwriters is an entirely logical process, because we can bring on board teams if we want to. We can provide that umbrella around the underwriting team so they can get on and underwrite. I've not met too many underwriters in my career that get excited about filling out a regulatory requirements form."

Turner adds that he sees an opportunity for Pen to move into different classes: "We haven't got anything right now that isn't already a bolt on to what we already do, but I'd love to see us doing a few more of the Lloyd's specialty classes, for example, energy and marine and classes like that where there is good talent in London.

"Right now we don't have any of those dialogues ongoing. It's uber-competitive out there at the moment, so you have to have something that shows you're adding value to the equation.

"We're still the new kid on the block, and we're still a young business, but because we have that critical mass, we have the ability to invest in people, classes of business, technology, claims, and analytics, so all the things that if I was a carrier delegating authority I'd want an MGA to have control of." ■

5 WORDS to best describe him

1 Analytical
2 Approachable
3 Measured
4 Global
5 Fun

Turner on...

...his managerial style: "I've been very lucky in my career, people have given me great opportunities and I like to think I've paid that back with how I've dealt with things.

"I want people to put their hand up and say 'I'd like to do that', but you can't have 100% of people doing that, otherwise things would be a complete mess. People saying what they're going to do on time and with good oversight is how I expect people to perform.

"You want people coming to you with new challenges and concepts because the world moves on, and I don't profess to have 100% of all the great ideas. If I have a good team of people, collectively we can come up with the right answer.

"It's one of the things I always talk about, it's a collective delivery of what we're doing. We've got great engagement scores here, we do a survey every year and we score highly. We're not perfect, we probably never will be perfect. If we were, there'd be nothing to improve and change.

"But it is about us all working together for the same end, which is delivering our targets. You need good people around you, and I'm no exception from that perspective, and we'll win as a team."

What brokers really think of insurers

Brokers share their views on their relationships with insurers, the impact of technology and their investment priorities in this exclusive piece of research conducted by Post in association with WPA

By Rachel Gordon

May you live in interesting times! The apocryphal Chinese curse has certainly applied to brokers in the past few decades. From the arrival of Direct Line and aggregators to regulatory demands and now the uncertainties of the UK leaving the European Union, would anyone in their right mind choose broking to make a living?

Yet, despite all the challenges, plenty want a slice of broking action, as suggested by the recent merger of Lark and Aston Scott, backed by Bowmark Capital.

Private equity money continues to follow brokers because well-run broking businesses are profitable and attractive investments. But how is the land lying for the future?

Post and insurer WPA conducted a survey to uncover brokers' business priorities and see how they view the crucial issues around their trading relationships with insurers. The research is based on interviews with 70 brokers, including a range of regional firms from across the UK and some of the large consolidators and London Market specialists.

Why do you place business with a particular insurer?

Top answers

1. Trust
2. Ease of doing business with them
3. Quality of underwriters
4. Past positive claims experience
5. Rating agency ranking
6. Brand
7. Commission
8. Quality of technological interface
9. Client recommends them
10. Location of nearest branch office

Trust

Trust is the cornerstone of insurance and it is somewhat reassuring that brokers say this is their number one reason for using an insurer.

Insurers and brokers do need to trust each other – this is indeed a symbiotic relationship, but one which can also be fraught with conflicts. While the insurer may carry the ultimate financial risk, it is the broker that can lose most in terms of reputation.

It is perhaps surprising that commission is only at number seven in the list and the location of the nearest branch office is least important, suggesting that while a local branch may be nice to have, this is viewed as less important.

What are your main complaints about insurers?

Top answers

1. Claims
2. Too expensive
3. Not responsive enough
4. No rewards for being a loyal customer
5. Dual pricing between new business and renewals
6. Lack of consistency
7. Too much jargon
8. Too much policy documentation/ lack of simplicity
9. Takes too long to apply
10. Transparency issues with cover

Complaints

Despite claims being the top answer, brokers are not saying that all insurers provide a bad service. Scratch beneath the surface and complaints are more around poor administration and delays, rather than a refusal to pay.

That said, some insurers have sought to consolidate claims functions, resulting in problems. Further, if a claim is not going well, the client may well choose to sound off to the broker, seeing this as the most effective way of getting matters sorted.

As one broker in the research said: "Larger insurers have slick claims services and they get it right most of the time. Others are far behind and need to improve. Most issues relate to poor customer communication and the time taken to action the claim."

The lesson here would be to suggest brokers tell their clients which insurers will deliver with minimum fuss but this may involve higher premiums.

Meanwhile, as Andrew Gibbons, managing director of Mason Owen Financial Services, says: "Brokers need to know the insurers they place business with. Service is not always brilliant by any means, but I'm not seeing any fall off. I met someone I know who works for an insurer with an Irish office and they told me about the additional staffing and adjusters being brought in to handle the Hurricane *Ophelia* claims.

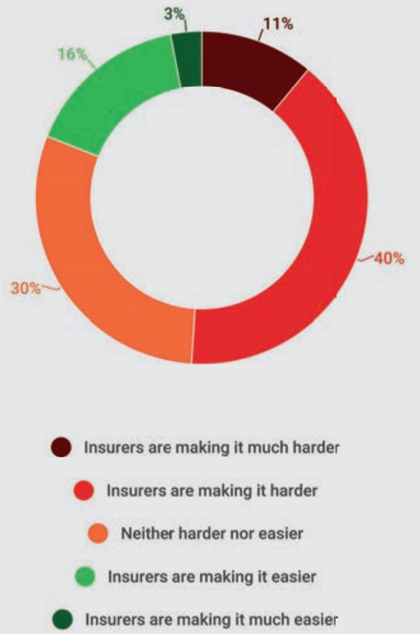
"The industry can perform tremendously well if there is a crisis and those affected should be well looked after. In terms of high-volume events, there have actually been significant improvements, compared to – say – five years ago."

Doing business

A majority of respondents find it harder or much harder to do business with insurers now than two years ago.

The unfortunate truth is that smaller brokers that place limited amounts of business with insurers will not receive the service or indeed preferential quotes that are granted to those that have the necessary scale or are in the strongest networks.

Has it become easier or harder to do business with insurers compared to two years ago?



Insurers continue to segment their brokers.

Ian Stutz, managing director of Brokerbility, comments: "No one wants a market where insurers are homogenous. There is differentiation and this is to be applauded. It is up to the broker to be very clear on what an insurer provides."

He says that service can be "patchy", adding "even when insurers do get things right, there is often little credit".

The British Insurance Brokers' Association may help in cases of severe service problems. Its CEO Steve White explains: "If a broker has issues with an insurer, then talk to us. Our working parties address the concerns of small and large brokers and deal in depth with technical insurance issues and claims. It can be far more effective to go through a trade association than individually."

Technology

The majority of insurers have legacy

> 28

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Look out for the full report on Insurance Hound
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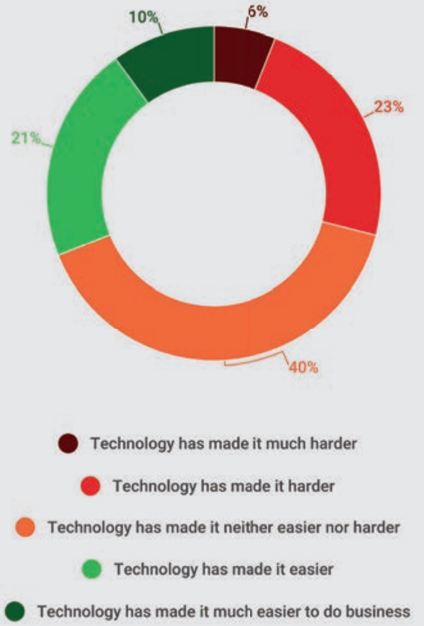
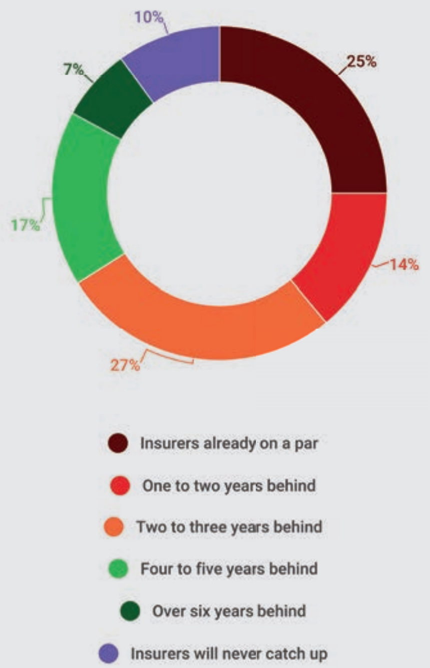
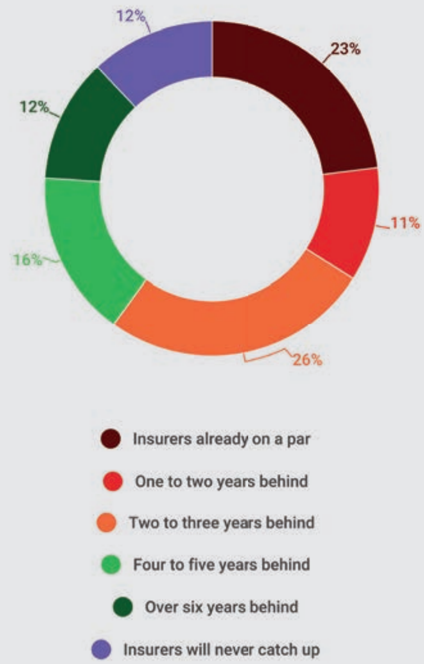
How much has technology played a part in insurers becoming easier/harder to do business with?



In terms of technology, how do you think insurers stack up against other financial services?



In terms of technology, how do insurers stack up against banking?



< 27 system issues and while e-trading has been a significant advance, many brokers point out that it has not moved on sufficiently in recent years.

"E-trading works, providing the risk is right, but it is not a panacea," Gibbons warns. "If not, you end up re-keying on different extranets and it is far from efficient."

One in four respondents say that insurers are already on a par with other financial services. Insurtech could be the driver behind this.

London is the primary hub for insurtech investment and there are growing numbers of impressive start-ups. But there is also innovation from some established providers. For instance, WPA's Delos technology applies machine learning to corporate health plans, delivering quicker claims decisions.

Banking has traditionally been viewed as being far more technologically advanced than insurance. There are certainly bigger budgets and more resources, but is the gap narrowing?

Almost one in four respondents believe insurance is already on a par with banking, suggesting that attitudes are changing and, while the large composites may be hampered by legacy systems, there has been progress and advances, with telematics-based products being one example.

London is the primary hub for insurtech investment and there are growing numbers of impressive start-ups. But there is also innovation from some established providers.

How do you rank the following in terms of trustworthiness, from 1 (most) to 7 (least)?

1. Retail
2. Insurance
3. Financial services
4. Banking
5. Telecoms
6. Utilities
7. Media

Trustworthiness

Is it somewhat surprising that brokers voted retail above insurance in terms of being the most trustworthy? Perhaps, but we are all shoppers and a straightforward retail purchase is invariably tangible, with most people fully aware of their rights, should it not be fit for purpose or if they simply change their mind.

In association with

What factors do you think lead to clients being underinsured or overinsured?

1. Lack of client interest outside of the premium
2. Lack of customer understanding of what is covered
3. Renewal without reprofiling the risk
4. Too complex wordings
5. Too complex products

An insurance policy is a very different proposition: most simply buy it through necessity and forget about it. However, for those who need to make a claim, the process may go smoothly or it may not. Brokers will have seen both sides and while many feel that consumer distrust of insurers is unjustified, they clearly feel the ease of well-regarded brands such as Amazon or Marks & Spencer in creating a more trustworthy experience than insurance – but only just.

Even brokers have frustrations about the buying process for personal lines. Howard Lickens, managing director of Clear Insurance Management, says he has just switched motor insurers, having received an inflated renewal premium for no good reason. "Everyone is used to doing this, but having everyone move around the market is not good practice. It would be easier if insurers did more to retain good customers. In Germany, three-year policies are common, this could be something insurers could look at here."

Underinsurance and overinsurance

Underinsurance remains an issue and brokers are mindful that they can face a liability issue if they fail to ensure clients have adequate cover. But they can only advise and if a client wants the cheapest cover no matter what, then the broker cannot be blamed.

On the issue of complexity, Gibbons says: "There absolutely needs to be more simplification. But we can't just blame insurers. Regulators require vast amounts of information to be provided to customers and with the *Insurance Distribution Directive*, this is only going to get worse."

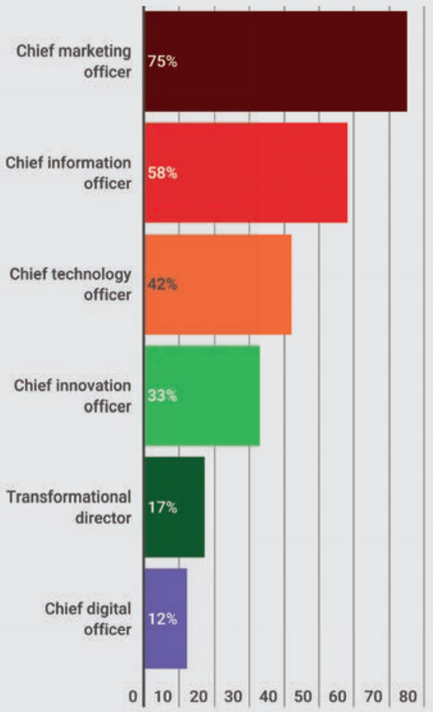
Dedicated experts

Changing priorities mean few brokers now fail to see the importance of having dedicated experts.

Previously, it was not uncommon to find brokers in senior roles who would have responsibility for HR, marketing and IT but without much specialisation. This is changing and these are encouraging numbers to show specialist roles are being taken seriously.

Regional broker Higos, for example, is among those that have a dedicated marketing function. Meanwhile, larger brokers should be expected to be already making significant investment. Willis Towers Watson recently showed it was upping the game further with its appointment of John Morley who joined from Accenture. He is to lead the development of a systems integration and workflow platform in response to "increased disruptive and digital completion as well as regulatory scrutiny".

As a broker, do you have any of the following roles within your organisation?



Which are your biggest investment priorities over the next five years?

1. Technology
2. Compliance
3. Marketing
4. Diversifying product range
5. Training
6. Recruitment
7. Acquisitions
8. Becoming more digital

Investment

The fact that technology tops the list is indicative of brokers wanting to bring in efficiencies, but there are also plenty of brokers that are looking for answers in this area.

"Technology is a huge issue," Lickens comments. "Brokers can be paying large licence fees for their systems, but they are not doing enough. There should be far more analytical ability in terms of leveraging Big Data, instead of just running the back office. Insurers certainly need to invest more too and I would agree that e-trading is only part of the picture, although it has brought lower costs for some risks."

Acquisitions is only at number seven. Although it is a significant trend, only a chosen few can participate. As Stutz says: "There are still going to be plenty of broking firms changing hands. But outside of acquisitions, those mid-sized firms that want to stay independent are in a good place. The top end are being picked off and this creates opportunities for others."

The broking market, despite all the background noise, remains strong. Those who are leading the pack know where they are going – and are not afraid to speak out. It is often said this is a sector that has resilience in spades and this certainly remains the case. ■

How new technologies can speed up motor claims

The motor space is under intense pressure in terms of costs. With margins tight, how can insurers handle claims efficiently while delivering good customer service? New technology may provide part of the answer

By Ryan Hewlett

Gary Barker, interim claims director, ERS

David Butcher, head of claims strategy and legal services, LV

Peter Cox, European motor claims procurement manager, QBE

Chris Crook, business transformation consultant, Ageas

Simon Gallimore, senior manager of casualty and auto claims, AIG UK and Ireland

Andrew Redmayne, UK claims manager, Aioi Nissay Dowa Insurance

Graham Stait, proposition and change relationship manager, Allianz

Riina Sulonen, head of European marketing, Wex Europe

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At a roundtable organised by *Post* in association with Wex, attendees discussed how the motor claims environment is evolving under the influence of artificial intelligence, other innovations and incoming regulation.

Chris Crook, business transformation consultant at Ageas, said a quantum leap has taken place in AI and machine learning in recent years. It is beginning to have a measurable impact on motor claims, he said, explaining his company is using image-recognition software to assess damages based on pictures of cars.

"In 2015, there was a breakthrough in AI, which meant that we could process images at the same rate or better than humans," Crook said.

"Assessing lots of images is a key component in estimating cost for car repairs. We've been experimenting over the past few months on how this correlates with how our engineers are performing. The AI is much quicker. On simple cases, it's very good."

Crook added that using AI to analyse images of vehicle damage, particularly where the damage is obvious, can free up skilled engineers to process more complex and specialist claims at a faster rate.

His comments follow news that more than half of insurtech investment is in AI and the Internet of Things.

Research from Accenture found investment into insurtech increased by more than 50% globally to nearly £15m last year, with the majority of deals involving AI. The combined number of deals across AI and IoT technology increased by 79% and in 2016 accounted for 44% of global insurtech deals.

Even with the technological advancement and increased investment, Crook said the industry needs to up its game in automating manual processes in claims. "Why is it necessary for a skilled engineer to process the simple tasks? We really need to start automating processes to a greater level," he said.

Angela Wickes, strategic sales manager, Wex

Richard Wood, senior project manager, claims automation and transformation, Zurich

Anthony Wynn, motor innovation senior lead – digital, Aviva

Advanced imaging technologies and AI are already showing results in the claims arena, said Graham Stait, proposition and change relationship manager at Allianz. However, despite the proven capabilities and the foreseeable usefulness of the technology, challenges remain.

"The capability exists, but it is based on machine learning and those machines need to learn," Stait said. "While the technology claims to be able to do what thousands of engineers have spent years learning within seconds, we need to teach it in the first place."

> **"Unless there's cooperation between insurers, unless they can share data with the companies that are developing that technology, it's not going to advance more quickly."**
> Andrew Redmayne

Like Stait, Andrew Redmayne, UK claims manager at Aioi Nissay Dowa Insurance, said that one of the challenges brought by this technology is its reliance on being fed millions of images and pieces of data in order for it to be accurate.

This could represent a substantial time and cost, so collaboration and data sharing will be key in tackling this issue, he said.

"Unless there's cooperation between insurers, unless they can share data with the companies that are developing that technology, it's not going to advance more quickly," he said.

The effectiveness of AI and machine learning will be in their ability to steer insurers through the complexity of repairing modern vehicles and those fitted with advanced driver assistance systems.

ADAS has a range of applications from lane assistance to automated emergency braking to parking aids, to name a few. Its increased use is also having an impact on motor claims.

These complex systems are expensive to repair and often require specialist expertise, equipment and collaboration with repair shops. Stait said that getting this right early in the claims process is vital if insurers are to maintain a positive customer experience.

"It's a way of navigating the complexity of modern vehicles. The vehicle construction techniques and the equipment on vehicles are becoming increasingly complex, and so we need something that allows us to identify that early on and make sure that's triaged with an appropriate solution, otherwise the customer experience is going to be extremely challenging," he said.

Increasing pace

Car manufacturers have been introducing ADAS at an increasing pace. Over 10% of new vehicles are already fitted with such systems and this is set to grow to 40% by 2020, according to research from National Windscreens.

David Butcher, head of claims strategy and legal services at LV, said that although the safety features can cut the number of crashes, the complexity of modern vehicles can make motor repairs more expensive.

"The expectation is that ADAS will drive lower accident frequency and, therefore, there is some expectation of lower premiums," he said. "Inevitably, people who drive cars like that will have more expense for repairs when they are damaged. That's not news to anybody. We've all seen the impact of ADAS repair costs: what used to be a £200 headlight is now a £3000 headlight unit."

The price issue is one for repair shops too. Anthony Wynn, motor innovation senior lead for digital at Aviva, said the evolution in materials and construction techniques for cars make it harder to send a vehicle to just any body shop.

Wynn warned that increased specialisation is pricing body shops out of the market. "We all recognise that the number of body shops is already declining. And the likelihood is there will be a collapse once this new technology comes in, because it's going to be so expensive to service," he said.

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< 31

"You've also got to consider total loss ratio. If the vehicles are always going back to the manufacturer for repair, by definition generally that repair is expensive and, as a consequence, you're then into the tipping point of total loss."

"That's already happening to an extent with hybrid and electric vehicles. They have to go to specialist shops," Wynn added, referring to the bodyshops that can afford to buy specialist equipment and train their staff to be able to service these cars, "particularly with the demographic changes within the body shop industry".

First notification

Peter Cox, European motor claims procurement manager at QBE, added manufacturer technology such as ADAS and the incoming prospect of the connected cars will see a revolution in the claims space, particularly when it comes to first notification of loss.

"If there's an incident, the vehicle would automatically send first notification of loss straight through on the claim," he said. "What is more, there would almost be an indication of liability straight away from the information that comes through from the car as well as an assessment of the damage. In this scenario, we'd see insurers almost have a seamless claims process."

In his view, the data gained from connected vehicles and so-called black box technology, coupled with the use of AI in the claims process, is a boon not only for the insurer but for the policyholder too.

"When the customer makes contact with their insurer at the first point of a claim, we would know the damage, know where it should be going, whether it's a total write-off or not. This would have a serious impact on customer experience at the same time as making the claims process faster and more efficient."

"This estimate can then be passed on to the body shop so it knows the parts it needs to get in. You're looking at quicker repairs for the body shop, so they can get more jobs in and out and it increases their workflow, and it speeds up settlement for customers and the insurer.

"It's mutually beneficial to the whole ecosystem, but we need to experiment with the new technology. There's going to be a lot of testing and learning with this and sometimes mistakes will happen, but that's where we learn and we further improve processes."

"There would almost be an indication of liability straight away from the information that comes through from the car as well as an assessment of the damage. In this scenario, we'd see insurers almost have a seamless claims process." Peter Cox

Crook added that more insurers are likely to start testing AI at FNOL. A lot of customers, especially the younger generation, will get behind the automation of claims processes.

"They've all got smartphones, they're used to being connected. If something happened to their car, they're likely to take some pictures of the accident scene. And if that can be sent through and it can be processed in some type of way, you might find you can create a full estimate already.

This proposed seamless claims environment relies heavily on the seamless transfer of data from vehicle, to insurer, to bodyshop. In the case of a collision, information from the emergency services, hospitals and other third parties might be needed.

While in theory this transfer of data is achievable, in practice it places the revolution in claims firmly under the remit

of the incoming *General Data Protection Regulation*, which aims to enhance the consistency of data protection rules across the European Union.

With less than a year to go before its UK implementation on 25 May 2018, *GDPR* is high on the agenda for industry players, particularly the aspect of the regulation that gives customers the right to be forgotten.

Cox said this will directly impact the claims function as insurers have a legal duty to store information for seven years.

"If somebody contacts us and says: 'I want you to forget me after five years', where do we stand? Legally, it's a grey area. Potentially, you look at our whole supply chain. Can we really remove somebody from our whole supply chain database? At present, It's highly unlikely. It's a massive issue for us potentially and there are an awful lot of grey areas that just haven't been considered yet."

"We are great at creating solutions we think customers need and a lot of that is driven by our internal demand for lower cost and efficiency, but actually, what will the customers truly want?" Simon Gallimore

Regulation and opportunity

Redmayne described the regulation as an opportunity. The challenge that *GDPR* brings may force the sector to have smarter systems, so that it doesn't rely on having to pass information that will be more strictly regulated, he suggested.

While acknowledging the positive impact technology can have on claims, Simon Gallimore, senior manager of casualty and auto claims at AIG UK and Ireland, said the sector has to be careful the commercial benefits of data-driven claims do not come at the expense of customer satisfaction.

"We are great at creating solutions we think customers need and a lot of that is driven by our internal demand for lower cost and efficiency, but actually, what will the customers truly want?" he asked.

The industry will need to be careful that it is not sending customers down a telematics and data-driven route in which they may be uncomfortable, warned Richard Wood, senior project manager for claims automation and transformation at Zurich.

"Insurers have historically assumed what our customers would want and piped them down one route for reporting or for processing their claim and map out that happy path and forget about the unhappy path when things go wrong. And actually what we have the ability to do with some of this technology is have a more varied approach to matching the customer requirements to what we can give them."

Gary Barker, interim claims director at ERS, said that while the larger general insurers can apply a broadbrush approach to modernising their motor claims, such methods and technology may not be appropriate for the more specialist and niche carriers like ERS.

"As a specialist, multi-niche insurer, we would view our customer base in different terms. We're one of the biggest classic vehicle insurers in the market and there's absolutely no way our customers would be willing to fill in an online form.

"This means that there's no way we could have an algorithmically derived engineering solution for them. There isn't enough data about their vehicles in the first place; none of them have been made for 20 years."

Barker added: "For the vanilla private car and van-type vehicles, technologically driven solutions have got an application in many areas of our claims processes, not just the ones that deal with vehicle repair. It's much harder if the risks are more complex and if the data is sparse." ■

In association with Kennedys

Taking flight

Fast food and parcel deliveries by drones seemed a fantasy just a couple of years ago but it is now close to reality. Wherever you look, they are in the air. They are being flown by leisure users, the French police, UK lifeboats, Indian railways, oil rig surveyors or online retailer Amazon, to name a few

By David Worsfold

The use of unmanned aerial vehicles is expanding so fast that neither regulators nor the insurance industry have quite kept up with these developments. Major reviews of regulation are going on around the world with the European Aviation Safety Agency on the verge of producing a radical overhaul of its rules, which will be largely followed by the UK Civil Aviation Authority.

"The regulatory authorities like everybody else are playing catch-up, especially as the commercial applications for drones are growing rapidly," says David Sales, director of aerospace at Ed Broking.

It is perhaps hardly surprising against this background that many insurers and brokers find themselves uncertain about the regulations and the risks posed by drones. According to exclusive research carried out by *Post* in conjunction with law firm Kennedys among UK underwriters, managing agents and brokers, an eye-watering 58% believe that the insurance sector does not understand drone risks sufficiently well to offer useful cover, while only 27% express confidence in the sector's knowledge of the risks.

Clearly, not all the respondents to the survey put themselves in that category as many are already active in insuring drones:

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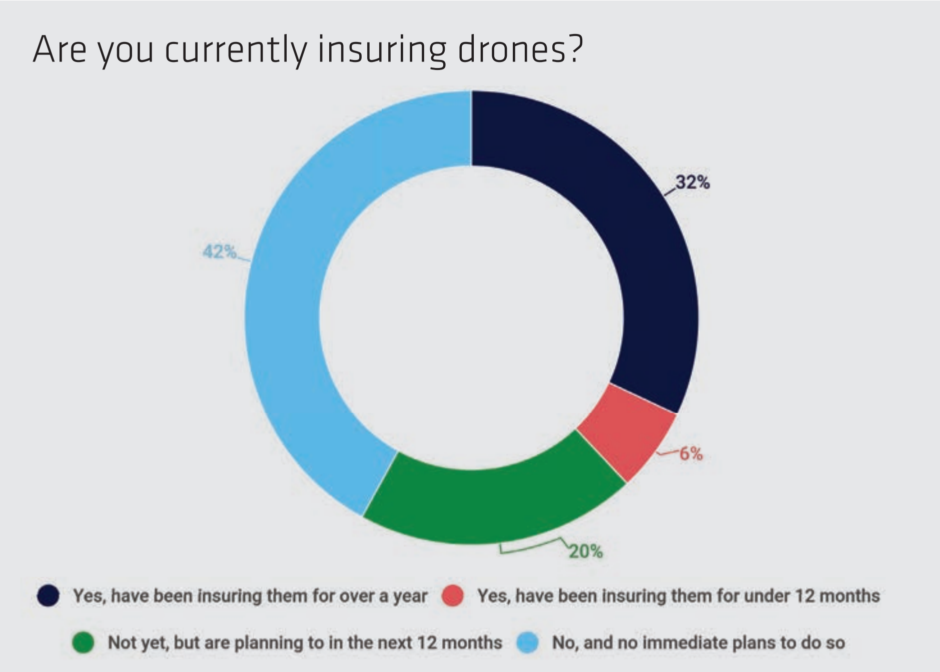
More online

Look out for the full report on Insurance Hound
www.insurancehound.co.uk



< 35 32% of the respondents say they have been insuring them for over a year, another 6% have started in the last 12 months and a further 20% are planning to come in over the next 12 months.

The risks posed by drones are potentially wide-ranging and are not always covered properly, especially by those who buy a cheap drone for recreational use. The sensible route would be to add cover for a drone to a household insurance policy but insurers may be reluctant to offer this even at an additional premium.

"We don't see a huge amount of requests but that is because there is a lack of understanding of the risks attached to them," says Tim Slattery, property underwriting manager at Hiscox.

"The horror stories about near misses at Heathrow do prompt the more conscientious customers to think about the possible risks and the need for insurance cover."

Ignorance may be prevalent but is no defence when things go wrong, cautions Tim Scorer, a consultant with Kennedys: "We are constantly surprised at how little awareness there is of the risk to people and property. The *Civil Aviation Act 1982*, section 76 imposes strict liability on the operator of an aircraft and that includes drones."

He says most insurers have seen very few liability claims from drone usage: "The only claim we have seen among our clients has been for damage to a car."

Operator error is the most common cause of claims, according to aviation surveyor Hugh Thacker, director at Leading Edge Assist: "Quite a few people fly into trees, especially when they put the drone into the automatic fly-home mode but forget that the direct route home might have tall trees in the way. Or they fly from a beach, the tide comes in and the drone flying back to where it started ends up in the sea."

When the liability claims start to come in, however, there could be some big shocks, Scorer warns: "A modest weight drone can do an awful lot of damage. Limited test results have confirmed the impact of a small drone on the cockpit glass of a helicopter could wipe out many years premiums."

Typically, all aviation risks are excluded from both commercial and household policies and have to be written back in.

Hiscox is unusual among household insurers in that it has started including cover for drones as standard on its high-net-worth policies, although for its mid-market policies it has to be added as an extension, the route preferred by most other UK household insurers.

As well as covering the drone itself, the policy has £1m liability cover for bodily injury or damage to property. The cover is only valid if the drone is used in accordance with current CAA regulations, a common condition on all leisure and commercial drone policies. This excludes claims involving accidents with passenger aircraft at airports, as that is designated as controlled airspace that drones are not permitted to fly in without a specific licence. This CAA stipulation means the policy also excludes claims arising from flying a drone out of line of sight of the operator, again unless separately licensed to do so.

Eye in the sky

Privacy is an area that concerned many of the respondents to the survey but is one that few insurers currently cover.

In the UK, insurers may have limited appetite for some of the liabilities drone use is likely to give rise to, says Barnaby Winckler, partner at Kennedys.

"There are a lot of privacy issues that could arise with drone use. It can give rise to a claim for damages by intruding into your neighbour's privacy. Harming your neighbour's person or property is something insurers would be expected to cover but whether there is an appetite for wider cover is an open question."

Slattery plays down the concerns about privacy saying that he believes most are "likely to be resolved easily by deleting footage where photography of neighbours is involved".

However, parts of the US are rather less sanguine about the threat to privacy posed by drones. In some states, people are allowed to shoot down drones they believe are invading their privacy, although there are only a handful of reports of people actually resorting to such extreme measures.

One of the biggest challenges for the insurance market with recreational and low-value commercial use of drones – such as the part-time wedding photographer looking to add a new twist to their portfolio – is finding a profitable way of taking on the business. This is something those looking to come into the market will be exploring, says Sales.

"We are seeing underwriters that are looking at drones as a business opportunity but they need to come up with a way of handling the business in a cost-effective way. At the lower end, it lends itself to online platforms and we are seeing underwriters developing those."

One insurer doing that is Allianz in partnership with Flock, an insurtech start-up. It is currently testing what it claims are the first short-term drone insurance policies for commercial pilots outside the US, although they will also be available to recreational users.

"We have built an all-purpose, user-agnostic app. It can cover commercial pilots who need CAA-recommended cover as well as people who are just trying to have a good time responsibly with a drone," says Ed Klinger, CEO of Flock.

It is a data-driven app with information about different drones, controlled fly zones, weather and other hazards. The user puts in details about the flight they want to make, how long it will take, where it will go and information about the operator to obtain short-term cover just for that flight. The operator selects the level of liability cover in a range from £1m to £10m: "We can then give you a projected risk for your flight and price it accordingly," says Klinger.

"It is not just a traditional tool to help fill out an insurance form. It is a real-time risk map. It provides a risk metric, which is a real-time assessment of the risk with the weather, environment, built areas and so on. We are building risk mitigation into the insurance workflow," he adds.

Partnerships

Partnership is a common feature in the drone insurance market once you are outside the major insurers with their own aviation underwriting teams.

Hiscox teams up with a managing general agent, Moonrock Insurance, which it has capitalised, says Slattery, because it can bring the right expertise and knowledge to assessing the risks. Through this link, it provides standalone cover for licensed commercial drone pilots, often carrying out high-risk work surveying roofs, large agricultural plots, vineyards and oil rigs.

So far, there have been very few liability claims, although the policies offer cover between £1m and £5m depending on the size and proposed use.

"We have seen some physical damage claims, especially where expensive photography equipment is involved since this is often the first thing to be damaged as it is mounted on the underside of the drone," says Slattery.

At the top end of the commercial market, underwriters such as Tokio Marine Kiln and Global Aerospace have significant market shares and will have seen some major claims, according to Thacker.

"A lot of the ones we deal with are million-dollar machines. They are almost light aircraft or helicopters. The big problem is, even at that size, there is a very diverse user base, with many having no aviation background," says Thacker.

There is a CAA licensing scheme in place for full-time commercial operators but some people slip through the net and don't know the rules, such as the commercial photographer from Essex who found himself in court recently for using a drone to take pictures of a steam train. He ended up with a £2500 fine for breaching the *Air Navigation Order 2016*.

Wendy Welsh, head of air operations at Network Rail, told BBC Essex that people flying drones near railways would be pursued in the courts: "If a train collided with a drone, it

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What do you think are the greatest barriers to the implementation and enforcement of drone regulation?

Overall Rank	Item	Score
1	The lack of a drone registration regime	161
2	Lack of knowledge or ignorance about regulations	100
3	Insufficient availability and knowledge of insurance cover	72
4	Uncertainty about no-fly zones and airspace restrictions	72
5	Not enough resources to enforce regulation	55
6	Difficulties and uncertainties in the assessment of regulatory distances and heights	53
7	Establishing who is responsible for enforcement	53
8	Unavailability of relevant data following a crash	44
9	Lack of training regimes and operator instruction facilities	42
10	Establishing how regulations apply to diverse individuals and organisations	32
11	Variability of drone classifications and weights in a regulatory environment	22
12	Incorporation of technical requirements into regulation (eg. geo-policing)	21

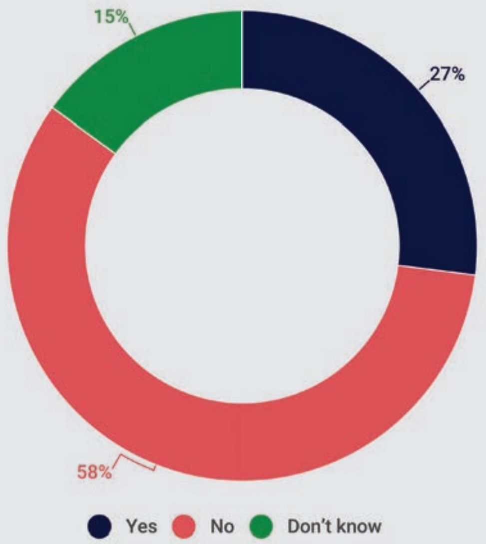
Respondents ranked the most significant barriers from one to five, with one being the most significant barrier and five being the lowest.

< 37 could cause a serious accident." A drone could fly into and damage vital equipment – such as overhead wires or pylons – costing thousands to repair and causing hours of train delays. "Only our team of highly trained authorised pilots and specialist approved contractors are permitted to fly drones near the railway."

Thacker acknowledges that claims from illegal operations such as this pose a problem. "Some people haven't done the training and are not approved. We often see commercial claims withdrawn because people weren't licensed."

He welcomes the EASA consultation on harmonising rules. "Some of the changes in European regulations will help as it will bring everyone up to the same standard." He warns, however, that this will probably permit more flying out of line of sight for licensed operators as it is already more common on the continent. "We will stick to that in the UK. I can see the CAA saying we will use the same rules. It would be daft not to."

Do you think the insurance sector understands drone risks sufficiently well to offer useful products?



New rules

The new rules are not due to come into force until 2018 at the earliest and are expected to allow larger unmanned aviation vehicles to operate in some types of airspace beyond line of sight, including in populated areas. That is when there might be drones regularly flying above our streets, not necessarily delivering parcels for Amazon but perhaps checking on the elderly, delivering medicines to pre-determined collection points, monitoring traffic or antisocial behaviour.

Road police in France are already using drones over motorways near Bordeaux and are catching between 15 and 20 lorries a day for overtaking, speeding and dangerous manoeuvres. The French government has said it wants to roll this out nationally.

In India, the railways have been using drones out of line of sight for several years to warn drivers when elephants stray onto lines.

And, nearer home, lifeboat crews in Caister, Norfolk have successfully used drones to help locate boats and people in trouble along the coast and at sea.

"This is where the real value of drones is going to shine," says Stuart Farlow, a solicitor at Kennedys, although he is sceptical about the ability of government and regulators to keep pace with the developments in UAV technology and use.

"The Department for Transport just doesn't have a grip on how fast the technology is developing. It is all about not presenting a greater hazard than a manned aircraft. It is a leap of faith the regulators are going to have to take at some time."

User registration

One aspect of the new regulations that will be watched very carefully in the insurance market is user registration. When asked about the greatest barriers to the implementation and enforcement of drone regulation, the survey respondents put "the lack of a drone registration scheme" way out in front.

"Insurers would like to see them registered and flight logs maintained," says Winckler. "All data that allows insurers to establish fault, particularly evidence of ownership, is valuable to insurers."

He has some doubts about whether a compulsory registration scheme will be introduced for all drones: "It will be a matter of political will and some difficult decisions on what is proportionate and necessary." He finds it very unlikely that any registration scheme will be made retrospective.

Winckler suggests the framework for understanding UAS risks will need to adjust rapidly to developing technology: "A lot of risks associated with drones at the moment are essentially human error. Technology could move quickly to a situation where human error is almost eliminated."

Klinger says Flock is preparing for the prospect of autonomous drones: "We want to be the world's first autonomous-ready insurer in the world. We also want to expand this into other verticals."

There is little doubt where the majority of survey respondents will be looking to watch for the development of drone technology: 53.5% say that North America is leading the way, with almost 30% citing Asia as the other big innovator, probably because regulation is less restrictive there. However, when it comes to government support to develop drone technology, nearly half the respondents believe Europe will lead the way.

As the technology moves on and regulation struggles to keep pace, insurers are going to find themselves underwriting a greater range of drone risks, with the global insurance market for drones expected to reach $1bn by 2020, according to Allianz. The challenge will be making sure you are not in the 58% the survey respondents fear don't understand the risks. ■

Safety first

Advanced Driver Assistance Systems need to be recalibrated by manufacturers, and not the aftermarket

Rupert Armitage
Managing director,
Auto Windscreens

Like all great Yorkshire men, those of you who know me or may have had the pleasure of meeting me will know that I generally 'call a spade a spade'. This hasn't always made me flavour of the month and as we delve further into the complexities of Advanced Driver Assistance Systems and recalibration, my natural propensity to 'say it as I see it' has, it is fair to say, ruffled more than a few feathers.

In a bid to understand and more importantly put safety at the forefront of our own business, we have spent the last two years trying to garner as much knowledge as possible about ADAS and in doing so have assessed all the different options available to us as a glass repair and replacement provider. The process has been laborious but at the same time massively educational. As a result of this work, we decided that the only way to go was to forge partnerships with the vehicle manufacturers themselves rather than use any of the wide variety of recalibration aftermarket solutions.

Not a cash cow

I was recently challenged around ADAS being used as a cash cow for our business. I can say with total conviction that for us, quite the opposite is true. We have worked very hard to obtain the best possible rates for recalibration and indeed the purchase of glass. It can and often does cost us money to ensure that the customer has a safe vehicle delivered back to them, but this is something that everyone needs to get to grips with for the sake of the industry and more importantly our customers.

I fear that I may have become the ADAS equivalent of a trainspotter on this subject but such is the extent of the education piece required around ADAS I am totally at ease with this label.

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The issue for us has always been around safety, with no place for compromise. While the customer journey is currently not as smooth as many would like, I will not allow the business to operate in the knowledge that there is any compromise when it comes to the safety of our customers. We are providing a service and ultimately, they trust us to know the ins and outs of ADAS so that they don't have to concern themselves.

Education, education and education – that is what this is all about. We as an industry need to listen to the experts on ADAS and not those telling people what they want to hear.

We aren't the experts on ADAS – we are the experts on automotive glass.

At some point in the future, there is a hope that ADAS will be able to self-recalibrate. But according to the majority of vehicle manufacturers, this is some considerable time away and until then, it is up to us to ensure that we put a vehicle and its ADAS systems back on the road in the exact condition it was in when it was first manufactured.

The only way to do that in our opinion is to replace the screen with an original manufacturer part and to let that manufacturer recalibrate its own technology. The cynics among you would say: 'Of course, the manufacturers would say that'. But in truth, there is no place for cynicism in this debate. Safety is paramount.

How can we possibly know what technology is being fitted and updated on a daily basis into every different make and model of vehicle across every different manufacturer? I would bet the farm that only the manufacturers will ever know and that is why we partnered with them because they are best placed to lead us and, ultimately, ensure the safety of the vehicle and its passengers.

Accurate recalibration

Tom Hudd, operations manager at Thatcham, correctly stated in a recent webinar that a vehicle cannot be accurately recalibrated on a driveway. Yet, this process is still widespread. The unspoken reality is that every day, windscreens are being recalibrated using a method that may or may not re-equip the vehicle with all its ADAS features correctly.

This will result in a serious incident in the not-too-distant future and I do not want that on my conscience or that of my employees. That is why when we fix a windscreen, we send it for recalibration back into the manufacturer network. This ensures it is not only returned to the customer in the exact condition it was in when it was manufactured, but also it may be more up to date due to diagnostic updates done at the same time.

As an industry, we must come together to adopt the best solution available regarding ADAS. How we tackle the claims process so that our customers continue to receive a great service must not compromise the safety of the vehicle. Policyholders' expectations need to be appropriately managed, much as they are when a vehicle needs a regular service. This is not a process which you will find many customers complaining about. So why should the maintenance of the integrity of the ADAS systems be any different?

With the drive towards autonomous vehicles, we can only expect more technology to be fitted. Much of this technology is proprietary to the manufacturer and I, therefore, believe it is unreasonable to expect the aftermarket to be able to keep up in a timely fashion by reverse-engineering a solution.

For me, the Holy Grail is customer safety combined with great service and support, which is not put in jeopardy by the need for speed and convenience. My personal belief is that playing to our strengths is key and that by forming partnerships with those in the know, we should be all able to work towards a standard model that we know is compliant.

This strategy will not only ensure that we have access to the most up-to-date technology from every manufacturer but it will also ensure the safety of our customers.

Innovation is snowballing at an exponential rate and we cannot pass the buck of blame onto others for convenience. It's an opportunity for the industry to lose the shackles of our Jurassic reputation and all come together but in order to do so, we must communicate with each other. We have an overriding responsibility to highlight potential dangers to each other and to adapt and improve our processes through education.

Together we must develop and adopt a standard that ensures we are catering for our children and grandchildren, who will undoubtedly be far more comfortable with the idea of 'driving' without touching a steering wheel than us 'dinosaurs'. They will, I am sure, become totally reliant on technology, so we have a responsibility to make sure it's safe.

ADAS recalibration methods of any part of the vehicle, not just the glass, are not something which we should be using as a means to score 'brownie points' over one another. Ultimately, the more correctly maintained these safety systems are, the lower the number of accidents will be, the lower the cost of claims will be and, most importantly, the lower the loss of life. ■

Left to right: Jonathan Swift, director of content, Infopro Digital ; Rupert Armitage, managing director, Auto Windscreens; David Elphick, parts and accessories sales manager, Mazda; Thomas Hudd, operations manager, Thatcham Research; and Dan Freedman, head of motor development, Direct Line

Negotiating the potholes of automated driving

A panel of motor experts discussed the challenges of repairing cars equipped with Advanced Driver Assistance Systems, at a webinar organised by Post in association with Auto Windscreens

By Rachel Gordon

When new technology makes driving safer, meaning potentially lower insurance premiums, what's not to like? Advanced Driver Assistance Systems can take many forms: cruise control, lane departure warning, intersection assistant, blind spot monitor, collision avoidance, to name a few.

As ADAS in its many guises becomes increasingly widespread, it throws up a host of repairer – and insurer – challenges. *Post* and Auto Windscreens discussed these head on in a recent webinar that brought together a group of experts.

On the panel

Chaired by Jonathan Swift, director of content at Infopro Digital, our panel was comprised of Rupert Armitage, managing director of Auto Windscreens; Dan Freedman, head of motor development at Direct Line; David Elphick, parts and accessories sales manager at Mazda; and Thomas Hudd, operations manager at Thatcham Research.

The recalibration challenge

The panel agreed there was a knowledge gap when it came to most drivers and their ADAS-enabled cars. Many may have no idea what is fitted as standard, what could have been added in a used car or even if they have the technology switched on. But one fact is increasingly clear: ADAS is fitted on a growing number of cars and around 10% have windscreen-mounted cameras. ADAS is common on newer models, and no longer just limited to prestige marques. It is expected the proportion will rise to around 40% by the end of 2020.

ADAS has an impact on many parties, including manufacturers, customers, technicians and insurers that often pay for repairs. Fleet managers and people who drive company cars are particularly affected as they typically tend to have new models at their disposal.

Repairing windscreens used to be a relatively straightforward task but recalibration – or resetting windscreen sensors – means it is now specialist and must be done correctly. If not, the technology may fail to work, and the risk of an accident may rise.

Research by the European New Car Assessment Programme has shown that autonomous emergency braking, when it functions correctly, reduces rear-end collisions by 38%.

When an ADAS-enabled car needs serious repair, a range of technology could require replacing. Recalibration can be carried out in a workshop and/or with the car being driven and tested by a technician.

If the sensors aren't recalibrated correctly, they may fail to warn of a potential danger. If this results in an accident, there are clear liability issues. This is something that insurers and the wider industry must address.

Hudd said the march of ADAS is unstoppable and that those customers expecting a fast fix need to have their expectations managed, as recalibration will need to come after physical repairs: "There is no doubt it adds an extra step to the repair process."

Armitage stressed the risk of rushing through or skipping recalibration: "There is a general expectation that there could be an accident because there was no recalibration or it was incorrect, we need to work together to rule that out now."

The right process

While the market may open in the future, panellists agreed that currently only manufacturers should handle recalibration, via their dealer networks.

Elphick pointed out: "You need the right tools and people and that means they will have been trained by the manufacturer."

Auto Windscreens has opted for all recalibration to be handled via manufacturers as standard. "It is the best solution for the customer," Armitage said. "This means explaining the repair to the customer and why it may not be possible for them to have the job completed on their driveway, for example."

Clearly, some customers may not be pleased if a job cannot be handled at a time and place to suit them. Hudd commented: "There needs to be a whole education piece around this. Many don't know what is on their vehicle in terms of ADAS and what they should do if a repair is needed."

Freedman agreed: "Many don't realise there is going to be an extra triage process and that they will have to wait longer."

Furthermore, apart from the repair having to be done in a workshop, insurers may well want to know these are manufacturer-approved, meaning less choice, further distance and longer waiting times.

Call for collaboration

The current state of affairs means that there is no single look-up portal for seeing what kit is on a car and, for example, if the parts are from the manufacturer or elsewhere. This is increasingly set to result in concerns for insurers and repairers in addition to potentially jeopardising safety.

Hudd said it is vital to establish "a better connection between insurers, motor retailers and repairers. There needs to be a way to sort the fact from the fiction."

Thatcham is already engaged in this work and has launched a voluntary code of practice for repairers with a second version under way and has a working party in place.

Freedman said: "We can't expect standardisation of ADAS from manufacturers but we could around the process; this would help a great deal, including with the costs."

Towards standardisation?

If all cars had the same technology fitted and repairers knew exactly how replacements had to be made, it would make life a lot easier.

But this is the cut-throat car manufacturer market, where being the same has no credence. There is talk of a standardised interface between ADAS applications, but panellists said for the short term, they supported more standardised terms and processes. Hudd said this is on the agenda but it will take time to see progress: this could take as long as two years.

The manufacturer market is a global one and ADAS advances are happening incredibly quickly, meaning it can be hard for even approved technicians to be fully up to speed.

Insurers will typically have relationships with windscreen and other repairers, but ADAS means bringing in other parties via manufacturers. Freedman pointed out that Direct Line has its own repairer network and he hoped this would in time be ADAS repair-enabled.

In the short term, it could be argued that ADAS could push insurer costs up. But in the longer term, Freedman said there might well be premium savings if the number of accidents continues to fall.

Turning off the technology

Even so, while more data needs to be gathered, it is far from an exact science. ADAS is about increasing safety, but some aspects can be turned off, rendering it useless. For example, some drivers may not want to listen to a warning beep if they are reversing or driving down a narrow road.

Repairers with insufficient knowledge may also unwittingly turn safety features off and so create a hazard. If a car isn't recalibrated, it may lose a lot of its safety features.

Manufacturer involvement

Taking choice out by requiring manufacturer involvement creates block exemption but controls can also mean higher standards. Elphick explained: "When we do a launch, the dealer will have purchased the right repair equipment and we will do a suite of technical training before it goes on sale."

Armitage warned that standards have to be high: "No one wants their car to have different bits of kit on it." And Hudd urged repairers to have proper audit trails with ADAS repairs.

The road ahead

The panel felt that in the future, ADAS could be a part of MOT tests. They discussed other scenarios: what if customers choose not to have their vehicles recalibrated? Freedman said currently this would not result in penalisation, but insurers may start looking at this issue.

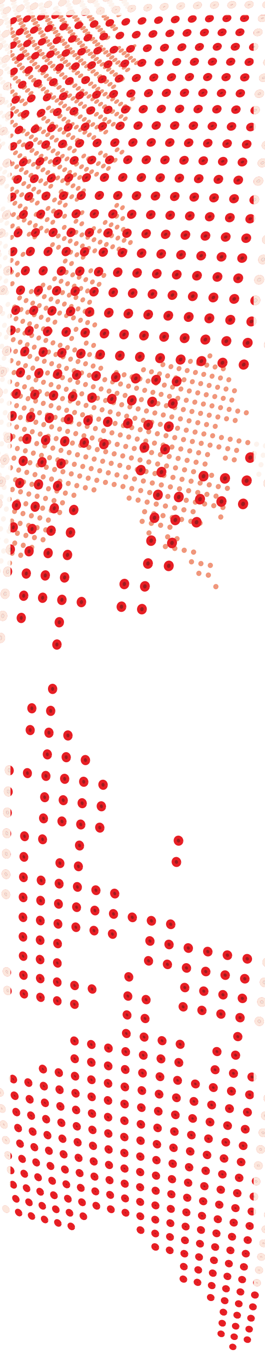
Certainly having policyholders on side will be necessary if they are to wait longer for repairs and to start learning more about their car's technology features. Freedman added that currently drivers are split between those who favour ADAS, those who are on the fence, and 'petrolheads' who are sceptical.

No matter their views, ADAS is here and getting more prevalent, as panellists concurred the industry and drivers are "on a journey to acceptance". ■

Regional variation

AM Best's annual ranking of Asia-Pacific's non-life insurers includes familiar companies, but they face different challenges

Chi-Yeung Lok
Associate director for analytics,
AM Best



The companies in AM Best's annual top 30 ranking of Asia-Pacific non-life insurers represent a diverse set of geographic markets at different stages of economic and market development, as well as different operating environments. This is clear from the wide spread of growth rates and profit margins seen across the region.

At one end of the spectrum is Japan's $117bn market, which is contracting (in local currency terms) and has an insurance density of more than $800 per capita, according to the Swiss Re Institute. At the other end is India's market, much smaller at just $17bn but with a growth rate of 30% and an insurance density of $13 per capita. These vastly different markets create wildly different operating environments for non-life insurers.

There are similarities. The top 30 companies in most of the markets have fairly large percentages of personal insurance lines. However, the operating environments, along with the companies' expertise in profitably running personal lines, vary across Asia – which leads to a wide range of profit margins, profit trends and growth prospects across the region.

Expectations for premium growth aren't as high in the more mature markets of Japan, South Korea and Australia. But emerging markets like China and India are expected to grow strongly and prompt insurers to place a greater focus on growing business volume and market share in their respective markets. In mature markets, more moderate expectations for economic and premium growth balance the natural desire for market share with the recognition of minimising claims leakages, as well as the importance of squeezing profit margins from operational efficiency, rather than from rising premiums. Additionally, low premium growth expectations make company management teams more aware of the value of capital efficiency and earnings stability – and, by extension, the importance of enterprise risk management.

Among the common threads, it appears that market premiums for medical and healthcare products are on the rise across much of the region (although Australian non-life insurers don't write such products). In markets such as South Korea and Japan, this is encouraged at least in part by declining interest rates and a shift to risk products. Different drivers are at work in India and China: middle-class consumers have already insured their cars as their single largest household asset, and now are keen to look for ways to protect their other large and growing asset – their health and income-generation capability.

Here is a look at the top 30 companies, and the trends they are encountering, across the Asia-Pacific region.

Chinese companies

The same eight Chinese non-life insurers from last year's list returned to this year's top 30 ranking. Scaled back growth in gross premium written was largely due to the weaker Chinese renminbi exchange rate. On a renminbi basis, the eight companies showed an average premium growth of 9%.

A deeper dive shows a few noteworthy points. For example, China Life P&C and China Continent P&C Insurance both recorded remarkable year-over-year premium growth of 19% and 20%, respectively. A motor de-tariff took effect in early 2016, benefitting larger insurers, which have better data analytics and pricing capabilities and have delivered favourable results on both premium and profit. This makes it even more difficult for the small and medium players to compete with the large companies.

Motor insurance remains the largest premium growth driver in terms of absolute dollar value. But in terms of growth percentage, liability, credit and health lines showed strong increases last year, as the penetration rates for these lines were low. This is a positive development as it shows insurers are diversifying portfolios and pivoting from being highly concentrated in motor.

It appears likely that many of China's non-life insurers will turn to overseas acquisitions, both to expand their global footprint and to pave the way to continued growth. However, while some Japanese insurers have in recent years turned to acquiring large international insurers, Chinese companies are more likely to buy mid-sized insurers in emerging markets, or to enter into partnerships. Much of this activity will be designed to take advantage of opportunities associated with the Belt and Road Initiative, China's ongoing plan for infrastructure and other economic development

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Rank	Company Name	Country of domicile	Gross written premium 2016 ($m)	Gross written premium 2015 ($m)	Increase	Profit after tax 2016 ($m)	Profit after tax 2015 ($m)
1	People's Insurance Company (Group) of China Ltd	China	44,809	43,431	3.2%	2,977	4,263
2	Tokio Marine Holdings Inc	Japan	32,914	29,659	11.0%	2,477	2,276
3	MS&AD Insurance Group Holdings Inc	Japan	31,613	29,808	6.1%	1,903	1,616
4	National Mutual Insurance Federation of Agricultural Cooperatives	Japan	27,036	24,637	9.7%	159	3,194
5	Ping An Insurance (Group) Company of China Ltd	China	25,663	25,267	1.6%	10,417	10,045
6	Sompo Holdings Inc	Japan	24,638	23,907	3.1%	1,498	1,425
7	Samsung Fire & Marine Insurance Company Ltd	South Korea	15,488	15,618	-0.8%	714	693
8	QBE Insurance Group Ltd	Australia	14,395	15,092	-4.6%	844	693
9	China Pacific Insurance (Group) Company Ltd	China	13,906	14,596	-4.7%	1,768	2,780
10	Hyundai Marine & Fire Insurance Company Ltd	South Korea	10,491	10,620	-1.2%	340	181
11	Dongbu Insurance Company Ltd	South Korea	9,961	9,744	2.2%	443	366
12	Insurance Australia Group Ltd	Australia	9,047	8,433	7.3%	773	525
13	China Life Property and Casualty Insurance Company Ltd	China	8,605	7,765	10.8%	174	352
14	KB Insurance Company Ltd	South Korea	7,818	7,768	0.7%	251	136
15	Suncorp Group Ltd	Australia	7,220	6,733	7.2%	832	775
16	China United Property Insurance Company	China	5,569	6,081	-8.4%	113	376
17	Meritz Fire & Marine Insurance Company Ltd	South Korea	4,980	4,823	3.3%	197	144
18	China Continent Property & Casualty Insurance Company Ltd	China	4,616	4,112	12.3%	180	210
19	China Taiping Insurance Holdings Company Ltd	Hong Kong	4,257	4,141	2.8%	813	1,054
20	Sunshine Property & Casualty Insurance Company Ltd	China	4,102	3,987	2.9%	148	323
21	Hanwha General Insurance Company Ltd	South Korea	4,098	3,860	6.2%	93	82
22	New India Assurance Company Ltd	India	3,554	2,875	23.6%	156	125
23	Allianz Australia Ltd	Australia	3,329	3,222	3.3%	236	191
24	Accident Compensation Corporation	New Zealand	n/a	2,786	n/a	n/a	(2,389)
25	Heungkuk Fire & Marine Insurance Company Ltd	South Korea	2,767	2,825	-2.1%	26	17
26	Fuji Fire & Marine Insurance Company Ltd	Japan	2,722	2,894	-5.9%	(278)	26
27	United India Insurance Company Ltd	India	2,536	1,892	34.0%	(295)	33
28	China Export & Credit Insurance Corporation	China	2,491	2,542	-2.0%	n/a	343
29	Nong Hyup Property & Casualty Insurance Company Ltd	South Korea	2,469	2,346	5.2%	29	32
30	AIU Insurance Company Ltd	Japan	2,295	2,330	-1.5%	8	17

n/a - Data not available at time of publication.
Position in ranking based on 2015 gross written premium.
Note: Financial year includes all year ends between 1 July and 30 June, therefore 30 June 2017 data will appear under 2016.
Note: The table above has the pure reinsurers and health insurers removed.
Currency: US dollars (millions)
Data Source: AM Best's Global Insurance Database via Best Link.
Created as of 4 October 2017

< 45 programmes in China, Asia and the Middle East.

With slim profit margins in an intense underwriting environment, non-life insurers' bottom lines are mainly supported by investment income. Because of this, lower investment returns in 2016 versus 2015 led to lower profits for many China firms. Timing played a major role here: the higher returns in 2015 came in the bull market during the first half of the year. As the equity market was quite volatile in early 2016 and the interest environment was in a downward trend, most Chinese insurers delivered noticeably lower investment returns in 2016.

One concern going forward is that the regulator is encouraging insurance companies to invest in Belt and Road projects, as well as to make large infrastructure loan investments in order to support Chinese economic growth. Although Belt and Road is certainly a potential source of business growth, it may take several years to see material benefits of that growth. In the meantime, insurers trying to tap this market will, in the short-term at least, face increased investment risks from such alternative investments, which is considered a negative rating factor.

Despite the challenges in Japan's non-life market, insurers there continue to show strong growth momentum, aided in no small part by the sizable overseas acquisitions they have made in recent years

Japanese companies

Six Japanese companies made this year's top 30 ranking, the same number as in the past three years. Next year may well change: Fuji Fire & Marine Insurance and AIU Insurance, both of which made this year's ranking, intend to merge as of 1 January 2018, meaning there will be one less Japanese company on the list going forward. The merged company, to be called AIG General Insurance, will be ranked higher, of course. In this year's ranking, Tokio Marine Holdings overtook the top place among the Japanese non-life insurers, thanks to the consolidation of Tokio Marine HCC in fiscal year 2016.

Despite the challenges in Japan's non-life market, insurers there continue to show strong growth momentum, aided in no small part by the sizable overseas acquisitions they have made in recent years. Although it is unreasonable to expect the strong growth to continue at the same high level as seen in recent years, Japan's large non-life companies should continue to show steady growth going forward.

From a very long-term perspective, Japan's insurance industry has experienced a series of domestic mergers and acquisitions since the market's liberalisation in the late 1990s. This has brought expense efficiency in the market. In fact, the average expense ratio has fallen from the high 30s to the low 30s since then, even though the domestic non-life market did not grow significantly.

On a separate front, the importance of enterprise risk management has risen, driven by both external and internal factors, and is now one of the highest priorities for management, along with finding growth opportunities. A main focus continues to be the abatement of catastrophe risk concentration in Japan as well as market risk concentration. Insurers have found that expanding their domestic life business, reducing their equity portfolio and making well-measured but sizable overseas acquisitions have all been good solutions to the challenges they face.

Although there is further room for improvement, the risks of the large non-life companies are fairly well-diversified, and the firms are deploying their capital fairly efficiently. Further acquisitions of notable size would have to be funded from either external debt or profit accumulation.

Indian companies

This year's ranking features two Indian non-life companies: New India Assurance and United India Insurance. New India is a new entry this year.

The two hold a combined market share of 29%, and their inclusion in the top 30 list shines a spotlight on India's dynamic non-life market, which offers the rare and sought-after combination of growth and scale. The gross premium volumes of just these two players easily dwarf most markets in the neighbouring South and Southeast Asia regions. Given this combination of size and growth, next year's top 30 list may well include even more Indian non-life insurers.

Supported by growth in Asia's third largest economy, India's non-life market has grown by an average of 16% per year in local currency terms over the past decade, easily outpacing inflation. In the 12 months ending 31 March 2017, premium growth accelerated and jumped another 31%, roughly similar to the 28% growth recorded by both New India and United India. This growth rate is stunning for companies and a market that are not growing off small bases. It presents further evidence of the non-life insurance potential in India, where insurance penetration and per-capita insurance density remain very low.

Looking beyond the two companies in the ranking, 25 of the 30 non-life insurers licensed in India recorded gross premium growth of more than 15%, even as inflation remained mostly below 5%. Among the eight largest players – four are government-owned and the other four private – growth was also broad-based in terms of business lines. While the well-publicised, government-sponsored crop insurance scheme was certainly the key source of growth, other lines such as health, personal accident, motor own-damage and motor third-party continued to grow quite significantly. Indeed, net premium growth, which is a good approximation of growth in lines other than crop insurance, amounted to 16% for the industry overall in the year ending 31 March 2017, in line with the industry average over the past 10 years.

Is this growth in insurance risk underpinned by a supportive trend in earnings? Recent data suggests that the answer is 'no'. Information from the General Insurance Council of India suggests that the weakening trend in capital generation is ongoing; while the industry's net premiums grew by 16% in the year ending 31 March 2017, net profits fell by 76%. Segment data from the General Insurance Council show a more complicated picture with diverging trends.

Private sector multi-line non-life insurers and health-focused insurers, which account for roughly half of the non-life industry's total gross premiums in India, saw a doubling of their after-tax net profits. Underwriting losses have narrowed due to improved claims ratios across most lines of business, and the number of companies posting an operating profit has increased.

Meanwhile, some large government-owned players recorded a sharp deterioration in their profitability, due in part to widening underwriting losses in the health insurance business. In addition, a new source of earnings drag has emerged in the form of significant and unexpected unfavourable prior-year reserve movements in the motor third-party line. Motor third-party insurance reserves as a percentage of premiums and capital are high, and adverse reserve changes could have significant and sudden impacts on performance and capital.

While investment income should be included in evaluating motor third-party

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profitability, operating profits (including policyholder investments and excluding shareholder investments) have been negative during the past two years for the government-owned insurers. Moreover, interest rates have also been on a declining trend in India. While these government companies are well-capitalised and have had low premium leverage, ongoing poor performance and high growth can quickly erode their risk-based capital buffers.

South Korean companies

Eight South Korean companies are listed in the top 30 non-life insurers ranking, the same as in the last three years. The premium growth rates of these companies have been disappointing for the past two years, even though profit levels have remained fairly healthy. The larger companies have recorded better profit levels, clear evidence of the importance of economies of scale.

Three companies slid lower in this year's ranking, reflecting a business environment that has made growth difficult. The stabilisation of the motor loss ratio will continue to have a positive impact over the next year, although a slowdown in premium growth will gradually impact profit growth.

Multiple challenges persist across South Korea's market. Compared to Japanese companies, South Korean non-life insurers find it difficult to locate additional sources of growth, and lack the experience in making sizable overseas acquisitions. Domestic acquisitions are also not likely, with little additional value from a bottom-line perspective. In addition, most companies – with the exception of Samsung Fire & Marine Insurance – have little capital buffer during the phasing-in period for IFRS 17 that would allow them to take on additional risk.

On the bright side, risk management among South Korea's non-life companies is fairly well advanced compared with other Asian markets. Many personal line products are sold with a savings element, and the development of a robust risk management practice is essential since these products are long-term in nature, with additional investment risk. Also due to these savings elements, South Korea's non-life companies' asset size tends to be larger than their overseas peers. Asset leverage is high and exposure to interest risk is high as well.

Because of top-line pressure, companies are gradually retaining more insurance risk, in tandem with the growing sophistication of their underwriting capabilities. Once there is hardening in the reinsurance market, this trend will become even more evident.

Once the companies reach a certain size (and a few players may already have reached that size), economies of scale are no longer a clear advantage. In a de-tariffed market, underwriting capabilities will become a key differentiating factor going forward.

Australian companies

The large general insurance groups in Australia – similar to others across Asia – generally reported a decline in net profits from 2015 to 2016. All four Australian non-life companies that made the top 30 list this year reported better underwriting results in fiscal year 2016, although three that happen to be more regionally focused – IAG, Suncorp and Allianz Australia – generated lower investment revenue, reflecting the interest rate environment of recent years.

Across the entire rankings, GWP rose by an average of about 4%. Only one of the four Australian firms, though, reported growth in fiscal year 2016, and in fact the four reported an average drop of about 3%. Allianz Australia, the only outperformer in this category, saw its gross premiums increase by 3%. Australia's three largest general insurers, QBE, IAG and Suncorp, reported drops in gross premiums in fiscal year 2016.

Normally, when interest rates fall, or when claims expenses are steadily rising, insurance premiums can be expected to increase. In Australia, however, such an increase does not appear to have happened. Why were the large GI groups in Australia generally unable to increase their gross premium revenue in fiscal year 2016? Intense competition and excess capacity restricted even the major insurance groups from charging higher insurance rates. This phenomenon was evident in both personal lines and commercial lines in recent years.

Personal lines in Australia, which mostly consists of domestic motor, compulsory third-party motor and home insurance, have generally been quite profitable. Over the past few years, underwriting profitability remained strong and consistent, underpinned by an industry structure dominated by two large oligopolies, IAG and Suncorp. This structure, however, continues to attract competition from smaller insurers. For the year ending in June 2016, the personal lines segment wrote approximately 8% more in volume (as measured by the average number of risks written) and, on average, brought in about 3% less in premiums (measured by annualised GWP divided by the average number of risks written).

Commercial lines in Australia, on the other hand, are generally not as profitable as personal lines. Over the past few years, underwriting profitability has deteriorated quite significantly due to excess capacity entering the market, which led to price-driven competition. This was more evident in the short-tail commercial lines, such as commercial motor, commercial fire, and industrial specialty risks. For the 12 months ended 30 June 2016, the short-tail commercial segment in Australia wrote approximately 2% more in volume, and around 9% lower in average premiums. Clearly, there was still capacity to chase for volume growth at lower average premiums.

Looking ahead, AM Best expects the large GI groups – which each tend to have a sizable, diversified book of GI business in Australia – will generally continue on their path to recovery to modest growth. This is because positive signs, particularly small increases in average premiums coupled with slowing volume growth, have already started to emerge in both personal and commercial lines in Australia. ■

Compared to Japanese companies, South Korean non-life insurers find it difficult to locate additional sources of growth, and lack the experience in making sizable overseas acquisitions

AM Best director of analytics Christie Lee and senior financial analyst Jason Shum made significant contributions to this article

DIGITAL INSURANCE COLLECTIVE

1 December 2017
The Trampery, Shoreditch
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Raising the bar

Microbreweries offer brokers and insurers a small but safe market. With rising demand, the sector tastes of opportunity

By Will Kirkman

With demand for craft beers and ales spiking in the UK over recent years, the number of microbreweries entering the market has grown exponentially.

Brokers and insurers have followed suit in offering bespoke and packaged products to cater to the unique needs of the industry, and have discovered a market relatively small in premium value but safe in risk.

The sector presents unique challenges and opportunities to insurance providers.

Growing market

"There's been a phenomenal growth in the craft brewing market," says Brewing Services consultant David Smith. There were between 700 and 800 start-ups 10 years ago and their number is now approaching 2000, he reports.

"It was promoted by the fact that back in 2002 there was a change in the duty rates so that now small producers get to pay a lot less beer duty than their larger brethren."

Derek Orford, consultant at Beer Dimensions, agrees: "There's been a massive growth: 10 or 15 years ago, there were five active brewing licenses in London and now there's over 70 – and that's just in London. It's still growing even now.

"Everyone keeps saying that the market can't keep growing and yet it continues to. It's getting a very crowded market, but there still seems to be growth."

Only the US has more craft breweries than the UK: 4750 compared to 1655, according to an Alltech survey published in *The Brewers Journal*. However, the UK has a higher per capita ratio, with 25 craft breweries per million people compared to 15 in the US. And that's not even a world record: Switzerland has almost 50 craft breweries per million people.

In the UK, the Society of Independent Brewers says its members will produce over 527 million pints in 2017 alone.

"The trend appears to be growing and looks like it's set to continue," says Philip Grice, consultant at Aston Scott. "This is born out of established mass producers going into the craft chain."

There has been a parallel surge in uptake in the insurance market, with both brokers and insurers looking to capitalise on the new business presented by microbrewery start-ups.

Russell Scanlan claims to have been one of the first brokers to offer specific microbrewery insurance in the UK. Its development director Mike Dickinson says: "One of the issues that we've had is the amount of insurance companies that have come into this market. Five or six years ago, there were four insurance brokers doing this. There's now a lot more.

"The main issues that we see are a few employers' liability claims, but as a general rule, they're a pretty good risk. They're mostly well managed because of the nature of the goods." Mike Dickinson

"You could argue there's oversupply in the insurance market in a similar way as there is to the microbrewery market itself. Part of the issue is brokers starting out with local breweries and then expanding out.

"Generally speaking though, the brewers are pretty loyal. Once you have them, if you look after them well, they tend to stay with you."

While the growth in the number of new breweries opening has slowed slightly over the past 12 months, the UK's thirst for craft beer shows no sign of abating, with the already established microbreweries forecasting strong growth over the next year.

Neil Davis, account executive at Towergate, agrees: "It's an exciting time to be involved in the craft beer and ale world. There's a brewery opening every week at the

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www.postonline.co.uk/commercial

minute and it's continuing to grow, so it's an exciting market to be involved in.

"For the foreseeable future, the public now want to walk into an establishment and see a full range of beers and ales at their disposal, so I can see it continuing."

Attractive risks

In addition to hosting a growing market for insurance providers to tap into, Dickinson says the microbrewery space is attractive to insurers from a risk perspective.

"In terms of the risk, generally speaking the breweries are pretty good from an insurer's point of view," he says. "We haven't seen huge values of claims for theft of goods or fire, for example.

"The main issues that we see are a few employers' liability claims, but as a general rule, they're a pretty good risk. They're mostly well managed because of the nature of the goods.

"They're manufacturing something that has to be consumed, so they have to have decent quality control and that tends to be the way that they run their businesses."

did you know?

Members of the Society of Independent Brewers will brew

527 million

pints in 2017, or 3 million hectolitres of craft beer or ale. That is a

13.7%

increase on 2016.

64%

of SIBA members expect their turnover to increase in 2017.

Almost

one in six

breweries plan to double their current level of production, sales and turnover by 2018.

Source: SIBA

Sam Brown, account executive at Alan Boswell Group, agrees that insurers see microbrewery insurance as a relatively low-risk market to underwrite for.

"Everyone is keen on microbreweries," he says. "All the composites are all very keen on doing it. You've got the general manual handling risks, but stock is quite bulky, so it's not very theft-attractive. Though everyone would probably like to help themselves to a crate of beer, it's not the biggest loss in the world. To take away a sizable sum, you'd need a lorry, and that's difficult.

"So it's very attractive to insurers, it's just that not all of them are available at the right price point."

Although being a production business may develop a culture of good practice, it brings its own set of risks, Grice explains: "Business interruption can be a significant factor for any production business, so it is important to ensure the sums insured are accurate and the length of the indemnity period is considered carefully. For example, 12 months may not be adequate.

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"Other areas of consideration are suppliers' extensions: Is the brewery reliant on one source for its dry goods? And how would a claim at that supplier impact on the business?

"There may also be an exclusion under business interruption for consequential loss following explosion or collapse of boiler apparatus used in the course of production. It is therefore important to discuss this risk."

Grice says that larger breweries may look to insure areas such as product contamination or recall, a type of insurance generally too expensive for small businesses. "We are seeing some insurer movement into lower cost contamination insurance," he says.

"Another potential risk is non-standard construction of buildings, especially in the start-up sector; many of the young small breweries are start-up companies run by people straight out of university with a brewing degree."

By its nature, companies entering the space may be staffed by low-experience employees and have inadequate facilities, which can present its own unique set of risks.

Smith explains: "We see a lot of injuries through bad design and poorly laid-out breweries. They're using heat, there's a lot of boiling water, there's carbon dioxide gas, and there are trip hazards in the forms of pipes lying across the floor.

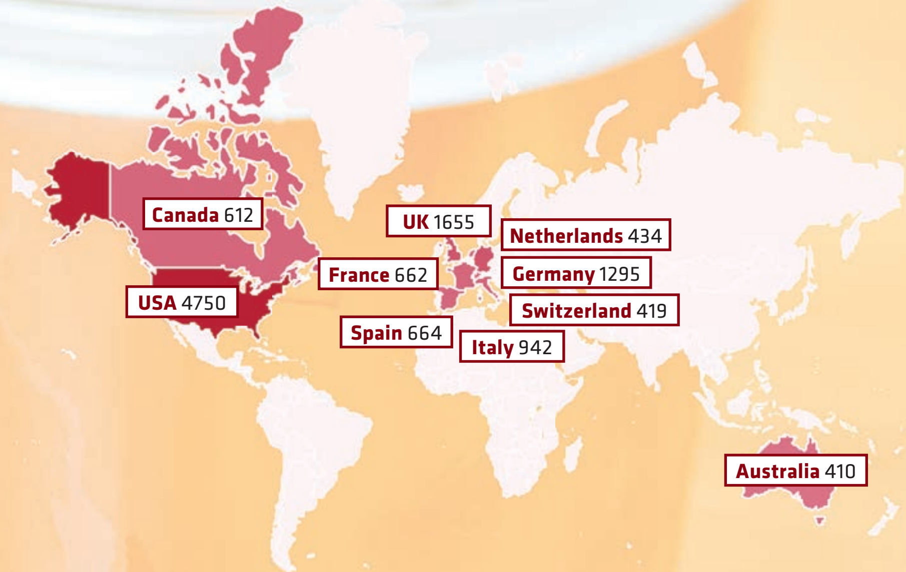
"A lot of people just don't know what they're doing. They get tanks and they throw them into a room and think: 'that's it, I've built a brewery'. There's a lot more to it than that. There's so much in the design that can mitigate certain issues. But you can never eliminate the danger entirely.

"If insurers and brokers were to offer some risk management, there would definitely be an appetite for it. When I go into some breweries, I'm appalled at some of the things that they do.

"I could show you a catalogue of burns and blisters. Those breweries, to be honest, shouldn't be allowed to operate, and shouldn't get insured.

"Bad design is the biggest risk, alongside poor quality beer, but that's another issue."

Countries with highest numbers of craft breweries



Source: 2017 Alltech survey for *The Brewers Journal*

The hangover?

Despite being a burgeoning sector that is set to continue growing, the small scale of many of the operations themselves means that microbrewery insurance may not be as lucrative a venture for insurance providers as other commercial markets.

Dickinson says: "We have around 130 of these breweries on the books. They're not huge value in premiums. Some of them have expanded into decent-sized commercial businesses, but a lot of them are still relatively small ventures.

"The people entering the space now tend to see it as a career business. Start-ups are starting to take it more seriously.

"There are unfortunately a lot of businesses at the bottom end that are closing down at the same time, but some of these start-ups have serious investment, and there's now a lot of crowdfunding arrangements."

Smith agrees: "In future years, there will be a lot of dropouts, but there's always a lot more start-ups coming into the market. Last year, 58 breweries closed down but 108 started. That was still a net increase in the number of new breweries.

"We're also doing micro whisky distilleries, and gin distilleries. There'll be another drink, such as vodka, that comes along next. For the moment however, beer drinking is still on the trend."

While hop remains popular, the number of micro-distillery start-ups has also been increasing. Dickinson explains that the infrastructure behind microbrewery insurance is similar and easily transferable.

"There's been a surge of distilleries opening up," he says. "Our insurers will quote for them in the same way as breweries. There's not an especially different approach.

"Initially some of the insurers were a little concerned about it because of the nature of how they operate. For example, gin is made out of essentially pure alcohol, so insurers were concerned about the flammable nature of it. But the operations are on such a small scale that once a bit of research went into it, the insurers discovered it wasn't quite as risky as they first thought. Most insurers seem to like it as a sector."

If the bubble does burst on the rise of microbreweries, insurers and brokers alike are now well placed to capitalise on the next trend in alcoholic beverage. For the time being however, the UK's thirst for craft beer shows no signs of drying up. ■

Beer duty

If a brewery produced no more than 60,000 hectolitres of beer in the previous calendar year, it is entitled to a reduced duty rate. The reduced rates are part of the Small Breweries' Relief scheme, launched in 2002, and have a sliding scale. Reductions start at 50% for production of 5000 hectolitres or less and decrease for larger production volumes.

Local challenges

Local government insurance has to deal with emerging risks. How is it adapting as competition increases?

By Veronica Cowan

An ageing population, more fragmented families, flooding and air pollution are just some of the challenges facing local authorities, which will have to change the way they operate in order to cope with future risks, according to a Social Market Foundation report entitled *Local public services 2040*. Insurers will want to cater for councils' evolving needs, so how can they remain relevant?

Andrew Jepp, managing director of Zurich Municipal, the UK's largest public sector insurer, comments: "The sector must have robust plans in place to minimise and mitigate the risks and threats that will materialise over the long term. We are already using the report to start conversations with our customers as they begin to plan today for the risk landscape of 2040 and for us to understand how our products and services need to evolve to provide effective solutions."

Appetite and flexibility

With local government employment falling, and net borrowing increasing, will insurers have the appetite, and the flexibility, to meet the challenges ahead? Take the terrorism threat, a changing risk requiring cover which reflects local authorities' unique needs, as opposed to a one-size-fits-all approach.

Rhiannon Bates, managing director of The Risk Factor, explains that councils' needs differ, in terms of required outcomes, from those of a commercial business, but there is insufficient competition in the market to drive innovation: "Our clients have told us they wanted some form of cover, but didn't feel the market was giving them what they wanted; there was no real 'fit'. We faced a challenge in getting underwriters to look at the risk afresh, instead of tweaking a Pool Re or commercial terrorism wording."

The public sector terrorism issues cross geographical boundaries, explains Bates, and include clean-up issues, support for local emergency services in a time of unusual demand, making people feel safe, and rebuilding the community and its trade. "It's not all about repairing a damaged building, and covering loss of profits, as a purely commercial entity might focus on."

Her company found the answer with a partnership between speciality managing general agent Fiducia and Lloyd's insurer Atrium Underwriting, which launched a terrorism policy in July that takes account of the latest types of terror threats. They were able to devise a product exclusively for the public sector, which fitted the bill for Bates' clients.

That apart, more competition is needed in the local authority sector insurance market, comments Bates, who reports that the impact of Norwegian insurer Protector Forsikring entering the market has already been felt. "We have seen established markets sharpening their pens, and putting together more innovative risk packages. But it seems to be focused on ways to win the bidding process, rather than innovating in the cover itself or addressing future risks."

"We have seen established markets sharpening their pens, and putting together more innovative risk packages." Rhiannon Bates

Bates says The Risk Factor favours a "transparent fee-earning basis" for its advice to public sector bodies. "It allows us to align our interests with those of the client. Not to have a potential conflict of interest due to earning undeclared income elsewhere in the chain. It is nice to not have to be concerned about losing income when we successfully reduce a client's premium."

Bates observes that brokers, risk practitioners and insurance advisors are in an unusually influential position because the public sector rely on them to design the insurance programme. But they frequently also run, or are an integral part of, the team that run the

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tender process. "If, as advisors, we design the insurance programme, write the terms of the invitation to tender, score the bids and make recommendations on the award of that contract, we have a significant impact on that process. And if the very same broker/advisor (or part of the same company group) is also putting forward one of the bids being assessed, where the earnings may be very different for the group company depending on the outcome of the tender process, can we really say there isn't at least the potential for a conflict of interest?"

The industry needs to innovate on insurance products, and on how it engages with the public sector, she argues. "Transparency of total earnings is sorely lacking. The potential for conflict of interest to creep in, where the authorities are not fully aware of the way their insurance advisor earns their money, high barriers to entry, partner panels and how those function, these are all things that need to have a light shone on them."

Local public services 2040

In its report entitled *Local public services 2040*, the Social Market Foundation identifies five key challenges local government will face over the next two decades:

- **an ageing population will put increasing pressure on health and social services**
- **more fragmented families will live in more dispersed communities, and have higher expectations of service quality**
- **localised environmental risks around flooding and air pollution will grow significantly**
- **huge opportunities created by technological advances will cause disruption to local job markets**
- **greater fiscal devolution will present opportunity for councils to control their destiny, as well as risks around the resilience of their local tax bases**

Some risk areas won't change much in the next two decades, comments Jepp, who expects continued claims in traditional areas, such as safeguarding, highways and fires, although the Grenfell Tower blaze is likely to create a different environment for the future, he observes.

Taking time

After the Grenfell conflagration, was there an increase in fire sprinkler installations in local authority-owned high-rise blocks? Keith MacGillivray, CEO of the British Automatic Fire Sprinkler Association, says many blocks had already been surveyed and quoted for before the fire: "However, it does take some time, from enquiry to commencement of installation, due to various financial checks and tendering processes that councils and housing providers have to go through, which can typically take six months."

Local authorities are also faced with

> 56

< 55 changing weather patterns that test the resilience of their communities and infrastructure. The increase in the number of significant events, such as storms and flooding, has found many councils modelling the level of risk their populations could face, not only in 2040, but in just 10 years' time, comments Judith Barnes, a partner at law firm Bevan Brittan: "This means ongoing planning for civil emergencies and detailed assessments of how long vital services could be affected, or put out of action altogether."

Municipal Mutual Insurance

This mutual insurance company was established by local authorities, and incorporated on 13 March 1903, limited by guarantee and not having a share capital. It became responsible for insuring most public sector bodies, including councils, police and fire authorities. Between 1990 and 1992, it suffered substantial losses, with assets reduced to below the minimum level for solvency, and ceased to renew and write new general insurance business. In 1993, Zurich Insurance purchased the right to offer renewal terms to MMI customers. The newly formed Zurich Municipal then entered a contract to provide a claims administration service for MMI.

Source: LGA

Areas of exposure

Another area in which exposures are growing is cyber risk, notes Jepp, as public services make greater use of digital self-service opportunities, automation and artificial intelligence to improve efficiency and respond to changing demands.

But Bates points to gaps in cyber cover from the public sector viewpoint, including in respect of lone worker risks, increasing demand on services with reduced funding, cyber terrorism, and abuse via hacked 'carebots'. These are specifically designed to assist elderly people, and are part of a booming industry, with the global personal robot market estimated to reach $17bn (£13bn) by 2020, according to a report by Merrill Lynch.

The gradual introduction of such technologies to support public services, in response to changing needs, an ageing population, finite budgets and escalating costs, has potential legal implications, comments Barnes: "When services are delivered remotely, perhaps via an app or the touch of a button, what's often not clear is how legal liability can be assessed in the event of negligence. It may only be a matter of time before a court hears a claim for negligence where no public service or healthcare worker was directly involved, perhaps because technology has replaced their jobs."

Such changes would require proper risk management. Many councils don't have the necessary resources for that. "They are often required to deliver statutory services on a limited budget," observes Ron McKnight, senior risk control consultant at Travelers. "Some may have good levels of reserves to put more resources toward their risk

Towards a new local government mutual?

A mutual is a company that is owned by its members and provides them products and/or services. Members elect the directors who are typically drawn from the membership. A mutual does not have shareholders. Any surplus of mutual trading funds belong to the members and must be used for their benefit, or as the membership may agree.

The Local Government Association is exploring options to set up a local government mutual. The aim is for the mutual to be available as an alternative form of risk transfer for councils from 1 April 2018, when the majority of current local authority insurance arrangements fall due for renewal. "The mutual will only be successful if enough local authorities join it. A large number of councils have expressed an interest," says LGA chairman Gary Porter.

management functions, while others do not. When budgetary constraints are combined with councils often losing experienced workers, operating successfully and safely can be difficult." This might directly impact on risk management plans, leading to reduced inspection and maintenance regimes, and new or inexperienced employees undertaking unfamiliar roles.

More fragmented families will mean care roles traditionally undertaken by relatives might have to be delivered by the market and/or the state, the SMF report suggests. Karen Arthur, schemes and trading underwriter at Aviva, says the insurer has forged a new partnership with Anchor Housing, England's largest not-for-profit provider of housing and care for older people. This will help provide iPads and training in more than 1000 locations: "The vision is to provide life-changing digital and financial access, skills and confidence that will increase income and reduce social isolation, to generate evidence and stories to influence government policy. Both initiatives will allow us to support customers into the future."

Building more houses

Another issue raised by the SMF report is that, if home ownership continues to decline, and housing or rental costs remain relatively unaffordable in places like London and the South East, local authorities could be required to provide more council homes, leading to more local government involvement in housebuilding.

Local authority risk

Main areas of local authority risk

- **Employers' liability: claims for personal injury/disease to staff, arising from their employment**
- **Public liability: claims for personal injury or damage to private property suffered by members of the public and external organisations**
- **Council officials Indemnity: claims for financial loss by a third party as a result of an error or omission by a council officer**
- **Motor: claims for a council's commercial fleet and leased cars**
- **Property: claims for damage to premise**

Aviva has been working with social landlords and brokers for over 20 years to support provision of affordable, accessible contents insurance for social housing tenants, and works with more than 90 local councils, registered providers and other landlords nationwide. "The tenants' policy is tailored to the requirements of the consumer – lower sum insured; not individually rated; nil excess; and flexible payments," Arthur explains. "Helping people and communities become more financially resilient can make a huge difference. Affordable and accessible insurance is an important part of the jigsaw."

Local authorities currently spend more than £650m nationally on insurance, and opt to 'self-insure' some risks. Daniel Shipman, a member of the sales team at 3 Sixty Systems – 15 Squared, part of DWF, explains that a lot of local authorities self-insure low-value risks and handle claims below the policy excess themselves, using software from suppliers like DWF.

Meanwhile, the Local Government Association is exploring options to set up a new mutual, with the aim of reducing costs by using in-house claims handlers. The model is thought to be different from the Municipal Mutual Insurance scheme, which went into run-off in 1992.

Research by the Association of Insurance and Risk Managers has found Airmic members view traditional insurance models, which are geared towards protecting physical assets, as not fit for some emerging risks. According to the survey, most plan to manage intangible risks in-house, either by reducing or retaining them. Also, risk managers are struggling to articulate the value of insurance to executive management and across the business.

"The insurance industry recognises that traditional insurance is losing relevance in face of today's more complex and harder-to-define risks," comments Julia Graham, Airmic's deputy CEO. "And yet our members want support in understanding and dealing with these modern risks, both in terms of innovative products, but also in terms of broader support. The insurance industry must provide more than just risk transfer; this requires a shift in thinking but everyone will benefit."

Similar misgivings might surface in the public sector. And if Bates is right, they already have with terrorism cover. So how are local government insurers going to address the challenge to their own relevance?

London Authorities Mutual Limited

Following the run-off of Municipal Mutual Insurance, 10 London boroughs used the well-being power under the *Local Government Act 2000* to create the London Authorities Mutual Limited to insure their corporate property, terrorism and liability risks. The aim of LAML was to reduce the cost of premiums and to raise the standard of risk management. It entered into a management agreement with Charles Taylor. The initiative was challenged by Risk Management Partners, and deemed unlawful. The Court of Appeal held that the well-being power did not enable the entering into of the complex and somewhat speculative attempt to save money, which was the mainspring of the LAML arrangement. Further, the public procurement rules were breached in awarding the insurance contract to LAML.

A Supreme Court judgment in 2011 relates only to the procurement aspect of the case.

Limiting exposure

Travelers already assists customers to limit their exposure by offering complimentary risk control support that helps address their biggest issues, says McKnight: "Customers have access to The Risk Control customer website, which provides information and risk management steps on a variety of topics. Our Risk Control team uses the risk assessment review process, which is conducted by experienced risk managers with a background in local authority work, to help identify customer-specific vulnerabilities and opportunities. We also offer pragmatic assistance and effective risk management recommendations that enable corrective actions and foster effective loss control practices.

"Additionally, by attending our safety academy programmes, such as the fundamentals of insurable risk, which is designed for new and less experienced council employees, councils can look to mitigate the risks they face on a daily basis."

That's a relief – but let's hope that is enough. ■

Changing legacy

Once neatly shunted to one side as an IT issue, legacy now casts a long, darkening shadow across the insurance industry

By David Worsfold

Legacy issues reach into every aspect of the business, from a firm's processes, to its relationship with customers, from how an insurer manages claims to its investment policies, all the way through to the vast reservoirs of data companies manage and the people who work for them.

Facing up to this myriad of challenges is not just about taking some costs out here, improving some margins there and adding the odd million to the bottom line: it is now about business survival. Disruption surrounds the insurance industry in the guise of insurtech, artificial intelligence, robotics, machine learning and the ever-present and ever-growing demands of regulators. These pressures can suddenly condemn once vibrant businesses to the scrapheap, lending a fresh urgency to tackling those legacy issues – cultural as well as technological.

Speed of change

Firms can no longer run away from these issues, says Doug Turk, chief marketing officer for JLT Group. "The speed of change is only going to get faster. We have to take advantage of that because the alternative could be very uncomfortable."

He holds up the chilling example of Kodak, once the leading brand in the world of photography but now a classic study in corporate ineptitude in the face of digital disruption.

"In the early days of smartphones, which are only really 10 years old, Kodak owned consumer film and photos. It was synonymous with photos. If Kodak had embraced the digital change, jumped into it and said 'let's figure out the next step', there would have been a different outcome for it.

"No one went to Kodak and said 'you are going to lose your consumer film business' or anything like that. It wasn't that threatening to start with because we didn't know where it was going. But look where it is today. There was a whole business of consumer cameras and film – and it has gone. For a brand like Kodak to virtually disappear in a massive segment in just two to three years is amazing. It shows that there can be extremely rapid change and that it can creep up on you."

In this era of unprecedented change, especially technological, IT legacy systems can be the major inhibitor to developing new ways of doing business. One of the commonly accepted definitions of what constitutes a legacy system sums up why that is: "A computer system or application program which continues to be used because of the cost of replacing or redesigning it and often despite its poor competitiveness and compatibility with modern equivalents. The implication is that the system is large, monolithic and difficult to modify."

In this era of unprecedented change, especially technological, IT legacy systems can be the major inhibitor to developing new ways of doing business

Too often these large, complex systems have been built over many years with new iterations of software and new systems layered on top of old ones. Any incompatibility has been addressed with workarounds, some manual, and many leaving key data trapped in old systems, says Jane Disney, financial services industry value engineer at SAP.

"They have created hugely complicated environments, which they are now trying to innovate on. It is an impossible task. They really need to start again and leave the old platforms behind."

There has been a cultural obsession among senior managements across the industry with pursuing big-ticket, best-of-breed solutions to IT and data

management challenges in the belief that this was the best way to squeeze out that vital competitive advantage. It is that obsession that has brought them to the legacy impasse they face today, Disney argues.

"They have taken the best of breed and customised the hell out of those solutions in the belief that is the way to achieve differentiation. But the best-of-breed approach creates a very complex environment because each solution holds and processes data in different ways. In the end, there is very little differentiation because they are all buying the same solutions.

"Now they are in danger of spending money on what they call innovation but it isn't digital. You can't just put innovation on the front end when the organisation is still working in the old way with old systems.

"A lot of money is being spent in trying to improve the current processes but it is just patching it up and not really moving it to something fundamentally different."

She says the big prize in terms of differentiation is to go beyond improving processes and to use the new connectivity, sources of data and digital interfaces to create integrated products that manage and mitigate risk as much as insure it.

Starting with risk

This objective has to be key, says Turk: "Insurtech starts with the risk. It is about enabling better risk management, risk mitigation and risk transfer using technology and data. The big opportunity is to change behaviour and improve risk."

Also key is getting closer to the customer, says Disney: "It is how firms price, how they service and how they deal with the customer that is where the differentiation needs to be."

This could bring insurers face-to-face with another awkward legacy: the major investment in call centres over the last 20 years. These are not liked by the public and the digital generation doesn't want to use them to buy insurance or to make a claim.

"Customers don't want to talk to somebody to have a good experience. It is a fallacy," says Disney.

Nik Vargas, chief technology officer of specialist consultancy Switchfast, which is based in Chicago, says creating a simple, digital interface for customers is essential: "The idea that customers should be able to easily access information should go without saying. When a customer finds that this isn't the case and that they need to jump through hoops to get what they want, problems arise.

"One way insurers are leaving customers frustrated is by not providing digital portals for accessing their account information. Simple touches that we take for granted in many other industries are still not as common as they should be within insurance. Creating a simple customer experience isn't just a good idea; it's necessary if you want your organisation to thrive."

Just as customers are challenging insurers to throw away a generation of

> 60

"One way insurers are leaving customers frustrated is by not providing digital portals for accessing their account information. Simple touches that we take for granted in many other industries are still not as common as they should be within insurance." Nik Vargas

< 59 conventional wisdom on how they want to be dealt with, new accounting standards are exposing other legacy problems. Coming hard on the heels of *Solvency II*, a new international financial reporting standard, IFRS 17, was issued in May and will apply to insurance contracts from 2021.

The data challenge

Both regulations require the collection and input of large amounts of data, new internal models and a robust actuarial calculation engine. Insurers that have developed internal models for *Solvency II* at least have some of the key tools for coping with IFRS 17 already in place. The challenge lies in the vast scale of the data required for IFRS 17, much of it difficult to source. It needs historic data that in the case of some policies might be a quarter of a century old. Sourcing this data in firms that have merged several times since policies were issued could be challenging enough. Getting it into a format where it can be manipulated to produce the view of the business demanded by IFRS 17 is proving to be even tougher.

"Data is a big, big challenge for the industry at the moment," says Disney. "These new regulatory requirements have started to put the spotlight on the underinvestment in some key systems in the last 20 years.

"They haven't got real end-to-end flow of data. There is a lot of manual reconciliation going on. There are unnecessary costs in most insurers.

"If insurers are sensible they will use the need to respond to *Solvency II* and IFRS 17 as a business improvement tool rather than just do something dirty and tactical. It could help across the whole business and not just the finance function," she says.

Solvency II and the constant questioning by the pan-European regulator, the European Insurance and Occupational Pensions Authority, of the strength of insurers' assets have highlighted issues around potentially illiquid assets acquired in the past by some insurers that are now not sure what to do with them.

Two asset classes in particular – private equity funds and commercial real estate – have the potential to cause problems, says Eugene Dimitriou, head of insurance solutions for Columbia Threadneedle Asset Management.

"Typically what has happened is that someone, some time ago, got infatuated with private equity and put some money into a fund. That person has moved on and 10 years later, the insurer can be left with a mixture of smaller assets that may not have performed so well. They then find out it is difficult to sell down a legacy private equity asset.

Tangible benefits of tackling TPA legacy issues

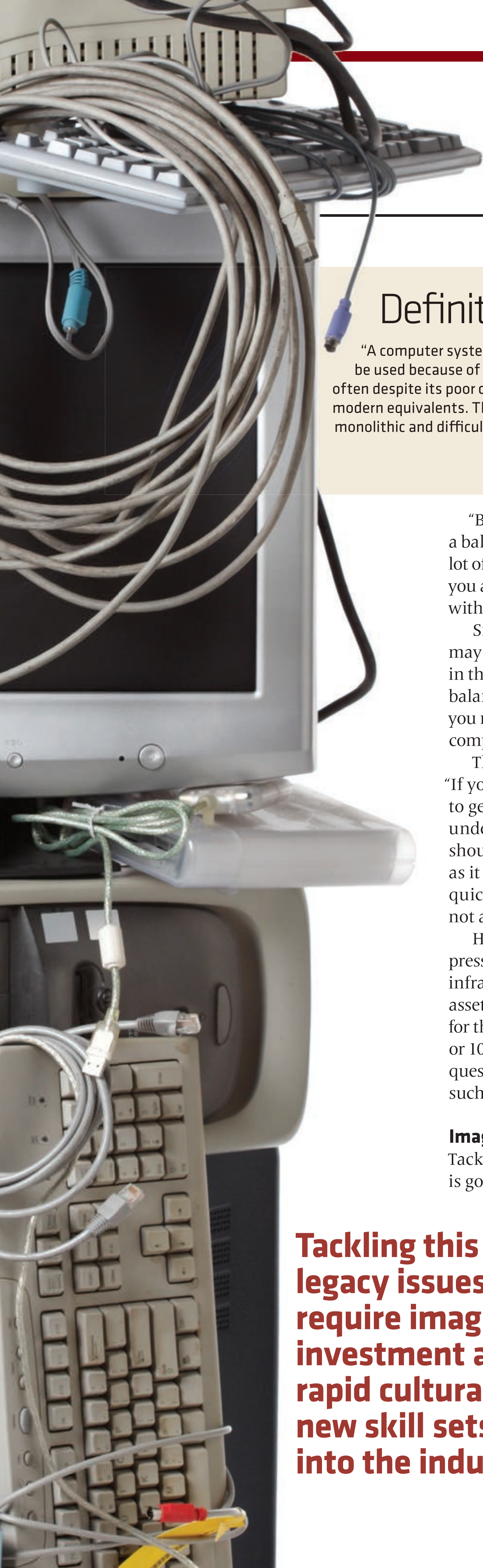
One legacy issue that could be tackled easily and could quickly bring a helpful boost to the bottom line of many insurers is to track down money allocated to third-party administrators, says Andrew Collery, director of Ambant, a specialist insurance and professional services provider.

"TPAs are very good at administration when claims and the administration costs have to be paid but not so good at managing the balances and returning them," he says.

When his firm started looking into the issue, "we quickly discovered that there is a lot of money that could come back to the market," he adds.

In total, Collery estimates that as much as £200m could be sitting in accounts allocated to claims that have already been fully paid by TPAs.

"It is nobody's fault. People move on, they are busy and the responsibilities are not always clear between underwriting and accounts. TPAs would argue that they are in the business of administering claims and just draw down when necessary," he explains.



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Definition of legacy

"A computer system or application program that continues to be used because of the cost of replacing or redesigning it and often despite its poor competitiveness and compatibility with modern equivalents. The implication is that the system is large, monolithic and difficult to modify."

Source: Blackie's *Dictionary of Computer Science*

"Because this might only be 1% or less of a balance sheet, it is hard to justify doing a lot of research work in that situation. What you are left with becomes hard to liquidate without taking a hit."

Similar problems arise with property that may have seemed an appealing investment in the past. It "doesn't naturally sit on the balance sheet anymore but where you find you no longer have the expertise to sell a complex commercial property portfolio."

The lesson is simple, says Dimitriou: "If you don't have a plan at the outset to get close enough to the company to understand what is going on, you probably shouldn't invest in it. Caution is required as it becomes a very specialist area very quickly. It is easy to put your money in but not always easy to get it out."

He fears that the current government pressure on insurers to invest in infrastructure – another notoriously illiquid asset – could be storing up a legacy challenge for the future: "Then it could be 3%, 5% or 10% of assets that are illiquid. I would question whether insurers should be making such big moves in that direction."

Imagination and investment

Tackling this vast range of legacy issues is going to require imagination as well as investment and that means rapid cultural change, attracting new skill sets and fresh thinking into the industry. This has become a top priority for many firms as they acknowledge the need to attract talent into a sector that hasn't always had the best reputation as a dynamic industry. It is one of the reasons why the recent Lloyd's of London Dive In festival for inclusion and diversity in insurance has attracted support around the world since its launch in London just two years ago.

Tackling this vast range of legacy issues is going to require imagination as well as investment and that means rapid cultural change, attracting new skill sets and fresh thinking into the industry

Nicolas Aubert, chair of the London Market Group, explained at the launch of the September 2017 festival why diversity has become a key business objective: "Building a diverse, dynamic workforce is critical for the global insurance market to enable us to remain relevant in a rapidly changing world. As the London Market Group highlighted in our recent *London Matters 2017* report – it is only by acknowledging the importance of an inclusive and diverse workforce that we can ensure we drive change in our industry."

In some parts of the world, the challenge is very acute and will require a radical overhaul of the way the industry operates, says Turk: "In the US we have forecast there will be 400,000 job vacancies over the course of the next 10 years. The average age of a person in insurance in the US is 54. What is going to happen is that we are going to have to do more with less. And the way we do less is to change some of the business models and think about the way we use data differently."

The common thread with these lengthening legacy shadows is a consistent past failure to address the issues behind them, almost sweeping them under the proverbial carpet. That is simply no longer an option if insurers and brokers want to secure a place for themselves in the digital world. ■

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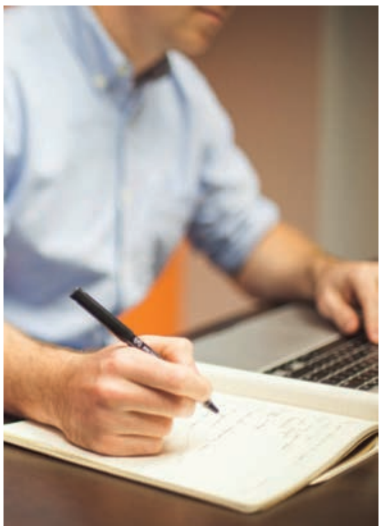

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  A leading insurer seeks a Risk Surveyor. Dealing with policyholders face to face you will be the local and regional point of contact for all risk surveying activities. You will undertake on-site risk management surveys, produce risk reports in accordance with published guidelines and share knowledge.
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- **Business Development Manager**
  To £60,000 + Car & Benefits ***– Midlands***
  This relationship managed focused position will involve working with a well structured broker portfolio where the focus of your position will be to manage relationships, engage with brokers and deliver business in line with regional and business plans. The ideal candidate will have proven experience of developing and managing broker / client relationships.
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- **Business Development Manager**
  Up to £37,000 + Benefits ***– Home Counties***
  An underwriting agency are looking to build on a year of increased turnover by continuing to add to their talented team of Business Development Managers. In this key role you will spearhead the sales and marketing maintaining and achieving growth from both new and existing relationships with brokers.
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Market moves

>> Some of the movers and shakers in the market this month

The **Chartered Insurance Institute** has appointed Allianz's head of claims operations **Jeremy Trott** as the chair of its claims faculty board.

Trott will replace outgoing chair David Bonehill, who steps down after three years in the role; he was previously head of strategic innovation at Allianz and now heads up the insurer's claims operations.

Trott's appointment is part of the CII's strategic review. He will have responsibility for developing standards across the industry's claims space and leading training initiatives for CII members.

Trott said: "With the large number of challenges facing the industry and claims in particular, both technically and non-technically, it is vital that we further develop and enhance standards and skills across claims to remain relevant to the changing world."

Prior to his departure, Bonehill steered the claims faculty and developed the claims career pathway to support those interested in pursuing a career in claims.

Keith Richards, managing director of engagement at the CII, said: "Jeremy's appointment comes at an exciting time in the development and evolution of the role and direction of the claims faculty as part of the CII's overall strategic review."

Endsleigh has appointed **Paul Bolton** as head of personal lines, reporting to CEO Jeff Brinley.

Bolton joins from Samsung, where he held the role of omni-channel retail director. Before that, he worked as a director for management consulting business Ivis Group.

Brinley said: "I believe Paul's vast experience in the consumer and retail sectors will enable us to build on our strategic vision for Endsleigh so that we can reach out and benefit more customers as we continue developing the products and services they need to fit in with their lifestyles.

"Paul will be supported by a highly experienced specialist team supplemented by the recent appointment of motor product manager Kurt Hooker from Ageas Retail.

"These new appointments support Endsleigh's ongoing transformation programme that positions the company to grow substantially in our core markets."

Bolton said: "Endsleigh is a fantastic organisation and I'm looking forward to growing the personal lines business with the team."

Chubb has appointed **Louisa Lombardo** as head of diversity and inclusion for Europe, Eurasia and Africa.

In the newly created role, Lombardo will be responsible for developing Chubb's diversity and inclusion strategy across those regions. She will report to Kate Richards, senior vice-president of human resources, Europe, Eurasia and Africa.

Andrew Kendrick, regional president of Chubb Europe, said: "Louisa is a great ambassador for D&I and has worked enormously hard over the past three years to help develop and promote diversity at both Chubb and within the wider insurance community.

"As our head of diversity, Louisa will be able to strategically concentrate our efforts to continue to improve understanding around the importance and value of inclusion across our regions."

Lombardo joined Chubb in 2014 as a resourcing business partner, is a steering committee member of Chubb's gender equality network and founded Chubb's first UK D&I council.

Martyn Holman will step down from his role as commercial director at **Markerstudy**. Holman will however stay at the company as a consultant.

Stepping down from the role of commercial director will enable Holman to take non-executive roles that would otherwise be a conflict of interest, the company said in a statement.

Kevin Spencer, CEO of Markerstudy, said: "This new arrangement will enable him the time to pursue his personal interests, for which he is famed, while continuing to assist us and other businesses.

"He will be an enormous asset to any additional businesses or ventures he chooses."

Holman was formerly CEO of Brightside, and joined Markerstudy in 2013.

Career File

Martin Oliver & Gareth Birch

Martin Oliver to be replaced by Gareth Birch at Arthur J Gallagher

Martin Oliver, *pictured top*, left his role as managing director of **Arthur J Gallagher**'s UK small business and personal lines division at the end of October, and is being replaced by **Gareth Birch**, *pictured bottom*.

Birch will assume responsibility for all of Gallagher's UK private clients, consumer, smaller commercial and high-net-worth clients, which includes independent brands such as Deacon, Intasure and George Burrows.

Michael Rea, CEO UK retail, said: "Under Martin's leadership, our team has built up a reputation for meeting the needs of our private clients and small commercial clients.

"Gareth shares that same 'customer-first' attitude and is the natural choice to take over the helm of this important, diverse and growing part of our UK retail business."

Oliver spent 13 years with Kwik Fit Financial Services, before leaving in 2008 to become CEO of Barbon Insurance. After three-and-a-half years in the role, he became CEO of Allen & Allen Group for two years, before being appointed Gallagher Insurance Solutions managing director.

Oliver said : "Gallagher is a great business and I am immensely proud of what we have achieved together as a leadership team over the last three years."

Birch joined Gallagher in April 2015 to lead the business's UK leisure practice, expanding his remit in 2016 to include responsibility for Deacon, Gallagher's blocks of flats insurance business.

Birch said: "Our small business and personal lines division looks after the private and commercial needs of more than 500,000 clients here in the UK and is something of a jewel in the crown within our UK operations."

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To feature an appointment in *Post*'s Market Moves, please send a press release via email to reporter Will Kirkman at will.kirkman@incisivemedia.com

Print-resolution photographs are also recommended. The preferred format is at least 5cm by 5cm at a resolution of 300dpi.

Career development

Lloyd's has opened applications for its 2018 graduate programme

Lloyd's has launched its 2018 graduate programme. The programme gives successful applicants experience within a number of different roles around several environments across the Lloyd's Corporation and the market, with the aim of helping graduates choose an area of specialism to gain a permanent role at the end of the programme.

Some of these areas involve examining the potential impact catastrophes might have on Lloyd's in its exposure management team, managing relationships with international regulators in its international regulatory affairs team, helping underwriting specialists, or analysing metrics for a cyber campaign.

The Corporation said: "Lloyd's is a complex organisation to understand but the induction programme is designed to demystify and give you the knowledge to hit the ground running.

"You will gain an umbrella view of who's who and what's what and you'll have the opportunity to meet key people from the different Lloyd's departments.

"This is an organisation founded on face-to-face contact. For that reason, we'll work hard to develop your ability to communicate, influence and present to a variety of people, right up to your most senior colleagues."

The programme also offers specific schemes within the Corporation of Lloyd's, including human resources, wordings and marketing.

Throughout the programme, successful applicants will receive support by dedicated assessors.

PENNY BLACK'S SOCIAL WORLD

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>> Caravans, cycling, coping mechanisms and a colour run

Fresh from Facebook

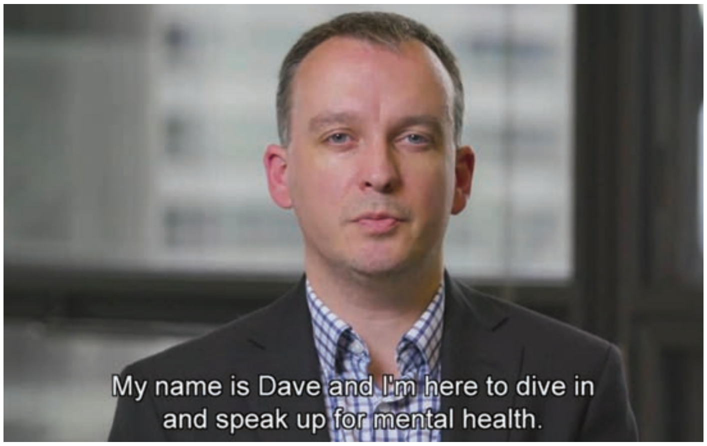
Citybond Suretravel has funded a caravan for the Family Holiday Association, a charity providing seaside breaks for families coping with illness, bereavement and other issues. Located at a holiday park in St Leonards-on-Sea, the caravan was inaugurated by Citybond's managing director Mansukh Ganatra, the charity's director John McDonald and Rory the Tiger, one of Haven's mascots. It will accommodate some 44 families each year.

Charity collection

Five National Windscreens staff members have raised more than £3500 for two charities by taking part in the annual Pedal for Scotland event. The funds from the 45-mile Glasgow to Edinburgh cycle ride completed by Andy Rae, Bruce Robertson, Steven Wynn, Robert Innes and Calum Wilson (pictured), will now be divided between Epilepsy Scotland and the National Kidney Federation, two organisations that are supporting their colleagues.

Video of the month

People from all areas of the insurance market speak up for mental health in this video released by Dive In festival and Inclusion at Lloyd's. They talk about their personal experience of anxiety, depression or mania, but also how the help they received made a difference and what types of coping mechanisms they've developed. To watch the video, please visit *www.vimeo.com/237546590*



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